

AIR BALTIC CORPORATION AS
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
1 JANUARY – 30 SEPTEMBER 2023

**PREPARED IN ACCORDANCE WITH
IAS 34 INTERIM FINANCIAL REPORTING**

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GENERAL INFORMATION ON THE GROUP'S PARENT COMPANY

Name of the Parent company	Air Baltic Corporation	
Legal status of the Parent company	Joint stock company	
Registration number, place and date	40003245752 Riga, 8 February 1995	
Main activities	Passenger and cargo aviation transportation	
Registered office	Riga International airport, Tehnikas Street 3, Marupe municipality, Latvia, LV-1053	
Shareholders	Republic of Latvia	97.97%
	Aircraft Leasing 1 SIA	2.03%
	Other	0.000084%
Executive Board Members	Martin Alexander Gauss	Chairman of the Board
	Vitolds Jakovļevs	Member of the Board
	Pauls Juris Cālītis	Member of the Board
Supervisory Board Members	Klāvs Vasks	Chairman of the Supervisory Board since 14 June 2023
	Kaspars Ozoliņš	Vice-Chairman of the Supervisory Board since 14 June 2023
	Andris Liepiņš	Member of the Supervisory Board since 14 June 2023
	Lars Thuesen	Member of the Supervisory Board
	Dins Merirands	Member of the Supervisory Board from 26 April 2023 until 14 June 2023
	Baiba Vīlpa	Member of the Supervisory Board from 26 April 2023 until 14 June 2023
	Nikolajs Sigurds Bulmanis	Chairman of the Supervisory Board until 26 April 2023
	Kaspars Āboliņš	Deputy Chairman of the Supervisory Board until 26 April 2023
	Toms Siliņš	Member of the Supervisory Board until 26 April 2023
Financial period	1 January 2023 – 30 September 2023	

GLOSSARY**Aviation terminology**

ACMI	aircraft leasing arrangement between two airlines, whereby one airline (the lessor) provides an aircraft, crew, maintenance, and insurance (ACMI) to another airline (the lessee)
ACMI-in	aircraft provided for operations of Air Baltic Corporation
ACMI-out	ACMI operations conducted for other airlines
AOG	Aircraft on Ground – a situation where an aircraft cannot fly for technical or operational reasons
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
ASK	available seat-kilometre refers to one seat offered flown for one kilometre
RPK	revenue passenger-kilometre refers to one paying passenger transported for one kilometre
CASK	refers to the operating expenses divided by available seat kilometres
RASK	refers to the revenue divided by available seat kilometres
Yield	average traffic revenue earned per unit of output; calculated passenger and charter revenue per revenue passenger kilometre flown
RNP AR	Required Navigation Performance with Authorization Required
SDG	Sustainable Development Goals
LV CAA	Latvian Civil Aviation Agency
SAF	Sustainable Aviation Fuel

Alternative performance measures (APM) that are not defined in IFRS

The Group uses alternative performance measures referred to in the European Securities Markets Authority (ESMA) guidelines to describe its operational and financial performance in order to enhance comparability between financial periods and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators.

EBITDAR	earnings before interest, taxes, depreciation, amortization and rent costs, as well as before the release/charge of provisions for legal disputes and claims compensation
EBITDA	earnings before interest, taxes, depreciation, amortization as well as before the release/charge of provisions for legal disputes and claims compensation
EBIT	earnings before interest and taxes as well as before the release/charge of provisions for legal disputes
Operating profit / (loss)	operating revenue less operating expenses and claim compensation
Net debt	financial indicator calculated as borrowings, including lease liabilities less cash and cash equivalents
Comparable result	facilitates the comparison of business and financial performance developments between different time periods

MANAGEMENT REPORT

November 15, 2023

(EUR thousands, except where otherwise stated, unaudited)

	9 months 2023	9 months 2022	Change	9 months 2019	Change
GROUP					
Operating revenue	510 632	362 546	40.8%	392 937	30.0%
Passenger revenue	409 744	288 401	42.1%	356 557	14.9%
Ticket revenue	376 801	264 627	42.4%	330 372	14.1%
Ancillary revenue	32 943	23 774	38.6%	26 185	25.8%
ACMI lease revenue	82 661	58 116	42.2%	16 922	388.5%
Comparable EBITDAR *	129 530	55 438	74 092	96 104	35 061
Comparable EBITDAR margin (%) *	25.4%	15.3%	10.1pp	24.5%	1.2pp
Comparable EBIT *	74 673	7 984	66 688	24 655	23 284
Profit / (loss) for the period	9 122	(124 954)	134 076	(3 727)	12 849
Comparable profit / (loss) for the period *	27 783	(36 863)	64 645	(3 727)	31 510
Net debt	1 104 390	1 005 278	9.9%	642 407	71.9%

Airline fleet statistics*

Number of aircraft at the end of period	44	36	22.2%	40	10.0%
Average fleet age (years)	3.2	2.8	14.4%	7.1	(54.9%)

Airline operating statistics without ACMI-out operations

Routes	108	101	6.9%	87	24.1%
Total block hours	71 541	56 786	26.0%	87 501	(18.2%)
Total flight hours	61 820	48 983	26.2%	73 168	(15.5%)
Flights	32 973	27 713	19.0%	47 779	(31.0%)
Utilization (block hours per aircraft per day)**	6.9	6.9	(0.5%)	9.1	(24.1%)
Number of passengers ('000)	3 447	2 452	40.6%	3 875	(11.0%)
Seat capacity ('000)	4 760	3 848	23.7%	5 219	(8.8%)
Average aircraft stage length (km)	1 277	1 209	5.6%	1 097	16.4%
Passenger Load factor (%)	77.5%	70.5%	7.0pp	76.6%	0.8pp
Yield (€ cents)	8.3	8.4	(1.9%)	7.8	5.8%
RASK (€ cents)	7.0	6.5	7.3%	6.5	7.4%
CASK (€ cents)	(7.5)	(7.5)	0.5%	(6.3)	20.3%
CASK, ex-fuel (€ cents)	(5.4)	(4.8)	12.6%	(4.8)	11.7%
ASK (millions)	6 078	4 654	30.6%	5 727	6.1%

Airline total operating statistics

Total block hours	100 829	77 373	30.3%	92 725	8.7%
Total flight hours	85 444	66 712	28.1%	77 458	10.3%
Flights	50 599	37 241	35.9%	50 549	0.1%
Utilization (block hours per aircraft per day)**	7.7	7.7	0.9%	9.2	(16.0%)
ASK (millions)	8 194	6 404	27.9%	6 137	33.5%

* For Comparable result see the Management Report section Financial performance and profitability.

** Excluding the phased out and grounded De Havilland Q400 fleet of 12 aircraft in Y2022 and one aircraft in Y2023.

MANAGEMENT REPORT

(EUR thousands, except where otherwise stated, unaudited)

	Q3 2023	Q3 2022	Change	Q3 2019	Change
GROUP					
Operating revenue	219 332	171 064	28.2%	173 472	26.4%
Passenger revenue	174 811	134 326	30.1%	153 815	13.7%
Ticket revenue	162 311	125 313	29.5%	143 441	13.2%
Ancillary revenue	12 500	9 013	38.7%	10 374	20.5%
ACMI lease revenue	37 797	31 752	19.0%	11 083	241.1%
Comparable EBITDAR *	72 731	48 906	23 825	59 084	13 647
Comparable EBITDAR margin (%) *	33.2%	28.6%	4.6pp	34.1%	(0.9pp)
Comparable EBIT *	42 909	32 734	10 176	33 748	9 161
Profit / (loss) for the period	(5 482)	(33 906)	28 424	22 887	(28 369)
Comparable profit for the period *	27 006	17 175	9 832	22 887	4 119

Airline operating statistics without ACMI-out operations

Routes	101	91	11.0%	83	21.7%
Total block hours	28 132	21 991	27.9%	33 714	(16.6%)
Total flight hours	24 391	19 058	28.0%	28 388	(14.1%)
Flights	12 679	10 788	17.5%	18 046	(29.7%)
Utilization (block hours per aircraft per day)**	7.7	7.9	(1.6%)	10.2	(24.0%)
Number of passengers ('000)	1 456	1 139	27.8%	1 646	(11.5%)
Seat capacity ('000)	1 856	1 484	25.1%	2 014	(7.9%)
Average aircraft stage length (km)	1 325	1 220	8.6%	1 145	15.7%
Passenger Load factor (%)	81.8%	82.8%	(1.1pp)	84.1%	(2.3pp)
Yield (€ cents)	8.2	8.7	(6.0%)	7.7	6.0%
RASK (€ cents)	7.4	7.7	(4.3%)	7.0	4.9%
CASK (€ cents)	(7.3)	(7.5)	(3.7%)	(5.8)	24.7%
CASK, ex-fuel (€ cents)	(5.1)	(4.4)	16.2%	(4.4)	17.0%
ASK (millions)	2 459	1 809	35.9%	2 306	6.6%

Airline total operating statistics

Total block hours	41 429	32 928	25.8%	36 950	12.1%
Total flight hours	35 250	28 573	23.4%	31 103	13.3%
Flights	20 074	15 597	28.7%	19 617	2.3%
Utilization (block hours per aircraft per day)**	8.7	8.8	(1.9%)	10.3	(15.7%)
ASK (millions)	3 452	2 769	24.7%	2 569	34.3%

* For Comparable result see the Management Report section Financial performance and profitability.

** Excluding the phased out and grounded De Havilland Q400 fleet of 12 aircraft in Y2022 and one aircraft in Y2023.

MANAGEMENT REPORT

KEY HIGHLIGHTS

In Q3 of 2023, Air Baltic Corporation AS (hereinafter – airBaltic, airline or the Group) achieved its highest-ever Q3 Comparable net profit of EUR 27 million as well as a record Comparable EBITDAR of EUR 72.7 million with the 33.2% EBITDAR margin. The transition to single type fleet and airline's ACMI segment were significant contributors to the positive results while still relatively high fuel prices, inflationary pressures on the personnel costs and significant disruptions in airBaltic's operations related to the spare engine shortage resulting in wet-leasing in additional capacity had negative impact on the EBITDAR margin.

The Group also achieved its highest ever Q3 revenue, generating over EUR 219 million, a 28% increase compared to Q3 2022 and an 26% improvement over the previous Q3 high in 2019. Approximately 17% of total revenues came from ACMI services provided to Swiss International Airlines Ltd., Eurowings and SAS, with an average of 14 airBaltic aircraft operating on behalf of these carriers during Q3 2023.

A new Q3 milestone was reached in terms of capacity deployed, combining the airline's network operations with ACMI operations, registering a 30% increase compared to Q3 2019 capacity. However, challenges related to spare engine supply and engine reliability persisted, with an average of 8.4 aircraft grounded due to spare parts and engine shortages in Q3 of 2023. Due to this airBaltic was forced to wet-lease significant ACMI-in capacity on short notice – on average the airline had 7.5 aircraft wet-leased throughout Q3. The ACMI-in aircraft performed 25% total airline network flights and supplied 27% of total airline network seats during Q3. As airBaltic's A220-300 capacity was primarily replaced with Boeing 737-800 and A320 capacity on short notice, airBaltic's Q3 load factors were below Q3 2022 and Q3 2019 levels. As the airline adjusted its network in response to the Russia-Ukraine war, the share of transfer passengers is expected to remain significantly below the 2019 levels of 47% - in Q3 of 2023 the transfer share was 29%.

During Q3, the airline transported over 1.4 million passengers, almost 28% increase compared to Q3 2022 but still 12% short of 2019 levels. Notably, in terms of its network seat capacity deployed, airBaltic had 8% fewer seats for sale in Q3 of 2023 than in Q3 of 2019.

The following items had a material impact on the Q3 IFRS result:

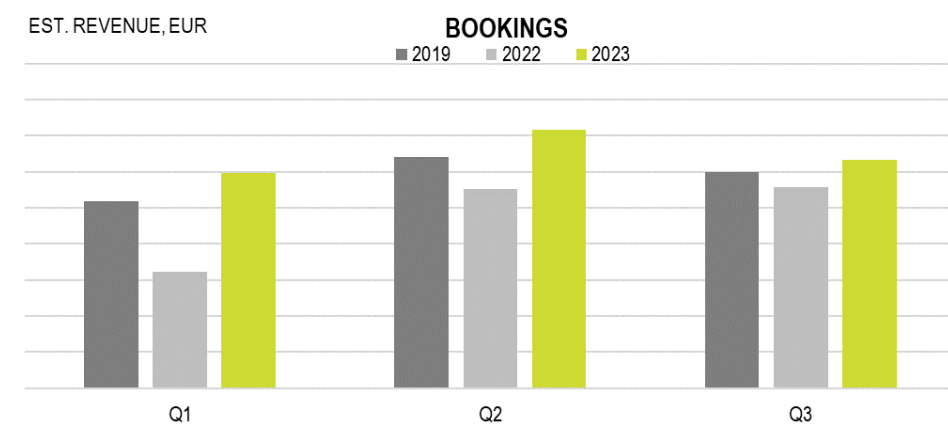
- in October 2023, a commercial support agreement of EUR 22.3 million was signed to partially offset the airline's additional costs incurred in Q3 2023 due to a shortage of engines and other miscellaneous spare parts. In accordance with IFRS guidelines, this transaction is presented as a post-balance sheet event in the current financial statements,
- the USD appreciated against the EUR, leading to an unrealized loss of EUR 13.7 million on USD liability revaluation.

The airline reported a net profit of EUR 9.1 million for the first nine months of 2022, an increase of more than EUR 134 million compared to a total loss of EUR 125 million in the same period of 2022.

COMMERCIAL PERFORMANCE AND REVENUES

The airline has significantly expanded its network for 9 months 2023 by launching 22 new routes from Riga, Vilnius, Tallinn and Tampere. As, due to Russia-Ukraine war, the airline has stopped serving many Eastern destinations, it has reduced transfer traffic and offers more point to point and leisure destinations. The changes in network in combination with the added capacity have also resulted in improved booked revenue patterns vs. 2022 and vs. 2019.

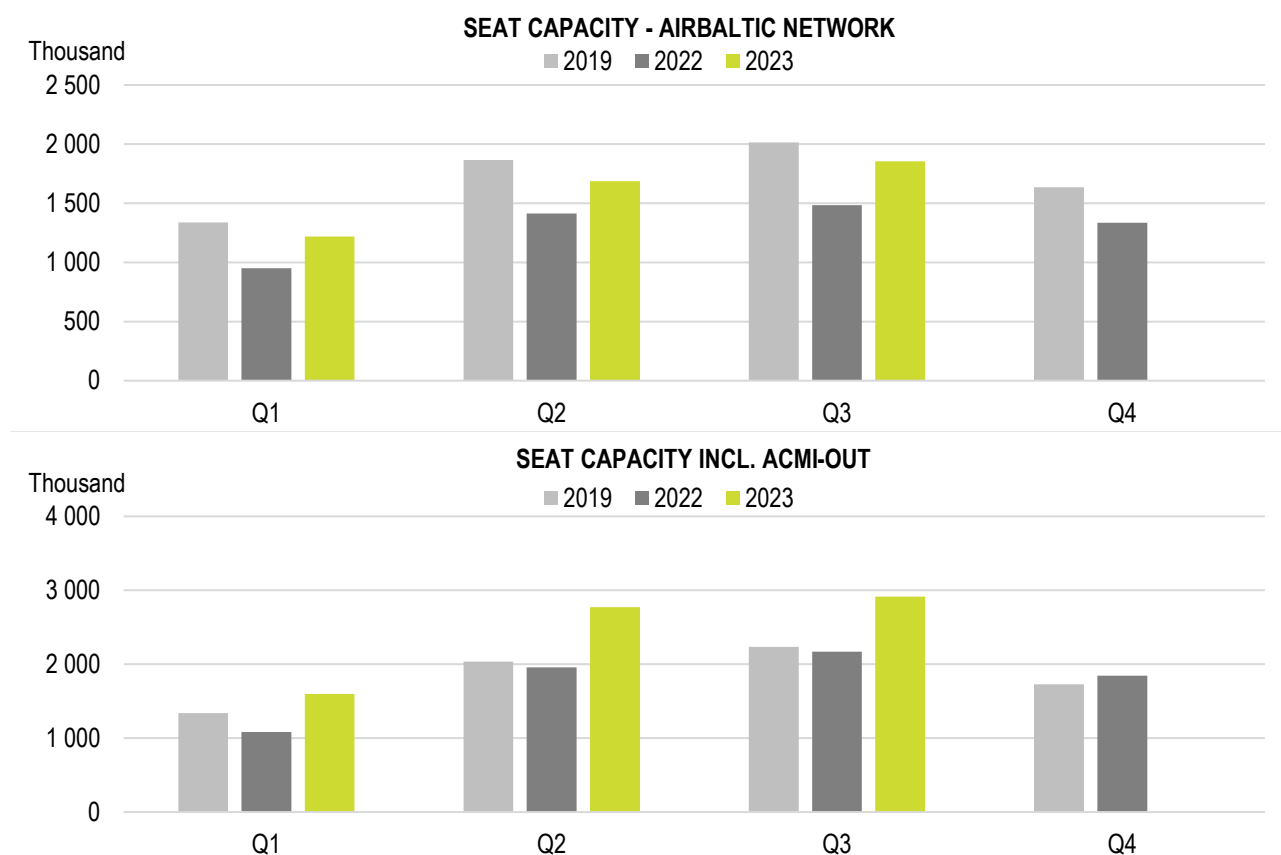
The booked revenue continued to improve – in Q3 the booked revenue was higher by 14% than in Q3 of 2022 and by 6% than in Q3 of 2019.



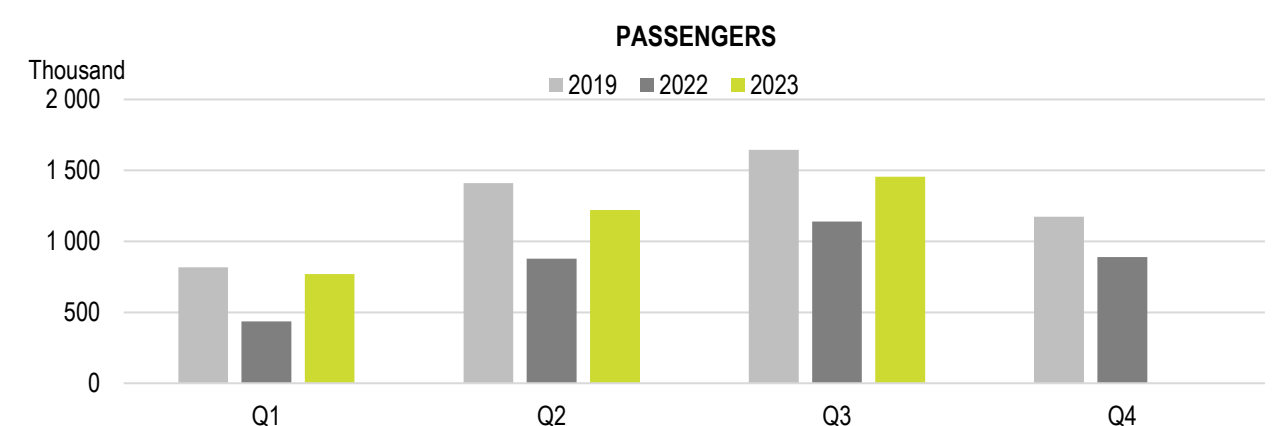
MANAGEMENT REPORT

COMMERCIAL PERFORMANCE AND REVENUES (continued)

The seat capacity deployed in airBaltic's network grew by 24% vs. 2022 but was still 9% short of 2019 levels. However, the total seat capacity including the ACMI-out operations was above 2019 levels by 30%. As can be seen from the chart below, due to seasonality of demand, the lowest capacity is normally deployed during Q1 while the peak capacity is offered on sale during Q3 in any given year.



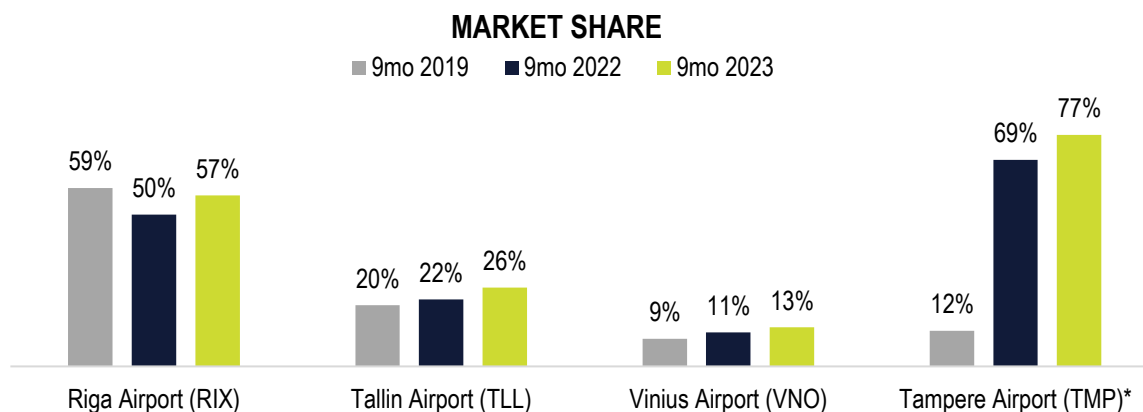
In Q3, the number of flown passengers went up 28% vs. Q3 2022, however it was short of 2019 levels by 12% partially reflecting lower seat capacity on sale and partially due to larger capacity aircraft being wet-leased on relatively short notice to replace A220-300 AOGs. As the airline continues adjusting its network to closure of Russian, Ukrainian and Belorussian markets, it is expected that the network seat capacity gap vs 2019 will continue to shrink.



MANAGEMENT REPORT

COMMERCIAL PERFORMANCE AND REVENUES (continued)

With the strong improvement of the load factors, the airline improved the market shares in all its bases vs 2022. If compared to 2019, the market share in Riga is lower by 2 percentage points which can be explained by significant reduction in transfer traffic due to closure of Russian, Ukrainian and Belorussian destinations.



* Tampere base opened in May 2022; Riga-Tampere route operated before May 2022.

During the first nine months of 2023, airBaltic operated a total of 75 non-stop routes from Riga, 15 from Tallinn, 11 from Vilnius and 7 from Tampere. This was the first full year of operations in airBaltic's Tampere base established in May 2022. airBaltic's strategy in Tampere is to serve both business and leisure destinations and promote Tampere airport as the main gateway for the residents and visitors of Finland's second largest urban area.

The airline increased the number of routes it operated during the first nine months of 2023 to 108, growing from 101 in 2022 and 87 in 2019. Seat capacity grew by 24% in 9 months of 2023, compared to 9 months of 2022, however, it was still 9% lower than in 9 months of 2019. There were 22 new routes operated, while 15 route were cancelled in 9 months of 2023. With the demand for leisure flights being strong, growth focused on leisure destinations (for example, new routes from Riga to Bilbao, Porto, Burgas, Tivat), the airline also launched 10 new leisure routes from its bases in Tallinn, Vilnius and Tampere. To help increase the transfer traffic lost due to the Russia-Ukraine war, several destinations with significant transfer demand potential have been launched from Riga (Baku, Yerevan, Istanbul, Bucharest, and Belgrade). The airline sees potential to develop this segment further and utilize the strategic position of Riga to connect destinations in Northern Europe to destinations in the Balkans, the Middle East and the Caucasus region. However, the potential escalation of the conflict in Middle East may affect the rollout of the new destinations and even result in temporary suspensions of existing ones, for example, airBaltic suspended its flights to Tel Aviv, Israel until the end of December 2023.

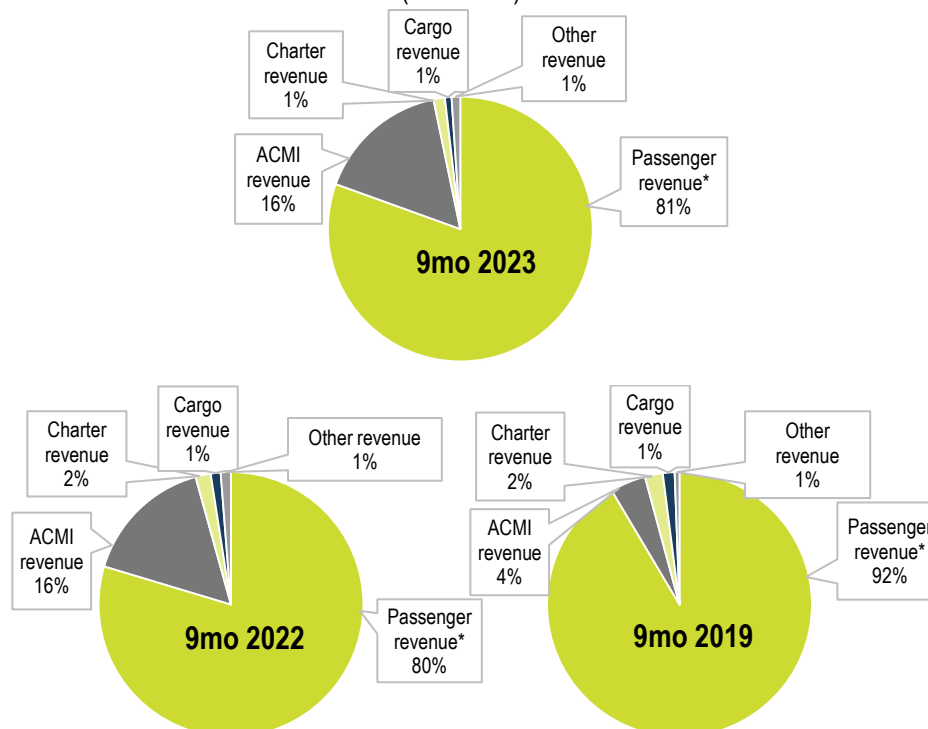
As of December, two aircraft will be based in Gran Canaria and connect nine destinations in the Baltic and Nordic countries. Gran Canaria was one of the most popular winter destinations for travellers in the Baltic and Nordic region, however seat capacity has not yet recovered to the pre-pandemic level. airBaltic will help fill this capacity gap, while also ensuring higher aircraft utilization during the winter season and increasing brand awareness in Norway and Denmark. The airline will also increase leisure flying during the winter season from Riga, Tallinn, Vilnius and Tampere with new routes (for example, all four bases will also be connected to Tenerife, in addition to other new routes), and also by extending the operating season to many of its most popular destinations, such as Malta, Catania, and Valencia.

In August, the airline published its schedule for the summer season 2024 with 12 new routes, primarily focusing on the Balkans and establishing itself as a carrier connecting South-eastern Europe with Baltic/Nordic countries. New routes to Ljubljana (Slovenia), Tirana (Albania), Pristina (Kosovo), Skopje (North Macedonia), Chisinau (Moldova), Sofia (Bulgaria) will be added. In total, airBaltic will operate flights to 13 destinations in South-eastern Europe. The airline will also launch its second non-stop service from Palanga (Lithuania) to Amsterdam, linking the fast-growing Western Lithuanian region to one of the largest hubs in Europe. AirBaltic will also add a second non-stop service at Oslo Torp airport, connecting it to Copenhagen and serving the business traveller market.

In 2023 airBaltic has been actively pursuing its strategy of developing the ACMI-out services and as a result the ACMI revenues reached 16% of the total revenues. The ACMI lease revenue contributes significantly higher EBITDAR margins than the passenger revenue thus improving the average EBITDAR margins for the Group.

MANAGEMENT REPORT

COMMERCIAL PERFORMANCE AND REVENUES (continued)



* Passenger revenue includes ticket, ancillary and other traffic revenue

OPERATIONAL PERFORMANCE AND COSTS

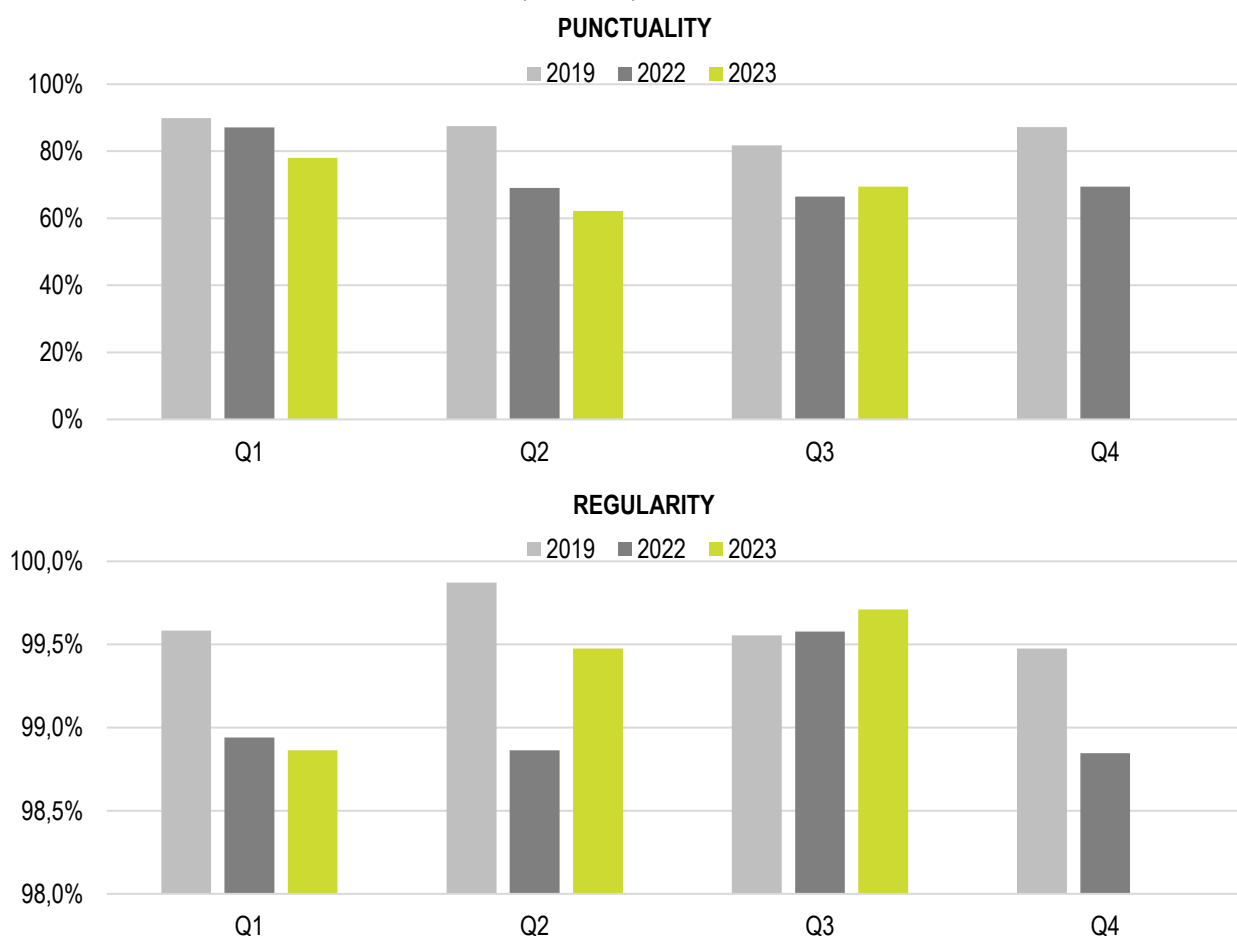
As during H1 of 2023, the reliability and shortage of spare engines was a significant factor affecting the Q3 2023 performance. During Q3 2023, on average airBaltic had 8.4 aircraft on the ground due to the shortage of spare engines and other spare parts. In order to replace this capacity the airline wet-leased in on average 7.5 aircraft throughout Q3. The negative impact of this can be observed in:

- increase in fuel burn as the most modern and fuel efficient A220-300 were replaced with typically 10 to 20 years old aircraft with larger seat capacity and previous generation engines,
- punctuality and regularity were significantly below airBaltic's internal targets and historic standards. This situation was caused by technical disruptions and operational complexity, with a significant portion of the capacity being replaced by ACMI-in from several different operators. In addition, there were cases when sourcing of ACMI-in capacity was impossible due to no suitable aircraft being available in the market on short notice,
- reduced load factors – as significant number of ACMI-in aircraft (almost 65% of the ACMI-in flights were performed by aircraft which had at least 30-40 more seats compared to A220-300) were inserted into airBaltic's network on a short notice, airBaltic did not have enough lead time to sell the extra seats resulting in lower load factors than planned,
- airport charges and ground handling fees were on average higher due to larger aircraft replacing A220-300s,
- ACMI-in costs reached record levels as on average there were 7.5 aircraft wet-leased throughout Q3,
- lower fleet utilization,
- Net Promoter Score, as significant number of passengers were affected by the disruptions.

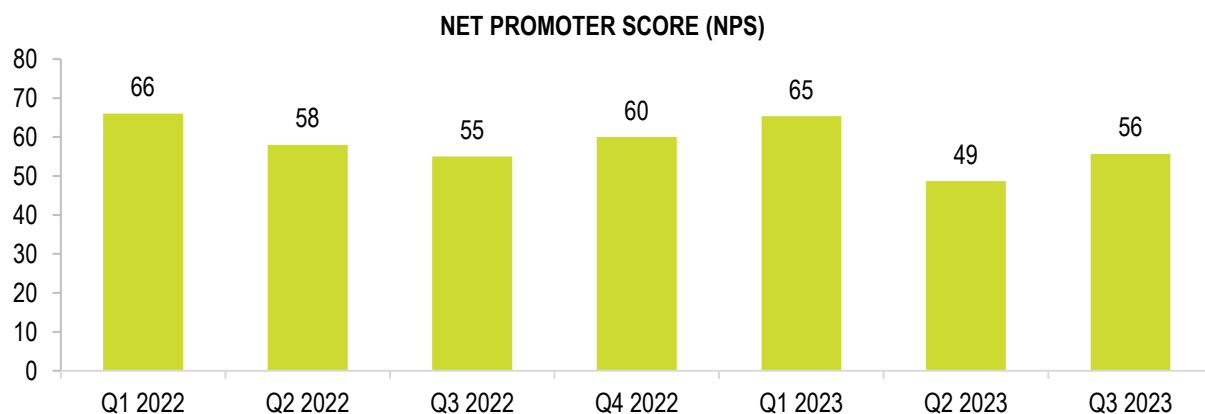
Consequently, in Q3 the airline had EUR 31 million in wet lease costs and at least EUR 4.6 million in excess costs related to extra fuel burn. The Q3 punctuality somewhat improved over Q2 of 2023 and Q3 of 2022, but still considered significantly below the historical levels.

MANAGEMENT REPORT

OPERATIONAL PERFORMANCE AND COSTS (continued)



Despite the operational disruptions in regularity and punctuality and replacement of airBaltic's fleet with ACMI-in capacity, airBaltic's net promoter score improved both vs. Q2 of 2023 and Q3 of 2022. It was, however, still below its average for the periods when the airline was able fully operate its fleet of A220-300s.



MANAGEMENT REPORT

OPERATIONAL PERFORMANCE AND COSTS (continued)

As the airline gradually shifts away from hub and spoke model out of Riga towards more point to point, the average network utilization is expected to improve. Due to significant number of airBaltic's network flights performed by the wet-leased aircraft the A220-300 fleet's actual utilization in Q3 was 7.7 block hours per day. However, in the normal course of business, assuming the supply of spare engines is not an issue, and all the network flights are performed by airBaltic's own fleet, the Q3 utilization would have reached 10.6 block hours per day or 0.3 block hours better than during the same period in 2019.

AIRCRAFT UTILIZATION

Airline operations	Q3					9mo				
	Q3 2023	Q3 2022	Change	Q3 2019	Change	9mo 2023	9mo 2022	Change	9mo 2019	Change
Utilization	7.7	7.9	(1.6%)	10.2	(24.0%)	6.9	6.9	(0.5%)	9.1	(24.1%)
Utilization normalized*	10.5	9.4	11.6%	10.2	3.6%	8.7	7.7	12.9%	9.1	(4.7%)

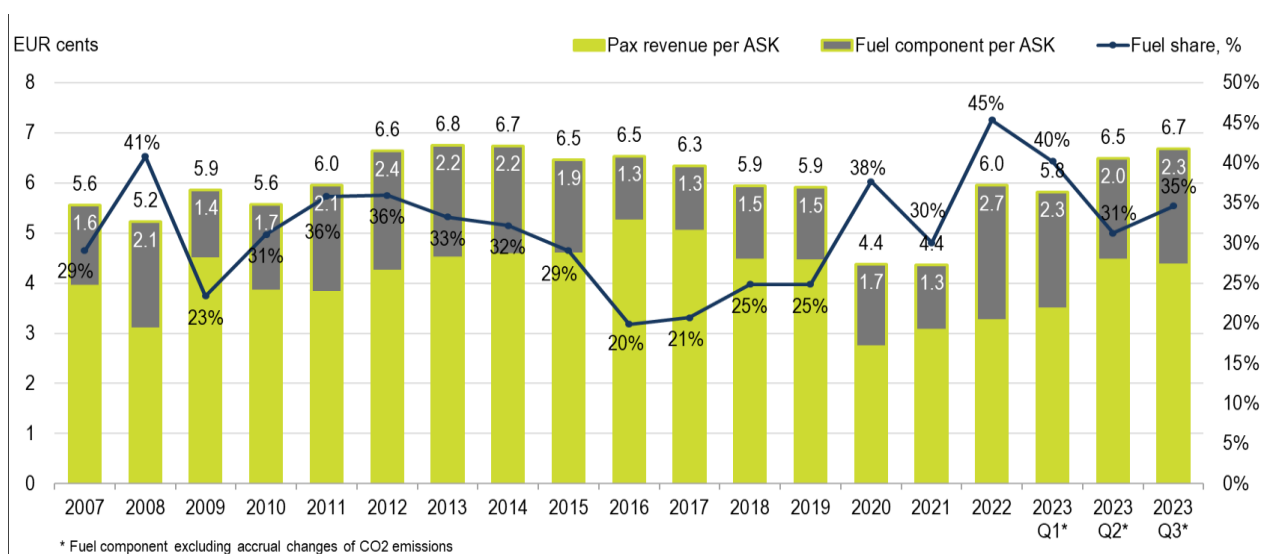
Total operations	Q3					9mo				
	Q3 2023	Q3 2022	Change	Q3 2019	Change	9mo 2023	9mo 2022	Change	9mo 2019	Change
Utilization	8.7	8.8	(1.9%)	10.3	(15.7%)	7.7	7.7	0.9%	9.2	(16.0%)
Utilization normalized*	10.6	9.9	6.3%	10.3	2.9%	9.0	8.3	9.6%	9.2	(1.7%)

*ACMI-in block hours included and assumed to be flown by A220-300s which were AOG

The fuel costs were the largest cost item during Q3 and were affected by airBaltic bringing in significant number of less fuel-efficient aircraft to support its operations. Even though the fuel price increased compared to Q2 of 2023 it was below the Q3 2022 levels. During Q3 the average price per ton of jet fuel was about 18% below Q3 of 2022 with the prices per jet fuel ton on average being USD 928 and USD 1,135, respectively.

The below chart illustrates the fuel cost component in airBaltic's revenue per ASK over the course of the last 15 years and it shows that proportion of fuel costs in revenues per ASK had reached its highest level of 45% in 2022. In 2023, this proportion started to decrease due to both reduction of the jet fuel price and to airBaltic being able to increase yields and load factors.

For 2023, the airline has hedged 6,000 tons, which represents 6% of the anticipated fuel consumption for the second half of 2023, at a price of EUR 676 per ton. For the medium-term, airBaltic aims to hedge between 30% and 50% of its jet fuel exposure for a period of 18 months ahead. The airline has not yet entered any hedging contracts for 2024.



MANAGEMENT REPORT

FINANCIAL PERFORMANCE AND PROFITABILITY

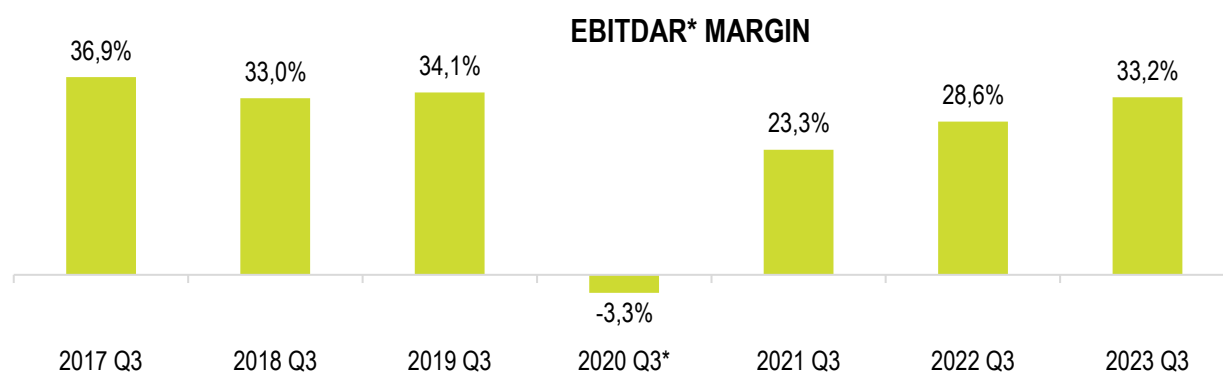
To enable the comparability of the business and financial performance development between the periods, the comparable Q3 2023 and 9 months 2023 results are shown below:

TEUR	Q3 2023	Q3 2022	9 months 2023	9 months 2022
EBITDAR	76 185	48 906	131 165	55 438
+ Provision of bad debt	-	-	1 002	-
+ Revaluation of the provision for carbon emissions	(3 454)	-	(2 637)	-
COMPARABLE EBITDAR	72 731	48 906	129 530	55 438
 EBITDA	 47 608	 39 643	 119 311	 41 707
<i>Items above</i>	(3 454)	-	(1 635)	-
+ Claims compensation	22 277	13 565	22 277	20 000
COMPARABLE EBITDA	66 431	53 208	139 953	61 707
 EBIT	 10 421	 (18 347)	 47 939	 (81 299)
<i>Items above</i>	18 823	13 565	20 642	20 000
+ Revaluation of liabilities in USD	13 665	37 516	6 092	69 283
COMPARABLE EBIT	42 909	32 734	74 673	7 984
 PROFIT / (LOSS)	 (5 482)	 (33 906)	 9 122	 (124 954)
<i>Items above</i>	32 488	51 081	26 734	89 283
+ Release of provisions for legal disputes	-	-	(8 073)	(1 192)
COMPARABLE PROFIT / (LOSS)	27 006	17 175	27 783	(36 863)
 TOTAL ITEMS AFFECTING COMPARABILITY	 32 488	 51 081	 18 661	 88 091

On the comparable basis, the Group finished Q3 with EUR 72.7 million EBITDAR which was about EUR 23.8 million improvement over Q3 2022 and EUR 13.6 million better than in 2019. On the comparable basis, the Group closed Q3 with a net profit of EUR 27.0 million compared to a net profit of 17.2 million the same period last year and a net profit of EUR 22.9 million in Q3 2019.

For Q3, the IFRS net result was negatively affected by the unrealised foreign exchange loss of EUR 13.7 million that was booked based on the period-end EUR/USD exchange rate of 1.0594. At the end of September 2023, the Group had USD-denominated liabilities of USD 594 million, so a USD 0.01 change in the price of one EUR results in about EUR 5.2 million impact on airBaltic's net income.

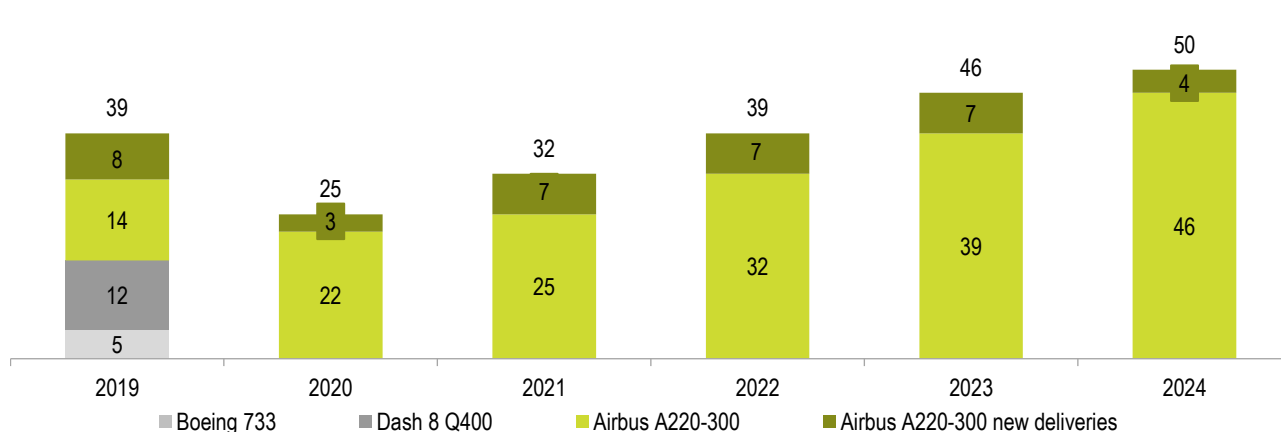
Despite significant fuel costs and disruptions related to the engine shortage, the airline still managed to post one of its highest Q3 EBITDAR margins in its history which is primarily driven by the high margin ACMI-out lease revenue and efficient sale of the network capacity.



*Comparable EBITDAR; Y2020 EBITDAR w/o net impairment losses on right-of-use assets

MANAGEMENT REPORT**FLEET AND CAPITAL EXPENDITURE**

By the end of Q3, the airline had 44 A220-300s in its fleet. By the end of 2023 the airline expects to take delivery of two additional aircraft with the remaining four to be delivered in 2024. The airline has secured operating lease financing for the remaining deliveries of the 50 aircraft ordered.



After Q3 2023, the airline and Airbus signed a contract change order that converted its options and purchase rights into 30 firm orders to be delivered over the IPO & Beyond business plan period to 2030. The airline also acquired 20 purchase rights. This has positioned airBaltic to deliver further growth in line with the approved IPO & Beyond strategic plan. In addition, the airline is currently seeking new A220-300 capacity directly from leasing companies to secure delivery positions in 2025 and 2026.

During Q3 the airline made capital investments of EUR 5.2 million and it is expected to invest between EUR 20 - 25 million during Q4 of 2023. Most of the capex is related to aircraft maintenance of which majority is related to the engine maintenance.

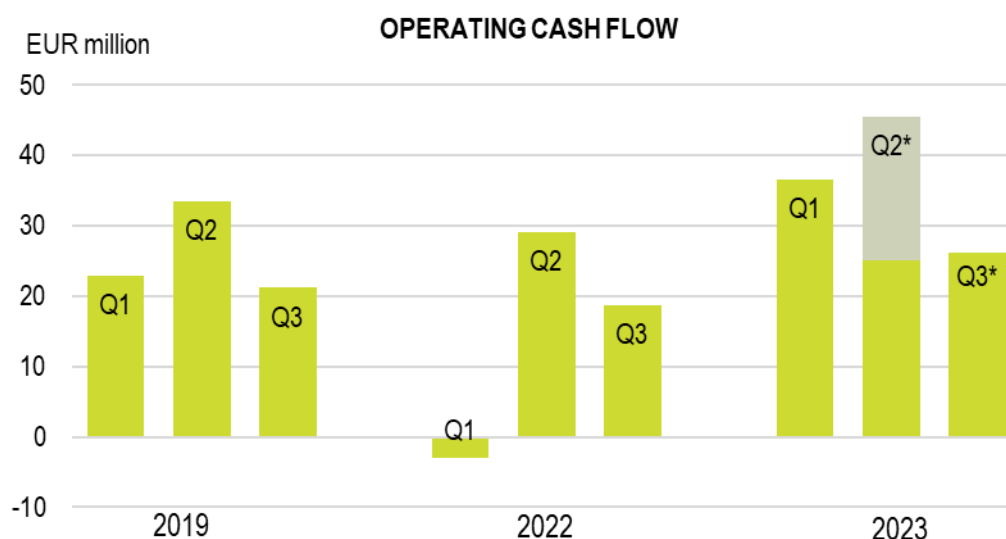
OPERATING CASH FLOW AND LIQUIDITY

As of September 30, 2023, the airBaltic had EUR 33.7 million in cash and cash equivalents. The operating cash flow in Q3 2023 was EUR 26 million, however it was significantly below the normal operating performance due to 20% of airBaltic's A220-300s being on the ground and up to 7.5 aircraft wet-leased throughout Q3 to ensure that airBaltic can service its network.

When wet-leasing in aircraft there are several drivers negatively affecting the costs and operating cash flow:

- wet-lease payments to ACMI providers are recorded in the operating cash outflow,
- normally the wet-lease services need to be prepaid at least one week in advance which negatively impacts working capital,
- none of the wet-leased aircraft are as fuel efficient as A220-300s which results in significantly higher average fuel consumption,
- typically, the ACMI providers have A320 and Boeing 737-800 in their fleet which are larger aircraft and therefore, in addition to higher fuel burn, they generate higher airport charges and ground handling fees,
- there is negative impact on punctuality and regularity due to the complexity of operations with wet-leased aircraft.

As the need for the wet-lease services is driven by the engine and spare part shortage the airline is continuously seeking support from the manufacturers to mitigate significant part of the costs described above. Such support was also provided for Q3 amounting to EUR 22.3 million, partly in cash and partly in the form of a credit note. Given that the related contracts were concluded in October, the support was received after the date of these accounts. Accordingly, this transaction is disclosed as a post balance sheet event in these financial statements.

MANAGEMENT REPORT**OPERATING CASH FLOW AND LIQUIDITY (continued)**

* Support related to engine shortage in Q2 received in Jul'23, the amount included in Q2 2023

As of September 30, the airline had cash balance of EUR 33.7 million as compared to EUR 34.5 million on the same date in 2022. The management believes that the financial results for the first nine months of 2023 and the current trends indicate that the airline's commercial performance and ability to generate cash will be stronger than in Q4 2022 and Q1 2023.

GOING CONCERN

The management believes that the use of going concern principle is appropriate for the next 12 months. airBaltic's EUR 200 million Eurobond is due in July of 2024. In management's view there are several potential ways to refinance this bond and the management has engaged with advisors to evaluate the following options:

- Private debt refinancing. Several options have been presented to the airline during early Q4 of 2023 and the airline is engaged in active exploration of these options. If any of the private debt options are deemed suitable for airBaltic, such financing could become available as early as January of 2024,
- In addition, airBaltic and its advisors are in active dialogue with a range of banks regarding public debt market alternatives. Should these markets indicate a more positive outlook than in Q3 of 2023, airBaltic may decide to approach the public debt markets during H1 2024,
- The airline can also engage its shareholders (including the controlling shareholder) regarding any of the above options to provide financing on market terms.

A more comprehensive plan on refinancing is expected to be finalized and communicated to the investors by early 2024.

There is currently significant uncertainty related to the reliability and supply of spare engines, also in the context of the powdered metal issue. If the situation with the engines deteriorates, it may negatively impact airline's operational performance and cash generating ability beyond management's current expectations. The management is in continuous talks with both the engine manufacturer Pratt & Whitney and Airbus Canada Limited Partnership to secure sufficient commercial support to address the engine shortage, maintenance costs, spare part shortage and potential aircraft delivery delays. While the management remains optimistic that these negotiations will yield a positive outcome for the airline, similar to the results in 2022 and similar to the results in H1 and Q3 of 2023, there is uncertainty regarding the extent of the commercial support that will be provided. The airline's liquidity would be negatively impacted if the support proves to be inadequate.

MANAGEMENT REPORT**SUBSEQUENT EVENTS**

In October 2023, the airline signed a package of various Commercial support agreements with Airbus and Pratt & Whitney for EUR 22.3 million to partially compensate the airline for the extra costs it had incurred in Q3 2023 due to the grounding of aircraft for lack of engines and other miscellaneous spare parts. The extended support was provided partly in cash and partly in the form of a credit note.

As airBaltic's options for acquisition of new A220-300 were to expire in Q4 of 2023, in November 2023 the airline and Airbus signed a contract change order converting the expiring options and the remaining purchase rights into 30 firm orders to be delivered starting from Q4 of 2026 and until the end of 2029. The airline also acquired 20 purchase rights which can be converted into firm order by the end of 2027. This has ensured that airBaltic is well positioned to continue its growth in line with the approved strategic plan IPO & Beyond.

In October, Pratt & Whitney informed airBaltic that the powdered metal issue is expected to have effect also on the PW1500G engines. The potential impact is still being assessed but it could potentially result in more aircraft being AOG in 2024 than previously estimated and potentially higher maintenance costs and capital investments.

OUTLOOK FOR THE YEAR

Based on the Q3 results, revenue targets have been reduced from EUR 670-700 million for the full year to EUR 665-675 million for the full year. The total number of seats to be deployed remains unchanged at 6.1 million.

The EBITDAR target for full 2023 has been narrowed to the same range of EUR 145 million to EUR 155 million which means that based on Q3 accumulated EBITDAR of EUR 131 million the Q4 should generate EBITDAR of EUR 9 - 19 million. For reference, the Q4 EBITDAR in 2022 was EUR 27.5 million.

Based on 9 months net income levels, airline expects to close 2023 with a positive net income of up to EUR 10 million, provided the EUR/USD exchange rate does not fall below 1.0594 which was registered at the end of Q3. This also implies that there will be no significant extraordinary or one-off events recorded by the end of Q4.

The expectations expressed above would be reduced if demand for air travel were to fall significantly in Q4 2023, for example due to an escalation of conflict in the Middle East or between Russia and Ukraine.

Martin Alexander Gauss
Chairman of the Executive Board

Vitolds Jakovļevs
Member of the Executive Board

Pauls Juris Cālītis
Member of the Executive Board

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

FORWARD-LOOKING STATEMENTS

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

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

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

CONDENSED CONSOLIDATED INCOME STATEMENT FOR 9 MONTHS (UNAUDITED)

	Note	Comparable 9 months 2023 TEUR	Items affecting comparability 9 months 2023 TEUR	IFRS 9 months 2023 TEUR	IFRS 9 months 2022 TEUR
OPERATING REVENUE					
Revenue	5	508 020	-	508 020	359 557
Other income		2 612	-	2 612	2 989
		510 632	-	510 632	362 546
OPERATING EXPENSES AND CLAIM COMPENSATIONS					
Fuel		(113 022)	-	(113 022)	(109 627)
Airport, handling and en-route charges		(83 781)	-	(83 781)	(63 335)
Personnel costs	8	(79 597)	-	(79 597)	(55 380)
Aircraft and similar lease	7	(66 063)	-	(66 063)	(20 661)
Amortization and depreciation		(65 956)	-	(65 956)	(53 703)
Marketing and tickets sales costs		(32 012)	-	(32 012)	(24 102)
Other operating costs		(23 231)	1 002	(24 233)	(19 052)
Cost of carbon emission allowances		(21 805)	(2 637)	(19 168)	(14 898)
Aircraft maintenance		(18 968)	-	(18 968)	(11 376)
Passenger service		(8 686)	-	(8 686)	(9 338)
Claim compensations	9	76 486	22 277	54 209	6 930
Provisions for legal disputes	17	-	(8 073)	8 073	1 192
		(436 635)	12 569	(449 204)	(373 350)
FINANCE INCOME / (EXPENSES)					
Finance costs	10	(47 168)	-	(47 168)	(43 515)
Foreign currency exchange gain / (loss), net		676	6 092	(5 416)	(69 303)
Finance income		278	-	278	106
		(46 214)	6 092	(52 306)	(112 712)
PROFIT / (LOSS) BEFORE TAX		27 783	18 661	9 122	(123 516)
Corporate income tax	11	-	-	-	(1 438)
PROFIT / (LOSS) FOR THE PERIOD		27 783	18 661	9 122	(124 954)

The notes on pages 25 to 39 form an integral part of these Condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 9 MONTHS
(UNAUDITED)**

	Comparable 9 months 2023 TEUR	Items affecting comparability 9 months 2023 TEUR	IFRS 9 months 2023 TEUR	IFRS 9 months 2022 TEUR
PROFIT / (LOSS) FOR THE PERIOD	27 783	18 661	9 122	(124 954)
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS				
Gain on cash flow hedges	773	-	773	-
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Depreciation of revaluation reserve	(275)	-	(275)	(224)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD	498	-	498	(224)
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE PERIOD	28 281	18 661	9 620	(125 178)

The notes on pages 25 to 39 form an integral part of these Condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE THIRD QUARTER (UNAUDITED)

	Note	Comparable Q3 2023	Items affecting comparability Q3 2023	IFRS Q3 2023 TEUR	IFRS Q3 2022 TEUR
OPERATING REVENUE					
Revenue	5	218 401	-	218 401	171 064
Other income		931	-	931	-
		219 332	-	219 332	171 064
OPERATING EXPENSES AND CLAIM COMPENSATIONS					
Fuel		(46 871)	-	(46 871)	(50 871)
Aircraft and similar lease	7	(37 327)	-	(37 327)	(12 549)
Airport, handling and en-route charges		(31 986)	-	(31 986)	(23 572)
Personnel costs	8	(28 249)	-	(28 249)	(19 812)
Amortization and depreciation		(23 223)	-	(23 223)	(19 955)
Marketing and tickets sales costs		(11 472)	-	(11 472)	(9 770)
Cost of carbon emission allowances		(9 983)	(3 454)	(6 529)	(3 732)
Other operating costs		(8 731)	-	(8 731)	(7 520)
Aircraft maintenance		(6 415)	-	(6 415)	(2 911)
Passenger service		(2 894)	-	(2 894)	(3 970)
Claim compensations	9	31 027	22 277	8 750	3 286
		(176 124)	18 823	(194 947)	(151 376)
FINANCE INCOME / (EXPENSES)					
Finance costs	10	(16 083)	-	(16 083)	(15 087)
Foreign currency exchange loss, net		(299)	13 665	(13 964)	(38 035)
Finance income		180	-	180	28
		(16 202)	13 665	(29 867)	(53 094)
PROFIT / (LOSS) BEFORE TAX		27 006	32 488	(5 482)	(33 406)
Corporate income tax	11	-	-	-	(500)
PROFIT / (LOSS) FOR THE PERIOD		27 006	32 488	(5 482)	(33 906)

The notes on pages 25 to 39 form an integral part of these Condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THIRD QUARTER (UNAUDITED)

	Comparable Q3 2023 TEUR	Items affecting comparability Q3 2023 TEUR	IFRS Q3 2023 TEUR	IFRS Q3 2022 TEUR
PROFIT / (LOSS) FOR THE PERIOD	27 006	32 488	(5 482)	(33 906)
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS				
Gain on cash flow hedges	712	-	712	-
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Depreciation of revaluation reserve	(92)	-	(92)	(47)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD	620	-	620	(47)
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE PERIOD	27 626	32 488	(4 862)	(33 953)

The notes on pages 25 to 39 form an integral part of these Condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30.09.2023 TEUR	31.12.2022 TEUR
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	114 626	101 493
Right of use assets	13	887 596	810 845
Intangible assets		17 219	17 327
Investments in subsidiaries and other investments		3	3
Prepayments for maintenance	14	87 074	61 196
Prepayments for acquisition of property, plant and equipment		27 268	50 283
Trade and other receivables		18 722	15 525
		1 152 508	1 056 672
CURRENT ASSETS			
Inventories		16 155	10 913
Prepaid expenses	15	14 304	11 612
Trade and other receivables		62 799	41 726
Derivative financial instruments		773	-
Cash		33 701	37 999
		127 732	102 250
TOTAL ASSETS		1 280 240	1 158 922
EQUITY AND LIABILITIES			
EQUITY			
Share capital		596 473	596 473
Other contributions		2 662	2 644
Revaluation reserve		3 611	3 886
Cash flow hedging reserve		773	-
Accumulated loss:			
accumulated loss brought forward		(684 987)	(630 768)
profit / (loss) for the period		9 122	(54 219)
TOTAL EQUITY		(72 346)	(81 984)
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities	16	789 652	718 012
Borrowings	16	56 733	254 464
Provisions	17	26 573	31 428
Tax liabilities		-	1 944
		872 958	1 005 848
CURRENT LIABILITIES			
Borrowings	16	206 771	10 777
Lease liabilities	16	85 129	77 565
Trade and other payables		64 461	48 533
Contract liabilities, airport taxes and other liabilities	18	83 065	56 478
Provisions	17	32 856	33 965
Tax liabilities		7 346	7 740
		479 628	235 058
TOTAL LIABILITIES		1 352 586	1 240 906
TOTAL EQUITY AND LIABILITIES		1 280 240	1 158 922

The notes on pages 25 to 39 form an integral part of these Condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	9 months 2023	9 months 2022
CASH FLOWS FROM OPERATING ACTIVITIES	TEUR	TEUR
PROFIT / (LOSS) BEFORE TAX	9 122	(123 516)
Adjustments for:		
Depreciation	64 379	52 267
Interest expenses	46 208	42 427
Change in provisions and financial liabilities	11 091	10 878
Amortization	1 578	1 436
Foreign exchange loss, net	6 092	69 556
Profit on sales and leaseback transactions	(2 612)	(2 989)
Profit on disposal of property, plant and equipment	(1 343)	(3 686)
Interest income	(277)	(106)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	134 238	46 267
Increase in payables	13 704	29 744
Increase in receivables	(23 823)	(35 606)
Increase in inventories	(5 241)	(2 965)
Increase in deposits and restricted cash	(9 295)	(1 579)
Corporate income tax paid	(556)	(825)
NET CASH FLOWS FROM OPERATING ACTIVITIES	109 027	35 036
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(24 768)	(27 215)
Advances paid for aircraft	(6 882)	(23 150)
Refund of advances paid for aircraft	23 891	18 679
Received profit from sales and leaseback transactions	2 612	2 989
Proceeds from sale of property, plant and equipment	1 458	3 723
Interest received	277	464
NET CASH USED IN INVESTING ACTIVITIES	(3 412)	(24 510)
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease principal payments	(61 199)	(59 975)
Interest paid	(49 586)	(43 332)
Repayment of borrowings	(3 147)	(1 891)
Borrowings received	4 019	4 854
Proceeds from the issue of share capital	-	45 000
NET CASH USED IN FINANCING ACTIVITIES	(109 913)	(55 344)
Decrease in cash	(4 298)	(44 818)
Cash at the beginning of the reporting period	37 999	79 314
CASH AT THE END OF THE REPORTING PERIOD	33 701	34 496

The notes on pages 25 to 39 form an integral part of these Condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Share capital TEUR	Other contributions TEUR	Revaluation reserve TEUR	Accumulated loss TEUR	Loss for the period TEUR	Total TEUR
1 JANUARY 2022	506 473	2 490	3 494	(495 050)	(135 718)	(118 311)
COMPREHENSIVE INCOME:						
Loss for the period	-	-	-	-	(124 954)	(124 954)
Other comprehensive income	-	-	(224)	-	-	(224)
	-	-	(224)	-	(124 954)	(125 178)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:						
Increase in share capital	90 000	-	-	-	-	90 000
Allocation of prior year result	-	-	-	(135 718)	135 718	-
30 SEPTEMBER 2022	596 473	2 490	3 270	(630 768)	(124 954)	(153 489)

	Share capital TEUR	Other contribu- tions TEUR	Revaluation reserve TEUR	Cash flow hedging reserve TEUR	Accumu- lated loss TEUR	Profit for the period TEUR	Total TEUR
1 JANUARY 2023	596 473	2 644	3 886	-	(630 768)	(54 219)	(81 984)
COMPREHENSIVE INCOME:							
Profit for the period	-	-	-	-	-	9 122	9 122
Other comprehensive income	-	-	(275)	773	-	-	498
	-	-	(275)	773	-	9 122	9 620
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:							
Currency translation difference	-	18	-	-	-	-	18
Allocation of prior year result	-	-	-	-	(54 219)	54 219	-
30 SEPTEMBER 2023	596 473	2 662	3 611	773	(684 987)	9 122	(72 346)

The notes on pages 25 to 39 form an integral part of these Condensed consolidated interim financial statements.

NOTES**1. Corporate information**

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

- Baltijas Kravu Centrs SIA,
- Air Baltic Training SIA,
- Aviation Crew Resources AS (under liquidation process).

2. Summary of significant accounting policies**a) Basis of preparation**

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

The Condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2022 and any public announcements made by airBaltic during the interim reporting period.

b) Accounting principles

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

Changes in presentation***Presentation of Cost of carbon emission allowances***

In these Condensed consolidated interim financial statements, the Cost of carbon allowances is presented as a separate line item in the Income statement. In all previous financial statements of the Group, 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
9 months period 2022	14 898	Fuel
Q3 2022	3 732	Fuel

Presentation of sales and leaseback transaction in statement of cash-flow

The Group has made reclassification in its Condensed consolidated statement of cash flows for the Q3 2022. In the Condensed consolidated statement of cash flows for Q3 2022 the proceeds from sale and leaseback transactions (EUR 2 989 thousand) were classified within the Net cash flows from operating activities. In these Condensed consolidated interim financial statements the proceeds from the sale and leaseback transactions are presented within Net cash used in investing activities in separate line “Received profit from sales and leaseback transactions”.

New and amended accounting policies

New and amended IFRSs that entered force in January 2023 or later have not had any material effect on the consolidated financial statements. New or amended IFRSs that enter force in the coming fiscal years have not been applied in advance in the preparation of these financial statements and are not expected to have a significant effect on the Group's forthcoming financial reports.

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

The preparation of the interim 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 recognized 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. In addition to what is described below, the critical assessments and sources of uncertainty in estimates are the same as those in the most recent annual report. See also the note 21 b).

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 the airBaltic. Following the court ruling, the provisions made in December 2022 have been released. The cassation appeal has been 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.

d) Going concern and liquidity

As of 30 September 2023, airBaltic had negative equity of EUR 72 million (31 December 2022: EUR 82 million), the Group's current liabilities exceeded its current assets by EUR 352 million and the cash balance at the end of the period was EUR 33.7 million (31 December 2022: 38 million).

The management believes that the use of going concern principle is appropriate for the next 12 months. airBaltic's EUR 200 million Eurobond is due in July of 2024. In management's view there are several potential ways to refinance this bond and the management has engaged with advisors to evaluate the following options:

- Private debt refinancing. Several options have been presented to the airline during early Q4 of 2023 and the airline is engaged in active exploration of these options. If any of the private debt options are deemed suitable for airBaltic, such financing could become available as early as January of 2024.
- In addition, airBaltic and its advisors are in active dialogue with a range of banks regarding public debt market alternatives should these markets indicate a more positive outlook than in Q3 of 2023, airBaltic may decide to approach the public debt markets during H1 2024.
- The airline can also engage its shareholders (including the controlling shareholder) regarding any of the above options to provide financing on market terms.

A more comprehensive plan on refinancing is expected to be finalized and communicated to the investors by early 2024.

There is currently significant uncertainty related to the reliability and supply of spare engines, also in the context of the powdered metal issue. If the situation with the engines deteriorates, it may negatively impact airline's operational performance and cash generating ability beyond management's current expectations. The management is in continuous talks with both the engine manufacturer Pratt & Whitney and Airbus Canada Limited Partnership to secure sufficient commercial support to address the engine shortage, maintenance costs, spare part shortage and potential aircraft delivery delays. While the management remains optimistic that these negotiations will yield a positive outcome for the airline, similar to the results in 2022 and similar to the results in H1 and Q3 of 2023, there is uncertainty regarding the extent of the commercial support that will be provided. The airline's liquidity would be negatively impacted if the support proves to be inadequate.

NOTES**3. Financial risk management****Hedge effectiveness**

The Group has resumed fuel hedging and as at 30 September 2023 3 000 jet fuel tones had been hedged for the Q4 2023.

Fair value estimation

The Group classifies its assets and liabilities based on the technique used for determining fair value into the following categories:

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 30 September 2023.

	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	8 795	8 795
Diamond aircraft	-	-	3 840	3 840
Derivative financial asset	-	773	-	773

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2022.

	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	9 531	9 531
Diamond aircraft	-	-	4 054	4 054

The Group obtains independent valuations for its buildings 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. In 2022 the revaluation of the Group's buildings was performed by certified independent estate valuers using the income approach. According to the Group's accounting policy, the net book value of buildings was adjusted to the valuation by recognising the gain in Revaluation reserve. In 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. According to the management's estimates, no external or internal circumstances have occurred in H1 2023 that would be expected to cause the book value of the assets reflected in Level 3 to be materially different from their fair value.

All other financial assets and financial liabilities are measured at amortized cost. The Group's financial assets measured at amortized cost are included in the level 3, except for cash and cash equivalents, which are included in the level 2. The Group estimates that the fair values of assets and liabilities reported at amortised cost do not materially differ from the carrying amounts reported in the financial statements. Bond assessment of the fair value was performed as at end of September 2023. The valuation was performed by discounting the remaining cash flow with the market rate of 7.1%. According to the calculations performed the fair value of the bonds at end of September 2023 – EUR 199 446 thousand - was lower than their carrying amount of EUR 201 700 thousand.

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

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

NOTES

4. Segment information

During the reporting period, the changes were made in the segment information analysis performed by airBaltic's Chief Operating Decision Maker (CODM). In the beginning of 2023, the Parent company merged one of the other segments to Parent company segment as a result of Group restructuring. CODM monitors segment information based on the legal structure of the Group. The merged segment revenue included the revenue from crew lease services, which is now part of Parent company. There were no material assets related to the merged segment. Comparable segment information has been restated to reflect current internal organisation.

Reportable segment information is presented as follows:

	9 months 2023 TEUR	9 months 2022 TEUR	Q3 2023 TEUR	Q3 2022 TEUR
Operating revenue of the Parent company	508 032	361 571	218 197	170 565
Revenue of other segments	4 374	2 712	1 877	1 188
Intersegment elimination arising from other segments	(1 774)	(1 737)	(742)	(689)
TOTAL REVENUE	510 632	362 546	219 332	171 064
Profit / (loss) of the Parent company	10 241	(123 653)	(4 343)	(33 487)
Loss of other segments	(855)	(1 146)	(1 089)	(366)
Intersegment elimination	(264)	(155)	(50)	(53)
TOTAL NET PROFIT / (LOSS)	9 122	(124 954)	(5 482)	(33 906)
Other segment information:				
Amortization and depreciation	(65 956)	(53 703)	(23 031)	(20 299)
Interest revenue	278	106	67	28
Interest expense	(46 208)	(42 427)	(15 734)	(14 727)
			30.09.2023	31.12.2022
Reportable segment of the Parent company's assets			1 280 060	1 155 777
Reportable segment of the other segments assets			7 985	14 243
Intersegment elimination arising from other segments			(7 805)	(11 098)
TOTAL ASSETS			1 280 240	1 158 922
Reportable segment of the Parent company's liabilities			1 351 083	1 237 598
Reportable segment of the other segments liabilities			6 976	12 218
Intersegment elimination arising from other segments			(5 472)	(8 910)
TOTAL LIABILITIES			1 352 587	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.

Entity-wide disclosures

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

	9 months 2023 TEUR	9 months 2022 TEUR	Q3 2023 TEUR	Q3 2022 TEUR
Europe	483 494	343 892	209 840	164 304
Other	27 138	18 654	9 492	6 760
TOTAL	510 632	362 546	219 332	171 064

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

NOTES

5. Revenue

	9 months 2023 TEUR	9 months 2022 TEUR	Q3 2023 TEUR	Q3 2022 TEUR
Tickets revenue	376 801	264 627	162 311	125 313
ACMI lease revenue (non-lease component)	51 250	36 032	23 434	19 686
Ancillary revenue	32 943	23 774	12 500	9 013
Cargo revenue	4 433	4 716	1 594	1 666
Charter revenue	7 043	6 734	2 608	2 619
Other revenue	4 139	1 590	1 591	701
Revenue from contracts with customers	476 609	337 473	204 038	158 998
ACMI lease revenue (lease component)	31 411	22 084	14 363	12 066
TOTAL	508 020	359 557	218 401	171 064

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. Seasonality of operations

The Group's historic results of operations have varied significantly from quarter to quarter, and management expects these variations to continue. Among the factors causing these variations are the airline industry's sensitivity to general economic conditions and the seasonal nature of air travel, especially leisure travel. Passenger revenue (tickets revenue and ancillary revenue) in the first and fourth quarters are generally lower, while the second and third quarters typically generate higher revenues and results. The COVID-19 pandemic and related travel restrictions, as well as the recovery from the pandemic crisis, had a significant impact on trends in 2022.

TEUR	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2019	Q3 2019	Q2 2019
Passenger revenue	174 811	145 132	89 801	111 410	134 326	102 026	52 049	105 599	153 815	130 133
% from annual passenger revenue	n/a	n/a	n/a	28%	34%	26%	13%	23%	33%	28%

7. Aircraft and similar lease

Majority of costs included in the item Aircraft and similar lease represent expenses for ACMI in operations. As in 2022, the reliability and shortage of spare engines was a significant factor affecting the 9 months and Q3 2023 performance. During 9 months 2023, on average airBaltic had 10.8 aircraft on the ground (Q3 2023 – on average 8.4 aircraft) due to the shortage of spare engines and to replace this capacity the airline wetleased in on average 6.7 aircraft throughout 9 months (on average 7.5 aircraft throughout Q3). For comparison - in the 9 months 2022, airBaltic had an average of 5.2 aircraft grounded due to a shortage of spare engines. In the Q3 2022, on average 6.8 aircraft were grounded. The airline wetleased an average of 3.1 aircraft throughout the 9 months 2022, and on average of 4.1 aircraft were leased in during the Q3 2022.

NOTES

8. Personnel costs

Increase in the Personnel costs is attributable to the increase in the Group's headcount as well as the general increase in remuneration in the sector.

Remuneration of the members of the Executive Board and Supervisory Board for the current year

	9 months 2023 TEUR	9 months 2022 TEUR	Q3 2023 TEUR	Q3 2022 TEUR
Executive Board members				
Remuneration	1 112	1 291	372	428
Social insurance contributions	262	304	88	101
Supervisory Board members				
Remuneration	111	119	43	50
Social insurance contributions	26	28	10	12
TOTAL	1 511	1 742	513	591

9. Claim compensations

Claim compensations reflect compensations received under the Supplemental Commercial Support Agreements concluded with the engine manufacturer, insurance indemnities as well as various indemnities under guarantee contracts.

The shortage of engines and spare parts in 9 months 2023 worsened significantly compared to 9 months 2022, resulting in the Group entering into several Supplemental Commercial Support Agreements with the engine manufacturer in 2023 (see also notes 2d and 7). The increase in claims compensation is mainly due to the support received under the terms of these agreements.

10. Finance costs

	9 months 2023 TEUR	9 months 2022 TEUR	Q3 2023 TEUR	Q3 2022 TEUR
Interest expense on lease	33 899	31 167	11 496	10 902
Interest expense on borrowings	12 309	11 260	4 264	3 850
Other interest and similar expenses	960	1 088	323	335
TOTAL	47 168	43 515	16 083	15 087

11. Corporate income tax

Corporate income tax represents tax on the distribution of the subsidiary's profits for 2022 (Aviation Crew Resources AS - under liquidation process).

NOTES

12. Property, plant and equipment

	Buildings TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2021	22 006	21 282	4 561	72 121	119 970
Additions	51	922	86	27 446	28 505
Disposals	-	(153)	(88)	-	(241)
30.09.2022	22 057	22 051	4 559	99 567	148 234
Accumulated depreciation					
31.12.2021	11 578	8 523	929	17 188	38 218
Charge for the period	513	1 304	289	5 481	7 587
Charge on revalued amount	224	-	-	-	224
Disposals	-	(139)	(68)	-	(207)
30.09.2022	12 315	9 688	1 150	22 669	45 822
Net book value 31.12.2021	10 428	12 759	3 632	54 933	81 752
Net book value 30.09.2022	9 742	12 363	3 409	76 898	102 412
Cost or revalued amount					
31.12.2022	22 093	21 972	5 263	98 272	147 600
Additions	17	952	122	22 572	23 663
Disposals	-	(1 677)	(77)	(226)	(1 980)
30.09.2023	22 110	21 247	5 308	120 618	169 283
Accumulated depreciation					
31.12.2022	12 562	9 858	1 209	22 478	46 107
Charge for the period	526	1 425	285	7 965	10 201
Charge on revalued amount	227	-	48	-	275
Disposals	-	(1 655)	(74)	(197)	(1 926)
30.09.2023	13 315	9 628	1 468	30 246	54 657
Net book value 31.12.2022	9 531	12 114	4 054	75 794	101 493
Net book value 30.09.2023	8 795	11 619	3 840	90 372	114 626

NOTES

13. Right of use assets

	Buildings and land TEUR	Aircraft TEUR	Total TEUR
Cost or revalued amount			
31.12.2021	16 505	922 606	939 111
Additions – new lease contracts	297	93 445	93 742
Disposal	-	(74 643)	(74 643)
30.09.2022	16 802	941 408	958 210
Accumulated depreciation			
31.12.2021	4 457	164 842	169 299
Charge for the period	1 448	43 232	44 680
Disposal	-	(34 981)	(34 981)
30.09.2022	5 905	173 093	178 998
Impairment loss charge recognized in 2020	-	(33 229)	(33 229)
Net book value 31.12.2021	12 048	684 873	696 921
Net book value 30.09.2022	10 897	735 086	745 983
Cost or revalued amount			
31.12.2022	18 314	993 447	1 011 761
Additions – new lease contracts	1 501	129 427	130 928
Terminated contracts	(27)	(9 772)	(9 799)
30.09.2023	19 788	1 113 102	1 132 890
Accumulated depreciation			
31.12.2022	6 226	188 290	194 516
Charge for the period	1 377	52 800	54 177
Terminated contracts	(27)	(3 372)	(3 399)
30.09.2023	7 576	237 718	245 294
Impairment loss charge			
31.12.2022	-	(6 400)	(6 400)
Reversal of charge for the period		6 400	6 400
30.09.2023	-	-	-
Net book value 31.12.2022	12 088	798 757	810 845
Net book value 30.09.2023	12 212	875 384	887 596

Impairment loss relates to the management's 2020 decision of early phase out of Q400 fleet. The phase out was completed in 2023.

NOTES**14. Prepayment for maintenance**

The balance sheet item Prepayments for maintenance includes prepaid expenses for future maintenance. 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 Prepayment for maintenance until the respective maintenance event occurs and the reimbursement with the lessor is finalised. Given the Group's relatively young and growing fleet, heavy maintenance works have not yet been carried out, while payments are made in advance on an ongoing basis which explains the increase in the item.

15. Prepaid expenses

	30.09.2023 TEUR	31.12.2022 TEUR
Other prepaid expenses (services)	6 336	6 956
ACMI in related prepaid expenses	6 049	79
Aircraft maintenance related prepaid expenses	1 919	4 577
	14 304	11 612

16. Borrowings and lease liabilities**Borrowings**

	30.09.2023 TEUR	31.12.2022 TEUR
Non-current		
Borrowings from the shareholders	36 141	36 141
Other borrowings	20 592	19 511
Eurobond, net of transaction costs	-	198 812
	56 733	254 464
Current		
Eurobond, net of transaction costs	201 700	5 696
Other borrowings	3 918	3 187
Bank borrowings	959	1 761
Borrowings from the shareholders	194	133
	206 771	10 777
TOTAL	263 504	265 241

Lease liabilities

	30.09.2023 TEUR	31.12.2022 TEUR
Non-current	789 652	718 012
Current	85 129	77 565
TOTAL	874 781	795 577

NOTES

16. Borrowings and lease liabilities (continued)

The table below shows the contractual undiscounted (including estimated future interest payments on debt) non-derivative financial liabilities:

	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 30.09.2023						
Borrowings	1 999	219 321	55 019	9 931	286 270	263 504
Lease liabilities	32 731	98 111	387 964	585 851	1 104 657	874 781
Contractual maturities of financial liabilities at 31.12.2022						
Borrowings	1 371	17 804	270 855	6 721	296 751	265 241
Lease liabilities	31 539	88 311	455 381	438 010	1 013 241	795 577

The table below shows the movements in major class of borrowings and lease liabilities during the financial period.

	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Loan from bank TEUR	Total TEUR
01.01.2023	795 577	36 274	227 206	1 761	1 060 818
New lease contracts	134 306	-	-	-	134 306
New contracts	-	-	4 019	-	4 019
Interest calculated	33 899	1 565	10 660	84	46 208
Currency translation difference	5 891	-	-	-	5 891
Amortization of transaction costs and similar	227	-	621	1	849
Repayment, net of interest	(61 199)	-	(2 344)	(803)	(64 346)
Interest paid	(33 920)	(1 504)	(14 077)	(85)	(49 586)
Transaction costs and similar expenses	-	-	(68)	-	(68)
30.09.2023	874 781	36 335	226 017	958	1 138 091

NOTES

17. Provisions

	30.09.2023 TEUR	31.12.2022 TEUR
Non-current		
Aircraft redelivery provision	22 333	19 115
Provision for legal disputes (see note 21 b)	4 240	12 313
	26 573	31 428
Current		
Provision for carbon emissions	32 856	30 534
Provision for onerous contracts (Q400 fleet)	-	3 431
	32 856	33 965
TOTAL	59 429	65 393

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

	Aircraft redelivery provision TEUR	Provision for legal disputes TEUR	Provision for carbon emissions TEUR	Provision for onerous contracts TEUR	Total TEUR
31.12.2022	19 115	12 313	30 534	3 431	65 393
Additional provision charged to Right-of-use assets	3 218	-	-	-	3 218
Charged/credited to the Income statement:					
- additional amounts charged	-	-	21 526	-	21 526
- unused amounts reversed	-	(8 073)	(2 362)	-	(10 435)
Amounts used/settled during the period	-	-	(16 842)	(3 431)	(20 273)
30.09.2023	22 333	4 240	32 856	-	59 429

Provision for carbon emissions

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 (including accumulated emissions from prior periods) subsequently are measured at the amount expected to be paid for the allowances to be purchased.

According to the Directive 2003/87/EC the Company settles the previous year's CO₂ emissions in the 2nd quarter each year, when the information about the current year's free emissions is also available. Normally, the Company settles the previous period emissions balance using the free allowances allocated for the period and accrues provision based on unsettled emissions remaining at the end of the period, including the emissions deferred from prior periods against the available allowances of future periods. The provision as at 30 September 2023 reflects the expected payment for the used carbon emissions to date at their market value. In the above table the provision movement line "Additional amounts charged" and related "Cost of carbon emission allowance" income statement lines include both the additional emissions of the reporting period and the revaluations of provision (which causes fluctuations between income statement periods due to the notable fluctuations of the expected market price of emissions for the expected settlement in future periods).

NOTES

18. Contract liabilities, airport taxes and other liabilities

	30.09.2023 TEUR	31.12.2022 TEUR
Contract liabilities (unearned revenue) from flight revenue and travel vouchers	65 134	36 326
Airport taxes collected	13 966	11 021
Amounts collected on behalf of other airlines	2 982	8 054
Deferred income from loyalty program revenue	890	888
Other	94	189
TOTAL	83 065	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 and prepayments for future ACMI lease. 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 increase in the Contract liabilities (unearned revenue) from ticket revenue and travel vouchers and the Airport taxes collected is related to the higher sales volumes in 2023 compared to 2022, when the market was just starting to recover from the Covid-19 crisis.

19. Related party transactions

The Group has related party relationships 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. There were no related party transactions in the period ended 30 September 2023 that materially affected the financial position or the performance of the Group during that period and there were no changes to the related party positions described in the 2022 annual report that could have a material effect on the financial position or performance of the Group in the same period.

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 Group.

Key management compensation disclosure is provided in the note 8.

20. State aid received by airBaltic

On 23 and 24 May 2022 the European Commission adopted decisions regarding Second Recapitalisation of airBaltic and Damage compensation to airBaltic, approving additional state aid in the total amount of EUR 45 million. These decisions supplement the decision adopted by the Commission on 21 December 2021, approving aid to airBaltic in the form of a recapitalisation of EUR 45 million under Article 107(2)(b) TFEU. Consequently, the European Commission has approved the entire aid of EUR 90 million granted by the Cabinet of Ministers of the Republic of Latvia to the Company on 23 August 2021.

The state aid provided to airBaltic has been used to restore airBaltic's equity and its access to liquidity in the context of the COVID-19 outbreak that led to severe disturbances of the real economy of Latvia. The main cost items for which the state aid has been used are fleet operating costs, which make up the largest part of the used state aid.

In addition to the above, airBaltic has used the aid in support of the EU objectives and national obligations linked to the green and digital transformation, including the EU objective of climate neutrality by 2050. Detailed information on airBaltic's activities in this area is provided in the airBaltic 2022 Sustainability Report.

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

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

There has been no significant change during the period in guarantees and pledges compared to those disclosed in the financial statements for the year ended 31 December 2022.

NOTES**21. Commitments and contingencies (continued)****(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 Aviācijas Sistēmas ("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 final court decision was partly negative for the Parent company, the administrators of Investbank will have to file a new substantive claim in order to recover the amounts, while the limitation period has expired. 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. Finally, an appeal to the Supreme Court of the Russian Federation is being considered.

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.

NOTES**21. Commitments and contingencies (continued)****(b) Legal disputes*****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 €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.

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 its competitors.

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 of the sum of EUR 0.81 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 bank guarantee issued by the co-defendant in the action, Compensa Vienna Insurance Group. 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 bank 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.

(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 2023 and in 2024 is about EUR 670 million. By the end of September 2023 24 of ordered planes have been delivered.

As at 30 September 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.

NOTES**22. Subsequent events**

In October 2023, the airline signed a package of various Commercial support agreements with Airbus and Pratt & Whitney for EUR 22.3 million to partially compensate the airline for the extra costs it had incurred in Q3 2023 due to the grounding of aircraft for lack of engines and other miscellaneous spare parts. The extended support was provided partly in cash and partly in the form of a credit note.

As airBaltic's options for acquisition of new A220-300 were to expire in Q4 of 2023, the airline and Airbus signed a contract change order converting the expiring options and the remaining purchase rights into 30 firm orders to be delivered starting from Q4 of 2026 and until the end of 2029. The airline also acquired 20 purchase rights which can be converted into firm order by the end of 2027. This has ensured that airBaltic is well positioned to continue its growth in line with the approved strategic plan IPO & Beyond.

In October, Pratt & Whitney informed airBaltic that the powdered metal issue is expected to have effect also on the PW1500G engines. The potential impact is still being assessed but it could potentially result in more aircraft being AOG in 2024 than previously estimated and potentially higher maintenance costs and capital investments.

During the period between the last day of the reporting period and the date of signing this report, there have been no other events that could materially impact the financial position of the Group as of 30 September 2023 and should be reflected in this report.

Martin Alexander Gauss
Chairman of the Executive Board

Vitolds Jakovļevs
Member of the Executive Board

Pauls Juris Cālītis
Member of the Executive Board