

Business Description

- Based in Riga, Air Baltic Corporation AS ("airBaltic") is the national airline of Latvia. airBaltic and two subsidiaries, Air Baltic Training SIA and Baltijas Kravu Centrs SIA (together, the "Debtors" or the "Company")⁽¹⁾, operate an all Airbus A220-300 fleet.
 - As of the Petition Date, the Company operated 46 aircraft and 7 engines under operating leases
 - Eight A220-300 aircraft and seven Pratt & Whitney PW1521G engines were held under finance leases with EDC and Axiom
 - The Company has 40 firm A220-300 orders outstanding with Airbus at an aggregate list price above €3 billion, plus about €92 million of Pratt & Whitney engine commitments
- The Republic of Latvia ("Latvia") owns 97.97% of airBaltic following state recapitalisations between 2020 and 2022.
 - Lufthansa holds a €14 million convertible instrument for about 10% of the equity, with a seat on the supervisory board
- The Debtors report approximately \$1.8 billion of total assets and approximately \$2.0 billion of total liabilities.⁽²⁾

⁽¹⁾ The Debtors filed for Chapter 11 protection on 14 September 2026 (the "Petition Date") in the U.S. Bankruptcy Court for the Southern District of New York, Case No. 26-12188 (LGB), before Judge Lisa G. Beckerman.

⁽²⁾ As set out in the First Day Declaration and cited in the Ad Hoc Group's limited objection (Dkt. 25).

Corporate History

State Recapitalisation

- In July 2020, Latvia injected €250 million into airBaltic under state aid rules approved by the European Commission, followed by €90 million across 2021 and 2022.
 - The injections took Latvia's stake to 97.97%
 - As a condition of the aid, Latvia committed to an exit through an initial public offering that would not take its stake below about 80.05%

IPO Process

- The Company prepared a listing on Nasdaq Riga and the Frankfurt Prime Standard, initially targeting €250 million and later referenced at €264 million to €300 million.
 - The listing was postponed repeatedly as European airline share prices fell

Lufthansa Investment

- In 2024 and 2025, Lufthansa invested €14 million through a convertible instrument for about 10% of the equity.
 - The instrument converts at the eventual IPO valuation, subject to a 5% dilution floor
 - Lufthansa also received a seat on the supervisory board
 - Press reports around the Petition Date state that Lufthansa will not inject further capital

State Bridge Loan

- In April 2026, Latvia lent airBaltic €30 million on a subordinated, uncollateralised basis at market rates, maturing on 31 August 2026.
 - About €12.9 million was repaid by July 2026, leaving €18.6 million outstanding at the Petition Date

Operations Overview

Fleet

- The Company's operating lease liabilities total €855.6 million (\$992.5 million) across 46 aircraft and 7 engines, excluding the finance leases.
- The finance-leased equipment comprises eight A220-300 aircraft and seven PW1521G engines financed by EDC and Axiom, with about €78.6 million outstanding at the Petition Date.
- The 40 firm A220-300 orders with Airbus (list price above €3 billion) and about €92 million of Pratt & Whitney engine commitments remain outstanding.
 - The revised business plan contemplates cancelling or indefinitely deferring these orders

Emissions Obligations

- The Company participates in the EU Emissions Trading System ("EU ETS").
 - The First Day Declaration states that missing an EU ETS surrender obligation of approximately \$49.2 million could lead member states to revoke the Company's operating licences
 - The Latvian environment agency is the second largest unsecured creditor, with a \$42.4 million claim for emissions scheme payments

Fuel

- Jet fuel is the Company's largest variable cost. The First Day Declaration states that each \$100 per ton change in price costs about \$16.5 million, based on expected consumption of 165,000 tons for April to December 2026.

Prepetition Obligations

Debtors' Prepetition Obligations

EUR in Millions

As of 14 September 2026

Debt Instrument	Lender / Counterparty	Security	Amount
<i>Secured Debt:</i>			
2029 Senior Secured Bonds (14.50%)¹⁾	Bondholders; Security Trustee	Aircraft and engine collateral; Condition 3(d) undertaking ²⁾	€ 398.2
Finance Leases	EDC; Axiom	8 A220-300 aircraft and 7 PW1521G engines	78.6
BluOr Bank Facility	BluOr Bank	Secured	7.9
Total Secured Debt			€ 484.7
<i>Unsecured Debt:</i>			
Government Loan³⁾	Republic of Latvia	Unsecured; subordinated	18.6
Total Funded Debt⁴⁾			€ 503.3
<i>Memo: Operating lease liabilities⁵⁾</i>			€ 855.6

1) On 17 August 2026, holders consented to pay the August and November 2026 coupons in kind and to suspend the €25 million minimum liquidity covenant.

2) Condition 3(d) of the bonds, mirrored at Clause 5.18 of the trust deed, requires the issuer, on expiry or early termination of a finance lease, to exercise its purchase option and procure first ranking security over the asset for the security trustee.

3) €30 million bridge loan made in April 2026, maturing 31 August 2026; about €12.9 million repaid by July 2026.

4) \$583.9 million at the First Day Declaration's conversion rate.

5) Covers 46 aircraft and 7 engines and excludes finance leases; \$992.5 million at the First Day Declaration's conversion rate.

Top Unsecured Claims

Largest Unsecured Creditors		
USD		As of 14 September 2026
Creditor	Nature of Claim	Amount of Claim
1 Pratt & Whitney	Engine manufacturer	\$ 66,517,890.34
2 Latvian environment agency	Emissions scheme payments	42,431,900.00
3 Republic of Latvia	Government loan	20,066,586.00

1) Top three entries from Schedule 2 to the First Day Declaration (Dkt. 14). The remaining entries are not reproduced here.
2) An official committee of unsecured creditors was appointed on 25 September 2026 (Dkt. 58).

Events Leading to Bankruptcy

Fuel Hedging

- The Company entered 2026 assuming jet fuel at about \$685 per ton, with about 90% of expected consumption unhedged.
- In March 2026, the Company sold all of its remaining fuel hedges to raise about €5.7 million of liquidity, to avoid defaulting on the minimum liquidity covenant under the 2029 Bonds.
- After the outbreak of the Iran conflict, jet fuel prices peaked near \$2,000 per ton.
 - The Company's average price for the first eight months of 2026 was \$1,168 per ton, \$454 above the same period in 2025

Liquidity and Bondholder Consents

- Latvia's €30 million bridge loan in April 2026 matured on 31 August 2026 with €18.6 million outstanding.
- On 17 August 2026, holders of the 2029 Bonds approved payment of the August and November coupons in kind and suspension of the €25 million minimum liquidity covenant.
 - The resolutions passed at a reconvened meeting with a 25% quorum after the 3 August meeting failed to reach its 75% quorum (see Bondholder Meetings)

Restructuring Negotiations

- In March 2026, the Debtors retained Seabury Global Aviation Advisors ("Seabury") as investment banker and Milbank LLP ("Milbank") as counsel; Clyde & Co also advises.
- The Debtors received four third-party term sheets and ran an out-of-court process alongside the DIP process.
 - According to the declaration of Stephan T. Krastev of Seabury (the "Krastev Declaration"), discussions stalled because a significant portion of the assets were encumbered for the 2029 Bonds and no party would lend on less than a super-senior basis, which required bondholder consent

Events Leading to Bankruptcy (cont'd)

Ad Hoc Group Proposal

- An ad hoc group of holders of the 2029 Bonds (the "Ad Hoc Group") submitted a final proposal for an out-of-court bridge financing leading to a restructuring proceeding in the United Kingdom. The Krastev Declaration lists its terms as including:
 - A priming lien on all collateral, with proceeds used to exercise purchase options on the finance-lease aircraft and encumber them
 - Conditions including installing titled engines and landing gear onto finance-lease aircraft within a short window
 - A pledge of maintenance reserves previously paid to the finance lessors as security
 - An elevation of the prepetition bonds held by participating bondholders
- The Krastev Declaration states that the competing proposals, including the Ad Hoc Group's, "afforded insufficient time for the Company to execute the Business Plan and carried economics that were too expensive to justify the limited restructuring tools they offered."

Consent Solicitation and DIP Commitment

- In early September 2026, airBaltic called a bondholder meeting to approve the Ad Hoc Group proposal.
 - The First Day Declaration dates the solicitation to 4 September and describes the proposal as the only committed proposal then in hand that could prevent a liquidation
 - The Ad Hoc Group states that as late as 3 September the Debtors represented to the market that this was the financing solution under active pursuit
- On 12 September 2026, the Debtors signed a DIP commitment letter instead, and filed on the Petition Date. The bondholder meeting set for 15 September was cancelled.

Events Leading to Bankruptcy (cont'd)

Bondholder Meetings and Trust Deed Amendments

- The retail bondholder objections (Dkt. 68) set out the following chronology, drawn from the issuer's published notices:
 - 10 July 2026: Meeting convened for 3 August by notice, supplemented on 28 July. Certain consents were special quorum resolutions requiring at least 75% in principal amount to be represented
 - 3 August 2026: The quorum was not met
 - 17 August 2026: The meeting reconvened with an applicable quorum of 25% and the consents passed. The issuer has not published attendance or voting figures
 - 24 August 2026: The second supplemental trust deed was executed
- The amendments approved on 17 August include:
 - The quorum for a special quorum resolution reduced from 75% to 25% at a first meeting, and to no minimum proportion at an adjourned meeting
 - Notice periods reduced from 21 days to 7 for a new meeting and from 10 days to 3 for an adjourned meeting, and the interval before reconvening reduced from 14 days to 3
- Under the trust deed, modifying, amending, waiving or releasing the security is a special quorum resolution.
- In early September, the issuer convened a further meeting, moved by supplemental notice of 10 September to 15 September, to amend the transaction documents including the trust deed and security documents.
 - A consent fee of 0.25% of principal was payable to holders voting in favour
 - The meeting was cancelled after the Petition Date

Chapter 11 Filing

Business Plan

- The Debtors' business plan (the "Business Plan") includes:
 - Returning about twenty surplus aircraft and reprofiling the remaining leases
 - Reducing the fleet to 36 aircraft by the end of 2026, recovering to about 40 by 2031
 - A profit improvement programme targeting about €45 million of annual savings
 - Cancelling or indefinitely deferring the outstanding A220-300 orders
- The Krastev Declaration states that the aircraft returns and lease reprofiling could not have been achieved consensually before late 2026 at the earliest.

Case Administration

- Judge: Lisa G. Beckerman.
- Debtors' advisors: Milbank (counsel), Clyde & Co, Seabury (investment banker), and Epiq Corporate Restructuring (claims agent).
- Ad Hoc Group advisors: Hogan Lovells and Cadwalader.
- Official committee of unsecured creditors appointed on 25 September 2026 (Dkt. 58).

Key Dates

- 12 September 2026: DIP commitment letter signed.
- 14 September 2026: Chapter 11 petitions filed.
- 2 October 2026, 4:00 p.m. (ET): Objection deadline for the Final DIP Order (Dkt. 49).
- 19 October 2026: Final DIP Order milestone.

Chapter 11 Filing (cont'd)

€350 Million DIP Term Loan Facility

- Strategic Value Partners ("SVP") and a syndicate provide a €350 million (\$406 million) superpriority senior secured term loan (the "DIP Facility") in three tranches.
- **Tranche 1:** €175 million, of which €140 million on entry of the interim order (the "Interim DIP Order") and the balance on entry of the final order (the "Final DIP Order").
 - Secured by eight A220-300 aircraft, seven PW1521G engines, unencumbered property and proceeds; does not prime the collateral securing the 2029 Bonds
 - Proceeds first repay about €78.9 million of EDC- and Axiom-financed debt on the finance-lease aircraft and engines, plus interest, fees and make-whole, releasing that collateral to the DIP lenders
- **Tranches 2 and 3:** €125 million and €50 million, available only on entry of a separate order authorising priming of the collateral securing the 2029 Bonds.
 - Each is reduced dollar for dollar by financing from any non-DIP lender
- **Interest:** 12-month SOFR + 8.00%, payable monthly, paid in kind at the Company's option; default rate + 3.00%.
- **Fees:** A 5% backstop commitment fee (paid in kind, earned on commitment), a 5% upfront fee on the full €350 million (paid in kind), a 5% exit fee on original commitments, and a make-whole fee subject to the Final DIP Order.
- **Maturity:** The earlier of nine months after the Petition Date and 250 days after Tranche 1 closing, extendable by three months for a 0.75% fee.
- **Milestones:** Interim DIP Order within 5 days and Final DIP Order within 35 days of the Petition Date.
- The Krastev Declaration states that the terms are within the market for comparable DIP financings.

Ad Hoc Group Objection

- On 15 September 2026, the Ad Hoc Group filed a limited objection and reservation of rights to the DIP motion and the motion to pay non-U.S. vendors (Dkt. 25), through Hogan Lovells and Cadwalader.
 - Dkt. 25 states the group's members include Klirmark Capital and that it is in the process of being reconstituted
- The Ad Hoc Group argues that the interim relief transfers value permanently before any evidentiary hearing, that the adequate protection package is insufficient, and that the non-interference provisions are overbroad.
 - It cites the Debtors' reported assets of about \$1.8 billion against liabilities of about \$2.0 billion as showing no equity cushion to serve as adequate protection
- It cites airBaltic's 11 August 2026 press release, which states an appraised value of about €255 million for the bondholders' interest in the aircraft and engine collateral.
 - It states that exercising the purchase options on entry of the Interim DIP Order would transfer more than €250 million of surplus equity value from the bondholders' security package to the DIP lenders
 - It asks that the Interim DIP Order bar any exercise of purchase options, or repayment of finance lease obligations from DIP proceeds, until at least entry of the Final DIP Order
- The DIP motion states that exercising the purchase options over the fifteen finance-leased aircraft and engines, plus a simulator, gives the Debtors access to about €170 million of unencumbered value (Dkt. 20).

Retail Bondholder Objections

- Between 23 and 30 September 2026, five individual beneficial holders of the 14.50% 2029 Bonds filed limited objections to entry of the Final DIP Order without counsel (Dkts. 54, 65, 66, 67 and 68).
 - The objectors state that they are not members of the Ad Hoc Group and have not authorised anyone to consent on their behalf
 - One objector holds €1,078.43 in principal through the Spanish branch of Trade Republic, with a broker confirmation attached
- The objectors do not oppose the DIP Facility as operating liquidity. They object to approval of a permanent reordering of collateral priority as part of the liquidity request.
- The objections rely on Condition 3(d) of the bonds, mirrored at Clause 5.18 of the trust deed.
 - On expiry or early termination of a finance lease, the issuer undertakes to exercise its purchase option, become legal and beneficial owner, and procure first ranking security over the asset in favour of the security trustee
 - Under the DIP Facility, repayment of the EDC and Axiom obligations, transfer of title to the issuer and the grant of first-priority DIP liens over the same equipment occur as substantially concurrent transactions
 - The objectors argue this renders performance of the undertaking impossible, which bears on adequate protection under 11 U.S.C. §§ 361, 363(e) and 364(d)(1)
 - They also note that the DIP documents provide that protections given to the bond collateral do not apply to the aircraft collateral