IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) PURCHASING THE SECURITIES DESCRIBED HEREIN (THE "BONDS") OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT")

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the following prospectus (the "**Prospectus**"). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from Air Baltic Corporation AS (the "**Issuer**"), BNP Paribas, Citigroup Global Markets Europe AG and J.P. Morgan SE (each, a "**Global Coordinator**" and together, the "**Global Coordinators**"), Morgan Stanley Europe SE and Skandinaviska Enskilda Banken AB (publ) (each a "**Bookrunner**" and, together with the Global Coordinators, the "**Bookrunners**") or AS LHV Pank and Signet Bank AS (each a "**Co-Manager**" and together, the "**Co-Managers**" and, together with the Global Coordinators and the Bookrunners, the "**Managers**") as a result of such access. The attached Prospectus is intended for the addressee only.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the Bonds, prospective investors must be either Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act ("**Rule 144A**")) or purchasing the Bonds outside of the United States in an offshore transaction in reliance on Regulation S under the Securities Act. The attached Prospectus is being sent to you at your request and, by accessing the Prospectus, you shall be deemed to have represented to the Issuer and the Managers that (1) either (a) you and any customers you represent are QIBs or (b) you and any customers you represent are outside of the United States and the electronic mail address to which the Prospectus has been delivered is not located in the United States (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, and (2) you consent to delivery of the Prospectus by electronic transmission. The attached document has been made available to you in electronic form.

You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer or the Managers and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer or the Managers or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED IN WHOLE OR IN PART TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, THEN YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE BONDS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES (WITH ITS TERRITORIES AND POSSESSIONS, ANY STATE OF THE UNITED STATES AND THE DISTRICT OF COLUMBIA, COLLECTIVELY THE "UNITED STATES") OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE BONDS MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Managers or the Issuer that would or is intended to, permit a public offering of the securities, or possession or distribution of the Prospectus or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Manager(s) or any affiliate of any Manager(s) is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager(s) or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**"), (iii) persons falling within Article 49(2)(a) to (d) ("*high net worth companies, unincorporated associations etc*") of the Financial Promotion Order or (iv) those persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue of any securities may otherwise lawfully be communicated or cause to be communicated (all such persons together being referred to as "**relevant persons**"). The Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons. The Prospectus may only be communicated to persons in the UK in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

Manufacturer target market (MIFID II product governance) is eligible counterparties and professional clients only (all distribution channels). No EEA or UK PRIIPs key information document (KID) has been prepared as the Bonds will not be made available to retail investors in the EEA or the UK.

The Bonds are complex financial instruments that involve a high degree of risk. The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in, or incorporated by reference in, the final Prospectus.

AIR BALTIC CORPORATION AS
(*incorporated as a joint stock company under the laws of the Republic of Latvia*)

€ 340,000,000 14.500% Secured Bonds due 2029

Issue price: 100.000%

Air Baltic Corporation AS (the "**Issuer**" or the "**Company**" or "**airBaltic**") is offering €340,000,000 aggregate principal amount of its 14.500% Secured Bonds due 2029 (the "**Bonds**"). The Bonds will bear interest at a rate of 14.500% per annum (the "**Scheduled Rate of Interest**"), payable on the Bonds quarterly in arrear on 14 February, 14 May, 14 August and 14 November in each year. In respect of any Interest Period (as defined under "*Terms and Conditions of the Bonds*") during which a Step Up Event (as defined in the Conditions) has occurred, the Bonds will bear interest at the rate of 16.500% per annum (the "**Step Up Rate of Interest**"), as more particularly described under "*Terms and Conditions of the Bonds*". Payments on the Bonds will be made without deduction for or on account of taxes in Latvia to the extent described under "*Terms and Conditions of the Bonds – Condition 8 (Taxation)*".

Words and expressions shall have the meanings given in the "*Terms and Conditions of the Bonds*" (the "**Conditions**").

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 14 August 2029 (the "**Maturity Date**"), but may be redeemed before then at the option of the Issuer: (i) in whole at any time prior to 14 May 2026 at 100% of their principal amount plus the Applicable Premium together with accrued and unpaid interest; (ii) in part, up to 40% of the Bonds, on any one or more occasions, at any time prior to 14 May 2026 at 114.500% of their principal amount together with accrued and unpaid interest; (iii) in whole at any time on or after 14 May 2026 at the redemption amounts set out in Condition 6(c) (*Redemption at the Option of the Issuer*) together with accrued and unpaid interest; and (iv) in whole at any time at 100% of their principal amount together with accrued and unpaid interest in the event of certain changes affecting taxes of Latvia, in each case as more particularly described under "*Terms and Conditions of the Bonds – Condition 6 (Redemption and Purchase)*". In addition, upon the occurrence of a Change of Control Event, the Bonds may be redeemed at the option of the relevant holder at 101% of their principal amount together with accrued and unpaid interest, as more particularly described under "*Terms and Conditions of the Bonds – Condition 6(f) (Redemption at the Option of Bondholders upon Change of Control (Put Option))*".

The terms of the Bonds will contain negative pledge provisions and certain covenants, which, among other things, limit the Issuer's ability and the ability of certain members of the Group to conduct certain transactions, in each case as more particularly described under "*Terms and Conditions of the Bonds – Condition 4 (Negative Pledge and Covenants)*".

The Bondholders and the other Secured Creditors will share in the benefit of the Security from time to time. (i) Upon issue of the Bonds, but before the Security Longstop Date, the Bondholders and the other Secured Creditors will share in the benefit of the Issue Date Security, (ii) on or before the Security Longstop Date, the Bondholders and the other Secured Creditors will share in the benefit of the Longstop Date Security, and (iii) at the time required by Condition 3(d) (*Additional Security*), the Bondholders and the other Secured Creditors will share in the benefit of the Security over (a) any applicable Owned Asset as required by Condition 3(d)(i)(II) and (b) any applicable New Trademarks as required by Condition 3(d)(ii)(x), in each case as more particularly described under "*Terms and Conditions of the Bonds – Condition 3 (Security)*".

The Bonds will constitute (subject to Condition 4(a) (*Negative Pledge*)) direct and unconditional obligations of the Issuer, secured in the manner described in Condition 3, and will rank *pari passu* and without any preference among themselves (save for such exceptions as may be required by applicable legislation and subject to Condition 4(a) (*Negative Pledge*)) equally with all its other present and future unsubordinated obligations.

The denomination of the Bonds shall be €100,000 and integral multiples of €1,000 in excess thereof.

On 29 April 2024, the Issuer issued a notice of redemption to the holders of its €200,000,000 6.75% Bonds due 30 July 2024 (ISIN: XS1843432821) (the "**Existing Bonds**") and, subject to receipt of the proceeds of the issue of the Bonds, will deposit the proceeds from the issue of the Bonds into a segregated trust account of the Issuer opened with the Escrow Agent pursuant to the terms of the Escrow Agreement. The Issuer shall fund the redemption of the Existing Bonds and the repayment of the State Loan (as described below) from the proceeds of the issue of the Bonds (see "*Use of Proceeds*").

The Issuer will, on the Issue Date, establish and at all times thereafter maintain or cause to be maintained the Bonds Service Reserve Account. Following redemption of the Existing Bonds and repayment of the State Loan, the Issuer will, or will procure that, an amount of cash is transferred to the Bonds Service Reserve Account from the escrow account equal to the then applicable Required Balance. Thereafter the Issuer may, at any time, deposit amounts into the Bonds Service Reserve Account and will ensure that amounts on deposit in the Bonds Service Reserve Account will not be less than the applicable Required Balance as set out in the Conditions.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Bonds and distribution of this Prospectus, see *"Subscription and Sale"* and *"Transfer Restrictions"*.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). This Prospectus constitutes a prospectus for the purposes of the Prospectus Regulation. The Central Bank only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Bonds that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Bonds. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Bonds to be admitted to its official list (the "**Official List**") and trading on the regulated market of Euronext Dublin (the "**Market**"). References in this Prospectus to Bonds being "listed" (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**"). In addition, the Issuer may make an application, after the Bonds are issued, for the Bonds to be admitted to trading on the official list of Akciju sabiedrība "Nasdaq Riga" ("**Nasdaq Riga**"). However, there can be no assurance that such application will be made or that such admission will take place.

The Issuer has been rated B by S&P Global Ratings Europe Limited ("**S&P**") and B- by Fitch Ratings Ireland Limited ("**Fitch**"). The Bonds are expected, on issue, to be rated B+ by S&P and B by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. S&P and Fitch are established in the European Union (the "**EU**") and registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, S&P and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. The ratings that S&P and Fitch will give to the Bonds will be endorsed by S&P Global Ratings UK Limited and Fitch Ratings Ltd which are established in the United Kingdom ("**UK**") and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union Withdrawal Act 2018 (the "**EUWA**") (the "**UK CRA Regulation**").

The Bonds will initially be represented by interests in global certificates in registered form (the "**Global Certificates**") which will be issued on or about 14 May 2024 (the "**Issue Date**"). A Global Certificate will be issued in respect of Bonds offered and sold in reliance on Regulation S (the "**Unrestricted Global Certificate**") and a Global Certificate will also be issued in respect of Bonds offered and sold in reliance on Rule 144A (the "**Restricted Global Certificate**"), each of which will be registered in the name of a nominee of, and shall be deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("Clearstream, Luxembourg"). Interests in a Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, definitive certificates ("**Certificates**") for Bonds will not be issued in exchange for interests in a Global Certificate. See *"Summary of Provisions relating to the Bonds while in Global Form"*.

Investing in the Bonds involves a high degree of risk. Prospective investors should have regard to the factors described under the heading "Risk Factors" in this Prospectus.

Global Coordinators and Bookrunners

BNP PARIBAS Citigroup J.P. Morgan

Bookrunners

Morgan Stanley SEB

Co-Managers

LHV Pank Signet Bank

The date of this Prospectus is 10 May 2024

IMPORTANT INFORMATION

This Prospectus comprises a prospectus for the purposes of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries taken as a whole (the "**Group**") and the Bonds which, according to the particular nature of the Issuer and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in, or incorporated by reference in, this Prospectus. To the best of the knowledge of the Issuer, the information contained in, or incorporated by reference in, this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is valid for the admission to trading of the Bonds on the Market until the time when trading on such regulated market begins. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply once the Bonds are admitted to trading on the Market.

To the fullest extent permitted by law, the Principal Paying Agent, the Registrar and the Transfer Agent (together, the "**Agents**" and each, an "**Agent**"), U.S. Bank Trustees Limited, as trustee (the "**Trustee**") and U.S. Bank Trustees Limited, as security trustee (the "**Security Trustee**") and the Managers, accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager, the Trustee, the Security Trustee or an Agent or on its behalf in connection with the Issuer or the issue and offering of the Bonds. Each Manager, the Trustee, the Security Trustee and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

None of the Managers, the Trustee, the Security Trustee, the Agents nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in, or incorporated by reference in, this Prospectus or any responsibility for any acts or omissions of the Issuer or any other person (other than, in the case of each Manager itself) in connection with issue and offering of the Bonds.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Managers, the Trustee, the Security Trustee or the Agents. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in, or incorporated by reference in, it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any of the Managers or the Trustee or the Security Trustee or Agents that any recipient of this Prospectus or any other information supplied in connection with the offering of the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds constitutes an offer or invitation by or on behalf of the Issuer, any of the Managers, the Trustee, the Security Trustee or any Agent to any person to subscribe for or to purchase any Bonds.

The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must make their own assessment as to the suitability of investing in the Bonds. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in, or incorporated by reference in, this Prospectus;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Bonds are legal investments for it, (ii) Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE BONDS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Bonds may be restricted by law in certain jurisdictions. The Issuer, the Managers, the Trustee, the Security Trustee and the Agents do not represent that this Prospectus may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Managers, the Trustee, the Security Trustee or the Agents which is intended to permit a public offering of the Bonds or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States, the UK, the European Economic Area (the "**EEA**"), Hong Kong, Singapore and Japan; see "*Subscription and Sale*".

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Prohibition of sales to EEA retail investors – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**IDD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Prohibition of sales to UK retail investors – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the IDD, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore SFA Product Classification – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

In connection with the issue of the Bonds, BNP Paribas (the "**Stabilisation Manager**") (or any person acting on behalf of the Stabilisation Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

Available Information – The Issuer has agreed that, for so long as any of the Bonds are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, the Issuer will provide to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act, if at the time of such request the Issuer is not a reporting company under Section 13 or Section 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is incorporated as a joint stock company under the laws of the Republic of Latvia and organised under Latvian law. Most of the directors and officers of the Company named herein reside in the Republic of Latvia and all or a substantial portion of the assets of the Company and of such officers and directors are located in the Republic of Latvia. As a result, it may not be possible for investors to effect service of process outside the Republic of Latvia upon the Company or such persons, or to enforce judgments against them obtained in courts outside the Republic of Latvia predicated upon civil liabilities of the Company or such directors and officers under laws other than Latvian law, including any judgment predicated upon United States federal or state securities laws. The Bonds, the Trust Deed, the Agency Agreement and the Escrow Agreement (each as defined below), and any non-contractual obligations arising out of or in connection with any of them, are governed by English law and the Company has agreed that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising thereunder ("**Proceedings**"). The Company has appointed Law Debenture Corporate Services Limited as its authorised agent to whom the process may be served in any Proceedings.

In the Republic of Latvia, application may be made to enforce judgments of foreign courts: (i) under the provisions of respective EU laws if the judgment was issued in a Member State of the European Union; (ii) under international agreements, if a relevant bilateral/multilateral treaty provides for such enforcement; or (iii) on the basis of the rules of the Latvian Civil Procedure Code if (i) and (ii) above do not apply.

PRESENTATION OF CERTAIN FINANCIAL INFORMATION

The financial information relating to the Group included in this Prospectus is from (i) the audited consolidated financial statements as at and for the financial year ended 31 December 2023 (the "**2023 Audited Consolidated Financial Statements**") and (ii) the audited consolidated financial statements as at and for the financial year ended 31 December 2022, including 2021 comparative data (the "**2022 Audited Consolidated Financial Statements**" and, together with the 2023 Audited Consolidated Financial Statements, the "**Audited Consolidated Financial Statements**"). The Group's financial year ends on 31 December and references in this document to a "financial year" are to the twelve-month period ended on 31 December of the year referred to.

The Audited Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as adopted by the European Union (**"EU IFRS**"). The Group presents its financial statements in EUR, which is the functional and presentation currency of the Group.

PricewaterhouseCoopers SIA ("**PwC**") has audited the Audited Consolidated Financial Statements and issued an unqualified independent auditor's report for each of the Audited Consolidated Financial Statements thereon, dated 28 February 2023 and 29 February 2024, respectively. The independent auditor's reports contain Emphases of Matter in respect of "Material Uncertainty Related to Going Concern". For further details see *"Emphases of Matter in the independent auditor's reports to the Financial Statements*" below.

As described under "— *Key factors affecting comparability*" certain financial data for the relevant periods presented in this Prospectus are presented on a revised basis.

This Prospectus includes also certain financial data and APMs as of and for the years ended 31 December 2020 and 2019. Such data was derived or calculated based on the following historical financial information:

- Adjusted EBITDAR - calculated based on the information included in the 2020 Audited Consolidated Financial Statements, as defined in "*Information Incorporated by Reference*", which were published by the Company and are available on its website and are incorporated by reference into this Prospectus;
- Operating revenue - presented on a restated basis and derived from the information included in Note 2a) to the 2021 Audited Consolidated Financial Statements, as defined in "*Information Incorporated by Reference*", which were published by the Company and are available on its website and are incorporated by reference into this Prospectus;
- Net debt – presented on a restated basis and derived from 2020 Audited Consolidated Financial Statements, except for effect of certain reclassifications within current liabilities, as described in Note 2a) to the 2021 Audited Consolidated Financial Statements.

Key factors affecting comparability

Change in presentation of prepaid expenses

During 2022, the Group changed its classification of prepaid expenses within the balance sheet. The prepaid expenses representing prepayments for maintenance previously presented within current assets (as of 31 December 2021, €32.0 million) have been reclassified to non-current assets, as disclosed in Note 2a to the 2022 Audited Consolidated Financial Statements. Management believes that the change provides more reliable and relevant information. In accordance with IAS 8, the change has been made retrospectively and comparative financial information for the year ended 31 December 2021 in the 2022 Audited Consolidated Financial Statements has been restated accordingly.

Change in presentation and restatement of prior period annual results

Presentation of "Cost of carbon emission allowances"

In the 2023 Audited Consolidated Financial Statements the "Cost of carbon emission allowances" is presented as a separate line item in the income statement. In all financial statements of the Group for prior periods included in this Prospectus, the "Cost of carbon emission allowances" has been part of the line item "Fuel". The table below shows the historical cost of carbon emission allowances:

Period	**Cost of carbon emissions allowances**	**Line item originally presented in**
	(EUR thousands)	
Year ended 31 December 2021....................	5,874	Fuel
Year ended 31 December 2022....................	19,249	Fuel

As a result of these changes, financial data for the affected periods (i.e. as of and for the years ended 31 December 2022 and 2021) was restated accordingly in the Audited Consolidated Financial Statements. For the purposes of this Prospectus, financial data as of and for the years ended 31 December 2022 and 2021, where applicable, are disclosed on a revised presentation basis (consistent with the approach taken in the Audited Consolidated Financial Statements) and labelled "as restated".

Alternative performance measures ("APMs") and other non-IFRS financial data

This Prospectus includes certain references to APMs derived from the Group's Financial Statements such as the Group's Adjusted EBITDAR, Adjusted EBITDAR margin, capital expenditure, leverage (net debt to Adjusted EBITDAR), net cash capital expenditure, net debt, operating margin and operating revenue. The Group uses these APMs to evaluate its performance, and this additional financial information is presented in this Prospectus. These measures meet the definition in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015, which came into force on 3 July 2016. This information should be viewed as supplemental to the Financial Statements. Investors are cautioned not to place undue reliance on this information and should note that the APMs, as calculated by the Group, may differ materially from similarly titled measures reported by other companies, including the Group's competitors.

The Group believes that these metrics provide useful information for investors and other interested parties in order to better understand the underlying business, financial position, cash flows and results of operations of the Group.

The APMs are not defined in accordance with IFRS. An APM should not be considered in isolation from, or as substitute for any analysis of, financial measures defined according to IFRS. Investors are advised to review these APMs in conjunction with the Financial Statements of the Issuer contained in, or incorporated by reference in, this Prospectus. APMs were not audited, reviewed or otherwise reported on by independent auditors and they do not form part of the Financial Statements.

For details on the reconciliation figures, please see "*Selected Financial and Operating Information – Reconciliation*".

The table below presents the rationale for the use of the non-IFRS measures.

Non-IFRS Measure	Rationale for use
Adjusted EBITDAR	Adjusted EBITDAR measures Profit / (loss) for the period adjusted for: corporate income tax, finance cost, finance income, provision for legal disputes, foreign currency exchange gain / (loss), net, amortisation and depreciation, aircraft and similar lease and claims compensation. It provides supplemental information on the Group's profitability and enables period to period comparisons before the impact of aircraft lease and changes in fixed assets owned by the Group.
Adjusted EBITDAR margin (%)	Adjusted EBITDAR margin measures Adjusted EBITDAR as a proportion of total operating revenue in the measurement period and provides supplemental and comparable information on the Group's performance and ability to generate cash from core operations.
Capital expenditure	Consists of additions to property plant and equipment, right of use assets (buildings and land and aircraft), licences, software and other.
Leverage (Net debt to Adjusted EBITDAR) (multiplier)	Leverage (Net debt to Adjusted EBITDAR) is a measure of net debt divided by Adjusted EBITDAR. It is a measure to calculate borrowings net of cash assets expressed as a multiple of Adjusted EBITDAR. Leverage (Net debt to Adjusted EBITDAR) provides period to period comparison on the Group's leverage.
Net cash capital expenditure..............	Net cash capital expenditure measures cash outflows on acquisition of property, plant and equipment and intangible assets plus advances paid for aircraft, refund of advances paid for aircraft, received profit from sale and leaseback transactions, interest received and proceeds from sale of property, plant and equipment. It provides period to period comparison on the Group's cash outflow for capital expenditure activities.
Net debt	Net debt is a measure of the net indebtedness of the Group (defined as non-current borrowings plus non-current lease liabilities, current borrowings and

	current lease liabilities less cash). It is used for the purpose of monitoring the Group leverage levels.
Operating margin (%).........................	Operating margin measures operating profit as a proportion of operating revenue in the measurement period. It provides information on profitability of the core Group's operations.
Operating profit / (loss)	Profit / (loss) for the period adjusted for finance income / (expenses) and corporate income tax
Operating revenue	Operating revenue measures revenue and other income.

Additional Information about Adjusted EBITDAR

EBITDAR is commonly used in the airline industry to view operating results as costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.

EBITDAR has important limitations as an analytical tool and should not be considered in isolation from, or as a substitute for an analysis of, the Group's operating results as reported under IFRS. Some of the limitations are:

- EBITDAR does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDAR does not reflect changes in, or cash requirements for, working capital needs;
- EBITDAR does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on debt;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future and EBITDAR does not reflect any cash requirements for such replacements; and
- other companies may calculate EBITDAR differently and may apply adjustments other than those applied by the Group, limiting its usefulness as a comparative measure.

In 2023, the Group revised its presentation and definition of EBITDAR as compared to its prior disclosures by including claim compensations in the EBITDAR definition and calculation and renaming the measurement to "Adjusted EBITDAR". Management believes that the revised Adjusted EBITDAR definition and presentation better reflects the way the management monitors the business on an ongoing basis, and provides greater transparency, comparability and core operations focus when discussing and communicating results to investors. The Group's use and method of calculation of APMs may vary from other companies' use and calculation of similarly titled measures. For purposes of this Prospectus, Adjusted EBITDAR was calculated and presented on a revised presentation basis through all periods presented, which the management also intends to use in its communications with the market and its management reports going forward.

Emphases of Matter in the independent auditor's reports to the Audited Consolidated Financial Statements

2023 Audited Consolidated Financial Statements

The independent auditors' report on the audit of the 2023 Audited Consolidated Financial Statements contains the following Emphasis of Matter:

We draw attention to note 2(b) 'Going Concern" to the financial statements, which discusses the management's plans and needs to secure the funding to i) repay the existing bonds which mature in July 2024 and ii) to be able to meet the Group's ongoing financing requirements. This indicates 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.

2022 Audited Consolidated Financial Statements

The independent auditors' report on the audit of the 2022 Audited Consolidated Financial Statements contains the following Emphasis of Matter:

We draw attention to note 2(b) "Going Concern" to the financial statements, which discusses the impact on travel demand due to the ongoing war related travel restrictions, effects of fuel price and the liquidity and confidence of the debt capital markets that could negatively affect the availability of sufficient funding, and hence on the Company's and on the Group's business levels and ability to continue as a going concern. We draw attention to the fact that if the Group's cash flows remain negatively affected the Company and the Group may need, within the next 12 months, to obtain additional funding and/or renegotiate its current debt obligations to enable the Company and Group to maintain the minimum cash level not to be in breach of its current debt obligations. These events or conditions, along with other matters also set forth in Note

17, 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.

Presentation of Industry Data

In this Prospectus, references to:

- "**ASK**" are to available seat kilometres, an airline industry measure of passenger capacity calculated as the number of seats available multiplied by the distance flown;
- The "**Baltics**" are to Estonia, Latvia and Lithuania;
- "**Breakeven point**" is to the point where revenues and direct operating costs are equal i.e. when neither a profit nor a loss has been (or will be) made;
- "**CASK**" are to cost per seat kilometres an airline industry measure of the Group's cost base and dynamics compared to total flight kilometre capacity deployed;
- "**Passenger load factor**" are to RPK divided by ASK, an airline industry measure of aircraft passenger use;
- "**RASK**" are to revenue per available seat kilometre, an airline industry measure of operating revenue generated compared to total flight kilometre capacity deployed; and
- "**RPK**" are to revenue passenger kilometres, an airline industry measure of passenger traffic calculated as the number of passengers carried multiplied by the distance flown.

Currency

In this Prospectus, unless otherwise specified, references to (i) a "Member State" are references to a Member State of the EEA and "**€**", "**EUR**", or "**euro**" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; and (ii) "**U.S.$**" and "**U.S. dollar(s)**"are to the lawful currency of the United States.

Rounding

Certain financial and statistical amounts included in this Prospectus are approximations or have been subject to rounding adjustments. Accordingly, amounts shown as derivations or totals in certain tables may not be exact arithmetic derivatives or aggregations of the amounts that precede them.

Websites

Information contained in any website referred to herein does not form part of this Prospectus.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Prospectus have been extracted from public sources identified in this Prospectus. None of the Managers, the Trustee, the Security Trustee, the Agents or the Company accepts responsibility for the factual correctness of any such statistics or information but the Company accepts responsibility for accurately extracting and transcribing such statistics and information and believes, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at the dates and for the periods with respect to which they have been presented. The Company confirms that all such third-party information has been accurately reproduced and, so far as the Company is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

INFORMATION INCORPORATED BY REFERENCE

The following information has been filed with the Central Bank and shall be deemed to be incorporated in, and to form part of, this Prospectus *provided however* that any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement:

- the audited consolidated financial statements of the Group for the financial year ended 31 December 2021, together with the independent auditor's report thereon and the notes thereto, which appear on pages 81 to 150 of the Group's sustainability and annual report and accounts for the year ended 31 December 2021 (the "**2021 Audited Consolidated Financial Statements**"); and

- the audited consolidated financial statements of the Group for the financial year ended 31 December 2020, together with the independent auditor's report thereon and the notes thereto, which appear on pages 93 to 155 of the Group's sustainability and annual report and accounts for the year ended 31 December 2020 (the "**2020 Audited Consolidated Financial Statements**").

Such documents will (a) available for inspection in electronic form from the registered office of the Issuer (b) available for inspection on the website of the Company at https://investors.airbaltic.com/en/financial-information (c) available for inspection during usual business hours at the specified office of the Principal Paying Agent and (d) provided by email to a Bondholder following their prior written request to the Principal Paying Agent and provision of proof of holding and identity (in a form satisfactory to the Principal Paying Agent).

Any information contained in or incorporated by reference in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus and, for the avoidance of doubt, unless specifically incorporated by reference into this Prospectus, information contained on the Issuer's website does not form part of this Prospectus.

Any document which is incorporated by reference into any of the documents deemed to be incorporated in, and form part of, this Prospectus shall not constitute a part of this Prospectus.

FORWARD-LOOKING STATEMENTS

Certain statements included in this Prospectus may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are all statements in this Prospectus that do not relate to historical facts and events, and include statements concerning the Group's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the intentions of the Issuer, and beliefs or current expectations concerning, among other things, the business, results of operations, financial position and/or prospects of the Group.

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

These forward-looking statements are made only as at the date of this Prospectus. Except to the extent required by law, the Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on the Issuer's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Bonds should not place undue reliance on these forward-looking statements.

CONTENTS

OVERVIEW OF THE GROUP

The Group is one of the largest air carriers in the Baltics by number of passengers (see *"Business Description – Strengths – The Group is an industry leader in the Baltics with a strong flight network"*). Its main base and hub is in Riga, Latvia and it has operating bases in Tallinn, Estonia, Vilnius, Lithuania, Tampere, Finland and a seasonal base in Gran Canaria, Spain. The Group is a "hybrid low-cost carrier airline", operating a low-cost carrier ("**LCC**") structure that offers traditional airline services such as a business class and full-course meals. The Group's total transportation revenue (which includes revenue for passenger transportation, charter transportation and aircraft lease, cargo transportation and other transportation related revenue) accounted for 99.4%, 99.1% and 97.1% of the Group's total operating revenue for the years ended 31 December 2023, 2022 and 2021, respectively. The Group's other transportation related revenue was derived from a range of other sources, including aviation related training services, de-icing, advertising and cargo handling at Riga International Airport.

As at 31 December 2023, the Group operated 126 routes. Of these, 76 non-stop routes were operated from Riga, 19 from Tallinn, 15 from Vilnius, 10 from Tampere and six from Gran Canaria. In 2023, the Group opened 38 new routes and cancelled 15 routes. As there was a strong demand for leisure flights in 2023, the Group focused its growth on leisure destinations by launching new routes from its main base Riga to leisure destinations, such as Bucharest (Romania), Belgrade (Serbia), Tivat (Montenegro), Istanbul (Turkey), the Caucasus region (Yerevan (Armenia) and Baku (Azerbaijan)), Agadir (Morocco), Bilbao (Spain), Burgas (Bulgaria) and Porto (Portugal) and Hannover (Germany). The Group also launched 10 new leisure routes from its hubs in 2023. Since February 2022, the Group has not operated any routes to Russia or Belarus, and passenger routes to Ukraine have been suspended due to safety concerns. To help increase the transfer traffic lost due to the Russia-Ukraine conflict, several destinations with significant transfer demand potential have been launched from Riga including Tivat, Baku, Yerevan, Istanbul, Bucharest and Belgrade. The Group plans to launch 18 new routes in 2024, including new routes to the Balkans and southeastern Europe (from Riga to Ljubljana (Slovenia), Skopje (Macedonia), Pristina and Tirana (Albania), Chisinau (Moldova) and Sofia (Romania)), Madeira (Portugal) and, starting in April 2024, the Group will open two new routes from Vilnius to Lisbon (Portugal) and Hamburg (Germany), operated on a risk-share basis with Lithuanian Airports.

As of the date of this Prospectus, the Group operates a single fleet of 47 Airbus A220-300 aircraft which, as at 31 December 2023, had an average age of 3.1 years. As at 31 December 2023, the Group was the largest operator of Airbus A220 aircraft in Europe (Source: Airbus 'Orders and Deliveries'). All of the Group's A220-300 aircraft are subject to a lease agreement. As at the date of this Prospectus, the Company has eight Airbus A220-300 aircraft under finance leasing arrangements whereby the Company will obtain ownership of the aircraft at the end of the lease term upon payment of a nominal option price of U.S.$1 in respect of the Axiom Aircraft (as defined in Condition 3(c) (*Security*)) and U.S.$10 in respect of the JALL Aircraft (as defined in Condition 3(c) (*Security*)). The remainder of the aircraft are under operating lease agreements whereby the Company will return the aircraft to the owner of the aircraft at the end of the lease term, without taking legal ownership of the aircraft. In addition to the aircraft described above, the Company has seven Pratt & Whitney PW1521G-3 spare engines which are also under finance leasing arrangements, whereby the Company will obtain ownership of the engines at the end of the applicable lease term upon payment of a nominal option price. The Group plans to increase its fleet to 50 Airbus A220-300 aircraft by the end of 2024, and to 100 aircraft by the end of 2029. During 2023, excluding its ACMI activities, the Group transported 4.5 million passengers and carried over 9,440 tonnes of cargo on 44,113 flights to destinations across Europe, including Scandinavia and the Baltics, and the Middle East. For the year ended 31 December 2023, the Group had a passenger load factor of 76.7%, compared to 71.2% in the year ended 31 December 2022 and 53.6% in the year ended 31 December 2021.

Starting in 2022, the Group has increased its aircraft, crew, maintenance and insurance ("**ACMI**") activities, due to the impact on its business of the Russia-Ukraine conflict. For the year ended 31 December 2023, the Group contracted 14 aircraft to fly for other carriers in the summer season beginning on the last Sunday of March and ending on the Saturday before the last Sunday of October (the "**Summer Season**") of 2023. For the Summer Season of 2024, the Group has contracted 17 aircraft to fly for Lufthansa, Eurowings and SWISS. The Group plans to develop its ACMI offering by leveraging long-term relationships with the Lufthansa Group (including Eurowings and Swiss International Airlines ("**SWISS**")) and SAS, with approximately 20% to 30% of the Group's aircraft capacity to be deployed on ACMI on an ongoing basis. Due to its unique offering in terms of aircraft type and the high service quality, in part due to the Company being a scheduled carrier rather than a charter carrier, management believes that the Group has significant advantages in offering ACMI services to European network full-service carriers.

The COVID-19 pandemic had a significant impact on the Group's operations and demand and passenger growth was still impacted in early 2022. In July 2020, the Government of Latvia provided a €250 million cash injection into the Company, following an approval by the European Commission under the EU state aid rules. In August 2021, a further cash injection of €90 million was approved by the Government of Latvia. Subsequent approval was granted by the European Commission on 22 December 2021, and in May 2022, for the amount to be paid and in two equal tranches. The Company received the first tranche of €45 million on 28 December 2021 and the second tranche of €45 million on 7 June 2022.

As a result of the COVID-19 pandemic, the Russia-Ukraine conflict and the impact these have had on the Group's operations and the wider global economy, the Group adopted a new business plan "IPO & Beyond" in 2023, establishing the Group's targets up to 2030. This plan was adjusted in February 2024 and centres on increasing the Group's fleet to 100 aircraft by the end of 2029. The business plan also addresses the capital needs for the future growth of the Group by incorporating a potential IPO as early as the second half of 2024, which is intended to significantly improve the capital structure of the Group and to support the gradual deleveraging of the balance sheet. The ACMI lease services involve the agreement between the Company and another airline whereby the Company provides the other airline with an aircraft, crew, maintenance and insurance to the other airline in return for payment on the number of block hours operated. *(**"ACMI lease services"**)*. ACMI lease services are a significant part of the Group's business plan, with up to approximately one third of the fleet to be dedicated to this purpose.

For further information please see “*Business Description – Overview*”.

OVERVIEW OF THE OFFERING

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

Words and expressions defined in "*Terms and Conditions of the Bonds*" shall have the same meanings in this Overview of the Offering.

Issuer:	Air Baltic Corporation AS.
Legal Entity Identifier:	213800JVURXEAA48FV35.
Issue:	€340,000,000 14.500% Secured Bonds due 2029.
Trustee:	U.S. Bank Trustees Limited.
Security Trustee:	U.S. Bank Trustees Limited.
Principal Paying Agent:	Elavon Financial Services DAC.
Registrar and Transfer Agent:	Elavon Financial Services DAC.
Status of the Bonds:	The Bonds will constitute (subject to Condition 4(a) (*Negative Pledge*)) direct and unconditional obligations of the Issuer, secured in the manner described in Condition 3 (*Security*), and will rank *pari passu* and without any preference among themselves (save for such exceptions as may be required by applicable legislation and subject to Condition 4(a) (*Negative Pledge*)) equally with all its other present and future unsubordinated obligations.
Form of Bonds:	The Bonds offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Unrestricted Global Certificate in registered form, and the Bonds offered and sold in reliance upon Rule 144A will be represented by beneficial interests in the Restricted Global Certificate in registered form, each of which will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. The Global Certificates will be exchangeable for definitive Certificates only in certain limited circumstances (see "*Summary of Provisions relating to the Bonds while in Global Form*").
Scheduled Rate of Interest:	The Bonds will bear interest at a rate of 14.500% per annum (the "**Scheduled Rate of Interest**"), payable on the Bonds quarterly in arrear on 14 February, 14 May, 14 August and 14 November in each year, commencing on 14 August 2024.
Step Up Rate of Interest:	In respect of any Interest Period during which a Step Up Event has occurred, the Bonds will bear interest at the rate of 16.500% per annum (the "**Step Up Rate of Interest**"), as more particularly described under Condition 5 (*Interest*).
Maturity Date:	14 August 2029.
Redemption for Taxation Reasons:	The Issuer may, at its option, redeem all, but not some only, of the Bonds at any time at 100% of their principal amount together with any accrued and unpaid interest up to, but excluding, the date of such redemption in the event of certain changes affecting taxation in Latvia, as more particularly described under Condition 6(b) (*Redemption for Taxation Reasons*).
Redemption at the Option of the Issuer:	At any time on or after 14 May 2026, the Issuer may, at its option, redeem all, but not some only, of the Bonds at the redemption amounts set out in Condition 6(c) (*Redemption at the Option of the Issuer*), together with accrued and unpaid

	interest up to, but excluding, the date of such redemption, as more particularly described under Condition 6(c) (*Redemption at the Option of the Issuer*).
Make-Whole Redemption at the Option of the Issuer:	At any time prior to 14 May 2026, the Issuer may, at its option, redeem all, but not some only, of the Bonds at 100% of their principal amount plus the Applicable Premium, together with accrued and unpaid interest up to, but excluding, the date of such redemption, as more particularly described under Condition 6(d) (*Make-Whole Redemption at the Option of the Issuer*).
Redemption at the Option of the Issuer in the event of an Equity Offering:	At any time prior to 14 May 2026, the Issuer may, at its option, on any one or more occasions redeem up to 40% of the Bonds with the net cash proceeds of one or more Equity Offerings at 114.500% of their principal amount, together with accrued and unpaid interest up to, but excluding, the date of such redemption, as more particularly described under Condition 6(e) (*Redemption at the Option of the Issuer in the event of an Equity Offering*).
Redemption at the Option of Bondholders upon a Change of Control (Put Option):	Upon the occurrence of a Change of Control Event, each holder of the Bonds shall have the right to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of, all or any part of that holder's Bonds at 101% of their principal amount, together with accrued and unpaid interest up to the date for such redemption, as more particularly described under Condition 6(f) (*Redemption at the Option of Bondholders upon a Change of Control (Put Option)*).
Denomination of Bonds:	The Bonds will be issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof.
Taxation:	All payments in respect of the Bonds will be made without deduction for or on account of withholding taxes imposed by Latvia as provided in Condition 8 (*Taxation*). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Bonds will contain negative pledge provisions, as more particularly described under Condition 4(a) (*Negative Pledge*).
Certain Covenants:	The terms of the Bonds contain certain covenants, which, among other things, limit the Issuer's ability and the ability of certain members of the Group to conduct certain transactions, for example: • incur any Debt; • cause its Liquidity to be less than the minimum amount; • fail to ensure that an amount of cash is transferred to the Bonds Service Reserve Account equal to the applicable Required Balance as set out in the Conditions (see also "*Bonds Service Reserve Account*" below); • merge, consolidate or sell all or substantially all its assets; • consummate an Asset Sale; • effect a Restricted Payment; • enter into certain Sale/Leaseback Transaction; • engage in any business other than a Permitted Business, • fail to make available year end and half year financial statements;

- fail to, among other things, create, perfect, protect or maintain Security;

- fail to comply with certain other covenants in respect of the Security Documents and the Security; and

- fail to redeem the Existing Bonds (see also "*Use of Proceeds*" below),

all more particularly described under Condition 4 (*Negative Pledge and Covenants*).

Each of these covenants is subject to a number of important exceptions and qualifications. See Condition 4 (*Negative Pledge and Covenants*).

If, on any date following the Issue Date, the Bonds have an Investment Grade rating from at least two of the Rating Agencies and no Event of Default or Potential Event of Default has occurred and is continuing, then, beginning on that day and continuing until such time, if any, at which the Bonds cease to have an Investment Grade rating from at least two of the Rating Agencies, the covenants contained in Conditions 4(b), 4(c), 4(d), 4(e)(iii), 4(f), 4(g), 4(h) and 4(i) will not apply. See Condition 4(k) (*Covenant Suspension*).

Security:

The Bondholders and the other Secured Creditors will share in the benefit of the Security from time to time.

Upon issue of the Bonds, but before the Security Longstop Date, the Bondholders and the other Secured Creditors will share in the benefit of the Issue Date Security, being:

(a) a first ranking Latvian law governed registered commercial pledge over the Issuer's (i) Fixtures and Fittings (except for leasehold investments) as a pool of assets at the time of pledging as well as its future components, (ii) Aircraft Equipment (except for aircraft engines and heavy maintenance capitalised costs) as a pool of assets at the time of pledging as well as its future components, (iii) Inventory as a pool of assets at the time of pledging as well as its future components and (iv) the Airbus Flight Simulator;

(b) a first ranking Latvian law governed registered commercial pledge over 100 per cent. of the shares in the Issuer's subsidiaries "BALTIJAS KRAVU CENTRS" SIA, a limited liability company incorporated under the laws of Latvia, registered in the commercial register of Latvia, registration number 40003458674 and "Air Baltic Training", SIA, a limited liability company incorporated under the laws of Latvia, registered in the commercial register of Latvia, registration number 40103272422 (the "**Air Baltic Training**");

(c) a first ranking Latvian law governed registered mortgage over the following real estate owned by the Issuer: the BA Hangar and the Training Centre (in each case as defined in Condition 3(*Security*) and as described in "*Description of the Security*");

(d) a first ranking Latvian law governed registered mortgage over the right of superficies in relation to the Pilot Academy Hangar (as defined in Condition 3(*Security*) and as described in "*Description of the Security*") owned by Air Baltic Training;

(e) a first ranking Latvian law governed registered commercial pledge over the Training Simulator;

(f) seven English law governed security assignments granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to each of the seven Axiom Aircraft (as defined in Condition 3(*Security*) and as described in "*Description of the Security*");

(g) an English law governed security assignment granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to the JALL Engines (as defined in Condition 3(*Security*) and as described in "*Description of the Security*");

(h) an English law governed security assignment granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to the JALL Aircraft (as defined in Condition 3(*Security*) and as described in "*Description of the Security*"); and

(i) an Irish law governed first fixed charge granted by the Issuer over the balances from time to time standing to the credit of the Bonds Service Reserve Account and an assignment by way of security of the Issuer's rights, title and interest to and in respect of the Account Bank Agreement.

On or before the Security Longstop Date, the Bondholders and the other Secured Creditors will share in the benefit of the Longstop Date Security, being:

(a) a first ranking Latvian law governed registered commercial pledge over the Issuer's (i) Receivables as a pool of assets at the time of pledging as well as its future components and (ii) Trademarks; and

(b) a first ranking Latvian law governed registered mortgage over the MRO Konkors Hangar (as defined in Condition 3(*Security*) and as described in "*Description of the Security*") owned by the Issuer.

At the time required by Condition 3(d) (*Additional Security*), the Bondholders and the other Secured Creditors will share in the benefit of the Security over (a) any applicable Owned Asset as required by Condition 3(d)(i)(II) and (b) any applicable New Trademarks as required by Condition 3(d)(ii)(x).

See Condition 3 (*Security*).

Bonds Service Reserve Account:	The Issuer will, on the Issue Date, establish and at all times thereafter maintain or cause to be maintained the Bonds Service Reserve Account. Following redemption of the Existing Bonds and repayment of the State Loan, the Issuer will, or will procure that, an amount of cash is transferred to the Bonds Service Reserve Account from the escrow account equal to the then applicable Required Balance. Thereafter the Issuer may, at any time, deposit amounts into the Bonds Service Reserve Account and will ensure that amounts on deposit in the Bonds Service Reserve Account will not be less than the applicable Required Balance as set out in the Conditions.
Use of Proceeds:	The net proceeds of the Bonds will be used to repay the principal and accrued and unpaid interest and other costs incurred in relation to the outstanding Existing Bonds, to repay the principal and accrued and unpaid interest on the State Loan, for general corporate purposes, to support its current liquidity requirements and for future fleet expansion in line with the approved business plan. On 29 April 2024, the Issuer issued a notice of redemption to the holders of the Existing Bonds. On or before the Issue Date, the Issuer will enter into an escrow agreement under which it will agree, subject to receipt of the proceeds of the issue of the Bonds, to pay the proceeds of the issue of the Bonds into an escrow account in order that such proceeds are applied to redeem the Existing Bonds and repay the State Loan. See "*Use of Proceeds*".

Events of Default:	The Events of Default are as more particularly described under Condition 9 (*Events of Default*).
Meetings of Bondholders:	The Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.
Modifications, Waiver and Substitution:	The Trustee may, without the consent of Bondholders, agree to (i) any modification of (subject to certain exceptions), or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or the Transaction Documents which is in its opinion not materially prejudicial to the interests of the Bondholders; (ii) any modification of the provisions of the Bonds or the Transaction Documents which, in its opinion, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law; or (iii) allow a legal entity to assume the obligations of the Issuer as principal debtor under the Trust Deed and the Bonds, in each case, in the circumstances and subject to the conditions described in Condition 12 (*Meetings of Bondholders, Modification, Waiver and Substitution*).
Rating:	The Issuer has been given a corporate credit rating of B by S&P and B- by Fitch. The Bonds are expected, on issue, to be rated B+ by S&P and B by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Listing:	Application has been made to Euronext Dublin for the Bonds to be admitted to its Official List and to trading on its Market. In addition, the Issuer may make an application, after the Bonds are issued, for the Bonds to be admitted to trading on the official list of Nasdaq Riga. However, there can be no assurance that such application will be made or that such admission will take place.
Governing Law:	The Bonds and any non-contractual obligations arising out of or in connection with the Bonds will be governed by, and shall be construed in accordance with, English law.
Transfer Restrictions:	The Bonds have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Bonds in the United States, the EEA, the UK, Hong Kong, Japan and Singapore, see "*Subscription and Sale*".
Securities Identifiers:	Regulation S Bonds: ISIN: XS2800678224 Common Code: 280067822 Rule 144A Bonds: ISIN: XS2819725966 Common Code: 281972596

RISK FACTORS

Before making an investment decision, prospective investors should carefully review the specific risk factors described below, in addition to the other information contained in, or incorporated by reference in, this Prospectus. The Issuer believes that the following factors may affect the Issuer's ability to fulfil its obligations under the Bonds. The Issuer's business, financial condition and results of operations could be materially affected by each of these risks presented. Also, other risks and uncertainties not described herein could affect the Issuer's ability to fulfil its obligations under the Bonds. Additional risks and uncertainties not presently known to the Issuer, or that the Issuer currently believes are immaterial, could impair the ability of the Issuer to fulfil its obligations under the Bonds. In this Prospectus, the most material risk factors have been presented at the beginning in each category. The order of presentation of the remaining risk factors in each category in this Prospectus is not intended to be an indication of the probability of their occurrence or of their potential effect on the Issuer's ability to fulfil its obligations under the Bonds.

Risks related to the Group

1. The Group's business is exposed to risks arising from the Russia-Ukraine conflict and political and economic events and trends in the Baltics, Nordics, Russia, Ukraine, the CEE and elsewhere

On 24 February 2022, Russia launched a military assault on Ukraine. In response, the United States, the United Kingdom, EU Member States and other governments across the world have imposed severe economic sanctions and export controls against Russia and Russian interests and many Russian banks were removed from the SWIFT system. Additional sanctions may be imposed as the Russia-Ukraine conflict progresses. The Russian invasion of Ukraine has had significant implications on the aviation industry, including on fuel prices (see *"Increases in fuel costs may adversely affect the Group's results of operations"*), the availability of Russia's, Belarus' and Ukraine's airspace for overflights and global supply chains which has affected the production and availability of certain aircraft parts necessary for the airBaltic fleet.

The majority of the Group's revenue is attributable to sales on routes to and from the Baltics, as well as the transfer of passengers from the Nordics, Central and Eastern Europe ("**CEE**") and the rest of the EU. For the year ended 31 December 2023, 97.0% of the Group's passenger revenue was generated from flights to or from the Baltics and 3.0% from Tampere and Gran Canaria based routes. The Group has suspended all flights to and from Russia and Belarus indefinitely since February 2022. Passenger flights to Ukraine have also been suspended indefinitely, although cargo operations to Ukraine were resumed in April 2023. Routes that previously overflew Russia, Belarus and Ukraine were replanned and rescheduled to account for longer flight times. The Group believes that the Russia-Ukraine conflict will continue to have a significant impact on its operations in the long-term due to the closure of the Russian market and overflights across Russia. The Group believes that the Ukrainian market, in whole or in part, may reopen sooner than the Russian market.

Following the closure of the Ukrainian, Belarusian and Russian airspaces in 2022, the Group redeployed its capacity from the Russian and Ukrainian markets to other parts of the business, including allocating those resources to the ACMI market. The Company adjusted its route network by either cancelling or reducing flights to certain destinations to mitigate the impact of the Russia-Ukraine conflict and redeploying capacity to other destinations. Routes to Greece, Bulgaria, Cyprus and Turkey have been only marginally affected and no changes were made to these routes.

The Baltic states are former members of the Soviet Union, having been annexed in 1940, and are current members of NATO and the European Union. There is speculation that they may become targets of Russian military action, given Russia's stated long-term strategic aim of securing a land corridor to the Russian enclave of Kaliningrad, which is located between Lithuania and Poland. Latvia is seen as being at particular risk in light of its large ethnic Russian minority 23.7% of the total population of Latvia as at the beginning of 2023, according to the Official Statistics of the Republic of Latvia, 2023 and its borders with Russia and Belarus. If any of the countries in the Baltics to or from which the Group flies experience reduced economic growth, political instability or security threats resulting from political and/or economic risk, this could adversely affect travel demand, travel behaviour and lead to travel restrictions, disrupt the Group's business, resulting in the cancellation or loss of bookings, and adversely affecting the Group's business, results of operations, financial condition and/or prospects.

In addition, the attack launched by Hamas in Israel on 7 October 2023 and the ongoing large-scale military operations launched by Israel in Gaza in response have resulted in increased in geopolitical tensions in the Middle East and may have far reaching effects on the global economy, currency exchange rates and regional economies as well as on the Group and its operations in the region. The Group suspended flights to and from Tel Aviv from 19 October 2023 until 16 May 2024, affecting, on average, two flights per week, in the IATA winter season beginning on the last Sunday of October and ending on the Saturday before the last Sunday of March in the following year (the "Winter Season") and this capacity was not deployed elsewhere due to lower travel demand.

2. The Group may not have sufficient liquidity to fulfil its obligations

The Group has a significant amount of financial leverage and substantial non-cancellable commitments for capital expenditures, including the acquisition of new aircraft. The Group has historically been able to generate sufficient cash flow from operations to pay debt and other fixed obligations when they become due. However, the COVD-19 pandemic, the Russia-Ukraine conflict and related travel restrictions, fluctuations in fuel prices and the liquidity and confidence of the debt capital markets have had a significant adverse effect on the Group's business operations. During the first half of 2020, the Group engaged in a number of cash and liquidity preservation activities, including short-term deferrals of lease payments, deferrals of payments to suppliers and partial remuneration payment suspension of the top and middle management of the Group. Due to the €250 million investment into the Group by the Government of Latvia made in July 2020, the Group was able to repay all deferred amounts owed. However, the Group continued to face a significant negative impact on its cash flow caused by the unprecedented amount of refunds it made as a result of flight cancellations and reduced flights due to travel restrictions being imposed domestically and in relevant travel destinations as a result of the COVID-19 pandemic. The Group continues to experience operational challenges related to the ongoing Russia-Ukraine conflict and the continued knock-on effects such as impact on demand for travel and is also adversely affected by the continued lack of available Pratt & Whitney engines. In addition, the Existing Bonds mature in July 2024, and the Group is required to raise additional finance in order to fund further committed expansion of the fleet and overall business. A failure to raise financing, whether through the issuance of the Bonds or otherwise, to repay the Existing Bonds when due, or to make required payments for aircraft, would render the Group unable to repay its liabilities in the normal course of business. For further information see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Other factors affecting the Group's results of operations – Status as a going concern*".

The Group's ability to continue as a going concern depends on the availability of sufficient funding to enable the Group's level of operations to return to net cash positive, and its ability to secure additional financing in order to repay its debt obligations when due. The Group's auditors have included Emphases of Matters in their independent auditors' audit reports issued on the 2023 and 2022 Audited Consolidated Financial Statements, in each case related to the Group's ability to continue as a going concern. See "*Presentation of Certain Financial Information – Emphases of Matter in the independent auditor's reports to the Financial Statements*" and Note 2b of the 2023 Audited Consolidated Financial Statements and Note 2b of the 2022 Audited Consolidated Financial Statements.

Pursuant to the decision of the European Commission in the case No.SA.56943 as of 3 July 2020 and case No.SA.63604 of 23 May 2022, the Government of Latvia is required to reduce its ownership of the Group to no more than 80% over the coming five to seven years. The Government of Latvia may therefore choose not to provide additional capital to the Group, if needed and even if it did provide financial assistance, the European Commission may refuse to approve any further state aid by the Government of Latvia to the Group.

The Group has a number of secured loans, including those set out below:

- A €3.3 million loan from Swedbank AS ("**Swedbank**") to Air Baltic Training in 2018. This loan was due to mature in February 2023, but repayment was extended in February 2023 to July 2024 and as at 31 December 2023, €0.7 million of the loan remains outstanding. The loan amount is secured by a commercial pledge granted by Air Baltic Training in favour of Swedbank. The commercial pledge includes nine flight trainer aircraft and one training simulator that Air Baltic Training own and operate, all of its non-tangible investments, rights to any claims (receivables), all inventory and all shares in Air Baltic Training. The loan is guaranteed by the Company for the amount equal to the liabilities of Air Baltic Training and guaranteed by AS "Attīstības finanšu institūcija Altum" for the amount of €1,500,000. The Swedbank Loan was repaid on 8 May 2024.

- The Government of Latvia provided a loan of €36.1 million to the Company (the "**State Loan**"). This loan matures in December 2026 and as at 31 December 2023, a total amount of €36.3 million of the loan and accrued interest remains outstanding. The loan is secured against the Company's assets including by way of mortgage over one of the two aircraft maintenance hangars owned by the Company. The loan is also secured by a commercial pledge against the Company's trademarks, over rights of claims (receivables) and the Company has granted a financial pledge over a €16.5 million deposit.

As at 31 December 2023, 31 December 2022 and 31 December 2021, the cash balance for the Group was €29.1 million, €38.0 million, and €79.3 million, respectively. A cash balance below €25 million would breach a covenant of the Existing Bonds, which could require the Group to repay the Existing Bonds early. Future debt agreements may contain more restrictive covenants or require security beyond historical market terms, which may restrict the Group's ability to successfully access capital. Repayment of the Existing Bonds, either early or on redemption in July 2024, is dependent on the Group's ability to attract additional financing. Further, if the Group is required to provide collateral under its hedging agreements due to a downgrade in its credit rating or market changes, it could negatively affect the Group's ability to access funds and could lead to reduced liquidity.

If the Group's liquidity is constrained or if the Group fails to pay its debts, the Group could become subject to a variety of adverse consequences, including the acceleration and cross-default of such debt, and the exercise of other remedies by the Group's creditors. Any such occurrences could result in a material adverse effect on the Group's cash flows, financial condition and results of operations, and the ability of the Group to fulfil its obligations under the Bonds. See also "*Presentation of Certain Financial Information – Emphases of Matter in the Financial Statements*".

Furthermore, constrained liquidity may limit the Group's ability to withstand competitive pressure and limit its flexibility in responding to changing business and economic conditions, including increased competition and demand for new services, placing the Group at a disadvantage when compared to its competitors. This could have a material adverse effect on its reputation, business, results of operations, financial condition and/or prospects and therefore could affect the ability of the Group to fulfil its obligations under the Bonds.

3. The Group depends on Airbus A220-300 aircraft

The Group operates a single-type fleet of Airbus A220-300 aircraft and depends on Airbus and Pratt & Whitney as its sole suppliers for A220-300 aircraft and PW1500G series aircraft engines, respectively. Since the start of 2022, the Group's operations have been adversely impacted by an unprecedented shortage of spare engines, preventing the Group from flying its own fleet at full capacity. During the IATA Summer Season of 2023, the Group had on average nine aircraft on the ground due to the shortage of spare engines. In response, the Group had to "wet-lease" (an ACMI leasing agreement whereby an aircraft is provided to the Group together with its operating crew, maintenance support and insurance) aircraft from other ACMI providers. The shortage of capacity led to increased fuel burn (and thereby fuel costs), increased airport charges and ground handling fees, and reduced load factors as the aircraft wet-leased to the Group were larger and older than the modern A220-300 fleet, and also adversely affected punctuality (the measure of flights made without delays), regularity (the measure of flights made in relation to those scheduled), fleet utilisation and customer satisfaction. In the year ended 31 December 2023, the Group incurred €64 million in wet-lease costs and approximately €8.9 million in costs for extra fuel burn driven by the shortage of available fleet aircraft.

Management expects similar issues related to engine availability to continue throughout 2024 driven primarily by a new production quality problem with powdered metal. As a result, these engines will be subject to removals. This issue is expected to affect over 45 of the Group's engines, with most removals occurring in 2024. Pratt &Whitney is currently evaluating how long it would take to fully eliminate all affected parts from existing engines and the supply chain, but Management expects that these issues will persist at least until the end of 2024.

The Group has entered into an agreement with Pratt & Whitney for engine maintenance cost guarantee and support in relation to Airbus A220-300 aircraft that it has contracted to purchase and the Airbus A220-300 aircraft it plans to purchase. According to this agreement, Pratt & Whitney makes available to the Group a maintenance cost guarantee plan providing certain credit allowances for certain maintenance costs exceeding a 17-year cost base rate. Pratt & Whitney also guarantees that the costs for eligible engine flight hours will not exceed an agreed cost level. Although the Group has manufacturer maintenance cost guarantees in place for both aircraft and aircraft engines, these are subject to limitations on time and amount and claims could be disputed by the manufacturer, all of which could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

On 6 October 2022, the Group entered into a supplemental commercial support agreement with Pratt & Whitney specifying the support the Group can receive if its aircraft are unavailable for operations due to defined engine operational issues and if there are no replacement engines available. This support letter was extended on 3 March 2023 and was subsequently replaced by a special commercial support letter signed on 30 June 2023 (the "**2023 Support Letter**").

In accordance with the 2023 Support Letter, Pratt & Whitney supported the delivery and operation of the Group's PW1521G engine-powered Airbus A220-300 aircraft by providing supplemental spare engine support and other related support. Should the Group experience an unplanned engine removal during the support period that arises directly from a technical issue in such engine, Pratt & Whitney agreed to provide credits for each day that an aircraft was designated as "aircraft on the ground" ("**AOG**") over three days. In response to the lack of engine availability in 2022 and 2023, Pratt & Whitney have provided the Company with 29 Pratt & Whitney Engine Lease engines to mitigate the unscheduled engine removals affecting the Group. The 2023 Support Letter expired on 31 March 2024 and the Group is currently in negotiations with Pratt & Whitney to enter into a Fleet Management Programme ("**FMP**") agreement with respect to the maintenance of its PW1521G engines whereby the Company pays a certain amount on a monthly basis for each hour that it flies per month, with these amounts being set-off against future engine maintenance requirements. While the Group currently expects to conclude these negotiations during the second quarter of 2024, there can be no assurance that the negotiations will be successful or result in favourable terms for the Group. A shortage of engines in the market could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

Whilst there are significant cost and efficiency advantages of the Group maintaining a single fleet, further technical or mechanical issues that relate specifically to Airbus aircraft or Pratt & Whitney's engines could ground the Group's full or part of its, fleet. This reliance on sole suppliers exposes the Group to the risk of having limited, short-term repair options in the event new aircraft experience performance issues. This could result in significant disruption to the Group's operations as well as negatively affect the Group's reputation, which could thereby reduce demand for the Group's services. Such disruption to operations and/or reduction in demand could have a material adverse effect on the Group's business, results of operations, financial condition and, in turn, the Company's ability to perform its obligations under the Bonds.

In connection with the lease arrangements of its Airbus A220-300 fleet, the Company has entered into aircraft and engine lease agreements, which subject the Company to a number of covenants and restrictions in addition to payments obligations to the lessors. See "*The Group has significant lease payment obligations and will need to finance the expansion of its aircraft fleet in the coming years*". Some of the Company's aircraft and engine lease agreements require the Company to meet specified minimum liquidity requirements, which vary among the agreements, and to not have any change in direct or indirect ownership or control of the Company of greater than 10%. In addition, some of the Company's lease agreements contain cross-default provisions, where the Company's default under one lease agreement could result in a simultaneous default under the Company's other lease agreements. While the Company monitors its liquidity and shareholdings on an on-going basis in order to ensure compliance with the lease agreements and to identify any potential problems of non-compliance for action, there can be no assurances that the Company will at all times be able to comply with these covenants. A failure to comply with these covenants and other undertakings could result in an event of default under the relevant agreements that, if not remedied or waived, could result in the relevant lessor terminating the lease period and repossessing the aircraft. If any of these results occurs, the Company cannot ensure that there will be enough aircraft to support its business operations, which in turn could have a material adverse effect on the Company's business, results of operations, financial condition and/or prospects.

If the Group needs to lease or purchase aircraft, it could encounter significant delays in obtaining the aircraft or engines it requires and/or be unable to negotiate favourable replacement contracts. If the Group is unable to obtain aircraft or engines from another supplier on terms acceptable to it, or at all, the Group may be forced to consider leasing or purchasing aircraft and/or engines made by a different aircraft or engine manufacturer, and, as a result, could lose the benefits afforded by a common fleet. Any replacement aircraft or engines may not have the same operating advantages as the Group's manufacturers' type engine. In addition, the Group may not be able to lease or purchase such aircraft or engines within the anticipated timeframe, if at all. Further, the addition of any such different aircraft and/or engines would result in substantial transition costs, including costs associated with re-training the Group's employees. The Group's operations could also be harmed by the failure or inability of its aircraft manufacturers or engine manufacturers to provide sufficient parts or related support services for their aircraft or engines on a timely basis. Moreover, the cost-effective management of new aircraft deliveries and deployments could be affected by many factors beyond the Group's control such as supply chain or technical problems. Any delay in the scheduled delivery of the Group's aircraft could result in adverse consequences and the need to find alternative aircraft by leasing alternative aircraft. If an aircraft is delivered late, the Group's ability to maintain desirable slots and expand its route network and flight frequencies could also be jeopardised. Moving quickly from aircraft delivery to revenue-generating deployment requires the co-ordination of a number of processes, such as pilot hiring and training and increasing the number of flight frequencies and routes. If the Group is unable to put new aircraft into service in a quick and coordinated manner, it may incur costs and lose anticipated revenue.

Any such failure, delay or non-performance by the Group's aircraft manufacturers or engine manufacturers could therefore have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects and also on the Group's reputation. In turn, this could affect the ability of the Company to fulfil its obligations under the Bonds.

4. Increases in fuel costs may adversely affect the Group's results of operations

Jet fuel prices can fluctuate widely as a result of various economic and political factors that the Group can neither control nor accurately predict, including increases in demand, sudden disruptions in supply and market speculation. According to the International Air Transport Association's ("**IATA**") latest financial forecast, published in December 2023, jet fuel costs are expected to average U.S.$113.8 a barrel in 2024, representing 31% of the average operating costs of airlines. In comparison, jet fuel prices averaged U.S.$135.6 a barrel in 2022, representing 34% of the average cost structure of airlines. Although jet fuel prices in 2023 dropped compared to 2022, prices remain above 2020 levels (when jet fuel prices represented 24% of the cost structure) and the industry could experience higher losses than initially forecast if the price of jet fuel were to rise again.

As international prices for jet fuel are denominated in U.S. dollars, the Group's fuel costs are also subject to certain exchange rate risks (see "*—Currency fluctuations affect the Group's results*"). The substantial fuel price increases, adverse exchange rates, and ongoing uncertainty due to the Russia-Ukraine conflict may have a material adverse effect on the Group's profitability. In the event of a fuel shortage resulting from a disruption of oil imports or otherwise, additional increases in fuel prices or a curtailment of scheduled services could result. The Group has historically entered into arrangements providing for partial protection against fluctuations in fuel prices, generally through swap contracts covering part of the exposure for periods of up to 18 months of projected jet fuel requirements. As at 29 February 2024, the Group had hedged approximately 18% of its expected fuel consumption for 2024 but, in relation to the unhedged amount, remains exposed to the increased costs of fuel and volatility in the currency and commodities markets, which could accordingly have a material adverse effect on the Group's financial performance.

No assurance can be given regarding trends in fuel prices and there can be no assurances that the Group will not incur losses due to the high fuel prices or be able to mitigate against the financial impact of the rising fuel prices. The expansion of the Group's fleet has resulted and will likely continue to result in an increase in the Group's aggregate fuel consumption. Furthermore, the Group is dependent on SIA "RIXJET RIGA" to supply the majority of its jet fuel at Riga International Airport as there are currently no alternative suppliers of an equivalent size at Riga International Airport. Any breakdown in this infrastructure and/or contamination of the fuel supply would have a significant impact on operations and could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

5. Airline industry margins are subject to significant uncertainty

The airline industry is capital intensive with high fixed and variable costs. Fuel is a significant component of the Group's operating expenses and claim compensations, and accounted for 26.6%, 32.2% and 18.1% of total Group operating expenses and claim compensations in 2023, 2022 and 2021, respectively. The Group's fuel costs may vary depending on fuel prices (see *"Increases in fuel costs may adversely affect the Group's results of operations"*). The operating costs of each flight do not vary significantly with the number of passengers flown; a relatively small change in the number of passengers, fare pricing or routes could have a disproportionate effect on operating and financial results. Accordingly, a relatively minor shortfall from expected revenue levels could have a material adverse effect on the Group's growth or financial performance, which in turn could negatively impact the Company's ability to perform its obligations under the Bonds. The very low marginal costs incurred for providing services to passengers occupying otherwise unsold seats are also a factor in the industry's high susceptibility to price discounting (see *"The Group faces significant price and other pressures in a highly competitive environment"*).

6. The Group is exposed to the failure or non-performance of its suppliers

The Group has approximately 2,000 suppliers that provide essential services to the Group's operations such as aircraft and engine manufacturers (see *"—The Group depends on Airbus A220-300 aircraft"*), airport and air navigation service providers, technical maintenance suppliers and fuel suppliers. The Group is also reliant on suppliers for IT infrastructure, catering and financial services partners. Global events such as the COVID-19 pandemic, the Russia-Ukraine conflict and rising rates of inflation have placed, and could continue to place, significant pressures on supply chains and lead to disruptions in the services that the Group has outsourced to external parties. The failure of key suppliers to provide continuity of service could have a material adverse effect on the Group's results of operations and financial condition and therefore on the ability of the Company to fulfil its obligations under the Bonds.

If any of the Group's major suppliers experience financial difficulties, cease trading or default on their obligations to the Group, the Group may be unable to find replacements in a timely manner, which could cause disruption and severe delays to the Group's ability to carry out its operations. The Group may also be unable to recover any payments it may have already made to the suppliers for the services to be provided. The Group may be unable to obtain services from alternative suppliers on economic terms that are comparable to the terms it had in place with its existing suppliers, which could lead to increased costs. The Group's agreements with its third-party service providers cover a signification proportion of its operation and cost base, including its ground handling and customer services functions. Failure to adequately manage performance of such suppliers or service providers and failure by such suppliers or service providers to perform their obligations could adversely affect Group's reputation and its operational and financial performance, which in turn could affect the ability of the Company to fulfil its obligations under the Bonds.

7. The Group has been, and may be in the future, subject to restrictions on its operations and additional costs resulting from COVID-19 and other pandemics, or new COVID-19 waves, could adversely impact the Group

In December 2019, a novel strain of a new infectious disease known as COVID-19 was reported in Wuhan, China. In March 2020, the World Health Organization ("**WHO**") declared COVID-19 to be a global pandemic. In response to the spread of COVID-19, governments around the world implemented a range of travel restrictions, including flight bans, lockdowns, and "do not travel" advisories, restrictions on travel from certain international locations, enhanced airport screenings, mandatory quarantine requirements and other similar measures. As a result, the global economy was materially adversely affected. In addition, measures taken in response to COVID-19 had a particularly severe impact on the aviation industry, due to the negative impact on passengers' ability and willingness to travel by air. The varying travel restrictions and policies across different jurisdictions led to a significant decrease in demand for the Group's business.

The Group took a number of actions in response to the reduced demand for air travel that it experienced from February 2020 through to the first half of 2022 as a result of the COVID-19 pandemic including various cost saving measures such as making approximately 30% of its workforce redundant and accelerating the phase-out of its De Havilland Q400 fleet.

The Company also received an additional capital contribution from the Government of Latvia (see *"Shareholders – Relationship with the Government"*). Similar measures or any other strategic actions that the Group may take in the future may not be effective in offsetting decreased demand for the Group's air transport services. These measures may also make it difficult for the Group to quickly respond to future increased demand as economies recover from the effects of the pandemic. All of this could result in a material adverse effect on the Group's business, results of operations, financial condition and liquidity.

In addition, between 2020 and 2022, the Group incurred significant COVID-19 related costs for enhanced aircraft hygiene and safety measures to limit virus transmission among its staff, customers and students. While these measures are no longer in place, the Group, and the industry as a whole, may in the future be required to undertake similar or additional measures which may incur significant costs. New or additional safety protocols may take time to implement and train staff on or may lead to reduced efficiencies in processes. This could also result in fewer flights and therefore less revenue. These measures, individually and combined, could have a material adverse impact on the Group's business.

While incidences of COVD-19 infections have reduced and most measures (i.e. enhanced screenings, quarantine requirements and travel restrictions) globally have eased, the Group may continue to experience similar adverse effects to its businesses, results of operations, financial position and cash flows resulting from a persistent recessionary global economic environment and longer-term changes in travel patterns and demand. An outbreak of another disease or similar public health threat such as Middle East respiratory syndrome, severe acute respiratory syndrome, foot-and-mouth disease, avian flu, swine flu, the Zika virus or COVID-19, could occur in the future and could adversely affect travel demand, travel behaviour and lead to travel restrictions, disrupt the Group's business, result in the cancellation or loss of bookings, and adversely affecting the Group's business, results of operations, financial condition and/or prospects.

Any of the above factors may have material adverse effects on the Group's business, financial condition and operating results, and could, in turn affect the ability of the Company to fulfil its obligations under the Bonds.

8. The Group's rate of growth may expose it to risks

The Group expanded significantly in recent years and intends to continue its expansion strategy as the aviation industry adjusts to the impacts of the Russia-Ukraine conflict, residual effects of COVID-19 and other economic trends including general inflationary pressures. The Group intends to continue to expand its fleet and operations by increasing the number of its aircraft, adding new destinations and additional flights and increasing its passenger traffic. In developing its strategic growth plans, the Group makes certain assumptions, including, but not limited to, those related to customer demand, competition, market consolidation, the availability of aircraft and the global economy. Actual economic, market and other conditions have been and may continue to be different from its assumptions. No assurance can be given that the Group's growth targets will be met. If the Group does not successfully execute or adjust its strategic growth plans, or if actual results continue to vary significantly from its prior assumptions or vary significantly from its future assumptions, the Group could suffer from overcapacity and the Group's business, operating results and financial condition could be materially and adversely impacted. See *"The Group has significant lease payment obligations and will need to finance the expansion of its aircraft fleet in the coming years"*.

The continued expansion of the Group's fleet and operations, combined with other factors, may also strain existing management resources and related operational, financial, management and information technology systems. Expansion will generally require additional skilled personnel, equipment, facilities and systems, which could lead to increased costs. An inability to hire skilled personnel or to secure required equipment and facilities efficiently and in a cost-effective manner could adversely affect the Group's ability to achieve its growth plans and sustain or increase its profitability.

9. Currency fluctuations affect the Group's results of operations

A significant portion of the Group's operating expenses and claim compensations are denominated in U.S. dollars, including fuel, aircraft lease, maintenance, insurance and capital expenditure costs. Approximately half of the Group's aircraft leases are denominated in U.S. dollars, and the balance is denominated in euro, which is also the Group's functional and reporting currency. In addition, the majority of the Group's revenue is generated in, or with reference to, the euro. For the year ended 31 December 2023 97.7% of the Group's ACMI lease revenues (lease and non-lease components) was received in U.S. dollars and 23% of the Group's total revenue (revenue and other income) was received in U.S. dollars. Accordingly, the Group's operations and financial performance can therefore be significantly affected by fluctuations in the exchange rate of the U.S. dollar against the euro. In particular, appreciation of the U.S. dollar against the euro tends to increase the Group's operating costs when expressed in euro, while depreciation of the U.S. dollar against the euro tends to reduce the Group's operating costs.

The Group predominantly operates to/from countries within the Eurozone and countries that have significant operational and financial exposures to the Eurozone which could result in a reduction in the operating performance of the Group or the devaluation of certain assets if there are uncertainties regarding the future of the Eurozone. A weakening in the value of the euro primarily against the U.S. dollar (euro represent approximately 76% of the Group's revenue currency and U.S.

dollars represent approximately 23% of the Group's revenue currency) could have a material adverse impact on the operating results of the Group.

10. The Group has significant lease payment obligations and will need to finance the expansion of its aircraft fleet in the coming years

As at 31 December 2023, the Group leased 46 of its aircraft pursuant to lease arrangements; eight of the aircraft are leased under terms which will transfer ownership of the aircraft to the Company at the end of the lease terms. The Group's discounted payment obligations under non-cancellable leases were recognised as lease liabilities and total lease liabilities accounted for €884.7 million as at 31 December 2023, €795.6 million and €679.4 million as at 31 December 2022 and 31 December 2021, respectively.

In December 2012, the Company entered into an agreement with Bombardier Inc. (currently Airbus Canada) to purchase 20 Airbus A220-300 aircraft (the "**2012 Agreement**"). In May 2018, the Company entered into an agreement with CSALP (currently Airbus Canada) (the "**2018 Agreement**"), for the purchase of 30 Airbus A220-300 aircraft with option rights for a further 15 Airbus A220-300 aircraft and purchase rights for a further 15 Airbus A220-300 aircraft. In March 2022, the Company converted the option rights on four aircraft to purchase rights. In September 2022, the Company converted the option rights on another four aircraft to purchase rights. On 31 October 2023, the Company entered into an agreement with Airbus Canada (the "**2023 Agreement**") to commit to convert the option rights and purchase rights for 30 aircraft under the 2018 Agreement into a purchase order, with additional purchase rights for 20 A220-300 aircraft. The Group expects to finance these additional aircraft using sale and leaseback agreements following tender processes. In addition to the 2012 Agreement, the 2018 Agreement and 2023 Agreement, in January and February 2024, the Company signed a further two letters of intention for the lease of two and five aircraft with two different lessors which are expected to be delivered in late 2025 and 2026, respectively. As at the date of this Prospectus, the Group operates a total of 47 aircraft.

The Group secured financing for all 30 aircraft that it contractually committed to purchase from Airbus pursuant to the 2018 Agreement. To fulfil the scenario of the Company's latest business plan "IPO & Beyond" of operating a 100 aircraft fleet by 2030, the Group would need to secure further financing. The Group plans to use sale and leaseback arrangements to finance the growth of its fleet in the coming years, but will continue to consider alternative forms of financing if they deliver a lower cost such as operating lease options. There can be no assurances that the Group will be able to secure the financing set out above on terms that are attractive to the Group, or at all. These financings will result in an increase in liabilities on the Group's balance sheet, and the Group's commitments will increase significantly as its fleet size increases regardless of the type of financing utilised. To the extent that the Group cannot obtain such financing on acceptable terms, the Group may be required to modify its aircraft acquisition plans which may incur higher than anticipated financing costs, which would have an adverse impact on the execution of the Group's growth strategy and business operations. If it cannot obtain financing at all, the Group may be unable to fulfil its contractual commitments to Airbus. This may result in a breach of the agreement and consequent termination by Airbus, which could result in the Company being liable for damages up to the amount of the value of the aircraft.

The Group had an arrangement with Pratt & Whitney whereby the engines for Airbus A220-300 aircraft required to mitigate AOG events are leased to the Group on beneficial terms and conditions. This arrangement expired on 29 February 2024 and the Group is currently in negotiations with Pratt & Whitney to agree a further support package. If the Group is unable to renew this arrangement on equal or better terms, it may increase the Group's lease payment obligations (see *"—The Group depends on A220-300 aircraft")*.

Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

11. The Group faces significant price and other pressures in a highly competitive environment

The Group operates in a highly competitive marketplace, with a number of low-cost, legacy and charter airlines competing throughout its route network. Airlines compete primarily in respect of fare levels, frequency and dependability of service, name recognition, passenger amenities (such as access to frequent flyer programmes), and the availability and convenience of other passenger services. Certain competitors may open up new routes in direct competition with the Group's routes which could result in significant price pressure and lead to such routes of the Group making a loss temporarily or potentially for the longer term.

The airline industry is highly susceptible to price discounting, in part because airlines incur very low marginal costs for providing service to passengers occupying otherwise unsold seats. Both low-cost and legacy airlines sometimes offer low fares in direct competition with the Group across a significant proportion of its route network as a result of the liberalisation of the EU air transport market and greater public acceptance of the low-fares model. There is no guarantee that lower fuel prices will not lead to greater price competition and encourage new entrants to the market in the short to medium-term.

There is an ongoing railway project, “Rail Baltica”, designed to integrate the capitals of the Baltic states with the wider European rail network. The project is scheduled to complete in 2030 with services beginning on some sections in 2028. However, due to delays in project implementation, completion of the project may be delayed until after 2030. This project could provide an alternative mode of transportation for the Group's potential passengers and thus could adversely impact the Group’s business, financial condition and results of operation if passengers opt to travel by train.

Price competition both among airlines and between airlines and ground and sea transportation alternatives could reduce the level of fares and/or passenger traffic on the Group’s routes, which could adversely impact the Group's business, results of operations, financial condition and/or prospects.

12. The Group may be unable to control its operating costs

The Group has limited control over many of its costs and as the Group increases its operations, some of its costs may increase or it may not be able to reduce costs (including labour costs and aircraft financing costs) to the same extent as it has in the past. For example, the Group has limited control over the price and availability of aviation insurance, airport and related infrastructure taxes, the cost of compliance with changing regulatory requirements and the cost of access to capital or financing.

In addition, the Group has limited control over the price and availability of jet fuel, the price of which may be volatile. For example, the average market fuel price per ton increased from U.S.$604.5 in 2021 to U.S.$1,093 in 2022 but in 2023 decreased to U.S.$887 per tonne (see “*—Increases in fuel costs may adversely affect the Group’s results of operations*”). The Group is also susceptible to inflation, which would affect the cost of aircraft maintenance, ground handling, airport charges and remuneration. The rate of inflation accelerated significantly in 2022, averaging 8.7% worldwide compared to 4.7% in 2021 (Source: International Monetary Fund). Inflation in the Baltics was particularly high in 2022, at 17.5% in Estonia, 20.7% in Latvia and 20% in Lithuania (Source: International Monetary Fund). Although rates of inflation fell in 2023, averaging 6.8% worldwide and 5.2%, 4.6% and 3.5% in Estonia, Latvia and Lithuania, respectively (Source: International Monetary Fund), and rates are expected to continue to fall in 2024, prices remain significantly higher than previous years. Reflecting these inflationary pressures, the Group’s costs have increased significantly and could continue to increase in the future. If the Group’s cost structure increases and it is no longer able to maintain a competitive advantage, this could have a material adverse effect on the Group’s business, results of operations, financial condition and/or prospects.

13. The Group’s new routes and expanded operations may have an adverse financial impact on its results

When the Group commences new routes, its load factors and fares tend to be lower than those on its established routes and its advertising and other promotional costs tend to be higher, which may result in initial losses that could have a material negative impact on the Group’s results of operations and may require a substantial amount of cash to fund. The Group also periodically runs special promotional fare campaigns, in particular in connection with the opening of new routes. Promotional fares may have the effect of increasing load factors but reducing the Group’s yield and passenger revenues on such routes during the periods that they are in effect.

The Group launched 38 new routes in 2023 (see *“Business Description – Strategy”*). In April 2024, the Group will open two new routes from Vilnius to Lisbon and Hamburg, operated on a risk-share basis with Lithuanian Airports. There can be no assurance that the Group’s additional routes or expansion into other bases will be commercially successful or that they will recover any of the costs incurred in establishing the new routes or new bases. The Group has, and will continue to have, significant cash needs as it expands, including to fund aircraft advance payments or aircraft deposits related to the acquisition of additional Airbus A220-300 aircraft. There can be no assurance that the Group will be able to secure financing to make such expenditures and investments, and to the extent the Group is unable to expand its route system successfully, its future revenue and earnings growth will in turn be limited.

14. The Group’s continued growth depends on having access to suitable airports

Airline traffic at certain European airports is regulated by a system of grandfathered “slot” allocations. Each slot represents authorisation to take-off and land at the particular airport at a specified time. As part of the Group’s business model, which includes mostly flights to and from primary airports, in particular from Riga International Airport, the Group is operating at an increasing number of slot-coordinated airports, a number of which have constraints at particular times of the day. There can be no assurance that the Group will be able to obtain a sufficient number of slots at slot-coordinated airports that it may wish to serve in the future, at the time it needs them, or on acceptable terms. The Group has experienced restrictions regarding slot allocations at airports, such as London-Gatwick, Amsterdam and Lisbon, and there can be no assurance that its non-slot constrained bases, or the other non-slot constrained airports the Group serves, will continue to operate without slot allocation restrictions in the future.

Airports and/or government authorities may impose other operating restrictions such as curfews, limits on aircraft noise levels, mandatory flight paths, runway restrictions, and limits on the number of average daily departures. Such restrictions may limit the ability of the Group to provide service to or increase service at such airports, which could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

15. Charges for airport access are subject to increase

The Group's future growth materially depends on its ability to access suitable airports located in its targeted geographic markets at costs that are consistent with its's strategy. Any condition that denies, limits, or delays the Group's access to airports it serves or seeks to serve in the future would constrain the Group's ability to grow. A change in the terms of the Group's access to these facilities or any increase in the relevant charges paid by the Group as a result of the expiration or termination of such arrangements and Group's failure to renegotiate comparable terms or rates could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

16. The Group could be adversely impacted by the loss of its codeshare arrangements

The maintenance and development of alliances and other strategic relationships are critical to the Group's business. The Group has codeshare arrangements in place with 23 partners, with the most important partnerships being with Air France/KLM, British Airways, Scandinavian Airlines Systems ("**SAS**") and Lufthansa Group (see *"Business Description – Arrangements with Other Airlines"*). These arrangements are designed to maximise the Group's service offerings to customers by providing greater network coverage and benefits. Through these arrangements, customers have increased options in terms of the routes available to them, stop-overs and fare types, greater access to lounges and opportunities to earn more frequent flyer points. No assurance can be given that the Group will not lose codeshare arrangements with partner airlines as a result of one or more partner airlines terminating their relationship. No assurance can be given that the Group's codeshare arrangements will remain in place or will continue to operate under the same terms. Furthermore, no assurance can be given that the Group will be able to attract the new codeshare partnerships it may need to be successful in the future. In addition, the success of the codeshare arrangements depends in part on the actions, brands and strategic plans of other airlines over which the Group has little or no control. Codeshare agreements are typically long-term and open ended agreements, but either party may terminate the codeshare agreement, usually with a notice period of 90 days written notice. Should a key partner decide to terminate their codeshare arrangement or otherwise fail to meet their obligations thereunder, this could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

17. The Group is exposed to ongoing and pending litigation

The Company is engaged in several litigation processes. No assurance can be given as to the outcome of any current or pending litigation. However, the Group has made provisions in the event that a litigation process brought by one of the parties described is successful. The total amount of provisions made for these litigations and potential claims was €4.2 million, as of 31 December 2023. For further information see *"Business Description – Litigation"*.

- *SIA Havas Latvia*: In April 2022, SIA Havas Latvia ("**Havas**"), a former provider of ground handling services to the Company at Riga International Airport, filed a claim against the Company. This case was followed in August 2022 by two additional cases brought by Havas against the Company. The total amount claimed in these cases is €4.6 million. Based on advice from its legal advisors, the Company considers that the claims are unfounded. One of the cases involves a claim by Havas for payment of €0.4 million that was withheld, despite Havas itself not fulfilling the contract. The amounts were withheld by the Company in line with the respective contractual provisions due to the failure of Havas to provide the agreed ground handling services in 2021. Non-fulfilment resulted in the Company having to deploy its own personnel to carry out the services contractually entrusted to Havas. The other two cases, with claims totalling €4.2 million, pertain to Havas' demand for a guaranteed amount of revenue for the years 2020 and 2021, irrespective of the number of turnarounds handled. In 2020, the Company did not achieve the number of turnarounds projected in the ground handling agreement (dated 2016) due to flight bans stemming from the COVID–19 pandemic. The contractual provisions do not permit Havas to claim a minimum total amount of revenue. In the case which concerns 2021, Havas also argues that the Company could not terminate the ground handling agreement one month early due to unremedied non-performance by Havas. All three cases are pending before a first instance court.

- *AKB Investbank*: The Company and its former shareholder Baltijas Aviacijas Sistemas ("**BAS**") have been in dispute with the now bankrupt AKB Investbank ("**Investbank**") since March 2012. Investbank sought repayment of €18.4 million in relation to three loans it had entered into with BAS, which Investbank claimed were guaranteed by the Company. When BAS failed to repay the loans, three lawsuits were brought in Russia against the Company as guarantor. Two judgments in the amounts of €2.4 million and €11.1 million were made in favour of Investbank, but the recovery was not enforceable in Russia. After several years of litigation and several unsuccessful attempts to reinstate the time limits or reopen the proceedings, the administrators of Investbank filed a claim in Russia against the Company, claiming that the Company, and not BAS, was the real debtor under the loan agreements. This claim was rejected in the first instance, but was appealed and on 30 January 2022 the Court of Appeal overturned the decision, granted the claim and decided to annul the loan and guarantee agreements. In addition, the Court of Appeal ruled that the loan amounts totalling €31.78 million should be recovered from the Company. On 5 September 2023, the Court of Cassation agreed with the position of the Court of Appeal regarding the invalidity of the loan agreement between BAS and Investbank, but the Court also stated that the material part of the Court of Appeal's decision had no legal basis and dismissed part of the decision. Following this court decision, the legal representatives of Investbank filed lawsuits against both the Company and its former shareholder BAS for a review of all previous cases on the basis of newly discovered circumstances. These lawsuits were filed despite the fact that the limitation period for filing such lawsuits had expired. In addition to these cases, the legal representatives of Investbank filed a new substantive claim against the Company for repayment of all three loan agreements, calculating various late payment and penalty interest in addition to the principal (totalling € 16.5 million), for an aggregate total of €203.15 million. This action was brought despite the fact these loan and surety agreements had already been the subject of final judgments against the Company and BAS but were time-barred. However, the progress of this last case was suspended on 5 March 2024 pending a review of all previous cases against the Company and BAS. The Company and its legal advisors are monitoring and actively pursuing all cases. Based on the advice of its legal advisors, the Company is of the opinion that there are significant uncertainties and significant legal obstacles, which, with the expiration of the limitation period, make the likelihood of a new claim limited. In addition, in order to enforce the judgment in Latvia, the administrator of Investbank would have to file an action for recognition of the judgment in Latvia.

- *SIA REM PRO:* SIA REM PRO has filed a claim against the Company challenging the termination of a hangar design contract and seeking recovery in total of the sum of €1.27 million. The Company considers the claims to be unfounded and has also filed a counterclaim against SIA REM PRO for €1.1 million for breach of contract. SIA REM PRO also sought to freeze the payment of the performance bond and bank guarantee issued by the co-defendants in the action: Compensa Vienna Insurance Group and BluOr Bank AS. On 23 February 2023, the court issued a decision on these interim measures confirming that the Company's claim for payment of the performance bond and bank guarantee could not be frozen. In its decision on the interim measures, the court also ruled that the Company's position on merits was *prima facie* well founded. The case on the merits is pending before the Economic Court and the date of the judgment is unknown. In addition, SIA REM PRO has filed a claim against the Company seeking to prohibit it from using the construction design documents prepared by SIA REM PRO. On 13 October 2023, Riga City Court dismissed the application of SIA REM PRO for interim measures, and on 7 December 2023, Riga Regional Court dismissed the appeal of SIA REM PRO regarding the decision of the court of first instance. The case on the merits is pending before Riga City Court.

18. The Group has been, and may be, subject to investigations and claims relating to state aid

The Group sometimes enters into negotiated arrangements with some of the airports to and from which it operates. It may also enter into negotiated arrangements with relevant local authorities, such as regional tourist authorities for promotion of certain destinations. There is a risk that, where an airport or authority in the EU is publicly owned or financed by public money, then such arrangements may, if a claim is made, be investigated by the European Commission and national competition authorities as to whether such arrangements constitute state aid. To demonstrate that there is no state aid involved, such arrangements must be done on market terms. If these arrangements provide an advantage to the Group, it could lead to an adverse finding from the European Commission. Adverse findings in such potential cases may, in the worst case, lead to the European Commission issuing a repayment order which directs the relevant EU Member State to seek recovery of the state aid from the Group.

In addition the Group's largest shareholder and one of its creditors is the Government of Latvia, and the Ministry of Finance of the Republic of Latvia ("**MoF Latvia**") has informed the Group that it intends to participate in the offering of the Bonds (see "*Subscription and Sale*"). The Group interacts with its shareholders and creditors, including the Government of Latvia, as required by law and contract. However, as the EU has strict state aid rules, interactions with the Government of Latvia are also scrutinised from the perspective of EU state aid rules. Although the Group regularly seeks guidance about compliance with the relevant laws, third party may nonetheless raise concerns about an interaction with the Government of Latvia, which could lead to the Group and the Government of Latvia being subject to a review or an official investigation by the European Commission, even if the interaction is not ultimately found to have entailed any state aid. Following such an investigation, the European Commission could conclude that the Company received benefits that constituted state aid, and in such circumstances the Company could be required to repay to the Latvian state the amount that was determined to constitute benefit from state aid.

In response to the COVID-19 pandemic, many European governments provided state aid to airlines in the form of recapitalisation, loans, loan guarantees and other measures. The support was provided in line with the Temporary Framework for State Aid Measures to support the economy in the COVID-19 outbreak (the "**Temporary Framework**") adopted by the EU, and in accordance with Articles 107(2)(b), 107(3)(b) and 107(3)(c) of the Treaty on the Functioning of the EU.

On 3 July 2020, the European Commission approved a €250 million measure by the Government of Latvia to recapitalise the Company in the context of the COVID-19 pandemic. The aid was approved under the Temporary Framework. The

European Commission concluded that the recapitalisation measure would address some of the economic impact of the COVID-19 outbreak in Latvia. The European Commission deemed the recapitalisation a necessary, appropriate and proportionate measure to remedy a serious disturbance to the economy of a Member State, consistent with Article 107(3)(b) TFEU and the Temporary Framework.

Due to the continuing impact of the COVID-19 pandemic on the economy and resulting restrictions for airlines and the travel industry, the Company needed an additional capital injection. On 17 August 2021, the Cabinet of Ministers of the Republic of Latvia decided to support the increase of the share capital of the Company by investing an additional €90 million and requested the approval of the European Commission for that recapitalization.

On 22 December 2021, the European Commission approved, under EU state aid rules, a part of the Government of Latvia's investment of €45 million into the equity of the Company to compensate for the losses caused by the ongoing COVID-19 pandemic and to support the Company in overcoming the consequent economic crisis. This investment, was received by the Company on 28 December 2021. The remaining €45 million of the state aid investment was approved by the European Commission in May 2022 and received by the Company on 7 June 2022.

19. Labour relations could expose the Group to risk

Approximately 20% of the Group's employees are members of trade unions. There are four unions of which the Group's directly employed workforce are members: Latvijas Civilās Aviācijas Pilotu Arodbiedrība (Latvian Civil Aviation Pilots Union), Latvijas aviācijas arodbiedrības federācija (Latvian Aviation Trade Union Federation), Latvijas Aviodarbinieku arodbiedrība (Latvian Aviation Workers' Union) and Latvijas Aviācijas arodbiedrība (Latvian Aviation Union). Whilst negotiations and other agreements with trade unions occur on a regular basis, a breakdown in the relationship between the Group and the trade unions that represent the Group's employees could lead to industrial action or strikes. This could impact the Group's ability to continue its operations. There can be no assurance that the Group will not experience strikes or other industrial action. Any protracted disputes, including the prospects of strikes or other industrial action, even if it does not ultimately result in strikes or other industrial actions, could have a material adverse effect on the Group's reputation. It could also cause consumers to book with competitors that they consider to be more reliable. Any strike or other industrial action, or any threat of a strike or other industrial action, could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

20. The Group's success depends on key personnel and on attracting and retaining sufficient numbers of qualified employees at sustainable costs

The Group's success depends significantly on the continued service of its key personnel, in particular, the Chairman of the Executive Board of the Company Martin Alexander Gauss, its senior managers, the COO Pauls Cālītis, and the seven nominated managers for flight operations, crew member training, ground operations, maintenance, compliance, safety, dangerous goods and continuing airworthiness requirements, as required by Commission Regulation (EU) No 965/2012 of 5 October 2012, which sets out technical requirements and administrative procedures related to air operations pursuant to Regulation (EC) No 216/2008 of the European Parliament and of the Council. The loss of the services of any of these key personnel without adequate replacement could disrupt the Group's operations and have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

The Group does not have "key-man" insurance in place in respect of any of its key senior executives. There can be no assurance that the Group will be able to retain employees in key positions or recruit a sufficient number of new employees with appropriate professional and/or technical qualifications to compensate for any loss of key employees or to accommodate the Group's future growth. Any inability to fill key positions could have a material adverse impact on the Group's business, results of operations, financial condition and/or prospects.

The Group's business is also labour intensive and requires a significant number of personnel with specific skill sets and technical qualifications. In particular, pilots are from time to time in short supply in the European airline industry as are technical professionals, especially type rated and experienced staff. Therefore, the Group may have to expend significant amounts of time and expense in recruiting and training new pilots and technical personnel. In addition, demographic constraints in local markets may put pressure on the costs and resources required for attracting and retaining suitable personnel from a long-term perspective. If the Group is unable to attract and retain a sufficient number of qualified employees at reasonable costs, its business and operations could be negatively affected. There can be no assurance that the Group will be able to retain employees in key positions or recruit a significant number of new employees with appropriate technical qualifications to compensate for any loss of employees or to accommodate its future growth. The Group may also face challenges in obtaining work permits or visas for staff based outside of the EU. The Group may face increased pressure on compensation costs to attract and retain talent from European or global markets.

Failure to attract and retain key talent could adversely affect the Group's ability to deliver its strategic objectives and could have a material adverse effect on its results of operations and financial condition.

21. The Group depends on its information technology systems

The Group's ability to manage ticket sales, receive and process reservations, check-in passengers, manage its traffic network, perform flight operations and engage in other critical business tasks depends on the efficient and uninterrupted operation of its website and computer and communication systems, on the third-party service providers and key personnel who maintain these systems and on the systems used by third parties in the course of their co-operation with the Group. Any disruption to the website or any computer and communication systems or a failure of the back-up systems used by the Group or third parties, particularly if the disruptions persist, could significantly impair the Group's ability to continue to conduct its business efficiently and could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

The Group's flight reservations are made through its website, call-centre, new distribution capability application programming interface and Global Distribution Systems ("**GDS**"). The GDS channels ensure that if there is any disruption with the Group's website that reservation activity can continue. In order to reduce the likelihood of such event, application and server architecture has been designed to avoid single points of failure, and security and access protection solutions are deployed. Nonetheless, there can be no assurance that the Group would not suffer a significant loss of reservations in the event of a major breakdown of its booking engine or other related systems. If this occurs, it could have a material adverse effect on the Group's reputation, business, results of operations, financial condition and/or prospects.

22. The Group faces the risk of loss and liability

The Group is exposed to potential catastrophic losses that may be incurred in the event of an aircraft accident or terrorist incident. Any such accident or incident could involve costs related to the repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from operations. In addition, an accident or incident could result in significant legal claims against the Group from injured passengers and others who experienced injury or property damage as a result of the accident or incident, including ground victims or relatives of people killed in an accident or incident. The Group currently maintains passenger liability insurance, employer liability insurance, aircraft insurance for aircraft loss or damage in amounts per occurrence that are consistent with industry standards.

The Group's insurance coverage does not cover all possible types of risks, extra liabilities or extra deductibles. Furthermore, while the Group believes its current insurance coverage is adequate, there can be no assurance that the amount of insurance coverage will not need to be increased, that insurance premiums will not increase significantly, or that the Group will not be forced to bear substantial losses from any accidents not covered by its insurance. Substantial claims resulting from an accident in excess of related insurance coverage could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects. Moreover, any aircraft accident, even if fully insured, could lead to the public perception that the Group's aircraft were less safe or less reliable than those operated by other airlines, which could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

EU Regulation No. 2027/97, as amended by Regulation No. 889/2002, governs air carrier liability (see "*Business Description – Insurance*") for details of this regulation. Although the Group has extended its liability insurance to meet the requirements of the regulation, no assurance can be given that EU Regulation No. 2027/97 or other laws, regulation, or policies will not be applied, modified or amended in a manner that has a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

23. The Group's revenue and profits are susceptible to seasonal fluctuations

Demand for the Group's services by passengers, in particular leisure travellers, varies over the course of the year, which causes the Group's consolidated financial results, and in particular the Group's half yearly interim consolidated financial results to fluctuate. During the winter months, the Group's revenues are typically lower than in the rest of the year, which is generally reflected in lower operating results in the first half of the year. The Group's passenger numbers have typically been the highest in July and August each year. The Baltic markets are highly seasonal and follow a similar pattern to that of other Northern European countries, where demand peaks in summer months between July and August and is lowest in November and February with passenger revenue declining at a greater rate than passenger demand in these months.

As a result of such fluctuations, the level of the Group's aircraft utilisation and profitability is likely to fluctuate during each year. This could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

24. The Group is subject to complex laws and regulations regarding the handling and use of passenger data, and the Group may be exposed to penalties and fines as it may not be able to prevent or detect violations of legal compliance

The Group's business involves the large-scale processing and storage of personal data relating to its passengers, customers, employees, business partners and others and is therefore subject to new and increasingly complex laws and regulations. The Group is subject to the EU GDPR Regulation (2016/679) (which became fully applicable on 25 May 2018) which introduced several new significant obligations and requirements upon subject companies. In addition, the upcoming Network and Information Security Directive ("**NIS2**"), aimed at enhancing the cybersecurity resilience of critical entities and digital service providers, will necessitate additional compliance efforts. Ensuring compliance with data protection laws is an ongoing commitment which involves some costs, and it is possible that despite the Group's efforts, governmental authorities or third parties will assert that the Group's business practices fail to comply with these laws and regulations. Furthermore, it is possible that despite the efforts and adherence to industry standards, a data breach (for example, external attacks by hackers) could nonetheless occur.

If the Group's operations are found to be in violation of any of such laws and regulations, the Group may be subject to significant civil, criminal and administrative damages, penalties and fines, as well as reputational harm, which could have a material adverse effect on its reputation, business, results of operations, financial condition and/or prospects.

The Group was exposed to a personal data breach incident that took place on 12 May 2023, involving the disclosure of passenger data to third parties (other passengers) via e-mail. The Company notified the relevant regulators and, after having examined the Company's notification on the data breach, the responsible data protection authority in the United Kingdom dismissed the investigation against the Company without applying any sanctions. However, the investigation relating to data subjects in Latvia is still pending before the Latvian Data State Inspectorate.

On 13 February 2024, the Group became aware of a personal data breach incident that took place on 22 January 2024, involving a hacker gaining access to passenger information from the "hotel database" of Stranded Flight Solutions which contains details of some of the Group's passengers. The Company has notified the relevant regulator and the investigation is ongoing.

The Group is also subject to the Processing of Passenger Name Record Directive (2016/681 of the European Parliament and of the Council of 27 April 2016) ("**PNR Directive**"), as transposed into local laws by the EU Member States in which the Group operates. The PNR Directive, *inter alia*, requires airlines to provide passenger name record data to national authorities entering or departing from the EU. Non-compliance proceedings seeking to impose administrative penalties may be issued in a number of jurisdictions involving numerous airlines. The Company is subject to proceedings regarding breaches of the PNR Directive in Poland, where it is one of approximately 210 air carriers subject to proceedings in over 17,000 claims initiated by the Polish Border Agency against airlines that operated air transport routes to Poland in 2018.

The proceedings were suspended in accordance with amendments to the Polish Passenger Name Record Data Processing Act (the "**Polish PNR Act**"), which transposes the PNR Directive into local Polish law, which came into force on 5 February 2022. These amendments introduced, *inter alia*, a two-year suspension period on proceedings. The suspension period ended, and proceedings against the Company were reopened on 5 February 2024. Since then, 20 proceedings against the Company have been re-suspended due to developments regarding the overall application of Polish PNR Act, as Polish administrative courts have made different decisions based on CJEU judgment No.C-817/19 which resulted in contradictory jurisprudence regarding this matter. If the Group is found to be in violation of the Polish PNR Act, the Group could face administrative fines with a maximum penalty of €9,000 per case.

The Group may face legal challenges arising from conflicting regulations across various jurisdictions, specifically pertaining to the transfer of Passenger Name Record ("**PNR**") data to third countries. Despite potential requests from some third countries based on local law requirements, EU law explicitly prohibits the sharing of such information with countries lacking an EU-level agreement. Consequently, the Group may incur additional time and costs in ensuring continued compliance within this international legal framework.

See also "*—The Group is subject to cyber security risk and may incur increased costs in an effort to minimise those risks*".

25. The Group depends on positive recognition of its brand by customers and potential customers

As part of its overall business model, the Group relies on positive brand recognition, among other factors, to attract customers. The brand and consumer confidence in the Group may be negatively affected in the future by a number of factors, such as concerns about safety, quality of service, reliability and/or punctuality, even if unfounded. An event or series of events that materially damage the brand of the Group could have an adverse effect on the Group's ability to market its services and attract and retain customers, which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operation and/or prospects. Additionally, restoring the brand and reputation of the Group may be costly and difficult to achieve.

The Group seeks to maintain, extend and expand its brand through marketing and public relations initiatives, such as press announcements, press conferences and events, social media, online advertising and search engine optimisation to increase the visibility of its website on major search engines' results. However, if the Group is unsuccessful in doing so, this could have a material adverse effect on its reputation, business, results of operations, financial condition and/or prospects.

26. International agreements relating to air services may limit the Group's growth plans

When the Group flies to or from destinations outside the EEA or Switzerland it does so pursuant to either (a) "open skies" arrangements between the EU and the country of destination (for example, Israel) or (b) bilateral air services agreements between an EU Member State and a third country, which may have been partially liberalised by a horizontal agreement between the EU and that third country (for example, Ukraine). While there has been a steady market opening between the EU and its Eastern neighbours in recent years, there can be no guarantee that such process of market liberalisation will continue. If there is no full liberalisation (and even if there is, for example, a horizontal agreement) in place, then there is a risk that the Group may face competition for desired designations and so may not secure all designations that are required to fully implement its organic growth strategy. In addition, the EU-U.S. Open Skies Agreement allows U.S. carriers to offer services in the intra-EU market, which could eventually result in increased competition in the EU market. Any of the foregoing events could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

27. Reliance upon, and exposure to, national and international infrastructure development

The Group depends on, and may be affected by, infrastructure decisions or changes in infrastructure policy by governments, regulators or other entities, which are often outside the Group's control including, for example, operational performance issues at airports where the Group operates, such as limited airport capacity, insufficient check-in counters assigned to the Group during peak hours, unreliable baggage handling systems and insufficient departure gates and passenger buses. Similarly, the Group is dependent on air traffic control restrictions limiting the number of departures and arrivals at airports where the Group operates, and governmental decisions regarding a lack of sufficient border crossing processes. The Group is also exposed to increases in airport, passenger or baggage handling costs set by airport authorities. These factors could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects. See also "*—The Group is subject to complex laws and regulations regarding the handling and use of passenger data, and the Group may be exposed to penalties and fines as it may not be able to prevent or detect violations of legal compliance*".

28. The Group is subject to tax audits

The Group operates in many jurisdictions and is, from time to time, subject to tax audits, which by their nature are often complex and can require several years to conclude. While the Group is of the view that it is tax compliant in the various jurisdictions in which it operates, there can be no guarantee, particularly in the current economic environment, that it will not receive tax assessments following the conclusion of the tax audits. In the event that the Group is unsuccessful in defending its position, it is possible that the effective tax rate, employment and other costs of the Group could materially increase, thereby having a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

29. The Group is subject to cyber security risk and may incur increased costs in an effort to minimise those risks

The Group faces both external cyber threats and internal risks to its data and systems. Flight reservations are made online through the Group's website and security breaches could expose it to loss, theft and misuse of customer information, litigation, booking interruptions, and potential liability. The Group secures its website and follows ISO/IEC 27001:2022 Standard (not certified) and OWASP Security Knowledge Framework. Nevertheless, the security measures which have been or will be implemented may not be effective, and the Group's systems may be vulnerable to theft, loss, damage and interruption from a number of potential sources and events, including unauthorised access or security breaches, cyber-attacks, computer viruses, power loss, or other disruptive events. The Group may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Attacks may be targeted at the Group, its customers and suppliers, or others who have entrusted it with information. A security breach could have a negative impact on customer confidence in the Group's systems and negatively impact the Group's reputation. Should a security breach occur, this could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

30. The Group may be unable to adequately protect its interests in certain trademarks, copyrights and domain names

The Group either owns or has registered the trademarks (including logos and trade names), related copyrights and domain names that the Group currently uses, and the Group believes that it has taken reasonable measures to protect its interests in such trademarks, copyrights and domain names. Nevertheless, the Group may be subject to claims by other parties asserting interests in such trademarks, copyrights and domain names and/or owners of interests in other trademarks, copyrights or domain names similar to the Group's, in each case regarding its past use of its trademarks, copyrights and domain names and its rights to continue to use such trademarks, copyrights and domain names. In addition, the Group's business is subject to the risk of third parties infringing the Group's trademarks, copyrights and domain names. The Group may not always be successful in securing protection for, or stopping infringements of, its trademarks, copyrights and domain names, which could adversely impact the perception of the Company's brand. The Group may need to resort to litigation in the future to enforce its rights in this regard. Any such litigation could result in significant costs and a diversion of resources, or it may be ultimately unsuccessful in protecting against the impact that infringement could have on the Group's brand and reputation. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

31. Failure to implement and maintain an effective system of financial reporting and internal controls may materially and adversely affect the Group's ability to accurately or timely prepare its consolidated financial information

The Group's internal controls over financial reporting are intended to ensure that it maintains accurate records, promote the accurate and timely reporting of its financial information, maintain adequate control over its assets and detect any unauthorised acquisition, use or disposition of its assets. Effective internal controls and disclosure controls are necessary for the Group to provide reliable financial reports and to operate successfully as a business. The Group's management is responsible for establishing and maintaining adequate internal controls.

A failure by the Group to implement and maintain effective internal controls could result in material misstatements in its financial statements or failure to prepare interim and/or annual financial information in a timely manner, which may cause a need to restate financial statements or result in a loss of confidence in its reported financial information, which in turn could have a negative impact on the Group's compliance with the Terms and Conditions of the Bonds, access to external financing and potentially its business and results of operations.

Risks related to the Airline Industry

1. EU regulation on passenger compensation could significantly increase related costs

EU Regulation (EC) No. 261/2004 requires airlines to compensate passengers (holding a valid ticket) who have been denied boarding or whose flight has been cancelled or delayed more than three hours on arrival. The regulation calls for compensation of €250, €400 or €600 per passenger, depending on the length of the flight and the cause of the cancellation or delay (in certain cases, the passengers might not be eligible to compensation, e.g. if the flight delay or cancellation is caused by "extraordinary circumstances"). As the Group's average flight length is less than 1,500 km, which is the upper limit for short-haul flights, the amount payable is generally €250 per passenger. Passengers subject to flight delays over two hours are also entitled to "assistance," including meals, drinks and telephone calls, as well as hotel accommodation if the delay extends overnight. For missed connections, passengers must be given a rerouting option. These options are not limited to the Group's flights and other carriers must be considered if no suitable flight from the Group can be sourced. If a passenger elects for a refund, the Group's reimbursement and re-routing obligations cease. For delays of over five hours, the airline is required to offer the option of a refund of the cost of an unused ticket, as well as to pay additional expenses such as food. There can be no assurance that the Group will be able to manage all circumstances that give rise to such delays and/or cancellations. In such circumstances, the Group may be required to make such compensatory payments to affected passengers and may also suffer reputational damage. Any such claims could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

2. The Group may be adversely impacted by changes in climate

Vulnerability to the effects of global warming and climate change has the potential to affect the Group's operations and broader business in the longer term, in particular, increased weather volatility and a greater frequency and intensity of storms or other significant weather phenomena, could disrupt the Group's operations by reducing handling capacity at airports as well as ground transportation access. Any increase in delayed or cancelled flights could further increase disruption compensation costs and reduce anticipated revenue. Changes in wind patterns and jet streams are also recognised as having the potential to increase en route turbulence, which could cause operational disruptions and increase costs which could negatively affect the Group's overall customer satisfaction and retention.

Customer awareness of environmental and climate issues may also have an adverse effect on the Group's reputation, which may have an adverse effect on the Group's business, results of operations, financial condition and/or prospects. Air transportation is perceived as one of the most environmentally unfriendly methods of travel and transport. The Group's total transportation revenue (which includes revenue for passenger transportation, charter transportation and aircraft lease, cargo transportation and other transportation related revenue) accounted for 99.4%, 99.1% and 97.1% of the Group's total operating revenue for the years ended 31 December 2023, 2022 and 2021, respectively. The Group is therefore highly susceptible to "flight shaming" which is the increasing public and political sensitivity to environmental issues, carbon emissions and climate change in general and in the context of air transportation. As a result of significant carbon emissions associated with the airline industry, public discussion tends to express the view that air travel should be reduced and, in particular in relation to domestic flights, be replaced by alternative, more environmentally conscious methods of transportation. A survey conducted by the Institution of Mechanical Engineers carried out in the UK in December 2020 showed that of the 2,011 respondents, 32% cited taking fewer flights as the most effective action that individuals could take to reduce emissions and over 70% of respondents stated the aviation industry was a top polluter. A 2020 survey from the European Investment Bank found that 62% of Europeans support an EU-wide ban on short-haul flights. Although the Baltics are comparatively geographically remote with fewer alternative travel options, ultimately, any changes of the applicable legal framework or increased sensitivity in relation to environmental issues could result in a decrease in demand for air travel and, therefore, revenue generated from air transportation.

3. Under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, certain contracting states entered into obligations to control and reduce the emission of greenhouse gases

Many aspects of the Group's operations are subject to increasingly stringent national and international commitments, laws, regulations and levies protecting the environment, including those relating to carbon emissions, clean water, management of hazardous materials and climate change. Compliance with existing and future environmental laws, regulations and levies can require significant expenditures, and violations can lead to significant fines, penalties and reputational damage.

IATA, which represents 320 airlines (whose fleets constitute 83% of all air traffic), including the Company, has committed to achieve net zero carbon emissions by 2050, establishing the "Fly Net Zero by 2050" strategy for the entire aviation industry and governments, which comprises new technologies, operations efficiency, increases in the use of Sustainable Aviation Fuel ("**SAF**"), carbon offsetting, and carbon capture measures.

Latvia is an International Civil Aviation Organisation ("**ICAO**") member state and joined its Carbon Offsetting and Reduction Scheme for International Aviation ("**CORSIA**") on 1 January 2023. The CORSIA scheme aims to target carbon neutral growth for the airline sector. CORSIA requires airlines to purchase carbon offsets from other industries to compensate the amount of CO_2 emissions that arise from flights between CORSIA member states that exceed 2019 emission levels (and 85% of 2019 level, starting from 2024). The number of offsets required to be purchased could have an adverse impact and/or reduce the profit margin per ticket.

EU Member States have agreed on a series of environmental policies, including the EU Green Deal and the "Fit for 55" legislation package, aiming to become the first climate neutral continent by 2050. This has resulted in various directives and delegated acts affecting the aviation industry. In particular, the EU Emissions Trading Scheme ("**ETS**") is a cap-and-trade system for CO_2 emissions to encourage industries to improve their CO_2 efficiency. Under the current legislation, airlines are granted initial CO_2 allowances based on historical performance and a CO_2 efficiency benchmark. Any shortage of allowances has to be purchased in the open market and/or at government auctions. The cost of such allowances have increased significantly since 2012 and there can be no assurance that the cost of the credits will not have a material adverse effect on the Group's business, operating results, and financial condition. Under the Directive 2003/87/EK amendments, the EU ETS allowances are to be phased out over the period from 2026 to 2034. In their place, free allowances would be available to airlines to cover part of or all of the price differential between the use of kerosene and the use of alternative eligible aviation fuels (such as SAF).

Additionally, the European Commission adopted the "ReFuel EU" regulation requiring mandatory SAF blending. It proposes to set SAF targets of 2% by 2025 rising to 6% by 2030 and 20% by 2035. The main penalties of non-compliance will be placed on fuel suppliers but there can be no assurance that due to limited SAF availability in the market, the cost of SAF will not have a material adverse effect on the Group's financial results.

Further possible unforeseen changes in regulations on greenhouse gas emissions and future increase in carbon emission permits costs may lead the Group to face a material financial risk. Any of these factors may limit the Group's operational flexibility, increase costs and therefore could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects and therefore could affect the ability of the Group to fulfil its obligations under the Bonds.

4. The introduction of travel taxes, prohibitions on travel or any other government restrictions could damage the Group's ability to grow and could have a material adverse impact on operations

Travel taxes are levied on a per passenger basis in a number of the Group's markets including the U.K. For example, in the U.K., Air Passenger Duty ("**APD**") is charged from a standard rate £13 per adult passenger. Germany imposes an air passenger tax starting from €12.48 while similar taxes exist in other European countries, such as Sweden (SEK 133), the Netherlands (€29.05), Italy (€7.50), Norway (NOK 85) and Portugal (€3.76). These taxes are levied as a flat amount per departing passenger and account for a higher percentage when applied to low fares. In the Group's experience, the imposition of travel taxes reduces the growth potential of a market as fares do not increase by the amount of the tax. In most markets, transfer passengers are exempt from these taxes and as a result they distort the market by giving an unfair subsidy to inefficient high-cost airlines that operate connecting flight networks.

The introduction of government taxes on travel has had a negative impact on passenger volumes. The introduction of further government taxes on travel across Europe could have a material adverse effect on the Group's financial results.

In 2023, the French government enacted a law prohibiting domestic flight routes where an alternative direct train journey operates in under two hours thirty minutes, except connecting flights. This distorts the market giving an unfair monopoly to inefficient high-cost airlines who operate connecting flight networks.

It cannot be guaranteed that some form of government intervention in airline ticket prices will not be introduced at a national or European level. This would severely impact the Group's ability to attract the most price sensitive consumers.

In July 2021, the European Commission announced details of the "Fit for 55" legislation package. These proposals potentially see, *inter alia*, the introduction of a jet fuel tax through the Energy Taxation Directive on intra-EU flights. This tax is still under discussion but may potentially be fully phased in over a 10-year period from 2025 to 2035. The introduction of this tax on intra-EU flights could have a material adverse effect on the Group's financial results.

5. Safety-related undertakings could affect the Group's results

Aviation authorities in Europe, Canada and the United States periodically require or suggest that airlines implement certain safety-related procedures on their aircraft. In recent years, the U.S. Federal Aviation Administration (the "**FAA**"), Transport Canada (the "**TC**") and the European Union Aviation Safety Agency (the "**EASA**") has required a number of such procedures with regard to Airbus A220 aircraft and its related equipment. The Group's policy is to implement any such required procedures in accordance with FAA, TC and EASA guidance and to perform such procedures in close collaboration with the local civil aviation authority and aircraft manufacturers. To date, all such procedures have been conducted as part of the Group's standard maintenance programme and have not interrupted flight schedules nor required any material increases in the Group's maintenance expenses. However, there can be no assurance that the FAA, TC and EASA or other regulatory authorities will not recommend or require other safety-related undertakings or that such undertakings would not impact the Group's operating results or financial condition.

There also can be no assurance that new regulations will not be implemented in the future that would apply to the Group's aircraft and result in an increase in the Group's cost of maintenance or other costs beyond management's current estimates. In addition, should the Group's aircraft cease to be sufficiently reliable or should any public perception develop that the Group's aircraft are less than completely reliable, the Group's business could be materially adversely affected.

Risks related to the terms of the Bonds and the market in which they trade

1. Holders of the Bonds may be exposed to risks as a result of the escrow arrangements

The Company will, subject to receiving the issue proceeds, use the proceeds of the issue of the Bonds to repay its outstanding Existing Bonds, to repay the State Loan, for general corporate purposes, to support its current liquidity requirements and for future fleet expansion in line with the approved business plan. On 29 April 2024, the Issuer issued a notice to the holders of the Existing Bonds that the Existing Bonds are to be redeemed in accordance with condition 5(c) of the terms and conditions of the Existing Bonds on 30 May 2024 (as corrected) (such date being the date that is not less than 30 days following such notice) at 101.6875% of their principal amount plus accrued and unpaid interest and additional amounts, if any, to the date of redemption. On or before the Issue Date, the Issuer will enter into an escrow agreement (the "**Escrow Agreement**") with, among others, U.S. Bank Global Corporate Trust Limited as escrow agent (the "**Escrow Agent**") and U.S. Bank Trustees Limited as Trustee for the Bonds.

Pursuant to the Escrow Agreement, (i) on the Issue Date, the Issuer will or will procure that the proceeds of the issue of the Bonds will be deposited into a segregated trust account opened with the Escrow Agent, (ii) the Escrow Agent will, on or around the Issue Date, pay an amount required to repay the State Loan to the relevant account held with the Latvian Treasury before the due date for repayment of the State Loan, (iii) the Issuer has agreed that the amount required in order to redeem the Existing Bonds will be released from escrow and paid to the clearing systems in which the Existing Bonds are held on or before the due date for their redemption, (iv) the Issuer will, or will procure that, an amount of cash is transferred to the Bonds Service Reserve Account from the escrow account equal to the then applicable Required Balance, and (v) any remaining amount will be paid to the order of the Issuer.

As a result of the arrangements set out above, the proceeds from the issue of the Bonds will be held in the escrow account for the period from the Issue Date until on or around the latter of the redemption date for the Existing Bonds and the repayment date for the State Loan and will not be secured. Under applicable law, were the Issuer to become insolvent between the Issue Date and the latter of the redemption date for the Existing Bonds and the repayment date for the State Loan, the escrow account may be regarded as part of the pool of assets available for the satisfaction of all unsecured creditors of the Company. In such circumstances, neither the holders of the Bonds nor the holders of the Existing Bonds would have any priority in access to these funds. In such circumstances, any investors in the Bonds that are also holders of the Existing Bonds may be exposed to the risk of insolvency of the Issuer to a greater degree during this period than would be the case if the funds held in the escrow account for benefit of the holders of the Existing Bonds were held in a manner remote from the insolvency of the Issuer.

In addition, in accordance with the Conditions, if the proceeds from the issue of the Bonds are not applied to fund the redemption of the Existing Bonds, an Event of Default shall occur under Condition 9(c) (*Non-Redemption of Existing Bonds*) of the Bonds. If such an Event of Default occurs and the Bonds are accelerated, an amount equal to the principal amount then outstanding and any interest accrued to the date of acceleration would be due and payable but there can be no assurance that the Issuer will be able to pay the total amount due to the Bondholders upon such acceleration. Bondholders should be aware that the amount held in the escrow account will be the proceeds of the Bonds only, and such amount may not accrue interest at the same rate as the Bonds, if at all. Accordingly, the escrow account will not contain the full amount payable on the acceleration of the Bonds as a result of an Event of Default under Condition 9(c) (*Non-Redemption of Existing Bonds*).

2. Restrictive covenants in the Conditions may restrict the Group's ability to operate its business. The Group's failure to comply with these covenants, including as a result of events beyond its control, could result in an Event of Default that could materially and adversely affect its financial condition and results of operations

The terms of the Bonds contain certain covenants, which, among other things, limit the Issuer's ability and the ability of certain members of the Group to conduct certain transactions, for example:

- incur any Debt;
- cause its Liquidity to be less than the minimum amount;
- fail to ensure that an amount of cash is transferred to the Bonds Service Reserve Account equal to the applicable Required Balance as set out in the Conditions (see also "*Bonds Service Reserve Account*" below);
- merge, consolidate or sell all or substantially all its assets;
- consummate an Asset Sale;
- effect a Restricted Payment;
- enter into certain Sale/Leaseback Transaction;
- engage in any business other than a Permitted Business;
- fail to make available year end and half year financial statements;
- fail to, among other things, create, perfect, protect or maintain Security;
- fail to comply with certain other covenants in respect of the Security Documents and the Security; and
- fail to redeem the Existing Bonds (see also "*Use of Proceeds*" below),

all as more particularly described under in Condition 4 (*Negative Pledge and Covenants*).

Each of these covenants is subject to a number of important exceptions and qualifications. See Condition 4 (*Negative Pledge and Covenants*).

As a result, the Group may be limited in the manner in which it can conduct its business. A failure to comply with the restrictions contained in the Conditions could lead to an Event of Default, which could result in an acceleration of indebtedness.

There can be no assurance that the Group's future operating results will be sufficient to ensure compliance with the covenants in the Conditions or to remedy any such default. In addition, in the event of acceleration, the Group may not have or be able to obtain sufficient funds to make any accelerated payments.

3. An active trading market for the Bonds may not develop

The Bonds may have no established trading market when issued, and the Issuer cannot assure investors that an active trading market for the Bonds will develop or be maintained. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. A lack of liquidity may have a material adverse effect on the market value of the Bonds.

In connection with the offering of the Bonds, MoF Latvia was authorized to subscribe for approximately €36.1 million in aggregate principal amount of the Bonds, and a further investment was approved by the Cabinet of Ministers of the Republic of Latvia on 30 April 2024 and the Parliament of the Republic of Latvia on 2 May 2024. The Latvian government has been allocated a total of €50 million in Bonds, accounting for 14.7% of the aggregate principal amount of Bonds to be issued, at the same price and on the same terms as other investors in the Bonds. The Company has informed the MoF Latvia that it will use a portion of the proceeds of the issue of the Bonds to repay the State Loan within two business days of the Company's receipt of such proceeds in its account.

Amendments to the Law on Budget and Financial Management have been adopted on 25 April 2024 pursuant to which the Minister of Finance of the Republic of Latvia, on the basis of a decision of the Cabinet of Ministers of the Republic of Latvia and the Parliament of the Republic of Latvia is entitled to make an investment relating to purchase of fixed income securities issued by capital companies under decisive influence of the State, if such investment is expected to have a positive effect on the state budget in the long term and the conditions of the regulations of the state aid have been observed. Any such investment is subject to conditions that: (i) the total amount of all investments which are made to the financial sector and the capital companies under decisive influence of the State, but are not intended in the relevant state budget law, during the financial year does not exceed two per cent of the amount of gross domestic product specified in the state budget law in the financial year, and (ii) the Parliament of the Republic of Latvia has agreed by a separate decision to such investment.

The Company understands that the Latvian government has been informed that participation in the offering of the Bonds in the manner described above to refinance the State Loan as well as any additional subscriptions, should not constitute state aid within the meaning of the applicable EU legislation. See also *"The Group has been, and may be, subject to investigations and claims relating to state aid."*

The Bonds have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. It is the Bondholders' obligation to ensure that their offers and sales or resales of the Bonds within the United States and other countries comply with applicable securities laws. See "*Transfer Restrictions*".

4. The Terms and Conditions of the Bonds permit the Issuer to incur certain Debt, assume certain security obligations and enter into certain Sale/Leaseback Transactions in order to conduct its business

While the Terms and Conditions of the Bonds include a covenant limiting the Issuer's ability to incur Debt, subject to certain conditions, the Issuer is nevertheless permitted to incur debt in relation to Purchase Money Obligations (as defined in the Conditions), which includes leases (such as leases in relation to financed pre-delivery payments, financed leases and sale and leaseback transactions) that the Company may enter into in the course of its business and as part of the Company's plans for future fleet expansion in line with its business plan. See "*Management's Discussion and Analysis of Financial Condition and results of Operations*".

The entry into such Purchase Money Obligations will involve the Company incurring additional Debt in addition to the Bonds (see "*Terms and Conditions of the Bonds – Condition 4(b) (Debt Incurrence*)") and the Company is permitted to secure such Purchase Money Obligations or any Purchase Money Obligations covering only the assets or property (or any contract relating to such assets or property) acquired or leased with or financed or to be financed by the proceeds of such Purchase Money Obligations. The incurrence of such additional Debt, and/or taking of any such security, may adversely affect the Issuer's ability to repay principal of, and make payments of interest on, the Bonds.

5. The Terms and Conditions of the Bonds provide significant flexibility for value to leave the Issuer and its Group

The Terms and Conditions of the Bonds include a covenant restricting the declaration or payment of dividends, and the making of other distributions, in respect of the Issuer's share capital, as well as voluntary repurchases, redemptions and repayments of the Issuer's share capital or subordinated indebtedness. Importantly however, this covenant does not prohibit a variety of investments and distributions by the Issuer and its Subsidiaries, which, if made or paid, could reduce amounts that would otherwise be available to the Issuer to make payments in respect of the Bonds (see *"Terms and Conditions of the Bonds – Condition 4(g) (Limitation on Restricted Payments)"*).

6. Certain covenants may be suspended upon the occurrence of a change in the Issuer's ratings

The Terms and Conditions of the Bonds provide that, if, on any date following the Issue Date, the Bonds have an Investment Grade rating from at least two of the Rating Agencies and no Event of Default or Potential Event of Default has occurred and is continuing, then, beginning on that day and continuing until such time, if any, at which the Bonds cease to have an Investment Grade rating from at least two of the Rating Agencies, the covenants contained in Conditions 4(b), 4(c), 4(d), 4(e)(iii), 4(f), 4(g), 4(h) and 4(i) will not apply (*"Terms and Conditions of the Bonds – Condition 4(k) (Covenant Suspension)"*).

If these covenants were to cease to be applicable, the Issuer would be able to incur additional Debt or make payments, including dividends or other distributions, which may conflict with the interests of Bondholders. There can be no assurance that the Bonds will ever achieve an Investment Grade rating or that any such rating will be maintained.

7. Since the Bonds bear interest at a fixed interest rate, movements in market interest rates can adversely affect the value of the Bonds

The Bonds bear interest on their outstanding principal amount at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the value of such security could fall as a result of changes in the market interest rate. While the nominal compensation rate of the Bonds is fixed during the life of the Bonds, the current interest rate on the capital market (market interest rate) typically changes on a daily basis. If the market interest rate increases, the value of a security such as the Bonds typically falls, until the yield of such security is approximately equal to the market interest rate. If the market interest rate falls, the value of a security such as the Bonds typically increases, until the yield of such a security is approximately equal to the market interest rate. Consequently, Bondholders should be aware that movements of the market interest rate can adversely affect the value of the Bonds and can lead to losses for the Bondholders if they sell their Bonds.

8. The market price of the Bonds may be volatile

The market price of the Bonds could be subject to significant fluctuations in response to actual or anticipated variations in the Group's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of the Bonds, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Bonds without regard to the Group's results of operations, prospects or financial condition. Factors including increased competition or the Group's operating results, the regulatory environment, general market conditions, natural disasters, terrorist attacks and war may have an adverse effect on the market price of the Bonds.

The market price of any investment in the Bonds will also be influenced by economic and market conditions in Latvia and, to varying degrees, economic and market conditions in other countries generally. Although economic conditions differ in each country, the reaction of investors to developments in one country may cause capital markets in other countries to fluctuate.

9. Redemption prior to maturity

In the event that the Issuer would be obliged to increase the amounts payable in respect of the Bonds as a result of any change in, or amendment to, the laws or regulations of Latvia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of any such changed or amended laws or regulations, which change or amendment becomes effective on or after 10 May 2024, the Issuer may redeem all outstanding Bonds in accordance with the Conditions.

The Bonds are also redeemable at the Issuer's option (as more fully set out in Conditions 6(c) (*Redemption at the Option of the Issuer*)), Condition 6(d) (*Make-Whole Redemption at the Option of the Issuer*) and Condition 6(e) (*Redemption at the Option of the Issuer in the event of an Equity Offering*), and the Issuer may choose to redeem the Bonds at a time when the prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds. In addition, any redemption of such Bonds may, at the option of the Issuer, be conditional on one or more conditions precedent. Such feature, which makes an announced redemption uncertain, may limit the market value of the Bonds.

In addition, the Bonds are redeemable by the Bondholders on the occurrence of a Change of Control Put Event (as more fully set out in Condition 6(f) (*Redemption at the Option of the Bondholders upon Change of Control (Put Option)*)). Exercise of such put option may affect the liquidity of such Bonds in respect of which such option is not exercised. Depending on the number of Bonds in respect of which the put option is exercised, any trading market for the Bonds in respect of which such put option is not exercised may become illiquid. In addition, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

10. Recognition of choice of court agreements and enforcement of foreign judgments in Latvia

In accordance with Condition 18(b) (*Jurisdiction*), the courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds. In accordance with Condition 18(c) (*No objection to Proceedings*), nothing shall limit any right to take proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of proceedings in one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

Considering that the submission to the courts of England under Condition 18(b) (*Jurisdiction*) and Condition 18(c) (*No objection to Proceedings*) is not deemed "exclusive" within the meaning of the Hague Convention of 30 June 2005 on Choice of Court Agreements (the "**Hague Convention**"), the validity of the choice of jurisdiction of English courts will be assessed in a Latvian court (should a dispute be brought to a Latvian court), and the judgments of English courts will be recognised and enforced in Latvia in accordance with, and subject to limitations arising from, the Latvian Civil Procedure Law.

The Latvian Civil Procedure Law stipulates that parties are generally free to contractually agree on a jurisdiction of their choice, provided that, among others, parties' agreement does not relate to a matter in respect of which Latvian courts have exclusive jurisdiction as provided for by the Latvian Civil Procedure Law. The validity of asymmetric jurisdiction clauses, such as agreement on jurisdiction as stipulated by Condition 18(b) (*Jurisdiction*) and Condition 18(c) (*No objection to Proceedings*), is not expressly regulated in the Latvian Civil Procedure Law and is untested in the practice of Latvian courts.

Furthermore, provided that a Latvian court is satisfied that the Hague Convention is not applicable to the recognition and enforcement of a judgment of English court given on the basis of an asymmetric jurisdiction clause, a judgment of an English court will be subject to recognition and enforcement pursuant the Latvian Civil Procedure Law, which determines the necessary steps and documentation to commence enforcement, as well as the enforcement procedures.

According to the Latvian Civil Procedure Law the enforcement shall not be granted if: (a) the foreign court, which made the judgment, was not competent in accordance with Latvian law to adjudicate the dispute or such dispute falls under the exclusive jurisdiction of the Latvian courts; (b) the judgment of the foreign court has not come into lawful effect; (c) the defendant was denied a possibility of defending his or her rights, in particular, where the judgment was given in default of appearance, where the defendant was not summoned to appear before court in a timely and proper manner, except if the defendant has not appealed such judgment even though he or she had the possibility to do so; (d) the judgment of the foreign court is irreconcilable with an earlier court judgment which has entered into lawful effect in Latvia in the same dispute between the same parties or with already earlier commenced court proceedings between the same parties in a Latvian court; (e) the judgment of the foreign court is irreconcilable with an earlier judgment of another foreign court which has entered into lawful effect in the same dispute between the same parties, which fulfils the conditions necessary for its recognition or which has already been recognised in Latvia; (f) the recognition of the judgment of the foreign court is contrary to public policy in Latvia; or (g) the passing of the judgment by the foreign court was not done in accordance with the application of the laws of such country as should have been applied in conformity with Latvian international private law conflict of law norms. Enforcement may also be limited by certain of the matters described under "Recognition and enforcement of choice of English law to govern the Bonds and procedural rules applied in court proceedings in Latvia" below. If none of the grounds for refusing recognition and enforcement of a foreign judgment exist, a Latvian court will recognise and enforce the foreign judgment in Latvia.

Thus, the recognition and enforcement of the judgments of English courts and other foreign courts in Latvia may be subject to limitations and conditions arising from, as applicable in each particular situation, the international agreements or conventions, or the Latvian Civil Procedure Law.

11. Recognition and enforcement of choice of English law to govern the Bonds and procedural rules applied in court proceedings in Latvia

Condition 18(a) (*Governing Law*) provides that the Trust Deed and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

In any proceedings taken in Latvian courts or other authorities for the enforcement of the Bonds, the courts and the authorities would apply procedural rules of Latvian law, and the enforcement would thus be subject to the limitations arising from Latvian law, if and when applicable. Such limitations include, *inter alia*, that the enforcement of the Bonds in Latvian courts may be subject to restrictions based upon principles of reasonableness and fairness, statutory limitations for filing of claims and the general discretionary authority of the courts to mitigate damages. In addition, restrictions on the enforcement of the Bonds could (depending on the circumstances) arise from applicable bankruptcy, insolvency, moratorium and other laws of general application relating to or affecting generally the enforcement of creditors' rights and remedies from time to time in effect.

Any of the above may adversely affect the enforcement by Bondholders of their claims against the Issuer arising from the Bonds.

12. Modification, Waivers and Substitution

The Conditions contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority. In particular, a Bondholder holding more than 25% in principal amount of the Bonds for the time being outstanding will have a blocking vote at any Bondholder meeting held in accordance with Condition 12 (*Meetings of Bondholders, Modification, Waiver and Substitution*) and shall be able to form the necessary quorum at an adjourned meeting held to approve the special quorum resolutions set out in Condition 12 (*Meetings of Bondholders, Modification, Waiver and Substitution*). See further *"Terms and Conditions of the Bonds – Condition 12 (Meetings of Bondholders, Modification, Waiver and Substitution)"*.

The Conditions also provide that the Trustee may, without the consent of Bondholders, agree to (i) any modification of (subject to certain exceptions), or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or the Transaction Documents which is, in its opinion, not materially prejudicial to the interests of the Bondholders, (ii) any modification of the provisions of the Bonds or the Transaction Documents which, in its opinion, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, or (iii) determine that any Event of Default or potential Event of Default shall not be treated as such if, in its opinion, the interests of the Bondholders will not be materially prejudiced thereby.

The Trust Deed also contains provisions which allow, without the consent of the Bondholders, a legal entity to assume the obligations of the Issuer as principal debtor under the Trust Deed and the Bonds, in the circumstances described in Condition 12 (*Meetings of Bondholders, Modification, Waiver and Substitution*) of the Bonds.

13. Exchange rate risks and exchange controls exist to the extent payments in respect of the Bonds are made in a currency other than the currency in which an investor's activities are denominated

The Issuer will pay principal and interest on the Bonds in euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than in euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

Changes in the value of the Investor's Currency relative to the euro could be caused by a variety of factors, including changes to the monetary policies maintained in the relevant central banks and vacillating demand for various currencies in the global marketplace. In response to the economic fallout of COVID-19 and recent global inflationary pressures (see "*The Group may be unable to control its operating costs*"), global central banks have endeavoured to support local economies by implementing a number of measures including stimulus programmes, which can dramatically impact the availability of, and demand for, certain currencies (thus impacting foreign exchange rates). In some cases, these stimulus measures can be, or may be perceived to be, catalysts for future inflation, which can also impact the relative present and future value of a currency.

Furthermore, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate.

14. *Credit ratings may not reflect all risks*

The Issuer's credit ratings are an assessment by the relevant rating agency of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Bonds. The Bonds are expected, on issue, to be rated B+ by S&P and B by Fitch. In addition to the ratings on the Bonds and the ratings on the Issuer provided by S&P and Fitch, one or more independent credit rating agencies may assign credit ratings to the Issuer or the Bonds. The ratings may not reflect the potential impact of all risks related to the structure and marketing of the Bonds and additional factors discussed in this Prospectus or any other factors that may affect the value of the Bonds. Credit ratings assigned to the Bonds do not necessarily mean that they are a suitable investment. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

Similar ratings on different types of bonds do not necessarily mean the same thing. The ratings do not address the marketability of the Bonds or any market price. Any change in the credit ratings of the Bonds or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Bonds. The significance of each rating should be analysed independently from any other rating.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances).

In general, UK regulated investors are restricted under the UK CRA Regulation from using credit ratings for regulatory purposes unless such ratings are issued by a credit rating agency established in the UK and registered under the UK CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-UK credit rating agencies, unless the relevant credit ratings are endorsed by a UK-registered credit rating agency or the relevant non-UK rating agency is certified in accordance with the UK CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances).

If the status of a rating agency rating the Bonds changes, European or UK regulated investors may no longer be able to use the rating for regulatory purposes and the Bonds may have a different regulatory treatment. This may result in European or UK regulated investors selling the Bonds which may impact the value of the Bonds and any secondary market.

15. *As the Global Certificates are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer*

The Bonds will be represented by the Global Certificates except in certain limited circumstances described therein. The Unrestricted Global Certificate and the Restricted Global Certificate will be registered in the name of a nominee of and deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificates, investors will not be entitled to receive individual Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificates. While the relevant Bonds are represented by the Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and/or Clearstream, Luxembourg, as applicable.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificates must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. The Issuer cannot guarantee that procedures implemented for the granting of such proxies will be sufficient to enable holders to vote on any requested actions or to take any other action on a timely basis.

Risks related to the Security

1. The value of the Secured Property on the Issue Date is not sufficient to satisfy the Issuer's obligations under the Bonds

If there is an Event of Default under the Bonds, the Bondholders and the other Secured Creditors will be secured only by the Security in effect at the relevant time as described in the Conditions and the "*Description of Collateral"* below. Upon issue of the Bonds, but before the Security Longstop Date, the Bondholders and the other Secured Creditors will share only in the benefit of the Issue Date Security. As at the date of this Prospectus, the value of the Issue Date Security does not equal the principal amount of the Bonds. As a result, upon the issue of the Bonds, the proceeds of enforcement of the Secured Property following an Event of Default under the Bonds will not be sufficient to satisfy, and will be substantially less than, amounts due under the Bonds. Further, the value of the Secured Property may never equal the principal amount of the Bonds. To the extent that the claims of the Bondholders and the other Secured Creditors exceed the value of the Security securing the Bonds at any time, those claims will rank *pari passu* with claims of the holders of unsecured creditors of the Issuer (other than claims of certain unsecured creditors of the Issuer which are preferred by the applicable law). In addition, the realisable value of certain collateral may differ significantly from the appraised or book value, which could further decrease the proceeds available following an Event of Default.

To the extent not secured by the Security, the Bonds will be the Company's general obligations and will effectively rank junior in right of payment to the Company's other existing and future debt secured by assets to the extent of the value of those assets. In any liquidation, dissolution, bankruptcy, or other similar proceeding, the holders of the Company's other secured debt may assert rights against the assets securing that debt in order to receive full payment of their debt before those assets may be used to pay the Company's other creditors, including any amount under the Bonds not secured by the Security.

For further information, see "*The realisable value of the Secured Property may differ significantly from any appraised value or book value and the value of any Security is subject to variation*" and "*Certain creditor claims may be preferred by law over the Secured Liabilities*".

2. As at the Issue Date, not all the Security will have been granted

On the Issue Date, the Secured Property solely consists of the Issue Date Security. The Issuer is obligated pursuant to the Conditions of the Bonds to grant the Longstop Date Security within 60 calendar days from the Issue Date and the Security over (a) any applicable Owned Asset as required by Condition 3(d)(i)(II) (the "**Aircraft Additional Security**") and (b) any applicable New Trademarks as required by Condition 3(d)(ii)(x) (together, the "**Additional Security**") when relevant. If there is an Event of Default under the Bonds during the period prior to the granting of the Longstop Date Security or the Additional Security (as applicable) or the Issuer does not grant the Longstop Date Security or the Additional Security (as applicable), any enforcement of the Secured Property following an Event of Default under the Bonds will be substantially less than amounts due under the Bonds.

For further information see also, "*The Financed Leased Aircraft and Financed Leased Engines do not form part of the Security for the Bonds at the Issue Date, and in the event of a loss, default or certain other circumstances may never do so"*.

3. The realisable value of the Secured Property may differ significantly from any appraised value or book value and the value of any Security is subject to variation

mba Aviation ("**mba**") an independent aviation appraisal and consulting firm, and Latio ("**Latio**"), an independent real estate appraisal and consulting firm have prepared appraisals of most of the Secured Property. See "*Description of Collateral – Appraisals*". The appraisals are subject to assumptions and limitations and were prepared based on specified methodologies. For example, in preparing its appraisal of the Financed Equipment (as defined in "*Description of Collateral")*, mba conducted only an extended desktop appraisal.

An appraisal is only an estimate, does not necessarily indicate the price at which any Secured Property may be purchased or sold in the market and should not be relied on as a measure of realizable value.

The value of the Secured Property at any particular time depends on various factors, including market and economic conditions, the supply of and demand for similar assets, the availability of buyers, and, in particular with respect to the Financed Equipment, the condition thereof. The valuation of the Secured Property may differ over time, as well as from the carrying value in the Company's financial statements prepared in accordance with IFRS, and such differences may be material.

The Appraisals are subject to a number of assumptions and limitations and were prepared based on certain specified methodologies. In preparing the Appraisals, only desktop inspections were performed. An appraisal that is subject to other assumptions and limitations and based on other methodologies may result in valuations that are materially different from those contained in the Appraisals. Further, an appraisal is only an estimate, does not necessarily indicate the price at which any intellectual property, spare part or other eligible collateral may be purchased or sold in the market and should not be relied on as a measure of realisable value. In addition, because certain assets including aircraft and engines are in constant use in the ordinary course of the Group's business, the value of such assets, including the Financed Equipment, generally declines over time. As the Appraisals provide a collateral value as of a specific date, the actual value of the assets subject to the Appraisals as of any other date may differ materially from the value specified in the Appraisals.

Certain of the Secured Property has not been appraised. The book value of Secured Property that has not been appraised should not be relied on as a measure of realisable value of such assets. The fair market value of such Secured Property may be subject to fluctuations based on factors that include, among others, general economic conditions, industry conditions, costs of enforcement and similar factors. The amounts to be received upon the enforcement of the Security will depend upon many factors, including, among others, the ability to sell the Secured Property in an orderly sale, the condition of the Latvian economy, the availability of buyers, the ability to readily liquidate the Secured Property and the fair market value and condition of the Secured Property. By its nature, some or all of the Secured Property may not have a readily ascertainable market value and no assurance can be given that there will be a market for the sale of the Secured Property, or, if such a market exists, that there will not be a substantial delay in such sale. In addition, if the Group were no longer operating on a going concern basis, the appraisal of the value of the Trademarks would no longer be valid, and the value of the Trademarks could decrease materially.

Further, the value of surplus proceeds collateral with respect to the Financed Equipment is directly related to the fair market value of the Financed Equipment, which is subject to various factors, including market and economic conditions, the supply of similar equipment, the availability of buyers and the frequency and quality of the repair and refurbishment of the Financed Equipment. Moreover, the sale by the relevant lessor or security trustee of the Financed Equipment may be time consuming, or otherwise delayed due to market conditions. In addition, the relevant lessor or security trustee may elect to lease or charter the Financed Equipment prior to arranging its sale, which may further delay the application of proceeds relating to such Financed Equipment in accordance with the relevant financing documents. Accordingly, the proceeds realised by the relevant lessor or security trustee on any exercise of remedies may not equal the appraised value of the Financed Equipment and, after deduction of the outstanding amounts owed by the Company to the relevant lessor and/or security trustee under the financing documents relating to the Financed Equipment, plus any other amounts payable in priority to the surplus proceeds to be distributed to the Company (or to the Security Trustee by way of the Security Assignments) may mean that there are no, or an amount significantly less than the appraised value of the surplus proceeds collateral, surplus proceeds available to the Security Trustee under the Security Assignments.

Moreover, the ability to realise the value of the surplus proceeds is dependent on in the enforcement of the terms of the underlying finance arrangements by the relevant lessor or security trustee of the Financed Equipment. There is a risk that the relevant lessor or security trustee may be unwilling or unable to carry out the necessary actions to realise such value in a timely manner or at all. This could be due to a variety of reasons, such as legal constraints, conflicting interests, operational impediments, or other priorities of the third parties. None of the Issuer, the Trustee or the Security Trustee have control over the actions of the relevant lessor or security trustee and there is no assurance that they will act in a way that is favourable to the Bondholders or within a timeframe that is consistent with the Bondholders' expectations.

The value of the Secured Property is directly related to their fair market value, which is subject to various factors, including market and economic conditions, the supply of similar equipment, the availability of buyers and the frequency and quality of the repair and refurbishment of the equipment. Accordingly, the proceeds realised on any exercise of remedies may not equal the appraised value of the collateral or be sufficient to satisfy in full payments due under the Bonds.

Accordingly, there can be no assurance that the proceeds realised on any exercise of remedies will equal the appraised value of such collateral or be sufficient, together with any other additional collateral, to satisfy in full payments due on the Bonds (see also "*The value of the Secured Property is not sufficient to satisfy the Issuer's obligations under the Bonds*"). To the extent that the claims of the Bondholders exceed the value of the Security securing the Bonds, those claims will be subordinated to the claims of the holders of all other existing and future secured indebtedness of the Issuer (see also "*The value of the Secured Property on the Issue Date is not sufficient to satisfy the Issuer's obligations under the Bonds*").

4. It may be difficult to realise the value of the Secured Property

The Secured Property will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Conditions, the Trust Deed and the relevant Security Document. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Secured Property, as well as the ability of the Security Trustee to realise or foreclose on such Secured Property. Furthermore, the first priority ranking of the Security can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or characterisation under the laws of certain jurisdictions.

In addition, the business of the Group requires a variety of national, state and local permits and licences. The continued operation of assets that comprise the Secured Property in Latvia and which depend on the maintenance of such permits and licenses may be prohibited. In the event of foreclosure on the Secured Property, the transfer of such permits and licences may be prohibited or may require significant time, cost and expense. Further, no assurance can be given that the applicable governmental authorities will consent to the transfer of all such permits. In addition, if the Security Trustee forecloses on the Secured Property, the maintenance and/or operation of such Secured Property may require compliance with the applicable regulations, permits, safety and other requirements. If the Security Trustee fails to ensure such compliance or if the regulatory approvals required for the transfers of such permits are not obtained, the realisation of the Secured Property may be delayed, a temporary shutdown of operations of the Group may occur and the value of the Secured Property may be significantly decreased.

Any of these factors could reduce the proceeds realised upon enforcement of the Security. Accordingly, there can be no assurance that the proceeds from realisation of the Secured Property, if successful, will be sufficient to satisfy the Issuer's obligations under the Bonds.

5. Enforcement of the Security may be subject to legal and practical limitations

The enforcement of the Security may be subject to legal and practical difficulties and limitations generally associated with enforcement of security interests. For instance, the sale of any assets subject to the Security by the Security Trustee may be delayed if the Issuer refuses to follow in a timely manner or at all the Security Trustee's instructions to make the relevant assets available for sale.

In respect of the Latvian law governed Security, if the Issuer refuses to cooperate with the Security Trustee to ensure an extrajudicial enforcement of the Security, the Security Trustee will have to apply to a Latvian court for enforcement which may, in turn, delay the enforcement of the Security. Security over the real estate in Latvia, i.e. the buildings and right of superficies, may only be enforced in judicial enforcement proceedings. In addition, it is uncertain whether Latvian courts will recognise the "parallel debt" structure created under the Trust Deed. See "*—The Security over the Secured Property will be granted to the Security Trustee rather than directly to Bondholders. A parallel debt structure has not been tested in the Latvian Courts*".

In addition, certain Security is provided by Air Baltic Training, a Subsidiary of the Issuer. Under the Latvian law a subsidiary may provide security for the obligations of its parent company, provided that the subsidiary has sufficient corporate benefit to provide the security. Lack of corporate benefit or its sufficiency does not make the provision of security illegal. However, it may increase the risk that such security is successfully avoided in the insolvency proceedings of the subsidiary by the subsidiary's insolvency administrator, and therefore, becomes invalid and unenforceable in the subsidiary's insolvency proceedings.

Further, the rights of the Bondholders under the Security are subject to any laws relating to prescription or lapse of time, bankruptcy, liquidation, insolvency, administration, reorganisation, moratorium and any other laws and/or legal or equitable principles relating to or affecting the enforcement of creditors' rights or security generally including obligations mandatorily preferred by applicable law. Enforcement by the Security Trustee against an aircraft or engine on the occurrence of a breach by the Company of the performance of its obligations may not be upheld by an English court if it is held that such breach is not sufficiently repudiatory to justify termination. In addition, an English court will not necessarily grant a particular remedy if (i) the principles of equity dictate otherwise, (ii) it may be incompatible with human rights legislation, (iii) public policy requires otherwise, or (iv) the court otherwise has discretion as to what remedy it grants.

Each of these factors could reduce the proceeds realised upon enforcement of the relevant Security.

6. Risks related to enforcement of the Latvian law governed Security in respect of the Secured Property located outside of Latvia

The Secured Property is primarily located in Latvia. However, certain movable assets or receivables may be located from time to time in jurisdictions other than Latvia. Most jurisdictions (but not necessarily all) apply the law of the jurisdiction where the asset is situated (*lex situs*) in order to determine whether or not the particular asset has been validly subject to security in that jurisdiction and whether or not such security is binding and enforceable in that jurisdiction in respect of third parties.

Most of the Secured Property will be subject to the Security under Latvian law. The Issuer has not and does not intend to take any additional measures to establish any additional security over the Secured Property located outside Latvia under the laws of the jurisdiction where the relevant Secured Property is situated or to procure that any Security established under Latvian law is valid, binding and enforceable against third parties in any such jurisdiction. Therefore, in respect of any Secured Property located outside Latvia, there is a risk that, under the laws of the jurisdiction where that Secured Property, that Secured Property may be considered not to be subject to a Security Interest or such Security Interest may be considered unenforceable in that jurisdiction, as a consequence of which the Secured Liabilities may be considered unsecured and ranking *pari passu* or below the claims of other creditors of the Issuer in that jurisdiction. In addition, any other creditor of the Issuer may be able to enforce its claim before the Secured Liabilities or to establish a competing Security Interest over the Secured Property in that jurisdiction under the applicable law in which case the claims secured by such Security Interest will rank above the Secured Liabilities.

Any Secured Property located outside Latvia and subsequently moved into Latvia would become subject to the Security established under Latvian law. However, the Latvian conflict of laws rules would recognise the validity and enforceability of any security that has been properly established and attached to the Secured Property outside Latvia before it was moved into Latvia. Therefore, there is a certain risk that the Security over the Secured Property that has been located outside Latvia and is relocated into Latvia may have a lower ranking and priority of enforcement than any prior security established abroad.

Conversely, in respect of any Security over a Secured Property that has been subject to Security in Latvia, there is no assurance that the Security will be recognised, upheld and given effect in any jurisdiction in which that Secured Property may be relocated from Latvia.

For certain receivables it may be difficult to determine the proper law under which a Security over that asset is to be established and perfected. In particular, in respect of a receivable the debtor of which is located, or has its place of business or establishment outside Latvia, a number of irreconcilable conflict of laws provisions may exist as to the place of location of the receivable and, consequently the law governing the establishment and perfection of Security over the receivable. Among other, the location of a receivable may be determined based on the location of the debtor, or the law governing the receivable, or the place of payment of the receivable. Therefore, in respect of receivables payable by debtors located outside Latvia or governed by laws of a jurisdiction other than Latvia, there is a risk that Latvian law governed Security over such receivables is not valid, binding or enforceable in the relevant jurisdictions, as a consequence of which the Secured Liabilities may be considered unsecured and ranking *pari passu* or below the claims of other creditors of the Issuer in that jurisdiction. In addition, any other of the Issuer's creditors may be able to enforce its claim against the receivable before the Secured Liabilities or to establish a competing Security Interest over the receivable in that jurisdiction under the applicable law in which case the claims secured by such Security Interest will rank above the Secured Liabilities.

7. Certain creditor claims may be preferred by law over the Secured Liabilities

Pursuant to Latvian law, claims of certain unsecured creditors of the Issuer or Air Baltic Training (as providers of the Security) would be paid from the enforcement proceeds of the Security before the Secured Liabilities notwithstanding any contractually agreed priorities of payments. These claims include, in respect of mortgages over real estate, the enforcement costs related to the sale of the Secured Property, claims for past due salaries and related social security contributions of the employees involved in the maintenance of real estate, real estate taxes and certain dues attached to the real estate and, if recorded in the Land Register, as an encumbrance over the relevant Secured Property.

8. Certain Secured Liabilities may be subject to statutory limitations

Pursuant to Latvian law, payment of certain Secured Liabilities in enforcement of a Security may be subject to certain statutory limitations. Thus, claims for accrued interest are limited to interest accrued within three years from the date of auction of the mortgaged real estate.

9. Impairment of Security

Pursuant to Latvian law, Security over certain kinds of assets like shares in companies and trademarks are valid and enforceable only in respect of those assets that have been explicitly identified in the relevant Security registration documents. If any additional shares or trademarks are acquired by the Issuer after the registration of the Security (or if the registrations fail to specify any shares or trademarks), the Security Trustee has an enforceable contractual right to require that the Security registration is extended to those assets. However, until such registration has been accomplished, the Security over those assets is binding to the Issuer but not to any third-party creditor or in any Issuer’s insolvency proceedings.

The Issuer’s rights and title to Trademarks is subject to periodic renewals of the Trademark registrations in the relevant registries. Failure to effect the renewal in due time may affect the Issuer’s preferential rights to the trademarks and, thereby, their marketability and value, and enforcement of the Security in respect of those Trademarks.

The Issuer's title to the MRO Konkors Hangar, the BA Hangar and the Training Centre is subject to validity of the Issuer's rights of lease to the parcels of the land on which that real estate has been built. While the lessor of the land does not have the right to terminate the land lease at its own discretion and for no cause, the lessor has certain rights to terminate the land lease for cause in accordance with the terms of the land lease agreements. As a consequence of the termination of the land lease, the Issuer would cease to have title to the buildings and such buildings would become part of the land and will be owned by the landowner. The Latvian courts have not yet conclusively ruled on the validity of the mortgages attached to the buildings at the time the title to the buildings was separate from the title to the land once the titles are joined and the building becomes part of the land. Therefore, it is legally uncertain whether or not a mortgage established pursuant to the relevant Security Document would remain in force and enforceable in respect of the relevant Secured Property if the mortgagor's rights of lease are terminated during the security period. Due to that uncertainty there is a risk that if the land lease agreements are terminated, that the Security over the relevant Secured Property may be extinguished without any compensation or indemnity to the Security Trustee and without any consent or other involvement of the Security Trustee.

10. The Security over the Secured Property will be granted to the Security Trustee rather than directly to Bondholders. A parallel debt structure has not been tested in Latvian Courts

Under Latvian law, security interests can be granted only to a creditor of the claim purported to be secured by such security interests. As the concept of a "trust" is not recognised under Latvian laws, it is not clear whether the Security Trustee would be recognised as a creditor in respect of the Bonds and as such there is a risk that security interests created in favour of the Security Trustee for the benefit of Bondholders will not be deemed to be validly created and therefore will not be recognised and enforced in the courts of Latvia. For that reason, the Trust Deed also provides for the creation of a "parallel debt" structure, whereby the Issuer irrevocably and unconditionally undertakes to pay to the Security Trustee amounts equal to any amounts owing from time to time by it to the Bondholders.

The intention of the "parallel debt" structure is to create a separate and independent claim of the Security Trustee against the Issuer which can be secured by Security over the Secured Property pursuant to which the Security Trustee will act as creditor in its own name and not as representative of Bondholders. However, although used in the past, the "parallel debt" structure has not been tested in the Latvian courts and therefore no assurance can be given that it will mitigate or eliminate any risk of unenforceability of the Security under Latvian law. To the extent the Security over the Secured Property created under the "parallel debt" structure is not validly granted, is unenforceable or is successfully challenged by other parties, the Bondholders will not receive any proceeds from an enforcement of the Security over the Secured Property.

In addition, none of the Bondholders or the Trustee will be able to enforce the Security except through the Security Trustee. Therefore, the Bondholders will bear the risk of insolvency or bankruptcy of the Security Trustee. See "*The rights of the Bondholders depend on the Security Trustee's actions and financial standing*".

11. In respect of the Bonds Service Reserve Account, there is a risk that a fixed charge may take effect as a floating charge under Irish law

It is the essence of a fixed charge that the person creating the charge does not have liberty to deal with the assets which are the subject matter of the security. Dealing with the assets includes disposing of such assets or expending or appropriating the monies or claims constituting such assets. Accordingly, if and to the extent that such liberty is given to the Issuer, any such fixed charge may instead operate as a floating charge under Irish law.

In particular, the courts of Ireland have held that in order to create a fixed charge on receivables it is necessary to oblige the chargor to pay the proceeds of collection of the receivables into a designated bank account and to prohibit the chargor from withdrawing or otherwise dealing with the monies standing to the credit of such account without the consent of the chargee.

Floating charges have certain weaknesses, including the following:

- weak priority against the purchasers (who are not on notice of any negative pledge contained in the floating charge) and chargees of the assets concerned and against the lien holders, execution creditors and creditors with rights of set-off;

- floating charges rank after certain preferential creditors, such as claims of employees and certain taxes on winding-up or a receivership;

- floating charges rank after certain insolvency remuneration expenses and liabilities;

- the examiner of a company has certain rights to deal with the property covered by the floating charge; and

- floating charges rank after fixed charges.

Each of these factors could reduce the proceeds realised upon enforcement of the relevant Security.

12. The amount of any surplus proceeds or the collateral under the Aircraft Additional Security may be limited by liens and statutory detention rights

In the normal course of business, liens and statutory detention rights that secure the payment of airport fees and taxes, custom duties, air navigation charges, emissions charges, landing charges, crew wages, repairers' charges, salvage or other obligations are, depending on the laws of the jurisdictions where the Financed Equipment is registered and/or located from time to time, likely to attach to the Financed Equipment. Such liens and statutory detention rights may secure substantial sums that may, in certain jurisdictions or for limited types of liens and statutory detention rights (particularly fleet liens), exceed the value of any particular collateral to which the liens and statutory detention rights have attached. Until they are discharged, the liens and statutory detention rights described above could impair the relevant lessor's or security trustee's, or the Security Trustee's, as applicable, ability to repossess and/or resell the Financed Equipment. In some jurisdictions, liens and statutory detention rights may give the holder of such liens the right to detain or, in limited cases, sell or cause the forfeiture of the applicable assets, and as such could be applicable to the Financed Equipment. If the relevant lessor or security trustee, or the Security Trustee, as applicable, enforces its security against the Financed Equipment, the lessor or security trustee, or the Security Trustee, as applicable, may, in some cases, find it necessary to pay the claims secured by such liens in order to repossess the Financed Equipment or obtain the Financed Equipment from another creditor because such liens and statutory detention rights may have priority over the security granted to the relevant lessor or security trustee, or the Security Trustee, as applicable. In many jurisdictions, the categories of liens and detention rights do not need to be registered to take priority to secured creditors of an asset.

In addition, aircraft may generally be detained and/or requisitioned by government and other bodies for a variety of reasons, such as breaches of customs legislation, breaches of aircraft noise emission requirements, breaches of public health requirements, for certain patent infringements, breaches of tax laws and criminal laws or in the event of war or national emergency. Unless and until they are discharged, the requisition and detention rights described above could impair the relevant lessor's or security trustee's, or the Security Trustee's, as applicable, ability to repossess and/or resell the Financed Equipment. In some jurisdictions, requisition and detention rights may give the holder of such liens the right to detain or, in limited cases, sell or cause the forfeiture of the applicable assets, and as such could be applicable to the Financed Equipment. If the relevant lessor or security trustee, or the Security Trustee, as applicable, enforces its security against the Financed Equipment, the relevant lessor or security trustee, or the Security Trustee, as applicable, may, in some cases, find it necessary to pay a fine or other claim in relation to such detention right or requisition right in order to repossess the Financed Equipment or obtain the Financed Equipment from another creditor because such liens and statutory detention rights may have priority over the security granted to the relevant lessor or security trustee, or the Security Trustee, as applicable. In many jurisdictions, the categories of liens and detention rights do not need to be registered to take priority to secured creditors of an asset.

The existence of such a lien and/or detention right may have the effect of either (i) reducing the amount of surplus proceeds available to the Security Trustee under the Security Assignments, and/or (ii) if such Financed Equipment becomes subject to Security in accordance with Condition 3(d) (*Additional Security*), diminishing the collateral proceeds available to repay amounts outstanding under the Bond which could also result in less proceeds to repay the Secured Creditors, if the relevant lessor, security trustee or the Security Trustee (as applicable) discharges the relevant lien or statutory detention right from the proceeds of enforcements against the Financed Equipment as described above, or if the existence of such liens or statutory detention rights prevents repossession and/or a sale of such Financed Equipment. See further "*The realisable value of the Secured Property may differ significantly from any appraised value or book value and the value of any Security is subject to variation*".

13. It may be difficult, expensive or impossible to exercise rights with respect to the Financed Equipment

There are no general geographical restrictions on the Company's ability to utilise the Financed Equipment. The rights and remedies of the relevant lessor, security trustee or the Security Trustee (as applicable) over the Financed Equipment could be adversely affected by the laws of the jurisdictions in which the Financed Equipment is used, as it may be more difficult (or, in some instances, impossible) as a practical or legal matter for the relevant lessor, security trustee or the Security Trustee (as applicable) to enforce its rights and remedies against any item of Financed Equipment, depending on the jurisdiction. Any such difficulty in enforcing a judgment or other rights against the Company, any item of Financed Equipment, or in repossessing, and subsequently selling such Financed Equipment, could diminish the collateral proceeds available to repay amounts outstanding under the Bond. In addition, upon repossession by the relevant lessor, security trustee or the Security Trustee (as applicable) of an item of Financed Equipment, such Financed Equipment may need to be stored, insured, maintained, refurbished, perhaps modified and then remarketed. These enforcement and other costs can be significant.

14. The Financed Leased Aircraft and Finance Leased Engines comprising the Aircraft Additional Security are not subject to Security on the Issue Date and there can be no assurance that they will become subject to Security

The Financed Leased Aircraft comprise all present and future aircraft leased or, as the case may be, subleased by the Issuer on terms whereby the Issuer has the right to acquire title to the relevant asset under the terms of the relevant lease. As at the Issue Date, Financed Leased Aircraft for which the Issuer has the right to acquire title to the relevant asset under the terms of the relevant lease prior to the Maturity Date include: six Airbus A220-300 aircraft, with MSNs 55003, 55004, 55005, 55006, 55007 and 55008 and which are currently owned by Lidmasinas Leasing Limited, leased to Axiom Baltic Services Ltd and subleased to the Issuer (and subject to a first ranking mortgage in favour of EDC). The Financed Leased Engines comprise all present and future engines leased or, as the case may be, subleased by the Issuer on terms whereby the Issuer has the right to acquire title to the relevant asset under the terms of the relevant lease. As at the Issue Date, Financed Leased Engines for which the Issuer has the right to acquire title to the relevant asset under the terms of the relevant lease prior to the Maturity Date include two Pratt & Whitney PW1521G-3 engines with ESNs P736291 and P736294, and are currently owned by Jet Aircraft Leasing Limited and leased to the Issuer (and subject to a first ranking mortgage in favour of EDC).

As a result, the Issuer does not currently have ownership of the Financed Leased Aircraft and Financed Leased Engines and is therefore not currently able to take security over the Financed Leased Aircraft and Engines. Pursuant to the Conditions, the Issuer has agreed that, upon the expiry or early termination of the relevant term of the finance lease in respect of a Financed Leased Aircraft or Financed Leased Engine, it shall as soon as reasonably practicable:

- other than in the event of a total loss of the relevant Financed Leased Aircraft or Financed Leased Engines, exercise such rights as it may then have under the relevant purchase option in respect of such Financed Leased Aircraft or Financed Leased Engine as provided in the relevant finance lease such that the Issuer will become the legal and beneficial owner of such Financed Leased Aircraft or Financed Leased Engine (each an "**Owned Asset**");
- take any and all actions necessary to procure that each Owned Asset not previously charged in accordance with Condition 3(d) is charged by way of a first ranking security in accordance with standard market practice in favour of (a) the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors and (b) if applicable, the Security Trustee as parallel debt creditor; and
- take certain other actions, including such action as is necessary to register or file or otherwise protect or perfect such Security, all in compliance with Condition 4(l).

Should the Issuer fail to take these steps, or should an Event of Default occur and the Security be enforced prior to some or all of the above-mentioned finance leases having expired, the Financed Leased Aircraft and Financed Leased Engines would not be subject to Security, which would decrease the total amount of Security available to the Bondholders to satisfy in full payments due on the Bonds. Further, the expiry dates of three of the Financed Leased Aircraft (with MSNs 55006, 55007 and 55008) fall within 74 days, 60 days and 25 days, respectively, of the Maturity Date of the Bond. As such, there can be no assurance that the Issuer will be able to establish the Security over such Financed Leased Aircraft prior to the Maturity Date of the Bonds.

15. The Financed Equipment, including the Financed Leased Aircraft and Financed Leased Engines do not form part of the Security for the Bonds at the Issue Date, and in the event of a loss, default or certain other circumstances may never do so

Timing

In respect of the Aircraft Additional Security, the Financed Leased Aircraft and Financed Leased Engines do not form part of the Security for the Bonds at the Issue Date, and instead will only form part of the Security for the Bonds once the Company can exercise its purchase option under the applicable finance leases. These dates fall from 28 November 2028 to 20 July 2029, in the case of the Axiom Aircraft, and from 15 December 2028 to 16 December 2028, in the case of the JALL Engines. Moreover, while the Company has undertaken to finalise the documentation necessary to establish the Security as soon as reasonably practicable following such date, there can be no assurance as to how long this may take. Bondholders will not have any right to claim against any asset prior to the date on which the Company exercises its purchase of such asset.

Total loss

In the event that any item of Financed Equipment, including the Financed Leased Aircraft and Financed Leased Engines, suffers a total loss, the leasing of the relevant Financed Equipment under that lease will terminate upon payment to the relevant party of the insurance proceeds relating to such Financed Equipment. The Company maintains insurance in a manner prudent and customary for its business but there are, however, certain losses that may not be covered by insurance and insurance proceeds may not compensate fully for losses incurred. If there is a complete or partial loss of any of the Security over the Financed Equipment, the insurance proceeds may not be sufficient to satisfy all of the Secured Liabilities. The occurrence of disasters, accidents or other events in connection with the Security over the Financed Equipment that are not covered by insurance may result in partial or total loss of its value and consequently the value of such Security may not be sufficient to fully repay the obligations under the Bonds. It is not possible to predict whether the events will be covered by insurance or, if so, if the insured amounts will be sufficient to satisfy in full all the obligations under the Bonds. The net insurance proceeds may be insufficient to discharge the outstanding principal amount under the relevant finance lease.

In such circumstances, (i) there will be no surplus proceeds with respect to such Financed Equipment available to the Security Trustee under the applicable Security Assignment and/or (ii) the Company will not be able to grant Security over the destroyed asset in favour of the Security Trustee and the Trustee in accordance with Condition 3(d) (*Additional Security*).

Event of default and the effect of cross-collateralisation

If a default, event of default, termination event or breach (as defined in the relevant documentation) is continuing under the applicable finance lease relating to a Financed Leased Aircraft or Financed Leased Engine, the terms of the applicable finance lease agreement provide that the Company is not permitted to exercise its purchase option with respect to the applicable equipment. Further, each finance lease also provides that the Company is not permitted to exercise its purchase option if a default, event of default, termination event or breach (howsoever described) is continuing under any lease or other agreement with which that lease is cross-defaulted (i.e., if there is a default under another specified agreement or category of agreements).

The financing agreements relating to the Financed Equipment contain cross-default events of default which means that there are a broad range of circumstances in which an event of default may occur. As at the date of this Prospectus, (a) the cross-default provisions in the leases for each of the Axiom Aircraft refer to each other Axiom Aircraft; and (b) the cross-default provisions in the leases for each of the JALL Engines refer to (i) each other JALL Engine, (ii) the JALL Aircraft, (iii) each Axiom Aircraft, (iv) any other financing by or involving the support of EDC for, or for the benefit of, the Company or any of its affiliates, and (v) any financing by or involving the support of an existing lender under the facility for the JALL Engines for, or for the benefit of, the Company or any of its affiliates.

In addition, the lease agreements relating to the Financed Equipment contain market standard cross-default provisions with respect to defaults on payment of general financial indebtedness of the Company (including the Bonds) and additionally, in the case of the JALL Equipment, other financings for the benefit of the Company that involve EDC.

There can be no assurances that the Company will at all times be able to comply with the terms of its leases. A failure to comply with these covenants and other undertakings could result in an event of default under the relevant agreements that, if not remedied or waived, could result in the relevant lessor or security trustee terminating the leasing of, and repossessing, the any or all of the Financed Equipment. In such circumstances, the relevant lessor or security trustee may exercise its rights to lease and/or sell the relevant Financed Equipment and to apply the proceeds from such actions against the obligations of the Company in accordance with the relevant leasing and financing documents as described above. Such proceeds may be insufficient to satisfy such obligations of the Company in full, in which case there will be no surplus proceeds with respect to the applicable Financed Equipment available to the Security Trustee under the applicable Security Assignment. Additionally, if the relevant lessor or security trustee exercises its rights to lease and/or sell the relevant Financed Equipment, the Company will not be able to comply with its covenant to exercise its purchase option with respect to the Financed Equipment and to grant Security over such Financed Equipment in accordance with Condition 3(d) (*Additional Security*).

The finance leases for the Financed Equipment also contain provisions with respect to cross-collateralisation, which is a concept which permits collateral for one debt to be used as collateral for another debt with the same creditor. As at the date of this Prospectus, the cross-collateralisation provisions in the leases for each item of Financed Equipment refer to (a) each other item of Financed Equipment, (b) any other financing by or involving the support of EDC for, or for the benefit of, the Company or any of its affiliates, and (c) any financing by or involving the support of an existing lender under the facility for the Financed Equipment for, or for the benefit of, the Company or any of its affiliates.

These cross-collateral provisions may have the effect of reducing the amount of surplus proceeds available to the Security Trustee under the Security Assignments as any surplus proceeds will first be applied against the cross-collateralised debt, and any other outstanding obligations described in the surplus proceeds provisions above, before any remaining surplus (if any) becomes available to the Security Trustee under the Security Assignments. In addition, these cross-collateral provisions may have the effect of reducing the collateral value of the remaining Financed Leased Aircraft and Financed Leased Engines where title to such equipment is to be transferred to the Lessee and subsequently secured in favour of the Security Trustee.

The cross-collateral provisions in the financing agreements relating to the Financed Equipment are fluid and allow for the automatic addition into such provisions of additional cross-collateralised debt involving EDC or an existing lender under the facility for the Financed Equipment for, or for the benefit of, the Company or any of its affiliates. If the Company enters into further financing transactions after the date of this Prospectus with such parties then those transactions will become cross-collateralised with the transactions relating to the Financed Equipment. If this happens this may have the effect of further reducing the amount of surplus proceeds available to the Security Trustee under the Security Assignments as described above. It is also likely that any additional Financed Leased Aircraft and Financed Leased Engines which the company leases following the Issue Date will contain similar cross-default and cross-collateral provisions to those described above, in which case the issues raised above will apply equally to such additional Financed Leased Aircraft and Financed Leased Engines.

16. Event of default – lessor or owner – Financed Equipment

Each item of Financed Equipment is financed under a "loan-lease" structure whereby title to the equipment is held in a special purpose vehicle and leased to the Company, or routed through an intermediate lessor which is also a special purpose vehicle and ultimately leased to the Company. These special purpose vehicles finance their acquisition of the equipment by way of a loan agreement entered into with certain lenders together with a security trustee and facility agent. Whilst, for the most part, the obligations of the borrower under the loan agreement are discharged by the performance by the Company of its obligations under the corresponding lease agreement, the loan agreement itself also contains events of default at the borrower level, most importantly relating to insolvency of the borrower. There can be no assurance that the relevant borrower will be able to comply with its obligations under the loan agreements. A failure to comply with these covenants and other undertakings could result in an event of default under the relevant agreements that, if not remedied or waived, could result in the relevant security trustee accelerating the loan and repossessing the any or all of the Financed Equipment.

The finance arrangements relating to the Financed Equipment which the Company leases as at the Issue Date contain mitigation and restructuring obligations with respect to an event of default at the borrower level which is not caused by an event of default of the Company. As such, in the event of an event of default at borrower level only, the Company may be able to restructure the transaction to avoid the termination of the leasing of such Financed Leased Aircraft and Finance Leased Engines. However, there can be no assurance that the relevant lenders and security trustee would agree to such a restructuring or to provide forbearance with respect to their enforcement actions in relation to those Financed Leased Aircraft and Financed Leased Engines.

In both such circumstances, the Company will not be able to comply with its covenant to exercise its purchase option with respect to such Financed Leased Aircraft and Financed Leased Engines and to grant security over such equipment in favour of the Security Trustee and the Trustee, which could prevent Bondholders from benefiting from the value of the Security over those Financed Leased Aircraft and Financed Leased Engines.

It is likely that any additional Financed Leased Aircraft and Financed Leased Engines which the company leases following the Issue Date will be financed under a similar "loan-lease" structure in which case the issues raised above will apply equally to such additional Financed Leased Aircraft and Financed Leased Engines.

17. The Finance Leased Aircraft and Finance Leased Engines are subject to engine pooling arrangements

The Company's lease agreements relating to its fleet of Airbus A220-300 aircraft and PW1521 spare engines, including the Financed Leased Aircraft and Financed Leased Engines, contain broad engine pooling rights permitting the Company to install any of its fleet of PW1521 engines on any of its fleet of Airbus A220-300 airframes. As a result, engines comprising the Financed Leased Aircraft and Financed Leased Engines may be installed on other airframes operated by the Company which are not secured in favour of the Security Trustee. Accordingly, the Security Trustee's rights and remedies in the event of enforcement of its security could be adversely affected by the owner of another airframe on which an engine comprising the Financed Leased Aircraft and Financed Leased Engines is installed not recognising the Company's ownership of such engine or the Security Trustee's security rights in such engine, or refusing to cooperate with the Company and/or the Security Trustee in the event of repossession of any of the Financed Leased Aircraft and Financed Leased Engines or the engine comprised thereby.

In addition, it may be necessary to conduct enforcement and repossession in multiple jurisdictions, depending on where such engines are installed across the fleet are used. The Security Trustee's rights and remedies in the event of enforcement of its security could therefore be significantly affected by the laws of the jurisdictions in which the Financed Leased Aircraft or any aircraft on which the Financed Leased Engines are used, as it may be more difficult (or, in some instances, impossible) as a practical or legal matter for the Security Trustee to enforce its rights and remedies against any Financed Leased Aircraft or Financed Leased Engine, depending on the jurisdiction.

As such, the Security Trustee may be limited in its ability to enforce its rights and remedies with respect to any particular engine. Any such difficulty in enforcing such rights, or in repossessing, and subsequently selling such engine, could diminish the collateral proceeds available to repay amounts outstanding under the Bond. In addition, such difficulty could reduce the amount of surplus proceeds available following such enforcement, with respect to the applicable Financed Equipment available to the Security Trustee under the applicable Security Assignment.

18. Risk related to Trust Deed

The Bondholders are represented by the Security Trustee in all matters relating to the Security. There is a risk the Security Trustee, or anyone appointed by it, does not properly fulfil its obligations in terms of perfecting, maintaining, enforcing or taking other necessary actions in relation to the Security. Subject to the terms of the Trust Deed, the Security Trustee is entitled to enter into agreements with a third-party or take any other actions necessary for the purpose of maintaining, releasing or enforcing the Security Trustee or for the purpose of settling, among others, the Bondholders rights to the Security.

19. The rights of the Bondholders depend on the Security Trustee's actions and financial standing

By subscribing for, or accepting the assignment of, any Bonds, each Bondholder will accept the appointment of the Security Trustee as the agent and representative of the Bondholders, to represent and act for such secured creditors, i.e., Bondholders, in relation to the Security.

Only the Security Trustee is entitled to exercise the rights under the Security and enforce the same. Any failure by an agent to perform its duties and obligations properly, or at all, may adversely affect the enforcement of the rights of the Bondholders due to, for example, inability to enforce the security and/or receive any or all amounts payable from the security in a timely and effective manner due to decisions of state courts in any jurisdiction.

USE OF PROCEEDS

The gross proceeds of the issue of the Bonds are expected to amount to approximately €340 million. The net proceeds of the issue of the Bonds are expected to be approximately €332 million, after deduction of base commissions of the Managers, estimated legal and accounting fees, listing costs, rating agency fees and other estimated issuance and advisory costs. The Company will, subject to receiving the issue proceeds, use the net proceeds of the issue of the Bonds to repay its outstanding Existing Bonds, to repay the State Loan, to pay accrued unpaid interest and other costs in relation to the Existing Bonds and State Loan, and to support its current liquidity requirements and for future fleet expansion in line with the approved business plan.

On 29 April 2024, the Issuer issued a notice to the holders of the Existing Bonds that the Existing Bonds are to be redeemed in accordance with condition 5(c) of the terms and conditions of the Existing Bonds on 30 May 2024 (as corrected) (such date being the date that is not less than 30 days following such notice) at 101.6875% of their principal amount plus accrued and unpaid interest, if any, to the date of redemption.

On or before the Issue Date, the Issuer will enter into the Escrow Agreement with, among others, the Escrow Agent and the Trustee. Pursuant to the Escrow Agreement, (i) on the Issue Date, the Issuer will or will procure that the proceeds of the issue of the Bonds will be deposited into a segregated trust account opened with the Escrow Agent, (ii) the Escrow Agent will, on or around the Issue Date, pay an amount required to repay the State Loan to the relevant account held with the Latvian Treasury before the due date for repayment of the State Loan, (iii) the Issuer has agreed that the amount required in order to redeem the Existing Bonds will be released from escrow and paid to the clearing systems in which the Existing Bonds are held on or before the due date for their redemption, (iv) the Issuer will, or will procure that, an amount of cash is transferred to the Bonds Service Reserve Account from the escrow account equal to the then applicable Required Balance, and (v) any remaining amount will be paid to the order of the Issuer.

DESCRIPTION OF THE SECURITY

The following summary of the Issue Date Security, the Longstop Date Security (each as defined in the Conditions) and the Additional Security is provided solely for convenience, is not intended to be complete and is qualified in its entirety by reference to the full text and more detailed information contained elsewhere in this Prospectus, including the Appraisals, and any relevant Security Documents.

Overview

The Bonds and the other Secured Liabilities (as defined in the Trust Deed) will be secured pursuant to, and on the terms of, the Conditions, the Trust Deed and the other Security Documents in favour of (i) the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors (as defined in the Conditions) and (ii) if applicable, the Security Trustee as parallel debt creditor (as more particularly described below).

The Security shall comprise:

- upon issue of the Bonds, but before the Security Longstop Date: the Issue Date Security, being certain fixed assets, inventory including spare parts, certain listed assets, shares in the Company's subsidiaries, certain real estate, the Surplus Proceeds Collateral (as defined below), and the Bonds Service Reserve Account (as defined in the Conditions), as set out in the Conditions and described in further detail below;
- on or before the Security Longstop Date: the Longstop Date Security, being further collateral currently subject to other financing arrangements (see *"Use of Proceeds"*) consisting of certain trademarks, certain real estate and receivables, each as set out in the Conditions and described in further detail below; and
- at the time required by Condition 3(d) (*Additional Security*), the Security over (a) any applicable Owned Asset as required by Condition 3(d)(i)(II) and (b) any applicable New Trademarks as required by Condition 3(d)(ii)(x),

in each case as more particularly described under "*Terms and Conditions of the Bonds – Condition 3 (Security)*".

Further, the Security (as defined in the Conditions) will be secured in accordance with Latvian law, English law or Irish law, as applicable. See below and the section entitled "*Risk Factors*", in particular the risk factors entitled "*Risk Factors - Enforcement of the Security may be subject to legal and practical limitations*" and "*Risk Factors - The Security over the Secured Property will be granted to the Security Trustee rather than directly to Bondholders. A parallel debt structure has not been tested in Latvian Courts for further information*".

Parallel Debt

The Security to be secured under Latvian law will be secured using a parallel debt arrangement whereby the Issuer undertakes an additional obligation to pay the Security Trustee amounts equal to any amounts owing from time to time by it to any Secured Creditor under the Bonds, the Trust Deed, the other Security Documents and the other Transaction Documents as and when those amounts are due.

The Bondholders have no rights to act with the Latvian law-secured Security directly otherwise than prescribed in the Trust Deed. Taking into consideration that the Latvian law-secured Security will secure a parallel debt arrangement and not the Bonds directly under Latvian law, including applicable insolvency law, the Bondholders will not be regarded as secured creditors of the Issuer, but instead the Security Trustee acting for the benefit and in the interests of the Bondholders will be treated as the secured creditor of the Issuer. See further "*—The Security over the Secured Property will be granted to the Security Trustee rather than directly to Bondholders. A parallel debt structure has not been tested in the Latvian Courts*".

Issue Date Security

1. Fixed Assets, including aircraft maintenance tools and equipment

A first priority security interest in the form of a Latvian law commercial pledge registered with the Commercial Pledge Register over certain fixed assets as a pool of assets at the time of pledging as well as future components of such pool of assets. The commercial pledge will be established over fixed assets owned by the Issuer and recorded in the Issuer's books as "Fixtures and Fittings" (except for the leasehold investments) and "Aircraft Equipment" (except for the aircraft engines and heavy maintenance capitalized costs) as a pool of assets at the time of pledging as well as future components of such pool of assets. The Issuer will be allowed to use, transfer and alienate the fixed assets in its day-to-day operations, subject to certain disposal restrictions as provided in the Conditions, the Trust Deed and the relevant Security Document, as applicable. When the Issuer acquires any new fixed assets that are recorded in the Issuer's books as either "Fixtures and Fittings" (except for the leasehold investments) or "Aircraft Equipment" (except for the aircraft engines and heavy maintenance capitalized costs), the commercial pledge will automatically also cover such new assets. The commercial pledge only covers assets owned by the Company, not third parties. The commercial pledge over fixed assets does not cover certain fixed assets, title to which pursuant to Latvian law has to be recorded in a special registry maintained by Latvian authorities such as vehicles and aircraft.

The fixed assets subject to the commercial pledge include data processing equipment (computers, monitors, printers), office and ground equipment, aircraft maintenance tools, aircraft equipment (rotable). The data processing equipment included in the collateral consists of computers, monitors, printers, servers, data centre infrastructure and similar items purchased and belonging to the Issuer, with a remaining useful life longer than the manufacturer's warranties evaluated based on a systemic approach and relying on prior experience of asset reliability and effective maintenance practices. The useful life of an asset is determined through a combination of factors including industry standards, physical assessment, technological obsolescence, and economic viability. For specific assets, e.g. buildings, simulators, the useful life is determined on an individual basis, taking into account the expected characteristics of the asset. When considering groups of assets, such as computers, data processing equipment, office and ground equipment, aircraft maintenance tools, aircraft equipment, the Company adopts a systematic approach to determine the useful life of an entire asset category with similar usage patterns. Useful life often exceeds the manufacturer's warranty period because of prior experience of asset reliability and effective maintenance practices.

The office and ground equipment included in the collateral consists of office equipment and facilities, i.e., furniture, communication facilities, video cameras, inflight service equipment, all purchased and belonging to the Issuer, with useful life longer than the manufacturer's warranties.

Aircraft maintenance tools included in the collateral are aircraft tools and equipment used in aircraft technical maintenance, as well as tools and equipment used in workshops for aircraft components maintenance: hand, power and diagnostic tools, lubrication equipment, testing and measurement instruments, safety equipment etc., which have been purchased and belong to the Issuer.

The aircraft equipment included in the collateral consists of rotable aircraft equipment, meaning parts that wear over time and can be economically restored to a serviceable condition and, in the normal course of operations, can be repeatedly reconditioned to a fully serviceable condition over a period approximating the life of the flight equipment to which they are related. Examples include avionics units, landing gear, auxiliary power units and major engine accessories.

The commercial pledge over fixed assets extends to the assets that are located in Latvia at the time the pledge is being established or, in respect of the assets acquired after the commercial pledge has been established at the time the respective asset is acquired by the Issuer. The commercial pledge will also attach to the assets that are located abroad, if and when those assets are brought into Latvia. In this case, however, the commercial pledge over the asset may have a lower priority of enforcement in light of any security that may have been established over the asset while abroad.

The Maximum Amount, as defined below, in respect of the commercial pledge over each of the fixed assets, as described above, the inventory and the Airbus A220 Level D full flight simulator, as described below, will be 130% of the aggregate principal amount of the Bonds at the time of establishment of this pledge.

2. Inventory including spare parts

A first priority security interest in the form of a Latvian law commercial pledge registered with the Commercial Pledge Register over inventory as a pool of assets at the time of pledging as well as future components of such pool of assets. It means that the commercial pledge will be established over all inventory owned by the Issuer as a pool of assets at the time of pledging as well as future components of such pool of assets. The Issuer will be allowed to use, transfer and alienate the inventory in its day-to-day operations, subject to certain disposal restrictions as provided in the Conditions, the Trust Deed and the relevant Security Document, as applicable. When the Issuer acquires any new inventory, the commercial pledge will automatically also cover such new inventory. The commercial pledge does not cover assets owned by third persons, but only those owned by the Issuer.

The inventory subject to the commercial pledge includes all assets recorded in the Issuer's books as "Inventory", consisting principally of aircraft spare parts and uniforms for flight deck and ground staff, including:

- aircraft spare parts, which consist of new parts used for the maintenance of aircraft if installed parts cannot be repaired or salvaged; and
- uniforms of flight deck and ground staff, which consist of flight crew, cabin crew and technical department uniforms (textile clothes, suitcases, shoes) in the Issuer's stock (purchased and belonging to the Issuer until the moment they are handed over to an employee).

The commercial pledge over inventory extends to inventory that is located in Latvia at the time the pledge is being established or, in respect of inventory acquired after the commercial pledge has been established at the time the respective inventory is acquired by the Issuer. The commercial pledge will also attach to the inventory that is located abroad, if and when this inventory is brought into Latvia. In this case, however, the commercial pledge over the inventory may have a lower priority of enforcement as any security that may have been established over the inventory while abroad.

The Maximum Amount in respect of the commercial pledge over each of the inventory, the fixed assets, as described above, and the Airbus A220 Level D full flight simulator, as described below, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

3. Listed Assets – Airbus A220 Level D full flight simulator

A first priority security interest in the form of a Latvian Law commercial pledge registered with the Commercial Pledge Register over a list of certain specific assets owned by the Issuer. It means that the commercial pledge will be established over the specific assets and the Issuer will not be allowed to transfer or alienate the listed assets during the validity of the commercial pledge without the consent of the Security Trustee. There is no automatic extension of the commercial pledge over any new assets acquired by the Issuer; amendments to the commercial pledge will need to be done to include additional assets under the commercial pledge.

As of the date of this Prospectus, the listed assets consist of one Airbus A220 Level D full flight simulator. It is a fully equipped simulator that has been qualified in accordance with the latest EASA (European Aviation Safety Agency) CS-FSTD (A) issue 2 requirements, including best precision navigation PBN (performance-based navigation) and UPRT (upset prevention and recovery training) capabilities. It is equipped with a 60” Stroke Electric Motion System as well as the most modern visual system, consisting of four-megapixel LED Projector systems and dual head-up displays. The data package and software related to the flight simulator are not included in the Security.

The Maximum Amount in respect of the commercial pledge over each of the Airbus A220 Level D full flight simulator, the fixed assets and the inventory, as described above, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

4. Shares – "Air Baltic Training", SIA and "BALTIJAS KRAVU CENTRS” SIA

A first priority security interest in the form of a Latvian law commercial pledge registered with the Commercial Pledge Register over all shares held by the Issuer in its Subsidiaries. If the Issuer acquires any new shares in the Subsidiaries, the Security Trustee will have a contractual right to require perfection of the pledge over those additional shares. For that purpose amendments to the commercial pledge will have to be registered with the register of commercial pledges in order to properly perfect the pledge over the new shares under the commercial pledge. The commercial pledge over the shares includes the right to accrued dividends and other distributions in respect of the capital. The commercial pledge over the shares in the Subsidiaries does not restrict the Subsidiaries from acting freely in relation to their assets.

The Maximum Amount in respect of the commercial pledge over the shares in the Subsidiaries, as described above, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

5. Real Estate at Riga International Airport – BA Hangar and Training Centre (defined in the Conditions)

A first priority security interest in the form of a Latvian law mortgage registered with the Land Book Register over the following real estate owned by the Issuer – the BA Hangar and Training Centre in Mārupes pagasts, Latvia. The buildings are located within Riga International Airport on the land plot owned by the state joint stock company “Starptautiskā Lidosta “Rīga”, the operator of Riga International Airport. The Issuer has entered into long-term lease agreements with the state joint stock company “Starptautiskā Lidosta “Rīga exceeding the Maturity Date of the Bonds in relation to the land plots on which the buildings subject to the mortgage are located.

Pursuant to Latvian law, a legally valid title to a building may exist separately and independently from the title to the land on which the building has been built if the building has been constructed pursuant to a valid right of lease of the underlying land. The title to the building is not perpetual and is limited to the duration of the right of lease. On expiry or termination of the right of lease, depending on the terms of the contract, the building becomes a legal and inseparable part of the land on which it has been built or has to be demolished. The duration of the Issuer’s title to the buildings mortgaged in favour of the Security Trustee expires on 30 August 2054 in respect of the Training Centre and on 20 May 2029 in respect of the BA Hangar. The lease agreement in respect of the BA Hangar cannot be extended by its own terms and, at the expiry of this lease, Riga International Airport has the discretion to require demolition of the BA Hangar.

The Maximum Amount in respect of the mortgage over each of the BA Hangar and the Training Centre, as described above, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

6. Real Estate at Liepāja Airport – Pilot Academy Hangar (defined in the Conditions)

A first priority security interest in the form of a Latvian law mortgage registered with the Land Book Register will be granted over the rights of superficies concerning real estate owned by the Company's subsidiary Air Baltic Training consisting of the Pilot Academy Hangar in Grobiņa parish adjacent to city of Liepāja. The building is located on the land owned by "Aviasabiedrība "Liepāja", the operator of Liepaja Airport. Air Baltic Training has entered into a long-term right of superficies agreement with "Aviasabiedrība "Liepāja" exceeding the Maturity Date in relation to the land plot on which the building subject to the mortgage is located. Under the Latvian law, right of superficies is a transferable legal right (right in rem) to build buildings or other constructions on the land owned by a third party with a right of ownership to the buildings and constructions built pursuant to that right for the duration of the right of superficies. Legally, a mortgage is established on the right of superficies rather than the buildings and constructions built pursuant to that right.

Pursuant to Latvian law, a legally valid title to a building may exist separately and independently from the title to the land on which the building has been built if the building has been constructed pursuant to a valid right of superficies attached to the underlying land. The title to the building is not perpetual and is limited to the duration of the right of superficies. On expiry or termination of right of superficies, depending on the terms of the contract, the building becomes a legal and inseparable part of the land on which it has been built or has to be demolished. The duration of the Air Baltic Training's title to the building mortgaged in favour of the Security Trustee exceed the Maturity Date of the Bonds.

The Maximum Amount in respect of the mortgage over the Pilot Academy Hangar, as described above, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

7. Listed Assets of Air Baltic Training – training simulator DA40NG/DA421V

A first priority security interest in the form of a Latvian Law commercial pledge registered with the Commercial Pledge Register over a list of certain specific assets. It means that the commercial pledge will be established over the specific assets and Air Baltic Training will not be allowed to transfer or alienate the listed assets during the validity of the commercial pledge without the consent of the Security Trustee. There is no automatic extension of the commercial pledge over any new assets acquired by the Air Baltic Training; amendments to the commercial pledge will need to be done to include additional assets under the commercial pledge.

As of the date of this Prospectus, the listed assets of Air Baltic Training consist of one training simulator DA40NG/DA42IV.

The training simulator included in the collateral is the convertible DA40NG/42IV simulator with all the same avionics as an aircraft to have similarities for training needs and which is certified according for FSTD standards (qualification level FNPT II). The training simulator has the following technical characteristics: Visual system – DSIM Global Canvas, three channel cylindrical, 200 degree x 35 degree field of view; Engine fit – Generic Single/Multi Engine Piston based on AE 300, integrated avionics Garmin 1000 Nxi GPS; Instrument fit – NAV (with GDU Firmware version 1916.01, SBAS (WAAS/EGNOS), GFC700 AFCS)).

The Maximum Amount in respect of the commercial pledge over the training simulator DA40NG/DA42IV of Air Baltic Training, as described above, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

8. Bonds Service Reserve Account

An Irish law first fixed charge in favour of the Security Trustee over the balances from time to time standing to the credit of the Bonds Service Reserve Account and an assignment by way of security in favour of the Security Trustee of the Issuer's rights, title and interest to and in respect of the Account Bank Agreement.

9. Surplus Proceeds – Financed Equipment

As at the date of this Prospectus, the Company is leasing (or subleasing, as applicable) the aircraft and engines detailed below on terms whereby the Company has the right, pursuant to the provisions of the applicable lease agreement and/or financing documents, to receive any surplus proceeds remaining after enforcement by the relevant lessor and/or financiers of their rights under the applicable lease agreement and/or financing documents following an event of default or termination event (howsoever defined) thereunder:

1. seven Airbus A220-300 aircraft each together with two Pratt & Whitney PW1521G-3 engines, currently owned by Lidmasinas Leasing Limited, leased to Axiom Baltic Services Ltd. ("**Axiom**") and subleased to the Company and subject to a first ranking mortgage in favour of Export Development Canada ("**EDC**") (together, the "**Axiom Aircraft**");

2. one Airbus A220-300 aircraft together with two Pratt & Whitney PW1521G-3 engines currently owned by Jet Aircraft Leasing Limited ("**JALL**") and leased to the Company and subject to a first ranking mortgage in favour of EDC (the "**JALL Aircraft**") and

3. seven Pratt & Whitney PW1521G-3 engines currently owned by JALL and leased to the Company and subject to a first ranking mortgage in favour of EDC (together, the "**JALL Engines**"),

(the JALL Aircraft and the JALL Engines are together referred to as the "**JALL Equipment**" and the Axiom Aircraft, the JALL Aircraft and the JALL Engines are together referred to as the "**Financed Equipment**").

See the section entitled "Appraisals" below for information regarding the value of the Financed Equipment. As at the date of this Prospectus, the remaining payments due to the mortgagee are as follows:

Aircraft outstanding lease payment summary

Date	**Total (EUR million)**
Dec-23	140
Dec-24	114
Dec-25	87
Dec-26	61
Dec-27	35
Dec-28	9
Dec-29	0

Note: The outstanding lease payments of aircraft leased from Axiom are valued in EUR using an exchange rate of EUR 1 = U.S.$1.105

Engine outstanding lease payment summary

Date	**Total (EUR million)**
Dec-23	**26**
Dec-24	**22**
Dec-25	**18**
Dec-26	**13**
Dec-27	**9**
Dec-28	**4**
Dec-29	**1**
Dec-30	**0**
Dec-31	**0**

Condition 3(b) (*Security Interests*) outlines that, upon issue of the Bonds, but before the Security Longstop Date, as Security for the Secured Liabilities, the Security will, among other things (as more particularly described in Condition 3(b) (*Security Interests*)), comprise:

1. seven English law governed security assignments granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to each of the seven Axiom Aircraft;

2. an English law governed security assignment granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to the JALL Engines; and

3. an English law governed security assignment granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to the JALL Aircraft,

(together, the "**Security Assignments**" and each a "**Security Assignment**").

Under the terms of the leases and other financing documents with respect to the Financed Equipment, the Issuer requires consent from the lessor and the other finance parties to assign any of its rights (including the right to receive surplus proceeds proposed to be assigned pursuant to the Security Assignments) under those leases and other financing documents. Accordingly, under each Security Assignment, it is proposed that (i) a notice of assignment will be executed by the Issuer and the Security Trustee and sent to each relevant lessor and financing party to, among other things, notify them of the assignment of rights to receive surplus proceeds, to set out the terms on which the Security Trustee may enforce those rights following the delivery of an Acceleration Notice by the Trustee under the Conditions and the Trust Deed and to seek their consent to the assignment, and (ii) an acknowledgement of assignment will be executed by each relevant lessor and financing party and sent to the Issuer and the Security Trustee to confirm, among other things, their consent to the assignment by the Issuer of certain of its rights under the applicable lease(s) and/or other financing documents and their agreement to the terms of the notice of assignment.

Following the delivery of an Acceleration Notice by the Trustee under the Conditions, the notice of assignment to be issued under each Security Assignment provides that, among other things: (a) the Issuer will be entitled to exercise any and all of its rights with respect to the rights assigned under the relevant Security Assignment unless and until the Security Trustee delivers to the relevant lessor and financing party a written notice stating that the security constituted by the Security Assignment has become enforceable (a "**Security Assignment Enforcement Notice**"), (b) with effect from the time at which the relevant lessor and financing party receives such Security Assignment Enforcement Notice from the Security Trustee that (i) all moneys that may be payable to the Issuer with respect to the rights assigned under the relevant Security Assignment shall be paid to such account as may be designated in such Security Assignment Enforcement Notice (or as the Security Trustee may otherwise designate from time to time); (ii) any and all rights of the Issuer with respect to the rights assigned under the relevant Security Assignment will be exercisable by the Security Trustee subject to and in accordance with the terms of the relevant underlying lease and/or financing document; and (iii) the relevant lessor and financing party will perform all of their respective obligations to the Issuer with respect to the rights assigned under the relevant Security Assignment in favour of and for the benefit of the Security Trustee, subject to and in accordance with the terms of the relevant underlying lease and/or financing document.

Surplus proceeds provisions with respect to the Axiom Aircraft

Under the lease agreement for each Axiom Aircraft, if a termination event (as defined therein) occurs and is continuing, Axiom may, among other things, if the Issuer fails to pay the applicable termination sum together with any other amounts due and payable by it within ten (10) business days of Axiom's demand, terminate the leasing of the applicable Axiom Aircraft and/or sell the applicable Axiom Aircraft to a third party on such terms as it shall think fit. Pending any sale Axiom is free to lease the applicable Axiom Aircraft to any person on operating lease terms. Axiom is required to apply the Net Sale Proceeds (as defined below) and any proceeds from leasing the applicable Axiom Aircraft as follows: (i) firstly, in or towards settlement of any rent and all other amounts owing by the Issuer to Axiom, the relevant owner and the financing parties, under the relevant leasing and financing documents for the applicable Axiom Aircraft and for each other Axiom Aircraft, (ii) secondly, if the Issuer shall on or before the date of application of the Net Sale Proceeds by Axiom have paid the relevant termination sum, or a part thereof, in or towards refunding by way of rebate of rent to the Issuer the amount of the termination sum or part thereof so paid by the Issuer, and (iii) thirdly to the Issuer. In this paragraph, "Net Sale Proceeds" means, in relation to a sale of the applicable Axiom Aircraft, the amount actually received and retained by the relevant owner or the security agent, as applicable, from a purchaser of the applicable Axiom Aircraft after deducting the relevant owner's, Axiom's and the security agent's expenses in connection with such sale including, without limitation and without duplication, (where applicable) broker's commissions, the relevant owner's Axiom's and security agent's marketing expenses, legal costs, all charges levied by EASA, Eurocontrol or any other navigation, landing, airport or similar charges or other taxes or duties relating to the use and operation of aircraft, parking and storage costs, insurance premiums, stamp duties, other taxes, registration fees and any expenses relating to the maintenance, overhaul or repair of the applicable Axiom Aircraft incurred to preserve the applicable Axiom Aircraft in, or to restore the applicable Axiom Aircraft to, the condition required by the lease or pursuant to the provisions of any sale and purchase agreement in respect of the sale of the applicable Axiom Aircraft.

Surplus proceeds provisions with respect to the JALL Equipment

Under the lease agreements and the financing documents for the JALL Equipment, if an event of default (as defined therein) occurs and is continuing, JALL and/or EDC (or EDC acting as assignee of JALL with respect to the lease agreements) may, among other things, if the Issuer fails to pay the applicable termination sum together with any other amounts due and payable by it, terminate the leasing of the applicable JALL Equipment and/or enforce the security over the applicable JALL Equipment. The security includes various market standard rights available to mortgagees including, among other things the rights to (i) repair and keep in repair the applicable JALL Equipment, to carry out such maintenance work and modifications as may be required or desirable for the applicable JALL Equipment, and generally to preserve and protect the applicable JALL Equipment and keep the same free from any security interest, (ii) lease or charter the applicable JALL Equipment at such rents and generally in such manner and upon such conditions as EDC in its absolute discretion deems expedient, (iii) sell and give good title to the applicable JALL Equipment with or without notice to JALL, and with or without the benefit of any lease or charter, by public auction or private contract at such place and upon such terms as EDC in its absolute discretion may determine with power to postpone any such sale and without being answerable for any loss occasioned by such sale or resulting from the postponement thereof, and (iv) in relation to any of the foregoing, to do all acts and things incidental or conducive thereto and, in particular, to enter into such arrangements in respect of the applicable JALL Equipment, its repair, insurance and employment in all respects as if EDC were the owner of the applicable JALL Equipment. The financing documents require that any proceeds received by any party as a result of enforcement of any security (including sale proceeds or lease proceeds) or any other amounts received or recovered under the applicable transaction documents are to be paid to EDC for application in accordance with a proceeds deed and applied as follows: (i) firstly, in or towards payment of any costs and expenses duly incurred by the agent or security trustee under or in connection with the transaction documents (ii) secondly, in or towards payment to each finance party of any fees due but unpaid under the transaction documents; (c) thirdly, in or towards payment to each lender of any interest (including default interest) due but unpaid under the transaction documents; (d) fourthly, in or towards payment to each lender of any principal due but unpaid under the transaction documents; (e) fifthly, in or towards payment to each lender, pro rata, of any break costs or make-whole amount due but unpaid under the transaction documents; (f) sixthly, in or towards payment to each finance party of any other amounts due but unpaid pursuant to any transaction document; (g) seventhly, in or towards payment to EDC of amounts constituting secured obligations and due but unpaid under any other financing by or involving the support of EDC for, or for the benefit of, the Company or any of its affiliates (including the transactions for the Axiom Aircraft and for each other JALL Equipment); (h) eighthly, in or towards payment to JALL (or other person entitled thereto) of amounts owing to it under the transaction documents (to the extent not already paid or deemed to have been paid); and (i) ninthly, any balance to be paid to the Issuer (or other person entitled thereto).

Longstop Date Security

As of the date of this Prospectus, the following Security secures the Issuer's loan of €36.1 million from the Government of Latvia, which upon repayment from the proceeds of the issue of the Bonds, please see "*Use of Proceeds*", will be released and the Issuer has undertaken in the Conditions to secure such assets to grant the Longstop Date Security within 60 calendar days from the Issue Date.

1. Real Estate at Riga International Airport – MRO Konkors (defined in the Conditions)

A first priority security interest in the form of a Latvian law mortgage registered with the Land Book Register over an aircraft technical servicing hangar owned by the Issuer. The building is located within Riga International Airport on the land plot owned by the state joint stock company "Starptautiskā Lidosta "Rīga". The Issuer has entered into long-term lease agreement exceeding the Maturity Date in relation to the land plot on which the building subject to the mortgage is located.

The Maximum Amount in respect of the mortgage over the MRO Konkors Hangar, as described above, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

2. Receivables

A first priority security interest in the form of a Latvian law commercial pledge registered with the Commercial Pledge Register over receivables as a pool of assets at the time of pledging as well as future components of such pool of assets. The commercial pledge will be established over all receivables owned by the Issuer as a pool of assets at the time of the pledging as well as future components of such pool of assets. The Issuer will be permitted to transact with the receivables in its day-to-day operations subject to certain disposal restrictions as provided in the Conditions. When the Issuer incurs or acquires any new receivables, the commercial pledge will automatically also cover such new receivables. The commercial pledge over receivables does not cover financial instruments recorded in the financial instruments accounts, deposits in banks, credit institutions, and similar deposit services providers, claims for the funds credited to accounts with financial institutions, claims arising from cheques or bills of exchange receivables that are non-assignable or non-transferable pursuant to their terms or the applicable law, as well as receivables that may not be pledged pursuant to their terms, the applicable law or the case law of the Latvian courts, as well as the insurance claims and insurance indemnities pertaining to assets subject to Security under any other Security Document.

The receivables are primarily composed of the receivables recorded by the Issuer in its books as "trade and other receivables" including loans issued to Pilot Academy students, non-current security deposits, security deposits to credit card acquirers, trade receivables, and accrued revenue:

- The loans issued to Pilot Academy students included in the collateral are loans issued by the Issuer to the students of Air Baltic Training to obtain a license for aircraft Type Rating of Airbus A220-300 in accordance with the EASA and EU-OPS requirements and Airbus training programs.
- The non-current security deposits included in the collateral are security deposits made by the Issuer to the airports and aircraft lessors. The security deposits to airports are deposit payments made to the airports from which the Issuer receives certain services, e.g., ground handling services. In case the agreement is terminated or conditions for termination of co-operation set in, e.g., seasonality of co-operation, the Issuer has a right of claim towards the return of the deposit payment.
- The security deposits to aircraft lessors are deposit payments made to the lessor and, if the Issuer fails to make certain payments according to the respective lease agreements, the lessor may use the deposits to offset these losses. Otherwise, after settlement of all liabilities the lessor is obliged to return the deposits to the Issuer.

- The security deposits to credit card acquirers included in the collateral are deposits paid to credit card acquirers in connection with the acquiring services provided by them as security for the performance of the Issuer’s obligations to certain customers (passengers) acquiring the Issuer's services by use of credit cards.
- Trade receivables included in the collateral include receivables for future services – tickets sold to future flights and charter flights, receivables of the services rendered (marketing, advertising, aircraft wet lease (ACMI), freight, training to obtain professional skills in the aviation services) and other receivables incurred in the ordinary course of business of the Issuer.
- The accrued revenue represents the receivables which have been incurred but have not yet been invoiced by the Issuer.

In addition to the above, the receivables pledged under the commercial pledge would include various business related receivables as may be incurred by the Issuer from time to time which are assignable or transferable in accordance with their terms or pursuant to the applicable law, including monetary indemnities, sums awarded in legal disputes or arbitration, certain claims for breach of contract or infringement claims, and similar.

The Maximum Amount in respect of the commercial pledge over each of the receivables, as described above, and the trademarks as described below, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

3. Trademarks

A first priority security interest in the form of a Latvian law commercial pledge over the national, international and European Union trademarks owned by Issuer and registered in Latvia or with the European Union Intellectual Property Office (the "**EUIPO**") or the World Intellectual Property Organization (the “**WIPO**”). The commercial pledge will be established over the specific, identified trademarks. The Issuer will not be allowed to transfer or alienate the listed trademarks during the validity of the commercial pledge without the consent of the Security Trustee. The commercial pledge over the trademarks registered in Latvia must be registered in the commercial pledges register of Latvia and recorded with the Latvian Patent Office. The pledge over the European Union trademarks must be recorded with EUIPO. The pledge over the international trademark must be recorded with WIPO. There is no automatic extension of the commercial pledge or EUIPO registration over any New Trademarks acquired by the Issuer If any New Trademarks are acquired or registered by the Issuer, they will be subject to the Security in favour of the Security Trustee by way of an amendment to the existing commercial pledge and an additional registration of the security in the Commercial Pledge Register or EUIPO.

The Maximum Amount in respect of the commercial pledge over each of the trademarks and the receivables, as described above, will be 130% of the principal amount of the Bonds at the time of establishment of this pledge.

Additional Security

Aircraft Additional Security

Condition 3(d)(i) (*Additional Security*) outlines that, upon the expiry or early termination of the relevant term of the finance lease in respect of a Financed Leased Aircraft or Financed Leased Engine, the Issuer undertakes that it shall, as soon as reasonably practicable, take certain actions, the result of which will be to charge by way of a first ranking security, in accordance with standard market practice, such Financed Leased Aircraft or Financed Leased Engine, as applicable, in favour of (a) the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors and (b) the Security Trustee as parallel debt creditor.

For the purposes of Condition 3(d) (*Additional Security*), “Financed Leased Aircraft” and “Financed Leased Engines” means all present and future aircraft and engines leased or, as the case may be, subleased by the Company on terms whereby the Company has the right to acquire title to the relevant asset under the terms of the relevant lease. As at the date of this Prospectus the eligible aircraft and engines consist of:

1. six Airbus A220-300 aircraft each together with two Pratt & Whitney PW1521G-3 engines, currently owned by Lidmasinas Leasing Limited, leased to Axiom and subleased to the Company and subject to a first ranking mortgage in favour of EDC, with scheduled lease expiry dates of 28 November 2028 (MSN 55003), 30 December 2028 (MSN 55004), 31 March 2029 (MSN 55005), 1 June 2029 (MSN 55006), 15 June 2029 (MSN 55007) and 20 July 2029 (MSN 55008) (together, the “**Eligible Axiom Aircraft**”); and

2. two Pratt & Whitney PW1521G-3 engines currently owned by Jet Aircraft Leasing Limited (“**JALL**”) and leased to the Company and subject to a first ranking mortgage in favour of EDC, with scheduled expiry dates of 15 December 2028 (P736291) and 16 December 2028 (P736294) (together, the “**Eligible JALL Engines**”).

Aircraft Additional Security – The Eligible Axiom Aircraft purchase option

As at the date of this Prospectus, under the finance lease agreements relating to each Eligible Axiom Aircraft, the Company is, provided (i) no termination event or relevant insolvency event (each as defined in the relevant lease agreement) has occurred and is continuing, or (ii) no termination event under any other cross-defaulted lease with Axiom has occurred and is continuing, entitled to take title to the applicable Eligible Axiom Aircraft, as applicable, at the end of the lease term, upon payment of a nominal option price of U.S.$1. Upon exercise of the option, Axiom is obliged to (a) procure that the owner of the relevant aircraft shall transfer to the Company such title in and to the relevant Eligible Axiom Aircraft as the owner acquired from the manufacturer free of security created by or through Axiom or the owner but otherwise in "as is" and "where is" condition and without recourse to, or any warranty or representation whatsoever, and (b) Axiom shall procure that the owner of the relevant aircraft shall deliver a bill of sale for the applicable Eligible Axiom Aircraft to the Company in form and substance acceptable to the owner of the relevant aircraft and the Company.

Aircraft Additional Security - The Eligible JALL Engines purchase option

Under the finance lease agreements relating to each Eligible JALL Engine, the Company is, provided (i) no default or event of default (each as defined in the relevant lease agreement) is continuing, or (ii) no default under any other cross-defaulted facility with EDC (including the leases for all Axiom Aircraft, the JALL Aircraft and each other JALL Engine (as described under "*Surplus Proceeds – Financed Equipment*" above)) is continuing, entitled to take title to the applicable Eligible JALL Engine, at the end of the lease term, upon payment of a nominal option price of U.S.$10. Upon exercise of the option, JALL is obliged to (a) transfer such title as it then holds in and to the applicable Eligible JALL Engine to the Company on an “as-is, where-is” basis without recourse or warranty (except the absence of security interests created by or through JALL) and (b) execute such documents as the Company may reasonably request to ensure that such legal and beneficial title vests in the Company. Under each all parties agreement between the Company, EDC and JALL with respect to the Eligible JALL Engines, concurrently with the exercise by the Company of its purchase option with respect to, among other things, an Eligible JALL Engine, and provided (i) no default or event of default (each as defined in the relevant lease agreement) is continuing, or (ii) no default under any other cross-defaulted facility with EDC (including the leases for all Axiom Aircraft, the JALL Aircraft and each other JALL Engine (as described under "*Surplus Proceeds – Financed Equipment*" above)) is continuing, EDC and JALL each undertakes to the Company to promptly release, discharge and/or reassign (as applicable) the security interests constituted in their favour by the security documents which relate to the existing leasing arrangements in respect of the relevant Eligible JALL Engine.

New Trademarks

Further, Condition 3(d)(ii)(x) provides that after any New Trademark is acquired or registered in Latvia or with EUIPO or WIPO by the Issuer or its Subsidiaries at any time after the Security Longstop Date, the Issuer undertakes that it shall, as soon as reasonably practicable, take certain actions for such trademark to be charged by way of a first ranking Latvian law governed registered commercial pledge over that trademark is granted in favour of (i) the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors and (ii) if applicable, the Security Trustee as parallel debt creditor in accordance with or on similar terms to the terms to those set out in paragraph 3. *Trademarks* of "*Longstop Date Security*" above, all in accordance with Condition 3(d)(ii)(x).

Appraisals

Latio SIA ("**Latio**"), an independent appraisal and consulting firm, has prepared appraisals of the following assets:

i. valuation of the BA Hangar *(real estate for buildings "Aircraft maintenance hangar, Marupe municipality, Marupe region, LV-1053")* dated 20 March 2024;
ii. valuation of the right of development for the Pilot Academy Hangar (*the right of development of "Lidostas street 8, Cimdenieki, Grobina municipality, South Kurzeme region, LV-3430"*) dated 22 March 2024; and
iii. valuation of the Training Centre (*real estate for buildings "Marupe municipality, Riga Airport, Pilotu street 6"*) dated 15 March 2024.
iv. valuation of the MRO Konkors Hangar (*real estate for buildings " Riga Airport 10/1", Riga Airport, Marupe municipality, Marupe region, LV-1053"*) dated 19 March 2024;

mba, an independent appraisal and consulting firm, has prepared appraisals of the following assets:

i. Airbus A220 Level D full flight simulator, dated 14 March 2024;
ii. Trademarks (*Brand Intellectual Property*), dated 12 March 2024
iii. spare parts (*Component Inventory consisting of 40,834 (19,307 Unique) Spare Part Line Items*), dated 28 March 2024; and
iv. eight A220-300 Aircraft and seven PW1521G-3 Engines, dated 19 March 2024.

The appraisals are subject to a number of assumptions and limitations and have been prepared based on certain specified methodologies. The appraisal reports are included in this Prospectus commencing at page A-2.

The following is the appraised value of the relevant Security in the opinion of Latio and mba, as at the date of the relevant appraisal (as set out above):

Collateral	Appraised Value (in U.S.$ millions)(1)
BA Hangar	0.8
Pilot Academy Hangar	0.6
Training Centre	2.2
MRO Konkors Hangar	7.6
Airbus A220 Level D full flight simulator	7.7
Trademarks	140.3
Spare Parts	45.4

(1) All items except the Airbus A220 Level D full flight simulator and Spare Parts were valued in EUR and these amounts have been converted into U.S.$ at the rate of EUR 1 = U.S.$ 1.105, which was the rate as of 31 December 2023. Where the valuer has indicated both a current market value and a forced-sale value, the current market value is presented here. However, the actual value in the event of a sale of the asset may differ significantly. See "*Risk Factors - The realisable value of the Secured Property may differ significantly from any appraised value or book value*";

In addition:

- mba valued the eight A220-300 Aircraft and seven PW1521G-3 Engines that comprise the Financed Equipment subject to the Security granted over surplus proceeds (as described above) at a maintenance-adjusted market value of U.S.$316.4 million. As at 31 December 2023, €159.0 million remained outstanding under the relevant financing arrangements for such Financed Equipment (Outstanding lease payments of aircraft leased from Axiom are valued in EUR using an exchange rate of EUR 1 = U.S.$ 1.105. Conversion rate taken as at 29 December 2023). The relevant outstanding lease payment summaries are included in this Prospectus as shown above under "*Issue Date Security – Surplus Proceeds – Financed Equipment*" above.
- the six A220-300 Aircraft and two PW1521G-3 Engines that form the collateral for the Aircraft Additional Security (as described above) were valued at a maintenance-adjusted market value U.S.$196.04 million as at the date of the relevant report. This does not reflect the potential value of the relevant assets as at the date that they become eligible for additional security in accordance with Condition 3(d) (*Additional Security*).

The following is the carrying value of the remaining relevant Collateral on the Group's balance sheet as at 31 December 2023:

Collateral (as described in further detail above)	Balance Sheet value (in EUR millions):
Receivables	50.3
Shares	0.3
Uniforms	0.5
Fixed Assets – Fixtures and Fitting and Aircraft Equipment	3.8
Air Baltic Training SIA Flight Simulator	0.3

In addition, the value of the Bonds Service Reserve Account will vary in accordance with the requirements set out in the Conditions. See further Condition 4(d) (*Bonds Service Reserve Account*).

An appraisal is only an estimate, does not necessarily indicate the price at which any real estate, intellectual property, spare part or other eligible collateral may be purchased or sold in the market and should not be relied on as a measure of realizable value. The value of the collateral will depend on various factors, including market and economic conditions, the supply of particular assets, the availability of buyers, the frequency and the quality of assets and the condition of assets. Accordingly, it cannot be ensured that the proceeds realized on any exercise of remedies will equal the appraised value of the collateral or be sufficient to satisfy in full payments due on the Bonds. See–"*Risk Factors - The realisable value of the collateral may differ significantly from any appraised value*".

Latvian Law Governed Security

1. Process of providing Latvian Law Security

Commercial Pledge

In Latvia, the commercial pledge, governed by the Commercial Law, allows the use of movable property as collateral for obligations. The commercial pledge allows the pledgor to retain possession and to use and consume (as applicable) the pledged assets. However, sale or alienation of the pledged assets is only permitted subject to the consent of the pledgee, which may be provided in the Security Documents or made on a case-by-case basis. The commercial pledge can cover various types of movable property, including inventory, equipment, and receivables. The commercial pledge may be entered into either in respect of specific assets, or certain classes of assets, or all assets of the pledgor. It may be limited to the assets owned by the pledgor at the time of establishing the pledge, or extended also to the assets acquired at any time after the establishment of the pledge. To establish a commercial pledge, the parties must enter into a written agreement specifying the pledged assets, obligations, and conditions. Registration of the commercial pledge with the Commercial Pledge Register ensures that the pledge is binding and enforceable in the pledgor's insolvency proceedings and in respect of third parties that are not party to the pledge agreement and sets the ranking of the collateral among the creditors. In case of default of the secured obligation, the creditor has the right to enforce the commercial pledge, either by selling the pledged assets at a free price without an auction or to sell the assets at an auction, or to seek an enforcement order in undisputed compulsory execution proceedings in the courts of Latvia and enforce that order by court bailiffs in the judgment execution procedures.

In relation to pledged receivables the creditor may either sell the receivables or require the debtor's debtor to make payments on the receivables directly to the creditor.

In relation to the collateral established in the form of a commercial pledge, a note will be entered into the Commercial Pledge Register prohibiting the Issuer to repledge the subject of the collateral.

The commercial pledge established and registered in the Commercial Pledge Register is valid and binding in respect of the Secured Property that at the time of registration of the pledge were located in Latvia or have been acquired in Latvia or moved to Latvia at any time after the registration of the pledge. If the Secured Property is located outside Latvia, additional registration or other formalities may need to be taken by the pledgor or the pledgee in the jurisdiction of location of the Secured Property in order to make the pledge valid and enforceable in respect of the Secured Property that are located outside Latvia in that respective jurisdiction. Any Security Interest that may have been established in a jurisdiction outside Latvia on the Secured Property subject to the commercial pledge in Latvia would be recognised in Latvia and may have a ranking and priority of enforcement that is senior to the commercial pledge established in Latvia.

As a matter of Latvian law, the commercial pledge established in respect of the Secured Property located in Latvia remains valid also if the Secured Property is moved to another jurisdiction. However, repledging or completion of additional formalities may need to be done in the jurisdiction in which the Secured Property is located in order to make the pledge valid and enforceable in that jurisdiction under its laws.

Mortgage

In Latvia, the mortgage, primarily governed by the Civil Law, allows the use of real estate as collateral for obligations. The mortgage allows the mortgagor to retain possession and use of the mortgaged assets. To establish a mortgage, the parties must enter into a written agreement specifying the mortgaged assets, obligations, and conditions. Registration of the mortgage with the Land Book Register ensures that the mortgage is binding and enforceable in the mortgagor's insolvency proceedings and in respect of third parties that are not party to the mortgage agreement and sets the ranking of the mortgage among the creditors. In case of default of the secured obligation, the creditor has the right to enforce the mortgage, by selling the mortgaged property at an auction under the supervision by a Latvian court, or to seek an expedited enforcement in non-adversary legal proceedings before the courts of Latvia, or to seek an undisputed compulsory execution before the courts of Latvia.

In relation to the collateral established in the form of a mortgage notes will be entered into the Land Book Register prohibiting the mortgagor – owner of the real estate to alienate, donate, divide and encumber with rights in rem the real estate without the consent of the mortgagee.

2. *Enforcement of Security*

Commercial Pledge

According to Latvian law, a commercial pledge may be enforced with or without a court involvement.

If the commercial pledgee decides to enforce the commercial pledge without a court involvement, the exercise of the commercial pledge rights shall be registered with the Commercial Pledge Register. The entry in the Commercial Pledge Register regarding the exercise of the commercial pledge right is done within 30 days, provided there are no legal obstacles to enforcement. Such an obstacle could be a claim in court brought by the pledgor. The commercial pledgee may sell the pledged asset by way of auction or in a private sale, provided such a right has been granted to the pledgee. Alternatively, the pledgee may apply for undisputed compulsory execution of the commercial pledge to a Latvian court at the pledgor's domicile.

The commercial pledgee shall notify the commercial pledgor in writing regarding the exercise of the commercial pledge rights.

In the case of a private sale the commercial pledgee may sell the pledged asset itself or entrust it to a third party. The commercial pledge must be sold at the highest possible price at the time of sale and which does not delay the sales process. If the pledged asset is sold without an auction and the commercial pledgor disputes the sale price, the commercial pledgee must prove the reasonableness of the price. Challenge of the price does not suspend the sale of the pledged asset.

The sale of the pledged asset takes place at the expense of the pledgor. The proceeds of the sale are allocated first to cover expenses related to the enforcement of the commercial pledge, and then to cover the claims of the pledgors in accordance with their priority right. In the event that the proceeds from the sale of the pledged asset are insufficient to fully cover the commercial pledgee's claim, the law provides for the right to claim the remaining debt from the commercial pledgor by applying to court pursuant to the general procedure, requesting the court to recover the remaining amount of the debt, which was not recovered by selling the pledged asset.

Undisputed compulsory execution is foreseen under Latvian law in relation to secured obligations, including obligations secured with a commercial pledge. During such proceedings the fact of the obligation itself is not disputed and the creditor does not have to ask the court to establish the existence of the obligation. Applications for undisputed compulsory execution of obligations under contracts secured by a commercial pledge must be submitted to the district (city) court according to the debtor's legal address. An application for undisputed compulsory execution shall be decided by the judge alone on the basis of the submitted application and the documents attached thereto within seven days from the date of submission of the application, without notifying the applicant and the debtor thereof. The judge's decision takes effect immediately and has the force of an enforcement order. The decision shall be enforced in accordance with the rules for the enforcement of the judgment and shall be made by a sworn bailiff.

In order to start the enforcement of a court decision made in an undisputed manner, the creditor needs to submit it to a sworn bailiff for enforcement. The bailiff sends a notice to the debtor informing it of the recovery against the asset of the commercial pledge as movable property. Movable property is valued and sold in a forced auction with an ascending step. The funds obtained as a result of the auction cover the expenses of the sworn bailiff and the remaining funds are directed to cover the claims of the commercial pledgee.

If the auction is deemed not to have taken place because no auctioneer is authorized to the auction or none of the auction participants authorized to auction bids the starting price of the auction, the sworn bailiff shall immediately notify the creditor as the collector, inviting the creditor to keep the seized property at the initial price of the auction not having taken place. The creditor as the collector has the right to notify the sworn bailiff in writing on the keeping of the seized property within two weeks from the day when an invitation of the sworn bailiff was sent.

If the proceeds of the auction are not sufficient to fully cover the commercial pledgee's claim, the commercial pledgee has the right to apply to the court in accordance with general procedure, requesting the court to recover the remaining amount of the debt, which was not recovered by selling the pledged asset.

Mortgage

The exercise of the mortgage right shall be performed in accordance with the applicable provisions of the Latvian Civil Law and Latvian Civil Procedure Law, as well as the provisions of the agreement concluded between the parties. The mortgaged real estate is sold at a voluntary auction under the court supervision, if such a right has been granted to the mortgagee. However, if there is no such right, then the mortgage may only be enforced in the undisputed compulsory execution proceedings or in the judgment execution proceedings.

The sale of the mortgaged real estate by voluntary auction means that the mortgagee of the immovable property submits an application to court requesting approval of the sale of immovable property by voluntary auction, requesting a certain sum as the starting price of the real estate auction as well as other conditions of the sale considered necessary. An application for the voluntary sale of immovable property at an auction shall be examined by the judge alone on the basis of the submitted application and the documents attached thereto within seven days from the date of submission of the application, without notifying the applicant and the debtor thereof.

The sale of the mortgaged real estate at a voluntary auction shall be performed by a sworn bailiff according to the Civil Law and the Civil Procedure Law.

Undisputed compulsory execution is permitted in relation to claims secured with a mortgage. It means that the fact of the obligation itself is not disputed, the creditor does not have to ask the court to establish the existence of the obligation. Applications for undisputed compulsory execution under real property pledge deeds (mortgages) must be submitted to the district (city) court according to the location of the real property. An application for undisputed compulsory execution shall be decided by the judge alone on the basis of the submitted application and the documents attached thereto within seven days from the date of submission of the application, without notifying the applicant and the debtor thereof. The decision of the judge takes effect immediately and has the force of an enforcement order. The decision shall be enforced in accordance with the rules for the enforcement of the judgment and shall be done by a sworn bailiff.

In order to start the enforcement of a court decision made in an undisputed manner, the creditor needs to submit it to a sworn bailiff for enforcement. The bailiff sends a notice to the debtor informing it of the recovery of the real estate. The appraisal is performed, and the real estate is sold in a forced auction with an ascending step. The proceeds from the auction cover the expenses of the sworn bailiff and the remaining amount is directed to cover the mortgaged claim.

If the auction is deemed not to have taken place because no auctioneer is authorised to the auction or none of the auction participants authorised to auction bids the starting price of the auction, the sworn bailiff shall immediately notify all creditors (including the mortgagee), inviting the creditors to keep the real estate, at the initial price of the auction not having taken place. Each creditor has the right to notify the sworn bailiff in writing whether it will retain the real property within two weeks from the day when an invitation of the sworn bailiff was sent.

If the proceeds of the auction are not sufficient to fully cover the mortgagee’s claim, the creditor has the right to apply to court in accordance with the general procedure, requesting the court to recover the remaining amount of the mortgage debt that was not recovered in enforcement procedure against the mortgaged immovable property.

3. Insolvency

There are two Latvian insolvency proceedings a legal entity can become subject to:

i. legal restructuring proceedings (in Latvian - *tiesiskās aizsardzības process*); and
ii. insolvency proceedings (in Latvian - *maksātnespējas process*).

In relation to the above proceedings a secured creditor is a creditor whose right to claim against a debtor is secured by a commercial pledge, or mortgage on the debtor's property registered in the Land Register. Secured creditors have priority over satisfaction of their claims of creditors, whose claims are not secured, subject to certain statutory exceptions.

Insolvency proceedings are legal proceedings in which the debtor is being wound up and the debtor’s assets are being sold to satisfy the creditor claims to the extent possible. Insolvency proceedings are carried out by the insolvency administrator appointed by the Latvian court on the proposal by the Latvian Insolvency Administration authority. The creditors have limited rights in the insolvency proceedings.

In general, an entity is deemed to be legally insolvent, if the entity is past due on its due and payable payment obligations for more than two months or is past due on certain employment or social security liabilities. A credit may also make an insolvency filing in respect of the debtor if the debtor has not paid an obligation claimed by the creditor and has not disputed that claim within the period specified in the Insolvency Law, or if execution of judgment in the formal execution proceedings has failed. A secured creditor may make an insolvency filing only in respect of its unsecured claims.

Under Latvian law both unsecured and secured creditors have to file the creditor’s claims with the insolvency administrator within one month from the date a record on the debtor’s insolvency has been made in the Latvian insolvency register. A failure to make the filing at all or in due time would lead to the loss of the creditor's voting rights in the insolvency proceedings and the creditor's claim being time-barred.

Commencement of insolvency proceedings suspends the rights of the secured creditors to foreclose and enforce the Security over the assets of the debtor for a period of two months from the date of declaration of insolvency. A secured creditor may require sale of the pledged assets once the 2 months period has expired. The pledged assets are sold in an auction by the insolvency administrator in accordance with the same rules as applicable to judgment enforcement proceedings. The proceeds from the sale (after payment of the enforcement costs, including the remuneration of the insolvency administrator) are due to the pledgee or mortgagee respectively. If the claim of the secured creditor is not satisfied in full, the secured creditor becomes an unsecured creditor for the difference. However, if the proceeds of the sale exceed the claim of the secured creditor, the surplus shall be transferred to the legal entity subject to the insolvency proceedings.

In insolvency proceedings unsecured claims are covered in accordance with the following priority:

i. insolvency proceedings expenses;
ii. (limited) claims of employees;
iii. principal amount of tax debt;
iv. principal amount of other unsecured creditors;
v. interest, late payments of other unsecured creditors.

Legal restructuring proceedings are court supervised legal proceedings the purpose of which is to restore the debtor's ability to pay its debt obligations if the debtor is or expects to be in a financial distress. The proceedings are invoked by the debtor. The debtor's restructuring plan is proposed by the Debtor and requires approval of, separately, the secured creditors representing 2/3 of the principal amount of the secured claims and the unsecured creditors representing more than 1/2 of the principal amount of the unsecured claims. In exceptional circumstances, if one of the creditor groups does not approve the proposed restructuring plan, the debtor may request the court approval. The approved restructuring plan is binding to all creditors. The principal measures that may be proposed by the plan include sale of assets, injection of new equity capital, restructuring of debt obligations including extension of maturities, variation of payment terms, release or reduction of the liabilities owed to the creditors, capitalisation of debt, and others.

Commencement of the legal restructuring proceedings suspends the rights of the secured creditors to foreclose and enforce security in respect of the debtor's assets for two months. The suspension may be extended for up to 6 months by a court decision and subject to the creditors' consent if that is necessary in connection with the approval of the proposed restructuring plan. In exceptional cases the secured creditors may request the court to lift the suspension. The sale of the pledged assets may be further restricted if these assets have been identified in the debtor's restructuring plan as assets that are necessary for the implementation of the legal restructuring plan. If the pledged assets are subject to the restriction of sale on those grounds, the affected secured creditors are indemnified in respect of the loss of value of pledged assets or loss of the pledged assets if such occurs during the implementation of the restructuring plan.

In addition to the insolvency proceedings in Latvia, the Issuer may be subject to secondary insolvency proceedings in all those jurisdictions in which the Issuer has an establishment in the meaning of the Regulation (EU) 2015/848 on insolvency proceedings. According to the Regulation (EU) 2015/848 on insolvency proceedings in addition to the main insolvency proceedings, typically in the EU Member State where the registered address of the debtor is located, the regulation provides creditors with an opportunity to submit an insolvency application also in the other Member States where the debtor has an establishment and assets, and hence open secondary insolvency proceedings to be carried out in parallel to the main insolvency proceedings. The secondary insolvency proceedings are carried out in accordance with the laws of the jurisdiction in which they are opened and are restricted to the Issuer's assets situated within the territory of that jurisdiction.

4. Certain Latvian Law Considerations

Hardening periods

Should the Company be subject to insolvency proceedings, under Latvian law, during insolvency proceedings, the insolvency administrator would be required to evaluate transactions entered into by the Company and initiate court proceedings to declare transactions that have caused losses to the Company null and void if such transactions have been entered into during the hardening period.

Two hardening periods are prescribed depending on the counterparty of the transaction. If the counterparty knew or reasonably should have known that the transaction would cause losses, the hardening period is three years before the initiation of the insolvency proceedings. If the counterparty did not know and reasonably should not have known that the transaction would cause losses the hardening period is four months before the initiation of the insolvency proceedings.

The transactions entered into during the hardening period that may be declared null and void are any transactions irrespective of type, registration, perfection, or applicable law to the transaction, including, among others, (i) security arrangements for existing debt; (ii) assignment of proceeds; (iii) loans and other financing arrangements; (iv) set-off of claims; (v) payments for debts which are not due and payments other than in money for debts due.

Cape Town Convention

The Republic of Latvia has ratified and applies the Cape Town Convention which prevails over national regulatory enactments.

The Republic of Latvia has made a declaration under the Cape Town Convention that unpaid regulated fees that are directly applicable to the use of an aircraft object, including airport charges and charges for air navigation services, and unpaid fees for services and their added value provided within the scope of repair of aircraft, have priority over registered international interests.

The Cape Town Convention is applicable to "aircraft objects", which include aircraft and aircraft engines that fulfil certain minimum requirements. Aircraft equipment and parts that do not meet these requirements are not subject to the rules of the Cape Town Convention.

Filings and registrations

Under Latvian law entering into a security agreement does not establish a valid and enforceable Security. Security is established and perfected only upon registration of the Security with the relevant register and until then third persons may assume that the relevant asset is free from any security. If registration is not completed the person in favour of which security interests shall be established may request the pledgor to perform the registration and, if this is not done, ultimately may initiate court proceedings requesting registration of security interests. With regard to registerable items such as trademarks, vehicles, and aircrafts security interests become effective only upon entering security registration notes in the relevant register.

The Company, on the date of this Prospectus, has established certain security for the benefit of existing creditors of the Company. Once the secured obligations are fulfilled, there is a risk that the existing secured creditors of the Company delay the deregistration process of the applicable security; according to Latvian law the pledgee or mortgagee shall perform the deregistration process and there are no time limits provided in law within what period the process shall be completed. Refusal or delay of the deregistration of the securities may be challenged in court by the Company.

The "parallel debt" structure has not been tested in Latvian courts. See "*Risk Factors—The Security over the Secured Property will be granted to the Security Trustee rather than directly to the Bondholders. A parallel debt structure has not been tested in the Latvian Courts*". This means that the Land Book Register may regard registration requests for the establishment of a mortgage as a "complicated matter" that requires a longer period of review and hence prolong the registration process from 10 days to one month or two months. The Commercial Pledge Register in charge of registration of commercial pledges is more flexible in its approach to foreign law documents.

Under Latvian law, the Security documents shall be filed with the Security registers in the Latvian language, i.e. with certified translation. Hence additional time period for arranging translations shall be reserved.

Enforcement of foreign judgments

Latvian courts will recognise as a valid judgment any judgment given by a court of an EU Member State against a Latvian legal entity under a contract without retrial or examination of the merits of the case, in accordance with the provisions and subject to the limitations of Brussels I (Regulation (EU) No 1215/2012).

Latvia is a party to several treaties pursuant to which judgments of courts of certain countries outside the EU are recognised as valid subject to certain conditions provided therein. For example, the Convention on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters (the 2007 Lugano Convention), is in force between all Member States of the European Union, including Latvia, Switzerland, Norway, and Iceland.

With regard to other countries, including England, the EU has ratified the Hague Convention on Choice of Court, and Latvia as an EU Member State is bound by the Hague Convention on Choice of Court. Recognition and enforcement of judgments made by English courts are performed in Latvia in accordance with the Hague Convention on Choice of Court and Civil Procedure Law of the Republic of Latvia.

A Latvian court may deny recognition of foreign judgment if: (i) foreign court was not competent to examine dispute; (ii) judgment has not entered into lawful effect; (iii) respondent was denied a possibility of defending its rights; (iv) judgment contradicts Latvian judgment or judgment recognised in Latvia in same matter between same parties; (v) judgment is in conflict with public structure; (vi) foreign court applied incorrect law.

Maximum Amount

Pursuant to Latvian law each of the Latvian law governed Security Documents securing the relevant obligations is required to state a certain maximum amount, for registration purposes. Such amount will be agreed between the relevant pledgor and pledgee in the relevant security document establishing the pledge or mortgage and recorded in the Commercial Pledge Register or the Land Book Register, as applicable (the "**Maximum Amount**").

English Law Governed Collateral

1. Assignment of Claims

In English law, an assignment of claims as security is a legal mechanism used by creditors to secure repayment of debts. It involves the transfer of a debt, or the right to receive payment, from the original creditor (assignor) to a third party (assignee) as collateral for a loan or other obligation. This allows the assignee to enforce the assigned claim if the debtor defaults on their payments. Assignments of claims can cover various types of debts, such as contractual obligations, accounts receivable, or other intangible assets. To be valid, the assignment must be made in writing and may require notification to the debtor. Unlike pledges or mortgages, an assignment does not create a proprietary interest in the assigned asset but rather gives the assignee the right to collect the debt directly from the debtor. English law provides flexibility in structuring assignments, allowing parties to tailor agreements to their specific needs while ensuring transparency and enforceability.

2. Process of providing Aircraft Additional Security

Once the Company has acquired title to a Financed Leased Aircraft or Financed Leased Engine as described above, the Company has undertaken that it shall, as soon as reasonably practicable, take any and all action necessary to procure that such Financed Leased Aircraft or Financed Leased Engine is charged by way of first ranking security in accordance with standard market practice in favour of the (a) the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors and (b) if applicable, the Security Trustee as parallel debt creditor, which would likely include an English law or New York law mortgage, and/or a Latvian law commercial pledge, in each case over the applicable Financed Leased Aircraft or Financed Leased Engine. In addition, the Secured Creditors would be named as additional insured on the insurance for the applicable Financed Leased Aircraft or Financed Leased Engine. The Security will be perfected by way of applicable filings and registrations in all relevant jurisdictions. The Security will permit the Company to use the Financed Leased Aircraft or Financed Leased Engine in the ordinary course of its business.

3. Surplus proceeds provisions with respect to the Axiom Aircraft

Under the lease agreement for each Axiom Aircraft, if a termination event (as defined therein) occurs and is continuing, Axiom may, among other things, if the Issuer fails to pay the applicable termination sum together with any other amounts due and payable by it within ten (10) business days of Axiom's demand, terminate the leasing of the applicable Axiom Aircraft and/or sell the applicable Axiom Aircraft to a third party on such terms as it shall think fit. Pending any sale Axiom is free to lease the applicable Axiom Aircraft to any person on operating lease terms. Axiom is required to apply the Net Sale Proceeds (as defined below) and any proceeds from leasing the applicable Axiom Aircraft as follows: (i) firstly, in or towards settlement of any rent and all other amounts owing by the Issuer to Axiom, the relevant owner and the financing parties, under the relevant leasing and financing documents for the applicable Axiom Aircraft and for each other Axiom Aircraft, (ii) secondly, if the Issuer shall on or before the date of application of the Net Sale Proceeds by Axiom have paid the relevant termination sum, or a part thereof, in or towards refunding by way of rebate of rent to the Issuer the amount of the termination sum or part thereof so paid by the Issuer, and (iii) thirdly to the Issuer. In this paragraph, "Net Sale Proceeds" means, in relation to a sale of the applicable Axiom Aircraft, the amount actually received and retained by the relevant owner or the security agent, as applicable, from a purchaser of the applicable Axiom Aircraft after deducting the relevant owner's, Axiom's and the security agent's expenses in connection with such sale including, without limitation and without duplication, (where applicable) broker's commissions, the relevant owner's Axiom's and security agent's marketing expenses, legal costs, all charges levied by EASA, Eurocontrol or any other navigation, landing, airport or similar charges or other taxes or duties relating to the use and operation of aircraft, parking and storage costs, insurance premiums, stamp duties, other taxes, registration fees and any expenses relating to the maintenance, overhaul or repair of the applicable Axiom Aircraft incurred to preserve the applicable Axiom Aircraft in, or to restore the applicable Axiom Aircraft to, the condition required by the lease or pursuant to the provisions of any sale and purchase agreement in respect of the sale of the applicable Axiom Aircraft.

4. *Surplus proceeds provisions with respect to the JALL Equipment*

Under the lease agreements and the financing documents for the JALL Equipment, an event of default (as defined therein) occurs and is continuing, JALL and/or EDC (or EDC acting as assignee of JALL with respect to the lease agreements) may, among other things, if the Issuer fails to pay the applicable termination sum together with any other amounts due and payable by it, terminate the leasing of the applicable JALL Equipment and/or enforce the security over the applicable JALL Equipment. The security includes various market standard rights available to mortgagees including, among other things the rights to (i) repair and keep in repair the applicable JALL Equipment, to carry out such maintenance work and modifications as may be required or desirable for the applicable JALL Equipment, and generally to preserve and protect the applicable JALL Equipment and keep the same free from any security interest, (ii) lease or charter the applicable JALL Equipment at such rents and generally in such manner and upon such conditions as EDC in its absolute discretion deems expedient, (iii) sell and give good title to the applicable JALL Equipment with or without notice to JALL, and with or without the benefit of any lease or charter, by public auction or private contract at such place and upon such terms as EDC in its absolute discretion may determine with power to postpone any such sale and without being answerable for any loss occasioned by such sale or resulting from the postponement thereof, and (iv) in relation to any of the foregoing, to do all acts and things incidental or conducive thereto and, in particular, to enter into such arrangements in respect of the applicable JALL Equipment, its repair, insurance and employment in all respects as if EDC were the owner of the applicable JALL Equipment. The financing documents require that any proceeds received by any party as a result of enforcement of any security (including sale proceeds or lease proceeds) or any other amounts received or recovered under the applicable transaction documents are to be paid to EDC for application in accordance with a proceeds deed and applied as follows: (i) firstly, in or towards payment of any costs and expenses duly incurred by the agent or security trustee under or in connection with the transaction documents (ii) secondly, in or towards payment to each finance party of any fees due but unpaid under the transaction documents; (c) thirdly, in or towards payment to each lender of any interest (including default interest) due but unpaid under the transaction documents; (d) fourthly, in or towards payment to each lender of any principal due but unpaid under the transaction documents; (e) fifthly, in or towards payment to each lender, pro rata, of any break costs or make-whole amount due but unpaid under the transaction documents; (f) sixthly, in or towards payment to each finance party of any other amounts due but unpaid pursuant to any transaction document; (g) seventhly, in or towards payment to EDC of amounts constituting secured obligations and due but unpaid under any other financing by or involving the support of EDC for, or for the benefit of, the Company or any of its affiliates (including the transactions for the Axiom Aircraft and for each other item of JALL Equipment); (h) eighthly, in or towards payment to JALL (or other person entitled thereto) of amounts owing to it under the transaction documents (to the extent not already paid or deemed to have been paid); and (i) ninthly, any balance to be paid to the Issuer (or other person entitled thereto).

CAPITALISATION

The following table sets forth the Group's cash, financial liabilities and total capitalisation as at 31 December 2023, on a historical basis, and as adjusted to reflect the repayment of the Swedbank Loan, the completion of the offering of the Bonds made hereby and the application of the gross proceeds to cash and the redemption of the Existing Bonds, repayment of the State Loan, to pay accrued unpaid interest and other costs in relation to the Existing Bonds and to pay accrued unpaid interest in relation to the State Loan (but not any other fees, expenses or costs of the offering).

This table should be read in conjunction with the information contained in "*Presentation of Certain Financial Information*", "*Risk Factors*", "*Business Description*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", the Financial Statements and the notes thereto appearing elsewhere in this Prospectus. The Group's historical results do not necessarily indicate results that may be expected for any future period.

	As at 31 December 2023	**Bonds offered hereby[(1)] (unaudited)**	**Redemption of the Existing Bonds, repayment of State Loan and the Swedbank Loan [(2)] (unaudited)**	**As adjusted (unaudited)**
		(EUR thousands)		
Cash[(3)]	29,058	340,000[(1)]	(245,694)	123,364
Total cash	29,058	340,000	(245,694)	123,364
Lease liabilities	87,491			87,491
Borrowings(excluding bonds and Swedbank Loan)[(4)]	3,975		(206)	3,769
Existing Bonds[(5)]	205,301		(205,301)	-
Swedbank Loan	671		(671)	-
Total current financial liabilities	**297,438**	**-**	(206,178)	**91,260**
Lease liabilities	797,258			797,258
Borrowings[(6)]	19,697			19,697
State Loan	36,141		(36,141)	-
Offer of the Bonds[(7)]	-	340,000	-	340,000
Total non-current financial liabilities	**853,096**	340,000	(36,141)	**1,156,955**
Total financial liabilities (gross)	**1,150,534**	340,000	(242,319)	**1,248,215**
Total financial liabilities (net)	**1,121,476**	**-**	3,375	**1,248,215**
Equity	**(48,307)**		(3,375)	**(51,682)**
Total equity	**(48,307)**	**-**	(3,375)	**(51,682)**
Total capitalisation[(8)]	**1,102,227**	340,000	(245,694)	**1,196,533**

Notes:

(1) The amount equivalent to EUR340 million is provided solely for illustrative purposes and reflects the proposed aggregate principal amount of the Bonds before taking into account payment of any fees, commissions or other expenses of issuing the Bonds, or the application of the gross proceeds as described under "*Use of Proceeds*".

(2) The principal and accrued and unpaid interest of the Swedbank Loan was repaid on 8 May 2024. Following the receipt of proceeds from the Bonds, in addition to the repayment of the principal and accrued and unpaid interest and other costs in relation to the Existing Bonds, the principal and accrued and unpaid interest of the State Loan will also be repaid as described in "*Use of Proceeds*".

(3) Cash comprises cash at banks and on hand. Net proceeds from the offering of the Bonds will be used by the Group to repay principal and accrued and unpaid interest on the Existing Bonds and the State Loan, the costs incurred in relation to the early redemption of the Existing Bonds, for general corporate purposes, to strengthen its liquidity position and for future fleet expansion in line with the approved business plan. See "*Use of Proceeds*".

(4) Represents current portion of the amount outstanding under the facility credit agreement and accrued and unpaid interest on the facility credit agreement and the State Loan.

(5) Represents the current aggregate principal amount of the Existing Bonds including accrued and unpaid interest.

(6) Represents non-current portion of the amount outstanding under the facility credit agreement.

(7) Represents the aggregate principal amount of the Bonds, excluding the effect of capitalised debt issuance costs. These amounts will be shown net of capitalised debt issuance costs in the Group's consolidated statements of financial position.

(8) Representing sum of Total equity and Total financial liabilities (gross).

On 29 April 2024, the Issuer issued a notice to the holders of the Existing Bonds that the Existing Bonds are to be redeemed in accordance with condition 5(c) of the terms and conditions of the Existing Bonds on 30 May 2024 (as corrected) (such date being the date that is 30 days following such notice) at 101.6875% of their principal amount plus accrued and unpaid interest, if any, to the date of redemption. For further information, please see "*Use of Proceeds*".

The Swedbank Loan was repaid on 8 May 2024.

Since 31 December 2023, except as set forth above, there have been no other material changes to the capitalisation of the Group.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables represent the summary consolidated financial data and other operating data of the Group. The following summary consolidated historical financial information as of and for the three years ended 31 December 2023, 2022 and 2021 has been extracted from the Audited Consolidated Financial Statements prepared in accordance with IFRS and included elsewhere in this Prospectus. The following summary consolidated historical financial data should be read in conjunction with the information contained in "*Presentation of certain financial and other information*", "*Risk Factors*" and "*Business Description*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Audited Consolidated Financial Statements and the notes thereto appearing elsewhere in this Prospectus.

Consolidated Income Statements

	Year ended 31 December		
	2023	**2022 (restated)**	**2021 (restated)**
		(EUR thousands)	
Operating Revenue			
Revenue	664,186	495,455	198,259
Other income	3,796	4,715	5,848
Total	**667,982**	**500,170**	**204,107**
Operating Expenses and Claim Compensations			
Fuel*	(156,084)	(150,678)	(46,967)
Airport, handling and en route charges	(114,413)	(86,192)	(53,853)
Personnel costs	(107,249)	(76,704)	(51,830)
Amortisation and depreciation	(91,070)	(74,280)	(51,604)
Aircraft and similar lease costs	(76,189)	(22,921)	(4,365)
Marketing and tickets sales costs	(41,915)	(30,950)	(14,268)
Other operating costs	(31,819)	(25,904)	(18,736)
Cost of carbon emission allowances*	(22,259)	(19,249)	(5,874)
Aircraft maintenance	(24,798)	(15,004)	(9,960)
Passenger service	(10,507)	(12,573)	(2,998)
Provision for legal disputes	8,073	(500)	(312)
Claim compensations	80,586	46,789	691
Total	**(587,644)**	**(468,166)**	**(260,076)**
Finance Income / (expenses)			
Finance costs	(63,855)	(58,961)	(51,519)
Foreign currency exchange gain / (loss), net	16,664	(25,379)	(26,855)
Finance income	522	112	153
Total	**(46,669)**	**(84,228)**	**(78,221)**
Profit / (Loss) Before Tax	33,669	**(52,224)**	**(134,190)**
Corporate income tax	(17)	(1,995)	(1,528)
Profit / (Loss) for the Year	**33,652**	**(54,219)**	**(135,718)**

* In 2023 the Group changed its presentation of Fuel and CO2 costs by separating Cost of carbon emission allowances as a separate line in Operating expenses and claim compensations in the 2023 Audited Consolidated Financial Statements. The cost of fuel and carbon emission allowances are disclosed in this Prospectus on a revised presentation basis for all periods presented, as further explained in Note 2(a) to the 2023 Audited Consolidated Financial Statements.

Consolidated Balance Sheets

The following table shows the Group's consolidated balance sheets for the periods indicated.

	As of 31 December		
	2023	**2022**	**2021 (restated)**
		(EUR thousands)	
Assets			
Non-current assets			

Property, plant and equipment	142,026	101,493	81,752
Right-of-use assets	920,584	810,845	696,921
Intangible assets	17,362	17,327	18,027
Investments in subsidiaries and other investments	3	3	3
Prepayment for maintenance*	74,043	61,196	31,980
Prepayment for acquisition of property, plant and equipment	38,778	50,283	47,640
Trade and other receivables	19,822	15,525	25,732
Total non-current assets	**1,212,618**	**1,056,672**	**902,055**
Current assets			
Inventories	16,027	10,913	7,659
Prepayments for maintenance	20,945	-	-
Prepaid expenses	8,978	11,612	14,021
Trade and other receivables*	36,599	41,726	22,193
Derivative financial instruments	482	-	-
Cash	29,058	37,999	79,314
Total current assets	**112,089**	**102,250**	**123,187**
Total assets	**1,324,707**	**1,158,922**	**1,025,242**

* In 2022 the Group reclassified its presentation of "Prepaid expenses" within the balance sheet and restated comparative data as at 31 December 2021 accordingly. See "*Presentation of Certain Financial Information*" for more details.

	As of 31 December		
	2023	**2022**	**2021 (restated)**
	(EUR thousands)		
Equity and liabilities			
Equity			
Share capital	596,473	596,473	506,473
Other contributions	2,553	2,644	2,490
Revaluation reserve	3,520	3,886	3,494
Cash Flow hedging reserve	482	-	-
Accumulated loss:			
accumulated loss brought forward	(684,987)	(630,768)	(495,050)
profit/ (loss) for the year	33,652	(54,219)	(135,718)
Total equity	**(48,307)**	**(81,984)**	**(118,311)**
Liabilities			
Non-current liabilities			
Lease liabilities	797,258	718,012	602,083
Borrowings	55,838	254,464	247,767
Provisions	27,858	31,428	35,814
Employee related tax liabilities	-	1,944	6,766
Financial injections from the shareholders (with the intention to capitalise)	-	-	45,000
Total non-current liabilities	**880,954**	**1,005,848**	**937,430**
Current liabilities			
Borrowings	209,947	10,777	9,915
Lease liabilities	87,491	77,565	77,329
Contract liabilities, airport taxes and other liabilities	70,301	56,478	38,984
Trade and other payables	73,828	48,533	37,964
Provisions	35,950	33,965	34,799
Employee related tax liabilities	14,543	7,740	7,132
Total current liabilities	**492,060**	**235,058**	**206,123**
Total liabilities	**1,373,014**	**1,240,906**	**1,143,553**

Total equity and liabilities	**1,324,707**	**1,158,922**	**1,025,242**

Consolidated Cash Flow Statements

The following table summarises the Group's consolidated statements of cash flows for periods indicated.

	For the year ended 31 December 2023	2022	2021
	(EUR thousands)		
Net cash flows from / (used in) operating activities	138,242	70,347	(8,283)
Net cash flows used in investing activities	(2,192)	(20,243)	(7,839)
Net cash flows used in financing activities	(144,991)	(91,419)	(52,869)
Decrease in cash	**(8,941)**	**(41,315)**	**(68,991)**
Cash at beginning of the reporting year	37,999	79,314	148,305
Cash at end of the reporting year	**29,058**	**37,999**	**79,314**

Other Data

The following table shows certain other financial data, ratios and airline operating statistics for the Group as of and for each of the three years ended 31 December, 2023, 2022 and 2021. See also *"Presentation of Certain Financial Information – Alternative performance measures ("APMs") and other non-IFRS financial data"*.

<u>*Airline Operating Statistics*</u>

	As of and for the year ended 31 December 2023	2022	2021	2020	2019
	(EUR thousands, except where otherwise stated, unaudited)				
Airline fleet statistics					
Number of aircraft at end of period (*number*) (1)	46	39	32	25	39
Average fleet age (*years*) (1)	3.1	2.6	2.2	1.8	5.6
Airline operating statistics without ACMI lease operations					
Block hours (number) (2)	97,259	77,098	47,855	38,794	114,669
Flight hours (number)	83,906	66,444	41,208	32,539	95,880
Flights (*number*)	44,113	37,302	23,444	22,342	62,748
Utilization (block hours per aircraft per day)	6.9	7.1	4.8	3.7	8.8
Number of passengers segments ('000)	4,536	3,342	1,628	1,341	5,049
Seat capacity ('000)(3)	6,346	5,183	3,319	2,776	6,855
Average aircraft stage length (km)	1,289	1,210	1,213	1,057	973
ASKs (million km) (10)	8,213	6,299	4,027	2,819	7,515
RPKs (revenue passenger kilometres) (millions)	6,300	4,483	2,158	1,455	5,697
Load factor (%)(4)	76.7	71.2	53.6	51.6	75.8
Routes (*number*)	126	103	94	76	88
Yield (€ cents)(5)	8.1	8.4	8.2	8.5	7.8
RASK (€ cents)(6)	6.89	6.72	5.01	5.26	6.56
CASK (€ cents)(7)	(7.48)	(7.45)	(6.35)	(9.83)	(6.38)
CASK (ex-fuel)(8)	(5.31)	(4.75)	(5.04)	(8.18)	(4.91)
Passenger revenue(9)	539,158	399,811	180,626	130,568	462,156
Airline total operating statistics					
Total block hours (*number*)	132,943	103,923	48,749	38,794	120,866
Total flight hours (*number*)	112,641	89,275	41,910	32,539	100,940
Flights (*number*)	65,507	50,385	24,028	22,342	66,165
Utilization (block hours per aircraft per day)	7.6	7.7	4.8	3.7	8.8
ASKs (million km)(10)	10,781	8,516	4,092	2,819	7,996

Notes:

(1) Number of aircraft at the end period and average fleet age at end period excludes the phased out and grounded De Havilland Q400 fleet of 12 aircraft at the end of 2020 and 2021 and one aircraft at the end of 2022.

(2) Block hours means the number of hours during which the aircraft is in service measured from the time of gate departure before take-off until the time of gate arrival at the destination.

(3) Seat capacity measures how many seats were available for ticket sales in the measurement period. It provides information on the total amount of sellable seats and allows to compare capacity changes year over year.

(4) Passenger load factor measures share of sold flown kilometres of sold aircraft seats versus flown kilometres of all seats installed on aircraft in the measurement period. It provides information on weighted average share of sold seats, hence the measurement on the Group's ability to sell its passenger capacity.

(5) Yield (€ cents) measures generated passenger revenue on passenger flown kilometres. It provides information on the Company's average generated revenue for each kilometre flown by passengers.

(6) RASK measures Operating revenue versus flown kilometres of all seats installed on aircraft. It provides information on Operating revenue generated compared to total flight kilometre capacity deployed.

(7) CASK measures Operating costs versus flown kilometres of all seats installed on aircraft. It provides information on the Group's cost base and dynamics compared to total flight kilometre capacity deployed.

(8) CASK (ex-fuel) measures Operating costs excluding fuel costs versus flown kilometres of all seats installed on aircraft. It provides information on the Group's cost base excluding volatile fuel costs compared to total flight kilometre capacity deployed.

(9) Passenger revenue is defined as Ticket revenue plus Ancillary revenue

(10) Passenger capacity expressed in available seat kilometres, "ASK".

APMs and other non-IFRS financial data

	As of and for the year ended 31 December				
	2023	**2022**	**2021**	**2020**	**2019**
			(EUR thousands)		
Adjusted EBITDAR*	158,938	82,916	(379)	(152,992)	121,830
Operating Revenue	667,982	500,170	204,107	144,825	510,742
Net debt	1,121,476	1,022,819	857,780	654,079	699,405
Capital expenditure**	242,100	206,930	190,670	-	-
Net cash capital expenditure	(2,192)	(20,243)	(7,839)	-	-
Operating margin (%)	12.0	6.4	(27.4)	-	-
Adjusted EBITDAR margin (%)	23.8	16.6	(0.2)	-	-
Leverage (Net debt to Adjusted EBITDAR) (*multiplier*) ***	7.1x	12.3x	-	(4.3x)	5.7x

* Adjusted EBITDAR was calculated and presented on a revised presentation basis through all periods presented, see "*Presentation of Certain Financial Information*".

** Capital expenditure is reconciled in "*Liquidity and capital resources – Capital expenditures*".

Reconciliation

<u>*Adjusted EBITDAR*</u>

	For the year ended 31 December				
	2023	**2022**	**2021**	**2020**	**2019**
			(EUR thousands)		
Profit / (Loss) for the year	33,652	(54,219)	(135,718)	(264,597)	(9,114)

Corporate income tax	17	1,995	1,528	1,729	1,876
Finance costs	63,855	58,961	51,519	49,727	41,348
Finance income	(522)	(112)	(153)	(108)	(122)
Provision for legal disputes	(8,073)	500	312	11,500	(6,755)
Foreign currency exchange gain / (loss), net	(16,664)	25,379	26,855	(22,775)	5,397
Amortisation and depreciation	91,070	74,280	51,604	64,624	70,938
Aircraft and similar lease costs	76,189	22,921	4,365	7,595	22,804
Claim compensations	(80,586)	(46,789)	(691)	(687)	(4,542)
Adjusted EBITDAR	**158,938**	**82,916**	**(379)**	(152,992)	121,830

Adjusted EBITDAR margin (%)

	For the year ended 31 December		
	2023	2022	2021
	(EUR thousands)		
Adjusted EBITDAR	158,938	82,916	(379)
Operating Revenue	667,982	500,170	204,107
Adjusted EBITDAR margin (%)	23.8	16.6	(0.2)

Operating margin

	For the year ended 31 December		
	2023	2022	2021 (restated)
	(EUR thousands)		
Profit / (loss) for the period	33,652	(54,219)	(135,718)
Corporate income tax	17	1,995	1,528
Finance income / (expenses)	46,669	84,228	78,221
Operating Profit / (Loss)	**80,338**	**32,004**	**(55,969)**
Operating Revenue	667,982	500,170	204,107
Operating Margin (%)	**12.0**	**6.4**	**(27.4)**

Net debt

	For the year ended 31 December				
	2023	2022	2021	2020	2019
	(EUR thousands)				
Non-current borrowings	55,838	254,464	247,767	233,300	234,743
plus non-current lease liabilities	797,258	718,012	602,083	500,052	520,826
plus Current borrowings	209,947	10,777	9,915	8,342	6,312
plus Current lease liabilities	87,491	77,565	77,329	60,690	61,343
less Cash	(29,058)	(37,999)	(79,314)	(148,305)	(123,819)
Net debt	**1,121,476**	**1,022,819**	**857,780**	**654,079**	**699,405**

Net cash capital expenditure

	For the year ended 31 December		
	2023	2022	2021
	(EUR thousands)		
Advances paid for aircraft	(8,354)	(29,111)	(31,873)
Acquisition of property, plant and equipment and intangible assets	(33,572)	(31,265)	(12,533)
Refund of advances paid for aircraft	33,424	33,222	29,267
Profit received from sales and leaseback transactions	3,796	4,715	5,848
Proceeds from sale of property, plant and equipment	1,993	1,721	1,449
Interest received	521	475	3
Net cash capital expenditure	**(2,192)**	**(20,243)**	**(7,839)**

Leverage (Net debt to Adjusted EBITDAR) (multiplier)

	For the year ended 31 December				
	2023	**2022**	**2021**	**2020**	**2019**
			(EUR thousands)		
Net debt	1,121,476	1,022,819	857,780	654,079	699,405
Adjusted EBITDAR	158,938	82,916	(379)	(152,992)	121,830
Net debt / Adjusted EBITDAR.........	**7.1x**	**12.3x**	**-**	**(4.3x)**	**5.7x**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Audited Consolidated Financial Statements including comparative information included thereto, prepared in accordance with IFRS and included in this Prospectus. You should also read the following information in conjunction with "Selected Historical Financial and Operational Information". The following discussion contains certain forward-looking statements that reflect the Group's plans, estimates and beliefs. The Group's actual results of operations may differ materially from those discussed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, including under "Risk Factors" and "Forward-Looking Statements". For a description of the financial statements, see "Presentation of Certain Financial Information". Key factors affecting comparability of financial data between periods presented in this section are discussed in "Presentation of Certain Financial Information – Key factors affecting comparability". This section also includes discussion on APMs. For a description of APMs and their definitions, please refer to "Presentation of Certain Financial Information – Alternative performance measures ("APMs") and other non-IFRS financial data".

Overview

The Company is one of the largest air carriers in the Baltics by number of passengers (see *"Business Description – The Group is an industry leader in the Baltics with a strong flight network"*). Its main base and hub is in Riga, Latvia and it has operating bases in Tallinn, Estonia, Vilnius, Lithuania, Tampere, Finland and a seasonal base in Gran Canaria, Spain. The Group is a "hybrid low-cost carrier airline", operating a low-cost carrier structure that offers traditional airline services such as a business class and full-course meals.

As at 31 December 2023, the Group operated 126 routes. Of these, 76 non-stop routes were operated from Riga, 19 from Tallinn, 15 from Vilnius, 10 from Tampere and six from Gran Canaria. In 2023, the Group opened 38 new routes and cancelled 15 routes. As there was a strong demand for leisure flights in 2023, the Group focused its growth on leisure destinations by launching new routes from its main base Riga to leisure destinations, such as Bucharest (Romania), Belgrade (Serbia), Tivat (Montenegro), Istanbul(Turkey), the Caucasus region (Yerevan (Armenia), Baku (Azerbaijan)), Agadir (Morocco), Bilbao (Spain), Burgas (Bulgaria) and Porto (Portugal) and Hannover (Germany). The Group also launched 10 new leisure routes from its bases in Tallinn, Vilnius and Tampere in 2023 and seasonal base in Gran Canaria in 2023. Since February 2022, the Group has not operated any routes to Russia or Belarus, and passenger routes to Ukraine have been suspended due to safety concerns. To help increase the transfer traffic lost due to the Russia-Ukraine conflict, several destinations with significant transfer demand potential have been launched from Riga including Tivat, Baku, Yerevan, Istanbul, Bucharest and Belgrade.

As of the date of this Prospectus, the Group operates a single-type fleet of 47 Airbus A220-300 aircraft which, as at 31 December 2023, had an average age of 3.1 years. As at 31 December 2023, the Group was the largest operator of Airbus A220 aircraft in Europe (Source: Airbus ʽOrders and Deliveries'). All of the Group's A220-300 aircraft are subject to a lease agreement. As at the date of this Prospectus, the Company has eight Airbus A220-300 aircraft under finance leasing arrangements whereby the Company will obtain ownership of the aircraft at the end of the lease term upon payment of a nominal option price of U.S.$1 in respect of the Axiom Aircraft and U.S.$10 in respect of the JALL Aircraft. The remainder of the aircraft are under operating lease agreements whereby the Company will return the aircraft to the owner of the aircraft at the end of the lease term, without taking legal ownership of the aircraft. In addition to the aircraft described above, the Company has seven Pratt & Whitney PW1521G-3 spare engines which are also under finance leasing arrangements, whereby the Company will obtain ownership of the engines at the end of the applicable lease term upon payment of a nominal option price. During 2023, excluding its ACMI activities, the Group transported 44.5 million passengers and carried over 9,445 tonnes of cargo and mail on 44,113 flights to destinations across Europe, including Scandinavia and the Baltics, and the Middle East. For the year ended 31 December 2023, the Group had a passenger load factor of 76.7%, compared to 71.2% as at 31 December 2022 and 53.6% in the year ended 31 December 2021.

Starting in 2022, the Group has increased its ACMI activities, due to the impact of COVID-19 on market growth and the impact on its business of the Russia-Ukraine conflict. For the year ended 31 December 2023, the Group contracted 14 aircraft to fly for other carriers in the 2023 Summer Season. For the Summer Season of 2024, the Group has contracted 17 aircraft to fly for Lufthansa, Eurowings and SWISS.

The COVID-19 pandemic had a significant impact on the Group's operations and demand and passenger growth was still impacted in early 2022. In July 2020, the Government of Latvia provided a €250 million cash injection into the Company, following an approval by the European Commission under the EU state aid rules. In August 2021, a further cash injection of €90 million was approved by the Government of Latvia. Subsequent approval was granted by the European Commission on 22 December 2021, and in May 2022, for the amount to be paid and in two equal tranches. The Company received the first tranche of €45 million on 28 December 2021 and the second tranche of €45 million on 7 June 2022. As a result of the COVID-19 pandemic, the Russia-Ukraine conflict and the impact these have had on the Group's operations and the wider global economy, the Group adopted a new business plan "IPO & Beyond" in 2023, establishing the Group's targets up to 2030. This plan was adjusted on 19 February 2024 and is based on increasing the fleet to 100 aircraft by the end of 2029, The business plan also addresses the capital needs for future growth by incorporating the potential IPO as early as the second half of 2024, which is intended to significantly improve the capital structure and gradual deleveraging of the balance sheet. The ACMI lease services are a significant part of the plan to which approximately a third of the fleet would be potentially dedicated.

Factors affecting the results of operations and financial condition of the Group

Factors affecting revenue

Growth

As part of the Group's growth strategy in connection with its IPO & Beyond strategy, it plans to continue to both increase the number of flights on its existing routes as well as expand its route network, which the Group expects to increase the number of passengers who travel with it and, in turn, its revenue. The Group's current fleet plan provides for an increase from 47 Airbus A220-300 operating aircraft, as at the date of this Prospectus, to 100 Airbus A220-300 aircraft by 31 December 2030. The IPO & Beyond strategy is intended to lead to customer growth for the Group, particularly in the markets in northern Europe which the Group believes are particularly suitable for Airbus A220-300 aircraft, in turn generating increased revenue for the Group (see "*Business Description – Strategy*").

The Group intends to deploy the additional seat capacity from its expanded fleet to increase flight frequencies to existing destinations, to launch new routes in its existing markets, which the Group considers have high growth prospects, and to pursue initiatives in new markets. The Group implements a disciplined route expansion strategy that seeks to maintain profitability across its network. The Group's strategy is to respond quickly to changes in the economic environment and market conditions and it aims for each route that it operates to be profitable and the Group seeks to maintain rigorous assessment of all of its existing and new routes in order to determine their profitability and opportunities to improve them (see "*Risk Factors – Risks related to the Group – The Group's new routes and expanded operations may have an adverse financial impact on its results*").

In the medium-term, the Group plans to deploy significant capacity with other carriers on an ACMI contract basis. The Group has sought to develop its ACMI business in order to provide greater revenue stability in light of available capacity, particularly in the post COVID-19 period and following the outbreak of the Russia-Ukraine conflict. For the year ended 31 December 2023 the Group contracted 14 aircraft to fly for other carriers in the Summer Season of 2023. For the Summer Season of 2024, the Group has contracted 17 aircraft to fly for Lufthansa, Eurowings and SWISS. Due to its unique offering in terms of aircraft type (it believes that it is the only operator providing the A220 series aircraft on an ACMI basis) and the high service quality due to the Group being a scheduled carrier, the Group believes that it has significant advantages in offering ACMI services to European network full-service carriers.

Pricing

While seeking to maximise daily utilisation of its fleet, the Group focuses on optimising its target yields and load factors in order to maximise the revenue it generates on any particular route. Its revenue from scheduled passenger traffic includes all ticket sales to passengers through its sales channels as well as sales based on its web linking and code sharing agreements, including with Air France/KLM, SAS, Lufthansa Group and other carriers. The Group believes that its revenue management system provides it with the ability to understand its markets, anticipate customer behaviour and respond quickly to new opportunities. The Group uses this system in an effort to maximise passenger revenue by flight, by route and across its entire route network. The Group's revenue management system employs complex statistical models and algorithms to forecast, among other metrics, passenger demand and passenger willingness to pay for each individual flight at any time before departure of the flight. The system forecast is supplemented with competition pricing data, inputs about holidays, special events and other market trends. This allows the system to simulate results of various pricing strategies and apply most revenue maximising prices for each flight and seat at any given time. The process of price optimisation occurs automatically in real time across whole route network. This ensures dynamic price changes in response to evolving booking activity on flights. Furthermore, the revenue management system supports large-scale price management. This incorporates the execution of sales campaigns for segmented selection of flights, reaction to competitor's withdrawal or entry on a route, union strikes or any other external events affecting the Group's operated markets.

The Group's RASK from scheduled flight operations increased by 2.5% to €6.89 for the year ended 31 December 2023, from €6.72 for the year ended 31 December 2022. This increase was due to higher passenger yields and a greater load factor for the year ended 31 December 2023 compared to the year ended 31 December 2022, reflecting in particular the post-COVID normalisation of travel patterns. The RASK from scheduled flights operations increased by 34.1% from 2021 to 2022. The increase in 2022 was due to the market recovering from the COVID-19 pandemic resulting in ASK increasing by 56.4% and passenger revenue increasing by 121.3% in 2022 compared to 2021. The following table sets forth the Group's RASK for the periods indicated.

	For the year ended 31 December		
	2023	**2022**	**2021**
		(EUR cent)	
RASK	6.89	6.72	5.01

See also "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors affecting the results of operations and financial condition of the Group – Factors affecting revenue – Capacity and Capacity utilisation*".

The Group's revenues are mainly driven by the number of passengers who travel with it as well as the terms of its ACMI contracts. The number of passengers is, in turn, impacted by the number of aircraft in the Group's fleet, the utilisation of the aircraft, the availability of departure and arrival times and slots at the airports that it serves and general local and global economic and competitive conditions. The Group increased the number of routes it operated in the year ended 31 December 2023 to 126, growing from 103 in 2022 and 94 in 2021. Seat capacity grew by 22% in year ended 31 December 2023, compared to the year ended 31 December 2022. There were 38 new routes operated, while 15 routes were cancelled in the year ended 31 December 2022. With the demand for leisure flights being strong, growth focused on leisure destinations (for example, new routes from Riga to Bilbao, Porto, Burgas and Tivat), the airline also launched 10 new leisure routes from its bases in Tallinn, Vilnius, Tampere and Gran Canaria. To help increase the transfer traffic lost due to the Russia-Ukraine war (*see* "*Risk Factors – Risks related to the Group – The Group's business is exposed to political and economic events and trends in the Baltics, Nordics, Russia, Ukraine, the CEE and elsewhere*"), several destinations with significant transfer demand potential have been launched from Riga (Tivat, Baku, Yerevan, Istanbul, Bucharest, and Belgrade). In order to increase its presence outside of the Baltics, the Group opened a new base in Gran Canaria on 1 December 2023 with two based aircraft flying to ten destinations in the Baltic and Nordic countries.

Capacity and efficiency of the Group's Fleet

The following table sets forth information on the Group's fleet and passenger capacity as at and for the periods indicated.

	As at or for the year ended 31 December			Change from 2022 to 2023	Change from 2021 to 2022
	2023	**2022**	**2021**		
Capacity					
Number of aircraft at end of period*	46	39	32	18%	22%
Total ASKs (million km)	10,781	8,516	4,092	27%	108%
Airline operating data					
ASKs (million km)	8,213	6,299	4,027	30%	56%
Seat capacity ('000)	6,346	5,183	3,319	22%	56%
Average aircraft stage length (km)	1,289	1,210	1,213	7%	0.3%

* Excluding all phased out and grounded De Havilland Q400 fleet as at 31 December 2021 (12 aircraft) and 31 December 2022 (12 aircraft) and as at 31 December 2023 (zero aircraft).

The Group has, in line with its growth strategy, gradually increased the number of aircraft in its fleet with a focus on increasing the capacity of its scheduled and ACMI operations.

The Group's management believe that the fleet transition to a new generation of more efficient aircraft will be a key driver for improvement in its future financial performance through, among other things, better fuel efficiency and a simplified fleet structure. In 2020, the Group completed its phase-out of the Boeing 737 and began operating a single-type fleet consisting only of the modern Airbus A220-300 aircraft. The Airbus A220-300 is one of the most efficient commercial jet aircraft available as compared to previous generation aircraft and ICAO CAEP/6 emissions regulations. The A220-300's Pratt & Whitney engines contribute to the aircraft's lower carbon and noise footprint; with up to 25% lower fuel burn per seat and a 50% lower noise footprint compared to previous generation aircraft (Source: Airbus). By modernising its fleet and optimising flight procedures, by 2022 the Group was able to reduce the amount of CO_2 emissions released per revenue passenger km flown by approximately 24% compared to 2015, before the Group started receiving the delivery of the new Airbus A200-300 fleet (Source: Airbus). While continuing to receive brand new aircraft, fuel efficiency and CO_2/RPK are expected to further decrease in the upcoming years. As of 31 December 2023, the Group operated 46 Airbus A220-300 aircraft, and it plans to operate 50 Airbus A220-300 aircraft by the end of 2024 and, as part of its IPO & Beyond business plan, 100 Airbus A220-300 aircraft by 31 December 2029. By February 2023, the Group had returned to the leasing company all 12 De Havilland Q400 aircraft after being phased out from the Group's fleet in 2022.

In light of unpredictable demand in the Baltics, particularly after the COVID-19 pandemic began, the Group has sought to make use of its spare capacity through leasing the aircraft on an ACMI basis to other carriers. In 2021, the Company restarted ACMI services, which had been suspended at the start of the COVID-19 pandemic. The Group provided ACMI services to Flyr (Norway) in the Summer Season of 2021. In the IATA winter season beginning on the last Sunday of October and ending on the Saturday before the last Sunday of March in the following year (the "**Winter Season**") of 2021-2022 the Group provided ACMI services for SAS (between 5 November 2021 and 26 March 2022) and Eurowings (between 13 December 2021 and 26 March 2022). The Group enlarged ACMI operations in the Summer Season of 2022 by wet leasing a total of 11 aircraft to SAS, Eurowings and Eurowing Discover. During the Winter Season of 2022-23, up to six aircraft were operating under a wet-lease contract for SWISS in Zurich. During the Summer Season of 2023, the Group leased out 14 aircraft to SWISS, Eurowings and SAS. The Group intends to place more emphasis on providing ACMI services as part of its IPO & Beyond business plan. For the Summer Season of 2024, the Group has contracted 17 aircraft to fly for Lufthansa, Eurowings and SWISS.

For the year ended 31 December 2023, the Group increased its seat capacity by 22% and scheduled flights by 18% compared to the year ended 31 December 2022, driven by the growth in operations as the Group continued to adapt and expand its operations after being impacted by the COVID-19 pandemic and the Russia-Ukraine conflict.

For the year ended 31 December 2022, the Group increased its seat capacity by 56% and scheduled flights by 59% compared to the year ended 31 December 2021, adjusting to the growth in demand for travel following the COVID-19 pandemic.

For the year ended 31 December 2023, the load factor increased to a record 76.7% from 71.2% for the year ended 31 December 2022, indicating a continued demand for flights on the Company's network.

For the year ended 31 December 2022, the load factor increased to 71.2% from 53.6% for the year ended 31 December 2021, indicating a continued demand for flights on the Company's network despite the closure of its routes to and from Ukrainian, Russian and Belarus destinations. This demonstrates the Company's adjustment of its capacity to minimise reliance on Eastern direct and transfer traffic and minimise the commercial impact of the Russia-Ukraine conflict.

Capacity utilisation

The Group measures its capacity utilisation primarily in terms of average block hours flown per aircraft per day. The following table sets forth information on the utilisation of the Group's fleet for the periods indicated for all flight operations, including ACMI operations.

	For the year ended 31 December		
	2023	**2022**	**2021**
	(EUR thousands, except where otherwise stated, unaudited)		
Total Capacity			
Utilisation (block hours per aircraft per day)..	7.6	7.7	4.8
Total block hours..	132,943	103,923	48,749
Total flight hours..	112,641	89,275	41,910
Airline Operating data			
RPKs (revenue passenger kilometres) (million km)...	6,300	4,482	2,158

While the Group continues to grow its fleet, it will also seek to increase its capacity utilisation. The block hours per aircraft per day decreased by 0.4% to 7.6 hours for the year ended 31 December 2023 from 7.7 hours for the year ended 31 December 2022, reflecting a number of aircraft grounded in 2023 due to engine issues in the summer peak. The block hours per aircraft per day increased by 60% to 7.7 hours for the year ended 31 December 2022 from 4.8 hours for the year ended 31 December 2021, reflecting the decreasing impact of the COVID-19 pandemic on the Group's operations and the aviation industry in general in 2022.

Ancillary Revenue

Ancillary revenue represented 6.4% of the Group's total revenue for the year ended 31 December 2023, compared to 6.5% and 8.8% in the years ended 31 December 2022 and 2021, respectively. For the year ended 31 December 2023, the Group's ancillary revenue was €42.6 million, an increase of €10.2 million or 31.4% as compared to ancillary revenue of €32.4 million for the year ended 31 December 2022. The increase was primarily attributable to the following factors:

- the continued economic recovery from both the impacts of COVID-19 pandemic and the Russia-Ukraine conflict: 2023 showed a continued strong increase in passenger demand as well as an increase in willingness to spend on optional services, such as baggage allowances, meals and seat reservations since, in general, ancillary revenue is impacted by the number of passengers;
- network diversity improvements in 2023: the Company continued to expand its leisure focused routes which, typically, is a market with higher ancillary services demand;
- increased prices on other services related to main products (such as baggage allowances and seat reservation) and dynamic pricing implementation: in 2023, the Company adjusted the value of certain ancillary services, leading to more passengers opting to purchase such services and thus contributing to a positive revenue uplift;
- regular and scheduled advertising campaigns, special ancillary product promotions and post-booking upselling: in 2023, the Company performed targeted ancillary products advertising campaigns during general ticket sales actions;
- continuous improvement of the shopping process, simplifying purchase process at the main sales channel airbaltic.com: in 2023, the Group continued this improvement, which in general, encouraged more ancillary sales; and
- new product implementation including travel insurance offering on all touchpoints, the increased availability of special meals (such as vegan options) and a meet and assist service for group passengers.

For the year ended 31 December 2022, the Group's ancillary revenue was €32.4 million, an increase of €14.5 million or 80.8%, compared to €17.9 million for the year ended 31 December 2021. The increase was primarily attributable to the strong economic recovery from the COVID-19 pandemic, additional routes, increased prices, advertising campaigns and upselling.

The Group intends to continue to diversify its ancillary revenues by providing new products and systems, including:

- PROS system: new pricing logic and discount possibilities on seats, baggage and in-flight meals;
- IBE ancillary product redesign: update of existing products, new visuals and placement;
- Dynamic ancillary science: dynamic pricing for seats and baggage (registered, heavy hand baggage, special equipment);
- lounges and fast track security checks worldwide;
- merchandising and bundling system for ancillary products: greater upsell, different combinations, personalisation;
- advanced upgrade to business class option; and
- SAF dynamic pricing implementation providing passengers with the flexibility to fully or partially offset CO_2 emissions through the utilisation of SAF or carbon credits.

Factors affecting costs

Changes in fuel prices

Fuel is one of the Group's largest operating expenses and accounted for €156.1 million, €150.7 million and €47.0 million of the Group's operating expenses and 26.6%, 32.2% and 18.1% of total operating expenses and claims compensations for the years ended 31 December 2023, 2022 and 2021, respectively. Fuel costs are subject to wide fluctuations and influenced by the global economic and political environment, including events that the Group can neither control nor accurately predict, including increases in demand, sudden disruptions in supply and other concerns about global supply, as well as market speculation. Fluctuations in fuel prices were reflected in the average market fuel price per ton which decreased to U.S.$887 per tonne in 2023 from U.S.$1,093 per tonne in 2022 and increased from U.S.$604.5 per tonne in 2021. As the Group's fuel costs are incurred in U.S. dollars, fluctuations in the value of the U.S. dollar against the euro also affect its fuel costs, see "*Exchange rate fluctuations and foreign currency translation*". Changes in fuel prices have had a significant impact on the Group's costs and, in turn, on the results of operations.

To reduce the Group's exposure to increasing fuel prices, the Group has historically hedged some of its fuel consumption at a fixed price. The Group recorded a fuel hedge gain of €0.5 million in 2023 (representing only settled hedge gains/losses). The Group closed its first jet fuel hedge post-COVID-19 during the year ended 31 December 2023, securing 6,000 tons, which represented 3.4% of the fuel consumption for the year ended 31 December 2023, at a price of €675.6 per ton. As at 29 February 2024, the Group has hedged approximately 18% of its expected fuel consumption for 2024. For fuel hedging purposes, the Group typically enters into jet fuel swap contracts with fuel providers. These contracts are used to hedge the Group's forecasted fuel purchases, and are arranged to match as closely as possible against forecasted fuel delivery and payment requirements. These contracts are designated as cash-flow hedges of forecasted fuel payments and have been determined by the Group to be effective in offsetting variability in future cash flows arising from fluctuations in jet fuel prices. No hedges were in place for 2022 compared to a hedge coverage of 7.6% in 2021.

The Group is also focused on the fuel efficiency of its fleet, which was significantly enhanced by the change in 2020 to a fleet consisting only of the modern Airbus A220-300 aircraft. The fleet transition to new generation, more efficient A220-300 aircraft is considered by management to be a key driver for improvement in future financial performance through, among other things, better fuel efficiency and a simplified fleet structure. While continuing to receive brand new aircraft, fuel efficiency and CO_2/RPK are expected to further decrease in the upcoming years (see "*Risk Factors – Risks related to the Group – Increases in fuel costs may adversely affect the Group's results of operations*").

High level of fixed costs

The nature of the airline business is such that a high proportion of a carrier's operating expenses, such as aircraft ownership (including depreciation and maintenance) and a significant portion of personnel expense, are fixed and do not vary proportionally based on load factors, number of passengers carried, number of flights flown or aircraft utilisation rates. Thus, a change in the Group's load factors or yields can have a major effect on its results of operations.

	As at or for the year ended 31 December		
	2023	**2022**	**2021**
		(EUR thousands)	
Personnel costs	(107,249)	(76,704)	(51,830)
Amortisation and depreciation	(91,070)	(74,280)	(51,604)
Aircraft and similar lease costs	(76,189)	(22,921)	(4,365)
Marketing and tickets sales costs	(41,915)	(30,950)	(14,268)
Other operating costs	(31,819)	(25,904)	(18,736)
Aircraft maintenance	(24,798)	(15,004)	(9,960)
Fixed costs per Total ASK (€ cents)	**(3.46)**	**(2.89)**	**(3.68)**

Fixed costs are also susceptible to inflation risks as general inflation (especially high inflation levels) tend to also impact the fixed cost base. Price inflation has been especially pronounced for aircraft maintenance in recent years following the COVID-19 pandemic and the Russia-Ukraine conflict, as well as pressure on salary levels due to overall inflation. Similarly, the Group's operating results can be substantially affected by relatively small changes in aircraft utilisation rates. The high level of fixed costs further accentuates the cyclicality prevailing in the airline industry. While the Group is continuously trying to improve its cost structure, the high level of fixed costs may have a negative effect on its financial condition and results of operations (see "*Risk Factors – Risks related to the Group – The Group faces significant price and other pressures in a highly competitive environment*").

The Group seeks to achieve direct cost savings to maintain the lowest and most flexible cost structure through, among others, (i) optimising the fleet through increasing the share of new generation fuel efficient aircraft, (ii) increasing the fuel efficiency of the fleet through (a) minimising the engine thrust used for deceleration on the runway using the idle reverse feature, (b) reducing aerodynamic drag and fuel burn by performing reduced flaps take-off and landing, (c) shutting down one engine shortly after landing and taxiing using the single engine taxi-in procedure, (d) performing a continuous descent arrival without levelling off or engine thrust increase about the flight idle thrust and (e) shortening the total distance flown by several miles per sector by taking off in the direction of flight and other similar initiatives to reduce the amount of fuel burned and CO_2 emissions released, (iii) increasing the daily aircraft utilisation which, in return, creates economies of scale, (iv) lean and agile management, (v) digitalisation not only for commercial purposes (e.g., direct digital sales) but also for operational purposes by utilising robotic applications in daily business operations, (vi) insourcing a significant part of the ground handling services in its main airport base, Riga International Airport and (vii) centralised procurement. The Group aims to continue to increase employee efficiency to manage its fixed costs.

A significant portion of the Group's expenses are denominated in U.S. dollars including fuel, aircraft, loans, aircraft leasing expenses, maintenance, insurance and capital expenditures. The Group's fixed costs and therefore its operations and financial performance can be significantly affected by fluctuations in the exchange rate of the U.S. dollar against the euro. In particular, a significant portion of its operating costs are incurred in U.S. dollars while the majority of its revenues are denominated in Euro. Although the Group engages in indirect foreign currency hedging transactions, by hedging jet fuel with foreign currency swap contracts, the Group's hedging activities do not seek to fully eliminate currency risks. In addition, any strengthening of the U.S. dollar against the euro could have an adverse effect on the cost of buying fuel in euro. For additional information on the Group's foreign exchange exposures, see "*Factors affecting costs - Exchange rate fluctuations and foreign currency translation*".

Investments and capital expenditures

The Group's purchase orders with Airbus are subject to confidential price and payment term concessions from the listed purchase prices as well as adjustments based on escalation adjustment clauses (subject to a maximum limit), and thus the actual purchase price the Group pays for the aircraft it has ordered will be different, typically lower, than their listed prices. Based on expected prices at the date of delivery (i.e., listed prices that exclude price and payment term concessions but take into consideration the Group's expectation of applicable escalation adjustments and aircraft configurations), the Group's capital expenditures related to the remaining three aircraft to be delivered by the end of 2024 is expected to be below the aggregate listed price of €335 million. For additional information on the Group's future capital expenditures and financing arrangements, see "*Liquidity and Capital Resources – Capital expenditures*", "*Liquidity and Capital Resources – Contractual Obligations*" and "*Liquidity and Capital Resources – Indebtedness – Short-term and long-term borrowings*."

Interest rate fluctuations

The Group's financial expenses relate primarily to interest expenses for aircraft financing. Interest expenses generally vary in accordance with the Group's liabilities under its aircraft financing arrangements. However, the majority of interest rates charged on borrowings are not sensitive to interest rate movements as they are fixed until maturity. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, alternative financing and hedging. The Group has not used financial derivatives to hedge its interest rate risk during the year. As of 31 December 2023, 31 December 2022 and 31 December 2021, 3.3%, 3.7% and 4.5%, respectively, of the Group's outstanding net indebtedness were linked to variable interest rates.

Exchange rate fluctuations and foreign currency translation

The functional currency and presentation currency of the Group is euro. As of 31 December 2023, approximately 23% of the Group's revenues are denominated or linked to the U.S. dollar, while 29% of the Group's total cash expenses and claims compensation are U.S. dollar denominated, including fuel, maintenance, insurance, capital expenditure costs and interest expenses. As a result, the Group's results of operations have been and will continue to be affected by fluctuations in the U.S. dollar against the euro. Gains and losses on transactions are recognised in the income statement under foreign exchange gains / (losses).

For the years ended 31 December 2023, 2022 and 2021, 29%, 44% and 42%, respectively, of the Group's total cash expenses and claims compensation were incurred in U.S. dollars. For the years ended 31 December 2023, 2022 and 2021, 23%, 24% and 10%, respectively, of the Group's revenues were incurred in U.S. dollars, including its ACMI lease activities. The net exposure was lower in the year ended 31 December 2023 because it was impacted by the commercial support received in U.S. dollar, mitigating the foreign exchange impact on the Group's operating expenses, without which the Group's expenses incurred in U.S. dollars for the year ended 31 December 2023 would be 37% of the Group's total expenses. The weakening of the U.S. dollar against the euro has a positive impact on the Group's results of operations and strengthening has a negative impact as the Group has more U.S. dollar denominated operating expenses than revenues.

The following table sets forth the Group's foreign exchange gains and losses on assets and liabilities, net for the periods indicated.

	As at or for the year ended 31 December		
	2023	**2022**	**2021**
		(EUR thousands)	
Foreign currency exchange gain / (loss), net..	16,664	(25,379)	(26,855)

The Group does not use any direct currency hedging instruments.

Other factors affecting the Group's results of operations

Local and global economic and competitive conditions

Airline operating results are sensitive to economic and geopolitical conditions that can have a significant impact on the demand for air transportation. Robust demand for the Group's air transportation services depends largely on favourable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. For leisure travellers, air transportation is often a discretionary purchase that they can eliminate from their spending in difficult economic times. In addition, during periods of poor economic conditions, businesses usually reduce the volume of their business travel, either due to cost-saving initiatives or as a result of decreased business activity requiring travel. A downturn in economic growth in Latvia or Europe or Asia, as well as geopolitical instability in various areas of the world, would have the effect of reducing demand for air travel within Latvia and Europe and the Group's other markets, which, in turn, would affect its results of operations. However, the Group also believes that travellers look for more affordable alternatives for their travel needs during economically challenging times, which, in turn, can benefit hybrid low-cost carriers like the Group during such periods.

The Russian invasion of Ukraine has led to disruption, instability and volatility in global markets and industries. The U.S. government and other governments across the world have imposed severe economic sanctions and export controls against Russia and Russian interests, Russia has been removed from the SWIFT system, and additional sanctions may be imposed as the situation in Ukraine progresses. The Group believes that the military aggression demonstrated by Russia towards Ukraine will continue to have a significant impact on the Group's operations. Likewise, the Group believes that the recent unrest in the Middle East and the Israel-Hamas conflict will also impact its operations (see "*Risk Factors – Risks related to the Group – The Group's business is exposed to political and economic events and trends in the Baltics, Nordics, Russia, Ukraine, the CEE and elsewhere*").

Competition

The Group operates in a highly competitive market and is in intense competition with a number of other air carriers for travellers, (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Other factors affecting the Group's results of operations – Competition*"). The Group's competitors may seek to protect or gain market share through, for example, fare-matching or price discounting. The Group may be vulnerable to price discounting by competitors because it is generally required to respond to competitors' fares in order to maintain or grow passenger traffic levels through competitive pricing. If the Group's competitors engage in price cutting or make other changes in their services in an attempt to increase their market shares and the Group is not able to respond effectively to maintain its market share, its passenger revenues could decline, which could have a material adverse effect on results of operations.

Seasonal fluctuations

The Group's results of operations vary from quarter to quarter within the year. The Group's passenger volumes are subject to seasonality, with peaks around holiday seasons. Historically, the Group has generated most of its revenue during the Summer Season between April and October each year, as demand is higher during this period, while its fixed costs are incurred more evenly throughout the year. As a result, the Group usually generates lower revenue and cash flows during the Winter Season from November through March and records lower operating results in the first and fourth quarters of its financial year. Due to seasonality of demand, together with the high proportionality of fixed costs, the Group's operating results have varied, and are expected to continue to vary, from quarter to quarter.

The tables below set out the fluctuations across key metrics between the Summer Season and the Winter Season.

	Summer Season		
	2023	**2022**	**2021**
Passengers carried (*million*)	3.10	2.35	1.20
Passenger load factor (*%*)	79.4	76.2	56.5
Cargo (*tonnes*)	5,293	5,603	4,961

Number of flights	28,344	24,367	15,839
Routes	106	94	91

	Winter Season		
	2022/2023	**2021/2022**	**2020/2021**
Passengers carried (*million*)	1.33	0.77	0.19
Passenger load factor (*%*)	70.8	51.7	37.1
Cargo (*tonnes*)	4,080	4,748	3,425
Number of flights	14,839	12,381	4,230
Routes	65	76	47

Status as a going concern

In Management's view, based on the current market trends and considering projected growth in bookings and expected operating performance, the Group, taking account of the successful issue of the Bonds, has sufficient cash to maintain its operations for 12 months following the signing of the 2023 Audited Consolidated Financial Statements.

As at 31 December 2023, the Group had negative equity of €48.3 million compared to negative equity of €82.0 million and €118.3 million as at 31 December 2022 and 2021 respectively. As at 31 December 2023 the Group's current liabilities exceeded its current assets by €380.0 million and the cash balance as at 31 December 2023 year was €29.1 million compared to €38.0 million and €79.3 million as at 31 December 2022 and 2021 respectively.
Taking into account the improved performance in 2024 and the conditions in the Group's core markets, Management believes that the going concern assumption is appropriate as at the date of this Prospectus.

The Group continues to experience significant uncertainty related to the refinancing of the Existing Bonds which mature in July 2024. The uncertainty is related to the amount of debt financing that the Group will be able to raise before the Existing Bonds mature and the related financing cost. The Group is actively pursuing measures to refinance the Existing Bonds.(see "*Risk Factors – Risks related to the Group – The Group may not have sufficient liquidity to fulfil its obligations*").

The Government of Latvia, as the majority shareholder of the Company, could potentially also make use, after approval by the European Commission, of certain support mechanisms available to it, for example:

- *Support under the Temporary Crisis Framework.* This framework was originally put in place in March 2022 as a Temporary Crisis Framework to provide support to the economy following the aggression against Ukraine by Russia. The Temporary Crisis Framework complements the existing state aid toolbox with many additional possibilities, such as measures to provide compensation to companies for damages directly suffered due to exceptional circumstances, or to support the transition to green and renewable energies.

- *Support for damage compensation under Article 107(2)b of the EU Treaty*. Such support can be given as long as there is a direct causal link between the damage caused to the Company and the consequences stemming from the exceptional circumstances (e.g. the COVID-10 pandemic, the Russia-Ukraine conflict etc.).

In addition to the support mechanisms listed above, the Government can always invest in the Company on market terms – for example on the same terms (*pari passu*) as private investors, with the same expected risk-return profile. Such investment is not considered state support and does not require the European Commission's approval.

See "*Risk Factors – Risks related to the Group – The Group has been, and may be, subject to investigations and claims relating to state aid", "Presentation of Certain Financial Information – Emphases of Matter in the independent auditor's reports to the Financial Statements*" and Note 2b of the 2023 Audited Consolidated Financial Statements.

Recent Trading and Developments

Since 31 December 2023, the Group has continued to experience strong performance in its core markets. Passenger numbers in the Group's network have increased year over year, with a total of 926,113 passengers in the first three months of 2024 as compared to 769,824 passengers in the first three months of 2023, an increase of 20%. The total number of flights conducted in the Group's network was 9,611 in the first three months of 2024, as compared to 8,696 in the first three months of 2023. For the first three months of 2024, ASK increased to 1.9 billion, as compared to 1.4 billion in the corresponding period of 2023; load factor improved to 75.9% from 71%, RPK increased to 1.5 billion from 1.0 billion; and total flights, including ACMI out flights the Company operates for other airlines, increased to approximately 12,300, as compared to approximately 11,400 in the same period of 2023. Improved spare engine supply resulted in an average of 3.4 grounded aircraft in the first three months of 2024, as compared to an average of 13.0 grounded aircraft in the same period of 2023 The Company's preliminary estimated total revenue for the first quarter of 2024, calculated on a consolidated basis based on management accounts (which may differ from the Company's consolidated financial information prepared in accordance with IFRS), was approximately EUR 132 million, an increase of approximately 26% as compared to the corresponding period of 2023. See "*Forward-Looking Statements*".

The Group's ACMI operations also continued to experience strong performance. The total number of ACMI flights conducted by the Group remained stable at 2,700 in the first three months of 2024, as compared to 2,700 in the first three months of 2023. For the first three months of 2024, ASK in relation to ACMI operations increased to 0.32 billion, as compared to 0.28 billion in the first three months of 2023.

In addition, airBaltic expects that it will finalize a FMP agreement with Pratt & Whitney, which will allow for more predictable engine maintenance process and cost management, by the end of the second quarter of 2024. See "*Risk Factors – Risks related to the Group – Dependency on Airbus A220-300 aircraft*".

The Group repaid the Swedbank Loan on 8 May 2024.

In connection with its refinancing plans, the Company is in discussions with a potential strategic pre-IPO investor.

Description of main income statement line items

Revenue and other income

The Group's revenue and other income comprises revenues from ticket revenue, ACMI lease revenue (lease and non-lease components), ancillary revenue, charter revenue, cargo revenue, other revenue and other income.

Ticket revenue

The majority of the Group's revenue is derived from the sale of seats to passengers on its scheduled flights. The main factors affecting the Group's ticket revenue are its capacity, capacity utilisation, markets served, including passenger load factors, fare levels and average income per passenger.

ACMI lease revenue

ACMI lease revenue includes the sale of short-term leasing of aircraft to other airlines. ACMI lease revenue is recognised when the service is provided. The Group allocated the consideration in the ACMI contract to the lease and non-lease components based on the internal assessment (taking into considerations the nature of the costs for ACMI services) of their relative stand-alone prices. There are non-lease components attributable to the rent of crew, maintenance and insurance. Revenue for the non-lease component is recognised over the lease term similarly to lease income. The average lease term is six months. The ACMI lease revenues are neither priced nor invoiced separately and are separated for the purposes of the 2023 and 2022 Audited Consolidated Financial Statements only. In prior periods, the Group did not allocate the consideration in the ACMI contract to the lease and non-lease components, which were both reported as a single line item "Aircraft lease revenue", reflecting the lesser significance of the ACMI operations at such time.

Ancillary revenue

The Group generates ancillary revenue primarily through the provision of ancillary services which are additional products and services in connection with its scheduled flights and, to a lesser extent, standard charter flights. The Group generates ancillary revenue from 32 separate ancillary services including services related to the sale of tickets, such as advance seat reservations, baggage fees, inflight services, services provided by ground operations, animal carriage and special equipment transport such as sport equipment. The ancillary revenue is recognised when the flight is flown in accordance with the flight traffic program.

Charter revenue

Charter revenue comprises revenue from the Group's charter operations. Charter revenue is recognised when the service is provided.

Cargo revenue

Cargo revenue is generated through the sale of cargo services. The majority of the revenue is generated via underbelly cargo and mail transportation services on the Group's scheduled flights and cargo handling services in Riga International Airport. The Group has also utilised its passenger aircraft as cargo charters for the transport of vital medical protective equipment to Latvia. Cargo revenue is recognised when the service is provided, usually delivery in one day (i.e., at point of time).

Other revenue

Other revenue includes the revenue generated from the pilot training services operated by Air Baltic Training and the cargo handling services operated by BKC. The line item also holds different revenue streams of individually insignificant amounts, such as de-icing revenue, advertising or marketing revenue, souvenir sales revenue and uniform sales revenue. All these revenues arise from contracts with customers.

Other income

Other income represents profit from sale and leaseback transactions.

Operating expenses and claim compensations

The principal components of the Group's operating expenses and claim compensations are fuel, airport, handling and en route charges, amortisation and depreciation, personnel costs, marketing and ticket sales costs, other operating costs, cost of carbon emissions allowances, aircraft and similar lease, aircraft maintenance, passenger service, provisions for legal disputes, claim compensations and net impairment charges on right of use assets.

Fuel

Fuel costs include the cost of fuel used to operate the Group fleet and the costs of delivering fuel from suppliers to aircraft. The Group uses commodity derivatives to reduce the commodity risks, which arise from its future jet fuel purchases (see "*Risk Factors – Risks related to the Group – Increases in fuel costs may adversely affect the Group's results of operations*").

Airport, handling, and en route charges

The Group pays fees to the operators of the airports to and from which it flies, including aircraft landing fees and charges for the use of airport facilities. The Group also pays fees to ground handling companies for services and fees for flying over countries en route to the destination airport including customer services. These expenses are directly impacted by the number of flights flown.

Personnel costs

Personnel costs include remuneration, social insurance contributions and other personnel expenses.

Amortisation and depreciation

The major item in the Group's amortisation and depreciation is principally the depreciation of the cost of its aircraft and, to a lesser extent land and buildings. Depreciation of buildings and aircraft equipment 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 rates set by the management. As the components of aircraft have varying useful lives, 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).

Aircraft and similar lease

Aircraft and similar lease expenses include the cost of short-term aircraft leases from other airlines, the lease of spare engines for the Group's fleet and the applicable maintenance contributions for such aircraft or engine leases. The costs are recognised when the service is delivered.

Marketing and tickets sales costs

Marketing and tickets sales costs include credit card processing fees, travel agent commissions and related global distribution systems fees, advertising and sponsorship costs.

Other operating costs

Other operating costs include provision for onerous contracts (made by discounting the unavoidable costs related to the De Havilland Q400 aircraft lease contracts, such as redelivery costs, maintenance costs and others), crew duty trip expenses, professional costs, IT maintenance services and other costs.

Cost of carbon emissions allowances

Cost of carbon emissions allowances are the cost of the industry CO_2 emissions schemes according to EU Emission Trading System ("**EU ETS**") and Carbon Offsetting and Reduction Scheme for International Aviation ("**CORSIA**") rules (see "*Business Description – Environmental impact of the business – EU Emissions Trading*").

Aircraft maintenance

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

Passenger service

Passenger service costs include meals, drinks and materials on board, business lounge costs related to loyalty programme participants eligible for business lounge visits, irregular expenses related to flight irregularities, such as meals and refreshments, hotel accommodation and transportation to/from the place of accommodation (if necessary), free communication options and financial compensation, if required to do so by legislation.

Provisions for legal disputes

The Group is involved in a number of legal disputes in Latvia and in other countries. Typical disputes relate to claims that arise in the ordinary course of the Group's business. The Group is a defendant in a number of claims relating to employment and is also involved in a number of contractual disputes that could result in litigation if not otherwise resolved by the Group and the relevant parties. The Group has made provisions for litigation brought against it by its former suppliers (*see "Business Description – Litigation").*

Claim compensations

Claim compensation includes various compensations received under the supplemental commercial support agreements concluded with Pratt & Whitney, insurance indemnities as well as various indemnities under guarantee contracts. Claim compensations are recognised when they have been received or have become receivable by the Group.

Finance income / (expenses)

Finance income / (expenses) include finance costs, foreign currency exchange (loss) / gain, net, and finance income.

Finance costs

Finance costs comprise of interest expense on leases, interest expense on borrowings and other interest and similar expenses.

Foreign currency exchange (loss) / gain, net

Foreign currency exchange (loss) / gain, net comprises foreign exchange (losses) / gain on assets and liabilities, net and foreign exchange losses on foreign currency settlements, net.

Finance income

Finance income consists of interest income on bank deposits.

Results of operations for the years ended 31 December 2023, 2022 and 2021

The following table sets forth the Company's consolidated statement of profit or loss and other comprehensive income information for the periods indicated:

Year ended 31 December

	2023	2022 (restated)	2021 (restated)
		(EUR thousands)	
Operating Revenue			
Revenue	664,186	495,455	198,259
Other income	3,796	4,715	5,848
Total	**667,982**	**500,170**	**204,107**
Operating Expenses and Claim Compensations			
Fuel*	(156,084)	(150,678)	(46,967)
Airport, handling and en route charges	(114,413)	(86,192)	(53,853)
Personnel costs	(107,249)	(76,704)	(51,830)
Amortisation and depreciation	(91,070)	(74,280)	(51,604)
Aircraft and similar lease costs	(76,189)	(22,921)	(4,365)
Marketing and tickets sales costs	(41,915)	(30,950)	(14,268)
Other operating costs	(31,819)	(25,904)	(18,736)
Cost of carbon emission allowances*	(22,259)	(19,249)	(5,874)
Aircraft maintenance	(24,798)	(15,004)	(9,960)
Passenger service	(10,507)	(12,573)	(2,998)
Provision for legal disputes	8,073	(500)	(312)
Claim compensations	80,586	46,789	691
Total	**(587,644)**	**(468,166)**	**(260,076)**
Finance Income / (expenses)			
Finance costs	(63,855)	(58,961)	(51,519)
Foreign currency exchange gain / (loss), net	16,664	(25,379)	(26,855)
Finance income	522	112	153
Total	**(46,669)**	**(84,228)**	**(78,221)**
Profit / (Loss) Before Tax	**33,669**	**(52,224)**	**(134,190)**
Corporate income tax	(17)	(1,995)	(1,528)
Profit / (Loss) for the Year	**33,652**	**(54,219)**	**(135,718)**

* In 2023 the Group changed its presentation of Fuel and CO_2 costs by separating Cost of carbon emission allowances as a separate line in Operating expenses and claim compensations. The cost of fuel and carbon emission allowances are disclosed in this Prospectus on a revised presentation basis for all periods presented, as further explained in Note 2(a) to the 2023 Audited Consolidated Financial Statements.

Operating revenue

In 2023, the Group's operating revenue was €668 million, an increase of €167.8 million or 33.6% compared to a total operating revenue of €500.2 million in 2022. In 2022, the Group's operating revenue was €500.2 million, an increase of €296.1 million or 145.1% as compared to operating revenue of €204.1 million in 2021.

The following table sets forth the principal components of the Group's operating revenue.

	For the year ended 31 December		
	2023	**2022**	**2021 (restated)**
		(EUR thousands)	
Operating Revenue			
Ticket revenue	496,599	367,422	162,708
ACMI lease revenue (non-lease component) [(1)]	61,407	47,827	1,344
Ancillary revenue	42,559	32,389	17,918
Charter revenue	11,399	9,367	6,860
Cargo revenue	6,220	6,457	5,458
Other revenue	6,708	2,680	3,147
Revenue from contracts with customers	**624,892**	**466,142**	**197,435**
ACMI lease revenue (lease component)	39,294	29,313	824
Revenue	**664,186**	**495,455**	**198,259**

Other income	3,796	4,715	5,848
Total	**667,982**	**500,170**	**204,107**

(1) In light of the growth of the Group's ACMI business, the Group commenced reporting this item for periods commencing on or after 1 January 2022. For the year ended 31 December 2021, ACMI lease revenue was reported as aircraft lease revenue and shown here on a restated basis.

Ticket revenue

In 2023, the Group's ticket revenue was €496.6 million, an increase of €129.2 million or 35.2% as compared to ticket revenue of €367.4 million in 2022. The increase primarily reflected the increase of the Group's passengers and flown RPKs in 2023 compared to 2022. The number of passengers increased by 1.2 million or 36% and flown RPKs increased by 1,817 million or 41% in 2023 compared to 2022 primarily due to (i) continued growth in demand for air transportation in 2023, (ii) an increase in the Group's passenger capacity in 2023 compared to 2022 (see "*Factors affecting the results of operations and financial condition of the Group – Factors affecting revenue – Capacity*") and (iii) the addition to the Group's network of further leisure markets and routes in 2023 (see "*Business Description – Strengths – The Company's differentiated value proposition*").

In 2022, the Group's ticket revenue was €367.4 million, an increase of €204.7 million or 125.8% as compared to ticket revenue of €162.7 million in 2021. The increase was primarily attributable to the increase in the Group's passengers and flown RPKs in 2022 compared to 2021. The number of passengers increased by 1.7 million or 105.3% and flown RPKs increased by 2,325 million or 107.7% in 2022 compared to 2021 primarily due to (i) the high demand for air transportation in 2022 following economic recovery from the COVID-19 pandemic, (ii) an increase in the Group's passenger capacity in 2022 compared to 2021 (see "*Factors affecting the results of operations and financial condition of the Group – Factors affecting revenue – Capacity*") and (iii) the addition to the Group's network of more leisure markets and routes in 2022 (see "*Business Description – Strengths – The Company's differentiated value proposition*").

ACMI lease revenue (non-lease component)

In 2023, the Group's ACMI lease revenue (non-lease component) was €61.4 million, an increase of €13.6 million or 28.4% as compared to ACMI lease revenue (non-lease component) of €47.8 million in 2022. The change was primarily attributable to the increase in the Group's ACMI activities as the Group deployed 14 aircraft on ACMI contracts to Lufthansa Group (including Eurowings and Eurowings Discover) and SAS during the Summer Season of 2023 and four aircraft to Lufthansa Group during fourth quarter of 2023, for an average of 9.8 aircraft leased out in 2023 as compared to an average of 7.4 aircraft leased out in 2022.

In 2022, the Group's ACMI lease revenue (non-lease component) was €47.8 million, an increase of €46.5 million as compared to ACMI lease revenue (non-lease component) of €1.3 million in 2021. The increase was primarily attributable to the increase in the Group's ACMI activities as the Group deployed 11 aircraft on ACMI contracts to Lufthansa Group (including Eurowings and Eurowings Discover) and SAS during the Summer Season of 2022 and four aircraft to Lufthansa Group during fourth quarter of 2022, as compared to three aircraft leased out in the last two months of 2021. The Group's ACMI operations began in the fourth quarter of 2021 and there were no material ACMI operations prior to this.

Ancillary revenue

In 2023, the Group's ancillary revenue was €42.6 million, an increase of €10.2 million or 31.4% as compared to ancillary revenue of €32.4 million in 2022. The increase was primarily attributable to (i) a strong increase in passenger demand as the number of passengers increased by 36% in 2023 compared to 2022, and (ii) the relatively greater number of leisure routes (55 sun-and-beach routes were operated to 15 countries in 2023, compared to 30 routes in 10 countries in 2022) which are typically markets that generate higher ancillary revenue.

In 2022, the Group's ancillary revenue was €32.4 million, an increase of €14.5 million or 80.8% as compared to ancillary revenue of €17.9 million in 2021. The increase was primarily attributable to (i) a strong increase in passenger demand as the number of passengers increased by 105% in 2022 compared to 2021, and (ii) the relatively greater number of leisure routes (30 sun-and-beach routes were operated to 10 countries in 2022, compared to 25 routes in six countries in 2021) which are typically markets that generate higher ancillary revenue.

Charter revenue

In 2023, the Group’s charter revenue was €11.4 million, an increase of €2.0 million or 21.7% as compared to the charter revenue of €9.4 million in 2022. The increase was primarily attributable to the increase in charter operations due to available spare capacity.

In 2022, the Group’s charter revenue was €9.4 million, an increase of €2.5 million or 36.5% as compared to the charter revenue of €6.9 million in 2021. The increase was primarily attributable to the effects of the COVID-19 as some customers, including sports teams, preferred traveling with charter flights due to travel restrictions.

Cargo revenue

In 2023, the Group’s cargo revenue was €6.2 million, a decrease of €0.2 million or 3.7% as compared to cargo revenue of €6.5 million in 2022. The decrease was principally attributable to normalisation of cargo demand following a surge in demand following the COVID-19 pandemic in 2022.

In 2022, the Group’s cargo revenue was €6.5 million, an increase of €1.0 million or 18.3% as compared to cargo revenue of €5.5 million in 2021. The increase was primarily attributable to (i) the introduction of new mail trucking lines from Ukraine and Poland that feed the airBaltic regular flight network and (ii) the increase in cargo prices in 2022 after COVID-19 pandemic.

Other revenue

In 2023, the Group’s other revenue was €6.7 million, an increase of €4.0 million as compared to other revenue of €2.7 million in 2022. The increase was principally attributable to the increase of pilot training revenue from Air Baltic Training. The Pilot Academy enrolment numbers rose to approximately 100 students, reflecting the recovery from disruptions caused by the COVID-19 pandemic and the Russia-Ukraine conflict. For further information see "*Business Description – Corporate Structure – “Air Baltic Training”, SIA*".

In 2022, the Group’s other revenue was €2.7 million, a decrease of €0.5 million or 14.8% as compared to other revenue of €3.1 million in 2021. The decrease was primarily attributable to the decrease of pilot training revenue from Air Baltic Training due to impact of COVID-19 restrictions, Russia’s invasion of Ukraine and the inability of some students to attend training due to travel restrictions, each of which significantly affected the number of training sessions and students in 2022. For further information see "*Business Description – Corporate Structure – “Air Baltic Training”, SIA*".

ACMI lease revenue (lease component)

In 2023, the Group’s ACMI lease revenue (lease component) was €39.3 million, an increase of €10.0 million or 34.0% as compared to ACMI lease revenue (lease component) of €29.3 million in 2022. The increase was primarily attributable to the continued focus on the Group's ACMI business for the reasons discussed above in "- *ACMI lease revenue (non-lease component)*".

In 2022, the Group’s ACMI lease revenue (lease component) was €29.3 million, an increase of €28.5 million as compared to ACMI lease revenue (lease component) of €0.8 million in 2021. The increase was primarily attributable to the increasing focus on the Group's ACMI business for the reasons discussed above in "- *ACMI lease revenue (non-lease component)*".

Other income

In 2023, the Group’s other income was €3.8 million, a decrease of €0.9 million or 19.5% as compared to other income of €4.7 million in 2022. The decrease was primarily attributable to a decrease in profit from sale and leaseback transactions, which is usually impacted by the number of new aircraft the Group received in the same period, and to a lesser extent, by the Group’s ability to adjust the aircraft prices to lessors under the sale and leaseback transactions in response to prices that the Group has to pay to the manufacturer for the new aircraft. Although the Group received seven new Airbus A220-300 aircraft in each of the years of 2023 and 2022, there was an increase in the prices for the new aircraft that the Group had to pay to the manufacturer in 2023 due to inflation while the Group could not increase the prices set under the sale and leaseback agreements.

In 2022, the Group's other income was €4.7 million, a decrease of €1.1 million or 19.4% as compared to other income of €5.8 million in 2021. The decrease was primarily attributable to a decrease in profit from sale and leaseback transactions.

Operating expenses and claim compensations

The following table sets forth a breakdown of the Group's operating expenses and claim compensations.

	For the year ended 31 December		
	2023	**2022 (restated)**	**2021 (restated)**
		(EUR thousands)	
Operating expenses and claim compensations			
Fuel*	(156,084)	(150,678)	(46,967)
Airport, handling and en route charges	(114,413)	(86,192)	(53,853)
Personnel costs	(107,249)	(76,704)	(51,830)
Amortisation and depreciation	(91,070)	(74,280)	(51,604)
Aircraft and similar lease costs	(76,189)	(22,921)	(4,365)
Marketing and tickets sales costs	(41,915)	(30,950)	(14,268)
Other operating costs	(31,819)	(25,904)	(18,736)
Cost of carbon emissions allowances*	(22,259)	(19,249)	(5,874)
Aircraft maintenance	(24,798)	(15,004)	(9,960)
Passenger service	(10,507)	(12,573)	(2,998)
Provision for legal disputes	8,073	(500)	(312)
Claim compensations	80,586	46,789	691
Total	**(587,644)**	**(468,166)**	**(260,076)**

*This table presents separated amount of "fuel" and "cost of carbon emissions allowances" for the years ended 31 December 2022 and 2021 in the same manner as reported in the 2023 Audited Consolidated Financial Statements. In the 2022 and 2021 Audited Consolidated Financial Statements the "Cost of carbon emission allowances" were reported as part of "Fuel". See "*Presentation of Certain Financial Information – Change in presentation and restatement of prior period interim results – Presentation of "Cost of carbon emission allowances"*".

Fuel

In 2023, the Group's fuel expenses were €156.1 million, an increase of €5.4 million or 3.6% compared to fuel expenses of €150.7 million in 2022. This increase was primarily attributable to (i) an increase in the operations as flights and flight hours increased by 18.3% and 26.3% respectively compared to 2022 and (ii) the increase in fuel burn in 2023 compared to 2022 reflecting the fact that more modern and fuel efficient A220-300 aircraft were replaced with older and less efficient aircraft due to ongoing engine availability issues in 2023.

In 2022, the Group's fuel expenses were €150.7 million, an increase of €103.7 million compared to fuel expenses of €47.0 million in 2021. The increase was primarily attributable to an increase in the average fuel price of 81% to an average of U.S.$1,093.1 per tonne in 2022 from U.S.$604.5 per tonne in 2021 due to Russia's invasion in Ukraine on 24 February 2022 and as well as increase in operations in 2022 compared to 2021.

Airport, handling and en route charges

In 2023, the Group's airport, handling and en route charges were €114.4 million, an increase of €28.2 million or 32.7% compared to airport, handling and en route charges of €86.2 million in 2022. The increase was primarily attributable to (i) the increase in operations in 2023 compared to 2022 with flight hours increasing by 26.3% to 83,906 flight hours in 2023 from 66,444 flight hours in 2022 and (ii) an increase in airport and handling prices due to inflation and the closed airspaces that resulted in increased flight hours for routes that would otherwise overfly Russia and Ukraine.

In 2022, the Group's airport, handling and en route charges were €86.2 million, an increase of €32.3 million or 60.1% compared to airport, handling and en route charges of €53.9 million in 2021. The increase was primarily attributable to the increase in operations in 2022 compared to 2021. Flight hours increased by 61% to 66,444 flight hours in 2022 from 41,208 flight hours in 2021.

Personnel costs

In 2023, the Group's personnel costs were €107.2 million, an increase of €30.5 million or 39.8% compared to personnel costs of €76.7 million in 2022. The increase was primarily attributable to an increase in operations, resulting in an increase of the number employees by 18.1% to 2,531 employees in 2023 from 2,143 employees in 2022.

In 2022, the Group's personnel costs were €76.7 million, an increase of €24.9 million or 48.0% compared to personnel costs of €51.8 million in 2021. The increase was primarily attributable to an increase in operations, resulting in an increase of the number employees by 37% to 2,143 employees in 2022 from 1,559 employees in 2021.

Amortisation and depreciation

In 2023, the Group's amortisation and depreciation expenses were €91.1 million, an increase of €16.8 million or 22.6% compared to amortisation and depreciation expenses of €74.3 million in 2022. The increase was primarily attributable to (i) an increase in fleet size to 46 Airbus A220-300 aircraft at 31 December 2023 from 39 Airbus A220-300 aircraft at 31 December 2022 and (ii) an increase in flight operations as components of aircraft have varying useful lives that depreciate according to flight hours and flight cycles.

In 2022, the Group's amortisation and depreciation expenses were €74.3 million, an increase of €22.7 million or 43.9% compared to amortisation and depreciation expenses of €51.6 million in 2021. The increase was primarily attributable to (i) an increase in fleet size to 39 Airbus A220-300 aircraft at 31 December 2022 from 32 Airbus A220-300 aircraft at 31 December 2021 and (ii) an increase in flight operations as components of aircraft have varying useful lives that depreciate according to flight hours and flight cycles.

Aircraft and similar lease

In 2023, the Group's aircraft and similar lease expenses were €76.2 million, an increase of €53.3 million compared to aircraft and similar expenses of €22.9 million in 2022. The increase was primarily attributable to a continued and more acute shortage of engines, due to supply chain issues related to A220 engines, preventing the Group from flying its own fleet at full capacity in 2023 compared to 2022. In response, the Group had to wet-lease aircraft from other ACMI providers in 2023, leading to the significant increase in the expenses for aircraft and similar leases for 2023 compared to 2022.

In 2022, the Group's aircraft and similar lease expenses were €22.9 million, an increase of €18.6 million compared to aircraft and similar lease expenses of €4.4 million in 2021. The increase was primarily attributable to a shortage of engines, due to supply chain issues related to A220 engines, preventing the Group from flying its own fleet at full capacity. In response, the Group had to wet-lease aircraft from other ACMI providers in 2022 (compared to no wet-lease of aircraft from other ACMI providers in 2021), leading to the significant increase in the expenses for aircraft and similar leases for 2022 compared to 2021.

Marketing and tickets sales costs

In 2023, the Group's marketing and tickets sales costs were €41.9 million, an increase of €11.0 million or 35.4% compared to marketing and tickets sales costs of €31.0 million in 2022. The increase was primarily attributable to an increase in passenger traffic by 36% in 2023 compared to 2022. Approximately half of the cost of ticket sales were driven by global distribution systems which charge the Group per passenger booking, while the balance reflected more active sales and promotions in 2023 compared to 2022.

In 2022, the Group's marketing and tickets sales costs were €31.0 million, an increase of €16.7 million compared to marketing and tickets sales costs of €14.3 million in 2021. The increase was primarily attributable to an increase in passenger traffic by 105.3% in 2022 compared to 2021. Approximately half of the cost of ticket sales were driven by global distribution systems which charge the Group per passenger booking, while the balance reflected more active sales and promotions in 2022 compared to 2021 when markets were still impacted by the COVID-19 restrictions.

Other operating costs

In 2023, the Group's other operating costs were €31.8 million, an increase of €5.9 million or 22.8% compared to other operating costs of €25.9 million in 2022. The increase was primarily attributable to (i) an increase in administration costs in 2023 compared to 2022 due to an overall increase in operations and inflation levels in 2023 compared to 2022, (ii) an increase in costs relating to the provision of ACMI operations to other carriers in 2023 as compared to 2022 and (iii) the Group recognising a bad debt provision in 2023 in connection with one of its customers.

In 2022, the Group's other operating costs were €25.9 million, an increase of €7.2 million or 38.3% compared to other operating costs of €18.7 million in 2021. The increase was primarily attributable to (i) an increase in administration costs in 2022 compared to 2021 due to high energy prices and inflation in 2022 compared to 2021 impacted by the Russia-Ukraine war, and (ii) an increase in costs relating to the provision of ACMI operations to other carriers in 2022 as compared to 2021.

Cost of carbon emission allowances

In 2023, cost of carbon emission allowances was €22.3 million, an increase of €3.0 million or 15.6% compared to cost of carbon emissions allowances of €19.2 million in 2022. The increase was primarily attributed to an increase in networks and operations in 2023 compared to 2022.

In 2022, cost of carbon emission allowances was €19.2 million, an increase of €13.4 million or 227.7% compared to cost of carbon emissions allowances of €5.9 million in 2021. The increase was primarily attributable to an increase in prices in 2022 compared to 2021 of carbon emission allowances that the Group has to purchase in compliance with EU ETS scheme (see "*Business Description – Environmental impact of the business – EU Emissions Trading*").

Aircraft maintenance

In 2023, the Group's aircraft maintenance expenses were €24.8 million, an increase of €9.8 million or 65.3% compared to aircraft maintenance expenses of €15.0 million in 2022. The increase was primarily attributable to (i) an increase in operations in 2023 compared to 2022 and (ii) an increase in the Group's fleet size to 46 aircraft in 2023 from 39 in 2022.

In 2022, the Group's aircraft maintenance expenses were €15.0 million, an increase of €5.0 million or 50.6% compared to aircraft maintenance expenses of €10.0 million in 2021. The increase was primarily attributable to (i) an increase in operations in 2022 compared to 2021 and (ii) an increase in the Group's fleet size to 39 aircraft in 2022 from 32 in 2021.

Passenger service

In 2023, the Group's passenger service expenses were €10.5 million, a decrease of €2.1 million or 16.4% compared to passenger service expenses of €12.6 million in 2022. The decrease was primarily attributable to reduced irregularities as flight disruptions related to spare engine supply issues were reduced in 2023 compared to 2022 through the increased wet-leasing of aircraft from other ACMI providers, resulting in fewer flight delays and cancellations. On average the Group operated seven ACMI-in aircraft during the Summer Season of 2023 compared to three during the Summer Season of 2022.

In 2022, the Group's passenger service expenses were €12.6 million, an increase of €9.6 million compared to passenger service expenses of €3.0 million in 2021. The increase was primarily attributable to an increase in passengers in 2022 compared to 2021, as well as the impact of the engine shortage that affected flight operations, which in turn affected punctuality, regularity and customer satisfaction in 2022.

Provision for legal disputes

In 2023, the Group recognised income of €8.1 million from release of provision for legal disputes made in previous years compared to a net additional provision for legal cases of €0.5 million recognised in 2022. This change was primarily attributable to the reversal of unused amounts following the dismissal of several litigation claims against the Group.

In 2022, the Group's net provision for legal disputes was €0.5 million, an increase of €0.2 million or 60.3% compared to additional provisions for legal cases of €0.3 million recognised in 2021. The increase was primarily attributable to the Group's more precise provisions in 2022 for legal disputes with one of its suppliers (see "*Business Description – Litigation*").

Claim compensations

In 2023, the Group's claim compensations were €80.6 million, an increase of €33.8 million or 72.2% compared to claim compensations of €46.8 million in 2022. The increase was primarily attributable to an increase in compensation received under the supplemental commercial support agreement with Pratt & Whitney (see "*Risk Factors – Risks related to the Group – Dependency on Airbus A220-300 aircraft*") in 2023 as a result of further engine shortages.

In 2022, the Group's claim compensations were €46.8 million, an increase of €46.1 million compared to claim compensations of €0.7 million in 2021. The increase was primarily attributable to an increase in compensation received under the supplemental commercial support agreement with Pratt & Whitney (see "*Risk Factors – Risks related to the Group – Dependency on Airbus A220-300 aircraft*") in 2022 as a result of engine shortages.

Finance income / (expenses)

Finance costs

In 2023, the Group's finance costs were €63.9 million, an increase of €4.9 million or 8.3% compared to finance costs of €59.0 million in 2021. The increase was primarily attributable to an increase in the interest expense on borrowings to

€16.5 million and interest expense on leases to €46.0 million in 2023 from €15.2 million and €42.3 million, in 2022 due to new Airbus A220-300 deliveries after 31 December 2022 and the subsequent leases in 2023.

In 2022, the Group's finance costs were €59.0 million, an increase of €7.4 million or 14.4% compared to finance costs of €51.5 million in 2021. The increase was primarily attributable to an increase in the sum of interest expense on borrowings to €15.2 million and interest expense on leases to €42.3 million, respectively, in 2022 from €14.6 million and €35.6 million, respectively, in 2021 due to new Airbus A220-300 deliveries after 31 December 2021 and the subsequent leases in 2022.

Foreign currency exchange (loss) / gain, net

In 2023, the Group's foreign currency exchange gain, net, was €16.7 million, an increase of €42.0 million or 165.7% compared to foreign currency exchange loss, net, of €25.4 million in 2022. The increase was primarily attributable to the year-end translation of the Group's liabilities denominated in U.S. dollars into euro in 2023. U.S. dollar liabilities are recognised from aircraft leasing. As at 31 December 2023 the Group had U.S.$591.8 million in long term and short-term U.S. dollar liabilities which means that EUR appreciation or depreciation vs. U.S. dollar by 1 U.S. cent results in an additional gain or loss of about €4.8 million.

In 2022, the Group's foreign currency exchange loss, net, was €25.4 million, a decrease of €1.5 million or 5.5% compared to foreign currency exchange loss, net, of €26.9 million in 2021. The decrease was primarily attributable to the year-end translation of the Group's liabilities denominated in U.S. dollars into euro in 2022. U.S. dollar liabilities are recognised from aircraft leasing.

Finance income

In 2023, the Group's finance income was €0.5 million, an increase of €0.4 million or compared to finance income of €0.1 million in 2022. The increase was primarily attributable to an increase in interest income on bank deposits.

In 2022, the Group's finance income was €0.1 million, a decrease of €0.04 million or 26.8% compared to finance income of €0.2 million in 2021. The decrease was primarily attributable to a decrease in interest from cash balances in bank accounts.

Profit / (loss) for the year

In 2023, the Group's profit for the year was €33.7 million, an increase of €87.9 million compared to net loss for the year of €54.2 million in 2022 for the reasons set forth above.

In 2022, the Group's loss for the year was €54.2 million, a decrease of €81.5 million or 60.1% compared to net loss for the year of €135.7 million in 2021 for the reasons set forth above.

Liquidity and capital resources

The Group's capital and liquidity needs principally relate to its investments in the new A220-300 fleet, aircraft and engine heavy maintenance shop visits and maintenance capabilities of the aircraft fleet. As at 31 December 2023, 2022 and 2021, the Group had €884.7 million, €795.6 million and €679.4 million of lease obligations, relating primarily to aircraft and with an initial term of 12 years. The Group's liquidity resources are subject to change as market and general economic conditions evolve. Decreases in liquidity could result from a lower-than-expected cash flow from operations, including decreases caused by lower demand, weaker prices for the Group's products, particularly airline tickets, and higher operating costs such as increased fuel costs. In addition, any potential acquisitions in which all or a portion of the consideration would be payable in cash could have a significant effect on the Group's liquidity. The Group's liquidity could also be impacted by its ability to refinance existing debt and raise additional debt and the associated terms of such debt.

As at 31 December 2023, the Group had an order book that included 30 firm A220-300 aircraft orders. In addition, as at 31 December 2023, the Group had a contractual liability relating to the acquisition of one Diamond DA40NG aircraft for use by Air Baltic Training SIA. As at 31 December 2023 the aggregate list price for the aircraft is around €0.5 million. On 18 July 2023, the Group signed a letter of intent with GOAL German Operating Aircraft Leasing GmbH & Co. KG in relation to the sale and leaseback transaction of six aircraft, of which three have been delivered as at the date of this Prospectus and the remaining three are scheduled to be delivered by the end of 2024.

The Group has met, and intends to meet, its capital and liquidity needs mainly from cash flow from operations and aircraft leasing arrangements, the issuance of the Bonds as well as, in recent periods, support from the Government of Latvia. In addition, the Group has announced its intention to conduct an initial public offering and listing of its shares on one or more stock exchanges as early as the second half of 2024, in connection with which it will raise additional equity financing. As part of the Group's working capital management, it uses monthly cash projections based on annual budgets or forecasts. The Group also updates projections until the end of year or next year (if required) using detailed income and expense projections. As the revenues increase, the Group tends to have positive cash flow impact from working capital changes. As at 31 December 2023, 31 December 2022 and 31 December 2021, the Group had cash of €29.1 million, €38.0 million and €79.3 million, respectively.

For further information, see *"Presentation of Certain Financial Information – Emphases of Matter in the independent auditor's reports to the Financial Statements"*.

Capital expenditures

The Group's capital expenditures are principally related to its investments in the new A220-300 fleet, aircraft and engine heavy maintenance shop visits and maintenance capabilities of the aircraft fleet. The Group has historically funded its capital investments through financings and equity. The following tables set forth information with respect to the Group's capital expenditures for the years ended 31 December 2023, 2022 and 2021:

Group	**Buildings and land**	**Fixtures and fittings**	**Aircraft**	**Aircraft equipment**	**Licenses, software and other**	**Total**
			(EUR thousands)			
Year ended 31 December 2023						
Additions	19	1,172	213	56,310	2,226	59,940
New right of use lease contracts	1,855	-	180,305	-	-	182,160
Total...	**1,874**	**1,172**	**180,518**	**56,310**	**2,226**	**242,100**
Year ended 31 December 2022						
Additions	87	1,160	125	29,202	1,225	31,799
New right of use lease contracts	2,022	-	173,109	-	-	175,131
Total...	**2,109**	**1,160**	**173,234**	**29,202**	**1,225**	**206,930**
Year ended 31 December 2021						
Additions	175	870	499	40,025	1,204	42,773
New right of use lease contracts	7,190	-	140,707	-	-	147,897
Total...	**7,365**	**870**	**141,206**	**40,025**	**1,204**	**190,670**

For the year ended 31 December 2023, the Group incurred capital expenditures of €242.1 million, €180.3 million of which was related to newly capitalised right of use assets for leases related to aircraft deliveries. For the year ended 31 December 2022, the Group incurred capital expenditures of €206.9 million, €173.1 million of which was related newly capitalised right of use assets for leases related to aircraft deliveries. For the year ended 31 December 2021, the Group incurred capital expenditure of €190.7 million, €140.7 million of which were related to newly capitalised right of use assets for leases related to aircraft deliveries.

Indebtedness

As at 31 December 2023, 2022 and 2021, the Group had €1,150.5 million, €1,060.8 million and €937.1 million, respectively, outstanding from debt financings, which comprises the current and non-current portions of borrowings and leases. Management monitors the Group's indebtedness in the context of short, medium and long-term funding and liquidity needs. This includes maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In addition, the Group's management manages liquidity risk by keeping estimated and actual cash flows under control and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities.

As at 31 December 2023, 2022 and 2021 the Group's outstanding cash and indebtedness were as follows:

	As at 31 December		
	2023	2022	2021
		(EUR thousands)	
Non-current borrowings	55,838	254,464	247,767
Plus Non-current lease liabilities	797,258	718,012	602,083
Plus Current borrowings	209,947	10,777	9,915
Plus Current lease liabilities	87,491	77,565	77,329
Less Cash	(29,058)	(37,999)	(79,314)
Net debt	**1,121,476**	**1,022,819**	**857,780**

Net debt is a measure of the net indebtedness of the Group (defined as non-current borrowings plus non-current lease liabilities, current borrowings and current lease liabilities less cash). It is used for the purpose of monitoring the Group leverage level.

Short-term and long-term borrowings

The Group's short-term and long-term borrowings consist of leasing obligations, borrowings from shareholders, credit facilities and Eurobonds. As at 31 December 2023, 2022 and 2021, the Group's total short-term and long-term borrowings, which are denominated in euro and U.S. dollars, were as follows:

	As at 31 December (audited)		
	2023	2022	2021
		(EUR in thousands)	
Non-current			
Borrowings from the shareholders	36,141	36,141	36,141
Facility credit agreement	19,697	19,511	13,674
Eurobond	-	198,812	197,952
Bank borrowings	-	-	-
Lease liabilities	797,258	718,012	602,083
Total	**853,096**	**972,476**	**849,850**
Current			
Eurobond and related interest	205,301	5,696	5,696
Facility credit agreement	3,769	3,187	1,959
Borrowings from the shareholders	206	133	84
Bank borrowings	671	1,761	2,176
Lease liabilities	87,491	77,565	77,329
Total	**297,438**	**88,342**	**87,244**

In the table above: Borrowings from the shareholders represents the State Loan; Facility credit agreement represents the financing loan in respect of certain of the Group's engines; Eurobond and related interest represents the Existing Bond which is due to mature in July 2024 and therefore, as at 31 December 2023 is classified within current borrowing; Bank borrowing represents overdraft facilities used by the Group; and Lease liabilities represents leases for the purchase of aircraft and aircraft engines.

For more information on the Group's short-term and long-term borrowings see Note 27 of the 2023 Audited Consolidated Financial Statements and Note 27 of the 2022 Audited Consolidated Financial Statements included elsewhere in this Prospectus.

On 29 April 2024, the Company issued a notice of redemption to the holders of its Existing Bonds and, subject to receipt of the proceeds of the issue of the Bonds, will pay the net proceeds from the issue of the Bonds into an escrow account in order that such proceeds are applied to redeem the Existing Bonds and repay the State Loan. *See "Use of Proceeds"*.

Lease liabilities

All of the Group's lease liabilities are related to leases for the purchase of aircraft and aircraft engines and all lease liabilities are secured on the asset covered by the relevant lease. In addition, the Group's leases include customary representations, positive and negative general undertakings and events of default. Borrowings from the shareholders are partially secured debt while the Eurobond is an unsecured debt facility.

The table below shows borrowings and lease liabilities by period that interest rates are fixed for (period until earlier of next interest rate repricing date and maturity date).

	As at 31 December		
	2023	2022	2021 (restated)
		(EUR thousands)	
Non-current			
Eurobond	-	198,812	197,952
Credit facility agreement	19,697	19,511	13,674
Lease liabilities	797,258	718,012	602,083
Total	**816,955**	**936,335**	**813,709**
Current			
Eurobond and related interest	205,301	5,696	5,696
Credit facility agreement	3,769	3,187	1,959
Lease liabilities	87,491	77,565	77,329
Total	**296,561**	**86,448**	**84,984**

The Group principally uses leases to finance aircraft. As at 31 December 2023, the Group had eight Airbus A220-300 aircraft financed under finance leases and 38 Airbus A220-300 aircraft financed under operating leases. As at 31 December 2022, the Group had eight Airbus A220-300 aircraft financed under finance leases, 24 Airbus A220-300 aircraft financed under operating leases, and one De Havilland Q400 aircraft in storage financed under operating leases. As at 31 December 2023, the Group had €140 million of undrawn committed aircraft financing facilities. In its Audited Consolidated Financial Statements, in accordance with IFRS, the Group does not differentiate between finance and operating leases. The leases (other than short-term leases and leases of low value assets) are recognised as right of use assets and corresponding liabilities at the date on which the leased assets are available for use by the Company and the Group.

Under finance leases, the lessee will obtain ownership of the asset at the end of the lease term upon payment of a nominal option price. By contrast, under an operating lease, ownership of the asset remains with the lessor and the lessee returns the asset to the lessor at the end of the lease term, without taking legal ownership of the asset.

Contractual obligations

The Group has various contractual obligations and commercial commitments to make future payments, primary related to the acquisition and maintenance of aircraft. The Group has to perform gradual pre-delivery payments, which commence twenty-four months prior to aircraft delivery. Payments for aircraft are denominated in U.S. dollars. The Group is also required to pay maintenance reserves for the aircraft subject to operating leases and for the majority of aircraft which are subject to finance leases. Maintenance reserves can be either fixed and paid on a monthly basis or variable and paid based on the number of flights or airborne hours. Maintenance reserves are used for heavy maintenance or overhaul of the component when necessary according to its specification.

As at 31 December 2023, the Group leased eight Airbus A220-300 aircraft financed under finance leases and 38 Airbus A220-300 aircraft financed under operating leases, and a further aircraft has been delivered under an operating lease between 31 December 2023 and the date of this Prospectus. As at 31 December 2022, the Group had eight Airbus A220-300 aircraft financed under finance leases, 24 Airbus A220-300 aircraft financed under operating leases, and 1 De Havilland Q400 aircraft in storage financed under an operating lease.

As at the date of this Prospectus, the Group leased eight Airbus A220-300 aircraft financed under finance leases and 39 Airbus A220-300 aircraft financed under operating leases.

Cash flows for the years ended 31 December 2023, 2022 and 2021

The following table summarises the Group's cash flows for the periods indicated (see also "*Selected Financial and Operating Information – Cash Flow Statements*").

	For the year ended 31 December		
	2023	**2022**	**2021**
	(EUR thousands)		
Cash at the beginning of the reporting year..........................	37,999	79,314	148,305
Net cash flows (used in)/generated from operating activities	138,242	70,347	(8,283)
Net cash flows (used in) investing activities	(2,192)	(20,243)	(7,839)
Net cash flows (used in) financing activities.........................	(144,991)	(91,419)	(52,869)
Cash at the end of the reporting year....................................	29,058	37,999	79,314

Net cash used in or generated from operating activities

Net cash generated from operating activities increased to €138.2 million in 2023 from €70.3 million in 2022. This increase was primarily attributable to (i) an increase in passengers by 1.2 million in 2023 compared to 2022 as the aviation industry in general continued its recovery from the impacts of the COVID-19 pandemic and the Russia-Ukraine conflict, (ii) the Group's extensive ACMI operations in 2023 compared to 2022 as the Group generated €100.7 million in ACMI revenues (non-lease and lease components) in 2023 compared to €77.1 million in 2022 and (iii) an adjustment in claim compensation received in respect of the supplemental commercial support agreements with Pratt & Whitney. The increase in the Group's ACMI lease revenues (non-lease and lease components) in 2023 compared to 2022 was as a result of the increased demand for ACMI capacity and expansion of cooperation with Lufthansa Group and SAS. See "*—Results of operations for the years ended 31 December 2023, 2022 and 2021—ACMI lease revenue (non-lease component)*".

Net cash generated from operating activities in 2022 amounted to €70.3 million compared to net cash used in operating activities of €8.3 million in 2021. This change was primarily attributable to (i) an increase in passengers by 1.7 million in 2022 compared to 2021 as the aviation industry in general continued to recover from the COVID-19 pandemic and (ii) extensive ACMI lease operations in 2022 compared to 2021 as the Group generated €77.1 million in ACMI lease revenues (non-lease and lease components) in 2022 compared to €2.2 million in 2021. The increase in the Group's ACMI lease revenues (non-lease and lease components) in 2022 compared to 2021 is as a result of European peer airlines having to wet-lease aircraft from other ACMI operators to substantially expand their operations in order to meet the increased demand for seat capacity in 2022 following the impact of COVID-19 pandemic because during the COVID-19 pandemic they made strategic decision to retire older generation aircraft. See "*—Results of operations for the years ended 31 December 2023, 2022 and 2021—ACMI lease revenue (non-lease component)*".

Net cash used in investing activities

Net cash used in investing activities decreased to €2.2 million in 2023 from €20.2 million in 2022. This decrease was primarily attributable to a decrease in (i) the advances paid for aircraft, as the number of aircraft under contract and subject to advances for future delivery in 2023 was lower than in 2022 and (ii) credit notes received as claim compensation in respect of the supplemental commercial support agreements with Pratt & Whitney being used to settle certain invoices. The number of aircraft ordered but not yet delivered as at the year ended 31 December 2023, 2022 and 2021 were four, 11 and 18 respectively.

Net cash used in investing activities increased to €20.2 million in 2022 from €7.8 million in 2021. This increase was primarily attributable to cash used for the acquisition of property, plant and equipment and intangible assets which increased by €18.7 million in 2022 compared to 2021, driven mainly by investments in aircraft heavy maintenance activities, such as relevant aircraft maintenance checks (including C-checks) and engine maintenance shop visits.

Net cash used in or generated from financing activities

Net cash used in financing activities increased to €145.0 million in 2023 from of €91.4 million in 2022. This change was primarily attributable to a financial injection received from shareholders of €45.0 million in 2022 which was not repeated in 2023.

Net cash used in financing activities increased to €91.4 million in 2022 from €52.9 million in 2021. This increase was primarily attributable to an increase of €29.5 million in payments of principal on aircraft leases and associated interest payments in 2022 compared to 2021 due to an increase in aircraft fleet to 39 aircraft as at 31 December 2022 from 32 aircraft as at 31 December 2021.

Off-balance sheet liabilities

An off-balance sheet arrangement includes any contractual obligation, agreement or transaction arrangement involving an unconsolidated entity under which a company has (i) retained a contingent interest in transferred assets, (ii) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development services with the company, (iii) made guarantees, or (iv) an obligation under derivative instruments classified as equity.

Qualitative and quantitative disclosures about market risk

See Note 3(b) to the 2023 Audited Consolidated Financial Statements.

Significant accounting policies and judgments

The preparation of the Group's Audited Consolidated Financial Statements in conformity with IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Changes in the management's estimates are recognised in the income statement of the period of the change. The significant areas of estimation used in the preparation of the accompanying Audited Consolidated Financial Statements are described in Note 2(d) of the Audited Consolidated Financial Statements.

For information on the Group's significant accounting policies, see Note 2 to the Audited Consolidated Financial Statements.

BUSINESS DESCRIPTION

Overview

The Group is one of the largest air carriers in the Baltics by number of passengers (see *"The Group is an industry leader in the Baltics with a strong flight network"*). Its main base and hub is in Riga, Latvia and it has operating bases in Tallinn, Estonia, Vilnius, Lithuania, Tampere, Finland and a seasonal base in Gran Canaria, Spain. The Group is a "hybrid low-cost carrier airline", operating a low-cost carrier structure that offers traditional airline services such as a business class and full-course meals. The Group's total transportation revenue (which includes revenue for passenger transportation, charter transportation and aircraft lease, cargo transportation and other transportation related revenue) accounted for 99.4%, 99.1% and 97.1% of the Group's total operating revenue in the years ended 31 December 2023, 2022 and 2021, respectively. The Group's other transportation related revenue was derived from a range of other sources, including aviation related training services, de-icing, advertising and cargo handling at Riga International Airport.

As at 31 December 2023, the Group operated 126 routes. Of these, 76 non-stop routes were operated from Riga, 19 from Tallinn, 15 from Vilnius, 10 from Tampere, and six from Gran Canaria. In 2023, the Group opened 38 new routes and cancelled 15 routes. As there was a strong demand for leisure flights in 2023, the Group focused its growth on leisure destinations by launching new routes from its main base Riga to leisure destinations, such as Bucharest (Romania), Belgrade (Serbia), Tivat (Montenegro), Istanbul (Turkey), the Caucasus region (Yerevan (Armenia), Baku (Azerbaijan)), Agadir (Morocco), Bilbao (Spain), Burgas (Bulgaria) and Porto (Portugal), Hannover (Germany). The Group also launched 10 new leisure routes from its bases in Tallinn, Vilnius and Tampere in 2023 and seasonal base in Gran Canaria in 2023. Since February 2022, the Group has not operated any routes to Russia or Belarus, and passenger routes to Ukraine have been suspended due to safety concerns. To help increase the transfer traffic lost due to the Russia-Ukraine conflict, several destinations with significant transfer demand potential have been launched from Riga including Tivat, Baku, Yerevan, Istanbul, Bucharest and Belgrade.

As of the date of this Prospectus, the Group operates a single fleet of 47 Airbus A220-300 aircraft which, as at 31 December 2023, had an average age of 3.1 years. As at 31 December 2023, the Group was the largest operator of Airbus A220 aircraft in Europe (Source: Airbus 'Orders and Deliveries'). All of the Group's A220-300 aircraft are subject to a lease agreement. As at the date of this Prospectus, the Company has eight Airbus A220-300 aircraft under finance leasing arrangements whereby the Company will obtain ownership of the aircraft at the end of the lease term upon payment of a nominal option price of U.S.$1 in respect of the Axiom Aircraft and U.S.$10 in respect of the JALL Aircraft. The remainder of the aircraft are under operating lease agreements whereby the Company will return the aircraft to the owner of the aircraft at the end of the lease term, without taking legal ownership of the aircraft. In addition to the aircraft described above, the Company has seven Pratt & Whitney PW1521G-3 spare engines which are also under finance leasing arrangements, whereby the Company will obtain ownership of the engines at the end of the applicable lease term upon payment of a nominal option price. The Group plans to increase its fleet to 50 Airbus A220-300 aircraft by the end of 2024, and to 100 aircraft by the end of 2029. During 2023, excluding its ACMI activities, the Group transported 4.5 million passengers and carried over 9,440 tonnes of cargo on 44,113 flights to destinations across Europe, including Scandinavia and the Baltics, and the Middle East. For the year ended 31 December 2023, the Group had a passenger load factor of 76.7%, compared to 71.2% as at 31 December 2022 and 53.6% in the year ended 31 December 2021.

Starting in 2022, the Group has increased its ACMI activities, due to the impact on its business of the Russia-Ukraine conflict. For the year ended 31 December 2023, the Group contracted 14 aircraft to fly for other carriers in the Summer Season of 2023. For the Summer Season of 2024, the Group has contracted 17 aircraft to fly for Lufthansa, Eurowings and SWISS. The Group plans to develop its ACMI offering by leveraging long-term relationships with the Lufthansa Group (including Eurowings and SWISS) and SAS, with approximately 20% to 30% of the Group's aircraft capacity to be deployed on ACMI on an ongoing basis. Due to its unique offering in terms of aircraft type and the high service quality, in part due to the Company's being a scheduled carrier rather than a charter carrier, management believes that the Group has significant advantages in offering ACMI services to European network full-service carriers.

The COVID-19 pandemic had a significant impact on the Group's operations and demand and passenger growth was still impacted in early 2022. In July 2020, the Government of Latvia provided a €250 million cash injection into the Company, following an approval by the European Commission under the EU state aid rules. In August 2021, a further cash injection of €90 million was approved by the Government of Latvia. Subsequent approval was granted by the European Commission on 22 December 2021, and in May 2022, for the amount to be paid and in two equal tranches. The Company received the first tranche of €45 million on 28 December 2021 and the second tranche of €45 million on 7 June 2022.

As a result of the COVID-19 pandemic, the Russia-Ukraine conflict and the impact these have had on the Group's operations and the wider global economy, the Group adopted a new business plan "IPO & Beyond" in 2023, establishing the Group's targets up to 2030. This plan was adjusted in February 2024 and centres on increasing the Group's fleet to 100 aircraft by the end of 2029. The business plan also addresses the capital needs for the future growth of the Group by incorporating a potential IPO as early as the second half of 2024, which is intended to significantly improve the capital structure of the Group and gradual deleveraging of the balance sheet. The ACMI lease services are significant part of the plan to which approximately a third of the fleet would be potentially dedicated.

Strengths

The Group capitalises on economic growth and opportunity in the Baltics

Management believes the Baltics is a region with strong economic growth fundamentals relative to the EU as whole. The Baltics also have strong sovereign credit ratings, with Latvia, Lithuania and Estonia rated A+, A+ and AA- by S&P, respectively. According to the European Commission's Winter 2024 Economic Forecast (updated on 15 February 2024), GDP in Estonia is projected to increase by 0.6% in 2024 and 3.2% in 2025, GDP in Latvia is projected to grow by 1.7% in 2024 and 2.7% in 2025 and GDP in Lithuania is projected to grow by 2.1% in 2024 and 3.0% in 2025. Management believes that these strong regional market fundamentals will provide the Group with the opportunity to increase the number of its direct passengers and provide leverage for its operations by reducing its dependence on transfer passengers, which is a highly competitive area for passenger transportation.

The Company's differentiated value proposition

The Company positions itself as a "hybrid LCC" with relatively low costs and premium yields. Its low cost base allows it to compete with network airlines while its full-service offerings, extensive route network and superior schedules allow it to compete with LCCs.

Management believes that the Company has a lower cost base than most of its full-service competitors. During the year ended 31 December 2023, its total unit cost base was €7.48 cents per ASK, compared to €7.45 cents per ASK for the year ended 31 December 2022 and €6.35 cents per ASK for the year ended 31 December 2021. Considering the low utilisation levels of 2021, this unit cost is not representative of the costs if the airline were to operate at optimal utilisation (See *"—Factors affecting the results of operations and financial condition of the Group – Capacity utilisation"*). The key drivers of the Company's lower cost base are:

- **Efficient modern fleet**. The Company operates a modern, single-type fleet of 47 Airbus A220-300 aircraft, which results in greater reliability, lower maintenance costs, more efficient inventory and spare equipment management, lower training costs, more efficient crew management and more efficient network planning compared to previous generation aircraft. The aircraft's 148 seat, flexible class configuration allows the Company to operate the aircraft in full-economy configuration which maximises seat capacity and spreads its costs among a larger number of passengers per flight. The average age of the Company's operating fleet as of 31 December 2023 was 3.1 years compared with a global industry in-service fleet average of around 11.6 years, according to the IATA Sustainability and Economics publication dated 8 September 2023.

- **Employment efficiency and productivity**. The Company's workforce is primarily based in Latvia where the cost of labour is lower than in Western Europe. The average cost per employee per year was €49,390 in 2023, €42,000 in 2022, and €40,600 in 2021, which the Company believes has been lower than the majority of its competitors flying out of Riga. The nominal GDP per capita in Latvia in 2022 was U.S.$21,779.5 per year in comparison to U.S.$37,433.3 for the EU overall (Source: The World Bank)

- **Pilot School**. To improve its pilot sourcing capability, the Group established a pilot school in 2018 with the aim of supplying a significant portion of new pilots for the Company in subsequent years. See *"—Corporate Structure—"Air Baltic Training", SIA"*.

- **Focus on local employment market**. Although the Company competes internationally for some specialised aviation positions, the majority of the Company's employees can be locally sourced and the Company competes for these employees in the local market, which has lower labour costs and stronger employee retention in the long term. The Company also provides qualification training and internship opportunities to compete for talent in the local market, such as the Pilot Academy (see *"—Corporate Structure—"Air Baltic Training", SIA")*.

- **Outsourcing of non-core functions and enhancing maintenance**. The Group outsources most of its non-core functions, with focused internal functions overseeing third-party contractors providing services including ground handling, customer service, and significant aircraft maintenance, catering, a major part of revenue accounting for tickets and payroll function. The Group has also reduced the number of outsourced functions in aircraft and engine maintenance by performing full scope of line and base maintenance itself and only assigning its engine overhauls and "rotable" repairs, except emergency equipment, wheels, seats and galley components, to outside contractors.

Additionally, from January 2022 the Group has performed its passenger handling and flight coordinator duties at Riga International Airport with its own staff. These actions have helped the Group not only to reduce the cost for outsourcing but also allowed for closer control over quality standards.

- **Procurement efficiency**. The Company's procurement department alongside the line managers monitors a number of supplier contracts through efficient and centralised processes, runs selection procedures whenever new services are requested and engages in negotiations with third-party contractors in order to seek to obtain the best possible terms whilst still maintaining international standards of quality.

The key differentiators between the Company and its LCC competitors are:

- **Full-service offerings**. The Company offers a range of full-service offerings, including business class seats to its customers, which is also a requirement for maintaining codeshare arrangements with some of its other airline partners. Revenues from business class tickets were approximately 5.9% of all ticket revenue for the year ended 31 December 2023 compared to 6.9% for the year ended 31 December 2022.

- **Extensive route network and connectivity**. The Company has a more extensive route network than its competitors, to, from and within the Baltics. It is the only airline offering convenient same-day return schedules to multiple European capitals and business centres from Riga, complemented by non-stop services on selected routes from Tallinn and Vilnius. It is also the only carrier operating scheduled flights between all Baltic capitals. In addition, the Company is the only carrier connecting the Baltics with, *inter alia*, the UAE, Armenia, Azerbaijan, Morocco and Serbia. The Company has 23 codeshare partners that expand its own network to more than 200 European destinations. Key partner airlines include Air France/KLM, British Airways, SAS and Lufthansa Group. In 2023, the Company launched a total of 38 new routes, including new routes to south-eastern Europe (Bucharest (Romania), Belgrade (Serbia) and Tivat (Montenegro), Istanbul (Turkey) and the Caucasus region (Yeveran (Armenia) and Baku (Azerbaijan)). Five routes were launched in the base in Tampere. Several new leisure-oriented routes were launched, including Heraklion, Rhodes (Greece), Nice (France), Dubrovnik and Split (Croatia), Agadir (Morocco), Bilbao (Spain), Burgas (Bulgaria), Porto (Portugal). Six routes were launched in the new base in Gran Canaria serving non-stop routes to Norway (Oslo, Oslo Torp and Bergen), Denmark (Aalborg, Billund and Copenhagen), Tampere, Tallinn and Vilnius.

- **The only sizeable hub operation in the Baltics.** The Company operates the only sizeable hub operation in the Baltics, with Riga as its main base and transfer hub, providing a network reach to and from Latvia that other competitors are not offering. The hub and spoke system also allows an economically viable frequency offer to and from Riga that is not achievable with a pure point-to-point model. This strong hub frequency offer is currently being rebuilt after the COVID-19 pandemic, as market demand recovers, enabling financially viable and gradual re-establishment of the hub functionality in almost all key markets that have been previously served.

A modern fuel-efficient fleet of Airbus A220-300 aircraft chosen specifically to suit the Group's target market

The Group's fleet consists exclusively of Airbus A220-300 aircraft. These aircraft were selected after extensive review and analysis of available options for the suitability of their performance characteristics to serve the Group's route network and on the basis that they offer significant cost and performance advantages to larger short-haul aircraft such as the Boeing 737-800 or Airbus A320, which are typically used by European LCCs.

Management believes that Airbus A220-300 aircraft have the lowest direct operating costs per flight hour among aircraft with 140 seats and above, and, on a cost per seat basis based on the 2022 and 2023 fuel prices, this aircraft is equal to or better than Boeing 737-700 or Airbus A320ceo. The A220-300 also has a lower fuel consumption per flight than the A320neo or 737 MAX series aircraft, based on information published by Boeing and Airbus, making it an ideal aircraft for a regional and seasonal market with routes with relatively few passengers. The efficiency of the A220 enables the Company to provide a high frequency flight schedule, which is attractive to its target customers – regional, business and seasonal travellers. In addition, in periods of lower demand, this high frequency model enables the Company to reduce its number of daily departures on a particular route (thereby reducing its variable cost exposure) while still maintaining a presence on that particular route. In contrast, a competitor airline operating larger aircraft at lower frequency and experiencing lower demand may face the choice of either operating a particular route at a loss or ending service on that route altogether.

The Group is an industry leader in the Baltics with a strong flight network

As of 31 December 2023, the Company offered flights to more destinations than any other airline based in the Baltics, including routes to major European business centres, such as London, Paris, Amsterdam, Munich and Berlin as well as Frankfurt, Copenhagen, Madrid, Barcelona, Oslo and Milan (Source: Sabre GDD). In addition, the Company is one of the largest air carriers in the Baltics with the largest market share (56.4%) of passengers leaving from Riga International Airport, Latvia in the period between January to December 2023 (according to the Riga International Airport Statistics Report, 2023), the largest market share (26%) of passengers leaving from Tallinn Airport, Estonia in the period between January to December 2023 (according to Tallinn airport statistics, 2023) and the third largest (13%) market share of passengers leaving from Vilnius, Kaunas and Palanga airports, Lithuania in 2023 (according to the Lithuania Airports Annual Report, 2023), and the largest market share (79%) of passengers leaving from Tampere, Finland (according to Finavia Corp. passenger data from 2023). The Company is the only airline in the Baltics with substantial transfer traffic, through its hub in Riga. The regional transfer hub model enables the Company to offer a comparatively high flight frequency on trunk routes and a wide destination portfolio from Riga, benefitting local demand to and from Latvia through the largest offer in the Baltics. This hub offer is complemented by direct point-to-point routes operating from Tallinn, Vilnius and Tampere.

Experienced and dynamic management team

The Company has an experienced and dynamic management team with an established track record which the Company believes can deliver its hybrid LCC business model and execute its financial and growth objectives. The Executive Board has an average of over twenty years' service and experience in the aviation industry. The Executive Board is supported by the Supervisory Board, which was elected on 14 June 2023. Together, the Executive Board and the Supervisory Board are responsible for the oversight of the financial discipline and cost-controls that are key parts of the Company's hybrid business model.

The Company operates with small departments which the Company believes are efficient, enable quick decision making and allow for the flexibility to capitalise on opportunities as they arise. The Company has a strong Executive Board who collectively have the necessary mix of skills, knowledge and experience required to provide leadership, control and oversight of the Group and to contribute to the development and oversight of the Group's strategy. The Company's Directors include professionals with extensive experience in corporate governance and within the airline industry.

Strategy

To adapt to the difficult market conditions created by the post COVID-19 environment and consequences stemming from the Russia-Ukraine conflict, which has forced the Group to shift focus in terms of route network development, the Group approved a new business plan, IPO & Beyond, in July 2023. The updated business plan maintains the same short-term objective as set out in the "ABOVE 2026" business plan, i.e. to increase the Group's fleet to 50 aircraft by 2024. However, the IPO & Beyond business plan focuses on the further long-term growth of the fleet to 100 aircraft by 2030 and on attracting new equity funding through the planned IPO offering as early as 2024.

The Group's IPO & Beyond strategy includes a focus on improving efficiencies at its hub in Riga International Airport. Management believes Latvia's geographical location makes air connections a critical part of the local transport infrastructure, therefore, a core aspect of the Group's strategy is about providing the best flight connectivity in Latvia.

The Group remains focused on leisure or "visiting friends and relatives" travellers, which account for around 90% of its passengers. The Group also plans to focus on its ACMI operations, with long-term relationships established with Lufthansa Group and SAS and approximately 10% to 20% of the Group's aircraft capacity to be deployed on ACMI after 31 December 2023. The key elements of the IPO & Beyond strategy are as follows:

Expand its fleet, increase flight frequencies and expand its network

The Company's current fleet plan provides for an increase from 47 Airbus A220-300 operating aircraft, as at the date of this Prospectus, to 50 Airbus A220-300 aircraft by 31 December 2024 and to 100 aircraft by 2030. The Company has secured committed orders with known delivery dates through to the end of 2024 for three new Airbus A220-300 aircraft at competitive pricing, with option or purchase rights for a further 50 Airbus A220-300 aircraft. The Company intends to deploy the additional seat capacity from its expanded fleet to increase flight frequencies to existing destinations, launch new routes in its existing markets, which the Company considers have high growth prospects, and to pursue initiatives in new markets. The Company employs a disciplined route expansion strategy that helps maintain profitability across its network. The Company's strategy is to respond quickly to changes in the economic environment and markets conditions and it aims for each route that it operates to be profitable. The Company will seek to maintain rigorous assessment of all of its existing and new routes in order to determine their profitability and opportunities to improve them.

The Group plans to expand into other cities outside the Baltics, and holds 20 options and 30 purchase rights for additional Airbus A220-300 aircraft in order to promote further fleet expansion.

Increase in point-to-point flying

The Company will continue to use Riga as a hub for its network, which will continue to rely heavily on transfer passengers (approximately 29% of the Company's passengers transferred via Riga to other destinations in the year ended 31 December 2023 compared to 28% in the year ended 31 December 2022). However, in light of the Company's plans to expand its network outside Riga, it expects to significantly increase the number of its point-to-point flights, which are direct flights that do not require a transfer, and its point-to-point passengers, which are passengers on point-to-point flights, primarily from Tallinn, Vilnius and Tampere with additional flights in the Winter Season from Gran Canaria. The targeted increase in point-to-point flying will allow the Company to increase utilisation of its aircraft and, accordingly, reduce the Company's fixed cost per seat.

Increase in ACMI flying

The Company expects to deploy significant capacity with other carriers on the ACMI contract basis. This is a strategic decision to de-risk the revenue in case the Company's core markets cannot absorb the Company's capacity and also to mitigate the impact of the Russia-Ukraine conflict. For the year ended 31 December 2023, the Company contracted 14 aircraft to fly for other carriers in the Summer Season of 2023. For the Summer Season of 2024, the Group has contracted 17 aircraft to fly for Lufthansa, Eurowings and SWISS. The IPO & Beyond business plan envisages the Group developing its ACMI operations by utilising long-term relationships with Lufthansa Group and SAS, with approximately 10% to 20% of the Group's aircraft capacity to be deployed on an ACMI basis after 31 December 2023. Due to its unique offering in terms of aircraft type and the high service quality due to the Company's being a scheduled carrier, the Company has significant advantages in offering ACMI services to European network full-service carriers.

History

In 1995, the Government of Latvia entered into an agreement with Scandinavian Airline System ("**SAS**") and several private investment funds, which established the Company on 8 February 1995. The Company was incorporated in the Republic of Latvia with the name Air Baltic Corporation AS and currently operates under the Commercial Law (*Komerclikums*). The Company's registered office is at Tehnikas iela 3, Lidosta "Rīga", Mārupes novads, Latvija LV-1053 and its telephone number is +371 6 7207069.

The Government of Latvia owned 51.03% of the Company and SAS owned the remaining share capital after it acquired the shares of the private investment funds soon after establishment of the Company. The Company's maiden flight was in 1995 from Riga, Latvia to Stockholm, Sweden on 1 October that year. The Company expanded rapidly, starting with four destinations served by two 35-seat Saab 340 aircraft, increasing to 16 destinations in 2002. The Company initially operated a fleet of 50-seat Fokker 50 and 70-seat Avro RJ70 aircraft. The fleet was further expanded by introducing Boeing 737 aircraft in 2003 and longer-range Boeing 757 aircraft in 2008.

In January 2009, SAS sold its entire 47.20% stake in the Company to BAS. In December 2010, 50% of BAS's shares were transferred to Taurus Asset Management Fund Limited.

In 2009, the Company launched the first pan-Baltic loyalty programme, "BalticMiles", alongside its partners including leading companies from banking, telecommunications, travel and hospitality.

In 2011, the Government of Latvia provided €120,000,000 of financial support to the Company when it faced financial difficulties and thereby increased the state's ownership of the Company to 99.8%. In 2012, the Company began implementing its "Re-shape Programme", which aimed to restore the Company to profitability after the Government of Latvia became the majority shareholder of the Company. The key elements of this strategy were cost reduction (in particular reduction of the Company's workforce by 10%), introduction of more rigorous procurement practices, seat capacity reduction (to bring seat capacity in line with local market demand) and cancellation of loss-making flights. In order to simplify and modernise the Company's fleet, it also phased out its Fokker 50 and Boeing 757 aircraft and entered into a contract with Bombardier for the purchase of 10 Airbus A220-300 (previously named CS300) aircraft and purchase rights for an additional 10 A220-300 aircraft. As a result of the Re-shape Programme, the Company returned to profitability in 2013 and the Company turned its focus to growth.

In 2015, the Company developed its "Horizon 2021" strategy with the aim of expanding its fleet of Bombardier CS300 aircraft (later renamed the Airbus A220-300, after the C Series programme was acquired by Airbus in 2018) and significantly increasing its presence in Estonia and Lithuania. In November 2016, the Company welcomed the world's first Bombardier CS300 aircraft in Riga. After implementing the Horizon 2021 strategy, the Company reported positive net income for the subsequent six financial years, other than 2019.

In 2016, approximately 20% of the shares in the Company were acquired by a private investor, reducing the Government of Latvia's share to 80.05%. The Government of Latvia, alongside the private investor, invested a total of €131,152,000 in the equity of the Group, of which the Government of Latvia accounted for €80 million.

In 2018, the Company developed a new strategy, "Destination 2025", with the aim of, amongst other things, expanding its network in new and existing markets and transitioning to a single-type fleet, increasing its market share in the Baltics and improving operational efficiencies. For the second year running, in 2019, the Company retained its place as the most punctual airline in Europe and the second most punctual in the world and was also rated first globally in punctuality in 2014, 2015 and 2017. (Source: OAG Aviation Worldwide Limited's annual On-Time Performance reports for Airports & Airlines).

In 2019, the Company continued to strengthen its market position at Riga International Airport, where its market share increased from 54% in 2018 to 59% in 2019. The Company increased the number of seats offered and the number of passengers carried. In the same year, the Company operated more than 62,000 flights to more than 80 destinations and achieved record revenues of approximately €503 million.

On 23 July 2019, the Company issued the Existing Bonds. This was the largest issue of corporate bonds in Latvia at the time. The Company continued to grow in the first two months of 2020, exceeding budgeted targets. Comparing the results of January and February of 2020 with the results of the same months in 2019, the number of passengers increased by 18% and passenger revenue by 17%.

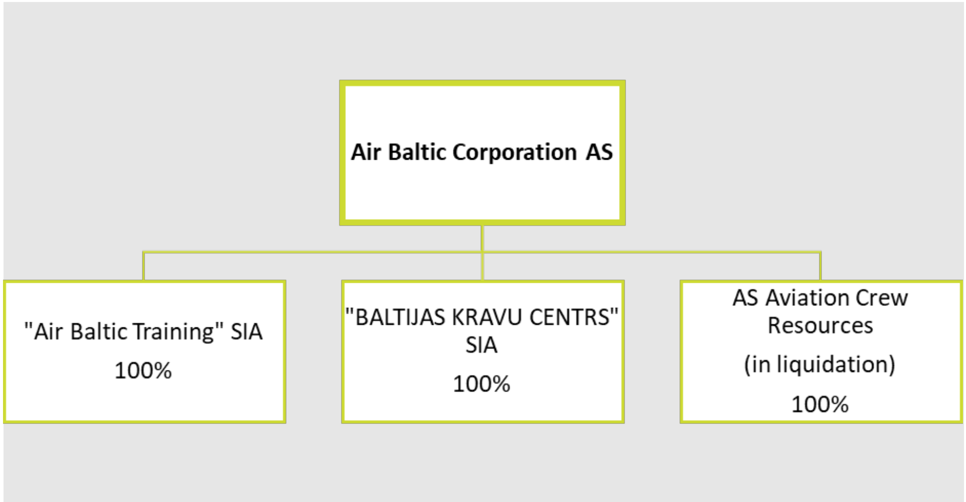
The Group grew during 2018, 2019 and in the first two months of 2020 and was on track to meet its commercial and financial targets in 2020. However, the Group's strategic plans had to be adjusted as a result of the COVID-19 pandemic. In April 2020, the Group developed a new strategic business plan "Destination 2025 CLEAN" in response to various industry forecasts for the negative long-term impact of the COVID-19 pandemic on the aviation industry. On the basis of Destination 2025 CLEAN, the Company sought funding from its shareholders. Following the approval of the European Commission under the EU state aid rules, the Government of Latvia provided a €250 million cash injection in July 2020. This cash injection increased the Government of Latvia's shareholding in the Company from 80.06% to 96.14%. However, after the increase of the share capital, the global COVID-19 crisis worsened and additional COVID-19 waves followed in 2021. In light of the new circumstances and the changing nature of forecasts, the Company created a new strategic business plan, "Above 2026", which was approved on 28 October 2021.

Due to the continuing impact of the COVID-19 pandemic and resulting restrictions for airlines, the Company needed an additional capital injection. On 17 August 2021, the Cabinet of Ministers of the Republic of Latvia decided to support the increase of the share capital of the Company by investing an additional €90 million. On 22 December 2021, the European Commission approved, under EU state aid rules, a part of the Government of Latvia's investment of €45 million into the equity of the Company to compensate for the losses caused by the ongoing COVID-19 pandemic and to support the Company in overcoming the consequent economic crisis. The remaining part of the state aid investment was approved by the European Commission in May 2022, increasing the Government of Latvia's shareholding in the Company to 97.97%. For further detail, please see *"Risk Factors – Risks related to the Group – The Group has been, and may be, subject to investigations and claims relating to state aid"*.

As a result of the recovery from the COVID-19 pandemic, the Russia-Ukraine conflict and the state aid investment from the Government of Latvia and with a view to the next growth phase, the Company created a new strategic business plan "IPO & Beyond", which was approved in concept by the Supervisory Board on 20 July 2023 and updated on 19 February 2024. The latest update envisages a potential IPO of the Company as early as the second half of 2024.

Corporate Structure

The chart below shows the Company and its principal subsidiaries.



The Company’s subsidiaries include a range of other operations, including aviation related training services, cargo handling at Riga International Airport and outsourcing of aviation crew (i.e. pilots and first officers).

Brief details on the subsidiaries that comprise the Group are set out below:

“Air Baltic Training”, SIA

Air Baltic Training was established in 2010. The main operation of Air Baltic Training is the provision of aviation related training services to airlines and other companies related to the aviation industry, as well as to private individuals. In 2018, Air Baltic Training launched a new business project “Pilot Academy”, which is an 18-month professional pilot training programme intended to train pilots who have no prior aviation education or experience. The Company aims to increase its workforce of local pilots through this project. Management believes local pilots offer a better retention rate that foreign hires and therefore provide a more stable workforce (see *"—Strength—The Company's differentiated value proposition"*). As at 31 December 2023, Air Baltic Training operated one Diamond DA42 aircraft and eight Diamond DA40 NG aircraft for training purposes and one simulator. The current size of its modern and efficient aircraft fleet provides for training of 60 cadet-pilots a year according to Airline Pilot Standard criteria. This is expected to cover the Company’s internal needs and allow it to make sales to selected corporate partners. As at 31 December 2023, 21 students graduated and joined the Company as first officers, and, since its launch, more than 100 airBaltic pilots have graduated from the Pilot Academy.

In 2019, Air Baltic Training developed a General Aviation maintenance base of 1200m^2 at Liepaja International Airport, Latvia, in which a certified Diamond Aircraft Service Centre was established in 2020. In 2021, Diamond Aircraft Service Centre increased the number of third-party customers for associated services and the number of repaired aircraft due to raising interest from Lithuania and Scandinavia (arrangements with Russia have been suspended). Resale of spare parts for other Diamond aircraft operators, which is part of Diamond Aircraft Service Centre activities, has generated additional income to the Group.

“Air Baltic Training Maintenance Training Organisation (PART–147)” maintenance training is one of the fastest growing products in the portfolio of Air Baltic Training, and provides theoretical and practical training on the A220 series aircraft. The course has an increasing number of customers from the growing fleet of A220s across the globe, with an emphasis on Europe, the Middle East and Africa.

Another important milestone for Air Baltic Training during 2021 was its first graduation of aviation maintenance mechanics from Liepājas Valsts tehnikums (“**LVT**”) – the program jointly established by LVT and Air Baltic Training. It ensures the constant supply of qualified aviation technicians for future growth of both Air Baltic Training General Aviation Services and the Company.

Overall, Air Baltic Training ensures professional training, including theoretical and practical studies, for pilots, cabin crew and technicians by providing educational programs suitable for all students, including beginners.

“BALTIJAS KRAVU CENTRS” SIA

BKC has been operating at Riga International Airport since 2001 and is among the largest cargo handling companies at the airport in terms of cargo turnover and the largest in terms of number of flights handled. In the year ended 31 December 2023, BKC handled 9,920 tonnes of cargo and mail, a decrease of 7% compared to the year ended 31 December 2022. In the year ended 31 December 2022, BKC handled 10,704 tonnes of cargo and mail, an increase of 22% compared to 8,746 tonnes in the year ended 31 December 2021. In 2021, the Company signed an agreement to develop and build a new cargo handling facility at Riga International Airport, with active work to design the cargo terminal and related technical solutions continuing throughout 2022 and 2023. Construction of the facility is currently scheduled to be completed in the beginning of 2025.

Aviation Crew Resources, AS (in liquidation)

Aviation Crew Resources was established in 2012 with the aim of addressing the increasing demand for highly qualified pilots. The main activities of Aviation Crew Resources were related to the outsourcing of aviation crew (i.e. pilots and first officers) to the Company and third parties. However, in recent years the demand for pilot outsourcing has decreased and pilots have increasingly shifted towards preferring direct employment with airlines over employment through third party service providers. In light of this, the Company (as sole shareholder of Aviation Crew Resources) began the solvent liquidation process of Aviation Crew Resources.

The liquidation process was registered with the Commercial Registry as of 3 January 2023, although Aviation Crew Resources is expected to remain in a dormant liquidation process for a few years pending the resolution of ongoing employment litigation. By starting the liquidation process, the Company's strategy was to minimise the administrative burden caused by the subsidiary, while ensuring continuous operations and additional business of the Company. As of 1 February 2023, all employees of the subsidiary signed employment contracts with the Company.

Overview of the Company's Air Transportation Business

The Company is the number one carrier in Riga by the number of passengers (with a market share of 56.4% of total passengers from Riga International Airport for the year ended 31 December 2023) (Source: Riga International Airport, Statistics Report, 2023), the number one carrier in Tallinn for the year ended 31 December 2023 based on the total number of passengers (with a market share of 26% of Tallinn Airport passengers for the year ended 31 December 2023) (Source: Tallinn Airport 2023 Report), and is the third largest carrier in Vilnius, Kaunas and Palanga airports (with a market share of 12% of passengers leaving from Vilnius, Kaunas and Palanga airports for the year ended 31 December 2023) (Source: Lithuania Airports statistics, 2023). For the year ended 31 December 2023, the Company flew 3.7 million passengers from Riga, 774,000 from Tallinn, 571,000 from Vilnius, and 169,000 from Tampere, compared to 2.7 million passengers from Riga, 605,000 from Tallinn, 442,000 from Vilnius, and 117,000 from Tampere for the year ended 31 December 2022. The number of passengers increased by 36% for the year ended 31 December 2023, compared to the year ended 31 December 2022 and by 105% for the year ended 31 December 2022 compared to the year ended 31 December 2021. For the year ended 31 December 2023, 71% of the Company's passengers flew on direct flights, whilst 29% travelled through Riga on transit. For the year ended 31 December 2022, 72% of the Company's passengers flew on direct flights, whilst 28% travelled through Riga on transit. For the year ended 31 December 2021, 70% of the Company's passengers flew on direct flights whilst 30% travelled through Riga on transit.

The table below shows the routes, fleet size, seat capacity, passengers carried, passenger capacity, RPK and passenger load factor of the Company for the years ended 31 December 2023, 2022 and 2021, respectively:

	As at and for the year ended 31 December (unaudited)		
	2023	**2022**	**2021**
Routes at the end of the period	126	103	94
Fleet size at the end of the period(1)	46	39	32
Seat capacity (*thousands*)	6,346	5,183	3,319
Passengers carried (*thousands*)	4,536	3,342	1,628
Passenger capacity(*millions*)(2)	8,213	6,229	4,027
RPK (*millions*)	6,300	4,482	2,158
Passenger load factor (*%*)(3)	76.7	71.2	53.6
Airline passenger revenue (*thousands of Euro*)(4)	539,158	399,811	180,626

Notes:

(1) Excluding all phased out and grounded De Havilland Q400 fleet as at 31 December 2021 (12 aircraft) and 31 December 2022 (12 aircraft) and as at 31 December 2023 (zero aircraft).

(2) ASK in millions, for the year ended 31 December.

(3) Average for the year ended 31 December.

(4) Representing the sum of tickets revenue and ancillary revenue as reported in the Audited Consolidated Financial Statements.

In Riga, the Company operates from Riga International Airport, which includes amenities such as business class facilities, duty free shopping, restaurants and lounge and conference facilities allowing passengers to transit to their onward destinations from Riga in a comfortable and efficient manner.

Charter Transportation and Aircraft Lease

The Company principally charters and provides ACMI services to a number of clients, including large clients in Europe. In 2021, the Company restarted its ACMI operations since the beginning of the COVID-19 pandemic, providing capacity to customers, such as Flyr (Norway), SAS and Eurowings. The Group leased out 14 aircraft under ACMI service agreements during the Summer Season of 2023 for SAS and the Lufthansa Group. For the Summer Season of 2024, the Group has contracted 17 aircraft to fly for Lufthansa, Eurowings and SWISS.

Cargo Transportation

The cargo business (which includes mail transportation) focuses on cargo shipments across Europe, the Baltics and the Middle East. The turnover is unevenly distributed between the cargo and mail business, with the major part of cargo revenue generated by mail transportation.

In 2021, the Group signed an agreement for construction rights in order to develop and build a new cargo handling facility at Riga International Airport. The new cargo hangar will help the Group to accommodate increasing cargo handling needs, will introduce new capabilities such as dedicated cargo freighter handling and will improve third party handling in general. Active work on the design phase of the project began in 2022, and it is expected that construction on the new cargo hangar is currently scheduled to be completed by the start of 2025.

Aircraft Fleet

The Company operates a total of 47 Airbus A220-300 aircraft as of the date of this Prospectus and the Company plans to increase its fleet to 50 Airbus A220-300 aircraft by the end of 2024, and to 100 Airbus A220-300 aircraft by the end of 2029. In December 2012, the Company entered into the 2012 Agreement Bombardier Inc. (currently Airbus Canada) to purchase 20 Airbus A220-300 aircraft. In May 2018, the Company entered into an agreement with CSALP (currently Airbus Canada) to purchase 30 Airbus A220-300 aircraft, with option rights (i.e. rights where the delivery dates for the aircraft which the rights relate to are known) and purchase rights (i.e. rights where the delivery dates for the aircraft which the rights relate to are not known) for a further 30 Airbus A220-300 aircraft. Under the 2012 Agreement and 2018 Agreement, 50 aircraft were ordered and, as at the date of this Prospectus, 47 of them have been delivered with three further aircraft scheduled for delivery by the end of 2024. On 31 October 2023, the Company entered into another agreement with Airbus Canada for the purchase of 30 A220-300 aircraft (converting the option rights and purchase rights for 30 aircraft under the 2018 Agreement into an order) and additional purchase rights over 20 A220-300 aircraft, deliveries of which are scheduled to begin in the fourth quarter of 2026 and continue through to the end of 2029. In addition to these agreements, in January and February 2024, the Company signed a further two letters of intent for the lease of two and five A220-300 aircraft from two separate lessors, respectively. These additional seven leased aircraft are expected to be delivered in late 2025 and early 2026. For more information see *"Aircraft acquisitions and disposals"*. The Company intends to continue to closely monitor its fleet expansion while it expands its network in order to reduce the risk of over-expansion and undue exposure in market downturns and to manage its commitments to Airbus in light of its targeted growth rates. See "*—Aircraft acquisitions and disposals*".

The Airbus A220-300 is a twin-engine aircraft with up to 149 seats, has a commercial range of 6,204 kilometres (Source: Airbus) and fuel consumption of 1.98 metric tons per flight hour (Source: Group's internal data). The Airbus A220-300 delivers significant environmental benefits compared to comparable aircraft, including a smaller noise footprint and lower CO_2 emissions (Source: Airbus). The aircraft is equipped with PW1500G engines, boasting one of the highest by-pass ratios (12:1) among turbofan engines in the world (Source: Pratt & Whitney). Since October 2021, the Company has been the largest operator of A220-300 in the world. The Company accounted for approximately 46% of delivered and approximately 36% of total ordered Airbus A220-300 aircraft in Europe, as at 29 February 2024 (Source: Airbus order log). Management believes that the Airbus A220-300's smaller size and competitive economics are well aligned with the Company's regional and seasonal markets.

The Company's fleet is financed by a combination of leases, some of which will transfer ownership of the aircraft to the Company at the end of the term (pursuant to the provisions of the lease agreement, the average term of which is 12 years) and others which will not transfer ownership of the aircraft to the Company at the end of the term and the aircraft will be returned to the lessor.

The Company performs full scope of Line and Base maintenance of its aircraft fully in-house. Line maintenance means regular maintenance which can be carried out overnight and carried out on daily or weekly intervals. Base maintenance means that the aircraft are taken out of operations for significant maintenance required on the aircraft. The Company considers it to be critical that it is able to properly and cost effectively perform the fleet maintenance. Due to fleet increase, the Group intends to build an additional hangar with eight maintenance stands to accommodate eight Airbus A220-300 aircraft for the line and base maintenance, while having flexibility to accommodate other aircraft types such as Airbus 321 NEO, Boeing 737-600/700/800/900 in four line maintenance stands if required.

Aircraft Acquisitions and Disposals

Part of the Company's "IPO & Beyond" business plan is to operate a single-type fleet of Airbus A220-300 aircraft. This aircraft model was selected after extensive review and analysis of available options for the suitability of their performance characteristics to serve the Group's route network.

The advantages of a single-type fleet include greater reliability, lower maintenance costs, lower training costs, easier crew management and lower fuel costs than for an older and/or non-uniform fleet. For more information, see *"Strengths – The Company's differentiated value proposition"*.

The Company has 47 Airbus A220-300 aircraft in its fleet as at the date of this Prospectus. The below table sets out the fleet size and anticipated delivery schedule for further commercial passenger airlines in the Company's fleet up to the financial year 2026 (subject to potential delays which may occur which are typical in the industry):

	As at 31 December						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Airbus A220-300	25	32	39	46	50	55	60
Net increase/decrease during year*	(14)	7	7	7	4	5	5

*Aircraft deliveries net of retirements

In May 2018, the Company entered into an agreement with CSALP (currently Airbus Canada) for the purchase of 30 Airbus A220-300 aircraft with option rights for a further 15 Airbus A220-300 aircraft and purchase rights for a further 15 Airbus A220-300 aircraft. In March 2022, the Company converted the option rights on four aircraft to purchase rights. In September 2022, the Company converted the option rights on another four aircraft to purchase rights. On 31 October 2023, the Company entered into a further agreement with Airbus Canada for the purchase of 30 A220-300 aircraft and purchase rights over 20 A220-300 aircraft. In January and February 2024, the Company signed two letters of intent for the lease of two and five A220-300 aircraft from two separate lessors. These additional seven leased aircraft are expected to be delivered in late 2025 and early 2026. The Company operates one of the youngest fleets of aircraft in Europe, with an average age of 3.1 years as at 31 December 2023.

Aircraft Financing Arrangements

The Company generally aims to have commitments in place to finance its aircraft acquisitions three months ahead of taking delivery of the relevant aircraft. As of the date of this Prospectus, the Group has a fleet of 47 Airbus A220-300, all of which are on leases. Eight Airbus A220-300 aircraft are under finance leasing agreements whereby the Company will obtain ownership of the aircraft at the end of their respective lease terms and 39 Airbus A220-300 aircraft are under operating lease agreements whereby the Company will return the aircraft at the end of their respective lease agreements without taking legal ownership.

The Company operates on a wholly commercial basis and receives no funding or support for its aircraft leases or purchases from its shareholders.

The Group currently uses seven spare engines which it initially bought from Pratt & Whitney and have been financed with long-term debt from Export Development Canada. The Group also leases a number of engines for its Airbus A220-300 aircraft from Pratt & Whitney.

The Company used sale and lease-back transactions to finance its acquisition of 39 of its Airbus A220-300 aircraft acquired under the 2012 Agreement and 2018 Agreement. In order to secure the most favourable financing for the Company, it organised competitive tenders. The Company, assisted by Skytech-AIC, invited tenders to provide sale and lease-back financing for its Airbus A220-300 aircraft in separate tender campaigns. In each instance, the Company received at least 12 lease proposals and each tender was oversubscribed several times (Source: management estimates).

The last tenders were completed in the end of 2023 in order to secure additional aircraft on lease in 2025 and 2026. These tenders were successfully concluded by signing letters of intent with two lessors in relation to two aircraft with one lessor and five aircraft with another lessor. The financings of the sale and lease back transactions are structured as sale and 12-year lease-back arrangements. Currently, all deliveries in relation to the remaining three aircraft ordered under the 2018 Agreement have been tendered and lease agreements have been signed, with deliveries of these three aircraft to take place in 2024. The Company's decision to elect for this structure is based on the following: (i) diversification of the Company's funding sources; (ii) the increasing acceptance in the aircraft leasing market for Airbus A220-330 aircraft which has partly been due to Airbus becoming a majority owner of the C-Series programme and rebranding to the A220 programme; (iii) the ability to relieve a portion of the cash-flow burden by not tying up the Company's own equity in financing of the aircraft; and (iv) the option for lease payments to be denominated in Euro, in order to match the Company's primary revenue currency.

Safety Management System

Safety is an integral part of the Company's core business and its safety management system is developed considering high-level safety objectives focusing on customers, employees and suppliers. The safety management system imposes requirements on occupational health and safety of the Company's staff and contracting parties. Senior management endorses and is committed to the system. The system is integrated across all departments and meets the regulatory requirements of the Civil Aviation Authority of Latvia and is subject to regular oversight audits. The Company has not had any passenger, crew or contractor fatality as a result of an accident with any of its aircraft in its 25-year operating history.

The Executive Board is responsible for all aspects of safety delivery, including compliance obligations under the Company's AOC and is responsible for directing and implementing the Company's safety policy and governance principles in accordance with the Latvian civil aviation safety programme as laid down in the Regulations No. 397 of the Cabinet of Ministers of the Republic of Latvia "Regulations on State Civil Aviation Safety Programme", dated 27 April 2010, as amended.

The Company has established a safety and compliance management system and a fatigue risk management system which incorporate rigorous reporting processes. Through these systems the Company is continually working to drive safety performance improvements and reduce risks to its people, passengers and suppliers. As part of the Company's ongoing commitment to safety improvement, the Company continues to develop appropriate safety standards throughout its supply chain. This includes the promotion of improved communication and engagement on safety issues, and, above all, sharing and learning from best practice.

In addition, the Company's fleet and crew is regularly assessed through the European Union Aviation Safety Agency's Safety Assessment of Community and Foreign Airlines (the "**SACA/SAFA**") program that provides additional and independent assurance of consistently reliable safety standards.

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

- a positive alcohol test result of over 0.2 promilles without a mitigating excuse;
- a positive alcohol test result below 0.2 promilles if this is the second occurrence in a 24-month period without a mitigating excuse;
- a positive drug test result without a mitigating excuse; or
- non-compliance with the alcohol and drug testing procedure.

Employees whose duties have an immediate direct impact on flight safety are subject to mandatory alcohol tests before beginning a work shift. These can be taken as self-tests or administered by a third-party contractor or specially designated employees. Furthermore, random alcohol and drugs tests are frequently performed by a contracted third-party company or the Company's security staff.

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

Route Planning Process

The Company has a structured and sequenced route planning process which is driven by local market demands and connecting potential via Riga as well as market demand in other bases (such as Tallinn, Vilnius, Tampere and Gran Canaria). The route network is determined based on worldwide traffic and revenue data, from various sources (including SABRE GDD and IATA DDS) gathered over a period of twelve to eighteen months, before the network is implemented. The route planning process broadly covers steps such as preliminary background research, estimation of total market size, competition analysis, scheduling/connectivity, estimation of the Company's traffic share, pricing strategy, costs to operate route and profit and loss analysis.

All route performances are monitored on a monthly basis and such monitoring involves reviewing various factors including yield, contribution, seat factor, load factor and forward bookings. Adjustments to the existing route network are implemented wherever feasible and necessary, combining short-term result optimisation and long-term growth goals.

Competitive Environment

The Company competes with other airlines offering European and international services on routes which the Company services. There are currently approximately 20 competitors that serve Riga, Tallinn and Vilnius. The Group's, primary competitors include Ryanair, Wizz Air, Lufthansa, Finnair and, historically, Aeroflot. The Company welcomes competition and supports the growth of new air services to Riga and the Baltics, as it believes that this will further fuel economic growth and stimulate overall demand for air transportation services to and from Riga.

Although there is a growing number of LCCs operating in the region, the Company has in recent years been able to maintain its market share in the Baltics partly due to its competitive "hybrid LCC" business model providing superior service at competitive price levels and its extensive network and flight frequency. For more information see, *"Strengths"*. As of the date of this Prospectus, the Company operates codeshare agreements with 23 partners, increasing its network reach beyond the traffic areas and points it serves itself (see *"Arrangements with Other Airlines"* below).

Arrangements with Other Airlines

The Company is not a member of any global airline alliance; however it operates 23 codeshare and interline partnerships with more than 50 carriers across the globe (arrangements with Belavia, Aeroflot and Ukrainian Airlines have been suspended).

Strategically the Company is not planning to join an alliance as the benefits of market specific cooperation flexibility outweigh the effects of joining one of the global alliances.

Codeshare

A codeshare agreement allows an airline to sell tickets on flights operated by another airline, coded with the flight number of the selling airline. The operating airline will also continue to sell seats on such flights, coded with its own flight number. This means that flights operated by a single airline are included within both airlines' route networks, and flights on that route may be sold by both airlines in exchange for an agreed amount or portion of the overall fare.

The Company has codeshare arrangements with 23 partners with the most important partnerships being with Air France/KLM, British Airways, SAS and Lufthansa Group.

Sales of flights under these codeshare agreements are promoted through the combined marketing efforts of the partner airlines. In addition, codeshare agreements are intended to increase the attractiveness to passengers of booking connected flights, while giving passengers a broader range of departure times and choice of routes. The Company continues to seek appropriate opportunities to enter into new codeshare agreements with other airlines.

Interline

Interline agreements allow travel agents and others with access to the global distribution system or a related system to book a journey comprising of more than one airline's flights as a single fare. In contrast to codeshare arrangements, the passenger is aware that he is flying separate flights with separate airlines, but still pays only a single price. The interline agreement governs the revenue sharing between airlines of the price paid by the passenger for the overall journey. Boarding passes are issued at the place of origin, and baggage is checked through for the whole journey.

The Company has interline agreements in place with more than 50 airlines, including Qatar Airways, Air Canada, United Airlines and Etihad Airways.

Airline Sales and Distribution

The Company sells seats on its flights through all major distribution channels, the most significant of which are the Company's website www.airbaltic.com, the Company's sales offices and travel agents through global distribution systems. For the year ended 31 December 2023, the Company's direct sales from call centres accounted for 9% of sales; its website accounted for 64% of sales, meta search engines (such as Skyscanner, Google flight search and Momondo) accounted for 4% of sales, travel agencies accounted for 23% of sales and Online Travel Agencies ("**OTA**") accounted for 9% of sales. The Company's ticket sale strategy is to increase the number of direct ticket sales via airBaltic.com through new e-commerce infrastructure and online marketing investments. At the same time the Company enables sales through other channels, which are travel agents, tour operators and OTAs in market segments, where direct online sales have less potential/power for market reach.

With regards to ancillary sales, the Company's website accounted for 67%, call centres accounted for 13%, travel agencies accounted for 7%, OTA accounted for 3%, and airports accounted for 5% and onboard sales 6% for the year ended 31 December 2023. The strategy for ancillary services aims to promote airBaltic.com as much as possible through new ecommerce platforms as it is the strongest channel for sales.

Global distribution systems are computerised systems used by the travel industry to store and retrieve information, and conduct transactions, relating to airline travel. The Company operates on the basis of the Amadeus Altea passenger service system ("**PSS**"), which includes inventory, reservation services, revenue management system, group management system and departure control system. The Company is continuously investing in its direct channel and PSS infrastructure to enhance its ability to open new distribution channels and improve customer experience in line with changes to global technology trends and also to market its innovative product offerings across distribution channels more effectively.

Assets

Assets at Riga International Airport

The Company has entered into the following land lease agreements with Riga International Airport, who owns the land. Ownership of the buildings that were built by the Company on the land, will transfer to Riga International Airport at the end of the lease terms. The Company has the following land lease agreements with Riga International Airport:

- A land lease agreement which originally terminated on 20 May 2024: The land contains a 2,901m² aircraft maintenance hangar. The hangar is used by the Company as an aircraft maintenance facility. The Company and Riga International Airport have reached an agreement to extend the term of this land lease agreement until 20 May 2029 and the Company signed this new agreement on 15 April 2024.

- A land lease agreement which terminates on 11 January 2026: The land contains a 2,373.70m² cargo hangar and a 25.1m² boiler house. The land will be expropriated for public use due to the Rail Baltica project (for which the Company will be compensated). The cargo hangar is currently leased to the Company's subsidiary BKC, the cargo hangar's primary tenant. The rest of the premises are leased to various third parties who use it as office space. The Company is currently negotiating the price for expropriation of the cargo hangar with the Government of Latvia. The Company expects to receive between €1.1 million to €4.4 million from the expropriation.

- A land lease agreement which terminates on 25 February 2052: The land contains a 9,323.1m² aircraft maintenance hangar and a 245.1m² boiler house. The properties are used by the Company as an aircraft maintenance facility.

- A land lease agreement which terminates on 30 August 2054: The land contains a 3,326.0m² training centre including a flight simulator, which is used by the Company's subsidiary, Air Baltic Training as a training facility and office building.

In addition the Company has signed two agreements for construction rights on land belonging to Riga International Airport. These agreements will remain in force until 17 August 2051 and 31 August 2050 respectively. The first relates to the development of a new cargo handling facility/hangar measuring approximately 8000m². The second relates to the development of an additional aircraft maintenance hangar, measuring approximately 41000m², with eight maintenance stands to ensure line and base maintenance for the Group's Airbus A220-300 aircraft. This facility will also have the flexibility to accommodate other aircraft types such as the Airbus 321 NEO and the Boeing 737-600/700/800/900 in four line maintenance stands if required.

Assets at Liepaja International Airport

Air Baltic Training has entered into an agreement for construction rights on land belonging to sabiedrība ar ierobežotu atbildību "AVIASABIEDRĪBA "LIEPĀJA"" ("**Liepaja International Airport**"). This agreement remains in force until 8 October 2048. It relates to the expansion of the facilities for the "Pilot Academy" training program that is run by Air Baltic Training (see *"Corporate Structure – Air Baltic Training", SIA*"). Under this agreement, a hangar measuring approximately 1196m^2 has been built, which has been registered in the Land Register as an essential part of the development rights of the land.

Leased Material Real Estate

The Company leases its headquarters at Tehnikas iela 3, Marupes novads from SIA "EfTEN Riga Airport". The lease agreement is valid until 24 February 2029 with unilateral rights of the Company to extend the lease for an additional period of three years under the same terms and conditions.

Other material leases of the Company are: the sublease of the FBO hangar (3300m^2) and the sublease of part (1570m^2) of the Capital Handling hangar, both of which are used for aircraft maintenance and storage space. The Company subleases the FBO hangar from SIA FBO RIGA under a sublease agreement valid until 31 December 2024. The Company subleases the Capital Handling hangar under a sublease agreement valid until 31 August 2026 from SIA "CAPITAL HANDLING", which leases it from the owner of the hangar – SIA "TRIANGEL".

Other Businesses

The Group's other businesses includes non-traffic revenue of the Company and revenue generated by its subsidiaries. Non-traffic revenue consists entirely of profit from sale-and-leaseback transaction of €3.8 million for the year ended 31 December 2023, compared to €4.7 million for the year ended 31 December 2022 and €5.9 million for the year ended 31 December 2021. The airline also generates revenues from maintenance services for external clients, blockchain projects (such as the "Planies" NFT collection) and uniform sales, though revenue streams of these other businesses have been immaterial.

The Group's subsidiary Air Baltic Training was registered in the Commercial Register on 4 February 2010. The main operation of Air Baltic Training is the provision of aviation related training services. Air Baltic Training's sole shareholder is the Company. Air Baltic Training is actively operating in the aviation training industry providing safety critical staff training services and general aviation maintenance services to airlines and other companies related to aviation industry, as well as to private individuals for initial or continuation training. For further details see "*Corporate Structure – "Air Baltic Training", SIA*".

The Group's subsidiary Baltijas Kravu Centrs has been operating at Riga International Airport since 1 February 2001. In terms of cargo turnover and number of flights served, Baltijas Kravu Centrs is the largest cargo handling company at the Riga International Airport as of 31 December 2023. Baltijas Kravu Centrs handles both the direct and transit air cargo and mail of the Company and other airlines including SAS, Singapore Airlines, China Airlines and Qatar Airways that are delivered between Riga and hub airports in Europe by road. For further details see "*Corporate Structure – "BALTIJAS KRAVU CENTRS" SIA*".

Intellectual Property

"airBaltic" and its logo (including "AIR BALTIC"), "airBaltic Cargo", "Think green", "Fly green", "airBaltic Club", "Imagine where you can fly", "airBaltic Training" and a number of the Group's other product and company names are trade or service marks or registered service marks. The Group has registered these marks in Latvia in addition to the EU and several other countries. In relation to its licensed proprietary software see *"Information Technology"*. The Group takes appropriate steps to protect its intellectual property, including through typical contractual provisions in licence agreements. Most of the Company's trademarks are pledged in favour of the Ministry of Finance of the Republic of Latvia to secure the Company's €36.1 million loan from the Government of Latvia (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and capital resources – Indebtedness").*

Marketing

The Company's primary marketing strategy is to position itself as the Baltic's leading airline by emphasising the following key attributes of the Company:

- it is the flag carrier for Latvia and one of the largest carriers in the Baltics by number of passengers (see *"The Group is an industry leader in the Baltics with a strong flight network"*) offering direct flights from all Baltic capitals and Tampere, Finland and, in the Winter Season, Gran Canaria, Spain;

- it offers one-stop global connectivity to the Baltic capitals with interline and codeshare partners;

- it serves major European business hubs;

- its network is built to connect Europe, particularly Scandinavia and the Baltics, and the Middle East;

- sustainability and corporate responsibility are amongst the Company's core values;

- its fleet is the second youngest and one of the most modern in Europe, consisting solely of Airbus A220-300 aircraft, which is one of the world's most efficient commercial aircraft; and

- it also focuses on quality products and services rather than just low-prices.

Within the last few years, the Company has focused on digital marketing in order to expand beyond the Baltics, including on demand customer intelligence and predictive marketing platforms, direct digital marketing, interest and look-a-like targeting, a broad audience across Meta platforms (such as Facebook and Instagram) and dynamic advertisements in the Google display network. Interest and look-a-like targets are individuals identified by Meta or Google, who are similar to other individuals that have previously visited the Company's website or watched the Company's advertisements.

Company-owned digital channels such as newsletters, web, blog and application push notifications play an important role in the Company's marketing strategy. Web pushes are push notification messages from a webpage, sent to a desktop or mobile device, even when the webpage is not currently active in a device's browser. For the year ended 31 December 2023, airBaltic.com remained the main source of flight bookings for the Group, representing 64% of all of its flight bookings. As at 31 December 2023, the Company's newsletter subscriber database consisted of over 708,000 active subscribers (an increase of 28% compared to the year ended 31 December 2022), and 7.4% of bookings at airBaltic.com originated from the newsletter.

Flight metasearch websites play an important role in digital sales. For many years the Company has cooperated with the most important flight metasearch websites such as Skyscanner, Kayak, Momondo and others. In the year ended 31 December 2023, 6.5% of bookings on the Company's website came from metasearch engines.

Google and Meta are the key marketing strategic partners for achieving the Company's business goals. The Company has introduced Google Analytics 4 and Google Data Studio to measure the effectiveness of marketing campaigns. Data-driven approach in managing Google AdWords accounts and campaigns in Google display network has increased revenue with a low cost-per-search.

To gain new clients and maintain long-term relationships with existing customers, the Company has developed a traveller-friendly loyalty programme "airBaltic Club", which offers clients the opportunity to earn points and collect stamps while traveling and receive various rewards. The points earned may then be used to spend on airBaltic reward flight tickets or use towards the purchase of tickets on airBaltic.com. This is a new loyalty point payment option introduced on the Company's website which allows airBaltic Club members to use collected points to purchase tickets meaning that customers can buy airline tickets using a combination of cash and loyalty points. On average, 35% of club points are redeemed using this option.

AirBaltic Club focuses purely on travel and attracts travel-related partners – points can be collected every time a customer flies with the Company or its codeshare partners (or codeshared routes) or uses the services of other programme's partners, such as Booking.com, Rentalcars.com, Sixt, LSG Sky Chefs and others. As part of its loyalty programme initiative, the newest feature is the possibility to earn Club points by holding non-fungible tokens ("**NFTs**") from the Company's NFT collection called Planies. In 2023, the Company became the first airline in the world to issue NFTs and tie them to its frequent flyer program. Planies NFTs is a collection consisting of 10,000 cartoon aircraft web images which customers can purchase online and are stored to a customer's airBaltic Club account. Each Planie NFT is not only a unique digital artwork but also brings airBaltic Club loyalty benefits in the form of daily loyalty points, free upgrades to business class and VIP status. On average, for the year ended 31 December 2023, loyalty program members holding Planies NFTs took three times as many flights as compared to loyalty program members without NFTs.

In 2023, 20% of passengers were airBaltic Club members and as at 31 December 2023, the total number of members was approximately 1 million. The programme has three membership levels tailored to the customer's flying habits – Club, Executive and VIP. By flying at least 30 times a year, a member can reach Executive status, which offers several additional benefits, and by reaching 60 flights in a year, a member qualifies for VIP status, which provides further benefits, such as dedicated check-in counters, Fast Track security check and Business Lounge access at airports.

As part of its strategy to move towards more modern and automated solutions, the Company has launched its digital loyalty cards, which members are able to download to their mobile wallets. The digital loyalty card is not only more convenient, as it is stored on a smartphone, but is also more environmentally friendly by helping to reduce the use of unnecessary plastic. In 2021 the Company rebranded the airBaltic Club mobile application, expanding its use from a purely loyalty application to an application that serves as starting point for the customer's journey with the Company.

Environmental impact of the business

Due to the nature of airline operations the Company is a significant emitter of greenhouse gases, in particular CO_2. Since 2012, aviation has been a part of the EU's Emissions Trading System, following and complying with EU ETS rules and the Company following the best international practises from beginning has joined the future global scheme introduced by ICAO for aviation emissions, CORSIA. The Company's business model continuously works toward fuel efficiency and reduction of carbon emissions, through means such as investment in efficient aircraft and use of fuel efficiency measures.

The Company started to operate a new generation of Airbus A220-300 aircraft in 2016. These aircraft are 20% more fuel efficient per seat (Source: management estimates) and 50% quieter during take-off (Source: management estimates) and landing (Source: Airbus) than previous generation aircraft such as the Boeing 737-300 and Airbus A319ceo. As of the date of this Prospectus, 47 Airbus A220-300 aircraft were in operation, with a further three scheduled to be delivered by 31 December 2024.

Carbon emissions

The Company's total CO_2 emissions for the year ended 31 December 2023 were 560,035 thousand tonnes, compared to 422,228 thousand tonnes for the year ended 31 December 2022 and 249,407 tonnes for the year ended 31 December 2021. The Company's calculation of emissions for these periods was based on total fuel burn converted into CO_2 according to the internally accepted conversion rate of 3.15. For jet fuel emission calculations, the Company uses the rate of 3.15 (as per EU ETS reporting requirements) to represent the number of tonnes of CO_2 produced by burning one tonne of aviation fuel. Starting from 1 January 2024, the EU ETS directive's approved constant of 3.16 will be used for reporting purposes, in alignment with CORSIA requirements. EU ETS scope produced CO_2 emissions are annually verified by Bureau Veritas Latvia to comply with the EU's Emission Trading System requirements.

The increase in overall emissions in 2022 and 2023 was due to the continued expansion of the Company's operations and a recovery in the number of air passengers and traffic after the continued easing of COVID-19 restrictions around the world. The Company's carbon reduction target is based on carbon emissions per passenger per kilometre. Since 2008, the Company has reduced its carbon emissions per passenger, per kilometre by 33%. Its current target is a 19% reduction from its 2018 financial year performance by 2025, which would be a 42% improvement from 2008.

For the year ended 31 December 2023, the Company's carbon emissions per passenger per kilometre were 89 grams, down from 94 grams per passenger per kilometre for the year ended 31 December 2022.

EU Emissions Trading

In February 2009, Directive 2008/101/EC came into force, bringing the aviation industry within the EU ETS. As a result, all flights departing from, and arriving at, EU airports have been included within the EU ETS from 2012. The EU ETS delivers a market price for carbon, capping emissions produced under the scope of EU ETS to a fixed limit with operators required to surrender allowances for each reporting year to cover their emissions. The Group annually receives the approved amount of free allowances of carbon emissions under EU ETS scheme based on its operations. The Group must buy the amount of carbon emissions exceeding the free allowances amount on the free market or acquire through auctions. Under the Directive 2003/87/EC amendments, the EU ETS Free allowances are proposed to be phased out over the period 2026 to 2034. In their place, free allowances are planned to be made available to airlines to cover part of or all of the price differential between the use of kerosene fuel and the use of eligible alternative aviation fuels (e.g. SAF).

In October 2016, the International Civil Aviation Organisation agreed CORSIA to target carbon neutral growth for the airline sector, which commenced its pilot phase in 2021 and is voluntary until 2027. CORSIA relies on offsets from other industries to compensate for emission growth in the airline sector. The Group is participating in CORSIA since its introduction by reporting and verifying the produced emissions annually.

Regulatory Environment

The international and strategic importance of the airline industry, along with its safety and security critical requirements, means that it will always be subject to a wide range of regulatory controls. The Company monitors and, where possible, contributes to global, regional and national regulatory developments where they affect its business.

The regulatory environment has a significant impact on the Group, in particular the legislative framework set out by the EU and the Republic of Latvia. As at the time of this Prospectus, the Company has the relevant and required operating licence and air operating certificate ("**AOC**").

International Regulation

The International Civil Aviation Organisation ("**ICAO**") is an agency of the United Nations and was established by the 1944 Chicago Convention on International Civil Aviation ("**Convention**"). The Convention established the process of coordinating and regulating international air services through bilateral air services agreements ("**ASAs**") between sovereign states. ASAs are international bilateral treaties between states, with government-negotiated terms and conditions covering all aspects of commercial scheduled air services between the two countries. An exception to this is the single aviation market arrangement which applies within the EU and the multilateral agreements between the EU and third countries.

Besides setting bases for fair commercial cooperation in aviation transport, the Convention established uniform safety standards and recommended practices to be adopted and ratified within national legislation by each of the signatory states. Latvia formally ratified the Convention in 1992 which provided the base for implementing nearly 10,000 globally recognised aviation safety standards and recommended practices. Through several ICAO oversight audits, Latvia has demonstrated its compliance with such standards as well as continuing to evolve national legislation and developing capabilities in oversight, investigation and industry regulation aligned with the latest international developments.

EU Regulation

The Company is and will continue to be affected by a wide range of EU laws and regulations. These include safety, security, aircraft operations, airline ownership, airport slot allocations, ground handling, competition, airport charges, consumer protection, insurance, environmental protection, air traffic control and general data protection. The EU has implemented a significant part of the ICAO safety standards and recommended practices within Commission Regulations, uniformly mandating them within each member state. This provides a uniform regulatory environment for all European airlines. Under Regulation (EEC) No 95/93 on common rules for the allocation of slots at Community Airports ("**Slots Regulation**"), airlines retain their historic rights of airport slots in a slot coordinated airport if a series of slots has been used by an airline for the operation of scheduled and programmed non-scheduled air services, and that airline can demonstrate to the satisfaction of the slot coordinator that this series of slots has been operated, as cleared by the slot coordinator, by that airline for at least 80% of the time during the scheduling period for which it has been allocated. In such case, that series of slots shall entitle the airline to the same series of slots in the next equivalent scheduling period, if requested by that airline within an initial submission deadline. There are currently no historic rights of airport slots in Riga International Airport .Riga International Airport does not have any rights over the Company's slot portfolio.

In February 2021, the EU adopted an amendment to the Slots Regulation providing for relief to airlines regarding airport slot-use requirements for the Summer Season of 2021. In December 2021, the European Commission adopted an extension to the slot relief rules of the Summer Season of 2022. This amendment, along with its extension, replaces the full slot waiver which was enacted in March 2020 and is no longer justified. This allows airlines to use 64% (instead of the standard 80% stipulated in the Slots Regulation) of the airport slots to retain their historic rights in these slots. To the extent this relief is not extended, the Company may risk losing its slots or may need to operate unprofitable flights to protect them. A loss of slots and/or the operation of unprofitable flights to protect slots may prevent the Company from flying to key airports in the future and/ or have material adverse effect on the Company's business, financial condition, results of operations and prospects.

Since April 1997, EU air carriers have been able to provide passenger services on routes between and within EU Member States (and outside their home country of operations) without restrictions on capacity, frequencies or fares. The European Free Trade Association states and a number of other neighbouring countries are also parties to a multilateral agreement known as the European Common Aviation Area.

Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 on common rules for the operation of air services in the Community ("**2008 Regulation**") sets nationality requirements for the holding of operating licences issued by EU Member States. The 2008 Regulation requires that (i) an air carrier must be owned and continue to be owned directly or through majority ownership by European Economic Area ("**EEA**") states and/or nationals of EEA states (for the purposes of the 2008 Regulation, this includes also ownership by Switzerland and/or Swiss nationals) and (ii) the air carrier must at all times be effectively controlled by such EEA member states or EEA nationals. As of the date of this Prospectus 97.97% of the Company's shares are held by the Ministry of Transport of the Republic of Latvia. The Company's corporate governance principles comply with the Commercial Law and the G20/OECD "Principles of Corporate Governance". For more information, see *"Management – Supervisory Board"*.

Latvian Regulation

The Company has an operating license, AOC, Continuing Airworthiness Management Organisation approval as well as Maintenance Organisation approvals in the Republic of Latvia each of which are subject to routine audits and reviews.

State Agency "Civil Aviation Agency" of the Republic of Latvia is responsible for overseeing and regulating air carriers in the Republic of Latvia and issues AOCs under the common European requirements and Latvian laws and regulations. AOC is an operating certificate authorising its holder to operate in the air transportation sector. Such certificate covers all of the operating domains that are related to the aircraft, its maintenance, crew qualification, operating procedures and internal controls, along with the named management personnel dedicated to ensure adherence to their approved scope of operation and associated procedures.

The Department of Aviation of the Ministry of Transport of the Republic of Latvia currently issues operating licenses in the Republic of Latvia under the provisions of the Latvian law "On Aviation" and various corresponding regulations adopted by the Cabinet of Ministers of the Republic of Latvia. An operating license is a market entry authorisation permitting the holder to transport passengers, mail and cargo by air. The criteria for granting an operating license includes, *inter alia*, an air carrier's financial fitness, the adequacy of its insurance and the fitness of the persons who will manage the air carrier.

In July 2023, the U.S. FAA completed its audit of the Latvian Civil Aviation Agency. As a result, Latvia was assigned Category 1 rating by the U.S. FAA under its International Aviation Safety Assessment programme, evidencing Latvia's compliance with ICAO standards for the country's civil aviation safety oversight regime. This will allow aircraft operators registered in Latvia to operate flights to or from the U.S. or establish code-share agreements with U.S. carriers for Latvian outbound or inbound flights.

Generally, the Company is affected by a wide range of international, European and national laws and regulations on safety, security, ground handling, airport charges, consumer protection, passenger taxes, environmental protection and air traffic control subject to continuous enhancements in response to global, regional and local developments.

Environmental Regulation

All aircraft used in commercial aviation in Europe are certified according to EASA certification specification, addressing both safety and environmental standards capturing number of emission parameters as well as different noise levels. These standards come from environmentally-driven European, national and/or local permits, rules and regulations which provide a framework for how aircraft should be operated. In recent years, the airline industry has witnessed a focus on ever increasing environmental standards.

All flights departing from and arriving at EU airports fall within the ETS, a 'cap and trade' system established in 2003 by Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 and amended by Directive 2008/101/EC of the European Parliament and of the Council of 19 November 2008 with an aim to comply with the EU's obligations under the Kyoto Protocol to the United Nations Framework Convention on Climate Change. These directives had the effect of including aviation activities within the scheme for greenhouse gas emission allowance trading within the EU. The ETS puts a market price on carbon and a fixed cap on the total amount certain greenhouse gases that can be emitted by installations. Within the cap, companies receive or buy emission allowances which they can trade with one another as needed. After a year, companies are required to surrender enough allowances to cover their total emissions. Under the legislation, airlines are granted a certain number of allowances free of charge based on historical emissions and their share of the total aviation market; further allowances are auctioned by EU Member States.

The decision to incorporate the aviation sector into the ETS significantly affects the European aviation industry, and thereby the Group. In addition to the financial impact it has, the incorporation into the ETS imposes administrative burdens (in particular, monitoring and reporting obligations) on airlines.

Overall, the Company is subject to wide range of environmental laws and regulations which relate to, among others, the use and handling of hazardous materials, noise, air emissions, greenhouse gas emission waste management, civil protection, water quality and environmental contamination clean-up. For more information, see *"Risk Factors – Risks related to the Airline Industry – Under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, certain contracting states, including the Baltics entered into obligations to control and reduce the emission of greenhouse gases*".

Security

The Group maintains comprehensive processes and structures to monitor and manage security-related risk throughout the airline. The Company has drawn up, applies and maintains its air carrier security programme, including, *inter alia*, methods and procedures to comply with Regulation (EC) No 300/2008 of the European Parliament and of the Council of 11 March 2008 on common rules in the field of civil aviation security. The Group's Security objectives and performance standards are regularly reviewed to ensure continual improvement of Security Management and Compliance Manual (Security Program).

While the relevant airport operators are responsible for security screening of passengers, baggage and cargo at the domestic and international airports where the Company operates. The Group trains its staff to remain vigilant in identifying potential security breaches as well as to handle unruly passengers and illegal migration. The Group also institutes secondary checks, such as passport screening, at certain airports. All potential employees undergo thorough screening of their background prior to being hired and are subsequently also screened by the local regulators and airport police before they are permitted access to the relevant airports. Appropriate training is provided to crew in respect of dangerous goods awareness and other such security issues. Internal audits for the Company employees and service providers are carried out on a regular basis.

Insurance

The Company has insurance coverage which it believes is consistent with industry standards including:

- Aircraft insurance, hull all risks;
- Spares, all risks;
- Aviation legal liability and aviation legal liability war insurance;
- Insurance in respect of passengers, baggage, cargo, mail and third parties;
- Aviation hull war and allied risks coverage; and
- Excess third party liability war.

Council Regulation (EC) No. 2027/97, as amended by Council Regulation (EC) No. 889/2002, governs air carrier liability. This legislation provides for unlimited liability of an air carrier in the event of death or bodily injuries suffered by passengers, implementing the Warsaw Convention of 1929 for the Unification of Certain Rules Relating to Transportation by Air, as amended by the Montreal Convention of 1999. The Company's liability insurance has been designed to meet the appropriate requirements of the legislation.

Council Regulation (EC) No. 785/2004 in conjunction with Council Regulation (EC) No. 285/2010 is also covered by the Company's aviation insurance. Council Regulation (EC) No. 785/2004 stipulates that all aircraft and air carriers flying into and out of the EU must have specific insurance coverage in respect of passenger liability, cargo, baggage and third parties.

The Company is in compliance with standard mandatory requirements of aviation insurance as set forth by local and EU laws and regulations imposing mandatory insurance obligations. Liability limits and coverage are in compliance with the applicable legal framework, as well as conditions prescribed by aircraft lease agreements. In addition, the Group maintains insurance for its high-value assets that are leased or owned, including Pratt & Whitney PW 1500G type aircraft engines, one DA42 aircraft and eight pilot training Diamond DA40 NG aircraft.

In addition to its aviation-related insurance, the Group has also insured its other material assets, (flight simulator and thermal cameras, real estate and hangars) and has 'Directors & Officers' liability insurance. The Group has other standard insurance policies, such as property insurance, vehicle insurance, tourism guarantee insurance, accident insurance, health insurance, business trip insurance, travel insurance and loss of licence insurance for cockpit staff (pilots and first officers). The Company has no material insurance claims pending.

Litigation

In the ordinary course of its business, the Group is from time to time involved in litigation and other disputes, in Latvia and elsewhere. The most common disputes relate to flight service disruptions, including flight delays, cancellations and lost or damaged luggage. The Group is a defendant in a number of lawsuits relating to employment and is also involved in a number of contractual disputes that could result in litigation if not otherwise resolved by the Group and the relevant parties. However, management believes that none of these aforementioned matters are likely to have a material effect on the Group. The Group has made provisions for litigation brought against it by its former supplier. Material legal claims are described below.

AKB Investbank

The Company and its former shareholder BAS have been in dispute with the now bankrupt Investbank since March 2012. Investbank initially sought repayment of €18.4 million (together with the principal amount of €16.5 million), in relation to three loans it had entered into with BAS, which Investbank claimed were guaranteed by the Company. When BAS failed to repay the loans, three lawsuits were brought in Russia against the Company in its capacity as guarantor. Two judgments in the amount of €2.4 million and €11.1 million were made in favour of Investbank, but they were not enforceable in Russia. After several years of litigation and several unsuccessful attempts to reinstate the time limits or reopen the proceedings, the administrators of Investbank filed a claim in Russia against the Company, claiming that the Company, and not BAS, was the real debtor under the loan agreements. This claim was rejected in the first instance, but was appealed and on 30 January 2022 the Court of Appeal overturned the decision, granted the claim and decided to annul the loan and guarantee agreements. In addition, the Court of Appeal ruled that the loan amounts totalling €31.78 million (including the sum of the two judgments, various late payment fees and penalty interest claimed by Investbank's representatives), should be recovered from the Company.

On 5 September 2023, the Court of Cassation agreed with the position of the Court of Appeal regarding the invalidity of the loan agreement between BAS and Investbank, but the Court also stated that the material part of the Court of Appeal's decision had no legal basis and dismissed part of the decision. Following this court decision, the legal representatives of Investbank filed lawsuits against both the Company and its former shareholder BAS, for a review of all previous cases on the basis of newly discovered circumstances. These lawsuits were filed even though the limitation period for filing such lawsuits had expired. In addition to the cases of newly discovered circumstances, the legal representatives of Investbank filed a new substantive claim against the Company for repayment of all three loan agreements, calculating various late payment and penalty interest in addition to the principal (in the sum of €16.5 million), totalling €203.15 million) This action was brought despite the fact these loan and surety agreements had already been the subject of final judgments against the Company and BAS, but were simply time-barred. However, the progress of this last case was suspended on 5 March 2024 pending a review of all previous cases against the Company and BAS. The Company and its legal advisors are monitoring and actively pursuing all cases. Based on the advice of its legal advisors, the Company is of the opinion that there are significant uncertainties and legal obstacles, which, with the expiration of the limitation period, make the likelihood of a new claim limited. In addition, in order to enforce the judgment in Latvia, the administrator of Investbank will have to file an action for recognition of the judgment in Latvia.

Havas litigation

In April 2022, SIA Havas Latvia ("**Havas**"), a former provider of ground handling services to the Company at Riga International Airport, filed a claim against the Company. This case was followed in August 2022 by two additional cases brought by Havas against the Company. The total amount claimed in these cases is €4.6 million. Based on advice from its legal advisors, the Company considers that the claims are unfounded.

One of the cases involves a claim by Havas for payment of €0.4 million that was withheld, despite Havas itself not fulfilling the contract. The amounts were withheld by the Company in line with the respective contractual provisions due to the failure of Havas to provide the agreed ground handling services in 2021. Non-fulfilment resulted in the Company having to deploy its own personnel to carry out the services contractually entrusted to Havas.

The other two cases, with claims totalling €4.2 million, pertain to Havas' demand for a guaranteed amount of revenue for the years 2020 and 2021, irrespective of the number of turnarounds handled. In 2020, the Company did not achieve the number of turnarounds projected in the ground handling agreement (dated 2016) due to flight bans stemming from the COVID–19 pandemic. The contractual provisions do not permit Havas to claim a minimum total amount of revenue. In the case which concerns 2021, Havas also argues that the Company could not terminate the ground handling agreement one month early due to unremedied non–performance by Havas.

All three cases are pending before a first instance court.

RemPro litigations

SIA REM PRO has filed a claim against the Company challenging the termination of a hangar design contract and seeking to recover a sum of €1.27 million. The Company considers the claims to be unfounded and has also filed a counterclaim against SIA REM PRO for €1.1 million for non-performance and breach of contract. SIA REM PRO also sought to freeze the payment of the performance bond and bank guarantee issued by the co-defendants in the action: Compensa Vienna Insurance Group and BluOr Bank AS. On 23 February 2023, the court issued a decision on these interim measures confirming that the Company's claim for payment of the performance bond and bank guarantee could not be frozen. In its decision on the interim measures, the court also ruled that the Company's position on merits was *prima facie* well founded. The case is pending before the Economic Court and the date of the judgment is unknown.

In addition, SIA REM PRO has filed a claim against the Company seeking to prohibit it from using the construction design documents prepared by SIA REM PRO. On 13 October 2023 Riga City Court dismissed the application of SIA REM PRO for interim measures, and on 7 December 2023 Riga Regional Court dismissed the appeal of SIA REM PRO regarding the decision of the court of first instance. The case on the merits is pending before Riga City Court.

Corporate Responsibility

The Company has consolidated its corporate responsibility commitments, presenting them in both the General Code of Conduct and Supplier Code of Conduct on its website. In 2023, the Company conducted a corporate governance evaluation aligned with the Code of Corporate Governance of Latvia issued by the Corporate Governance Advisory Board.

The Company reviews the material sustainability aspects of its business on a regular basis by engaging with its major stakeholders, labour unions, its employees, corporate customers and suppliers, regulators and policy makers, aviation sector professionals from Latvia and abroad, financiers, NGOs, environmental organisations, and educational institutions through online surveys and meetings. The main goal is to create a discussion around topics, which would be the most significant for the Company and afterwards to prioritise which sustainability aspects the Company would need to focus on in more detail. In 2023, the Company began its transition to complying with the Corporate Sustainability Reporting Directive and the delegated European Sustainability Reporting Standards. This transition involves completing the Double Materiality Assessment and evaluating sustainability topics based on their impact and financial significance. Since 2023, the Company is focusing on seven prioritised matters: (i) safety, security and data protection; (ii) climate transition; (iii) environment; (iv) connectivity and customer service; (v) employee skills and development; (vi) employee health and safety; and (vii) responsible governance. Recent discussions with stakeholders in 2023 and 2024 have indicated that, in the opinion of stakeholders, these priorities should be maintained.

Employees

As at 31 December 2023, the Group had 2,531 employees which is an 18% increase from 2,143 as at 31 December 2022.

The average length of service of employees in the Group has been decreasing, standing at 5.3 years for the year ended 31 December 2023 from 5.4 and 6.7 for the years ended 31 December 2022 and 31 December 2021, respectively. This has been primarily caused by the increases in new employees joining the Group, in line with the Group's business plans. For the years ended 31 December 2023, 2022 and 2021, 684, 931 and 573, respectively, new employees joined the Group.

The Group's staff consist of operational and non-operational staff, with almost 82% of the Group employees directly involved in flight and ground operations performance and fleet maintenance, respectively. A majority of the employees are permanent members of staff. The following table provides a breakdown of the Group's employees by category of activity:

	As at 31 December		
Function	**2023**	**2022**	**2021**
Operational	2,073	1,739	1,217
Non-Operational	458	404	342
Total	**2,531**	**2,143**	**1,559**

Approximately 20% of all Group employees are members of trade unions, mainly those employed as crew members. Subject to certain exemptions, membership in a trade union means that employers must receive approval from the trade union before it can dismiss an employee that is a member of that trade union. The Group employs all employees, including crew members under Latvian labour law terms and conditions. The Group has an effective Collective Agreement in place since 2009 and, in 2021, initiated a new Collective Agreement negotiation process. In 2022, a Particular Collective Labour Agreement enhancement was agreed and signed by two unions and all Group companies. The enhancement agreed an extended probation period of five months for newly hired cabin crew, and an agreement on Group-provided engagement and wellbeing benefits for employees. The Particular Collective Labour Agreement has been extended until 31 January 2025. The Company maintains close relationships with trade unions, regularly engaging with them at a formal and informal level on the Company's employment related matters. As all of the Company's employment contracts are subject to Latvian law, the Company has not been involved in negotiations with foreign trade unions to date. The Company supports employee trade union representatives by approving paid time for relevant union duties and flight tickets for international Trade Unions events in line with Collective Agreement terms and conditions.

In 2019, the Group became a signatory to the IATA "25by2025" gender diversity pledge, along with 20 other airlines, to commit to increase the proportion of female to male representation at senior level by 25% by the year 2025. The Group aim to ensure that women either make up at least 25% of, or female representation increases by 25% in respect of managerial roles, pilot and technician roles and increase male representation in cabin crew jobs. As of 31 December 2023, there are 45% of women at the top management of the Company and more than 40% in senior level managerial roles within the Group.

Information Technology

The Group considers information technology ("**IT**") to be a core component of its commercial and operational needs and success. Extensive use of IT is made in all areas, including within infrastructure, back office functions (e.g. demand simulation, flight planning, crew roster optimisation and cost control) and customer facing assets (such as the website).

The Company's principal IT team is based in Riga, providing services for locations throughout the Group's network. IT functions are provided by a core team of 80 permanent employees augmented by specialised contractors and around 100 software and system providers delivering capability in their specific area of expertise. The key focus areas for the Group with regards to its IT functions are (i) alignment of third-party expert solutions (ii) management of data flows and (iii) making better use of data collected from different sources to inform decision-making with regards to improving business processes. The Group have made investments in pilot projects that relate to data streaming, large data processing and machine learning to better identify efficiency gains and potential revenue streams.

The Company's IT infrastructure uses a combination of (i) off-the-shelf software products (with appropriate customisations) (ii) custom built products (from third party vendors or developed in-house) (iii) utilisation of on premise and off-premise hosting platforms and, (iv) the use of cloud offerings (while maintaining appropriate safeguards). The Company's key applications include systems for reservations and ticketing, loyalty program management, flight planning, staff and resource planning. The Company owns a mobile application in iOS and Android which is used for its customer loyalty programme (see *"—Business Description -Marketing"*). The Company uses in-house built systems for CRM and marketing, Amadeus Altea leg based RMS for revenue management and Commsoft Oases for technical, maintenance and repair overhaul work, Oracle Financials & Microsoft PowerBI are used for financial management and reporting. Lufthansa Systems Lido Flight is used for operational flight planning and optimising fuel burn, Amadeus Altea Departure Control System is in use in almost all stations. From July 2024, the Company will begin using the Swiss-AS AMOS Airline/MRO Edition software for aircraft maintenance.

The Group has not had any material IT outages during the periods under review. In view of its dependence on its software and systems, the Group has established disaster recovery procedures. The Group's mission critical systems are running in local data centre, cloud data centre and remote data centre deployments with individual plans and setups for redundancy, backup operation mode during full or partial outages and disaster recovery.

The Group secures its website and follows ISO/IEC 27001:2022 Standard (not certified) and OWASP Security Knowledge Framework. Data breaches have occurred in the past however these have not been material and were mitigated by the Group's data protection policies and IT infrastructure. For more information see *"—Risk Factors Related to the Group – The Group is subject to complex laws and regulations regarding the handling and use of passenger data, and the Group may be exposed to penalties and fines as it may not be able to prevent or detect violations of legal compliance"*.

Awards

In June 2023, Skytrax named the Company winner of the Best Airline in Eastern Europe award for the second year in a row. The Company received the 2023 APEX Passenger Choice Award of Best Cabin Service in Europe, recognising the Company's onboard service and hospitality efforts.

In May 2023, the Company received the Airline Award during the Routes Europe 2023 conference, recognising the Company's sustainable network growth, innovative collaboration with airports and tourism authorities, as well as strategic network vision.

In April 2023, the Company was recognised as the best employer in the transport and logistics sector in Latvia for the twelfth year in a row according to a nationwide survey carried out by the recruitment agency CV-Online Latvia. Over the years, the Company has continued working on achieving gender equality in the company.

In January 2023, the Company's sale and leaseback transaction for three Airbus A220-300 aircraft with the German lessor GOAL German Operating Aircraft Leasing GmbH & Co.KG won the award for Supported Finance Deal of the Year at the Airline Economics Aviation 100 Global Leaders Awards in Dublin, Ireland. The same transaction won the award for Lease Deal of the Year issued by AirFinance Journal in June 2023.

In 2023, for the third time, the Company was assessed by the Sustainability Index organised by the Institute for Corporate Sustainability and Responsibility in Latvia and was awarded the Gold Category.

Since 2020, after-flight surveys have been used to monitor the Company's Net Promoter Score ("**NPS**") and in 2023 and 2022, the Company received an NPS score of 58, indicating a "Great" level of customer endorsement, compared to an EU airline average of 36.

In June 2022, the Company was awarded the IATA Diversity & Inclusion Team Award. This award is designed to recognise airlines that have seen a tangible change in their diversity as a result of their diversity and inclusion work and policies.

In October 2021, the Company was presented with the Livonia Award jointly by the Prime Ministers of Estonia and Latvia in recognition of the Company's efforts in providing essential transport connections for Estonia during the pandemic. The Livonia Award is presented annually to one Estonian and one Latvian company who have made economic and/or entrepreneurial contributions to the other respective country.

In March 2021, the Company was awarded Europe's Youngest Aircraft Fleet Award 2021 and Europe's Second Youngest Aircraft Fleet Award in 2023 and 2024 by CH-Aviation, a web-based information and aviation data provider.

SHAREHOLDERS

In 1995, the founders of the Company were the Government of Latvia and SAS. As of 31 December 2023, the Company's share capital was €596,472,824 and consisted of 251,795,252 dematerialised shares.

	Participating interest	A Category Shares	B Category Shares	C Category Shares	D Category Shares	Share capital
	(%)					*(EUR thousands)*
Republic of Latvia...........	97.97	20,531,867	74,323,152	113,164,518	38,660,300	545,319
Aircraft Leasing 1 SIA [(1)]..........	2.03	5,115,204	-	-	-	51,152
Other...........	0.000084	211	-	-	-	2
TOTAL	**100**	**25,647,282**	**74,323,152**	**113,164,518**	**38,660,300**	**596,473**

(1) Lars Thuesen, a member of the Supervisory Board, is the indirect 100% shareholder of Aircraft Leasing 1 SIA, which currently owns 2.03% of the shares in the Company.

The following is reflected in the Register of Enterprises of the Republic of Latvia: there are 251,795,252 ordinary shares outstanding. The share capital of the Company is €596,472,824 which consists of 25,647,282 A category shares with the nominal value of each A category share of €10.00; 74,323,152 B category shares with the nominal value of each B category share of €3.00; and 113,164,518 C category shares with the nominal value of each C category share of €1.00 and 38,660,300 D category shares with the nominal value of each D category share of €0.10.

The holders of the category A, B, C and D shares have the same rights, i.e., each share grants one vote at the General Meeting, equal rights to receive a dividend and liquidation quota and the same priority rights. The amount of dividends or liquidation quotas to be paid for each category A, B, C or D shares, is determined by dividing the total share of profit to be paid in dividends or the total amount of liquidation quota by the total number of category A, B, C and D shares.

In 1997, the Company's shareholders at the time paid a cash contribution to support the Company for the purpose of operating flights to and from Russia. This contribution is repayable only on the condition that the Company has distributable earnings. Whether the Company has distributable earnings is dependent on Shareholder approval. Accordingly, the cash contribution is treated as part of the Company's equity.

According to Article 161(4) of the Latvian Commercial Law, dividends may not be determined, calculated and paid out if it arises from the annual accounts that the equity of the Company is less than the total amount of the Company's share capital. As at 31 December 2023, the Group's equity was negative €48.3 million while the share capital was €596.5 million; accordingly, the equity is €644.8 million less than the total amount of its share capital. Accordingly, no dividends can currently be paid determined, calculated and paid out by the Company.

Shareholding Structure

Aircraft Leasing 1 SIA and the Republic of Latvia entered into a shareholders' agreement dated 4 February 2016 (as amended on 6 April 2017 and 18 January 2021) (the "SHA"). According to the provisions of the SHA, the minority shareholder, Aircraft Leasing 1 SIA, has a single right to require the Company to issue further shares and has rights of first refusal on those shares at their market value. Such request must be supported by the Republic of Latvia and the Company, among others, by adopting all necessary shareholder's resolutions by the Republic of Latvia. The Republic of Latvia has a veto right in case the market value of a share is less than €0.2339. The SHA also contains a provision that, if Aircraft Leasing 1 SIA does not acquire shares that represent at least 10% of the total votes of the shareholders with voting rights by 15 July 2025, the Republic of Latvia may unilaterally terminate the SHA.

Relationship with the Government

The Company is 97.97% owned by the Republic of Latvia through the Ministry of Transport of the Republic of Latvia. AIRCRAFT LEASING 1 SIA, a private shareholder, appoints one of the Company's four Supervisory Board members and the other three Supervisory Board members are appointed at the Shareholders' meeting. As the Republic of Latvia (through the Ministry of Transport) owns the majority shares in the Company, the Ministry of Transport of the Republic of Latvia effectively has control over who makes up the majority of the Supervisory Board. Additionally, consent is required from the Ministry of Transport of the Republic of Latvia if the Company wishes to enter into a loan agreement or other similar financial indebtedness. The Company's corporate governance principles comply with the Commercial

Law and the G20/OECD “Principles of Corporate Governance.”. For more information, see *“Management – Supervisory Board”*.

The Government of Latvia recognises the Company as a significant contributor to the Latvian economy. The Company contributed 2.5 per cent of Latvia's GDP in 2018 (Source: Roland Berger report of May 2019, "airBaltic – Next level") and Management estimates that the Company continues to be a significant contributor to the Latvian economy. The Company also provides an essential service to the national economy by providing reliable and frequent air transportation services to other countries in Europe. The Company operates 76 non-stop routes from Riga, 19 from Tallinn and 15 routes from Vilnius, 10 from Tampere and 6 from Gran Canaria as of 31 December 2023.

MANAGEMENT

Supervisory Board

The Supervisory Board consists of four members who are elected for a period of three years. The Government of Latvia appoints three members to the Company's Supervisory Board and the minority shareholder, AIRCRAFT LEASING 1 SIA, appoints one member to the Company. The Supervisory Board then elects one of its members to become the Chairman and Deputy Chair. The role of the Supervisory Board is to supervise the work of the Executive Board. Ordinary meetings take place monthly and extraordinary meetings are convened as necessary. In-between meetings, the Supervisory Board members are informed on all significant business matters, including the latest business developments, operational and financial planning of the Company and monthly financial reports. The Supervisory Board achieve a quorum to adopt resolutions if more than half of the Supervisory Board members are present at a meeting. Resolutions during the Supervisory Board meetings are adopted by a simple majority vote.

The following table sets forth members of the Supervisory Board:

Name	Year of Birth	Positions
Klāvs Vasks	1975	Chairman of the Supervisory Board
Kaspars Ozoliņš	1977	Vice-Chairman of the Supervisory Board
Andris Liepiņš	1969	Member of the Supervisory Board
Lars Thuesen	1956	Member of the Supervisory Board

Klāvs Vasks (Chairman)

Klāvs Vasks was elected to the Supervisory Board in June 2023. He has a wide range of expertise in corporate governance, including financial issues, auditing, risk management and internal control systems in organisations. Mr Vasks has been Chairman of the Supervisory Board of SIA Tet since 2021. Previously, from 2010 to 2023, he held senior positions at AS Citadele Banka as Chairman of the Supervisory Board and Member of the Supervisory Board. Mr Vasks has also held senior positions as Chairman of the Board of SIA Latvijas Garantiju aģentūra. Mr Vasks holds a Master's degree in Business Management from Riga Business School and is a graduate of the BA School of Business and Finance.

Kaspars Ozoliņš (Vice-Chairman)

Kaspars Ozoliņš was elected to the Supervisory Board in June 2023. He specialises in the fields of transport, aviation, freight transport and railways. Since 2019, he has been a member of the board of directors of SIA "LVR Flote". In addition, Mr Ozoliņš was a member of the Supervisory Board of AS "Latvijas valsts meži". From 2013 to 2019, he was State Secretary at the Ministry of Transport. Mr Ozoliņš has extensive experience in prominent management positions in the transport sector, having worked at Ventspils Freeport Authority, Riga Freeport Authority, VAS "Latvijas dzelzceļš" and VAS "Starptautiskā lidosta "Rīga"". Mr Ozoliņš holds a master's degree in law from Turība Business School and a master's degree in law from the University of Latvia.

Andris Liepiņš (Member)

Andris Liepiņš was elected to the Supervisory Board in June 2023. He specialises in corporate governance, business and team management and stakeholder management. Since 2019, Mr Liepiņš has been a Member of the Board of Directors of VAS "Latvijas dzelzceļš", and since 2022 he has also taken on the role of Member of the Board of Directors of SIA "Rīgas nami". Prior to these appointments, he was a member of the Supervisory Board of Latvenergo AS and a Chairman of the Supervisory Board of Air Baltic Corporation AS. He also served as Chairman of the Board of Directors of VAS "Starptautiskā lidosta "Rīga"". From 2001 to 2014, Mr Liepiņš held the position of Deputy State Secretary at the Ministry of Economy. He holds a Master's degree in Business Management from Riga Business School, a Master's degree in International Relations from Columbia University and a Master's degree in Public Management from the University of Latvia.

Lars Thuesen (Member)

Lars Thuesen was elected to the Supervisory Board in April 2017. Prior to that, Mr Thuesen worked as a private equity investor and financial consultant. In the past 20 years, he has invested in a number of companies with a focus on start-ups and companies requiring turnaround or restructuring. In most of these investments, Mr Thuesen has taken an active part in his roles as non-executive and executive board member. Currently, Mr Thuesen is a non-executive board member of the following companies (not including the Company): Basisbank AS (Denmark); Jet Time AS (Denmark); Dutch Leisure

Group BV (The Netherlands); Norrebro Bryghus (Denmark); Robat Limited (UK); Nordic Travel media Aps (Denmark); and Vendsyssel FF (Denmark). Mr Thuesen has extensive experience in the finance and aviation sectors with a particular focus in aircraft leasing. Mr Thuesen is the indirect 100% shareholder of AIRCRAFT LEASING 1 SIA, which owns 2.03% of the shares in the Company, as at the date of this Prospectus. For more information, see *"Shareholders"*.

Executive Board

Executive Board Members

The following table sets forth the Executive Board of the Company:

Name	Year of Birth	Positions
Martin Alexander Gauss....................................	1968	Chairman and Chief Executive Officer
Pauls Juris Cālītis	1971	Executive Board member and COO
Vitolds Jakovļevs...	1974	Executive Board member and CFO

Martin Alexander Gauss (Chairman and Chief Executive Officer)

Martin joined the Company in November 2011, and has served as a Director since then. Martin became the Chief Executive Officer in November 2011. Martin has more than 30 years' experience in the aviation industry. Martin started his career as a pilot for Deutsche BA in 1992, before moving into different management functions, and becoming a joint Managing Director of Deutsche BA and a 10% stakeholder when the company was acquired in 2004. In 2007, Martin moved to Cirrus Airlines as CEO and became the CEO of Malev in April 2009, until 2010. Martin is an experienced CEO who has worked in the aviation industry in different countries for over 30 years. He still holds a Captain's license for Airbus A220.

Pauls Juris Cālītis (Executive Board member and Chief Operations Officer)

Pauls joined the Company as a pilot in 1995. In 2020, Pauls was appointed as the Chief Operations Officer (COO) and Executive Board member of the Company. Between 1999 and 2020, he was in charge of the Company's Flight Operations. He has also served as a member of the Executive Board of the Company's subsidiary Air Baltic Training and subsidiary under liquidation Aviation Crew Resources.

Vitolds Jakovļevs (Executive Board member and Chief Financial Officer)

Vitolds joined the Company in 2011. Prior to joining the Company, Vitolds spent over 10 years in the investment banking and asset management sectors in Latvia working in various roles including managing director and head of corporate finance.

The business address of each Executive Board member of the Company is Tehnikas iela 3, Lidosta "Riga", Mārupes novads, LV-1053, Latvia. As of the date of this Prospectus, the above-mentioned members do not have any conflicts of interest between any of their duties to the Company and their private interests or other duties.

Powers of, and Action by, the Executive Board

The Executive Board is empowered by the Articles of Association of the Company (the "Articles") to carry on the everyday business of the Company and define future strategies, subject to the Articles, the Regulations of the Executive Board, provisions of Latvian commercial law and the resolutions of the Supervisory Board, which, in turn, follows the guidelines of the Shareholders' General Meeting. Each of the three Executive Board members present at a meeting of the Executive Board of the Company has one vote.

The quorum for a meeting consists of two Executive Board members. The Latvian Commercial Law require the vote of a simple majority of the Executive Board members present at a duly convened meeting for the approval of any action by the Executive Board. The Executive Board is required to obtain prior approval from the Supervisory Board in deciding on a number of issues, including but not limited to (i) the establishment of a subsidiary, (ii) acquisitions or reduction of holdings in other companies, (iii) transactions not characteristic to the commercial activity of the Company, (iv) change of the Company's base airport, (v) acquisition, repossession of aircraft and (vi) entering into transactions exceeding €1 million within a financial year.

Composition and Term of Office

The Articles provide that the Executive Board shall consist of three Executive Board members who are elected for a period of three years, unless new Articles changing this provision are adopted by the Shareholders. There is no maximum age for an Executive Board member and no member is required to own any shares in the Company to be able to serve. Executive Board members are nominated (or have their appointments confirmed) and approved by the Supervisory Board.

The Executive Board has introduced "Top Management Meetings", which are comprised of the Company's main operational directors, in order to provide the Executive Board with the necessary information and recommendations required to make strategic decisions to promote short and long-term profitability for the Company.

Management Remuneration

The following table shows the Group's total remuneration for the Executive Board and Supervisory Board for each of the three years ended 31 December 2023, 2022 and 2021 respectively.

	The year ended 31 December		
	2023	**2022**	**2021**
		(EUR thousands)	
Executive Board members			
Remuneration	1,482	1,549	1,377
Social insurance contributions	349	377	325
Supervisory Board members			
Remuneration	158	129	150
Social insurance contributions	36	30	36
Total	**2,025**	**2,085**	**1,888**

RELATED PARTY TRANSACTIONS

In the ordinary course of the Group's business, it has engaged, and will continue to engage, in transactions with related parties and government related parties, including the Ministry of Transport of the Republic of Latvia (which, as at the date of this Prospectus, holds 97.97% of the shares in the Group) and with other state-owned companies. Related parties and government related parties include companies where the Group's controlling shareholders have significant influence (but not necessarily control) or control. In addition, related parties include members of the Group's Executive Board and Supervisory Board and companies that are under common control, jointly owned or significantly influenced by a member of the Executive Board.

All transactions with related parties and government related parties are related to the operating activities of the Group and are transacted on an arm's length basis. For more information on related party transactions, please see Note 32 of the 2023 Audited Consolidated Financial Statements and Note 32 of the 2022 Audited Consolidated Financial Statements. The Group has not entered into any related party transactions for the period from 31 December 2023 to the date of this Prospectus that materially affected the financial position or the performance of the Group during those periods and there were no changes to the related party positions described in the 2023 Audited Consolidated Financial Statements that could have a material effect on the financial position or performance of the Group in that same period.

The Group did not engage in any transaction with members of its Executive Board or members of its Supervisory Board or companies under such common control or influence during the period under review. The Group has entered into transactions with the Ministry of Transport of the Republic of Latvia and/or entities controlled by it as of the date of this Prospectus. The Group has also entered into related party transactions with other entities controlled by the Latvian state.

The principal transactions entered into by the Group with government related parties over the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 are the following:

- Riga International Airport – transactions relating to the purchase of airport infrastructure capacity and the collection of passenger duty payments. The value of these transactions were €25 million for the year ended 31 December 2023, €19 million for the year ended 31 December 2022 and €7.3 million for the year ended 31 December 2021.

- VAS Latvijas Gaisa Satiksme – a transaction relating to the purchase of a navigation service. The value of the transaction was €2.8 million for the year ended 31 December 2023, €2.2 million for the year ended 31 December 2022 and €1.4 million for the year ended 31 December 2021.

- The Government of Latvia – a secured loan of €36.1 million to the Company to facilitate the Company's liquidity. The loan matures on 31 December 2026 and as at 31 December 2023, €36.3 million (including accrued interest) of the loan remains outstanding.

These agreements were still in effect as at the end of each reporting period.

The following table sets out the outstanding balances at the end of the reporting periods in relation to transactions with related parties.

	As at 31 December		
	2023	**2022**	**2021**
		(EUR thousand)	
Government Related Party			
Payables to Riga International Airport	5,033	3,125	1,422
Payables to VAS Latvijas Gaisa Satiksme .	324	197	161
Payables to The Government of Latvia	36,347	36,274	36,225

INDUSTRY OVERVIEW

Overview of the European airline market

The airline sector in Europe has evolved significantly since the liberalisation of the EU air transportation market in the 1990s. In 1992, EU Member States adopted a final package of liberalisation measures that, from 1 January 1993, permitted greater access to intra-EU international routes. In 1995, the creation of the EEA extended these measures to Norway, Iceland and Liechtenstein. In April 1997, liberalisation was further extended to the domestic routes of members of the EEA, so that any EEA carrier would be able to provide passenger services on any route within the EEA without restriction on price or capacity. This changed the nature of competition in European aviation and paved the way for the growth of low-cost carriers.

Liberalisation of the air transportation market has continued, with the EU having concluded horizontal agreements with a number of third-party nations, including the United Arab Emirates, as well as full "open-skies" agreements with other third-party nations, including the United States, Israel, the Balkan states, Georgia and Moldova. These "open skies" agreements have progressively liberalised air markets, ultimately allowing any number of carriers from either contracting party to operate services on any route between them, without restrictions on price or capacity.

The European airline market generally follows economic cycles and over the long-term RPKs have generally grown in line with GDP. The airline industry and demand for air travel are affected by both local and global economic conditions. A number of European airlines have gone out of business in recent years, including Alitalia, Air Berlin, WOW Air, Adria Airways, AeroSvit, Centralwings, Cyprus Airways, Flybmi, Malév, Monarch Airlines, Sky Europe, Silverjet, Spanair, Sterling and Flybe as a result of many factors including the COVID-19 pandemic, recent global credit crisis and economic recession, the subsequent European sovereign debt crisis and increases in fuel prices. In addition, restrictions on state aid for EU-based carriers have also made it difficult for EU Member States to provide support for European airlines impacted by these local and global economic events.

Market segmentation

Airlines operating in the European passenger market generally, may be divided into two broad categories: (i) legacy carriers and (ii) low-cost carriers. Most European airlines can easily be categorised into one of these groupings, but many overlap the once-clear distinctions. Some legacy airlines offer a set of low fares on otherwise standard services, while some of the low-cost carriers have begun to increase the number of legacy-style services that they offer. Over the past decade, legacy carriers have progressively lost a portion of their market share to low-cost carriers, especially in the short and medium-haul market. Recent years have proved difficult for many European airlines, and mergers amongst carriers have become commonplace. The Company expects that there will be further consolidation in the European airline market in the future.

Legacy carriers

Legacy carriers operate a "full-service" business model, typically offering two or more classes of service with a broad range of supplementary services, such as catering, in-flight entertainment and various levels of ticket flexibility. As a result, ticket prices can vary for the same journey.

Generally, an aim of legacy airlines is to develop certain airports as their inter-continental hubs and to feed traffic to these hubs from their own domestic markets, from intra-European markets and from inter-continental interline traffic. Legacy carriers typically focus on long haul, premium traffic and high yield corporate accounts. Legacy carriers hope to obtain a revenue premium by providing higher priced services. Legacy carriers may operate short-haul routes themselves or they may utilise the services of regional airlines through ownership or franchise operations.

In Europe, legacy carriers are predominantly made up of the "flag carrier" airlines, such as British Airways, Air France-KLM, Aer Lingus and Lufthansa. In the past, most flag carriers were state-owned and some may have benefited from state aid. However, many flag carriers are either privatised or partly privatised now.

Low-cost carriers

Traditionally, the main business model of a low-cost carrier is to offer a simple product and minimise business costs in order to offer low ticket prices on short-haul, point-to-point routes. There is a reduced emphasis on medium-haul routes. In addition, costs are kept low by (i) utilising ticketless services, (ii) a single aircraft-family fleet, (iii) having just one class of service and (iv) flying to less-congested secondary airports serving a particular destination. Tickets tend to be sold online or directly by low-cost carriers to avoid agency costs and global distribution system charges. Supplementary services that are usually included with the ticket price offered by legacy carriers are made available at an additional cost by low cost-carriers e.g. checking in hold luggage and in-flight meals. Turnaround times are kept to a minimum on low-cost carriers by having no pre-flight seating plan for passengers. The operational model of low-cost carriers means that such airlines have unit costs that can be as much as 50% lower than their full-service competitors.

European low-cost carriers include the Company, easyJet, Norwegian Air, Ryanair, and Wizz Air. Some of these carriers are independently owned (for example, easyJet and Ryanair) whilst others have been formed and/or are owned by national flag carriers (for example, Vueling which is majority-owned by IAG).

The Company believes that a sub-set of low-cost carriers has emerged in recent years: the ultra-low-cost carriers, or ULCCs. The Company believes that the only European ULCCs are Ryanair and Wizz Air. ULCCs use a business model that, in addition to low ticket prices, has an intense focus on low-cost, efficient, asset utilisation and unbundled revenue sources with multiple products and services offered for additional fees. Some other European low-cost carriers have focused less intensely on low costs while others have focused increasingly on business travellers, providing some of the supplementary services typically offered by legacy and regional carriers and/or diversifying into longer-haul flights operated by a mixed fleet. ULCCs have significantly lower unit costs than other low-cost carriers.

Regional carriers

Regional carriers are characterised by the smaller aircraft they operate and the regional markets they serve. Regional carriers typically operate regional jets or turboprop aircraft. These regional aircraft, which are generally smaller in terms of passengers carried than those operated by European low-cost carriers, serve scheduled point-to-point European routes. There are primarily two distinct roles of regional airlines in Europe. The first is to provide passenger feed into the main hubs for their main shareholder or franchisor airline and the second is to provide region-to-region air services linking regional communities.

Regional airlines provide services not typically associated with low-cost carriers, for example, advance seat allocation is as part of the standard fare, business class services and access to airport lounges. As a result of the varying nature of the service offering provided by regional carriers, a wide range of pricing structures may exist. Many regional airlines are owned by national flag carriers, such as Lufthansa CityLine, which is a subsidiary of Lufthansa, Air Nostrum which operates as a franchisee of Iberia and Air France Hop, which is owned by AirFrance.

Charter airlines

Charter airlines, such as Condor Airlines and TUI (UK branch of TUI Group) in the UK, operate primarily on leisure-dominated routes between northern and southern Europe, as well as from Europe to long-haul destinations. The majority of these airlines are owned by major tour operators and flights are included as part of integrated holiday packages, although some charter operators sell left over capacity on a “seat only” basis. In addition, some charter operators have diversified into scheduled flights.

Forecast market growth in Europe

The European Organisation for the Safety of Air Navigation (“**EUROCONTROL**”) published its 2023 – 2029 Forecast Update on 29 October 2023. The forecast connects all forecasting modules: the low-to-high values now refer to a forecast range (statistical uncertainty) rather than scenarios (such as the COVID-19 pandemic and the Russia-Ukraine conflict) as was the case in previous forecasts.

The number of European flights in 2023 and 2024 has been revised upwards slightly due to the continuation of strong pent-up demand evidenced by a steady level of bookings and strong tourist flows in Southern Europe. Based on this forecast, 2019 flight levels of 11.1 million flights should be reached in 2025. After 2025, flight growth is expected to average 1.6% per year in the base forecast, owing to greater uncertainties within the 7-year horizon such as higher inflation, pressure on oil prices and environmental concerns. As downside risks prevail, the number of flights in the low forecast stagnates from 2025 onwards.

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions substantially in the form in which they will be endorsed on each individual Certificate and which, subject to the respective provisions thereof, will apply to the Global Certificates:

The issue of the €340,000,000 14.500 per cent. Secured Bonds due 2029 (the "**Bonds**") and the granting of certain Security (as defined below) was authorised by a resolution of the Shareholders Meeting of Air Baltic Corporation AS (the "**Issuer**") passed on 27 March 2024, by resolutions of the Supervisory Board of the Issuer passed on 11 April 2024 and 7 May 2024 and by the resolutions of the Executive Board of the Issuer passed on 29 February 2024, 11 April 2024 and 7 May 2024. The granting of certain further Security was authorised by a resolution of the Shareholder of "Air Baltic Training", SIA (the "**Pledgor**") passed on 11 April 2024 and by a resolution of the Executive Board of the Pledgor passed on 11 April 2024. The Bonds are constituted by a Trust Deed (as modified and/or amended and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated 14 May 2024 between the Issuer, the Pledgor and U.S. Bank Trustees Limited as trustee for the Bondholders (as defined below) (the "**Trustee**" which expression shall include all Persons (as defined below) for the time being the trustee or trustees under the Trust Deed) and U.S. Bank Trustees Limited as security trustee (the "**Security Trustee**" which expression shall include all Persons (as defined below) for the time being the security trustee or security trustees under the Trust Deed). Security for, among other things, the Bonds is created by the Security Documents (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of (i) the Trust Deed, which includes the form of the Bonds, and (ii) the Security Documents. Copies of the Trust Deed, the Security Documents, the Agency Agreement dated 14 May 2024 relating to the Bonds (as modified and/or amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") between the Issuer, the Trustee, Elavon Financial Services DAC as registrar (the "**Registrar**"), principal paying agent (the "**Principal Paying Agent**") and transfer agent (the "**Transfer Agent**"), together with the Principal Paying Agent, the "**Paying Agents**"), and the Account Bank Agreement (as defined below) (i) are available for inspection during usual business hours at the principal office of the Trustee (presently at Fifth Floor, 125 Old Broad Street, London, EC2N 1AR, United Kingdom), (ii) are available for inspection during usual business hours at the specified office of the Principal Paying Agent and (iii) may be provided by email to a Bondholder following their prior written request to the Principal Paying Agent and provision of proof of holding and identity (in a form satisfactory to the Principal Paying Agent). "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other paying agents or transfer agents appointed from time to time with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Security Documents and are deemed to have notice of those provisions applicable to them of the Agency Agreement and the Account Bank Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 Form, Specified Denomination, Title and Status

(a) **Form and specified denomination**: The Bonds are issued in the specified denomination of €100,000 and integral multiples of €1,000 in excess thereof. The Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same Bondholder.

*The Bonds will initially be issued in global, fully registered form, and represented by (i) a Global Certificate in respect of Bonds offered and sold in reliance of Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933 (the "**Securities Act**"), interests in which are to be sold to "qualified institutional buyers" within the meaning of, and pursuant to, Rule 144A (the "**Restricted Global Certificate**") and (ii) a Global Certificate in respect of Bonds offered and sold in reliance on Regulation S under the Securities Act, interests in which are to be offered and sold outside the United States (the "**Unrestricted Global Certificate**" and, together with the Restricted Global Certificate, the "**Global Certificates**"). Each Global Certificate will be exchangeable for Bonds in definitive, fully registered form in the limited circumstances specified in the Global Certificates.*

(b) **Title**: Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as otherwise required by law, the holder of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it, or the theft or loss of such Certificate, and no Person will be liable for so treating the holder. In these Conditions "**Bondholder**" and "**holder**" means the Person in whose name a Bond is registered.

(c) **Status**: The Bonds constitute (subject to Condition 4(a)) direct and unconditional obligations of the Issuer, secured in the manner described in Condition 3, and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be required by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsubordinated obligations.

2 Transfers of Bonds

(a) **Transfer**: A holding of Bonds may, subject to Condition 2(e), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a Person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

(b) **Exercise of Options**: In the case of an exercise at a Bondholder's option in respect of a holding of Bonds represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed.

(c) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) or 2(b) shall be available for delivery within three business days of receipt of a duly completed form of transfer or Exercise Notice (as defined in Condition 6(f)) and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day on which commercial banks and foreign exchange markets are open in London and on which the real time gross settlement system operated by the Eurosystem, or any successor system, is open for the settlement of payments in euro.

(d) **Transfer or Exercise Free of Charge**: Certificates, on transfer or exercise of an option, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods**: No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) during the period of 15 days prior to (and including) any date on which Bonds may be called for redemption by the Issuer at its option pursuant to Conditions 6(b), 6(c), 6(d) and 6(e), (iii) after any such Bond has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.

3 Security

(a) **Grant of Security**: The Security is granted by the Issuer and the Pledgor, as applicable, under the Security Documents in favour of (i) the Security Trustee (as defined below), on trust for and on behalf of itself, the Bondholders and the other Secured Creditors (as defined below) and (ii) if applicable, the Security Trustee as parallel debt creditor, in each case on the terms of the Trust Deed and the relevant Security Document(s), as Security for the Secured Liabilities (as defined below).

(b) **Security Interests**: All as more particularly described in the Security Documents, the Security comprises of, or as the case may be, will comprise of:

(i) upon issue of the Bonds, but before the Security Longstop Date (as defined below) (the "**Issue Date Security**"):

(a) a first ranking Latvian law governed registered commercial pledge over the Issuer's (i) fixed assets recorded in the Issuer's books as "Fixtures and Fittings" (the "**Fixtures and Fittings**") (except for leasehold investments) as a pool of assets at the time of pledging as well as its future components, (ii) fixed assets recorded in the Issuer's books as "Aircraft Equipment" (the "**Aircraft Equipment**") (except for aircraft engines and heavy maintenance capitalised costs) as a pool of assets at the time of pledging as well as its future components, (iii) inventory owned by the Issuer (the "**Inventory**") as a pool of assets at the time of pledging as well as its future components, and (iv) Airbus A220 Level D full flight simulator (the "**Airbus Flight Simulator**");

(b) a first ranking Latvian law governed registered commercial pledge over 100 per cent. of the shares in "BALTIJAS KRAVU CENTRS" SIA, a limited liability company incorporated under the laws of Latvia, registered in the commercial register of Latvia, registration number 40003458674, and the Pledgor;

(c) a first ranking Latvian law governed registered mortgage over each of the aircraft maintenance hangar with cadastral number 8076 502 0055 (the "**BA Hangar**") and the training centre with cadastral number 8076 502 0026 (the "**Training Centre**") owned by the Issuer;

(d) a first ranking Latvian law governed registered mortgage over the right of superficies in relation to the building with cadastral designation 64600070048050 (the "**Pilot Academy Hangar**") owned by the Pledgor;

(e) a first ranking Latvian law governed registered commercial pledge over the DA40NG/42IV simulator (the "**Training Simulator**") owned by the Pledgor;

(f) seven English law governed security assignments granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to each of the seven Axiom Aircraft (as defined below);

(g) an English law governed security assignment granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to the JALL Engines (as defined below);

(h) an English law governed security assignment granted by the Issuer with respect to the Issuer's right to receive surplus proceeds with respect to the JALL Aircraft (as defined below); and

(i) an Irish law governed first fixed charge granted by the Issuer over the balances from time to time standing to the credit of the Bonds Service Reserve Account (as defined below) and an assignment by way of security of the Issuer's rights, title and interest to and in respect of the Account Bank Agreement;

(ii) on or before the Security Longstop Date (the "**Longstop Date Security**"):

(a) a first ranking Latvian law governed registered commercial pledge over the (i) receivables owned by the Issuer (the "**Receivables**") as a pool of assets at the time of pledging as well as its future components and (ii) all effective national, international and European Union trademarks registered by the Issuer in Latvia or with the European Union Intellectual Property Office (the "**EUIPO**") or the World Intellectual Property Organisation (the "**WIPO**"), as applicable (the "**Trademarks**"); and

(b) a first ranking Latvian law governed registered mortgage over aircraft technical maintenance building with cadastral number 8076 502 0083 (the "**MRO Konkors Hangar**") owned by the Issuer;

(iii) at the relevant time required by Condition 3(d) below:

(a) the Security over any applicable Owned Asset as required by Condition 3(d)(i)(II) below; and

(b) the Security over any applicable New Trademarks (as defined below) as required by Condition 3(d)(ii)(x) below.

For the purposes of this Condition:

"**Axiom**" means Axiom Baltic Services Ltd.;

"**Axiom Aircraft**" means the seven Airbus A220-300 aircraft each together with two Pratt & Whitney PW1521G-3 engines, currently owned by Lidmasinas Leasing Limited, leased to Axiom and subleased to the Issuer and subject to a first ranking mortgage in favour of EDC;

"**EDC**" means Export Development Canada;

"**Financed Equipment**" means the Axiom Aircraft, the JALL Aircraft and the JALL Engines;

"**JALL**" means Jet Aircraft Leasing Limited;

"**JALL Aircraft**" means the Airbus A220-300 aircraft together with two Pratt & Whitney PW1521G-3 engines currently owned by JALL and leased to the Issuer and subject to a first ranking mortgage in favour of EDC;

"**JALL Engines**" means the seven Pratt & Whitney PW1521G-3 engines currently owned by JALL and leased to the Issuer and subject to a first ranking mortgage in favour of EDC;

"**JALL Equipment**" means the JALL Aircraft and the JALL Engines; and

"**Security Longstop Date**" means 13 July 2024.

(c) **Longstop Date Security**: On or before the Security Longstop Date, the Issuer shall:

(i) take all such action as may be necessary to ensure that the Longstop Date Security is granted in favour of (a) the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors and (b) the Security Trustee as parallel debt creditor (and each of the Trustee and the Security Trustee shall consent, without requiring the consent or sanction of the Bondholders or any other Secured Creditor, to such charging, all at the expense of the Issuer); and

(ii) deliver to the Trustee and the Security Trustee copies of the relevant documents (including excerpts from the registries, as applicable) evidencing the granting and perfection of the Longstop Date Security together with an Officers' Certificate confirming that the granting and perfection of the Longstop Date Security has been completed. In the event that the Longstop Date Security has not been granted by the Security Longstop Date then the Issuer shall promptly notify the Trustee and the Security Trustee in writing and the Bondholders in accordance with Condition 16 confirming the same.

(d) **Additional Security**:

(i) Upon the expiry or early termination of the relevant term of the finance lease in respect of a Financed Leased Aircraft or Financed Leased Engine, the Issuer undertakes that it shall as soon as reasonably practicable:

(I) other than in the event of a total loss of the relevant Financed Leased Aircraft or Financed Leased Engine, exercise such rights as it may then have under the relevant purchase option in respect of such Financed Leased Aircraft or Financed Leased Engine as provided in the relevant finance lease such that the Issuer will become the legal and beneficial owner of such Financed Leased Aircraft or Financed Leased Engine, as applicable (each, an "**Owned Asset**");

(II) take any and all action necessary to procure that each Owned Asset not previously charged in accordance with this Condition 3(d) is charged by way of a first ranking security in accordance with standard market practice in favour of (a) the Security Trustee or other security trustee or co-security trustee appointed pursuant to the provisions of the Trust Deed, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors and (b) if applicable, the Security Trustee as parallel debt creditor (and each of the Trustee and the Security Trustee shall consent, without requiring the consent or sanction of the Bondholders or any other Secured Creditor, to such charging, all at the expense of the Issuer); and

(III) comply with Condition 4(l) in respect of any such Owned Asset.

(ii) After the acquisition of, or registration by the Issuer in Latvia or with EUIPO or WIPO, as applicable, of any new trademark ("**New Trademark**") at any time after the Security Longstop Date, the Issuer shall as soon as reasonably practicable:

(x) take any and all action necessary to procure that each New Trademark not previously pledged in accordance with this Condition 3(d) is charged by way of a first ranking Latvian law governed registered commercial pledge on similar terms to the terms of the Security Document referred in Condition 3(b)(ii)(a) above; and

(y) comply with Condition 4(l) in respect of any such New Trademark.

The Issuer shall promptly notify the Trustee and the Security Trustee in writing and the Bondholders in accordance with Condition 16 of any charging in accordance with this Condition 3(d).

For the purposes of this Condition, "**Financed Leased Aircraft**" and "**Financed Leased Engines**" means all present and future aircraft and engines leased or, as the case may be, subleased by the Issuer on terms whereby the Issuer has the right to acquire title to the relevant asset under the terms of the relevant lease.

As at the date of this Prospectus, Financed Leased Aircraft and Financed Leased Engines for which the Issuer has the right to acquire title to the relevant asset under the terms of the relevant lease prior to the Maturity Date include:

1. *the six Airbus A220-300 aircraft with MSNs 55003, 55004, 55005, 55006, 55007 and 55008 each together with two Pratt & Whitney PW1521G-3 engines currently owned by Lidmasinas Leasing Limited, leased to Axiom Baltic Services Ltd and subleased to the Issuer (and subject to a first ranking mortgage in favour of EDC); and*

2. *the two Pratt & Whitney PW1521G-3 engines with ESNs P736291 and P736294 currently owned by Jet Aircraft Leasing Limited and leased to the Issuer (and subject to a first ranking mortgage in favour of EDC).*

(e) **Trustee and Security Trustee not liable for Security**: Neither the Trustee nor the Security Trustee will be liable for any failure to make any investigations in relation to the undertaking, property, assets or rights which are the subject of the Security, and they shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer or the Pledgor, as the case may be, to the Secured Property or the existence of the Secured Property, whether such defect, existence or failure was known to the Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will they have any liability for the limitation on the Trustee's or the Security Trustee's ability to enforce or for any other restrictions or limitations or for the validity, sufficiency, priority or enforceability of the Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security or otherwise. Neither the Trustee nor the Security Trustee shall have any obligation to insure, protect, maintain or repair the Secured Property and shall not be liable to any Person for its failure to do so.

(f) **Application of Moneys (Pre-Enforcement of Payments)**: All moneys received by the Trustee in respect of the Bonds or amounts payable under the Trust Deed will, despite any appropriation of all or part of them by the Issuer, be held by the Trustee on trust to apply them in the following order of priority pursuant to the terms of the Trust Deed:

(i) *firstly*, in payment of all costs, charges, expenses, fees and claims properly incurred and all liabilities incurred by or payable to the Trustee, the Security Trustee and/or any Appointee (including remuneration and other amounts payable to them) in carrying out its functions under the Transaction Documents (as applicable);

(ii) *secondly*, in payment of all costs, charges, expenses, fees and claims properly incurred and all liabilities incurred by or payable to the Agents and/or the Account Bank (including remuneration and other amounts payable to them) in carrying out their functions under the Transaction Documents (as applicable);

(iii) *thirdly*, in payment of any amounts owing in respect of the Bonds *pari passu* and rateably; and

(iv) *fourthly*, in payment of any balance to the Issuer for itself.

(g) **Application of Moneys (Post-Enforcement of Payments)**: All moneys received by the Trustee or the Security Trustee in respect of the Bonds or amounts payable under the Trust Deed or recovered by the Trustee, the Security Trustee or any Receiver following the enforcement of the Security, will, despite any appropriation of all or part of them by the Issuer, be held by the Trustee or the Security Trustee, as the case may be, on trust to apply them in the following order of priority pursuant to the terms of the Trust Deed:

(i) *firstly*, (a) in payment of all costs, charges, expenses, fees and claims properly incurred and all liabilities incurred by or payable to the Trustee, the Security Trustee and/or any Appointee (including remuneration and other amounts payable to them) in carrying out its functions under the Transaction Documents (as applicable) and (b) in payment of all costs, charges, expenses, fees and claims properly incurred and all liabilities incurred by or payable to any Receiver and/or other Appointee appointed by the Security Trustee or the Trustee, including in either case the costs of enforcing and/or realising any Security;

(ii) *secondly*, in payment of all costs, charges, expenses, fees and claims properly incurred and all liabilities incurred by or payable to the Agents and/or the Account Bank (including remuneration and other amounts payable to them) in carrying out their functions under the Transaction Documents (as applicable);

(iii) *thirdly*, in payment of any amounts owing in respect of the Bonds *pari passu* and rateably; and

(iv) *fourthly*, in payment of any balance to the Issuer for itself.

4 Negative Pledge and Covenants

So long as any amount remains outstanding (as defined in the Trust Deed) under the Bonds:

(a) **Negative Pledge**:

The Issuer shall not, and shall procure that no Subsidiary of it shall, create, assume or permit to subsist, as security for any Debt, any Security Interest other than any Permitted Security upon the whole or any part of its present or future revenues or assets (including any uncalled capital) unless, in any such case, the Issuer and/or such other Subsidiary, as the case may be, shall, simultaneously with, or prior to, the creation or assumption of such Security Interest or, in any other case, promptly, take any and all action necessary to procure that all amounts payable under the Bonds and the Trust Deed by the Issuer are secured equally and rateably with the Debt secured by such Security Interest or that such other Security Interest is provided or such other arrangement (whether or not including the giving of a Security Interest) is made as the Trustee shall, in its absolute discretion, deem not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders.

(b) **Debt Incurrence**:

The Issuer will not, and will not permit any Subsidiary of it to, directly or indirectly, Incur any Debt, including Acquired Debt; *provided, however*, that the Issuer may Incur Debt (including any Acquired Debt) if, on the date of such Incurrence and after giving effect thereto on a *pro forma* basis, (x) the Fixed Charge Coverage Ratio for the relevant Measurement Period would be equal to or greater than 2.00 to 1.00; (y) if the Debt to be Incurred is Secured Debt, the Consolidated Net Senior Secured Leverage Ratio for the relevant Measurement Period would be equal to or less than 2.50 to 1.00; and (z) no Potential Event of Default or Event of Default will have occurred or be continuing or would occur as a consequence of Incurring the Debt or entering into the transaction relating to such Incurrence.

Notwithstanding the foregoing, the above covenant will not prohibit the Incurrence of any of the following Debt:

(i) Debt of the Issuer (including, if applicable, reimbursement obligations in respect of guarantees or letters of credit issued thereunder but excluding any unutilised or undrawn amount) under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed the sum of (a) EUR10 million;

plus (b) in the case of any refinancing of any Debt under this subparagraph (i) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(ii) the Incurrence by the Issuer or any of its Subsidiaries of intercompany Debt between or among the Issuer or any of its Subsidiaries; *provided, however*, that (a) any subsequent issuance or transfer of any Capital Stock which results in any such Subsidiary ceasing to be a Subsidiary of the Issuer and any such Debt thus being held by a Person other than the Issuer or any of its Subsidiaries or any subsequent transfer of such Debt (other than to the Issuer or a Subsidiary of the Issuer), shall be deemed, in each case in respect of such Debt, to constitute the Incurrence of such Debt which was not permitted by this subparagraph (ii), and (b) for any Debt of the Issuer and owing to any member of the Group (other than the Issuer), such Debt shall be unsecured and expressly subordinated in right of payment to the payment and performance of the Issuer obligations under the Bonds;

(iii) Debt represented by the Bonds;

(iv) Debt which is outstanding as of the Issue Date;

(v) Refinancing Debt in respect of Debt Incurred pursuant to the first paragraph of this covenant above or Debt described in this subparagraph or subparagraphs (iii) and (iv) above; *provided, however*, that if such Refinancing Debt directly or indirectly refinances Debt of the Issuer, such Refinancing Debt shall be Incurred only by the Issuer;

(vi) Hedging Obligations of the Issuer or any Subsidiary entered into in the ordinary course of business and not for speculative purposes;

(vii) Debt in respect of bid, performance, completion, surety or appeal bonds or guarantees of any of the foregoing, or similar instruments, in each case given in the ordinary course of business (including the expansion of business into new territories);

(viii) Obligations in respect of workers' compensation claims, health, disability or other employee benefits or property, casualty or liability insurance or self-insurance obligations;

(ix) Debt arising from agreements of the Issuer or a Subsidiary providing for indemnification, adjustment of purchase price, earn-out or similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Issuer or any Subsidiary; *provided that* such Debt is not reflected on the balance sheet of the Issuer or any Subsidiary;

(x) Debt of the Issuer or any Subsidiary in respect of (A) letters of credit, bankers' acceptances, bank guarantees or other similar instruments or obligations issued, or relating to liabilities or obligations Incurred in the ordinary course of business and not in connection with the borrowing of money (including those issued to governmental entities in connection with self-insurance under applicable workers' compensation statutes), or (B) decrees, attachments or awards or completion guarantees, surety, judgment, appeal or performance bonds, or other similar bonds, instruments or obligations or take-or-pay obligations contained in supply agreements, or relating to liabilities or obligations Incurred, in the ordinary course of business; *provided that*, with respect to the drawing of letters of credit, such Debt is reimbursed within 30 days, following such drawing;

(xi) Purchase Money Obligations;

(xii) Debt arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Debt is covered within ten business days in the place where the account against which the cheque, draft or similar instrument is drawn is held;

(xiii) Debt consisting of advance or extended payment terms in the ordinary course of business (including Trade Payables);

(xiv) the following:

(a) Debt owed to banks or other financial institutions Incurred in the ordinary course of business of the Issuer and its Subsidiaries maintained with such banks or financial institutions and which arises in connection with ordinary banking arrangements to manage cash balances of the Issuer and its Subsidiaries; and

(b) Debt of any Subsidiary of the Issuer under ancillary facilities (including, but not limited to, letter of credit facilities, bank guarantees and overdraft arrangements (being arrangements which are repayable on demand)) in an aggregate principal amount at any one time outstanding not to exceed EUR1 million;

(xv) the guarantee by the Issuer of Debt of the Issuer or any Subsidiary of the Issuer that was permitted to be Incurred by another provision of this covenant; *provided that*, if the Debt being guaranteed is subordinated in right of payment to the Bonds, then such guarantee shall be subordinated to the same extent as the Debt guaranteed;

(xvi) Debt of any other Person Incurred and outstanding on or prior to the date on which such other Person was acquired by the Issuer or a Subsidiary of the Issuer, or merged or consolidated with or into the Issuer or any Subsidiary; *provided, however that*, (x) if such Debt is not Secured Debt, either (i) on the date that such Person is acquired by the Issuer or the acquiring subsidiary, such Person becomes a Subsidiary of the Issuer and the Issuer would have been able to Incur EUR1.00 of additional Debt pursuant to subparagraph (x) of the first paragraph of this covenant, or (ii) after giving effect on a *pro forma* basis to such acquisition, merger or consolidation and to the Incurrence of such acquired Debt, the Fixed Charge Coverage Ratio for the relevant Measurement Period is equal to or greater than the Fixed Charge Coverage Ratio immediately prior to giving such *pro forma* effect or (y) if such Debt is Secured Debt, either (i) on the date that such Person is acquired by the Issuer or the acquiring subsidiary, such Person becomes a Subsidiary of the Issuer and the Issuer would have been able to Incur EUR1.00 of additional Debt pursuant to subparagraph (y) of the first paragraph of this covenant, or (ii) after giving effect on a *pro forma* basis to such acquisition, merger or consolidation and to the Incurrence of such acquired Debt, the Consolidated Net Senior Secured Leverage Ratio for the relevant Measurement Period is equal to or less than the Consolidated Net Senior Secured Leverage Ratio immediately prior to giving such *pro forma* effect;

(xvii) Debt arising from agreements of the Issuer or a Subsidiary of it providing for indemnification, obligations in respect of earnouts, adjustments of purchase price or similar obligations, in each case Incurred or assumed in connection with any acquisition or disposition of any business, assets or a Subsidiary of the Issuer other than Debt Incurred by any Person acquiring all or a portion of such business, assets or a Subsidiary of the Issuer for the purpose of financing such acquisition;

(xviii) Debt arising from funds provided by the government of Latvia in amounts and subject to the conditions permitted by the laws of the European Union; and

(xix) additional Debt of the Issuer or any Subsidiary of it in an aggregate principal amount which does not exceed EUR40 million at any one time outstanding.

For the purposes of determining compliance with this covenant, in the event that an item of proposed Debt meets the criteria of more than one of the categories described in subparagraphs (i) through (xix) above, or is entitled to be Incurred pursuant to the first paragraph of this covenant, the Issuer will be permitted to classify such item of Debt on the date of its Incurrence, or later reclassify all or a portion of such item of Debt, in any manner that complies with this covenant. The accrual of interest, the accretion or amortisation of original issue discount, the payment of interest on any Debt in the form of additional Debt with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an Incurrence of Debt or an issuance of Disqualified Stock for purposes of this covenant; *provided that*, in each such case, that the amount thereof is included in Consolidated Interest Expense of the Issuer as accrued. Notwithstanding any other provision of this covenant, the maximum amount of Debt that the Issuer or any Subsidiary of it may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Debt outstanding as of any date will be:

(I) the accreted value of the Debt, in the case of any Debt issued with original issue discount;

(II) in respect of Debt of another Person secured by a Security Interest on the assets of the specified Person, the lesser of:

(A) the Fair Market Value of such asset at the date of determination; and

(B) the amount of the Debt of the other Person;

(III) the greater of the liquidation preference or the maximum fixed redemption or repurchase price of the Disqualified Stock, in the case of Disqualified Stock; and

(IV) the principal amount of the Debt, in the case of any other Debt.

For the purposes of the foregoing, the "maximum fixed redemption or repurchase price" of any Disqualified Stock that does not have a fixed redemption or repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed or repurchased on any date of determination.

For the purposes of determining compliance with any Euro denominated restriction on the incurrence of Debt where the Debt Incurred is denominated in a currency other than Euro, the amount of such Debt will be the Euro Equivalent determined on the date such Debt was Incurred, in the case of term Debt, or first drawn, in the case of Debt Incurred under a revolving credit facility; *provided that* (a) if such Debt is Incurred to refinance other Debt denominated in a currency other than Euro, and such refinancing would cause the applicable Euro denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Euro denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Debt does not exceed the principal amount of such Debt being refinanced, (b) the Euro Equivalent of the principal amount of any such Debt outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date, and (c) if any such Debt is subject to a Currency Exchange Protection Agreement with respect to the currency in which such Debt is denominated covering principal, premium, if any, and interest on such Debt, the amount of such Debt and such interest and premium, if any, shall be determined after giving effect to all payments in respect thereof under such Currency Exchange Protection Agreements.

The principal amount of any Debt Incurred to refinance other Debt, if Incurred in a different currency from the Debt being refinanced, shall be calculated based on the relevant currency exchange rate applicable to the currencies in which such Refinancing Debt is denominated that is in effect on the date of such refinancing.

For the purposes of determining compliance with this covenant, there shall be no double counting of any Debt.

The Issuer will not, directly or indirectly, Incur any Debt (including Acquired Debt) that is or purports to be by its terms (or by the terms of any agreement governing such Debt) subordinated or junior in right of payment to any other Debt (including Acquired Debt) of the Issuer unless such Debt is expressly subordinated in right of payment to the Bonds, to the same extent and in the same manner as such Debt is subordinated to such other Debt of the Issuer. For the purposes of the foregoing, no Debt will be deemed to be contractually subordinate or junior in right of payment to any other Debt solely by virtue of (1) being unsecured; or (2) its having a junior priority with respect to the same collateral.

(c) **Minimum Liquidity:**

(i) At all times on and after the Issue Date, the Issuer shall cause its Liquidity to be an amount not less than EUR25 million.

(ii) Upon becoming aware that its Liquidity is an amount less than EUR25 million, the Issuer (A) shall immediately give notice thereof to the Trustee in writing and the Bondholders in accordance with Condition 16 and (B) shall ensure that its Liquidity shall be restored to an amount not less than EUR25 million within 90 days. For the avoidance of doubt, to the extent that this covenant shall have been complied with, including as a result of the Issuer restoring its Liquidity to an amount not less than EUR25 million within the applicable grace period, there shall be no breach of this Condition 4(c), nor a Potential Event of Default or an Event of Default.

(iii) For the purposes of this Condition, "**Liquidity**" means, without duplication, the sum of (1) the Issuer's consolidated cash and Cash Equivalents, calculated on a gross basis, as at the end of the most recent quarterly financial period, as the case may be then ended; (2) the aggregate of all unutilised or undrawn amounts available for drawing under any of the Issuer's Credit Facilities; (3) the balance of any amounts in the Bonds Service Reserve Account; and (4) the aggregate net cash proceeds received by the Issuer since the Issue Date (A) as a contribution to its common equity capital or (B) from the issue or sale of Capital Stock other than Disqualified Stock of the Issuer or (C) from the issue or sale of convertible or exchangeable Disqualified Stock of the Issuer or convertible or exchangeable debt securities of the Issuer in each case that have been converted into or exchanged for Capital Stock other than Disqualified Stock of the Issuer or (D) any other cash capital contribution received by the Issuer from a shareholder thereof, *provided, however*, that any amounts under this subparagraph (4) shall be reduced by the amount of any Restricted Payments which have been made pursuant to Condition 4(g)(ii)(D)(I), (II) or (III). Any relevant amounts not in EUR shall be converted for the purposes of this calculation to their Euro Equivalent.

(d) **Bonds Service Reserve Account:**

(i) The Issuer will, on the Issue Date, establish and at all times thereafter maintain or cause to be maintained the Bonds Service Reserve Account. As soon as reasonably practicable after the Issue Date, the Issuer will or will procure that an amount of cash is transferred to the Bonds Service Reserve Account equal to the then applicable Required Balance. Thereafter the Issuer may, at any time, deposit amounts into the Bonds Service Reserve Account and will ensure that amounts on deposit in the Bonds Service Reserve Account will not be less than the applicable Required Balance. In the event that on the 45th day immediately following any Interest Payment Date, amounts on deposit in the Bonds Service Reserve Account are less than the applicable Required Balance this shall constitute a "**Step Up Event**" and therefore the provisions of Condition 5(b) shall apply. The occurrence of a Step Up Event shall not constitute a Potential Event of Default or an Event of Default.

(ii) Upon receipt of a Payment Instruction from the Issuer and, provided there are sufficient funds standing to the credit in the Bonds Service Reserve Account, the Account Bank will make payment on behalf of the Issuer to the Principal Paying Agent in accordance with such Payment Instruction to fund payments of principal, premium and/or interest in respect of the Bonds.

(iii) (x) Subject to subparagraph (y) below, upon receipt of a Withdrawal Instruction and, provided there are sufficient funds standing to the credit in the Bonds Service Reserve Account, the Account Bank will as soon as reasonably practicable make payment on behalf of the Issuer in accordance with such Withdrawal Instruction.

(y) The Account Bank shall only act upon one Withdrawal Instruction per Interest Period and only if (a) the amount on deposit in the Bonds Service Reserve Account exceeds the then applicable Required Balance (if any), (b) the Withdrawal Instruction relates only to such excess amounts, and (c) no Event of Default or Potential Event of Default shall have occurred and be continuing or would result therefrom.

(iv) If, at any time, the Account Bank ceases to be an Eligible Institution (which, for the avoidance of doubt, shall not constitute a Potential Event of Default or an Event of Default), the Issuer shall give notice thereof in writing to the Trustee as soon as reasonably practicable after becoming aware of the same and shall, within 60 days, move the Bonds Service Reserve Account to a new Account Bank that is an Eligible Institution.

For the purposes of this Condition:

"**Account Bank**" means either (a) Elavon Financial Services DAC in accordance with the terms of the Account Bank Agreement, or (b) any bank, building society, financial institution or trust company which is organised under, or authorised to operate as a bank, building society, financial institution or trust company under, the laws of a member state of the Pre-Expansion European Union, the United Kingdom or the United States of America or any state thereof, *provided that* the long-term debt of such bank, building society, financial institution or trust company has an Investment Grade rating or the equivalent rating category of another internationally recognised rating agency (an "**Eligible Institution**");

"**Account Bank Agreement**" means the agreement dated on 14 May 2024 and made between the Issuer, the Security Trustee and the Account Bank, as modified and/or amended and/or supplemented and/or restated from time to time;

"**Bonds Service Reserve Account**" means the segregated euro trust account of the Issuer opened with the Account Bank for the time being pursuant to the terms of the Account Bank Agreement, which is charged in favour of the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors on the terms of the Trust Deed and the Security Documents, as Security for the Secured Liabilities;

"**Payment Instruction**" has the meaning given in the Account Bank Agreement;

"**Required Balance**" means, for each of the periods specified below, the respective percentage of the total interest due and payable on the next succeeding Interest Payment Date on the then outstanding aggregate principal amount of the Bonds:

Period	**Required Balance**
From the Issue Date, to and excluding the Interest Payment Date falling on 14 May 2025	100 per cent.
From the Interest Payment Date falling on 14 May 2025 to and excluding the Interest Payment Date falling on 14 May 2026	125 per cent.
From the Interest Payment Date falling on 14 May 2026 to and excluding the Interest Payment Date falling on 14 May 2027	150 per cent.
From the Interest Payment Date falling on 14 May 2027 to and excluding the Interest Payment Date falling on 14 May 2028	175 per cent.
From the Interest Payment Date falling on 14 May 2028 to and excluding the Interest Payment Date falling on 14 August 2029	200 per cent.

"**Withdrawal Instruction**" has the meaning given in the Account Bank Agreement.

(e) **Merger, Consolidation and Sale of Substantially all Assets**:

The Issuer shall not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries) to, another Person, unless:

(i) the resulting, surviving or transferee Person, if other than the Issuer (the "**Successor**"), shall be a Person organised and existing under the laws of Latvia, England and Wales, Switzerland, Australia, any member state of the European Union, or any State of the United States and shall expressly assume, by a supplement to the Trust Deed and the Security Documents, in each case executed and delivered to the Trustee and the Security Trustee, in a form satisfactory to the Trustee and the Security Trustee, as the case may be, all the obligations of the Issuer in respect of the Bonds, under the Trust Deed and under the Security Documents;

(ii) immediately after giving effect to such transaction on a *pro forma* basis (and treating any Debt which becomes an obligation of the Issuer or the Successor, as applicable, or any Subsidiary of the Issuer or the Successor, as the case may be, as a result of such transaction as having been Incurred by the Issuer or the Successor or such Subsidiary at the time of such transaction) no Event of Default or Potential Event of Default shall have occurred and be continuing;

(iii) immediately after giving effect to such transaction on a *pro forma* basis, as if such transaction had occurred at the beginning of the applicable Measurement Period (and treating any Debt which becomes an obligation of the Issuer or the Successor, as applicable, or any Subsidiary of the Issuer or the Successor, as the case may be, as a result of such transaction as having been Incurred by the Issuer or the Successor or such Subsidiary at the time of such transaction with the appropriate adjustments with respect to such transactions being included in such *pro forma* calculation), either:

(a) the Issuer or, as the case may be, the Successor could Incur at least EUR1.00 of additional Debt pursuant to the first paragraph of the covenant in Condition 4(b) (subject to any suspension pursuant to Condition 4(k)); or

(b) the Fixed Charge Coverage Ratio for the Issuer, as the case may be, the Successor and its Subsidiaries would be greater than or equal to such ratio for the Issuer and its Subsidiaries immediately prior to such transaction; and

(iv) the Issuer shall have delivered to the Trustee an Officers' Certificate stating that such consolidation, merger, amalgamation or sale, assignment, conveyance, transfer, lease or other disposition and such supplement to the Trust Deed (if any) comply with the provisions of this covenant, which certificate shall be conclusive and binding on the Bondholders and all parties.

The Successor shall succeed to, and be substituted for and may exercise every right and power of, the Issuer under the Trust Deed. Except in the case of a lease, the Issuer shall be relieved of all obligations and covenants under the Trust Deed and the Bonds.

Nothing contained in the foregoing restrictions on merger, consolidation, amalgamation and asset transfers shall prohibit:

(x) any Subsidiary of the Issuer from consolidating or amalgamating with, merging with or into, or transferring all or part of its properties and assets to the Issuer or another Subsidiary of the Issuer *provided that*, after giving effect to any such merger, consolidation, amalgamation or asset transfer, no Event of Default or Potential Event of Default shall have occurred and be continuing or would result therefrom; and

(y) the merger, consolidation or other combination of the Issuer or any of its Subsidiaries with or into another Person for the purpose of changing the legal domicile of that Person, reincorporating (or other similar transaction) the Issuer or, as the case may be, any of its Subsidiaries, in another jurisdiction, or changing the legal form of the Issuer or any of its Subsidiaries.

(f) **Asset Sales**:

The Issuer shall not, and shall not permit any of its Subsidiaries to, consummate an Asset Sale unless:

(i) the Issuer or any of its Subsidiaries receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and

(ii) at least 75 per cent. of the consideration received in the Asset Sale by the Issuer or the relevant Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the Issuer's most recent consolidated balance sheet, of the Issuer or any of its Subsidiaries (other than contingent liabilities and liabilities that are by their terms subordinated to the Bonds) that are assumed by the transferee of any such assets pursuant to a customary novation or indemnity agreement that releases the Issuer or such Subsidiary from or indemnifies against further liability;

(b) any securities, notes, bonds or other obligations received by the Issuer or any such Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by the Issuer or such Subsidiary into cash, to the extent of the cash received in that conversion; and

(c) any stock or assets of the kind referred to in subparagraphs (I), (II) or (IV) of the next paragraph of this Condition 4(f).

Within 365 days after the receipt of any Net Available Cash from an Asset Sale, the Issuer or one or more of its Subsidiaries may apply an amount equal to the amount of such Net Available Cash:

(I) to repay Debt and other Obligations under a Credit Facility that are secured by a Security Interest and, if the Debt repaid is revolving credit Debt, to correspondingly reduce commitments with respect thereto;

(II) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Subsidiary of the Issuer;

(III) to make a capital expenditure;

(IV) to acquire other assets that are not classified as current assets under Accounting Standards and that are used or useful in a Permitted Business; or

(V) a combination of any of the above permitted by the foregoing subparagraphs (I) through (IV).

Pending the final application of any Net Available Cash, the Issuer or any of its Subsidiaries may temporarily reduce revolving credit borrowings or otherwise invest the Net Available Cash in any manner that is not prohibited by these Conditions.

If the Net Available Cash exceeds the aggregate amount within the applicable time period, such excess amount applied or invested as provided in the second paragraph of this covenant will constitute "**Excess Proceeds**". When the aggregate amount of Excess Proceeds exceeds EUR15 million, within five days thereof, the Issuer will make an offer (an "**Asset Sale Offer**") to all Bondholders with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum principal amount of Bonds (plus all accrued and unpaid interest and the amount of all fees and expenses, including premiums (if any), incurred in connection therewith) that may be purchased or redeemed out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100 per cent. of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the date of purchase or redemption. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by these Conditions. If the aggregate principal amount of Bonds tendered in (or required to be redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, the Issuer will accept Bonds for purchase on a *pro rata* basis, based on the amounts tendered or required to be prepaid or redeemed (with such adjustments as may be deemed appropriate by the Issuer so that only Bonds in denominations of €100,000, or an integral multiple of €1,000 in excess thereof, will be purchased). Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Issuer will comply with the requirements of all securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of bonds pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Condition 4(f), the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this Condition 4(f) by virtue of such compliance.

(g) **Limitation on Restricted Payments**:

(i) Subject as provided below, the Issuer will not, directly or indirectly:

(A) declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital; or

(B) voluntarily purchase, redeem or otherwise retire for value any of its share capital or subordinated Debt,

(any such action, a "**Restricted Payment**"),

for so long as the Issuer's "own equity" (as such term is used in Section 182(3) of the Latvian Commercial Law) as at the end of the annual financial period most recently then ended is, or giving effect on a *pro forma* basis to any Restricted Payment, would be, lower than the amount of the Issuer's "share capital" (as such term is used in Section 182(3) of the Latvian Commercial Law) as at the end of the same period.

(ii) Notwithstanding the foregoing, at any time and to the extent that a Restricted Payment is not prohibited pursuant to subparagraph (i) hereby, and subject as further provided below, the Issuer may make a Restricted Payment if, at the time of the relevant declaration or payment of a dividend or making of a distribution, as the case may be (A) no Event of Default or Potential Event of Default has occurred and is continuing or would result from the making of such Restricted Payment; (B) amounts on deposit in the Bonds Service Reserve Account are not less than the then applicable Required Balance (if any) (subject to any suspension pursuant to Condition 4(k)); (C) the Issuer would, at the time of such Restricted Payment and after giving *pro forma* effect thereto, have been permitted to Incur at least EUR1.00 of additional Debt pursuant to the Fixed Charge Coverage Ratio contained in the first paragraph of the covenant in Condition 4(b) (subject to any suspension pursuant to Condition 4(k)); and (D) the aggregate amount of such Restricted Payment and all (if any) other Restricted Payments made since the Issue Date would not exceed 50 per cent. of the Issuer's consolidated net profit for each financial year ended since the Issue Date for which financial statements have been delivered pursuant to Condition 4(j) (or, in the case such consolidated net profit is a deficit, minus 100 per cent. of such deficit), in each case, as determined by reference to the Issuer's audited consolidated financial statements prepared under Accounting Standards for the relevant financial year and calculated on a cumulative basis for all such years plus 100 per cent. of the aggregate net cash proceeds and the Fair Market Value of marketable securities received by the Issuer since the Issue Date (I) as a contribution to its common equity capital or (II) from the issue or sale of Capital Stock other than Disqualified Stock of the Issuer or from the issue or sale of convertible or exchangeable Disqualified Stock of the Issuer or convertible or exchangeable debt securities of the Issuer, in each case, that have been converted into or exchanged for Capital Stock other than Disqualified Stock of the Issuer (other than Capital Stock other than Disqualified Stock and convertible or exchangeable Disqualified Stock or debt securities sold to a Subsidiary) and (III) 100 per cent. of any cash capital contribution received by the Issuer from a shareholder subsequent to the Issue Date; *provided, however*, that the amount of any Restricted Payment permitted by these Conditions 4(g)(ii)(D)(I), (II) or (III) shall be reduced by any amounts comprising Liquidity pursuant to Condition 4(c)(iii)(4).

(iii) The preceding provisions will not prohibit:

(A) Payments of dividends or distributions by the Issuer solely in Equity Interests; or

(B) The repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options;

(iv) Nothing herein shall limit the declaration or payment of any dividend or the making of any other distribution by the Issuer (A) in respect of any preferred stock, which may be issued by the Issuer from time to time; or (B) in respect of any share capital of the Issuer made out of the net cash proceeds of any substantially concurrent sale of, or by issuance of, share capital of the Issuer (other than share capital issued or sold to a Subsidiary or an employee stock ownership plan or to a trust established by the Issuer or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution to the share capital of the Issuer.

(v) The Issuer will not permit any Subsidiary to declare or pay any dividend, in cash or otherwise or make any other distribution as is described in paragraph (i) above in respect of any class of share capital of such Subsidiary unless such dividend or distribution, as the case may be, is made on a *pro rata* basis to holders of such class of share capital or such dividend is declared or paid or such distribution is made, as the case may be, on a basis that results in the Issuer or another Subsidiary receiving a greater amount by way of such dividend or other distribution, as the case may be, than it would have received if the dividend had been paid or distribution made, as the case may be, on a *pro rata* basis.

(vi) For the purpose of this Condition 4(g), the amount of any dividend declared or paid or other distribution made, other than in cash, which is to be taken into account in any calculation required hereunder, shall be the fair market value as determined in good faith by the Supervisory Board of such dividend or distribution, as the case may be, assuming (to the extent applicable in the circumstances of the relevant payment or other distribution) it was the subject of an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy.

(h) **Limitation on Sale/Leasebacks**:

The Issuer will not, and will not permit any of its Subsidiaries to, enter into any Sale/Leaseback Transaction unless:

(i) the Issuer or such Subsidiary could have Incurred Debt in an amount equal to the Attributable Indebtedness in respect of such Sale/Leaseback Transaction pursuant to Condition 4(b);

(ii) the Issuer or such Subsidiary would be permitted to create a Security Interest on the property subject to such Sale/Leaseback Transaction pursuant to Condition 4(a); and

(iii) if the Sale/Leaseback Transaction is an Asset Sale, all of the provisions of Condition 4(f) are satisfied with respect to such Sale/Leaseback Transaction, treating all of the consideration received in such Sale/Leaseback Transaction as Net Available Cash for the purposes of Condition 4(f).

(i) **Business Activity**:

The Issuer will not, and will not permit any of its Subsidiaries to, engage in any business other than a Permitted Business.

(j) **Financial Reporting**:

(i) The Issuer shall deliver to the Trustee as soon as they become available, but in any event within 120 days after the end of its financial year, copies of its consolidated financial statements for such financial year, audited by the Auditors and prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period.

(ii) The Issuer shall as soon as the same become available, but in any event within 60 days after the end of each first half year of its financial years thereafter, deliver to the Trustee the Issuer's consolidated financial statements for such period, prepared in accordance with Accounting Standards consistently applied with the corresponding semi-annual financial statements delivered during the previous financial year.

(iii) The Issuer shall ensure that each set of consolidated financial statements delivered by it pursuant to this Condition 4(j) is:

(A) in the case of the statements provided pursuant to Condition 4(j)(i), accompanied by a report thereon of the Auditors referred to in Condition 4(j)(i) (including opinions of such Auditors with accompanying notes and annexes); and

(B) in the case of the statements provided pursuant to Conditions 4(j)(i) and 4(j)(ii), accompanied by an Officers' Certificate that the information with respect to the Group included in the financial statements pursuant to Condition 4(j)(iv) gives a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.

(iv) The Issuer undertakes to furnish such information to Euronext Dublin or any stock exchange or stock exchanges on which the Bonds may, from time to time, be listed or admitted to trading (the "**Stock Exchange**") (with a copy to the Trustee) as such Stock Exchange may require in connection with the listing or admission to trading on such Stock Exchange of the Bonds.

(k) **Covenant Suspension**:

If, on any date following the Issue Date, the Bonds have an Investment Grade rating from at least two of the Rating Agencies and no Event of Default or Potential Event of Default has occurred and is continuing (a "**Suspension Event**"), then, beginning on that day and continuing until such time, if any, at which the Bonds cease to have an Investment Grade rating from at least two of the Rating Agencies, the covenants contained in Conditions 4(b), 4(c), 4(d), 4(e)(iii), 4(f), 4(g), 4(h) and 4(i) will not apply.

However, such covenant will be reinstituted and apply according to its terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenant will not, however, be of any effect with regard to actions of the Issuer properly taken in compliance with the provisions of the Trust Deed during the continuance of the Suspension Event and no Event of Default or Potential Event of Default will be deemed to have occurred solely by reason of any Incurrence of Debt during that period. In addition, for the purpose of the covenant contained in 4(b), all Debt Incurred (or contractually committed to be Incurred pursuant to the paragraph below) during the continuance of the Suspension Event shall be deemed Incurred pursuant to subparagraph 4(b)(iv) above.

For the avoidance of doubt, the Issuer is entitled to honour any contractual commitment in the future after any date on which the Bonds cease to have an Investment Grade rating from at least two of the Rating Agencies, without it causing an Event of Default or Potential Event of Default, as long as the contractual commitments were entered into in good faith during the continuance of the Suspension Event and not in anticipation of the Bonds no longer having an Investment Grade rating.

(l) **Additional Covenants:**

(i) Each of the Issuer and the Pledgor will, and the Issuer will procure its other Subsidiaries to, as applicable, (a) obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in any applicable jurisdiction, and (b) do all such acts or execute all such documents (including assignments, transfers, mortgages, charges, notices and instructions) as the Trustee and/or the Security Trustee may require, in each case for:

(w) the purposes of the execution, delivery or performance of the Bonds and the Transaction Documents and for their validity and enforceability;

(x) the creation, perfection, protection or maintenance of any Security and the priority thereof created or intended to be created in favour of (i) the Security Trustee, on trust for and on behalf of itself, the Bondholders and the other Secured Creditors and (ii) if applicable, the Security Trustee as parallel debt creditor, in each case on the terms of the Trust Deed and the relevant Security Document(s), as Security for the Secured Liabilities;

(y) the exercise of any rights, powers and remedies of the Trustee, the Security Trustee, the Bondholders and/or the Secured Creditors provided by or pursuant to the Bonds and/or the Transaction Documents; and

(z) upon the Security becoming enforceable, to facilitate the enforcement of the Security and/or realisation of the Secured Property and the exercise of the functions of the Trustee, the Security Trustee and/or any Receiver.

(ii) Each of the Issuer and the Pledgor will not, and the Issuer will not permit any of its other Subsidiaries to, (a) sell, assign, convey, transfer, lease or otherwise dispose, directly or indirectly, of the Secured Property (other than in accordance with the terms of the Security Documents) and will not otherwise cease to own and hold the Secured Property (in each case other than pursuant to the Security Documents), or (b) create, incur, assume or suffer to exist any Security Interest (other than the Security) on all or part of the Secured Property.

(m) **Redemption of Existing Bonds**:

The Issuer shall redeem all, but not some only, of its €200,000,000 6.75 per cent. Bonds due 30 July 2024 (ISIN: XS1843432821) (the "**Existing Bonds**") on 30 May 2024 at 101.6875 per cent. of their principal amount, plus accrued and unpaid interest and any additional amounts to the date fixed for redemption, as specified in the redemption notice dated 29 April 2024 issued by the Issuer. The Issuer shall fund such redemption from the proceeds of the issue of the Bonds. On the Issue Date, the Issuer will or will procure that the proceeds of the issue of the Bonds be deposited into the segregated trust account of the Issuer opened with U.S. Bank Global Corporate Trust Limited (the "**Escrow Agent**") for the time being pursuant to the terms of the Escrow Agreement dated 10 May 2024 between, among others, the Issuer, the Trustee and the Escrow Agent.

The Issuer shall promptly notify the Trustee and the Bondholders in accordance with Condition 16 following the redemption of the Existing Bonds in full.

(n) **No Obligation to Monitor or Ascertain**:

The Trustee and the Security Trustee shall not be responsible for monitoring or ascertaining whether or not the foregoing provisions of, or covenants under, Condition 3(c), Condition 3(d) and this Condition 4 are being or have been complied with and unless and, until the Trustee or the Security Trustee shall have received express written notice to the contrary, the Trustee and the Security Trustee shall be entitled to assume (without liability to any Person) that the Issuer, its Subsidiaries and/or any other relevant party are in compliance with all such provisions and covenants.

5 Interest

(a) Subject as provided in this Condition 5, the Bonds shall bear interest on their outstanding principal amount from and including the Issue Date at the rate of 14.500 per cent. per annum (the "**Scheduled Rate of Interest**"), payable quarterly in arrear on 14 February, 14 May, 14 August and 14 November in each year (each, an "**Interest Payment Date**"). The first payment (for the period from and including the Issue Date to but excluding 14 August 2024 and amounting to €36.25 per Calculation Amount (as defined below)) shall be made on 14 August 2024.

(b) In respect of any Interest Period during which a Step Up Event has occurred, the Bonds shall bear interest on their outstanding principal amount at the rate of 16.500 per cent. per annum (the "**Step Up Rate of Interest**") and the applicable rate of interest per Calculation Amount shall be deemed amended accordingly in respect of the Calculation Amount applicable for that Interest Period. For the avoidance of doubt, in subsequent Interest Periods during which a Step Up Event does not occur, the Bonds shall bear interest at the Scheduled Rate of Interest.

(c) The Issuer shall give notice of the occurrence of a Step Up Event to the Trustee, the Registrar, the Principal Paying Agent and the Bondholders in accordance with Condition 16 as soon as reasonably practicable after such occurrence and, in any event, no later than the third Business Day thereafter. Such notice shall specify the rate of interest applicable to the Bonds.

(d) Each Bond will cease to bear interest from and including the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until but excluding whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

(e) Where interest is required to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below), the day count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year.

(f) In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

(g) Interest in respect of any Bond shall be calculated per €1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period other than an Interest Period shall be equal to the product of the Scheduled Rate of Interest (or if applicable, the Step Up Rate of Interest), the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 Redemption and Purchase

(a) **Final Redemption**: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 14 August 2029 (the "**Maturity Date**").

(b) **Redemption for Taxation Reasons**: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 15 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to, but excluding, the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Latvia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of any such changed or amended laws or regulations, which change or amendment becomes effective on or after 10 May 2024, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided that*, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee: (a) an Officers' Certificate stating that the obligation referred to in (i) above has arisen or will arise and cannot be avoided by the Issuer taking reasonable measures available to it; and (b) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept, without any liability for so doing, such Officers' Certificate and legal or tax opinion as sufficient evidence of the satisfactions of the condition precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders.

(c) **Redemption at the Option of the Issuer**: On and after 14 May 2026, the Issuer may redeem all, but not some only, of the Bonds upon not less than 15 nor more than 60 days' notice to the Bondholders in accordance with Condition 16, at the following redemption amounts, plus accrued and unpaid interest on the Bonds, if any, to, but excluding, the applicable date fixed for redemption (subject to the right of holders on the relevant Record Date to receive interest due on the relevant Interest Payment Date), if redeemed during the period indicated below:

Redemption Period	**Redemption Amount**
From, and including, 14 May 2026 to, but excluding, 14 May 2027	107.250 per cent.
From, and including, 14 May 2027 to, but excluding, 14 May 2028	103.625 per cent.
From, and including, 14 May 2028 to, but excluding, 14 August 2029	100 per cent.

(d) **Make-Whole Redemption at the Option of the Issuer**: At any time prior to 14 May 2026, the Issuer may redeem all, but not some only, of the Bonds upon not less than 15 nor more than 60 days' notice to the Bondholders in accordance with Condition 16, at a redemption price equal to 100 per cent. of the principal amount of the Bonds redeemed, plus accrued and unpaid interest on the Bonds, if any, to, but excluding, the applicable date fixed for redemption (the "**Make-Whole Redemption Date**"), plus the Applicable Premium as of the applicable date fixed for redemption (subject to the right of holders on the relevant Record Date to receive interest due on the relevant Interest Payment Date).

(e) **Redemption at the Option of the Issuer in the event of an Equity Offering**: At any time prior to 14 May 2026, the Issuer may on any one or more occasions, upon not less than 15 nor more than 60 days' notice to the Bondholders in accordance with Condition 16, redeem up to 40 per cent. of the aggregate principal amount of the Bonds, with the net cash proceeds of one or more Equity Offerings at a redemption price equal to 114.500 per cent. of the principal amount of the Bonds redeemed, plus accrued and unpaid interest on the Bonds, if any, to, but excluding, the applicable date fixed for redemption (subject to the right of holders on the relevant Record Date to receive interest due on the relevant Interest Payment Date); *provided that* (i) at least 60 per cent. of the aggregate principal amount of Bonds originally issued remain outstanding immediately after the occurrence of such redemption; and (ii) the redemption occurs within 120 days of the date of the closing of any such Equity Offering. Notice of any redemption upon any Equity Offering may be given prior to the completion thereof, and any such redemption may, at the Issuer's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Equity Offering, in which case the notice of redemption shall state the applicable condition precedent(s) and that, in the Issuer's discretion, the date fixed for redemption may be delayed until such time as any or all of such condition(s) shall be satisfied, or waived by the Issuer, or such redemption may not occur in the event that any or all such condition(s) shall not have been satisfied, or waived by the Issuer, by the date fixed for redemption or, as the case may be, by the date fixed for redemption so delayed.

(f) **Redemption at the Option of Bondholders upon Change of Control (Put Option)**: Upon the occurrence of a Change of Control Event (as defined below), unless the Issuer has exercised its right to redeem all of the Bonds as described under Conditions 6(b), 6(c) or 6(d), each Bondholder shall have the right during the Redemption Period to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of, all or any part of that Bondholder's Bonds (in integral multiples of €1,000; *provided that* Bonds of €100,000 or less may only be redeemed in whole and not in part) at a price equal to 101 per cent. of the principal amount of the Bonds, plus accrued and unpaid interest on the Bonds, if any, to, but excluding, the

Redemption Date (subject to the right of holders on the relevant Record Date to receive interest due on the relevant Interest Payment Date).

Upon the occurrence of a Change of Control Event, unless the Issuer has exercised its right to redeem all Bonds as described under Conditions 6(b), 6(c) or 6(d), the Issuer shall give notice thereof in writing to the Trustee and the Bondholders in accordance with Condition 16 (a "**Change of Control Notice**") specifying:

(i) that a Change of Control Event has occurred and that each Bondholder shall during the Redemption Period have the right to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of, all or any part of that Bondholder's Bonds (in integral multiples of €1,000; provided that Bonds of €100,000 or less may only be redeemed in whole and not in part) at a price equal to 101 per cent. of the principal amount of the Bonds, plus accrued and unpaid interest on the Bonds, if any, to, but excluding, the Redemption Date (subject to the right of holders on the relevant Record Date to receive interest due on the relevant Interest Payment Date);

(ii) the circumstances and relevant facts regarding such Change of Control Event; and

(iii) the procedure for exercising the put option provided for in this Condition 6(f).

To exercise the put option provided for in this Condition 6(f), a holder must within the Redemption Period deposit the certificate representing the Bond(s) to be redeemed with the Registrar or any Transfer Agent at its specified office, together with a completed exercise notice (an "**Exercise Notice**") in the form obtainable from any Agent. An Exercise Notice, once given, shall be irrevocable.

If 85 per cent. or more in principal amount of the Bonds then outstanding have been redeemed or purchased pursuant to this Condition 6(f), the Issuer may, on giving not less than 15 nor more than 60 days' notice to the Bondholders (such notice being given within 30 days after the Redemption Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Bonds at 101 per cent. of their principal amount, plus accrued and unpaid interest on the Bonds, if any, to, but excluding, the date fixed for such redemption or purchase (subject to the right of holders on the relevant Record Date to receive interest due on the relevant Interest Payment Date).

For the purposes of this Condition 6(f):

a "**Change of Control Event**" means the occurrence of any of the following:

(i) the Issuer becomes aware (by way of a report or any other filing pursuant to any regulatory filing, proxy, vote, written notice or otherwise) that any ''person'' or ''group'' of related persons (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act as in effect on the Issue Date), other than the Permitted Holder(s), is or has become the ''beneficial owner'' (as defined in Rules 13d-3 and 13d-5 under the U.S. Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50 per cent. of the total voting power of the Voting Stock of the Issuer; *provided, that*, for the purposes of this Condition, no Change of Control Event shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a successor holding company or parent; or

(ii) the effective and unconditional direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of the Issuer and its Subsidiaries, taken as a whole, to a Person, other than (a) a Subsidiary or (b) the Permitted Holder(s);

"**Permitted Holder**" means:

(i) the Republic of Latvia, including acting through the Ministry of Transport and/or any one or more entities represented controlled by the Republic of Latvia; For the purpose of this Condition 6(f), the Republic of Latvia will be deemed to "**control**" the Issuer if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) it or its government (or any entity controlled by its government) has appointed or has the power to appoint and/or remove the majority of the members of the board of directors or other governing or supervisory body of the Issuer or otherwise controls, or has the power to control (by using voting rights or otherwise), the affairs and policies of the Issuer; and

(ii) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of the Issuer, acting in such capacity;

"**Redemption Date**" means, in respect of any Bond, the date which falls 14 days after the date on which the relevant holder exercises its put option in accordance with this Condition 6(f);

"**Redemption Period**" means the period from and including the date on which a Change of Control Event occurs (whether or not the Issuer has given a Change of Control Notice in respect of such Change of Control Event) to and including the date falling 60 days after the date on which the Change of Control Notice is given; *provided that*, if no Change of Control Notice is given, the Redemption Period shall not terminate; and

"**U.S. Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations of the Commission promulgated thereunder.

(g) **Purchase**: The Issuer and any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 12(a). Bonds so purchased may be held and resold or cancelled at the discretion of the Issuer.

(h) **Cancellation**: All Certificates representing Bonds purchased by or on behalf of the Issuer may, at the discretion of the Issuer, be surrendered for such purposes to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

7 Payments

(a) **Method of Payment**:

(i) Payments of principal and premium shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in subparagraph (ii) below.

(ii) Interest on each Bond shall be paid to the Person shown on the Register at the close of business on the business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in euro by transfer to an account in euro maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) **Payments subject to Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in euro, payment instructions (for value the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. Subject to the provisions of the Agency Agreement, the Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any

Bondholder. The Issuer reserves the right at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of the Principal Paying Agent, the Registrar or the Transfer Agent and to appoint additional or other paying agents or Transfer Agent; *provided that*, the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed, in each case, as approved by the Trustee. Notice of any such change or any change of any specified office shall promptly be given to Bondholders.

(e) **Delay in Payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a business day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(f) **Non-Business Days**: If any date for payment in respect of any Bond is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day on which commercial banks and foreign exchange markets are open in London and on which the real time gross settlement system operated by the Eurosystem, or any successor system, is open for the settlement of payments in euro.

8 Taxation

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Latvia or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

Notwithstanding any other provision of the Conditions or the Trust Deed, any amounts to be paid on the Bonds by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U. S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other Person will be required to pay any additional amounts in respect of FATCA Withholding.

9 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds then outstanding (as defined in the Trust Deed) or if so directed by an Extraordinary Resolution shall, subject, in each case, to its being indemnified and/or secured and/or prefunded to its satisfaction, give notice (an "**Acceleration Notice**") to the Issuer (with a copy to the Security Trustee and the Pledgor) that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment of Principal**: default is made in the payment of principal of any of the Bonds when due; or

(b) **Non-Payment of Interest**: default is made in the payment on the due date of any premium or interest in respect of any of the Bonds *provided that* such default will not be an Event of Default if the failure to pay is remedied within 14 days; or

(c) **Non-Redemption of Existing Bonds**: the Issuer fails to redeem the Existing Bonds in accordance with Condition 4(m), *provided that* such failure will not be an Event of Default if the Existing Bonds are redeemed within 5 Business Days of the date specified in Condition 4(m); or

(d) **Successive Step Up Events**: the occurrence of Step Up Events in respect of two consecutive Interest Periods; or

(e) **Failure to Provide Longstop Date Security**: the Issuer does not perform or comply with any one or more of its obligations or undertakings under Condition 3(c); or

(f) **Breach of Covenants**: the Issuer does not perform or comply with any one or more of its obligations or undertakings under Condition 3(d) and 4 (other than Conditions 4(d) and 4(m)) which default if, in the opinion of the Trustee, capable of remedy is not remedied within 60 days after notice shall have been given to the Issuer by the Trustee; or

(g) **Breach of Other Obligations**: (i) the Issuer does not perform or comply with any one or more of its other obligations under the Bonds or the Transaction Documents or (ii) the Pledgor does not perform or comply with any one or more of its obligations under the Transaction Documents, in each case which default if, in the opinion of the Trustee, capable of remedy is not remedied within 30 days after notice shall have been given to the Issuer by the Trustee; or

(h) **Cross-Acceleration**: (i) any other present or future Debt of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such Debt is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, *provided that* the aggregate amount of the relevant Debt, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(h) have occurred equals or exceeds EUR25 million or its equivalent in another currency; or

(i) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 60 days; or

(j) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance or other Security Interest, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar Person); or

(k) **Insolvency**: the Issuer or any of its Subsidiaries is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(l) **Judgment Default**: any one or more judgments or orders is made against the Issuer or any Subsidiary involving an aggregate liability in respect of a matter (or a series of related matters) greater than EUR25 million or its equivalent in another currency, unless all those judgments and orders are vacated or discharged within 60 days of their being made; or

(m) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries or (ii) for a solvent liquidation of a Subsidiary; or

(n) **Expropriation**: any step is taken by any Person which is reasonably likely to result in the seizure, compulsory acquisition, expropriation of all or a material part of the assets of the Issuer or the Group; or

(o) **Invalidity or Unenforceability**: (i) it is or becomes unlawful for the Issuer to perform or comply with one or more of its obligations under any of the Bonds or the Transaction Documents, (ii) it is or becomes unlawful for the Pledgor to perform or comply with one or more of its obligations under any of the Transaction Documents, (iii) all or any of the Issuer’s obligations set out in the Bonds or the Transaction Documents shall be or become unenforceable, invalid or legally ineffective, (iv) all or any of the Pledgor's obligations set out in the Bonds or the Transaction Documents shall be or become unenforceable, invalid, or legally ineffective, or (v) the Security Documents do not create the Security which they are expressed to create with the ranking and/or priority that they are expressed to have or the ranking and/or priority of the Security created thereby at any time is reduced, amended, terminated or discharged; or

(p) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing subparagraphs of this Condition 9,

provided that, in the case of Conditions 9(f), 9(g), 9(i), 9(j) and 9(m) (other than in the case of the insolvency, bankruptcy or inability of the Issuer or any Subsidiary to pay its debts), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

The Security, created by the Security Documents, shall become enforceable upon the delivery of an Acceleration Notice by the Trustee to the Issuer (with a copy to the Security Trustee and the Pledgor). For the avoidance of doubt, any failure by the Trustee to deliver a copy of the Acceleration Notice to the Security Trustee and/or the Pledgor shall not affect the foregoing.

10 Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (*provided that* the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders, Modification, Waiver and Substitution

(a) **Meetings of Bondholders**:

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Transaction Documents. Such a meeting may be convened by the Trustee at the written request of the Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Person(s) holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more Person(s) being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on or to vary the method of calculating the rate of interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or (v) to modify, amend, waive or release the Security, in which case the necessary quorum will be one or more Person(s) holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed, or consent given by way of electronic consents through the relevant clearing system(s), by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Modification of the Trust Deed**:

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Transaction Documents which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Transaction Documents which is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and such modification shall be notified to the Bondholders as soon as practicable.

(c) **Substitution**:

The Trust Deed contains provisions permitting the Trustee to agree, subject to such conditions as are contained in the Trust Deed, but without the consent of the Bondholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previously substituted entity, as principal debtor under the Bonds and the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of law governing the Bonds and/or the Transaction Documents *provided that* such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

(d) **Entitlement of the Trustee and the Security Trustee**:

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

In connection with the exercise of its functions under these Conditions and the Transaction Documents, the Security Trustee shall be entitled to request and rely upon a written direction or instruction from the Trustee or, if there are no Bonds outstanding, all of the other Secured Creditors as to how it should act and the Security Trustee shall be entitled to refrain from acting unless and until it has received such written direction or instruction. The Security Trustee shall not be liable to any Secured Creditor or any other Person for any action it may take or refrain from taking in accordance with any such instruction or direction and shall be entitled to assume that any such directions or instructions are given in accordance with the provisions of the Trust Deed. The Security Trustee shall be entitled to seek clarification with regard to such instructions or directions and may in its discretion elect not to act pending receipt of such clarification to its satisfaction.

Upon being directed or instructed in accordance with the paragraph above, the Security Trustee will be bound to take the relevant action(s), steps or proceedings provided that the Security Trustee has been indemnified and/or secured and/or prefunded to its satisfaction and, for this purpose, the Security Trustee may demand, prior to taking any such action, step or proceeding, that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient so to indemnify and/or secure and/or prefund it.

13 Enforcement

The Trustee may, at its absolute discretion and without further notice, institute such steps, actions or proceedings against the Issuer as it may think fit to enforce the terms of the Bonds and the Transaction Documents and, at any time after the Security has become enforceable the Trustee may, at its absolute discretion and without further notice, institute such steps, actions or proceedings as it may think fit to enforce the Security, including instructing the Security Trustee to enforce the Security (an "**Enforcement Instruction**") but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

Upon receipt of the Enforcement Instruction, the Security Trustee shall promptly enforce all or part of the Security (or appoint a Receiver or Appointee to do so) in any manner as it thinks fit or as it may be directed in accordance with Condition 12(d) above, in each case subject to the relevant provisions of the Transaction Documents, provided that the Security Trustee shall have no obligation to take any such enforcement action unless and until it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

Only the Security Trustee may enforce the Security in accordance with and subject to the terms of the Transaction Documents.

14 *Indemnification of the Trustee and the Security Trustee*

The Trust Deed contains provisions for the indemnification of the Trustee and the Security Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Bonds or the Transaction Documents. Each of the Trustee and the Security Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

Each of the Trustee and the Security Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or the Security Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. Each of the Trustee and the Security Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee, the Security Trustee and the Bondholders.

15 *Further Issues*

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and secured by the Security so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding Bonds will be constituted by the Trust Deed or any deed supplemental to it. Any other securities shall be constituted by a separate trust deed.

16 *Notices*

Notices required to be given to the holders of Bonds pursuant to these Conditions shall be mailed to them at their respective addresses appearing in the Register and will be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

Notices to the holders of Bonds shall also be given (so long as the Bonds are listed on Euronext Dublin and the rules of that Stock Exchange so require) either on the website of the Irish Stock Exchange plc trading as Euronext Dublin (*https://www.euronext.com/en/markets/dublin*) or in a leading newspaper having general circulation in Ireland (which is expected to be the Irish Times) or; if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

17 *Contracts (Rights of Third Parties) Act 1999*

No Person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

18 *Governing Law and Jurisdiction*

(a) **Governing Law**: The Trust Deed and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with any Bonds ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has submitted irrevocably to the jurisdiction of such courts.

(c) **No objection to Proceedings**: The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a final non-appealable judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction to which the Issuer is or may be subject. Nothing in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(d) **Agent for Service of Process**: Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Bonds.

(e) **Waiver of Immunity**: To the extent that the Issuer or any of its assets has (on the date of issue of the Bonds), or thereafter may acquire, any right to immunity from set-off, legal proceedings, attachment prior to judgment, other attachment or execution of judgment on the grounds of sovereignty or otherwise, the Issuer, if and to the extent permitted by applicable laws, hereby irrevocably waives any such right to immunity and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever of any order, award or judgment made or given in connection with any Proceedings.

19 Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Acceleration Notice**" has the meaning given in Condition 9;

"**Account Bank**" has the meaning given in Condition 4(d);

"**Account Bank Agreement**" has the meaning given in Condition 4(d);

"**Accounting Standards**" means International Financial Reporting Standards as adopted by the European Union ("**IFRS**") or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the Committee of European Securities Regulators from time to time;

"**Acquired Debt**" means Debt of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of the Issuer, whether or not such Debt is Incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, the Issuer;

"**Airbus Flight Simulator**" has the meaning given in Condition 3(b)(i);

"**Applicable Premium**" means with respect to any Bond redeemed pursuant to Condition 6(d) on any redemption date, the greater of:

(A) 1 per cent. of the principal amount of the Bond; or

(B) the excess of: (i) the present value at such redemption date of (x) the redemption price of the Bond at 14 May 2026 (as set forth in the table in Condition 6(c)), plus (y) all required interest payments due on the Bond through 14 May 2026 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Reference Bond Rate (as defined below) as of such redemption date plus 50 basis points and assuming that the rate of interest the Bonds for such period will equal the Scheduled Rate of Interest, over (ii) the principal amount of the Bond,

as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer may engage and, for the avoidance of doubt, calculation of the Applicable Premium shall not be a duty or obligation of the Trustee or any Agent.

"**Appointee**" means any Receiver, attorney, manager, agent, delegate, nominee, custodian or other person appointed by the Trustee or Security Trustee, under any Transaction Document(s) or other trustee or security trustee or co-trustee or co-security trustee appointed pursuant to the provisions of the Trust Deed;

"**Asset Sale**" means:

(A) the sale, lease, conveyance or other disposition of any assets or rights by the Issuer or any of the Issuer's Subsidiaries; *provided that*, the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer and its Subsidiaries taken as a whole will be governed by the provisions in Condition 6(f) (in the event that it would constitute a Change of Control Event pursuant to the provisions thereof) and, as applicable, Condition 4(e) and not by the provisions of Condition 4(f); and

(B) the issuance of Equity Interests by any of the Issuer's Subsidiaries or the sale by the Issuer or any of the Issuer's Subsidiaries of Equity Interests in any of the Issuer's Subsidiaries.

For purposes of this definition, the term "Asset Sale" shall not include:

(a) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than the greater of EUR 25 million and 5 per cent. of the Issuer's Consolidated Total Assets;

(b) a transfer of assets or Equity Interests between or among the Issuer and its Subsidiaries;

(c) an issuance of Equity Interests by a Subsidiary of the Issuer to the Issuer or to a Subsidiary of the Issuer;

(d) the sale, lease or other transfer of products, inventory, trading stock, services, accounts receivable or other assets in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of the Issuer and its Subsidiaries taken as whole);

(e) licenses and sublicenses by the Issuer or any of its Subsidiaries of software or intellectual property in the ordinary course of business;

(f) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(g) the granting of a Security Interest not prohibited by the covenant described above under Condition 4(a);

(h) the sale or other disposition of cash or Cash Equivalents;

(i) the sale, assignment, conveyance, transfer, lease or other disposal of all or substantially all of the assets of the Issuer within the meaning of Condition 4(e); and

(j) any transfer in connection with the termination, close-out or settlement of any Hedging Obligation permitted under these Conditions;

"**Attributable Indebtedness**" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate implicit in the transaction) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended);

"**Auditors**" means PricewaterhouseCoopers SIA or, if they are unable or unwilling to carry out any action requested of them under the Trust Deed or the Agency Agreement or, at any relevant time, are not acting as the Issuer's auditors, such other internationally recognised firm of accountants as may be selected by the Issuer and notified in writing to the Trustee for this purpose;

"**Average Life**" means, as of the date of determination, with respect to any Debt, the quotient obtained by dividing:

(A) the sum of the products of (i) the numbers of years from the date of determination to the date of each successive scheduled principal payment of such Debt or scheduled redemption; and (ii) the amount of such payment, by

(B) the sum of all such payments;

"**Axiom**" has the meaning given in Condition 3(b);

"**Axiom Aircraft**" has the meaning given in Condition 3(b);

"**BA Hangar**" has the meaning given in Condition 3(b)(i);

"**Bonds Service Reserve Account**" has the meaning given in Condition 4(d);

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Ireland and Riga and on which the real time gross settlement system operated by the Eurosystem, or any successor system, is open for the settlement of payments in euro;

"**Calculation Amount**" has the meaning given in Condition 5;

"**Calculation Date**" means the date which is the second Business Day prior to the applicable Make-Whole Redemption Date;

"**Capital Stock**" of any Person means any and all shares, interests, participations or other equivalents of or interests (including partnership interests) in (however designated) equity of such Person, including any Preferred Stock, and all rights to purchase, warrants, options or other equivalents with respect to any of the foregoing, but excluding any debt securities convertible into or exchangeable for such equity;

"**Capital Stock other than Disqualified Stock**" means Equity Interests of the Issuer other than Disqualified Stock;

"**Cash Equivalents**" means:

(a) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United Kingdom, the United States of America, Latvia, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the European Union, the United States of America, Latvia, Switzerland or Canada, as the case may be, and which are not callable or redeemable at the Issuer's option;

(b) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of twelve months or less from the date of acquisition issued by (i) the Treasury of the Republic of Latvia; or (ii) a bank, building society, financial institution or trust company which is organised under, or authorised to operate as a bank, building society, financial institution or trust company under, the laws of a member state of the Pre-Expansion European Union, the United Kingdom or the United States of America or any state thereof; *provided that* the long-term debt of such bank, building society, financial institution or trust company has an Investment Grade rating or the equivalent rating category of another internationally recognised rating agency;

(c) repurchase obligations with a term of not more than seven days for underlying securities of the types described in subparagraphs (a) and (b) above entered into with any financial institution meeting the qualifications specified in subparagraphs (b) above;

(d) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition; and

(e) interests in any investment company or money market funds at least 95 per cent. of the assets of which consist of Cash Equivalents of the type referred to in subparagraphs (a) to (d) above;

"**Capitalised Lease Obligations**" means, at the time any determination is to be made, any lease or hire purchase contract, a liability under which would, in accordance with the Accounting Standards, be treated as a balance sheet liability (other than a lease or hire purchase contract which would, in accordance with the Accounting Standards in force immediately before the adoption of IFRS 16 (Leases), have been treated as an operating lease);

"**Change of Control Event**" has the meaning given in Condition 6(f);

"**Change of Control Notice**" has the meaning given in Condition 6(f);

"**Commodity Agreement**" means, with respect to a Person, any commodity future or forward, swap or option, cap or collar or other similar agreement or arrangement as to which such Person is a party of beneficiary;

"**Consolidated EBITDAR**" means, without duplication, the consolidated net profit of the relevant Person for a period, adjusted by:

(A) adding back Consolidated Interest Expense and depreciation and amortisation for such period;

(B) adding back aircraft lease payments, rental payments and any other related or ancillary payments or charges for such period;

(C) excluding any non-recurring, extraordinary, unusual or exceptional items, and any amount attributable to minority interests for such period;

(D) adding back any non-cash charges incurred pursuant to IAS 19 (*Employee benefits*);

(E) excluding any net after-tax income or loss from discontinued operations and any net after-tax gains or losses on disposal of discontinued operations;

(F) excluding any net after-tax gains or losses (less all fees and expenses or charges relating thereto) attributable to business disposals or asset disposals other than in the ordinary course of business (as determined in good faith by senior management of the Issuer);

(G) excluding any non-cash impairment charges, any write-offs, write-down or amortisation of assets and the amortisation of intangibles arising in each case pursuant to Accounting Standards;

(H) excluding any unrealised gains or losses (i) relating to the translation of assets and liabilities denominated in foreign currencies and (ii) arising from changes in the fair value of Hedging Obligations;

(I) excluding any costs or expenses incurred pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement or any stock subscription or shareholder agreement; and

(J) adding back any interest, fees, commission, discounts, prepayment fees, premiums or charges and other finance payments;

"**Consolidated Interest Expense**" means, with respect to any Person for any period, the sum, without duplication, of:

(A) the consolidated interest expense of such Person and its Subsidiaries for such period, whether paid or accrued, including, without limitation, amortisation of original issue discount, non-cash interest expense (excluding any non-cash interest expense attributable under Accounting Standards to foreign exchange transactions or movement in the mark-to-market valuation of Hedging Obligations or other derivative instruments and any deemed finance charge under Accounting Standards in respect of any pension liabilities and other provisions), the interest component of any deferred payment obligations, all payments associated with any lease of (or other agreement conveying the right to use) any property or asset (whether real, personal or other) to the extent such payments are in respect of the portion of such lease or other agreement which is shown as borrowings on the relevant Person's consolidated balance sheet or required to be classified and accounted for as liabilities under Accounting Standards, commissions, discounts and other fees and charges in respect of letters of credit or bankers' acceptance financings, but excluding any gain or loss that would be reflected in consolidated interest expense as a result of purchases of Debt by way of tender or open market purchases; plus

(B) the consolidated interest expense of such Person and its Subsidiaries that was capitalised during such period; plus

(C) any finance cost (in respect of the Relevant Secured Debt Amount in the case of (ii)) on Debt of another Person that is (i) guaranteed by such Person or any of its Subsidiaries, or (ii) secured by a Security Interest on assets of such Person or any of its Subsidiaries,

in each case whether or not such guarantee or Security Interest is called upon, plus:

(D) any dividend payments, whether in cash or otherwise, on any Preferred Stock of such Person or any of its Subsidiaries other than:

(i) dividend payments paid solely in Capital Stock (other than Disqualified Stock or options, warrants or rights to acquire Disqualified Stock); or

(ii) to such Person or any of its Subsidiaries; but deducting

(E) any non-recurring, extraordinary, unusual or exceptional items, and any amount attributable to minority interests for such period; minus

(F) interest income for such period (excluding any non-recurring, extraordinary, unusual or exceptional interest income);

"**Consolidated Net Senior Secured Leverage Ratio**" as of any date of determination, means the ratio of (x) the Net Secured Debt of the Issuer and its Subsidiaries on such date; to (y) the aggregate amount of Consolidated EBITDAR of the Issuer and its Subsidiaries for the most recent Measurement Period;

"**Consolidated Total Assets**" means of any Person as of any date means the total assets of such Person and its Subsidiaries as of the most recent financial period end for which a consolidated balance sheet of such Person and its Subsidiaries is available all calculated on a consolidated basis in accordance with the Accounting Standards;

"**Credit Facility**" means one or more debt facilities or other financing arrangements (including, without limitation, commercial paper facilities or indentures) (in each case, whether drawn or otherwise) providing for revolving credit loans, term loans or letters of credit together with any related documents thereto (including, without limitation, any guarantee agreements and security documents), in each case as such agreement may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreements extending the maturity of, refinancing, replacing (whether or not contemporaneously) or otherwise restructuring (including increasing the amount of available borrowings thereunder (*provided that*, for the avoidance of doubt, such increase in borrowings is permitted by the covenant described under Condition 4(b) as additional borrowers or guarantors thereunder) all or any portion of the Debt under such agreement or any successor or replacement agreements and whether by the same or any other agent, lender or group of lenders or investors and whether such refinancing or replacement is under one or more debt facilities or commercial paper facilities, indentures or other agreements or deeds, in each case with banks or other institutional lenders or trustees or investors providing for revolving credit loans, term loans, notes or letters of credit, and including, without limitation, facilities the repayment obligations in respect of which are expressly subordinated by their terms to the Bonds;

"**Currency Exchange Protection Agreement**" means, in respect of any Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, currency derivative or other similar agreement or arrangement designed to protect against fluctuations in currency exchange rates to which such Person is a party or beneficiary;

"**Debt**" means, with respect to any Person on any date of determination (without duplication):

(A) the principal of and premium (if any such premium is then due and owing) in respect of:

(i) indebtedness of such Person for moneys borrowed; and

(ii) indebtedness evidenced by bonds, notes, debentures, loan stock or other similar instruments for the payment of which such Person is responsible or liable;

(B) any lease of (or other agreement conveying the right to use) any property or asset (whether real, personal or other) to the extent liabilities in respect of such lease or other agreement are shown as borrowings on the relevant Person's consolidated balance sheet or are required to be classified and accounting for as liabilities under Accounting Standards;

(C) all the principal of all moneys owing in connection with the sale or discounting of receivables (otherwise than any receivables to the extent they are sold or discounted on a non-recourse basis);

(D) the principal of any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset and where the deferred and unpaid purchase price of such asset is due more than twelve months after acquisition thereof;

(E) all obligations of such Person in respect of bid, performance, advanced payment, completion, surety or appeal bonds or guarantees or counter-indemnities of any of the foregoing, or similar instruments and all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (including guarantees or indemnities related thereto);

(F) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person (but excluding, in each case, any accrued dividends);

(G) all obligations of the type referred to in subparagraphs (A) through (F) of other Persons and all dividends of other Persons for, the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee;

(H) all obligations of the type referred to in subparagraphs (A) through (F) of other Persons secured by any Security Interest on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured (the "**Relevant Secured Debt Amount**"); and

(I) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

Notwithstanding the foregoing, (I) money borrowed and set aside at the time of the Incurrence of any Debt in order to pre-fund the payment of interest on such Debt shall not be deemed to be "*Debt*"; *provided that* such money is held to secure the payment of such interest; and (II) the amount of any Debt outstanding as of any date shall (x) be the accreted value thereof in the case of any Debt issued with original issue discount or the aggregate principal amount outstanding in the case of Debt issue with interest payable in kind and (y) include any interest (or in the case of Preferred Stock, dividends) thereon that is more than 30 days past due.

"**Disqualified Stock**", with respect to any Person, means any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(A) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise prior to the stated maturity of the Bonds;

(B) is convertible or exchangeable at the option of the holder for Debt or Disqualified Stock; or

(C) is mandatorily redeemable or must be purchased, upon the occurrence of certain events or otherwise, in whole or in part, in each case on or prior to the first anniversary of the stated maturity of the Bonds,

and any Preferred Stock of a Subsidiary of the Issuer, *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require the Issuer or a Subsidiary of it to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the stated maturity of the Bonds shall not constitute Disqualified Stock if:

(i) the "change of control" provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the Bonds and described under Condition 6(f); and

(ii) any such requirement only becomes operative after compliance with such terms applicable to the Bonds, including the redemption or purchase of any Bonds tendered pursuant thereto.

If Capital Stock is issued to any plan for the benefit of directors, officers or employees of the Issuer or any of its Subsidiaries or by any such plan to such directors, officers or employees, such Capital Stock shall not constitute Disqualified Stock solely because it may be required to be repurchased by the Issuer or any Subsidiary of it in order to satisfy applicable statutory or regulatory obligations;

"**EDC**" has the meaning given in Condition 3(b);

"**Eligible Institution**" has the meaning given in Condition 4(d);

"**Enforcement Instruction**" has the meaning given in Condition 13;

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock);

"**Equity Offering**" means any public or private sale of Capital Stock (other than Disqualified Stock) by the Issuer after the Issue Date other than an issuance to any Subsidiary, other than any offering of Capital Stock issued in connection with a transaction that constitutes a Change of Control Event;

"**Escrow Agent**" has the meaning given in Condition 4(m);

"**EUIPO**" means the European Union Intellectual Property Office;

"**Euro**", "**EUR**" and "**€**" denote the lawful currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended or supplemented from time to time;

"**Euro Equivalent**" means, with respect to any monetary amount in a currency other than Euro, at any time of determination thereof, the amount of Euro obtained by converting such currency other than Euro involved in such computation into Euro at the spot rate for the purchase of Euro with the applicable currency other than Euro as published by the European Central Bank on the date of such determination;

"**Events of Default**" has the meaning given in Condition 9;

"**Exercise Notice**" has the meaning given in Condition 6(f);

"**Extraordinary Resolution**" has the meaning given in the Trust Deed;

"**Fair Market Value**" means, with respect to any asset or property, the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress of either party, determined in good faith by the senior management of the Issuer;

"**Financed Equipment**" has the meaning given in Condition 3(b);

"**Financed Leased Aircraft**" has the meaning given in Condition 3(d);

"**Financed Leased Engines**" has the meaning given in Condition 3(d);

"**Fitch**" means Fitch Ratings Ltd or any successor to the rating agency business thereof or any of its affiliates;

"**Fixed Charge Coverage Ratio**" as of any date of determination, means the ratio of (x) the aggregate amount of Consolidated EBITDAR of the Issuer and its Subsidiaries for the most recent Measurement Period; to (y) Consolidated Interest Expense of the Issuer and its Subsidiaries for such Measurement Period; *provided that*:

(A) if the Issuer or any Subsidiary of it has Incurred any Debt (other than revolving credit borrowings) since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is an Incurrence of Debt, or both, Consolidated EBITDAR and Consolidated Interest Expense of the Issuer and its Subsidiaries for such period shall be calculated after giving effect on a *pro forma* basis to (i) such Debt as if such Debt had been Incurred on the first day of such period and (ii) the discharge of any other Debt repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Debt as if such discharge had occurred on the first day of such period;

(B) if the Issuer or any Subsidiary of it has repaid, repurchased, defeased or otherwise discharged any Debt since the beginning of such period or if any Debt is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Debt Incurred under any revolving credit facility unless such Debt has been permanently repaid and has not been replaced) on the date of determination, Consolidated EBITDAR and Consolidated Interest Expense of the Issuer and its Subsidiaries for such period shall be calculated on a *pro forma* basis as if such discharge had occurred on the first day of such period and as if the Issuer or such Subsidiary had not earned the interest income actually earned during such period in respect of cash or cash equivalents used to repay, repurchase, defease or otherwise discharge such Debt;

(C) if since the beginning of such period, the Issuer or any Subsidiary of it shall have made any asset sale, the Consolidated EBITDAR of the Issuer and its Subsidiaries for such period shall be reduced by an amount equal to the Consolidated EBITDAR (if positive) of the Issuer and its Subsidiaries directly attributable to the assets which are the subject of such asset sale for such period or increased by an amount equal to the Consolidated EBITDAR (if negative) of the Issuer and its Subsidiaries directly attributable thereto for such period and Consolidated Interest Expense of the Issuer and its Subsidiaries for such period shall be reduced by an amount equal to the Consolidated Interest Expense of the Issuer and its Subsidiaries directly attributable to any Debt of the Issuer or any Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and its continuing Subsidiaries in connection with such asset sale for such period (or, if the Capital Stock of any Subsidiary of it is sold, the Consolidated Interest Expense of the Issuer and its Subsidiaries for such period directly attributable to the Debt of such Subsidiary to the extent the Issuer and its continuing Subsidiaries are no longer liable for such Debt after such sale);

(D) if since the beginning of such period the Issuer or any Subsidiary of it shall have made an investment in any Subsidiary of it (or any Person who becomes a Subsidiary of the Issuer) or an acquisition of assets, including cash equivalents and any acquisition of assets occurring in connection with a transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio, Consolidated EBITDAR and Consolidated Interest Expense of the Issuer and its Subsidiaries for such period shall be calculated after giving *pro forma* effect thereto (including the Incurrence of any Debt in accordance with subparagraph (A) above and the increase to the Consolidated EBITDAR (if positive) of the Issuer and its Subsidiaries directly attributable to such investment or acquisition or a reduction of the Consolidated EBITDAR (if negative) of the Issuer and its Subsidiaries directly attributable to such investment or acquisition) as if such investment or acquisition occurred on the first day of such period; and

(E) if since the beginning of such period any person that subsequently became a Subsidiary of the Issuer or was merged with or into the Issuer or any Subsidiary of it since the beginning of such period shall have made any asset sale, investment or acquisition of assets that would require an adjustment pursuant to subparagraph (C) or (D) above if made by the Issuer or a Subsidiary of it during such period, Consolidated EBITDAR and Consolidated Interest Expense for of the Issuer and its Subsidiaries such period shall be calculated after giving *pro forma* effect thereto (including the Incurrence of any Debt in accordance with subparagraph (A) above) as if such investment or acquisition occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to an investment or an acquisition or disposition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Debt Incurred or repaid, repurchased, defeased or otherwise discharged in connection therewith, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting officer of the Issuer. Any such *pro forma* calculation may include adjustments appropriate, in the reasonable good faith determination of the Issuer, to reflect operating expense reductions and other operating improvements or synergies reasonably expected to result from the applicable *pro forma* event. If any Debt bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Debt if such Hedging Obligation has a remaining term as at the date of determination in excess of 12 months);

"**Fixtures and Fittings**" has the meaning given in Condition 3(b)(i);

"**Group**" means the Issuer and its consolidated Subsidiaries taken as a whole;

"**guarantee**" means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(A) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise); or

(B) entered into for the purpose of assuring in any other manner the obligee of such Debt of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, however, that the term guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term guarantee used as a verb has a corresponding meaning. The term "**guarantor**" shall mean any Person guaranteeing any obligation;

"**Hedging Obligations**" of any Person means the obligations and rights of such Person pursuant to any Interest Rate Protection Agreement or Currency Exchange Protection Agreement or Commodity Agreement;

"**IFRS**" has the meaning given to that term in the definition of "*Accounting Standards*";

"**Incur**" means, with respect to any Debt or other obligation, to incur (including by conversion, exchange or otherwise), create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Debt, including, for the avoidance of doubt, by acquisition of Subsidiaries or by the acquisition of any asset securing any Debt (and "**Incurrence**", "**Incurred**" and "**Incurring**" shall have meanings correlative to the foregoing);

"**Interest Payment Date**" has the meaning given in Condition 5;

"**Interest Period**" has the meaning given in Condition 5;

"**Interest Rate Protection Agreement**" means, in respect of any Person, any interest rate protection agreement, interest rate future agreement, interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement interest rate hedge agreement or other similar agreement or arrangement designed to protect against fluctuations in interest rates to which such Person is a party or beneficiary;

"**Inventory**" has the meaning given in Condition 3(b)(i);

"**Investment Grade**" means, with respect to a rating given by a Rating Agency, an investment grade credit rating (Baa3 or BBB-, as the case may be, or equivalent, or better) from such Rating Agency;

"**Issue Date**" means 14 May 2024;

"**Issue Date Security**" has the meaning given in Condition 3(b)(i);

"**JALL**" has the meaning given in Condition 3(b);

"**JALL Aircraft**" has the meaning given in Condition 3(b);

"**JALL Engines**" has the meaning given in Condition 3(b);

"**JALL Equipment**" has the meaning given in Condition 3(b);

"**Lease Obligation**" means any lease of (or other agreement conveying the right to use) any property or asset (whether real, personal or other) to the extent liabilities in respect of such lease or other agreement are shown as borrowings on the relevant Person's consolidated balance sheet or are required to be classified and accounting for as liabilities under Accounting Standards;

"**Liquidity**" has the meaning given in Condition 4(c);

"**Longstop Date Security**" has the meaning given in Condition 3(b)(ii);

"**Make-Whole Redemption Date**" has the meaning given in Condition 6(d);

"**Measurement Period**" means the most recently ended two semi-annual periods, for which consolidated financial statements or management accounts of the Issuer are available;

"**Moody's**" means Moody's Investors Service Ltd or any successor to the rating agency business thereof or any of its affiliates;

"**MRO Konkors Hagar**" has the meaning given in Condition 3(b)(ii);

"**Net Available Cash**" from an Asset Sale means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise and net proceeds from the sale or other disposition of any securities or other assets received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Debt or other obligations relating to the properties or assets that are the subject of such Asset Sale or received in any other non-cash form) therefrom, in each case net of:

(A) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under Accounting Standards (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Sale;

(B) all payments made on any Debt that is secured by any assets subject to such Asset Sale, in accordance with the terms of any Security Interest upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law be repaid out of the proceeds from such Asset Sale;

(C) all distributions and other payments required to be made to noncontrolling interest holders in Subsidiaries or joint ventures as a result of such Asset Sale; and

(D) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with Accounting Standards, against any liabilities associated with the assets disposed of in such Asset Sales and retained by the Issuer after such Asset Sale;

"**Net Secured Debt**" means the total Secured Debt of the Issuer and its Subsidiaries less and cash and Cash Equivalents of the Issuer and its Subsidiaries, in each case as at such date of determination;

"**New Trademark**" has the meaning given in Condition 3(d);

"**Obligations"** means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Debt;

"**Officer**" means, with respect to any Person, any managing director, director, general director, the chairman of the board, the president, any vice president, chief executive officer, deputy general director, chief financial officer, principal financial officer, principal accounting officer, the controller, the treasurer or the secretary of such Person;

"**Officers' Certificate**" means a certificate signed on behalf of the Issuer by two Officers of the Issuer at least one of whom shall be the chief executive officer of the Issuer;

"**Owned Asset**" has the meaning given in Condition 3(d);

"**Payment Instruction**" has the meaning given in Condition 4(d);

"**Permitted Business**" means any business, services or activities engaged in by the Issuer or any of its Subsidiaries on the Issue Date, all activities reasonably necessary to, or undertaken in connection with, the foregoing, or any business activity that is a reasonable extension, development or expansion thereof or ancillary thereto, or any business reasonably related thereto;

"**Permitted Holder**" has the meaning given in Condition 6(f);

"**Permitted Security**" means:

(A) any Security Interest existing at the Issue Date;

(B) any Security Interest on assets acquired by a member of the Group after the Issue Date *provided that* (i) any such Security Interest is in existence prior to, and has not been created at the instigation of the Issuer, in contemplation of, such acquisition and (ii) the amount secured by such Security Interest does not exceed, at any time, the amount secured thereby as at the date of acquisition;

(C) any Security Interest on assets of a company which becomes a member of the Group after the Issue Date *provided that* (i) any such Security Interest is in existence prior to, and has not been created at the instigation of the Issuer, in contemplation of, such company becoming a member of the Group and (ii) the amount secured by such Security Interest does not exceed, at any time, the amount secured thereby as at the date such company becomes a member of the Group;

(D) any Security Interest arising from Lease Obligations incurred in the ordinary course of business over the assets leased pursuant to such Lease Obligations or over other assets of the Issuer to secure the performance of such Lease Obligations;

(E) any Security Interest securing Hedging Obligations entered into in the ordinary course of business and not for speculative purposes as determined in good faith by senior management of the Issuer Incurred in accordance with the terms of these Conditions;

(F) any Security Interest on cash and cash equivalents made to defease or to satisfy and discharge any Debt;

(G) any Security Interest created for the purpose of securing a counter-indemnity or any other obligations provided by any member of the Group in connection with the issuance of any performance bonds, advanced payment bonds or documentary letters of credit arising in the ordinary course of its business;

(H) any lien or right of set-off arising by operation of law and in the ordinary course of business (including pursuant to the counterparty's standard terms of business);

(I) any Security Interest arising in relation to any bankers lien or any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;

(J) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(K) any Security Interest for taxes, assessments or governmental charges or claims that (i) are not yet due and payable or (ii) are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted;

(L) any interest or title of a lessor or mortgagee under any relevant Lease Obligation;

(M) any Security Interest which, directly or indirectly, secures any aircraft or aircraft equipment (including, for the avoidance of doubt, engines and flight simulators) of the Issuer or any of the Issuer's Subsidiaries;

(N) any Security Interest securing Purchase Money Obligations and covering only the assets or property (or any contract relating to such assets or property) acquired or leased with or financed or to be financed by the proceeds of such Purchase Money Obligations;

(O) any Security Interest securing Secured Debt Incurred under Condition 4(b);

(P) any Security Interest created as security for any Debt Incurred solely for the purpose of any extension of maturity, renewal or refinancing of any indebtedness secured by a Security Interest permitted by (A) to (O) above;

(Q) any Security Interest securing Debt the outstanding principal of which, on the date of creation of the latest such Security Interest or, as the case may be, the assumption of any such additional Debt (when aggregated with the outstanding principal amount of any of Debt which has the benefit of a Security Interest other than any permitted under (A) to (M) above), does not exceed EUR30 million in the aggregate at any one time;

(S) any Security Interest created for the benefit of (or to secure) the Bonds, including the Security.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"**Pilot Academy Hangar**" has the meaning given in Condition 3(b)(i);

"**Pledgor**" means "Air Baltic Training", SIA;

"**Potential Event of Default**" means any event or circumstance which could, with the expiry of a grace period, the passage of time, the giving of notice and/or the fulfilment of any other requirement, become an Event of Default;

"**Pre-Expansion European Union**" means the European Union as of 1 January 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Ireland, the Netherlands, Portugal, Spain and Sweden, but not including any country which became or becomes a member of the European Union after 1 January 2004;

“**Preferred Stock**”, as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of ordinary Capital Stock of any other class of such Person;

“**Purchase Money Obligations**” means any Debt Incurred to finance the acquisition, leasing, construction, addition or improvement of property (real or personal) or assets, and whether acquired through the direct acquisition of such property or asset or the acquisition of the Capital Stock of any Person owning such property or assets or otherwise;

“**Rating Agency**” means (i) S&P, (ii) Moody’s, or (iii) Fitch or their respective successors or any other internationally recognised securities rating agency or agencies substituted for any of them by the Issuer from time to time with the prior written approval of the Trustee (which approval may be given by the Trustee if to do so would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Bondholders) (and the Trustee may, at the expense of the Issuer, consult with and rely absolutely on advice from a reputable financial adviser in this regard and shall not be liable to the Bondholders or any other Person for such reliance) and, in each case, their successors but excluding any rating agency providing a rating of the Bonds on an unsolicited basis;

“**Receivables**” has the meaning given in Condition 3(b)(ii);

“**Receiver**” means a receiver and manager or other receiver (whether appointed pursuant to the Transaction Documents, pursuant to any statute, by a court of otherwise) in respect of all or part of any Secured Property and shall, if allowed by law, include an administrative receiver;

“**Record Date**” has the meaning given in Condition 7(a);

“**Redemption Date**” has the meaning given in Condition 6(f);

“**Redemption Period**” has the meaning given in Condition 6(f);

“**Reference Bond**” means the central bank or government security that, in the opinion of the Issuer (in consultation with an investment bank or financial institution of international standing selected by the Issuer) has a maturity most nearly equal to the period from the Make-Whole Redemption Date to 14 May 2026.

“**Reference Bond Rate**” means, with respect to the Make-Whole Redemption Date, the mid-market annual yield to maturity of the Reference Bond as displayed on the Reference Screen Page at 11.00 a.m. (Central European time) on the Calculation Date (or, if the Reference Screen Page is not available at such time, the average of the four quotations given by Reference Government Bond Dealers of the mid-market annual yield to maturity of the Reference Bond on the Calculation Date at or around 11.00 a.m. (Central European time). The Reference Bond Rate will be published by the Issuer in accordance with Condition 16;

“**Reference Government Bond Dealer**” means each of four banks selected by the Issuer, which are (A) primary government European securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

“**Reference Screen Page**” means Bloomberg screen page “HP” for the Reference Bond (using the settings “Mid YTM” and “Daily”) (or any successor or replacement page, section or other part of the information service), or such other page, section or other part as may replace it on the information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying the mid-market yield to maturity for the Reference Bond;

“**Refinancing Debt**” means Debt that refunds, refinances, replaces, renews, repays or extends (including pursuant to any defeasance or discharge mechanism) (collectively, “**refinances**” and “**refinance**” and “**refinanced**” shall each have a correlative meaning) already existing Debt; *provided that*, except in the case of Debt that refinances all of the outstanding Bonds:

(A) the Refinancing Debt has a Stated Maturity not earlier than any Stated Maturity of the Debt being refinanced;

(B) the Refinancing Debt has an Average Life at the time such Refinancing Debt is Incurred that is equal to or greater than the Average Life of the Bonds; and

(C) such Refinancing Debt is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of:

(i) the aggregate principal amount (or, if issued with original issue discount, the aggregate accreted value) of the Debt being refinanced (including, with respect to both the Refinancing Debt and the Debt being refinanced, amounts then outstanding and amounts available thereunder); plus

(ii) unpaid interest, prepayment penalties, redemption or repurchase premiums, defeasance costs, fees, expenses and other amounts owing with respect thereto, plus reasonable financing fees and other reasonable out-of-pocket expenses incurred in connection therewith;

"**Related Rights**" means either (A) in relation to any Security created pursuant to a Security Document governed by Latvian law, has the meaning in the relevant Security Document or (B) in relation to any asset to which (A) does not apply:

(A) all rights under any licence, agreement for sale or agreement for lease or other use in respect of all or any part of that asset;

(B) all rights, powers, benefits, claims, contracts, warranties, remedies, covenants for title, security, guarantees or indemnities in respect of any part of that asset;

(C) the proceeds of sale, transfer or other disposal, lease, licence, or agreement for sale, transfer or other disposal, lease or licence of all or any part of that asset;

(D) any other moneys paid or payable in respect of that asset;

(E) any awards or judgments in favour of the Issuer in relation to that asset; and

(F) any right against any clearance system and any right under any custodian or other agreement;

"**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, *provided that* payment is in fact made upon such surrender;

"**Relevant Secured Debt Amount**" has the meaning given to that term in the definition of "*Debt*";

"**Restricted Payment**" has the meaning given in Condition 4(g);

"**Required Balance**" has the meaning given in Condition 4(d);

"**Sale/Leaseback Transaction**" means an arrangement relating to property now owned or hereafter acquired whereby the Issuer or a Subsidiary of it transfers such property to a Person and the Issuer or a Subsidiary of it leases it from such Person;

"**Scheduled Rate of Interest**" has the meaning given in Condition 5;

"**Secured Creditors**" means each of (a) the Trustee, (b) the Security Trustee, (c) any Receiver or other Appointee appointed by the Trustee or the Security Trustee, (d) the Agents and the Account Bank, (e) the Bondholders, and (f) the holders of any further bonds issued in accordance with Condition 15;

"**Secured Debt**" as of any date of determination, means the principal amount of Debt that is secured by any Security Interest; *provided that* no Capitalised Lease Obligation (including, for the avoidance of doubt, any obligation that would have been required to be classified and/or accounted for as a capitalised lease for financial reporting purposes on the basis of the Accounting Standards for any periods prior to 1 January 2019) will be considered Debt secured by a Security Interest for the purposes of this definition;

"**Secured Liabilities**" means all present and future moneys, debts and liabilities due, owing or incurred by the Issuer to the Secured Creditors or any of them under or in connection with the Bonds, any Transaction Document and any further bonds issued in accordance with Condition 15 (in each case, whether alone or jointly, or jointly and severally, with any other Person, whether actually or contingently and whether as principal, guarantor, surety or otherwise);

"**Secured Property**" means the undertaking, property, assets and rights from time to time subject, or expressed to be subject, to the Security or any part of those assets and any Related Rights;

"**Security**" means any Security Interest created, evidenced or conferred by or under the Security Documents or any of them;

"**Security Documents**" means the Trust Deed, each document listed in Condition 3(b)(i) to be entered into on or around the Issue Date, each document listed in Condition 3(b)(ii) to be entered into on or around the Security Longstop Date and each document to be entered into from time to time in connection with Condition 3(d);

"**Security Interest**" means any mortgage, charge, pledge, lien, assignment, hypothecation, encumbrance, security interest or other arrangement having a similar effect under the laws of any applicable jurisdiction other than an encumbrance arising solely by operation of law; and, for the avoidance of doubt, any contractual rights of set-off of accounts or combination of accounts shall not be or be deemed to be a Security Interest;

"**Security Longstop Date**" has the meaning given in Condition 3(b);

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the redemption or repurchase of such security upon the happening of any contingency);

"**Step Up Event**" has the meaning given in Condition 4(d);

"**Step Up Rate of Interest**" has the meaning given in Condition 5;

"**Subsidiary**" means, in relation to the Issuer, any Person (a) in which the Issuer holds a majority of the voting rights or (b) of which the Issuer is a shareholder or a member and has the right to appoint or remove a majority of the board of directors, management board or supervisory board or other governing or supervisory body or (c) of which the Issuer is a shareholder or a member and controls, or has the power to control (by using voting rights, by contract or otherwise), the affairs and policies of such Person, and includes any company which is a Subsidiary of a Subsidiary of the Issuer;

"**Supervisory Board**" means the supervisory board of Air Baltic Corporation AS;

"**S&P**" means S&P Global Ratings Europe Limited or any successor to the ratings business thereof or any of its affiliates;

"**Trademarks**" has the meaning given in Condition 3(b)(ii);

"**Trade Payables**" means, with respect to any Person, any accounts payable or any indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person arising in the ordinary course of business in connection with the acquisition of goods or services;

"**Training Centre**" has the meaning given in Condition 3(b)(i);

"**Training Simulator**" has the meaning given in Condition 3(b)(i);

"**Transaction Documents**" means the Trust Deed, the Security Documents, the Agency Agreement, the Account Bank Agreement and any document supplemental thereto or issued in connection therewith;

"**U.S. Exchange Act**" has the meaning given in Condition 6(f);

"**Voting Stock**" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the board of directors of such Person;

"**WIPO**" has the meaning given in Condition 3(b)(ii); and

"**Withdrawal Instruction**" has the meaning given in Condition 4(d).

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

Terms defined in the Conditions have the same meaning in the paragraphs below.

1 Accountholders

For so long as any of the Bonds are evidenced by a Global Certificate, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular aggregate principal amount of the Bonds (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the outstanding principal amount of such Bonds standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Bonds (and the expression "**Bondholders**" and references to "**holding of Bonds**" and to "**holder of Bonds**" shall be construed accordingly) (the "**Accountholder's Holding**") for all purposes other than with respect to payments on such Bonds, for which purpose the registered holder (the "**Registered Holder**"), shall be deemed to be the holder of such aggregate principal amount of the Bonds in accordance with and subject to the terms of such Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg for its share of each payment made to the Registered Holder.

The Bonds will be represented by the Global Certificates except in certain limited circumstances described in the relevant Global Certificate. The Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificates, investors will not be entitled to receive Certificates in definitive form. Euroclear or Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificates. While the Bonds are represented by the Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and/or Clearstream, Luxembourg. The Issuer will discharge its payment obligations under the Bonds by making payments through Euroclear and/or Clearstream, Luxembourg. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear and/or Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and/or Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Certificates and holders of definitive Certificates will not have a direct right under the Global Certificates or such definitive Certificates to take enforcement action against the Issuer in the event of a default under the Bonds but will have to rely upon their rights under the Trust Deed.

2 Cancellation

Cancellation of any Bond following its redemption or purchase by the Issuer or any of its Subsidiaries will be effected by reduction in the aggregate principal amount of the Bonds in the register of Bondholders and by the annotation of the appropriate schedule to the relevant Global Certificate.

3 Payments

For so long as the Registered Holder is shown in the Register as the holder of the Bonds evidenced by a Global Certificate, the Registered Holder shall (subject as set out above under "*Accountholders*") in all respects be entitled to the benefit of such Bonds and shall be entitled to the benefit of the Agency Agreement. Payments of all amounts payable under the Conditions in respect of the Bonds as evidenced by such Global Certificate will be made to the Registered Holder pursuant to the Conditions.

Distributions of amounts with respect to book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg in accordance with the relevant system's rules and procedures.

Upon any payment of any amount payable under the Conditions the amount so paid shall be entered by the Registrar on the register, which entry shall constitute *prima facie* evidence that the payment has been made.

For the purposes of Condition 7(a) (*Method of Payment*), so long as the Bonds as evidenced by the Global Certificates are held on behalf of Euroclear and/or Clearstream, Luxembourg the record date in respect of the

Bonds shall be the close of the business day (being for this purpose a day on which Euroclear and/or Clearstream, Luxembourg are open for business) before the relevant due date.

4 Notices

So long as the Bonds are evidenced by the Global Certificates and the Global Certificates are held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 16 (*Notices*) and, so long as the Bonds are admitted to trading on and/or listed, notices shall also be published in accordance with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are listed and/or admitted to trading. Any such notice shall be deemed to have been given to the Bondholders on the day after the day on which such notice is delivered to such clearing system.

Whilst any of the Bonds are evidenced by the Global Certificates, notices to be given by such Bondholder may be given by such Bondholder (where applicable) through the applicable clearing system's operational procedures approved for this purpose.

5 Partial Redemption

In the event that less than all the Bonds are redeemed, selection of such Bonds or portions thereof for redemption will be made only in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). The relevant Global Certificate will be written down to reflect the partial redemption.

6 Transfers

Transfers of book-entry interests in the Bonds will be effected through the records of Euroclear and/or Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg and their respective direct and indirect participants.

7 Put Option

The Bondholder's put option in Condition 6(f) (*Redemption at the Options of Bondholders upon Change of Control (Put Option)*) may be exercised by the holder of the relevant Global Certificate giving notice to the Registrar of the principal amount of Bonds in respect of which the option is exercised within the time limits and pursuant to the conditions specified in Condition 6(f) (*Redemption at the Options of Bondholders upon Change of Control (Put Option)*).

BOOK-ENTRY, DELIVERY AND FORM

The Global Certificates

The Bonds offered and sold in reliance on Regulation S will be evidenced on issue by an Unrestricted Global Certificate, and the Bonds offered and sold in reliance on Rule 144A will be evidenced on issue by a Restricted Global Certificate, each registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. Accordingly, beneficial interests in the Unrestricted Global Certificate and the Restricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See *"Book-entry Procedures for the Global Certificates"*.

By its acquisition of a beneficial interest in the Unrestricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is purchasing the bonds in an "offshore transaction" (as defined in Regulation S), and that it will transfer such interest only (a) outside the United States or (b) in accordance with Rule 144A, to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB, in each case in accordance with any applicable securities law of any state of the United States. See *"Transfer Restrictions"*.

By its acquisition of a beneficial interest in the Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the relevant Trust Deed. See *"Transfer Restrictions"*.

Beneficial interests in the Global Certificates will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and the Global Certificates will bear the applicable legends regarding the restrictions set forth under "*Transfer Restrictions*". A beneficial interest in the Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Certificate only in denominations greater than or equal to the minimum denominations applicable to interests in the Restricted Global Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Restricted Global Certificate will, upon transfer, cease to be an interest in the Unrestricted Global Certificate and will become an interest in the Restricted Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in the Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate will, upon transfer, cease to be an interest in the Restricted Global Certificate and will become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Bonds, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of definitive Certificates. The Bonds are not issuable in bearer form.

In addition, each Global Certificate will contain a provision that modifies the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by such Global Certificate.

Exchange and Registration of Title

Owners of interests in the Bonds in respect of which a Global Certificate is issued will only be entitled to have title to the relevant Bonds registered in their names and to receive individual definitive Certificates if Euroclear or Clearstream, Luxembourg (or any additional or alternative clearing system approved by the Issuer, the Trustee and the Principal Paying Agent) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or upon or following any failure to pay principal in respect of any Bonds when it is due and payable.

In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Bondholders. A person with an interest in the relevant Bonds in respect of which a Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual Certificates.

If, in respect of the Bonds, only one of the Global Certificates (the "**Exchanged Global Certificate**") becomes exchangeable for definitive Certificates in accordance with the above paragraphs, transfers of Bonds may not take place between, on the one hand, persons holding definitive Certificates issued in exchange for beneficial interests in the Exchanged Global Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Certificate.

Legends

The holder of a definitive Certificate may transfer the Bonds evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A definitive Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A definitive Certificate, the Issuer will deliver only Rule 144A definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Book-entry Procedures for the Global Certificates

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Bonds and cross-market transfers of the Bonds associated with secondary market trading.

See *"Book-entry Ownership"* and *"Settlement and Transfer of Bonds"*.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems, across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the relevant Global Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Book-entry Ownership

The Unrestricted Global Certificate will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The Restricted Global Certificate will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Bond evidenced by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg for its share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg.

The Issuer expects that, upon receipt of any payment in respect of the Bonds evidenced by a Global Certificate, the common depositary by whom such Bond is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in a Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Such persons shall have no claim directly against the Issuer in respect of payments due on the relevant Bonds for so long as such Bonds are evidenced by the relevant Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Bonds

Subject to the rules and procedures of each applicable clearing system, purchases of Bonds held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Bonds on the clearing system's records. The ownership interest of each actual purchaser of each such Bond (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Bonds held within the clearing system will be affected by entries made on the books of Direct Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Bonds, unless and until interests in any Global Certificate held within a clearing system are exchanged for definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Bonds held within such clearing system and their records will reflect only the identity of the Direct Participants, to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants or Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in Bonds held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Settlement of Pre-issue Trades

It is expected that delivery of the Bonds will be made against payment therefor on the Issue Date, which will be more than two business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days ("**T+2**"), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Bonds in the United States on the date of pricing or the next succeeding days until two business days prior to the Issue Date will be required, by virtue of the fact the Bonds initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement.

Settlement procedures in other countries will vary. Purchasers of Bonds may be affected by such local settlement practices, and purchasers of Bonds between the relevant date of pricing and the Issue Date should consult their own advisers.

TAXATION

The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.

Prospective investors in the Bonds are advised to consult their own tax advisers as to the tax consequences, under the tax laws of the Republic of Latvia and each country of which they are residents, of a purchase of Bonds including, without limitation, the consequences of receipt of interest and sale or redemption of the Bonds or any interest therein.

Certain United States Federal Income Taxation Considerations

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Bonds by a U.S. Holder (as defined below), other than the discussion under "*Additional Bonds and Fungibility*", which applies to all holders, that acquires the Bonds as part of the offering at a price equal to the issue price of the Bonds and holds them as a capital asset (generally, property held for investment). The following summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury regulations thereunder, and judicial and administrative interpretations thereof, all as in effect as at the date hereof and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below. There can be no assurances that the Internal Revenue Service (the "**IRS**") will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the IRS with respect to the U.S. tax consequences of purchasing, owning or disposing of the Bonds.

This summary does not address all aspects of U.S. federal income taxation that may be applicable to particular U.S. Holders subject to special U.S. federal income tax rules, including, but not limited to, tax-exempt organisations, financial institutions, dealers and traders in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, thrifts, regulated investment companies, real estate investment trusts, insurance companies, tax-deferred or other retirement accounts, U.S. Holders that will hold the Bonds as part of a "straddle," hedging transaction, "conversion transaction" or other integrated transaction for U.S. federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Bonds, U.S. Holders liable for alternative minimum tax or the tax on net investment income, U.S. Holders whose functional currency is not the euro, investors holding the Bonds in connection with a trade or business conducted outside the United States, U.S. Holders required to include certain amounts in income no later than the time such amounts are reflected on their financial statements, investors that actually or constructively own 10 percent or more of the Bonds by vote or value, and U.S. expatriates or certain former citizens or long-term residents of the United States. In addition this summary does not address consequences to U.S. Holders of the acquisition, ownership or disposition of the Bonds under any other U.S. federal tax laws (including, but not limited to, estate or gift tax laws) or under the tax laws of any state, locality or other political subdivision of the United States or of other countries or jurisdictions. This summary does not address U.S. tax consequences to persons other than U.S. Holders of the acquisition, ownership or disposition of Bonds, and in particular does not apply to holders whose Existing Bonds are being repurchased in substantially simultaneous transactions.

The summary of the U.S. federal income tax consequences set out below is for general information only and is not tax advice with respect to any specific investor. Prospective investors should consult their own tax advisers as to the particular tax consequences to them of the acquisition, ownership and disposition of the Bonds, including the applicability and effect of state, local, non-U.S. and other tax laws and possible changes in tax law.

As used herein, the term "**U.S. Holder**" means a beneficial owner of the Bonds that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States, (b) a corporation (or other entity or arrangement that is treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust if it (x) is subject to the primary supervision of a U.S. court and one or more U.S. persons have the authority to control all substantial decisions of the trust or (y) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Bonds, the U.S. federal income tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Therefore, a beneficial owner of a Bond that is a partnership, and partners in such partnership, should consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of the Bonds.

U.S. HOLDERS CONSIDERING THE PURCHASE OF BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE PARTICULAR UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS, AS WELL AS THE CONSEQUENCES ARISING UNDER OTHER UNITED STATES FEDERAL TAX LAWS AND THE LAWS OF ANY OTHER TAXING JURISDICTION.

U.S. Federal Income Tax Characterisation of the Bonds

To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Bonds as indebtedness for these purposes consistent with their form. This characterisation is binding on all U.S. Holders unless the U.S. Holder discloses on its U.S. federal income tax return that it is treating the Bonds in a manner inconsistent with the Issuer's characterisation. No ruling will be requested from the IRS as to the characterisation of the Bonds for these purposes, and no assurance can be given that the IRS will not assert, or that a court would not sustain, a position regarding the characterisation of the Bonds that is contrary to the Issuer's characterisation, in which case the tax consequences to a holder of the Bonds may be materially different.

The Bonds (i) may be redeemable at the option of the Issuer prior to their stated maturity at their principal amount, plus accrued and unpaid interest to the date of repurchase and, in some situations, at a redemption premium (as described further under "*Terms and Conditions of the Bonds—Condition 6(c) (Redemption at the Option of the Issuer), Condition 6(d) (Make-Whole Redemption at the Option of the Issuer)*", and/or "*Terms and Conditions of the Bonds—Condition 6(e) (Redemption at the Option of the Issuer in the event of an Equity Offering)*" as applicable and/or (ii) may be repayable at the option of the Bondholder prior to their stated maturity at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase (as described further under "*Terms and Conditions of the Bonds – Condition 6(f) (Redemption at the Option of Bondholders upon Change of Control (Put Option))*"). Bonds containing such features may be subject to special rules related to contingent payment debt instruments that differ from the general rules discussed above. While the Issuer intends to take the position that the Bonds should not be treated as contingent payment debt instruments, U.S. Holders intending to purchase Bonds with such features should consult their own tax advisors regarding the possible application of the special rules related to contingent payment debt instruments.

Payments of Interest

The Bonds are expected to, and this discussion generally assumes that the Bonds will, be issued without original issue discount ("**OID**"). In such case, payments of interest on the Bonds (and payments of any additional amounts) generally will be taxable to a U.S. Holder as ordinary income at the time such payments are received or accrued, in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Bonds will generally constitute income from sources outside the United States and will generally be considered passive category income, subject to the rules regarding the U.S. foreign tax credit allowable to a U.S. Holder (and the limitations imposed thereon). The amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the euro interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average U.S. dollar-euro exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the U.S. dollar-euro exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the U.S. dollar-euro exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS. Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Bond), the accrual basis U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Should any non-U.S. tax be withheld on a payment of interest, the amount withheld and the gross amount of any additional amounts paid to a U.S. Holder (see "*Terms and Conditions of the Bonds – Condition 8 (Taxation)*") will be included in such holder's income as ordinary income at the time such amount is received or accrued in accordance with such holder's method of tax accounting. Non-U.S. withholding tax, if any, imposed on a U.S. Holder may, subject to limitations and conditions and at the election of such holder, be treated as foreign income tax eligible for credit against such holder's U.S. federal income tax liability or a deduction in computing taxable income, to the extent such tax is not otherwise refundable. The calculation of foreign tax credits involves the application of complex rules that depend on a U.S. Holder's particular circumstances. U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits.

If the Bonds were issued with OID, the OID with respect to a Bond would be equal to the excess of the Bond's stated redemption price at maturity over its issue price. A Bond's stated redemption price at maturity is the sum of all payments provided by the terms of the Bond, other than qualified stated interest. Qualified stated interest generally is stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate. The issue price of a Bond is the first price at which a substantial amount of the Bonds is sold for money to investors, excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriter, placement agent or wholesaler. A holder of a Bond generally will be subject to special tax accounting rules for OID obligations under the Code and applicable U.S. Treasury regulations. Regardless of whether a U.S. Holder uses the cash or accrual method of tax accounting, the U.S. Holder generally would be required to include OID in ordinary income for U.S. federal income tax purposes as it accrued, calculated using a "constant-yield" method, even if the holder had not yet received the cash attributable to that income. U.S. Holders should consult their own tax advisers regarding the potential application of the OID rules to the Bonds. OID for each accrual period on will be determined in euro and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Bond or a sale or disposition of the Bond), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Sale, Exchange, Redemption, Retirement, or Other Taxable Disposition of the Bonds

Upon the sale, exchange, redemption, retirement or other taxable disposition of the Bonds, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised (i.e., the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid interest not previously included in income, which will be taxable as ordinary income as described above under "Payments of interest" to the extent not previously included in income)) and the U.S. Holder's adjusted tax basis in the Bond, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about how to account for proceeds received on the sale or retirement of the Bonds that are not paid in U.S. dollars. A U.S. Holder's adjusted tax basis in the Bonds generally will equal the cost for the Bonds reduced by the amount of any payments received by U.S. Holders other than payments of qualified stated interest, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about how to determine the U.S. dollar cost of the Bonds in their particular circumstances. Except to the extent described below with respect to U.S. source exchange gain or loss, gain or loss recognised by a U.S. Holder on the sale, exchange or other disposition of the Bonds will be capital gain or loss and will be long-term capital gain or loss if the Bond was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of the Bonds generally will be U.S. source. Net long-term capital gain recognised by a non-corporate U.S. Holder generally is eligible for reduced U.S. federal income tax rates. A U.S. Holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale, retirement or other disposition of a Bond equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Bond (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Bond. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest). The rules governing foreign currency denominated debt instruments are complex, and U.S. Holders should consult their own advisors regarding the application of those rules to their investment in the Bonds in their particular circumstances. The deductibility of capital losses is subject to limitations. U.S. Holders should consult their tax advisors regarding the foreign tax credit implications of the sale or retirement of the Bonds.

Substitution of the Issuer

If a successor is substituted for the Issuer, the substitution may, depending on the circumstances, be treated as an exchange of the Bonds for deemed new bonds of the successor. In such an event, unless a non-recognition provision applies, a U.S. Holder generally will recognise any gain or loss realised in the deemed exchange in an amount equal to the difference, if any, between (i) the issue price of the new bonds (which would be their fair market value assuming the Bonds are trading on an established market) and (ii) the U.S. Holder's adjusted tax basis in the Bonds. If the stated principal amount of the new bonds received in the deemed exchange exceeds their issue price, a U.S. Holder may be required to recognise OID as ordinary income on the new bonds as a result of the substitution. The OID would be the amount by which the stated principal amount of the new bonds exceeds their issue price. Regardless of its regular method of tax accounting, a U.S. Holder would be required to accrue any OID as ordinary income on a constant yield to maturity basis whether or not it received cash payments, unless the amount of OID was less than 0.25% of the issue price multiplied by the number of complete years to maturity, in which case such "de minimis OID" generally would result in capital gain upon the sale or retirement of the Bonds. U.S. Holders should consult their tax advisers regarding the foregoing.

Specified Foreign Financial Asset Reporting

Certain United States persons that own "specified foreign financial assets", including securities issued by any foreign person, either directly or indirectly or through certain foreign financial institutions, may be subject to additional reporting obligations if the aggregate value of all of those assets exceeds certain thresholds. The reporting requirement applies to individuals and certain domestic entities that hold, directly or indirectly, specified foreign financial assets. The Bonds may be treated as specified foreign financial assets, and U.S. Holders may be subject to this information reporting regime. Significant penalties and an extended statute of limitations may apply to a U.S. Holder subject to the reporting requirement that fails to file information reports. U.S. Holders should consult their own tax advisor regarding this information reporting obligation.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Bonds or any euros used to acquire the Bonds (or received with respect to the Bonds) as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases generally is imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

Information Reporting and Backup Withholding

In general, payments of principal and interest on, and the proceeds of the sale, exchange or other taxable disposition of, the Bonds payable to a U.S. Holder by a U.S. paying agent or other U.S. related intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable Treasury regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status, or otherwise fails to comply with the applicable backup withholding requirements. Certain U.S. Holders (including corporations) are not subject to information reporting and backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of the Bonds.

Additional Bonds (as defined below) and Fungibility

The Issuer may issue additional bonds ("**Additional Bonds**") as described under "*Terms and Conditions of the Bonds – Condition 15 (Further Issues)*". These Additional Bonds, even if they are treated for non-tax purposes as part of the same series as the Bonds in some cases may be treated as a separate series for U.S. federal income tax purposes. In such case, the Additional Bonds may be considered to have OID, or a greater amount of OID, which may adversely affect the market value of the Bonds if the Additional Bonds are not otherwise distinguishable from the Bonds.

Republic of Latvia

This summary is based on the laws of Latvia as in force on the date of this Prospectus and is subject to any change in law that may take effect after such date, provided that such changes could apply also retroactively.

Latvia has entered into a number of tax conventions on the elimination of double taxation, which may provide a more favourable taxation regime. Therefore, if there is a valid tax convention with the country of a non-resident prospective investor, it should be also examined. The procedures for application of tax conventions are provided in the Republic of Latvia Cabinet of Ministers' Regulations No. 178 "Procedures for Application of Tax Relief Determined in International Agreements for Prevention of Double Taxation and Tax Evasion" of 30 April 2001.

Resident Individuals

An individual will be considered as a resident of Latvia for taxation purposes:

- if the individual's declared place of residence is in the Republic of Latvia; or

- if the individual stays in the Republic of Latvia 183 days or more within any 12-month period, starting or ending in the taxation year; or
- if the individual is a citizen of the Republic of Latvia employed abroad by the Government of the Republic of Latvia.

In accordance with the Law on Personal Income Tax the interest income from the Bonds for resident individuals will be subject to 20% withholding tax, deductible by the Issuer before the payment. The income (gain) from the disposal of any Bonds by a Latvian resident individual will be subject to 20% tax, but any such tax would be payable by the individual him/herself. Special rules apply if the transactions with the Bonds are made through an investment account within the meaning of the Law on Personal Income Tax. In such case taxation of income (including interest income) is deferred until the moment when the amount withdrawn from the investment account exceeds the contributed amount, and any such tax would be payable by the individual him/herself.

Non-Resident Individuals

In accordance with the Law on Personal Income Tax the interest income received by non-Latvian resident individuals from the Bonds being circulated publicly (i.e. which, for these purposes, means admitted to trading on a regulated market within the meaning of Directive 2014/65/EU of the Parliament and of the Council on Markets in Financial Instruments (as amended, "**MiFID II**")) as well as income from the disposal of the publicly circulated (as described above) Bonds will not be subject to tax in Latvia.

Resident Entities

An entity will be considered as a resident of Latvia for tax purposes if it is or should have been established and registered in the Republic of Latvia in accordance with the legislative acts of the Republic of Latvia. This also include permanent establishments of foreign entities in Latvia.

Interest payments on the Bonds and proceeds from the disposal of the Bonds received by Latvian resident companies will not be subject to withholding tax in Latvia. Under the Corporate Income Tax Law retained earnings are exempt from corporate income tax and only distributions are taxed. Corporate income tax rate on gross profit distribution is 20% Corporate income tax on net amount of profit distribution is determined by dividing net amount with a coefficient of 0.8 (i.e., effective tax rate on net distributed profit is 25%).

Non-Resident Entities

In accordance with the Corporate Income Tax Law the interest income and income from the disposal of the Bonds for non-resident entities will not be taxable in Latvia.

Taxation of Low-Tax Non-Latvian Residents

In general, payments (including interest payments) to non-resident located, registered or incorporated in a no-tax or low-tax country or territory defined in accordance with the Regulations of the Cabinet of Ministers No. 333 "List of Low-Tax or No-Tax Countries and Territories", adopted on 27 June 2023; effective as of 1 July 2023 ("Low-Tax Non-Latvian Residents") are subject to withholding tax of 20% if the payer is a Latvian legal entity or 23% if the payer is a Latvian individual resident having obligation to withhold tax. However, pursuant to Article 5(6) of the Corporate Income Tax Law payments to Low-Tax Non-Latvian Residents for securities publicly circulated in the EU or EEA are exempt from withholding tax if made at the market price. The Ministry of Finance of the Republic of Latvia in a legally non-binding explanation has confirmed that pursuant to Article 5(6) of the Corporate Income Tax Law there is no withholding tax also on the interest payments made by an issuer to the holders of bonds publicly circulated in the EU or EEA who are Low-Tax Non-Latvian Residents, provided that the payments are made at the market price.

Latvian Withholding Tax – All Investors

As described in "Resident Individuals" above, in accordance with the Latvian Law on Personal Income Tax interest income from the Bonds for Latvian resident individuals will be subject to 20% withholding tax, deductible by the Issuer before the payment is made, unless transactions with the Bonds are made through the investment account. As the Bonds are held in Euroclear and Clearstream Luxembourg, it is not clear how this obligation should be discharged in practice in the context of the Bonds because the Issuer is not able to establish who the beneficial owners of the Bonds are. If the Issuer is not required to withhold tax from interest payment, then Latvian resident individuals will need to declare and pay the appropriate tax themselves. If the Issuer is required to pay subject to withholding such that all Bondholders are subject to withholding, the Issuer would be obliged to gross up payments of interest on the Bonds in accordance with Condition 8 (*Taxation*) (subject to a limited exception set out in such Condition which would not apply to the Bonds while they are held in global form in Euroclear and Clearstream Luxembourg). In this case, depending on applicable income tax rules in the tax jurisdiction(s) to which they are subject, the income received by a holder for tax purposes may be the gross amount paid by the Issuer, rather than the net amount received by the holder.

Latvian holders of the Bonds can check if tax has been withheld with the tax authorities in Latvia or (if relevant) with their Electronic Declaration system. Bondholders who are Latvian tax resident individuals are advised to inform the Issuer if they acquire and hold Bonds to enable the Issuer to pay withholding tax on the interest.

The Proposed Financial Transaction Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each other than Estonia a "**participating Member State**"). However, Estonia has ceased to participate.

The European Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Bonds should, however, be exempt.

Under the European Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

TRANSFER RESTRICTIONS

Rule 144A Bonds

Each purchaser of Rule 144A Bonds within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a "**QIB**"), (b) acquiring such Bonds for its own account, or for the account of another QIB, and (c) aware, and each beneficial owner of such Bonds has been advised, that the sale of such Bonds to it is being made in reliance on Rule 144A.

(2) It understands that such Bonds have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that such Bonds, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend (the "**Rule 144A Legend**") to the following effect:

"THIS BOND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 ("**THE SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS BOND."

(4) It understands that the Issuer, the Trustee, the Registrar, the Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Bonds for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(5) It understands that the Bonds offered in reliance on Rule 144A will be represented by the Restricted Global Certificate. Before any interest in the Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective investors are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

SUBSCRIPTION AND SALE

BNP Paribas, Citigroup Global Markets Europe AG, J.P. Morgan SE, Morgan Stanley Europe SE, Skandinaviska Enskilda Banken AB (publ), AS LHV Pank and Signet Bank AS (together, the "**Managers**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 10 May 2024, severally agreed to subscribe or procure subscribers for the Bonds at the issue price of 100.00% of the principal amount of Bonds plus accrued interest if any. The Issuer has agreed to pay the Managers a combined management and underwriting commission, will reimburse the Managers in respect of certain of their expenses, and has also agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

In connection with the offering of the Bonds, MoF Latvia was authorized to subscribe for approximately €36.1 million in aggregate principal amount of the Bonds, and a further investment was approved by the Cabinet of Ministers of the Republic of Latvia on 30 April 2024 and the Parliament of the Republic of Latvia on 2 May 2024. The Latvian government has been allocated a total of €50 million in Bonds, accounting for 14.7% of the aggregate principal amount of Bonds to be issued, at the same price and on the same terms as other investors in the Bonds. The Company has informed the MoF Latvia that it will use a portion of the proceeds of the issue of the Bonds to repay the State Loan within two business days of the Company's receipt of such proceeds in its account.

Amendments to the Law on Budget and Financial Management have been adopted on 25 April 2024, pursuant to which the Minister of Finance of the Republic of Latvia, on the basis of a decision of the Cabinet of Ministers of the Republic of Latvia and the Parliament of the Republic of Latvia is entitled to make an investment relating to purchase of fixed income securities issued by capital companies under decisive influence of the State, if such investment is expected to have a positive effect on the state budget in the long term and the conditions of the regulations of the state aid have been observed. Any such investment is subject to conditions that: (i) the total amount of all investments which are made to the financial sector and the capital companies under decisive influence of the State, but are not intended in the relevant state budget law, during the financial year does not exceed two per cent of the amount of gross domestic product specified in the state budget law in the financial year, and (ii) the Parliament of the Republic of Latvia has agreed by a separate decision to such investment.

The Company understands that the Latvian government has been informed that participation in the offering of the Bonds in the manner described above to refinance the State Loan as well as any additional subscriptions, should not constitute state aid within the meaning of the applicable EU legislation. See also "*Risk Factors--An active trading market for the Bonds may not develop"* and *"The Group has been, and may be, subject to investigations and claims relating to state aid*"

United States

The Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Bonds within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Prohibition of Sales to EEA Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the EEA (including Latvia). For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the IDD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Prohibition of Sales to UK Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the UK. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the UK.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, Special Administrative Region of the People's Republic of China (Hong Kong), by means of any document, any Bonds other than (a) to "*professional investors*" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong the ("**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "*prospectus*" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "*professional investors*" as defined in the SFO and any rules made under the SFO.

Singapore

Each Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

General

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

GENERAL INFORMATION

Authorisations

The issue of the Bonds and the granting of certain Security has been duly authorised by a resolution of the Shareholders Meeting of the Issuer passed on 27 March 2024, by resolutions of the Supervisory Board of the Issuer passed on 11 April 2024 and 7 May 2024 and by the resolutions of the Executive Board of the Issuer passed on 29 February 2024, 11 April 2024 and 7 May 2024. The granting of certain further Security was authorised by a resolution of the Shareholders Meeting of Air Baltic Training passed on 11 April 2024 and by a resolution of the Executive Board of Air Baltic Training passed on 11 April 2024

Listing

Application has been made to Euronext Dublin for the Bonds to be admitted to its Official List and trading on the Market; however, no assurance can be given that such admission will be maintained. The Market is a regulated market for the purposes of MiFID II. It is expected that admission of the Bonds to the Official List and to trading on the Market will be granted on or about 10 May 2024, subject only to the issue of the Bonds. The expenses in connection with admission to trading of the Bonds are expected to amount to €7,240.

In addition, the Issuer may make an application, after the Bonds are issued, for the Bonds to be admitted to trading on the official list of Nasdaq Riga. However, there can be no assurance that such application will be made or that such admission will take place.

Listing Agent

Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Bonds and is not itself seeking admission of the Bonds to the Official List of Euronext Dublin or to trading on the Market.

Clearing Systems

The Unrestricted Global Certificate has been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following securities identifiers:

	ISIN	**Common Code**
Unrestricted Global Certificate	XS2800678224	280067822

The Restricted Global Certificate has been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following securities identifiers:

	ISIN	**Common Code**
Restricted Global Certificate	XS2819725966	281972596

The Financial Instrument Short Names (FISN) and the Classification of Financial Instruments (CFI) Codes in respect of the Unrestricted Global Certificate and the Restricted Global Certificate are as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the National Numbering Agency that assigned the relevant ISIN, in each case as may be updated.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

Legal Entity Identifier

The Issuer's legal entity identifier is 213800JVURXEAA48FV35.

No significant or material adverse change

There has been no significant change in the financial position or financial performance of the Issuer or the Group since 31 December 2023. There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2023.

Litigation

Save as disclosed on pages 110 to 111 in "*Business Description – Litigation*", the Issuer is not presently involved, nor has it in a period covering at least the previous 12 months been involved, in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the recent past a significant effect on the Issuer's or the Group's financial position or profitability.

Material Contracts

There are, at the date of this Prospectus, no material contracts that are not entered into in the ordinary course of the Issuer's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Bondholders in respect of the Bonds being issued.

Auditors

PricewaterhouseCoopers SIA has audited the Audited Consolidated Financial Statements included in this Prospectus and issued unqualified independent auditor's reports thereon, which contain Emphases of Matter (see "*Presentation of Certain Financial Information – Emphases of Matter in the independent auditor's reports to the Financial Statements*").

PricewaterhouseCoopers SIA is included in the register of audit firms maintained by the Latvian Association of Certified Auditors.

Appraisers

The references to mba and to its appraisal reports, dated as of 12 March 2024, 14 March 2024, 19 March 2024 and 28 March 2024, are included in this Prospectus in reliance upon the authority of the firm as an expert with respect to the matters contained in its appraisal report. mba's address is 2010 Wilson Boulevard, Suite 1001, Arlington, Virginia 22201, United States. mba is certified by the International Society of Transport Aircraft Trading ("**ISTAT**") and the National Association of Certified Valuators and Analysts ("**NACVA**").

The references to Latio and to its appraisal reports, dated as of 15 March 2024, 19 March 2024, 20 March 2024 and 22 March 2024, are included in this Prospectus in reliance upon the authority of the firm as an expert with respect to the matters contained in its appraisal report. Latio's address is Elizabetes Street 21A-102, Riga, LV-1010. Latio is a member of the Latvian Real Estate Association, the European Group of Valuers' Association, The International Valuations Standards Council and the International Real Estate Federation.

Latio and mba are independent third-party appraisers and neither Latio nor mba have any material interest in the Issuer. Latio and mba have given and have not withdrawn their consent to the inclusion of the Appraisals appended to this Prospectus at pages A2-A244.

Documents Available

For as long as the Bonds are listed on the Official List of Euronext Dublin and admitted to trading on the Market of Euronext Dublin, copies of the following documents (together with English translations where applicable) will be (a) available for inspection in electronic form from the registered office of the Issuer (b) available for inspection on the website of the Company at www.airbaltic.com/en/corporate-governance#investors (c) available for inspection during usual business hours at the specified office of the Principal Paying Agent and (d) provided by email to a Bondholder following their prior written request to the Principal Paying Agent and provision of proof of holding and identity (in a form satisfactory to the Principal Paying Agent):

(a) the constitutional documents of the Issuer (with an English translation thereof);

(b) the 2021 Audited Consolidated Financial Statements and the 2020 Audited Consolidated Financial Statements;

(c) the Trust Deed, the relevant Security Documents, the Agency Agreement and the Account Bank Agreement; and

(d) this Prospectus.

No other document or content of any website is incorporated by reference to this Prospectus. Any information on the websites referred to herein do not form part of this Prospectus.

Managers transacting with the Issuer

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. Certain of the Managers and their affiliates may have positions, deal or make markets in the Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Managers or their affiliates may have a lending relationship with the Issuer and may hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds. Any such positions could adversely affect future trading prices of the Bonds. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Yield

On the basis of the issue price of the Bonds of 100.000% of their principal amount, the yield on the Bonds is 14.500% on an annual basis.

The yield is calculated on the Issue Date on the basis of the issue price of the Bonds. It is not an indication of future yield.

Interests of natural and legal persons involved in the issue of the Bonds

Save for the commissions described under "*Subscription and Sale*", so far as the Issuer is aware, no person involved in the issue of the Bonds has an interest material to the offer.

Foreign language used in this Prospectus

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

GLOSSARY

ACMI	means aircraft short-term leasing which includes aircraft, crew, maintenance and insurance
Air Baltic Training	means "Air Baltic Training", SIA, a subsidiary owned 100% by the Company
Adjusted EBITDAR	means earnings before interest, taxes, depreciation, amortisation and rent costs, as well as before the release/charge of provisions for legal disputes and claim compensations
Aviation Crew Resources	means Aviation Crew Resources, AS, a subsidiary owned 100% by the Company
ASAs	means air services agreements
ASK	means available seat kilometres
BKC	means "BALTIJAS KRAVU CENTRS" SIA, a subsidiary owned 100% by the Company
CAGR	means compound annual growth rate
CASK	means cost per available seat kilometres
CSALP	means C Series Aircraft Limited Partnership
EASA	means the European Union Aviation Safety Agency
ETS	means the EU Emissions Trading Scheme
EUROCONTROL	means the European Organisation for the Safety of Air Navigation
FAA	means the U.S. Federal Aviation Administration
FIML	means the Financial Instruments Market law
FTT	means the Financial Transaction Tax
GDS	means the Global Distribution Systems
IAS	means the International Accounting Standards
ICAO	means the International Civil Aviation Organisation
IDD	means the Directive (EU) 2016/97, as amended or superseded
IFRS	means International Financial Reporting Standards
IOSA	means the IATA Operational Safety Audit
LCC	means low-cost carrier
Loyalty Services	means Loyalty Services SIA, a subsidiary owned 100% by the Company
OTA	means Online Travel Agency
Passenger Load Factor	means RPK divided by ASK
PSS	means passenger service system
RASK	means revenue per available seat kilometre
RIX	means Riga International Airport
RPK	means revenue passenger kilometres
SACA / SAFA	means the European Union Aviation Safety Agency's Safety Assessment of Community and Foreign Airlines
SAS	means Scandinavian Airline System
SFA	means the Securities and Futures Act (Chapter 289) of Singapore
Summer Season	means the IATA summer season beginning on the last Sunday of March and ending on the Saturday before the last Sunday of October
TC	means Transport Canada
Winter Season	means the IATA winter season beginning on the last Sunday of October and ending on the Saturday before the last Sunday of March in the following year

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 2023, 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 IFRS Accounting Standards as adopted by the European Union (EU).

Our opinion is consistent with our additional report to the Audit Committee dated 29 February 2024.

What we have audited

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

- the separate and consolidated income statements for the year ended on 31 December 2023;
- the separate and consolidated statements of comprehensive income for the year ended on 31 December 2023;
- the separate and consolidated balance sheets as at 31 December 2023;
- the separate and consolidated cash flow statements for the year ended on 31 December 2023;
- the separate and consolidated statements of changes in equity for the year ended on 31 December 2023; and
- the notes to the separate and consolidated financial statements, comprising material accounting policy information 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 2023 to 31 December 2023, are disclosed in Note 11 to the financial statements.

Material uncertainty related to going concern – Company and Group

We draw attention to note 2(b) ‘Going Concern” to the financial statements, which discusses the management’s plans and needs to secure the funding to i) repay the existing bonds which mature in July 2024 and ii) to be able to meet the Group’s ongoing financing requirements.
This indicates 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 6,640 thousand
- Overall Group materiality: EUR 6,670 thousand

- Full scope audits were conducted for four Group entities.
- The Group audit team performed the work on all four 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 6,640 thousand and to the Group was EUR 6,670 thousand.
How we determined it	Approximately 1% of revenue for 2023.
Rationale for the materiality benchmark applied	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. 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 judgement, is within the range of acceptable quantitative materiality thresholds for this benchmark for a public interest entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 664 thousand for the Company and above EUR 667 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 judgement, 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) As outlined in Notes 17, 18 and 20 to the financial statements, in the balance sheet as at 31 December 2023, property, plant and equipment of the Company and the Group amount to EUR 135,310 thousand and EUR 142,026 thousand, respectively, right of use assets of the Company and the Group amount to EUR 920,584 thousand, and intangible assets of the Company and the Group amount to EUR 18,283 thousand and EUR 17,362 thousand, respectively. Property, plant and equipment, right of use assets and intangible assets together represent 81% of the total assets of the Company and 82% of the total assets of the Group. The intangible assets include non-depreciable assets (trademark) and as such are required to be tested by Management 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 ongoing impact on the operations of the business arising from the geopolitical and economic situation in 2023 and going forward, 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 "IPO & BEYOND". 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 ("VIU"). Management used VIU 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.	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. Our audit procedures included, among others, assessment of the methodologies and assumptions used by the management, in particular those related to the forecasted growth rate estimates, fuel costs and discount rates. We evaluated and challenged the future cash flow forecasts of the CGU, and the process and the assumptions used from which the cash flow forecasts were drawn up, and we checked the mathematical accuracy of the resulting VIU 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 those to recent years' (2019 – 2023) actual results and the recent past track record of the management's accuracy in forecasting. We reviewed the key assumptions for short-term flying (in particular leasing out of excess capacity and supply chain issues) 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 to discount the future cashflows in their model we reviewed management's methodology and inputs used, involving auditor's valuation specialists. We recalculated management's own sensitivity analysis of key assumptions used in the VIU assessment and performed our own 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 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 17, 18 and 20 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 three subsidiaries. We covered 100% of the Group's revenues and 100% of the Group's total assets.

Reporting on other information

Management is responsible for the other information which is included in the accompanying Sustainability and Annual Report 2023. The other information comprises in particular:

- General information on the Group's Parent company, as set out on page 4 of the accompanying Sustainability and Annual Report 2023;
- Glossary, as set out on page 5 of the accompanying Sustainability and Annual Report 2023;
- the Management report, as set out on pages 118 to 136 of the accompanying Sustainability and Annual Report 2023;
- the Statement of Management Responsibility, as set out on page 136 of the accompanying Sustainability and Annual Report 2023;
- the Consolidated non-financial report, as set out on page 136 of the accompanying Sustainability and Annual Report 2023;
- Taxonomy Statement, as set out on pages 106 to 109;

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

Our opinion on the financial statements does not cover the other information identified above. However, information included on pages 9 to 105 of the accompanying Sustainability and Annual Report 2023 was subject of our verification to which we have issued a separate limited assurance report on pages 6 to 8.

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 the Law on Audit Services of the Republic of Latvia. 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 Consolidated 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 IFRS Accounting Standards as adopted by the EU 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 judgement 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, actions taken to eliminate threats or safeguards applied.

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 5 years.

The engagement partner on the audit resulting in this independent auditor's report is Eva Jansen-Diener.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Eva Jansen-Diener
Persona per Procura

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
29 February 2024

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 21-21, Rīga, LV-1010, Latvia, LV40003142793
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

	Note	AIR BALTIC 2023 TEUR	AIR BALTIC 2022 TEUR	GROUP 2023 TEUR	GROUP 2022 TEUR
OPERATING REVENUE					
Revenue	5	660 493	493 832	664 186	495 455
Other income	6	3 796	4 715	3 796	4 715
		664 289	**498 547**	**667 982**	**500 170**
OPERATING EXPENSES AND CLAIM COMPENSATIONS					
Fuel		(156 084)	(150 678)	(156 084)	(150 678)
Airport, handling and en route charges		(115 051)	(86 760)	(114 413)	(86 192)
Personnel costs	7	(103 442)	(75 412)	(107 249)	(76 704)
Amortization and depreciation	17, 18, 20	(90 372)	(73 585)	(91 070)	(74 280)
Aircraft and similar lease costs	8	(76 189)	(22 921)	(76 189)	(22 921)
Marketing and tickets sales costs	9	(41 915)	(30 950)	(41 915)	(30 950)
Other operating costs	10	(32 035)	(27 049)	(31 819)	(25 904)
Cost of carbon emission allowances		(22 259)	(19 249)	(22 259)	(19 249)
Aircraft maintenance		(24 798)	(15 003)	(24 798)	(15 004)
Passenger service		(10 507)	(12 573)	(10 507)	(12 573)
Provision for legal disputes		8 073	(500)	8 073	(500)
Claim compensations	12	80 586	46 789	80 586	46 789
		(583 993)	**(467 891)**	**(587 644)**	**(468 166)**
FINANCE INCOME / (EXPENSES)					
Finance costs	13	(63 744)	(58 824)	(63 855)	(58 961)
Foreign currency exchange gain / (loss), net	14	16 666	(25 376)	16 664	(25 379)
Finance income	15	634	537	522	112
		(46 444)	**(83 663)**	**(46 669)**	**(84 228)**
PROFIT / (LOSS) BEFORE TAX		**33 852**	**(53 007)**	**33 669**	**(52 224)**
Corporate income tax	16	-	-	(17)	(1 995)
PROFIT / (LOSS) FOR THE YEAR		**33 852**	**(53 007)**	**33 652**	**(54 219)**

The notes on pages 143-182 form an integral part of these financial statements.

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
PROFIT / (LOSS) FOR THE YEAR	**33 852**	**(53 007)**	**33 652**	**(54 219)**
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS				
Gain on cash flow hedges	482	-	482	-
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Depreciation of revaluation reserve	(310)	(310)	(366)	392
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR	**172**	**(310)**	**116**	**392**
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE YEAR	**34 024**	**(53 317)**	**33 768**	**(53 827)**

The notes on pages 143-182 form an integral part of these financial statements.

ASSETS	Note	AIR BALTIC 31.12.2023 TEUR	AIR BALTIC 31.12.2022 TEUR	GROUP 31.12.2023 TEUR	GROUP 31.12.2022 TEUR
NON-CURRENT ASSETS					
Property, plant and equipment	17	135 310	94 189	142 026	101 493
Right-of-use assets	18	920 584	810 845	920 584	810 845
Investment properties	19	2 850	2 850	-	-
Intangible assets	20	18 283	18 386	17 362	17 327
Investments in subsidiaries and other investments	21	410	410	3	3
Prepayments for maintenance		74 043	61 196	74 043	61 196
Prepayments for acquisition of property, plant and equipment		38 628	50 133	38 778	50 283
Trade and other receivables	23	19 820	14 930	19 822	15 525
		1 209 928	**1 052 939**	**1 212 618**	**1 056 672**
CURRENT ASSETS					
Inventories	24	15 891	10 813	16 027	10 913
Prepayments for maintenance		20 945	-	20 945	-
Prepaid expenses		8 898	11 544	8 978	11 612
Trade and other receivables	23	39 020	42 870	36 599	41 726
Derivative financial instruments		482	-	482	-
Cash	25	28 794	37 611	29 058	37 999
		114 030	**102 838**	**112 089**	**102 250**
TOTAL ASSETS		**1 323 958**	**1 155 777**	**1 324 707**	**1 158 922**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	26	596 473	596 473	596 473	596 473
Other contributions	26	2 553	2 644	2 553	2 644
Revaluation reserve		2 727	3 037	3 520	3 886
Reorganization reserve	26	1 932	1 932	-	-
Cash flow hedging reserve		482	-	482	-
Accumulated loss:					
accumulated loss brought forward		(685 908)	(632 901)	(684 987)	(630 768)
profit / (loss) for the year		33 852	(53 007)	33 652	(54 219)
TOTAL EQUITY		**(47 889)**	**(81 822)**	**(48 307)**	**(81 984)**
LIABILITIES					
NON-CURRENT LIABILITIES					
Lease liabilities	27	797 258	718 012	797 258	718 012
Borrowings	27	55 838	254 464	55 838	254 464
Provisions	28	27 858	31 428	27 858	31 428
Employee related tax liabilities	30	-	1 944	-	1 944
		880 954	**1 005 848**	**880 954**	**1 005 848**
CURRENT LIABILITIES					
Borrowings	27	209 276	9 016	209 947	10 777
Lease liabilities	27	87 491	77 565	87 491	77 565
Contract liabilities, airport taxes and other liabilities	31	69 815	56 289	70 301	56 478
Trade and other payables	29	73 921	48 335	73 828	48 533
Provisions	28	35 950	33 965	35 950	33 965
Employee related tax liabilities	30	14 440	6 581	14 543	7 740
		490 893	**231 751**	**492 060**	**235 058**
TOTAL LIABILITIES		**1 371 847**	**1 237 599**	**1 373 014**	**1 240 906**
TOTAL EQUITY AND LIABILITIES		**1 323 958**	**1 155 777**	**1 324 707**	**1 158 922**

The notes on pages 143-182 form an integral part of these financial statements.

		AIRBALTIC		GROUP	
		2023	2022	2023	2022
	Note	TEUR	TEUR	TEUR	TEUR
CASH FLOWS FROM OPERATING ACTIVITIES					
PROFIT / (LOSS) BEFORE TAX		**33 852**	**(53 007)**	**33 669**	**(52 224)**
Adjustments for:					
Depreciation and amortization	17, 18, 20	90 372	73 585	91 070	74 280
Interest expense	13	62 419	57 425	62 522	57 530
Foreign exchange (gain) / loss	14	(16 475)	26 695	(16 475)	26 695
Change in provisions	28	(2 657)	31 034	(2 657)	31 034
Profit on sale and leaseback transactions	6	(3 796)	(4 715)	(3 796)	(4 715)
Profit on disposal of property, plant and equipment		(1 638)	(1 669)	(1 636)	(1 646)
Interest income		(521)	(112)	(521)	(112)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		**161 556**	**129 236**	**162 176**	**130 842**
Increase / (decrease) in payables		11 153	(17 642)	11 696	(16 116)
Increase in receivables		(27 434)	(36 680)	(26 620)	(36 792)
Increase in deposits		(3 331)	(2 295)	(3 331)	(2 507)
Increase in inventories		(5 078)	(3 238)	(5 113)	(3 254)
Corporate income tax paid		-	-	(566)	(1 826)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**136 866**	**69 381**	**138 242**	**70 347**
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances paid for aircraft		(8 354)	(29 111)	(8 354)	(29 111)
Acquisition of property, plant and equipment and intangible assets		(33 266)	(31 048)	(33 572)	(31 265)
Refund of advances paid for aircraft		33 424	33 222	33 424	33 222
Profit received from sales and leaseback transactions		3 796	4 715	3 796	4 715
Proceeds from sale of property, plant and equipment		1 993	1 721	1 993	1 721
Interest received		521	475	521	475
NET CASH USED IN INVESTING ACTIVITIES		**(1 886)**	**(20 026)**	**(2 192)**	**(20 243)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Lease principal payments	27	(82 169)	(88 705)	(82 169)	(88 705)
Interest paid	27	(62 440)	(54 290)	(62 544)	(54 396)
Repayment of borrowings	27	(3 207)	(2 198)	(4 297)	(2 612)
Financial injections from the shareholders (with the intention to capitalize)	26	-	45 000	-	45 000
Borrowings received	27	4 019	9 294	4 019	9 294
NET CASH USED IN FINANCING ACTIVITIES		**(143 797)**	**(90 899)**	**(144 991)**	**(91 419)**
Decrease in cash		(8 817)	(41 544)	(8 941)	(41 315)
Cash at the beginning of the reporting year		37 611	79 155	37 999	79 314
CASH AT THE END OF THE REPORTING YEAR	25	**28 794**	**37 611**	**29 058**	**37 999**

The notes on pages 143-182 form an integral part of these financial statements.

	Share capital	Other contri-butions	Reval-uation reserve	Reorga-nization reserve	Cash flow hedging reserve	Accumu-lated loss	Profit/ (loss) for the year	TOTAL
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
31.12. 2021	**506 473**	**2 490**	**3 347**	**1 932**	**-**	**(499 250)**	**(133 651)**	**(118 659)**
COMPREHENSIVE INCOME								
Loss for the year	-	-	-	-	-	-	(53 007)	(53 007)
Other comprehensive income	-	-	(310)	-	-	-	-	(310)
TOTAL COMPREHENSIVE LOSS	**-**	**-**	**(310)**	**-**	**-**	**-**	**(53 007)**	**(53 317)**
Increase in share capital (see Note 26)	90 000	-	-	-	-	-	-	90 000
Currency translation difference	-	154		-	-	-	-	154
Allocation of prior year result	-	-	-	-	-	(133 651)	133 651	-
31.12.2022	**596 473**	**2 644**	**3 037**	**1 932**	**-**	**(632 901)**	**(53 007)**	**(81 822)**
COMPREHENSIVE INCOME								
Profit for the year	-	-	-	-	-	-	33 852	33 852
Other comprehensive income	-	-	(310)	-	482	-	-	172
TOTAL COMPREHENSIVE INCOME	**-**		**(310)**	**-**	**482**	**-**	**33 852**	**34 024**
Currency translation difference	-	(91)	-	-	-	-	-	(91)
Allocation of prior year result	-	-	-	-	-	(53 007)	53 007	-
31.12.2023	**596 473**	**2 553**	**2 727**	**1 932**	**482**	**(685 908)**	**33 852**	**(47 889)**

The notes on pages 143-182 form an integral part of these financial statements.

	Share capital	Other contri-butions	Reval-uation reserve	Cash flow hedging reserve	Accumu-lated loss	Profit/ (loss) for the year	TOTAL
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
31.12.2021	**506 473**	**2 490**	**3 494**	**-**	**(495 050)**	**(135 718)**	**(118 311)**
COMPREHENSIVE INCOME							
Loss for the year	-	-	-	-	-	(54 219)	(54 219)
Other comprehensive income	-	-	392	-	-	-	392
TOTAL COMPREHENSIVE LOSS	**-**	**-**	**392**	**-**	**-**	**(54 219)**	**(53 827)**
Increase in share capital (see Note 26)	90 000	-	-	-	-	-	90 000
Currency translation difference	-	154	-	-	-	-	154
Allocation of prior year result	-	-	-	-	(135 718)	135 718	-
31.12.2022	**596 473**	**2 644**	**3 886**	**-**	**(630 768)**	**(54 219)**	**(81 984)**
COMPREHENSIVE INCOME							
Profit for the year	-	-	-	-	-	33 652	33 652
Other comprehensive income	-	-	(366)	482	-	-	116
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(366)**	**482**	**-**	**33 652**	**33 768**
Currency translation difference	-	(91)	-	-	-	-	(91)
Allocation of prior year result	-	-	-	-	(54 219)	54 219	-
31.12.2023	**596 473**	**2 553**	**3 520**	**482**	**(684 987)**	**35 082**	**(48 307)**

The notes on pages 143-182 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 97.97% shares of the Parent company and Aircraft Leasing 1 SIA – holding 2.03% 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 21):

– Baltijas Kravu Centrs SIA,
– Air Baltic Training SIA,
– Aviation Crew Resources AS (under liquidation process).

The separate financial statements and the consolidated financial statements (hereinafter together – the financial statements) for the year ended 31 December 2023 were approved by a resolution of the Parent company's Executive Board on 29 February 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

a) Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards as issued by IASB as adopted for use in the European Union (IFRS Accounting Standards).

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 of euro (TEUR), if not stated otherwise.

Changes in presentation

Presentation of Cost of carbon emission allowances

In these financial statements, the Cost of carbon allowances is presented as a separate line item in the Income statement. In the financial statements for 2022 and before, this item has been part of the item Fuel. The table below shows the historical cost of carbon emission allowances.

Period	Cost of carbon emission allowances TEUR	Originally presented within line item
2019	6 937	Fuel
2020	5 412	Fuel
2021	5 874	Fuel
2022	19 249	Fuel

Reclassification of Cost of pilot services

In 2023, airBaltic recruited pilots previously working for its subsidiary Aircraft Crew Resources A/S (under liquidation). In order to improve comparability, a reclassification has been made in the comparative information – the costs of Pilot services in 2022 have been reclassified and distributed between the Other operating costs and Personnel costs categories (see Note 7).

Period	Reclassified to Other Operating costs TEUR	Reclassified to Personnel expenses TEUR	Originally classified within Pilot services TEUR
2021	1 445	18 731	(20 176)
2022	1 614	28 152	(29 766)
2023	162	1 476	(1 638)

2. Material accounting policy information (*continued*)
a) Basis of preparation (*continued*)

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2023

- **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (effective for annual periods beginning on or after 1 January 2023). 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. The Group has applied the amendments to these Financial statements by disclosing the material accounting policy information rather than the significant accounting policies.
- **Amendments to IAS 8: Definition of Accounting Estimates** (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
- **Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12** (effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
- **Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules** (effective for annual periods beginning on or after 1 January 2023). In May 2023 the International Accounting Standards Board IASB issued narrow-scope amendments to IAS 12 "Income Taxes". This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. In accordance with IASB effective date, the companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2024 or not yet endorsed by the EU

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate. The Company has analysed the impact of the amended standard and concluded that there are no such effective leases where this amendment would have impact as there are no variable payments which do not depend on an index or a rate.

2. Material accounting policy information (*continued*)
a) Basis of preparation (*continued*)

Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2024 or not yet endorsed 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 2024). These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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.
- **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements** (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023 the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.
- **Amendments to IAS 21 Lack of Exchangeability** (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). In August 2023 the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.

The Company and the Group are currently assessing the impact of the amendments on its financial statements.

2. **Material accounting policy information** (*continued*)

b) Going concern

As of 31 December 2023, airBaltic had negative equity of nearly EUR 48 million (31 December 2022: EUR 82 million), the Company's current liabilities exceeded its current assets by EUR 377 million and the cash balance at the end of the year was EUR 28.8 million (31 December 2022: EUR 37.6 million).

Despite the challenging operating environment due to Pratt&Whitney engines not being available in sufficient quantity throughout the summer season, the airline was able to achieve its revenue projections that it set at the beginning of 2023: *"Based on the latest booking trends and assuming that the post COVID-19 market recovery continues in 2023, the airline estimates its revenues to be in the range from EUR 650 million to EUR 700 million (2022: EUR 494 million)."*

The airline continues to increase its capacity and expects to generate higher revenues in 2024. Depending on the market conditions and aircraft availability the Executive Board of the Parent company expects the revenues to be between EUR 750 million to EUR 800 million for 2024. At the date of this report, the Company has secured firm ACMI out agreements to lease up to 17 aircraft in 2024, with projected revenues estimated at around EUR 129 million. This increase in total revenue should positively improve operating cash flow performance. Furthermore, the airline finished 2023 with EUR 33.8 million in net income and EUR 10.1 million net income on a comparable basis (deducting EUR 16.5 million gain from currency revaluation, EUR 8 million release of legal provisions and other non-operational one-offs), which was the first profitable year since the beginning of the pandemic and the management expects to maintain profitable operations in 2024. The Executive Board of the Parent company expects the engine shortage to continue in 2024 but to a lesser extent compared to 2023, reducing the adverse impact on the airline's profitability.

The Executive Board of the Parent company, considering the improved performance in 2024 and the conditions in airBaltic's core markets, is of the opinion that the use of the going concern assumption in the preparation of these financial statements is appropriate.

There are still operational challenges related to the ongoing war between Russia and Ukraine and the continued knock-on effects such as impact on demand for travel. There remain significant travel restrictions that came into effect after the Russian invasion of Ukraine in February 2022. Because of those restrictions airBaltic had to cease its operations in Russia and Ukraine and redeploy the capacity towards other destinations and additional ACMI business. For the foreseeable future, the airline assumes that Ukrainian, Belorussian and Russian markets will remain closed and has adjusted its network accordingly.

There is still uncertainty related to the refinancing of the EUR 200 million Eurobond which matures in July of 2024. The uncertainty is related to the amount of debt financing that the airline will be able to raise during H1 of 2024 and the related financing cost. The Company has contracted a group of international investment banks to assist with the bond refinancing efforts. The airline intends not only to refinance EUR 200 million but also to raise an additional EUR 100 million to strengthen its cash balance and support its funding of further capital expenditures related to growth in its capacity. As of this report's date, the airline is pursuing two refinancing tracks in parallel: public and private debt track. If the private debt solution proves to be too costly for the airline, the airline expects to proceed with a public debt issuance with the aim to finalize the transaction by the end of April 2024.

The airline has the option to reduce the related cost of new debt financing by securing the new debt with all its unencumbered assets. Additionally, it is exploring the option to use second liens or similar structures on several of its financed aircraft and engines as collateral. These aircraft and engines are anticipated to possess a market value exceeding the current liabilities linked to them, thereby offering greater financial security for the debt. The airline has also engaged in discussions with its shareholders, including the government of Latvia, to explore their readiness to finance a portion of the new debt on market terms alongside private investors.

If due to some external shock the EU high yield debt markets become inaccessible to airBaltic throughout H1 of 2024, the airline may seek debt financing from its shareholders, including the Government of Latvia.

Considering the improvements in operating performance of the airline, the Executive Board of Parent Company is of the opinion that private and/or public sources of funding should be accessible to the airline in H1 of 2024, and therefore assume that airBaltic will be able to successfully refinance its current bond and raise additional finance and hence continue its operations as a going concern.

Summarising the above, there exists a material uncertainty about the successful refinancing of the current Eurobond and raising additional finance to fund further committed expansion of the fleet and overall business, which may cast significant doubt upon the Parent company's and the Group's ability to continue as a going concern. Therefore, the Parent company and the Group may be unable to realise their assets and discharge their liabilities in the normal course of business. 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 in the foreseeable future.

c) Consolidation (Group)

The financial statements of the Group comprise the financial statements of Air Baltic Corporation AS, Baltijas Kravu Centrs SIA, Air Baltic Training SIA and Aviation Crew Resources AS.

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 assets 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 IPO & BEYOND. See Notes 17, 18 and 20 for more information.

Recognition and revaluation of provisions

As at 31 December 2023, 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 2022, airBaltic had 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 airBaltic and the Republic of Latvia back in 2011 and 2012. In March 2023 the Court of Appeal overturned the decision of the first instance court and confirmed that there were no grounds for any claims against airBaltic. The Latvian courts have also ruled in favour of the airline and the Latvian government in a similar case arising from the October 2011 Agreement against one of airBaltic's creditors. The other party has filed the cassation appeal and airBaltic will continue to monitor the case, although it strongly believes that there is no basis for this claim. Following a court ruling by Court of Appeal, the provisions held at December 2022 have been released.

As at 31 December 2023, airBaltic has set up provision for carbon emissions. The provision represents the costs of the industry carbon dioxide (CO_2) emissions scheme. A number of assumptions and estimates have been used to determine the present value of provisions, including the future outflow of resources, 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 immediately sells the newly acquired aircraft and immediately leases them 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.

2. Material accounting policy information (*continued*)
d) Use of estimates and judgements in the preparation of the financial statements (*continued*)
Recognition of Sales and leaseback transactions (*continued*)

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 rsk and fair value risk. 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. The purchase and sale of aircraft occurs within a short period of time, thus these transactions are not presented within movements of property, plant and equipment. The gain from a sales and leaseback transactions is recognised only to the extent of the part of asset not being retained. It is calculated taking into account the proportion of the book value and fair value of the asset at the date of transaction and the present value of the expected lease payments to determine the amount of the gain being recognised.

In 2023 the Parent company has recognised a profit of EUR 3 796 thousand (2022: EUR 4 715 thousand) from sale and lease-back 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 the 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 5 years' time and both the extension terms at that time and the market conditions at that time are at present highly unpredictable;
- no extension option is expected to be exercised for any other lease as the Management concludes that there are currently no economic incentives to exercise such option.

e) Foreign currency translation
The functional and presentation currency of the Company is the Euro (EUR), the monetary unit of the Republic of Latvia. Transactions in foreign currencies are translated into 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 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 the income statement within Foreign currency exchange loss, net.

	31.12.2023 USD	31.12.2022 USD
1 EUR	1.1050	1.0666
The average EUR/USD rate in the year	1.0813	1.0530

f) Revenue recognition
Revenue is income arising in the ordinary course of the 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 recognized 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 recognizes 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. The rule of non-refundability is for economy Green class, Green Plus and for Business Light tickets only, but economy Classic and Business class tickets are fully refundable at any time before departure.

The value of tickets sold and still valid, but not used by the balance sheet date is reported as contract liabilities. Scheduled revenues are recognized within the income statement at the point in time when the flight service is provided (i.e. when the flight takes place).

2. Material accounting policy information (*continued*)
f) Revenue recognition (*continued*)

If a flight is cancelled, a passenger is entitled to a cash refund, a voucher for a future flight, or to re-schedule the cancelled flight. Additionally, gift vouchers may be purchased by passengers. Where a voucher is issued, a liability for the amount paid by the passenger is recognized in full and held within unearned revenue until the voucher is utilized against a future flight, when it expires, or when it is probable that it will expire unexercised.

Accordingly, unearned revenue, which is presented as contract liabilities within the balance sheet, represents flight seats sold but not yet flown and vouchers issued for future flights. If the Company expects to refund some or all of the amount paid for a flight service, for instance where a flight is cancelled, a refund liability is recognized for the full amount payable. This is recognized within unearned revenue and is presented as contract liabilities.

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. over time. Charter revenue includes sale of flights 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 over the period when the service is delivered. No significant future lease payments or commitments are attributable to the aircraft lease. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. There are non-lease components attributable to rent of crew, maintenance and insurance. Revenue for non-lease components is recognised over the lease term similarly to lease income. Average lease term is 6 months. As the aircraft are leased under ACMI contracts, airBaltic is responsible for the costs associated with aircraft leasing, crew, maintenance and insurance and these costs are recognized in accordance with the relevant accounting policies.

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

Claim compensations received under the supplemental commercial support agreement that is signed to compensate the loss from the engine shortages and other compensations are recognised in the Income statement as they compensate additional operating expenses incurred by the Parent company. Compensations are recognised when they have been received or have become receivable by the Group.

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 costs involve routine maintenance costs like short cycle engineering checks, component checks, monthly checks, annual airframe checks and periodic heavy maintenance and engine checks.

Aircraft maintenance costs also involve significant modifications engines. Such modifications may be performed to engines for a variety of reasons, including rule changes, mandatory actions, product improvements or other. Significant modifications of engines are capitalised as separate items and depreciated over their expected useful life, which in the case of leased engine cannot exceed the lease period.

Routine maintenance costs are expensed as incurred.

The cost of heavy maintenance and engine checks is capitalized and recognized as property, plant and equipment when maintenance is carried out. Such assets are depreciated over their expected useful life which is the shorter of the period to the next check or the remaining life of the aircraft.

Spare parts held by the Company are classified as property, plant and equipment if they are expected to be used over more than one period.

In most cases, additional maintenance costs are 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 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.

2. Material accounting policy information (*continued*)
g) Aircraft maintenance costs (*continued*)

Payments for aircraft and engine maintenance, as stipulated in the respective lease agreements, are made to certain lessors as a security for the performance of future heavy maintenance works. The payments are recorded as Prepayments for maintenance until the respective maintenance event occurs and the reimbursement with the lessor is finalised. In the event that, for any reason, the works planned and prepaid are not executed within the lease term, the accumulated prepayments shall be expensed in the Income statement upon the disclosure of this circumstance. Prepayments are classified as current if the maintenance for which they are made is expected to be carried out within the next 12 months.

h) Financial assets and liabilities

Financial assets

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

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

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

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 2023 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.

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.

i) 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 equipment) or revalued amount less accumulated depreciation and accumulated impairment losses (Buildings, Aircraft). 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	2 – 5
Aircraft equipment	16 – 50
Fixtures and fittings	20 – 50

As the components of aircraft and engines 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. The residual values of the aircraft are determined based on independent external valuations.

2. Material accounting policy information (*continued*)
i) Intangible assets and property, plant and equipment (*continued*)

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 and training aircraft 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 over its remaining useful life. Repairs and maintenance are charged to the income statement during the period in which they are incurred (for more details see Note 2 g) Aircraft maintenance costs).

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.

j) 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.

k) 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.

l) 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 depreciation of right-of-use assets occurs over the shorter of the asset's useful life or the lease term, applying either a straight-line method or a usage-based approach, depending on the nature of the asset, except when the useful life exceeds the lease term and the asset is expected to be acquired using the purchase option. The following depreciation rates are set by the Management for the right of use assets:

	Estimated useful life, years
Land and buildings	3 – 30
Aircraft component	12 – 25

Headquarter building with an estimated useful life of 13 years and maintenance hangars with an estimated useful life of 3-5 years are classified within the 'Land and buildings'". The majority of land leased by the Group is allocated for maintenance hangars or training facilities, with lease terms extending up to 30 years.

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.

m) 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.

2. Material accounting policy information (*continued*)
m) Provisions (*continued*)

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 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 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. Every balance sheet date the present value of estimated future redelivery costs are re-evaluated for changes arising from the usage and the provisions for expected future necessary aircraft maintenance costs are adjusted through adjusting the respective asset and redelivery provision.

n) 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' 2018-2022 profit for the foreseeable future will not be distributed.
Pillar Two is a tax scheme that will be applied in the EU and OECD countries in addition to their national corporate tax systems. The multinational enterprises (MNEs) pay a minimum 15% tax in their home country on income arising in each country they operate in. The global minimum tax applies to MNEs with consolidated revenues of more than EUR 750 million a year. Latvia has elected to delay its full application up to 31 December 2029.

o) 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 are measured initially at market value at the date of initial recognition. At the balance sheet date the provision is measured at market value, except for the hedged portion, which is valued at forward rate. The cost of allowances purchased and to be purchased are recognised as costs in the Income statement under "Cost of carbon emission allowances".

p) Prepayments

Prepayments represent payments made in advance for goods or services that will be received or consumed in future periods. These are typically recorded as assets on the balance sheet until the related goods or services are received or consumed. Prepayments are classified as current or non-current assets based on the period in which the benefit is expected to be realized. Prepayments expected to be utilized or consumed within twelve months of the reporting date are classified as current assets, while those expected to provide benefits beyond twelve months are classified as non-current assets.

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. Most of the Group's revenues is denominated in euros, while a significant portion of the Company's and the Group's expenses are US Dollar denominated, including fuel, aircraft lease, maintenance, insurance and capital expenditure costs.

During the year the Company has not used financial derivatives to hedge its foreign currency risk and there were no open hedges as at 31 December 2023. 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 EUR/USD exchange risk at the end of the reporting year and the respective equivalent in euros, was as follows:

AIR BALTIC	**31.12.2023**		**31.12.2022**	
	TUSD	**equivalent to TEUR**	**TUSD**	**equivalent to TEUR**
Trade and other receivables	19 067	17 255	20 171	18 911
Borrowings and lease payments	591 829	535 592	490 956	460 300
Trade and other payables	12 150	10 995	6 979	6 543

GROUP	**31.12.2023**		**31.12.2022**	
	TUSD	**equivalent to TEUR**	**TUSD**	**equivalent to TEUR**
Trade and other receivables	19 067	17 255	20 171	18 911
Borrowings and lease payments	591 829	535 592	490 956	460 300
Trade and other payables	12 150	10 995	6 979	6 543

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.

3. Financial risk management *(continued)*
b) Risk analysis *(continued)*
Market risks *(continued)*

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. In previous years airBaltic has partly hedged against jet fuel price fluctuations using jet fuel swap contracts. The average hedge coverage in 2023 was 3.4%. As at 31 December 2023, 12 000 jet fuel tonnes had been hedged for the year 2024 (31 December 2022: no open jet fuel hedge agreements).

In addition to jet fuel, significant attention will be directed towards the carbon market, which also represents a substantial expense. In order to mitigate the impact of carbon market volatility, as of December 31, 2023, the airline has hedged 100 thousand tonnes (22%) at an average price of EUR 75 per ton.

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	31.12.2023 Difference in equity TEUR	31.12.2022 Difference in equity TEUR	2023 Difference in result for the year TEUR	2022 Difference in result for the year TEUR
USD/EUR rate sensitivity				
USD/EUR rate increase 5%	(26 880)	(21 927)	(26 880)	(21 927)
USD/EUR rate decrease 5%	29 709	24 235	29 709	24 235
Interest rate sensitivity				
Interest rate is higher by 0.5 pp	(4)	(10)	(4)	(10)
Interest rate is lower by 0.5 pp	4	10	4	10

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

Liquidity risk

Liquidity risk is the risk that the Parent company and the Group are unable to meet their financial obligations due to insufficient cash inflows. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding.

The airline ended 2023 with the cash balance of EUR 28.7 million. The airlines liquidity position and needs are discussed in more detail in Note 2 (b).

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 31.12.2023						
Trade payables	31 212	-	-	-	31 212	31 212
Accrued liabilities	42 678	-	-	-	42 678	42 678
Borrowings and lease	35 084	318 608	584 143	459 940	1 397 775	1 149 863
Contractual maturities of financial liabilities at 31.12.2022						
Trade payables	24 730	-	-	-	24 730	24 730
Accrued liabilities	23 586	-	-	-	23 586	23 586
Borrowings and lease	32 911	106 115	726 236	444 729	1 309 991	1 059 057

3. Financial risk management *(continued)*
b) Risk analysis *(continued)*
Liquidity risk *(continued)*

GROUP	Within 3 months TEUR	Between 3 months and 1 year TEUR	Between 1 and 5 years TEUR	More than 5 years TEUR	Total contractual cash flows TEUR	Carrying amount of liabilities TEUR
Contractual maturities of financial liabilities at 31.12.2023						
Trade payables	30 800	-	-	-	30 800	30 800
Accrued liabilities	42 996	-	-	-	42 996	42 996
Borrowings and lease	35 385	318 999	584 143	459 940	1 398 467	1 150 534
Contractual maturities of financial liabilities at 31.12.2022						
Trade payables	20 819	-	-	-	20 819	20 819
Accrued liabilities	27 588	-	-	-	27 588	27 588
Borrowings and lease	34 693	106 115	726 236	444 729	1 311 773	1 060 818

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 a 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 Parent company and the Group have no significant concentration of credit risk with any bank.

The Parent company and the Group also have hedging and aircraft manufacturer relationships that represent counterparty credit risk. The Parent company and the Group analysed the creditworthiness of the relevant business partners in order to assess the likelihood of non-performance of liabilities due to the Company and the Group. The credit quality of the Company's and the Group's financial assets is assessed by reference to external credit ratings of the counterparties as follows:

AIR BALTIC	A+	B+	BBB+	Other	Unrated	Total
31.12.2023	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Financial instruments						
Trade receivables, security deposits and other receivables	2 974	2 500	500	7 911	42 450	56 335
Cash	10 513	-	17 319	-	963	28 795
Derivative financial instruments	482	-	-	-	-	482
TOTAL FINANCIAL ASSETS	**13 969**	**2 500**	**17 819**	**7 911**	**43 413**	**85 612**
31.12.2022						
Financial instruments						
Trade receivables, security deposits and other receivables	-	-	2 839	12 532	33 622	48 993
Cash	18 782	-	-	18 095	734	37 611
TOTAL FINANCIAL ASSETS	**18 782**	**-**	**2 839**	**30 627**	**34 356**	**86 604**

3. Financial risk management *(continued)*
b) Risk analysis *(continued)*

GROUP 31.12.2023	A+ TEUR	B+ TEUR	BBB+ TEUR	Other TEUR	Unrated TEUR	Total TEUR
Financial instruments						
Trade receivables, security deposits and other receivables	2 974	2 500	500	7 912	37 518	51 404
Cash	10 771	-	17 319	-	968	29 058
Derivative financial instruments	482	-	-	-	-	482
TOTAL FINANCIAL ASSETS	**14 227**	**2 500**	**17 819**	**7 912**	**38 486**	**80 944**
31.12.2022						
Financial instruments						
Trade receivables, security deposits and other receivables	-	-	2 839	12 532	32 492	47 863
Cash	19 169	-	-	18 096	734	37 999
TOTAL FINANCIAL ASSETS	**19 169**	**-**	**2 839**	**30 628**	**33 226**	**85 862**

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 (j) and 2 (k). Detailed analysis of trade accounts receivable is shown in Note 23.

Capital management 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.

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% by 2027. Therefore, the airline will most probably seek to conduct an initial public offering of its shares, at some time over the next three years, to provide the avenue for such divestment.

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 2023

AIR BALTIC	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	6 608	6 608
Investment property	-	-	2 850	2 850
Derivative financial instruments	-	482	-	482
GROUP				
Buildings	-	-	8 547	8 547
Diamond DA40NG aircraft	-	-	3 831	3 831
Derivative financial instruments	-	482	-	482

3. Financial risk management *(continued)*
b) Risk analysis *(continued)*
Fair value estimation *(continued)*

The following table presents airBaltic's and the Group's assets and liabilities that are measured at fair value at 31 December 2022.

	Level 1	Level 2	Level 3	Total
AIR BALTIC	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Buildings	-	-	6 633	6 633
Investment property	-	-	2 850	2 850
GROUP				
Buildings	-	-	9 531	9 531
Diamond DA40NG aircraft	-	-	4 054	4 054

The Group and airBaltic obtain independent valuations for its buildings, investment property and aircraft with sufficient regularity. At the end of each reporting period, the Management updates the assessment of the fair value of each building and aircraft, considering the most recent independent valuations. The Management determine a property's value within a range of reasonable fair value estimates. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Management considers information from a variety of other sources. Please see Note 17 and Note 18 on the principles of setting the fair value of buildings and Note 17 on the revaluation of the aircraft.

All financial assets and financial liabilities except for derivates 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, except for bond, for which assessment of the fair value was performed as of 31 December 2023. The valuation was performed by discounting the remaining cash flow with the market rate of 9.2% as at 31 December 2023. According to the calculations performed the fair value of the bonds at 31 December 2023 – EUR 202 814 thousand – was lower than their carrying amount of EUR 205 696 thousand.

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 96% of the Group's revenue comes from passenger aviation transportation (ticket revenue, ancillary revenue and ACMI lease revenue) that is generated by the Parent company. Therefore, only the Parent company is considered as a significant business unit for segment info rmation purposes that provides airline related services, including scheduled services and other related services to third parties across European route network. All other segments – provision of aviation related training services and cargo handling – are not reportable operating segments, and are not analysed as separate segments by airBaltic's Chief Operating Decision Maker (CODM). The results of these operations are included in the 'other segments' line.

The airline 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 passenger aviation revenue, however resource allocation decisions are made based on the entire traffic area and the deployment of the entire aircraft fleet. The objective in making resource allocation decisions is to maximise financial results, rather than focusing solely on profit generated from individual traffic areas. 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 different traffic areas 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.

4. Segment information *(continued)*

Entity-wide disclosures

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

	AIR BALTIC		GROUP	
	2023	**2022**	**2023**	**2022**
	TEUR	**TEUR**	**TEUR**	**TEUR**
Europe	625 421	469 983	628 841	471 557
Other	38 868	28 564	39 141	28 613
TOTAL	**664 289**	**498 547**	**667 982**	**500 170**

Revenue was allocated to geographical areas based on the location of the destination airport.

Reportable segment information is presented as follows:

	2023	**2022**
	TEUR	**TEUR**
Operating revenue of the Parent company	664 289	498 547
Revenue of other segments	5 913	33 816
Intersegment elimination arising from other segments	(2 220)	(32 193)
TOTAL REVENUE	**667 982**	**500 170**
Profit / (loss) of the Parent company	33 852	(53 007)
Loss of other segments	(353)	(1 008)
Intersegment elimination	153	(204)
TOTAL NET PROFIT / (LOSS)	**33 652**	**(54 219)**
Other segment information:		
Amortization and depreciation	(90 372)	(73 585)
Interest revenue	521	112
Interest expense	62 419	(57 425)

	31.12.2023	**31.12.2022**
	TEUR	**TEUR**
Reportable segment of the Parent company's assets	1 323 958	1 155 777
Reportable segment of the other segments' assets	8 240	14 243
Intersegment elimination arising from other segments	(7 491)	(11 098)
TOTAL ASSETS	**1 324 707**	**1 158 922**
Reportable segment of the Parent company's liabilities	1 371 847	1 237 598
Reportable segment of the other segments' liabilities	6 744	12 218
Intersegment elimination arising from other segments	(5 577)	(8 910)
TOTAL LIABILITIES	**1 373 014**	**1 240 906**

All non-current assets, other than the fleet, are located in Latvia. Depending on the assigned capacity of the particular base airport, the aircraft are based at one of the airline's base airports.

5. REVENUE

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Ticket revenue	496 599	367 422	496 599	367 422
ACMI lease revenue (non-lease component)	61 407	47 827	61 407	47 827
Ancillary revenue	42 559	32 389	42 559	32 389
Charter revenue	11 399	9 367	11 399	9 367
Cargo revenue	5 808	6 043	6 220	6 457
Other revenue	3 427	1 471	6 708	2 680
Revenue from contracts with customers	***621 199***	***464 519***	***624 892***	***466 142***
ACMI lease revenue (lease component)	39 294	29 313	39 294	29 313
TOTAL	**660 493**	**493 832**	**664 186**	**495 455**

The Group allocates the consideration in the ACMI contract to the lease and non-lease components based on the internal assessment of their relative stand-alone prices. The lease revenues are neither priced nor invoiced separately and are separated for the disclosure purposes of these financial statements only.

6. OTHER INCOME

Other income represents profit from sale and leaseback transactions.

7. PERSONNEL COSTS

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Remuneration	82 642	60 204	85 839	61 591
State social insurance contributions	19 575	14 225	20 180	14 552
Other personnel expense	1 225	983	1 230	561
TOTAL	**103 442**	**75 412**	**107 249**	**76 704**

In 2023, airBaltic recruited pilots previously working for its subsidiary Aircraft Crew Resources A/S. In order to improve comparability, a reclassification has been made in the comparative information by combining the income statement item Pilot services with the item Personnel costs.

Remuneration of the members of the Executive Board and Supervisory Board for the current year

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Executive Board members				
Remuneration	1 482	1 549	1 482	1 549
State social insurance contributions	349	377	349	377
Supervisory Board members				
Remuneration	158	129	158	129
State social insurance contributions	36	30	36	30
TOTAL	**2 025**	**2 085**	**2 025**	**2 085**
Average number of employees during the reporting year, including:	2 468	1 472	2 531	1 851
Executive Board members	*3*	*3*	*3*	*3*
Supervisory Board members	*4*	*4*	*4*	*4*

8. AIRCRAFT AND SIMILAR LEASE COSTS

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
ACMI-in lease costs	63 958	17 153	63 958	17 153
Short term engine lease	12 231	5 768	12 231	5 768
TOTAL	**76 189**	**22 921**	**76 189**	**22 921**

ACMI-in lease costs include leasing payments for lease, related maintenance, insurance, and crew.

9. MARKETING AND TICKETS SALES COSTS

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Tickets sales costs	21 289	17 225	21 289	17 225
Marketing costs and agents' commissions	15 129	9 661	15 129	9 661
Other sales costs	5 497	4 064	5 497	4 064
TOTAL	**41 915**	**30 950**	**41 915**	**30 950**

10. OTHER OPERATING COSTS

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Crew duty trip expenses	10 292	6 940	10 292	7 578
Professional costs	6 664	6 542	6 590	6 380
IT maintenance services	5 737	4 442	5 693	4 398
Other costs	4 699	3 739	4 763	3 776
Insurances	2 731	2 947	2 731	2 947
Utilities	1 750	825	1 750	825
Pilot services	162	1 614	-	-
TOTAL	**32 035**	**27 049**	**31 819**	**25 904**

11. AUDITOR'S REMUNERATION

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Audit fees	190	118	207	135
Tax and other consulting services	44	28	44	28
Other audit related services	235	190	235	190
TOTAL	**469**	**336**	**486**	**353**

12 CLAIM COMPENSATION

Claim compensation reflects the various compensations received under the Supplemental Commercial Support Agreement concluded in 2022 with the engine manufacturer, insurance indemnities as well as various indemnities under guarantee contracts. The costs which are compensated under claim compensation include engine downtime compensation, short-time lease costs, and other associated costs of flight operations incurred during the year. It is the management board's judgment that the compensation is not a rebate or a discount for any purchased goods or services or future purchases of goods or services, rather it is a compensation for expenses incurred in connections with the delay in delivery causing before mentioned expenses to occur.

13. FINANCE COSTS

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Interest expense on lease	46 023	42 347	46 023	42 347
Interest expense on borrowings	16 396	15 078	16 499	15 183
Other interest and similar expenses	1 325	1 399	1 333	1 431
TOTAL	**63 744**	**58 824**	**63 855**	**58 961**

14. FOREIGN CURRENCY EXCHANGE GAIN / (LOSS), NET

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Exchange gain/(losses) on assets and liabilities, net	16 475	(26 695)	16 475	(26 695)
Exchange gain on foreign currency settlements, net	191	1 319	189	1 316
TOTAL	**16 666**	**(25 376)**	**16 664**	**(25 379)**

15. FINANCE INCOME

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Interest income on bank deposits	522	112	522	112
Other financial income	112	425	-	-
TOTAL	**634**	**537**	**522**	**112**

16. CORPORATE INCOME TAX

	AIR BALTIC		GROUP	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Corporate income tax on dividends	-	-	-	(1 995)
Corporate income tax on conditionally distributed profit	-	-	(17)	-
TOTAL	**-**	**-**	**(17)**	**(1 995)**

Corporate income tax is recognized on an accrual basis and the liability is settled over the period of the distribution of the share dividend. During 2023 the Group has paid Corporate income tax for the amount of EUR 556 thousand that was accrued in 2022.

17. 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 (revalued amount) TEUR	Fixtures a nd fittings (at cost) TEUR	Aircraft equipment (at cost) TEUR	Total TEUR
Cost or revalued amount				
31.12.2021	16 151	20 222	72 121	108 494
Additions	87	1 131	29 200	30 418
Disposals	-	(461)	(3 065)	(3 526)
31.12.2022	**16 238**	**20 892**	**98 256**	**135 386**
Accumulated depreciation				
31.12.2021	8 977	7 857	17 188	34 022
Charge for 2022	318	1 698	8 334	10 350
Charge on revalued amount	310	-	-	310
Disposals	-	(425)	(3 060)	(3 485)
31.12.2022	**9 605**	**9 130**	**22 462**	**41 197**
Cost or revalued amount				
31.12.2022	16 238	20 892	98 256	135 386
Additions	20	1 110	56 308	57 438
Disposals	-	(1 714)	(2 527)	(4 241)
31.12.2023	**16 258**	**20 288**	**152 037**	**188 583**
Accumulated depreciation				
31.12.2022	9 605	9 130	22 462	41 197
Charge for 2023	335	1 850	13 528	15 713
Charge on revalued amount	310	-	-	310
Disposals	-	(1 686)	(2 261)	(3 947)
31.12.2023	**10 250**	**9 294**	**33 729**	**53 273**
Net book value 31.12.2023	**6 008**	**10 994**	**118 308**	**135 310**
Net book value 31.12.2022	**6 633**	**11 762**	**75 794**	**94 189**

17. Property, plant and equipment *(continued)*

GROUP	Buildings (revalued amount) TEUR	Fixtures and fittings (at cost) TEUR	Aircraft (revalued amount) TEUR	Aircraft equipment (at cost) TEUR	Total TEUR
Cost or revalued amount					
31.12.2021	22 006	21 282	4 561	72 121	119 970
Additions	87	1 160	125	29 202	30 574
Disposals	-	(470)	(118)	(3 051)	(3 639)
Revaluation	-	-	695	-	695
31.12.2022	**22 093**	**21 972**	**5 263**	**98 272**	**147 600**
Accumulated depreciation					
31.12.2021	11 578	8 523	929	17 188	38 218
Charge for 2022	681	1 764	378	8 335	11 158
Charge on revalued amount	303	-	-	-	303
Disposals	-	(429)	(98)	(3 045)	(3 572)
31.12.2022	**12 562**	**9 858**	**1 209**	**22 478**	**46 107**
Cost or revalued amount					
31.12.2022	22 093	21 972	5 263	98 272	147 600
Additions	19	1 172	213	56 310	57 714
Disposals	-	(1 760)	(77)	(2 543)	(4 380)
31.12.2023	**22 112**	**21 384**	**5 399**	**152 039**	**200 934**
Accumulated depreciation					
31.12.2022	12 562	9 858	1 209	22 478	46 107
Charge for 2023	701	1 920	369	13 529	16 519
Charge on revalued amount	302	-	64	-	366
Disposals	-	(1 733)	(74)	(2 277)	(4 084)
31.12.2023	**13 565**	**10 045**	**1 568**	**33 730**	**58 908**
Net book value 31.12.2023	**8 547**	**11 339**	**3 831**	**118 309**	**142 026**
Net book value 31.12.2022	**9 531**	**12 114**	**4 054**	**75 794**	**101 493**

Impairment test

At the end of 2023, 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 considered particularly in the context of the war in Ukraine and supply chain issues. 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 is estimated based on their value in use.

In 2023 the impairment test of the property, plant and equipment (including right-of-use assets) and intangible assets that were treated as a separate cash generating unit did not reflect the need for recognizing an impairment provision because the assets' value in use exceeds their carrying amount.

The recoverable amount was based on discounted future cash flow for the period of 2024 – 2028 of the current aircraft fleet of the Parent company. The expected future cash flows were discounted using a discount rate of 11.5% (2022: 9.5%). Several key assumptions used in impairment test are sensitive to changes, which might affect the estimated recoverable value of assets:

- unit revenue per revenue passenger kilometre (ticket yield),
- volume of scheduled passengers,
- USD/EUR exchange rate,
- Weighted Average Cost of Capital (WACC).

17. Property, plant and equipment *(continued)*
Impairment test *(continued)*

In conducting the impairment test the near term yield was forecasted based on the current industry trends as well as on experts' forecasts. It was assumed that the yield in 2024 would increase by 4% compared to 2023 (6% in 2022 impairment test, adjustment driven by improved USD exchange rate and increased passenger volume) and 3% in 2025 compared to 2024. Further assumed 1% to 2% yield increase year-over-year. As for the impairment test purposes the model considered only the current fleet of the airline. Such assumption of constant fleet and hence limited seat capacity offered may potentially affect yield towards further increase.

The model assumes that more than 16% of the total revenue is generated by ACMI operations in 2024 and 2025 (decline compared to 2022 is attributed to increased focus on airBaltic's own network, consequently forecasting increased passenger volumes within the scheduled network), and then declines gradually to 15% in 2028. The total number of assumed passengers in 2024 is 4% above 2019. Passenger growth assumed 15% in 2024 compared to 2023. Compounded annual passenger increase from 2024 to 2028 assumed 6%.

The EUR/USD exchange rate forecasted based on relevant forward prices until 2028 and in the model exchange rate reduced by 2% to use conservative assumption. Rates vary from EUR/USD 1.07 to 1.14.

The market price of jet fuel forecasted based on relevant forward prices and for the impairment test purpose increased by 2%. Rates vary from 850 to 671 USD/MT.

The table below represents 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 5.5%
Ticket yield	Decrease 5.5%
USD exchange rate	Decrease 16.8%
WACC	Increase 34.5%

The management does not consider the changes in the WACC and exchange rate presented above to be reasonably possible changes in the current environment, but for the consistency the sensitivity is presented.

The Company and the Group are continuously monitoring potential threats to core business activities such as new variants of COVID-19 outbreak, developments around war in Ukraine and the Parent company's supply chain issues related to aircraft engine maintenance and amending where necessary short term operating plans accordingly. The Company's and the Group's short term performance will depend largely on the strength of the European economy in 2024, any further spill over effects from the war in Ukraine, and development of aircraft engine supply chain issues which may temporarily ground affected aircraft.

Fully depreciated assets

Property, plant and equipment at 31 December 2023 include fully depreciated assets with a total cost of EUR 3.5 million (31 December 2022: EUR 7.5 million) for the Group and EUR 4.2 million (31 December 2022: EUR 8 million) for airBaltic.

Pledged assets

Information on pledged assets is disclosed in the Note 33 (a).

Revalued assets

In 2022 the revaluation of the Parent company's and the Group's buildings was performed by certified independent estate valuators 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 2022 one of the Group's subsidiaries performed the revaluation of the training aircraft. The valuation of the property was performed by the independent professionals using the comparable market price approach. The management considers that there are no significant changes in 2023 in the market values of the buildings and training aircraft compared to 2022.

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

		AIR BALTIC		GROUP	
		31.12.2023 TEUR	31.12.2022 TEUR	31.12.2023 TEUR	31.12.2022 TEUR
Buildings					
Cost		6 763	6 739	9 756	9 732
Accumulated depreciation		(2 304)	(1 964)	(3 972)	(3 631)
	NET BOOK VALUE	**4 459**	**4 775**	**5 784**	**6 101**
Aircraft Diamond					
Cost		-	-	4 703	4 568
Accumulated depreciation		-	-	(1 503)	(1 209)
	NET BOOK VALUE	**-**	**-**	**3 200**	**3 359**

18. 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			
31.12.2021	16 505	922 606	939 111
Additions – new lease contracts	2 022	173 109	175 131
Terminated contracts	(213)	(102 268)	(102 481)
31.12.2022	**18 314**	**993 447**	**1 011 761**
Accumulated depreciation			
31.12.2021	4 457	164 842	169 299
Charge for 2022	1 975	59 225	61 200
Terminated contracts	(206)	(35 777)	(35 983)
31.12.2022	**6 226**	**188 290**	**194 516**
Impairment loss provision			
31.12.2021	-	(72 891)	(72 891)
Terminated contracts	-	66 491	66 491
31.12.2022	**-**	**(6 400)**	**(6 400)**
Cost			
31.12.2022	18 314	993 447	1 011 761
Additions – new lease contracts	1 855	180 305	182 160
Terminated contracts	(37)	(9 772)	(9 809)
31.12.2023	**20 132**	**1 163 980**	**1 184 112**
Accumulated depreciation			
31.12.2022	6 226	188 290	194 516
Charge for 2023	1 874	70 547	72 421
Terminated contracts	(37)	(3 372)	(3 409)
31.12.2023	**8 063**	**255 465**	**263 528**
Impairment loss provision			
31.12.2022	-	(6 400)	(6 400)
Terminated contracts	-	6 400	6 400
31.12.2023	**-**	**-**	**-**
Net book value 31.12.2023	**12 069**	**908 515**	**920 584**
Net book value 31.12.2022	**12 088**	**798 757**	**810 845**

18. Right-of-use assets *(continued)*

The weighted average incremental borrowing rate applied to measure lease liabilities is 5% for aircraft and 1.7% – 2.6% for other assets.

The following amounts related to the right-of-use assets are recognized in the Income statement:

	AIR BALTIC		GROUP	
	2023	2022	2023	2022
	TEUR	TEUR	TEUR	TEUR
Depreciation charge for the right-of-use assets by class of assets				
Aircraft	*70 547*	*59 225*	*70 547*	*59 225*
Land and buildings	*1 874*	*1 975*	*1 874*	*1 975*
Total depreciation charge	72 421	61 200	72 421	61 200
Interest expense on lease liabilities (Finance cost)	46 023	42 347	46 023	42 347
Expense relating to short-term leases (Aircraft and similar lease expenses)	76 189	22 921	76 189	22 921
TOTAL EXPENSES RELATED TO LEASES	**194 633**	**126 468**	**194 633**	**126 468**

The following amounts related to the right-of-use assets are recognized in the cash flow statement:

	AIR BALTIC		GROUP	
	2023	2022	2023	2022
	TEUR	TEUR	TEUR	TEUR
Principal	82 169	88 705	82 169	88 705
Interest paid	46 033	39 336	46 033	39 336
TOTAL CASH OUTFLOWS	**128 202**	**128 041**	**128 202**	**128 041**

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 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.

19. INVESTMENT PROPERTIES (THE PARENT COMPANY)

	TEUR
Fair value	
31.12.2022	**2 850**
31.12.2023	**2 850**

Information on pledged assets is disclosed in Note 33 (a).

In 2023, the revaluation of the Company's buildings was performed by the certified independent estate valuators using the income approach. No material changes in the fair values were found compared to previous years.

The investment property is primarily leased out to the Group companies.

The following amounts related to the Investment properties are recognized in the Income statement:

	2023	2022
	TEUR	TEUR
Rental income	613	449
Direct operating expenses of the Investment property	(471)	(307)

20. INTANGIBLE ASSETS

	AIR BALTIC			GROUP		
	Trademarks TEUR	Licences, software and other TEUR	Total TEUR	Trademarks TEUR	Licences, software and other TEUR	Total TEUR
Cost						
31.12.2021	13 000	18 050	31 050	13 000	16 874	29 874
Additions	-	1 164	1 164	-	1 225	1 225
Disposals	-	(57)	(57)	-	(59)	(59)
31.12.2022	**13 000**	**19 157**	**32 157**	**13 000**	**18 040**	**31 040**
Accumulated amortization						
31.12.2021	-	11 789	11 789	-	11 847	11 847
Charge for 2022	-	2 036	2 036	-	1 921	1 921
Disposals	-	(54)	(54)	-	(55)	(55)
31.12.2022	**-**	**13 771**	**13 771**	**-**	**13 713**	**13 713**
Cost						
31.12.2022	13 000	19 157	32 157	13 000	18 040	31 040
Additions	-	2 196	2 196	-	2 226	2 226
Disposals	-	(596)	(596)	-	(596)	(596)
31.12.2023	**13 000**	**20 757**	**33 757**	**13 000**	**19 670**	**32 670**
Accumulated amortization						
31.12.2022	-	13 771	13 771	-	13 713	13 713
Charge for 2023	-	2 238	2 238	-	2 130	2 130
Disposals	-	(535)	(535)	-	(535)	(535)
31.12.2023	**-**	**15 474**	**15 474**	**-**	**15 308**	**15 308**
Net book value 31.12.2023	**13 000**	**5 283**	**18 283**	**13 000**	**4 362**	**17 362**
Net book value 31.12.2022	**13 000**	**5 386**	**18 386**	**13 000**	**4 327**	**17 327**

Information on pledged assets is disclosed in the Note 33 (a).

Intangible assets at 31 December 2023 include fully amortized assets with a total cost of EUR 10.5 million (31 December 2022: EUR 8.7 million) for Parent company and EUR 10.5 million (31 December 2022: EUR 8.8 million) for the Group.

Several trademarks of the Parent company are with indefinite useful life. As at 31 December 2023 the net book value of such trademarks was EUR 13 million (31 December 2022: 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 annually for impairment (Note 17).

21. INVESTMENTS IN SUBSIDIARIES AND OTHER INVESTMENTS (THE PARENT COMPANY)

	Investments in subsidiary undertakings TEUR	Other investments TEUR	Total TEUR
31.12.2021	**406**	**3**	**409**
Increase in the share capital of subsidiary	1	-	1
31.12.2022	**407**	**3**	**410**
31.12.2023	**407**	**3**	**410**

Financial information on subsidiary undertakings

		Equity		(Loss) / Profit	
		31.12.2023	31.12.2022	2023	2022
Name	Address	TEUR	TEUR	TEUR	TEUR
Aviation Crew Resources AS (under liquidation)	Pilotu Street 6, Riga, Latvia, LV-1053	116	1 463	(1 347)	(22)
Air Baltic Training SIA	Pilotu Street 6, Riga, Latvia, LV-1053	1 682	765	982	(1 043)
Baltijas Kravu centrs SIA	Ziemeļu Street 18, Riga, Latvia, LV-1053	(190)	(212)	22	46

	Carrying value of investments in subsidiary undertakings		Participating interest in share capital of subsidiary undertakings	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Name	TEUR	TEUR	%	%
Air Baltic Training SIA	3	3	100	100
Aviation Crew Resources AS (under liquidation)	124	124	100	100
Baltijas Kravu centrs SIA	280	280	100	100
TOTAL	**407**	**407**		

22. DIVISION OF FINANCIAL INSTRUMENTS BY CATEGORY

		AIR BALTIC		GROUP	
	Note	Fair Value TEUR	Amortised cost TEUR	Fair Value TEUR	Amortised cost TEUR
As at 31.12.2023					
Trade receivables, security deposits and other receivables	23	-	56 336	-	51 874
Cash	25	-	28 794	-	29 058
Derivative financial instruments		482	-	482	-
TOTAL FINANCIAL ASSETS		**482**	**85 130**	**482**	**80 932**
As at 31.12.2022					
Trade receivables, security deposits and other receivables	23	-	48 992	-	47 863
Cash	25	-	37 611	-	37 999
TOTAL FINANCIAL ASSETS		-	**86 603**	**-**	**85 862**
As at 31.12.2023					
Borrowings and lease	27	-	1 149 863	-	1 150 534
Trade and other payables	29	-	73 921	-	73 828
TOTAL FINANCIAL LIABILITIES		**-**	**1 223 784**	**-**	**1 224 362**
As at 31.12.2022					
Borrowings and lease	27	-	1 059 057	-	1 060 818
Trade and other payables	29	-	48 335	-	48 533
TOTAL FINANCIAL LIABILITIES		**-**	**1 107 392**	**-**	**1 109 351**

23. TRADE AND OTHER RECEIVABLES

	AIR BALTIC		GROUP	
	31.12.2023 TEUR	31.12.2022 TEUR	31.12.2023 TEUR	31.12.2022 TEUR
Non-current				
Security deposits	17 512	14 424	17 514	14 425
Other receivables	1 503	228	1 503	822
Financial assets	***19 015***	***14 652***	***19 017***	***15 247***
Prepayments for acquisition of intangible assets	805	278	805	278
Non-financial assets	***805***	***278***	***805***	***278***
TOTAL	**19 820**	**14 930**	**19 822**	**15 525**
Current				
Trade receivables	19 154	14 885	15 166	11 517
Security deposits	10 477	10 346	10 477	10 346
Other receivables	7 690	9 109	7 214	10 753
Financial assets	***37 321***	***34 340***	***32 857***	***32 616***
Accrued revenue	1 699	8 530	3 742	9 110
Non-financial assets	***1 699***	***8 530***	***3 742***	***9 110***
TOTAL	**39 020**	**42 870**	**36 599**	**41 726**

Security deposits are interest free deposits paid to aircraft lessors, airports and credit card acquirers. Majority of other receivables are balances with the aircraft engine manufacturer under the supplementary business support agreement.
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 expected credit loss identified at the end of the reporting year (31 December 2022: 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	
	31.12.2023 TEUR	31.12.2022 TEUR	31.12.2023 TEUR	31.12.2022 TEUR
Trade receivables, gross	21 465	15 927	17 062	12 625
Expected credit loss allowance	(2 311)	(1 042)	(1 896)	(1 108)
TRADE RECEIVABLES, NET	**19 154**	**14 885**	**15 166**	**11 517**
Current	12 101	8 262	12 171	8 170
1 – 30 days past due	3 046	2 712	2 883	2 615
31 – 60 days past due	289	74	223	15
61 – 90 days past due	180	124	45	1
3 – 6 months past due	363	1 337	20	1 066
More than 6 months past due	5 486	3 418	1 720	758
TRADE RECEIVABLES, GROSS	**21 465**	**15 927**	**17 062**	**12 625**
Credit loss allowance made				
Current	(196)	(163)	(195)	(163)
1 – 30 days past due	(104)	(91)	(102)	(91)
31 – 60 days past due	(16)	(3)	(24)	(2)
61 – 90 days past due	(10)	(5)	(2)	-
3 – 6 months past due	(21)	(58)	(4)	(94)
More than 6 months past due	(1 964)	(722)	(1 569)	(758)
TRADE RECEIVABLES, NET	**19 154**	**14 885**	**15 166**	**11 517**

23. Trade and other receivables *(continued)*

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 2023 and 31 December 2022 was determined as follows:

AIR BALTIC	**Not yet due**	**1 – 30 days past due**	**31 – 60 days past due**	**61 – 90 days past due**	**3-6 months past due**	**more than 6 months past due**
As at 31.12.2023	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Expected loss rate	1.62%	3.41%	5.54%	5.56%	5.79%	35.80%
Gross carrying amount	12 101	3 046	289	180	363	5 486
Loss allowance	196	104	16	10	21	1 964
As at 31.12.2022						
Expected loss rate	1.97%	3.36%	4.05%	4.03%	4.34%	21.12%
Gross carrying amount	8 262	2 712	74	124	1 337	3 418
Loss allowance	163	91	3	5	58	722

GROUP	**Not yet due**	**1 – 30 days past due**	**31 – 60 days past due**	**61 – 90 days past due**	**3-6 months past due**	**more than 90 days past due**
As at 31.12.2023	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Expected loss rate	1.60%	3.54%	10.76%	4.44%	20.00%	91.22%
Gross carrying amount	12 171	2 883	223	45	20	1 720
Loss allowance	195	102	24	2	4	1 569
As at 31.12.2022						
Expected loss rate	2.00%	3.48%	13.33%	0.00%	8.82%	100%
Gross carrying amount	8 170	2 615	15	1	1 066	758
Loss allowance	163	91	2	-	94	758

24. INVENTORIES

	AIR BALTIC		**GROUP**	
	31.12.2023 TEUR	**31.12.2022 TEUR**	**31.12.2023 TEUR**	**31.12.2022 TEUR**
Spare parts	18 800	13 626	18 936	13 726
Allowance for slow moving and obsolete inventory	(2 909)	(2 813)	(2 909)	(2 813)
TOTAL	**15 891**	**10 813**	**16 027**	**10 913**

Cost is determined using the FIFO (first in, first out) method.

25. CASH

	AIR BALTIC		**GROUP**	
	31.12.2023 TEUR	**31.12.2022 TEUR**	**31.12.2023 TEUR**	**31.12.2022 TEUR**
Cash at bank and on hand	12 294	21 111	12 558	21 499
Cash deposit	16 500	16 500	16 500	16 500
TOTAL	**28 794**	**37 611**	**29 058**	**37 999**

There has been no credit loss allowance provided at the end of the reporting year due to its insignificance (31 December 2022: 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.

The Parent company has established a financial collateral for the benefit of the Ministry of Finance – short term deposit with a bank incorporated in Latvia in the amount of EUR 16.5 million (see Note 33 (a)).

26. SHARE CAPITAL

The shareholders structure on 31 December 2023 is as follows:

	Participating interest*, %	A category shares	B category shares	C category shares	D category shares	Share capital TEUR
Republic of Latvia	97.97	20 531 867	74 323 152	113 164 518	38 660 300	545 319
Aircraft Leasing 1 SIA	2.03	5 115 204	-	-	-	51 152
Other	0.000084	211	-	-	-	2
TOTAL	**100**	**25 647 282**	**74 323 152**	**113 164 518**	**38 660 300**	**596 473**

* The share capital of the Company is divided into 4 categories of shares (A, B, C and D) with different nominal values (EUR 10, EUR 3, EUR 1 and EUR 0.10 respectively). Taking into account that each share of each category (regardless of the nominal value of the share) (a) grants one vote at the shareholders' meeting, (b) has the same rights to receive dividends and a share in the liquidation and (c) has the same priority rights to acquire newly issued shares in the event of a capital increase and to acquire convertible bonds in the event of a convertible bond issue, the participating interest of each shareholder is calculated on the basis of the total number of category A shares, category B shares, category C shares and category D shares.

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 its 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.

Other contributions

According to the agreement signed on 27 October 1997, the former shareholders (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 2.6 million). The purpose of the conditional contribution was to financially support and ensure that airBaltic was 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.

27. BORROWINGS AND LEASE LIABILITIES

BORROWINGS		AIR BALTIC		GROUP	
		31.12.2023	31.12.2022	31.12.2023	31.12.2022
		TEUR	TEUR	TEUR	TEUR
Non-current					
Borrowings from the shareholders		36 141	36 141	36 141	36 141
Facility credit agreement		19 697	19 511	19 697	19 511
Eurobond		-	198 812	-	198 812
	TOTAL	**55 838**	**254 464**	**55 838**	**254 464**
Current					
Eurobond and related interest		205 301	5 696	205 301	5 696
Facility credit agreement		3 769	3 187	3 769	3 187
Borrowings from the shareholders		206	133	206	133
Bank borrowings		-	-	671	1 761
	TOTAL	**209 276**	**9 016**	**209 947**	**10 777**

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 in July each year. The unpaid amount of interest charge at the end of each year is accrued and classified within current borrowing. One of the covenants of the EUR 200 million Eurobond due to mature in July 2024 is an obligation for the airline to maintain a minimum liquidity of EUR 25 million measured on a quarterly basis. If the airline fails to comply with this requirement, it is obliged to remedy the situation within 60 days of the respective notice. See Note 2 b) for more details.

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 the 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	TEUR	TEUR	TEUR	TEUR
Non-current	**797 258**	**718 012**	**797 258**	**718 012**
Current	**87 491**	**77 565**	**87 491**	**77 565**

27. Borrowings and lease liabilities *(continued)*

The tables below show 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
01.01.2022	**679 412**	**36 225**	**219 281**	**934 918**
New lease contracts	178 450	-	-	178 450
New contracts	-	-	9 294	9 294
Repayment, excluding interest payments	(88 705)	-	(2 198)	(90 903)
Interest paid	(39 336)	(1 030)	(13 924)	(54 290)
Interest calculated	42 347	1 079	13 999	57 425
Currency translation difference	26 134	-	-	26 134
Amortisation of transaction costs and similar expenses	310	-	882	1 192
Set-off transactions with counterparties	(3 035)	-	-	(3 035)
Transaction costs and similar expenses	-	-	(128)	(128)
31.12.2022	**795 577**	**36 274**	**227 206**	**1 059 057**
New lease contracts	188 069	-	-	188 069
New contracts	-	-	4 019	4 019
Repayment, excluding interest payments	(82 169)	-	(3 207)	(85 376)
Interest paid	(46 033)	(2 092)	(14 315)	(62 440)
Interest calculated	46 023	2 165	14 231	62 419
Currency translation difference	(17 003)	-	-	(17 003)
Amortisation of transaction costs and similar expenses	299	-	833	1 132
Transaction costs and similar expenses	(14)	-	-	(14)
31.12.2023	**884 749**	**36 347**	**228 767**	**1 149 863**

GROUP	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Loan from bank TEUR	Total TEUR
01.01.2022	**679 412**	**36 225**	**219 281**	**2 176**	**937 094**
New lease contracts	178 450	-	-	-	178 450
New contracts	-	-	9 294	-	9 294
Repayment, excluding interest payments	(88 705)	-	(2 198)	(414)	(91 317)
Interest paid	(39 336)	(1 030)	(13 924)	(106)	(54 396)
Interest calculated	42 347	1 079	13 999	105	57 530
Currency translation difference	26 134	-	-	-	26 134
Amortisation of transaction costs and similar expenses	310	-	882	-	1 192
Set-off transactions with counterparties	(3 035)	-	-	-	(3 035)
Transaction costs and similar expenses	-	-	(128)	-	(128)
31.12.2022	**795 577**	**36 274**	**227 206**	**1 761**	**1 060 818**
New lease contracts	188 069	-	-	-	188 069
New contracts	-	-	4 019	-	4 019
Repayment, excluding interest payments	(82 169)	-	(3 207)	(1 090)	(86 466)
Interest paid	(46 033)	(2 092)	(14 315)	(104)	(62 544)
Interest calculated	46 023	2 165	14 231	103	62 522
Currency translation difference	(17 003)	-	-	-	(17 003)
Amortisation of transaction costs and similar expenses	299	-	833	1	1 133
Transaction costs and similar expenses	(14)	-	-	-	(14)
31.12.2023	**884 749**	**36 347**	**228 767**	**671**	**1 150 534**

27. Borrowings and lease liabilities *(continued)*

The table below shows borrowings and lease liabilities by period that interest rates are fixed for (period until earlier of next interest rate repricing date and maturity date).

	AIR BALTIC		GROUP	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	TEUR	TEUR	TEUR	TEUR
Less than 1 year	296 768	86 581	297 439	88 342
Later than 1 year but not later than 5 years	446 710	578 971	446 710	578 971
Later than 5 years	406 385	393 505	406 385	393 505
TOTAL	**1 149 863**	**1 059 057**	**1 150 534**	**1 060 818**

Leases are payable as follows:

	AIR BALTIC		GROUP	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	TEUR	TEUR	TEUR	TEUR
Within one year	133 312	119 851	133 312	119 851
Later than 1 year but not later than 5 years	525 229	455 381	525 229	455 381
Later than 5 years	455 526	438 009	455 526	438 009
MINIMUM LEASE PAYMENTS	**1 114 067**	**1 013 241**	**1 114 067**	**1 013 241**
Future finance charges	(229 318)	(217 664)	(229 318)	(217 664)
RECOGNISED AS A LIABILITY	**884 749**	**795 577**	**884 749**	**795 577**

The present value of lease liabilities is as follows:

	AIR BALTIC		GROUP	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	TEUR	TEUR	TEUR	TEUR
Within one year	87 492	77 565	87 492	77 565
Later than 1 year but not later than 5 years	394 863	330 754	394 863	330 754
Later than 5 years	402 394	387 258	402 394	387 258
MINIMUM LEASE PAYMENTS	**884 749**	**795 577**	**884 749**	**795 577**

During 2023 and 2022 the Group has complied with the financial covenants of its borrowing facilities.
Information on pledged assets is disclosed in the Note 33 (a).

28. PROVISIONS

	AIR BALTIC		GROUP	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	TEUR	TEUR	TEUR	TEUR
Non-current				
Aircraft redelivery provision (see Note 2l)	23 618	19 115	23 618	19 115
Provision for legal disputes (see Note 33 (b))	4 240	12 313	4 240	12 313
	27 858	**31 428**	**27 858**	**31 428**
Current				
Provision for carbon emissions	35 950	30 534	35 950	30 534
Provision for onerous contracts	-	3 431	-	3 431
	35 950	**33 965**	**35 950**	**33 965**
TOTAL	**63 808**	**65 393**	**63 808**	**65 393**

28. **Provisions** *(continued)*

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	Total TEUR
31.12.2021	**32 986**	**14 527**	**11 813**	**11 287**	**70 613**
Additional provision charged to Right-of-use assets	-	4 588	-	-	4 588
Additional charged/credited to Income statement:					
– additional provisions recognised	-	-	1 692	19 247	20 939
– unused amounts reversed	(4 805)	-	(1 192)	-	(5 997)
Amounts used during the year	(24 750)	-	-	-	(24 750)
31.12.2022	**3 431**	**19 115**	**12 313**	**30 534**	**65 393**
Additional provision charged to Right-of-use assets	-	4 503	-	-	4 503
Additional charged/credited to Income statement:					
– additional provisions recognised	-	-	-	22 257	22 257
– unused amounts reversed	-	-	(8 073)	-	(8 073)
Amounts used/settled during the year	(3 431)	-	-	(16 841)	(20 272)
31.12.2023	**-**	**23 618**	**4 240**	**35 950**	**63 808**

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 airline returned 11 of 12 Q400s by the end of 2022 and the last one in February of 2023 thus completing the phase out of Q400s from its fleet.

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 the restart one of the cases. Legal advisors are of the opinion that there are strong grounds that the airline can successfully defend its position.

The airline after taking advice from its legal advisors has also created provision for potential cost of ultimate settlement with some of its suppliers.

Provision for carbon emissions

The provision represents the expenses associated with the industry carbon dioxide (CO_2) emissions scheme. In 2023 the Parent company emitted 468 291 (2022: 383 240) CO_2 emissions and received and used 173 190 free credits (2022: 177 270). The airline is obliged to submit and settle the carbon emission allowances under the EU Emissions Trading System (ETS) in September of 2024.

As of the reporting date, the airline has hedged 22% of its outstanding 2023 liability at an average price of EUR 75 per tonne. The provision for carbon emissions has been calculated using the average hedge price for the hedged portion of CO_2 emissions and the market rate as of December 31, 2023, for the unhedged portion. The final cost of the settlement will depend upon the market price of the remaining emission credits the airline will need to purchase in 2024 to settle its obligations in respect of 2023.

29. TRADE AND OTHER PAYABLES

	AIR BALTIC		GROUP	
	31.12.2023 TEUR	31.12.2022 TEUR	31.12.2023 TEUR	31.12.2022 TEUR
Trade payables	31 212	24 730	30 800	20 819
Accrued liabilities	42 678	23 586	42 996	27 588
Other payables	31	19	32	126
TOTAL	**73 921**	**48 335**	**73 828**	**48 533**

30. TAX LIABILITIES

	AIR BALTIC		GROUP	
	31.12.2023 TEUR	31.12.2022 TEUR	31.12.2023 TEUR	31.12.2022 TEUR
Non-current				
State social insurance contributions	-	1 263	-	1 263
Personal income tax	-	681	-	681
TOTAL	**-**	**1 944**	**-**	**1 944**
Current				
State social insurance contributions	9 214	4 374	9 245	5 106
Personal income tax	5 200	2 207	5 262	2 634
Other	26	-	36	-
TOTAL	**14 440**	**6 581**	**14 543**	**7 740**

31. CONTRACT LIABILITIES, AIRPORT TAXES AND OTHER LIABILITIES

	AIR BALTIC		GROUP	
	31.12.2023 TEUR	31.12.2022 TEUR	31.12.2023 TEUR	31.12.2022 TEUR
Contract liabilities (unearned revenue) from ticket revenue, travel vouchers and ACMI contracts	51 908	36 326	51 908	36 326
Airport taxes collected and still payable	14 400	11 021	14 400	11 021
Amounts collected on behalf of other airlines	2 381	8 054	2 381	8 054
Deferred income from loyalty program revenue	979	888	979	888
Other	147	-	633	189
TOTAL	**69 815**	**56 289**	**70 301**	**56 478**

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 balance is classified short-term, as it either expires within the next 12 months or it is at the discretion of the customer to decide when it is used (for the remaining balances carried forward from the beginning of previous period). Based on experience, the portion typically unused within next year represents 4% of tickets sold. Amounts collected on behalf of other airlines include the value of unflown tickets sold to customers on behalf of other airlines which are usually settled between the airlines within a few months after the flight.

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	
	2023 TEUR	2022 TEUR	2023 TEUR	2022 TEUR
Passenger revenue	31 898	21 736	31 898	21 736
Revenue from ACMI contracts	3 676	2 052	3 676	2 052
Revenue from loyalty program	226	245	226	245

32. RELATED PARTY AND GOVERNMENT RELATED PARTY TRANSACTIONS

The Parent company has received a loan from its shareholders. Please see Note 27.

During 2023 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 (under liquidation)	2023 /31.12.2023	8	1 679	-	51
	2022 /31.12.2022	43	29 770	235	3 574
Baltijas Kravu Centrs SIA	2023 /31.12.2023	167	638	157	142
	2022 /31.12.2022	153	569	66	67
Air Baltic Training SIA	2023 /31.12.2023	718	689	4 606	302
	2022 /31.12.2022	604	572	3 405	404
	TOTAL 2023 /31.12.2023	**893**	**3 006**	**4 763**	**495**
	TOTAL 2022 /31.12.2022	**800**	**30 911**	**3 706**	**4 045**

In 2022 Aviation Crew Resources AS (under liquidation) provided pilots lease services to the Parent company. The liquidation of the subsidiary was initiated in January 2023.

The following table provides the information on dividends received and receivable:

Related party		Dividends received TEUR	Amounts owed by related parties TEUR
Aviation Crew Resources AS (under liquidation)	2023 /31.12.2023	112	-
	2022 /31.12.2022	425	8
Baltijas Kravu Centrs SIA	2023 /31.12.2023	-	284
	2022 /31.12.2022	-	284
	TOTAL 2023 /31.12.2023	**112**	**284**
	TOTAL 2022 /31.12.2022	**425**	**292**

The Parent company has entered into transactions with Ministry of Transport of the Republic of Latvia (the holder of 97.97% 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 25 million (2022: EUR 19 million) and VAS Latvijas Gaisa Satiksme (purchase of navigation service) amounting to EUR 2.8 million (2022: EUR 2.2 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 tickets, 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	
	31.12.2023 TEUR	**31.12.2022 TEUR**	**31.12.2023 TEUR**	**31.12.2022 TEUR**
Payables to RIGA International airport	5 033	3 125	5 033	3 125
Payables to VAS Latvijas Gaisa Satiksme	324	197	324	197

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 and are carried at arm's length.

33. COMMITMENTS AND CONTINGENCIES

a) Guarantees and pledges

The Parent company has pledged its current and future trademarks and 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 2023 was EUR 50 million (31 December 2022: EUR 34.3 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 2023 was EUR 4.5 million (31 December 2022: EUR 4.7 million). The Parent company has also established a financial collateral for the benefit of the Ministry of Finance – short term deposit with a bank incorporated in Latvia in the amount of EUR 16.5 million (see Note 25).

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 2023 was EUR 909 million (31 December 2022: 799 million).

A Group company has pledged its Property, plant and equipment and intangible assets for the total amount of EUR 4 572 thousand to a bank incorporated in Latvia as security for the loan received (see Note 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 legal proceedings in Latvia and in other countries. Typical lawsuits relate to claims arising in the ordinary course of the Parent company's business. The most common of these claims relate to disruptions to air services, including flight delays, cancellations, lost or damaged baggage, etc. In addition, the Parent company and the Group are involved in a number of legal proceedings relating to employment matters. Material legal claims are described below. The cases below comprise those for which legal provisions have been made to cover any expected future expenditure and others where it is considered that there is only a contingent liability and no provisions have been made.

AKB Investbank

The Parent company and its former shareholder Baltijas Aviacijas Sistemas ("BAS") have been in dispute with the now bankrupt AKB Investbank ("Investbank") since March 2012. Investbank sought repayment of EUR 18.4 million in relation to three loans it had entered into with BAS, which Investbank claimed were guaranteed by the Parent company. When BAS failed to repay the loans, three lawsuits were brought in Russia against the Parent company as guarantor. Two judgments were made in favour of Investbank, but the recovery was not enforceable in the Russian Federation. After several years of litigation and several unsuccessful attempts to reinstate the time limits or reopen the proceedings, the administrators of Investbank filed a claim in Russia against the Parent company, claiming that the Parent company, and not BAS, was the real debtor under the loan agreements. This claim was rejected in the first instance, but was appealed and on 30 January 2022 the Court of Appeal overturned the decision, granted the claim and decided to annul the loan and guarantee agreements. In addition, the Court of Appeal ruled that the loan amounts totalling EUR 31.78 million should be recovered from the Parent company.

On 5 September 2023, the Court of Cassation agreed with the position of the Court of Appeal regarding the invalidity of the loan agreement between BAS and Investbank, but the Court also stated that the material part of the Court of Appeal's decision had no legal basis and dismissed part of the decision. The Parent company and its lawyers are currently considering the next procedural steps in this litigation. Although the administrators of Investbank have filed a new substantive claim in order to recover the amounts, this claim can be considered only after the court reconsiders and overturns all the judgements which were previously made in favour of Investbank in 6 cases against the Parent company and BAS. The Parent company and its lawyers consider that this creates uncertainty and substantial legal obstacles which together with expiration of the limitation period make the prospects of the new claim quite vague. In addition, in order to enforce the judgment in Latvia, the administrator of Investbank will have to file an action for recognition of the judgment in Latvia.

Havas litigations

In April 2022, SIA Havas Latvia ("Havas"), a former provider of ground handling services to the Parent company at Riga airport, filed a lawsuit against the Parent company. This case was followed in August 2022 by two additional cases brought by Havas against the Parent company. The total amount claimed in these cases is EUR 4.6 million. Based on advice from its legal advisors, the Parent company considers that the claims are unfounded.

One of the cases involves a claim by Havas for payment of EUR 0.4 million that was withheld, despite Havas itself not fulfilling the contract. The amounts were withheld by the Parent company in line with the respective contractual provisions due to the failure of Havas to provide the agreed ground handling services in 2021. Non–fulfilment resulted in the Parent company having to deploy its own personnel to carry out the services contractually entrusted to Havas.

The other two cases, with claims totalling EUR 4.2 million, pertain to Havas' demand for a guaranteed amount of revenue for the years 2020 and 2021, irrespective of the number of turnarounds handled. In 2020, the Parent company did not achieve the number of turnarounds projected in the ground handling agreement (dated 2016) due to flight bans stemming from the Covid–19 pandemic. The contractual provisions do not permit Havas to claim a minimum total amount of revenue. In the case which concerns 2021, Havas also argues that the Parent company could not terminate the ground handling agreement one month early due to unremedied non–performance by Havas.

All three cases are pending before a first instance court.

33. Commitments and contingencies *(continued)*
b) Legal disputes *(continued)*

Ryanair v. European Commission

In response to the COVID-19 pandemic, many European governments provided state aid to airlines in the form of recapitalisation, loans, loan guarantees and other measures. The support was provided in line with the Temporary Framework on State aid measures to support the economy during the COVID-19 outbreak (the "Temporary Framework") adopted by the European Commission, and in accordance with Article 107(2) (b) of the Treaty on the Functioning of the European Union.

On 3 July 2020, the European Commission approved a Latvian measure of EUR 250 million to recapitalise airBaltic in the context of the coronavirus outbreak. The aid was approved under the Temporary Framework. The Commission found that the recapitalisation measure will address the economic impact of the coronavirus outbreak in Latvia and 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 this decision before the General Court of the European Union (Case T-737/20). The case was published in the Official Journal of the European Union on 29 January 2021. The Latvian Government and airBaltic have intervened in support of the Commission's decision. This case was one of a series of cases brought by Ryanair before the Court of First Instance challenging public support granted to itscompetitors.

On 18 October 2023 the General Court of the European Union dismissed the Ryanair claim in the case.

RemPro litigations

SIA REM PRO has filed a claim against the Parent Company challenging the termination of the Hangar Design Contract and seeking recovery in total of the sum of EUR 1.27 million. The Parent Company considers the claim to be unfounded and has also filed a counterclaim seeking recovery from SIA REM PRO of EUR 1.1 million for breach of contract. SIA REM PRO also sought to freeze the payment of the Performance Guarantee and Guarantee Insurance Policy issued by the co-defendants in the action, BluOr Bank and Compensa Vienna Insurance Group respectively. However, on 23 February 2023, the court issued a decision on these interim measures confirming that the Parent Company's claim for payment of the guarantee could not be frozen. In its decision on the interim measures, the court also ruled that the Parent Company's position on merits was prima facie well founded. The case on the merits is pending before the Economic Court.

In addition, SIA REM PRO has filed a claim against the Parent Company seeking prohibition to use the construction design documents prepared by SIA REM PRO. On 13 October 2023 Riga City Court dismissed the application of SIA REM PRO for interim measures, and on 7 December 2023 Riga Regional Court dismissed the appeal of SIA REM PRO regarding the decision of the court of first instance. The case on the merits is pending before Riga City Court.

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

The Parent company is involved in a dispute with Taurus Asset Management Fund Limited, a company incorporated in the Bahamian Islands ("Taurus") and SIA Eurobalt Junipro, since 2012. The dispute relates to payment of EUR 5 million provided by Taurus to the Parent company in 2011. Taurus entered into an agreement with the Latvian Government and creditors dated 3 October 2011 regarding the restructuring and refinancing of the Parent company (the "October 2011 Agreement"). The Latvian Government claims that as a result of SIA Baltijas Aviācijas Sistēmas and Taurus' failure to fulfil its contractual obligations under the October 2011 Agreement, Taurus lost its right to claim the EUR 5 million it provided to the Parent Company.

SIA Eurobalt Junipro claims that it took over the claim from Taurus in 2012 based on assignment agreement and claimed the original EUR 5 million plus statutory default interest of EUR 3.07 million. In 2020, the Latvian court of first instance ruled against the Parent company, which appealed the judgement. On 16 March 2023, the Court of Appeal rejected the claim of SIA Eurobalt Junipro and confirmed that the claimant had no claims against the Parent company (the Latvian courts have also ruled in favour of the Parent company and the Latvian government in a similar case arising from the October 2011 Agreement against one of the Parent company's creditors). The cassation appeal was filed by the other party. By decision of 8 September 2023, the Supreme Court refused to initiate cassation proceedings against the cassation complaint of Eurobalt Junipro SIA. Consequently, the proceedings in this case are terminated in their entirety.

33. Commitments and contingencies *(continued)*

c) Commitments

In May 2018, airBaltic ordered 30 firm deliveries for Airbus A220-300. The aggregate list price for the aircraft to be delivered in 2024 is about EUR 380 million.

In 2023, airBaltic ordered 30 firm deliveries for Airbus A220-300. The aggregate list price for the aircraft to be delivered in future years is about EUR 2.9 billion.

As at 31 December 2023 Air Baltic Training SIA had a contractual liability relating to the acquisition of 1 Diamond DA40NG aircraft. The aggregate list price for the aircraft is around EUR 0.5 million.

34. SUBSEQUENT EVENTS

One additional aircraft has been received by the airline up to the date of this report. This brings the total number of aircraft in the airline's fleet to 47.

During the period between the last day of the reporting period and the date of signing this report, there have been no other events that could materially impact the financial position of the Group as of 31 December 2023 and should be reflected in this report.

The financial statements set out on pages 137 to 182 were approved on 29 February 2024 by:

Martin Alexander Gauss Chairman of the Executive Board	Vitolds Jakovļevs Member of the Executive Board	Pauls Jurs Cālītis Member of the Executive Board

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

Anda Līce
Chief Accountant

pwc

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 2022, 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 28 February 2023.

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 2022;
- 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 2022 to 31 December 2022, are disclosed in Note 10 to the financial statements.

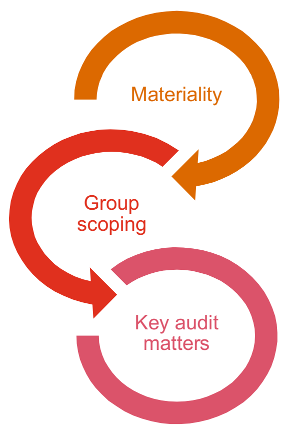
PricewaterhouseCoopers SIA
Kr. Valdemāra iela 21-21, Rīga, LV-1010, Latvia, LV40003142793
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

Material uncertainty related to going concern – Company and Group

We draw attention to note 2(b) ‘Going Concern” to the financial statements, which discusses the impact on travel demand due to the ongoing war related travel restrictions, effects of fuel price and the liquidity and confidence of the debt capital market that could negatively affect the availability of sufficient funding, and hence on the Company’s and on the Group’s business levels and ability to continue as a going concern. We draw your attention to the fact that if the Group’s cash flows remain negatively affected the Company and the Group may need, within the next 12 months, to obtain additional funding and/or renegotiate its current debt obligations to enable the Company and Group to maintain the minimum cash level not to be in breach of its current debt obligations. These events or conditions, along with other matters also set forth in Note 17, 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 4,985 thousand
- Overall Group materiality: EUR 5,000 thousand

- Full scope audits were conducted for four Group entities.
- The Group audit team performed the work on all four 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 4,985 thousand and to the Group was EUR 5,000 thousand.
How we determined it	Approximately 1% of revenue for 2022.
Rationale for the materiality benchmark applied	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. 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.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 498 thousand for the Company and above EUR 500 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)	
As outlined in Notes 17, 18 and 20 to the financial statements, in the balance sheet as at 31 December 2022, property, plant and equipment of the Company and the Group amount to EUR 94,189 thousand and EUR 101,493 thousand, respectively, right of use assets of the Company and the Group amount to EUR 810,845 thousand, and intangible assets of the Company and the Group amount to EUR 18,386 thousand and EUR 17,327 thousand, respectively. Property, plant and equipment, right of use assets and intangible assets together represent 80% of the total assets of the Company and 80% of the total assets of the Group. The intangible assets include non-depreciable assets (trademark) and as such are required to be tested by Management for impairment every year.	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. Our audit procedures included, among others, assessment of the methodologies and assumptions used by the management, in particular those related to the forecasted growth rate estimates, fuel costs and discount rates. We evaluated and challenged the future cash flow forecasts of the CGU, and the process and the assumptions used from which the cash flow forecasts were drawn up, and we checked the mathematical accuracy of the resulting VIU calculations. In doing this, we compared the forecast used for the impairment test to the latest

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 geopolitical and economic situation in 2022 and going forward, 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 November 2022). 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 (“VIU”). Management used VIU 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.

approved budget and plans and assessed their reasonableness by comparing to recent years (2019 - 2022) actual results and the recent past track record of the management’s accuracy in forecasting. 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 COVID-19, the war in Ukraine, leasing out of excess capacity and supply chain issues) 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 to discount the future cashflows in their model we reviewed management’s methodology and inputs used, involving internal valuation specialists.

We recalculated management’s own sensitivity analysis of key assumptions used in the VIU assessment and performed our own 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 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), 17, 18 and 20 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 three 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 which is included in the accompanying Sustainability and Annual Report 2022 The other information comprises in particular:

- General information on the Group’s Parent company, as set out on page 4 of the accompanying Sustainability and Annual Report 2022;
- Glossary, as set out on page 5 of the accompanying Sustainability and Annual Report 2022;

- the Management report, as set out on pages 94 to 104 of the accompanying Sustainability and Annual Report 2022;
- the Statement of Management Responsibility, as set out on page 104 of the accompanying Sustainability and Annual Report 2022;
- the Consolidated non-financial report, as set out on page 104 of the accompanying Sustainability and Annual Report 2022;
- the Corporate Governance Statement, as set out on pages 74 to 82 of the accompanying Sustainability and Annual Report 2022;

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

Our opinion on the financial statements does not cover the other information identified above. However, informaton included on pages 9 to 86 of the accompanying Sustainability and Annual Report 2022 was subject of our verification to which we have issued a separate limited assurance report on pages 6 to 8.

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 Consolidated 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 4 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Eva Jansen-Diener
Persona per procura

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
28 February 2023

	Note	AIR BALTIC 2022 TEUR	AIR BALTIC 2021 TEUR	GROUP 2022 TEUR	GROUP 2021 TEUR
OPERATING REVENUE					
Revenue and other income	5	493 832	195 908	495 455	198 259
Other income	6	4 715	5 848	4 715	5 848
		498 547	**201 756**	**500 170**	**204 107**
OPERATING EXPENSES AND CLAIM COMPENSATIONS					
Fuel		(169 927)	(52 841)	(169 927)	(52 841)
Airport, handling and en route charges		(86 760)	(54 336)	(86 192)	(53 853)
Amortization and depreciation	17,18,20	(73 585)	(50 827)	(74 280)	(51 604)
Personnel costs	7	(47 260)	(31 732)	(76 704)	(51 830)
Marketing and tickets sales costs	8	(30 950)	(14 217)	(30 950)	(14 268)
Pilot services		(29 766)	(20 176)	-	-
Other operating costs	9	(25 435)	(17 561)	(25 904)	(18 736)
Aircraft and similar lease		(22 921)	(4 365)	(22 921)	(4 365)
Aircraft maintenance		(15 003)	(9 960)	(15 004)	(9 960)
Passenger service		(12 573)	(2 998)	(12 573)	(2 998)
Provision for legal disputes	11	(500)	(312)	(500)	(312)
Claim compensations	12	46 789	691	46 789	691
Reversals of impairment losses on investments in subsidiaries		-	1 027	-	-
		(467 891)	**(257 607)**	**(468 166)**	**(260 076)**
FINANCE INCOME / (EXPENSES)					
Finance costs	13	(58 824)	(51 374)	(58 961)	(51 519)
Foreign currency exchange loss, net	14	(25 376)	(26 854)	(25 379)	(26 855)
Finance income	15	537	428	112	153
		(83 663)	**(77 800)**	**(84 228)**	**(78 221)**
LOSS BEFORE TAX		**(53 007)**	**(133 651)**	**(52 224)**	**(134 190)**
Corporate income tax	16	-	-	(1 995)	(1 528)
LOSS FOR THE YEAR		**(53 007)**	**(133 651)**	**(54 219)**	**(135 718)**

The notes on pages 111 to 149 form an integral part of these financial statements.

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
LOSS FOR THE YEAR	**(53 007)**	**(133 651)**	**(54 219)**	**(135 718)**
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS				
Hedging loss reclassified to profit or loss	-	480	-	480
	-	**480**	**-**	**480**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Depreciation of revaluation reserve	(310)	(310)	392	(303)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(310)**	**170**	**392**	**177**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(53 317)**	**(133 481)**	**(53 827)**	**(135 541)**

The notes on pages 111 to 149 form an integral part of these financial statements.

		AIR BALTIC		GROUP	
ASSETS	**Note**	**31.12.2022 TEUR**	**31.12.2021 TEUR**	**31.12.2022 TEUR**	**31.12.2021 TEUR**
NON-CURRENT ASSETS					
Property, plant and equipment	17	94 189	74 472	101 493	81 752
Right-of-use assets	18	810 845	696 921	810 845	696 921
Investment properties	19	2 850	2 850	-	-
Intangible assets	20	18 386	19 261	17 327	18 027
Investments in subsidiaries and other investments	21	410	409	3	3
Prepayments for maintenance		61 196	31 980	61 196	31 980
Prepayments for acquisition of property, plant and equipment		50 133	47 491	50 283	47 640
Trade and other receivables	23	14 930	25 945	15 525	25 732
		1 052 939	**899 329**	**1 056 672**	**902 055**
CURRENT ASSETS					
Inventories	24	10 813	7 575	10 913	7 659
Prepaid expenses		11 544	13 965	11 612	14 021
Trade and other receivables	23	42 870	22 844	41 726	22 193
Cash	25	37 611	79 155	37 999	79 314
		102 838	**123 539**	**102 250**	**123 187**
TOTAL ASSETS		**1 155 777**	**1 022 868**	**1 158 922**	**1 025 242**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	26	596 473	506 473	596 473	506 473
Other contributions	26	2 644	2 490	2 644	2 490
Revaluation reserve		3 037	3 347	3 886	3 494
Reorganization reserve	26	1 932	1 932	-	-
Accumulated loss:					
accumulated loss brought forward		(632 901)	(499 250)	(630 768)	(495 050)
loss for the year		(53 007)	(133 651)	(54 219)	(135 718)
TOTAL EQUITY		**(81 822)**	**(118 659)**	**(81 984)**	**(118 311)**
LIABILITIES					
NON-CURRENT LIABILITIES					
Lease liabilities	27	718 012	602 083	718 012	602 083
Borrowings	27	254 464	247 767	254 464	247 767
Provisions	28	31 428	35 814	31 428	35 814
Tax liabilities	30	1 944	6 571	1 944	6 766
Financial injections from the shareholders (with the intention to capitalise)	26	-	45 000	-	45 000
		1 005 848	**937 235**	**1 005 848**	**937 430**
CURRENT LIABILITIES					
Lease liabilities	27	77 565	77 329	77 565	77 329
Contract liabilities, airport taxes and other liabilities	31	56 289	38 942	56 478	38 984
Trade and other payables	29	48 335	39 056	48 533	37 964
Provisions	28	33 965	34 799	33 965	34 799
Tax liabilities	30	6 581	6 427	7 740	7 132
Borrowings	27	9 016	7 739	10 777	9 915
		231 751	**204 292**	**235 058**	**206 123**
TOTAL LIABILITIES		**1 237 599**	**1 141 527**	**1 240 906**	**1 143 553**
TOTAL EQUITY AND LIABILITIES		**1 155 777**	**1 022 868**	**1 158 922**	**1 025 242**

The notes on pages 111 to 149 form an integral part of these financial statements.

	Note	AIR BALTIC 2022 TEUR	AIR BALTIC 2021 TEUR	GROUP 2022 TEUR	GROUP 2021 TEUR
CASH FLOWS FROM OPERATING ACTIVITIES					
LOSS BEFORE TAX		**(53 007)**	**(133 651)**	**(52 224)**	**(134 190)**
Adjustments for:					
Depreciation and amortisation	17,18,20	73 585	50 827	74 280	51 604
Interest expense	13	57 425	50 100	57 530	50 223
Foreign exchange loss	14	26 695	25 619	26 695	25 619
Change in provisions and financial liabilities	28	31 034	17 070	31 034	17 070
Profit on sales and leaseback transactions	6	(4 715)	(5 848)	(4 715)	(5 848)
Profit on disposal of property, plant and equipment		(1 669)	(1 420)	(1 646)	(787)
Interest income		(112)	(153)	(112)	(153)
Reversal of impairment of investment in subsidiaries	21	-	(1 027)	-	-
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		**129 236**	**1 517**	**130 842**	**3 538**
(Decrease) / increase in payables		(17 642)	18 097	(16 116)	20 250
Increase in receivables		(36 680)	(23 110)	(36 792)	(24 073)
Increase in deposits		(2 295)	(3 882)	(2 507)	(3 882)
Increase in inventories		(3 238)	(2 612)	(3 254)	(2 605)
Corporate income tax paid		-	-	(1 826)	(1 511)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		**69 381**	**(9 990)**	**70 347**	**(8 283)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances paid for aircraft		(29 111)	(31 873)	(29 111)	(31 873)
Acquisition of property, plant and equipment and intangible assets		(31 048)	(13 462)	(31 265)	(12 533)
Refund of advances paid for aircraft		33 222	29 267	33 222	29 267
Received profit from sales and leaseback transactions		4 715	5 848	4 715	5 848
Proceeds from sale of property, plant and equipment		1 721	1 449	1 721	1 449
Interest received		475	3	475	3
Proceeds from liquidation of subsidiary	21	-	2 261	-	-
Purchase of shares in subsidiary		-	4	-	-
NET CASH USED IN INVESTING ACTIVITIES		**(20 026)**	**(6 503)**	**(20 243)**	**(7 839)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Lease principal payments	27	(88 705)	(66 453)	(88 705)	(66 453)
Interest paid	27	(54 290)	(46 599)	(54 396)	(46 720)
Repayment of borrowings	27	(2 198)	(240)	(2 612)	(655)
Financial injections from the shareholders (with the intention to capitalise)	26	45 000	45 000	45 000	45 000
Borrowings received	27	9 294	15 959	9 294	15 959
NET CASH USED IN FINANCING ACTIVITIES		**(90 899)**	**(52 333)**	**(91 419)**	**(52 869)**
Decrease in cash		(41 544)	(68 826)	(41 315)	(68 991)
Cash at the beginning of the reporting year		79 155	147 981	79 314	148 305
CASH AT THE END OF THE REPORTING YEAR	25	**37 611**	**79 155**	**37 999**	**79 314**

The notes on pages 111 to 149 form an integral part of these financial statements.

	Share capital TEUR	Other contri-butions TEUR	Reval-uation reserve TEUR	Reorga-nization reserve TEUR	Cash flow hedging reserve TEUR	Accumu-lated loss TEUR	Loss for the year TEUR	TOTAL TEUR
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)**
Comprehensive income								
Loss for the year	-	-	-	-	-	-	(53 007)	(53 007)
Other comprehensive income	-	-	(310)	-	-	-	-	(310)
TOTAL COMPREHENSIVE LOSS	**-**		**(310)**	**-**	**-**	**-**	**(53 007)**	**(53 317)**
Increase in share capital (see Note 26)	90 000	-	-	-	-	-	-	90 000
Currency translation difference	-	154	-	-	-	-	-	154
Allocation of prior year result	-	-	-	-	-	(133 651)	133 651	-
31.12.2022	**596 473**	**2 644**	**3 037**	**1 932**	**-**	**(632 901)**	**(53 007)**	**(81 822)**

The notes on pages 111 to 149 form an integral part of these financial statements.

	Share capital TEUR	Other contributions TEUR	Revaluation reserve TEUR	Cash flow hedging reserve TEUR	Accumulated loss TEUR	Loss for the year TEUR	TOTAL TEUR
31.12.2020	**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)**
COMPREHENSIVE INCOME							
Loss for the year	-	-	-	-	-	(54 219)	(54 219)
Other comprehensive income	-	-	392	-	-	-	392
TOTAL COMPREHENSIVE LOSS	**-**	**-**	**392**	**-**	**-**	**(54 219)**	**(53 827)**
Increase in share capital (see Note 26)	90 000	-	-	-	-	-	90 000
Currency translation difference	-	154	-	-	-	-	154
Allocation of prior year result	-	-	-	-	**(135 718)**	**135 718**	-
31.12.2022	**596 473**	**2 644**	**3 886**	**-**	**(630 768)**	**(54 219)**	**(81 984)**

The notes on pages 111 to 149 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 97.97% shares of the Parent company and Aircraft Leasing 1 SIA – holding 2.03% 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 21):

– Baltijas Kravu Centrs SIA,
– Air Baltic Training SIA,
– Aviation Crew Resources AS (under liquidation process).

The separate financial statements and the consolidated financial statements (hereinafter together – the financial statements) for the year ended 31 December 2022 were approved by a resolution of the Parent company's Executive Board on 28 February 2023.

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.

Change in presentation

During the year, the Group and Company have changed its classification of prepaid expenses within the Balance sheet. The prepaid expenses representing prepayments for maintenance previously presented within current assets (as of 31.12.2021 the Parent company and the Group: EUR 31 980 thousand) have been reclassified to non-current assets. The management believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change has been made retrospectively and comparatives have been restated accordingly.

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2022

– *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, IFRS9, IFRS16 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 property, plant and equipment 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 has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet 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.

2. Summary of significant accounting policies (*continued*)
a) Basis of preparation (*continued*)
Standards or interpretations effective for the first time annual periods beginning 1 January 2022 *(continued)*

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.

- *Covid-19-Related Rent Concessions – Amendments to IFRS 16* (effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

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 2022 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 2023 or not yet endorsed by the EU

- *Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies* (effective for annual periods beginning on or after 1 January 2023). 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.
- *Amendments to IAS 8: Definition of Accounting Estimates* (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
- *Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12* (effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
- *Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback* (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.
- *Classification of liabilities as current or non-current – Amendments to IAS 1* (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). These 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.

2. Summary of significant accounting policies (*continued*)
a) Basis of preparation (*continued*)
Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2023 or not yet endorsed by the EU (*continued*)

The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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.

– *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The EU endorsement is postponed as the IASB effective date is deferred indefinitely.

The Group is currently assessing the impact of the amendments on its financial statements.

b) Going concern

As of 31 December 2022, airBaltic had negative equity of nearly EUR 82 million (31 December 2021: EUR 119 million), the Company's current liabilities exceeded its current assets by nearly EUR 129 million and the cash balance at the end of the year was EUR 37.6 million. To put the cash balance in perspective, this was the statement on end of year 2022 projected cash balance made in the Company's 2021 annual report:

"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."

Despite all the challenges related to the Russia – Ukraine war, extremely high fuel prices, decreasing EUR value vs. USD and challenges with the supply of spare engines that significantly limited airBaltic's capacity during the summer season, the airline was able to achieve improved cash flow performance than projected 12 months ago. This was primarily driven by the very strong demand recovery in all its markets.

The Executive Board of the Parent company, considering this performance and the market conditions, 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 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 as well as debt capital market disruptions that could affect the availability of sufficient funding in the event that the continued recovery of airBaltic's business is not as strong as expected over the next 12 months

There remain significant travel restrictions that came into effect after the Russian invasion of Ukraine in February 2022. Because of those restrictions airBaltic had to cease its operations in Russia and Ukraine and redeploy the capacity towards other destinations and additional ACMI business. For 2023, for both base and negative scenarios the airline assumes that Ukrainian, Belorussian and Russian markets will remain closed and has adjusted its network accordingly. Following the introduction of ACMI business and as a result of the efforts in the year this business is now 16% of the entire business and is expected to grow.

Based on the latest booking trends and assuming that the post COVID-19 market recovery continues in 2023, the airline estimates its revenues to be in the range from EUR 650 million to EUR 700 million (2022: EUR 494 million). On a base case scenario, the net cash flow in 2023 without any additional new sources of financing is expected to be negative, and that is primarily driven by the EUR 85 million of planned capital expenditure. However, the management is of the opinion that it has considerable flexibility over the timing of the vast majority of this capital expenditure, including delaying this into 2024 and beyond without impacting the forecast operating revenues of the business in 2023.

2. Summary of significant accounting policies (*continued*)
b) Going concern (*continued*)

One of the covenants of the EUR 200 million Eurobond due July 2024 is an obligation for the airline to maintain a minimum liquidity of EUR 25 million measured at quarterly basis. In a negative scenario, should the uncertainties described above materialise and the airline fail to comply with this requirement, it is obliged to remedy the situation within 60 days of the respective notice. Following the scenario analysis by the management, on a base case scenario, the management expects the airline to be able to maintain the EUR 25 million in minimum liquidity throughout the next 12 months on the basis that the capital expenditure deferral plan is implemented. As the forward bookings in a typical year start generating significant positive working capital from mid-February each year, the projected cash balance of slightly above EUR 25 million at the end of February 2024 would therefore be sufficient for the airline to sustain its operations until the start of the summer season even in the absence of additional 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 noncritical investment projects to 2024. To prepare for the maturity of the July 2024 EUR 200 million Eurobond, in 2023, the airline will seek to refinance the EUR 200 million Eurobond and through this process raise additional long-term debt to strengthen its liquidity and support its extensive capital expenditures program.

If the EU high yield debt markets remain inaccessible to airBaltic and the cash flows from operational activities and the reduction in planned capital expenditure is not sufficient to ensure the minimum required cash balance is maintained throughout 2023 and in the first quarter of 2024, the airline may seek debt financing from the primary shareholder – the Government of Latvia.

At the date of issuance of these financial statements, the airline plans to rely on private sources for any additional financing and only seek financing from the government in case the private debt capital markets and other sources of private debt are inaccessible to the airline for the duration of 2023.

Based on EU law and discussions with the European Commission on the application of state aid rules, Management believes that if the high yield debt markets continue to be negatively impacted by the war in Ukraine in 2023, there will be valid arguments and mechanisms for the Government to provide debt financing to airBaltic at market rates. 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.

The ongoing war in Ukraine and the related uncertainties are expected to continue to impact both the price and the volatility of the price of fuel. These factors could directly and indirectly negatively impact the expected growth in demand for travel and hence negatively impact the Parent company and Group's ability to return to generating net cash over the year, 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. In the opinion of Management, the level of uncertainty at this time is much lower than it was in March 2022, when the Group's 2021 annual report was approved. 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, 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.

2. Summary of significant accounting policies (*continued*)
d) Use of estimates and judgements in the preparation of the financial statements (*continued*)

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 assets 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 17, 18 and 20 for more information.

Recognition and revaluation of provisions
As at 31 December 2022, airBaltic has set up provisions for aircraft redelivery costs (see Note 27). 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 2022, 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.

As at 31 December 2022, airBaltic has set up provision for carbon emissions. The provision represents the costs of the industry carbon dioxide (CO_2) emissions scheme. A number of assumptions and estimates have been used to determine the present value of provisions, including the future outflow of resources, 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 immediately sells the newly acquired aircraft and immediately leases them 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 2022 the Parent company has recognised a profit of EUR 4 715 thousand (2021: EUR 5 848 thousand) from sale and leaseback transactions. The purchase and sale of aircraft occurs within a short period of time, thus these transactions are not presented within movements of property, plant and equipment.

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.

2. Summary of significant accounting policies (*continued*)
d) Use of estimates and judgements in the preparation of the financial statements (*continued*)

The Management has applied judgement that:

- even though the airline intends to develop its business on the basis of the 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 5 years' time and both the extension terms at that time and the market conditions at that time are at present highly unpredictable;
- no extension option is expected to be exercised for any other lease as the Management concludes that there are currently 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 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 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 the income statement within Foreign currency exchange loss, net.

	31.12.2022 USD	31.12.2021 USD
1 EUR	1.0666	1.1326
The average EUR/USD rate in the appropriate year	1.0530	1.1827

f) Revenue recognition

Revenue is income arising in the ordinary course of the 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. 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. Scheduled revenues are recognized within the income statement at the point in time when the flight service is provided (i.e. when the flight takes place).

If a flight is cancelled, a passenger is entitled to a cash refund, a voucher for a future flight, or to re-schedule the cancelled flight. Additionally, gift vouchers may be purchased by passengers. Where a voucher is issued, a liability for the amount paid by the passenger is recognized in full and held within unearned revenue until the voucher is utilized against a future flight, when it expires, or when it is probable that it will expire unexercised.

Accordingly, unearned revenue, which is presented as contract liabilities within the balance sheet, represents flight seats sold but not yet flown and vouchers issued for future flights. If the Company expects to refund some or all of the amount paid for a flight service, for instance where a flight is cancelled, a refund liability is recognized for the full amount payable. This is recognized within unearned revenue and is presented as contract liabilities.

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.

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

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 flights 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 over the period when the service is delivered. No significant future lease payments or commitments are attributable to the aircraft lease. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. There are non-lease components attributable to rent of crew, maintenance and insurance. Revenue for non-lease components is recognised over the lease term similarly to lease income. Average lease term is 6 months. As the aircraft are leased under ACMI contracts, airBaltic is responsible for the costs associated with aircraft leasing, crew, maintenance and insurance and these costs are recognized in accordance with the relevant accounting policies.

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

Claim compensations received under the supplemental commercial support agreement that is signed to compensate the loss from the engine shortages and other compensations are recognised in the Income statement as they compensate additional operating expenses incurred by the Parent company. Compensations are recognised when they have been received or have become receivable by the Group.

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.

In most cases additional maintenance costs are 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 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.

Payments for aircraft and engine maintenance, as stipulated in the respective lease agreements, are made to certain lessors as a security for the performance of future heavy maintenance works. The payments are recorded as Prepaid expenses until the respective maintenance event occurs and the reimbursement with the lessor is finalised. The cost of heavy maintenance is capitalised and recognised as right-of-use asset when maintenance is carried out. Such assets are depreciated over the period the Group benefits from the asset over the shorter of the period to the next event and the remaining lease term.

h) Financial assets and liabilities

Financial assets

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

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

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

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.

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

As at 31 December 2022 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.

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.

i) 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 equipment) or revalued amount less accumulated depreciation and accumulated impairment losses (Buildings, Aircraft). 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 and training aircraft 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.

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

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.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) 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.

q) 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.

r) 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.

2. Summary of significant accounting policies (*continued*)
r) Leases and right-of-use assets (*continued*)

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.

s) 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.

t) 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' 2018-2022 profit for the foreseeable future will not be distributed.

u) 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.

v) 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 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 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.

w) 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.

x) 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.

y) 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 are 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".

z) Segment reporting

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

aa) Subsequent events

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

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. Most of the Group's revenues is denominated in euros, while a significant portion of the Company's and the Group's expenses are US Dollar denominated, including fuel, aircraft lease, maintenance, insurance and capital expenditure costs.

During the year the Company has not used financial derivatives to hedge its foreign currency risk and there were no open hedges as at 31 December 2022. 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 EUR/USD exchange risk at the end of the reporting year and the respective equivalent in euros, was as follows:

AIR BALTIC	**31.12.2022**		**31.12.2021**	
	TUSD	**equivalent to TEUR**	**TUSD**	**equivalent to TEUR**
Trade and other receivables	20 171	18 911	25 479	22 496
Borrowings and lease payments	490 956	460 300	445 286	393 154
Trade and other payables	6 979	6 543	4 169	3 681

GROUP	**31.12.2022**		**31.12.2021**	
	TUSD	**equivalent to TEUR**	**TUSD**	**equivalent to TEUR**
Trade and other receivables	20 171	18 911	25 479	22 496
Borrowings and lease payments	490 956	460 300	445 286	393 154
Trade and other payables	6 979	6 543	4 169	3 681

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. In previous years airBaltic has partly hedged against jet fuel price fluctuations using jet fuel swap contracts. The average hedge coverage in 2021 was 7.61%. As at 31 December 2022 there are no open jet fuel hedge agreements for the year 2023 and beyond (31 December 2021: no open jet fuel hedge agreements).

3. Financial risk management (*continued*)
b) Risk analysis (*continued*)
Market risks (*continued*)

Sensitivity analysis

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

AIR BALTIC AND THE GROUP	31.12.2022 Difference in equity TEUR	31.12.2021 Difference in equity TEUR	2022 Difference in loss for the year TEUR	2021 Difference in loss for the year TEUR
USD/EUR rate sensitivity				
USD/EUR rate increase 5%	(21 927)	(20 381)	(21 927)	(20 381)
USD/EUR rate decrease 5%	24 235	22 527	24 235	22 527
Interest rate sensitivity				
Interest rate is higher by 0.5 pp	(10)	(13)	(10)	(13)
Interest rate is lower by 0.5 pp	10	13	10	13

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

Liquidity risk

Liquidity risk is the risk that the Parent company and the Group are unable to meet their financial obligations due to insufficient cash inflows. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding.

The airline ended 2022 with the cash balance of EUR 37.6 million. The airlines liquidity position and needs are discussed in more detail in Note 2 (b).

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 31.12.2022						
Trade payables	24 730	-	-	-	24 730	24 730
Accrued liabilities	23 586	-	-	-	23 586	23 586
Borrowings and lease	32 911	106 115	726 236	444 729	1 309 991	1 059 057
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

3. Financial risk management *(continued)*
b) Risk analysis *(continued)*

GROUP	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total contractual cash flows	Carrying amount of liabilities
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Contractual maturities of financial liabilities at 31.12.2022						
Trade payables	20 819	-	-	-	20 819	20 819
Accrued liabilities	27 588	-	-	-	27 588	27 588
Borrowings and lease	34 693	106 115	726 236	444 729	1 311 773	1 060 818
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

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 a 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 Parent company and the Group have no significant concentration of credit risk with any bank.

The Parent company and the Group also have hedging and aircraft manufacturer relationships that represent counterparty credit risk. The Parent company and the Group analysed the creditworthiness of the relevant business partners in order to assess the likelihood of non-performance of liabilities due to the Company and the Group. The credit quality of the Company's and the Group's financial assets is assessed by reference to external credit ratings of the counterparties as follows:

AIR BALTIC	A+	BBB+	Other	Unrated	Total
31.12.2022	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Financial instruments					
Trade receivables, security deposits and other receivables	-	2 839	12 532	33 622	48 993
Cash	18 782	-	18 095	734	37 611
TOTAL FINANCIAL ASSETS	**18 782**	**2 839**	**30 627**	**34 356**	**86 604**
31.12.2021					
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**

3. Financial risk management *(continued)*
b) Risk analysis *(continued)*

GROUP 31.12.2022	A+ TEUR	BBB+ TEUR	Other TEUR	Unrated TEUR	Total TEUR
Financial instruments					
Trade receivables, security deposits and other receivables	-	2 839	12 532	32 492	47 863
Cash	19 169	-	18 096	734	37 999
Total financial assets	**19 169**	**2 839**	**30 628**	**33 226**	**85 862**
31.12.2021					
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**

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 (p) and 2 (n). Detailed analysis of trade accounts receivable is shown in Note 23.

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.

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 of its shares, at some time over the next three years, to provide the avenue for such divestment.

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 2022.

AIR BALTIC	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	6 633	6 633
Investment property	-	-	2 850	2 850

GROUP	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	9 531	9 531
Diamond DA40NG aircraft	-	-	4 054	4 054

3. Financial risk management *(continued)*
b) Risk analysis *(continued)*

The following table presents airBaltic's and the Group's assets and liabilities that are measured at fair value at 31 December 2021.

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 Group and airBaltic obtain independent valuations for its buildings, investment property and aircraft with sufficient regularity. At the end of each reporting period, the Management updates the assessment of the fair value of each building and aircraft, taking into account the most recent independent valuations. The Management determine a property's value within a range of reasonable fair value estimates. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Management considers information from a variety of other sources. Please see Note 17 and Note 19 on the principles of setting the fair value of buildings and Note 17 on the revaluation of the aircraft.

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's 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.

Entity-wide disclosures

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

	AIR BALTIC		GROUP	
	2022 TEUR	2021 TEUR	2022 TEUR	2021 TEUR
Europe	469 983	191 049	471 557	193 344
Other	28 564	10 707	28 613	10 763
TOTAL	**498 547**	**201 756**	**500 170**	**204 107**

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 analysis of the revenues derived specifically to / from the hubs as the routes are analysed on a segment level.

4. Segment information (*continued*)

Reportable segment information is presented as follows:

		2022 TEUR	2021 TEUR
Operating revenue of the Parent company		498 547	201 756
Revenue of other segments		33 816	25 706
Intersegment elimination arising from other segments		(32 193)	(23 355)
	TOTAL REVENUE	**500 170**	**204 107**
Loss of the Parent company		(53 007)	(133 651)
(Loss) / Profit of other segments		(1 008)	890
Intersegment elimination		(204)	(2 957)
	TOTAL NET LOSS	**(54 219)**	**(135 718)**
Other segment information:			
Amortization and depreciation		(73 585)	(50 827)
Interest revenue		112	153
Interest expense		(57 425)	(50 100)

		31.12.2022 TEUR	31.12.2021 TEUR
Reportable segment of the Parent company's assets		1 155 777	1 022 868
Reportable segment of the other segments' assets		14 243	14 231
Intersegment elimination arising from other segments		(11 098)	(11 857)
	TOTAL ASSETS	**1 158 922**	**1 025 242**
Reportable segment of the Parent company's liabilities		1 237 598	1 141 527
Reportable segment of the other segments' liabilities		12 218	11 892
Intersegment elimination arising from other segments		(8 910)	(9 866)
	TOTAL LIABILITIES	**1 240 906**	**1 143 553**

All non-current assets, other than the fleet, are located in Latvia. Depending on the assigned capacity of the particular base airport, the aircraft are based at one of the airline's base airports.

5. REVENUE AND OTHER INCOME

	AIR BALTIC 2022 TEUR	AIR BALTIC 2021 TEUR	GROUP 2022 TEUR	GROUP 2021 TEUR
Ticket revenue	367 422	162 261	367 422	162 708
ACMI lease revenue (non-lease component)	47 827	1 344	47 827	1 344
Ancillary revenue	32 389	17 918	32 389	17 918
Charter revenue	9 367	6 860	9 367	6 860
Cargo revenue	6 043	5 239	6 457	5 458
Other revenue	1 471	1 462	2 680	3 147
Revenue from contracts with customers	***464 519***	***195 084***	***466 142***	***197 435***
ACMI lease revenue (lease component)	29 313	824	29 313	824
TOTAL	**493 832**	**195 908**	**495 455**	**198 259**

The Group allocates the consideration in the ACMI contract to the lease and non-lease components based on the internal assessment of their relative stand-alone prices. The lease revenues are neither priced nor invoiced separately and are separated for the disclosure purposes of these financial statements only.

6. OTHER INCOME

Other income represents profit from sale and leaseback transactions.

7. PERSONNEL COSTS

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Remuneration	37 425	25 391	54 989	36 776
Social insurance contributions	8 851	5 990	13 035	8 699
Other personnel expense	984	351	8 680	6 355
TOTAL	**47 260**	**31 732**	**76 704**	**51 830**

Remuneration of the members of the Executive Board and Supervisory Board for the current year

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Executive Board members				
Remuneration	1 549	1 377	1 549	1 377
Social insurance contributions	377	325	377	325
Supervisory Board members				
Remuneration	129	150	129	150
Social insurance contributions	30	36	30	36
TOTAL	**2 085**	**1 888**	**2 085**	**1 888**
Average number of employees during the reporting year, including:	1 472	1 097	1 851	1 377
Executive Board members	*3*	*3*	*3*	*3*
Supervisory Board members	*4*	*4*	*4*	*4*

8. MARKETING AND TICKETS SALES COSTS

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Tickets sales costs	17 225	7 339	17 225	7 339
Marketing costs and agents' commissions	9 661	5 000	9 661	5 000
Other sales costs	4 064	1 878	4 064	1 929
TOTAL	**30 950**	**14 217**	**30 950**	**14 268**

9. OTHER OPERATING COSTS

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Other costs	7 511	3 725	7 548	4 900
Crew duty trip expenses	6 940	2 486	7 578	2 486
Professional costs	6 542	3 554	6 380	3 554
IT maintenance services	4 442	4 081	4 398	4 081
Provision for onerous contracts (see Note 28)	-	3 715	-	3 715
TOTAL	**25 435**	**17 561**	**25 904**	**18 736**

10. AUDITOR'S REMUNERATION

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Audit fees	118	68	135	88
Tax and other consulting services	28	9	28	13
Services related to regulatory work	190	-	190	-
TOTAL	**336**	**77**	**353**	**101**

11. PROVISIONS FOR LEGAL DISPUTES

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Provision for legal disputes, net (see Notes 28 and 33 (b))	**500**	**312**	**500**	**312**

12. CLAIM COMPENSATION

Claim compensation reflects the various compensations received under the Supplemental Commercial Support Agreement conducted in 2022 with the engine manufacturer, insurance indemnities as well as various indemnities under guarantee contracts. The costs which are compensated under claim compensation include engine downtime compensation, short-time lease costs, and other associated costs of flight operations incurred during the year. It is management board's judgment that the compensation is not a rebate or a discount for any purchased goods or services or future purchases of goods or services, rather it is a compensation for expenses incurred in connections with the delay in delivery causing before mentioned expenses to occur.

13. FINANCE COSTS

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Interest expense on lease	42 347	35 593	42 347	35 593
Interest expense on borrowings	15 078	14 507	15 183	14 630
Other interest and similar expenses	1 399	1 274	1 431	1 296
TOTAL	**58 824**	**51 374**	**58 961**	**51 519**

14. FOREIGN CURRENCY EXCHANGE LOSS, NET

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Exchange losses on assets and liabilities, net	(26 695)	(25 619)	(26 695)	(25 619)
Exchange (losses) on foreign currency settlements, net	1 319	(1 235)	1 316	(1 236)
TOTAL	**(25 376)**	**(26 854)**	**(25 379)**	**(26 855)**

15. FINANCE INCOME

	AIR BALTIC		GROUP	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Interest income on bank deposits	112	153	112	153
Other financial income	425	275	-	-
TOTAL	**537**	**428**	**112**	**153**

16. CORPORATE INCOME TAX

	AIR BALTIC		GROUP	
	2022 TEUR	2021 TEUR	2022 TEUR	2021 TEUR
Corporate income tax on dividends	-	-	(1 995)	(1 537)
Corporate income tax on conditionally distributed profit	-	-	-	(1)
Corporate income tax adjustment for previous year	-	-	-	10
TOTAL	**-**	**-**	**(1 995)**	**(1 528)**

17. 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 equipment TEUR	Total TEUR
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**
Cost or revalued amount				
31.12.2021	16 151	20 222	72 121	108 494
Additions	87	1 131	29 200	30 418
Disposals	-	(461)	(3 065)	(3 526)
31.12.2022	**16 238**	**20 892**	**98 256**	**135 386**
Accumulated depreciation				
31.12.2021	8 977	7 857	17 188	34 022
Charge for 2022	318	1 698	8 334	10 350
Charge on revalued amount	310	-	-	310
Disposals	-	(425)	(3 060)	(3 485)
31.12.2022	**9 605**	**9 130**	**22 462**	**41 197**
Net book value 31.12.2022	**6 633**	**11 762**	**75 794**	**94 189**
Net book value 31.12.2021	**7 174**	**12 365**	**54 933**	**74 472**

17. Property, plant and equipment (*continued*)

GROUP	Buildings TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2020	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**
Cost or revalued amount					
31.12.2021	22 006	21 282	4 561	72 121	119 970
Additions	87	1 160	125	29 202	30 574
Disposals	-	(470)	(118)	(3 051)	(3 639)
Revaluation	-	-	695	-	695
31.12.2022	**22 093**	**21 972**	**5 263**	**98 272**	**147 600**
Accumulated depreciation					
31.12.2021	11 578	8 523	929	17 188	38 218
Charge for 2022	681	1 764	378	8 335	11 158
Charge on revalued amount	303	-	-	-	303
Disposals	-	(429)	(98)	(3 045)	(3 572)
31.12.2022	**12 562**	**9 858**	**1 209**	**22 478**	**46 107**
Net book value 31.12.2022	**9 531**	**12 114**	**4 054**	**75 794**	**101 493**
Net book value 31.12.2021	**10 428**	**12 759**	**3 632**	**54 933**	**81 752**

Impairment test

At the end of 2022, 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 considered particularly in the context of COVID-19, war in Ukraine and supply chain issues. 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 is 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 (in Right of Use Assets, see Note 18) related to the Q400 fleet was treated as a separate asset for which full impairment in amount of EUR 72 891 was recognized. The airline returned 11 of 12 Q400s by the end of 2022 and the last one in February of 2023 thus completing the phase out of Q400s from its fleet.

In 2022 the impairment test of the property, plant and equipment (including right-of-use assets) and intangible assets 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.

17. Property, plant and equipment (*continued*)
Impairment test (*continued*)

The recoverable amount was based on discounted future cash flow for the period of 2023 – 2027 of the current aircraft fleet of the Parent company. The expected future cash flows were discounted using a discount rate of 9.5% (2021: 9.5%). Several key assumptions used in impairment test are sensitive to changes, which might affect the estimated recoverable value of assets:

- unit revenue per revenue passenger kilometre (ticket yield),
- volume of scheduled passengers,
- USD/EUR exchange rate,
- Weighted Average Cost of Capital (WACC).

In conducting the impairment test the near term yield was forecasted based on the current industry trends as well as on experts' forecasts. It was assumed that the yield in 2023 would increase by 7% compared to 2022 and 6% in 2024 compared to 2023. Further assumed 1% to 2% yield increase year-over-year. As for the impairment test purposes the model considered only the current fleet of the airline. Such assumption of constant fleet and hence limited seat capacity offered may potentially affect yield towards further increase.

The model assumes that more than 20% of the total revenue is generated by ACMI operations in 2023 and 2024, and then declines gradually to 16% in 2027. The total number of assumed passengers in 2023 is 27% below 2019. Passenger volumes only surpass the 2019 level in 2027. Passenger growth assumed 10% in 2023 compared to 2022. Compounded annual passenger increase from 2023 to 2027 assumed 9%.

The EUR/USD exchange rate forecasted based on relevant forward prices until 2027 and in the model exchange rate reduced by 2% to use conservative assumption. Rates vary from EUR/USD 0.99 to 1.05.

The market price of jet fuel forecasted based on relevant forward prices and for the impairment test purpose increased by 2%. Rates vary from 1 050 to 682 USD/MT.

The table below represents 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 10.8%
Ticket yield	Decrease 10.8%
USD exchange rate	Decrease 54.1%
WACC	Increase 71.5%

The management does not consider the changes in the WACC and exchange rate presented above to be reasonably possible changes in the current environment, but for the consistency the sensitivity is presented.

The Company and the Group are continuously monitoring potential threats to core business activities such as new variants of COVID-19 outbreak, developments around war in Ukraine and the Parent company's supply chain issues related to aircraft engine maintenance and amending where necessary short term operating plans accordingly. The Company's and the Group's short term performance will depend largely on the strength of the European economy in 2023, any further spill over effects from the war in Ukraine, and development of aircraft engine supply chain issues which may temporarily ground affected aircraft.

Fully depreciated assets
Property, plant and equipment at 31 December 2022 include fully depreciated assets with a total cost of EUR 7.5 million (31 December 2021: EUR 8.3 million) for the Group and EUR 8 million (31 December 2021: EUR 8.7 million) for airBaltic.

Pledged assets
Information on pledged assets is disclosed in the Note 33 (a).

Revalued assets
In 2022 the revaluation of the Parent company's and the Group's buildings was performed by certified independent estate valuators 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 2022 one of the Group's subsidiary performed the revaluation of the training aircraft. The valuation of the property was performed by the independent professionals using the comparable market price approach.

17. Property, plant and equipment (*continued*)

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

	AIR BALTIC		GROUP	
Buildings	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Cost	6 739	6 652	9 732	9 645
Accumulated depreciation	(1 964)	(1 648)	(3 631)	(3 504)
NET BOOK VALUE	**4 775**	**5 004**	**6 101**	**6 141**
Aircraft Diamond				
Cost	-	-	4 568	4 561
Accumulated depreciation	-	-	(1 209)	(929)
NET BOOK VALUE	**-**	**-**	**3 359**	**3 632**

18. 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			
31.12.2020	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			
31.12.2020	-	(72 891)	(72 891)
31.12.2021	**-**	**(72 891)**	**(72 891)**
Cost			
31.12.2021	16 505	922 606	939 111
Additions – new lease contracts	2 022	173 109	175 131
Terminated contracts	(213)	(102 268)	(102 481)
31.12.2022	**18 314**	**993 447**	**1 011 761**
Accumulated depreciation			
31.12.2021	4 457	164 842	169 299
Charge for 2022	1 975	59 225	61 200
Terminated contracts	(206)	(35 777)	(35 983)
31.12.2022	**6 226**	**188 290**	**194 516**
Impairment loss charge			
31.12.2021	-	(72 891)	(72 891)
Reversal of charge in 2022	-	66 491	66 491
31.12.2022	-	(6 400)	(6 400)
Net book value 31.12.2022	**12 088**	**798 757**	**810 845**
Net book value 31.12.2021	**12 048**	**684 873**	**696 921**

The weighted average incremental borrowing rate applied to measure lease liabilities is 5% for aircraft and 1.7% - 2.6% for other assets.

The following amounts related to the right-of-use assets are recognized in the Income statement:

	AIR BALTIC		GROUP	
	2022 TEUR	2021 TEUR	2022 TEUR	2021 TEUR
Depreciation charge for the right-of-use assets by class of assets				
Aircraft	*59 225*	*41 185*	*59 225*	*41 185*
Land and buildings	*1 975*	*1 655*	*1 975*	*1 655*
Total depreciation charge	61 200	42 840	61 200	42 840
Interest expense on lease liabilities (included in Finance cost)	42 347	35 593	42 347	35 593
Expense relating to short-term leases (included in Aircraft and similar lease expenses)	17 153	-	17 153	-
Expense relating to low value assets (included in Aircraft and similar lease expenses)	5 768	4 365	5 768	4 365
TOTAL EXPENSES RELATED TO LEASES	**126 468**	**82 798**	**126 468**	**82 798**

The following amounts related to the right-of-use assets are recognized in the cash flow statement:

	AIR BALTIC		GROUP	
	2022 TEUR	2021 TEUR	2022 TEUR	2021 TEUR
Principal	88 705	66 453	88 705	66 453
Interest paid	39 336	32 133	39 336	32 133
Other operating costs	-	7	-	7
TOTAL CASH OUTFLOWS	**128 041**	**98 593**	**128 041**	**98 593**

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 5 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.

19. INVESTMENT PROPERTIES (THE PARENT COMPANY)

	TEUR
Fair value	
31.12.2020	**2 850**
31.12.2021	**2 850**
31.12.2022	**2 850**

Information on pledged assets is disclosed in Note 33 (a).

In 2022, the revaluation of the Company's buildings was performed by the certified independent estate valuators using the income approach.

The investment property is primarily leased out to the Group companies.

The following amounts related to the Investment properties are recognized in the Income statement:

	2022 TEUR	2021 TEUR
Rental income	449	397
Direct operating expenses of the Investment property	(307)	(257)

20. INTANGIBLE ASSETS

	AIR BALTIC			GROUP		
	Trademarks TEUR	Licences, software and other TEUR	Total TEUR	Trade-marks TEUR	Licences, software and other TEUR	Total TEUR
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**
Cost						
31.12.2021	13 000	18 050	31 050	13 000	16 874	29 874
Additions	-	1 164	1 164	-	1 225	1 225
Disposals	-	(57)	(57)	-	(59)	(59)
31.12.2022	**13 000**	**19 157**	**32 157**	**13 000**	**18 040**	**31 040**
Accumulated amortization						
31.12.2021	-	11 789	11 789	-	11 847	11 847
Charge for 2022	-	2 036	2 036	-	1 921	1 921
Disposals	-	(54)	(54)	-	(55)	(55)
31.12.2022	**-**	**13 771**	**13 771**	**-**	**13 713**	**13 713**
Net book value 31.12.2022	**13 000**	**5 386**	**18 386**	**13 000**	**4 327**	**17 327**
Net book value 31.12.2021	**13 000**	**6 261**	**19 261**	**13 000**	**5 027**	**18 027**

Information on pledged assets is disclosed in the Note 33 (a).

Intangible assets at 31 December 2022 include fully amortized assets with a total cost of EUR 8.7 million (31 December 2021: EUR 7.9 million) for Parent company and EUR 8.8 million (31 December 2021: EUR 8 million) for the Group.

Several trademarks of the Parent company are with indefinite useful life. As at 31 December 2022 the net book value of such trademarks was EUR 13 million (31 December 2021: 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 (l).

At the end of 2022, the Management of the Group performed the impairment test of intangible assets. See Note 17.

21. INVESTMENTS IN SUBSIDIARIES AND OTHER INVESTMENTS (THE PARENT COMPANY)

	Investments in subsidiary undertakings TEUR	Other investments TEUR	Total TEUR
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**
Increase of share capital of subsidiary	1	-	1
31.12.2022	**407**	**3**	**410**

Financial information on subsidiary undertakings

		Equity		(Loss) / Profit	
Name	**Address**	**31.12.2022 TEUR**	**31.12.2021 TEUR**	**2022 TEUR**	**2021 TEUR**
Aviation Crew Resources AS (under liquidation)	Pilotu Street 6, Riga, Latvia, LV-1053	1 463	1 483	(22)	(57)
Air Baltic Training SIA	Pilotu Street 6, Riga, Latvia, LV-1053	765	1 112	(1 109)	(327)
Baltijas Kravu centrs SIA	Ziemeļu Street 18, Riga, Latvia, LV-1053	(212)	(258)	46	(95)
Loyalty Services SIA (liquidated in 2021)	Mūkusalas Street 42, Riga, Latvia, LV-1004	-	-	-	1 368

	Carrying value of investments in subsidiary undertakings		Participating interest in share capital of subsidiary undertakings	
Name	**31.12.2022 TEUR**	**31.12.2021 TEUR**	**31.12.2022 %**	**31.12.2021 %**
Air Baltic Training SIA	3	3	100	100
Aviation Crew Resources AS (under liquidation)	124	123	100	100
Baltijas Kravu centrs SIA	280	280	100	100
TOTAL	**407**	**406**		

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.

22. DIVISION OF FINANCIAL INSTRUMENTS BY CATEGORY

	Note	AIR BALTIC Amortised cost TEUR	GROUP Amortised cost TEUR
As at 31.12.2022			
Trade receivables, security deposits and other receivables	23	48 992	47 863
Cash	25	37 611	37 999
TOTAL FINANCIAL ASSETS		**86 603**	**85 862**
As at 31.12.2021			
Trade receivables, security deposits and other receivables	23	47 525	45 779
Cash	25	79 155	79 314
TOTAL FINANCIAL ASSETS		**126 680**	**125 093**

		Amortised cost TEUR	Amortised cost TEUR
As at 31.12.2022			
Borrowings and lease	27	1 059 057	1 060 818
Trade and other payables	29	48 335	48 533
Total financial liabilities		**1 107 392**	**1 109 351**
As at 31.12.2021			
Borrowings and lease	27	934 918	937 094
Trade and other payables	29	39 056	37 964
TOTAL FINANCIAL LIABILITIES		**973 974**	**975 058**

23. TRADE AND OTHER RECEIVABLES

	AIR BALTIC		GROUP	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Non-current				
Security deposits	14 424	24 926	14 425	24 713
Other receivables	228	958	822	958
Financial assets	***14 652***	***25 884***	***15 247***	***25 671***
Prepayments for acquisition of intangible assets	278	61	278	61
Non-financial assets	***278***	***61***	***278***	***61***
TOTAL	**14 930**	**25 945**	**15 525**	**25 732**
Current				
Trade receivables	14 885	12 842	11 517	10 264
Security deposits	10 346	5 975	10 346	5 975
Other receivables	9 109	2 824	10 753	3 869
Financial assets	***34 340***	***21 641***	***32 616***	***20 108***
Accrued revenue	8 530	1 203	9 110	2 085
Non-financial assets	***8 530***	***1 203***	***9 110***	***2 085***
TOTAL	**42 870**	**22 844**	**41 726**	**22 193**

Security deposits are interest free deposits paid to aircraft lessors, airports and credit card acquirers. Majority of other receivables are balances with the aircraft engine manufacturer under the supplementary business support agreement concluded in 2022.

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 2021: 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	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Trade receivables, gross	15 927	13 737	12 625	11 236
Loss allowance	(1 042)	(895)	(1 108)	(972)
TRADE RECEIVABLES, NET	**14 885**	**12 842**	**11 517**	**10 264**
Current	8 262	7 955	8 170	7 855
1 - 30 days past due	2 712	1 616	2 615	1 509
31 - 60 days past due	74	471	15	378
61 – 90 days past due	124	239	1	156
3 - 6 months past due	1 337	266	1 066	121
More than 6 months past due	3 418	3 190	758	1 217
TRADE RECEIVABLES, GROSS	**15 927**	**13 737**	**12 625**	**11 236**
Credit loss allowance made				
Current	(163)	(73)	(163)	(73)
1 - 30 days past due	(91)	(60)	(91)	(60)
31 - 60 days past due	(3)	(20)	(2)	(20)
61 – 90 days past due	(5)	(12)	-	(12)
3 - 6 months past due	(58)	(10)	(63)	(10)
More than 6 months past due	(722)	(720)	(789)	(797)
TRADE RECEIVABLES, NET	**14 885**	**12 842**	**11 517**	**10 264**

23. Trade and other receivables (*continued*)

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 2022 and 31 December 2021 was determined as follows:

AIR BALTIC	Not yet due	1 – 30 days past due	31 – 60 days past due	61 – 90 days past due	more than 90 days past due
As at 31.12.2022	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Expected loss rate	1.97%	3.36%	4.05%	4.03%	16.40%
Gross carrying amount	8 262	2 712	74	124	4 755
Loss allowance	163	91	3	5	780
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

GROUP	Not yet due	1 – 30 days past due	31 – 60 days past due	61 – 90 days past due	more than 90 days past due
As at 31.12.2022	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Expected loss rate	2.00%	3.48%	13.33%	0.00%	46.71%
Gross carrying amount	8 170	2 615	15	1	1 824
Loss allowance	163	91	2	-	852
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

24. INVENTORIES

	AIR BALTIC		GROUP	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**
	TEUR	**TEUR**	**TEUR**	**TEUR**
Spare parts	13 626	9 991	13 726	10 075
Allowance for slow moving and obsolete inventory	(2 813)	(2 416)	(2 813)	(2 416)
TOTAL	**10 813**	**7 575**	**10 913**	**7 659**

25. CASH

	AIR BALTIC		GROUP	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**
	TEUR	**TEUR**	**TEUR**	**TEUR**
Cash at bank and on hand	21 111	54 155	21 499	54 314
Cash deposits with original maturity over 3 months	16 500	25 000	16 500	25 000
TOTAL	**37 611**	**79 155**	**37 999**	**79 314**

There has been no credit loss allowance provided at the end of the reporting year due to its insignificance (31 December 2021: 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.

The Parent company has also established a financial collateral for the benefit of the Ministry of Finance – short term deposit with a bank incorporated in Latvia in the amount of EUR 16.5 million (see Note 33 (a)).

26. SHARE CAPITAL

In August 2021, the Cabinet of Ministers approved the participation in the share capital increase of the Parent company in the amount of EUR 90 million. The investment was completed in two stages with share capital increases in 2022. All contributions to the share capital of the Company were made by the Republic of Latvia.

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**

STAGE I

Following the above decision, the Shareholders Meeting increased the share capital of the Company in December 2021. The Commercial Register of Latvia registered the changes in the share capital in January 2022. The share capital was increased by issuing new B and C category shares.

The shareholders structure after the capital increase was registered at the Register of Enterprises on 17 January 2022 was 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**

STAGE II

The Shareholders Meeting further increased the share capital of the Company in May 2022. The Commercial Register of Latvia has registered the changes in the share capital on June 2022. The share capital was increased by first making negative split of shares and then issuing new C and D category shares.

As at 31 December 2022 the Company had the following shares:

- 25 647 282 A category shares with a nominal value of EUR 10,
- 74 323 152 B category shares with a nominal value of EUR 3,
- 113 164 518 C category shares with a nominal value of EUR 1,
- 38 660 300 D category shares with a nominal value of EUR 0.1.

New issue of C and D category shares (included in the above total figures per category) were as follows:

- 41 133 970 C category shares with a nominal value of EUR 1,
- 38 660 300 D category shares with a nominal value of EUR 0.1.

The shareholders structure after the stage II share capital increase and as at 31 December 2022 was as follows:

	Participating interest*, %	A category shares	B category shares	C category shares	D category shares	Share capital TEUR
Republic of Latvia	97.97	20 531 867	74 323 152	113 164 518	38 660 300	545 319
Aircraft Leasing 1 SIA	2.03	5 115 204	-	-	-	51 152
Other	0.000084	211	-	-	-	2
TOTAL	**100**	**25 647 282**	**74 323 152**	**113 164 518**	**38 660 300**	**596 473**

* The share capital of the Company is divided into 4 categories of shares (A, B, C and D) with different nominal values (EUR 10, EUR 3, EUR 1 and EUR 0.10 respectively). Taking into account that each share of each category (regardless of the nominal value of the share) (a) grants one vote at the shareholders' meeting, (b) has the same rights to receive dividends and a share in the liquidation and (c) has the same priority rights to acquire newly issued shares in the event of a capital increase and to acquire convertible bonds in the event of a convertible bond issue, the participating interest of each shareholder is calculated on the basis of the total number of category A shares, category B shares, category C shares and category D shares.

26. Share capital (*continued*)

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 its 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.

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 2.6 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.

27. BORROWINGS AND LEASE LIABILITIES

BORROWINGS	AIR BALTIC		GROUP	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Non-current				
Eurobond	198 812	197 952	198 812	197 952
Borrowings from the shareholders	36 141	36 141	36 141	36 141
Facility credit agreement	19 511	13 674	19 511	13 674
TOTAL	**254 464**	**247 767**	**254 464**	**247 767**
Current				
Eurobond	5 696	5 696	5 696	5 696
Facility credit agreement	3 187	1 959	3 187	1 959
Borrowings from the shareholders	133	84	133	84
Bank borrowings	-	-	1 761	2 176
TOTAL	**9 016**	**7 739**	**10 777**	**9 915**

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 the 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	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Non-current	**718 012**	**602 083**	**718 012**	**602 083**
Current	**77 565**	**77 329**	**77 565**	**77 329**

27. Borrowings and lease liabilities (*continued*)

The tables 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
01.01.2021	**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**
New lease contracts	178 450	-	-	178 450
New contracts	-	-	9 294	9 294
Repayment, excluding interest payments	(88 705)	-	(2 198)	(90 903)
Interest paid	(39 336)	(1 030)	(13 924)	(54 290)
Interest calculated	42 347	1 079	13 999	57 425
Currency translation difference	26 134	-	-	26 134
Amortisation of transaction costs and similar expenses	310	-	882	1 192
Set-off transactions with counterparties	(3 035)	-	-	(3 035)
Transaction costs and similar expenses	-	-	(128)	(128)
31.12.2022	**795 577**	**36 274**	**227 206**	**1 059 057**

GROUP	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Loan from bank TEUR	Total TEUR
01.01.2021	**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**
New lease contracts	178 450	-	-	-	178 450
New contracts	-	-	9 294	-	9 294
Repayment, excluding interest payments	(88 705)	-	(2 198)	(414)	(91 317)
Interest paid	(39 336)	(1 030)	(13 924)	(106)	(54 396)
Interest calculated	42 347	1 079	13 999	105	57 530
Currency translation difference	26 134	-	-	-	26 134
Amortisation of transaction costs and similar expenses	310	-	882	-	1 192
Set-off transactions with counterparties	(3 035)	-	-	-	(3 035)
Transaction costs and similar expenses	-	-	(128)	-	(128)
31.12.2022	**795 577**	**36 274**	**227 206**	**1 761**	**1 060 818**

27. Borrowings and lease liabilities *(continued)*

The table below shows borrowings and lease liabilities by period that interest rates are fixed for (period until earlier of next interest rate repricing date and maturity date).

	AIR BALTIC		GROUP	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Less than 1 year	86 581	85 067	88 342	87 244
Later than 1 year but not later than 5 years	578 971	504 090	578 971	504 089
Later than 5 years	393 505	345 761	393 505	345 761
TOTAL	**1 059 057**	**934 918**	**1 060 818**	**937 094**

Leases are payable as follows:

	AIR BALTIC		GROUP	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Within one year	119 851	114 271	119 851	114 271
Later than 1 year but not later than 5 years	455 381	369 639	455 381	369 639
Later than 5 years	438 009	386 714	438 009	386 714
MINIMUM LEASE PAYMENTS	**1 013 241**	**870 624**	**1 013 241**	**870 624**
Future finance charges	(217 664)	(191 212)	(217 664)	(191 212)
RECOGNISED AS A LIABILITY	**795 577**	**679 412**	**795 577**	**679 412**

The present value of lease liabilities is as follows:

	AIR BALTIC		GROUP	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Within one year	77 565	77 329	77 565	77 329
Later than 1 year but not later than 5 years	330 754	261 764	330 754	261 764
Later than 5 years	387 258	340 319	387 258	340 319
MINIMUM LEASE PAYMENTS	**795 577**	**679 412**	**795 577**	**679 412**

During 2022 and 2021 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).

28. PROVISIONS

	AIR BALTIC		GROUP	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Non-current				
Aircraft redelivery provision	19 115	14 527	19 115	14 527
Provision for legal disputes (see Note 33 (b))	12 313	11 813	12 313	11 813
Provision for onerous contracts	-	9 474	-	9 474
	31 428	**35 814**	**31 428**	**35 814**
Current				
Provision for carbon emissions	30 534	11 287	30 534	11 287
Provision for onerous contracts	3 431	23 512	3 431	23 512
	33 965	**34 799**	**33 965**	**34 799**
TOTAL	**65 393**	**70 613**	**65 393**	**70 613**

28. Provisions (*continued*)

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	Total TEUR
01.01.2021	**32 822**	**10 381**	**11 500**	**5 586**	**60 289**
Additional provision charged to Right-of-use assets	-	4 146	-	-	4 146
Additional charged/credited to Income statement:					
additional provisions recognised	3 715	-	313	13 042	17 070
Amounts used during the year	(3 551)	-	-	(7 341)	(10 892)
31.12.2021	**32 986**	**14 527**	**11 813**	**11 287**	**70 613**
Additional provision charged to Right-of-use assets	-	4 588	-	-	4 588
Additional charged/credited to Income statement:					
additional provisions recognised	-	-	1 692	30 534	32 226
unused amounts reversed	(4 805)	-	(1 192)	-	(5 997)
Amounts used during the year	(24 750)	-	-	(11 287)	(36 037)
31.12.2022	**3 431**	**19 115**	**12 313**	**30 534**	**65 393**

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 airline returned 11 of 12 Q400s by the end of 2022 and the last one in February of 2023 thus completing the phase out of Q400s from its fleet. This provision was mostly utilised during 2022 and offset against the costs incurred on these planes in 2022.

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 the restart one of the cases. Legal advisors are of the opinion that there are strong grounds that the airline can successfully defend its position.

The airline after taking advice from its legal advisors has also created provision for potential cost of ultimate settlement with some of its suppliers.

Provision for carbon emissions

The provision represents the costs of the industry carbon dioxide (CO_2) emissions scheme. In 2022 the Parent company produced 383 240 CO_2 emissions and received and used free 177 270 CO_2 allocated for 2022.

29. TRADE AND OTHER PAYABLES

	AIR BALTIC		GROUP	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Trade payables	24 730	17 000	20 819	12 976
Accrued liabilities	23 586	22 002	27 588	24 924
Other payables	19	54	126	64
TOTAL	**48 335**	**39 056**	**48 533**	**37 964**

30. TAX LIABILITIES

	AIR BALTIC		GROUP	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	TEUR	TEUR	TEUR	TEUR
Non-current				
Social insurance contributions	1 263	4 488	1 263	4 616
Personal income tax	681	2 083	681	2 150
TOTAL	**1 944**	**6 571**	**1 944**	**6 766**
Current				
Social insurance contributions	4 374	4 050	5 106	4 489
Personal income tax	2 207	2 376	2 634	2 638
Other	-	1	-	5
TOTAL	**6 581**	**6 427**	**7 740**	**7 132**

The Group companies have used the tax reliefs 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, AIRPORT TAXES AND OTHER LIABILITIES

	AIR BALTIC		GROUP	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	TEUR	TEUR	TEUR	TEUR
Contract liabilities (unearned revenue) from ticket revenue and travel vouchers	36 326	26 000	36 326	26 000
The amount of airport taxes collected	11 021	5 346	11 021	5 346
Amounts collected on behalf of other airlines	8 054	6 771	8 054	6 771
Deferred income from loyalty program revenue	888	825	888	825
Other	-	-	189	42
TOTAL	**56 289**	**38 942**	**56 478**	**38 984**

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 balance is classified short-term, as it either expires within the next 12 months or it is at the discretion of the customer to decide when it is used (for the remaining balances carried forward from the beginning of previous period). Based on experience, the portion typically unused within next year represents 4% of tickets sold. Amounts collected on behalf of other airlines include the value of unflown tickets sold to customers on behalf of other airlines which are usually settled between the airlines within a few months after the flight.

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	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Passenger revenue	21 736	2 331	21 736	2 331
Revenue from loyalty program	245	222	245	48

32. RELATED PARTY AND GOVERNMENT RELATED PARTY TRANSACTIONS

The Parent company has received a loan from its shareholders. Please see Note 27.

During 2022 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 (under liquidation)	2022 /31.12.2022	43	29 770	235	3 574
	2021 /31.12.2021	43	20 186	228	6 214
Baltijas Kravu Centrs SIA	2022 /31.12.2022	153	569	66	67
	2021 /31.12.2021	149	483	479	177
Air Baltic Training SIA	2022 /31.12.2022	604	572	404	3 405
	2021 /31.12.2021	487	478	2 455	-
Loyalty Services SIA (liquidated in 2021)	2021 /31.12.2021	75	500	-	-
	TOTAL 2022 /31.12.2022	**800**	**30 911**	**705**	**7 046**
	TOTAL 2021 /31.12.2021	**754**	**21 647**	**3 162**	**6 391**

The following table provides the information on dividends received and receivable:

Related party		Dividends received TEUR	Amounts owed by related parties TEUR
Aviation Crew Resources AS (under liquidation)	2022 /31.12.2022	425	8
	2021 /31.12.2021	219	-
Baltijas Kravu Centrs SIA	2022 /31.12.2022	-	284
	2021 /31.12.2021	-	284
	TOTAL 2022 /31.12.2022	**425**	**292**
	TOTAL 2021 /31.12.2021	**219**	**284**

The Parent company has entered into transactions with Ministry of Transport of the Republic of Latvia (the holder of 97.97% 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 19 million (2021: EUR 7 million) and VAS Latvijas Gaisa Satiksme (purchase of navigation service) amounting to EUR 2.2 million (2021: EUR 1.4 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	
	31.12.2022 TEUR	31.12.2021 TEUR	31.12.2022 TEUR	31.12.2021 TEUR
Payables to RIGA International airport	3 125	1 422	3 125	1 422
Payables to VAS Latvijas Gaisa Satiksme	197	161	197	161

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 2022 was EUR 34.3 million (31 December 2021: EUR 35.5 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 2022 was EUR 4.7 million (31 December 2021: EUR 5 million). The Parent company has also established a financial collateral for the benefit of the Ministry of Finance – short term deposit with a bank incorporated in Latvia in the amount of EUR 16.5 million (see Note 25).

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 2022 was EUR 799 million (31 December 2021: 685 million).

A Group company has pledged its Property, plant and equipment and intangible assets for the total amount of EUR 5 125 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 legal proceedings in Latvia and in other countries. Typical lawsuits relate to claims arising in the ordinary course of the Parent company's business. The most common of these claims relate to disruptions to air services, including flight delays, cancellations, lost or damaged baggage, etc. In addition, the Parent company and the Group are involved in a number of legal proceedings relating to employment matters. Material legal claims are described below. The cases below comprise those for which legal provisions have been made to cover any expected future expenditure (see note 28) and others where it is considered that there is only a contingent liability and no provisions have been made.

AKB Investbank

The Parent company and Baltijas Aviācijas Sistēmas SIA ("BAS"), the former shareholder of the Parent company, have been involved in a dispute with the now bankrupt Russian AKB Investbank ("Investbank") since March 2012. Investbank claimed EUR 18.4 million for repayment of three loans it had given to BAS. Investbank also claimed that the Parent company was a guarantor under guarantee agreements for the amounts owed under the loan agreements. While there have been some Russian court decisions in favour of the Parent company and some decisions against the Parent company, the Russian courts have also held that these negative recovery decisions cannot be enforced against BAS and the Parent company in the Russian Federation.

In 2019 an action was brought against the Parent company by the administrators of Investbank on the basis that the Parent company (and not BAS) was the real debtor under the loan agreements with Investbank. In accordance with the decision of the Commercial Court of the City of Moscow dated 6 February 2020, the court dismissed Investbank's claim. On 30 January 2023, the Court of Appeal changed the decision, granted the claim and decided to annul the loan and guarantee agreements (non-material claim). In addition, the Court of Appeal decided that the loan amounts totalling EUR 31.78 million should be recovered from the parent company (material claim).

The Parent company and its lawyers are of the opinion that the material claim mentioned in the Court of Appeal's decision is an error made by a court clerk, as this claim has never been filed by Investbank in this case. In order to correct this mistake, the lawyers have filed a petition, which is still pending. The non-material claim should be considered by the Court of Cassation in the second quarter of 2023.

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

The Parent company is involved in a dispute with Taurus Asset Management Fund Limited ("Taurus"), a company incorporated in the Bahamas, which owns 50% of the shares of BAS. The dispute relates to funding of €5 million provided by Taurus to the Parent company in 2011. Taurus entered into an agreement with the Latvian Government dated 3 October 2011 regarding the restructuring and refinancing of the Parent company (the "October 2011 Agreement"). The Latvian Government claims that as a result of Taurus' failure to fulfil its contractual obligations under the October 2011 Agreement, Taurus lost its right to repayment of the EUR 5 million financing it provided to the Parent Company.

SIA Eurobalt Junipro claims that it took over the claim from Taurus in 2012 and claimed the original EUR 5 million plus statutory default interest of EUR 3.07 million. In 2020, the Latvian court of first instance ruled against the parent company, but the Parent company appealed the decision. The Latvian courts have ruled in favour of the Parent company and the Latvian Government in a similar case arising from the October 2011 agreement against one of the Parent company's creditors. The court decision is expected on 16 March 2023.

Havas litigations

In April 2022, SIA Havas Latvia ("Havas"), a former provider of ground handling services to the Parent company at Riga airport, filed a lawsuit against the Parent company. This case was followed in August 2022 by two further cases brought by Havas against the Parent company. The total amount of three cases is EUR 4.6 million. One of the cases concerns a claim by Havas for payment of €0.4 million that was withheld even though Havas itself had not performed the contract. The other two cases, for a total amount of EUR 4.2 million, relate to Havas' claim to receive a guaranteed amount of revenue for the years 2020 and 2021, irrespective of the number of turnarounds handled. Based on advice from its legal advisors, the airline believes that these claims are unfounded.

33. Commitments and contingencies (*continued*)
(b) Legal disputes (*continued*)

Ryanair v. European Commission

In response to the COVID-19 pandemic, many European governments provided state aid to airlines in the form of recapitalisation, loans, loan guarantees and other measures. The support was provided in line with the Temporary Framework on State aid measures to support the economy during the COVID-19 outbreak (the "Temporary Framework") adopted by the European Commission, and in accordance with Article 107(2) (b) of the Treaty on the Functioning of the European Union.

On 3 July 2020, the European Commission approved a Latvian measure of EUR 250 million to recapitalise airBaltic in the context of the coronavirus outbreak. The aid was approved under the Temporary Framework. The Commission found that the recapitalisation measure will address the economic impact of the coronavirus outbreak in Latvia and 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 this decision before the General Court of the European Union (Case T-337/2). The case was published in the Official Journal of the European Union on 29 January 2021. The Latvian Government and airBaltic have intervened in support of the Commission's decision. This case is one of a series of cases brought by Ryanair before the Court of First Instance challenging public support granted to its competitors. Of the ten or so cases already decided, the Court has annulled three Commission decisions for failure to state reasons (T-665/20, T-643/20 and T-465/20). In these cases, the Court suspended the effect of the annulment until the Commission adopts a new decision "correcting" its first decisions. The other cases were dismissed and are now under appeal before the European Court of Justice.

RemPro litigations

SIA REM PRO has filed a lawsuit against the Parent company seeking to have the termination of the Hangar Design Contract declared null and void and to recover the sum of EUR 0.76 million plus a penalty of EUR 0.05 million. SIA REM PRO also seeks to freeze the payment of the performance bond and bank guarantee issued by the co-defendants in the action: Compensa Vienna Insurance Group and BluOr Bank AS. The Parent company considers these claims to be unfounded and has also filed a counterclaim against SIA REM PRO for EUR 1.1 million for non-performance and breach of contract. The case is pending before the Economic Court of First Instance and the date of the judgement is unknown.

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 2023 and future years is about EUR 1 billion.

As at 31 December 2022 Air Baltic Training SIA had a contractual liability relating to the acquisition of 1 Diamond DA40NG aircraft. The aggregate list price for the aircraft is around EUR 0.5 million.

35. SUBSEQUENT EVENTS

During the period between the last day of the reporting year and the date of signing this report, there have been no events that could materially impact the financial position of the Parent company and the Group as of 31 December 2022 and should be reflected in this report.

The financial statements set out on pages 105 to 149 were signed on 28 February 2023 by:

Martin Alexander Gauss	Vitolds Jakovļevs	Pauls Juris Cālītis
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board

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

Anda Līce
Chief Accountant

INDEX TO APPRAISALS

Valuation of real estate for buildings
Customer: AS AirBaltic Corporation

"Aircraft maintenance hangar, Marupe municipality, Marupe region, LV-1053

THE DOCUMENT IS ELECTRONICALLY SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP.

Riga, 20 March 2024 Reg. No
V/24 - 786

On the valuation of the real estate property "Aircraft maintenance hangar", Marupe municipality

AS AirBaltic Corporation

Dear company representatives!

We have carried out a valuation of **the immovable property with cadastre No 8076 502 0055**, registered in **the Land Register of Marupe Parish, with address "Aircraft Maintenance Hangar", Marupe Parish, Marupe Municipality. The** valuation of the object to be valued is understood as the following building: an aircraft maintenance hangar with a total area of 2901,0 m^2 (cadastral designation of the building 8076 002 0005 001).

The buildings are connected with the land plot of Riga International Airport, Marupe municipality, Marupe region with cadastre No 80760020007, part of the land unit with the area of 3 925 m^2 . The land ownership rights are registered with the State Joint Stock Company "INTERNATIONAL AIRPORT "RIGA"", tax payer code 40003028055. The land lease agreement is concluded until 14 May 2024. It is envisaged to conclude an agreement on the extension of the land lease agreement for another 5 years - until 14 May 2029. The value is subject to the conclusion of an agreement on the extension of the land lease in accordance with the submitted draft.

The objective of the work is to determine the value of the above-mentioned object to be valued as mortgage collateral. The valuation is intended for submission to a credit institution. The valuation may not be used for the purposes of other legal or natural persons without the written permission of the valuers. The income approach has been used to determine the value.

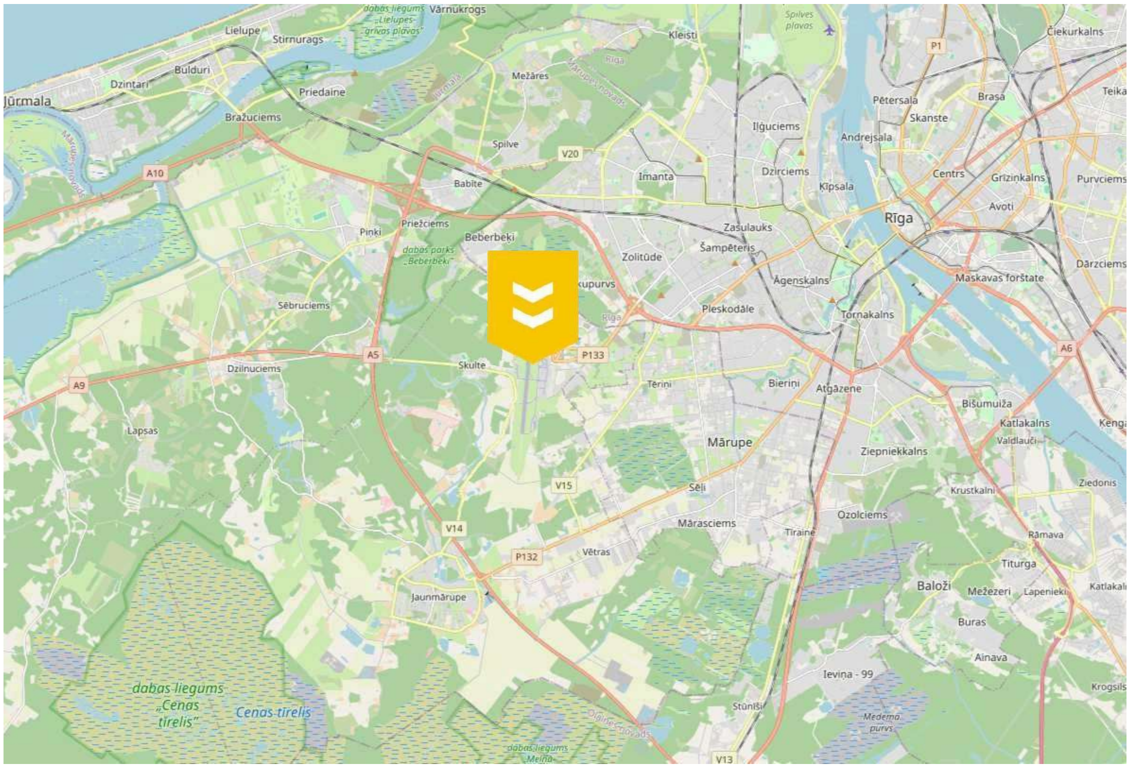
We hereby inform you that the real estate with cadastre No 8076 502 0055, located at **"Aircraft Maintenance Hangar", Marupe municipality, Marupe region** and registered in the Land Register of Marupe municipality No 1818, according to the market situation as of the date of survey and valuation, 07 March 2024, is determined as follows:

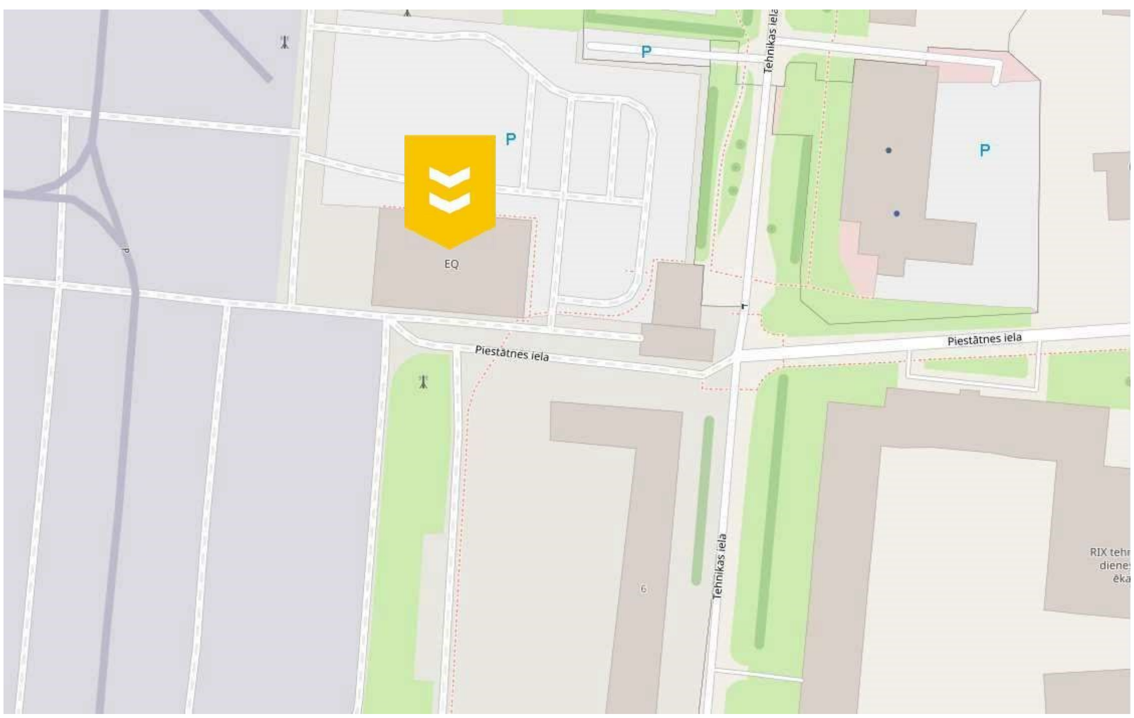
- market value of **EUR 680 000** (six hundred and eighty thousand **euro**).
- the value of the forced sale is **EUR 544 000** (five hundred and forty-four thousand **euro**).

Sincerely
Edgars Šīns
Chairman of the Board of Latio SIA
Certificate for Real Estate Valuation No 3 issued by the
Competence Supervision Bureau of the LĪVA

Contents

1. Location of the object to be assessed on the map

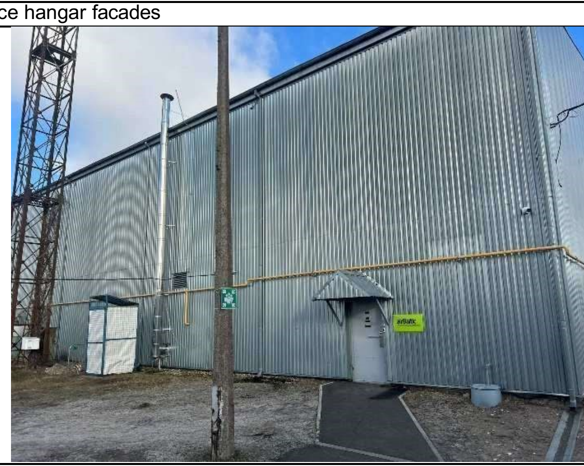




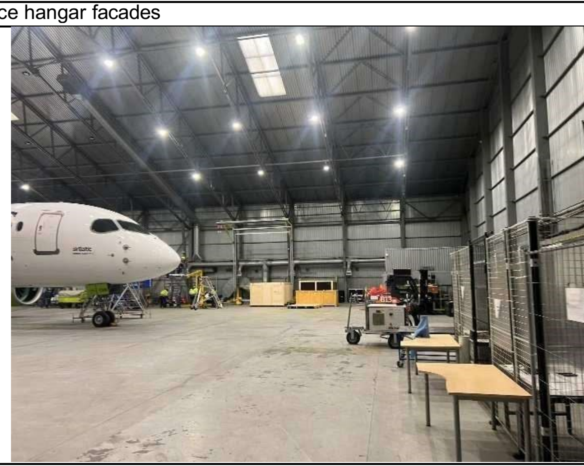
Source : www.openstreetmap.org

2. Photographs of the object to be assessed

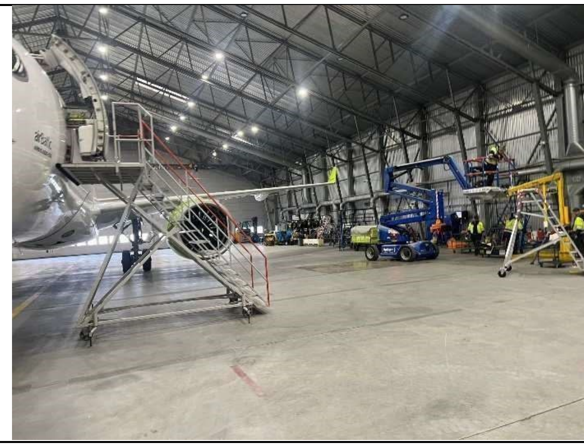

Aircraft maintenance hangar facades

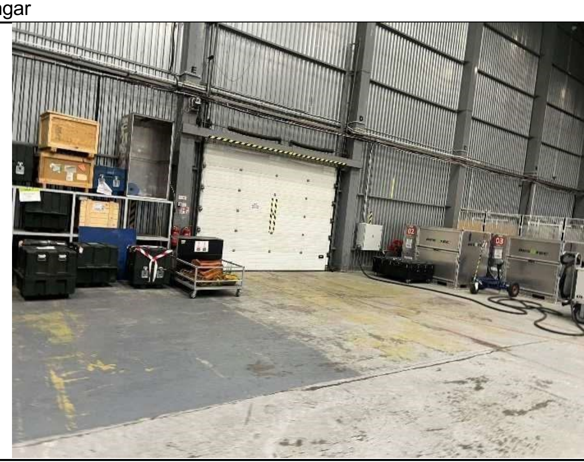
Aircraft maintenance hangar facades

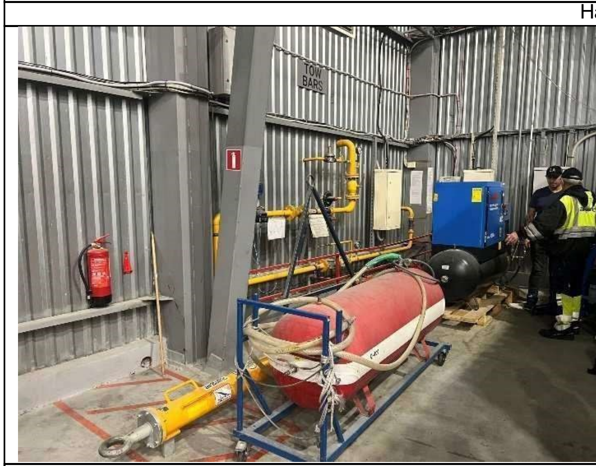
Hangar



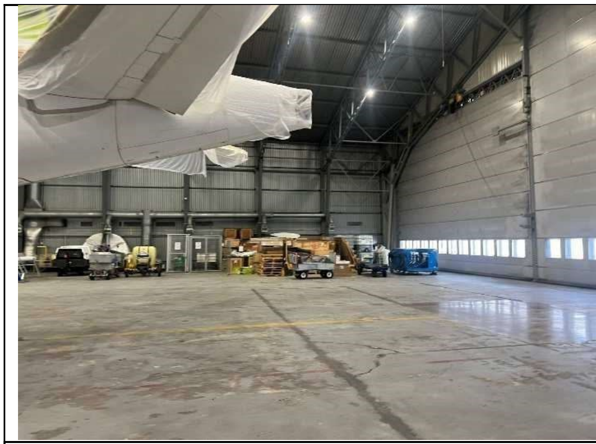
Hangar



Hangar



Hangar




Hangar

3. Key information

Object to be assessed	Aircraft maintenance hangar. The land is not part of the property being valued and belongs to the State Joint Stock Company "INTERNATIONAL AIRPORT "RIGA"".
Evaluation objective	Determine the likely market value of the collateral securing the mortgage loan.
Property address	"Aircraft maintenance hangar", Marupe municipality, Marupe region
Cadastral No.	8076 502 0055
Property rights	Air Baltic Corporation, registration number 40003245752
Building	
Aircraft Maintenance Hangar 001	2901,0 ^{m2}
Land area related to the property being valued that is not part of the property being valued	
Leased plot	The site ^{of} 3 925 ^{m2} is leased for the maintenance of the valuation site. The owner of the land is SJSC Riga International Airport.
Existing use	Aircraft Maintenance Building. The building is in good condition and the area adjacent to the development is partially tarmacked for parking and access to the development. Owner-occupied property.
Best use	Aircraft Maintenance Building. The building can be used for aircraft parking and maintenance, or as a warehouse on the territory of Riga Airport, providing warehousing services.
Encumbrances registered in the Land Register, which are not considered as a factor affecting the value within the scope of the valuation:	**Registered in the Land Register: none**
Lease agreements	Unknown.
Market value	**EUR 680 000**
Value under forced sale conditions, sell-by date	**EUR 544 000**, with an optimum lead time **of 12** (twelve) months.
Date of site inspection and valuation	07 March 2024.
Date of the report	20 March 2024.
Assumptions	-.
Specific assumptions	An agreement has been reached to extend the land lease until 2029 14 May in accordance with the draft submitted.

4. Object of evaluation

The valuation is provided for the immovable property with cadastre No 8076 502 0055, located at **"Aircraft maintenance hangar", Marupe municipality, Marupe region** and is registered in the Land Register of Marupe municipality under No 1818.
For the purposes of the valuation, the real estate or the object to be valued is understood as:
- an aircraft maintenance hangar with a total area of 2901.0 ^{m2} (cadastral designation 8076 002 0005 001), as well as constructions and other improvements inextricably linked to the building, in the condition as recorded on the date of inspection.

The object of valuation is a leasehold land property with cad.No.8076 002 0007, which is registered in the Land Register of Marupe Municipality under No.993. The total area of the leased part of the land plot is 3925 m^2 (the area according to the land lease agreement and the agreement) On 14 May 1999, a land lease agreement was concluded with SJSC Riga International Airport for the use of the land plot and it is planned to conclude an additional agreement on the extension of the land lease agreement for 5 years. The rent is fixed at EUR 8,$^{21/m2}$ per year, excluding VAT. According to the draft agreement, the building will become the property of the land owner upon expiry of the land lease agreement.
Determination of the market value of the part of the land plot with an area of 3925 m^2 to which the object under valuation (the building) is connected is not the task of this valuation (the area of 3925 ^{m2} is not included in the composition of the object under valuation).

The documentation submitted by the client, as well as the site survey and the information available in the Cadastre Register of the State Land Cadastre Service of the Republic of Latvia are used as the basis for determining the composition of the immovable property.

5. Characteristics of the object to be assessed

5.1. Location of the valuation object Location of

the real estate in Marupe Municipality The real estate is located in Marupe Municipality, Airport "Riga" in the inner territory. The part of Marupe municipality under consideration is located in the area of K. Ulmanis avenue near the P133 motorway leading to Riga International Airport. The property is located approximately 9 km from the centre of Riga and can be reached by car in approximately 10 - 15 minutes. The bus line No 22 (to Riga Airport) connects the property with Riga.

The site is located in the airport area on the access road, close to the P133 road to the airport "Riga". The property is located between local access roads (Riga Airport streets).
The property is located on the left side of the P133 motorway, ~700 m from the main building of Riga Airport.
The site is not located in the vicinity of arterial streets, including the P133 motorway; the development is located on a driveway with virtually no vehicular or pedestrian traffic.
The existing development in the vicinity of the object under assessment consists of new warehouses, office buildings, hotels, individual farmsteads/private houses with relatively small land plots (in the direction of Marupe), Riga Airport development, Latvijas Pasts complex, warehouse and office complexes, incl. "Elipse",

in the Ziemeļu Street area, petrol stations and commercial premises in the K. Ulmaņa avenues area (on both sides of K. Ulmaņa avenues):

office complex "Baltais Vējš", several car dealerships, construction materials shopping centre "Depo", supermarket
"Maxima", "Sky" supermarket and other modern, commercial complexes, office buildings and warehouses, as well as on the Marupe side (slightly off K. Ulmanņa avenues), the buildings of the 20th century. The area around the Ulm Ulm Street is formed by private houses built in the 1960s/1970s and reconstructed in the last ten years.
Local infrastructure facilities are located along arterial streets - shopping centres, petrol stations, service companies, as well as kindergartens, schools, sports and recreational facilities. Overall, it is a part of the city/parish with a well-developed local infrastructure.
The site is strategically located in terms of urban development perspectives, the airport
"Rīga" in the area near K. Ulmanis Avenue, one of the largest motorways close to the city centre, along which the construction of shopping complexes and company administrative buildings and warehouses is developing.
Due to its favourable location close to the road to Riga Airport, ~700 m from the main airport building and ~2 km from K. Ulmanis Avenue, the location of the site in the Riga district can be considered good.
Availability of real estate
Access to the property via K. Ulmaņa gatva and then via the P133 road to Riga Airport, turning left before Riga Airport, and then via the access roads, or via the access roads in the territory of the airport (it is possible to access the aircraft maintenance building by first removing the pass for access to the territory of Riga Airport and passing the security check). The surrounding streets (access roads) are paved with good quality asphalt and concrete pavements with reinforced load-bearing capacity.
The surrounding streets have low volumes of vehicular and pedestrian traffic. Movement within the territory of Riga Airport is restricted and is allowed with passes, in accordance with Riga Airport regulations. The P133 motorway is busy with motor traffic, there is virtually no pedestrian traffic, but K. Ulmanis avenue is considered to be the arterial street of the part of the city under consideration with a high volume of motor traffic. The P133 and K. Ulmanis Avenue are surfaced with good quality asphalt.
Kārlis Ulmanis avenue connects Vienības avenue, highway Riga - Bauska and highway Riga - Jūrmala (Liepāja), therefore easy access to the object under assessment is possible both from the city centre and from other parts of the city - Ziepniekkalns, Mārupe, Āgenskalns, Imanta, as well as from Olaine, Jelgava and Jūrmala.
Overall, access to the property is good/excellent, access to the property is limited by a pass system. The entire airport area is fenced and guarded.

5.2. Site improvements, including buildings, landscaping and vegetation

The area adjacent to the development is landscaped with asphalt and concrete, reinforced load-resistant paving for car parking and easy access, including for aircraft, to the development.
The part of the site on which the aircraft maintenance hangar is located is located within the airport's restricted area, is not separately demarcated and can be accessed from inside the airport. The entire airport area is enclosed by a metal fence and is guarded.
Overall, the site is well landscaped and has a tidy surrounding environment with car parking spaces and a small green area - a lawn.
There is an aircraft maintenance hangar (building cadastral designation 8076 002 0005 001) on the site.

5.3. Characteristics of the buildings

Aircraft maintenance hangar (cadastral designation 8076 002 0005 001).

Construction work started in 1999. There are no reports of commissioning.

The building was built as an aircraft maintenance building and consists of one large room. The building is constructed in steel. The building is located on the airport site, next to the runways.

Building layout

Compositionally, the building consists of a 1-storey aircraft maintenance building with a roof (ceiling) height of more than 16 m. The maintenance room with a gate faces the airport runways.

The facilities have been built to enable them to perform their intended function: aircraft maintenance. The maintenance area can accommodate one large Boeing, Airbus or Bombardier passenger aircraft with a tail height of 15 m or less. Access to the aircraft maintenance area is via a gate on the runway side (for aircraft) and one of two gates on the driveway side (for personnel and equipment), as well as a door on the courtyard side of the building.

Areas of the building.

The building has a built-up area of 2925.0 m^2 and a building volume of 38 025 m^3. The total area of the building is 2901,0 m^2. The ceiling height of the premises is 16,9 m. ***Materials and construction.***

Overall, the structures are in good condition. As of the date of the visit, the building works are complete and the premises can be used for their intended purpose. The following describes the building's structures:

- foundations - reinforced concrete and concrete blocks;
- load-bearing structures - metal frame;
- external walls - metal structures
- external finishing - metal sheets;
- Roof bearing structure - metal structures;
- roofing - metal structures;
- logs -;
- doors - metal, without glazing;
- gates - metal structures
- internal finishes according to functional use: floors - concrete with reinforced top layer; walls - exposed structures; ceilings - exposed structures.

connection to external engineering communications:
centralised electricity supply network, gas supply.

internal engineering networks:
lighting and contact power supply network
heating system - gas boiler with warm air blowers.

The valuer did not find any significant differences when inspecting the property and comparing the condition on the ground with the submitted documents.

6. Definition of values

Market value is a calculated figure - the amount of money, determined at the valuation date, for which a property should change hands in a commercial transaction between a willing seller and a willing buyer, after appropriate marketing: this assumes that each party acts competently, with calculation and without coercion. /LVS 401-2013/.

The term "***forced sale***" is often used when the seller is forced to sell and thus does not have enough time to make a proper offer. In such circumstances, the price to be obtained depends on the nature of the seller's difficulties and the reasons why adequate marketing cannot be carried out. It may also reflect the consequences that would arise for the seller if it were unable to sell the asset within a given time. If the nature of the seller's difficulties or the reason for them is unknown, it is not possible to make a realistic prediction of the price that will result from a forced sale. The price at which a seller agrees to sell an asset in a forced sale reflects the circumstances of the particular transaction, not the behaviour of a theoretical willing seller within the definition of market value. "A 'forced sale' is a description of the situation in which an asset is disposed of, not a different basis of value.

7. Characterisation of the market situation and determination of a possible sale date

Economic characteristics

The euro area's economic growth has stalled. The main negative factors are the geopolitical environment, the previous high inflation, the sharp rise in interest rates to contain high inflation and the contraction of the export market.

In view of the easing inflation in the euro area, the Governing Council has decided to continue the normalisation of the Eurosystem's balance sheet by starting to reduce the temporary pandemic emergency asset purchase programme portfolio by an average of €7.5 billion per month in the second half of 2024 (Bank of Latvia).

According to the Central Statistical Office (CSO), gross domestic product (GDP) in Q3 2023 is estimated to have decreased by 0.7% on a seasonally and calendar-adjusted basis compared to Q3 2022. Compared to Q2 2023, GDP increased by 0.2% on a seasonally and calendar-adjusted basis.

In terms of GDP change from the manufacturing side, the largest declines in Q3 2023 compared to the same quarter of the previous year on a non-seasonally and calendar adjusted basis are in the finance and insurance and agriculture sectors. The largest positive contribution to overall economic development (+0.9 percentage points) came from the substantial growth of the construction sector (16.1%).

In Q3 2023, the transport and storage sector recorded a 9.8% drop in GDP compared to the same quarter of the previous year on a non-seasonally and non-calendar adjusted basis. GDP in this sector was negatively affected by land and pipeline transport activities, water transport, storage and ancillary transport activities (down 18.6%), postal and courier activities. In contrast, growth in the air transport sector made a positive contribution (Data: CSO).

In October 2023, Latvia's foreign trade turnover amounted to EUR 3.51 billion, which in real prices was 17.8% less than a year earlier, including a 12.5% drop in the value of exports and a 21.9% drop in the value of imports (data from the Central Statistical Office). In October 2023, exports of wood and wood products; charcoal were down by €73.7 million, or 24.4%, compared to October 2022. In Q3 2023, total exports accounted for 60.4% of GDP, while imports accounted for 64.4% of GDP. The Bank of Latvia published its December 2023 macroeconomic forecast: gross domestic product (GDP) growth is projected at 2.0%. GDP is expected to grow by 3.6% in 2025 and by 3.8% in 2026.

Inflation rates have been decelerating across the euro area in recent months. In Latvia, too, consumer prices have eased in recent months as global energy prices have fallen. With lower prices for heat and fuel, price pressures on other goods and services are easing, for example the price of transport-related goods and services and housing-related goods and services have fallen, while the cost of heat has fallen. According to the CSO, the average consumer price level increased by 1.0% in November 2023 compared to November 2022.The inflation estimate for 2023 is 9.0%. The Bank of Latvia forecasts inflation at around 2% over the next three years (2.0%, 2.3% and 1.8% for 2024-2026 respectively).

Overall, employment remained stable in 2023. The unemployment rate in the third quarter of 2023 was 6.5%, 0.3 percentage points lower than in the same period in 2022 (data from the CSO). The employment rate in the 35-54 age group is increasing, while the employment rate in the 25-34 age group has declined over the last year.

The 2022 framework has seen one of the fastest and most significant rate increases since 1999. Already in mid-December 2022, the 12-month Euribor rate exceeded 3%. The last time rates rose above the 3% mark was in 2006, in 2008 they were already above 5% and it was only at the start of 2009 that a fall below the 3% mark was expected.

EURIBOR rates	02.01.2023	04.03.2023	03.07.2023	02.10.2023.	01.12.2023.
1 week	1.876%	2.895 %	3.388 %	3.858 %	3.839 %
1 month	1.883%	2.928 %	3.385 %	3.858 %	3.869 %
3 months	2.162%	3.053 %	3.597 %	3.951 %	3.960 %
6 months	2.732%	3.335 %	3.913 %	4.138 %	4.004 %
12 months	3.316%	3.651 %	4.145 %	4.198 %	3.902 %

Source : https://www.euribor-rates.eu/en/euribor-rates-by-year/2023/

Business sentiment in September 2023 improved again after six months and this trend continues in October and November: in retail trade and services, the confidence indicator is positive, while in manufacturing and construction the indicator is still negative but also slightly improved compared to the previous month (data from the CSP business sentiment surveys). Consumer confidence, on the other hand, shows a negative trend. The negative trend in this indicator is bad news for the economy, as consumers account for a large share of the country's economic activity or gross domestic product.

Dynamics of yield rates

The rates are set according to Latio's market research information on yields required by investors for transactions in cash-generating properties of the real estate segments shown in the graph.

According to Colliers data for *prime* segment properties:

Key Investment Figures in the Baltic States, Q1 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	5.8%	5.8%	5.5%
Retail (SC)	7.0%	7.25%	7.25%
Retail (grocery-led)	6.1%	6.5%	6.25%
Industrial	6.75%	6.5%	6.75%

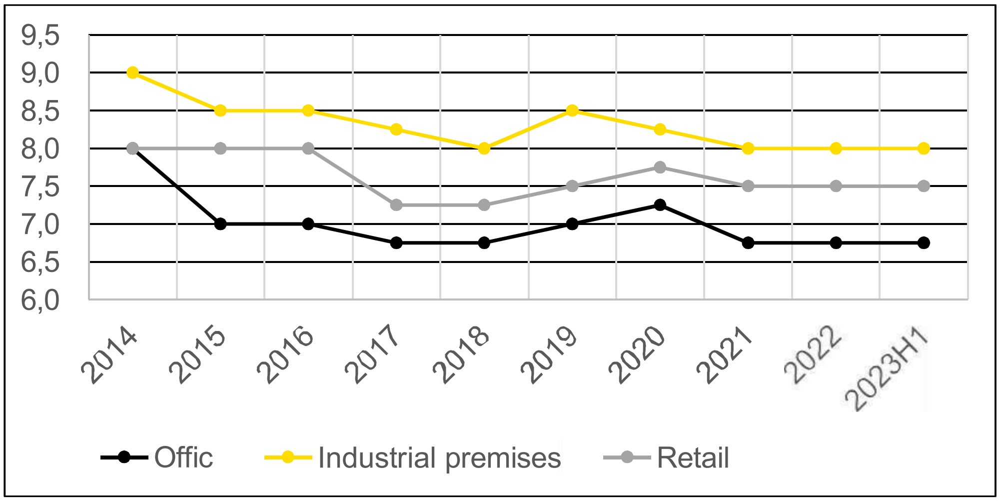
Source: Colliers

Key Investment Figures in the Baltic States, Q4 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	6.75%	6.5%	6.5%
Retail (SC)	7.75%	7.75%	7.5%
Retail (grocery-led)	7.0%	7.0%	6.75%
Industrial	7.2%	7.0%	7.0%

Source: Colliers

According to Latio:



Investment (data to October 2023).

In the first ten months of 2023, cash-flow generating commercial properties were acquired for a total of around €100 million. Compared to recent years, the level of investment is around twice as low. While the highest volume of transactions in cash terms is typically recorded in the 4th quarter of each year and a similar trend is expected in 2023, the overall investment volume is expected to be one of the lowest in recent years.

Property acquisitions have also been slow, totalling just over €110 million, similar to other years with low activity, such as 2020, when the Covid-19 pandemic started.

Most market participants have taken a wait-and-see approach and are waiting to see what happens next. Thus, not only has the total number of transactions in Latvia fallen (by around 30%), but no large transaction above EUR 25 million has been concluded yet.

"The low number of transactions is directly linked to Euribor rates and the consequent inability to achieve the desired rates of return with the usual amount of funding - property prices not falling as fast as Euribor was rising," industry experts explain.

Latvia is by no means unique, and a similar picture can be observed in other European countries, including the Baltic States, and in the Middle East. However, the market in our region looks quite stable and serious problems in the real estate portfolios of market players are largely absent. According to industry experts: for the market to recover, either the Euribor rate has to fall or property prices have to fall.

Looking at the largest transactions in 2023 that have exceeded the EUR 5 million mark, the most well-known is Pullman Riga Old Town, a five-star hotel in Old Riga, Jēkaba Street. The amount of the transaction is confidential, but it is known to have exceeded €10 million.

The second largest transaction in terms of amount took place at the beginning of the year, when the Lithuanian company Norvelita bought the administrative building of the PNB Bank in liquidation on Ernesta Birznieka-Upīša Street.

In October 2023, the largest land acquisition deal of the year in Latvia was registered, with one of the retail leaders Rimi Latvia acquiring a 3.6 ha land plot next to the Alfa Akropole shopping centre in Riga, 382 Brīvības Avenue, for EUR 8 million from the Linstow Baltic group company.Real estate developers reviewed their strategies for acquiring land plots for development at the beginning of the year, taking into account the overall economic situation in Latvia, and thus there were comparatively few deals. However, in the middle of the year, when most developers accepted the new economic reality, they started to actively look for opportunities and assess the supply of available land plots on the market. The average time to make a purchase decision was around 3-6 months. In the third quarter of the year, new deals were already coming on the market.

In addition to the Rimi transaction in Brīvības avenue, the largest land acquisitions were Linstow Tobre (Linstow Baltic) - Satekles street 1 k-1, Satekles street 1E, Riga; Cella investment 4 (Sirin) - Sniedžu street 2, Dreiliņi;

"Riga Properties 4" ("VPH Latvia") - "Līdumi", Dreiliņi;
"SKUBA Real estate" - Maskavas street 471, Riga.

The total volume of land acquisitions from January to October 2023 inclusive was around €42 million (or 36 transactions above €300 thousand), €20 million less than in the same period of 2022 (€63 million; 46 transactions above €300 thousand).

Lielākie komercīpašumu darījumi 2023. gadā

2023. gada 10 mēneši (cena virs 5 miljoniem eiro)

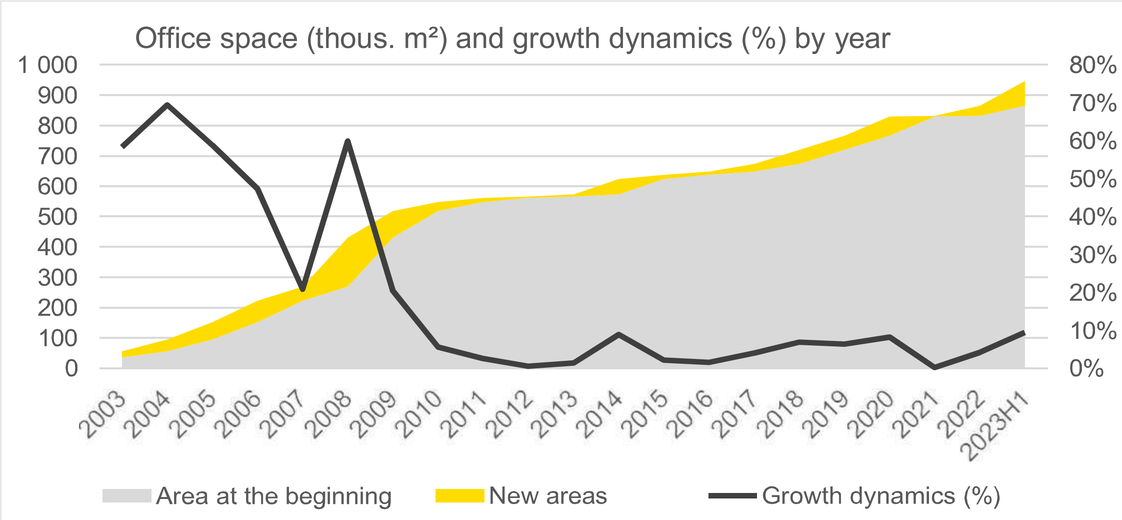
Īpašums	Veids	Platība	Cena, eiro	Pārdevējs	Pircējs
Pullman Riga Old Town	Viesnīca	Ēka 8380 m^2 zeme 2220 m^2	Konfidenciāla	Wisher Enterprise LV	IDK Baltic
Ernesta Birznieka-Upīša iela 21, Rīga	Jaukta pielietojuma	Ēkas 13980 m^2, zeme 6730 m^2	10 milj.	PNB Banka	Norvelita
Brīvības gatve 382, Rīga	Zeme	3.6 ha	8 milj.	Linstow	Plesko Real Estate
Mūkusalas iela 72, Kārļa Ulmaņa gatve 2A, Rīga	Jaukta pielietojuma	Ēkas 7260 m^2, zeme 16360 m^2	7,7 milj.	Dažādi īpašnieki	LIDL
Duntes iela 15A, Rīga	Birojs	Ēka 4930 m^2, zeme 11020 m^2	5,8 milj.	Rīgas Sanitārā Transporta Autobāze	Duntes 15
Kalpaka Bulvāris 7, Rīga	Dzīvokļu ēka	Ēka 3170 m^2, zeme 1300 m^2	5,8 milj.	MID BALTIC REALTY	HOVE
U30 Stock office	Jaukta pielietojuma	Ēka 7860 m^2, zeme 3700 m^2	5,2 milj.	Hepsor	East Capital
Ulbrokas iela 42G, Rīga	Jaukta pielietojuma	Ēka 5940 m^2, zeme 12340 m^2	5,1 milj.	U42G	Capitalica

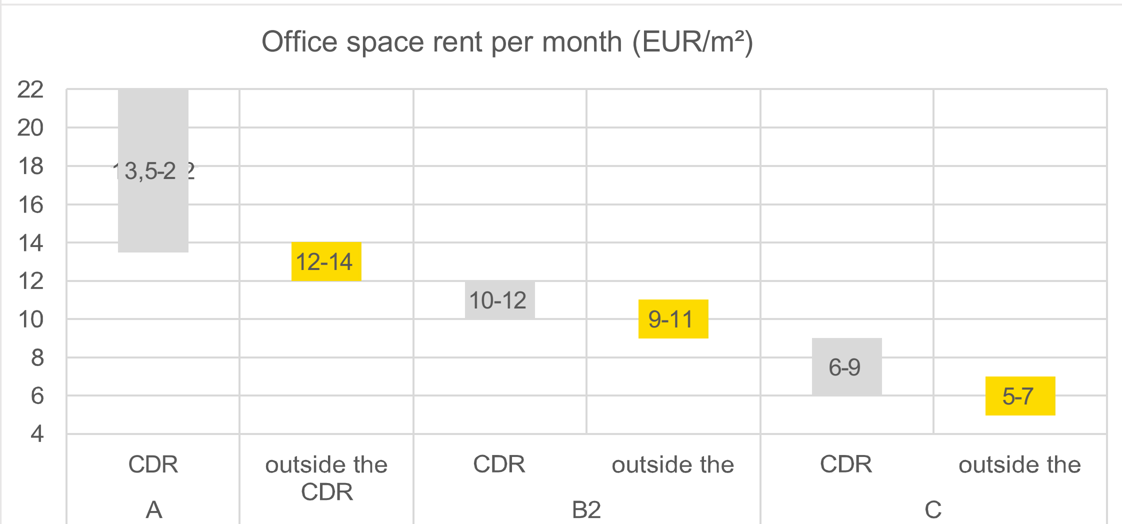
Avots: "Colliers", VZD, ZG, "Crediweb"

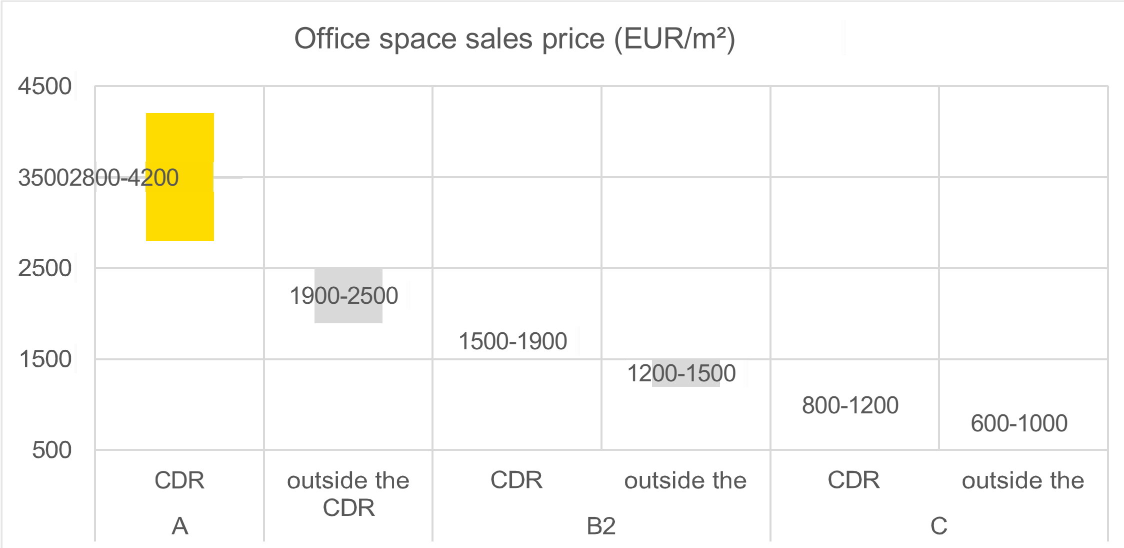
Office space, Latvia

- Linstow Baltic has been granted approval for the construction of the Satekle Business Centre, a visionary project consisting of five interconnected buildings, two of which will be heritage buildings and will be integrated.
- The first phase of construction (commissioning) has been completed in the new business centre located in Riga, Pērses street 2A. The building, located at 30 Krišjāņa Barona Street, will be commissioned by December 2023.
- The construction of the Novira Plaza office and retail centre is nearing completion, with a target completion date of October. The project will offer a mix of commercial and retail space.
- Regus Business Garden, a new co-working office complex, has opened in Riga. Spread over five floors with a total area of 1,077 square metres, this modern facility offers flexible workspace solutions for city businesses.
- Significant investment of almost €50 million has been allocated for the development of 76 Lāčplēša Street. Construction is scheduled to start in 2024 and is expected to be fully completed within seven to ten years.
- The first building of the newly built business centre "Gustavs", located in Gustava Zemgales Avenue, has been successfully completed.
- The largest and most significant transaction in the commercial sector in the first half of 2023 was the acquisition of land and buildings at 21 E.Birznieka-Upīša Street.
- T/C Galleria Riga will undergo a transformation, as the fifth floor of 3200 square metres will be converted into co-working offices. This innovative workspace solution is expected to be available from 2024.

- The second phase of the Press House Quarter development is expected to start at the end of the year.
- The University of Latvia (UL) has sold a 5221 square metre building complex at 5 Baznīcas Street, Riga, for a total of EUR 3.86 million.
- East Capital Real Estate Fund IV has successfully acquired the StokOfiss U30 commercial building from Hepsor Latvia.

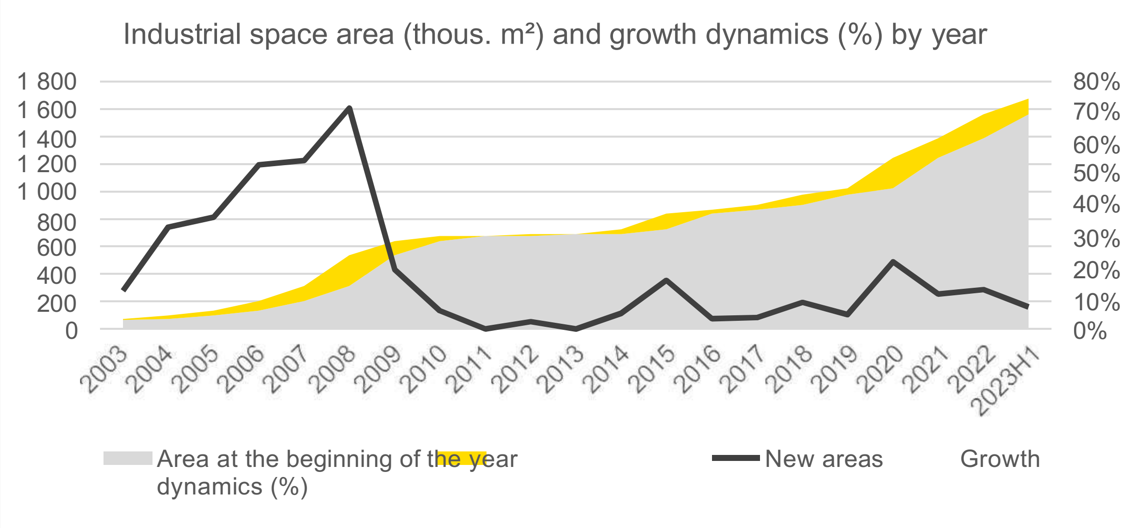


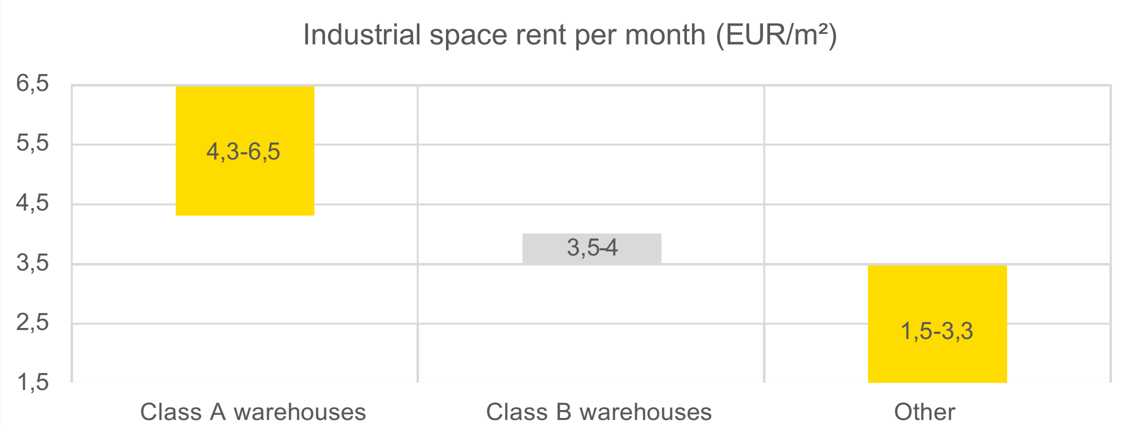


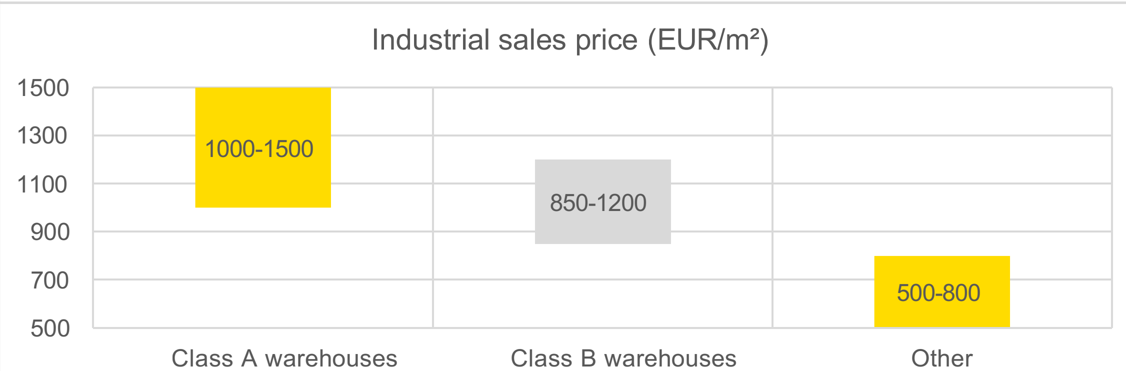


Industrial areas, Latvia

- Fish processing company Syfud Ltd, operating as Port Lite, has announced a significant investment of EUR 6 million for the construction of a modern fish processing plant in Liepaja. The new plant is expected to be completed and operational by summer 2023, increasing the company's production capacity.
- Baltic Electro Company has ambitious plans to invest EUR 8 million in a wholesale and logistics centre in the Dreiliņu district.
- The developer Piche is planning to start construction of two industrial park buildings in the vicinity of the airport in the near future, with an investment of around EUR 25 million, the second building of Green Park III and the second building of the Airport Park III industrial park.
- Schneider Electric is undertaking a major expansion initiative by building an extension to its existing factory in Riga. This ambitious project will effectively double the size of the factory. The new extension will cover an area of 20,000 square metres and is expected to be completed by the end of this year.
- Metalworking company ICS Steel plans to set up a new production facility in Liepāja, Meldru Street, by the end of the year.
- Eco Baltia is making a significant investment of more than €10 million to build a modern PET recycling plant in Olaine. This state-of-the-art plant will not only be one of the largest and most modern PET recycling plants in Europe, but also one of the largest industrial buildings in Latvia.
- Capital Mill recently completed a €4.3 million expansion of its industrial park on Granita Street. The warehouse area increased by around 30%.
- The fourth phase of the warehouse, retail and office complex "Dienvidu vārti" on Rēzeknes Street, Riga, has been successfully completed and put into operation.
- Northside Business Park has acquired three interconnected functioning commercial properties located on the site of the former Liepāja Machine-Building Plant. The acquisition is part of an ambitious plan to develop a dynamic business district in the area.
- Capitalica Green Logistics Fund has acquired a logistics centre in Ulbrokas Street, Dreiliņi. With a total leasable area of 5647 sqm, this acquisition further expands the company's portfolio.







The sales offer consists mainly of various Soviet-era industrial/warehouse buildings as individual units. There are virtually no newly built properties in the public offer. Individual transactions have been identified with ~ 10-20 year old industrial (office/warehouse/manufacturing) buildings. The sale price of the objects is significantly influenced by the size of the land plot, the volume of the development, the actual technical condition and the suitability for the modern production process. Overall, the supply is small.

One of the main factors influencing the value of industrial/warehousing facilities is the proximity of engineering communications (power supply connection capacity; possibility to connect to the gas pipeline, city water supply and sewerage), accessibility of access roads, availability of workforce. The energy efficiency and sustainability of the built environment has become a major factor in the last six months. The level of development of transport and social infrastructure is also important. This includes the availability and frequency of public transport, as well as proximity to various retail and service facilities, medical care and educational establishments, entertainment and recreational facilities.

Overall, the analysis of the number of sales shows that a relatively limited number of industrial properties have been offered to the public since summer 2022. With inflation rising significantly, transactions took place even for objects that were on the market for a long time but were not purchased. The analysis of sales prices does not reveal any negative price changes.

Office/warehouse buildings dominate with a total volume of ~ 2000-5000 ^{m2} and average selling prices ~ 500-700 $^{EUR/m2}$ for buildings ~ 10-15 years old, in some cases reaching a sale price of ~ 900-1200 $^{EUR/m2}$ for small, excellent quality or location properties. Selling prices of ~ EUR 1,200-1,$^{500/m2}$ have been recorded for some newly built "stock-office" properties, with full occupancy and average yields of ~ 5-5.5%.

Only a few sales of such properties have been recorded in the Airport and its surroundings in the last 2 years. It should be stressed that the transactions were mainly with objects comprising both buildings and land. The amount of land involved is important and can have a significant impact on the total amount of the transaction.

The real estate market mainly deals in properties where sales prices correlate with actual rents, providing an acceptable return for the investor. In this case, it should be stressed that properties as cash flow objects are acquired in situations where the premises are in a state of repair suitable for immediate occupation or already have real tenants at market rents.

The yields are in the range of ~7.-8.5% and also reach ~5-6.5% for new logistics and stock-office properties.

Highlights of recent years:

Marupe region, Riga Airport, Ziemeļu street 14 Office/warehouse type building, built in 2005-2006. Structural solution - light concrete masonry for the office part, sandwich panel cladding for the warehouse part, metal constructions frame. Centralised communications. Warehouses premises insulated, but not heated. The building has 2 floors of office space ~ 475 ^{m2}, warehouse ~613 ^{m2}. Ceiling height of warehouses ~ 8m. Functionally connected land plot of ~3800 ^{m2}, long-term lease. Sold in February 2022 for 550 000 EUR (~500 EUR /m2). Indicative **yield ~ 8.5-9%.**	
Kārlis Ulmanis avenue 140 In January 2022, a 25 478 m2 plot of land and an office/retail/warehouse building on it were sold. The total area of the building is 8389 ^{m2}. Metal construction, sandwich panel building, generally in good technical condition. Connections to centralised utilities, including stand-alone gas heating. The building has a 3-storey office block (~20%) and a 1-storey retail/warehouse block (~80%). The building is fully leased to several tenants. Average rents ~7-7.50 for offices and ~4.50-4.60 $^{EUR/m2}$ for warehouses. The area is landscaped, asphalted. Fixed sale price of ZG EUR 4 450 000 (the appraisers are aware of specific circumstances affecting the transaction, which affected the actual transaction amount by ~ +13%). Indicative yield (at ~ 8% Capex) ~ **8%**.	

Marupe region Plieņciema street 5
In June 2022, a "Stock - office" type property was sold. Land 12 525 m^2, building 6247 m^2.
The facility was commissioned in 2 0 1 8 . Very good technical condition.
Fully operated as rental premises - office/retail and warehouse. Leased to several unrelated users. Rent for warehouse ~ 6,0 EUR/m^2 (excluding VAT, utilities and management fee), office/retail - 9,5 EUR/m^2. Ceiling height of warehouses ~ 6 m. Warehousing ~ 70%.
The transaction amount is EUR 9 680 000. Indicative yield (at Capex ~ 5%) ~4**.5-4.7%.**

Mārupe, Dzirnieku street 20
In October 2022, a logistics centre was sold. Land 16 447 m^2, building 9021 m^2.
The facility will be operational in 2021. Newly built, in excellent technical condition.
Used as office and storage space. Ceiling height of warehouses ~ 9 m. Storage ~ 90%.
The transaction amount is E U R 10 043 000. Indicative yield (at Capex ~ 5%) ~5%**.**

Mārupe, Dzirnieku street 18
In October 2022, a logistics centre was sold. Land 16 304 m^2, building 3326 m^2.
The facility was put into operation in 2007. It is in fully satisfactory technical condition. The warehouses are heated. Used as office and warehouse space. Ceiling height of warehouses ~ 6,2 m. Warehouses ~ 80%.
The transaction amount is EUR 2 100 000. Indicative yield (at Capex ~ 10%) ~7**.5%.**

Rīga, Ulbrokas street 42G
In spring 2023, the real estate - a plot of land and an office/warehouse building - was sold.
Located on the edge of a high-traffic street.
Land 12 772 m^2, building with a total area of 5644.9 m^2, outdoor space - 247,3 m^2. There is an outbuilding - shed.
The facility was put into operation in 2008. Overall in good technical condition. The warehouses are heated. Ventilation/recuperation. Connections to centralised engineering communication networks, including autonomous gas heating.
Used as office and storage space. Warehouse ceiling height 12 m. Warehouse ~ 75%. Fully let.
The plot is landscaped.
The transaction amount is EUR 5 121 002 (without public exposure). Indicative rate of return (TNL contract with the general tenant) **~6.5%.**

Marupe region Plieņciema street 5 In November 2023, the property was sold. Land 18 300 m2, built-up area ~ 1902 m2. The facility was put into operation in 2001. The building is in good technical condition. Fully used as car showroom premises - office/sales and service/storage. The building has a café area. Used for one user. Warehouse space on two levels. Relatively large vacant area, part of which can be used for additional new construction. The transaction amount is EUR 2 500 000 (after public exhibitions € 2 600 000). Indicative rate of return (at Capex ~ 7%) ~ 4**.5-5%,** however it should be noted that the total includes additional vacant land with a notional value of ~ EUR 800 000 extent.	

Looking at the situation in the immediate vicinity of the valuation object, it should be noted that the specific location in the immediate vicinity of the airport also results in relatively higher rents. The Valuers have information on lease rentals in the surrounding buildings and have found that the rentals for aircraft maintenance (MRO) or aircraft hangars in the surrounding area are in the range of EUR 20.0/m2 + VAT + utilities. The rent depends significantly on the nature of the use of the premises, the technical condition of the buildings and the provision of utilities.

Over the last 5-6 years, as Piche has developed several industrial park projects in the vicinity of Riga Airport, the amount of warehouse and office space available for lease has significantly increased. The general economic changes are also reflected in the current rental rates - while in the earlier projects warehouse rents have stabilised at EUR 4.5 - 5.2 per sqm, in the 2022 - 2023 projects warehouse rents have reached EUR 5.3 - 5.9 per sqm.

An analysis of the occupancy rates in the airport area shows that occupancy rates in good quality office and logistics facilities have reached 90-95%.

It should be noted that the rental rates for office premises currently available on the market, located in high-quality buildings in the territory of Riga Airport or in its immediate vicinity, are EUR 6 - 10 per sq.m.

The site is currently used for commercial activities (aircraft maintenance). The profitability of such business depends on the successful cooperation with the airlines "air Baltic Corporation", "Ryanair" and "Wizz Air" operating at Riga Airport. The appraisers are of the opinion that the site may not generate the maximum income from aircraft maintenance (EUR 20/sq.m.) in the coming years and that the potential rentals will not exceed EUR 6,5/sq.m. + VAT + utilities. The main building can also be used for aircraft parking or as a warehouse on the territory of Riga Airport, providing warehousing services. The evaluators also studied the rental situation of MRO hangars in European and North American airports and concluded that the currently charged rental rates range from EUR 4.0/sq.m. for maintenance hangars located in small airports, which are mainly intended for small aviation, to EUR 25.0/sq.m. for maintenance hangars located in international airports, where commercial aircraft (with 100 seats or more) can be maintained. Accordingly, the asking prices for MRO hangars range from EUR 360-900/sq.m. (for hangars dedicated to small aircraft) to EUR 1000-2700/sq.m. (for hangars capable of servicing aircraft with 100 seats or more). The highest offer prices are for modern MRO hangars located in international airports (asking and transaction prices of more than EUR 2 000 per 1 m2 and rents of up to EUR 20-25 per sq.m.).

The Valuers have no information on transactions for aircraft maintenance hangars in European Airport Areas (MRO). The following aircraft maintenance hangars are currently available for public offer at airports worldwide, ranging in size from 3700 to 9300 m2 (source of information: www.loopnet.com):

[5615 S Sossaman Rd - Airplane Hangar or Airport]

Mesa, Arizona

Southwest Jet Center | Mesa-Gateway is a state- of-the-art 74,000 square foot facility that was developed as a full-service MRO facility in two... Status: For Sale

Price: $11,000,000

Price EUR/sq.m.: 1330

Property Type: Specialty

Sub-Type: Airplane Hangar

Building Size: 74,486 SF

Cap Rate: 7.70%

[9382 Stockmar Rd - Airplane Hangar or Airport]

Villa Rica, Georgia

CONFIDENTIAL, DO NOT APPROACH TENANTS. Confidentiality agreement documents are attached. This airport offers 41 individual hangers, and is...

Status: For Sale

Price: $7,000,000

Price/sq.m.: 920 Property

Type: Specialty

Sub-Type: Airport

Building Size: 68,698 SF

Year Built 1971

[1 Campbell Pky - Airplane Hangar or Airport]

East Wenatchee, Washington

This is an exceptional opportunity to acquire a state-of-the- art hangar and office facility in Eastern Washington located on a 216,667 sq. ft...

Status: For Sale

Price: $7,500,000

Price/sq.m.: 1050 Property

Type: Specialty

Sub-Type: Airplane Hangar

Building Size: 64,305 SF

Building Class B

[1640 Lincoln Ave - Airplane Hangar or Airport]

Holbrook, New York

Rare Opportunity to own 5 acre parcel with direct runway access at Long Island MacArthur Airport. Fully leased with a long waiting list. This...

Status: For Sale

Price: $4,900,000

Price/sq.m.: 710 Property

Type: Specialty

Sub-Type: Airplane Hangar

Building Size: 61,905 SF

Building Class C

Portfolio of 2 Properties - Portfolio of 2 Properties
Scottsdale, Arizona
Two-storey freestanding commercial building with existing hangar/office and land for additional hangar. Building is occupied. Owner will vacate...

Status:	For Sale
Price:	$14,000,000
Price EUR/sq.m.:	**2170**
Property Type:	Mixed Types
Building Size:	58,350 SF

3900 Livingston Rd - Airplane Hangar or Airport
Indian Head, Maryland
PENDING CONTRACT - Fully operational designated FAA reliever airport located on 220 acres +/- plus 183 acres +/- of surrounding land

Status:	For Sale
Price:	$4,840,000
Price/sq.m.: 840 Property	
Type:	Specialty
Sub-Type:	Airport
Building Size:	51,990 SF
Building Class	B

3800 SE Three Mile Ln - Airplane Hangar or Airport
McMinnville, Oregon

Status:	For Sale
Price:	$8,200,000
Price/sq.m.: 1480 Property	
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	50,087 SF
Building Class	B

7301-7331 S Peoria St - Airplane Hangar or Airport
Englewood, Colorado
Building Size: 48,204 SF (38,204 SF of hangar space; 10,000 SF of office space) Available for Sale: 48,204 SF (100%) Hangar Bays: 7 Doors: 19.5'...

Status:	For Sale
Price:	$7,230,600
Price/sq.m.: 1350 Property	
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	48,204 SF
Building Class	C

The general economic and geopolitical situation at the beginning of 2024 may have a significant impact on the future development of the real estate market. As observations show, the residential segment of the market has experienced a sharp decline in the number of transactions over the last six months, which has brought with it negative price corrections. In the commercial segment, no significant decrease in the number of transactions or rental/sale prices has been observed, but given the general situation, it is not possible to forecast the changes expected in the near future at this point in time. Transactions in commercial property are taking place, but the number of transactions is small and the opportunities for disposal are also affected by the limited lending policy of banks.

Analysing the market situation to date, the valuers found that buyers are not making ill-considered purchases, they are thoroughly familiarising themselves with the properties, researching comparable offers, however, the limited supply on the market means that the most likely sale period for the subject of the valuation could be up to 18 months, if the seller makes all the necessary arrangements to expose the property on the open market at the market value set. The value under forced sale conditions could be reduced to ~20% with a shortened sale period of up to 12 months.

8. Existing and best use, factors affecting value

***The market value of a property reflects its best and most efficient use**. The best and most efficient use of an* asset is the use that obtains the maximum benefit and that is practicable, legal and financially feasible. *(Latvian Standard LVS401-2013, p.3.12.4).*

A way of using property that is prohibited by law or is impossible in practice cannot be considered the most efficient. The concept of best and most efficient use is an integral part of the calculation of market value. /LVS 401- 2013/.

Existing use of the immovable property: in the territory of the object under assessment in Marupe Municipality, Riga Airport, under the name "Riga Airport 10/1" there is an aircraft maintenance building with warehouses, workshop and administrative premises and a boiler house for heating of the aircraft maintenance building. On the day of the inspection, the aircraft maintenance building was found to be in use (commercial activities) in accordance with its intended use.

The building is a state-of-the-art aircraft maintenance facility with the necessary office, workshop, storage, staff and recreational facilities. Overall, the building's construction and the materials used are of high quality. The site is well served by utilities.

The appraisers consider that the best use of the property is in line with the existing use - modern aircraft maintenance and storage facilities. The building could also be used for long-term or short-term aircraft parking, or as a warehouse on the territory of Riga Airport, providing warehousing services.

In recent years, there has been a growing demand for quality aircraft parking and maintenance facilities. There is a limited supply of such buildings/spaces on the market for sale and lease, which is associated with an increased risk to the liquidity of buildings of this nature on the market. Construction is usually carried out at the direct request of the client, on a site of his choice, according to his choice of structural solutions and building footprint.

Positive market value drivers for best use :

- a building of specific design - its layout and ceiling height allow maintenance (repair) of several smaller aeroplanes at the same time, or one large aeroplane with a tail height of up to 15 m;
- Riga Airport has a small number of buildings of a similar nature on its territory, where aircraft maintenance can be carried out;

- the area in front of the development is hard surfaced;
- the property is located close to Riga;
- the airport development will increase the demand for aircraft maintenance services; public transport links to the city centre are in place;
- the development is located on the territory of Riga Airport;
- The site is located in a strategically important location from the perspective of the city development, adjacent to Riga Airport near K. Ulmanis Avenue, which is one of the major highways close to the city centre, near which the construction of shopping complexes and business administrative buildings and warehouses is developing;
- Construction of the Rail Baltica rail link to Europe has started, with plans to connect Riga Airport to Rail Baltica and to build a station in the immediate vicinity of the airport;
- experts predict that the number of passengers carried at Riga Airport

will increase. Negative factors affecting market value for the best use:

- the property does not stand in the vicinity of a main street;
- the building has no offices or sanitary facilities;
- is located in the inner area of the airport, access to the development is restricted (with a pass system);
- the land under the development being valued is not part of the valuation object;
- such objects have an increased risk to liquidity on the market - harder to sell due to a small pool of potential buyers.

9. Assumptions and qualifications made in the valuation

The valuation calculations are made on the assumption that :

- the property is unencumbered by leases
- the property is not guaranteed;
- the immovable property is not invested in the company's share capital;
- there are no non-separable investments (improvements to the property) in the property to which third parties may have a claim;
- the property is free from debts, including arrears of land rent, property tax and utility bills;
- an agreement has been reached to extend the land lease in accordance with the draft submitted;
- there are no specific hidden or invisible conditions or changes in conditions of the ground and structures which lower or raise the value of the property and which can only be detected by special engineering investigation methods.

The Valuers underline that the assumptions and limiting factors reflected in Annex 1 have been taken into account in the valuation.

10. Theoretical background and evaluation approaches

Three valuation approaches or techniques are most commonly used in real estate valuation: the market approach, the income capitalisation or cash flow discounting approach and the cost approach. The choice of approach is based on the nature of the information available, the characteristics of the market and the specific nature of the property itself.

According to Latvian valuation standards, regardless of the choice of approach in a given valuation, which is determined by all methods, the result must be one - an objectively determined market value (if all calculations are based on market information). In practice, it has been found that these valuation approaches most often produce slightly different results, which requires an analysis and alignment of the calculation results.

The final reconciliation of the results is based on a mathematical weighting approach, which involves assigning a weight (confidence) level (expressed as a percentage) to the result obtained from each approach used in the valuation and calculating a weighted average, which is then taken as the market value of the property;

The reconciliation of calculation results is not a simple mathematical process, but a consideration of the suitability of each approach and an analysis of the reliability of the results obtained in valuing a specific property and determining the final market value.
The following provides some insight into the approach used to calculate market value.

Market approach

The approach is based on the assumption that a knowledgeable buyer will not pay more for a given property than the amount of money for which he could buy another property of similar quality and use on the market. Data on sales/offers of properties similar to the object of valuation are identified and analysed. In order to calculate the market value of the property to be valued, the price of the selected comparables is adjusted for any differences from the property to be valued and compared.
The factors considered in the calculation and on which adjustments are made can be divided into the following groups: ownership rights, changes in market conditions, financing conditions, transaction conditions, location, physical characteristics (size of land and buildings, technical condition, amenities, etc.); permitted use and economic factors (lease agreements, management restrictions, mainly for commercial properties).
The calculation of the market approach can be conditionally divided into the following steps:

- Market research to obtain information on transactions and sales offers for properties similar to the subject of the valuation;
- Analysis of this information to determine whether the information obtained is accurate and whether the sales are commercial transactions;
- Choosing an appropriate unit of comparison (e.g. euros per square metre) and benchmarking against these units;
- Comparing the property to be valued with the market using various benchmarks, resulting in a price adjustment for each comparator;
- Determination of the unit value of a valuation comparison object, multiplied by the number of units to obtain the value.

Income approach

In the real estate market, income-generating real estate is viewed as an investment from the investors' point of view, and the Income Approach is based on this principle. The Income Approach is therefore particularly suited to the valuation of properties purchased as investment properties.
The income approach is based on the assumption that a typical investor/buyer operating in the market purchases real estate with the expectation of receiving an income from it in the future. In other words, value can be defined as the present value of the right to future benefits. The income approach determines the market value of a property by identifying and analysing the net income that the property can generate for its owner if it is rented out. If the valuation objective is to calculate market value, the income capitalisation or cash flow discounting approaches should be based on market values for real cash flows and rates of return.
When buying an income-generating property, an investor counts on the recurring income stream generated by the property, as well as the potential future appreciation of the property. As real estate is a long-term investment, the income approach analyses an infinite cash flow. In order to take account of the fact that the expected income, as well as the income from the sale at the end of the period, is generated over a longer period of time, the valuers' task is to translate this periodic income stream into today's value. This process is called *discounting* in real estate valuation, and the rate used to convert the future income into today's value is called the *discount rate*.
It follows from the above that the value of the property is calculated by making a forecast of long-term income and the calculation is made using the following formula, called the *discounted cash flow*:

$V = NOI_1/(1+i)^1 + NOI_2/(1+i)^2 + NOI_3/(1+i)^3 + {}+NOI_n/(1+i)^n$;

where NOI - annual net
income; i - discount rate;
n - number of income periods to be considered.
As mentioned above, in the valuation of income-producing property, the value is represented both by the recurring income from its management and by the income from its future sale at the end of the investment period. The return on the future sale of the property is called the reversion because it represents the expected return on the capital invested at the end of the investment period. The reversion value is defined as the expected return on the sale of the property, calculated by deducting the costs of the sale (brokerage costs) from the probable sale price.
If the cash flow generated by the property is stable and constant, mathematical transformations result in a simple formula called *direct capitalisation*:
V=NOI/ R
where NOI - annual net
income; R - capitalisation rate.
The characteristics of the cash flow are the most important factor in the choice of calculation method:
Direct capitalisation is used when the property being valued is capable of generating stable cash flows at the time of valuation (it meets best use conditions, does not require significant capital investment, is not expected to increase rents or expenses, etc.).
Cash flow discounting is used when the projected cash flow is time-varying (cash investment is required to optimise the use of the property, or changes in expected future income (both increases and decreases) are expected, or in other words, the income stream from the property is variable when analysed several years (periods) in advance). The number of calculation periods depends on the stabilisation period of the projected cash flow.
Income consists of all the income that the owner derives from the property over the period of ownership, which in real estate valuation is most often the rental income from the premises/land, less any expenses related to the maintenance and management of the property.
If the valuation exercise is a market value exercise, the projection of income/expenditure streams should be based on average rents and management costs in the property market, taking into account the specific characteristics of the asset being valued, including liabilities.
The annual net revenue under the income approach is calculated as follows:

- calculate the potential gross income from renting or leasing the property;
- subtract from the potential gross revenue the losses due to non-letting of premises and non-collection of rent or rents; and add other revenue generated by the property being valued, resulting in the effective revenue generated by the property;
- subtract from the real gross revenue all expenses related to the operation of the facility - property tax, insurance, personnel costs, deductions to the replacement reserve fund, etc. - to arrive at the net (net) revenue.

The yield and its determination is an important variable in the calculation of the income approach. Rates of return can be divided into rates of income and rates of return.
The capitalisation rate, in real estate valuation terminology, includes the return on the capital invested as well as the return on the capital invested. The return on invested capital includes compensation for the change in the time value of money and other factors related to the specific investment.
The discount rate is the rate used to convert a future cash flow into today's value, or vice versa. The discount rate, unlike the capitalisation rate, does not include expected capital gains.
Discount and capitalisation rates are determined by assessing the state of the financial and real estate markets and the risks associated with the management and disposal of the property. In practice, the most common methods used are rate determination from market data (analysis of yields on sold properties of a similar nature), the cumulative method

(determination of the capitalisation rate plus the risk-free rate plus the risks associated with the liquidity, management and return of the investment), Ring, Inwood or Hoskold investment return methods, and return on equity (borrowing capital) analysis.

Cost approach

The cost approach is a comparison based on the assumption that a knowledgeable investor will not pay more for a property than the amount of money for which he could acquire an equivalent plot of land and build a building of similar quality and use.

The cost approach calculates the replacement or substitution value of the improvements to the site, less depreciation, and adds the land value to the result.

In the cost approach, the following steps are taken:

- The market value of the plot is calculated assuming that it is free of any improvements and can be used to its best and most efficient use;
- Estimated replacement costs for improvements to the site;
- Calculated wear and tear due to physical wear, functional obsolescence or external factors;
- Depreciation is deducted from the replacement cost of the improvements to arrive at the residual replacement value of the improvements to the land; and
- The land value is added to the resulting residual replacement value to give the property value.

In the cost approach, all parameters are taken from open market data. Construction costs are determined by considering the average construction costs at the time of valuation, while the land value is calculated using the market approach. Losses in value are represented by the following forms of depreciation:

Physical deterioration - the degree of deterioration of structures and materials due to various factors (physical and chemical

exposure, overloading, incorrect operation, etc.)

Functional obsolescence - the inadequacy of the characteristics of buildings and structures to the existing market standards and perceptions of the type of real estate under consideration (outdated utilities, unfashionable layout).

Economic (external) depreciation - describes the change in the value of a property caused by external circumstances, not directly related to the property itself, that have a significant effect on the saleability of the property. These conditions affecting value may be technical or economic in nature.

11. Choice of valuation approach and calculation process

Taking into account the nature of the object to be valued, the type of use and the amount of market information available, the valuers consider that the market value can be determined using the income approach, as a cash flow analysis will most accurately reflect the value of the real estate in the current market conditions.

The market approach is complicated by the lack of sufficient and objective information on transactions with similar properties - aircraft maintenance hangars on leased land. Each site is unique and different, with the sale price largely influenced by geographical location, technical characteristics, competition. Buyers of industrial assets purchase on the basis of an analysis of their projected operating cash flows and on the basis of their own financial considerations. Consequently, the purchase and sale amounts vary considerably. The valuers consider that the analysis of market information on objects which are not fully comparable to the object of valuation can only provide indicative results which may serve for the formulation of a general opinion, not for a precise value calculation. On the basis of the above considerations, the valuer does not use the market approach method of comparing market data in its calculations. Market data is used by valuers in the calculation of value using the income approach.

The cost approach is not applicable in this particular valuation case, as the valuers consider that the replacement cost of an equivalent development does not reflect the likely market value of the site. In the regions, typical industrial sites have selling prices below the investment made in their construction. As things stand, replacement costs are indicative of the price level towards which market values tend, but market data do not confirm that construction costs are in line with market values.

Value calculation using the income approach

The income approach determines the current value of a property based on the expected income that could be earned from the best use of the property. The subject of the valuation is a potential income-producing property: an industrial building with office space.

The valuers, analysing the rents currently on the market, concluded that:

- Currently, rents for industrial and office space have stabilised in the market;
- As the number of passengers and flights at Riga Airport increases, the demand (occupancy) for aircraft maintenance facilities will grow;
- no rent increases are foreseen in the coming years.

The calculations assume rents (without value added tax) in accordance with the free market situation, by analysing the rental rates and conditions of leased and offered premises (based on SIA LATIO's current market information for similar objects at the time of valuation). The average rent for aircraft maintenance hangars (MRO) or hangars suitable for aircraft parking in European and North American airports is EUR 6.0-9/sq.m. + VAT + utilities. The most feasible rent for the premises identified in the assessment is EUR 6.$^{4/m2/month}$. In determining the potential rents for the subject of the appraisal, the appraisers took into account the location of the premises, the best use of the premises, the floor area of the premises, the technical condition of the premises:

Calculation of market rents by benchmarking

Values describing the objects to be compared	Comparative Object No 1	Comparator No 1	Comparator No 2	Rental object
Address	29 Rāmuļu Street, Riga	Ziemeļu street 4, Marupe pag.	Kauguru Street 6, Riga	"Aircraft maintenance hangar", Marupe pag., Marupe nov.
Leased/offer	Valid	Valid	Under surveillance	
Description of the premises and contractual conditions	Warehouse space in new warehouse, ceiling height 9,6 m, floor load capacity: 8 t/m2, heating	Warehouse space, ceiling height 9,5 m, floor load capacity: 8 t/m2, heated	Warehouse space in a renovated warehouse, ceiling height 6 m, floor load capacity: 8 t/m2, heated	MRO hangar
Area	1450,0	4265,3	1887	2901,0
Rent per month, EUR/m2	7,00	6,68	5,00	
Terms of the transaction	0%	0%	0%	
Time of transaction	0%	0%	0%	
Adjusted rent EUR/m² per month, excluding VAT, utilities and extra charges	7,00	6,68	5,00	

Location of the building in Latvia	0%	0%	0%	
Location of the building in the quarter	0%	0%	0%	
Building condition/construction	-5%	-5%	5%	
Total floor area	-3%	3%	-2%	
Room functions, office space	-7%	-7%	-5%	
Technical condition of the premises/type of heating	0%	0%	0%	
Room layout, ceiling height, possibilities of use	10%	10%	20%	
Asphalted pitch	0%	0%	0%	
Total amount of corrections	-5%	1%	18%	
Adjusted rent	6,66	6,73	5,90	
Average adjusted rent, EUR/m²	*6,43*			
Calculated rent, rounded	*6,40*			

Revenue forecast in cash flow:

Potential annual income is defined as the rental income (excluding VAT) from the premises, multiplied by the area of the premises to be rented multiplied by the rent calculated for it.

The most feasible rent for the premises has been set at EUR 6.$^{4/m2/month}$.

The calculations also take into account occupancy risk, which takes into account both the potential loss in the event of non-occupancy and the potential loss due to non-payment of rent -0.95.

Expenditure projected in the cash flow:

It is expected that the owner will be charged for the costs, in accordance with the terms of a typical lease agreement. Utilities (electricity, water, heat, garbage disposal, etc.), maintenance costs, in accordance with sanitary, fire safety, environmental protection requirements, are expected to be paid by the tenant in addition to the rent (at the existing tariff or actually consumed). The owner of the facility will be liable for building insurance expenses, ground rent, real estate tax payments, as well as general facility management expenses and capital expenditure for which a replacement reserve is to be set up.

The management expenses of the valuation object consist of both fixed expenses (property tax, insurance, maintenance of the structural elements of the building and the technical condition of the engineering networks, etc.), which are independent of the number of tenants, i.e. income, and variable expenses directly proportional to the amount of leased space.

Having assessed the situation in the real estate market, the object of valuation and taking into account the existing legislation, we have concluded that:

- The land plot with a total area of 3925 m² attached to the building belongs to SJSC Riga International Airport. The lease agreement is concluded until 14 May 2024, and it is envisaged to conclude an agreement on the extension of the lease agreement until 14 May 2029. The rent for the land plot is set at EUR 8,21 per 1 ^{m2} per year, excluding value added tax. The land rent is based on the lease agreement and amounts to a total of EUR 32 224 per year (excluding VAT).
- The building insurance payments are estimated by the valuers according to the information provided by the client - EUR 627 per year.

Net rental *income*, after deducting expected allowable expenses, indicates the probable profit that the owner could earn from leasing the property.

As the subject of the valuation is expected to have a term cash flow, the valuers used the discounted cash flow technique of the income approach to calculate the value. The cash flow projection period is assumed to the end of the ground lease. The ownership of the development (according to the ground lease and the agreement) is assumed to be until 14 May 2029. The cash flows generated by the facility during the term of the ground lease, i.e. during the ownership and use rights of the building, are included in the calculations; at the time of valuation, the remaining term of the ground lease is 62 months. At the end of the ground lease, the ownership of the building passes to the landowner in accordance with the draft agreement submitted.

At a specified future period, net income is converted to its present value using a discount rate. The sum of the present values of the income in the individual periods represents the capital value. The rate reflects the investor's expected return, or yield, changes in value over time, as well as the uncertainty of the income stream and the rewards associated with the risks.

Discount rate calculation with WACC - Weighted average cost of capital

	Developer funds	Borrowed funds
Amount of capital	30%	70%
Annual rate of return on capital per year	11,00%	6,70%
Capital effects	3,30%	4,69%
Aggregate rate	**8,0%**	

*- the discount rate for equity is determined in consultation with market participants, industry experts and Latio's commercial sales specialists.

Value calculation using the Income Approach

		Data	Rate	
Market rent for premises (per month)	EUR/m²	2901		6,40
Area of the attached plot	m²			3 925
Real estate tax for a building	EUR/year		1,50%	2 353
Building insurance premium	EUR/year			657
Total floor area, incl.	m²			2 901,00
MRO hangar	m²			2 901,00
Gross rental income	EUR/month			18 561
Gross rental income	**EUR/year**			**222 729**
Gross rental income (per 1 m² of indoor space)	**EUR/m²/year**			**76,78**
Rental risk (occupancy)				0,95
Effective rental yield	**EUR/year**			**211 592**
Ground rent	EUR/year			32 224
Management and maintenance costs attributable to the building owner (1 EUR/m2 per month)	EUR/year			1 741
Management and maintenance costs attributable to the building owner	EUR/m²/month			0,05
Expenditure on administrative management	EUR/year		2,00%	4 232
Expenditure on administrative management	EUR/month			353
Administrative expenses (per 1 m² of indoor space)	EUR/m²/month			0,12
Renewal reserve (% of total revenue)	EUR/year		5,00%	10 580
Total annual owner's expenditure related to the site	**EUR/year**			**51 786**

Expenditure per 1 m² of indoor space	**EUR/m²/year**			**17,85**
Expenditure as a share of revenue	%			23%
Net income per year	EUR/year			159 806
Duration of real estate right in months				**62**
Net income per month on average	EUR/month			13 317
Annual rate of return	%			8,0%
Monthly rate of return	%			0,0067
Value of term cash flow (PV-property value)	EUR			678 979
Rounded market value of the object	EUR			**680 000**
				234

12. Sale and pledge options

The assessors are not aware of any obstacles to the sale or mortgaging of the subject of the appraisal if the ground lease is extended in accordance with the submitted project.

13. Declaration of independence

The calculations of the market value of the real estate were carried out by SIA "Latio". Latio SIA has been granted a certificate for real estate valuation No 3 issued by the Competence Supervision Bureau of LĪVA. The real estate was inspected and the valuation was based on its actual condition as of 07 March 2024. The property was visited by Toms Blate, a certified valuer of Latio Ltd. Latio Ltd as a company and its individual valuers have no interest in increasing or decreasing the value of the property.
We hereby declare that, based on our knowledge and belief:

- we have presented the information we have received truthfully,
- conclusions are based on the evaluators' personal experience and objective analysis,
- our payment is not dependent on the value of the object,
- we have no present or prospective personal interest in the property being valued, and no interest in or bias against the parties involved in the property being valued.

14. Conclusion

We hereby inform you that the real estate with cadastre No 8076 502 0055, located at **"Aircraft Maintenance Hangar", Marupe municipality, Marupe region** and registered in the Land Register of Marupe municipality No 1818, according to the market situation as of the date of survey and valuation, 07 March 2024, is determined as follows:

- market value of **EUR 680 000** (six hundred and eighty thousand **euro**).
- the value of the forced sale is **EUR 544 000** (five hundred and forty-four thousand **euro**).

Tom Blate
SIA "Latio" real estate appraiser
Certificate of professional qualification No 148

Valuation of real estate for buildings
Customer: AS AirBaltic Corporation

"Riga Airport 10/1", Riga Airport, Marupe municipality, Marupe region, LV-1053

THE DOCUMENT IS ELECTRONICALLY SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP.

Latio
Nekustamie īpašumi

Riga, 19 March 2024 Reg. No
V/24 - 788

Concerning the construction of the immovable property "Riga Airport 10/1",
Riga Airport, Marupe municipality, Marupe municipality

AS AirBaltic Corporation

Dear company representatives!

We have carried out a valuation of **the immovable property with cadastre No 8076 502 0083**, registered in **the Land Register of Marupe Parish, with address "Lidosta "Rīga" 10/1", Lidosta "Rīga", Marupe Parish, Marupe Region. The** appraised object is understood as the following buildings: an aircraft maintenance building with a total area of 9271,1 m^2 (cadastral designation of the building 8076 002 0007 034) and an auxiliary building - a boiler house with a total area of 245,1 m^2 (cadastral designation of the building 8076
002 0007 035).

The buildings are connected with the land plot of Riga International Airport, Marupe municipality, Marupe region with cadastre No 80760020007, part of the land unit with the area of 37 189 m^2, cadastral designation 8076 002 0007 8022. The land ownership rights are registered with the State Joint Stock Company "INTERNATIONAL AIRPORT "RIGA"", tax payer code 40003028055. The land lease agreement is concluded until 26 February 2052.

The objective of the work is to determine the value of the above-mentioned object to be valued as mortgage collateral. The valuation is intended for submission to a credit institution. The valuation may not be used for the purposes of other legal or natural persons without the written permission of the valuers. The income approach has been used to determine the value.

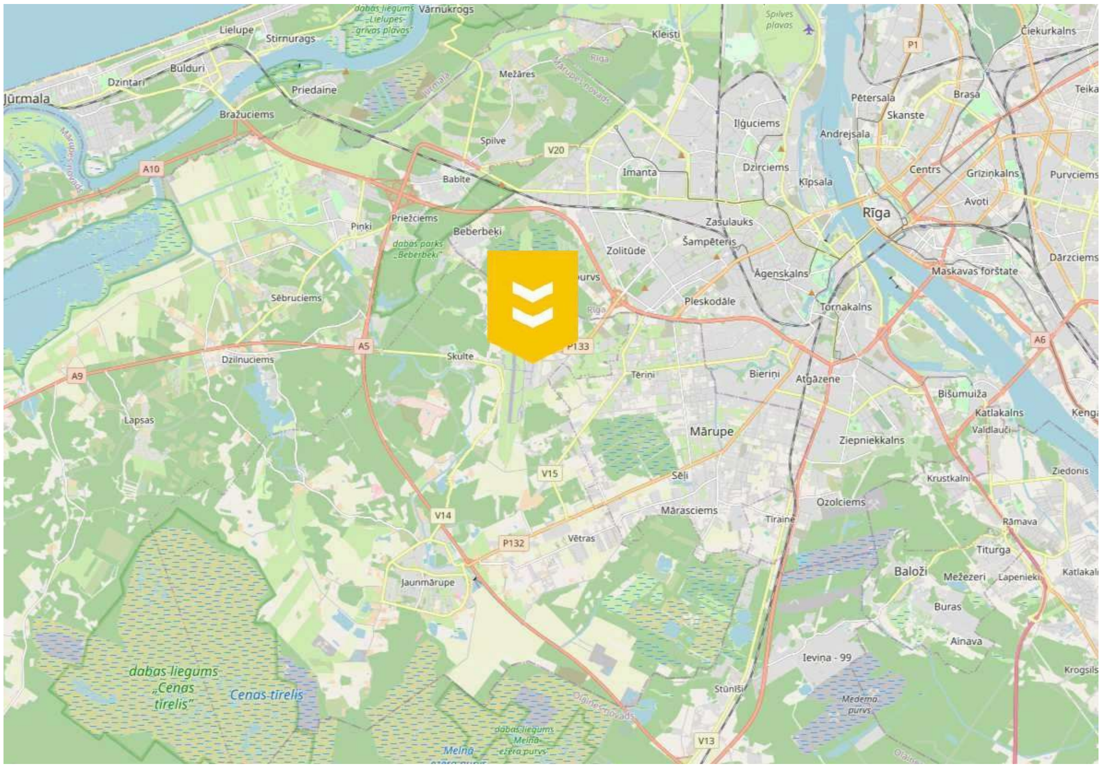
Please be informed that the real estate with cadastre No 8076 502 0083, located at **"Lidosta "Rīga" 10/1", Lidosta "Rīga", Marupe municipality, Marupe region** and registered in the Land Register of Marupe municipality No 997, according to the market situation on the date of inspection and valuation, 2024.
07 March

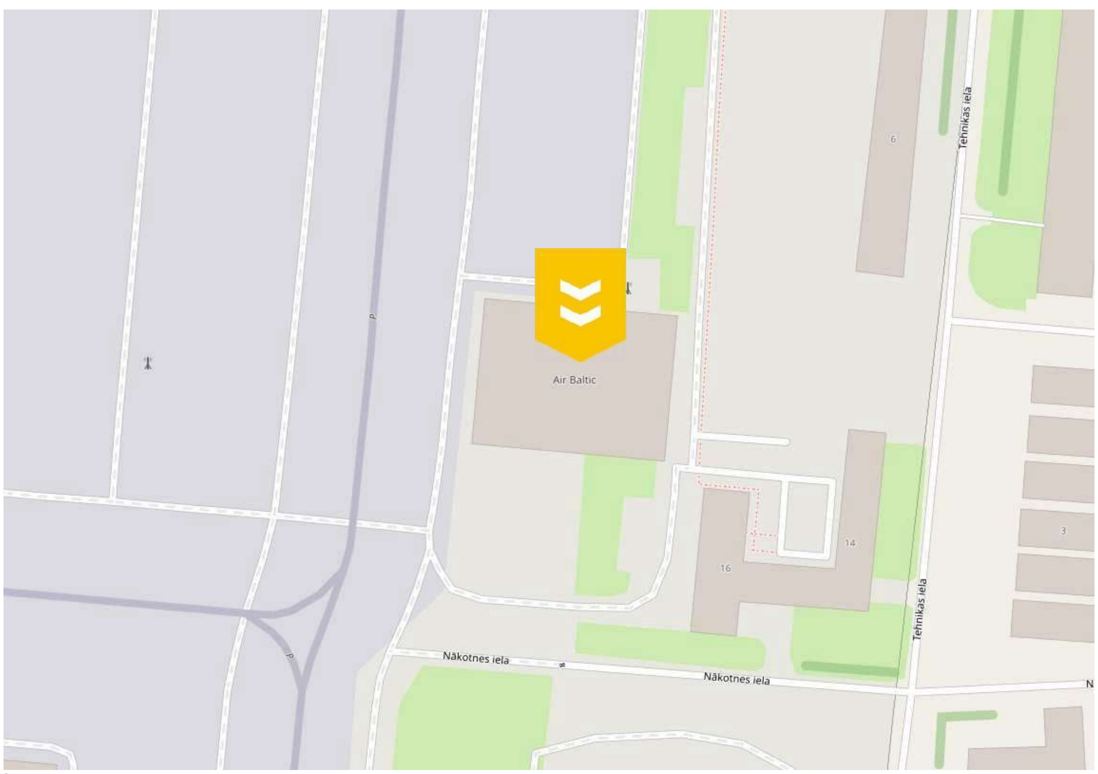
- market value of **EUR 7 000 000** (seven million).
- the value of the forced sale is **EUR 4 000 000** (four million).

Sincerely
Edgars Šīns
Chairman of the Board of Latio SIA
Certificate for Real Estate Valuation No 3 issued by the
Competence Supervision Bureau of the LĪVA

Contents

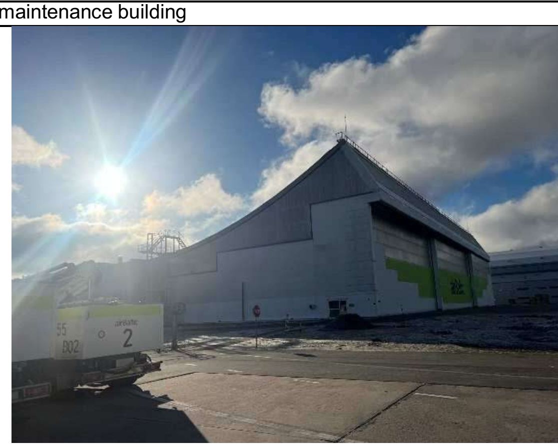
1. Map location of the object to be assessed



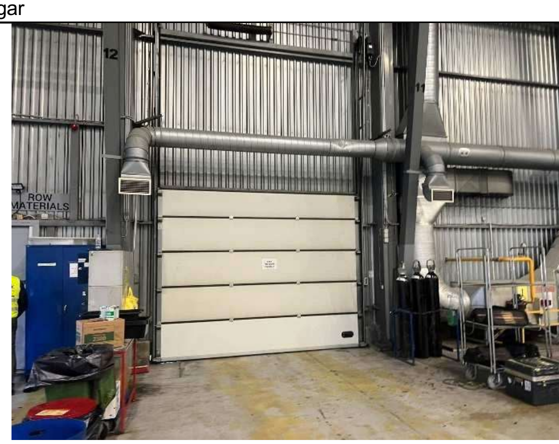


Source : www.openstreetmap.org

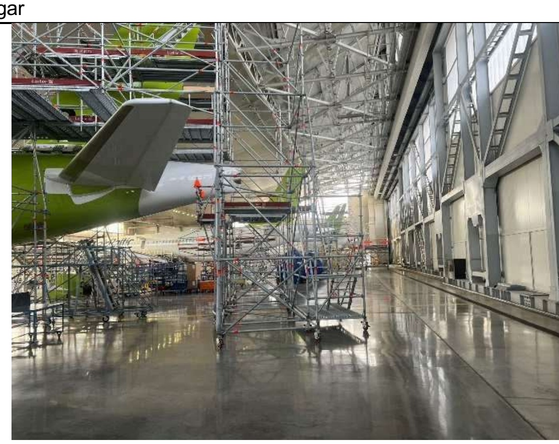
2. Photos of the object to be assessed

	
Facades of the aircraft maintenance building	
	
Facades of the aircraft maintenance building	
	
Facades of the aircraft maintenance building	

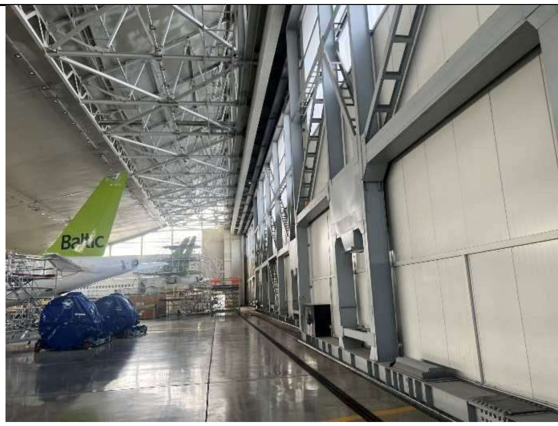

Hangar

Hangar

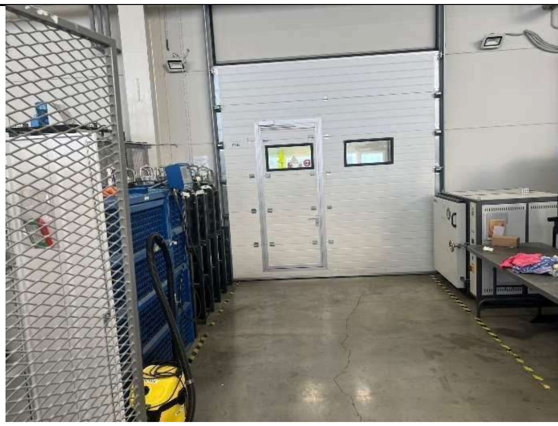
Hangar




Hangar

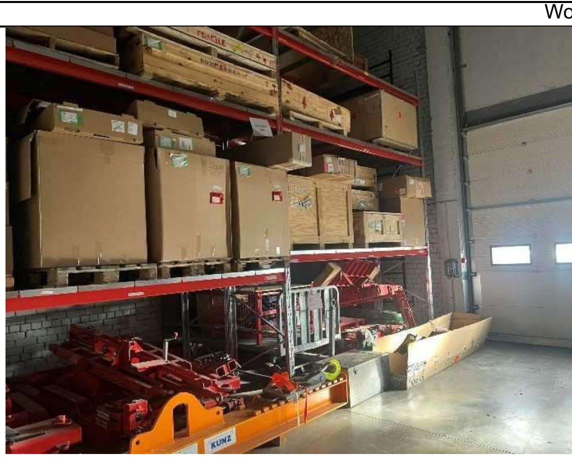

Hangar


Hangar

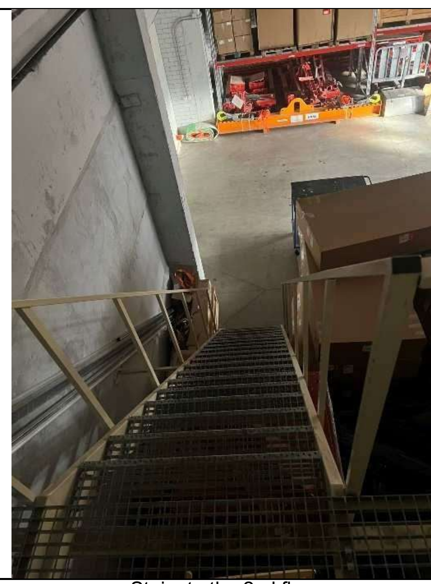



Workshops


Workshops



Workshop



Stairs to the 2nd floor

A-42


Warehouse


Technical room


Office space

	
Office space	
	
Technical rooms - fire extinguishing system, ventilation system	

3. Key information

Object to be assessed	3-storey aircraft maintenance building and 1-storey boiler house. The land is not part of the property being valued, it belongs to the State Joint Stock Company "INTERNATIONAL AIRPORT "RIGA"".
Evaluation objective	Determine the likely market value of the collateral securing the mortgage loan.
Property address	"Lidosta "Rīga" 10/1", Airport "Rīga", Marupe municipality, Marupe region
Cadastral No.	8076 502 0083
Property rights	Air Baltic Corporation, registration number 40003245752
Building	
Aircraft Maintenance Building No 034	9323,1 m^2
Boiler house No 035	245,1 m^2
Land area related to the property being valued that is not part of the property being valued	
Leased plot	The area of 37 189 m^2 (parts of the land unit with the cadastral designation 807600200078022) is leased for the maintenance of the valuation object. The owner of the land is SJSC Riga International Airport.
Existing use	A specifically designed aircraft maintenance building with storage, workshop and administrative areas and a boiler house to provide heating for the aircraft maintenance building. The buildings are in good condition and the area adjacent to the development is partially tarmacked for vehicle parking and access to the development. Owner-occupied property.
Best use	Aircraft maintenance (MRO), storage, workshop and office space with necessary support facilities. The building can be used for aircraft parking and maintenance, or as a warehouse on the territory of Riga Airport, providing warehousing services.
Encumbrances registered in the Land Register, which are not considered as a factor affecting the value within the scope of the valuation:	**Recorded in the Land Registry:** • Note - it is prohibited to alienate, donate, re-pledge to third parties, encumber, restrict, subdivide, build upon, lease (rent out) and otherwise transfer the immovable property to third parties without the written consent of the State of Latvia, the Ministry of Finance of the Republic of Latvia, registration code 90000014724. Mortgage. ***The valuation assumes that the property is free from the prohibition of alienation and mortgage in favour of the bank at the time of sale.***
Lease agreements	Unknown.
Market value	**EUR 7 000 000**
Value forced conditions of sale, sell-by date	**EUR 5 000 000**, with an optimum lead time **of 12** (twelve) months.
Date of site inspection and valuation	07 March 2024.
Date of the report	19 March 2024.

Assumptions	The property is free of any prohibition on alienation.
Specific assumptions	-

4. Object of evaluation

The valuation is provided for the immovable property with cadastre No 8076 502 0083, located at **"Lidosta "Rīga" 10/1", Airport "Rīga", Marupe municipality, Marupe region** and is registered in the Land Register of Marupe municipality under No 997.

For the purposes of the valuation, the real estate or the object to be valued is understood as:

- aircraft maintenance building with a total area of 9323.1 m^2 (cadastral designation 8076 002 0007 034),
- ancillary building - boiler house with a total area of 245.1 m^2 (cadastral designation 8076 002 0007 035), as well as constructions and other improvements inextricably linked to the buildings, in the condition as recorded on the date of inspection.

The object of the valuation relates to a leasehold property with cad. No 8076 002 0007, which is registered in the Land Register of Marupe Municipality under No 993, part of the land unit with cadastral designation 8076 002 0007 8022 (cadastral designation of the land unit 8076 002 0007). The total area of the leased part of the land plot is 3,7189 ha (the area according to the land lease agreement and the agreement) For the use of the land plot

On 26 February, a land lease agreement was concluded with SJSC Riga International Airport and several additional agreements have been concluded in the subsequent period. The lease agreement is concluded for 49 years and the lease rent is set at EUR 1,42/sq.m. (LVL 1,00/sq.m.) per year, including VAT.

The determination of the market value of the 3.7189 ha of land to which the subject property (buildings) is connected is outside the scope of this appraisal (the 3.7189 ha of land is not included in the subject property).

The documentation submitted by the client, as well as the site survey and the information available in the Cadastre Register of the State Land Cadastre Service of the Republic of Latvia are used as the basis for determining the composition of the immovable property.

5. Characteristics of the object to be assessed

5.1. Location of the valuation object Location of

the real estate in Marupe Municipality The real estate is located in Marupe Municipality, Airport "In the inner area of Riga. The part of Marupe municipality under consideration is located in the area of K. Ulmanis avenue near the P133 motorway leading to Riga International Airport. The property is located approximately 9 km from the centre of Riga and can be reached by car in approximately 10 - 15 minutes. The bus line No 22 (to Riga Airport) provides connections to Riga.

The site is located in the airport area on the access road, close to the P133 road to the airport "Riga". The property is located between local access roads (Riga Airport streets).

The property is located on the left side of the P133 motorway

The site is not located close to arterial streets, including the P133 motorway; the development is located on a driveway with virtually no vehicular or pedestrian traffic.

The development in the vicinity of the site consists of new warehouses, office buildings, hotels, individual farmsteads/private houses with relatively small plots of land (in the direction of Marupe), Riga Airport

buildings, Latvijas Pasts complex, warehouse and office complexes, incl. "Elipse", the petrol station in Ziemeļu Street area and the commercial buildings in K. Ulmaņa avenues area (on both sides of K. Ulmaņa avenues): office complex "Baltais Vējš", several car centres, building materials shopping centre "Depo", supermarket
"Maxima", "Sky" supermarket and other modern, commercial complexes, office buildings and warehouses, as well as on the Marupe side (slightly off K. Ulmaņa avenues), the buildings of the 20th century. The area around the Ulm Ulm Street is formed by private houses built in the 1960s/1970s and reconstructed in the last ten years.
Local infrastructure facilities are located along arterial streets - shopping centres, petrol stations, service companies, as well as kindergartens, schools, sports and recreational facilities. Overall, it is a part of the city/parish with a well-developed local infrastructure.
The site is strategically located in terms of urban development perspectives, the airport
"Rīga" in the area near K. Ulmanis Avenue, one of the largest motorways close to the city centre, along which the construction of shopping complexes and company administrative buildings and warehouses is developing.
Due to its favourable location close to the road to Riga Airport, ~700 m from the main airport building and ~2 km from K. Ulmanis Avenue, the location of the site in the Riga district can be considered good.

Availability of real estate

Access to the property via K. Ulmaņa gatva and then via the P133 road to Riga Airport, turning left before Riga Airport, and then via the access roads, or via the access roads in the territory of the airport (it is possible to access the aircraft maintenance building by first removing the pass for access to the territory of Riga Airport and passing the security check). The surrounding streets (access roads) are paved with good quality asphalt and concrete pavements with reinforced load-bearing capacity.
The surrounding streets have low volumes of vehicular and pedestrian traffic. Movement within the territory of Riga Airport is restricted and is allowed with passes, in accordance with Riga Airport regulations. The P133 motorway is busy with motor traffic and virtually no pedestrian traffic, but K. Ulmanis avenue is considered to be the arterial street of the part of the city under consideration with high motor traffic. The P133 and K. Ulmanis Avenue are surfaced with good quality asphalt.
Kārlis Ulmanis avenue connects Vienības avenue, highway Riga - Bauska and highway Riga - Jūrmala (Liepāja), therefore easy access to the object under assessment is possible both from the city centre and from other parts of the city - Ziepniekkalns, Mārupe, Āgenskalns, Imanta, as well as from Olaine, Jelgava and Jūrmala.
Overall, access to the property is good/excellent, access to the property is limited by a pass system. The entire airport area is fenced and guarded.

5.2. Site improvements, including buildings, landscaping and vegetation

The area adjacent to the development is landscaped with asphalt and concrete, reinforced load-resistant paving for car parking and easy access, including for aircraft, to the development. There is a green area with lawn adjacent to the development.
The part of the site on which the aircraft maintenance building is located is located within the airport's restricted area, is not separately enclosed and can be accessed from inside the airport, while the area on which the boiler house and concrete water tanks are located is enclosed by a fence of metal construction. The entire airport area is enclosed by a metal fence and is guarded.
Overall, the site is well landscaped and has a tidy surrounding environment with car parking spaces and a small green lawn.
In the territory of the land plots there is an aircraft maintenance building (cadastral designation of the building 8076 002 0007 034) and an auxiliary building - boiler house (cadastral designation of the building 8076 002 0007 035).

5.3. Characteristics of the building

Aircraft Maintenance Building (Building Cadastral No 8076 002 0007 034).

Construction work started more than 20 years ago, but then stopped, and the building was completed about 15 years ago, and the building was put into use in 2007.

The building was constructed as an aircraft maintenance building with four 2-storey extensions: an administration extension, a staff extension, a storage extension and a workshop extension, in accordance with modern requirements. The building is constructed in steel and reinforced concrete structures using high quality building materials to provide a spacious aircraft maintenance area of 6556.6 m^2 and comfortable office, staff, storage and workshop space.

The building is located on the airport site, next to the runways.

Building layout

Compositionally, the building consists of a 1-storey aircraft repair area with a roof (ceiling) height of more than 16 m, blocked by four 2-storey annexes. The maintenance area with gates faces the airport runways.

The facilities have been built to allow them to perform their intended function: aircraft maintenance. The repair area can accommodate up to six aircraft, including three small aircraft (business class) and three large passenger aircraft of the Boeing, Airbus and Bombardier classes with a tail height of 15 m or less, in accordance with the attached aircraft layout diagram. Access to the aircraft maintenance area shall be via a gate on the runway side (gate for aircraft) and via one of three

the gate on the driveway side (for staff and machinery), and the two doors next to the main gate.

The aircraft maintenance area is:

1. 2-storey building of administrative premises, with offices and staff rooms on the ground floor, including a cloakroom, toilets and shower room, and administrative premises on the first floor, with necessary ancillary facilities (kitchen and toilets) on the second floor. Access to the administrative annex is on the ground floor level from the aircraft repair area and via a separate entrance from the driveway. In general, the layout of the premises is suitable for an administrative type of establishment: customer service and administration. The building area has two staircases, including one spare staircase in case of emergency;

2. a 2-storey workshop building with workshop space on the ground and first floors for the repair and diagnosis of aircraft equipment and components. Access to the annexe is at ground floor level from the aircraft repair area and via a separate entrance from the driveway. The annexe has one staircase.

3. a 2-storey warehouse building with warehouse space on the ground and first floors for the storage and storage of aircraft spare parts and equipment, as well as the necessary tools and equipment for aircraft maintenance. An air compressor room is also built on the ground floor level. Access to the annex can be accessed on the ground floor level from the aircraft repair area, or via a separate entrance from the driveway. The building has one staircase.

4. a 2-storey staff quarters building, with staff quarters, including a lounge, cloakroom, toilets and showers, on the ground floor, and the proposed canteen and kitchen area on the 2nd floor, currently replaced by cloakrooms and toilets. Access to the staff room extension is at ground floor level from the aircraft repair area and via a separate entrance from the driveway. The building area has two staircases, including one spare staircase in case of emergency.

The building also houses various technical rooms, including a large ventilation area on the 3rd floor level.

Areas of the building.

The building has a built-up area of 8299.5 m^2 and a building volume of 122816 m^3.

The total area of the building is 9323.1 m^2, including an aircraft maintenance room with an area of 6556.6 m^2.

The room heights range from 2,60 m (staff and administrative areas) to 16,00 m (aircraft maintenance area).

Materials and construction.

Overall, the structures are in good condition. As of the date of the inspection, the building works are complete and the premises can be used for their intended purpose. The following describes the building's structures:

- foundations - reinforced concrete columns under the frame; reinforced concrete ribbons around the perimeter of the building;
- load-bearing structures - metal and reinforced concrete frame, consisting of reinforced concrete and metal columns with metal trusses and beams;
- external walls - metal structural panels with rock wool (thermal insulation) filling;
- partition walls - steel structural frame with steel sheet or drywall cladding and masonry construction;
- exterior - painted metal sheets;
- inter-storey slabs - metal structures and reinforced concrete panel structures;
- Roof structure - metal structures of the installation supported on metal, reinforced concrete columns;
- Roofing - steel sheet/rubber sheeting with insulation;
- windows - double-glazed windows in plastic/light metal frames;
- Doors - metal/wood with and without glazing;
- gates - metal structures
- interior decoration in line with modern requirements and functional use:
  floors - concrete with reinforced top layer and dust layer in the aircraft repair area, soft flooring, tiling and concrete with dust layer in other areas;
  walls - exposed structures in the aircraft repair area, paint and tiling in other rooms, and exposed structures without decoration in some rooms;
  ceilings - exposed structures in the aircraft repair area, various suspended ceiling structures with built-in light fittings and paintwork in other rooms, and exposed unfinished structures in some rooms.
- intended connection to external utilities: centralised
  electricity supply network,
  connection to the centralised water supply
  network, connection to the centralised
  sewerage system,
  connection to the district heating system from the boiler house (building cadastral designation 8076 002 0007 035).
- internal engineering networks:
  lighting and contact power supply network

internal water supply and sewerage networks
central heating system; heated floors and hot air exhaust turbines in the aircraft repair area, new convector-type heating elements and heated floors in other rooms; fire safety and security alarm system;
video surveillance system
forced-air ventilation and air-conditioning systems

Overall, the building's construction and materials are of a high quality and in line with modern requirements. The following ancillary building has been registered with the State Land Service (SLS) of the Republic of Latvia, which was also found on the day of the inspection and is part of the object under assessment:

No.	Name	General description of the building	Total area, m2	Building area, m2	Volume, m3
0007 035	Boiler house	Brickwork walls with reinforced concrete/concrete roof and rubber sheet/rubber roof covering. The building is in good condition, with a depreciation of 10%. The building has an electricity supply and a gas supply. There are two Buderus gas boilers in the building. The building generates heat for the operation of the aircraft maintenance building. On 29 May 2018, the assessors were unable to gain access to the boiler house. The valuation assumes that since 10 March 2016, when the building was inspected during the previous valuation, the technical condition of the utilities and boilers in the boiler house the condition is not deteriorated and is in working order.	245,1	259	1633

The valuer did not find any significant differences when inspecting the property and comparing the condition on the ground with the submitted documents.

6. Definition of values

Market value is a calculated figure - the amount of money, determined at the valuation date, for which a property should change hands in a commercial transaction between a willing seller and a willing buyer, after appropriate marketing: this assumes that each party acts competently, with calculation and without coercion. /LVS 401-2013/.

The term "***forced sale***" is often used when the seller is forced to sell and thus does not have enough time to make a proper offer. In such circumstances, the price to be obtained depends on the nature of the seller's difficulties and the reasons why adequate marketing cannot be carried out. It may also reflect the consequences that would arise for the seller if it were unable to sell the asset within a given time. If the nature of the seller's difficulties or the reason for them is unknown, it is not possible to make a realistic prediction of the price that will result from a forced sale. The price at which a seller agrees to sell an asset in a forced sale reflects the circumstances of the particular transaction, not the behaviour of a theoretical willing seller within the definition of market value. "A 'forced sale' is a description of the situation in which an asset is disposed of, not a different basis of value.

7. Characterisation of the market situation and determination of a possible sale date

Economic characteristics

The euro area's economic growth has stalled. The main negative factors are the geopolitical environment, the previous high inflation, the sharp rise in interest rates aimed at curbing high inflation and the contraction of the export market.

In view of the easing inflation in the euro area, the Governing Council has decided to continue the normalisation of the Eurosystem's balance sheet by starting to reduce the temporary pandemic emergency asset purchase programme portfolio by an average of €7.5 billion per month in the second half of 2024 (Bank of Latvia).

According to the Central Statistical Office (CSO), gross domestic product (GDP) in Q3 2023 is estimated to have decreased by 0.7% on a seasonally and calendar-adjusted basis compared to Q3 2022. Compared to Q2 2023, GDP increased by 0.2% on a seasonally and calendar-adjusted basis.

In terms of GDP change from the manufacturing side, the largest declines in Q3 2023 compared to the same quarter of the previous year on a non-seasonally and calendar adjusted basis are in the finance and insurance and agriculture sectors. The largest positive contribution to overall economic development (+0.9 percentage points) came from the substantial growth of the construction sector (16.1%).

In Q3 2023, the transport and storage sector recorded a 9.8% drop in GDP compared to the same quarter of the previous year on a non-seasonally and non-calendar adjusted basis. GDP in this sector was negatively affected by land and pipeline transport activities, water transport, storage and ancillary transport activities (down 18.6%), postal and courier activities. In contrast, growth in the air transport sector made a positive contribution (Data: CSO).

In October 2023, Latvia's foreign trade turnover amounted to EUR 3.51 billion, which in real prices was 17.8% less than a year earlier, including a 12.5% drop in the value of exports and a 21.9% drop in the value of imports (data from the Central Statistical Office). In October 2023, exports of wood and wood products; charcoal were down by €73.7 million, or 24.4%, compared to October 2022. In Q3 2023, total exports accounted for 60.4% of GDP, while imports accounted for 64.4% of GDP. The Bank of Latvia published its December 2023 macroeconomic forecast: gross domestic product (GDP) growth is projected at 2.0%. GDP is expected to grow by 3.6% in 2025 and by 3.8% in 2026.

Inflation rates have been decelerating across the euro area in recent months. In Latvia, too, consumer prices have eased in recent months as global energy prices have fallen. With lower prices for heat and fuel, price pressures on other goods and services are easing, for example the price of transport-related goods and services and housing-related goods and services have fallen, while the cost of heat has fallen. According to the CSO, the average consumer price level increased by 1.0% in November 2023 compared to November 2022.The inflation estimate for 2023 is 9.0%. The Bank of Latvia forecasts inflation at around 2% over the next three years (2.0%, 2.3% and 1.8% for 2024-2026 respectively).

Overall, employment remained stable in 2023. The unemployment rate in the third quarter of 2023 was 6.5%, 0.3 percentage points lower than in the same period in 2022 (data from the CSO). The employment rate in the 35-54 age group is increasing, while the employment rate in the 25-34 age group has declined over the last year.

The 2022 framework has seen one of the fastest and most significant rate increases since 1999. Already in mid-December 2022, the 12-month Euribor rate exceeded 3%. The last time rates rose above the 3% mark was in 2006, in 2008 they were already above 5% and it was only at the start of 2009 that a fall below the 3% mark was expected.

EURIBOR rates	02.01.2023	04.03.2023	03.07.2023	02.10.2023.	01.12.2023.
1 week	1.876%	2.895 %	3.388 %	3.858 %	3.839 %
1 month	1.883%	2.928 %	3.385 %	3.858 %	3.869 %
3 months	2.162%	3.053 %	3.597 %	3.951 %	3.960 %
6 months	2.732%	3.335 %	3.913 %	4.138 %	4.004 %
12 months	3.316%	3.651 %	4.145 %	4.198 %	3.902 %

Source : https://www.euribor-rates.eu/en/euribor-rates-by-year/2023/

Business sentiment in September 2023 improved again after six months and this trend continues in October and November: in retail trade and services, the confidence indicator is positive, while in manufacturing and construction the indicator is still negative but also slightly improved compared to the previous month (data from the CSP business sentiment surveys). Consumer confidence, on the other hand, shows a negative trend. The negative trend in this indicator is bad news for the economy, as consumers account for a large share of the country's economic activity or gross domestic product.

Dynamics of yield rates

The rates are set according to Latio's market research information on yields required by investors for transactions in cash-generating properties of the real estate segments shown in the graph.

According to Colliers data for *prime* segment properties:

Key Investment Figures in the Baltic States, Q1 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	5.8%	5.8%	5.5%
Retail (SC)	7.0%	7.25%	7.25%
Retail (grocery-led)	6.1%	6.5%	6.25%
Industrial	6.75%	6.5%	6.75%

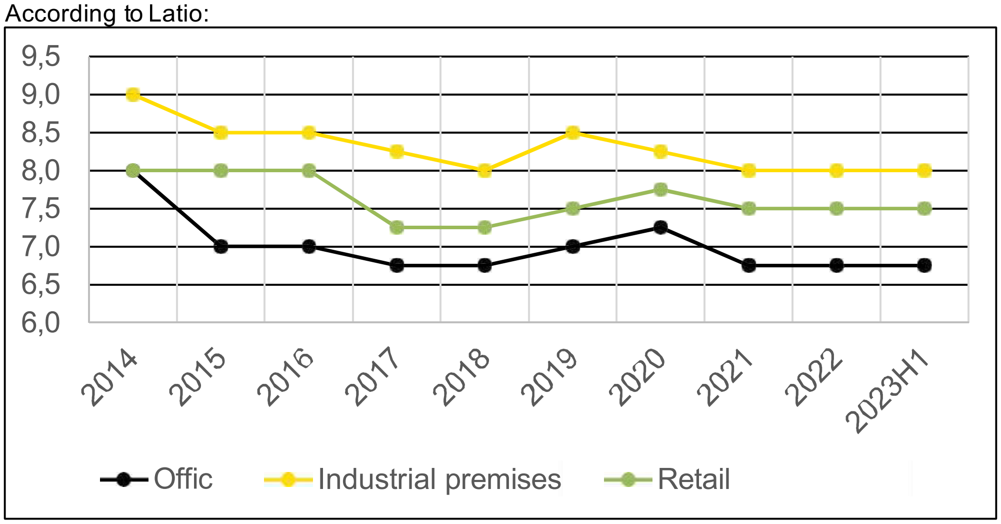
Source: Colliers

Key Investment Figures in the Baltic States, Q4 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	6.75%	6.5%	6.5%
Retail (SC)	7.75%	7.75%	7.5%
Retail (grocery-led)	7.0%	7.0%	6.75%
Industrial	7.2%	7.0%	7.0%

Source: Colliers

According to Latio:



Investment (data to October 2023).

In the first ten months of 2023, cash-flow generating commercial properties were acquired for a total of around €100 million. Compared to recent years, the level of investment is around twice as low. While the highest volume of transactions in cash terms is typically recorded in the 4th quarter of each year and a similar trend is expected in 2023, the overall investment volume is expected to be one of the lowest in recent years.

Property acquisitions have also been slow, totalling just over €110 million, similar to other years with low activity, such as 2020, when the Covid-19 pandemic started.

Most market participants have taken a wait-and-see approach and are waiting to see what happens next. Thus, not only has the total number of transactions in Latvia fallen (by around 30%), but no large transaction above EUR 25 million has yet been concluded.

"The low number of transactions is directly linked to Euribor rates and the consequent inability to achieve the desired rates of return with the usual amount of funding - property prices not falling as fast as Euribor was rising," industry experts explain.

Latvia is by no means unique, and a similar picture can be observed in other European countries, including the Baltic States, and in the Middle East. However, the market in our region looks quite stable and serious problems in the real estate portfolios of market players are largely absent. According to industry experts: for the market to recover, either the Euribor rate has to fall or property prices have to fall.

Looking at the largest transactions in 2023 that have exceeded the EUR 5 million mark, the most well-known is Pullman Riga Old Town, a five-star hotel in Old Riga, Jēkaba Street. The amount of the transaction is confidential, but it is known to have exceeded €10 million.

The second largest transaction in terms of amount took place at the beginning of the year, when the Lithuanian company Norvelita bought the administrative building of the PNB Bank in liquidation on Ernesta Birznieka-Upīša Street.

In October 2023, the largest land acquisition deal of the year in Latvia was registered, with one of the retail leaders Rimi Latvia acquiring a 3.6 ha land plot next to the Alfa Akropole shopping centre in Riga, 382 Brīvības Avenue, for EUR 8 million from the Linstow Baltic group company.Real estate developers reviewed their strategies for acquiring land plots for development at the beginning of the year, taking into account the overall economic situation in Latvia, and thus there were comparatively few deals. However, in the middle of the year, when most developers accepted the new economic reality, they started to actively look for opportunities and assess the supply of available land plots on the market. The average time to make a purchase decision was around 3-6 months. In the third quarter of the year, new deals were already coming on the market.

In addition to the Rimi transaction in Brīvības avenue, the largest land acquisitions
were Linstow Tobre (Linstow Baltic) - Satekles street 1 k-1, Satekles street 1E,
Riga; Cella investment 4 (Sirin) - Sniedžu street 2, Dreiliņi;
"Riga Properties 4" ("VPH Latvia") - "Līdumi", Dreiliņi;
"SKUBA Real estate" - Maskavas street 471, Riga.

The total volume of land acquisitions from January to October 2023 inclusive was around €42 million (or 36 transactions above €300 thousand), which is €20 million less than in the same period of 2022 (€63 million; 46 transactions above €300 thousand).

Lielākie komercīpašumu darījumi 2023. gadā

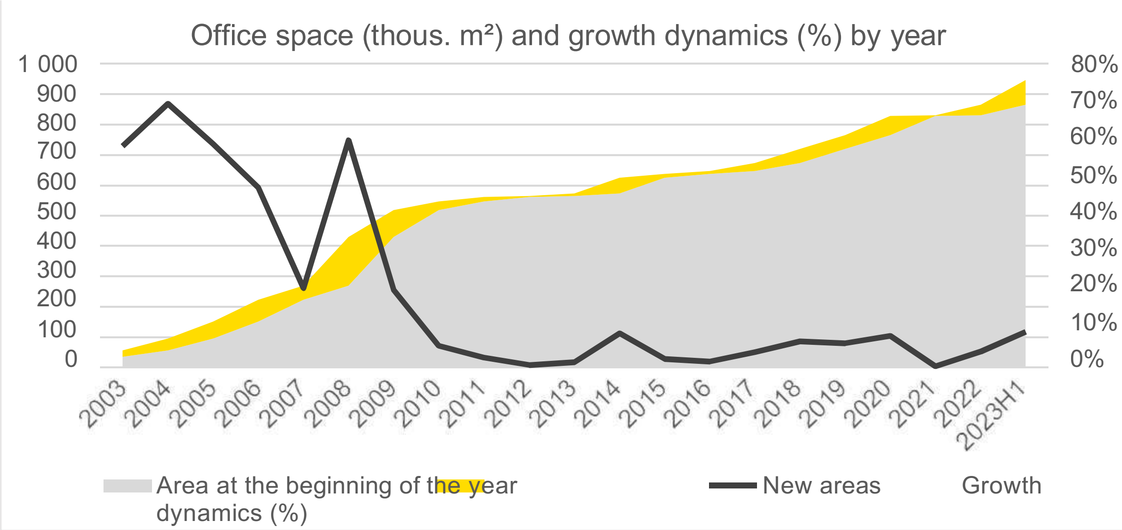
2023. gada 10 mēneši (cena virs 5 miljoniem eiro)

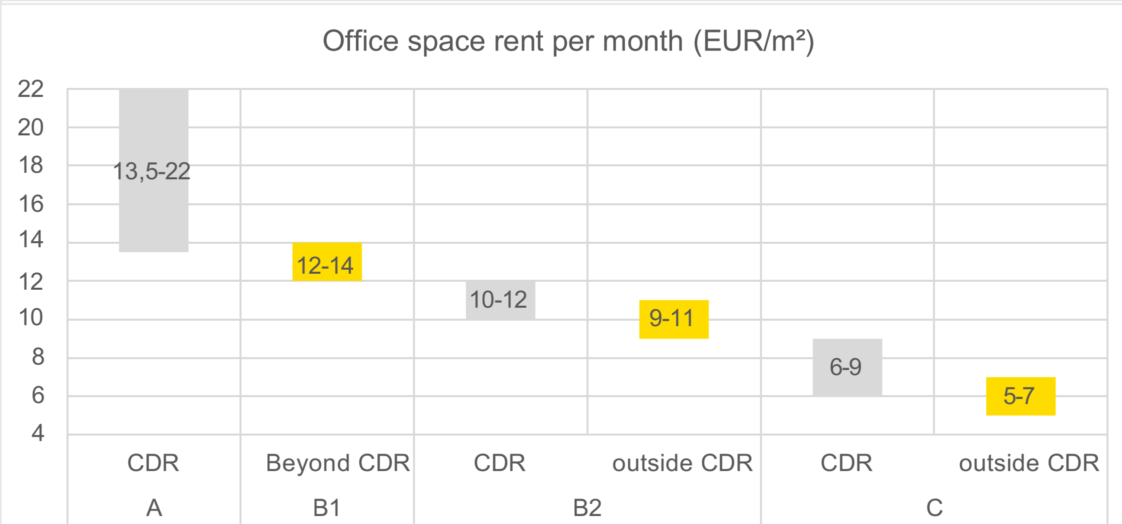
Īpašums	Veids	Platība	Cena, eiro	Pārdevējs	Pircējs
Pullman Riga Old Town	Viesnīca	Ēka 8380 m^2 zeme 2220 m^2	Konfidenciāla	Wisher Enterprise LV	IDK Baltic
Ernesta Birznieka-Upīša iela 21, Rīga	Jaukta pielietojuma	Ēkas 13980 m^2, zeme 6730 m^2	10 milj.	PNB Banka	Norvelita
Brīvības gatve 382, Rīga	Zeme	3.6 ha	8 milj.	Linstow	Plesko Real Estate
Mūkusalas iela 72, Kārļa Ulmaņa gatve 2A, Rīga	Jaukta pielietojuma	Ēkas 7260 m^2, zeme 16360 m^2	7,7 milj.	Dažādi īpašnieki	LIDL
Duntes iela 15A, Rīga	Birojs	Ēka 4930 m^2, zeme 11020 m^2	5,8 milj.	Rīgas Sanitārā Transporta Autobāze	Duntes 15
Kalpaka Bulvāris 7, Rīga	Dzīvokļu ēka	Ēka 3170 m^2, zeme 1300 m^2	5,8 milj.	MID BALTIC REALTY	HOVE
U30 Stock office	Jaukta pielietojuma	Ēka 7860 m^2, zeme 3700 m^2	5,2 milj.	Hepsor	East Capital
Ulbrokas iela 42G, Rīga	Jaukta pielietojuma	Ēka 5940 m^2, zeme 12340 m^2	5,1 milj.	U42G	Capitalica

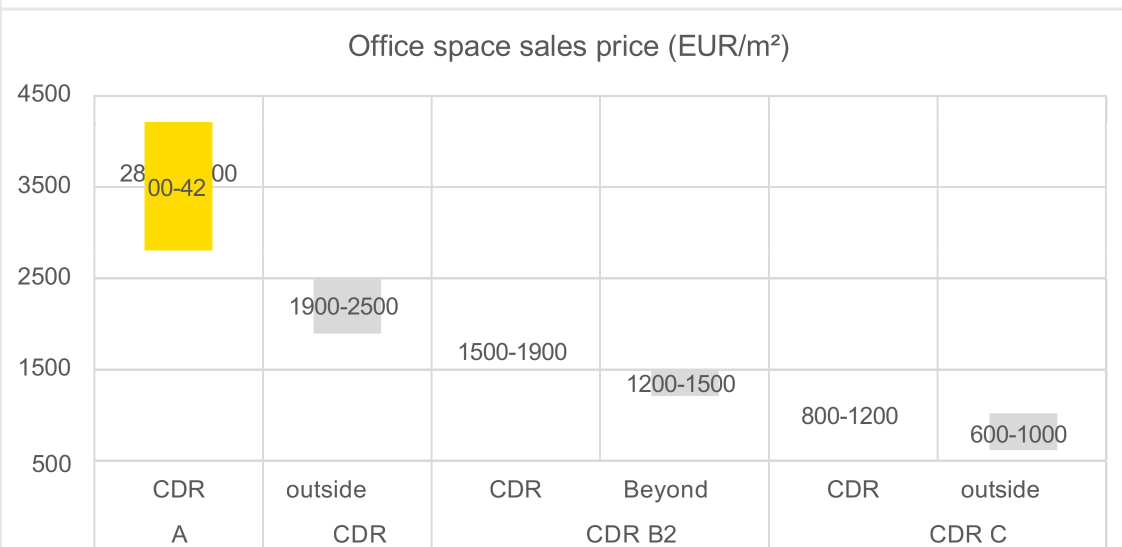
Avots: "Colliers", VZD, ZG, "Crediweb"

Office space, Latvia

- Linstow Baltic has been granted approval for the construction of the Satekle Business Centre, a visionary project consisting of five interconnected buildings, two of which will be heritage buildings and will be integrated.
- The first phase of construction (commissioning) has been completed in the new business centre located in Riga, Pērses street 2A. The building, located at 30 Krišjāņa Barona Street, will be commissioned by December 2023.
- The construction of the Novira Plaza office and retail centre is nearing completion, with a target completion date of October. The project will offer a mix of commercial and retail space.
- Regus Business Garden, a new co-working office complex, has opened in Riga. Spread over five floors with a total area of 1,077 square metres, this modern facility offers flexible workspace solutions for city businesses.
- Significant investment of almost €50 million has been allocated for the development of 76 Lāčplēša Street. Construction is scheduled to start in 2024 and is expected to be fully completed within seven to ten years.
- The first building of the newly built business centre "Gustavs", located in Gustava Zemgales Avenue, has been successfully completed.
- The largest and most significant transaction in the commercial sector in the first half of 2023 was the acquisition of land and buildings at 21 E.Birznieka-Upīša Street.
- T/C Galleria Riga will undergo a transformation, as the fifth floor of 3200 square metres will be converted into co-working offices. This innovative workspace solution is expected to be available from 2024.
- The second phase of the Press House Quarter development is expected to start at the end of the year.
- The University of Latvia (UL) has sold a 5221 square metre building complex at 5 Baznīcas Street, Riga, for a total of EUR 3.86 million.
- East Capital Real Estate Fund IV has successfully acquired the StokOfiss U30 commercial building from Hepsor Latvia.

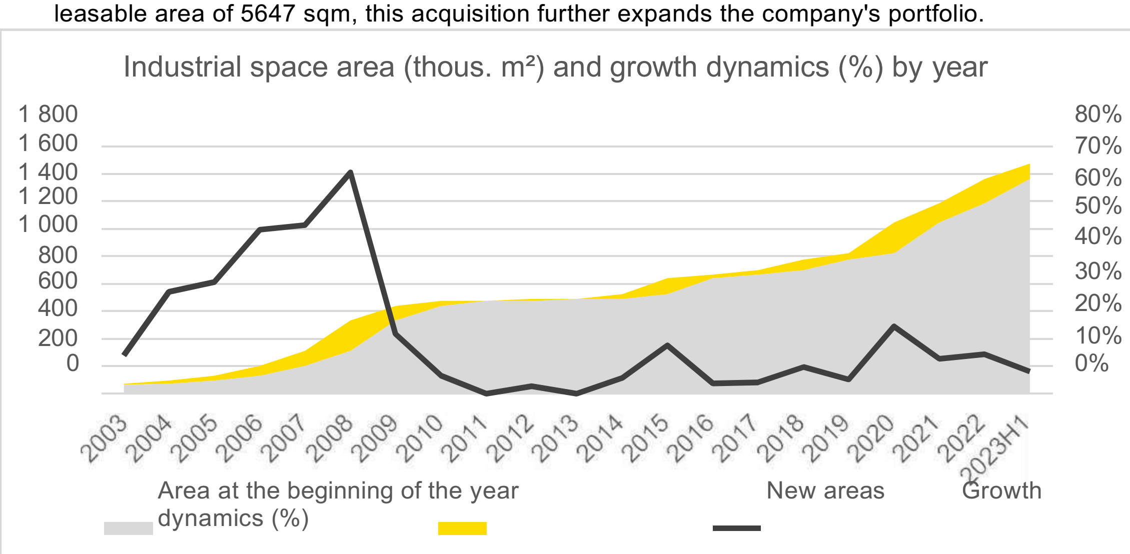


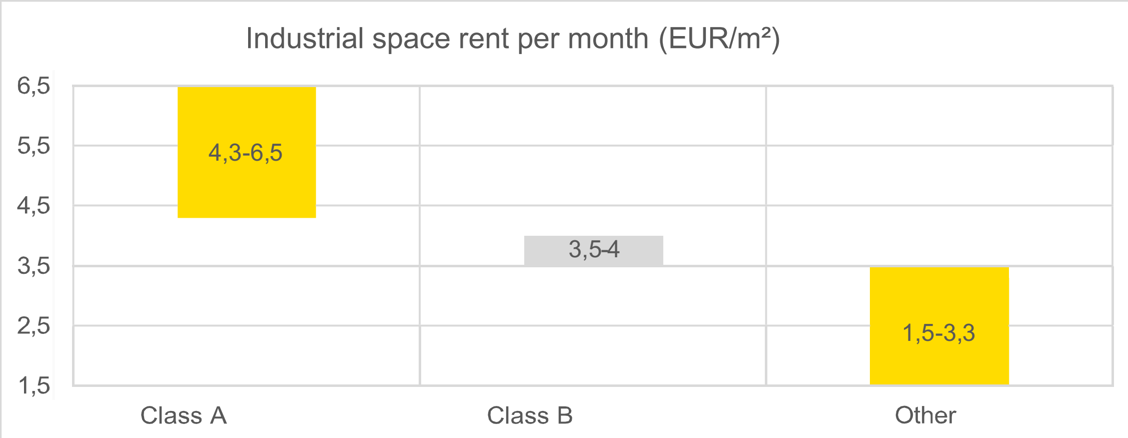


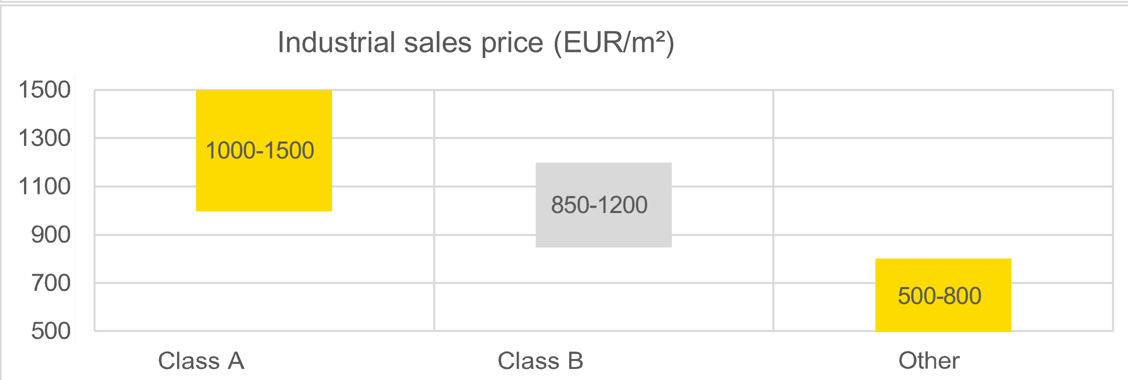


Industrial areas, Latvia

- Fish processing company Syfud Ltd, operating as Port Lite, has announced a significant investment of EUR 6 million for the construction of a modern fish processing plant in Liepaja. The new plant is expected to be completed and operational by summer 2023, increasing the company's production capacity.
- Baltic Electro Company has ambitious plans to invest EUR 8 million in a wholesale and logistics centre in the Dreiliņu district.
- The developer Piche is planning to start construction of two industrial park buildings in the vicinity of the airport in the near future, with an investment of around EUR 25 million, the second building of Green Park III and the second building of the Airport Park III industrial park.
- Schneider Electric is undertaking a major expansion initiative by building an extension to its existing factory in Riga. This ambitious project will effectively double the size of the factory. The new extension will cover an area of 20,000 square metres and is expected to be completed by the end of this year.
- Metalworking company ICS Steel is planning to set up a new production facility in Liepāja, Meldru Street, by the end of the year.
- Eco Baltia is making a significant investment of more than €10 million to build a modern PET recycling plant in Olaine. This state-of-the-art plant will not only be one of the largest and most modern PET recycling plants in Europe, but also one of the largest industrial buildings in Latvia.
- Capital Mill recently completed a €4.3 million expansion of its industrial park on Granita Street. The warehouse area increased by around 30%.
- The fourth phase of the warehouse, retail and office complex "Dienvidu vārti" on Rēzeknes Street, Riga, has been successfully completed and put into operation.
- Northside Business Park has acquired three interconnected functioning commercial properties located on the site of the former Liepāja Machine-Building Plant. The acquisition is part of an ambitious plan to develop a dynamic business district in the area.
- Capitalica Green Logistics Fund has acquired a logistics centre in Ulbrokas Street, Dreiliņi. With a total leasable area of 5647 sqm, this acquisition further expands the company's portfolio.







The sales offer consists mainly of various Soviet-era industrial/warehouse buildings as individual units. There are virtually no newly built units in the public offer. Individual transactions have been identified with ~ 10-20 year old industrial (office/warehouse/manufacturing) buildings. The sale price of the objects is significantly influenced by the size of the land plot, the volume of construction, the actual technical condition and the suitability for modern production process. Overall, the supply is small.

One of the main factors influencing the value of industrial/warehousing facilities is the proximity of engineering communications (power supply connection capacity; possibility to connect to the gas pipeline, city water supply and sewerage), accessibility of access roads, availability of workforce. The energy efficiency and sustainability of the built environment has become a major factor in the last six months. The level of development of transport and social infrastructure is also important. This includes the accessibility and frequency of public transport, as well as the proximity of various retail and service facilities, medical and educational facilities, entertainment and recreational facilities.

Overall, the analysis of the number of sales shows that a relatively limited number of industrial properties have been offered to the public since summer 2022. With inflation rising significantly, transactions took place even for objects that were on the market for a long time but were not purchased. The analysis of sales prices does not reveal any negative price changes.

Office/warehouse buildings dominate with a total volume of ~ 2000-5000 ^{m2} and average selling prices ~ 500-700 $^{EUR/m2}$ for buildings ~ 10-15 years old, in some cases reaching a sale price of ~ 900-1200 $^{EUR/m2}$ for small, excellent quality or location properties. Selling prices of ~ EUR 1,200-1,$^{500/m2}$ have been recorded for some newly built "stock-office" properties, with full occupancy and average yields of ~ 5-5.5%.

Only a few sales of such properties have been recorded in the Airport and its surroundings in the last 2 years. It should be stressed that the transactions were mainly with objects comprising both buildings and land. The amount of land involved is important and can have a significant impact on the total amount of the transaction.

The real estate market mainly deals in properties where sales prices correlate with actual rents, providing an acceptable return for the investor. In this case, it should be stressed that properties as cash flow objects are acquired in situations where the premises are in a state of repair suitable for immediate occupation or already have real tenants at market rents.

The yields are in the range of ~7.-8.5% and also reach ~5-6.5% for new logistics and stock-office properties.

Highlights of recent years:

Marupe region, Riga Airport, Ziemeļu street 14 Office/warehouse type building, built in 2005-2006. Structural solution - light concrete masonry for the office part, sandwich panel cladding for the warehouse part, metal constructions frame. Centralised communications. Warehouses premises insulated, but not heated. The building has 2 floors of office space ~ 475 m^2, warehouse ~613 m^2. Ceiling height of warehouses ~ 8m. Functionally connected land plot of ~3800 m^2, long-term lease. Sold in February 2022 for 550 000 EUR (~500 EUR /m2). Indicative **yield ~ 8.5-9%.**	
Kārlis Ulmanis avenue 140 In January 2022, a 25 478 m2 plot of land and an office/retail/warehouse building on it were sold. The total area of the building is 8389 m^2. Metal construction, sandwich panel building, generally in good technical condition. Connections to centralised utilities, including stand-alone gas heating. The building has a 3-storey office block (~20%) and a 1-storey retail/warehouse block (~80%). The building is fully leased to several tenants. Average rents ~7-7,50 for offices and ~4,50-4,60 EUR/m2 for warehouses. The area is landscaped, asphalted. Fixed sale price of ZG EUR 4 450 000 (the appraisers are aware of specific circumstances affecting the transaction, which affected the actual transaction amount by ~ +13%). Indicative rate of return (at ~ 8% Capex) ~ **8%**.	
Marupe region Plieņciema street 5 In June 2022, a "Stock - office" type property was sold. Land 12 525 m^2, building 6247 m^2. The facility was commissioned in 2018. Very good technical condition. Fully operated as rental premises - office/retail and warehouse. Leased to several unrelated users. Rent for warehouse ~ 6,0 EUR/m2 (excluding VAT, utilities and management fee), office/retail - 9,5 EUR/m2. Ceiling height of warehouses ~ 6 m. Warehousing ~ 70%. The transaction amount is EUR 9 680 000. Indicative yield (at Capex ~ 5%) ~4**.5-4.7%.**	
Mārupe, Dzirnieku street 20 In October 2022, a logistics centre was sold. Land 16 447 m^2, building 9021 m^2. The facility will be operational in 2021. Newly built, in excellent technical condition. Used as office and storage space. Ceiling height of warehouses ~ 9 m. Storage ~ 90%. The transaction amount is EUR 10 043 000. Indicative yield (at Capex ~ 5%) ~5%**.**	

Mārupe, Dzirnieku street 18 In October 2022, a logistics centre was sold. Land 16 304 ^{m2}, building 3326 ^{m2}. The facility was put into operation in 2007. It is in fully satisfactory technical condition. The warehouses are heated. Used as office and warehouse space. Ceiling height of warehouses ~ 6,2 m. Warehouses ~ 80%. The transaction amount is EUR 2 100 000. Indicative yield (at Capex ~ 10%) ~7**.5%.**	
Rīga, Ulbrokas street 42G In spring 2023, the real estate - a plot of land and an office/warehouse building - was sold. Located on the edge of a high-traffic street. Land 12 772 ^{m2}, building with a total area of 5644.9 ^{m2}, outdoor space - 247,3 ^{m2}. There is an outbuilding - shed. The facility was put into operation in 2008. Overall in good technical condition. The warehouses are heated. Ventilation/recuperation. Connections to centralised engineering communication networks, including autonomous gas heating. Used as office and storage space. Warehouse ceiling height 12 m. Warehouse ~ 75%. Fully let. The plot is landscaped. The transaction amount is EUR 5 121 002 (without public exposure). Indicative rate of return (TNL contract with the general tenant) **~6.5%**	
Marupe region Plieņciema street 5 In November 2023, the property was sold. Land 18 300 ^{m2}, built-up area ~ 1902 ^{m2}. The facility was put into operation in 2001. The building is in good technical condition. Fully used as car showroom premises - office/sales and service/storage. The building has a café area. Used for one user. Warehouse space on two levels. Relatively large vacant area, part of which can be used for additional new construction. The transaction amount is EUR 2 500 000 (after public exhibitions € 2 600 000). Indicative rate of return (at Capex ~ 7%) ~ 4**.5-5%,** however it should be noted that the total includes additional vacant land with a notional value of ~ EUR 800 000 extent.	

Looking at the situation in the immediate vicinity of the valuation object, it should be noted that the specific location in the immediate vicinity of the airport also results in relatively higher rents. The Valuers have information on lease rentals in the surrounding buildings and have found that the rentals for aircraft maintenance (MRO) or aircraft hangars in the surrounding area are in the range of EUR 20.$^{0/m2}$ + VAT + utilities. The rent depends significantly on the nature of the use of the premises, the technical condition of the buildings and the provision of utilities.

Over the last 5-6 years, as Piche has developed several industrial park projects in the vicinity of Riga Airport, the amount of warehouse and office space available for lease has significantly increased. The general economic changes are also reflected in the current rental rates - while in the earlier projects warehouse rents have stabilised $^{a t}$ EUR 4.5 - 5.2 per ^{sqm}, in the 2022 - 2023 projects warehouse rents have reached EUR 5.3 - 5.9 per ^{sqm}.

An analysis of the occupancy rates in the airport area shows that occupancy rates in good quality office and logistics facilities have actually reached 90-95%.

It should be noted that the rental rates for office premises currently available on the market, located in high-quality buildings in the territory of Riga Airport or in its immediate vicinity, are EUR 6 - 10 per sq.m.

The site is currently used for commercial activities (aircraft maintenance). The profitability of such business depends on the successful cooperation with the airlines "air Baltic Corporation", "Ryanair" and "Wizz Air" operating at Riga Airport. The appraisers are of the opinion that the site may not generate the maximum income from aircraft maintenance (EUR 20/sq.m.) in the coming years and that the potential rentals will not exceed EUR 6,5/sq.m. + VAT + utilities. The main building can also be used for aircraft parking or as a warehouse on the territory of Riga Airport, providing warehousing services. The evaluators also studied the rental situation of MRO hangars in European and North American airports and concluded that the currently charged rental rates range from EUR 4.0/sq.m. for maintenance hangars located in small airports, which are mainly intended for small aviation, to EUR 25.0/sq.m. for maintenance hangars located in international airports, where commercial aircraft (with 100 seats or more) can be maintained. Accordingly, the asking prices for MRO hangars range from EUR 360-900/sq.m. (for hangars dedicated to small aircraft) to EUR 1000-2700/sq.m. (for hangars capable of servicing aircraft with 100 seats or more). The highest offer prices are for modern MRO hangars located in international airports (asking and transaction prices of more than EUR 2 000 per 1 m^2 and rents of up to EUR 20-25 per sq.m.).

The Valuers have no information on transactions for aircraft maintenance hangars in European Airport Areas (MRO). The following aircraft maintenance hangars are currently available for public offer at airports worldwide, ranging in size from 3700 to 9300 m^2 (source of information: www.loopnet.com):

5615 S Sossaman Rd - Airplane Hangar or Airport
Mesa, Arizona
Southwest Jet Center | Mesa-Gateway is a state- of-the-art 74,000 square foot facility that was developed as a full-service MRO facility in two...

Status:	For Sale
Price:	$11,000,000
Price EUR/sq.m.:	**1330**
Property Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	74,486 SF
Cap Rate:	7.70%

9382 Stockmar Rd - Airplane Hangar or Airport
Villa Rica, Georgia
CONFIDENTIAL, DO NOT APPROACH TENANTS. Confidentiality agreement documents are attached. This airport offers 41 individual hangers, and is...

Status:	For Sale
Price:	$7,000,000
Price/sq.m.: 920	Property
Type:	Specialty
Sub-Type:	Airport
Building Size:	68,698 SF
Year Built	1971

[1 Campbell Pky - Airplane Hangar or Airport]
East Wenatchee, Washington
This is an exceptional opportunity to acquire a state-of-the- art hangar and office facility in Eastern Washington located on a 216,667 sq. ft...

Status:	For Sale
Price:	$7,500,000
Price/sq.m.: 1050 Property	
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	64,305 SF
Building Class	B

[1640 Lincoln Ave - Airplane Hangar or Airport]
Holbrook, New York
Rare Opportunity to own 5 acre parcel with direct runway access at Long Island MacArthur Airport. Fully leased with a long waiting list. This...

Status:	For Sale
Price:	$4,900,000
Price/sq.m.: 710 Property	
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	61,905 SF
Building Class	C

[Portfolio of 2 Properties - Portfolio of 2 Properties]
Scottsdale, Arizona
Two-storey freestanding commercial building with existing hangar/office and land for additional hangar. Building is occupied. Owner will vacate...

Status:	For Sale
Price:	$14,000,000
Price EUR/sq.m.:	**2170**
Property Type:	Mixed Types
Building Size:	58,350 SF

[3900 Livingston Rd - Airplane Hangar or Airport]
Indian Head, Maryland
PENDING CONTRACT - Fully operational designated FAA reliever airport located on 220 acres +/- plus 183 acres +/- of surrounding land

Status:	For Sale
Price:	$4,840,000
Price/sq.m.: 840	Property
Type:	Specialty
Sub-Type:	Airport
Building Size:	51,990 SF
Building Class	B

[3800 SE Three Mile Ln - Airplane Hangar or Airport]
McMinnville, Oregon

Status:	For Sale
Price:	$8,200,000
Price/sq.m.: 1480	Property
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	50,087 SF
Building Class	B

[7301-7331 S Peoria St - Airplane Hangar or Airport]
Englewood, Colorado
Building Size: 48,204 SF (38,204 SF of hangar space; 10,000 SF of office space) Available for Sale: 48,204 SF (100%) Hangar Bays: 7 Doors: 19.5'...

Status:	For Sale
Price:	$7,230,600
Price/sq.m.: 1350	Property
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	48,204 SF
Building Class	C

The general economic and geopolitical situation at the beginning of 2024 may have a significant impact on the future development of the real estate market. As observations show, the residential segment of the market has experienced a sharp decline in the number of transactions over the last six months, which has brought with it negative price corrections. In the commercial segment, no significant decrease in the number of transactions or rental/sale prices has been observed, but given the general situation, it is not possible to predict with precision the changes expected in the near future. Transactions in commercial property are taking place, but the number of transactions is small and the opportunities for disposal are also affected by the limited lending policy of banks.
Analysing the market situation to date, the valuers found that buyers are not making ill-considered purchases, they are thoroughly familiarising themselves with the properties, researching comparable offers, however, the limited supply on the market means that the most likely sale period for the valued property could be up to 18 months if the seller makes all the necessary arrangements to expose the property on the open market at the market value set. The value under forced sale conditions could be reduced by up to ~30% with a shortened sale period of up to 12 months.

8. Existing and best use, factors affecting value

***The market value of a property reflects its best and most efficient use**. The best and most efficient use of an* asset is the use that obtains the maximum benefit and that is practicable, legal and financially feasible. *(Latvian Standard LVS401-2013, p.3.12.4).*
A way of using property that is prohibited by law or is impossible in practice cannot be considered the most efficient. The concept of best and most efficient use is an integral part of the calculation of market value. /LVS 401- 2013/.
Existing use of the immovable property: in the territory of the object under assessment in Marupe Municipality, Riga Airport, under the name "Riga Airport 10/1" there is an aircraft maintenance building with warehouses, workshop and administrative premises and a boiler house for heating of the aircraft maintenance building. On the day of the inspection, the aircraft maintenance building was found to be in use (commercial activities) in accordance with its intended use.
The building is a state-of-the-art aircraft maintenance facility with the necessary office, workshop, storage, staff and recreational facilities. Overall, the building's construction and the materials used are of high quality. The site is well served by utilities.
The appraisers consider that the best use of the property is in line with the existing use - a modern aircraft maintenance, warehouse, workshop and office complex with necessary ancillary facilities. The building can also be used for long-term or short-term aircraft parking, or as a warehouse on the territory of Riga Airport, providing warehousing services.
In recent years, there has been a growing demand for quality facilities for aircraft parking and maintenance. Given that aircraft maintenance can only be carried out in closed hangars and that spare parts for these aircraft need to be stored in warehouses with adequate temperature and humidity, the demand for quality aircraft maintenance facilities is likely to increase. At the same time, there is a limited supply of such buildings/spaces on the market for sale and rent. It can be said that there is a limited market for this type of property, the liquidity of such facilities on the open market is characterised by an increased risk. The construction of buildings of a specific design is usually carried out at the direct request of the client, on a site of his choice, according to his choice of structural solutions and building footprint.

Positive market value drivers for best use :

- the building is constructed using high-quality building materials;

- Specific building design - its layout and ceiling height allow maintenance (repair) of several aircraft at the same time, including large aircraft with tail heights up to 15 m;
- Riga Airport has a small number of buildings of a similar nature on its territory, where aircraft maintenance can be carried out;
- the area in front of the development is hard surfaced;
- the development is provided with all communications;
- the property is located close to Riga;
- the airport development will increase the demand for aircraft maintenance services; public transport links to the city centre are in place;
- the development is located on the territory of Riga Airport;
- The site is located in a strategically important location from the perspective of the city development, next to Riga Airport near K. Ulmanis Avenue, which is one of the major highways close to the city centre, near which the construction of shopping complexes and business administrative buildings and warehouses is developing;
- Construction of the Rail Baltica rail link to Europe has started, with plans to connect Riga Airport to Rail Baltica and to build a station in the immediate vicinity of the airport;
- experts predict that the number of passengers carried at Riga Airport

will increase. Negative factors affecting market value for the best use:

- the property does not stand in the vicinity of a main street;
- is located in the inner area of the airport, access to the development is restricted (with a pass system);
- the land under the development being valued is not part of the valuation object;
- such objects have an increased risk to liquidity on the market - harder to sell due to a small pool of potential buyers.

9. Assumptions and qualifications made in the valuation

The valuation calculations are made on the assumption that :

- the property is unencumbered by leases
- the property is not guaranteed;
- the immovable property is not invested in the company's share capital;
- there are no non-separable investments (improvements to the property) in the property to which third parties may have a claim;
- the property is free from debts, including arrears of land rent, property tax and utility bills;
- there are no specific hidden or invisible conditions or changes in conditions of the ground and structures which lower or raise the value of the property and which can only be detected by special engineering investigation methods;
- The prohibition of alienation has been deleted in the Land Register of Marupe Municipality, Section No 997.

The Valuers underline that the assumptions and limiting factors reflected in Annex 1 have been taken into account in the valuation.

10. Theoretical background and evaluation approaches

Three valuation approaches or techniques are most commonly used in real estate valuation: the market approach, the income capitalisation or cash flow discounting approach and the cost approach. The choice of approach is based on the nature of the information available, the characteristics of the market and the specific nature of the property itself.

According to Latvian valuation standards, regardless of the choice of approach in a given valuation, which is determined by all methods, the result must be one - objectively determined market value (if all calculations are based on market information). In practice, these valuation approaches have been found to produce slightly different results, requiring analysis and smoothing of the calculation results.

The final reconciliation of the results is based on a mathematical weighting approach, which involves assigning a weight (confidence) level (expressed as a percentage) to the result obtained from each approach used in the valuation and calculating a weighted average, which is then taken as the market value of the property;

The reconciliation of calculation results is not a simple mathematical process, but a consideration of the suitability of each approach and an analysis of the reliability of the results obtained in valuing a specific property and determining the final market value.

The following provides some insight into the approach used to calculate market value.

Market approach

The approach is based on the assumption that a knowledgeable buyer will not pay more for a given property than the amount of money for which he could buy another property of similar quality and use on the market. Data on sales/offers of properties similar to the subject of the valuation are identified and analysed. In order to calculate the market value of the property to be valued, the price of the selected comparables is adjusted for any differences from the property to be valued and compared.

The factors considered in the calculation and on which adjustments are made can be divided into the following groups: ownership rights, changes in market conditions, financing conditions, transaction conditions, location, physical characteristics (size of land and buildings, technical condition, amenities, etc.); permitted use and economic factors (lease agreements, management restrictions, mainly for commercial properties).

The calculation of the market approach can be conditionally divided into the following steps:

- Market research to obtain information on transactions and sales offers for properties similar to the subject of the valuation;
- Analysis of this information to determine whether the information obtained is accurate and whether the sales are commercial transactions;
- Choosing an appropriate unit of comparison (e.g. euros per square metre) and benchmarking against these units;
- Comparing the property to be valued with the market using various benchmarks, resulting in an adjusted price for each comparator;
- Determination of the unit value of a valuation comparison object, multiplied by the number of units to obtain the value.

Income approach

In the real estate market, income-generating real estate is viewed as an investment from the investors' point of view, and the Income Approach is based on this principle. The Income Approach is therefore particularly suited to the valuation of properties purchased as investment properties.

The income approach is based on the assumption that a typical investor/buyer operating in the market purchases real estate with the expectation of receiving an income from it in the future. In other words, value can be defined as the present value of the right to future benefits. The income approach determines the market value of a property by identifying and analysing the net income that the property can generate for its owner if it is rented out. If the valuation objective is to calculate market value, the income capitalisation or cash flow discounting approaches should be based on market values for real cash flows and rates of return.

When buying an income-generating property, an investor counts on the recurring income stream generated by the property, as well as the potential future appreciation of the property. As real estate is a long-term investment, the income approach analyses an infinite cash flow. In order to take account of the fact that the expected income, as well as the income from the sale at the end of the period, is generated over a longer period of time, the valuers' task is to translate this periodic income stream into today's value. This process for real estate in property valuation is called *discounting*, and the rate used to convert future income into today's value is called the *discount rate*.

It follows from the above that the value of the property is calculated by making a forecast of long-term income and the calculation is made using the following formula, called the *discounted cash flow*:

$V= NOI1/(1+i)^1 + NOI2/(1+i)^2 + NOI3/(1+i)^3 + ... + NOIn/(1+i)^n$;

where NOI - annual net
income; i - discount rate;
n - number of income periods to be considered.

As mentioned above, in the valuation of income-producing property, the value is represented both by the recurring income from its management and by the income from its future sale at the end of the investment period. The return on the future sale of the property is called the reversion because it represents the expected return on the capital invested at the end of the investment period. The reversion value is defined as the expected return on the sale of the property, calculated by deducting the costs of the sale (brokerage costs) from the probable sale price.

If the cash flow generated by the property is stable and constant, mathematical transformations result in a simple formula called *direct capitalisation*:

V=NOI/ R

where NOI - annual net
income; R - capitalisation rate.

The characteristics of the cash flow are the most important factor in the choice of calculation method:

Direct capitalisation is used when the property being valued is capable of generating stable cash flows at the time of valuation (it meets best use conditions, does not require significant capital investment, is not expected to increase rents or expenses, etc.).

Cash flow discounting is used when the projected cash flow is time-varying (cash investment is required to optimise the use of the property, or changes in expected future income (both increases and decreases) are expected, or in other words, the income stream from the property is variable when analysed several years (periods) in advance). The number of calculation periods depends on the stabilisation period of the projected cash flow.

Income consists of all the income that the owner derives from the property over the period of ownership, which in real estate valuation is most often the rental income from the premises/land, less any expenses related to the maintenance and management of the property.

If the valuation exercise is a market value exercise, the projection of income/expenditure streams should be based on average rents and management costs in the property market, taking into account the specific characteristics of the property being valued, including liabilities.

The annual net revenue under the income approach is calculated as follows:

- calculate the potential gross income from renting or leasing the property;
- subtract from the potential gross revenue the losses due to non-letting of premises and non-collection of rent or rents; and add other revenue generated by the property being valued, resulting in the effective revenue generated by the property;
- subtract from the real gross revenue all expenses related to the operation of the facility - property tax, insurance, personnel costs, deductions to the replacement reserve fund, etc. - to arrive at the net (net) revenue.

The yield and its determination is an important variable in the calculation of the income approach. Rates of return can be divided into rates of income and rates of return.

The capitalisation rate, in real estate valuation terminology, includes the return on the capital invested as well as the return on the capital invested. The return on invested capital includes compensation for the change in the time value of money and other factors related to the specific investment.

The discount rate is the rate used to convert a future cash flow into today's value, or vice versa. The discount rate, unlike the capitalisation rate, does not include expected capital gains.
Discount and capitalisation rates are determined by assessing the state of the financial and real estate markets and the risks associated with the management and disposal of the property. In practice, the most commonly used methods are the market rate method (analysis of yields on sold properties of a similar nature), the cumulative method (determination of the capitalisation rate by adding to the risk-free rate the risks associated with the liquidity, management and return of the investment), the Ring, Inwood or Hoskold investment return methods and the return on own capital (borrowing capital) analysis.

Cost approach
The cost approach is a comparison based on the assumption that a knowledgeable investor will not pay more for a property than the amount of money for which he could acquire an equivalent plot of land and build a building of similar quality and use.
The cost approach calculates the replacement or substitution value of the improvements to the site, less depreciation, and adds the land value to the result.
In the cost approach, the following steps are taken:
- The market value of the plot is calculated assuming that it is free of any improvements and can be used according to its best and most efficient use;
- Estimated replacement costs for improvements to the site;
- Calculated wear and tear due to physical wear, functional obsolescence or external factors;
- Depreciation is deducted from the replacement cost of the improvements to arrive at the residual replacement value of the improvements to the land; and
- The land value is added to the resulting residual replacement value to give the property value.

In the cost approach, all parameters are taken from open market data. Construction costs are determined by considering the average construction costs at the time of valuation, while the land value is calculated using the market approach. Losses in value are represented by the following forms of depreciation:
Physical deterioration - the degree of deterioration of structures and materials due to various factors (physical and chemical
exposure, overloading, incorrect operation, etc.)
Functional obsolescence - the inadequacy of the characteristics of buildings and structures to the existing market standards and perceptions of the type of real estate under consideration (outdated utilities, unfashionable layout).
Economic (external) depreciation - describes the change in the value of a property caused by external circumstances, not directly related to the property itself, that have a significant effect on the saleability of the property. These conditions affecting value may be technical or economic in nature.

11. Choice of valuation approach and calculation process

Taking into account the nature of the object to be valued, the type of use and the amount of market information available, the valuers consider that the market value can be determined using the income approach, as a cash flow analysis will most accurately reflect the value of the real estate in the current market conditions.
The market approach is complicated by the lack of sufficient and objective information on transactions with similar properties - aircraft maintenance hangars on leased land. Each site is unique and different, with the sale price largely influenced by geographical location, technical characteristics, competition. Buyers of industrial assets purchase on the basis of an analysis of their projected operating cash flows and on the basis of their own financial considerations. Consequently, the purchase and sale amounts vary considerably. The valuers consider that, when analysing the market information on objects that are not fully comparable to the object of valuation can only provide indicative results, which may serve to form a general opinion, not a precise

calculation of value. On the basis of the above considerations, the valuer does not use the market approach method of comparison in his calculations. Market data is used by valuers in the calculation of value using the income approach.

The cost approach is not applicable in this particular valuation case, as the valuers consider that the replacement cost of an equivalent development does not reflect the likely market value of the site. In the regions, typical industrial sites have selling prices below the investment made in their construction. As things stand, replacement costs are indicative of the price level towards which market values tend, but market data do not confirm that construction costs are in line with market values.

Value calculation using the income approach

The income approach determines the current value of a property based on the expected income that could be earned from the best use of the property. The subject of the valuation is a potential income-producing property: an industrial building with office space.

The valuers, analysing the rents currently on the market, concluded that:

- Currently, rents for industrial and office space have stabilised in the market;
- As the number of passengers and flights at Riga Airport increases, the demand (occupancy) for aircraft maintenance facilities will grow;
- no rent increases are foreseen in the coming years.

The calculations assume rents (without value added tax) in accordance with the free market situation, by analysing the rental rates and conditions of leased and offered premises (based on SIA LATIO's current market information for similar objects at the time of valuation). The average rent for aircraft maintenance hangars (MRO) or hangars suitable for aircraft parking in European and North American airports is EUR 6.5-9/sq.m. + VAT + utilities. The most feasible rent for the premises identified in the assessment is EUR 7.$^{0/m2/month}$. In determining the potential rents for the subject of the appraisal, the appraisers took into account the location of the site, the best use of the premises, the floor area of the premises, the technical condition of the premises:

Calculation of market rents for premises using the comparison method				
Characteristics of the objects to be compared	Comparator No 1	Comparator No 1	Comparator No 2	Object to be assessed
Address	29 Rāmuļu Street, Riga	Ziemeļu street 4, Marupe pag.	Kauguru Street 6, Riga	"Lidosta "Rīga" 10/1", Lidosta "Rīga", Marupe municipality, Marupe Nov.
Leased/offer	Valid	Valid	Valid	
Description of the premises and contractual conditions	Warehouse space in new warehouse, ceiling height 9,6 m, floor load capacity: 8 t/m2, heated	Storage rooms, ceiling height 9,5 m, floor load capacity: 8 t/m2, heated	Warehouse space in renovated warehouse, ceiling height 6 m, floor load capacity: 8 t/m2, heated	MRO hangar with office space and boiler house, H=16m, climate control
Area	1450,0	4265,3	1887	9323,1
Rent per month, EUR/m2	7,00	6,68	5,00	
Terms of the transaction	0%	0%	0%	
Time of transaction	0%	0%	0%	
Adjusted rent EUR/m² per month, excluding VAT, utilities and other additional charges	7,00	6,68	5,00	
Adjustment for location of comparables				
Location of the building in Latvia	0%	0%	0%	

Building condition/construction	0%	0%	10%	
Total floor area	-10%	-5%	-9%	
Rooms in the basement	0%	0%	0%	
Technical condition of premises/type of heating	5%	5%	5%	
Space plan, ceiling height, office space, usage	10%	10%	20%	
Asphalted pitch	0%	0%	0%	
Total amount of corrections	5%	10%	26%	
Adjusted rent	7,35	7,35	6,30	
Average adjusted rent, EUR/m²	*7,00*			
Calculated rent, rounded	*7,00*			

Revenue forecast in cash flow:
Potential annual income is defined as the rental income (excluding VAT) from the premises, multiplied by the area of the premises to be rented multiplied by the rent calculated for it.
The most feasible rent for the premises has been set at EUR 7.$^{0/m2/month}$.
The calculations also take into account occupancy risk, which takes into account both the potential loss in the event of non-occupancy and the potential loss due to non-payment of rent -0.95.

Expenditure projected in the cash flow:
It is expected that the owner will be charged for the costs, in accordance with the terms of a typical lease agreement. Utilities (electricity, water, heat, garbage disposal, etc.), maintenance costs, in accordance with sanitary, fire safety, environmental protection requirements, are expected to be paid by the tenant in addition to the rent (at the existing tariff or actually consumed). The owner of the facility will be liable for building insurance expenses, ground rent, real estate tax payments, as well as general facility management expenses and capital expenditure for which a replacement reserve is to be set up.
The management expenses of the valuation object consist of both fixed expenses (property tax, insurance, maintenance of the structural elements of the building and the technical condition of the engineering networks, etc.), which are independent of the number of tenants, i.e. income, and variable expenses directly proportional to the amount of leased space.
Having assessed the situation in the real estate market, the object of valuation and taking into account the existing legislation, we have concluded that:

- management costs of the facility not borne by the lessee are assumed to be EUR 1/m2 per month;
- The land plot with a total area of 37 189 m² attached to the building belongs to SJSC Riga International Airport. The lease agreement is concluded until 26 February 2052. The lease fee for the land plot is set at EUR 1,42 per 1 ^{m2} per year, including value added tax. The land rent is based on the lease agreements and amounts to EUR 43643 per year (excluding VAT).
- The building insurance payments are estimated by the valuers according to the information provided by the client - EUR 3346 per year;
- The replacement reserve or provision for capital investment is assumed to be 10% of income, based on market averages.

Net rental *income*, after deducting expected allowable expenses, indicates the probable profit that the owner could earn from leasing the property.

As the subject of the valuation is expected to have a term cash flow, the valuers used the discounted cash flow technique of the income approach to calculate the value. One period of the cash flow is assumed to be 1 year. The cash flow projection period is assumed to the end of the ground lease. The ownership of the development (under the ground lease) is assumed to be until 26 February 2052. The cash flows generated by the facility during the term of the ground lease, i.e. during the ownership and use rights of the buildings, are included in the calculation; the remaining term of the ground lease at the time of the valuation is 335 months.

At a specified future period, net income is transformed into its present value using a discount rate. The sum of the present values of the income in the individual periods represents the capital value. The rate reflects the investor's expected return, or yield, changes in value over time, as well as the uncertainty of the income stream and the rewards associated with the risks.

Discount rate calculation with WACC - Weighted average cost of capital

	Developer funds	Borrowed funds
Amount of capital	30%	70%
Annual rate of return on capital	11,00%	6,70%
Capital effects	3,30%	4,69%
Aggregate rate	**8,0%**	

*- the discount rate for equity is determined in consultation with market participants, industry experts and Latio's commercial sales specialists.

Value calculation using the Income Approach

		Data	Rate	
Market rent for premises (per month)	EUR/m²	9323,1		7,00
Market rent for technical premises (per month)	EUR/m²	245,1		0,00
Area of the attached plot	m²			37 189
Real estate tax for a building	EUR/year		1,50%	7 701
Building insurance premium	EUR/year			3 346
Total floor area, incl.	m²			9 568,20
MRO hangar	m²			9 323,10
Boiler house	m²			245,10
Gross rental income	EUR/month			65 255
Gross rental income	**EUR/year**			**783 066**
Gross rental income (per 1 m² of indoor space)	**EUR/m²/year**			**83,99**
Rental risk (occupancy)				0,95
Effective rental yield	**EUR/year**			**743 913**
Ground rent	EUR/year			43 643
Management and maintenance costs attributable to the building owner (1 EUR/m2/month)	EUR/year			5 741
Management and maintenance costs attributable to the building owner	EUR/m²/month			0,05
Expenditure on administrative management	EUR/year		2,00%	14 878
Expenditure on administrative management	EUR/month			1 240
Administrative expenses (per 1 m² of indoor space)	EUR/m²/month			0,13
Renewal reserve (% of total revenue)	EUR/year		7,00%	52 074
Total annual owner's expenditure related to the site	**EUR/year**			**127 383**
Expenditure per 1 m² of indoor space	**EUR/m²/year**			**13,66**
Expenditure as a share of revenue	%			16%

Net income per year	EUR/year			616 530
Duration of real estate right in months				**335**
Net income per month on average	EUR/month			51 377
Annual rate of return	%			8,0%
Monthly rate of return	%			0,0067
Value of term cash flow (PV-property value)	EUR			6 920 382
Rounded market value of the object	EUR			**7 000 000**
				732

12. Sale and pledge of the valuation object

The valuers are not aware of any obstacles to the sale or mortgaging of the subject of the valuation.

13. Declaration of independence

The calculations of the market value of the real estate were carried out by SIA "Latio". Latio SIA has been granted a certificate for real estate valuation No 3 issued by the Competence Supervision Bureau of LĪVA. The real estate was inspected and the valuation was based on its actual condition as of 07 March 2024. The property was visited by Toms Blate, a certified valuer of Latio Ltd. Latio Ltd as a company and its individual valuers have no interest in increasing or decreasing the value of the property.

We hereby declare that, based on our knowledge and belief:

- we have presented the information we have received truthfully,
- conclusions are based on the evaluators' personal experience and objective analysis,
- our payment is not dependent on the value of the object,
- we have no present or prospective personal interest in the property being valued, and no interest in or bias against the parties involved in the property being valued.

14. Conclusion

Please be informed that the real estate with cadastre No 8076 502 0083, located at **"Lidosta "Rīga" 10/1", Lidosta "Rīga", Marupe municipality, Marupe region** and registered in the Land Register of Marupe municipality No 997, according to the market situation on the date of inspection and valuation, 2024.
07 March

- market value of **EUR 7 000 000** (seven million).
- the value of the forced sale is **EUR 4 000 000** (four million).

Tom Blate
SIA "Latio" real estate appraiser
Certificate of professional qualification No 148

Valuation of the right of development with its substantial part Client: AS AirBaltic Corporation

Lidostas street 8, Cimdenieki, Grobina municipality, South Kurzeme region, LV-3430

Riga, 22 March 2024 Reg. No
V/24 - 789

On valuation of the right of development and its essential part at
Lidostas iela 8, Cimdenieki, Grobiņa parish, South Kurzeme region

AS AirBaltic Corporation

Dear company representatives!

At your request we have carried out the valuation of the right of development with its essential part - aircraft shed (cadastral designation 6460 007 0048 050) with a total area of 1196,6 m^2 (hereinafter - the object under valuation), located at **Lidostas iela 8, Cimdenieki, Grobiņa parish, South Kurzeme region**.

Land Register of Grobiņa Parish No 622 - AT001 has been opened for the development right. The right of development is granted to SIA "Air Baltic Training", registration number 40103272422. The term of the right of development - 08 October 2048.

The building is located on the part 5 of the land unit with cadastral designation 6460 007 0048, Lidostas iela 8, Cimdenieki, Grobiņa parish, South Kurzeme region (cadastre No 6460 007 0048), which is a part of the real estate Lidostas iela 8
300 m² with cadastral designation 6460 007 0048 8005. The land is not part of this valuation. The owner of the land is the Limited Liability Company "AVIASABIEDRĪBA "LIEPĀJA", registration number 40003134391.

The purpose of the valuation is to provide the Customer with an opinion on the market value of the object to be valued for the loan guarantee. The valuation has been prepared in accordance with the requirements of the Valuation Standard LVS 401-2013. The market value has been determined using the income approach.

The purpose of the valuation is to provide a valuation to a credit institution in connection with the use of the property as collateral for a loan. The valuation may not be used for the purposes of other legal or natural persons without the written consent of the valuers.

Latio SIA confirms that we have no present or prospective personal or material interest in the subject property, and no bias against any parties related to the subject property.

Please be informed that according to the market situation as at the date of inspection and valuation, 07 March 2024, the estimated value of the **object to be valued:**

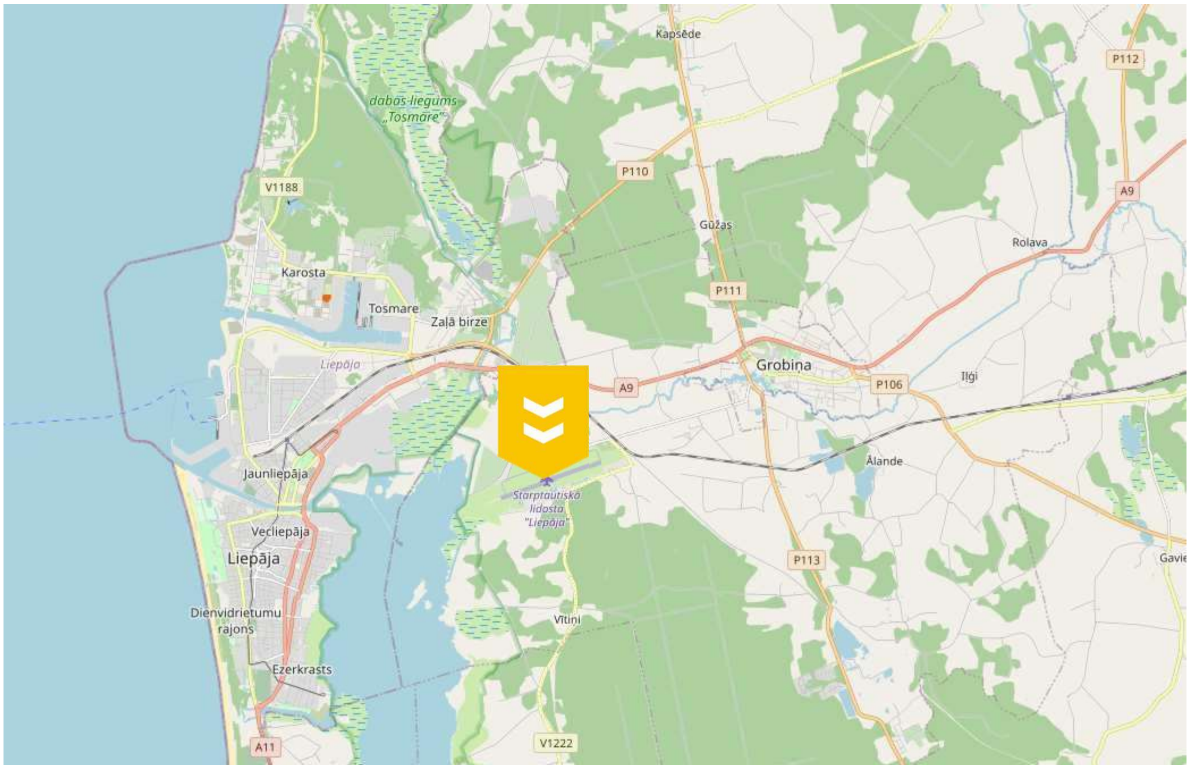
- **market value** of **EUR 500 000 (five hundred thousand euro);**
- **the value of the forced sale** is **EUR 400 000 (four hundred thousand euro)** with a selling period of 9 (nine) months.

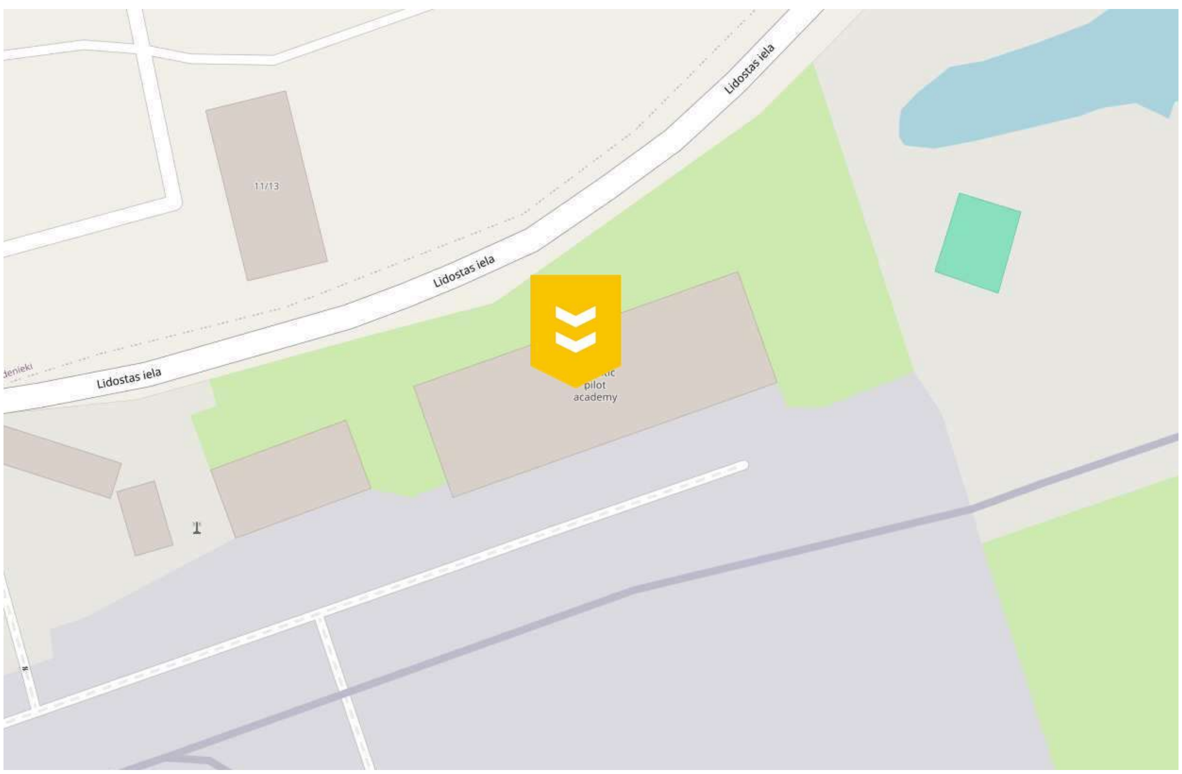
Sincerely
Edgars Šīns
Chairman of the Board of Latio SIA
Certificate for real estate valuation No.

Latio
Nekustamie īpašumi

Contents

1. Map location of the object to be assessed





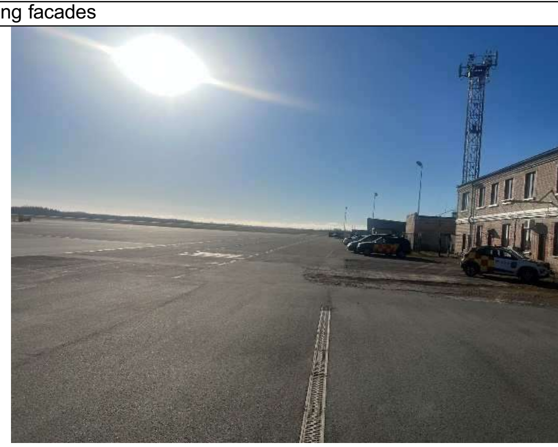
Source : www.openstreetmap.org

2. Photos of the object to be assessed

Aircraft parking facades

Aircraft parking facades

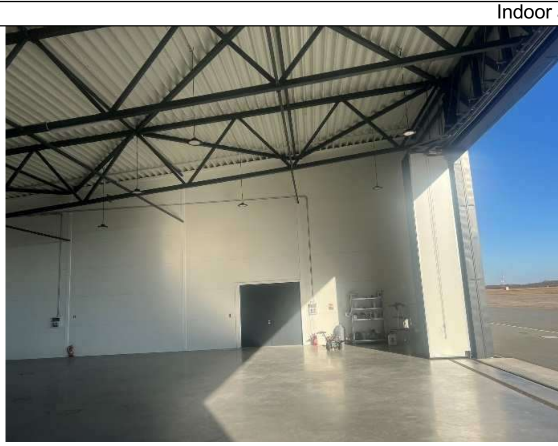
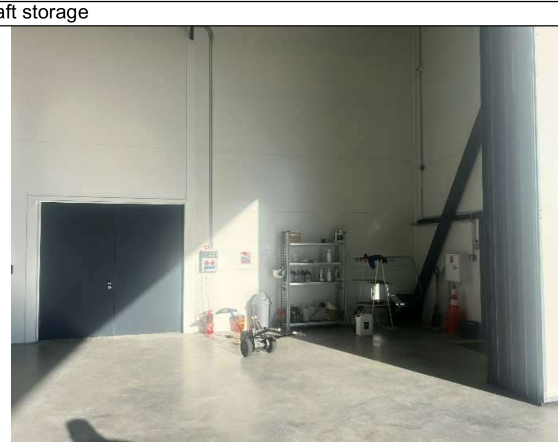
Aircraft storage facade



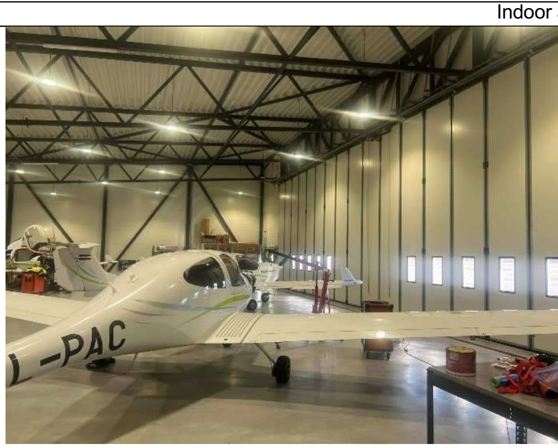
Area in front of the building

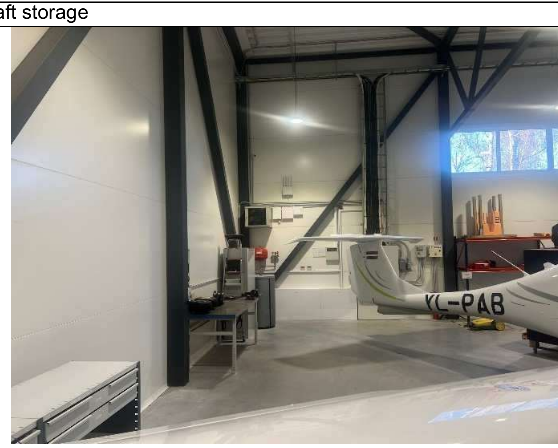

Area in front of the building	Entrance to the site


Indoor aircraft storage

Indoor aircraft storage





Indoor aircraft storage

Indoor aircraft storage

Indoor aircraft storage

3. Key information

Object to be assessed	Development right with its essential part - aircraft parking. The land is not part of the property being valued, it belongs to the Limited Liability Company "AVIASABIEDRĪBA "LIEPĀJA"".
Evaluation objective	To determine the market value of the development right with its substantial share for the loan guarantee
Property address	Lidostas street 8, Cimdenieki, Grobina municipality, South Kurzeme region
Cadastral number	-
Land Register Section No.	Grobiņa parish land register division No 622 - AT001
Property rights	The development right holder is SIA "Air Baltic Training", registration number 40103272422. The term of the development right is 08 October 2048.

Building Composition of the substantial part of the right	**Total area**
Aircraft parking *(cadastral designation 6460 007 0048 050)*	1196,6 m²
Land area related to the property being valued that is not part of the property being valued	
The building is located on the land unit (cadastral designation 6460 007 0048) of the real estate Lidostas iela 8, Cimdenieki, Grobiņa parish, South Kurzeme region (cadastral Nr. 6460 007 0048) part (cadastral designation 6460 007 0048 8005) with a total surface area of 5 300 m². The owner of the land is the Limited Liability Company "AVIASABIEDRĪBA "LIEPĀJA", registration number 40003134391. Land Register of Grobiņa Parish No 622 - AT001 has been opened for the development right. The term of the development right - 08 October 2048. Development right agreement signed 09.10.2018. 2 amendments to the agreement. Development right fee: EUR 0,1 per square metre of land per month + VAT. VAT is payable by the development right holder. The building erected on the basis of the development right, as well as other immovable property objects located and erected on during the term of the basic agreement on the development right, becomes an essential part of the plot after the termination of the development right.	
Buildings located on the land plot but not forming part of the property being valued	
-	

Date of inspection and evaluation	07 March 2024
Date of the report	22 March 2024

Encumbrances, which registered in the Land Register	No encumbrances are registered.
Lease agreements	Unknown
Conversions	None

A-81

Building energy performance (class)	*Unknown*

Latio
Nekustamie īpašumi

Existing use	The building is modern and suitable for aircraft storage and maintenance. The building can be used as a warehouse or light industrial premises.
Best and most efficient use	The best match - aircraft parking.
Market value	**EUR 500 000**
Specific assumptions	-
Assumptions	-
Valuation in the course of documents and information used	• Agreement of 09 October 2018 on the granting of development right, amendment to the development right agreement; • computer printout of the land register • Data from the Cadastre Information System of the State Enterprise Cadastre (www.kadastrs.lv); • Spatial plan of Grobiņa parish (www.liepaja.lv); • data from the construction information system (bis.gov.iv); • Market data (www.cenubanka.lv, www.ss.com).

4. Object of evaluation

4.1. Object to be assessed

The appraisal is provided for a substantial part of the development right located at **Lidostas iela 8, Cimdenieki, Grobiņa parish, South Kurzeme region** and registered in the Land Register of Grobiņa parish No 622 - AT001.

The object to be assessed is understood to be the aircraft parking (cadastral designation 6460 007 0048 050) with a total area of 1196,6 m², as well as the constructions and other improvements inextricably linked to the development, in the condition as recorded on the date of the inspection.

Determining the market value of the land to which the above building is connected is not the purpose of this valuation.

The building is located on a part of the land plot (cadastral designation 6460 007 0048) of the real estate Lidostas iela 8, Cimdenieki, Grobiņa parish, South Kurzeme region (cadastral No 6460 007 0048) (cadastral designation 6460 007 0048 8005) with a total surface area of 5 300 m².

The owner of the land is the Limited Liability Company "AVIASABIEDRĪBA "LIEPĀJA", registration number 40003134391. The term of the right of development - 08 October 2048.

The documentation submitted by the client, as well as the site survey and the information available in the Cadastre Register of the State Land Cadastre Service of the Republic of Latvia are used as the basis for determining the composition of the immovable property.

5. Characteristics of the object to be assessed

5.1. Location of the valuation object

The object under evaluation is located in the South Kurzeme Region, Grobiņa municipality, in the southern part of the village Cimdenieki, in the airport area. It is ~2 km to the A9 motorway, ~7 km to the centre of Liepaja. One edge of the airport territory borders on the Liepāja Lake. The centre of the region is Grobiņa, where all necessary infrastructure is located.

Overall, the location of the site in the Liepaja district and region is good for the type of use.

The building is not freely accessible and is located in a secured area of the airport with a pass regime.

5.2. Characteristics of the land allocated for the development right

The building is located on a part of the land plot (cadastral designation 6460 007 0048) of the real estate Lidostas iela 8, Cimdenieki, Grobiņa parish, South Kurzeme region (cadastral No 6460 007 0048) (cadastral designation 6460 007 0048 8005) with a total surface area of 5 300 m².

The owner of the land is the Limited Liability Company "AVIASABIEDRĪBA "LIEPĀJA", registration number 40003134391.

Part of the plot with cadastral designation 6460 007 0048 005	
Area of the plot	5 300 m²

Source : www.kadastrs.lv

Shape, layout	The land is of a relatively rectangular shape, with one side adjacent to Airport Street, which is outside the airport site, and the other sides adjacent to the airfield site.
Encumbrances	Encumbrances not known to the assessors
Access	Access to the property is from the municipally-owned Lidostas Street, which is paved with asphalt through a secure airport area.
Part of the plot Cadastral designation 1700 022 0227 8001	
Facilities	Enclosed on the north side by a fence from neighbouring properties. The undeveloped part of the plot around the building is asphalted, the rest of the plot is grassed.
Building	Aircraft parking
Communications support	Connections to centralised electricity supply networks, local water supply and sewerage networks

5.3. Characteristics of the development

Aircraft parking (cadastral designation 6460 007 0048 050)

Technical condition of the aircraft parking - construction works have been completed in 2019, the territory is landscaped, the building has been put into operation on 10.02.2020.

General description of the building, including a description of the layout.

Aircraft parking (cadastral designation 6460 007 0048 050).

Construction work started in 2019 and the building was put into operation on 10 April 2020.

The building was constructed as an aircraft storage and maintenance building for small aircraft. The building is constructed in steel using high quality building materials.

The building is located on the airport site, next to the runways.

Building layout

The building consists of a 1-storey aircraft storage and repair area with an average roof (ceiling) height of 7.53 m.

The building's two gates face the airport runway.

The facilities have been built to be able to perform their intended function: aircraft storage and maintenance.

Access to the building is via a gate on the runway side.

Areas of the building.

The building has a built-up area of 1216.4 m^2 and a building volume of 9524 m^3. The total area of the building is 1196,6 m^2. The height of the rooms ranges from 6,65 to 8,4 m. ***Materials and construction.***

Overall, the structures are in good condition. As of the date of the visit, the building works are complete and the premises can be used for their intended purpose. The following describes the building's structures:

- foundations - reinforced concrete blocks, monolithic reinforced concrete (post-tensioned);
- load-bearing structures - metal frame structures, steel (tin), polymer sheets;

- external walls - metal structural panels with rock wool (thermal insulation) filling;
- partition walls - steel structural frame with steel sheet cladding;
- external finishing - metal sheets;
- Roof structure - metal structures of the installation supported on metal columns;
- Roofing - polymer board, film;
- gates - metal structures
- internal finishing according to modern requirements and functional use: floors
  - concrete with reinforced top layer and dust layer;
  walls - exposed structures; ceilings -
  exposed structures.

Connection to external utilities: centralised
electricity supply network, connection to local
water supply network, connection to local
sewerage system,

- internal engineering networks:
  lighting and contact power supply network; internal
  water supply and sewerage networks;
  central heating system - underfloor heating, heat pump heating; fire safety and
  security alarm system;

Overall, the building's construction and materials are of a high quality and in line with modern requirements. The valuer did not find any significant differences when inspecting the property and comparing the condition on the ground with the submitted documents.

6. Definition of values

Market value is a calculated figure - the amount of money, determined at the valuation date, for which a property should change hands in a commercial transaction between a willing seller and a willing buyer, after appropriate marketing: this assumes that each party acts competently, with calculation and without coercion. /LVS 401-2013/.

The term "***forced sale***" is often used when the seller is forced to sell and thus does not have enough time to make a proper offer. In such circumstances, the price to be obtained depends on the nature of the seller's difficulties and the reasons why adequate marketing cannot be carried out. It may also reflect the consequences that would arise for the seller if it were unable to sell the asset within a given time. If the nature of the seller's difficulties or the reason for them is unknown, it is not possible to make a realistic prediction of the price that will result from a forced sale. The price at which a seller agrees to sell an asset in a forced sale reflects the circumstances of the particular transaction, not the behaviour of a theoretical willing seller within the definition of market value. "A 'forced sale' is a description of the situation in which an asset is disposed of, not a different basis of value.

7. Description of the market situation and possible sale date

Economic characteristics

The euro area's economic growth has stalled. The main negative factors are the geopolitical environment, the previous high inflation, the sharp rise in interest rates aimed at curbing high inflation and the contraction of the export market.

In view of the easing inflation in the euro area, the Governing Council has decided to continue the normalisation of the Eurosystem's balance sheet by starting to reduce the temporary pandemic emergency asset purchase programme portfolio by an average of €7.5 billion per month in the second half of 2024 (Bank of Latvia).

According to the Central Statistical Office (CSO), gross domestic product (GDP) in Q3 2023 is estimated to have decreased by 0.7% on a seasonally and calendar-adjusted basis compared to Q3 2022. Compared to Q2 2023, GDP increased by 0.2% on a seasonally and calendar-adjusted basis.

In terms of GDP change from the manufacturing side, the largest declines in Q3 2023 compared to the same quarter of the previous year on a non-seasonally and calendar adjusted basis are in the finance and insurance and agriculture sectors. The largest positive contribution to overall economic development (+0.9 percentage points) came from the substantial growth of the construction sector (16.1%).

In Q3 2023, the transport and storage sector recorded a 9.8% drop in GDP compared to the same quarter of the previous year on a non-seasonally and non-calendar adjusted basis. GDP in this sector was negatively affected by land and pipeline transport activities, water transport, storage and ancillary transport activities (down 18.6%), postal and courier activities. In contrast, growth in the air transport sector made a positive contribution (Data: CSO).

In October 2023, Latvia's foreign trade turnover amounted to EUR 3.51 billion, which in real prices was 17.8% less than a year earlier, including a 12.5% drop in the value of exports and a 21.9% drop in the value of imports (data from the Central Statistical Office). In October 2023, exports of wood and wood products; charcoal were down by €73.7 million, or 24.4%, compared to October 2022. In Q3 2023, total exports accounted for 60.4% of GDP, while imports accounted for 64.4% of GDP. The Bank of Latvia published its December 2023 macroeconomic forecast: gross domestic product (GDP) growth is projected at 2.0%. GDP is expected to grow by 3.6% in 2025 and by 3.8% in 2026.

Inflation rates have been decelerating across the euro area in recent months. In Latvia, too, consumer prices have eased in recent months as global energy prices have fallen. With lower prices for heat and fuel, price pressures on other goods and services are easing, for example the price of transport-related goods and services and housing-related goods and services have fallen, while the cost of heat has fallen. According to the CSO, the average consumer price level increased by 1.0% in November 2023 compared to November 2022.The inflation estimate for 2023 is 9.0%. The Bank of Latvia forecasts inflation at around 2% over the next three years (2.0%, 2.3% and 1.8% for 2024-2026 respectively).

Overall, employment remained stable in 2023. The unemployment rate in the third quarter of 2023 was 6.5%, 0.3 percentage points lower than in the same period in 2022 (data from the CSO). The employment rate in the 35-54 age group is increasing, while the employment rate in the 25-34 age group has declined over the last year.

The 2022 framework has seen one of the fastest and most significant rate increases since 1999. Already in mid-December 2022, the 12-month Euribor rate exceeded 3%. The last time rates rose above the 3% mark was in 2006, in 2008 they were already above 5% and it was only at the start of 2009 that a fall below the 3% mark was expected.

EURIBOR rates	02.01.2023	04.03.2023	03.07.2023	02.10.2023.	01.12.2023.
1 week	1.876%	2.895 %	3.388 %	3.858 %	3.839 %
1 month	1.883%	2.928 %	3.385 %	3.858 %	3.869 %
3 months	2.162%	3.053 %	3.597 %	3.951 %	3.960 %
6 months	2.732%	3.335 %	3.913 %	4.138 %	4.004 %
12 months	3.316%	3.651 %	4.145 %	4.198 %	3.902 %

Source : https://www.euribor-rates.eu/en/euribor-rates-by-year/2023/

Business sentiment improved again in September 2023 after six months of improvement, and this trend continues in October and November: the confidence indicator is positive in the retail and services sectors, manufacturing and construction remain negative, but also improve slightly compared to the previous month (data from the CSP business sentiment surveys). Consumer confidence, on the other hand, is showing negative trends. The negative trend in this indicator is bad news for the economy, as consumers account for a large share of the country's economic activity or gross domestic product.

Dynamics of yield rates

The rates are set according to Latio's market research information on yields required by investors for transactions in cash-generating properties of the real estate segments shown in the graph.

According to Colliers data for *prime* segment properties:

Key Investment Figures in the Baltic States, Q1 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	5.8%	5.8%	5.5%
Retail (SC)	7.0%	7.25%	7.25%
Retail (grocery-led)	6.1%	6.5%	6.25%
Industrial	6.75%	6.5%	6.75%

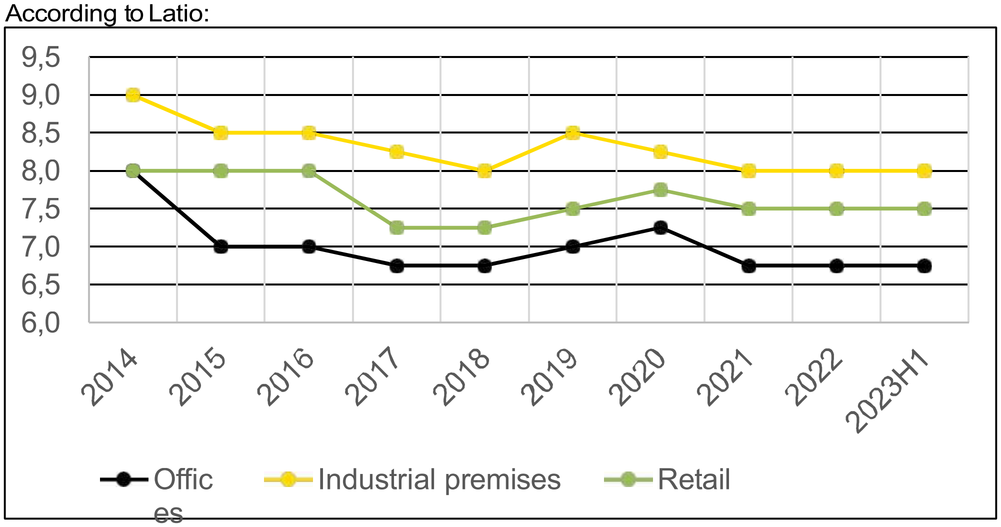
Source: Colliers

Key Investment Figures in the Baltic States, Q4 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	6.75%	6.5%	6.5%
Retail (SC)	7.75%	7.75%	7.5%
Retail (grocery-led)	7.0%	7.0%	6.75%
Industrial	7.2%	7.0%	7.0%

Source: Colliers

According to Latio:



Investment (data to October 2023).

In the first ten months of 2023, cash-flow generating commercial properties were acquired for a total of around €100 million. Compared to recent years, the level of investment is around twice as low. While the highest volume of transactions in cash terms is typically recorded in the 4th quarter of each year and a similar trend is expected in 2023, the overall investment volume is expected to be one of the lowest in recent years.

Property acquisitions have also been slow, totalling just over €110 million, similar to other years with low activity, such as 2020, when the Covid-19 pandemic started.

Most market participants have taken a wait-and-see approach and are waiting to see what happens next. Thus, not only has the total number of transactions in Latvia fallen (by around 30%), but no large transaction above EUR 25 million has yet been concluded.

"The low number of transactions is directly linked to Euribor rates and the consequent inability to achieve the desired rates of return with the usual amount of funding - property prices not falling as fast as Euribor was rising," industry experts explain.

Latvia is by no means unique, and a similar picture can be observed in other European countries, including the Baltic States, and in the Middle East. However, the market in our region looks quite stable and there are no serious problems for market players in are largely absent from property portfolios. According to industry experts: for the market to recover, either the Euribor rate has to fall or property prices have to fall.

Looking at the largest transactions in 2023 that have exceeded the EUR 5 million mark, the most well-known is Pullman Riga Old Town, a five-star hotel in Old Riga, Jēkaba Street. The amount of the transaction is confidential, but it is known to have exceeded €10 million.

The second largest transaction in terms of amount took place at the beginning of the year, when the Lithuanian company Norvelita bought the administrative building of the PNB Bank in liquidation on Ernesta Birznieka-Upīša Street.

In October 2023, the largest land acquisition deal of the year in Latvia was registered, with one of the retail leaders Rimi Latvia acquiring a 3.6 ha land plot next to the Alfa Akropole shopping centre in Riga, 382 Brīvības Avenue, for EUR 8 million from the Linstow Baltic group company.Real estate developers reviewed their strategies for acquiring land plots for development at the beginning of the year, taking into account the overall economic situation in Latvia, and thus there were comparatively few deals. However, in the middle of the year, when most developers accepted the new economic reality, they started to actively look for opportunities and assess the supply of available land plots on the market. The average time to make a purchase decision was around 3-6 months. In the third quarter of the year, new deals were already coming on the market.

In addition to the Rimi transaction in Brīvības gatve, the largest land acquisitions were Linstow Tobre (Linstow Baltic) - Satekles iela 1 k-1, Satekles iela 1E, Riga;
Cella investment 4 (Sirin) - Sniedžu iela 2, Dreiliņi;
"Riga Properties 4" ("VPH Latvia") - "Līdumi", Dreiliņi;
"SKUBA Real estate" - Maskavas iela 471, Riga.

The total volume of land acquisitions from January to October 2023 inclusive was around €42 million (or 36 transactions above €300 thousand), which is €20 million less than in the same period of 2022 (€63 million; 46 transactions above €300 thousand).

Lielākie komercīpašumu darījumi 2023. gadā

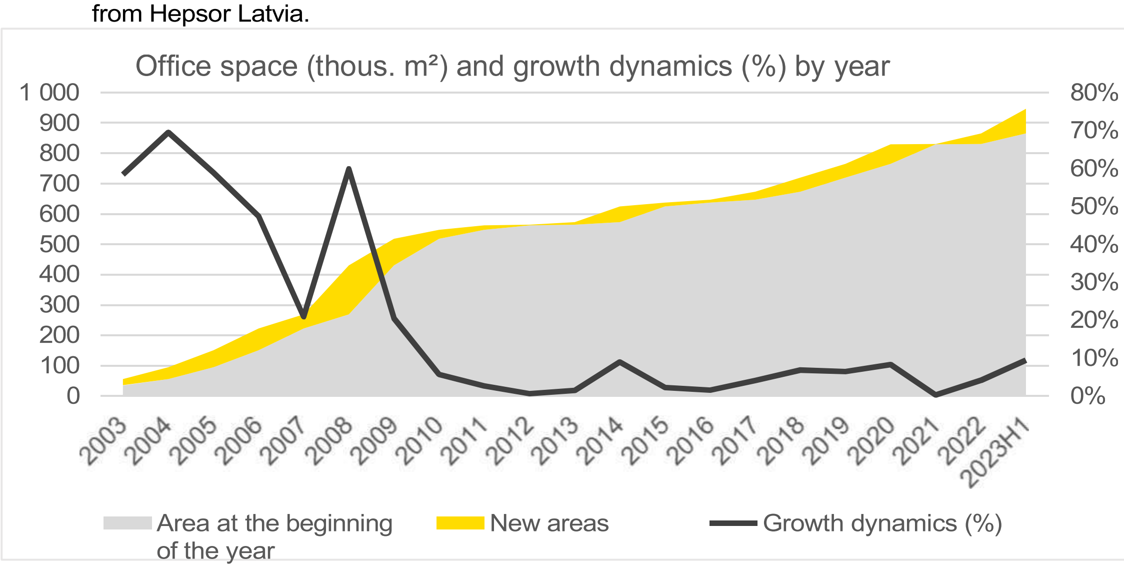
2023. gada 10 mēneši (cena virs 5 miljoniem eiro)

Īpašums	Veids	Platība	Cena, eiro	Pārdevējs	Pircējs
Pullman Riga Old Town	Viesnīca	Ēka 8380 m^2 zeme 2220 m^2	Konfidenciāla	Wisher Enterprise LV	IDK Baltic
Ernesta Birznieka-Upīša iela 21, Rīga	Jaukta pielietojuma	Ēkas 13980 m^2, zeme 6730 m^2	10 milj.	PNB Banka	Norvelita
Brīvības gatve 382, Rīga	Zeme	3.6 ha	8 milj.	Linstow	Plesko Real Estate
Mūkusalas iela 72, Kārļa Ulmaņa gatve 2A, Rīga	Jaukta pielietojuma	Ēkas 7260 m^2, zeme 16360 m^2	7,7 milj.	Dažādi īpašnieki	LIDL
Duntes iela 15A, Rīga	Birojs	Ēka 4930 m^2, zeme 11020 m^2	5,8 milj.	Rīgas Sanitārā Transporta Autobāze	Duntes 15
Kalpaka Bulvāris 7, Rīga	Dzīvokļu ēka	Ēka 3170 m^2, zeme 1300 m^2	5,8 milj.	MID BALTIC REALTY	HOVE
U30 Stock office	Jaukta pielietojuma	Ēka 7860 m^2, zeme 3700 m^2	5,2 milj.	Hepsor	East Capital
Ulbrokas iela 42G, Rīga	Jaukta pielietojuma	Ēka 5940 m^2, zeme 12340 m^2	5,1 milj.	U42G	Capitalica

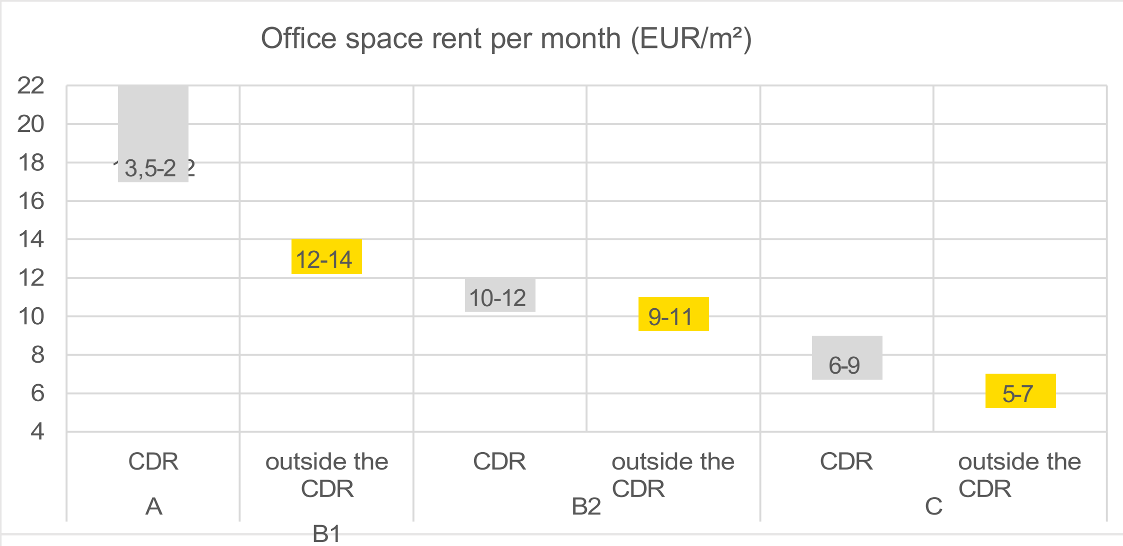
Avots: "Colliers", VZD, ZG, "Crediweb"

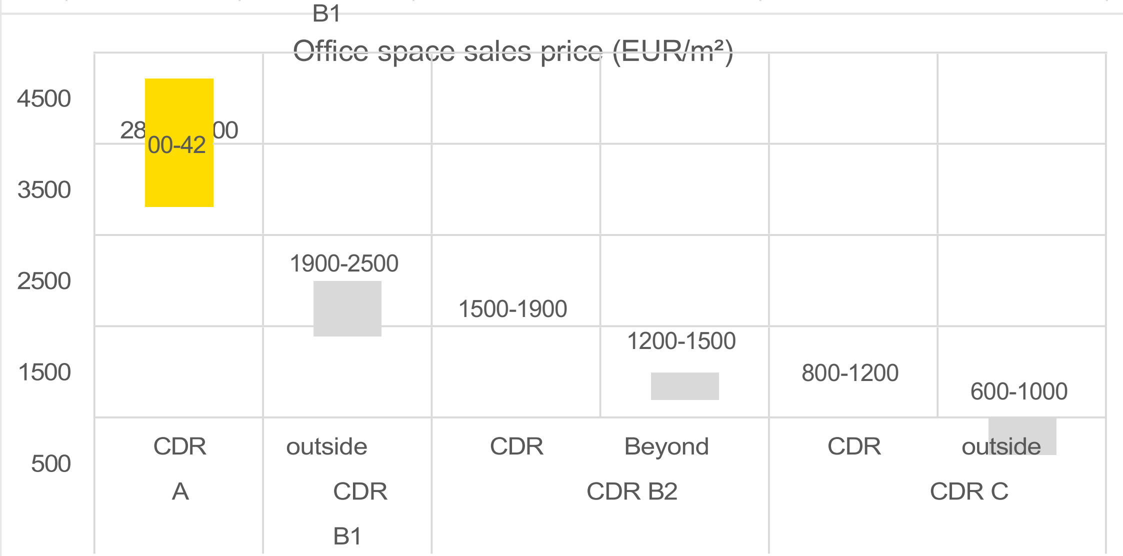
Office space, Latvia

- Linstow Baltic has been granted approval for the construction of the Satekle Business Centre, a visionary project consisting of five interconnected buildings, two of which will be heritage buildings and will be integrated.
- The first phase of construction (commissioning) has been completed in the new business centre located in Riga, Pērses iela 2A. The building, located at 30 Krišjāņa Barona Street, will be commissioned by December 2023.
- The construction of the Novira Plaza office and retail centre is nearing completion, with a target completion date of October. The project will offer a mix of commercial and retail space.
- Regus Business Garden, a new co-working office complex, has opened in Riga. Spread over five floors with a total area of 1,077 square metres, this modern facility offers flexible workspace solutions for city businesses.
- Significant investment of almost €50 million has been allocated for the development of 76 Lāčplēša Street. Construction is scheduled to start in 2024 and is expected to be fully completed within seven to ten years.
- The first building of the newly built business centre "Gustavs", located in Gustava Zemgales Avenue, has been successfully completed.
- The largest and most significant transaction in the commercial sector in the first half of 2023 was the acquisition of land and buildings at 21 E.Birznieka-Upīša Street.
- T/C Galleria Riga will undergo a transformation, as the fifth floor of 3200 square metres will be converted into co-working offices. This innovative workspace solution is expected to be available from 2024.
- The second phase of the Press House Quarter development is expected to start at the end of the year.
- The University of Latvia (UL) has sold a 5221 square metre building complex at 5 Baznīcas Street, Riga, for a total of EUR 3.86 million.
- East Capital Real Estate Fund IV has successfully acquired the StokOfiss U30 commercial building from Hepsor Latvia.



A-90

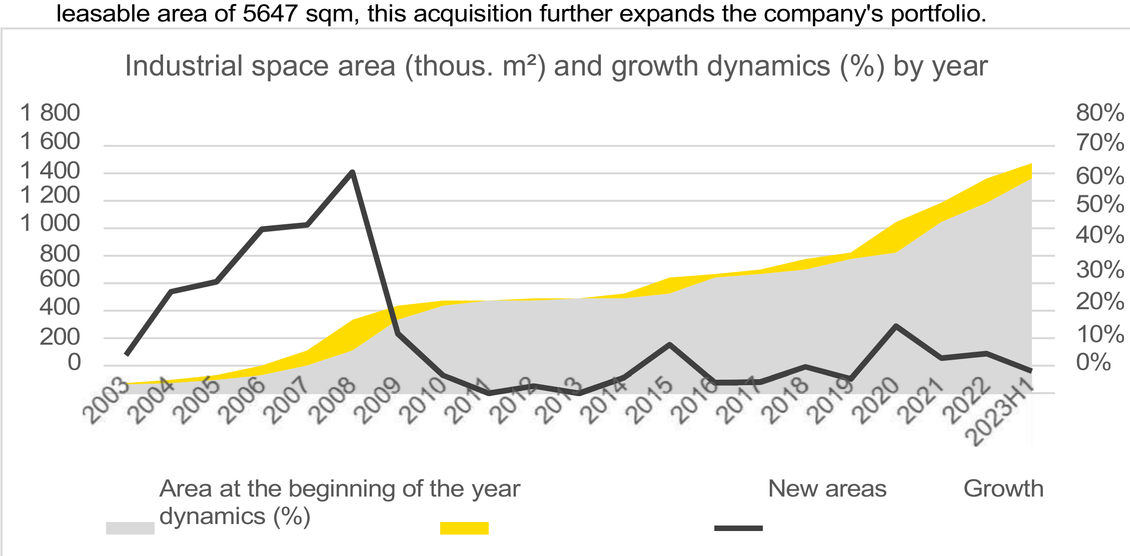


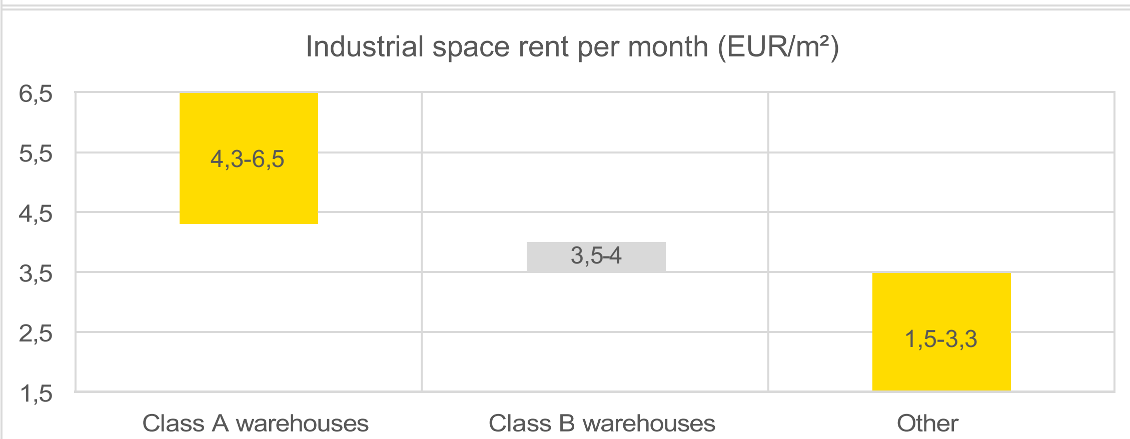


Industrial areas, Latvia

- Fish processing company Syfud Ltd, operating as Port Lite, has announced a significant investment of EUR 6 million for the construction of a modern fish processing plant in Liepaja. The new plant is expected to be completed and operational by summer 2023, increasing the company's production capacity.
- Baltic Electro Company has ambitious plans to invest EUR 8 million in a wholesale and logistics centre in the Dreiliņu district.
- The developer Piche is planning to start construction of two industrial park buildings in the vicinity of the airport in the near future, with an investment of around EUR 25 million, the second building of Green Park III and the second building of the Airport Park III industrial park.
- Schneider Electric is undertaking a major expansion initiative by building an extension to its existing factory in Riga. This ambitious project will effectively double the size of the factory. The new extension will cover an area of 20,000 square metres and is expected to be completed by the end of this year.
- Metalworking company ICS Steel plans to set up a new production facility in Liepāja, Meldru Street, by the end of the year.
- Eco Baltia is making a significant investment of more than €10 million to build a modern PET recycling plant in Olaine. This state-of-the-art plant will not only be one of the largest and most modern PET recycling plants in Europe, but also one of the largest industrial buildings in Latvia.

- Capital Mill recently completed a €4.3 million expansion of its industrial park on Granita Street. The warehouse area increased by around 30%.
- The fourth phase of the warehouse, retail and office complex "Dienvidu vārti" on Rēzeknes Street, Riga, has been successfully completed and put into operation.
- Northside Business Park has acquired three interconnected functioning commercial properties located on the site of the former Liepāja Machine-Building Plant. The acquisition is part of an ambitious plan to develop a dynamic business district in the area.
- Capitalica Green Logistics Fund has acquired a logistics centre in Ulbrokas Street, Dreiliņi. With a total leasable area of 5647 sqm, this acquisition further expands the company's portfolio.





The sales offer consists mainly of various Soviet-era industrial/warehouse buildings as individual units. There are virtually no newly built properties in the public offer. Individual transactions have been identified with

~ 10-20 year old industrial (office/warehouse/manufacturing) buildings. The sale price of the objects is significantly influenced by the size of the land plot, the volume of construction, the actual technical condition and the suitability for modern production process. Overall, the supply is small.

One of the main factors influencing the value of industrial/warehousing facilities is the proximity of engineering communications (power supply connection capacity; possibility to connect to the gas pipeline, city water supply and sewerage), accessibility of access roads, availability of workforce. The energy efficiency and sustainability of the built environment has become a major factor in the last six months. The level of development of transport and social infrastructure is also important. This includes the accessibility and frequency of public transport, as well as the proximity of various retail and service facilities, medical and educational facilities, entertainment and recreational facilities.

Overall, the analysis of the number of sales shows that a relatively limited number of industrial properties have been offered to the public since summer 2022. With inflation rising significantly, transactions took place even for objects that were on the market for a long time but were not purchased. The analysis of sales prices does not reveal any negative price changes.

Office/warehouse buildings dominate with a total volume of ~ 2000-5000 ^{m2} and average selling prices ~ 500-700 $^{EUR/m2}$ for buildings ~ 10-15 years old, in some cases reaching a sale price of ~ 900-1200 $^{EUR/m2}$ for small, excellent quality or location properties. Selling prices of ~ EUR 1,200-1,$^{500/m2}$ have been recorded for some newly built "stock-office" properties, with full occupancy and average yields of ~ 5-5.5%.

Only a few sales of such properties have been recorded in the Airport and its surroundings in the last 2 years. It should be emphasised that the transactions were mainly with objects comprising both buildings and land. The amount of land involved is important and can have a significant impact on the total amount of the transaction.

The real estate market mainly deals in properties where sales prices correlate with actual rents, providing an acceptable return for the investor. In this case, it should be stressed that properties are acquired as cash flow objects in situations where the premises are in a state of repair suitable for immediate occupation or already have real tenants at market rents.

The yields are in the range of ~7.-8.5% and also reach ~5-6.5% for new logistics and stock-office properties.

Looking at the situation in the immediate vicinity of the valuation object, it should be noted that the specific location in the immediate vicinity of the airport also results in relatively higher rents. The Valuers have information on lease rentals in the surrounding buildings and have found that the lease rentals for aircraft maintenance (MRO) or hangars suitable for aircraft parking in the surrounding area are in the range of EUR 20.$^{0/m2}$ + VAT + utilities. The rent depends significantly on the nature of the use of the premises, the technical condition of the buildings and the provision of utilities.

The general economic changes are also reflected in the current rents - while in the earlier projects warehouse rents have stabilised in the range of EUR 4.5 - 5.2 per ^{sqm}, in the 2022 - 2023 projects warehouse rents have reached EUR 5.3 - 5.9 per ^{sqm}.

An analysis of the occupancy rates in the airport area shows that occupancy rates in good quality office and logistics facilities have reached 90-95%.

The site is currently used for commercial activities (aircraft storage and maintenance). The profitability of such a business depends on demand. Taking into account that Liepaja Airport is 90% used by Air Baltic, the appraisers consider that the subject property may not generate maximum income from aircraft storage and maintenance in the coming years and that the potential rentals will not exceed EUR 4,6/sq.m. + VAT + utilities. The main building can also be used for aircraft parking or as a warehouse on the territory of Riga Airport, providing warehousing services. The evaluators also studied the rental situation of MRO hangars at airports in Europe and North America and concluded that the currently charged rental rates range from EUR 4.0/sq.m. for maintenance hangars located at small airports, which are mainly intended for small aviation, to EUR 25.0/sq.m. for hangars located at international airports, which can accommodate commercial aircraft (with 100 or more

seats) maintenance. Accordingly, the requested tender prices for MRO hangars range from EUR 360-900/sq.m. (for small aircraft hangars) to EUR 1000-2700/sq.m. (for maintenance hangars for aircraft with 100 seats or more). The highest offer prices are for modern MRO hangars located in international airports (asking and transaction prices of more than EUR 2 000 per 1 m^2 and rents of up to EUR 20-25 per sq.m.).
The Valuers have no information on transactions for aircraft maintenance hangars in European Airport Areas (MRO). The following aircraft maintenance hangars are currently available for public offer at airports worldwide, ranging in size from 3700 to 9300 m^2 (source of information: www.loopnet.com):

5615 S Sossaman Rd - Airplane Hangar or Airport
Mesa, Arizona
Southwest Jet Center | Mesa-Gateway is a state- of-the-art 74,000 square foot facility that was developed as a full-service MRO facility in two...

Status:	For Sale
Price:	$11,000,000
Price EUR/sq.m.:	**1330**
Property Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	74,486 SF
Cap Rate:	7.70%

9382 Stockmar Rd - Airplane Hangar or Airport
Villa Rica, Georgia
CONFIDENTIAL, DO NOT APPROACH TENANTS. Confidentiality agreement documents are attached. This airport offers 41 individual hangers, and is...

Status:	For Sale
Price:	$7,000,000
Price/sq.m.: 920 Property	
Type:	Specialty
Sub-Type:	Airport
Building Size:	68,698 SF
Year Built	1971

1 Campbell Pky - Airplane Hangar or Airport
East Wenatchee, Washington
This is an exceptional opportunity to acquire a state-of-the- art hangar and office facility in Eastern Washington located on a 216,667 sq. ft...

Status:	For Sale
Price:	$7,500,000
Price/sq.m.: 1050 Property	
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	64,305 SF
Building Class	B

Latio
Nekustamie īpašumi

[1640 Lincoln Ave - Airplane Hangar or Airport]
Holbrook, New York
Rare Opportunity to own 5 acre parcel with direct runway access at Long Island MacArthur Airport. Fully leased with a long waiting list. This...

Status:	For Sale
Price:	$4,900,000
Price/sq.m.: 710 Property	
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	61,905 SF
Building Class	C

[Portfolio of 2 Properties - Portfolio of 2 Properties]
Scottsdale, Arizona
Two-storey freestanding commercial building with existing hangar/office and land for additional hangar. Building is occupied. Owner will vacate...

Status:	For Sale
Price:	$14,000,000
Price EUR/sq.m.: 2170	
Property Type:	Mixed Types
Building Size:	58,350 SF

[3900 Livingston Rd - Airplane Hangar or Airport]
Indian Head, Maryland
PENDING CONTRACT - Fully operational designated FAA reliever airport located on 220 acres +/- plus 183 acres +/- of surrounding land

Status:	For Sale
Price:	$4,840,000
Price/sq.m.: 840 Property	
Type:	Specialty
Sub-Type:	Airport
Building Size:	51,990 SF
Building Class	B

[3800 SE Three Mile Ln - Airplane Hangar or Airport]
McMinnville, Oregon

Status:	For Sale
Price:	$8,200,000
Price/sq.m.: 1480 Property	
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	50,087 SF
Building Class	B

A-95

[7301-7331 S Peoria St - Airplane Hangar or Airport]
Englewood, Colorado
Building Size: 48,204 SF (38,204 SF of hangar space; 10,000 SF of office space) Available for Sale: 48,204 SF (100%) Hangar Bays: 7 Doors: 19.5'...

Status:	For Sale
Price:	$7,230,600
Price/sq.m.: 1350	Property
Type:	Specialty
Sub-Type:	Airplane Hangar
Building Size:	48,204 SF
Building Class	C

A-96

The general economic and geopolitical situation at the beginning of 2024 may have a significant impact on the future development of the real estate market. As observations show, the residential segment of the market has experienced a sharp decline in the number of transactions over the last six months, which has brought with it negative price corrections. In the commercial segment, no significant decrease in the number of transactions or rental/sale prices has been observed, but given the general situation, it is not possible to forecast the changes expected in the near future at this point in time. Transactions in commercial property are taking place, but the number of transactions is small and the opportunities for disposal are also affected by the limited lending policy of banks.

Analysing the market situation to date, the valuers found that buyers are not making ill-considered purchases, they are thoroughly familiarising themselves with the properties, researching comparable offers, however, the limited supply on the market means that the most likely sale period for the subject property could be up to 18 months if the seller makes all the necessary arrangements to expose the property on the open market at the market value agreed. The value under forced sale conditions could be reduced to ~20% with a shortened sale period of up to 12 months.

8. Existing and best use, factors affecting value

The market value of a property reflects its best and most efficient use*. The best and most efficient use of an* asset is the use that obtains the maximum benefit and that is practicable, legal and financially feasible. *(Latvian Standard LVS401-2013, p.3.12.4).*

A way of using property that is prohibited by law or is impossible in practice cannot be considered the most efficient. The concept of best and most efficient use is an integral part of the calculation of market value. /LVS 401- 2013/.

Existing use of the property: the site is located on the territory of the property under assessment. On the day of the inspection, it was found that the aircraft storage and maintenance building is in use (commercial activity) for its intended purpose.

The building is modern enough for the storage and maintenance of small aircraft. Overall, the building's construction and the materials used are of high quality. The provision of utilities to the site is good.

The appraisers consider that the best use of the property is in line with the existing use - a modern aircraft storage and maintenance building.

In recent years, there has been a growing demand for quality facilities for aircraft parking and maintenance. Given that aircraft maintenance can only be carried out in enclosed hangars, the demand for quality aircraft maintenance facilities is likely to increase. At the same time, there is a limited supply of such buildings/spaces on the market for sale and rent. It can be said that there is a limited market for this type of property, the liquidity of such facilities on the open market is characterised by an increased risk. The construction of buildings of a specific design is usually carried out at the direct request of the client, on a site of his choice, according to his choice of structural solutions and building footprint.

Positive market value drivers for best use :

- the building is constructed using high-quality building materials;
- has high ceilings and is heated;
- There are a small number of buildings of a similar nature on the airport site that can be used for aircraft maintenance;
- the area in front of the development is hard surfaced;
- the property is located near Liepaja;
- the development is located on the airport site.

Negative factors affecting market value for the best use:

- the property does not stand in the vicinity of a main street;
- is located in the inner area of the airport, access to the development is restricted (with a pass system);

- the land under the development being valued is not part of the valuation object;
- such objects have an increased risk to liquidity on the market - harder to sell due to a small pool of potential buyers.

9. Assumptions and qualifications made in the valuation

The valuation calculations are made on the assumption that :

- the property is unencumbered by leases
- the property is not guaranteed;
- the immovable property is not invested in the company's share capital;
- there are no non-separable investments (improvements to the property) in the property to which third parties may have a claim;
- the property is free from debts, including arrears of land rent, property tax and utility bills;
- a development right agreement is in force
- there are no specific hidden or invisible conditions or changes in conditions of the ground and structures which lower or raise the value of the property and which can only be detected by special engineering investigation methods.

The Valuers underline that the assumptions and limiting factors reflected in Annex 1 have been taken into account in the valuation.

10. Theoretical background and evaluation approaches

Three valuation approaches or techniques are most commonly used in real estate valuation: the market approach, the income capitalisation or cash flow discounting approach and the cost approach. The choice of approach is based on the nature of the information available, the characteristics of the market and the specific nature of the property itself.

According to Latvian valuation standards, regardless of the choice of approach in a given valuation, which is determined by all methods, the result must be one - an objectively determined market value (if all calculations are based on market information). In practice, it has been found that these valuation approaches most often produce slightly different results, which requires an analysis and alignment of the calculation results.

The final reconciliation of the results is based on a mathematical weighting approach, which involves assigning a weight (confidence) level (expressed as a percentage) to the result obtained from each approach used in the valuation and calculating a weighted average, which is then taken as the market value of the property;

The reconciliation of calculation results is not a simple mathematical process, but a consideration of the suitability of each approach and an analysis of the reliability of the results obtained in valuing a specific property and determining the final market value.

The following provides some insight into the approach used to calculate market value.

Market approach

The approach is based on the assumption that a knowledgeable buyer will not pay more for a given property than the amount of money for which he could buy another property of similar quality and use on the market. Data on sales/offers of properties similar to the subject of the valuation are identified and analysed. In order to calculate the market value of the property to be valued, the price of the selected comparables is adjusted for any differences from the property to be valued and compared.

The factors considered in the calculation and on which adjustments are made can be divided into the following groups: ownership rights, changes in market conditions, financing conditions, transaction conditions, location, physical characteristics (size of land and buildings, technical condition, amenities, etc.);

permitted use and economic factors (lease agreements, management restrictions, mainly for commercial properties).

The calculation of the market approach can be conditionally divided into the following steps:

- Market research to obtain information on transactions and sales offers for properties similar to the subject of the valuation;
- Analysis of this information to determine whether the information obtained is accurate and whether the sales are commercial transactions;
- Choosing an appropriate unit of comparison (e.g. euros per square metre) and benchmarking against these units;
- Comparing the property to be valued with the market using various benchmarks, resulting in an adjusted price for each comparator;
- Determination of the unit value of a valuation comparison object, multiplied by the number of units to obtain the value.

Income approach

In the real estate market, income-generating real estate is viewed as an investment from the investors' point of view, and the Income Approach is based on this principle. The Income Approach is therefore particularly suited to the valuation of properties purchased as investment properties.

The income approach is based on the assumption that a typical investor/buyer operating in the market purchases real estate with the expectation of receiving an income from it in the future. In other words, value can be defined as the present value of the right to future benefits. The income approach determines the market value of real estate by identifying and analysing the net income that the property can generate for its owner if it is rented out. If the valuation objective is to calculate market value, the income capitalisation or cash flow discounting approaches should be based on market values for real cash flows and rates of return.

When buying an income-generating property, an investor counts on the recurring income stream generated by the property, as well as the potential future appreciation of the property. As real estate is a long-term investment, the income approach analyses an infinite cash flow. In order to take account of the fact that the expected income, as well as the income from the sale at the end of the period, is generated over a longer period of time, the valuers' task is to translate this periodic income stream into today's value. This process is called *discounting* in real estate valuation, and the rate used to convert the future income into today's value is called the *discount rate*.

It follows from the above that the value of the property is calculated by making a forecast of long-term income and the calculation is made using the following formula, called the *discounted cash flow*:

$V= {}_{NOI1/}(1+i)^1 + {}_{NOI2/}(1+i)^2 + {}_{NOI3/}(1+i)^3 + {}_{+NOIn/}(1+i)^n$;

where NOI - annual net
income; i - discount rate;
n - number of income periods to be considered.

As mentioned above, in the valuation of income-producing property, the value is represented both by the recurring income from its management and by the income from its future sale at the end of the investment period. The return on the future sale of the property is called the reversion because it represents the expected return on the capital invested at the end of the investment period. The reversion value is defined as the expected return on the sale of the property, calculated by deducting the costs of the sale (brokerage costs) from the probable sale price.

If the cash flow generated by the property is stable and constant, mathematical transformations result in a simple formula called *direct capitalisation*:

V=NOI/ R

where NOI - annual net
income; R - capitalisation rate.

The characteristics of the cash flow are the most important factor in the choice of calculation method:

Direct capitalisation is used when the property being valued is capable of generating stable cash flows at the time of valuation (it meets best use conditions, does not require significant capital investment, is not expected to increase rents or expenses, etc.).

Cash flow discounting is used when the projected cash flow is time-varying (cash investment is required to optimise the use of the property, or changes in expected future income (both increases and decreases) are expected, or in other words, the income stream from the property is variable when analysed several years (periods) in advance). The number of calculation periods depends on the stabilisation period of the projected cash flow.

Income consists of all the income that the owner derives from the property over the period of ownership, which in real estate valuation is most often the rental income from the premises/land, less any expenses related to the maintenance and management of the property.

If the valuation exercise is a market value exercise, the projection of income/expenditure streams should be based on average rents and management costs in the property market, taking into account the specific characteristics of the property being valued, including liabilities.

The annual net revenue under the income approach is calculated as follows:

- calculate the potential gross income from renting or leasing the property;
- subtract from the potential gross revenue the losses due to non-letting of premises and non-collection of rent or rents; and add other revenue generated by the property being valued, resulting in the effective revenue generated by the property;
- subtract from the real gross revenue all expenses related to the operation of the facility - property tax, insurance, personnel costs, deductions to the replacement reserve fund, etc. - to arrive at the net (net) revenue.

The yield and its determination is an important variable in the calculation of the income approach. Rates of return can be divided into rates of income and rates of return.

The capitalisation rate, in real estate valuation terminology, includes the return on the capital invested as well as the return on the capital invested. The return on invested capital includes compensation for the change in the time value of money and other factors related to the specific investment.

The discount rate is the rate used to convert a future cash flow into today's value, or vice versa. The discount rate, unlike the capitalisation rate, does not include expected capital gains.

Discount and capitalisation rates are determined by assessing the state of the financial and real estate markets and the risks associated with the management and disposal of the property. In practice, the most commonly used methods are the market rate method (analysis of yields on sold properties of a similar nature), the cumulative method (determination of the capitalisation rate by adding to the risk-free rate the risks associated with the liquidity, management and return of the investment), the Ring, Inwood or Hoskold investment return methods and the return on own capital (borrowing capital) analysis.

Cost approach

The cost approach is a comparison based on the assumption that a knowledgeable investor will not pay more for a property than the amount of money for which he could acquire an equivalent plot of land and build a building of similar quality and use.

The cost approach calculates the replacement or substitution value of the improvements to the site, less depreciation, and adds the land value to the result.

In the cost approach, the following steps are taken:

- The market value of the plot is calculated assuming that it is free of any improvements and can be used to its best and most efficient use;
- Estimated replacement costs for improvements to the site;
- Calculated wear and tear due to physical wear, functional obsolescence or external factors;

- Depreciation is deducted from the replacement cost of the improvements to arrive at the residual replacement value of the improvements to the land; and
- The land value is added to the resulting residual replacement value to give the property value.

In the cost approach, all parameters are taken from open market data. Construction costs are determined by considering the average construction costs at the time of valuation, while the land value is calculated using the market approach. Losses in value are represented by the following forms of depreciation:

Physical deterioration - the degree of deterioration of structures and materials due to various factors (physical and chemical
exposure, overloading, incorrect operation, etc.)

Functional obsolescence - the inadequacy of the characteristics of buildings and structures to the existing market standards and perceptions of the type of real estate under consideration (outdated utilities, unfashionable layout).

Economic (external) depreciation - describes the change in the value of a property caused by external circumstances, not directly related to the property itself, that have a significant effect on the saleability of the property. These conditions affecting value may be technical or economic in nature.

11. Choice of valuation approach and calculation process

Taking into account the nature of the object to be valued, the type of use and the amount of market information available, the valuers consider that the market value can be determined using the income approach, as a cash flow analysis will most accurately reflect the value of the real estate in the current market conditions.

The market approach is complicated by the lack of sufficient and objective information on transactions with similar properties - aircraft maintenance hangars on leased land. Each site is unique and different, with the sale price largely influenced by geographical location, technical characteristics, competition. Buyers of industrial assets purchase on the basis of an analysis of their projected operating cash flows and on the basis of their own financial considerations. Consequently, the purchase and sale amounts vary considerably. The valuers consider that the analysis of market information on objects which are not fully comparable to the object of valuation can only provide indicative results which may serve for the formulation of a general opinion, not for a precise value calculation. On the basis of the above considerations, the valuer does not use the market approach method of comparing market data in its calculations. Market data is used by valuers in the calculation of value using the income approach.

The cost approach is not applicable in this particular valuation case, as the valuers consider that the replacement cost of an equivalent development does not reflect the likely market value of the site. In the regions, typical industrial sites have selling prices below the investment made in their construction. As things stand, replacement costs are indicative of the price level towards which market values tend, but market data do not confirm that construction costs are in line with market values.

Value calculation using the income approach

The income approach determines the current value of a property based on the expected income that could be earned from the best use of the property. The object of the valuation is a potentially income-producing property: a building of an industrial nature.

Revenue forecast in cash flow:

Potential annual income is defined as the rental income (excluding VAT) from the premises, multiplied by the area of the premises to be rented multiplied by the rent calculated for it.

The valuers, analysing the rents currently on the market, concluded that:

- Currently, rents for industrial space have stabilised on the market;

- no rent increases are foreseen in the coming years.

The calculations assume rents (without value added tax) in accordance with the free market situation, by analysing the rental rates and conditions of leased and offered premises (based on SIA LATIO's current market information for similar objects at the time of valuation). The average rent for aircraft maintenance hangars (MRO) or hangars suitable for aircraft parking in European and North American airports is EUR 4.0 - 9 per sq.m. + VAT + utilities.

The most feasible rent for the premises has been set at EUR 4.$^{4/m2/month}$. In determining the potential rents for the subject of the appraisal, the appraisers took into account the location of the premises, the best use of the premises, the size of the premises, the technical condition of the premises:

Indicators	Object of evaluation	Object No 1	Object No 2	Object No 3
		Liepaja	Liepaja	Liepaja
		Newly built industrial building	New industrial building	Newly built industrial building
	Airport area		SEZ area	SEZ area
Total indoor area of the building, m²	**1 196,6**	**3 184,8**	**11 000,0**	**12 520,6**
incl. office, service and ancillary space, m²	0,0	0,0	107,5	0,0
Contribution of offices, service and ancillary space to total floor area, %	0,0%	0,0%	1,0%	0,0%
Rent of premises, EUR/m²/month		**4,6**	**3,58**	**3,90**
Area of premises		2%	9%	10%
Location in the city/district		0%	0%	0%
Technical condition of the building		0%	3%	3%
Use of premises, office space		-5%	-5%	-5%
Special factors, ceiling height		5%	5%	5%
Location within the SEZ		0%	0%	0%
Total adjustment		2%	12%	13%
Adjusted full rent per 1m^2		4,69	4,01	4,41
Coefficient of weight	100%	33%	33%	33%
Impact on estimated rent, EUR		1,56	1,34	1,47
Estimated rent of the object to be valued, EUR	4,37			
Rent (rounded), EUR/m²	4,40			

The most feasible rent for the premises has been set at EUR 4.$^{4/m2/month}$.

The calculations also take into account occupancy risk, which takes into account both the potential loss in the event of non-occupancy and the potential loss due to non-payment of rent -0.95.

Expenditure projected in the cash flow:

It is expected that the owner will be charged for the costs, in accordance with the terms of a typical lease agreement. Utilities (electricity, water, heat, garbage disposal, etc.), maintenance costs, in accordance with sanitary, fire safety, environmental protection requirements, are expected to be paid by the tenant in addition to the rent (at the existing tariff or actually consumed). The owner of the facility will be liable for building insurance expenses, ground rent, real estate tax payments, as well as general facility management expenses and capital expenditure for which a replacement reserve is to be set up.

The expenses attributable to the owner for the management of the valuation object comprise both fixed expenses (property tax, insurance, maintenance of the structural elements of the building and the engineering networks) and

maintenance, etc.), which are independent of the number of tenants - i.e. income - as well as variable expenses directly proportional to the amount of space leased.
Having assessed the situation in the real estate market, the object of valuation and taking into account the existing legislation, we have concluded that:

- management costs of the facility not borne by the lessee are assumed to be EUR 1/m2 per month;
- real estate tax is assumed at 1.5% of the cadastral value;
- the land plot with a total area of 5 300 m² attached to the building is owned by the Limited Liability **Company "AVIASABIEDRĪBA "LIEPĀJA""**. The building right is valid until 08 October 2048. The remuneration for the building right is set at EUR 0,1 per 1 ^{m2} per year, including value added tax. The land rent is based on the development right agreement and amounts to a total of EUR 6 360 per year (excluding VAT).
- The insurance payments for the building are set by the valuers according to the market situation - EUR 500 per year;
- The replacement reserve or provision for capital investment is assumed to be 7% of income, based on market averages.

Net rental *income*, after deducting expected allowable expenses, indicates the probable profit that the owner could earn from leasing the property.
As the subject of the valuation is expected to have a term cash flow, the valuers used the discounted cash flow technique of the income approach to calculate the value. One period of the cash flow is assumed to be 1 year. The cash flow projection period is assumed to the end of the ground lease. The ownership of the development (under the development right agreement) is assumed to be until 08 October 2048. The cash flows generated by the facility during the lease period, i.e. while the ownership and use rights to the buildings are in place, are included in the calculations; at the time of the valuation, the remaining lease period is 294 months.

At a specified future period, net income is converted to its present value using a discount rate. The sum of the present values of the income in the individual periods represents the capital value. The rate reflects the investor's expected return, or yield, changes in value over time, as well as the uncertainty of the income stream and the rewards associated with the risks.

Discount rate calculation with WACC - Weighted average cost of capital

	Developer funds	Borrowed funds
Amount of capital	30%	70%
Annual rate of return on capital	11,00%	6,70%
Capital effects	3,30%	4,69%
Aggregate rate	**8,0%**	

*- the discount rate for equity is determined in consultation with market participants, industry experts and Latio's commercial sales specialists.

Value calculation using the Income Approach

		Data	Rate	
Market rent for premises (per month)	EUR/m²	1196,6		4,40
Market rent for technical premises (per month)	EUR/m²			0,00
Area of the attached plot	m²			5 300
Real estate tax on land	EUR/year		1,50%	5
Real estate tax for a building	EUR/year		1,50%	332
Building insurance premium	EUR/year			500
Total floor area, incl.	m²			1 196,60
MRO hangar	m²			1 196,60
Gross rental income	EUR/month			5 265
Gross rental income	**EUR/year**			**63 180**
Gross rental income (per 1 m² of indoor space)	**EUR/m²/year**			**52,80**
Rental risk (occupancy)				0,95
Effective rental yield	**EUR/year**			**60 021**
Development right fee	EUR/year			6 365
Management and maintenance costs attributable to the building owner (1 EUR/m2 per month)	EUR/year			718
Management and maintenance costs attributable to the building owner	EUR/m²/month			0,05
Expenditure on administrative management	EUR/year		2,00%	1 200
Expenditure on administrative management	EUR/month			100
Administrative expenses (per 1 m² of indoor space)	EUR/m²/month			0,08
Renewal reserve (% of total revenue)	EUR/year		8,00%	4 802
Total annual owner's expenditure related to the site	**EUR/year**			**13 923**
Expenditure per 1 m² of indoor space	**EUR/m²/year**			**11,64**
Expenditure as a share of revenue	%			22%
Net income per year	EUR/year			46 099
Duration of the real estate right months				**294**
Net income per month on average	EUR/month			3 842
Annual rate of return	%			8,0%
Monthly rate of return	%			0,0067
Value of the term cash flow (PV-property value)	EUR			497 835
Rounded market value of the object	EUR			**500 000**
				418

12. Sale and pledge options

The valuers are not aware of any impediments to the sale or mortgage of the subject of the valuation.

13. Declaration of independence

The calculations of the market value of the real estate were carried out by SIA "Latio". Latio SIA has been granted a certificate for real estate valuation No 3 issued by the Competence Supervision Bureau of LĪVA. The real estate was inspected and the valuation was based on its actual condition as of 07 March 2024. The property was visited by Toms Blate, a certified valuer of Latio Ltd. Latio Ltd as a company and its individual valuers have no interest in increasing or decreasing the value of the property.

We hereby declare that, based on our knowledge and belief:

- we have presented the information we have received truthfully,
- conclusions are based on the evaluators' personal experience and objective analysis,
- our payment is not dependent on the value of the object,
- we have no present or prospective personal interest in the property being valued, and no interest in or bias against the parties involved in the property being valued.

14. Conclusion

Please be informed that according to the market situation as at the date of inspection and valuation, 07 March 2024, the estimated value of the **object to be valued:**

- **market value** of **EUR 500 000 (five hundred thousand euro);**
- **the value of the forced sale** is **EUR 400 000 (four hundred thousand euro)** with a selling period of 9 (nine) months.

Tom Blate
SIA "Latio" real estate appraiser
Certificate of professional qualification No 148

Latio
Nekustamie īpašumi

Real Estate Appraisal

Costumer Air Baltic Corporation AS

Marupe municipality, Riga Airport, Pilotu street 6

Cadastral No 8076 502 0026

THE DOCUMENT IS ELECTRONICALLY SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP.

Latio
Nekustamie īpašumi

Riga, 15 March 2024
Reg. No.V/24-778
On real estate
Marupe municipality, Riga Airport, Pilotu street 6, evaluation

Air Baltic Corporation AS

Dear company representatives!

We have carried out a valuation of the real estate with cadastre No 8076 502 0026, located in ***Mārupe municipality, Airport "Rīga", Pilotu street 6*** and registered in the Land Register of Mārupe region No 1000 0043 6386.

The immovable property consists of - SAS Training Centre building (registration number 80760020007044).

The building is connected to a part of the land plot, cadastral number 8076 002 0007. The land plot is registered in the Land Register of Marupe municipality, Section No 206. The owner of the land is SJSC Riga International Airport. The land is not part of the object being valued.

The purpose of the valuation is to provide the Customer with an opinion on the market value of the object to be valued on the date of the inspection. The valuation shall be based on the concept of best use in accordance with the definition of market value. The market value is determined using the income approach.

The purpose of the valuation is to produce a valuation for the purposes of securing the loan. The valuation may not be used for the purposes of other legal or natural persons without the written consent of the valuers.

Latio SIA confirms that we have no present or prospective personal or material interest in the subject property, and no bias against any parties related to the subject property.

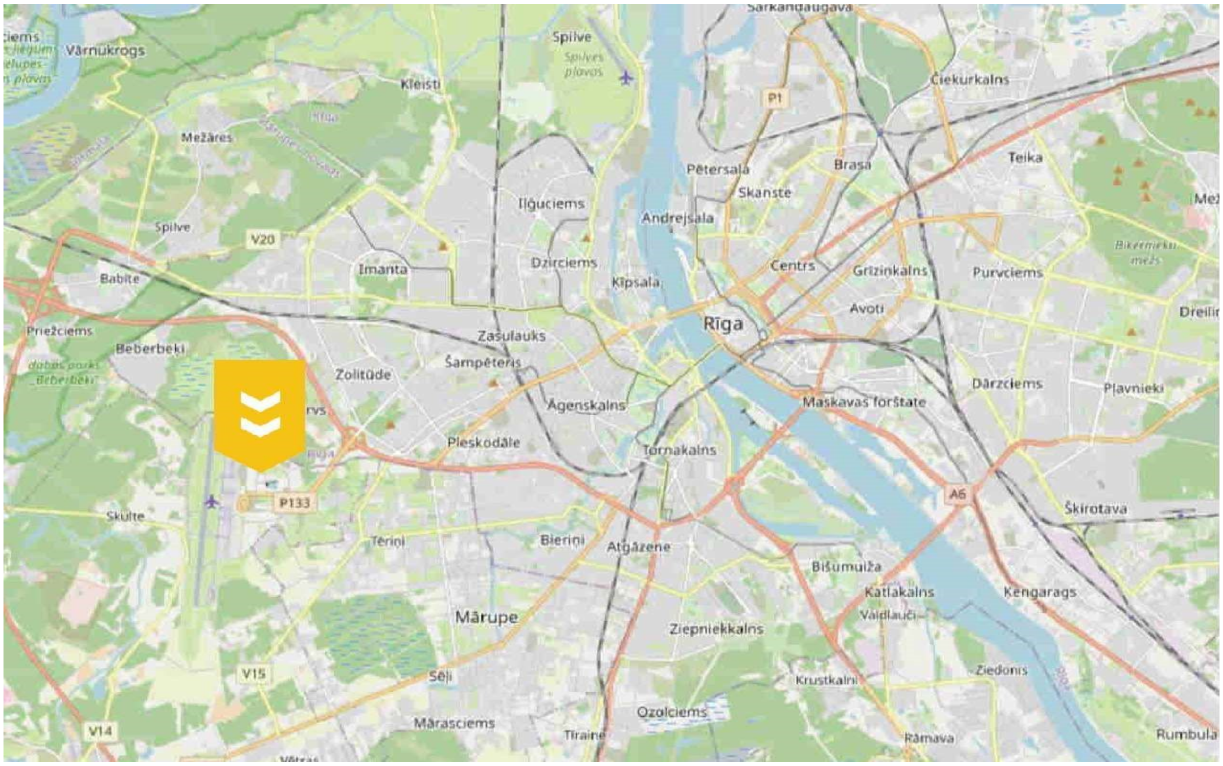
Please be informed that according to the market situation as at the date of inspection and valuation on 11 March 2024, the estimated:

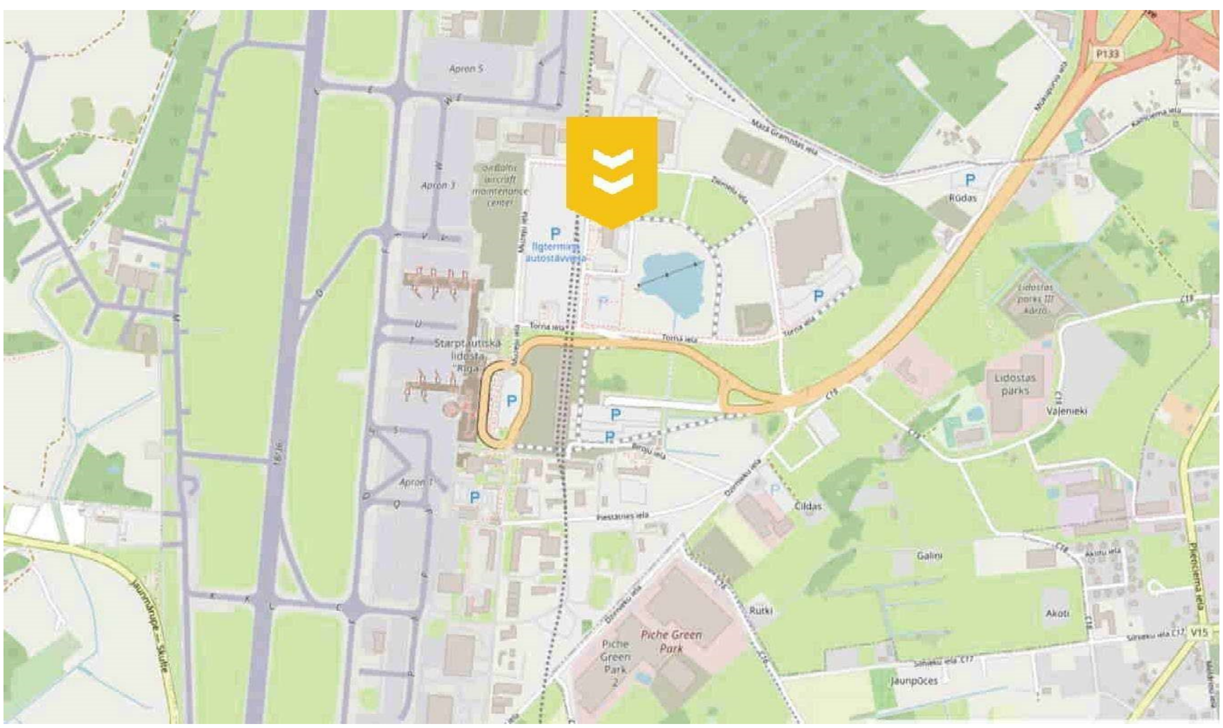
- ***market value*** of ***EUR 2 030 000 (two million thirty thousand euro),***
- the value of the forced sale is ***EUR 1 500 000 (one million five hundred thousand euro)*** with a selling period of up to 9 months.

Sincerely,
Edgars Šīns
Chairman of the Executive Board of Latio SIA
Certificate for real estate valuation No.3 issued by the Competence Supervision Bureau of the LĪVA

Contents

1. Map location of the object to be assessed





Source: openstreetmap.org

2. Photos of the object to be assessed

View of the valuation site from the access street

View of the valuation site from the access street

View of the valuation site from the driveway

View of the parking area from the driveway

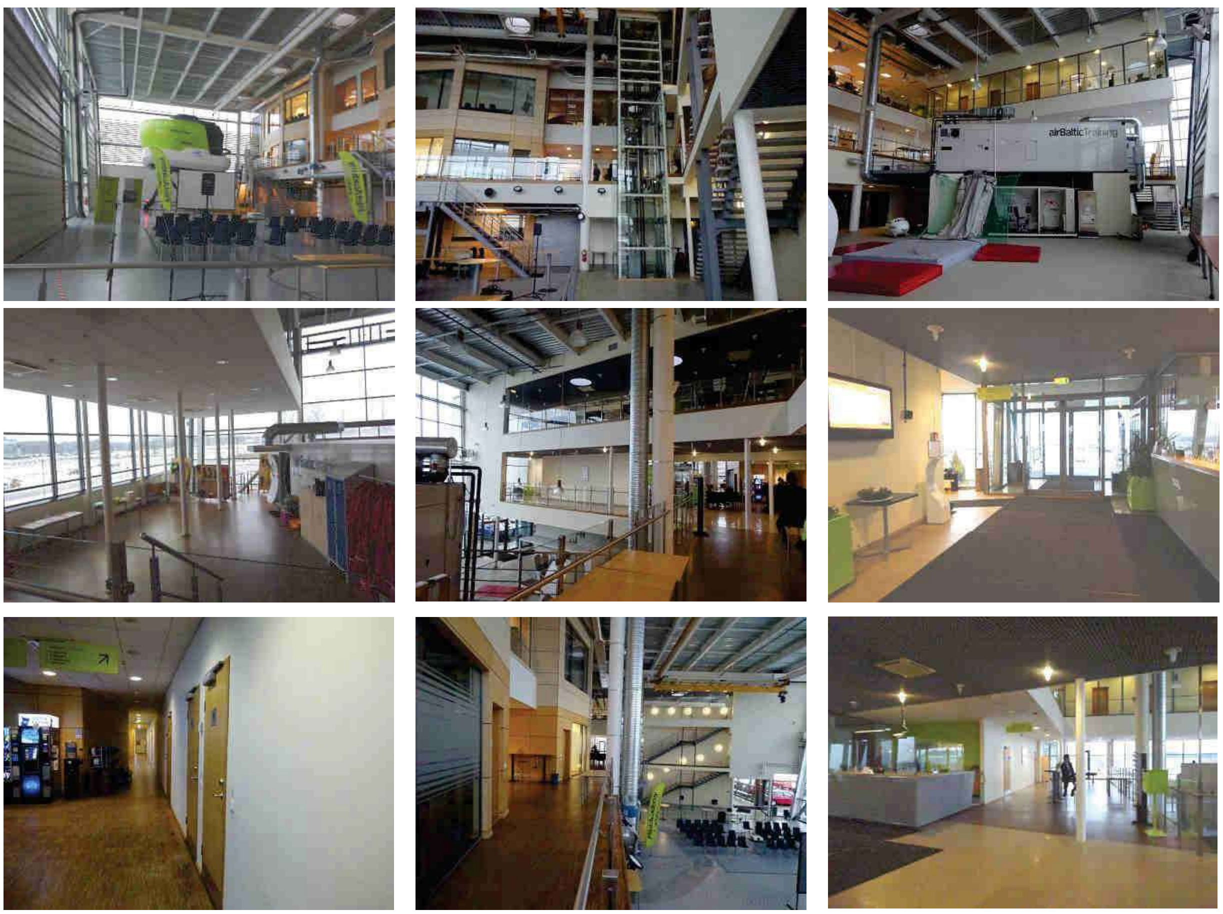
View of the valuation object from the courtyard

View of the valuation object from the driveway

View of the valuation object from the courtyard

View of the outbuildings on the plot - boiler house and transformer

Indoor areas of the valuation object




airBaltic




Ventilation equipment

Heating Unit

Heating boiler in adjacent building

Electrical distribution

Pumping station

3. Key information

Object to be assessed	3-storey pilot training centre building (lit.nr.044) located on a leased plot
Evaluation objective	Determine the market value of the valuation object for the purposes of securing the loan
Property address	Marupe municipality, Riga Airport, Pilotu street 6
Property cadastre No./land register division No.	8076 502 0026/ 1000 0043 6386;
Property rights	AS Air Baltic Corporation (NMK 40003245752)
Land Plot	Buildings is related to a long-term lease plot of land with an area of 13 866 m2 (land parcel with cadastral number 8076 002 0007 8017, which is part of the land parcel with cadastral number 8076 002 0007). The owner of the land is SJSC Riga International Airport. The lease agreement was concluded in 2005 for 49 years. The current rent is EUR 2.63/m2 per year (excluding VAT), the land tax is borne by the land owner.
Buildings, total area	3-storey pilot training centre building (cadastral number 80760020007044) with a total area of 3326 m2
Additional buildings on the plot	On the land plot attached to the valuation object there are two auxiliary buildings functionally connected with the main building - a boiler house (registration number 80760020007045) and a transformer substation (registration number 80760020007046). Both of these auxiliary buildings provide heating and electricity for the operation of the main building. These auxiliary buildings are not registered in the Land Register of Mārupe Parish. In the Cadastre Register of the State Land Service of the Republic of Latvia "Oxford Aviation Academy Latvia", SIA, which was also the original owner of the valuation object, is registered as the owner of these auxiliary buildings. It is likely that the re-registration of the ownership of the ancillary buildings in the change of ownership transaction was not recorded due to an error. Within the framework of the valuation, the above-mentioned auxiliary buildings are included in the valuation object, assuming that there is no dispute over their ownership and they belong to the owner of the valuation object, AS "Air Baltic Corporation"
Existing use	The building was constructed and is used for the specific function of a pilot and crew training centre with a flight simulator, training and office space, and functional technical support facilities. The building is fully used and occupied on the day of the visit, with training rooms, office-type spaces, functionally necessary workshop/storage and domestic spaces. The office and training rooms are equipped with technical equipment in line with modern standards. The building has a cafeteria, which is also open to external users. The development involves an optimum sized, leasehold plot. The vacant parts are used as driveways, necessary car parking areas, green areas.
Best use	The evaluators consider that the existing use is in line with the best use. The structural design, layout and use of the building allows it to be classified as an office/representation type building with a large showroom, office space and functional workshop/warehouse type space.
Encumbrances	-

Lease agreements	07.02.2020. Lease agreement with SIA "Air Baltic Training" for the lease of a part of the building with an area of 2123 m2. Valid until 31.12.2022. Automatic extension for 1 year. Rent (including management fee and use of 13 parking spaces) - EUR 14 060/month (excluding VAT, utilities). Valid.

	01.01.2013.Lease agreement with SIA "Airo Catering Services Latvija" for the lease of café premises with an area of 285.3 m2. For an indefinite period. Current rent EUR 1551 per month (excluding VAT, utilities). Valid.
Market value	**EUR 2 030 000**
Value under forced sale conditions	**EUR 1 500 000**
Date of site inspection and valuation	11 March 2024
Date of the valuation report	15 March 2024
Alterations/other information on property documents	Not detected
Special conditions	
Assumptions	The functionally related auxiliary buildings (cad.no.8076 002 0007 045,...046) located on the land plot are part of the valuation object and the ownership rights to them of AS "Air Baltic Corporation" are not disputed.
Specific assumptions	
Information used in the evaluation	• Copy of the Land Register of Marupe Municipality, Section No. 100000436386; • On 30 August 2005, the State land plot "International Airport Land lease agreement No NN-05/74 for part of "Rīga"; • 29.01.2010.Land lease renewal Agreement No NN-10/21; • 2016 Renewal Agreement to 30.08.2005 NN-05/74 and 29.01.2010 Land Renegotiation Agreement NN-10/21; • Current land rent invoice (2024 01.03-.31.05); • Copy of the Technical Inventory File of the LR VZD; • Copies of valid rental contracts, current payment invoices; • Information available in the Cadastre Registry of the State Land Service of the Republic of Latvia is used.

4. Object of evaluation

The valuation is provided for the immovable property with cadastre No 8076 502 0026, located in ***Mārupe municipality, Airport "Rīga", Pilotu street 6*** and is registered in the Land Register of Mārupe municipality No 1000 0043 6386.

For the purposes of the Valuation, the real estate or the Valuation Object is:

- SAS training centre building with registration number 80760020007044, total area of 3326 m2.

The building comprising the Subject Property is connected to a leasehold plot. The leased land plot with an area of 13 866 m2 (land parcel with cadastral number 8076 002 0007 8017, which is part of the land plot with cadastral number 8076 002 0007) is transferred to the lessee for the construction and operation of an airline pilot and crew training centre, as well as for the lessee's business activities after the buildings are put into operation. The appraisers have been provided with the Land Lease Agreement No NN-05/74 of 30 August 2005 and the Land Lease Renewal Agreement No NN-10/21 of 29 January 2010. The ownership of the land plot has been registered in the Land Registry Department of Marupe Municipality in the name of SJSC Riga International Airport, section No 206. In addition, the 2016 Renegotiation Agreement to the Agreement dated 30.08.2005 is submitted. NN-05/74 and Land Renegotiation Agreement No NN-10/21 of 29.01.2010.
The lease agreement is concluded for a period of 49 (forty-nine) years. The rent shall be EUR 2,63/m2 per year (excluding VAT). Land tax shall be paid by the lessor.
The determination of the market value of the land to which the above buildings and structures are connected is not the purpose of the calculations.

The documentation submitted by the client, as well as the site survey and the information available in the Cadastre Register of the State Land Service of the Republic of Latvia are used as the basis for determining the composition of the immovable property.

5. Characteristics of the object to be assessed

5.1. Location.

The land plot on which the Object is located is located in Marupe municipality, in the territory of Riga Airport. The territory under consideration in Marupe municipality is located between the settlements of Skulte and Stīpnieki and is located ~ 3 km away from K.Ulmanis Avenue, 13 km away from the Riga city centre.
This is the part of Marupe municipality where the surrounding areas of formerly agricultural land are interspersed with isolated woodlands. The surrounding area consists of individual farmsteads, as well as newly built and reconstructed administrative/warehouse type buildings along the airport access road. Overall, the built-up area is not dense, but the use of the land is gradually increasing. Over the last 5-7 years, the development of the areas adjacent to the airport has increased significantly. A significant part of the new construction consists of new logistics centres with office/warehousing space leased to various users. Active construction and development of the surrounding areas is also planned in the coming periods.
Riga Airport covers an area of ~630 ha in Marupe municipality and is the largest air traffic hub in the Baltic States. Over the last 10-15 years, Riga Airport has been undergoing targeted development. While until now the main focus has been on the development of the airfield and passenger air services infrastructure, since 2019 projects have been launched to develop the passenger services infrastructure and the cargo sector.

In January 2019, Riga Airport launched the first stage of the ambitious development project, which will result in the construction of a new passenger terminal with a capacity of 10 million passengers per year within five years, by signing a contract for the development of the construction design and supervision of the 6th stage of the passenger terminal expansion.

In early 2024, Riga Airport will start implementing ambitious development plans - construction of a new passenger terminal and the creation of *RIX Airport* City.

The new terminal building at Riga Airport will be sustainable, modern and ergonomic to improve passengers' travel experience. The future-proof passenger check-in hall, security and border control area, shops and cafés, baggage handling complex, new access roads, multi-storey car park and connection to the Rail Baltica station will replace the existing short-term car park and access ramp. Construction of the terminal should start in the second half of this year and be completed by the end of 2028. The total construction area will be more than 45 000 m2 and the investment is estimated at €167 million.

RIX Airport City will be a new mixed-use city next to Riga Airport, with hotels, offices and retail space, as well as a variety of services for passengers, cargo handlers and local residents on a 24-hectare site. It will be a new type of city and a self-sufficient destination with easy and fast access by road, rail and air to Riga city centre, other Latvian cities, the capitals of the other Baltic States and the rest of the world.

The launch of the Rail Baltic project is also an important addition to the airport's development.

The Valuation Object and the land plot attached to it are located in the territory of Riga Airport, close to the main terminal, in the area of the planned business park. Overall, the location of the Evaluated Object in the territory of Riga Airport is considered to be good.

The airport area also has local infrastructure facilities such as bank branches, small cafés and retail outlets. The office/warehouse centre "Elipse-BLC", the sorting complex of "Latvijas Pasts" are located in the vicinity of the valuation object.

The airport is connected by bus route 22, which runs every 15 minutes. The journey takes about 40 minutes. The bus stop is located at Ziemeļu Street, ~ 300m away. The public transport connections in the district are satisfactory.

Bird's-eye view of the location of the assessment site and the surrounding built-up area, using data from www.bingmap.com.

5.2. Characteristics of the plot

The object of valuation is functionally connected with the land parcel with cadastral number 8076 002 0007 8017, which is a part of the land parcel with cadastral number 8076 002 0007.
The size of the land plot is 13866 m^2.

Copy from the Cadastre Reģistry of the State Land Service

The buildings comprising the valuation object are located in the central part of the plot, on a small hill. The site is not specifically demarcated from adjacent streets and is freely accessible. Only the landscaped areas to the eastern elevation of the building and the car parking area on the southern side of the site are enclosed by barriers across the entrance.

The majority of the undeveloped part of the site is landscaped as green space with manicured lawns, some perennial deciduous tree cover. The landscaped parts of the site are surfaced with concrete paving stones and asphalt.

Plot with rational configuration, heterogeneous topography.

In addition to the valuation object, the plot also contains two functional auxiliary buildings/structures - a boiler house and a transformer, which support the operation of the valuation object. These ancillary buildings are included in the valuation object.

In general, the area of the plot attached to the development included in the valuation object is well maintained and landscaped.

5.3. Characteristics of the buildings

3-storey SAS training centre building (cadastral designation 8076 002 0007 044).
General description of the building, including a description of the layout.
The design of the building, which has an analogue in Oslo, was developed jointly by the V. Zarins design bureau and Norwegian partners from the Stein Halvoren AS design bureau. *RE&RE* started construction in April 2006 and completed the project in late summer 2007. The building has been commissioned and fully inventoried.
Architecturally, the most characteristic feature of the building is its transparency, achieved through the use of glass, concrete and wood cladding. The building is characterised by sloping facades, large cornices, chaparral facade copings and overlight domes. All this, together with the building's peculiar position - it is partly set into the hillside - makes it unique.
The main façade of the building, which faces the main airport building and the runway, has only two floors and appears to be situated on a small mound. The glass wall on the rear elevation, on the other hand, reveals all three floors of the building. The ground floor contains the pilot and crew training simulator/flight simulator rooms, the simulator control rooms, storage rooms, utility (showers, toilets) and technical (ventilation, electrical, pumps, etc.) rooms. Three sliding gates are installed in the glass facade of the building to allow the installation of bulky equipment. The simulator/training room, which is ~843 m^2, is 11.5 m high, extends over all three floors and is located at the rear (east) of the building. A large open staircase and passenger lift are located in the centre of the building. The second floor contains the main front entrance with reception areas, six classrooms, four briefing rooms, halls and necessary toilet facilities. The third floor contains offices, meeting rooms, a cafeteria and a hall, as well as four offices, each with its own sanitary facilities.
The domes and skylights along the entire length of the façade create a particularly distinctive impression. The domes additionally house a sprinkler system for fire protection. The building also has other special technical features such as sound insulation of up to 60-50Db, special air-conditioning and ventilation, and a light supply system.
On the day of the visit, the building was in good condition, fully equipped and used intensively for its intended function.
Total area of the building
3326 m^2. Building area
1811m^2.
Building volume 21 367 m^3
Indoor heights range from 2.3 m (technical rooms), 2.9 m (offices), 3.25 m (classrooms) to 11.5 m (gym).
The building has an area of 3326 m^2 and is divided by functional use as follows: office type premises and functionally related ancillary spaces (corridors, halls, sanitary and hygienic rooms) - 1090.2 m^2; gym - 842,6 m^2, cafeteria area with ancillary space in the plinth - 285,3 m^2, workshop/storage ancillary space - 405,9 m^2, common corridors, staircases, lifts, sanitary facilities - 321,20 m^2, technical ancillary space - 217,9 m^2, outdoor space - 162,9 m^2.
Description of the technical condition of the building.
The building's structural elements, internal finishes and provision of utilities (the technical condition of the building's existing basic structural elements is generally good):

- foundations - reinforced concrete/concrete;
- External walls and load-bearing partitions - reinforced concrete/metal constructions;
- exterior finishes - concrete, glass and wood

- roof construction - metal structures;

roofing - metal sheets;

- Window openings - double-glazed units in light-metal frames;
- gates - overhead metal structures;
- doors - wooden, metal, double-glazed;
- stairs - concrete steps, metal handrails;
- interior decoration - varies according to the function of the premises, but generally in good condition (with natural wear and tear during use):
- Floors - parquet, concrete, tiles, linoleum;
- walls - painted, wood veneer panels, tiling;
- Ceilings - suspended ceiling structures, skylights;
- sanitary facilities - in good condition, additional toilet facilities for people with disabilities on each floor special needs;
- external engineering networks:
- connection to a centralised electricity supply network
- connection to centralised water supply and sewerage networks;
- connection to the centralised gas supply network
- internal engineering networks:
- lighting and contact power supply network
- sewerage system - network of sewer lines;
- heating - autonomous heating system with a heat hub and convector type heating elements (from a separate boiler house located in the territory);
- air conditioning - Cool Line Chiller System (Italy)
- Forced Ventilation System - IV Product (Sweden)
- fire alarm and alarm system with smoke detectors and sprinklers;
- computer, telephone and TV networks
- video surveillance system
- security alarm and access control system
- automatic control system for engineering systems (BMS)
- heating and cooling system management
- electric current generator.

The technical inventory of buildings issued by the Lielrīga regional division of the State Land Service of Latvia (LR VZD), information from the Cadastral Register of the State Land Service of Latvia (LR VZD Cadastral register), as well as a field survey of the object under assessment are used as the basis for determining the composition of the immovable property.
The valuer did not find any significant differences when inspecting the property and comparing the condition on the ground with the submitted documents.

6. Definition of values

Market value is a calculated figure - the amount of money, determined at the valuation date, for which a property should change hands in a commercial transaction between a willing seller and a willing buyer, after appropriate marketing: this assumes that each party acts competently, with calculation and without coercion. /LVS 401-2013/.
Forced sale. The term "forced sale" is often used when the seller is forced to sell and thus does not have enough time to make a proper offer. In such circumstances, the price to be obtained depends on the nature

of the seller's difficulties and the reasons why adequate marketing cannot be carried out. It may also reflect the consequences that would arise for the seller if it were unable to sell the asset within a given time. If the nature of the seller's difficulties or the reason for them is unknown, it is not possible to make a realistic prediction of the price to be obtained from a forced sale, the price at which a seller agrees to sell an asset in a forced sale reflects the circumstances of the transaction, rather than the behaviour of a theoretical willing seller within the definition of market value. "Forced sale" is a description of the situation in which an asset is disposed of, not a different basis of value. /GAS 401-2013/ The ***best and most efficient use of*** an asset is the use that obtains the maximum benefit and that is practicable, legal and financially feasible. The market value of a property will reflect its best and most efficient use**. The** best and most efficient use may be the same as the current use of the asset, or there may be an alternative use. It is determined by the use intended by the market participant in determining the price it would be willing to pay for the asset. /EN 401-2013/.

7. Characterisation of the market situation and determination of a possible sale date

Economic characteristics

The euro area's economic growth has stalled. The main negative factors are the geopolitical environment, the previous high inflation, the sharp rise in interest rates aimed at curbing high inflation and the contraction of the export market.

In view of the easing inflation in the euro area, the Governing Council has decided to continue the normalisation of the Eurosystem's balance sheet by starting to reduce the temporary pandemic emergency asset purchase programme portfolio by an average of €7.5 billion per month in the second half of 2024 (Bank of Latvia).

According to the Central Statistical Office (CSO), gross domestic product (GDP) in Q3 2023 is estimated to have decreased by 0.7% on a seasonally and calendar adjusted basis compared to Q3 2022. Compared to Q2 2023, GDP increased by 0.2% on a seasonally and calendar-adjusted basis.

In terms of GDP change from the production side, the largest declines in Q3 2023, compared to the same quarter of the previous year on a seasonally and calendar unadjusted basis, are in the finance and insurance and agriculture sectors. The largest positive contribution to overall economic development (+0.9 percentage points) came from the substantial growth of the construction sector (16.1%).

In Q3 2023, the transport and storage sector recorded a 9.8% drop in GDP compared to the same quarter of the previous year on a seasonally and calendar adjusted basis. GDP in this sector was negatively affected by land and pipeline transport activities, water transport, storage and support activities for transport (down 18.6%), postal and courier activities. In contrast, growth in the air transport sector made a positive contribution (Data: CSO).

In October 2023, Latvia's foreign trade turnover amounted to EUR 3.51 billion, which in real prices was 17.8% less than a year earlier, including a 12.5% drop in the value of exports and a 21.9% drop in the value of imports (data from the Central Statistical Office). In October 2023, exports of wood and wood products; charcoal were down by €73.7 million, or 24.4%, compared to October 2022. In Q3 2023, total exports accounted for 60.4% of GDP, while imports accounted for 64.4% of GDP.

The Bank of Latvia has published its December 2023 macroeconomic forecast: gross domestic product (GDP) growth is projected at 2.0%.GDP is expected to grow by 3.6% in 2025 and by 3.8% in 2026.

Inflation rates have been decelerating across the euro area in recent months. In Latvia, too, consumer prices have eased in recent months as global energy prices have fallen. Lower prices of heat and fuel have been accompanied by easing pressure on the prices of other goods and services, such as transport-related goods and services and housing-related goods and services, as the cost of heat has fallen. According to the CSO, the average consumer price level increased by 1.0% in November 2023 compared to November 2022.2023 inflation is 9.0%. The Bank of Latvia forecasts inflation at around 2% over the next three years (2.0%, 2.3% and 1.8% for 2024-2026, respectively).

Overall, employment remained stable in 2023. The unemployment rate in the third quarter of 2023 was 6.5%, 0.3 percentage points lower than in the same period in 2022 (data from the CSO). The employment rate in the 35-54 age group is increasing, while the employment rate in the 25-34 age group has declined over the last year.

The 2022 framework has seen one of the fastest and most significant rate increases since 1999. Already in mid-December 2022, the 12-month Euribor rate exceeded 3%. The last time rates rose above the 3% mark was in 2006, in 2008 they were already above 5% and it was only at the start of 2009 that a fall below the 3% mark was expected.

EURIBOR rates	02.01.2023	04.03.2023	03.07.2023	02.10.2023.	01.12.2023.
1 week	1.876%	2.895 %	3.388 %	3.858 %	3.839 %
1 month	1.883%	2.928 %	3.385 %	3.858 %	3.869 %
3 months	2.162%	3.053 %	3.597 %	3.951 %	3.960 %
6 months	2.732%	3.335 %	3.913 %	4.138 %	4.004 %
12 months	3.316%	3.651 %	4.145 %	4.198 %	3.902 %

Source : https://www.euribor-rates.eu/en/euribor-rates-by-year/2023/

Business sentiment in September 2023 improved again after six months and this trend continues in October and November: in retail trade and services, the confidence indicator is positive, while in manufacturing and construction the indicator is still negative but also slightly improved compared to the previous month (data from the CSP business sentiment surveys). Consumer confidence, on the other hand, shows a negative trend. The negative trend in this indicator is bad news for the economy, as consumers account for a large share of the country's economic activity or gross domestic product.

Dynamics of yield rates

The rates are set according to Latio's market research information on yields required by investors for transactions in cash-generating properties of the real estate segments shown in the graph.

According to Colliers data for *prime* segment properties:

Key Investment Figures in the Baltic States, Q1 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	5.8%	5.8%	5.5%
Retail (SC)	7.0%	7.25%	7.25%
Retail (grocery-led)	6.1%	6.5%	6.25%
Industrial	6.75%	6.5%	6.75%

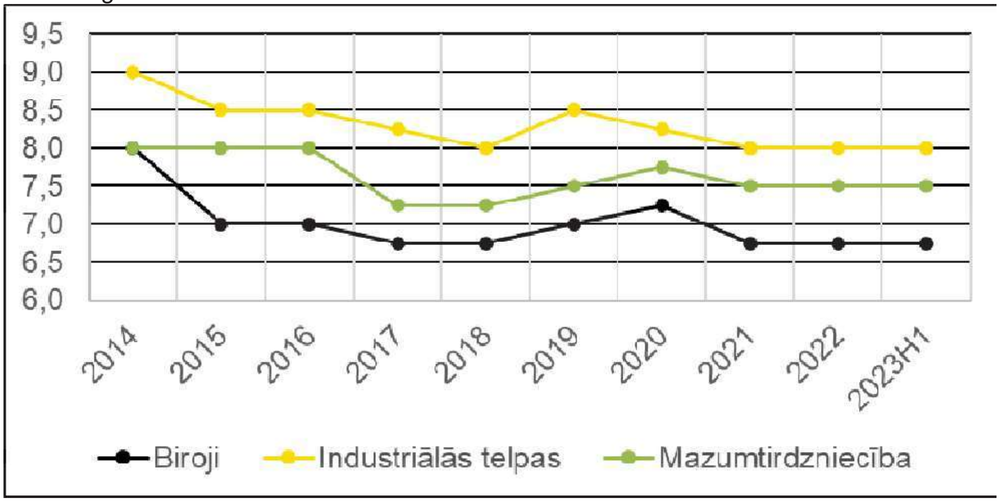
Source: Colliers

Key Investment Figures in the Baltic States, Q4 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	6.75%	6.5%	6.5%
Retail (SC)	7.75%	7.75%	7.5%
Retail (grocery-led)	7.0%	7.0%	6.75%
Industrial	7.2%	7.0%	7.0%

Source: Colliers

According to Latio:



Investment (data to October 2023).

In the first ten months of 2023, cash-flow generating commercial properties were acquired for a total of around €100 million. Compared to recent years, the level of investment is around twice as low.

Although the highest volume of transactions in monetary terms is typically recorded in the fourth quarter of each year, and a similar trend is expected in 2023, overall investment is expected to be among the lowest in recent years.

Property acquisitions have also been slow, totalling just over €110 million, similar to other years with low activity, such as 2020, when the Covid-19 pandemic started.

Most market participants have taken a wait-and-see approach and are waiting to see what happens next. Thus, not only has the total number of transactions in Latvia fallen (by around 30%), but no large transaction above EUR 25 million has been concluded yet.

"The low number of transactions is directly linked to Euribor rates and the consequent inability to achieve the desired rates of return with the usual amount of funding - property prices not falling as fast as Euribor was rising," industry experts explain.

Latvia is by no means unique, and a similar picture can be observed in other European countries, including the Baltic States, and in the Middle East. However, the market in our region looks quite stable and serious problems in the real estate portfolios of market players are largely absent. According to industry experts: for the market to recover, either the Euribor rate has to fall or property prices have to fall.

Looking at the largest transactions in 2023 that have exceeded the EUR 5 million mark, the most well-known is Pullman Riga Old Town, a five-star hotel in Old Riga, Jēkaba Street. The amount of the transaction is confidential, but it is known to have exceeded €10 million.

The second largest transaction in terms of amount took place at the beginning of the year, when the Lithuanian company Norvelita bought the administrative building of the PNB Bank in liquidation on Ernesta Birznieka-Upīša Street.

In October 2023, the largest land acquisition transaction of the year in Latvia was registered, with one of the retail leaders Rimi Latvia acquiring a 3.6 ha land plot next to the Alfa Akropole shopping centre at 382 Brīvības Avenue in Riga for EUR 8 million from the Linstow Baltic group company Real estate developers reviewed their land acquisition strategies at the beginning of the year, taking into account the overall economic situation in Latvia, and thus there were comparatively few transactions. However, in the middle of the year, when most developers accepted the new economic reality, they started to actively look for opportunities and assess the supply of available land plots on the market. The average time to make a purchase decision was approximately 3-6 months. In the third quarter of the year, new deals were already coming on the market.

In addition to the Rimi transaction in Brīvības Avenue, the largest land acquisition transactions were:

"Linstow Tobre" ("Linstow Baltic") - Satekles iela 1 k-1, Satekles iela 1E, Riga;
"Cella investment 4" ("Sirin") - Sniedžu iela 2, Dreiliņi;
"Riga Properties 4" ("VPH Latvia") - "Līdumi", Dreiliņi;
"SKUBA Real estate" - Maskavas iela 471, Riga.
The total volume of land acquisitions from January to October 2023 inclusive was around €42 million (or 36 transactions above €300 thousand), which is €20 million less than in the same period of 2022 (€63 million; 46 transactions above €300 thousand).

Lielākie komercīpašumu darījumi 2023. gadā

2023. gada 10 mēneši (cena virs 5 miljoniem eiro)

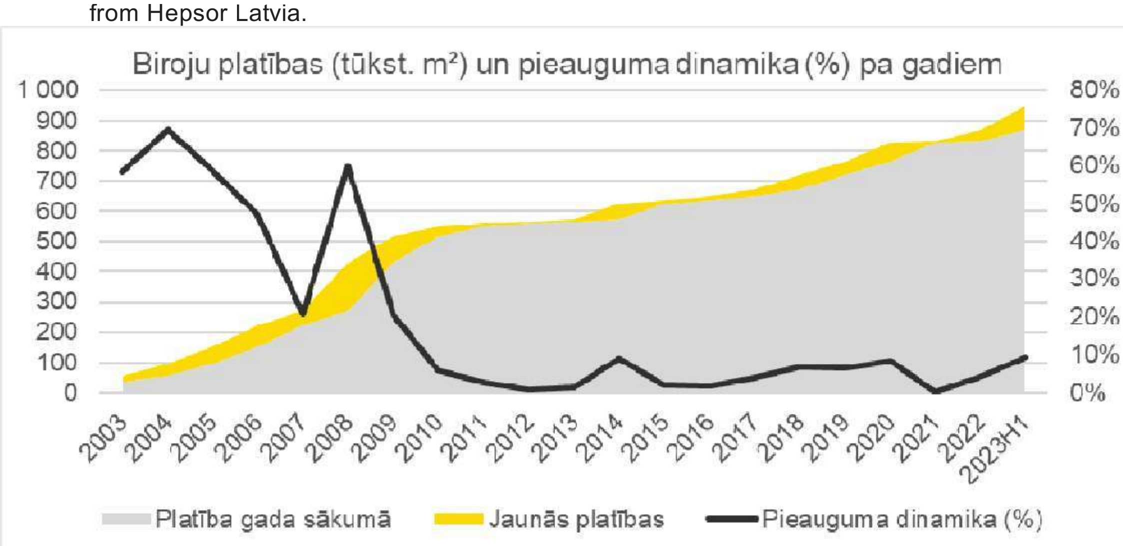
Īpašums	Veids	Platība	Cena, eiro	Pārdevējs	Pircējs
Pullman Riga Old Town	Viesnīca	Ēka 8380 m^2 zeme 2220 m^2	Konfidenciāla	Wisher Enterprise LV	IDK Baltic
Ernesta Birznieka-Upīša iela 21, Rīga	Jaukta pielietojuma	Ēkas 13980 m^2, zeme 6730 m^2	10 milj.	PNB Banka	Norvelita
Brīvības gatve 382, Rīga	Zeme	3.6 ha	8 milj.	Linstow	Plesko Real Estate
Mūkusalas iela 72, Kārļa Ulmaņa gatve 2A, Rīga	Jaukta pielietojuma	Ēkas 7260 m^2, zeme 16360 m^2	7,7 milj.	Dažādi īpašnieki	LIDL
Duntes iela 15A, Rīga	Birojs	Ēka 4930 m^2, zeme 11020 m^2	5,8 milj.	Rīgas Sanitārā Transporta Autobāze	Duntes 15
Kalpaka Bulvāris 7, Rīga	Dzīvokļu ēka	Ēka 3170 m^2, zeme 1300 m^2	5,8 milj.	MID BALTIC REALTY	HOVE
U30 Stock office	Jaukta pielietojuma	Ēka 7860 m^2, zeme 3700 m^2	5,2 milj.	Hepsor	East Capital
Ulbrokas iela 42G, Rīga	Jaukta pielietojuma	Ēka 5940 m^2, zeme 12340 m^2	5,1 milj.	U42G	Capitalica

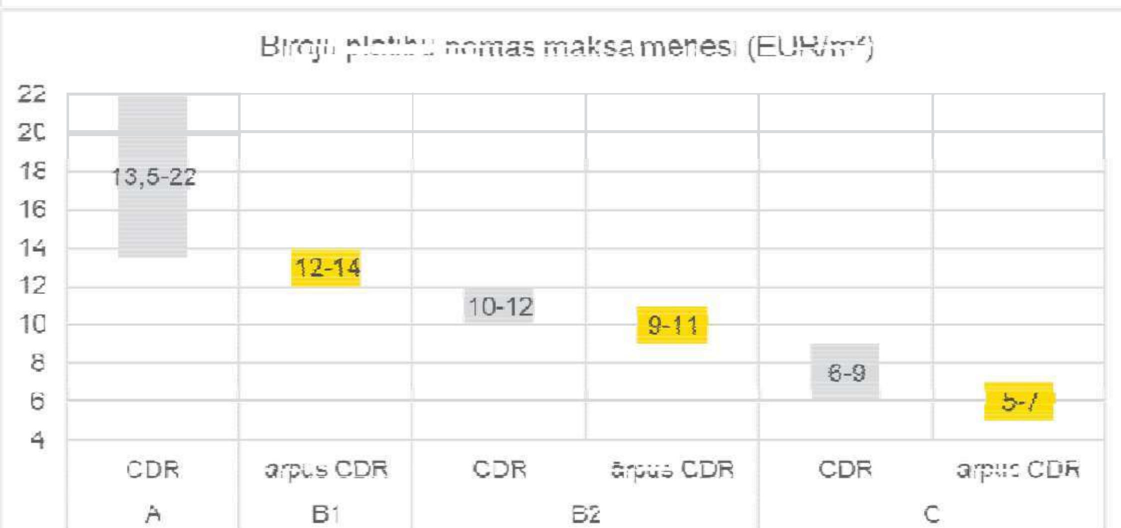
Avots: "Colliers", VZD, ZG, "Crediweb"

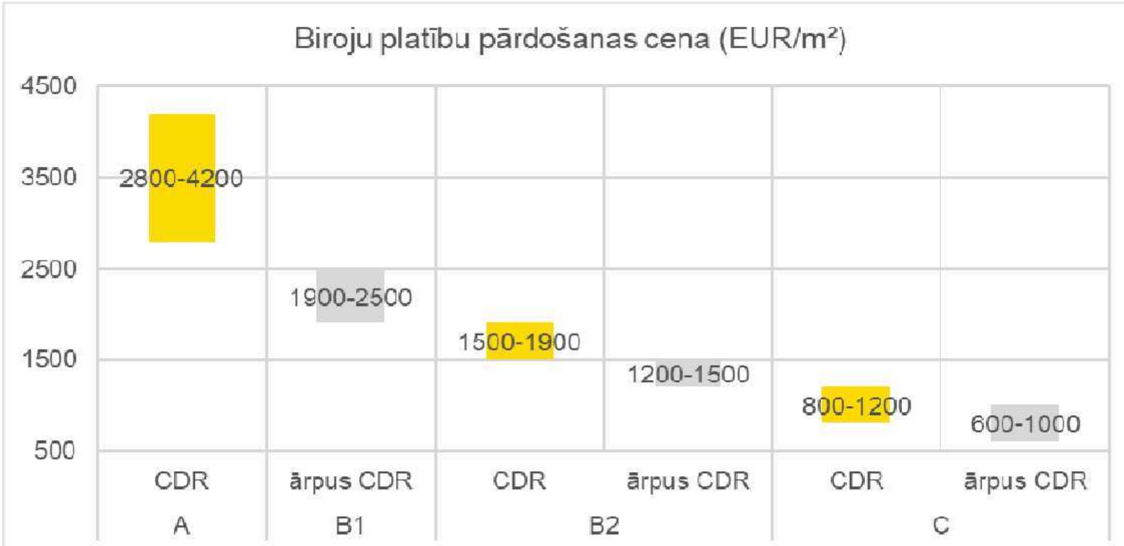
Office space, Latvia

- Linstow Baltic has been granted approval for the construction of the Satekle Business Centre, a visionary project consisting of five interconnected buildings, two of which will be heritage buildings and will be integrated.
- The first phase of construction (commissioning) has been completed in the new business centre located in Riga, Pērses iela 2A. The building, located at 30 Krišjāņa Barona Street, will be commissioned by December 2023.
- The construction of the Novira Plaza office and retail centre is nearing completion, with a target completion date of October. The project will offer a mix of commercial and retail space.
- Regus Business Garden, a new co-working office complex, has opened in Riga. Spread over five floors with a total area of 1,077 square metres, this modern facility offers flexible workspace solutions for city businesses.
- Significant investment of almost €50 million has been allocated for the development of 76 Lāčplēša Street. Construction is scheduled to start in 2024 and is expected to be fully completed within seven to ten years.
- The first building of the newly built business centre "Gustavs", located in Gustava Zemgales Avenue, has been successfully completed.

- The largest and most significant transaction in the commercial sector in the first half of 2023 was the acquisition of land and buildings at 21 E.Birznieka-Upīša Street.
- T/C Galleria Riga will undergo a transformation, as the fifth floor of 3200 square metres will be converted into co-working offices. This innovative workspace solution is expected to be available from 2024.
- The second phase of the Press House Quarter development is expected to start at the end of the year.
- The University of Latvia (UL) has sold a 5221 square metre building complex at 5 Baznīcas Street, Riga, for a total of EUR 3.86 million.
- East Capital Real Estate Fund IV has successfully acquired the StokOfiss U30 commercial building from Hepsor Latvia.

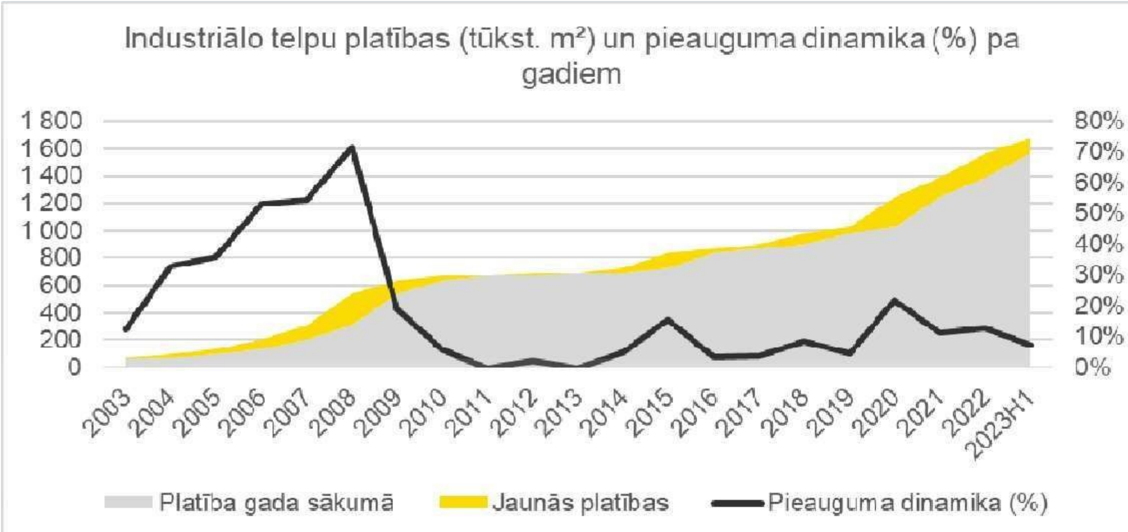






Industrial areas, Latvia

- Fish processing company Syfud Ltd, operating as Port Lite, has announced a significant investment of EUR 6 million for the construction of a modern fish processing plant in Liepaja. The new plant is expected to be completed and operational by summer 2023, increasing the company's production capacity.
- Baltic Electro Company has ambitious plans to invest EUR 8 million in a wholesale and logistics centre in the Dreiliņu district.
- The developer Piche is planning to start construction of two industrial park buildings in the vicinity of the airport in the near future, with an investment of around EUR 25 million, the second building of Green Park III and the second building of the Airport Park III industrial park.
- Schneider Electric is undertaking a major expansion initiative by building an extension to its existing factory in Riga. This ambitious project will effectively double the size of the factory. The new extension will cover an area of 20,000 square metres and is expected to be completed by the end of this year.
- Metalworking company ICS Steel is planning to set up a new production facility in Liepāja, Meldru Street, by the end of the year.
- Eco Baltia is making a significant investment of more than €10 million to build a modern PET recycling plant in Olaine. This state-of-the-art plant will not only be one of the largest and most modern PET recycling plants in Europe, but also one of the largest industrial buildings in Latvia.
- Capital Mill recently completed a €4.3 million expansion of its industrial park on Granita Street. The warehouse area increased by around 30%.
- The fourth phase of the warehouse, retail and office complex "Dienvidu vārti" on Rēzeknes Street, Riga, has been successfully completed and put into operation.
- Northside Business Park has acquired three interconnected functioning commercial properties located on the site of the former Liepāja Machine-Building Plant. The acquisition is part of an ambitious plan to develop a dynamic business district in the area.
- Capitalica Green Logistics Fund has acquired a logistics centre in Ulbrokas Street, Dreiliņi. With a total leasable area of 5647 square metres, this acquisition further expands the company's portfolio.



The sales offer consists mainly of various Soviet-era industrial/warehouse buildings as individual units. There are virtually no newly built properties in the public offer. Individual transactions have been identified with ~ 10-20 year old industrial (office/warehouse/manufacturing) buildings. The sale price of the objects is significantly influenced by the size of the land plot, the volume of the development, the actual technical condition and the suitability for the modern production process. Overall, the supply is small.

One of the main factors influencing the value of industrial/warehousing facilities is the proximity of engineering communications (power supply connection capacity; possibility to connect to the gas pipeline, city water supply and sewerage), accessibility of access roads, availability of workforce. The energy efficiency and sustainability of the built environment has become a major factor in the last six months. The level of development of transport and social infrastructure is also important. This includes the availability and frequency of public transport, as well as proximity to various retail and service facilities, medical care and educational establishments, entertainment and recreational facilities.

Overall, the analysis of the number of sales shows that a relatively limited number of industrial properties have been offered to the public since summer 2022. With inflation rising significantly, transactions took place even for objects that had been on the market for a long time but were not purchased. The analysis of sales prices does not reveal any negative price changes.

Office/warehouse buildings dominate with a total volume of ~ 2000-5000 m2 and average selling prices ~ 500-700 EUR/m2 for buildings ~ 10-15 years old, in some cases reaching a sale price of ~ 900-1200 EUR/m2 for small, excellent quality or location properties. Selling prices of ~ EUR 1,200-1,500/m2 have been recorded for some newly built "stock-office" properties, with full occupancy and average yields of ~ 5-5.5%.

Only a few sales of such properties have been recorded in the Airport and its surroundings in the last 2 years. It should be stressed that the transactions were mainly with objects comprising both buildings and land. The amount of land involved is important and can have a significant impact on the total amount of the transaction.

The real estate market mainly deals in properties where sales prices correlate with actual rents, providing an acceptable return for the investor. In this case, it should be stressed that properties as cash flow objects are acquired in situations where the premises are in a state of repair suitable for immediate occupation or already have real tenants at market rents.

The yields are in the range of ~7.-8.5% and also reach ~5-6.5% for new logistic and stock-office type properties.

Highlights of recent years:

Marupe region, Riga Airport, Ziemeļu street 14 Office/warehouse type building, built in 2005-2006. Structural solution - light concrete masonry for the office part, sandwich panel cladding for the warehouse part, metal constructions frame. Centralised communications. Warehouses premises insulated, but not heated. The building has 2 floors of office space ~ 475 m2, warehouse ~613 m2. Ceiling height of warehouses ~ 8m. Functionally connected land plot of ~3800 m2, long-term lease. Sold in February 2022 for 550 000 EUR (~500 EUR /m2). Indicative **yield ~ 8.5-9%.**	
Kārlis Ulmanis avenue 140 In January 2022, a 25 478 m2 plot of land and an office/retail/warehouse building on it were sold. The total area of the building is 8389 m2. Metal construction, sandwich panel building, generally in good technical condition. Connections to centralised utilities, including stand-alone gas heating. The building has a 3-storey office block (~20%) and a 1-storey retail/warehouse block (~80%). The building is fully leased to several tenants. Average rents ~7-7.50 for offices and ~4.50-4.60 EUR/m2 for warehouses. The area is landscaped, asphalted. Fixed sale price of ZG EUR 4 450 000 (the valuers are aware of specific circumstances affecting the transaction which impacted the actual transaction amount by ~ +13%). Indicative rate of return (at ~ 8% Capex) ~ **8%**.	

Marupe region Plieņciema street 5 In June 2022, a "Stock - office" type property was sold. Land 12 525 m^2, building 6247 m^2. The facility was commissioned in 2 0 1 8 . Very good technical condition. Fully operated as rental premises - office/retail and warehouse. Leased to several unrelated users. Rent for warehouse ~ 6,0 EUR/m2 (excluding VAT, utilities and management fee), office/retail - 9,5 EUR/m2. Ceiling height of warehouses ~ 6 m. Warehousing ~ 70%. The transaction amount is EUR 9 680 000. Indicative yield (at Capex ~ 5%) ~4**.5-4.7%.**	
Mārupe, Dzirnieku street 20 In October 2022, the logistics centre was sold. Land 16 447 m^2, building 9021 m^2. The facility will be operational in 2021. Newly built, in excellent technical condition. Used as office and storage space. Ceiling height of warehouses ~ 9 m. Storage ~ 90%. The transaction amount is E U R 10 043 000. Indicative yield (at Capex ~ 5%) ~5%**.**	
Mārupe, Dzirnieku street 18 In October 2022, the logistics centre was sold. Land 16 304 m^2, building 3326 m^2. The facility was put into operation in 2 0 0 7 . It is in fully satisfactory technical condition. The warehouses are heated. Used as office and warehouse space. Ceiling height of warehouses ~ 6,2 m. Warehouses ~ 80%. Escrow Amount2 100 000EUR . Indicative yield (at Capex ~ 10%) ~7**.5%.**	
Rīga, Ulbrokas iela 42G In spring 2023, the real estate - a plot of land and an office/warehouse building - was sold. Located on the edge of a high-traffic street. Land 12 772 m^2, building with a total area of 5644.9 m^2, outdoor space - 247,3 m^2. There is an outbuilding - shed. The facility was put into operation in 2008. Overall in good technical condition. The warehouses are heated. Ventilation/recuperation. Connections to centralised engineering communication networks, including autonomous gas heating. Used as office and storage space. Warehouse ceiling height 12 m. Warehouse ~ 75%. Fully let. The plot is landscaped. Amount of the transaction EUR 5 121 002 (excluding public exhibitions). Indicative rate of return (TNL contract with ģeneral tenant) **~6.5%.**	

Marupe region Plieņciema street 5 In November 2023, the property was sold. Land 18 300 ^{m2}, built-up area ~ 1902 ^{m2}. The facility was put into operation in 2001. The building is in good technical condition. Fully used as car showroom premises - office/sales and service/storage. The building has a café area. Used for one user. Warehouse space on two levels. Relatively large vacant area, part of which can be used for additional new construction. The transaction amount is EUR 2 500 000 (after public exhibitions € 2 600 000). Indicative rate of return (at Capex ~ 7%) ~ 4**.5-5%,** however it should be noted that the total includes additional vacant land with a notional value of ~ EUR 800 000 extent.	

Looking at the situation in the immediate vicinity of the valuation object, it should be noted that the specific location in the immediate vicinity of the airport also results in relatively higher rents. The appraisers have information on lease rentals in the surrounding buildings and have found that rents for administrative type premises in similar buildings range from ~ EUR 8-12/m2, while rents for warehouse type premises in the surrounding industrial sites are in the range of EUR 4.7-5.7/m2, with an upward trend to ~ EUR 5.90/m2 in recently completed projects. The rent depends significantly on the nature of the use of the premises, the technical condition of the buildings and the provision of communications, the amount of functionally connected land.

Over the last 5-6 years, as Piche has developed several industrial park projects in the vicinity of Riga Airport, the amount of warehouse and office space available for lease has significantly increased. The general economic changes are also reflected in the current rental rates - while in the earlier projects warehouse rents have stabilised at EUR 4.5-5.2 per sqm, in the 2022-2023 projects warehouse rents have reached EUR 5.3-5.9 per sqm.

An analysis of the occupancy rates around the airport shows that occupancy rates in good quality office and logistics facilities have reached 90-95%. Office vacancy is higher, but in general, at the time of the assessment, there are only a few publicly offered offices in buildings in the immediate vicinity of Riga Airport. Fixed rents here - for individual offices (~ 15-25 m2), rents range from EUR 10-13 per sqm, for larger groups (~ 80-150 m2) rents range from EUR 8-10 per sqm.

The general economic and geopolitical situation at the beginning of 2024 may have a significant impact on the future development of the real estate market. As observations show, the residential segment of the market has experienced a sharp decline in the number of transactions over the last six months, which has brought with it negative price corrections. In the commercial segment, no significant decrease in the number of transactions or rental/sale prices has been observed, but given the general situation, it is not possible to predict with precision the changes expected in the near future. Transactions in commercial property are taking place, but the number of transactions is small and the opportunities for disposal are also affected by the limited lending policy of banks.

Analysing the market situation to date, the valuers found that buyers are not making ill-considered purchases, they are thoroughly familiarising themselves with the properties, researching comparable offers, however, the limited supply on the market means that the most likely sale period for the subject of the valuation could be 12-18 months, if the seller makes all the necessary arrangements to expose the property on the open market at the market value set. The value under forced sale conditions could be reduced to ~25% with a shortened sale period of up to 9 months.

8. Existing and best use, factors affecting value

The best and most efficient use is defined as the most feasible use that is realistically possible, reasonably justified, legally valid, financially viable and will result in the highest value for the property being valued. /LVS 401-2013/.

A way of using property that is prohibited by law or is impossible in practice cannot be considered the most efficient. The concept of best and most efficient use is an integral part of the calculation of market value. /LVS 401-2013/.

Existing use of the property - the building was constructed and is used for the specific function of a pilot and crew training centre with a flight simulator, training and office facilities, and functional technical ancillary spaces.

The building is fully used and occupied on the day of the visit, with training rooms, office-type spaces, functionally necessary workshop/storage and domestic spaces. The office and training rooms are equipped with technical equipment in line with modern standards. The building has a cafeteria, which is also open to external users.

The development involves an optimum sized, leasehold plot. The vacant parts are used as driveways, necessary car parking areas, green areas.

Best use - the assessors consider that the existing use of the premises is in line with its best use.

The structural design, layout and use of the building allows it to be classified as an office/representation type building with a large showroom, office space and functional workshop/warehouse type space.

Factors affecting the value of the site

Positive market value drivers:

- The subject site is located in a part of the city where similar types of development prevail;
- the assessed development has modern and high quality architecture;
- the object under evaluation has special technical characteristics, enhanced sound insulation, special air conditioning and ventilation system;
- easy access and the necessary parking spaces;
- If necessary, the building can be operated for the needs of several unrelated users.

Negative factors affecting the market value of property:

- the subject property and the land on which it is located have shared ownership;
- the immediately adjacent plots are still undeveloped and the surroundings give the impression of a little-kept and little-used area;
- the total volume of the valuation object is occupied by large areas of common areas and ancillary spaces of a technical nature, as well as the building's exterior spaces;

9. Assumptions and qualifications made in the valuation

The valuation calculations are made on the assumption that :

- the property is unencumbered by tenancy/lease agreements
- the property is not guaranteed;
- the immovable property is not invested in the company's share capital;
- there are no non-separable investments (improvements to the property) in the property to which third parties may have a claim;

- the property is free from debts, including arrears of real estate tax and late payments;
- functionally related auxiliary buildings with cad.no.8076 002 0007 045,...046) located on the land plot are part of the valuation object and the ownership rights to them of AS "Air Baltic Corporation" are not disputable.

The Valuers underline that the assumptions and limiting factors reflected in Annex 1 have been taken into account in the valuation.

10. Theoretical background and evaluation approaches

Three valuation approaches or techniques are most commonly used in real estate valuation: the market approach, the income capitalisation or cash flow discounting approach and the cost approach. The choice of approach is based on the nature of the information available, the characteristics of the market and the specific nature of the property itself.

According to Latvian valuation standards, regardless of the choice of approach in a given valuation, which is determined by all methods, the result must be one - an objectively determined market value (if all calculations are based on market information). In practice, it has been found that these valuation approaches most often produce slightly different results, which requires an analysis and alignment of the calculation results.

The final reconciliation of the results is based on a mathematical weighting approach, which involves assigning a weight (confidence) level (expressed as a percentage) to the result obtained from each approach used in the valuation and calculating a weighted average, which is then taken as the market value of the property;

The reconciliation of calculation results is not a simple mathematical process, but a consideration of the suitability of each approach and an analysis of the reliability of the results obtained in valuing a specific property and determining the final market value.

The following provides some insight into the approach used to calculate market value.

Market approach

The approach is based on the assumption that a knowledgeable buyer will not pay more for a given property than the amount of money for which he could buy another property of similar quality and use on the market. Data on sales/offers of properties similar to the subject of the valuation are identified and analysed. In order to calculate the market value of the property to be valued, the price of the selected comparables is adjusted for any differences from the property to be valued and compared.

The factors considered in the calculation process and on which adjustments are made can be divided into the following groups: ownership rights, changes in market conditions, financing conditions, transaction conditions, location, physical characteristics (size of land and buildings, technical condition, amenities, etc.); permitted use and economic factors (lease agreements, management restrictions, mainly for commercial properties).

The calculation of the market approach can be conditionally divided into the following steps:

- Market research to obtain information on transactions and sales offers for properties similar to the subject of the valuation;
- Analysis of this information to determine whether the information obtained is accurate and whether the sales are commercial transactions;
- Selecting an appropriate unit of comparison (e.g. lats per square metre) and benchmarking against these units;
- Comparison of the property to be valued and the market, using various comparators, resulting in an adjusted price for each comparator;
- Determination of the unit value of a valuation comparison object, multiplied by the number of units to

obtain the value.

In volatile market conditions, the value obtained through the market approach may also be the high end of market value.

Income approach

In the real estate market, income-generating real estate is viewed as an investment from the investors' point of view, and the income approach is based on this principle. The income approach is therefore particularly suited to the valuation of properties purchased as investment properties.

The income approach is based on the assumption that a typical investor/buyer operating in the market purchases real estate with the expectation of receiving an income from it in the future. In other words, value can be defined as the present value of the right to future benefits. The income approach determines the market value of a property by identifying and analysing the net income that the property can generate for its owner if it is rented out. If the valuation objective is to calculate market value, the income capitalisation or cash flow discounting approaches shall be based on market-based real cash flow and rate of return variables.

When buying an income-generating property, the investor counts on the recurrent income stream generated by the property, as well as the potential future appreciation of the property. As real estate is a long-term investment, the income approach analyses an infinite cash flow. In order to take account of the fact that the expected income, as well as the income from the sale at the end of the period, is generated over a longer period of time, the valuers' task is to translate this periodic income stream into today's value. This process is called *discounting* in real estate valuation, and the rate used to convert the future income into today's value is called the *discount rate*.

It follows from the above that the value of the property is calculated by making a forecast of long-term income and the calculation is made using the following formula, called the *discounted cash flow*:

V= NOI1/(1+i)1 + NOI2/(1+i)2 + NOI3/(1+i)3 + +NOIn/(1+i)n;

where NOI - annual net

income; i - discount rate;

n - number of income periods to be considered.

As mentioned above, in the valuation of income-producing property, the value is represented both by the recurring income from its management and by the income from its future sale at the end of the investment period. The return on the future sale of the property is called the reversion because it represents the expected return on the capital invested at the end of the investment period. The reversion value is defined as the expected return on the sale of the property, calculated by deducting the costs of the sale (brokerage costs) from the probable sale price.

If the cash flow generated by the property is stable and constant, mathematical transformations result in a simple formula called *direct capitalisation*:

V=NOI/ R

where NOI - annual net

income; R - capitalisation rate.

The characteristics of the cash flow are the most important factor in the choice of calculation method:

Direct capitalisation is used when the property being valued is capable of generating stable cash flows at the time of valuation (it meets best-use conditions, does not require significant capital investment, is not forecast to have rental or expense increases, etc.).

Cash flow discounting is used when the projected cash flow is time-varying (cash investment is required to optimise the use of the property, or changes in expected future income (both increases and decreases) are expected, or in other words, the income stream from the property is variable when analysed several years (periods) in advance). The number of calculation periods depends on the stabilisation period of the projected cash flow.

Income consists of all the income that the owner derives from the property over the period of ownership, which in real estate valuation is most often the rental income from the premises/land, less any expenses related to the maintenance and management of the property.

If the valuation exercise is a market value exercise, the projection of income/expenditure streams should be based on average rents and management costs in the property market, taking into account the specific characteristics of the asset being valued, including liabilities.

The annual net revenue under the income approach is calculated as follows:

- calculate the potential gross income from renting or leasing the property;
- subtract from the potential gross revenue the losses due to non-letting of premises and non-collection of rent or rents; and add the other revenue generated by the property being valued, resulting in the effective revenue generated by the property;
- subtract from the real gross revenue all expenses related to the operation of the facility - property tax, insurance, personnel costs, deductions to the replacement reserve fund, etc. - to arrive at the net (net) revenue.

The yield and its determination is an important variable in the calculation of the income approach. Rates of return can be divided into rates of income and rates of return.

The capitalisation rate, in real estate valuation terminology, includes the return on the capital invested as well as the return on the capital invested. The return on invested capital includes compensation for the change in the time value of money and other factors related to the specific investment.

The discount rate is the rate used to convert a future cash flow into today's value, or vice versa. The discount rate, unlike the capitalisation rate, does not include expected capital gains.

Discount and capitalisation rates are determined by assessing the state of the financial and real estate markets and the risks associated with the management and disposal of the property. In practice, the most commonly used methods are the market rate method (analysis of yields on sold properties of a similar nature), the cumulative method (determination of the capitalisation rate by adding to the risk-free rate the risks associated with the liquidity, management and return of the investment), the Ring, Inwood or Hoskold investment return methods and the return on own capital (borrowing capital) analysis.

Cost approach

The cost approach is a comparison based on the assumption that a knowledgeable investor will not pay more for a property than the amount of money for which he could acquire an equivalent plot of land and build a building of similar quality and use.

The cost approach calculates the replacement or substitution value of the improvements to the site, less depreciation, and adds the land value to the result.

In the cost approach, the following steps are taken:

- The market value of the plot is calculated assuming that it is free of any improvements and can be used to its best and most efficient use;
- Estimated replacement costs for improvements to the site;
- Calculated wear and tear due to physical wear, functional obsolescence or external factors;
- Depreciation is deducted from the replacement cost of the improvements to arrive at the residual replacement value of the improvements to the land; and
- The land value is added to the resulting residual replacement value to give the property value.

In the cost approach, all parameters are taken from open market data. Construction costs are determined by considering the average construction costs at the time of valuation, while the land value is calculated using the market approach.

Losses in value are represented by the following forms of depreciation:

Physical deterioration - the degree of deterioration of structures and materials due to various factors (physical and chemical
exposure, overloading, incorrect operation, etc.)

Functional obsolescence - the inadequacy of the characteristics of buildings and structures to the existing market standards and perceptions of the type of real estate under consideration (outdated utilities, unfashionable layout).
External impairments - reflect the loss in value of either the development or the property as a whole, caused by various factors external to the valuation and not directly part of the property. External value losses are caused by adverse economic conditions. The location of the property and its suitability for the type of use are important external factors. External value losses are also sometimes referred to as economic value losses. These conditions affecting value can be of both technical and economic nature.

11. Choice of valuation approach and calculation process

Given the nature of the subject of the valuation, the type of use and the amount of market information available, the valuers consider that the market value can be determined using the income approach.
Taking into account the existing use of the property, the nature of the building and the fact that the land under the building is owned by another person, the valuers found during the valuation process that it is practically impossible to apply the market approach, as properties of a similar type are usually not sold on the open market, but are used for the owners' own business activities. Specialised properties are built for a specific user for their own needs, rarely appear on the open real estate market and the conditions of their sale are often not known with certainty. The market has seen this type of property sold as shares in companies and limited information is available on the actual condition, cash flow or sale price of the Properties, which prevents this type of information from being used to make accurate calculations, other than as general indicative indicators. Overall, it is considered that the existing information is not sufficient to use this approach for a correct market value calculation. The Valuers consider that the available information on the sales prices of similar types of properties can serve as an informative source and an additional control tool for the value calculated by the income approach, but cannot be used for a direct calculation of the market value. The expected adjustments to the estimates would exceed the 30-40% threshold and involve a high risk of uncertainty.
In the immediate vicinity of the airport, several sales of mixed-use (office/warehouse) buildings have also been recorded in recent years, however, they are not comparable in nature with the subject of appraisal, as the share of warehouses exceeds 70% of the total volume, while the subject of appraisal is classified as an administrative building with a showroom, functional workshop/warehouse ancillary spaces.
Good quality office buildings in Riga city are characterised by sales prices of ~ 1000-1500 EUR/m2, however, it should be emphasised that the functionally attached land plot is part of the property and the volume consists mainly of office type premises.
The cost approach is not used to determine value. The cost approach is most often applied to the valuation of new properties for which construction costs are reasonably certain or to unique properties that are not defined as "market" or "rental" properties. Objects with existing buildings constructed more than 10 years ago are subject to the effects of physical, functional and economic deterioration, which are complex to determine and in this case difficult to substantiate with market data. The Valuers are of the opinion that the replacement cost of equivalent buildings and improvements does not reflect the likely value of the Facility.
The Valuers consider that the Income Approach is the most appropriate approach to calculate market value in the current situation. It is known that this type of properties are mainly purchased by buyers for their own use or as potential "cash flow" properties, with an accepted yield in the range of ~7.5-8.5%.
Value calculation using the Income Approach.
As the property being valued is used for business purposes, it is valued using the income approach as an asset that is used for the purpose of the business.
The income approach determines the current value of a property based on the expected income that could

be earned from the best use of the property. In determining the value of the Subject Property,

In forecasting the potential income, we have taken into account that the property will be managed in such a way as to maximise its income in the current and future economic situation.

The subject of the valuation is a potential income-generating property: it is used for the core business of a company related to the owner as a pilot and crew training centre, with training and office-type premises, functional ancillary spaces.

Property Valuation Standards ENS 401 paragraph 5.4.10.1: The income approach comprises a number of valuation methods, all of which have in common that the value is based on the actual and estimated income that the owner of the right earns or is likely to earn. For a commercial property, this could be rental income; for an owner-occupied building, it could be estimated rental income (or savings on rental expenses based on the costs that would be incurred by the owner in renting a similar property in an equivalent location).

Two lease agreements have been submitted to the Valuers, under which a ~73% share of the building is leased:

-285.3 m^2 of the premises are rented out for a café. The lease is of unlimited duration. The current rent (according to the current invoice) of EUR 1551 per month (excluding VAT, utilities), or ~ EUR 5,$^{44/m2}$ is considered to be in line with rents of similar type in comparable facilities.

A part of the building, measuring -2123 m^2, is leased to a related company, Air Baltic Training Ltd. The leased premises include part of the expo hall, offices, training rooms, small warehouses/workshops and technical ancillary rooms and part of the building's common corridors, staircases, sanitary and hygiene facilities. Existing rent EUR 5,$^{5/m2}$ (average for the total volume), plus VAT, utilities, management fee within EUR 1,$^{0/m2}$ and 13 car parking spaces in the area for EUR 20/gb.

The analysis of the current rentals in relation to the general market shows that they are below average and should be brought in line with the general market situation after the expiry of the lease.

The existing lease agreement is valid until 31.12.2022, with an automatic one-year extension. Also in force at the time of valuation.

Analysing the information available to the appraisers on the rental rates for comparable premises under free market conditions and assessing their relevance to the object of valuation, it has been established that the most feasible rental rates for the object of valuation would be:

For office type premises (functionally related ancillary premises - internal corridors, sanitary and hygienic premises) - EUR 9.$^{0/m2}$;

7,0 $^{EUR/m2}$ for exhibition hall; 5,5 $^{EUR/m2}$ for
workshop/storage space.

It should be emphasised that such rent is to be determined for the (useful) volume of the building to be rented, which does not include ancillary rooms of a technical nature, common staircases, outdoor spaces. In the case of a full letting to a single occupier, the potential rent shall be differentiated by groups of premises according to the nature of their use, the proportion of their volume, and subsequently divided by the total volume of the building put into use.

Based on the above, the potential market rent of the valuation object for a single user (excluding the café premises) would be:

	Area, m^2	Rent, EUR/m^2	Total, EUR
Exhibition Hall	842,60	7,00	5898
Office type premises with functional ancillary spaces	1090,20	9	9812
Workshop/storage space in the basement	405,90	5,5	2232
Utility rooms and common staircases (non-rentable)	539,10		
Outdoor spaces (non-rentable)	162,90		
Total rental volume	2338,70		17 942
Per rental volume on average, EUR/m^2			7,7
Per total indoor volume on average (excluding cafeteria), EUR/m^2	2877,8		**6,2**

As the existing tenant has the largest part of the building, which includes both usable and non-usable space, the current rent of EUR 5.$^{5/m2}$ is considered to be reduced compared to the market average.

Given that only part of the building is leased to the existing user and the rest of the premises are used by the owner, the additional rent for this part of the building is calculated on a similar basis. The part of the building used by the owner does not contain any useless areas (technical rooms, common staircase):

Unleased areas according to plans, indicative (assumed to be leasable - owner-occupied)	area, sqm	EUR/sqm rental fee		Average rent per month eur/sqm
storage/workshop space on the ground floor	158,7	5,5	872,85	
Exhibition Hall	262,1	7,0	1834,7	
office type premises with functional ancillary spaces	334	9,0	3006	
Total	754,8		5713,55	**7,6**

The following considerations are used to determine the potential rent for the valuation object:

The rent must be in line with the market situation. The potential average market rent has been determined by the appraisers by analysing the object and the market situation, compiling information on average rents for office, retail and warehouse premises of similar type available in the database of SIA "Latio".

Information available to the appraisers on past lease transactions:

Marupe region "Elipse blc" Warehouse type premises for rent in different volumes, ~ 1000-^{4000m2}. Rent ~ 4,50-6,60 $^{EUR/m2}$ (excluding VAT, utilities and management fee ~0,9 $^{EUR/m2}$). No vacancies. Ceiling height of warehouses ~ 8-9m.	
Marupe region Plieņciema street 5 Rented office/exhibition and warehouse space in a new-build "Stock - office" building. ~ 400-600 $^{m2\ of}$ storage space rented per user 1st floor and ~ 200 ^{m2} exhibition/office space on the 1st,2nd floors. Rent for warehouse ~ 6,0 $^{EUR/m2}$ (excluding VAT, utilities and management fee), office/sales - 9,5 $^{EUR/m2}$. Ceiling height of warehouses ~ 6 m.	
Marupe region "Trapi" Rented warehouse type premises of ~440 ^{m2} and office premises ~ 80-150 ^{m2}. The building is in good technical condition, the warehouses are heated. Updated (2023) warehouse rent - EUR 5-5.$^{5/m2}$, office rent - EUR 8.$^{0/m2}$ (excluding VAT, utilities and management fees). Ceiling height of warehouses ~ 8m.	

Marupe region Kalnciema street 180	
Marupe region Kalnciema street 180 Rented warehouse space in the new Class "A" logistics centre in the building. K.Ulmanis gatves, line 2. Leased in early 2023 for multiple users. Rent for a warehouse ~4,8-4,9 EUR/m2 (excluding VAT, utilities and management fee). Ceiling height of warehouses ~ 10 m.	

Offer:

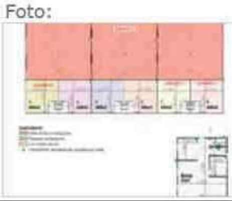
Latvijas lielākais industriālo platību attīstītājs SIA Piche piedāvā telpas savos jaunākajos Biznesa parkos. Telpas tiek pielāgotas klienta vajadzībām un plānojumam. Piedāvājam A klases noliktavu, tirdzniecības un ražošanas telpas 500m2 platībā. Noliktavā iespējams izbūvēt modernas administratīvās telpas.
Projekta priekšrocības:
- Ultra energoefektīva ēka;
- Zemākas komunālās izmaksas;
- Bezmaksas autostāvvieta;
- 100m attālumā no sabiedriskā transporta pieturas;
- Visas telpas tiek pielāgotas klienta vajadzībām;
- Saules paneļi;
- Elektrouzlāde automašīnām;
- Labiekārtota un apgaismota teritorija;
- Advancēta apsardzes sistēma;
- 5 min. attālumā no RIX (Starptautiskās lidostas Rīga);
- 15 min. līdz Rīgas centram

Noliktavas aprīkojums:
- Griestu augstums noliktavā 10m;
- Efektīvākais kolonnu izvietojums ar iespēju izveidot gan platās, gan šaurās ejas plauktiem, nodrošinot par 30% vairāk palešu vietu;
- Pulētas bezšuvju grīdas, kas ļauj labāk ekspluatēt grīdu ar slodzi 7 t/kvm (ar iespēju slodzi paaugstināt);
- Pieejamā elektrības jauda līdz 2 MW un visas nepieciešamās jaudas ražošanai;
- Smart LED sensoru gaismas;
- A+++ griestu sildventilatori;
- Piekļuves un laika kontroles sistēma

Pilsēta, rajons:	**Rīgas rajons**	Iela:	**Dzirnieku iela** [Karte]
Pilsēta/pagasts:	**Mārupes pag.**	Platība:	**500 m²**
Ciems:	**Lidosta "Rīga"**		

Cena: 2 950 €/mēn. (5.90 €/m²)

Foto:





Known cases of office space leases near the airport:

Marupe region "Elipse blc"	
Marupe region "Elipse blc" Leased office space. Different sizes. Area ~ 200- 600m2, rent ~ 9EUR/m2, for small offices ~ 20- 50 m2 rent ~ 9-12 EUR/m2 (excluding VAT, utilities and management fee 1,0 EUR/m2). Vacancies are not available.	

Marupe region, Ziemeļu street Leased office space. Average ^{100m2}. Rents ~ 10-12 $^{EUR/m2}$, (excluding VAT, utilities and management fees).	
Marupe region, Dzirnieku street 16 Rented office space (classrooms). Average 20-80 ^{m2}. Rents ~ 8-9 EUR/m2 for groups of rooms ~ 60-80 ^{m2} and ~ 12- 13 $^{EUR/m2}$ for individual offices of 15-20 ^{m2} (excluding VAT, utilities and management fees). Parking included.	

Offer:

Iznomā energoefektīvu A klases biroju jaunuzbūvētajā industriālajā parkā "Green Park 2", kas atrodas izdevīgā vietā pie Starptautiskās lidostas Rīga.

Biroja aprīkojums:
- Elastīgs plānojums
- Stikla starpsienas
- Individuāla temperatūras regulēšana
- Apsildes un dzesēšanas grīdas
- Energoefektīva ventilācija ar rekuperācijas sistēmu
- Jaunākās paaudzes LED apgaismojums
- Optiskais internets

Projekta priekšrocības:
- Zemas komunālās izmaksas
- Energoefektīva ēka
- Bezmaksas autostāvvieta
- 100m attālumā no sabiedriskā transporta pieturas
- Visas telpas tiek pielāgotas klienta vajadzībām

Pilsēta, rajons:	**Rīgas rajons**	Iela:	**Dzirnieku iela 26** [Karte]
Pilsēta/pagasts:	**Mārupes pag.**	Platība:	**165 m²**
Ciems:	**Lidosta "Rīga"**	Stāvs:	**2/3**

Cena: 1 378 €/mēn. (8.35 €/m²)

Foto:





The Helio I business center is located 400 meters from the RIX terminal building and 200 meters from the future Rail Baltica terminal building, offering a perspective place for business development. Convenient location with a daily flow of over 30, 000 people.

Available office premises of various size - it is possible to rent from 50 to 300 square meters of office space. The premises can be adapted to your wishes and needs, providing separate entrances to the office premises. The rent for sqm may vary depending on the area and needs to be rented.

Management fee - 3.60 EUR/m2.
Waste disposal – 0.04 EUR/m2.

In front of the building there is a parking lot for customers, while behind the building there is a parking lot for employees' vehicles.

Call, write (SMS, Whatsapp, E-mail) to find out more information.

Pilsēta, rajons:	**Rīgas rajons**	Iela:	**Biroju 10** [Karte]
Pilsēta/pagasts:	**Mārupes pag.**	Platība:	**100 m²**
Ciems:	**Lidosta "Rīga"**	Stāvs:	**2/4**

Cena: 800 €/mēn. (8 €/m²)

Foto:

The assessment assumes that the best use of the facility would be achieved by renting out the core area to a single user, with an additional group of café spaces.

Given the uncertain nature of the current economic situation and the assumption in the valuation of a rent adjustment for an existing anchor tenant, a variable cash flow is projected. The forecast period is 3 years. The rental risk exposures are included in the occupancy factors used in the calculations.

The valuers used the income approach cash flow discounting technique to calculate the value.

- Expenses: in the classical case, the tenants pay additional utilities (electricity, water, heat, etc.) at the prevailing rate or at the rate actually consumed, general building maintenance expenses in accordance with the requirements of the sanitary, fire safety, environmental protection and other state and municipal services, including the costs of technical staff for servicing the heating, sewerage, etc., emergency services.

The lessor is liable for property tax, ground rent and insurance. For the calculation of the real estate tax the available data in the Cadastre Register of the State Land Service of Latvia and the valid methodology for the calculation of the tax are used - the real estate tax is 1.5% of the cadastral value of the relevant building per year.

Insurance costs are assumed to be based on industry averages of ~0.02% of the indicative replacement cost of the development.

The land rent attributable to the owner is calculated on the basis of the Land Lease Agreement rent of EUR 2.$^{63/m2}$ per year, plus VAT. Land tax is attributed to the landowner according to the agreement. The subject of the valuation relates to a plot of land with an area of 13 866 ^{m2}. The rent is expected to increase as part of the calculations,

~2% annually.

In line with general real estate market practice, in addition to the rent, tenants are also charged for the ongoing costs of managing the property. According to the existing lease agreements, the rent for the café premises also includes management fees and is therefore fully attributable to the owner, while the management fee of EUR 1,$^{0/m2}$ for the tenant of the main part of the building is in addition to

the rent, so that only a portion of it is attributable to the Owner of the object of valuation, in accordance with the projected occupancy risk. The management fee applicable to the Owner's own occupied part of the building is also attributed to the Owner in an amount corresponding to the occupancy risk.

The assessment determines the share of management costs attributable to the owner:

Management							
	M2	Monthly maintenance fee, EUR/m^2	Monthly maintenance fee, EUR	Annual maintenance fee, EUR			
area to be rented	3163,1	1,2	3795,7	45548,6			
Annual changes					0%	3%	3%
Total annual management fee					45549	46915	48323
					Workload risk 1	Workload risk 2	Workload risk 3
café	285,30	1,2	342,36	4108	100%	100%	100%
share attributable to the owner					4108	4232	4359
leased Airbaltic Training	2123,00	1	2123	25476	5%	10%	5%
annual management fee, EUR					30571,2	31488,3	32433,0
the lessee shall bear					25476	31488	32433
the difference to be covered to the owner					5095	0	0
the tenant's uncovered share (after occupancy risk)					1274	3149	1622
free areas	754,80	1,2	906	10869	40%	10%	5%
					10869	11195	11531
Uncovered share of tenants (after occupancy risk), EUR					4348	1120	577
Total management costs attributable to the owner, EUR					14825	8500	6557

The full cost of building up a replacement property reserve is attributable to the owner. For the purposes of the valuation, this has been assumed at 7% of potential annual income. The property replacement reserve payments are to be made irrespective of the rental generators of the property and are therefore assumed to be the same for all calculation periods

Net income.

- Rental income, after deducting expected allowable expenses, represents the potential profit that the owner could earn by leasing the property or represents a saving in rental expense based on the costs that the owner would incur to lease a similar property in a comparable location.
- At a specified future period, net income is converted to its present value using a discount rate. The sum of the present values of the income in the individual periods represents the present value of the property. The discount rate reflects changes in value over time as well as the uncertainty of income streams and the rewards associated with risks. It is the rate of return on capital required for an investor to decide to invest in a particular asset or project, foregoing alternative investment opportunities.

The capitalisation rate reflects the expected return on investment, or the return on the sale of invested capital at the end of the project.

As the subject of the valuation is expected to have variable cash flows over the long term, the valuers used the income approach cash flow discounting technique to calculate the value. The projection assumes 3 years.

At a specified future period, net income is transformed into its present value using a discount rate and a capitalisation rate. The sum of the present values of the income in the individual periods represents the capital value. The rate reflects the investor's expected return, or yield, the change in value over time, as well as the uncertainty of the income stream and the rewards associated with the risks.

In valuation practice, the most common capitalization rate used for net income capitalization is the market derived capitalization rate or the band of investment technology, which takes into account leverage and equity interests, or the composition of the property, the economic life of the improvements, the initial rate of return, annual inflation.

Determining the discount rate

- The total capital discount rate is usually determined using the weighted average cost of capital (WACC) method, which takes into account the interest on debt and equity.
- The discount rate for equity can be determined by surveying market participants and experts, or using methods such as the CAPM (Capital Asset Pricing Model) or the cumulative method - adding to the risk-free rate the risks associated with the liquidity, management and return of the investment.
- Discount rates are calculated using WACC - Weighted average cost of capital.

	Equity	Borrowed funds
Amount of capital	30%	70%
Annual rate of return on capital	13.00%*	6,7%
Capital effects	3,9%	4,7%
Aggregate rate	8,60%	

*- the rate of return on equity is determined in consultation with market participants, industry experts and Latio's commercial sales specialists. Analysing the available data on actual rates of return on the transactions that have taken place, the valuers have found that, despite a significant increase in funding costs, actual rates of return have not changed significantly, suggesting that, in most cases, buyers are now willing to receive a lower return on equity.

The discount rate used in the calculations is 8.6%.

In valuation practice, the capitalisation rate is most often determined by analysing information on similar properties sold or by splitting the investment loan into equity and equity shares.

The valuers analysed transactions for similar p r o p e r t y types and found that the market for this type properties are transacted at yields of ~7.5-8.5% (see examples in the market overview). The capitalisation rate is set taking into account long-term risks and the rate of return on capital, as well as potential capital appreciation. The capitalisation rate for the reversion calculation is set at 8.0% in the valuation framework.

Years	Measuring.	Year 1	Year 2	Year 3	reversion
Revenue		*1*	*2*	*3*	
Pilot Training Centre Building					
Group of rooms rented to an external user (cafe)	m2	285,30			
Room rent per month.	EUR/m^2	5,44	5,44	5,44	
Occupancy (rental risk) factor*		0,95	0,9	0,9	
Annual rental income.	EUR	17681	16751	16751	
Part of the building leased to Airbaltic Training	m2	2123,00			

Room rent per month.	EUR/m^2	5,50	6,20	6,20	
Occupancy (rental risk) factor*		0,95	0,9	0,95	
Annual rental income.	EUR	133112	142156	150054	
Other part of the building (owner-occupied, accepted as rented)	m2			754,80	
Room rent per month.	EUR/m^2	7,60	7,60	7,60	
Occupancy (rental risk) factor*		0,6	0,9	0,95	
Annual rental income.	EUR	41303	61954	65396	
In the building together without outdoor spaces	m2			3163,10	
Total annual rental income from the building	EUR	192096	220861	232200	
Parking	unit			13,00	
Rent per month.	EUR/m^2	20,00	20,00	20,00	
Occupancy (rental risk) factor*		0,95	0,9	0,9	
Annual rental income.	EUR	2964	2808	2808	
Total annual income	**EUR**	**195060**	**223669**	**235008**	

Expenses						
Land rent according to the concluded agreement (current, with further indexation of ~ 2% annually)		EUR	36468	37197	37941	
Property tax of 1.5% of the cadastral value of the property (buildings).		EUR	4315	4315	4315	
Insurance (according to the policy provided)		EUR	1012	1012	1012	
Ongoing management costs attributable to the owner (according to the planned occupancy)		EUR	14825	8500	6557	
Replacement reserve attributable to the owner (%) of total revenue.	7%	EUR	16254	16254	16254	
Total expenditure		EUR	72874	67279	66079	
NOI	Annual net receipts less expenses, EUR	EUR	122186	156390	168929	reversion
Expenditure against revenue			37%	30%	28%	
Capitalisation rate						8,0%
Reversion value (capitalised net income in year 3)		EUR				2111613
i	Discount rate	%	8,6%	8,6%	8,6%	
Discount factor			0,92	0,85	0,78	0,78
PV	Present value (discounted value)	EUR	**112520**	**132626**	**131927**	**1649092**
The market value of the valuation object, determined using the income approach, is:						€ 2 026 200
Round						**2 030 000 €**

12. Sale and pledge options

The property has medium liquidity on the market. No obstacles to the sale or pledge of the object of valuation have been identified. An assessment of the property transactions and offers that have taken place shows that there is moderate demand for commercial property and limited supply. In line with the current economic situation in the country and the world as a whole, the outlook for economic development and growth is uncertain. However, demand for commercial real estate has not significantly weakened and there are no negative price corrections for the type of properties in question.

13. Declaration of independence

The calculations of the market value of the real estate were carried out by SIA "Latio". SIA Latio has been granted the certificate for real estate valuation No.3 issued by the Competence Supervision Bureau of LĪVA. The real estate was inspected and the valuation was made on the basis of its actual condition as of 11 March 2024. The representative of SIA "Latio" Anda Zvirbule visited the real estate. Latio SIA as a company and its individual appraisers have no interest in increasing or decreasing the value of the property to be appraised.

We hereby declare that, based on our knowledge and belief:

- we have presented the information we have received truthfully,
- conclusions are based on the evaluators' personal experience and objective analysis,
- our payment is not dependent on the value of the object,
- we have no present or prospective personal interest in the property being valued, and no interest in or bias against the parties involved in the property being valued.

14. Conclusion

Please be informed that according to the market situation as at the date of inspection and valuation on 11 March 2024, the estimated:

- ***market value*** of ***EUR 2 030 000 (two million thirty thousand euro),***
- the value of the forced sale is ***EUR 1 500 000 (one million five hundred thousand euro)*** with a selling period of up to 9 months.

Anda Zvirbule
SIA "Latio" Commercial Group Valuer
(LĪVA Certificate of Professional Qualification No 149)

Annex 1

Key assumptions and limiting factors used

- The appraised property is considered to be free from loans, liens, financial obligations and encumbrances, unless specifically noted in the appraisal.
- It is free from the prohibition on alienation.
- The assessors assume that the documents certifying the legal ownership of the property are correct.
- The valuers have assumed that there are no other written agreements or rental/lease contracts that affect the value. The valuers are not aware of any such occurrence, but if there is an unconsidered agreement or lease, then the value of the appraised item may change.
- The property is not considered to have been contributed to the share capital of the company;
- There are no non-severable investments in the property that third parties could claim;
- The information contained in the appraisal is assumed to be reliable, but the appraisers cannot take full responsibility for its accuracy as there are no specific guarantees as to its reliability. Accuracy depends on the accuracy of the information provided and obtained from clients and other sources.
- Valuers cannot be required to give evidence in court in relation to the valuation of the property, except by prior agreement.
- The visual material (maps, development plan, etc.) included in this assessment is provided for the sole purpose of helping the reader to visualise the site and to better understand the information presented, and the assessors accept no responsibility for the accuracy of this material.
- The appraisal may not be copied or published, nor may it be used for purposes other than those stated in the terms of reference, without the prior written consent of the appraisers and the owner on a case-by-case basis.
- Neither the whole nor any part of the contents of the valuation (in particular as regards conclusions on value, market data) may be publicly disseminated in advertisements, news broadcasts, sales portals or other mass media communications without prior written agreement.
- It is assumed that there are no hidden or invisible changes in the condition of the structures that would increase or decrease the value of the property and that can only be detected by special inspections by engineers.
- It is assumed that the construction works carried out on the plot, as well as the construction/connection of engineering communications, have been carried out in accordance with the procedure established by the Legislation of the Republic of Latvia, unless otherwise stipulated in the appraisal.
- The comparable figures associated with this assessment are considered to come from reliable sources. The evaluators have verified the data to the best of their ability, but accept no responsibility for the veracity of the figures.
- The valuation includes only the facts and situation at the time of valuation, possible fluctuations in market prices after the valuation date are not included in the valuation.
- Most of the assumptions and calculations used in the assessment are specific to the document and cannot be used in isolation from its context.

Valuation of:
Air Baltic Corporation's Brand Intellectual Property

Client:
Air Baltic Corporation

Date:
March 12, 2024

Headquarters:
2101 Wilson Boulevard
Suite 1001
Arlington, Virginia 22201
USA
Tel: +1 703 276 3200
Email: mba@mba.aero

Americas | Europe | Asia

www.mba.aero

TABLE OF CONTENTS

I. VALUATION SUMMARY

VALUATION SUMMARY	
SUBJECT ENTITY	Air Baltic Corporation
SUBJECT ASSET	Air Baltic Corporation's Brand Intellectual Property
NUMBER OF EMPLOYEES	2,531 as of December 31, 2023
PURPOSE OF VALUATION	Consideration for Transaction
STANDARD OF VALUE	Fair Market Value
PREMISE OF VALUE	Going Concern
VALUATION DATE	March 7, 2024
VALUATION APPROACHES	Income Approach
VALUATION METHODS	The Relief from Royalty Method
REPORT TYPE	Summary Report
CONCLUSION OF VALUE	€126,948,000

II. INTRODUCTION

Subject & Purpose of the Valuation Engagement

mba Aviation (mba) was engaged by Air Baltic Corporation ("airBaltic," the "Client," the "Company," or the "Subject Entity") to estimate the value of its Brand Intellectual Property ("Subject Asset") as of March 7, 2024 (the "Valuation Date").

mba understands that the Client will use the Conclusion of Value in connection with a financing transaction (the "Transaction"). Furthermore, mba understands that this report may be provided and/or quoted, in whole or in part, to agents, lenders, trustees, investors, purchasers, rating agencies, and other parties and their counsel and other professional advisors in connection with the Transaction (the "Recipients"). This Valuation Report was prepared solely for the purpose described in this paragraph and, accordingly, should not be used for any other purpose. This Report should not be distributed to any party other than the Client and the Recipients in connection with the Transaction without the express knowledge and written consent of mba.

Relevant Dates

mba was engaged to value the Subject Assets as of the Valuation Date. For the purpose of this valuation, historical financials and other information covering the results of the Subject Entity's operations were used, including forecasted financial performance and estimates of passenger growth provided by the Client. It is mba's understanding that this information represents the most complete and reliable financial information available as of the date of this report. In this valuation, mba considered only circumstances that existed as of, and events that occurred up to, the Valuation Date.

Standard & Premise of Value

Two important concepts mba considered before beginning this engagement were the applicable Standard of Value and Premise of Value. Standard of Value deals with the definition of value or the type of value being proffered. Numerous Standards of Value exist and may be applicable for a particular valuation, depending on the purpose of that engagement. For this valuation, the applicable Standard of Value is Fair Market Value.

The IRS defines Fair Market Value as:

> *The price at which property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.*

Premise of Value deals with the "how" in a transaction. The valuation premise may be either in-use or in-exchange, with the determining factor being the highest and best use as considered from a market participant's perspective. In this case, the Conclusion of Value is based on an in-use valuation premise of Going Concern, which assumes that the Subject Entity will continue to operate into the future.

Scope of the Valuation Engagement

There is a specialized classification of intangible assets called intellectual properties. Intellectual properties manifest all the economic existence and economic value attributes of other intangible assets. Intangible assets are often created in the normal course of business operations. However, intellectual properties are created by human intellectual or inspirational activity. A common categorization of intellectual property types is:

1. Creative (e.g., trademarks, trade names, service marks, logos, copyrights, software, databases, data content)
2. Innovative (e.g., patents, industrial designs, trade secrets, technology)

mba has valued the Subject Asset and considered the following factors in this valuation:

- The nature of the business, the Subject Asset, and the history of the enterprise from its inception;
- The economic outlook in general and the condition and outlook of the specific industry in particular;
- The financial condition of the business; and
- The earning capacity of the business and its Subject Asset.

mba's scope of work included but was not necessarily limited to the following:

- Discussions with management concerning the Subject Asset, financial and operating history, and forecasted future operations of the Subject Entity;
- Analysis of historical financial statements and other financial and operational data concerning the Subject Asset;
- Analysis of forecasted financial and operational data concerning the Subject Asset;
- Research concerning the Subject Entity; its financial and operating history; the nature of its products, services, and technologies; and its competitive position in the marketplace;
- Research and analysis on the industry segment in which the Subject Entity operates;
- Research and analysis on current economic conditions and the outlook for the region's economy; and
- Analysis and estimation of the value of the Subject Asset as of the Valuation Date.

Sources of Information

The principal sources of information utilized in conducting this analysis were as follows:

- Audited Consolidated Financial Statements;
- Forecasted financial statements prepared by the Subject Entity;
- Subject Entity Corporate Presentation;
- Subject Entity website;
- Statistics, studies, forecasts, and articles regarding the industry in which the Subject Entity operates and the economic environment; and
- mba's internal data and values for the assets the Subject Entity holds.

Financial and other pertinent information provided to mba by the Subject Entity has been accepted without further verification. mba did not audit, review, compile, or attest under the AICPA Statements on Standards for Attestation Engagements (SSAEs) to any financial information derived from those sources, and mba, therefore, assumes no responsibility for any such financial information.

Refer to Section X for a complete list of Assumptions & Limiting Conditions applicable to this Valuation Report. Certain specific assumptions and limiting conditions may be cited in the body of this report.

III. SUBJECT ENTITY OVERVIEW

Nature, Background, & History

airBaltic is the leading airline in Latvia and Estonia and one of the largest carriers in Lithuania. It operates direct flights from all three Baltic state capitals—Riga (Latvia), Tallinn (Estonia), and Vilnius (Lithuania)—as well as from Tampere (Finland). As of December 2023, airBaltic also operates a seasonal base in Gran Canaria (Spain), connecting the popular island with ten destinations in the Nordic and Baltic countries. The Company provides the best connectivity to and from the Baltic region and performs direct flights to more than 80 destinations in Europe and beyond. airBaltic offers air transport services that include passenger transportation on regular and charter flights, cargo transportation, and Aircraft, Crew, Maintenance, and Insurance (ACMI) services. Being a hybrid airline, airBaltic takes the best practices from both traditional network airlines and low-cost carriers. Moreover, as a network airline, airBaltic has established Riga as a connecting hub. This fortuitous position has had and will continue to have significant direct and indirect impacts on the Latvian economy. The Company's services are available to different types of customers and beneficiaries: businesses, passengers, VFR (visiting family and friends) passengers, and charter, ACMI, and cargo customers.

airBaltic is a joint stock company established in 1995 with headquarters at Tehnikas iela 3, Riga International Airport, Latvia. As of December 31, 2023, the Company's primary shareholder is the Latvian State, which holds 97.97% of the stock. Lars Thuesen (through his fully owned company "Aircraft Leasing 1 SIA") and the other minority shareholders collectively own 2.03%.

The Company employs over 2,531 people. In 2023, the Company carried 4.54 million passengers on 44,113 flights, with EUR 668 million in revenue.

In 2023, the Company received seven new Airbus A220-300 aircraft, becoming the largest operator of this aircraft type in Europe and one of the largest operators globally. The Company currently has 46 aircraft of this type in its fleet, and four more are expected to join in 2024. For training purposes, the Group owns eight single-engine Diamond DA-40NG (New Generation) aircraft and one dual-engine Diamond 42-VI (Improved Speed), both models being among the most modern in the industry.

Communication and Marketing Practices

Relationships with customers and mutual trust have always been some of the airline's main focuses. To reach 4.54 million customers, the Company uses a combination of various marketing and communication channels.

COMMUNICATION: The Airline's Call Centre plays a significant role in providing high-quality services. It employs around 100 specialists who, on a daily basis, handle incoming calls, messages, and e-mails in seven languages (Latvian, Lithuanian, Estonian, English, German, Finnish, and Russian). Throughout 2023, the Call Centre served a total of around 1.8 million inquiries (1.1 million in 2022). The Call Centre integrated schedule change notifications to comply with EU regulations, thereby improving service and legal compliance. It also expanded communication channels with WhatsApp and Chat to enhance customer connection, resulting in a higher interaction ratio per total number of passengers. airBaltic's social media channels play a significant role in communicating the airBaltic brand.

MARKETING: In recent years, airBaltic has elevated its digital marketing strategies to meet ambitious business and corporate targets. With a strong presence in home markets (the Baltics and Finland), coupled with a desire to expand sales and brand awareness beyond its core market, airBaltic leverages modern digital tools, on-demand customer intelligence, and marketing platforms. Notably, airBaltic.com remains the source of 64.0% of all flight bookings, consistent with the figure from 2022. Mobile devices continue to be the most significant traffic source, constituting 64.0% of engagement (compared to 57.7% in 2022). However, customers still prefer using PCs to make flight bookings, and mobile devices account for only 33.0% in this regard (compared to 28.1% in 2022).

To nurture long-term relationships with customers, airBaltic continually enhances its loyalty program, airBaltic Club. This program enables clients to earn points while traveling, which can be exchanged for various compelling rewards. Focusing exclusively on the travel industry, airBaltic Club attracts travel-related partners, including hotels, car rentals, and insurance providers. The total number of Club members in 2023 reached 1,090,750, a remarkable 38.0% increase from 2022.

airBaltic's own digital channels, including newsletters and web and app push notifications, play a vital role in the Company's marketing mix. By the end of 2023, the airBaltic newsletter subscriber database comprised 708,175 active subscribers, marking a 28.0% increase from 2022. The average open rate improved to 33.5%, up from 30.7% in 2022.

Competition

airBaltic competes with eight major carriers based in the airline's core market. The nine carriers are listed below, with the number of seats and frequencies they have within the Subject Entity's core markets[1] during 2024.

CARRIER	COUNTRY	M / LCC	SEATS	FREQUENCIES
AIR BALTIC CORPORATION	Latvia	M	3,740,270	25,788
RYANAIR	Ireland Republic of	L	2,330,101	12,256
DEUTSCHE LUFTHANSA AG	Germany	M	476,327	2,621
FINNAIR	Finland	M	455,593	6,505
LOT - POLISH AIRLINES	Poland	M	369,042	3,843
SAS SCANDINAVIAN AIRLINES	Sweden	M	355,460	3,842
WIZZ AIR	Hungary	L	329,081	1,792
TURKISH AIRLINES	Turkey	M	277,760	1,777
NORWEGIAN	Sweden	L	245,010	1,297

Source: FY 2024 OAG Schedules Data as of March 2024. **Note:** Statistics shown are one-way.

[1] Core markets include Latvia, Lithuania, and Estonia.

IV. SUBJECT ASSET OVERVIEW

There is a specialized classification of intangible assets called intellectual properties. Intellectual properties manifest all the economic existence and economic value attributes of other intangible assets. Intangible assets are often created in the normal course of business operations. However, intellectual properties are created by human intellectual or inspirational activity. A common categorization of intellectual property types is:

1. Creative (e.g., trademarks, trade names, service marks, logos, copyrights, software, databases, data content)
2. Innovative (e.g., patents, industrial designs, trade secrets, technology)

Intellectual Property

Intellectual properties are assets capable of generating revenue, decreasing costs, expanding and protecting competitive positions, or enhancing customer value propositions.

The Subject Entity's brand, marketing, and distribution method contribute to its intellectual property. The distribution technology and approach create significant cost savings and enable the Subject Entity to continue building loyalty with customers through increased interaction with them. Recognising the modern passenger's demand for more self-service options and 24/7 access, in 2023 airBaltic upgraded its customer self-service portal.

The primary and preferred distribution channel to customers is the airBaltic website and mobile app. In 2023, 63.0% of airBaltic flown passengers use the direct distribution channel. This low-cost distribution strategy results in reduced expenses by avoiding the fees associated with the use of Global Distribution System (GDS) distribution points. Every GDS charges per transaction. Booking fees are usually between 2.0%–4.0% of a ticket price, and around 20.0% for a hotel booking.[2] In 2023, airBaltic engaged in digitising another part of the customer journey by redesigning and streamlining the Extra Service purchase flow on airBaltic's website: seat reservation, heavy cabin- or checked baggage, sports equipment, meal pre-orders, fast track, and lounge access. This process makes the booking process more intuitive and user-friendly, enables a customizable and personalized experience, and meets the diverse needs and preferences of travelers. Full completion of the project is expected in 2024.

The Subject Entity is able to utilize data and analytics to grow revenues and optimize the customer experience. The Subject Entity has a leading technical function, which provides multiple cost-effective opportunities to market products and services, including at the time of travel purchase, between purchase and travel, and after travel is complete. The Subject Entity continues to evolve ways of working with technology to engage customers and employees; this creates additional revenue opportunities by allowing the Subject Entity to capitalize on customer loyalty.

---

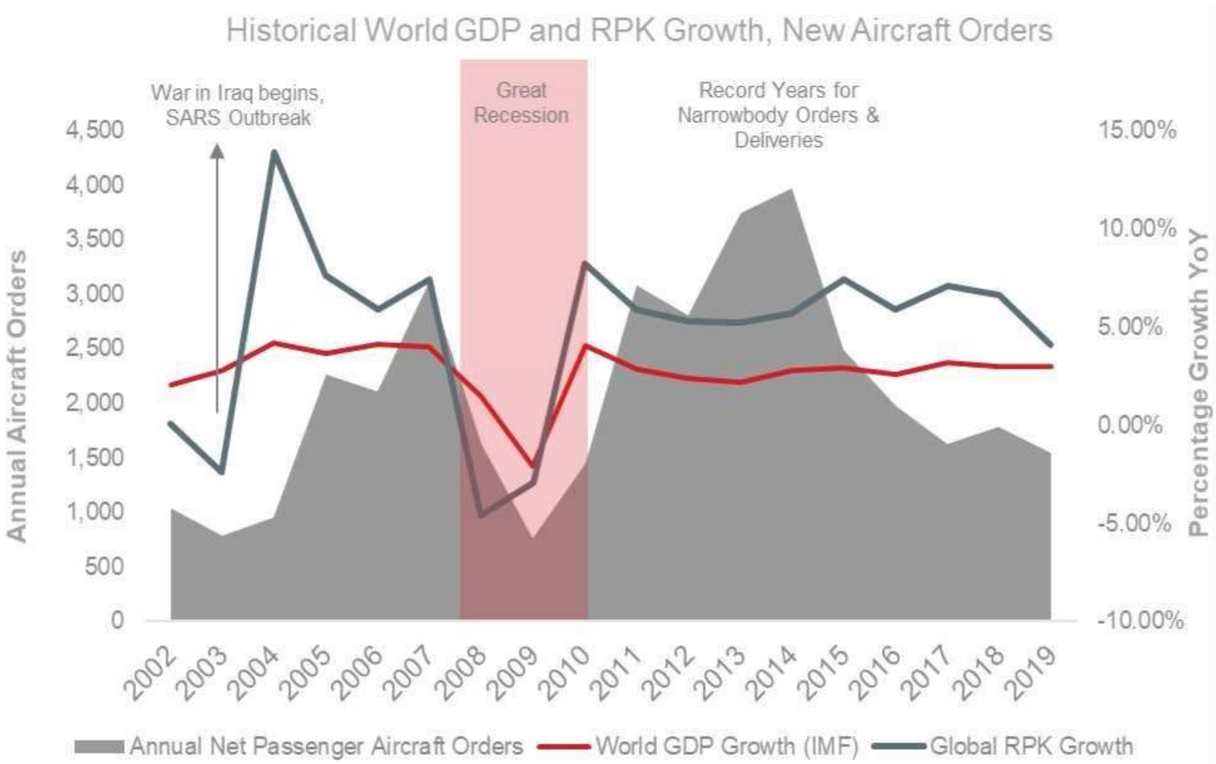
[2] A-viewpoint-on-GDS-surcharges-and-the-evolving-airline-distribution-landscape, TPConnects.

V. AVIATION INDUSTRY OVERVIEW

A key component of any appraisal is an understanding of the market at the time the valuation is rendered, contextualized by recent notable developments. Though the past several years have been filled with uncertainty, the industry enters 2024 trusting that elevated interest rates will not hinder further recovery. Many airlines were able to return to profitability in 2023, and receding inflation rates in Western economies provide a measure of optimism. In the following sections, mba defines current and recent passenger air market conditions, and offers mba's view of the current market situation.

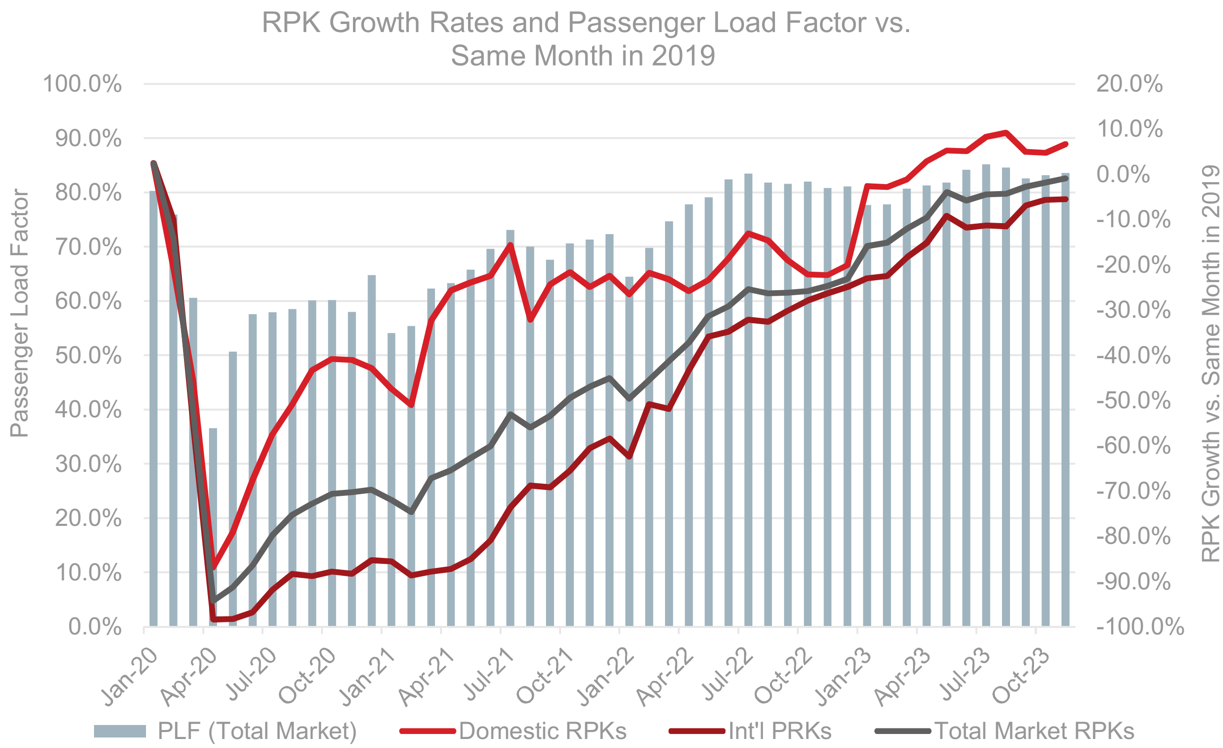
Passenger Traffic

Air traffic demand growth is measured by Revenue Passenger Kilometers (RPKs), the number of kilometers traveled by paying passengers, and has historically been a fundamental indicator of the industry's health. Annual macroeconomic factors like Gross Domestic Product (GDP) growth and microeconomic metrics like the number of new aircraft orders have typically been highly correlated to RPK growth and retraction, as seen in the chart below. While 2018 marked the ninth consecutive year of above-trend growth in RPKs, all regions began retracting in 2019, with North America and Europe stagnating. GDP rates, too, had begun flattening in 2018 and shrank further in 2019, especially in advanced economies.



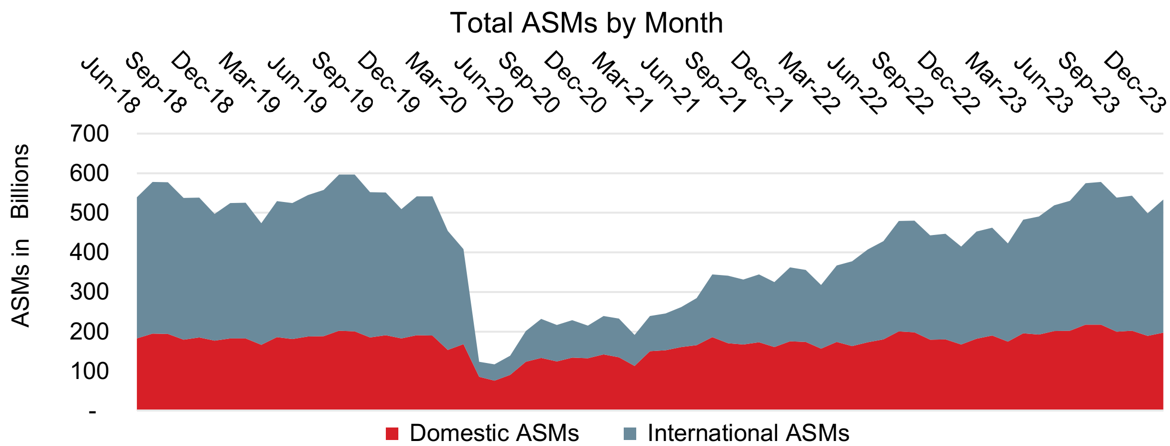
Sources: mba REDBOOK FLEET; Original Equipment Manufacturers (OEMs); International Monetary Fund (IMF); International Air Transport Association (IATA)

RPKs are also regularly analyzed alongside other airline monthly trailing indicators like Passenger Load Factor (PLF), a measure of how much capacity is filled, and Available Seat Kilometers (ASKs) or Available Seat Miles (ASMs), which IATA defines as measures of carrying capacity available to generate revenue. After the precipitous decline in all metrics after the onset of the COVID-19 pandemic in March and April 2020, RPKs, PLFs, and ASMs have shown remarkable signs of recovery, particularly on the domestic side. According to IATA, year-over-year (YoY) total RPKs are up 29.7% in November 2023, with international RPKs nearly reaching 2019 levels (0.9% under) for the first time. Total Market PLFs, too, have stabilized, averaging 83.9% over the last half of 2023, higher than the average PLF levels in 2018 or 2019.



Source: IATA

Global Domestic RPKs outstripped 2019 nearly every month in 2023. While global International RPKs still lag behind pre-pandemic highs, the 2023 high season was only ~9.2% down from 2019, compared to trailing ~33.0 in 2022. North American carriers have fully recovered in terms of international RPKs, with November 2023 levels up 7.4% above 2019, while Africa, Asia Pacific, and Europe are still lagging. Total RPKs were still down 0.9% from November 2019 levels, due primarily to Asia-Pacific International RPKs remaining 6.8% below November 2019 levels, though mba expects them to return to pre-COVID-19 levels sometime in 2024.

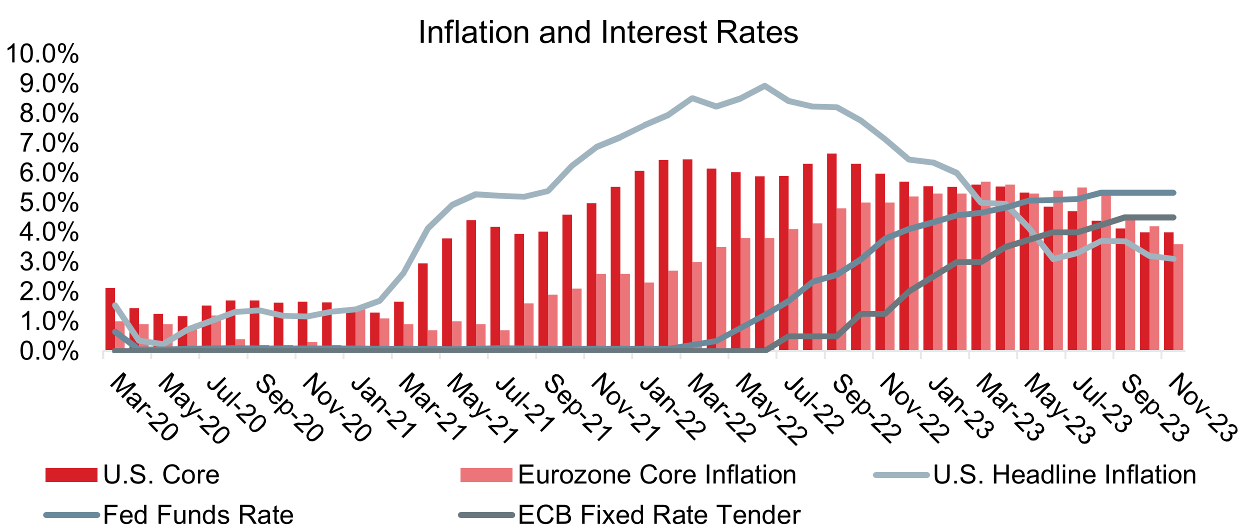


Source: OAG

As RPKs continue to improve, so do ASMs. mba expects continued recovery in ASMs in 2024 and beyond as travel demand and capacity reach and exceed 2019 levels. Total ASMs in December 2023 exceeded 2018 ASM levels and are only 1.5% below 2019 ASM levels. Domestic ASMs have hit new records, rising to 17.6% above December 2019 highs, and global international ASMs in November and December were above the same months in 2019 for the first time since the pandemic. mba expects international ASMs to continue to grow and reach 2019 levels throughout 2024.

Macroeconomic Indicators

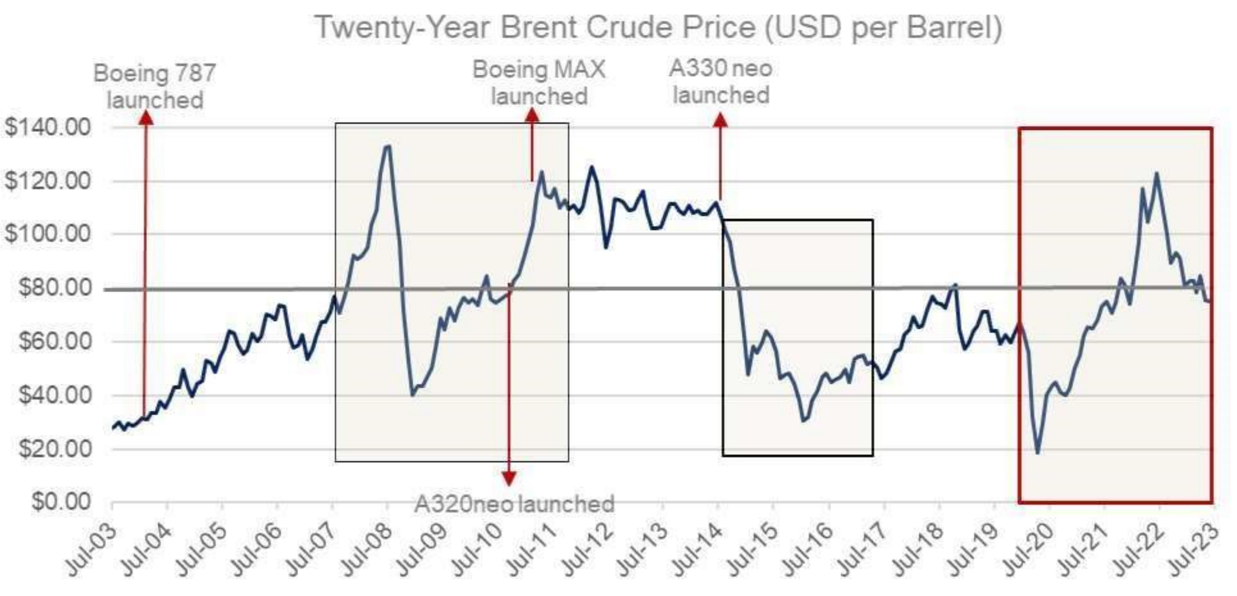
Though headline and core inflation rates have stabilized in the Eurozone and the U.S., rates remain elevated, with the U.S. core rate at 4.0% and the Eurozone rate at 3.6%. This increases the likelihood that interest rates will remain elevated longer as central banks in the West attempt to further cool inflation. mba continues to monitor inflation's impact on asset values and recognizes that it has temporarily influenced Market Values in the near term. However, mba expects this trend to slow in 2024, assuming inflation in the West continues to ease.



Source: Federal Reserve Economic Data (FRED), Trading Economics

Effects of Oil Prices on Aviation

Historically, oil prices have strongly influenced aircraft values, as they typically constitute upwards of 20.0–30.0% of operators' total expenses. Previous spikes led OEMs to quickly introduce more fuel-efficient aircraft, while drops in fuel price have typically kept older aircraft in service longer. High and volatile fuel prices can have significant impacts on airlines' balance sheets and, in some cases, have been the final nail in a cash-strapped airline's coffin.



Source: U.S. Energy Information Administration (EIA)

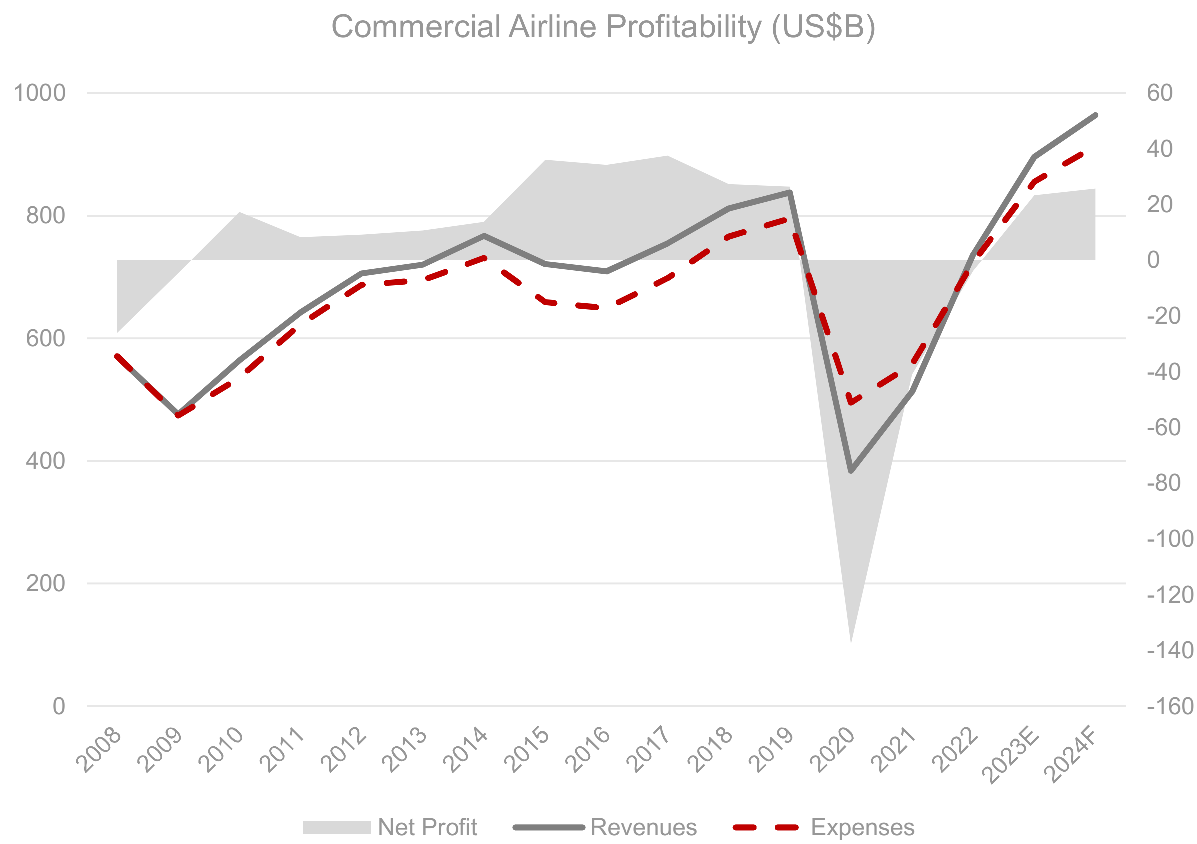
After a period of volatility between 2007 and 2011, oil prices remained over US$100.00 per barrel until the end of 2014, leading to the launch of the A320neo in December 2010 and the 737 MAX in mid-2011 as prices surged. Next generation widebodies, too, have been announced when oil prices are high, as the 787 was in 2004, when prices were climbing, and as the A330neo family was in July 2014, right at the tail end of another era of high oil prices. However, by January 2016, Brent Crude had fallen to a new 13-year low, dropping to US$26.00 per barrel. During this period, larger, older, less-efficient widebody aircraft were utilized in larger numbers.

Oil prices in 2020 briefly fell to new 20-year lows but have since rebounded strongly; in 2022, oil prices rose above US$120.00 per barrel for the first time since 2015. Prices are currently quite volatile and have been decreasing steadily since June 2022. As of June 2023, the price of oil is around US$75.00 per barrel, the lowest it has been since 2021. However, in April 2023, OPEC announced that it would cut oil production by 3.7% of global demand, further limiting supply after a previous cut in October 2022, with yet another cut of over 1.0 billion barrels per day starting in 2024. The outlook on prices remains highly uncertain.

Industry Profitability

The airline industry experienced a decade of solid performance with revenues and positive net profitability between 2010 and 2019. Virtually grounded by COVID-19 in 2020, the airline industry suffered substantial loss in connectivity and the economic benefits it generates. Airline profitability has continued to recover globally since 2021. Estimates for 2023 project that the recovery in the airline industry will continue and will likely end the year with a net profit of US$23.3 billion, followed in 2027 by a forecasted US$25.7 billion profitability.

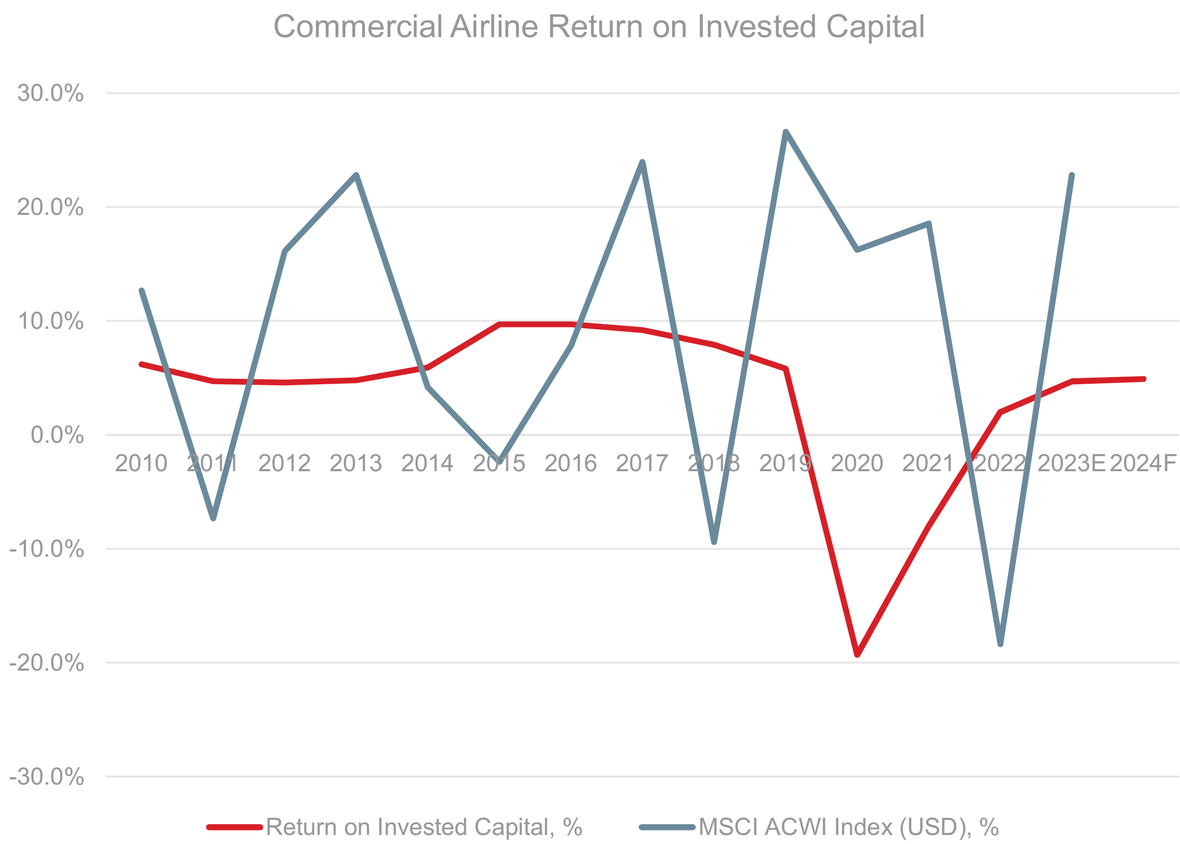
The graph below displays profitability numbers for the global airline industry as per IATA.



Source: IATA, mba Aviation Analysis

Return on Invested Capital

Return on Invested Capital (ROIC) for the airline industry is expected to be 4.7% for 2023, a decline due to the continued recovery from the COVID-19 pandemic but an increase from 2020's low of -19.3%. The stability in airline margins and ROIC leading up to 2019 was driven by a strong economy, allowing unit cost increases to be recovered through higher load factors and some rise in yields. The graph below presents airline industry ROIC as compared to annual returns for MSCI's ACWI index, which is a global equity index capturing both developed and emerging markets.



Source: IATA, MSCI (YTD Data as of Jan 31, 2024)

VI. INTELLECTUAL PROPERTY TRANSACTIONS OVERVIEW

One of the largest intangible assets that an air carrier can maintain is its brand and intellectual property. An air carrier's right to utilize a trademark or other intellectual property allows it to operate without fear of another carrier utilizing the same mark and risking the reputation of the carrier. While few transactions exclusively involving intellectual property and an airline's brand exist, there have been past transactions that create a precedent for similar transactions to occur in the future.

In 2008, Southwest Airlines purchased America Trans Air (ATA) Airlines for US$7.5 million. The acquired assets included 14 slots at New York's LaGuardia airport, the ATA branding and trademarks, and the operating certificate for the airline.[3] Prior to the acquisition of the remaining assets of ATA, Southwest Airlines had a codeshare relationship with ATA. In the U.S., Virgin America was required to pay royalties to Virgin Group for the rights to utilize the "Virgin" brand on the carrier, and subsequently, with Alaska Airlines as owners of the carrier after the merger between Alaska Airlines and Virgin America was announced. Based on data filed with the Securities and Exchange Commission, Virgin America was subject to a 0.5% royalty on gross sales per quarter in 2015, a 0.7% royalty on gross sales per quarter in 2016, and after a date in which gross sales for the preceding four consecutive quarters exceeds US$4.5 billion, a 0.5% royalty on gross sales.[4]

In 2010, easyJet agreed to pay royalties of 0.25% of the carrier's total revenues to easyGroup after a court dispute with easyJet founder Stelios Haji-Ioannou over royalties and licensing of the "easy" brand. In exchange for the royalties, as well as an annual fee of GBP£300 thousand for a period of five years, Sir Stelios agreed to give up his right to appoint himself as a chairman of easyJet, as well as the right for easyGroup to represent on the board of easyJet. The minimum commitment for easyJet is ten years, with the right to utilize the "easy" brand for up to 50 years after the execution of the agreement in 2010.[5]

Within the U.S., many mainline carriers contract with regional airlines to operate low-demand, short-haul routes using the mainline carrier's livery and name. These contracts are known as capacity purchase agreements, or CPAs, and allow regional carriers to enjoy the benefit of a fairly predictable revenue stream. In the 1990s, major European carriers such as Lufthansa, British Airways, and Iberia began providing regional carriers with their livery, trade secrets, reservation and ticketing systems, as well as other services and intellectual property. In exchange, these regional carriers would pay a licensing fee back to the major carrier and operate flights using the regional carrier's own air operator's certificate while utilizing the network carrier's branding.[6] Recently, many of these carriers have moved away from the franchise model and have established wholly-owned subsidiaries.

---

[3] http://investors.southwest.com/news-and-events/news-releases/2008/19-11-2008.
[4] https://www.sec.gov/Archives/edgar/data/1614436/000119312514365735/d761206dex1050.htm.
[5] https://corporate.easyjet.com/~/media/Files/E/Easyjet/pdf/investors/brand-licence-court-case/11-10-2010a-pr.pdf.
[6] Nicholas Denton and Nigel Dennis, "Airline franchising in Europe: benefits and disbenefits to airlines and consumers," *Journal of Air Transport Management* 6, no.4 (2000): 179-190.

The coronavirus pandemic has forced carriers to be inventive as they look to secure funds. In addition to the traditional collateral of aircraft and engines, airlines are increasingly pledging intellectual property and brands to raise funds. In June 2020, JetBlue Airways Corporation entered into a US$750 million Term Loan Credit Agreement secured by certain airport takeoff and landing slots and the right to use certain intellectual property assets comprising the JetBlue brand.[7] In July 2020, American Airlines entered into a Note Purchase Commitment Letter secured by certain intellectual property of the Company, including the "American Airlines" trademark and the "aa.com" domain name. In September 2020, Spirit Airlines contributed its brand intellectual property, its Free Spirit affinity credit card program, and its $9 Fare Club (now Spirit Saver$ Club) program assets and intellectual property to newly created entities. The loyalty assets are licensed on a royalty-free basis, while Spirit pays a license fee of 2.0% for the brand assets.[8]

In December 2020, GOL, Brazil's largest domestic airline announced a private placement of US$200 million backed by its intellectual property, including patents, trademarks, brand names and domain names, and certain spare parts.[9] In January 2021, Hawaiian Airlines issued senior secured notes of US$1.2 billion backed by its HawaiianMiles loyalty program and its Hawaiian brand intellectual property.

In October 2021, following distressed Alitalia's reorganization as Italia Trasporto Aereo (ITA), the newly organized entity acquired the Alitalia brand and website domain for €90 million (US$104 million) on the eve of its first day of operations. While EU State aid rules required the new company to be sufficiently different from the previous one, requiring a rebranding of the restructured Alitalia into ITA, all the aircraft of the reorganized entity still carried Alitalia livery, requiring ITA to purchase Alitalia's brand in order to carry out operations. The purchase price for the brand was lower than the reported €290 million set as the base price by Alitalia to participate in the tender.[10,11]

In July 2023, Air France–KLM and Apollo entered exclusive discussions regarding a €1.5 billion capital solution to Air France–KLM's Flying Blue Loyalty program with commercial partners.[12]

In August 2023, six years after AirBerlin ceased operations, the owner of Sundair successfully acquired the trademark rights from AirBerlin for a reported purchase price of approximately €120,190.[13]

---

7 http://otp.investis.com/clients/us/jetblue_airways/SEC/sec-show.aspx?FilingId=14223861&Cik=0001158463&Type=PDF&hasPdf=1.
8 https://www.moodys.com/research/Moodys-assigns-B1-corporate-family-rating-negative-outlook-to-Spirit--PR_431327.
9 https://www.prnewswire.com/news-releases/gol-finance-prices-us200-million-of-8-senior-secured-notes-due-2026-301196621.html.
10 https://www.flightglobal.com/strategy/ita-secures-alitalia-brand-but-appears-set-on-fresh-start/145939.article.
11 https://simpleflying.com/ita-alitalia-brand/.
12 https://www.globenewswire.com/news-release/2023/07/27/2712697/0/en/Apollo-enters-exclusive-discussions-to-provide-a-1-5-billion-capital-solution-to-Air-France-KLM-s-Flying-Blue-Loyalty-program-with-commercial-partners.html
13 https://simpleflying.com/sundair-owner-buys-air-berlin-brand/.

VII. VALUATION APPROACHES & METHODS USED

To arrive at the Conclusion of Value, mba considered three generally accepted approaches to valuation, namely: the Income Approach, the Market Approach, and the Cost Approach. The Income Approach seeks to convert future economic benefits into a present value. The Market Approach relies on values indicated by similar assets or comparable transactions. The Cost Approach is based on a comprehensive or all-inclusive analysis of the relevant cost components.

Income Approach

The Income Approach is based on the premise that the value of a security or asset is the present value of the future earnings capacity that is available for distribution to investors in the security or asset. Expected future earnings capacity can be measured by one of the various benefit streams, such as cash flows, net income, or earnings before taxes, and can be calculated on a debt-free or after-debt basis. Choice of a proper stream of benefits depends on various factors, such as the enterprise's capital structure and its line of business. The Income Approach typically requires entity-specific assumptions, which are evaluated in the context of marketplace assumptions.

Market Approach

The Market Approach relies on values indicated by similar assets or comparable transactions. Using the Market approach, the appraiser conducts a review of historical sale transactions and lease rates. Values for a subject asset are then derived based on the comparable data. In the Market Approach, values may also be derived from discussions with knowledgeable market participants and regulatory agencies.

Cost Approach

The third considered approach to valuation is the Cost Approach. This approach is based on the economic principle of substitution, and the asset value is influenced by the cost to substitute or replace the asset. The Cost Approach considers a comprehensive definition of cost, which may include time, materials, and the opportunity cost of creating the asset.

Valuation Approaches Chosen

In performing this valuation, mba deemed the Cost and Market Approaches not appropriate in this case because the cost to create a brand does not reflect its true economic value and there is not an adequate number of comparable transactions from which to draw a conclusion of value.

The Income Approach is the most common approach in the valuation of intangible assets. There are several methods a valuation analyst can use under the income approach to estimate the value of specific intangible assets. Some of the most common methods include the Relief from Royalty, multi-period excess earnings (MPEEM), With-or-Without, and Greenfield.

These intangible asset valuation methods are applied in the following ways:[14]

- The Relief from Royalty method Determines value by reference to the hypothetical royalty payments that would be saved through owning the asset, as compared with licensing the asset from a third party.
- The MPEEM removes cash flows associated with the contributory assets with contributory asset charges, which reflect an economic rent for the use of the assets. Said differently, the MPEEM offsets positive cash inflows from contributory assets, as embedded in the operating margin of a business, by effectively subtracting the cash flow in the form of rents (cash outflow).
- The Greenfield method removes cash flows associated with the contributory assets in the form of investment dollars to build or buy the contributory assets. That is, the Greenfield method offsets positive cash inflows from the use of contributory assets, as embedded in the operating margin of a business, by effectively subtracting the cash flow in the form of up-front investments (cash outflow).
- The With-or-Without method estimates the fair value of an asset by comparing the value of the business inclusive of the asset to the hypothetical value of the same business excluding the asset.

Relief from Royalty is the most commonly used method for the brand, intellectual property, and technology applications. Given the importance of the Subject Asset to the Subject Entity's revenue and the availability of an applicable royalty rate, mba determined the Relief from Royalty method was most appropriate.

Income Approach – The Relief from Royalty Method

Application of the Relief from Royalty method requires the preparation of a reliable forecast of the expected future financial performance of the Subject Entity. In this context, the Subject Asset's future financial performance is a reflection of the Subject Entity's future revenues, the royalty rate, and taxes, going forward indefinitely.

Forecasted cash flow must then be discounted to a present value using a discount rate that appropriately accounts for the market cost of capital as well as the risk and nature of the subject cash flows. Finally, an assumption must be made regarding the sustainable long-term rate of earnings growth at the end of the forecast period, and the terminal or residual value of the remaining cash flows must be discounted back to a present value. The sum of the present values of the forecasted cash flows and the terminal value equals the value of the asset.

[14] https://www.oecd.org/tax/transfer-pricing/47426115.pdf.

Royalty Rate Determination

In determining this royalty charge, mba relied on industry knowledge and intelligence, comparable data points, its market expertise, and current analysis of market trends and conditions. The royalty rate analysis consisted of the following steps:

- Identification of comparable third-party license agreements for intellectual property.
- Evaluation of these agreements for comparability and selection of the most comparable licenses.
- Evaluation of the historical / forecasted profit margins generated by the Subject Entity.
- Selection of appropriate royalty rates based on our consideration of select third-party agreements, relevant outlook, historical / forecasted margins, and brand recognition.

mba used its internal proprietary database of precedent transactions and RoyaltySource[15] and RoyaltyStat[16] databases to identify royalty rates for comparable licensing agreements by asset type. mba relied heavily on agreements within its proprietary database, as these were the most sufficiently comparable for this Valuation.

The profitability of the Subject Entity is an important consideration in the selection of the appropriate royalty rate for each license agreement. A licensee's expected profitability is a key consideration when entering into a license agreement and agreeing to the royalty rate, as a licensee's profitability must be able to support the royalty necessary for use of the intellectual property.

The full-year financial statements for the Subject Entity are summarized below.

€ MILLION	2019	2020	2021	2022	2023
REVENUE	514	148	204	500	665
REVENUE GROWTH, Y/Y	*25%*	*(71%)*	*38%*	*145%*	33%
EBIT	27	(121)	(80)	5	84
EBIT MARGIN	5%	(82%)	(39%)	1%	13%

In the determination of the royalty rate for the Subject Asset, mba considered both the comparable license agreements and industry data. After considering these rates in conjunction with the historical and expected performance of the enterprise and industry and economic expectations, we have concluded that a 0.9% royalty rate as a percentage of net sales is appropriate for the Intellectual Property.

[15] https://www.royaltysource.com/.
[16] https://www.royaltystat.com/royaltystat.cfm.

Royalty Savings Forecast

For the Relief from Royalty analysis, mba utilized forward-looking pro-forma financial statements supplied by the Subject Entity's management team. In conjunction with the Client-supplied, pro-forma financial statements, mba ran an independent forecast of the Client's operations based on the Subject Entity's historical fleet, operating, and capacity data as well as mba's in-house knowledge of current and projected industry conditions. The mba forecast included an analysis of the Subject Entity's total revenue, which is the key driver of the Subject Asset's value. After a review of the forecasted operational metrics and corresponding revenues provided by the Client and compared with mba's internal forecast, mba found the financial projections forecasted by the Client to be reasonable and achievable. Assumptions in the mba model include annual cost inflation rates, annual jet fuel price per gallon growth curve, passenger traffic and yield growth trends.

Revenue Adjustments

The Client provided forward-looking, pro-forma financial statements covering the years 2024 through 2030. The following are adjustments applied in this valuation:

- **Aircraft Lease Revenue** – mba excluded aircraft lease revenues to determine the future benefit stream.
- **Royalty Rate Charge** – mba applied a 0.9% royalty charge to the Subject Entity's future benefit stream.
- **Tax Rate** – mba assumes the Latvian corporate tax rate of 20.0% in the forecast and calculation of the discount rate.
- **Terminal Growth Rate** – At the conclusion of the forecast period, mba applied a 4.0% perpetual growth rate based on industry expectations and mba's analysis of the region and business model.

Discount Rate Estimation

The Discount Rate applied to the forecasted benefit stream and terminal value must adequately reflect the nature of the applicable investment and the risk associated with the underlying cash flows. Stated another way, the Discount Rate represents the total rate of return that an investor would demand given the level of risk associated with an investment. For purposes of this analysis, mba derived the Subject Entity's Weighted Average Cost of Capital (WACC). This reflects the return required by all providers of capital weighted by their relative contribution to total capital. mba concluded the Subject Entity's WACC to be 11.8%.

VIII. CONCLUSION OF VALUE

The following summarizes mba's Conclusion of Value of the Subject Asset as of the Valuation Date.

CONCLUSION OF VALUE (€M)

AIR BALTIC CORPORATION'S BRAND INTELLECTUAL PROPERTY	€127.0

The Conclusion of Value was prepared solely for the purpose described in this Valuation Report and should not be used for any other purpose. The Conclusion of Value is subject to the Statement of Assumptions & Limiting Conditions found in Section X and the Representation of the Valuation Analysts found in Section XI.

IX. RISK FACTORS

The Conclusion of Value was determined assuming key factors affecting the value, including the economic, competitive, and financing environments. In the event any of these key factors affecting materially diverge in the future from mba's assumptions, mba's valuation results would be expected to change accordingly. Several of the major risks associated with these valuations are outlined below.

Regulatory Risks

mba's Conclusion of Value is based on the regulatory environment remaining in its currently expected state. In the event regulatory changes are adjusted, the Conclusion of Value expressed in this Valuation Report could change significantly as market share and market size changes within the Subject Entity's operations.

Economic Risks

mba's valuation is based on current economic conditions regarding global and regional economies. As stated earlier in the report, demand for air transport service is highly cyclical and is strongly correlated with economic trends. Therefore, a downturn in the global economy could have a negative impact on demand for passenger travel. Likewise, increased prosperity would have a positive effect on personal incomes, causing a rise in passenger traffic. As the air transport industry experiences these variances, the value of the Subject Entity could vary accordingly.

Competitive Risks

While the Subject Entity is in a strong position within its niche, the competition within the low-cost sector is fairly high. Consolidation of airlines in Europe may limit the number of potential competitors against the Subject Entity. Should further consolidation occur, this could impact the Subject Entity.

Revenue Risks

mba's valuation is based on the assumption that the Subject Entity will be able to meet the revenue forecast. If the Subject Entity does not attain these, it could impact mba's valuation.

Reputation Risk

The Subject Entity relies heavily on its long-term reputation, tied to the brand name, for revenue. The profitability of the Subject Entity, and therefore the valuation, could be adversely impacted due to damage to the brand's reputation.

Long-Term Contract Risks

mba's valuation is based on the assumption that the Subject Entity's contracts will carry out through their negotiated term periods. Variation in future contract terms negotiated by the Subject Entity may result in a positive or negative impact on mba's valuation.

Cyber-Security Risks

The Subject Entity's value is tied to its use of technology as a value driver. Strategic initiatives, such as outsourcing, use of third-party vendors, cloud migration, mobile technologies, and remote access, are used to drive growth and improve efficiency but also increase cyber risk exposure. If the Subject Entity is exposed to a cyber-attack or data breach, there is a risk of damage and destruction of data or monetary loss, including theft of intellectual property, productivity losses, and reputational harm.

Other Risks

There are several other risks to the valuation expressed herein, including but not limited to the threat of terrorist attacks, natural disasters, and pandemic illness, such as the outbreak of Coronavirus, the H1N1 virus (swine flu), SARS, or bird flu.

X. STATEMENT OF ASSUMPTIONS & LIMITING CONDITIONS

1. The Conclusion of Value arrived at herein is valid only for the stated purpose as of the Valuation Date.

2. Financial statements and other related information provided by the Subject Entity or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. mba has not audited, reviewed, or compiled the financial information provided to us and, accordingly, expresses no audit opinion or any other form of assurance on this information.

3. Public information and industry and statistical information have been obtained from sources mba believes to be reliable. However, mba makes no representation as to the accuracy or completeness of such information and has performed no procedures to corroborate the information.

4. mba does not provide assurance on the achievability of the results forecasted by the Subject Entity because events and circumstances frequently do not occur as expected, differences between actual and expected results may be material, and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.

5. The Conclusion of Value arrived at herein is based on the assumption that the current level of management expertise and effectiveness will continue to be maintained and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

6. The Valuation Report and its Conclusion of Value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The Conclusion of Value represents the considered opinion of mba, based on information furnished to mba by the Subject Entity and other sources.

7. The Valuation Report and its Conclusion of Value will not be disseminated by the Subject Entity or by any of its agents to other firms considered to be competitors to mba in the airline route valuation field without the prior express written approval of mba.

8. Future services regarding the subject matter of this Valuation Report, including but not limited to testimony or attendance in court, shall not be required of mba unless previous arrangements have been made in writing.

9. mba has not determined independently whether the Subject Entity is subject to any present or future liability relating to environmental matters (including but not limited to CERCLA/Superfund liability) nor the scope of any such liabilities. mba's valuation takes no such liabilities into account, except as they have been reported to mba by the Subject Entity or by an environmental consultant working for the Subject Entity, and then only to the extent that the liability was reported to mba in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to mba, mba has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

10. No change of any item in this Valuation Report shall be made by anyone other than mba, and mba shall have no responsibility for any such unauthorized change.

11. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the Subject Entity due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

12. mba has corresponded with the current management of the Subject Entity concerning the past, present, and prospective operating results of the company.

13. mba has not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

XI. REPRESENTATIONS OF VALUATION ANALYSTS

mba represents, as of the date written below, to the best of mba's knowledge and belief, that:

- The analyses, opinions, and the Conclusion of Value included in the Valuation Report are subject to the specified Assumptions and Limiting Conditions and are the personal analyses, opinions, and Conclusion of Value of the valuation analyst.
- The valuation analyst is unrelated to the Subject Entity and has no current or expected interest in the Subject Entity or its assets.
- The Valuation Report was prepared for the purpose stated therein. The Valuation Report is not intended to be and should not be used for any other purpose.
- The valuation analyst has no obligation to update the Valuation Report or the Conclusion of Value for information that comes to his or her attention after the date indicated above.
- The valuation analyst's compensation for the Valuation Engagement is in no way contingent on the outcome of the valuation.
- This report represents mba's opinion as to the value of the subject assets and is intended to be advisory only and is not given for or as an inducement for any specific financial transaction. Therefore, mba assumes no financial responsibility or legal liability for decisions or actions taken or not taken by the Subject Entity or any other party with regard to the subject assets. mba accepts no responsibility for damages, if any, claimed by a third party as a result of decisions or actions taken based on the information contained in this report. By accepting this report, all parties agree mba shall bear no such responsibility or legal liability. mba consents to the use of this appraisal report as required by the Transaction.

PREPARED BY:

Anala Ravinarayan
Director | Airline & Airport Services
mba Aviation

March 12, 2024

REVIEWED BY:

Anne Agnew Correa, CVA
Senior Vice President | Airline & Airport Services
mba Aviation

Desktop Appraisal of:
One A220 Full-Flight Simulator – Level D

Client:
Air Baltic Corporation

Date:
March 14, 2024

Headquarters:
2101 Wilson Boulevard
Suite 1001
Arlington, Virginia 22201
USA
Tel: +1 703 276 3200
Email: mba@mba.aero

Americas | Europe | Asia

www.mba.aero

Table of Contents

I. Introduction and Executive Summary

mba Aviation (mba) has been retained by Air Baltic Corporation (the "Client") to provide a Desktop Appraisal to determine the Current Base Market Value of one A220 Full-Flight Simulator (FFS) – Level D, (the "Subject Asset") as of March 2024. The Subject Asset are fully identified in Section VII of this Report.

In performing this Appraisal, mba relied on industry knowledge and intelligence, confidentially obtained data points, its market expertise and current analysis of market trends and conditions.

Based on the information set forth in this Report, it is mba's opinion that the total Current Market Value of the Subject Asset is as follows and as set forth in Section VII.

	Current Market Value (US$)
(1) A220 Full-Flight Simulator	**$7,690,000**

Section V of this report presents definitions of various terms, such as Current Base Value and Current Market Value as promulgated by the Appraisal Program of the International Society of Transport Aircraft Trading (ISTAT). ISTAT is a non-profit association of management personnel from banks, leasing companies, airlines, manufacturers, brokers, and others who have a vested interest in the commercial aviation industry and who have established a technical and ethical certification program for expert appraisers.

ISTAT

II. Qualifications

mba is a recognized provider of aircraft and aviation-related asset appraisals and inspections. mba and its principals have been providing appraisal services to the aviation industry for over 30 years, and its employees adhere to the rules and ethics set forth by the International Society of Transport Aircraft Trading (ISTAT). mba employs a team of ISTAT Certified Appraisers and ISTAT Certified Senior Appraisers. mba also employs ASA Certified Appraisers, who are applicable alongside ISTAT Certified Appraisers for its business jet and helicopter valuations. mba's clients include most of the world's major airlines, lessors, financial institutions, and manufacturers and suppliers. mba maintains offices in North America, Europe, and Asia.

mba publishes quarterly values updates on its online platform REDBOOK, which provides current and projected aircraft values for the next 20 years for over 150 types of jet, turboprop, and cargo aircraft in addition to engines and helicopters.

mba also provides consulting services to the industry relating to operations, marketing, and management with an emphasis on financial/operational analysis, airline safety audits and certification, utilizing hands-on solutions to current situations. mba also provides expert testimony and witness support on cases involving collateral/asset disputes, bankruptcies, financial operations, safety, regulatory, and maintenance concerns.

III. Simulator Overview

The purpose of a Flight Simulator is to permit development and practice of the necessary skills for accomplishing all required training and certification maneuvers and procedures to a prescribed standard of pilot competency in a specific aircraft type. A Flight Simulator is generally a full-sized replica of a specific type, make, model, or series of airplane cockpit. This includes the assemblage of equipment and computer programs necessary to represent the airplane in ground and flight operations, a visual system providing an out-of-cockpit view, and a force-cueing system, which provides cues at least equivalent to that of a three-degrees-of-freedom motion system. Flight Simulators provide more in-depth training than can be accomplished in airplanes because flight hazards can be completely avoided while allowing the introduction of various emergency scenarios. This process has been documented to provide a very high transfer rate of learning and behavior from the simulator to the airplane. The use of Flight Simulators in lieu of airplanes results in safer and more thorough flight training than could be accomplished in an aircraft as well as significant cost reductions for the operator.

There are several types of Flight Simulators, which are classified by their fidelity and certified by the FAA and/or EASA. Fidelity, in this case, refers to the extent to which a simulator or training device behaves, looks, sounds, and responds like the aircraft in which it represents. The FAA classifies Flight Simulators as either Aviation Training Devices (ATDs), which are governed by Advisory Circular (AC) 61-136A, or Flight Simulation Training Devices (FSTDs), governed by Title 14 CFR Part 60.

The first group of simulators, ATDs, are further split into Basic Aviation Training Devices (BATDs) and Advanced Aviation Training Devices (AATDs). These are entirely fixed-based simulators, which are approved for general aircraft pilot training and instrument, commercial, and Airline Transport Pilot certifications. However, they are not approved for Type Certification and cannot be used to build flight hours. ATDs can include aircraft instruments and panels that represent a general aircraft type or class in an open or closed cockpit setting, which may or may not include an Instructor Station. ATD intricacy ranges from a computer monitor with flight and system controls loosely resembling a general instrument panel to a full instrument panel closely resembling specific aircraft types or families of aircraft. ATDs are relatively inexpensive and are commonly used in general aviation, commercial flight schools, and training centers, as well as by aviation enthusiasts for recreation.

The second group of simulators, FSTDs, are also split into two groups: Flight Training Devices (FTDs) and Full-Flight Simulators (FFSs). Unlike ATDs, FSTDs can be used for type certification, continuing training, practical testing, and building flight hours. It is important to note that while pilots can build flight hours through FTDs, only time spent in an FFS can be used for specific type certification.

An FTD is a fixed-base device that is a replica of aircraft instruments in either an open or enclosed flight deck, which includes all equipment necessary to represent a specific aircraft model or multiple similar aircraft models. The FAA has four levels of certification for an airplane FTD: Levels 4, 5, 6, and 7, which increase in fidelity as the levels increase. A Level 4 FTD may have an open or closed cockpit replica of a specific aircraft type that represents both ground and air handling. The representation may be via multiple flat screens and an instrument panel where all controls are touch-activated and are not fully representative of the aircraft's actual instrument panel. A Level 7 FTD consists of an enclosed cockpit replica of a specific aircraft type with aerodynamic programming, operating systems, and realistic ground and flight noise. The display may either be flat screens or a realistic representation of aircraft displays with a 176-by-36-degree field of vision. The instrument panels must all physically replicate the aircraft in operation and cannot be touch-activated. FTDs also include Instructor Stations with computers or tablets to monitor the trainee's progress and set training programs. In order to be used for pilot training or qualification, the FTD must be certified by the FAA or EASA and comply with strict quality control standards.

General Requirements For Flight Training Devices by Level FAA Title 14 CFR Part 60						
Level	***Flight Deck***	***Aerodynamic Programming***	***Displays***	***Controls***	***Control Loading***	***Sounds***
4	Open or closed	None required	Flat panels or actual representation	Touch activation	-	-
5	Open or closed	Generic	Flat panels or actual representation	Primary/Secondary flight controls realistic	At approach speed and configuration	-
6	Enclosed	Aircraft-specific	Flat panels or actual representation	All controls are realistic	Through ground and flight envelope	Significant sound representation
7	Enclosed	Aircraft-specific	Flat panels or actual representation; with 176x36 degrees field of vision	All controls are realistic	Through ground and flight envelope	Significant sound representation

A Full-Flight Simulator is a full-motion device, typically mounted on hydraulic jacks, which induces the real sensations of acceleration, climbing, descending, turning, turbulence, and others, which cannot be adequately represented in fixed-base devices. FFSs have the highest fidelity of all simulation devices due to the advanced computer and motion technology that is able to recreate the actual ground handling and flight characteristics of the specific aircraft type in which they replicate. Due to the high fidelity of FFSs, they can be certified by the FAA and/or EASA for use in aircraft type certification and building pilot flight hours. Often the cockpit in an FFS is an actual cockpit supplied by the OEM. Some FFSs are so realistic that pilots can complete type certification without ever having flown the actual aircraft, often flying it for the first time in revenue service.

FFSs are the most expensive type of Flight Simulator and thus most commonly used by airline flight schools and training centers for training on commercial aircraft and less so in general aviation pilot training. There are four levels of FFSs: Levels A, B, C, and D, as per the U.S. and European regulations (ref. U.S. FAA Advisory Circular (AC) 120-40B and European JAR Standard 1A). Each level has different characteristics and components and increases in fidelity and complexity as the levels increase.

General Requirements for Full-Flight Simulators by Levels Flight Simulators (AC 120-40B)									
Simulator Level	***Control Loading***	***Visual Scenes***	***Motion***	***Visuals Field of View***	***Ground Handling Package***	***Runway Contaminants***	***Sound***	***Buffets***	***Radar***
A	Static	Night	3 Axis	45x30	-	-	-	-	-
B	Static	Night	3 Axis	45x30	Yes	-	-	Yes	-
C	Static & Dynamic	Night & Dusk	6 Axis	75x30	Yes	Feel	Cockpit Noise	Yes	
D	Static & Dynamic	Night, Dusk & Day	6 Axis	75x30	Yes	Feel & Visual	Realistic Cockpit Noise	Characteristic, Compliance Statement & Test Required	Operating Radar

Original owners/operators of simulators procure them for a definite purpose consistent with their fleet and manpower training requirements. Usually, the original purchasers of FFSs or FTDs are large major airlines that are in the process of introducing a new aircraft type into their fleet, and the quantity of initial and recurrent training requirements will frequently take all of the simulators' available time for the first year or so. As a general rule of thumb, one narrowbody simulator is required for every 25 aircraft of a specific type, with each aircraft assumed to be supported by five to six flight crews. Only after its own needs are met is training time available for sale to other operators. For those purchasers of new aircraft types whose fleet size does not justify the expenditure for a simulator, this service is outsourced to a flight training company. In the case of general aviation and flight schools, FTDs and ATDs are purchased depending on the fleet and training requirements of the flight school or personal operator.

As Flight Simulators are designed to emulate the workings of the aircraft after which they are modeled, the economic useful life of a simulator or training device is highly correlated to the useful life of the aircraft itself. Additionally, the success of a simulator program is highly correlated to the success of the aircraft program. Like aircraft, simulators are also subject to technological obsolescence and spare parts availability. Commercial aircraft simulators can stay in service for upwards of 20 years with proper maintenance, updates, and recertification, so long as the demand remains for pilot training on that aircraft type. General aviation and training aircraft tend to have extremely long useful lives, sometimes upwards of 40 years, and thus these simulators tend to stay with the original purchaser for the majority of their useful lives and are continually updated and recertified by the FAA or EASA according to the needs of the program.

Values for new simulators are determined by the manufacturer's internal costs and mark-up that will allow the manufacturer to recover their investment over a period of time deemed appropriate. Secondary market values of simulators depend entirely upon the needs of the simulator buyer and do not necessarily reflect the intrinsic value of the piece of equipment. The asking prices of used simulators vary greatly with their certification level, age, condition, modification standard, supply and demand, and the aircraft type it replicates. If there are very few simulators for a particular aircraft type, this may attract a higher asking price, and if a particular type is in abundance, then there are attractive deals to be made.

For a commercial or large flight school operator, the value of a simulator, given its initial cost, can best be maximized as a 'deal sweetener' when disposing of an existing fleet, especially if the simulator bay it occupies can be utilized for a newer type of simulator entering the seller's fleet. If a multi-plane deal for an overseas customer or a customer in a remote geographic area is contemplated, this also will offer value to the aircraft buyer and increase return to the seller. Large simulators, such as FSTDs and FFSs, are neither easy nor cheap to move, and installation requires a specialized building with significant computer installation and climate control. A purchaser should always consider the cost of transportation, installation, upgrades, and maintenance when buying a flight simulator. In the case of smaller, fixed-base simulators and training devices, transportation and installation are less costly, making them more accessible to more types of operators.

V. Definitions

Desktop Appraisal

A desktop appraisal is one which does not include any inspection of the aircraft or review of its maintenance records. It is based upon assumed aircraft condition and maintenance status or information provided to the appraiser or from the appraiser's own database. A desktop appraisal would normally provide a value for a mid-time, mid-life aircraft. (ISTAT Handbook)

Market Value

ISTAT defines Market Value (or Current Market Value if the value pertains to the time of the analysis) as the appraiser's opinion of the most likely trading price that may be generated for an asset under market circumstances that are perceived to exist at the time in question. Current Market Value assumes that the asset is valued for its highest, best use, and the parties to the hypothetical sale transaction are willing, able, prudent, and knowledgeable and under no unusual pressure for a prompt transaction. It also assumes that the transaction would be negotiated in an open and unrestricted market on an arm's-length basis, for cash or equivalent consideration, and given an adequate amount of time for effective exposure to prospective buyers.

Market Value of a specific asset will tend to be consistent with its Base Value in a stable market environment. In situations where a reasonable equilibrium between supply and demand does not exist, trading prices, and therefore Market Values, are likely to be at variance with the Base Value of the asset. Market Value may be based upon either the actual (or specified) physical condition or maintenance time or condition status of the asset or, alternatively, upon an assumed average physical condition and mid-life, mid-time maintenance status.

VI. Methodology

In developing the values of the Subject Asset, mba did not inspect the Subject Asset or the records and documentation associated with the Subject Asset but relied on partial information supplied by the Client. This information was not independently verified by mba. Therefore, mba used certain assumptions that are generally accepted industry practice to calculate the value of aircraft when more detailed information is not available.

The principal assumptions for the Subject Asset are as follows:

1. The simulator is in good overall condition.
2. The historical maintenance documentation has been maintained to acceptable international standards.
3. The specifications of the simulator are those most common for the aircraft type it replicates.
4. Its modification and software status is comparable to that most common for its type and generation.
5. In the case of the Base and Market Value, no accounting is made for lease revenues, obligations, or terms of ownership unless otherwise specified.

VII. Valuation

Full-Flight Simulator Specifications				
Manufacturer	**Aircraft Type**	**Manufacture Date**	**Simulator Level**	**Operator**
CAE	A220	5-Mar-19	D	Air Baltic

Full-Flight Simulator Portfolio Valuation (US$ Million)					
Manufacturer	**Aircraft Type**	**Engine Type**	**Simulator Level**	**Purchase Date**	**CMV**
CAE	A220	PW1500G	D	Mar-19	$7.69

VIII. Covenants

This Report has been prepared for the exclusive use of Air Baltic Corporation and shall not be provided to other parties by mba without the express consent of Air Baltic Corporation. mba certifies that this report has been independently prepared and that it fully and accurately reflects mba's and the signatory's opinion of the values of the Subject Asset as requested. mba further certifies that it does not have, and does not expect to have, any financial or other interest in the Subject Asset. Neither mba nor the signatory has provided the OEMs of the airframe or engines with pro bono or paid consulting or advice in the design or development of the assets valued herein.

This Report represents the opinion of mba of the values of the Subject Asset as requested and is intended to be advisory only. Therefore, mba assumes no responsibility or legal liability for any actions taken, or not taken, by Air Baltic Corporation or any other party with regard to the Subject Asset. By accepting this Report, all parties agree that mba shall bear no such responsibility or legal liability.

PREPARED BY:

Monika Talastas
Senior Analyst – Asset Valuations
mba Aviation

March 14, 2024

REVIEWED BY:

Lindsey Webster
Senior Vice President – Asset Valuations
mba Aviation
ISTAT Certified Appraiser

Extended Desktop Appraisal of:
Eight (8) A220-300 Aircraft
Seven (7) PW1521G-3 Engines

Client:
Air Baltic Corporation

Date:
March 19, 2024

Headquarters:

2101 Wilson Boulevard
Suite 1001
Arlington, Virginia 22201
USA
Tel: +1 703 276 3200
Email: mba@mba.aero

Americas | Europe | Asia

Table of Contents

I. Introduction and Executive Summary

mba Aviation (mba) has been retained by Air Baltic Corporation (the "Client") to provide an Extended Desktop Appraisal to determine the Half-Time and Maintenance-Adjusted Current Base and Market Values for eight Airbus A220-300 aircraft and seven PW1521G engines (collectively, the "Subject Assets") as of March 2023. mba also provided the Half-Time Future Base Values for the Subject Aircraft for the next six years, assuming an annual inflation rate of 2.0% as of March 2024. The Subject Assets are fully identified in Section VI of this Report.

In performing this Appraisal, mba relied on industry knowledge and intelligence, confidentially obtained data points, its market expertise and current analysis of market trends and conditions, along with value information from its quarterly publication **REDBOOK– 1Q 2024.**

Based on the information set forth in this Report, it is mba's opinion that the total Maintenance-Adjusted Current Base and Market Values of the Subject Assets are as follows and as set forth in Section VI.

	Maintenance-Adjusted Current Base Value (US$)	Maintenance-Adjusted Current Market Value (US$)
(15) Assets	**US$316,390,000**	**US$316,390,000**

Section IV of this report presents definitions of various terms, such as Current Base Value and Current Market Value as promulgated by the Appraisal Program of the International Society of Transport Aircraft Trading (ISTAT). ISTAT is a non-profit association of management personnel from banks, leasing companies, airlines, manufacturers, brokers, and others who have a vested interest in the commercial aviation industry and who have established a technical and ethical certification program for expert appraisers.

ISTAT

II. Qualifications

mba is a recognized provider of aircraft and aviation-related asset appraisals and inspections. mba and its principals have been providing appraisal services to the aviation industry for over 30 years, and its employees adhere to the rules and ethics set forth by the International Society of Transport Aircraft Trading (ISTAT). mba employs a team of ISTAT Certified Appraisers and ISTAT Certified Senior Appraisers. mba's clients include most of the world's major airlines, lessors, financial institutions, and manufacturers and suppliers. mba maintains offices in North America, Europe, and Asia.

mba publishes quarterly values updates on its online platform REDBOOK, which provides current and projected aircraft values for the next 20 years for over 150 types of jet, turboprop, and cargo aircraft in addition to engines and helicopters.

mba also provides consulting services to the industry relating to operations, marketing, and management with an emphasis on financial/operational analysis, airline safety audits and certification, utilizing hands-on solutions to current situations. mba also provides expert testimony and witness support on cases involving collateral/asset disputes, bankruptcies, financial operations, safety, regulatory, and maintenance concerns.

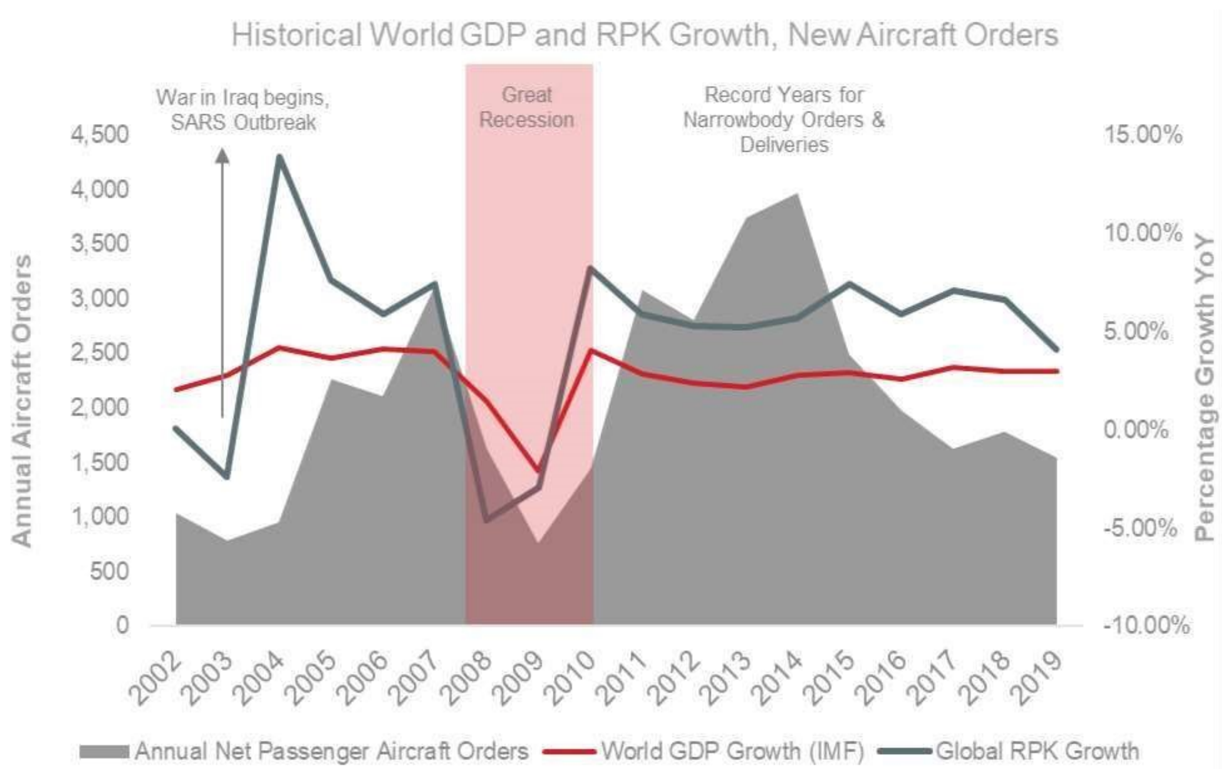
III. Current Market Conditions

GENERAL PASSENGER MARKET OBSERVATIONS – 1ST QUARTER 2024

A key component of any appraisal is an understanding of the market at the time the valuation is rendered, contextualized by recent notable developments. Though the past several years have been filled with uncertainty, the industry enters 2024 trusting that elevated interest and escalation rates will not hinder further recovery. Many airlines were able to return to profitability in 2023, and receding inflation rates in Western economies provide a measure of optimism. In the following sections, mba defines current and recent passenger air market conditions, highlights major factors influencing aircraft values, and offers mba's view of the current market situation for each aircraft type examined in this valuation.

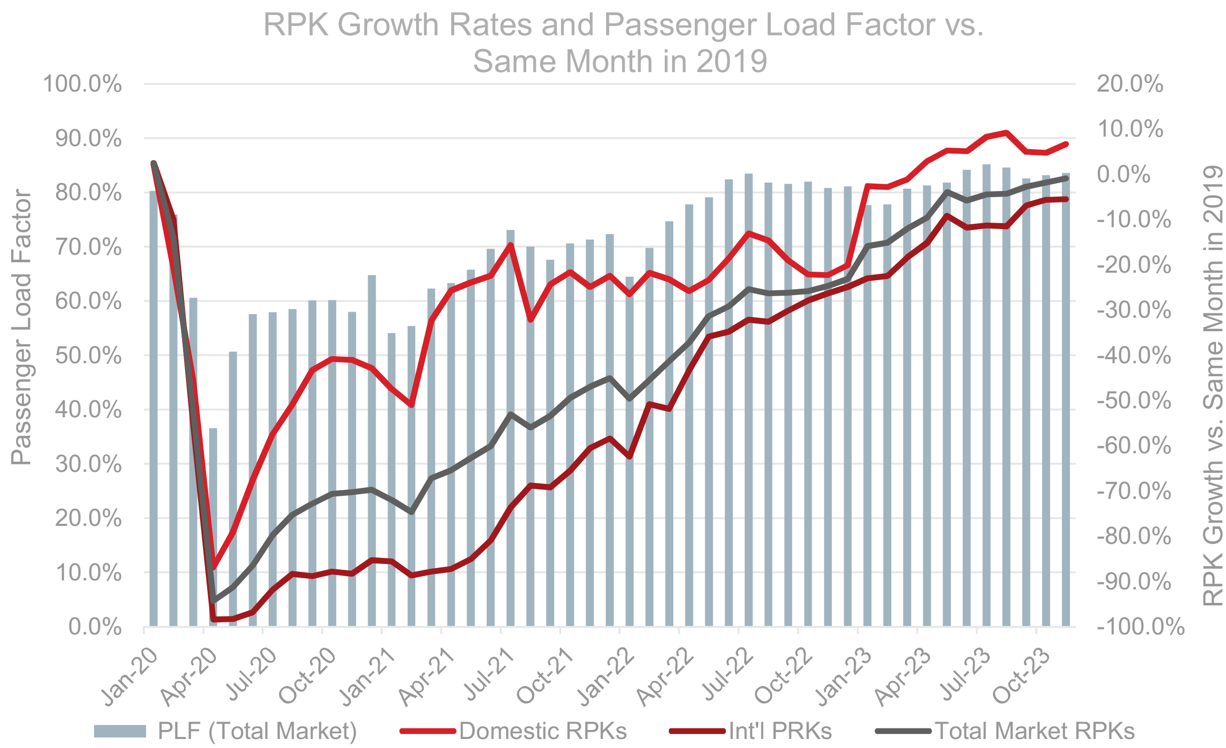
HISTORIC AND CURRENT PASSENGER TRAFFIC

Air traffic demand growth is measured by Revenue Passenger Kilometers (RPKs), the number of kilometers traveled by paying passengers, and has historically been a fundamental indicator of the industry's health. Annual macroeconomic factors like Gross Domestic Product (GDP) growth and microeconomic metrics like the number of new aircraft orders have typically been highly correlated to RPK growth and retraction, as seen in the chart below. While 2018 marked the ninth consecutive year of above-trend growth in RPKs, all regions began retracting in 2019, with North America and Europe stagnating. GDP rates, too, had begun flattening in 2018 and shrank further in 2019, especially in advanced economies.



Sources: mba REDBOOK FLEET; Original Equipment Manufacturers (OEMs); International Monetary Fund (IMF); International Air Transport Association (IATA)

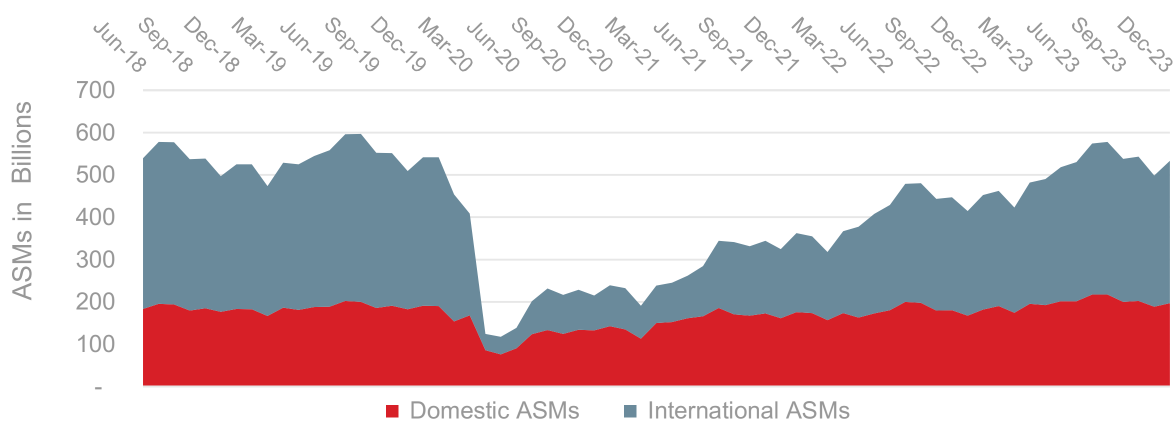
RPKs are also regularly analyzed alongside other airline monthly trailing indicators like Passenger Load Factor (PLF), a measure of how much capacity is filled, and Available Seat Kilometers (ASKs) or Available Seat Miles (ASMs), which IATA defines as measures of carrying capacity available to generate revenue. After the precipitous decline in all metrics after the onset of the COVID-19 pandemic in March and April 2020, RPKs, PLFs, and ASMs have shown remarkable signs of recovery, particularly on the domestic side. According to IATA, year-over-year (YoY) total RPKs are up 29.7% in November 2023, with international RPKs nearly reaching 2019 levels (0.9% under) for the first time. Total Market PLFs, too, have stabilized, averaging 83.9% over the last half of 2023, higher than the average PLF levels in 2018 or 2019.



Source: IATA

Global Domestic RPKs outstripped 2019 nearly every month in 2023. While global International RPKs still lag behind pre-pandemic highs, the 2023 high season was only ~9.2% down from 2019, compared to trailing ~33.0 in 2022. North American carriers have fully recovered in terms of international RPKs, with November 2023 levels up 7.4% above 2019, while Africa, Asia Pacific, and Europe are still lagging. Total RPKs were still down 0.9% from November 2019 levels, due primarily to Asia-Pacific International RPKs remaining 6.8% below November 2019 levels, though mba expects them to return to pre-COVID-19 levels sometime in 2024.

Total ASMs by Month



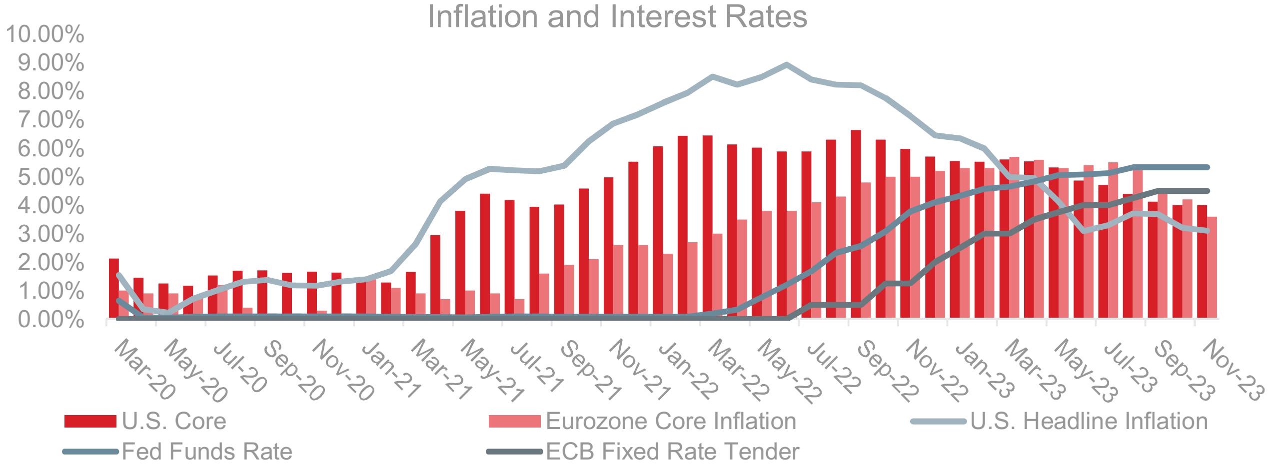
Source: OAG

As RPKs continue to improve, so do ASMs. mba expects continued recovery in ASMs in 2024 and beyond as travel demand and capacity reach and exceed 2019 levels. Total ASMs in December 2023 exceeded 2018 ASM levels and are only 1.5% below 2019 ASM levels. Domestic ASMs have hit new records, rising to 17.6% above December 2019 highs, and global international ASMs in November and December were above the same months in 2019 for the first time since the pandemic. mba expects international ASMs to continue to grow and reach 2019 levels throughout 2024.

MACROECONOMIC INDICATORS

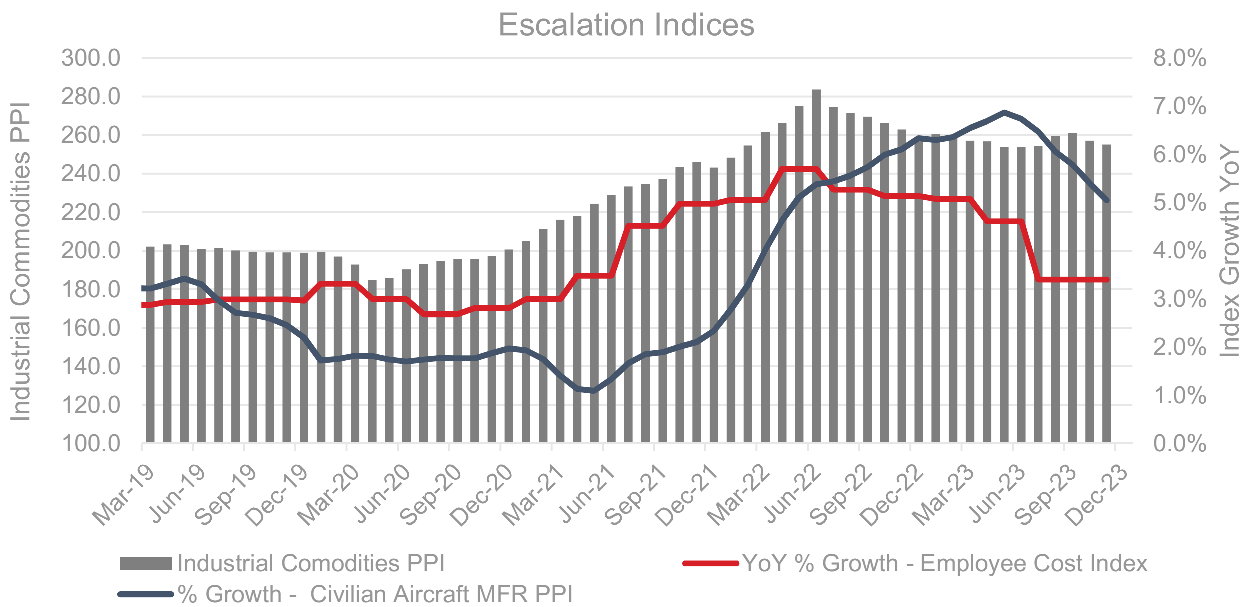
Though headline and core inflation rates have stabilized in the Eurozone and the U.S., rates remain elevated, with the U.S. core rate at 4.0% and the Eurozone rate at 3.6%. This increases the likelihood that interest rates will remain elevated longer as central banks in the West attempt to further cool inflation. mba continues to monitor inflation's impact on aircraft values and recognizes that it has temporarily influenced Market Values in the near term. However, mba expects this trend to slow in 2024, assuming inflation in the West continues to ease.

Inflation and Interest Rates



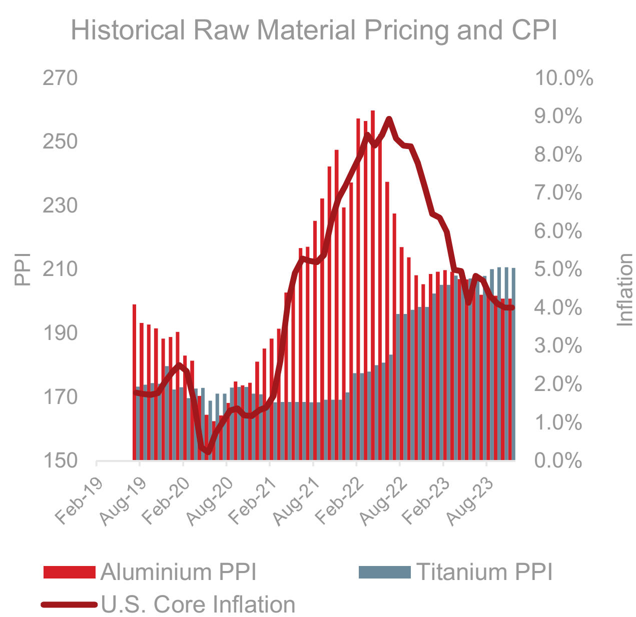
Sources: Federal Reserve Economic Data (FRED), Trading Economics

As a result of inflation, escalation costs on new aircraft, engines, and parts have seen atypically high increases since 2021. The Industrial Commodities Producer Price Index (PPI), Civilian Aircraft Manufacturing PPI, and Employee Cost Index, indices used by OEMs to determine annual price escalation, experienced significant increases in recent years, though not at pace with core inflation. New aircraft prices saw an average compounded annual growth rate (CAGR) of ~0.5-1.0% from 1999 to 2019, though this includes a prolonged period of near-zero inflation, as well as periods where new aircraft CAGR was closer to 1.5%. mba continues to monitor the impact of increased costs on escalation for new deliveries.



Source: Federal Reserve Economic Data (FRED)

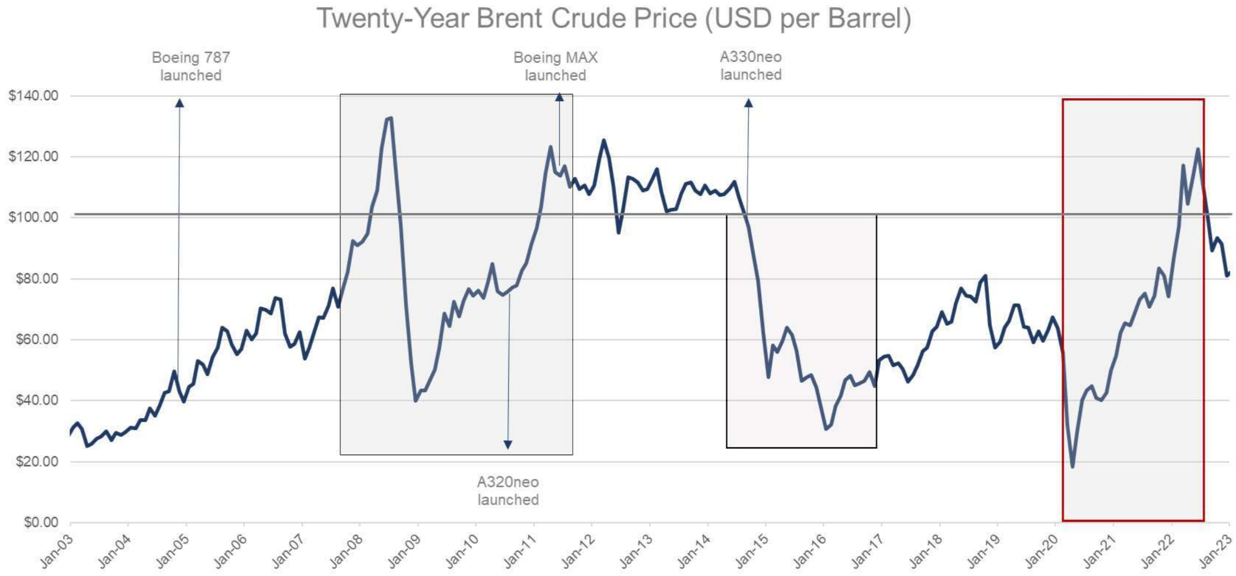
Additionally, much of the recent price increases in engines and parts have been prompted by the rise in cost of some of the most important raw materials in airplane manufacturing, including aluminum and titanium. It is also likely that such costs will continue to trend downward from early 2022 highs while interest rates remain elevated for a longer period. Both production indices have shown further signs of easing going into 2024, bringing hope that escalation increases for both new deliveries and engines will slow. mba expects engine and parts escalation rates to remain elevated in the immediate future without becoming a long-term trend.



Source: Federal Reserve Economic Data (FRED)

EFFECTS OF OIL PRICES ON AVIATION

Historically, oil prices have strongly influenced aircraft values, as they typically constitute upwards of 20.0–30.0% of operators' total expenses. Previous spikes led OEMs to quickly introduce more fuel-efficient aircraft, while drops in fuel price have typically kept older aircraft in service longer. High and volatile fuel prices can significantly impact airlines' balance sheets and, in some cases, have been the final nail in a cash-strapped airline's coffin.



Source: U.S. Energy Information Administration (EIA)

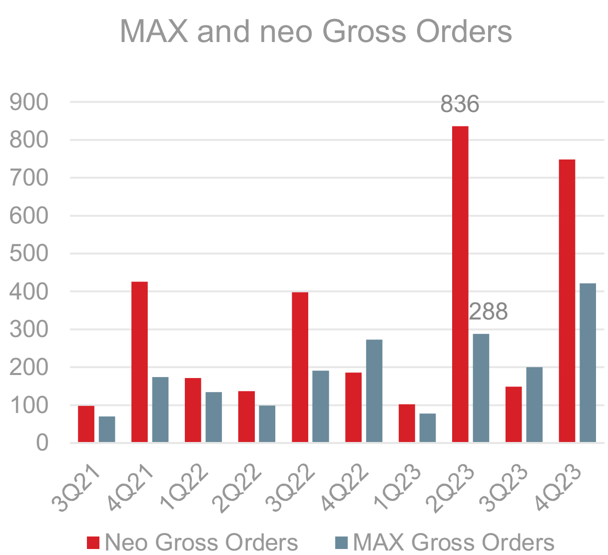
After a period of volatility between 2007 and 2011, oil prices remained over US$100.00 per barrel until the end of 2014, leading to the launch of the A320neo in December 2010 and the 737 MAX in mid-2011 as prices surged. Next generation widebodies, too, have been announced when oil prices are high, as the 787 was in 2004, when prices were climbing, and as the A330neo family was in July 2014, right at the tail end of another era of high oil prices. However, by January 2016, Brent Crude had fallen to a new 13-year low, dropping to US$26.00 per barrel. During this period, larger, older, less-efficient widebody aircraft were utilized in larger numbers, keeping residual values for such aircraft higher than one would expect in higher-fuel-price environments.

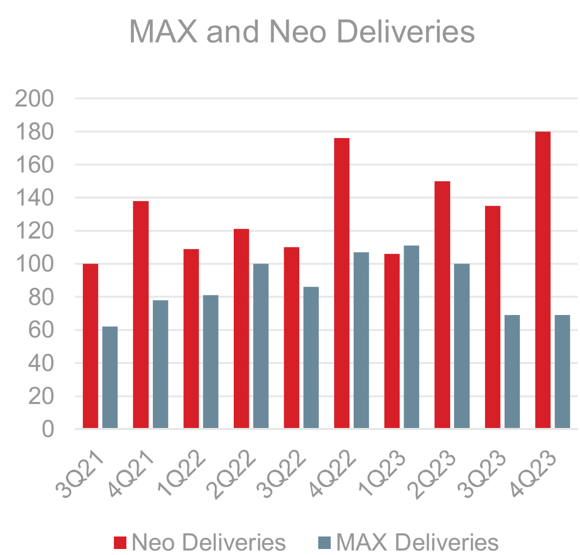
Oil prices in 2020 briefly fell to new 20-year lows but have since rebounded strongly; in 2022, oil prices rose above US$120.00 per barrel for the first time since 2015. In April 2023, OPEC announced that it would cut oil production by 3.7% of global demand, further limiting supply after a previous cut in October 2022, with yet another cut of over 1.0 billion barrels per day starting in 2024. As a result, prices are currently quite volatile and have been decreasing since June 2022. As of August 2023, the price of oil is around US$86.00 per barrel, increasing from a low of US$75.00 per barrel in June 2023. The outlook on prices remains highly uncertain.

NARROWBODY ORDERS AND DELIVERIES

Orders for narrowbody aircraft were robust throughout 2023 due to continued demand for new tech narrowbody aircraft. IndiGo placed an order for 500 Airbus neo aircraft in June at the Paris Airshow, which made history as the largest order in commercial aviation. The order pushed total neo orders to 836 aircraft in 2Q 2023, while the MAX only received 288 orders in the quarter. However, though order books and backlogs remain strong, both Boeing and Airbus continue to face issues delivering new aircraft due to ongoing supply chain pressures and manufacturing woes.

Boeing has faced numerous production issues with the MAX family throughout 2023, starting in April when a flaw in the manufacturing process was found to affect two of the components fitted on the aircraft. Another manufacturing defect was found in August 2023, causing additional delays in MAX production. The manufacturer has stated that it still plans to ramp up production to 50 aircraft per month by 2026, a somewhat questionable goal considering the ongoing issues with the MAX in light of the door plug failure early in 2024. On the other hand, after falling short of its delivery targets for 2022 and citing supply chain disruptions as the leading cause, Airbus exceeded its 2023 target and confirmed a production rate of 75 aircraft by 2026.

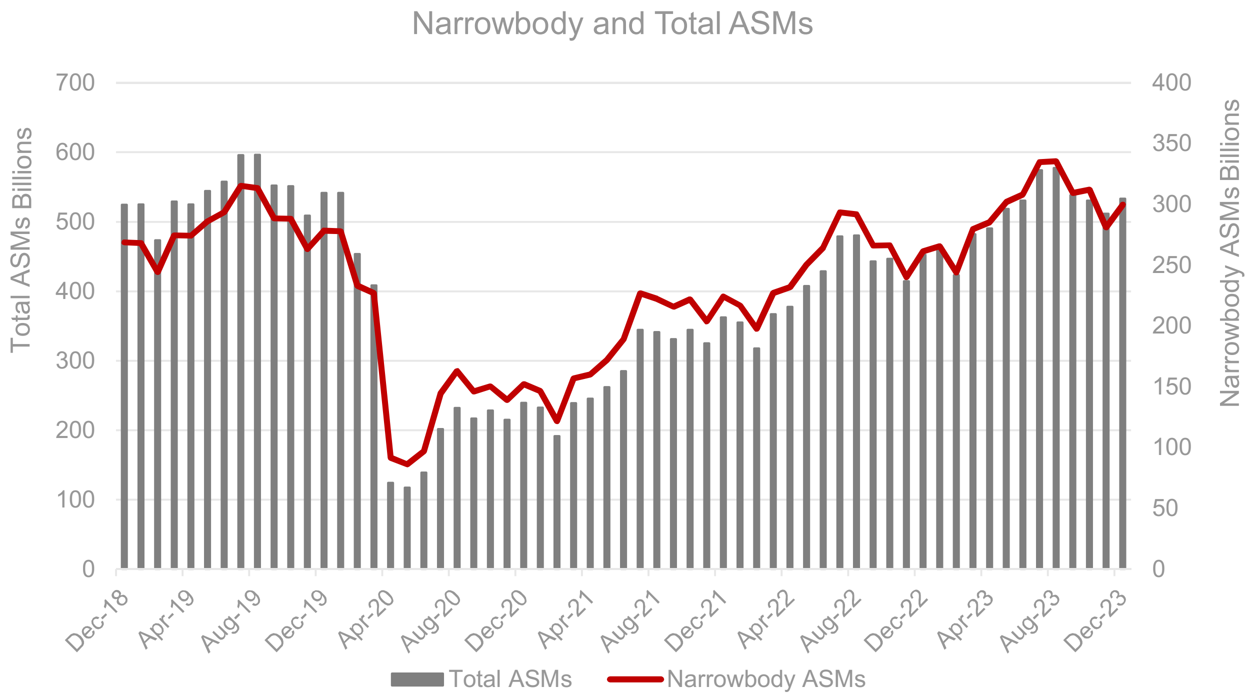




Sources: Boeing Commercial, Airbus Orders and Deliveries

With supply chain constraints easing, it is doubtful that delivery delays will be a long-term trend that result in negative value impacts for new aircraft. The reactivation and delayed retirements of mid-life narrowbody aircraft are also likely to be a short to mid-term trend as operators will continue to seek more efficient and sustainable aircraft as the industry remains focused on the 2050 Net Zero goal.

NARROWBODY UTILIZATION TRENDS



Source: OAG Analyser

The utilization of narrowbody aircraft has mostly returned to pre-pandemic levels, with December 2023 narrowbody ASMs 7.7% above December 2019 levels, though not every month of 2023 exceeded 2019 metrics. Utilization of narrowbody aircraft will likely remain strong in the near to mid-term as domestic travel demand continues to strengthen. The return to domestic travel levels seen pre-COVID-19 has been the primary catalyst for the recovery in values of new tech and mid-life narrowbody aircraft since bottoming out during the pandemic. Though delivery delays of new aircraft and durability issues of new tech narrowbody engines have led to narrowbody capacity restrictions, such circumstances are likely to support aircraft values further as operators frantically seek out aircraft to meet increasing domestic travel demand. mba holds a positive outlook on narrowbody aircraft values and expects Market Values to continue trending upward due to heightened demand and capacity shortfalls.

MARKET OUTLOOK

Overall, the industry is continuing its comeback post-pandemic, though certain questions remain: most importantly, when international long-haul traffic will fully rebound, what the effects of tightening monetary policy worldwide will be, and how current turbulent geopolitical conditions will affect the global economy. But the pandemic's direct impacts on passenger air traffic appear to be behind us, and major indicators like increased flight demand, robust aircraft production, stabilizing oil pricing, and quelling inflation and interest rates point to a recovery sooner and stronger than even recently expected. While mba is monitoring the potentially unsustainable escalation in new aircraft and maintenance costs, the overall market sentiment going into 2024 is positive, with upward value movement seen across the most popular aircraft types and further improvements expected over the coming quarters.

A220-300

OVERVIEW

The Airbus A220-300 began as the Bombardier CS300, the larger sibling in the Bombardier CSeries family, which was formally introduced at Farnborough in 2008 as Bombardier's first-ever 100+ seat aircraft. The aircraft first flew in February 2015, about two years after the A220-100's maiden flight, received its EASA type certification in July 2016, and was delivered to launch customer airBaltic in December 2016. Shortly thereafter, Bombardier's financial problems worsened. In October 2017, Airbus announced it would acquire a 50.01% stake in the CSeries program in a no-cash deal, bringing its economies of scale to the table as well as a commitment to producing the aircraft in North America. Bombardier retained a 31.0% stake, and the government of Quebec held approximately 19.0%. In July 2018, Airbus finalized its purchase of the CSeries program from Bombardier, renaming it the A220 series. As Bombardier continued to require restructuring, it ceded its stake in the A220 to Airbus in February 2020.

The A220-300 typically seats between 120 and 150 passengers, though it can hold up to 160 passengers in a single-class configuration. Both the A220-100 and the A220-300 are solely powered by the Pratt & Whitney (PW) 1500G geared turbofan (GTF) engine. The engine is a smaller version of the PW1100G, which powers the A320neo family of aircraft, though it has not been subject to the same service issues that have plagued the A320neo's engines. However, in-flight shutdowns have resulted in the grounding of several A220s for short periods. The A220-300 competes with Embraer's E195-E2, Airbus's A319neo, and, to a lesser extent, Boeing's 737 MAX 7. However, the A220-300 has a significantly larger order book and customer base, making it the preferred aircraft of its size in the current market.

Positives

+ For its market segment, the type has a strong order book and operator base.
+ Operators have reported better-than-expected operating economics and satisfaction with the aircraft's performance.
+ Clean-sheet design will remain at the forefront of technology well into the next decade.
+ Airbus's acquisition of the A220 program helped the type win over 350 new orders and become more widely accepted.

Neutral

- o The order book skews heavily towards North America and Europe. This is partially due to lessors' orders, which should help with diversification in the coming years as lessors place orders with new operators.

Negative

– Reportedly low in-service reliability due to considerable teething issues with both the airframe and engines.

FLEET STATUS

As of January 2024, 810 commercial orders for the A220-300s have been placed from 25 identified customers. So far, 255 aircraft have been delivered, and only two are in storage, including an EgyptAir aircraft that has been in storage since late 2021. During the pandemic, the A220-300 was one of the best-performing aircraft with the fewest parked or stored aircraft. This has been reflected in the stable Market Values for the type, which have remained equal to Base Value.

Net Orders	**810**
Backlog	**555**
Delivered	**255**
Demo Aircraft	**6**
Not in Service/Parked	**2**
Active Aircraft	**247**
Number of Customers	**25**
Number of Current Operators	**20**
Average Fleet Age (Yrs)	**2.77**

Sources: mba REDBOOK FLEET; Airbus, January 2024

NOTABLE DEVELOPMENTS

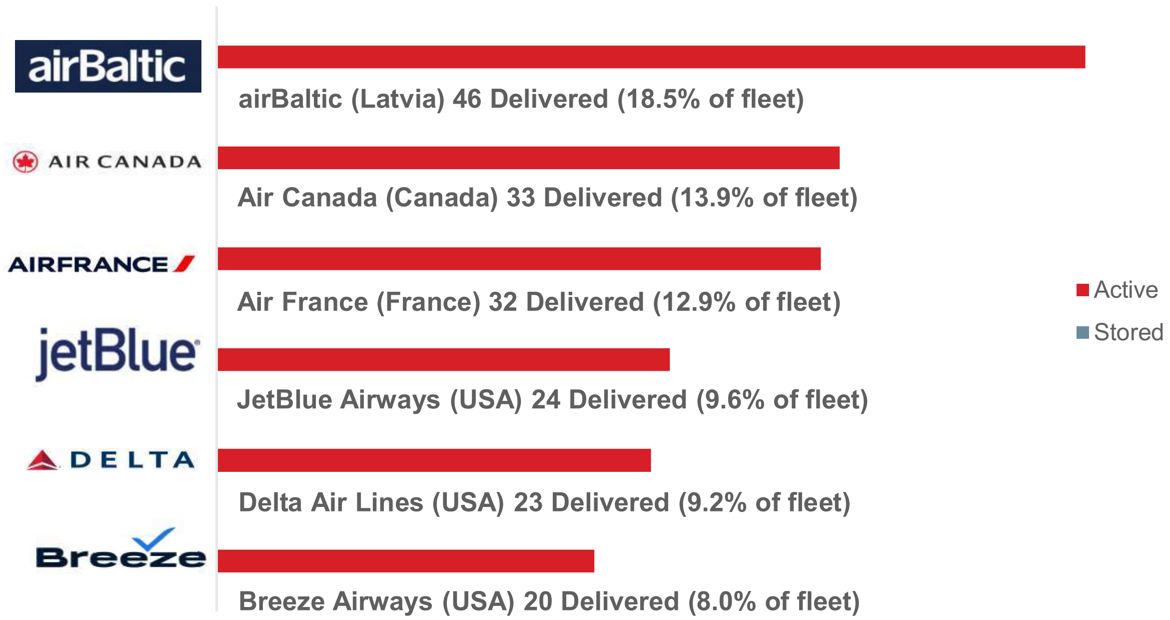
- In November 2023, airBaltic ordered another 30 A220-300, bringing their total orders up to 80 aircraft. (Reuters)
- In September 2023, airBaltic took delivery of its 44th Airbus A220-300, making it the fourth aircraft of its 50-aircraft order book to be delivered in 2023. (Aero Crew News)
- In August of 2023, ITA Airways took delivery of its fifth Airbus A220-300. The carrier plans to operate the aircraft primarily on domestic routes within Italy. (Simple Flying)
- In July 2023, Cyprus Airways became a new operator for the type when it took delivery of its first two A220-300 aircraft on lease. (Airways Magazine)
- In July 2023, Delta Air Lines exercised options for 12 more A220-300s, bringing its order book to 86 A220-300s; however, 70 of those aircraft have yet to be delivered. (Delta)
- In January 2023, Delta Air Lines executed options for 12 additional A220-300s, expected to be delivered in 2026 and 2027. This brought Delta's total order for the aircraft up to 74. (Business Traveler)

  In January 2023, U.S.-based lessor Air Lease Corporation placed six A220 aircraft with Croatia Airlines, four of which are A220-300 aircraft and are expected to be delivered from 2024 through 2025. (Simple Flying)

FLEET DEMOGRAPHICS

As of January 2024, airBaltic has the largest fleet of A220-300s in service, with 46 aircraft, equating to 18.5% of the total delivered fleet. JetBlue has the largest order book with 100 total orders. The top seven order-bearers hold approximately 67.4% of the order book; however, eight of the order customers are lessors, which will likely help expand the operator base for the type.

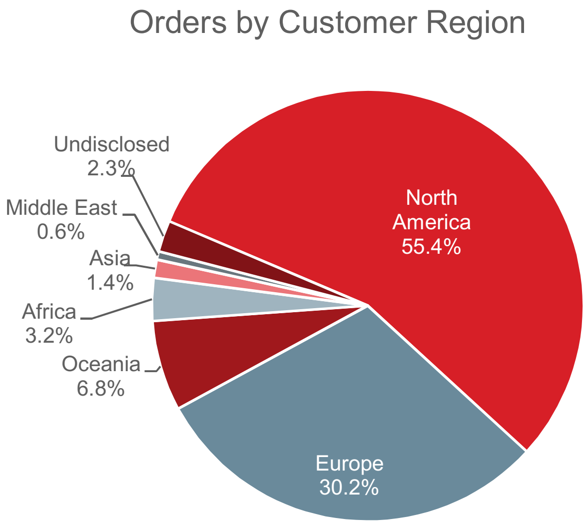
Top Six A220-300 Current Operators

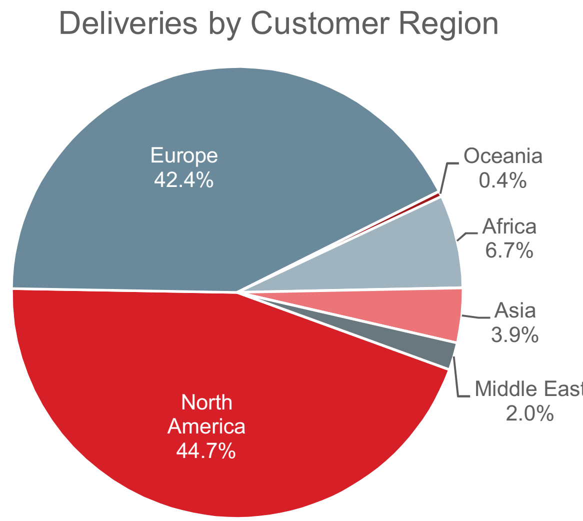


Top Seven A220-300 Customers

Sources: mba REDBOOK FLEET, January 2024; Airbus Orders and Deliveries, December 31, 2023

Current Orders and Operators by Region





Sources: mba REDBOOK FLEET, January 2024; Airbus Orders and Deliveries, December 31, 2023

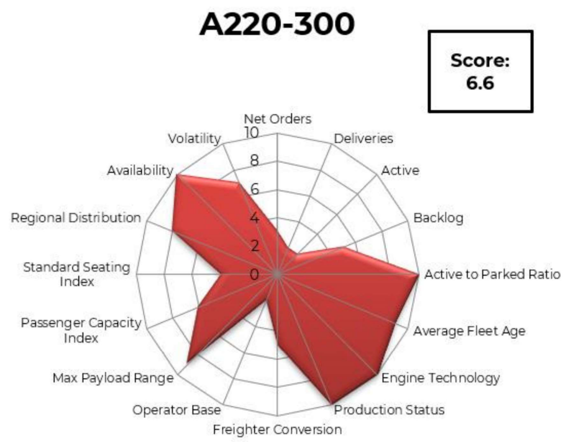
North American carriers currently have the most A220-300 orders, holding 55.4% of the order book but only 44.7% of delivered aircraft. The geographic distribution of the fleet will likely continue diversifying as deliveries come out and new orders come in.

AIRCRAFT AVAILABILITY

According to MyAirTrade, as of March 2024, no A220-300s are available for sale or lease. This is typical for a young aircraft like the A220-300 but is also notable given the lack of availability during the pandemic, an indicator of operators' preference for the type.

AIRCRAFT RANKING

mba's Aircraft Ranking model considers numerous factors that affect an aircraft's market standing on a scale specifically developed for each asset class. These ranking factors are individually weighted and compared against each other to develop mba's overall ranking score for each aircraft type, which is expressed on a scale of 1.00 to 10.00. The most prevalent aircraft configurations are used in the ranking analysis, which can be further identified in mba's REDBOOK web-based valuation service.



A319	4.6	A319neo	5.3
737-700	4.9	E195-E2	7.6

The A220-300 ranks well compared to similar aircraft, thanks primarily to its strong production status, young age, and new technology. The aircraft scores reasonably well in its market segment, and its score is expected to strengthen as its market matures.

OUTLOOK

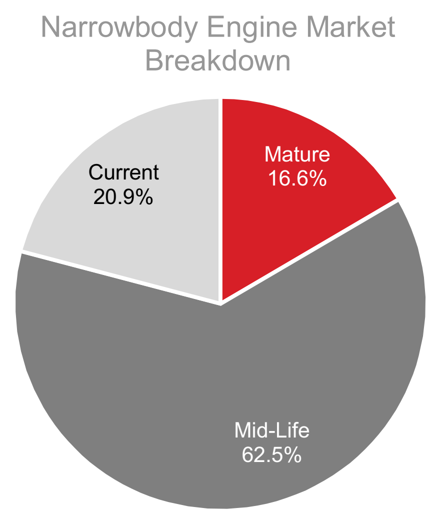
The A220-300 is extremely capable, and the market has responded favorably to its attributes, especially for a smaller aircraft. Since domestic and short-haul routes were the first to recover after the pandemic, the aircraft type recovered quickly in terms of its active-to-parked ratio, primarily due to its two largest operating regions—North America and Europe—being the earliest markets to recover. In addition, the A220-300 has been in constant service since the spring of 2021 with few aircraft parked, no aircraft made available, several sale-leasebacks, and 270 new orders since the end of 2020, which bodes well for its current and continued future success. The A220-300 saw little to no Market Value impacts during the pandemic, and values have already recovered back to Base while lease rates have remained stable. Given that the current operators of the type are unlikely to place any A220s on the secondary market, mba does not anticipate any Market Value impacts in the near term. Any aircraft made available for sale or lease has been quickly absorbed by the market, demonstrating demand for the type. The mid- to long-term outlook for the type is positive, and values are expected to remain stable.

GENERAL ENGINE MARKET OBSERVATION — 1ST HALF 2024

An essential consideration in any appraisal is the market condition at the time the valuation is rendered. The following content defines prevailing conditions and highlights major factors currently influencing engine values, as well as mba's view of the current market situation for any applicable engine type. This overview covers commercial turbofans powering narrowbody aircraft, including engines produced by General Electric (GE), Pratt & Whitney (PW), International Aero Engines (IAE, now under PW), and CFM International (CFM) The first section will focus on the general engine market, followed by an overview of the different engine market segments.

ENGINE MARKET OVERVIEW

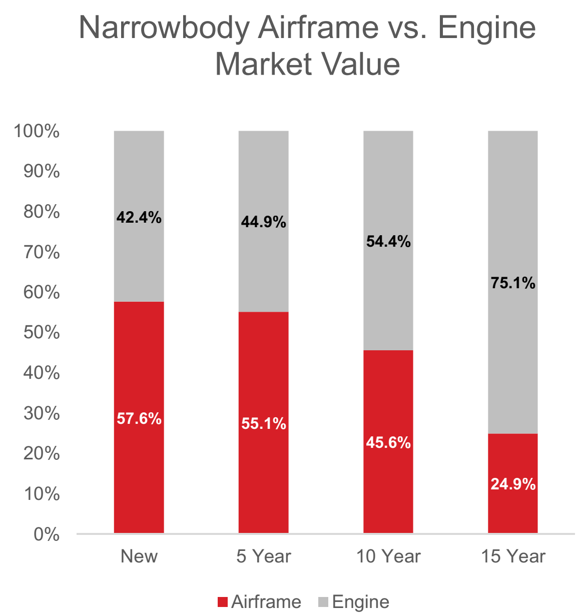
The narrowbody commercial engine market can be segmented into three major sectors: new generation or current, mid-life, and mature engines. The new generation engines include the CFM LEAP-1A/1B and the PW1100G/1500G GTF family that power the new generation of aircraft including the 737 MAX, A320neo family, and the A220. These aircraft comprise the bulk of existing order books and are slated to reach ubiquity within the next decade. Mid-life engines consist of those powering the large existing base of aircraft, such as the CFM56-5B/7Bs and V2500s. The market for mid-life engines is quite varied. While a large portion of older engines is due to be replaced, a sizeable number of mid-life engines are just reaching their first shop visits and will serve alongside new generation engines for the next several years. Lastly, the mature engines include legacy products, such as the CFM56-3B/-3Cs, RB211s and PW2000s that power a fleet of aircraft mostly retired or near retirement.

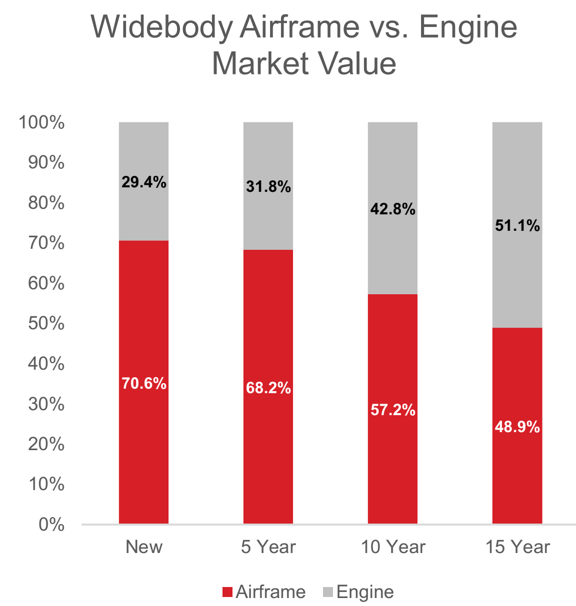


Source: mba REDBOOK, 1H 2024

Mid-life engines make up the bulk of the current engine market due to the long production run and ramp-up in delivery rates in the last few years of production of aircraft like the A330s, 737NGs, and A320ceos. As the most significant factors affecting engine values are the availability of spare engines and used serviceable materials in the market, the large in-service fleet of mid-life aircraft provides stability for mid-life engines in the short to medium term. However, as new generation aircraft become ubiquitous in the global fleet, retirement rates for current generation aircraft will increase, resulting in an influx of spares and used serviceable materials for mid-life engines. This will increase market volatility in the long term due to a possible oversupply of parts and spares or as a result of obsolescence and reduced demand.

At the onset of the global pandemic, several operators planned to retire mid-life aircraft earlier than anticipated. However, delivery delays of new aircraft coupled with strong capacity demand have kept mid-life aircraft in operation, and retirements did not occur in the large numbers initially projected. Engine availability increased sharply in the first 12 months of the pandemic, leading to Market Value volatility for mid-life engines that varied greatly depending on the affected aircraft fleet. Values for mid-life engines on narrowbody aircraft have recovered to pre-pandemic levels, with Market Values near or above Base Values. Values for mid-life engines on widebody aircraft continue to show softness, with Market Values significantly below Base Values in many cases. Values for mid-life engines are likely to remain steady, with potential for continued strengthening, in the near to medium term as new aircraft deliveries fail to keep up with capacity demand and aircraft stay in service longer than planned.

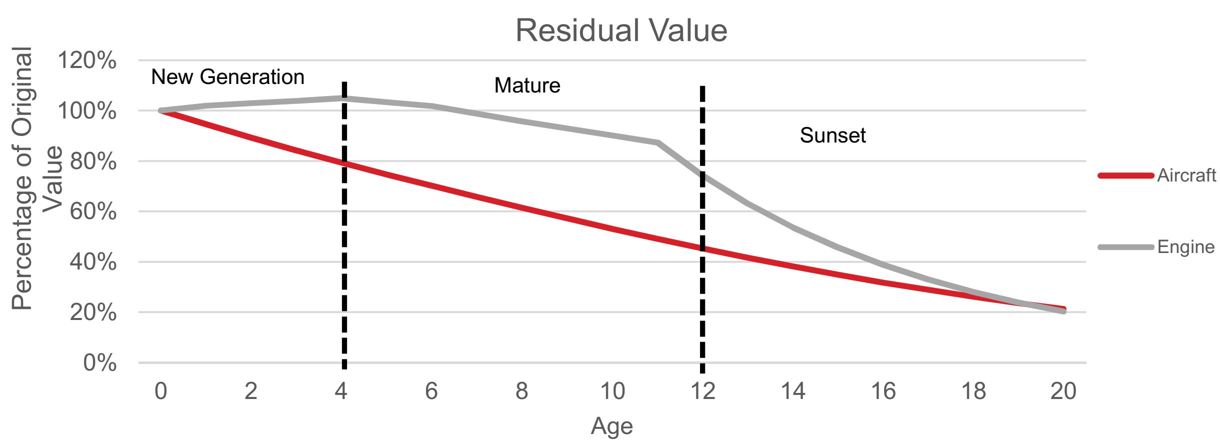




Source: mba Aviation analysis, 1H 2024

Through the life cycle of an aircraft, the engines play an increasing role in residual value, with engines on narrowbody aircraft accounting for a higher percentage of total value than engines on widebody aircraft. This disparity between the narrowbody and widebody engine percentages is due to the fact that narrowbody aircraft and their engines tend to have longer production runs, which causes the engines to have a higher value after the same period of time. On average, engines account for 42.4% of the total Market Value for a new narrowbody aircraft. However, after 15 years, the same half-time engines are, on average, worth 75.1% of the aircraft's half-time Market Value. The same concept applies to widebody aircraft but slightly less, with engines accounting for 51.1% on average of the aircraft's total Market Value at the end of 15 years. However, this will vary by the aircraft's success, the engine's interchangeability among different aircraft types, and the opportunity for converted freighters.

A key reason for engines accounting for a larger percentage of aircraft value over time is the difference between the depreciation schedule for an aircraft and an engine. During the production run of the engine, values will appreciate due to the higher escalation rates for engine shop visits and LLPs before depreciating as the engine enters the mature phase of its life cycle, a few years after the engine reaches the end of its production run. Secondly, compared to an airframe, the vintage of an engine plays a smaller role in determining its value. Engine value is highly dependent on the green time remaining, or time since the last overhaul, and is less correlated with the age or vintage of the engine. Lastly, the life cycle of an engine is significantly longer than that of an airframe. While both airframes and engines have ultimate life limits, performing a life extension on an engine is much less cost-prohibitive and more likely to be performed in large numbers, extending the useful life of an engine over an airframe.



Source: mba Aviation analysis

Looking at a typical value curve of an engine, new generation engines tend to appreciate due to the high escalation of parts costs while the aircraft is still in production. As engines enter the mature phase and the aircraft they power go out of production, the value of the engine begins to depreciate as some engines enter the part-out and secondary markets. As engines enter their sunset phase, the value becomes increasingly more volatile, as most engines are traded in the secondary market, with a significant portion of the fleet parted out to support the remaining flying fleet. As a result, engine residual values are highly dependent on short-term market demand.

NEW GENERATION ENGINES

With the entry into service of the A220, A320neo, A330neo, A350, 737 MAX, 747-8, and 787 families within the past decade, an influx of new technology engines has entered the market. As expected, many of these new engines have experienced teething issues during their Entry into Service (EIS) phase, some significant. One engine that has gained a fair amount of attention is the Trent 1000, which was affected when the Federal Aviation Administration (FAA) issued an Airworthiness Directive (AD) in April 2018, limiting the ETOPS of Trent 1000-powered 787s to 140-min, single-engine drift down, grounding a number of aircraft. The disruptions to the 787 have mainly affected aircraft powered by the Trent 1000 Package B and C engines.

Rolls Royce has since stopped delivering new Trent 1000 Package B and C engines and is currently only producing Trent 1000 TEN engines. This means aircraft produced after November 2017 and all 787-10 aircraft should not be affected by IPT blade sulfidation and HPT blade oxidation. However, as the Package C engines and Trent 1000 TEN engines only have 25.0% part commonality, no modifications can bring a Package C engine up to a TEN without replacing a significant portion of the engine, which is uneconomical. With a fair number of Package B and C engines affected by outstanding ADs still in service, the financial implications to Rolls Royce to repair or replace these engines have not fully panned out yet. While many Package B and Package C engines have been fixed with upgraded parts through 2023, several engines still have unresolved issues in the fleet. The significant upgrades and design changes between different packages of Trent 1000 engines have created a split in the fleet that has affected values for the engines and will likely continue to affect values until Package B and Package C engines are phased out in the long run.

While it has gained the most media attention, Rolls Royce is not alone in facing teething problems with its 787 engines. GE has had its share of teething issues with the GEnx-1B, starting with performance shortcomings that resulted in the introduction of two Performance Improvement Packages (PIP). While some of the PIP upgrades are fuel-burn improvements, they also addressed durability issues found with the High-Pressure Turbine (HPT) nozzles and blades. In August 2018, the FAA also released an AD requiring the removal of some HPT stator cases due to “quality escapement” with a vendor. The PIP II is the production standard on the GEnx-1B; most of the fleet has been upgraded to the PIP II configuration.

New generation engines in the narrowbody market also faced significant teething issues. PW's PW1100G GTF family has received a majority of the media attention since its EIS due to its combustor and knife-edge seal durability issues. Those issues have been largely resolved with repairs and modifications but not before causing temporary groundings of several A320neos, specifically those operating in India. While the manufacturer worked through a solution for the engines, a number of A320neo deliveries were initially delayed. PW initially struggled to meet delivery demands but ramped up production in 2019 with modifications included and is no longer delaying aircraft deliveries. With fixes for the issues facing the knife-edge seal and combustor currently implemented, new durability issues have surfaced, including excessive N2 vibrations, cracking of the 3rd Stage Low-Pressure Turbine (LPT) blade, cabin odor, and fractures of the IDG gear in the main gearbox, with retrofittable fixes in place or on the way.

Most recently, the FAA issued an AD in August of 2023 requiring the high-pressure turbine (HPT) 1st and 2nd stage disks to be inspected for cracks due to impurities found in powdered metal used in production. RTX stated the affected population was produced between 2015 and 2021, and engines produced since then have not been affected. The inspection and repair requirements of the AD are likely to further disrupt capacity in an already recovering market. MRO capacity restrictions, coupled with continued demand from previous durability issues, are pushing turnaround times to between 300 and 360 days for a repair visit that should have taken 60 days. RTX's most recent Fleet Update in September 2023 indicated that 600 to 700 PW1100G engines are affected, equating to 27.2% of the current PW1100G engine fleet. Pratt & Whitney has disclosed that 136 engines had already been removed at the end of September 2023 and that a majority of the remaining engines are expected to come off wing by 2024, finishing in 2026. mba forecasts indicate groundings peaking in June 2024, when nearly a quarter of the GTF-powered neo fleet is expected to be parked due to the AD.

Similarly, CFM has also had durability issues with its LEAP engines, particularly with the ceramic matrix composite (CMC). The issues were resolved in June 2019, though not without causing a production backlog. The latest issue to affect the LEAP-1B was a "quality escapement" issue requiring airlines to replace HPT cases on some engines. With the grounding of the 737 MAX from March 2019 to November 2020 and CFM's ramp-up in production, CFM was able to catch up with the backlog and continue to deliver engines during the grounding and during Boeing's temporary MAX production pause at the beginning of 2020. Currently, CFM is addressing continued durability issues in the HPT to improve performance in harsh environments. Fixes include an improved design for the HPT blades and nozzles, which are expected to enter service by the end of 2025 on both the LEAP-1A and LEAP-1B platforms.

The FAA lifted the 737 MAX grounding in November 2020, and commercial operations resumed in December 2020. Since the ungrounding, the LEAP-1B has been going through a second EIS, revealing corrosion from long-term storage, which led to oil pressure issues and loss of thrust control and was addressed by the FAA with an AD in May 2021, requiring multiple engine inspections until a certain amount of flight cycles have been achieved.

While there has been a significant number of teething problems, it is important to note that teething problems for a new engine program are typical, and there has been a significant increase in new generation engines within the last decade that have brought significant performance improvements over current-generation engines. Considering the fleet's young age, mba does not anticipate new generation engines to become available in the secondary market in the near term, primarily as the Original Equipment Manufacturers (OEMs) largely control the spares fleets. The OEMs seem to be nearing the tail end of ironing out these teething issues, and strong order books for new generation aircraft will ensure a healthy market for new generation engines for the foreseeable future.

MID-LIFE ENGINES

The secondary market for mid-life engines is significantly more active than that of the new generation engines. In particular, engines for narrowbody aircraft like the CFM56-5B/-7B and V2500-A5 were traded actively through the end of 2019. During the global pandemic, engine trades slowed drastically, but demand for green time and spare engines has increased significantly over the last two years, helping to firm up Market Values for the types. The market for module trades and swaps for the CFM56 platform has also gained traction post-pandemic as shop visit turnaround times and costs have increased significantly, with multiple players providing module support for operators. With over 8,000 aircraft flying and the majority delivered within the past decade, many of the engines have yet to reach their first shop visit, which, when coupled with teething issues for the LEAP and GTF and the grounding of the MAX, has drastically increased demand for these engines over the last few years.

As the NG and ceo programs have reached the end of their production runs, the neo and MAX aircraft will cause a long-term, negative value impact on the CFM56-5B/-7Bs and V2500s as they become obsolete. The ubiquity of the MAX and neo is not anticipated until the late 2020s, which is typically around the time when engine values will begin to become more volatile and depreciate at an accelerated rate. However, as new aircraft deliveries have been unable to keep up with traffic demand, NG and ceo aircraft have been retiring at slower rates than anticipated, creating an additional bump in demand for engines as aircraft remain in service longer and operators seek green time engines in the market to support the fleet. In the long term, the success of freighter conversions for the 737-800 and A321-200 may help further boost values for the CFM56 and V5200 engines as operators will require used material and serviceable engines to support the converted freighter fleet.

The market for mid-life widebody engines like the Trent 800, Trent 700, and CF6-80E has been more segregated due to Rolls-Royce's strong enrollment numbers in the Total Care Program for these early-build engines. While Rolls Royce is now pushing operators toward time and materials (T&M) contracts, its strong control over its parts and authorized engine shops results in engine lessors being a little more hesitant to make a play in the space compared to the CF6-80E or 100" PW4000s. However, with the launch of Rolls Royce's "LessorCare" program, there has been more active lessor involvement with the current generation and new generation engines in the last few years, which is likely to continue. The global pandemic significantly tightened the secondary market for mid-life widebody engines, and Market Values remain soft for most types headed into 2024. However, some engines have shown hesitant signs of recovery, particularly the GE90-115B, which has benefited from increased utilization of 777-300ER as international passenger levels recover. Market Values for other mid-life widebody engines, such as the Trent 900 and GP7270 programs on the A380, remain very soft.

Though the near- to mid-term values for the most highly traded mid-life engines have previously remained stable, volatility of engine values is expected to continue in the near to medium term, particularly for mid-life engines on widebody aircraft. In the long term, demand for the mid-life engines as they transition into the mature market will be driven by fuel prices, the success of the new technology aircraft, and demand for the freighter converted 737-800, A321, 767, and A330 aircraft. These market conditions will play a significant role in determining the longevity of demand for the engines.

MATURE ENGINES

Of the three engine segments, mature engines experience the most Market Value volatility within the market, mostly trading on the green time of the engines. As the operators for the types only require sufficient maintenance status until the particular aircraft are retired, they do not require full performance restoration or brand-new life-limited parts. For this reason, the values of these engines tend to be more short-term market-driven and, thus, more volatile. In light of the global pandemic, as operators retire their older fleets, several engines are being retired with their aircraft counterparts as there is limited demand in the secondary market for spares or parts unless the engine is attached to a popular freighter. The strong freighter market is helping to extend the lives of many of these engines and increase values in some cases.

A large proponent that has helped buoy the demand for mature engines was a low-fuel-price environment and the strength of the passenger-to-freighter conversion market in the past several years. With the popularity of the 757-200 as a converted freighter, the PW2000s and RB211-535 engines have seen continued demand as the feedstock for the type and available green time continues to dwindle. While the 737-400 has also been a popular conversion platform, the much larger installed base of 737 classics has not resulted in the same value spike on the CFM56-3 as seen with the PW2000 and RB211-535. With the next generation of narrowbody freighters, such as the A321P2F and 737-800BCF, it is increasingly unlikely for the CFM56-3 to see any significant increase in demand.

Looking at the larger mature engine segment, demand for converted 767 freighters is very strong. This has resulted in the CF6-80C2 and, particularly, the PW4000-94" staying in demand for longer than anticipated, resulting in limited green time availability in the market. Historically, the availability of aftermarket non-OEM parts and non-JV shop visits allows experienced operators to tap into the engine market and use Time and Material (T&M) contracts to build their engines to their desired specifications, yet the increased demand has made it challenging for some operators. Though availability increased during the pandemic as more passenger airlines retired their 767 fleets, the e-commerce market experienced a boom in demand for 767 freighters. mba expects the market for these types to remain relatively robust in the short term, though slowdowns in cargo demand throughout 2023 pose a threat to values over the medium to long term.

POWER-BY-THE-HOUR CONTRACTS

With an estimated 50.0% of the existing engines and nearly all new engines enrolled in a PBH program, engine OEM involvement is central to the engine life cycle and value chain. As previously discussed, some OEM engine programs have historically resulted in difficulty trading engines, conversely impairing values. While OEMs have tried to rectify this, it remains to be seen if the market will respond favorably to PBH programs that give lessors greater accessibility to engine reserves, thereby "unlocking" the value of the engines on the secondary market. This push by OEMs shows the weight that lessor involvement in the engine market has on the tradability and values of engines.

The prevalence of PBH programs for new and mid-life engines, covering a comprehensive range of services, including lifetime overhaul contracts and short-term leases for engines in AOG situations, results in a unique life cycle that is not as common with legacy engines. As most new generation engines are on a comprehensive PBH program, the full scope of work is usually performed during the first and potentially subsequent shop visit, thereby reducing the number of first- or second-run engines reaching into the secondary market for used components, LLPs, and serviceable materials that are outside of the OEM's materials program.

The global pandemic has led OEMs to shift their perspective on PBH programs moving forward. Significant OEM revenue comes from these service contracts, which are based on aircraft utilization. As aircraft were not flying during the pandemic, OEM revenue from service contracts was stunted. In recent months, multiple OEMs, including PW and GE, have indicated a push for operators to move toward T&M contracts, even for new delivery engines, in order to reduce risk for the OEM while supporting operators and MROs through parts sales. Both OEMs have announced plans to expand their MRO networks in the coming years to support a more accessible and competitive T&M-based aftermarket. RR continues to stand behind its closed MRO network for new generation engines with its TotalCare program. However, operators of mid-life engines, such as the Trent 700, are quickly moving away from PBH programs and towards T&M contracts. OEMs' push toward T&M contracts is generally unfavored by operators and lessors who have increased exposure to rising maintenance costs and work scope creep under these contracts. As maintenance and parts costs continue to escalate, this trend away from PBH contracts will likely continue into the short- to medium-term.

SUMMARY

As the market continues to transition towards new generation aircraft, demand for mid-life engines should increase as subsequent lessees or operators look to move towards T&M contracts over PBH programs, making the engines more economical to operate. Due to inflationary pressures and supply chain constraints, several operators have also pushed deliveries of new aircraft to the right and are holding on to their current generation fleets longer than planned, which will require spare engines and parts in the near term. As investors in the aviation sector search for yield outside of traditional aircraft leasing, there has been increased activity in the engine leasing space over the past decade, leading OEMs to create programs, such as RR's LessorCare, to help support engine values for traded engines. Currently, there are fewer players in the engine leasing market than in the aircraft leasing market. Engine leasing is more specialized and typically trades on shorter-term demand; therefore, it may not fit the investment profile of many financiers.

After the pandemic, engine trading activity is strong heading into 2024, fueled by operators looking for green time engines and lessors wanting to place engines on lease. Demand for mid-life narrowbody engines is very strong, with Market Values at or above Base Values for all types. Widebody engines, particularly those that power large widebody and quad-engine aircraft, continue to suffer as more aircraft enter the secondary market and are having difficulty finding a new placement. A bright spot in the engine market currently includes engines that support popular converted freighter fleets, such as the 767 and 757 converted freighters, which have been in consistently high demand during the pandemic, bringing Market Values well above Base Values for the last several quarters.

Maintenance cost escalation on new and mature engine platforms is in the double digits, and elevated escalation is expected to continue. This will impact the engine trading market in the near term as operators seek green time in the market to avoid expensive shop visits where possible and increase the use of USM during shop visits to reduce costs. Quality green time for many engine types, particularly narrowbody and freighter engines, is becoming limited since operators utilized significant green time during the pandemic, which may help support stronger values in the near to medium term.

Demand for spare engines is also highly dependent on fuel prices, as a large percentage of fuel savings can be realized between the different generations of aircraft as a result of advancements in engine technology. Oil prices have now receded from their 2022 highs at nearly US$115.00 per barrel, which may change the trajectory for the commercial engine market in the medium to long term. Market volatility is also likely to ease further, considering domestic air travel demand returned to 2019 levels in 2023, and international traffic is expected to continue its recovery. Therefore, mba's short-term engine market outlook is neutral, trending positive, while the mid- to long-term outlook on the engine market is optimistic.

PW1500G

OVERVIEW

The PW1500G is a variant of Pratt & Whitney's (PW) Geared Turbofan (GTF) engine family, jointly developed with Germany's MTU Aero Engines. The PW1500G is the sole powerplant for the Airbus A220 family aircraft. The in-production GTF family also includes the PW1100G on the A320neo family and the PW1900G on the Embraer E190/195-E2. Other planned variants have included the PW1700G on the E175-E2, slated to enter service in the second half of the decade, the PW1400G on the Irkut MC-21, and the PW1200G on the Mitsubishi SpaceJet. The latter two variants will likely not come to fruition due to sanctions on Russia obviating the possibility of Western-made engines for Irkut and Mitsubishi's cancellation of the SpaceJet program.

The PW1500G is the middle sibling in the PW1000G family, with a 72" fan diameter and a thrust rating ranging from 19,000 lb. (PW1519G) to 23,300 lb. (PW1524G). It entered service in July 2016 with launch customer SWISS (Switzerland), which now operates both A220-100 and A220-300 aircraft. Compared to previous generation aircraft, the PW1500G promises up to 20.0% fuel-burn reduction, 75.0% reduced noise footprint, and a greater than 50.0% margin to emissions regulations. Like the PW1100G, the PW1500G has experienced teething issues, primarily concerning durability, which have led to several fixes. Many fixes have been incorporated fleet-wide, though others will be made at the first overhaul, and yet others are still in the works as new issues arise. Current issues include combustor durability and oil leaks in the #4 bearing compartment. In addition, a new LLP package extending the lives of several LLPs was introduced in 2021, and another LLP package extending the LLP lives in the low-pressure compressor (LPC) to 25,000 cycles was introduced in 2022 in an effort to reduce engine removals due to LLP replacement.

Positives

+ Sole powerplant for the Airbus A220 family, with a backlog of 914 aircraft as of December 31, 2023.
+ Order book includes a wide variety of operator types, including regional operators, low-cost carriers, and legacy and flag carriers.
+ Fuel efficiency has proven to be as stated or better than initial claims.

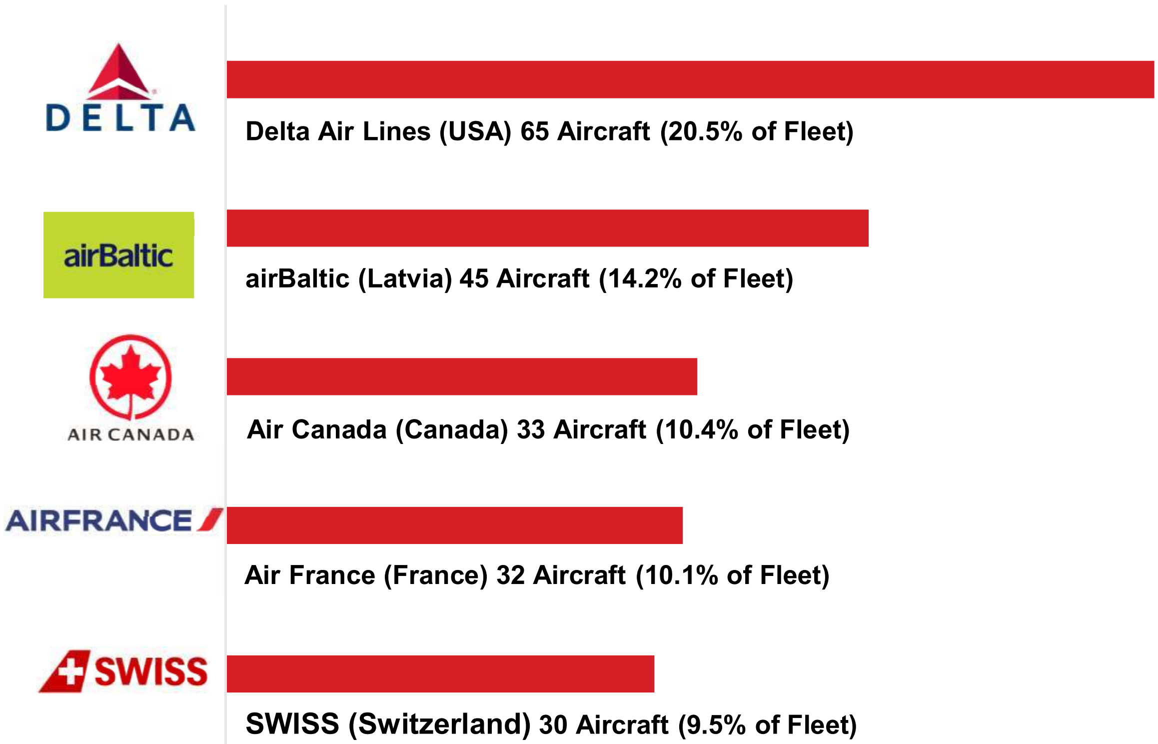
Negatives

- Ongoing teething issues have resulted in fleet disruptions and continued modifications that are not yet incorporated fleetwide.
- Higher maintenance cost burden and reduced on-wing durability are expected compared to previous generation engines.

FLEET STATUS

As of January 2024, 312 delivered commercial A220 aircraft are powered by 624 PW1500G engines, excluding the spares fleet. The A220 currently flies with 25 operators, excluding government and military orders, and the order book stands at 914 aircraft as of December 31, 2023. With 65 aircraft delivered, Delta Air Lines will continue to be the largest operator of the PW1500G once its total order book of 145 aircraft is delivered. JetBlue will eventually become the second-largest operator of A220s once its current order book of 100 aircraft is fulfilled.

Top Five Operators by Fleet



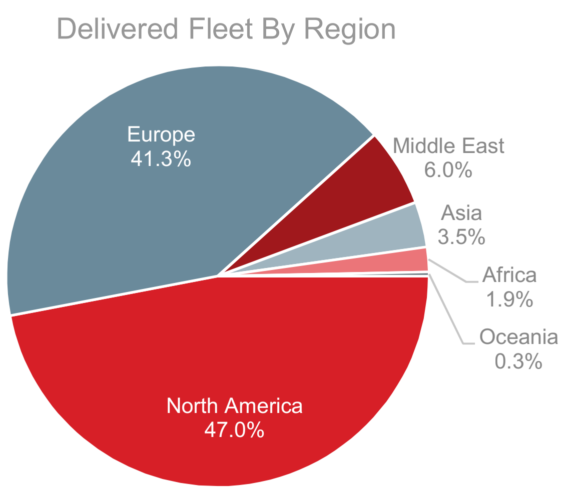
Source: mba REDBOOK FLEET, January 2024

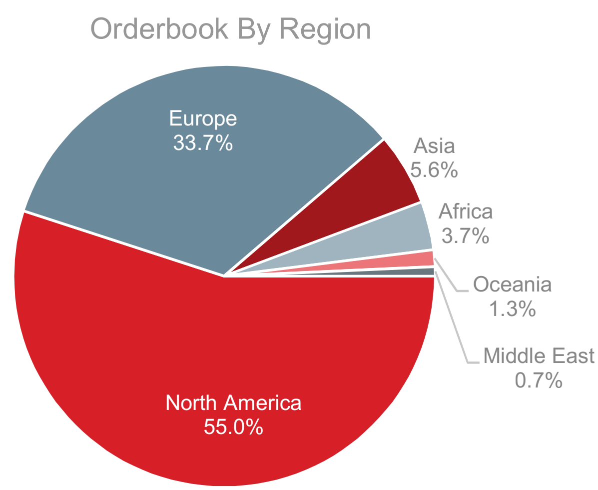
Top Five Operators by Order Book

Source: Airbus Orders & Deliveries, December 31, 2023

Current Fleet by Region

Two of the largest carriers are based in North America, which is home to the largest percentage of PW1500G-powered aircraft, with 47.0% of the fleet. The current order book shows North America holding on to more than half of the fleet once delivered, though lessor placements could change the distribution. Another two of the largest current operators are in Europe, which has 41.3% of the delivered fleet and is the second largest region in the order book. While the type is not particularly geographically well distributed, it has a presence in most regions of the world, which can aid in future remarketing.





Sources: mba REDBOOK FLEET, January 2024; Airbus Orders & Deliveries, December 31, 2023

ENGINE AVAILABILITY

According to MyAirTrade, as of March 2024, no PW1500G engines are currently advertised as available for sale or lease. This is typical due to the fleet's young age and is expected to continue in the near to medium term while the backlog is still being delivered. However, spare engines may enter the market if a major operator of the type declares bankruptcy, though they are likely to be absorbed quickly by the market.

OUTLOOK

mba has a positive outlook on the PW1500G overall. The A220 has a strong order book, with new orders continuing to come in from both lessors and operators. The type has proven popular with a variety of operator types, which should ease remarketing in the long term. The A220 has claimed its spot in the fleets of operators who have previously flown large regional jets, particularly EJets, and also operators who have flown other Pratt & Whitney or IAE products in the past, such as JetBlue, which operates E190s and V2500- and PW1100G-powered Airbus narrowbodies. The growing order book and popularity of the type should support strong values in the short to medium term as the engines trade at or above list price. With the currently limited spares fleet, should an engine be advertised as available, the market will likely absorb it quickly, particularly as the fleet undergoes continued teething issues.

Like its larger sibling, the PW1100G, the PW1500G has shown durability issues as the fleet collects hours and cycles since entry into service in 2016. Most issues have fixes and modifications available, which are retrofittable at a shop visit. However, new issues pertaining to the oil system are currently under investigation, and solutions are in the works. Despite some issues, which are expected of a new-design engine type, the PW1500G has proven successful in its mission to reduce fuel burn, emissions, and noise pollution. However, it is unclear what overhaul costs will look like for operators compared to advertised costs from PW since most engines have only gone through repair visits, and new MRO stations are being added to the approved list.

In August 2023, the FAA issued an Airworthiness Directive (AD) for the PW1100G due to an issue with powdered metal used in production, impacting certain high-pressure turbine (HPT) and high-pressure compressor (HPC) disks. Initially, it was unclear whether PW1500G and PW1900G engines were also impacted, but RTX confirmed in October 2023 that some engines may have been affected, although how many is unknown. The FAA will issue ADs for the types in the coming months, outlining inspection requirements and reduced life limits for the parts. RTX ensured that the PW1500G and PW1900G fleets will be minimally impacted compared to the PW1100G fleet as inspection and replacement requirements will largely align with engines' planned maintenance schedules. mba expects these technical issues will have no long-term impact on values as demand for spare engines increases. Currently, Market Values and Base Values are equal for the engine type, and Market Lease Rates continue to strengthen.

IV. Definitions

Extended Desktop Appraisal

An Extended Desktop Appraisal is one that is characterized by the absence of any on-site inspection of the aircraft or its maintenance records, but it does include consideration of maintenance status information that is provided to the appraiser from the client, aircraft operator, or in the case of a second opinion, possibly from another appraiser's report. An Extended Desktop Appraisal would normally provide a value that includes adjustments from the mid-time, mid-life baseline to account for the actual maintenance status of the aircraft. (ISTAT Handbook)

Base Value

ISTAT defines Base Values as the Appraiser's opinion of the value of an aircraft in a stable market with a reasonable balance of supply and demand. The Base Value of a tangible asset typically assumes its physical condition is average for an asset of its type and age, and its maintenance status is as described.

Base Value assumes that the value is for an unencumbered single-unit transaction valued for the asset's highest and best use (as defined by the Appraiser), that the parties to the potential sale would be willing, able, prudent and knowledgeable, and under no unusual pressure for a prompt sale, and that the transaction would be negotiated in an open and unrestricted market on an arm's-length basis, for cash or equivalent consideration, and given an adequate amount of time for effective exposure to prospective buyers. As Base Value pertains to a somewhat idealized market it will often not be the same as Market Value. As a starting point, the Base Value of a tangible asset typically assumes its maintenance status is at Half-life/Half-time.

Market Value

ISTAT defines Market Value (or Current Market Value if the value pertains to the time of the analysis) as the Appraiser's opinion of the most likely trading price that may be generated for an aircraft under the market circumstances that are perceived to exist at the time in question. Market Value assumes that the value is for an unencumbered single-unit transaction valued for the asset's highest and best use (as defined by the Appraiser), that the parties to the potential sale would be willing, able, prudent and knowledgeable, and under no unusual pressure for a prompt sale, and that the transaction would be negotiated in an open and unrestricted market on an arm's-length basis, for cash or equivalent consideration, and given an adequate amount of time for effective exposure to prospective buyers.

The Market Value of an aircraft (or other aviation-related asset) will tend to be consistent with its Base Value in a stable market, but where a reasonable equilibrium between supply and demand does not exist, trading prices, and therefore Market Values, are likely to be at variance with the asset's Base Value.

Future Base Values

ISTAT defines Future Values (also known as Residual Value) as the Appraiser's opinion of the projected value at a point in time of an aircraft. mba's Future Base Values take into account the value of an asset an open, unrestricted, stable market environment with a reasonable balance of supply and demand. The values are derived from mba's proprietary residual value curve, which is unique to each aircraft type and vintage and considers the expected value for the asset based on mba's 30+ years of historical data and where the asset is in its lifecycle. Future Values are as of the valuation quarter.

V. Methodology

In developing the values of the Subject Assets, mba did not inspect the Subject Assets or the records and documentation associated with the Subject Assets but relied on partial information supplied by the Client. This information was not independently verified by mba. Therefore, mba used certain assumptions that are generally accepted industry practice to calculate the value of aircraft when more detailed information is not available.

The principal assumptions for the Subject Assets are as follows:

1. The aircraft is in good overall condition.
2. The overhaul status of the airframe, engines, landing gear, and other major components are the equivalent of mid-time/mid-life, or new, unless otherwise stated.
3. The historical maintenance documentation has been maintained to acceptable international standards.
4. The specifications of the aircraft are those most common for an aircraft of its type and vintage.
5. The aircraft is in a standard airline configuration.
6. The aircraft is current as to all Airworthiness Directives.
7. Its modification status is comparable to that most common for an aircraft of its type and vintage.
8. Its utilization is comparable to industry averages.
9. There is no history of accident or incident damage.
10. In the case of the Base and Market Value, no accounting is made for lease revenues, obligations, or terms of ownership unless otherwise specified.

Maintenance Assumptions

Utilization

The maintenance status of the airframe and engines for the Subject Aircraft were provided by the Client and are as of various dates. mba forwarded the data to the date of valuation, March 14, 2024, based on each Subject Aircraft's average daily utilization. All the Subject Aircraft were presumed to be active and accumulating flight hours and cycles, with the exception of MSN 55007, MSN 55009, and MSN 55016, which were stored at the time of valuation. For engines with an on–wing and active status, total flight hours and cycles were forwarded to March 14, 2024. Engines listed as "In Shop" or "Off Wing" did not have flight hours or cycles forwarded.

Maintenance Intervals

Airframe and landing gear check and overhaul intervals are based on operator-approved intervals that follow MSG-3 guidelines and are limited by either calendar months, flight hours, or flight cycles. Engine overhaul intervals are based on mba's proprietary database, specific to aircraft and engine types, which considers data provided by the OEM and industry average time between overhauls as received from MROs, lessors, and operators. Engine overhaul intervals are adjusted based on the historical utilization and operator region of the aircraft.

Maintenance Cost

mba's maintenance costs are based on internal data specific to aircraft and engine type as well as the operating environment. Airframe checks, landing gear overhauls, and engine overhaul costs are derived from OEM-published costs and average costs received from MROs, airlines, industry publications, and mba's Asset Management team. LLP replacement costs are based on OEM-published costs as is standard for current, in-production engines.

Portfolio Specific Assumptions

- MSN 55007 – C Check assumed to be in Half-Time condition.
- MSN 55007, MSN 55009, and MSN 55016 are stored; therefore, hours and cycles were not forwarded.

VI. Valuation

Aircraft Portfolio									
No.	**Aircraft Type**	**Serial Number**	**Registration**	**Manufacture Date**	**MTOW (lb.)**	**Engine Type**	**ESN 1**	**ESN 2**	**Operator**
1	A220-300	55003	YL-CSA	Nov-16	148,999	PW1521G-3	P735933	P735926	Air Baltic
2	A220-300	55004	YL-CSB	Nov-16	148,999	PW1521G-3	P735932	P735936	Air Baltic
3	A220-300	55005	YL-CSC	Mar-17	148,999	PW1521G-3	P735943	P735944	Air Baltic
4	A220-300	55006	YL-CSD	May-17	148,999	PW1521G-3	P735947	P735952	Air Baltic
5	A220-300	55007	YL-CSE	Jun-17	148,999	PW1521G-3	P735948	P735953	Air Baltic
6	A220-300	55008	YL-CSF	Jun-17	148,999	PW1521G-3	P735958	P735959	Air Baltic
7	A220-300	55009	YL-CSG	Jul-17	148,999	PW1521G-3	P735960	P735962	Air Baltic
8	A220-300	55016	YL-CSH	Nov-17	148,999	PW1521G-3	P735971	P735970	Air Baltic

Aircraft Portfolio Valuations (US$ Million)									
No.	**Aircraft Type**	**Serial Number**	**MTOW Adj.**	**CBV**	**MAF**	**CMV**	**Mx. Adj.**	**Mx. Adj. BV**	**Mx. Adj. MV**
1	A220-300	55003	$0.15	$23.54	100.0%	$23.54	$4.01	$27.55	$27.55
2	A220-300	55004	$0.15	$23.54	100.0%	$23.54	$4.41	$27.95	$27.95
3	A220-300	55005	$0.16	$24.14	100.0%	$24.14	$4.33	$28.47	$28.47
4	A220-300	55006	$0.16	$24.44	100.0%	$24.44	$4.75	$29.19	$29.19
5	A220-300	55007	$0.16	$24.59	100.0%	$24.59	$4.55	$29.14	$29.14
6	A220-300	55008	$0.16	$24.59	100.0%	$24.59	$5.40	$29.99	$29.99
7	A220-300	55009	$0.16	$24.75	100.0%	$24.75	$4.57	$29.32	$29.32
8	A220-300	55016	$0.16	$25.36	100.0%	$25.36	$4.20	$29.56	$29.56
Total			**$1.26**	**$194.95**		**$194.95**	**$36.22**	**$231.17**	**$231.17**

Legend for Portfolio Valuation:

MTOW Adj. - Adjustment for Maximum Take-Off Weight
CBV - Current Base Value (including inherent maintenance if young/applicable)
MAF - Market Adjustment Factor
CMV - Current Market Value (including inherent maintenance if young/applicable)
Mx. Adj. - Maintenance Adjustment
Mx. Adj. BV - Maintenance-Adjusted Base Value
Mx. Adj. MV - Maintenance-Adjusted Market Value

Aircraft Maintenance Adjustments (US$ Million)												
No.	Aircraft Type	Serial Number	Int. MX. Adj.	Hvy. MX. I Adj.	Hvy. MX. II Adj.	LG Adj.	Engine 1 LLP Adj.	Engine 1 PR Adj.	Engine 2 LLP Adj.	Engine 2 PR Adj.	Total MX. Adj.
1	A220-300	55003	$0.09	$0.10	($0.08)	($0.05)	$1.25	$0.67	$1.27	$0.76	$4.01
2	A220-300	55004	$0.13	$0.10	($0.08)	($0.05)	$1.27	$0.78	$1.32	$0.94	$4.41
3	A220-300	55005	$0.14	$0.10	($0.06)	($0.04)	$1.33	$0.84	$1.28	$0.74	$4.33
4	A220-300	55006	$0.17	$0.11	($0.05)	($0.03)	$1.25	$0.77	$1.47	$1.06	$4.75
5	A220-300	55007	$0.00	$0.11	($0.05)	($0.03)	$1.27	$0.61	$1.49	$1.15	$4.55
6	A220-300	55008	$0.18	$0.12	($0.04)	($0.03)	$1.50	$0.99	$1.53	$1.15	$5.40
7	A220-300	55009	($0.14)	$0.12	($0.04)	($0.02)	$1.40	$0.84	$1.38	$1.03	$4.57
8	A220-300	55016	($0.13)	$0.10	($0.02)	($0.01)	$1.30	$0.82	$1.29	$0.85	$4.20
Total			**$0.44**	**$0.86**	**($0.42)**	**($0.26)**	**$10.57**	**$6.32**	**$11.03**	**$7.68**	**$36.22**

Aircraft Maintenance Status Percentage Remaining										
No.	Aircraft Type	Serial Number	Int. MX. Adj.	Hvy. MX. I Adj.	Hvy. MX. II Adj.	LG Adj.	Engine 1 LLP Adj.	Engine 1 PR Adj.	Engine 2 LLP Adj.	Engine 2 PR Adj.
1	A220-300	55003	74.2%	72.9%	39.0%	39.0%	80.7%	65.8%	81.1%	68.0%
2	A220-300	55004	85.3%	74.0%	39.0%	39.0%	81.1%	68.5%	82.3%	72.1%
3	A220-300	55005	87.1%	73.4%	41.6%	41.6%	82.6%	69.8%	81.5%	67.5%
4	A220-300	55006	94.4%	76.9%	43.1%	43.1%	80.6%	68.3%	86.1%	75.1%
5	A220-300	55007	50.0%	76.9%	43.5%	43.5%	81.3%	64.4%	86.7%	77.2%
6	A220-300	55008	98.1%	77.9%	44.0%	44.0%	86.8%	73.4%	87.5%	77.3%
7	A220-300	55009	11.9%	78.8%	44.6%	44.6%	84.3%	69.9%	83.9%	74.3%
8	A220-300	55016	13.9%	73.9%	47.4%	47.4%	82.0%	69.4%	81.6%	70.1%

Legend for Maintenance Adj.

Int. MX. Adj. -	Intermediate Check or C Check Adjustment
Hvy. MX. Adj. -	Heavy Check Adjustment
LG Adj. -	Landing Gear Overhaul Adjustment
Engine LLP Adj. -	Engine Life Limited Part Adjustment
Engine PR Adj. -	Engine Performance Restoration Adjustment

Future Half-Time Base Values (US$ Million)								
No.	1	2	3	4	5	6	7	8
Aircraft Type	A220-300	A220-300	A220-300	A220-300	A220-300	A220-300	A220-300	A220-300
Serial Number	55003	55004	55005	55006	55007	55008	55009	55016
Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
2024	$23.54	$23.54	$24.14	$24.44	$24.59	$24.59	$24.75	$25.36
2025	$21.81	$21.81	$22.34	$22.62	$22.76	$22.76	$22.90	$23.47
2026	$20.59	$20.59	$21.14	$21.40	$21.53	$21.53	$21.67	$22.21
2027	$19.41	$19.41	$19.97	$20.22	$20.35	$20.35	$20.48	$20.98
2028	$18.25	$18.25	$18.84	$19.08	$19.19	$19.19	$19.32	$19.79
2029	$17.11	$17.11	$17.74	$17.96	$18.07	$18.07	$18.19	$18.63
2030	$16.00	$16.00	$16.66	$16.87	$16.97	$16.97	$17.08	$17.50

Engine Portfolio Valuations (US$ Million)									
No.	Engine Type	Serial Number	QEC Status	HT CBV	MAF	HT CMV	Mx. Adj.	Mx. Adj. BV	Mx. Adj. MV
1	PW1521G	P736291	Neutral	$9.03	100.0%	$9.03	$2.83	$11.86	$11.86
2	PW1521G	P736294	Neutral	$9.03	100.0%	$9.03	$2.86	$11.89	$11.89
3	PW1521G	P736490	Neutral	$9.03	100.0%	$9.03	$2.75	$11.78	$11.78
4	PW1521G	P736493	Neutral	$9.03	100.0%	$9.03	$3.48	$12.51	$12.51
5	PW1521G	P736540	Neutral	$9.03	100.0%	$9.03	$3.08	$12.11	$12.11
6	PW1521G	P736579	Neutral	$9.03	100.0%	$9.03	$3.53	$12.56	$12.56
7	PW1521G	P736646	Neutral	$9.03	100.0%	$9.03	$3.48	$12.51	$12.51
Total				**$63.21**		**$63.21**	**$22.01**	**$85.22**	**$85.22**

Portfolio Legend:

QEC -	Quick Engine Change
HT CBV -	Half-Time Current Base Value
MAF -	Market Adjustment Factor
HT CMV -	Half-Time Current Market Value
Mx. Adj. -	Maintenance Adjustment
Mx. Adj. BV -	Maintenance-Adjusted Base Value
Mx. Adj. MV -	Maintenance-Adjusted Market Value

Engine Maintenance Adjustments (US$ Million)					
No.	Engine Type	Serial Number	LLP Adj.	PR Adj.	Total MX. Adj.
1	PW1521G	P736291	$1.55	$1.28	$2.83
2	PW1521G	P736294	$1.55	$1.31	$2.86
3	PW1521G	P736490	$1.52	$1.23	$2.75
4	PW1521G	P736493	$1.79	$1.69	$3.48
5	PW1521G	P736540	$1.63	$1.45	$3.08
6	PW1521G	P736579	$1.83	$1.70	$3.53
7	PW1521G	P736646	$1.79	$1.69	$3.48
Total			**$11.66**	**$10.35**	**$22.01**

Engine Maintenance Status Percentage Remaining				
No.	Engine Type	Serial Number	LLP Adj.	PR Adj.
1	PW1521G	P736291	88.1%	80.2%
2	PW1521G	P736294	88.1%	81.1%
3	PW1521G	P736490	87.4%	79.2%
4	PW1521G	P736493	94.0%	89.9%
5	PW1521G	P736540	90.1%	84.4%
6	PW1521G	P736579	95.0%	90.3%
7	PW1521G	P736646	93.9%	90.0%

Maintenance Adjustments Legend:

Engine LLP Adj. - Engine Life Limited Part Adjustment
Engine PR Adj. - Engine Performance Restoration Adjustment

VII. Covenants

This Report has been prepared for the exclusive use of Air Baltic Corporation and shall not be provided to other parties by mba without the express consent of Air Baltic Corporation. mba certifies that this report has been independently prepared and that it fully and accurately reflects mba's and the signatory's opinion of the values of the Subject Assets as requested. mba further certifies that it does not have, and does not expect to have, any financial or other interest in the Subject Assets. Neither mba nor the signatory has provided the OEMs of the airframe or engines with pro bono or paid consulting or advice in the design or development of the assets valued herein.

This Report represents the opinion of mba of the values of the Subject Assets as requested and is intended to be advisory only. Therefore, mba assumes no responsibility or legal liability for any actions taken, or not taken, by Air Baltic Corporation or any other party with regard to the Subject Assets. By accepting this Report, all parties agree that mba shall bear no such responsibility or legal liability.

PREPARED BY:

Monika Talastas
Senior Analyst – Asset Valuations
mba Aviation

March 19, 2024

REVIEWED BY:

David Archer
Director – Asset Valuations
mba Aviation
ISTAT Certified Appraiser

Full Appraisal of:
Component Inventory
Consisting of 40,834 (19,307 Unique) Spare Part Line Items

Client:
Air Baltic Corporation

Date:
March 28, 2024

Headquarters:
2101 Wilson Boulevard
Suite 1001
Arlington, Virginia 22201
USA
Tel: +1 703 276 3200
Email: mba@mba.aero

Americas | Europe | Asia

ISTAT

www.mba.aero

Table of Contents

I. Introduction and Executive Summary

mba Aviation (mba) has been retained by Air Baltic Corporation (the "Client") to provide a Desktop Appraisal stating the Current Market Value of a Component Inventory (the "Subject Inventory") consisting of 40,834 spare part line items, as of March 31, 2024. The Component Inventory line items and conditions were supplied to mba by Air Baltic Corporation. The Subject Inventory is fully identified in Section VI of this Report.

In performing this Appraisal, mba relied on industry knowledge and intelligence, confidentially obtained data points, its market expertise, and current analysis of market trends and conditions.

Based on the information set forth in this Report, it is mba's opinion that the total Current Market Values of the Subject Inventory are as follows and as set forth in Section VI.

Subject Inventory by Category			
Component Category	**Line Items**	**Quantity**	**Current Market Value (US$)**
Total Consumable	28,334	1,027,758	$11,485,963
Total Rotable	12,500	12,500	$33,888,969
Total Inventory	**40,834**	**1,040,258**	**$45,374,932**

Section IV of this report presents definitions of various terms, such as Current Base Value and Current Market Value as promulgated by the Appraisal Program of the International Society of Transport Aircraft Trading (ISTAT). ISTAT is a non-profit association of management personnel from banks, leasing companies, airlines, manufacturers, brokers, and others who have a vested interest in the commercial aviation industry and who have established a technical and ethical certification program for expert appraisers.

ISTAT

II. Qualifications

mba is a recognized provider of aircraft and aviation-related asset appraisals and inspections. mba and its principals have been providing appraisal services to the aviation industry for over 30 years, and its employees adhere to the rules and ethics set forth by the International Society of Transport Aircraft Trading (ISTAT). mba employs a team of ISTAT Certified Appraisers and ISTAT Certified Senior Appraisers. mba's clients include most of the world's major airlines, lessors, financial institutions, and manufacturers and suppliers. mba maintains offices in North America, Europe, and Asia.

mba publishes quarterly values updates on its online platform REDBOOK, which provides current and projected aircraft values for the next 20 years for over 150 types of jet, turboprop, and cargo aircraft in addition to engines and helicopters.

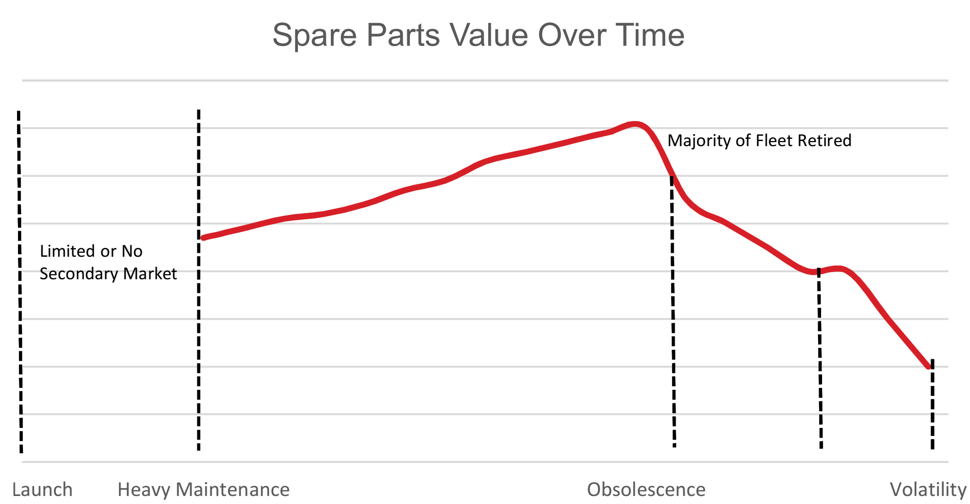
mba also provides consulting services to the industry relating to operations, marketing, and management with an emphasis on financial/operational analysis, airline safety audits and certification, utilizing hands-on solutions to current situations. mba also provides expert testimony and witness support on cases involving collateral/asset disputes, bankruptcies, financial operations, safety, regulatory, and maintenance concerns.

III. Current Market Conditions

An essential consideration in any appraisal is the market condition at the time the valuation is rendered. This section explores major factors currently influencing spare part values, including spare part value retention, market trends for both widebody and narrowbody aircraft, and financial performance of Maintenance, Repair, and Overhaul Facilities (MROs) and spare parts providers.

SPARE PART RESIDUAL VALUES

An aircraft or engine in high demand will naturally have spare parts that are in high demand and will be priced accordingly. However, unlike aircraft, spare parts do not necessarily continually depreciate. Spare parts that service a particular aircraft will first depreciate as the aircraft platform enters service, and the supply of parts is predominantly provided by the manufacturer of the components at what many would consider "list prices." Then, as the secondary parts market becomes more active, the Market Value of components will appreciate modestly for what is usually the remainder of the platform's production life. Once production of a particular aircraft is ceased and a considerable number of aircraft remain in service, the Market Value may begin to appreciate at a greater rate as part scarcity starts to increase while demand remains constant. At this point, part-out companies begin to acquire and disassemble aircraft to service this market in greater numbers. This leads to a period of stability in value before entering a period of volatility in which values are directly correlated to the supply and demand ratio for the specific component. The following graph illustrates the life cycle of spare parts value.



Spare parts are readily traded on the secondary market, with several platforms on which sellers can market their parts. Online services, such as ILS and PartsBase, allow sellers to post the parts they are looking to liquidate. When monetizing inventories, sellers looking to maximize yield typically list their spare parts on the market individually, yielding the highest value over a longer period. Those who own larger inventories that require monetization in shorter periods of time may require a lot sale.

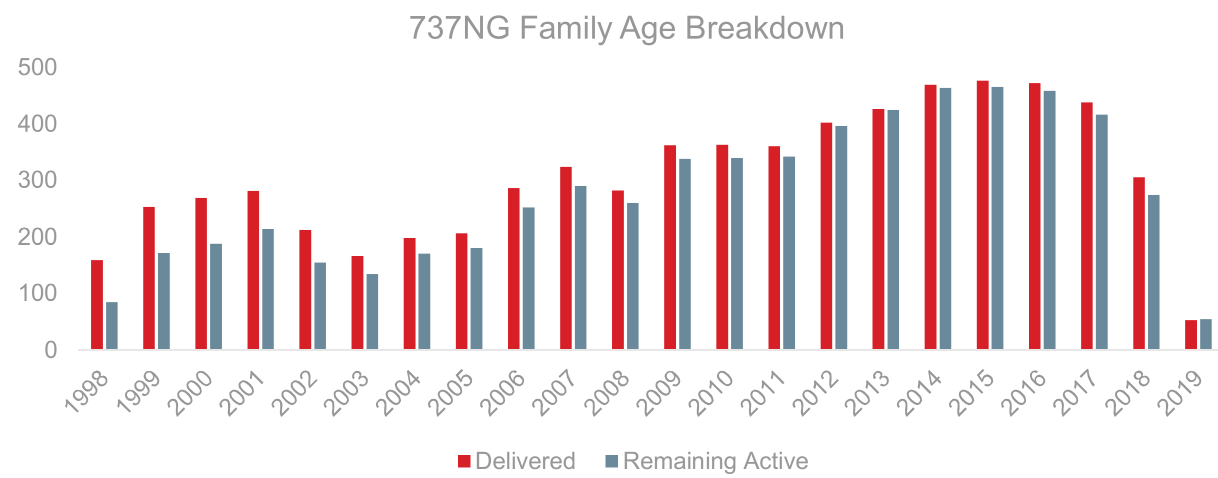
Lot sales have lower yields than selling each part individually, but they allow for a more rapid sale of parts in greater numbers. Another option for part sales is auctions, which allow the seller to package entire spare part inventories for liquidation in short periods of time with the lowest yield.

SPARE PART TRADING OPTIONS

	Yield	Marketing Time
INDIVIDUAL SALE	High	Long
LOT SALE	Low	Short
AUCTION	Lowest	Immediate

SPARE PART MARKET TRENDS

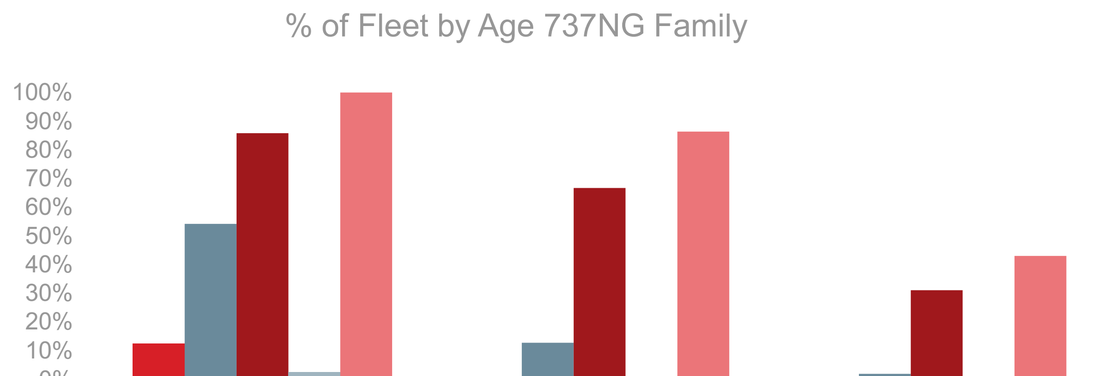
Demand for spare parts fell during the global COVID-19 pandemic as a significant number of aircraft were stored or retired, though the pandemic did not affect parts for all aircraft types equally. mba has seen significant value impacts for spare parts servicing older aircraft types such as the MD-80, Fokker 100, and 767-200; however, values for spare parts servicing current generation aircraft such as the 737NG, A320ceo, and A330 have not seen sharp decreases. mba has seen demand for current generation aircraft parts, such as those servicing the A320ceo and 737NG fleets, rebounding as airlines continue to add capacity back to the market. While the number of stored 737NG aircraft increased dramatically due to the pandemic, many of these aircraft have returned to service. As of January 2024, 89.7% of all 737NG aircraft delivered are active compared to 87.0% in January 2023. The existence of popular freighter conversion programs for the 737-800 is also likely to increase demand for 737NG parts.



Source: mba REDBOOK FLEET

The A320ceo and 737NG fleets are relatively young due to their long production runs, though their replacements entered service over five years ago. For instance, the average age of active 737NG family aircraft is just over 13.5 years old, despite the first aircraft being delivered in 1998. Nearly 3,500 aircraft have been delivered since 2011, accounting for half of all 737NG aircraft delivered since launch.

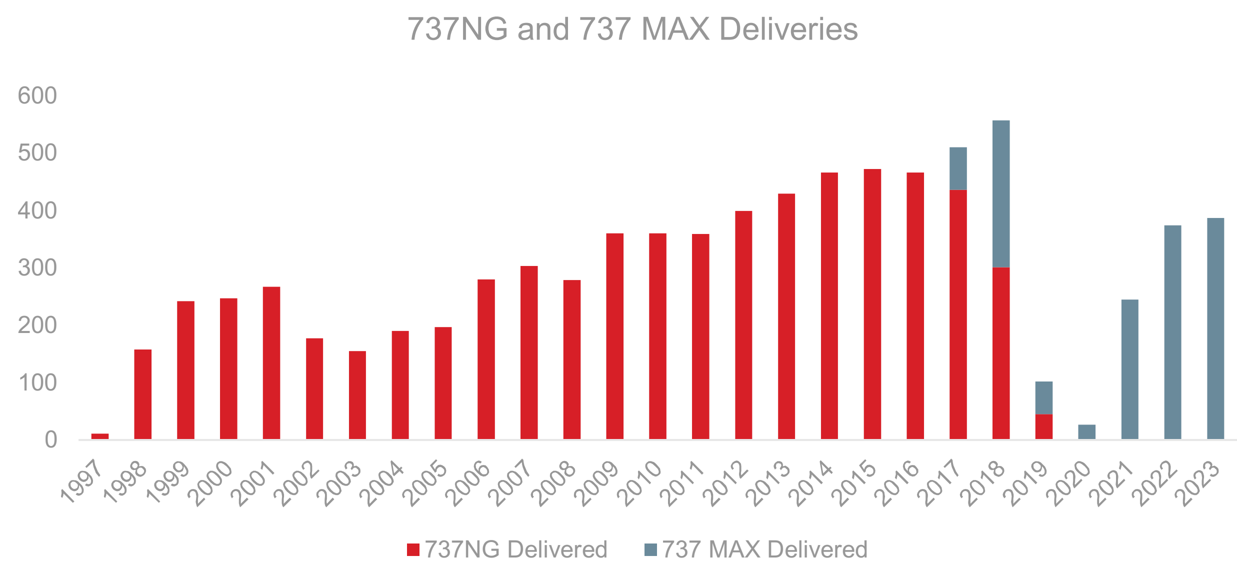
This rapid increase in deliveries created significant demand for spare parts for the 737NG fleet. Retirements and teardowns of 737NG aircraft did not occur at the increased rate expected due to the pandemic, leaving supply unable to keep up with expected parts demand, likely supporting parts pricing in the secondary market. Even as older 737NG aircraft begin to be torn down, there are not enough older examples to satisfy the needs of operators. The 737-700 and 737-800 freighter conversion programs—both types entered service in 2017—should also stimulate demand for 737NG spares. Older aircraft that may otherwise have been parted out may be converted to freighters, further reducing potential supply.



	% of Active Fleet <20	% of Active Fleet <15	% of Active Fleet <10
737-600	13%	0%	0%
737-700	54%	13%	2%
737-800	86%	67%	31%
737-900	2%	0%	0%
737-900ER	100%	86%	43%

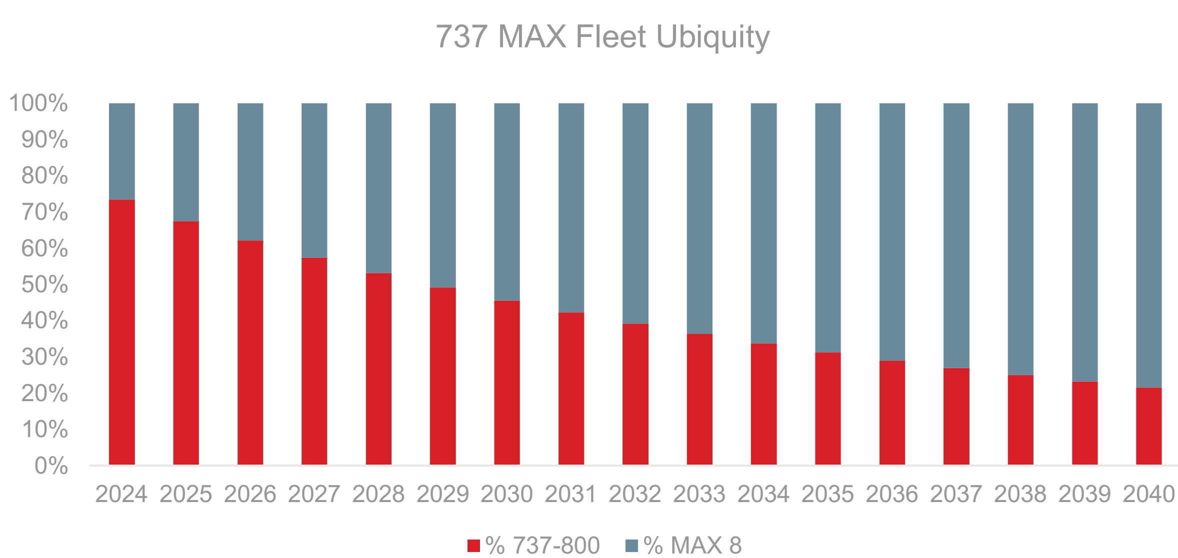
Source: mba REDBOOK FLEET

A potential driver of demand for 737NG spare parts is 737 MAX delivery delays coupled with strong domestic capacity demand growth, keeping 737NG aircraft in service longer than originally anticipated. While the 737 MAX order book is currently at 6,219 net orders, up from 4,912 in 2019, deliveries cannot keep up with demand growth. As 737NG aircraft remain in service longer, maintenance demand will increase for the type, including for CFM56-7B engines, likely driving demand for used serviceable material (USM) in the secondary market to support maintenance demand and keep costs down for operators during this current period of high maintenance cost escalation. mba expects this trend to create additional demand for 737NG spare parts in the medium to long term with more limited availability of spare parts, potentially buoying values while limiting bifurcation of parts between the two families. The drop off in deliveries observed starting in 2019 is due to the cessation of deliveries of the 737 MAX and the exhaustion of the 737NG backlog.



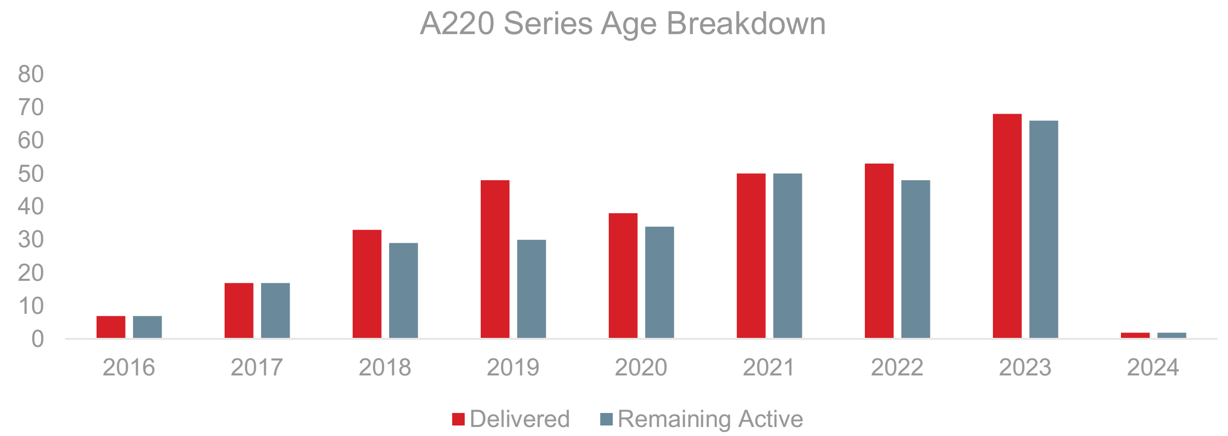
Sources: mba REDBOOK FLEET and Boeing

With the ramp-up in production for the 737 MAX beginning in 2018, the fleet's average age is just under three years old. Due to slowed production caused by COVID-19 and current supply chain issues, mba expects the 737 MAX fleet to reach 50.0% of the total in-service fleet of all 737 aircraft in 2029. Boeing projects that 56.0% of its deliveries over the next 20 years are to satisfy demand due to market growth, and 44.0% of orders are for replacement of currently in-service aircraft. As the 737 MAX program is still very young, it will likely gain more orders over the next few years and surpass the 737NG order book, with the current MAX order book nearing the 6,896 orders that the 737NG gained over the course of its production. If the 737-700 and 737-800 converted freighter platforms prove successful, the high level of part commonality between the 737NG and 737 MAX will cause demand for the parts to remain strong in the coming years.



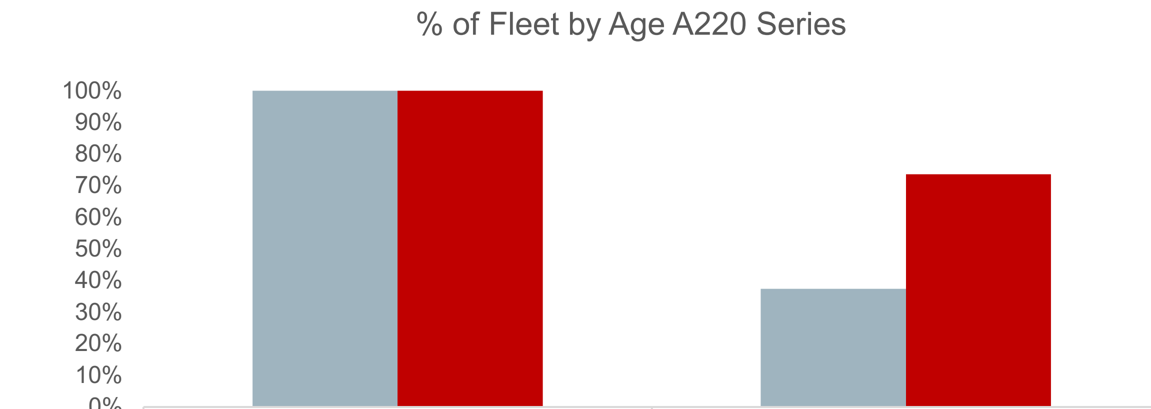
Sources: mba REDBOOK FLEET and Boeing

The A220 series initially started as the CS-series developed by Bombardier but was acquired by Airbus in 2017. The aircraft has generated strong sales, with operators preferring the larger A220-300 over the A220-100. As of January 31, 2024, 903 commercial orders have been placed from 30 identified customers: 810 are for the A220-300, and 93 are for the A220-100. There have been 316 A220s delivered as of January 31, 2024, with the A220-300 making up approximately 81.0% of the fleet. This disparity is expected to grow as more aircraft are delivered and customers continue to show a preference for the A220-300.



Sources: mba REDBOOK FLEET and Airbus

The A220 fleet is very young, with the average A220 being just over three years old. The entire fleet is under ten years of age, and 67.0% of the fleet is under five years old. Because only 35.0% of total orders have been delivered, the average age of the fleet will continue to get younger. A220 family parts were less affected by the pandemic compared to current generation narrowbody aircraft parts, as new generation aircraft parts are less likely to be traded on the secondary market early in an aircraft program's life cycle. The A220-300 competes with Embraer's E195-E2, Airbus's A319neo, and, to a lesser extent, Boeing's 737 MAX 7. However, the A220-300 has a significantly larger order book and customer base, making it the preferred aircraft of its size in the current market. The current production rate for the A220 family is at six aircraft per month, but Airbus is targeting an increase to 14 aircraft per month by 2026. As the aircraft ages and approaches its first heavy maintenance events, spare parts demand for the type will continue to grow.



	% of Active Fleet <10	% of Active Fleet <5
A220-100	100%	37%
A220-300	100%	74%

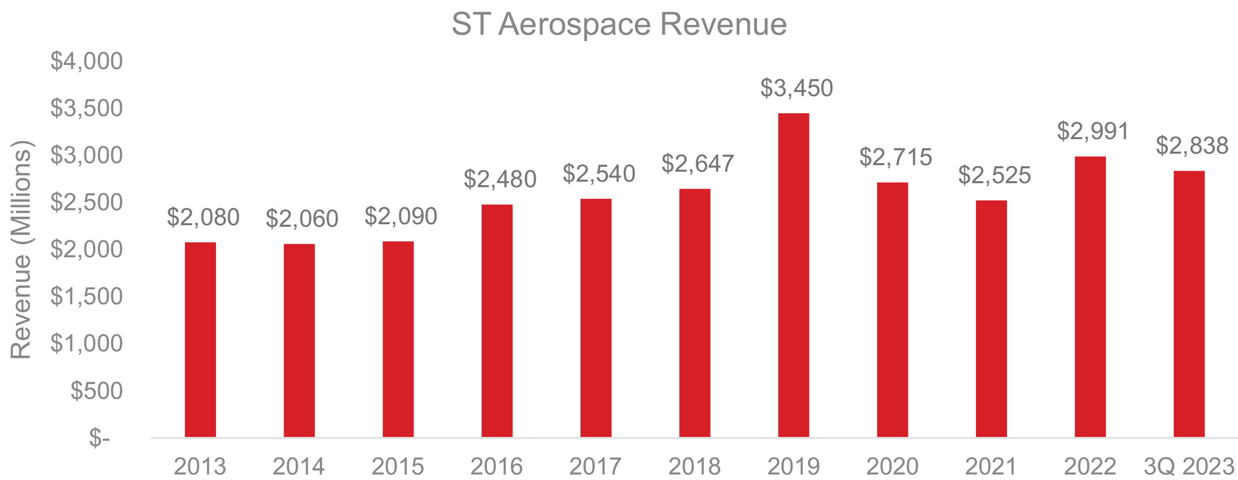
Sources: mba REDBOOK FLEET and Airbus

MAJOR PLAYERS

Aviation spare parts suppliers are represented by the Aviation Suppliers Association (ASA). The ASA is a not-for-profit organization based in Washington, D.C., with 844 members worldwide. Another program known as the International Airlines Technical Pool (IATP) allows airlines to pool their parts in order to increase spares availability. Members of IATP do not have to operate a storeroom at every destination they fly to; instead, they can purchase other members' spares in case of an aircraft on the grou nd (AOG) scenario. IATP currently has 125 member airlines with parts at over 900 airports as of its most recent conference in March 2023.

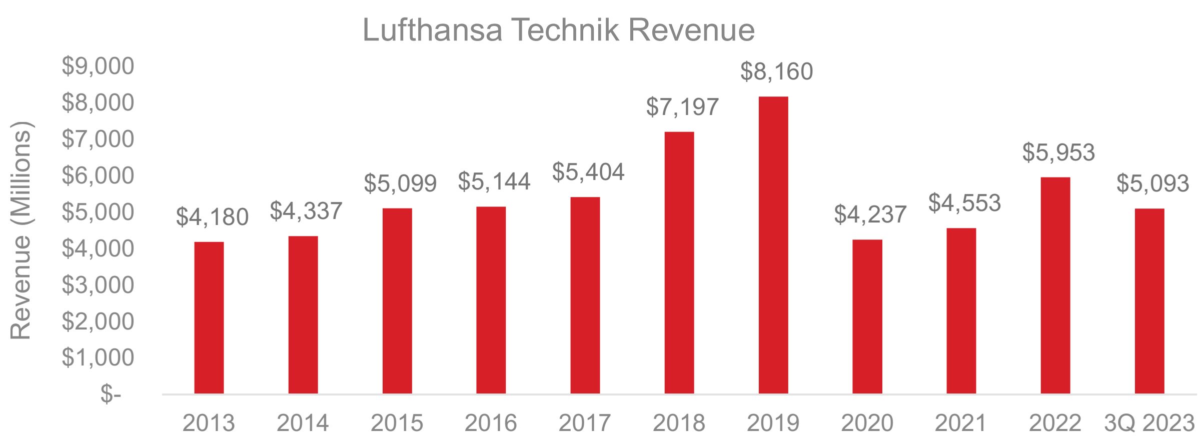
Some of the largest providers of spare parts are AAR, AJ Walter, and GA Telesis. These companies purchase airframes and engines for part out, overhaul the spares, and then sell these parts to operators around the world. All three companies also have an MRO component to their business. Of these companies, only AAR is publicly listed. Even during the pandemic, AAR continued to be profitable, posting an operating income of US$41.3 million in 2020, US$85.2 million in 2021, and US$106.9 million in 2022 (financial year end of May 31).

The largest MRO in Asia is Singapore-based ST Aerospace. ST Aerospace offers MRO services for airframes, engines, and spare components. ST Aerospace also offers spare parts leasing services, with a "Maintenance-by-the-Hour" program for spare components, which currently supports more than 600 aircraft. Before the pandemic, ST Aerospace's revenue had grown steadily, reaching US$3.45 billion in 2019, up 30.34% since 2018. However, ST Aerospace's revenue fell to US$2.7 billion between 2019 and 2020, a 21.74% reduction, primarily due to factors created by the ongoing pandemic. The company still did manage to be profitable in 2020, posting a net profit of US$192.9 million, albeit down from the US$268.9 million profit posted in 2019. ST Aerospace posted a revenue of US$982 million for the third quarter of 2023, a 27.0% increase compared to its revenue result in the third quarter of 2022.



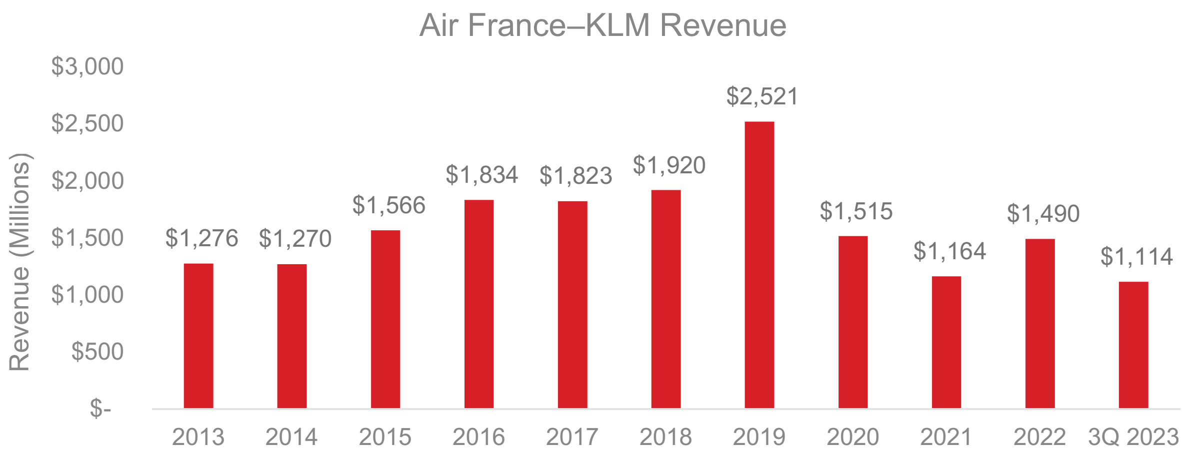
Source: ST Engineering Annual Reports and Financial Results 2013–3Q 2023

Several airlines also operate parts-trading business lines, with the largest being Air France–KLM and Lufthansa Technik. These airlines focus more on leasing spares to smaller airlines as part of a parts pool instead of selling parts outright. The profitability of these companies has increased over the past several years, with more aircraft being delivered and more startup airlines demanding spares and maintenance. In 2019, Lufthansa Technik's revenue from its commercial maintenance business was US$8.16 billion, up 13.4% from 2018. Unfortunately, 2020 was "[t]he toughest year in [Lufthansa Technik's] history," with the commercial maintenance business' revenue falling to US$4.24 billion, with similar revenue figures in 2021 at US$4.5 billion. At the end of 2022, Lufthansa Technik recorded a revenue of US$5.9 billion, a 30.7% increase over the year-end 2021. Lufthansa Technik recorded a revenue of US$1.686 billion in the third quarter of 2023, with a total revenue of $5.093 billion so far for the year.



Source: Lufthansa Technik Annual Reports 2013–3Q2023

Air France–KLM also saw increased revenues before the pandemic began, with its maintenance revenue reaching US$2.52 billion in 2019, up 31.3% since 2018. However, like ST Aerospace, the company saw significantly decreased revenues in 2020. External maintenance sales reached US$1.51 billion in 2020—down nearly 40.0% year over year—US$1.16 billion in 2021 and US$1.49 billion as of the end of 2022. As of the third quarter of 2023, Air France–KLM recorded a revenue of US$1.114 billion.



Source: Air France–KLM Annual Reports and Financial Statements, 2013–3Q2023

SUMMARY

The pandemic significantly impacted demand for spare parts as airlines stored large portions of their fleets in order to account for the steep drop in demand for air travel. Despite large amounts of stored aircraft, airlines did not retire a significant number of aircraft during the pandemic as expected. After the pandemic, many aircraft have been brought back into service, and additional aircraft have been removed from storage to support immediate capacity demand. As a result of these supply and demand shocks, mba observed Market Values for airframes drop considerably during the pandemic, typically between 30.0% and 40.0%. Airframe values have increased since the height of the pandemic, with some platforms approaching or surpassing 2019 values. Spare parts servicing older aircraft types, such as the MD-80, Fokker 100, 757, and 767, have seen the largest negative value impacts as demand diminished and aircraft are retired. Values for these parts are unlikely to rebound to pre-pandemic levels as many airlines have announced they do not intend to reintroduce older aircraft into their fleets.

Smaller value reductions have been seen on parts servicing current generation narrowbody aircraft such as the 737NG and A320ceo. Demand for these parts has rebounded quickly as these aircraft types were among the first reactivated by airlines upon substantial passenger traffic recovery. Many aircraft stored during the pandemic need at least an intermediate check to be returned to service, generating demand for airframe and engine spare parts. With current generation aircraft remaining in service longer to provide needed lift, maintenance demand for the types may increase, further increasing demand for USM. With limited part outs occurring to provide spare parts to the secondary market, mba expects values for A320ceo and 737NG spares to strengthen. Additionally, the parts commonality these aircraft have with the 737 MAX and A320neo families of aircraft will also help stimulate demand, as well as the popularity of freighter conversion programs for the types.

Demand for parts servicing current generation widebody aircraft, such as the A330ceo and 777, is on the path to return to pre-COVID-19 levels. These aircraft had high storage rates during the pandemic as demand for long-haul international travel was slower to recover. However, with international traffic demand nearing recovery in many regions, these aircraft have begun to come out of storage to support capacity needs, particularly due to ongoing 787 delivery delays. While mba expects supply may outpace demand for these parts in the coming years, this dynamic may shift if older types remain in service longer than planned to support maintenance demand and limit costs for operators. Currently, the market for spare parts servicing new technology widebody aircraft such as the A350 and 787 is still generally dominated by OEMs, and it is unlikely that meaningful numbers of these aircraft will be parted out in the short to medium term. Market Values of spare parts servicing these aircraft types will likely remain close to list prices in the coming years, and Market Value appreciation may be possible in the long term.

IV. Definitions

Desktop Appraisal

A desktop appraisal is one which does not include any inspection of the aircraft or review of its maintenance records. It is based upon assumed aircraft condition and maintenance status or information provided to the appraiser or from the appraiser's own database. A desktop appraisal would normally provide a value for a mid-time, mid-life aircraft. (ISTAT Handbook)

Market Value

ISTAT defines Market Value (or Current Market Value if the value pertains to the time of the analysis) as the Appraiser's opinion of the most likely trading price that may be generated for an aircraft under the market circumstances that are perceived to exist at the time in question. Market Value assumes that the value is for an unencumbered single-unit transaction valued for the asset's highest and best use (as defined by the Appraiser), that the parties to the potential sale would be willing, able, prudent and knowledgeable, and under no unusual pressure for a prompt sale, and that the transaction would be negotiated in an open and unrestricted market on an arm's-length basis, for cash or equivalent consideration, and given an adequate amount of time for effective exposure to prospective buyers.

The Market Value of an aircraft (or other aviation-related asset) will tend to be consistent with its Base Value in a stable market, but where a reasonable equilibrium between supply and demand does not exist, trading prices, and therefore Market Values, are likely to be at variance with the asset's Base Value.

V. Appraisal Methodology

The Component Inventory data was sent to third-party vendors to identify parts available in the secondary market. This process is performed for all spare parts. The scan for the 19,283 discrete P/Ns contained in this Appraisal returned over 94,000 responses by P/N. The data received from the third-party vendors includes but is not limited to recent quotes, number of vendors selling the component, number of components available on the market, and list (OEM Catalogue) price.

Where no quote data or list price was available in the market, a minimum value analysis was applied to parts utilizing common nomenclatures, such as spring, clip, bolt, nut, deal, packing, washer, rivet, bearing, bushing, lamp, placard, and screw. This method consists of analyzing similarly identified components that returned value data from the market and applying a discount to the average value of each component category. This discount assigns a conservative value to these commonly named parts.

In addition to its basic valuation methodology, mba:

i. Reviewed the parts inventory report supplied by the Client;
ii. Noted and removed which parts in the Spare Parts Inventory are currently installed on an aircraft;
iii. Reviewed mba's internal database for relevant information with regards to the inventory to be valued; and
iv. Checked other sources, such as manufacturers and aviation listing services, for current market transactions.

All information was provided by the Client from their inventory control system in MS Excel format. The appraisal of the Component Inventory consisted of 19,307 Unique Part Numbers (P/N), totaling 40,834 Total Line Items and 1,040,258 Rotable, Repairable, and Consumable Parts and Tooling in varied conditions.

The spare parts included in the Component Inventory fall into two categories, "Rotables" and "Non-Rotables." Non-Rotables include parts often described in the industry as "repairables" and "expendables" or "consumables." Rotables and expendables are defined below:

Rotable Items: A rotable item is defined as an item that can be economically restored to a serviceable condition and, in the normal course of operations, can be repeatedly rehabilitated to a fully serviceable condition over a <u>period of time approximating the life of the flight equipment to which it is related</u>. Examples include avionics units, landing gears, auxiliary power units, major engine accessories, etc. (ISTAT Definition)

Expendable / Consumable Items: Items for which no authorized repair procedure exists, and for which cost of repair would normally exceed that of replacement. Expendable items include nuts, bolts, rivets, sheet metal, wire, light bulbs, cable, and hoses. (ISTAT Definition)

Component Condition

Components removed from an aircraft during the part-out process (also known as the tear-down process) are generally considered to be in an "as removed" condition with no repair station certifying documents other than the attached removal tag. In the market, these components are considered to be less valuable as many operators require a certifying document, such as an FAA 8130-3 or EASA Form One, prior to installation validating, at a minimum, the serviceability of the unit. The most cost-effective method in which certification can be obtained is an appropriately authorized repair station performing a "bench check" or operational test of the component and completing a thorough inspection of the component. The level of complexity for the "bench check" varies by component type as the requirements for the test to assure serviceability will vary. Components that have been deemed unserviceable may then be repaired or overhauled to return them to service. Overhauled components are disassembled and returned as close as possible to new specifications.

The condition codes defined below were used in this Appraisal:

NE – New
OH – Overhauled
RP – Repaired
USV – Unserviceable
AR – As Removed
SV – Serviceable

VI. Valuation and Inventory Information

In developing the Values of the Component Inventory, mba did not perform a physical inspection of the Component Inventory and instead relied on information supplied by the Client. The following information has not been independently verified by mba.

1. The components are in good overall condition unless otherwise stated by the Client;
2. There is no history of accident/incident or damage unless otherwise stated by the Client;
3. All components are presently in the condition specified by the Client; and
4. Each component identified as serviceable has a Certificate of Conformance, Federal Aviation Administration (FAA) 8130-3, and/or European Aviation Safety Agency (EASA) Form One certifying document.

Subject Inventory by Category			
Component Category	**Line Items**	**Quantity**	**Current Market Value (US$)**
Total Consumable	28,334	1,027,758	$11,485,963
Total Rotable	12,500	12,500	$33,888,969
Total Inventory	**40,834**	**1,040,258**	**$45,374,932**

Subject Inventory by Aircraft Application			
Application	**Line Items**	**Quantity**	**Current Market Value (US$)**
A220	33,268	903,105	$37,507,505
Boeing and Fokker	2,702	12,276	$4,012,332
Q400	4,864	124,877	$3,855,094
Total Inventory	**40,834**	**1,040,258**	**$45,374,932**

VII. Covenants

This Report has been prepared for the exclusive use of Air Baltic Corporation and shall not be provided to other parties by mba without the express consent of Air Baltic Corporation. mba certifies that this report has been independently prepared and that it fully and accurately reflects mba's and the signatory's opinion of the values of the Subject Inventory as requested. mba further certifies that it does not have, and does not expect to have, any financial or other interest in the Subject Inventory. Neither mba nor the signatory has provided the OEMs of the airframe or engines with pro bono or paid consulting or advice in the design or development of the assets valued herein.

This Report represents the opinion of mba of the values of the Subject Inventory as requested and is intended to be advisory only. Therefore, mba assumes no responsibility or legal liability for any actions taken or not taken by Air Baltic Corporation or any other party with regard to the Subject Inventory. By accepting this Report, all parties agree that mba shall bear no such responsibility or legal liability.

PREPARED BY:

Neil Sanagustin
Analyst – Asset Valuations
mba Aviation

March 28, 2024

REVIEWED BY:

Sloane Churchill
Manager
mba Aviation
ISTAT Certified Appraiser

David Tokoph
President & CEO
mba Aviation
ISTAT Certified Senior Appraiser

ISSUER

Air Baltic Corporation AS
Tehnikas iela 3
Lidosta Rīga, Mārupes novads
LV-1053
Latvia

TRUSTEE AND SECURITY TRUSTEE

U.S. Bank Trustees Limited
125 Old Broad Street, Fifth Floor
London EC2N 1AR
United Kingdom

PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

Elavon Financial Services D.A.C., UK Branch
125 Old Broad Street
London EC2N 1AR
United Kingdom

GLOBAL COORDINATORS AND BOOKRUNNERS

BNP Paribas
16, boulevard des Italiens
75009 Paris
France

Citigroup Global Markets Europe AG
Reuterweg 16
60323 Frankfurt am Main
Germany

J.P. Morgan SE
Taunustor 1 (TaunusTurm)
60310 Frankfurt am Main
Germany

BOOKRUNNERS

Morgan Stanley Europe SE
Grosse Gallusstrasse 18
60312 Frankfurt-am-Main
Germany

Skandinaviska Enskilda Banken AB (publ)
Kungsträdgårdsgatan 8
SE-106 40 Stockholm
Sweden

CO-MANAGERS

AS LHV Pank
Tartu mnt 2,
Tallinn 10145,
Estonia

Signet Bank AS
Antonijas 3,
Riga,
Latvia

LEGAL ADVISERS

To the Issuer as to English and United States laws

Dentons UK and Middle East LLP
One Fleet Place
London EC4M 7WS
United Kingdom

To the Issuer as to Latvian law

ZAB COBALT SIA
Marijas iela 13 k-2
Rīga, LV-105
Latvia

To the Issuer as to Irish law

Arthur Cox LLP
Ten Earlsfort Terrace
Dublin 2, D02 T380
Ireland

To the Managers as to English and United States laws

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Managers as to Latvian law

TGS Baltic zvērinātu advokātu birojs SIA
Elizabetes iela 63 - 11
Riga, LV-1050
Latvia

To the Trustee as to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

LISTING AGENT

Walker Listing Services Limited
5th Floor, The Exchange
George's Dock IFSC
Dublin D01 W3P9
Ireland

AUDITORS TO THE ISSUER

PricewaterhouseCoopers SIA
Krišjāņa Valdemāra iela 21
Rīga, LV-1010
Latvia