

 CROATIA AIRLINES

A STAR ALLIANCE MEMBER 

Consolidated and Separate
Annual and quarterly Reports
for the fourth quarter and the
year ended 31 December 2010



April 2011.



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CROATIA AIRLINES D.D.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2010
together with Independent Auditor's Report**

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Pursuant to the Croatian Accounting Law (National Gazette 90/92, 146/05 and 109/07), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as published by the International Financial Reporting Standards Board which give a true and fair view of the state of affairs and results of Croatia Airlines d.d. (the "Company") and Croatia Airlines Group ("Group") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Srećko Šimunović
President and CEO



Croatia Airlines d.d.

Bani 75/b, Buzin

10000 Zagreb

Republic of Croatia

31 March 2011



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Croatia Airlines d.d., Zagreb:

We have audited the accompanying consolidated and separate financial statements of Croatia Airlines d.d., Zagreb ("the Company") and its subsidiaries ("the Group"), set out on pages 4 to 65, which comprise the consolidated and separate statement of financial positions as at 31 December 2010, and the consolidated and separate income statement and statement of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's and the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Branislav Vrtačnik i Paul Trinder; poslovna banka: Zagrebačka banka d.d., Paromilinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; devizni račun: 2100312441 SWIFT Code: ZBAHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; devizni račun: 70010-519758 SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; devizni račun: 2100002537 SWIFT Code: RZBHR2X IBAN: HR48 2484 0082 1000 0253 7

Deloitte se odnosi na tvrtku Deloitte Touche Tohmatsu, osnovanu u skladu sa švicarskim pravom (Swiss Verein) i mrežu njegovih tvrtki članica, od kojih je svaka pravno odvojena i samostalna osoba. Molimo posjetite www.deloitte.com/hr/o-nama za detaljni opis pravne strukture Deloitte Touche Tohmatsu i njegovih tvrtki članica.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

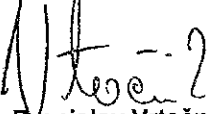
Matter affecting opinion

As described in Note 6, the Company transferred the revaluation surplus which represents the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost, in amount of HRK 12,748 thousand (EUR 1,745 thousand) through the Income statement and statement of comprehensive income in accordance with Croatian Tax Law. However, this represents a departure from International Accounting Standard 16 *Property, Plant and Equipment*, which requires that any revaluation surplus should be transferred directly to retained earnings. The retained earnings in the statement of financial position at 31 December 2010 is understated, and net income for year then ended is overstated in the amount of HRK 12,748 thousand (EUR 1,745 thousand).

Qualified Opinion

In our opinion, except for the effect of the matter discussed in the previous paragraph, the financial position of the Company and the Group as of 31 December 2010, and the results of its operations and its statement of cash flows for the year then ended are in accordance with International Financial Reporting Standards.

Deloitte d.o.o.



Branislav Vrtačnik, Certified auditor

Zagreb, 31 March 2011

Consolidated Croatia Airlines Income statement

For the year ended 31 December 2010

	Notes	2010		2009	
		HRK '000	EUR '000	HRK '000	EUR '000
REVENUE					
Passenger traffic	4	1,109,174	152,243	1,081,830	147,393
Cargo traffic		19,498	2,676	18,323	2,496
Other sales revenue	5	95,615	13,124	85,596	11,662
Total revenue		1,224,287	168,043	1,185,749	161,551
Other income and gains	6	149,339	20,498	148,379	20,216
EXPENSES					
Flight operations		(453,831)	(62,292)	(415,646)	(56,629)
Maintenance		(153,516)	(21,071)	(153,312)	(20,888)
Passenger service		(89,761)	(12,320)	(98,861)	(13,469)
Aircraft and traffic services		(335,055)	(45,989)	(355,873)	(48,486)
Promotion and sales		(202,234)	(27,758)	(200,080)	(27,260)
General and administrative expenses		(90,997)	(12,490)	(98,656)	(13,441)
Depreciation and amortization	11,12	(148,215)	(20,344)	(148,179)	(20,188)
Other operating expenses		(24,390)	(3,348)	(28,593)	(3,897)
Total expenses		(1,497,999)	(205,612)	(1,499,200)	(204,258)
Loss from operations		(124,373)	(17,071)	(165,072)	(22,491)
FINANCIAL INCOME/ EXPENSES					
Financial income	8	83,725	11,492	92,615	12,618
Financial expense	9	(115,466)	(15,849)	(125,915)	(17,155)
Net financial expense		(31,741)	(4,357)	(33,300)	(4,537)
Loss before tax		(156,114)	(21,428)	(198,372)	(27,028)
Income tax expense	10	(122)	(17)	(128)	(17)
Net loss for the year		(156,236)	(21,445)	(198,500)	(27,045)
Basic and diluted loss per share					
HRK/EUR	25	(31.40)	(4.31)	(39.87)	(5.43)

The accompanying notes are an integral part of these financial statements.

Consolidated Croatia Airlines Statement of comprehensive income
 For the year ended 31 December 2010

	Notes	2010		2009	
		HRK '000	EUR '000	HRK '000	EUR '000
Net loss for the year		<u>(156,236)</u>	<u>(21,445)</u>	<u>(198,500)</u>	<u>(27,045)</u>
Hedging reserves		(6,708)	(915)	998	138
Accumulated translation		-	(155)	-	31
Total other comprehensive (loss)/income		<u>(6,708)</u>	<u>(1,070)</u>	<u>998</u>	<u>169</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(162,944)</u>	<u>(22,515)</u>	<u>(197,502)</u>	<u>(26,876)</u>

The accompanying notes are an integral part of these financial statements.

Croatia Airlines d.d. separate income statement

For the year ended 31 December 2010

	Notes	2010		2009	
		HRK '000	EUR '000	HRK '000	EUR '000
REVENUE					
Passenger traffic	4	1,109,174	152,243	1,081,830	147,393
Cargo traffic		19,498	2,676	18,323	2,496
Other sales revenue	5	86,835	11,919	76,718	10,452
Total revenue		1,215,507	166,838	1,176,871	160,341
Other income and gains	6	149,248	20,486	148,166	20,187
EXPENSES					
Flight operations		(453,831)	(62,292)	(415,646)	(56,629)
Maintenance		(153,516)	(21,071)	(153,312)	(20,887)
Passenger service		(89,761)	(12,320)	(98,861)	(13,469)
Aircraft and traffic services		(335,055)	(45,989)	(355,873)	(48,486)
Promotion and sales		(202,234)	(27,758)	(200,080)	(27,260)
General and administrative expenses		(88,267)	(12,115)	(95,669)	(13,034)
Depreciation and amortization	11,12	(148,071)	(20,324)	(147,889)	(20,149)
Other operating expenses		(18,650)	(2,560)	(22,947)	(3,126)
Total expenses		(1,489,385)	(204,429)	(1,490,277)	(203,040)
Loss from operations		(124,630)	(17,105)	(165,240)	(22,512)
FINANCIAL INCOME/EXPENSE					
Financial income	8	83,438	11,453	92,226	12,565
Financial expense	9	(115,362)	(15,834)	(125,765)	(17,135)
Net financial expense		(31,924)	(4,381)	(33,539)	(4,570)
Loss before tax		(156,554)	(21,486)	(198,779)	(27,082)
Income tax expense	10	-	-	-	-
Net loss for the year		(156,554)	(21,486)	(198,779)	(27,082)
Basic and diluted loss per share (HRK/EUR)		(31.47)	(4.32)	(39.95)	(5.44)

The accompanying notes are an integral part of these financial statements.

Croatia Airlines d.d. separate statement of comprehensive income

For the year ended 31 December 2010

Notes	2010		2009	
	HRK '000	EUR '000	HRK '000	EUR '000
Net loss for the year	(156,554)	(21,486)	(198,779)	(27,082)
Hedging reserves	(6,708)	(915)	997	138
Accumulated translation	-	(138)	-	43
Total other comprehensive (loss) / income	(6,708)	(1,053)	997	181
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(163,262)	(22,539)	(197,780)	(26,901)

The accompanying notes are an integral part of these financial statements.

Consolidated Croatia Airlines statement of financial position

As at 31 December 2010

	Notes	2010		2009	
		HRK '000	EUR '000	HRK '000	EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	17,181	2,326	12,441	1,703
Property, plant and equipment	12	1,230,962	166,680	1,319,788	180,639
Investments in associated company	13	4,744	639	4,513	619
Deposits	14	7,557	1,023	8,274	1,132
Available for sale investments	15	1,703	229	1,703	229
Non-current receivables	16	65,300	8,842	67,755	9,274
		<u>1,327,447</u>	<u>179,739</u>	<u>1,414,474</u>	<u>193,596</u>
Current assets					
Inventories	17	38,122	5,162	38,765	5,306
Other financial assets	18	2,062	279	19,863	2,719
Accounts receivable	19	74,649	10,108	80,570	11,028
Other receivables	20	53,557	7,252	51,042	6,986
Prepaid expenses	22	37,007	5,011	35,342	4,837
Cash and cash equivalents	21	53,473	7,241	69,544	9,518
		<u>258,870</u>	<u>35,053</u>	<u>295,126</u>	<u>40,394</u>
TOTAL ASSETS		<u>1,586,317</u>	<u>214,792</u>	<u>1,709,600</u>	<u>233,990</u>
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	989,985	131,150	989,985	131,150
Capital reserves	24	103,203	13,523	115,608	15,221
Accumulated losses and other reserves		(793,279)	(103,779)	(587,660)	(75,609)
Net loss for the year		(156,236)	(21,445)	(198,500)	(27,045)
		<u>143,673</u>	<u>19,449</u>	<u>319,433</u>	<u>43,717</u>
Non-current liabilities					
Long-term loans	26	563,546	76,308	716,570	98,077
Provisions	28	858	116	3,100	424
Long-term liabilities towards the State	29	274,016	37,103	108,450	14,844
		<u>838,420</u>	<u>113,527</u>	<u>828,120</u>	<u>113,345</u>
Current liabilities					
Short-term loans		33,294	4,508	225	31
Short-term portion of long-term loans	26	160,769	21,769	155,849	21,331
Short-term portion of long-term obligations under finance leases	27	-	-	227	31
Accounts payable	30	221,632	30,010	224,217	30,689
Other current liabilities	31	176,620	23,916	157,627	21,574
Accrued expenses and deferred income	32	11,909	1,613	23,902	3,272
		<u>604,224</u>	<u>81,816</u>	<u>562,047</u>	<u>76,928</u>
TOTAL EQUITY AND LIABILITIES		<u>1,586,317</u>	<u>214,792</u>	<u>1,709,600</u>	<u>233,990</u>

The accompanying notes are an integral part of these consolidated financial statements.

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2010

	Notes	2010		2009	
		HRK '000	EUR '000	HRK '000	EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	16,640	2,253	11,884	1,627
Property, plant and equipment	12	1,230,640	166,637	1,319,453	180,594
Investments in subsidiaries and associated companies	13	5,110	682	5,110	682
Deposits	14	7,518	1,018	8,243	1,128
Available for sale investments	15	1,703	229	1,703	229
Non-current receivables	16	65,300	8,842	67,755	9,274
		<u>1,326,911</u>	<u>179,661</u>	<u>1,414,148</u>	<u>193,534</u>
Current assets					
Inventories	17	38,122	5,162	38,765	5,306
Other financial assets	18	2,062	279	19,852	2,717
Accounts receivable	19	71,727	9,712	78,269	10,713
Other receivables	20	53,540	7,250	51,039	6,985
Prepaid expenses	22	36,941	5,002	35,222	4,821
Cash and cash equivalents	21	51,362	6,955	67,139	9,189
		<u>253,754</u>	<u>34,360</u>	<u>290,286</u>	<u>39,731</u>
TOTAL ASSETS		<u>1,580,665</u>	<u>214,021</u>	<u>1,704,434</u>	<u>233,265</u>
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	989,975	131,150	989,975	131,150
Capital reserves	24	101,764	13,328	114,512	15,073
Accumulated losses and other reserves		(794,589)	(103,963)	(589,102)	(75,828)
Net loss for the year		(156,554)	(21,488)	(198,779)	(27,082)
		<u>140,596</u>	<u>19,027</u>	<u>316,606</u>	<u>43,313</u>
Non-current liabilities					
Long-term loans	26	563,546	76,308	716,570	98,077
Provisions	28	858	116	3,100	424
Long-term liabilities towards the State	29	274,016	37,103	108,450	14,844
		<u>838,420</u>	<u>113,527</u>	<u>828,120</u>	<u>113,345</u>
Current liabilities					
Short-term loans		33,294	4,508	184	25
Short-term portion of long-term loans	26	160,769	21,769	155,849	21,331
Short-term portion of long-term finance leases	27	-	-	227	31
Accounts payables	30	219,919	29,779	223,212	30,551
Other current liabilities	31	176,211	23,860	157,323	21,532
Accrued expenses and deferred income	32	11,456	1,551	22,913	3,137
		<u>601,649</u>	<u>81,467</u>	<u>559,708</u>	<u>76,607</u>
TOTAL EQUITY AND LIABILITIES		<u>1,580,665</u>	<u>214,021</u>	<u>1,704,434</u>	<u>233,265</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Croatia Airlines statement of changes in equity

For the year ended 31 December 2010

	Issued capital		Capital Reserves		Accumulated translation		Hedging reserves		Accumulated losses		Result for the year		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	EUR '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2009	989,985	131,150	128,293	16,950	2,989	464	3,399	464	(502,925)	(66,910)	(88,890)	(12,306)	529,862	72,337
Transfer (from) / to	-	-	60	8	-	-	-	-	(89,132)	(12,321)	88,890	12,306	(182)	(7)
Foreign exchange differences	-	-	-	-	31	138	998	138	-	-	-	-	998	169
Revaluation of aircraft and engines (Note 3)	-	-	(12,745)	(1,737)	-	-	-	-	-	-	-	-	(12,745)	(1,737)
Net loss	-	-	-	-	-	-	-	-	-	-	(198,500)	(27,045)	(198,500)	(27,045)
Balance at 1 January 2010	989,985	131,150	115,508	15,221	3,020	602	4,397	602	(592,057)	(79,231)	(198,500)	(27,045)	319,433	43,717
Transfer (from) / to	-	-	343	47	-	-	-	-	(198,911)	(27,100)	198,500	27,045	(68)	(8)
Foreign exchange differences	-	-	-	-	(155)	(915)	(6,708)	(915)	-	-	-	-	(6,708)	(1,070)
Revaluation of aircraft and engines (Note 3)	-	-	(12,748)	(1,745)	-	-	-	-	-	-	-	-	(12,748)	(1,745)
Net loss	-	-	-	-	-	-	-	-	-	-	(156,236)	(21,445)	(156,236)	(21,445)
Balance at 31 December 2010	989,985	131,150	103,203	13,523	2,865	(313)	(2,311)	(313)	(790,968)	(106,331)	(156,236)	(21,445)	143,673	19,449

The accompanying notes are an integral part of these consolidated financial statements.

Croatia Airlines d.d. separate statement of changes in equity

For the year ended 31 December 2010

	Issued capital		Capital Reserves		Accumulated translation		Hedging reserves		Accumulated losses		Result for the year		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	EUR '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2009	989,975	131,150	127,257	16,810	2,970	464	3,400	464	(504,325)	(67,098)	(89,174)	(12,345)	527,133	71,951
Transfer (from) / to	-	-	-	-	-	-	-	-	(89,174)	(12,345)	89,174	12,345	-	-
Foreign exchange differences	-	-	-	-	43	138	997	138	-	-	-	-	997	181
Revaluation of aircraft and engines (Note 3)	-	-	(12,745)	(1,737)	-	-	-	-	-	-	-	-	(12,745)	(1,737)
Net loss	-	-	-	-	-	-	-	-	-	-	(198,779)	(27,082)	(198,779)	(27,082)
Balance at 1 January 2010	989,975	131,150	114,512	15,073	3,013	602	4,397	602	(593,499)	(79,443)	(198,779)	(27,082)	316,606	43,313
Transfer (from) / to	-	-	-	-	-	-	-	-	(198,779)	(27,082)	198,779	27,082	-	-
Foreign exchange differences	-	-	-	-	(138)	(915)	(6,708)	(915)	-	-	-	-	(6,708)	(1,053)
Revaluation of aircraft and engines (Note 3)	-	-	(12,748)	(1,745)	-	-	-	-	-	-	-	-	(12,748)	(1,745)
Net loss	-	-	-	-	-	-	-	-	-	-	(156,554)	(21,488)	(156,554)	(21,488)
Balance at 31 December 2010	989,975	131,150	101,764	13,328	2,875	(313)	(2,311)	(313)	(792,278)	(106,525)	(156,554)	(21,488)	140,596	19,027

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Croatia Airlines statement of cash flows

For the year ended 31 December 2010

	2010		2009	
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net loss for the year	(156,236)	(21,445)	(198,500)	(27,045)
<i>Adjustments for:</i>				
Depreciation	145,527	19,975	146,293	19,931
Amortization	2,688	369	1,886	257
Net present value of disposed and sold tangible and intangible assets	2,020	274	9,827	1,345
Exchange differences, net	9,043	1,622	(1,417)	(1,984)
(Decrease) / increase in deferred foreign exchange gains	(6,708)	(915)	997	1,875
Decrease / (increase) in non-current receivables	3,172	541	(8,172)	(1,142)
Decrease in accounts receivable and other receivables	3,406	654	52,909	7,179
(Decrease) / increase in prepaid expenses	(1,665)	(171)	5,197	698
Decrease / (increase) in inventories	643	144	(6,858)	(949)
Increase in accounts payable and other current liabilities	16,408	1,663	119,828	16,490
(Decrease) in provisions	(2,242)	(308)	(2,283)	(311)
(Decrease) in accrued expenses and deferred income	(11,993)	(1,659)	(4,902)	(661)
Gain from reversal of revaluation reserves	(12,816)	(1,910)	(12,927)	(1,709)
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	(8,753)	(1,166)	101,878	13,974
Investing activities				
Increase in investments in subsidiaries	(231)	(20)	(180)	(29)
Payments for purchase of intangible assets	(7,434)	(1,007)	(6,371)	(872)
Payments for purchase of tangible assets	(61,316)	(8,303)	(82,625)	(11,309)
Proceeds from disposal of tangible assets	2,601	352	1,239	170
NET CASH (USED IN) INVESTING ACTIVITIES	(66,380)	(8,978)	(87,937)	(12,040)
Financial activities				
Proceeds from current financial assets	17,801	2,439	9,367	1,272
Proceeds from short-term borrowings	33,015	4,470	29,138	3,988
Repayment of short-term borrowings	(153)	(21)	(92,245)	(12,626)
Proceeds from long-term borrowings	1,104	150	109,506	14,988
Repayment of long-term borrowings	(158,271)	(21,431)	(156,429)	(21,410)
Proceeds from government guarantees	165,566	22,260	84,182	11,530
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	59,062	7,867	(16,481)	(2,258)
DECREASE IN CASH AND CASH EQUIVALENTS	(16,071)	(2,277)	(2,540)	(324)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	69,544	9,518	72,084	9,842
CASH AND CASH EQUIVALENTS AT YEAR END	53,473	7,241	69,544	9,518

The accompanying notes are an integral part of these consolidated financial statements.

Croatia Airlines d.d. separate statement of cash flows

For the year ended 31 December 2010

	2010		2009	
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net loss for the year	(156,554)	(21,486)	(198,780)	(27,083)
<i>Adjustments for:</i>				
Depreciation	145,419	19,960	146,072	19,902
Amortization	2,652	364	1,816	247
Net present value of disposed and sold tangible and intangible assets	2,021	274	9,827	1,345
Exchange differences, net (Decrease) / increase in deferred foreign exchange differences	9,044 (6,708)	1,482 (915)	(1,417) 998	(242) 138
Decrease / (increase) in non-current receivables	3,180	542	(8,172)	(1,142)
Decrease in accounts receivable and other receivables	4,041	736	52,797	7,164
(Increase) / decrease in prepaid expenses	(1,720)	(181)	5,209	699
Decrease / (increase) in inventories	643	144	(6,858)	(949)
Increase in accounts payable and other current liabilities	15,595	1,555	119,858	16,494
Decrease in provisions	(2,242)	(308)	(2,283)	(311)
Decrease in accrued expenses and deferred income	(11,457)	(1,585)	(4,991)	(674)
Gain from reversal of revaluation reserves	(12,748)	(1,745)	(12,745)	(1,693)
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	(8,834)	(1,163)	101,331	13,895
Investing activities				
Payments for purchase of intangible assets	(7,414)	(1,004)	(6,313)	(864)
Payments for purchase of tangible assets	(61,222)	(8,290)	(82,520)	(11,295)
Proceeds from disposal of tangible assets	2,601	352	1,239	170
NET CASH (USED IN) INVESTING ACTIVITIES	(66,035)	(8,942)	(87,594)	(11,989)
Financial activities				
Proceeds from current financial assets	17,790	2,438	9,347	1,269
Proceeds from short-term borrowings	33,015	4,470	29,123	3,986
Repayment of short-term borrowings	(153)	(21)	(92,245)	(12,626)
Proceeds from long-term borrowings	1,104	150	109,506	14,988
Repayment of long-term borrowings	(158,230)	(21,425)	(156,429)	(21,410)
Proceeds from government guarantees	165,566	22,259	84,182	11,530
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	59,092	7,871	(16,516)	(2,263)
DECREASE IN CASH AND CASH EQUIVALENTS	(15,777)	(2,234)	(2,779)	(357)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	67,139	9,189	69,918	9,546
CASH AND CASH EQUIVALENTS AT YEAR END	51,362	6,955	67,139	9,189

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL

The principal activity of Croatia Airlines d.d., Zagreb (the "Company") is domestic and international air transport of passengers, mail and cargo. The Company was established as a joint stock company on 7 August 1989 under the name Zagreb Airlines d.d., and since 23 July 1990 it has been operating under the name Croatia Airlines d.d. The registered seat of the Company is in Zagreb, Bani 75/b, Buzin.

The subsidiaries of the Company are Obzor putovanja d.o.o. (100 % owned) and Amadeus Croatia d.d. (95% owned), and its associated company is Pleso prijevoz d.o.o., Zagreb (50% owned).

Amadeus Croatia d.d. was established in Zagreb, on 19th October 1993, with the registered office at the address Trg kralja Tomislava 9. The company's core business is the operation and maintenance of the Amadeus Reservation System in Croatia and Bosnia and Herzegovina. Amadeus is a global distribution system (GDS) serving the distribution, reservation and sale needs of the world's travel and tourism industries around the world through bookings via travel agencies and airline offices.

Obzor putovanja d.o.o. is tourist agency established on 28 October 1993, registered in Zagreb, Marina Držića bb, and an office in Teslina 5. The core business of company is to organize individual and group travels to all Croatia Airlines destinations.

1. GENERAL (CONTINUED)***Croatia Airlines d.d. General Assembly***

Republic of Croatia	94.76%
State Agency for Deposit Insurance and Bank Rehabilitation	2.16%
Croatian Privatisation Fund	1.46%
Others	1.62%
Total	100.00 %

Croatia Airlines d.d. Supervisory Board

Miomir Žužul	President
Karlo Gjurašić	Member
Josip Horvat	Member
Antun Vrdoljak	Member
Bianca Matković	Member
Niko Raić	Member
Ante Nosić	Member
Ratimir Andrijanić	Member
Marija Čačić	Member
Božo Josup	Member
Tonči Peović	Member
Ines Baniček-Vuk	Member
Ana Lovrin	Member

Croatia Airlines d.d. Management

Srećko Šimunović	President and CEO (from 6 October 2010)
Ivan Mišetić	President and CEO (up to 5 October 2010)

Subsidiaries Management

Eugen Šunde	Director Amadeus Croatia d.d.
Jadranka Skelin-Hrvoj	Director Obzor putovanja d.o.o.

2. ADOPTION OF NEW AND REVISED STANDARDS

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as published by the International Accounting Standards Board. The financial statements have been prepared on the historical cost basis, except for certain financial instruments and airplanes that are carried at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The financial statements are presented in Croatian kunas and Euros, rounded to the nearest thousand.

The accounting policies have been consistently applied, except as provided otherwise. The financial statements have been prepared on the going-concern assumption.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of the financial statements and actual results could differ from those estimates.

The accompanying financial statements are based on the accounting records of the Company, together with appropriate adjustments and reclassifications necessary for a fair presentation in accordance with International Financial Reporting Standards.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

Standards and Interpretations affecting the financial statements

- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Standards and Interpretations not affecting the financial statements

- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 "Financial Instruments: Disclosures"- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Standards and Interpretations in issue not yet adopted (continued)

- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011),
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

The Entity has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The functional currency of the Company and all consolidated entities within the Group is Croatian Kuna (HRK). The Company presents its financial statements in two presentation currencies – in Croatian Kuna (HRK) and in Euro (EUR), as second presentation currency. The translation into EUR from HRK as functional and the currency in which all accounting records are kept, has been performed in accordance with the relevant accounting policies.

Accordingly, the financial statements are presented in HRK and translated to EUR as follows:

- Year-end exchange rates have been used for all assets and liabilities items except for issued capital and reserves, investments in subsidiaries and associated companies and available for sale investments which have been presented at historical cost, translated into EUR at the date of transaction.
- Yearly average exchange rate has been used for all items in the statement of comprehensive income.

The resulting translation difference has been charged / credited to equity in the financial statements reported in EUR.

Exchange rates used to transform presented financial statements from HRK to EUR were as follows:

EUR / HRK	2010	2009
31 December	7.385173	7.306199
Average	7.285527	7.339770

The financial statements have been prepared on the historical cost basis, except for any financial assets and liabilities stated at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and except for aircraft and spare engines included in tangible fixed assets, which have been revaluated. The accounting policies have been consistently applied, except where disclosed otherwise.

The financial statements have been prepared under the assumption that the Group will continue to operate as a going concern.

The principal accounting policies adopted are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Passenger revenue

Ticket sales are reported as traffic revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the statement of financial position date is reported as Air traffic liability. This item is reduced either when the Company completes the transportation service or when the passenger requests a refund. Commissions which are payable to the sales agents are recognized as the commercial and marketing expenses at the moment of sale of air transportation documents. Passenger revenue includes revenue from code-share agreements with certain other airlines. Under these agreements, the Company sells seats on these airlines' flights and those other airlines sell seats on the Group's flights. The revenue from other airlines' sale on our flights is recorded in the period when the flight is realised in passenger revenue in the statement of comprehensive income.

b) Interest income

Interest income is accrued on a time basis, by reference to the principal settled after due date and at the effective interest rate applicable.

c) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

d) The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

e) The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lesser is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Foreign currencies

Transactions in currencies other than Croatian Kuna are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

h) Government grants

Government grants received in the form of direct financial support to the Company without any additional costs related are recognized in the statement of comprehensive income as other gains in the period obtained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

j) Tangible fixed assets

Fixed assets, except for aircraft, are stated at cost less accumulated depreciation and any recognised impairment loss. Aircraft are stated at their revaluated amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the statement of financial position dates.

Costs incurred in replacing major portions of the Group's facilities that increase their productive capacity or substantially extend their useful life are capitalised.

An element of the cost of aircraft relates to regular maintenance checks. These costs are amortized over the period from the purchase of the aircraft till the estimated date of the first period check. Future periodic checks are capitalised at the time of expenditure and amortized over the shorter of the period to the next check or the remaining life of the aircraft.

Rotable spare parts are allocated to the type of aircraft concerned and are accounted for in the same manner as the related aircraft.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Tangible fixed assets (continued)

In connection with the acquisition of certain aircraft and engines, the Company received certain discounts. These discounts are deducted from the cost of the aircraft. The spare parts that are received gratis are deferred and credited to the statement of profit and loss on a proportional basis over the operational life of the aircraft, depending on the nature of the discounts (see Note 6 and 31).

Included in the cost of aircraft is the residual value for each type of aircraft. Depreciation is charged on a straight-line basis from the first day of the next month after the tangible asset is put in use. Equipment and spare parts with useful life over one year and individual cost value over HRK 3,5 thousand are recorded as property, plant and equipment. Power generating and equipment of low value used in operating activities are recorded as property, plant and equipment no matter their cost.

The Company engaged the Croatian Society of Professional Valuators, which at 31 December 2001 performed qualified and independent valuation of aircrafts and spare engines using the market method. The valuation effects are credited and charged to revaluation reserve.

For the following revaluation the Company has engaged independent valuator which as at 31 December 2008 performed qualified and independent valuation of the aircrafts using the market method. The valuation effects were not material and therefore they were not recorded.

Difference between net book value of assets that were sold or otherwise disposed of an amount realized from selling was recognized as net value directly to other revenue or other costs (gain / loss from sold assets).

Airbus aircraft are depreciated on a straight-line basis over the period of 20 years (except for the second hand Airbus 320 which was depreciated over period of 12 years) after making allowance for their estimated residual value. The cost of "12-year checks" is at a rate of 8.33%, and "6-year checks" are at a rate of 16.67%.

The Airbus and ATR 42 spare parts are stated at cost and depreciated over the estimated useful life of the aircraft to which they refer (20 years). Ground Service Equipment ("GSE") and tools are stated at cost and depreciated over 16.6 years.

Buildings are depreciated over their estimated useful life of 40 years, and other assets over their useful life, which ranges from 4 – 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Intangible fixed assets

Included in intangible assets is software, which is measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful life, which is two years.

l) Investments in subsidiaries and associated companies

Subsidiaries are those companies in which the Company has control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. An associate is an enterprise over which the Company is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

Investments in subsidiaries and associated companies are presented in separate financial statements at cost. The consolidated financial statements incorporate the financial statements of the Company and subsidiaries, all intra group transactions, balances, income and expenses are eliminated in full on consolidation. The results and assets and liabilities of associated company are incorporated in the consolidated financial statements using the equity method.

m) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise of direct materials and, where applicable, direct labour costs and overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average and FIFO methods. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

n) Financial instruments

Financial instruments consist of contractual claims and rights. Financial instruments include both primary instruments, such as trade accounts receivable and payable, investments, and financial commitments and derivative financial instruments, which are used to hedge risks arising from changes in foreign exchange rates and interest rates. Information on fair value and risk management of these financial instruments is set out below.

Financial assets and financial liabilities are recognized on the Group's (Company's) statement of financial position when the Group (Company) becomes a party to the contractual provisions of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Financial instruments (continued)

Derivative contracts initially are recognized at cost and subsequently measured at fair value. On contractual date Group (Company) classifies derivatives as:

- 1) hedging of fair value of recognized assets or liabilities (fair value hedge),
- 2) hedging of forecast transaction or firm commitment (cash flows hedge).

Changes in fair value of derivatives that are designated and classified as hedging and that are determined to be an effective hedge are recognized in profit and loss account together with all changes in fair value of assets or liabilities that are hedged items. Gain or losses from derivative financial instruments that are used as hedging instruments are recognized regarding the nature of hedged item. The Group formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all hedging instruments to specific firm commitments or anticipated transactions.

The Group's policy is not to utilise derivative financial instruments for trading or speculative purposes. The following financial instruments are reported in the consolidated statement of financial position of the Group and separate statement of financial position of the Company:

o) Cash and cash equivalents

For the purposes of the of statement of cash flows, cash and cash equivalents comprise cash in hand, current accounts at banks, deposits up to ninety days (from their origination date) and are carried at nominal value.

p) Available for sale investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss or loans and receivables. Financial instruments included in available for sale financial assets are initially recognized at cost and subsequently stated at fair value based on the quoted prices, or amounts derived from statement of cash flows models. Gains and losses arising from changes in the fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses. If estimated fair value is not reliable or its value significantly fluctuates, assets are recognized at cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Loans and receivables

Loans and receivables originated by the Group are stated at amortised cost applying the effective rate of interest method less provision for impairment, if any related value adjustments are recognized in the statement of comprehensive income.

r) Financial liabilities

Financial liabilities are settled periodically in cash or another financial asset. These include in particular trade accounts payable, amounts owed to banks and finance lease obligations. These financial liabilities are initially measured at fair value net of transaction costs and subsequently at amortised cost using the effective interest method.

s) Hedging reserves

Hedging reserves, which relate to the outstanding portion of long-term financial liabilities, are treated as hedging only to the extent that they relate to amounts payable within three years from the balance sheet date. Whereas the related exchange differences are charged directly to the income statement for the period.

Changes in the fair value of derivatives that are designated and qualify as cash flows hedges and that are highly effective, are recognised in equity. Amounts deferred in equity are transferred to the statement of comprehensive income and classified as revenue or expense in the same periods during which the hedged firm commitment or forecast transaction affects the statement of comprehensive income. The ineffective part of any gain or loss is recognised immediately in the statement of comprehensive income.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Loans and finance leases for the purchase of aircraft are denominated in foreign currencies and as such the Company is exposed to the risk of fluctuations in exchange rates. The Company has evaluated its foreign currency revenues and determined that foreign currency revenues form a highly effective cash flows hedge against its principal and interest payments in foreign currency. Accordingly, the Company accounts for unrealised gains and losses on translation of the designated foreign currency debts as a separate component of equity. The effectiveness of the hedge is monitored by management on a regular basis throughout the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Provisions and contingencies

Provisions are recorded to the extent that an obligation exists to third parties, future payments are probable and provisions can be reliably measured. Should one of these criteria not be applicable, then the correspondent obligations are recorded under contingencies. Provisions payable after more than one year are recorded at the net present value. The requirement and valuation of the provisions are re-examined at the statement of financial position date each year. Provisions in foreign currency are translated at the closing rate.

u) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

In the process of applying the accounting policies, which are described in Note 3 (a-u), the Company has made the following judgements and key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year or that have a significant effect on the amounts recognized in the financial statements.

Financial Crisis and Economic Recession

The management of Croatia Airlines d.d. is monitoring the potential impact of the financial crisis and the risk of economic recession on Croatia Airlines d.d. business activities. The revenues of the Company are generated primarily from passenger traffic. The level of passenger traffic for future periods cannot be reliably estimated in the current economic environment and therefore the extent of utilization of aircrafts is uncertain. During 2010, the Company obtained support from the government in the form of subsidies under the Government Grants Act (National gazette No. 140/05). Under the Act, the Company will continue to receive subsidies and support from the State in meeting its financial and operational plans.

Financial assets and liabilities

Fair values of the financial assets and liabilities are determined using generally accepted methods. Because no quoted market prices are available for a significant part of the Company's financial assets and liabilities, the fair values of such items have been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future statement of cash flows and estimated discount rates. Management believes that the fair value of all assets and liabilities on the statement of financial position is not materially different from their carrying amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Use of estimates in the preparation of financial statements (continued)

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

The Company has only one segment and the management of the Company believes that its reporting under the requirements of IFRS 8 for operational segments is not material.

Revaluation of Property, Plant and Equipment

Aircraft are recognised in revaluated amounts in compliance with the revaluation accounting model pursuant to IAS 16 applied for the first time as of 31 December 2001. As of 31 December 2008, the Company came to the conclusion that revaluated amounts need to be updated and the Company performed a new revaluation as disclosed in Note 3, paragraph a) Tangible assets.

The revaluation of aircraft at the Company was performed by an independent appraiser using the depreciated replacement cost approach. The revaluation of assets as of 31 December 2001 resulted in a surplus in the value of the assets and a corresponding increase in equity, and also in changes in the estimated residual useful life of such assets. The resulting reported amounts for these assets and the related revaluation reserve do not necessarily represent values at which these assets could or would be sold. There are inherent uncertainties about future business conditions, changes in technology and the competitive environment within the industry that could require future adjustments to estimated revaluated amounts and assets' lives which could potentially result in material changes in reported financial position, equity and profit. Refer to paragraph u) Use of estimates in the preparation of financial statements, subheading "Financial crisis and economic recession" for further details.

Impairment of Property, Plant and Equipment

The Company has assumed that there is no significant impairment of property, plant and equipment on the basis of an evaluation of the current use and expected future revenues. Management has assumed that the level of passenger traffic will be maintained over the useful lives of airlines and related assets. Therefore, adjustments for impairment may be required in the future if actual revenues are significantly reduced.

During the year the Company received direct financial support from the Government of HRK 98,839 thousand, EUR 13,567 thousand (2009 HRK 119,421 thousand, EUR 16,270 thousand, Note 6).

Taking into account all previously mentioned facts, the Management Board concluded that the Company would be able to settle its current liabilities on time and comply with the covenants of the loan and lease agreements. In respect that shareholder will continue to support the Company, Management believes that preparation of financial statements on a going-concern basis is reasonable.

For the year ended 31 December 2010

4. PASSENGER TRAFFIC

	2010		2009	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Scheduled services	1,052,949	144,526	1,017,032	138,565
Charter services	56,225	7,717	64,798	8,828
	<u>1,109,174</u>	<u>152,243</u>	<u>1,081,830</u>	<u>147,393</u>

Revenue by geographical segment:

	2010		2009	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Croatia	376,010	51,611	351,595	47,903
Germany	109,808	15,072	111,429	15,181
USA	119,791	16,442	109,265	14,887
Other countries	503,565	69,118	509,541	69,422
	<u>1,109,174</u>	<u>152,243</u>	<u>1,081,830</u>	<u>147,393</u>

5. OTHER SALES REVENUE

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Revenue from technical services to others	33,398	4,584	31,923	4,349	33,398	4,584	31,923	4,349
Revenue from reservation system services	6,238	856	6,085	829	-	-	-	-
Commission income from foreign air companies	12,459	1,710	13,805	1,881	12,459	1,710	13,805	1,881
Revenue from consignment sales (duty free in aircraft)	8,092	1,111	9,210	1,255	8,092	1,111	9,210	1,255
Mileage related	7,288	1,000	7,106	968	7,288	1,000	7,106	968
Other	28,140	3,863	17,467	2,380	25,598	3,514	14,674	1,999
	95,615	13,124	85,596	11,662	86,835	11,919	76,718	10,452

Other revenue comprises award ticket revenue, which has not been separately recorded over the reporting period, due to changes of IT system in 2009.

6. OTHER INCOME AND GAINS

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Amortisation of tangible assets received free of charge	1,207	166	1,207	164	1,207	166	1,207	164
Income from government support	98,839	13,567	119,421	16,270	98,839	13,567	119,421	16,270
Collected bad debts	41	5	167	23	8	1	167	23
Gain from sale of fixed assets	655	90	293	40	655	90	293	40
Gain from sale of spare parts	1,008	138	1,455	198	1,008	138	1,455	198
Other	47,589	6,532	25,836	3,521	47,531	6,524	25,623	3,492
	149,339	20,498	148,379	20,216	149,248	20,486	148,166	20,187

During 2010 the Company has recognised a total amount of HRK 98,839 thousand (EUR 13,567 thousand) income from the Croatian Government as a direct support in respect of maintaining domestic flights. The amount of reimbursement is determined as the difference between revenues from certain domestic flights and related direct flight operations expense. Direct financial Government support in 2009 was recognised as income in the amount of HRK 119,421 thousand (EUR 16,270 thousand).

Included in other revenue is an amount of HRK 12,748 thousand (EUR 1,745 thousand) which represents the difference in connection with the depreciation provided on the basis of the revaluated amounts and the depreciation provided on the original asset cost basis.

7. STAFF COSTS

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Net wages and salaries	118,720	16,295	124,831	17,007	116,989	16,058	123,179	16,782
Tax, pension and health contributions from payroll	72,231	9,914	77,024	10,494	71,290	9,785	76,134	10,373
Employer's pension and health contributions on payroll	43,575	5,981	44,851	6,111	43,115	5,918	44,411	6,051
Other employee related costs	36,692	5,036	43,448	5,919	36,476	5,007	43,333	5,904
	271,218	37,226	290,154	39,531	267,870	36,768	287,057	39,110

The Group had 1,138 employees (Croatia Airlines d.d. 1,117, Amadeus Croatia d.d., 8 and Obzor putovanja d.o.o., 13) at 31 December 2010 (1,152 employees at 31 December 2009 - Note 34).

Staff costs are distributed and allocated in profit and loss account within items of operating costs according to ICAO methodology.

8. FINANCIAL INCOME

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Foreign exchange gains	82,523	11,327	85,147	11,601	82,473	11,320	84,961	11,575
Interest gains	653	90	1,661	226	647	89	1,638	223
Other	549	75	5,807	791	318	44	5,627	767
	83,725	11,492	92,615	12,618	83,438	11,453	92,226	12,565

9. FINANCIAL EXPENSE

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Foreign exchange losses	88,748	12,181	81,845	11,151	88,667	12,170	81,723	11,134
Interest expense	23,154	3,179	35,972	4,901	23,131	3,175	35,944	4,898
Other	3,564	489	8,098	1,103	3,564	489	8,098	1,103
	115,466	15,849	125,915	17,155	115,362	15,834	125,765	17,135

10. INCOME TAX EXPENSE

Tax on profits earned in Croatia is calculated by applying the rate of 20% to taxable profit for the year.

Company does not have any tax obligation for current year due to accumulated losses from previous years.

Subsidiaries' obligations for tax on profit are as follows: Amadeus Croatia d.d. HRK 99 thousand, EUR 14 thousand (2009: HRK 107 thousand, EUR 15 thousand) and Obzor putovanja d.o.o. HRK 23 thousand, EUR 3 thousand (2009: HRK 21 thousand, EUR 3 thousand).

Reconciliation from accounting profit to taxable profit has not been presented separately for the consolidated and the separate financial statements due to the fact that the management of the Company believes that the effect of the subsidiaries is not material to the users of the financial statements.

The reconciliation between the income tax and the profit included in the Company's statement of comprehensive income is as follows:

	Croatia Airlines d.d	Croatia Airlines d.d
	2010 HRK '000	2009 HRK '000
Net (loss) before tax	(156,554)	(198,779)
Non-taxable income	(74)	(290)
Training incentives	(5,630)	(6,189)
Non-deductible expenses	1,928	2,235
Adjustment to non-deductible expenses	-	28
Tax loss	(160,330)	(202,995)
Tax losses brought forward	(302,491)	(99,496)
Tax loss expired	27,852	-
Losses utilised in current period	-	-
Tax loss available for carry forward	(434,969)	(302,491)

Company's tax losses carried forward will expire in the years as in the table below.

10. INCOME TAX EXPENSE (CONTINUED)

Subsidiaries do not have tax losses to carry forward.

		Tax loss carried forward	Tax loss carried forward	Tax benefit at 20%	Tax benefit at 20%
		HRK '000	EUR '000	HRK '000	EUR '000
2011	Not more than 1 year (from 2006)	(23,309)	(3,156)	(4,662)	(631)
2012	Not more than 2 years (from 2007)	2,400	325	480	65
2013	Not more than 3 years (from 2008)	92,553	12,532	18,511	2,506
2014	Not more than 4 years (from 2009)	202,995	27,487	40,599	5,497
2015	Not more than 5 years (from 2010)	160,330	21,710	32,066	4,342
		434,969	58,898	86,994	11,779

Deferred tax asset in the amount of HRK 86,994 thousand, in EUR 11,779 thousand (2009: HRK 41,406 thousand, in EUR 8,281 thousand) stated above has not been recognized in the Company's accounts due to uncertainty as to whether sufficient future taxable income will be available against which the tax losses could be utilised. The non-recognised tax asset has been calculated using the tax rate enacted at the statement of financial position date of 20% (2009: 20%).

For the year ended 31 December 2010

11. INTANGIBLE ASSETS

2010	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2009	38,778	5,299	37,847	5,170
Additions	7,434	1,007	7,414	1,004
Fx differences	-	(49)	-	(46)
Balance at 31 December 2010	46,212	6,257	45,261	6,128
ACCUMULATED AMORTIZATION				
Balance at 31 December 2009	26,337	3,596	25,963	3,543
Charge for the year	2,688	369	2,652	364
Disposals	6	1	6	1
Fx differences	-	(35)	-	(33)
Balance at 31 December 2010	29,031	3,931	28,621	3,875
NET BOOK VALUE				
At 31 December 2010	17,181	2,326	16,640	2,253
At 31 December 2009	12,441	1,703	11,884	1,627
2009	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2008	32,498	4,437	31,627	4,318
Additions	6,372	872	6,312	864
Disposals	(92)	(13)	(92)	(13)
Fx differences	-	3	-	1
Balance at 31 December 2009	38,778	5,299	37,847	5,170
ACCUMULATED AMORTIZATION				
Balance at 31 December 2008	24,543	3,351	24,239	3,309
Charge for the year	1,887	256	1,817	247
Disposals	(93)	(13)	(93)	(13)
Fx differences	-	2	-	-
Balance at 31 December 2009	26,337	3,596	25,963	3,543
NET BOOK VALUE				
At 31 December 2009	12,441	1,703	11,884	1,627
At 31 December 2008	7,955	1,086	7,388	1,009

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2010

12. CONSOLIDATED CROATIA AIRLINES GROUP - PROPERTY, PLANT AND EQUIPMENT

At 31 December 2010

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2009	80,484	11,019	9,921	1,357	44,426	6,069	2,158,465	295,208	133,926	18,337	2,427,222	331,990
Additions	61	8	232	31	14,808	2,006	35,080	4,750	11,135	1,508	61,316	8,303
Transfers from property, plant and equipment in progress	-	-	(114)	(15)	-	-	114	15	-	-	-	-
Disposals	-	-	-	-	(2,150)	(291)	(78,078)	(10,572)	(7,570)	(1,025)	(87,798)	(11,888)
Fx differences	-	(121)	-	(14)	-	(54)	-	(2,938)	-	(203)	-	(3,330)
31 December 2010	80,545	10,906	10,039	1,359	57,084	7,730	2,115,581	286,463	137,491	18,617	2,400,740	325,075

ACCUMULATED DEPRECIATION

31 December 2009	18,232	2,499	-	-	36,752	5,019	1,007,237	137,639	45,213	6,194	1,107,434	151,351
Charge for the year	3,032	416	-	-	3,202	440	132,285	18,157	7,008	962	145,527	19,975
Disposals	-	-	-	-	(2,218)	(304)	(78,079)	(10,717)	(2,971)	(408)	(83,268)	(11,429)
Correction of accumulated depreciation	-	-	-	-	(7)	(1)	-	-	92	13	85	12
Fx differences	-	(36)	-	-	-	(45)	-	(1,353)	-	(80)	-	(1,514)
31 December 2010	21,264	2,879	-	-	37,729	5,109	1,061,443	143,726	49,342	6,681	1,169,778	158,395
NET BOOK VALUE												
31 December 2010	59,281	8,027	10,039	1,359	19,355	2,621	1,054,138	142,737	88,149	11,936	1,230,962	166,680
31 December 2009	62,252	8,520	9,921	1,357	7,674	1,050	1,151,228	157,569	88,713	12,143	1,319,788	180,639

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2010 was in the amount of HRK 1,054,138 thousand, in EUR 142,737 thousand (2009: HRK 1,151,228 thousand, in EUR 157,569 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2010

12. CONSOLIDATED CROATIA AIRLINES GROUP - PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2009

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2008	79,456	10,848	9,767	1,333	42,256	5,769	2,121,401	289,634	132,059	18,030	2,384,939	325,614
Additions	1,008	138	34,385	4,706	5,285	723	23,407	3,204	18,527	2,536	82,612	11,307
Transfers from property, plant and equipment in progress	20	3	(34,231)	(4,686)	-	-	34,211	4,683	-	-	-	-
Disposals	-	-	-	-	(3,115)	(426)	(20,554)	(2,813)	(16,660)	(2,280)	(40,329)	(5,519)
Fx differences	-	30	-	4	-	3	-	500	-	51	-	588
31 December 2009	80,484	11,019	9,921	1,357	44,426	6,059	2,158,465	295,208	133,926	18,337	2,427,222	331,990

ACCUMULATED DEPRECIATION

31 December 2008	15,238	2,080	-	-	37,504	5,120	893,891	122,042	43,784	5,979	990,417	135,221
Charge for the year	2,994	408	-	-	2,367	323	133,900	18,243	7,031	958	146,292	19,932
Disposals	-	-	-	-	(3,106)	(423)	(20,554)	(2,800)	(5,603)	(763)	(29,263)	(3,986)
Correction of accumulated depreciation	-	-	-	-	(13)	(2)	-	-	1	-	(12)	(2)
Fx differences	-	11	-	-	-	1	-	154	-	20	-	186
31 December 2009	18,232	2,499	-	-	36,752	5,019	1,007,237	137,639	45,213	6,194	1,107,434	151,351

NET BOOK VALUE

31 December 2009	62,252	8,520	9,921	1,357	7,674	1,050	1,151,228	157,569	88,713	12,143	1,319,788	180,639
31 December 2008	64,218	8,768	9,767	1,333	4,752	649	1,227,510	167,592	88,275	12,051	1,394,522	190,393

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2009 was in the amount of HRK 1,151,228 thousand, in EUR 157,569 thousand (2008: HRK 1,227,510 thousand, in EUR 167,592 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2010

12.1 CROATIA AIRLINES d.d. - PROPERTY, PLANT AND EQUIPMENT

At 31 December 2010

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2009	80,484	11,019	9,921	1,357	40,802	5,576	2,158,465	295,401	133,926	18,344	2,423,598	331,697
Additions	61	8	232	31	14,714	1,993	35,080	4,750	11,135	1,508	61,222	8,290
Transfers from property, plant and equipment in progress	-	-	(114)	(15)	-	-	114	15	-	-	-	-
Disposals	-	-	-	-	(2,150)	(291)	(78,078)	(10,572)	(7,570)	(1,025)	(87,798)	(11,888)
Fx differences	-	(121)	-	(14)	-	(52)	-	(3,131)	-	(210)	-	(3,528)
31 December 2010	80,545	10,906	10,039	1,359	53,366	7,226	2,115,581	286,463	137,491	18,617	2,397,022	324,571
ACCUMULATED DEPRECIATION												
31 December 2009	18,232	2,498	-	-	33,463	4,571	1,007,237	137,832	45,213	6,202	1,104,145	151,103
Charge for the year	3,032	416	-	-	3,094	425	132,285	18,157	7,008	962	145,419	19,960
Disposals	-	-	-	-	(2,218)	(304)	(78,079)	(10,717)	(2,971)	(408)	(83,268)	(11,429)
Correction of accumulated depreciation	-	-	-	-	(6)	(1)	-	-	92	13	86	12
Fx differences	-	(35)	-	-	-	(43)	-	(1,546)	-	(88)	-	(1,712)
31 December 2010	21,264	2,879	-	-	34,333	4,648	1,061,443	143,726	49,342	6,681	1,166,382	157,934
NET BOOK VALUE												
31 December 2010	59,281	8,027	10,039	1,359	19,033	2,578	1,054,138	142,737	88,149	11,936	1,230,640	166,637
31 December 2009	62,252	8,521	9,921	1,357	7,339	1,005	1,151,228	157,569	88,713	12,142	1,319,453	180,594

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2010 was in the amount of HRK 1,054,138 thousand, in EUR 142,737 thousand (2009: HRK 1,151,228 thousand, in EUR 157,569 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2010

12.1 CROATIA AIRLINES d.d. - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2009

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2008	79,456	10,848	9,767	1,333	38,736	5,289	2,121,401	289,634	132,059	18,030	2,381,419	325,134
Additions	1,008	138	34,385	4,706	5,181	709	23,407	3,204	18,527	2,536	82,508	11,293
Transfers from property, plant and equipment in progress	20	3	(34,231)	(4,685)	-	-	34,211	4,682	-	-	-	-
Disposals	-	-	-	-	(3,115)	(426)	(20,554)	(2,813)	(16,660)	(2,280)	(40,329)	(5,519)
Fx differences	-	30	-	3	-	4	-	694	-	58	-	789
31 December 2009	80,484	11,019	9,921	1,357	40,802	5,576	2,158,465	295,401	133,926	18,344	2,423,598	331,697

ACCUMULATED DEPRECIATION

31 December 2008	15,238	2,080	-	-	34,434	4,702	893,891	122,042	43,784	5,978	987,347	134,802
Charge for the year	2,994	408	-	-	2,147	293	133,900	18,243	7,031	958	146,072	19,902
Disposals	-	-	-	-	(3,106)	(423)	(20,554)	(2,800)	(5,603)	(763)	(29,263)	(3,986)
Correction of accumulated depreciation	-	-	-	-	(12)	(2)	-	-	1	-	(11)	(2)
Fx differences	-	10	-	-	-	1	-	347	-	29	-	387
31 December 2009	18,232	2,498	-	-	33,463	4,571	1,007,237	137,832	45,213	6,202	1,104,145	151,103
NET BOOK VALUE												
31 December 2009	62,252	8,521	9,921	1,357	7,339	1,005	1,151,228	157,569	88,713	12,142	1,319,453	180,594
31 December 2008	64,218	8,768	9,767	1,333	4,302	587	1,227,510	167,592	88,275	12,052	1,394,072	190,332

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2009 was in the amount of HRK 1,151,228 thousand, in EUR 157,569 thousand (2008: HRK 1,227,510 thousand, in EUR 167,592 thousand).

12.1 CROATIA AIRLINES d.d. - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Airbus and ATR 42 spare parts are stated at cost and depreciated over the estimated useful life of the aircraft to which they refer. Ground Service Equipment ("GSE") and tools are stated at cost and depreciated over 16.6 years.

The cost of "12-year check" is amortized at rate of 8.33% (2009 - 8.33%) and "6-year check" is amortized at rate of 16.67% (2009 - 16.67%).

The Company held under operating lease two Airbus 320. The first one was rented in April 2005 and expired in March 2010. The monthly lease payment was USD 235 thousand. The second was rented in December 2008 until December 2013. The monthly lease payment is USD 207 thousand. Overhaul expenses on aircraft are accrued up to the point of maintenance.

Spare parts include parts that are under finance lease from Lufthansa Technik AG. During 2010 The Company had repayed these liability and ownership of these spare parts passed to the Company.

Fleet at 31 December 2010

Aircraft type	ownership	number	Allowance for residual value	Estimated useful life	Pledged as a collateral
Airbus A319	owned by Company	2	Yes	20	No
Airbus A319	owned by Company	2	Yes	20	Yes
Airbus A320	owned by Company	2	Yes	20	No
Airbus A320	operating lease	1	-	-	No
Dash 8-Q400	operating lease	6	-	-	No
Total		13			

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Name of the company	Main activity	2010		2009		2010		2009		%
		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.		
		HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
Obzor putovanja d.o.o.	Tourism	-	-	-	-	1,020	133	1,020	133	100
Amadeus Croatia d.d.	Marketing services	-	-	-	-	190	25	190	25	95
Pleso prijevoz d.o.o.	Passenger transport	4,744	639	4,513	619	3,900	524	3,900	524	50
		4,744	639	4,513	619	5,110	682	5,110	682	

All three companies are incorporated in the Republic of Croatia. The percentages above refers to percentage ownership and voting rights. The subscribed capital of Amadeus Croatia d.d. has been increased by HRK 90 thousand during 2004 attributable to a change in Croatian law regarding the minimum level of equity requirement. Therefore, Amadeus Croatia increased the subscribed capital in 2004. Pleso prijevoz d.o.o. is associated company not fully controlled by Company, as owned by Zračna luka Zagreb d.d. and Croatia Airlines d.d. equally (50%: 50%). In the consolidated financial statements the Group reports its interests in Pleso prijevoz d.o.o. using the equity method of accounting and in the separate financial statements of the Company the interest is accounted for at cost.

14. DEPOSITS

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deposits in PBZ and ZABA for loans of employees	6,797	920	7,525	1,030	6,797	920	7,525	1,030
Other deposits	760	103	749	102	721	98	718	98
	7,557	1,023	8,274	1,132	7,518	1,018	8,243	1,128

Interest rates on the long-term deposits for specified purpose loans in PBZ are 0.75% and in ZABA is 0%.

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15. AVAILABLE FOR SALE INVESTMENTS

	Share	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
		2010		2009	
		HRK '000	EUR '000	HRK '000	EUR '000
Hrvatska poštanska banka	0.26 %	<u>1,703</u>	<u>229</u>	<u>1,703</u>	<u>229</u>

16. NON-CURRENT RECEIVABLES

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Long-term deposits	21,894	2,965	28,306	3,874	21,894	2,965	28,306	3,874
Long-term advances	42,116	5,702	37,859	5,182	42,116	5,702	37,859	5,182
Receivables for sold flats	783	106	882	121	783	106	882	121
Loans to employees for training	4	1	205	29	4	1	205	29
Long-term receivables for housing	<u>503</u>	<u>68</u>	<u>503</u>	<u>68</u>	<u>503</u>	<u>68</u>	<u>503</u>	<u>68</u>
	65,300	8,842	67,755	9,274	65,300	8,842	67,755	9,274

The amount of HRK 8,168 thousand, in the EUR 1,106 thousand (2009: HRK 16,929 thousand, EUR 2,317 thousand) represents a deposit with Lufthansa Technik for repairs and maintenance of Airbus aircraft. The amount of the deposit has been paid to Lufthansa Technik on a monthly basis since 1998. In 2009, interest income recorded by the Company in respect of the deposit amounted EUR 54 thousand (HRK 393 thousand); (2009: HRK 858 thousand, EUR 117 thousand), based on the interest calculation received from Lufthansa Technik at an annual interest rate of 3.5%.

The amount of HRK 3,384 thousand (USD 665 thousand) represents security deposit paid to ILFC for operating lease of Airbus A320 aircraft. The amount of deposit was paid in 2010, while operating lease of Airbus expired.

The amount of HRK 42,116 thousand, EUR 5,703 thousand (2009: HRK 37,859 thousand, EUR 5,182 thousand), refers to advance payment to Airbus Industrie for purchase of four new aircraft type A319 which should be delivered in years 2012 and 2013 according to Airbus Industrie sales proposal.

16. NON-CURRENT RECEIVABLES (CONTINUED)

Long-term receivables for housing in the amount of HRK 783 thousand, EUR 106 thousand (in 2009: HRK 882 thousand, EUR 121 thousand) relate to 32 flats sold to the employees of the Company. The due dates range from 16 to 30 years with an annual interest of 1% according to the Law on Sale of Publicly Owned Flats with Tenancy Rights (National Gazette 43/92).

In the opinion of the Board, the carrying amounts of long-term receivables approximate their fair values.

17. INVENTORIES

	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	2010		2009	
	HRK '000	EUR '000	HRK '000	EUR '000
Spare parts	31,738	4,298	33,255	4,552
Catering, supplies and other	6,384	864	5,510	754
	38,122	5,162	38,765	5,306

Spare parts are recognised as cost when put in use, while rotatable spare parts are included in property, plant and equipment.

18. OTHER FINANCIAL ASSETS

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deposits and loans receivable	1,817	246	931	127	1,817	246	931	127
Derivative instruments	-	-	18,830	2,577	-	-	18,830	2,577
Cheques	245	33	102	15	245	33	91	13
	2,062	279	19,863	2,719	2,062	279	19,852	2,717

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18. OTHER FINANCIAL ASSETS (CONTINUED)

Deposits at 31 December 2010 are as follows:

Financial institution	Annual interest rate	In thousands of original currency	Currency	2010		2009	
				HRK '000	EUR '000	HRK '000	EUR '000
Deposits:							
Dresdner Bank A.G.	1.00	75	EUR	555	75	819	112
ARC US	-	131	USD	732	99	-	-
Other	-	-	Various	530	72	112	15
Balance as at 31 December Croatia Airlines d.d.				1,817	246	931	127

The amount of HRK 555 thousand (75 thousand EUR) is short-term deposit at Dresdner Bank paid for Bank guarantees issued to Company's suppliers.

The amounts presented in the table above represent the fair value of the financial asset as at 31 December 2010 and 31 December 2009.

19. ACCOUNTS RECEIVABLE

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Domestic accounts receivable	37,059	5,018	38,832	5,316	34,850	4,719	37,199	5,092
Foreign accounts receivable	44,239	5,990	48,245	6,603	43,238	5,854	47,257	6,468
Allowance for doubtful receivables	(6,649)	(900)	(6,507)	(891)	(6,361)	(861)	(6,187)	(847)
	74,649	10,108	80,570	11,028	71,727	9,712	78,269	10,713

19. ACCOUNTS RECEIVABLE (CONTINUED)

Tables below present changes in allowance for doubtful receivables in years 2010 and 2009:

	2010		2010	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
Allowance for doubtful receivables				
Balance at 1 January 2010	6,507	891	6,187	847
Increase	4,811	651	4,811	651
Decrease	(41)	(6)	(9)	(1)
Bad debts write-off	(4,846)	(656)	(4,846)	(656)
Exchange differences	218	20	218	20
Balance at 31 December 2010	6,649	900	6,361	861

	2009		2009	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
Allowance for doubtful receivables				
Balance at 1 January 2009	8,364	1,142	7,974	1,089
Increase	61	8	28	4
Decrease	(167)	(23)	(167)	(23)
Bad debts write-off	(1,676)	(229)	(1,575)	(216)
Exchange differences	(75)	(7)	(73)	(7)
Balance at 31 December 2009	6,507	891	6,187	847

20. OTHER RECEIVABLES

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
VAT receivable net	2,431	329	23,843	3,263	2,332	316	23,680	3,241
Receivables from employees	304	41	402	55	287	39	389	52
Receivables from the State	42,442	5,747	20,946	2,867	42,324	5,731	20,937	2,866
Dividends and profit share receivable	-	-	-	-	248	34	182	25
Receivables for advances	8,215	1,113	5,529	757	8,184	1,108	5,529	757
Short-term loans receivables	165	22	322	44	165	22	322	44
	53,557	7,252	51,042	6,986	53,540	7,250	51,039	6,985

21. CASH AND CASH EQUIVALENTS

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Short-term deposits	28,205	3,819	1,346	184	28,205	3,819	1,346	184
Gyro account	7,550	1,022	56,402	7,720	6,472	876	55,002	7,528
Foreign currency accounts	17,484	2,368	11,591	1,586	16,488	2,233	10,612	1,452
Foreign currency petty cash	184	25	140	19	184	25	140	19
Petty cash	50	7	65	9	13	2	39	6
	53,473	7,241	69,544	9,518	51,362	6,955	67,139	9,189

22. PREPAID EXPENSES

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Prepaid expenses	23,296	3,154	27,048	3,702	23,230	3,145	26,929	3,686
Accrued income	13,711	1,857	8,294	1,135	13,711	1,857	8,293	1,135
	37,007	5,011	35,342	4,837	36,941	5,002	35,222	4,821

Prepaid expenses include amounts for: pilot training expenses in the amount of HRK 2,618 thousand, in EUR 354 thousand (2009: HRK 4,203 thousand, EUR 575 thousand), loan refinancing cost in the amount of HRK 7,338 thousand, in EUR 994 thousand (2009: HRK 9,269 thousand, EUR 1,269 thousand), and prepaid expenses to suppliers in the amount of HRK 13,274 thousand, in EUR 1,797 thousand (2009: HRK 8,806 thousand, EUR 1,205 thousand).

In 2009 prepaid expenses include maintenance cost on leased aircraft and leased engine in the amount of HRK 4,651 thousand, in EUR 637 thousand.

23. ISSUED CAPITAL

During 2010 and 2009 there were no changes in paid-in issued capital and it amounted to HRK 989,975 thousand (EUR 131,150 thousand).

As at 31 December 2010 and 2009 the ownership structure of the Company was as follows:

Shareholder	Number of shares	%	31 December (HRK '000)
Republic of Croatia	4,690,875	94.76	938,175
State Agency for Deposit Insurance and Bank Rehabilitation	110,584	2.16	21,315
Croatian Privatisation Fund	72,068	1.46	14,413
Others	101,949	1.62	16,072
	4,975,476	100.00	989,975

23.1. Subsidiary Obzor putovanja d.o.o., Zagreb

The subsidiary Obzor putovanja d.o.o., Zagreb is fully owned by Croatia Airlines d.d..

23.2. Subsidiary Amadeus Croatia d.d., Zagreb

The share capital of the subsidiary Amadeus Croatia d.d., Zagreb consists of 100 ordinary shares, with a nominal value of HRK 2,000 per share. The ownership of Amadeus Croatia d.d., Zagreb as at 31 December 2010 and 2009 was as follows:

Shareholder	Number of shares	%	31 December (HRK '000)	31 December (EUR '000)
Croatia Airlines d.d., Zagreb	95	95.00	190	25
Amadeus Marketing, Madrid	5	5.00	10	1
	100	100.00	200	26

During 2004, the subscribed capital of Amadeus Croatia d.d., was increased by HRK 90 thousand (EUR 12 thousand) of which is HRK 85.5 thousand (EUR 11 thousand) in favour of Croatia Airlines and HRK 4.5 thousand (EUR 0.6 thousand) in favour of Amadeus Marketing, Madrid.

Non-controlling interest was not recognised in the consolidated accounts as the amounts involved are not material.

24. CAPITAL RESERVES

Revaluation reserves amounting to HRK 100,864 thousand (EUR 13,658 thousand) (2009: HRK 113,613 thousand, EUR 14,942 thousand) were formed by the revaluation of aircraft and engines.

Legal reserve in the amount of HRK 931 thousand (EUR 135 thousand) (2009: HRK 931 thousand, EUR 135 thousand) may be used for covering of losses if the losses are not covered from the net income for the year, or if other reserves are not available.

Amadeus Croatia has reserves in the amount as follows: legal reserve HRK 10 thousand, EUR 1.4 thousand (2009: HRK 10 thousand, EUR 1.4 thousand) and other reserves HRK 100 thousand (EUR 14 thousand) (2009: HRK 100 thousand, EUR 14 thousand).

Obzor putovanja has other reserves in the amount of HRK 716 thousand (EUR 96 thousand) (2009: HRK 684 thousand, EUR 91 thousand).

25. BASIC AND DILUTED (LOSS) PER SHARE

Earnings per share are based on the net result of the shareholder and the number of ordinary shares, and were calculated as follows:

	Croatia Airlines Group		Croatia Airlines Group	
	2010		2009	
	HRK '000	EUR '000	HRK '000	EUR '000
Net (loss) for the year	(156,236)	(21,445)	(198,500)	(27,045)
Number of shares issued	4,975	4,975	4,975	4,975
Basic and diluted (loss) per share in HRK/EUR	(31.40)	(4.31)	(39.87)	(5.43)

The management of the Company proposed that the loss for the year 2009 will be covered out of future profit. Earnings per share have been calculated under weighted average method. Number of shares at nominal value HRK 100 are 51,197 and number of shares at nominal value HRK 200 are 4,924,279.

26. LONG-TERM LOANS

	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	2010		2009	
	HRK '000	EUR '000	HRK '000	EUR '000
Long-term loans	724,315	98,077	872,419	119,408
Current portion of long-term loans	(160,769)	(21,769)	(155,849)	(21,331)
	563,546	76,308	716,570	98,077

Description of long-term loans is as follows:

Financial institution	Original currency	Loan amount in original currency (in 000)	Annual interest rate %	Due date	2010	2010	2009	2009
					HRK '000	EUR '000	HRK '000	EUR '000
PBZ-LONDON CLUB	USD	8,873	LIBOR +0,81	July 2010	-	-	4,105	562
BLB Tranche A	EUR	135,000	EURIBOR +0,5	Dec 2014	613,537	83,077	758,721	103,846
PBZ 2009	EUR	15,000	EURIBOR +6,5 (min.8%)	Oct 2017	110,778	15,000	109,593	15,000
					724,315	98,077	872,419	119,408
Current portion					(160,769)	(21,769)	(155,849)	(21,331)
Long-term portion					563,546	76,308	716,570	98,077

In the above amounts HRK 613,537 thousand, 83,077 EUR thousand are under guarantee of Government of Croatia (in 2009 HRK 758,721 thousand, EUR 103,846 thousand).

The repayment schedule for long-term loans is as follows:

	HRK '000	EUR '000
2011	160,770	21,769
2012	163,724	22,169
2013	166,678	22,569
2014	169,632	22,969
after 2014	63,511	8,601
Total	724,315	98,077

27. OBLIGATIONS UNDER FINANCE LEASES

	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	2010		2009	
	HRK '000	EUR '000	HRK '000	EUR '000
Long-term leases	-	-	227	31
Current portion of long-term leases	-	-	(227)	(31)
	-	-	-	-

Description of the long-term leases is as follows:

Financial institution	Original currency	Loan amount	Annual interest rate	Due date	2010		2009	
					HRK '000	EUR '000	HRK '000	EUR '000
		(in 000)	%					
LUFTHASA TECHNIK	EUR	-	8	2009	-	-	214	29
Raiffeisen Leasing	EUR	14	LIBOR +4.91	June 2010	-	-	13	2
Total					-	-	227	31
Current portion					-	-	(227)	(31)
Long- term portion					-	-	-	-

As at 31 December 2010 the Company does not have obligations under long-term finance leases.

28. PROVISIONS

Croatia Airlines d.d. and Group	Legal claims	
	HRK	EUR
	'000	'000
At 31 December 2008	5,383	735
Charge for the year	475	64
Provisions utilised during the year	(2,758)	(373)
Fx differences	-	(2)
At 31 December 2009	3,100	424
Charge for the year	23	3
Provisions utilised during the year	(2,265)	(307)
Fx differences	-	(4)
At 31 December 2010	858	116

Litigation of HRK 858 thousand, in EUR 116 thousand (2009: HRK 3,100 thousand, EUR 424 thousand) relates to a dispute with former employees of Croatia Airlines.

29. LONG-TERM LIABILITIES TOWARDS STATE

	2010		2009	
	Croatia Airlines d.d. tisuće kuna	Croatia Airlines d.d. tisuće eura	Croatia Airlines d.d. tisuće kuna	Croatia Airlines d.d. tisuće eura
Long-term liabilities towards State	274,016	37,103	108,450	14,844
	274,016	37,103	108,450	14,844

The amount of HRK 274,016 thousand, EUR 37,103 thousand (2009: HRK 108,450 thousand; EUR 14,844 thousand) represents interest free long-term liabilities of Company to the Croatian Government based on realised guarantees for long-term loans related to the financing the fleet.

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30. ACCOUNTS PAYABLES

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	'000	'000	'000	'000	'000	'000	'000	'000
Domestic trade accounts payables	134,397	18,198	143,985	19,707	133,091	18,022	143,175	19,596
Foreign trade accounts payables	87,235	11,812	80,232	10,982	86,828	11,757	80,037	10,955
	221,632	30,010	224,217	30,689	219,919	29,779	223,212	30,551

31. OTHER CURRENT LIABILITIES

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	'000	'000	'000	'000	'000	'000	'000	'000
Air traffic liabilities	130,599	17,684	89,168	12,204	130,599	17,684	89,168	12,204
Deposits and advances received	6,251	846	4,189	573	6,151	833	4,168	570
Salaries	19,577	2,651	20,558	2,814	19,314	2,615	20,305	2,779
Other current liabilities	20,193	2,735	43,712	5,983	20,147	2,728	43,682	5,979
	176,620	23,916	157,627	21,574	176,211	23,860	157,323	21,532

Domestic and foreign trade payables mostly relate to amounts due to various airports and suppliers of fuel.

32. ACCRUED EXPENSES AND DEFERRED INCOME

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deferred income	8,722	1,181	9,928	1,359	8,722	1,181	9,928	1,359
Accrued expenses	3,187	432	13,974	1,913	2,734	370	12,985	1,778
	11,909	1,613	23,902	3,272	11,456	1,551	22,913	3,137

Deferred income in the amount of HRK 8,722 thousand, EUR 1,181 thousand (2009: HRK 9,928 thousand, EUR 1,359 thousand) represents income from tangible assets received from aircraft and engine manufacturers free of charge, which are depreciated over the useful life of the related aircraft. The value of the spare parts and spare engine received free of charge in connection with the purchase of the Airbus fleet is included in deferred income and credited to income on a straight-line basis over the estimated useful life of the related aircraft.

33. COMMITMENTS AND CONTINGENT LIABILITIES

In order to maintain regular business activities the Group uses business premises on several locations. The Group also has assets under the operating leasing as follows: IT equipment, vehicles, aircraft Airbus A320 and spare engine for aircraft. Total monthly amount for rent and lease obligation is HRK 9,532 thousand (EUR 1,308 thousand).

In June 2007 Company signed Aircraft Lease Agreement for four aircraft DASH 8-Q400 which will be taken in operating lease for the period of 10 years. Two of them were delivered in May and July 2008, and two of others were delivered in June 2009. In September 2008 Company signed additional Lease Agreement for two aircraft DASH 8-Q400 which is delivered in March and April 2010. By these Agreements Company has taken monthly lease payment average obligation per aircraft in the amount of EUR 160 thousand.

34. EMPLOYEES

Croatia Airlines d.d.	2010	2009
Pilots and co-pilots	147	144
Cabin attendants	185	181
Maintenance and overhaul	256	253
Ticket, sales and promotion	220	230
Airport handling	102	107
Other staff	207	216
	1,117	1,131
Croatia Airlines d.d. subsidiaries		
Amadeus Croatia d.d., Zagreb	8	8
Obzor Putovanja d.o.o., Zagreb	13	13
	1,138	1,152

35. RELATED PARTY TRANSACTIONS

Croatia Airlines Group does not have any other related parties except those named below.

Related parties of Croatia Airlines d.d. are as follows:

- Obzor putovanja d.o.o.
- Amadeus Croatia d.d.
- Pleso prijevoz d.o.o.

Transactions with related parties are as follows:

	2010	2009	2010	2009
	HRK	HRK	EUR	EUR
	'000	'000	'000	'000
Revenue				
Obzor putovanja d.o.o.	4,600	5,836	631	795
Amadeus Croatia d.d.	144	147	20	20
Pleso prijevoz d.o.o. (associate)	286	281	39	38
Total revenue	5,030	6,264	690	853
Expenses				
Obzor putovanja d.o.o.	5	22	1	3
Amadeus Croatia d.d.	5	-	1	-
Pleso prijevoz d.o.o. (associate)	4,999	4,445	686	606
Total expenses	5,009	4,467	688	609
Receivables				
Obzor putovanja d.o.o.	45	70	6	10
Amadeus Croatia d.d.	292	226	40	31
Pleso prijevoz d.o.o. (associate)	39	55	5	8
Total receivables	376	351	51	49
Liabilities				
Obzor putovanja d.o.o.	2	4	-	1
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	2,423	475	328	65
Total liabilities	2,425	479	328	66

36. RISK MANAGEMENT

As an internationally active airline, the Group is routinely exposed to fluctuations in fuel prices, credit risk, interest rates and exchange rates. In recognition of this fact, it is Group's policy, to analyse and actively manage existing risk positions and market trends and to offset any such risk positions internally as far as possible.

The gearing ratio at the year-end was as follows:

	2010		2009		2010		2009	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Debt	757,609	102,585	872,871	119,470	757,609	102,585	872,830	119,464
Cash and cash equivalents	(53,473)	(7,241)	(69,544)	(9,518)	(51,362)	(6,955)	(67,139)	(9,189)
Net debt	704,136	95,344	803,327	109,952	706,247	95,630	805,691	110,275
Equity	143,673	19,449	319,433	43,717	140,596	19,027	316,606	43,313
Net debt to equity ratio	490%	490%	251%	252%	502%	503%	254%	255%

Interest rate risk

Interest rate risk – the possibility that the value of a financial instrument will change or that statement of cash flows related to that financial instrument will change due to movements in market rates of interest – applies mainly to receivables and payables with maturities of over one year.

The Company is exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in notes 26 and 27. The interest rate on bank deposits is disclosed in Note 14.

In case that the interest rate was higher for 0.5%, in relation to current market interest rate, the effect of HRK 100 thousand (EUR 14 thousand) would debit income statement and, contrary, in case that the interest rate was lower for 0.5% the effect of HRK 100 thousand (EUR 14 thousand) would credit income statement for the period ended 31 December 2010.

36. RISK MANAGEMENT (CONTINUED)*Foreign exchange risk*

The Company is exposed to the following foreign exchange risks:

Transaction risk – the risk of the Company's commercial cash flows being adversely affected by a change in exchange rates for foreign currencies against HRK; and statement of financial position risk – the risk of net monetary assets in foreign currencies acquiring a lower value when translated into HRK as a result of currency movements.

The Company's principal foreign exchange risk is the long-term debt and finance leases for aircraft as described in notes 26 and 27, which is denominated principally in Euro. This exposure is offset by the Company's revenues from overseas ticket sales, which is sufficient to service the debt payments.

Accordingly the Company has accounted for gains and losses on the foreign currency debts as a statement of cash flows hedge within equity as further described in the accounting policies. The Company's other foreign exchange exposures are relatively insignificant.

In June 2009 the Company signed twenty-three forward contracts with Privredna banka Zagreb in total amount of USD 9,500 thousand with maturity twice a month until June 2010.

Currency impact related to loans and leases (strengthening / weakening 0.50%)

HRK 000	Currency impact EUR		Currency impact USD	
	2010	2009	2010	2009
Profit / Loss	3,788	4,343	-	21

Currency impact related to revenues (strengthening / weakening 0.50%)

HRK 000	Currency impact EUR		Currency impact USD	
	2010	2009	2010	2009
Profit / Loss	2,137	2,558	1,396	1,110

36. RISK MANAGEMENT (CONTINUED)

Credit risk

In the majority of cases, the passenger and freight sales are handled via agencies that are members of IATA, which has certain minimum financial requirements of its members. According to BSP rules IATA agents have to enclose bank guarantees. Individual agents who are not members of IATA are required to give collateral or security prior to being approved to deal with Croatia Airlines. The credit risk from sales agents is relatively low since the amount due from any one agent is not significant.

Where the agreements upon which a payment is based do not explicitly state otherwise, claims and liabilities arising between the airlines are usually settled on a net basis via an IATA Clearing House, which contributes to a significant reduction in the risk of non-payment.

For all other payment relationships, the Company evaluates the solvency and payment history of customers and controls exposure to any one customer by credit limits, which are periodically reviewed to determine if they are still appropriate. Where there are factors, which indicate that a customer may not be able to repay all or part of a receivable the Company makes appropriate allowances to reduce the carrying value of the receivable to its recoverable amount. The credit risk from investments and derivative financial instruments arises from the danger of non-payment by a contractual partner. Since the transactions are concluded with contracting parties of the highest possible credit rating the risk of non-payment is in the opinion of management low.

Price Risk

The Company is exposed to the risk of fluctuations in the jet fuel price, which is one of its significant costs. The market price of jet fuel has been extremely volatile in recent years.

In case that the fuel price was higher for 0.5%, in relation to current market price, the effect of HRK 1,185 thousand (EUR 163 thousand) would debit profit and loss account and, contrary, in case that the fuel price was lower for 0.5% the effect of HRK 1,185 thousand (EUR 163 thousand) would credit profit and loss account for the year 2010.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet its commitments as they come due. The Company manages liquidity risk by monitoring on a regular basis its maturing commitments, and by maintaining appropriate amounts of cash on hand and in deposits, to cover unexpected fluctuations.

Hedging implemented at the Company

Business risk management is necessary in order to preserve the value of a Company in such unstable business environment and requires the application of appropriate financial instruments and methods. A significant business risk of Croatia Airlines in the past few years has been the permanent increase in oil, i.e. fuel prices. In addition, the Company is exposed to conditions prevailing on international markets, as its funds procure to finance its fleet out of loans denominated in foreign currencies. The Company hedges its exposure to those risks in accordance with its approved strategies (Currency Risk Hedging Strategy for Long-Term FX Loans; and Fuel Pricing Risk Hedging Strategy).

36. RISK MANAGEMENT (CONTINUED)

Hedging implemented at the Company (continued)

In 2009 the Company used derivative financial instruments to manage its exposure to exchange risk signing forward contracts in USD with Privredna banka Zagreb for the period up to one year.

The Company has been applying its currency risk hedging strategy by hedging its future revenue streams ever since 1999. When raising long-term loans to finance purchases of aircrafts, based on expected foreign currency revenue streams, the Company has assessed that the currency risk in the statement of comprehensive income on unrealised exchange differences in respect of undue portion of long-term loans will be fully covered from the expected future revenue.

The Company has selected cash flows hedging over a three-year period as a hedge against its exposure to currency risk in respect of long-term FX loans. Given that the projected future revenues are assessed by the management as very likely, future revenue streams have been defined as a cash flows hedge for long-term FX loans rose.

As regards to the loan balance as at 31 December 2007, the application of cash flows hedge until full repayment has been maintained, given that these loans mature within a year (London Club).

The Group uses derivative instruments and the cash flows hedge to hedge its exposure to currency risk, interest rate risk and fuel price risk.

At the commencement of each transaction the Group documents the relationship between the hedging instrument and the underlying hedged item, the scope of the hedge, as well as its risk management objective and the strategy with respect to entering into various hedging transactions. This process includes matching of all derivatives designated as hedges with the related assets and liabilities or certain fixed commitments or anticipated transactions.

The Group also documents its assessment, both at the commencement and during the hedge, and determines the effectiveness of the derivatives used in the hedging transactions through the calculation of changes in the fair values or cash flows of hedged items.

36. RISK MANAGEMENT (CONTINUED)**36.1. Liquidity risk tables**

The following table details the Company's expected maturity for its non-derivative financial assets and liabilities for the years ended 31 December 2010 and 2009. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31 December 2010	Maturity									
	Total		Less than 6 months		6 months to 1 year		1-2 years		2 + years	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Assets										
Long term financial asset	6,813	923	-	-	-	-	-	-	6,813	923
Long-term deposits	7,518	1,018	-	-	-	-	-	-	7,518	1,018
Long-term receivables	65,300	8,842	5,024	680	3,442	466	100	13	56,734	7,683
Short - term deposit	30,022	4,065	28,205	3,819	1,817	246	-	-	-	-
Current financial assets	244	33	244	33	-	-	-	-	-	-
Trade receivables and other receivables	162,063	21,944	122,535	16,592	39,528	5,352	-	-	-	-
Total	271,960	36,825	156,008	21,124	44,787	6,064	100	13	71,065	9,624
Liabilities										
Short-term leasing	61	8	31	4	30	4	-	-	-	-
Short-term loans	194,002	26,269	80,322	10,876	113,680	15,393	-	-	-	-
Long-term loans	563,546	76,308	-	-	-	-	163,724	22,170	399,822	54,138
Trade payables and other liabilities	682,314	92,390	239,888	32,481	434,053	58,776	1,207	163	7,166	970
Total	1,439,923	194,975	320,241	43,361	547,763	74,173	164,931	22,333	406,988	55,108

36. RISK MANAGEMENT (CONTINUED)**36.1. Liquidity risk tables (continued)**

31 December 2009	Maturity									
	Total		Less than 6 months		6 months to 1 year		1-2 years		2 + years	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Assets										
Long term financial asset	6,813	911	-	-	-	-	-	-	6,813	911
Long-term deposits	8,243	1,128	-	-	-	-	-	-	8,243	1,128
Long-term receivables	67,755	9,274	10,226	1,400	2,140	293	302	41	55,087	7,540
Current financial assets	19,852	2,717	19,852	2,717	-	-	-	-	-	-
Trade receivables and other receivables	129,308	17,698	123,156	16,856	6,152	842	-	-	-	-
Total	231,971	31,728	153,234	20,973	8,292	1,135	302	41	70,143	9,579
Liabilities										
Short-term leasing	227	31	187	26	40	5	-	-	-	-
Short-term loans	156,033	21,356	75,383	10,318	80,650	11,038	-	-	-	-
Long-term loans	716,570	98,077	-	-	-	-	158,071	21,635	558,499	76,442
Trade payables and other liabilities	380,535	52,083	266,013	36,408	102,718	14,059	1,189	163	10,615	1,453
Total	1,253,365	171,547	341,583	46,752	183,408	25,102	159,260	21,798	569,114	77,895

The Company expects to meet its obligation from operating statement of cash flows and proceeds of maturing financial assets.

37. OPERATING LEASES

The Group of Companies leases airplanes, cars, office premises and IT equipment. The lease terms are between 2 to 10 years and the majority of the lease agreements are renewable at the end of the lease period at the market date.

Among the lease obligations, the operating leases related to the airplanes are the most significant. The Company also has the commitment to perform the checks on a regular basis depending on the type of the leased airplane.

For the Airbuses the Company has to perform the structural check up before 24,000 flights or before 42,000 hours of flights. Also additional overhauls are required every 6 years.

For the Dash 8-Q400 airplane the Company has to perform the first check before 4,000 hours of flight and additional overhaul every 6 years. Overhaul expenses on aircraft are accrued up to the point of maintenance.

As at 31 December 2010 the Company had 7 airplanes, 2 buildings and 44 cars under the operating lease. The future aggregate minimum lease payments are as follows:

	HRK '000 2010	EUR '000 2010
No later than one year	105,367	14,267
Later than one year and no later than five years	359,405	48,666
Later than five years	280,982	38,047
	<u>745,754</u>	<u>100,980</u>

38. DIRECTORS' AND EXECUTIVES' REMUNERATION

The remuneration of directors and other members of key management during the year were as follows:

	HRK '000 2010	EUR '000 2010	HRK '000 2009	EUR '000 2009
Gross salaries	13,341	1,831	15,346	2,091
Gross benefits in kind	1,329	182	1,378	188
	<u>14,670</u>	<u>2,013</u>	<u>16,724</u>	<u>2,279</u>

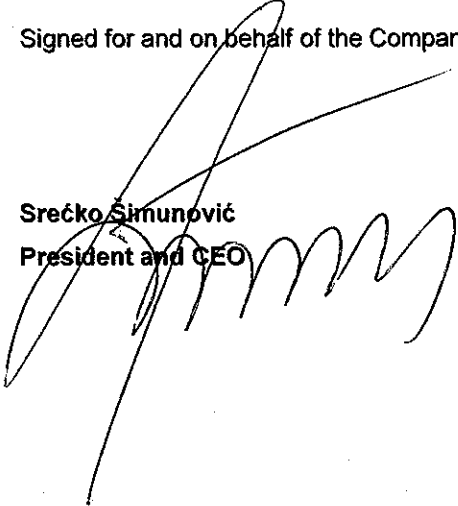
The number of directors and key management staff is 26 in years 2010 and 25 in 2009.

39. APPROVAL OF THE FINANCIAL STATEMENTS


The financial statements were approved by the Management Board and authorised for issue on 31 March 2011.

Signed for and on behalf of the Company on 31 March 2011.

Srećko Šimunović
President and CEO



Damir Šprem
Executive Vice President Finance



Consolidated Croatia Airlines Income Statement

Position	amounts in Croatian kuna			
	Previous period		Current period	
	1 Jan-31 Dec 2009	1 Oct-31 Dec 2009	1 Jan-31 Dec 2010	1 Oct-31 Dec 2010
I. OPERATING INCOME	1.356.348.455	266.916.893	1.395.404.751	337.403.764
1. Sales revenue	1.196.109.763	224.952.506	1.219.720.815	293.104.511
2. Income from own consumption of products and services	0	0	0	0
3. Other operating income	160.238.692	41.964.387	175.683.936	44.299.253
II. OPERATING EXPENSES	1.521.292.342	365.109.910	1.519.778.140	369.337.836
1. Decrease in inventories of finished products and work in progress	0	0	0	0
2. Increase in inventories of finished products and work in progress	0	0	0	0
3. Material costs	1.017.842.716	239.901.837	1.032.957.046	246.056.523
4. Staff costs	246.705.771	60.902.410	234.527.307	58.431.734
5. Depreciation and amortization	148.178.642	39.047.969	148.215.020	37.550.490
6. Other expenses	83.309.682	20.612.939	80.184.069	21.896.422
7. Impairment	28.409	28.409	4.811.026	815.049
8. Provisions	1.572.726	201.983	90.924	22.895
9. Other operating expenses	23.654.396	4.414.363	18.992.748	4.564.723
III. FINANCIAL INCOME	92.487.323	430.656	83.725.002	52.141.647
1. Interest and exchange gains, dividends and similar income from related companies	181.897	0	65.820	0
2. Interest and exchange gains, dividends and similar income from other entrepreneurs	86.680.334	250.372	83.176.280	51.910.504
3. The income from associated undertakings and participating interests	180.284	180.284	231.143	231.143
4. Unrealized gains (revenues)	2.328.367	0	0	0
5. Other financial income	3.116.441	0	251.759	0
IV. FINANCIAL EXPENSES	125.915.398	6.742.286	115.465.713	67.538.500
1. Interest and exchange losses and other expenses with related companies	0	0	0	0
2. Interest and exchange losses and other expenses related to other entrepreneurs	122.590.294	6.742.286	114.223.941	67.189.192
3. Unrealized losses (expense) of financial assets	3.325.104	0	538.233	0
4. Other financial expenses	0	0	703.539	349.308
V. EXTRAORDINARY - OTHER INCOME	0	0	0	0
VI. EXTRAORDINARY - OTHER EXPENSES	0	0	0	0
VII. TOTAL INCOME	1.448.835.778	267.347.549	1.479.129.753	389.545.411
VIII. TOTAL EXPENSE	1.647.207.740	371.852.196	1.635.243.853	436.876.336
IX. PROFIT BEFORE TAX	0	0	0	0
X. LOSS BEFORE TAXATION	198.371.962	104.504.647	156.114.100	47.330.925
XI. INCOME TAX	128.023	0	121.904	0
XII. PROFIT FOR THE YEAR	0	0	0	0
XIII. LOSS FOR THE YEAR	198.499.985	104.504.647	156.236.004	47.330.925
APPENDIX				
XIV. PROFIT / LOSS FOR THE YEAR	0	0	0	0
1. Attributable to Shareholders of the Parent	-198.499.985	0	-156.236.004	0
2. Attributable to minority interests	0	0	0	0
CONSOLIDATED CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME				
NET LOSS FOR THE YEAR	-198.499.985	0	-156.236.004	0
Hedging reserves	997.225	0	-6.708.275	0
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	-197.502.760	0	-162.944.279	0

Croatia Airlines d.d. Income Statement

Position	amounts in Croatian kuna			
	Previous period		Current period	
	1 Jan-31 Dec 2009	1 Oct-31 Dec 2009	1 Jan-31 Dec 2010	1 Oct-31 Dec 2010
I. OPERATING INCOME	1.347.255.966	264.434.111	1.386.534.974	334.991.568
1. Sales revenue	1.187.301.246	222.694.279	1.210.957.632	290.861.560
2. Income from own consumption of products and services	0	0	0	0
3. Other operating income	159.954.720	41.739.832	175.577.342	44.130.008
II. OPERATING EXPENSES	1.512.495.149	362.795.056	1.511.165.602	367.055.835
1. Decrease in inventories of finished products and work in progress	0	0	0	0
2. Increase in inventories of finished products and work in progress	0	0	0	0
3. Material costs	1.014.074.972	239.397.081	1.028.557.757	244.718.507
4. Staff costs	243.724.646	60.145.350	231.394.673	57.653.995
5. Depreciation and amortization	147.888.792	38.972.820	148.071.473	37.524.770
6. Other expenses	82.264.367	20.159.013	79.590.494	21.425.266
7. Impairment	28.409	28.409	4.811.026	815.049
8. Provisions	1.572.726	201.983	90.924	22.895
9. Other operating expenses	22.941.237	3.890.400	18.649.255	4.895.353
III. FINANCIAL INCOME	92.225.968	442.293	83.438.489	52.103.514
1. Interest and exchange gains, dividends and similar income from related companies	185.236	0	65.820	0
2. Interest and exchange gains, dividends and similar income from other entrepreneurs	86.595.924	442.293	83.120.910	52.103.514
3. The income from associated undertakings and participating interests	0	0	0	0
4. Unrealized gains (revenues)	2.328.367	0	0	0
5. Other financial income	3.116.441	0	251.759	0
IV. FINANCIAL EXPENSES	125.764.850	6.692.846	115.361.643	67.156.200
1. Interest and exchange losses and other expenses with related companies	0	0	0	0
2. Interest and exchange losses and other expenses related to other entrepreneurs	122.439.746	6.692.846	114.119.872	67.156.200
3. Unrealized losses (expense) of financial assets	3.325.104	0	538.233	0
4. Other financial expenses	0	0	703.538	0
V. EXTRAORDINARY - OTHER INCOME	0	0	0	0
VI. EXTRAORDINARY - OTHER EXPENSES	0	0	0	0
VII. TOTAL INCOME	1.439.481.934	264.876.404	1.469.973.463	387.095.082
VIII. TOTAL EXPENSE	1.638.259.999	369.487.902	1.626.527.245	434.212.035
IX. PROFIT BEFORE TAX	0	0	0	0
X. LOSS BEFORE TAXATION	198.778.065	104.611.498	156.553.782	47.116.953
XI. INCOME TAX	0	0	0	0
XII. PROFIT FOR THE YEAR	0	0	0	0
XIII. LOSS FOR THE YEAR	198.778.065	104.611.498	156.553.782	47.116.953
CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME				
NET LOSS FOR THE YEAR	-198.778.065	0	-156.553.782	0
Hedging reserves	997.225	0	-6.708.275	0
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	-197.780.840	0	-163.262.057	0

Consolidated Croatia Airlines Balance Sheet

amounts in Croatian kuna			
ASSETS	Position	31 December 2009	31 December 2010
A)	SUBSCRIBED CAPITAL UNPAID		
B)	NON-CURRENT ASSETS	1.414.472.654	1.327.446.186
I.	INTANGIBLE ASSETS	12.440.533	17.181.342
II.	PROPERTY, PLANT AND EQUIPMENT	1.357.646.536	1.273.077.639
III.	LONG-TERM FINANCIAL ASSETS	43.882.870	36.684.490
IV.	LONG-TERM RECEIVABLES	502.715	502.715
V.	DEFERRED TAX ASSETS	0	0
C)	CURRENT ASSETS	259.785.436	221.862.304
I.	INVENTORIES	38.765.295	38.121.918
II.	ACCOUNTS RECEIVABLES	131.291.040	128.010.149
III.	SHORT-TERM FINANCIAL ASSETS	20.185.322	2.257.494
IV.	CASH AND CASH EQUIVALENTS	69.543.779	53.472.743
D)	PREPAID EXPENSES AND ACCRUED INCOME	35.341.569	37.008.247
E)	TOTAL ASSETS	1.709.599.659	1.586.316.737
F)	OFF BALANCE SHEET ITEMS	0	0

amounts in Croatian kuna			
EQUITY AND RESERVES	Position	31 December 2009	31 December 2010
A)	EQUITY AND RESERVES	319.431.722	143.673.134
I.	ISSUED CAPITAL	989.985.500	989.985.500
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	6.522.797	26.783
IV.	REVALUATION RESERVES	113.612.850	100.864.360
V.	RETAINED EARNINGS	0	0
VI.	LOSS BROUGHT FORWARD	592.189.440	790.967.505
VII.	NET PROFIT FOR THE YEAR	0	0
VIII.	LOSS FOR THE YEAR	198.499.985	156.236.004
IX.	MINORITY INTERESTS	0	0
B)	PROVISIONS	3.100.113	840.321
C)	NON-CURRENT LIABILITIES	825.083.095	837.604.457
D)	CURRENT LIABILITIES	538.082.260	592.289.857
E)	ACCRUED EXPENSES AND DEFERRED INCOME	23.902.469	11.908.968
F)	TOTAL EQUITY AND LIABILITIES	1.709.599.659	1.586.316.737
G)	OFF BALANCE SHEET ITEMS	0	0

APPENDIX

EQUITY AND RESERVES

1. Attributable to Shareholders of the Parent	319.431.722	143.673.134
2. Attributable to minority interests	0	0

Croatia Airlines d.d. Balance Sheet

		amounts in Croatian kuna	
ASSETS	Position	31 December 2009	31 December 2010
A)	SUBSCRIBED CAPITAL UNPAID		
B)	NON-CURRENT ASSETS	1.414.147.520	1.326.910.957
I.	INTANGIBLE ASSETS	11.883.636	16.640.142
II.	PROPERTY, PLANT AND EQUIPMENT	1.357.311.494	1.272.756.271
III.	LONG-TERM FINANCIAL ASSETS	44.449.675	37.011.829
IV.	LONG-TERM RECEIVABLES	502.715	502.715
V.	DEFERRED TAX ASSETS	0	0
C)	CURRENT ASSETS	255.064.410	216.812.691
I.	INVENTORIES	38.765.295	38.121.918
II.	ACCOUNTS RECEIVABLES	128.985.329	125.102.325
III.	SHORT-TERM FINANCIAL ASSETS	20.174.332	2.226.324
IV.	CASH AND CASH EQUIVALENTS	67.139.454	51.362.124
D)	PREPAID EXPENSES AND ACCRUED INCOME	35.222.387	36.941.629
E)	TOTAL ASSETS	1.704.434.317	1.580.665.277
F)	OFF BALANCE SHEET ITEMS	0	0
		amounts in Croatian kuna	
EQUITY AND RESERVES	Position	31 December 2009	31 December 2010
A)	EQUITY AND RESERVES	316.606.787	140.596.241
I.	ISSUED CAPITAL	989.975.500	989.975.500
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	5.296.430	-1.411.845
IV.	REVALUATION RESERVES	113.612.849	100.864.360
V.	RETAINED EARNINGS	0	0
VI.	LOSS BROUGHT FORWARD	593.499.927	792.277.992
VII.	NET PROFIT FOR THE YEAR	0	0
VIII.	LOSS FOR THE YEAR	198.778.065	156.553.782
IX.	MINORITY INTERESTS	0	0
B)	PROVISIONS	3.100.114	840.321
C)	NON-CURRENT LIABILITIES	825.083.095	837.604.458
D)	CURRENT LIABILITIES	536.731.294	590.167.973
E)	ACCRUED EXPENSES AND DEFERRED INCOME	22.913.027	11.456.284
F)	TOTAL EQUITY AND LIABILITIES	1.704.434.317	1.580.665.277
G)	OFF BALANCE SHEET ITEMS	0	0

Consolidated Croatia Airlines Cash Flow Statement

Position	amounts in Croatian kuna	
	31 December 2009	31 December 2010
OPERATING ACTIVITIES		
1. Net loss for the year	-198.499.985	-156.236.004
2. Depreciation and amortization	148.178.642	148.215.020
3. Increase in current liabilities	119.828.041	16.709.715
4. Decrease in short-term receivables	52.614.640	3.280.892
5. Decrease in inventories	0	643.377
6. Other increase in cash flow	15.024.664	176.783.063
I. Total increase in cash flow from operating activities	137.146.002	189.396.063
1. Decrease in current liabilities	0	0
2. Increase in short-term receivables	0	0
3. Increase in inventories	6.857.580	0
4. Other decrease in cash flow	8.702.520	20.674.819
II. Total decrease in cash flow from operating activities	15.560.100	20.674.819
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	121.585.902	168.721.244
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
INVESTING ACTIVITIES		
1. Proceeds from sale of tangible and intangible assets	1.239.081	2.600.893
2. Proceeds from sale of equity and debt instruments	0	0
3. Proceeds from interests	0	0
4. Proceeds from dividends	0	0
5. Other proceeds from investing activities	12.857.531	25.126.208
III. Total proceeds from investing activities	14.096.612	27.727.101
1. Payments for the purchase of tangible and intangible assets	88.983.671	68.752.280
2. Payments for acquisition of equity and debt instruments	0	0
3. Other payments of investing activities	11.407.152	0
IV. Total payments used in investing activities	100.390.823	68.752.280
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	86.294.211	41.025.179
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt instruments	0	0
2. Proceeds from the loan, debentures and others borrowings	138.638.748	33.014.657
3. Other proceeds from financial activities	84.182.157	0
V. Total proceeds from financial activities	222.820.905	33.014.657
1. Repayments for principal of loans and bonds	248.589.085	156.879.036
2. Repayments of dividends	0	0
3. Repayments of finance leases	133.977	380.137
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	11.929.836	19.522.585
VI. Total payments used in financial activities	260.652.898	176.781.758
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	37.831.993	143.767.101
Total increase in cash flow	0	0
Total decrease in cash flow	2.540.302	16.071.036
Cash and cash equivalents at the beginning of the year	72.084.081	69.543.779
Increase in cash and cash equivalents	0	0
Decrease in cash and cash equivalents	2.540.302	16.071.036
Cash and cash equivalents at year end	69.543.779	53.472.743

Croatia Airlines d.d. Cash Flow Statement

Position	amounts in Croatian kuna	
	31 December 2009	31 December 2010
OPERATING ACTIVITIES		
1. Net loss for the year	-198.778.065	-156.553.782
2. Depreciation and amortization	147.888.792	148.071.473
3. Increase in current liabilities	119.858.496	15.938.796
4. Decrease in short-term receivables	52.205.493	3.883.004
5. Decrease in inventories	0	643.377
6. Other increase in cash flow	15.034.471	176.783.063
I. Total increase in cash flow from operating activities	136.209.187	188.765.931
1. Decrease in current liabilities	0	0
2. Increase in short-term receivables	0	0
3. Increase in inventories	6.857.580	0
4. Other decrease in cash flow	8.822.887	20.190.623
II. Total decrease in cash flow from operating activities	15.680.467	20.190.623
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	120.528.720	168.575.308
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
INVESTING ACTIVITIES		
1. Proceeds from sale of tangible and intangible assets	1.239.081	2.600.893
2. Proceeds from sale of equity and debt instruments	0	0
3. Proceeds from interests	0	0
4. Proceeds from dividends	0	0
5. Other proceeds from investing activities	13.315.255	25.385.853
III. Total proceeds from investing activities	14.554.336	27.986.746
1. Payments for the purchase of tangible and intangible assets	88.820.413	68.638.104
2. Payments for acquisition of equity and debt instruments	0	0
3. Other payments of investing activities	11.407.152	0
IV. Total payments used in investing activities	100.227.565	68.638.104
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	85.673.229	40.651.358
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt instruments	0	0
2. Proceeds from the loan, debentures and others borrowings	138.638.748	33.014.657
3. Other proceeds from financial activities	84.182.157	0
V. Total proceeds from financial activities	222.820.905	33.014.657
1. Repayments for principal of loans and bonds	248.573.176	156.879.036
2. Repayments of dividends	0	0
3. Repayments of finance leases	133.977	380.137
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	11.747.938	19.456.764
VI. Total payments used in financial activities	260.455.091	176.715.937
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	37.634.186	143.701.280
Total increase in cash flow	0	0
Total decrease in cash flow	2.778.695	15.777.330
Cash and cash equivalents at the beginning of the year	69.918.149	67.139.454
Increase in cash and cash equivalents	0	0
Decrease in cash and cash equivalents	2.778.695	15.777.330
Cash and cash equivalents at year end	67.139.454	51.362.124

Consolidated Croatia Airlines Statement of Changes in Equity

Position	amounts in Croatian kuna	
	31 December 2009	31 December 2010
1. ISSUED CAPITAL	989.985.500	989.985.500
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	6.522.797	26.782
4. RETAINED EARNINGS / LOSSES BROUGHT FORWARD	-592.189.440	-790.967.504
5. NET PROFIT / LOSS FOR THE PERIOD	-198.499.985	-156.236.004
6. REVALUATION OF FIXED ASSETS	113.612.850	100.864.360
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	319.431.722	143.673.134
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	997.225	-6.708.275
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES IN CAPITAL	-211.427.046	-169.050.313
17. TOTAL INCREASE / DECREASE OF CAPITAL	-210.429.821	-175.758.588
17 a. Attributable to Shareholders of the Parent	-210.429.821	-175.758.588
17 b. Attributable to minority interests	0	0

Croatia Airlines d.d. Statement of Changes in Equity

Position	amounts in Croatian kuna	
	31 December 2009	31 December 2010
1. ISSUED CAPITAL	989.975.500	989.975.500
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	5.296.430	-1.411.845
4. RETAINED EARNINGS / LOSSES BROUGHT FORWARD	-593.499.927	-792.277.992
5. NET PROFIT / LOSS FOR THE PERIOD	-198.778.065	-156.553.782
6. REVALUATION OF FIXED ASSETS	113.612.849	100.864.360
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	316.606.787	140.596.241
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	997.225	-6.708.275
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES IN CAPITAL	-211.523.229	-169.302.271
17. TOTAL INCREASE / DECREASE OF CAPITAL	-210.526.004	-176.010.546

 CROATIA AIRLINES

A STAR ALLIANCE MEMBER 

The Management's Business Report for 2010



April 2011



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Typical indicators

Fleet – end of March 2011

type of aircraft	number	seats	ownership	lease	Ø age (years)	number at the end at 2010	ownership	lease
Airbus A320	3	486	2	1	13,38	3	2	1
Airbus A319	4	528	4	-	12,12	4	4	-
Q-400	6	456	-	6	1,81	6	-	6
TOTAL	13	1470	6	7	9,10	13	6	7

Traffic indicators

description		2010	2009	2008
flights (km)	DIST 000	15821	15771	16466
Annual change rate	%	-	-4	
departures	FLTS	25559	25383	26013
Annual change rate	%	1	-2	
block hours	BH	35228	33515	35790
Annual change rate	%	5	-6	
passengers carried	RPAX 000	1641	1751	1869
Annual change rate	%	-6	-6	
freight&mail carried	CGO T	3132	3672	4393
Annual change rate	%	-15	-16	
passenger km flown	RPKM mln	1144	1245	1372
Annual change rate	%	-8	-9	
available seat - km	ASKM mln	1846	2027	2103
Annual change rate	%	-9	-4	
passenger load factor	PLF %	62	61,4	65,2
tonne km flown	TKM mln	105	115	126
available tonne-km	ATKM mln	205	224	231
weight load factor	WLF %	51,2	51,1	54,7

Financial indicators

Indicators	Unit	2010	2009	2008	2007
Total revenue (operating)	mln kn	1.387	1.347	1.631	1.464
Annual change rate	%	3	-17	11	
Total Revenue (operating + financial)	mln kn	1.470	1.439	1.729	1.537
Annual change rate	%	2	-17	12	
Total expense (operating)	mln kn	1.511	1.512	1.662	1.416
Annual change rate	%	0	-9	17	
Total expense (operating + financial)	mln kn	1.627	1.638	1.818	1.536
Annual change rate	%	-1	-10	18	
Total expense (operating) without fuel	mln kn	1.273	1.310	1.304	1.169
Annual change rate	%	-3	0	12	
Total expense (operating + financial) without fuel	mln kn	1.388	1.436	1.460	1.289
Annual change rate	%	-3	-2	13	
Operating profit/loss	mln kn	-125	-165	-31	48
Operating profit/loss (%of operating rev.)	%	-	-	-	3,3
Operating profit/loss(% of total revenue)	%	-	-	-	3,1
Net profit/loss	mln kn	-157	-199	-89	1
Net profit/loss (% of operating revenue)	%	-	-	-	0,1
Net profit/loss (% of total revenue)	%	-	-	-	0,1
EBIT	mln kn	-	-	-	57
EBITDA	mln kn	15	-	139	237
EBIT margin	%	-	-	-	3,9
EBITDA margin	%	1,1	-	8,5	16,2
Unit expense (operating)	kn/ASKM	0,72	0,67	0,72	0,62
Unit expense (operativng) without fuel	kn/ASKM	0,59	0,57	0,55	0,50
Unit revenue (operativng)	kn/RPKM	1,21	1,08	1,19	1,12
Passenger yield (total pass.rev.in EUR/RPKM)	€cent/RPKM	13,31	11,84	13,65	12,66
Avarage number of employees		1.142	1.171	1.122	1.062
Annual change rate	%	-2	4	6	
Net operating profit rate	%	-	-	-	2,9
ROE (return on equity)	%	-	-	-	0,2
ROCE (return on capital employed)	%	-	-	-	3,5
Total asset turnover		0,93	0,84	0,94	0,77
Total asset operating turnover		0,88	0,79	0,89	0,73
Current asset turnover		6,78	5,64	5,52	6,53
Coefficient of current liquidity		0,09	0,13	0,14	0,22
Coefficient of rapid liquidity		0,30	0,37	0,50	0,57
Coffient of ongoing liquidity		0,37	0,48	0,62	0,67
Coefficient of financial stability		1,36	1,24	1,14	1,06
Coefficient of own financing (solvency)		0,09	0,19	0,29	0,34
Coefficient of funding		10,24	4,38	2,47	1,92
Interest coverage operating profit		-	-	-	0,85
Cover ratio I (equity/non-current assets)		0,11	0,22	0,36	0,40
Cover ratio II		0,74	0,81	0,88	0,94
Investment ratio		0,05	0,09	0,10	0,11

Croatia Airlines in 2010 – introduction

As a national flag carrier, Croatia Airlines has through its operations been realizing a mission of connecting the homeland with the world, and performing a special task of contributing to the development of the Republic of Croatia's tourism. In twenty years of its existence and provision of transport services, it has been connecting Croatian cities with major European metropolises, and in cooperation with its airline partners – with the entire world.

Croatia Airlines has entered the new millennium with a completely renewed medium-haul fleet, one of the youngest and most modern in Europe, and it today takes up the position of a medium-size European airline company. By introducing the fifth and the sixth Q400 aircraft into its fleet, Croatia Airlines completed in 2010 the short-haul fleet renewal process that started in the summer of 2008 when the Company was delivered the first two Q400 aircraft, while another two were introduced in 2009.

Ownership structure

Croatia Airlines (the Company) is a joint-stock company. It disposes of the capital stock in the amount of HRK 989.975,500, which is divided into 4.975,476 shares. Of the total number of shares, 51,197 refer to preference shares (CRAL-P-A, CRAL-P-A1, CRAL-P-A2, CRAL-P-A3, and CRAL-P-A4) in the nominal value of HRK 100, and 4.924,279 refer to regular shares (CRAL-R-A) in the nominal value of HRK 200.

Review of shareholders and their share in stock capital	Capital (kn)	%
REPUBLIC OF CROATIA	938.175.000	94,77
CROATIAN PRIVATISATION FUND (0/1) FOR DAB	21.315.200	2,15
CROATIAN PRIVATISATION FUND (1/1)	14.413.600	1,46
JANAF DD	2.200.000	0,22
AIRPORT ZAGREB	1.302.500	0,13
CROATIA LLOYD	1.027.000	0,10
ENIKON D.D.	735.600	0,08
RATKO ŽURIĆ	676.200	0,07
CONING ENGINEERING	521.400	0,05
CROATIAN LOTTERY	400.000	0,04
OTHERS	9.209.000	0,93
TOTAL	989.975.500	100,00

Associated companies owned by Croatia Airlines d.d. are as follows: Amadeus d.d., Pleso prijevoz d.o.o., and Obzor putovanja d.o.o., all of which are independent business entities.

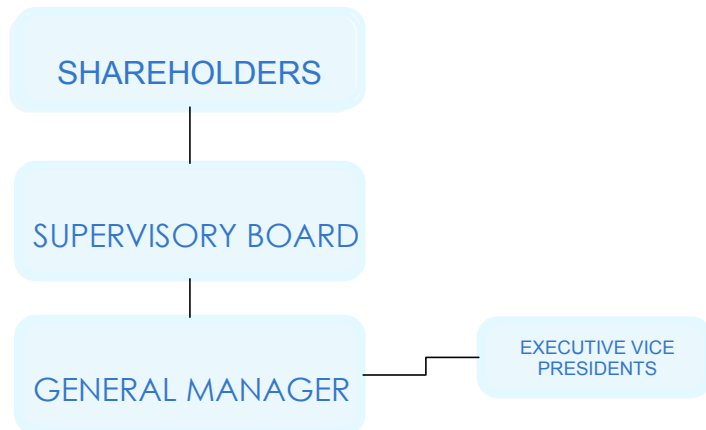
Pleso prijevoz d.o.o. is 50% owned by Croatia Airlines, whereas its other half is owned by Zagreb Airport. It transports passengers travelling on the route airport - city, lost luggage, as well as the personnel working at airports in Zagreb and Split.

Amadeus Croatia d.d. was founded by Croatia Airlines (95% ownership) and Amadeus GDS, a global distribution system with the seat in Madrid. It enables the

connecting of travel agencies on the territory of the Republic of Croatia to Amadeus' database located in Erding near Munich, for the needs of booking and issuing passenger tickets in air, maritime and railway transport, and providing hotel accommodation booking services and car rental services.

Obzor putovanja d.o.o. is a travel agency 100% owned by Croatia Airlines, and its activities include organizing official and tourist travels, counselling, conferences, congresses and incentive trips.

Company's management structure and organization



The Company's work organization is set up through business functions grouped into six business units having executive managers and through pivotal functions of the Company organized within the Chief Executive Officer's Office, Corporate Operations Office and Office for Operations

Quality and Safety Management.

The business sphere of traffic comprises flight, cabin and ground operations, and the traffic training centre. The business sphere of technical works unifies aircraft maintenance, engineering works, technical support activities and technical training. The business sphere of finances comprises finances, account-keeping, controlling, and income calculation. Human resources management, legal affairs management, information technologies management and care for assets and infrastructure are a part of a single business unit. Network and income management and sales are a part of a single business sphere, while procurement and marketing have been unified under the same business sphere.

At the meeting of the Supervisory Board of Croatia Airlines d.d., held on 5 October 2010, Ivan Mišetić was relieved of his duty as a Management Board member – CEO of Croatia Airlines at his personal request. By way of a decision, the Supervisory Board appointed Srećko Šimunović a new Management Board member – CEO of the Company – for a five year mandate. Srećko Šimunović took over the duty of the head of the Company on 6 October 2010. He has been working with Croatia Airlines since 2002, first as the Marketing Director, then as the Marketing and Network Director; he took over the CEO position after holding the position of the Marketing and Procurement Director.

Human resources

At the end of 2010, the Company had 1,117 employees, including the 52 employees at foreign branch offices.

At the end of the year, the number of operative staff members was on the level of the year before, while the number of non-operative staff members declined by 3.5pp, primarily due to the fact that the Company did not hire replacements for the employees who left the job.

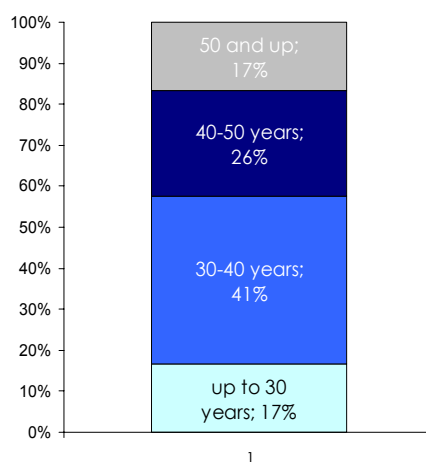
The introduction of two new Q-400 aircraft into the fleet required the hiring of additional pilots. Due to the needs of covering the summer flight schedule, the Company seasonally hired some forty cabin staff employees.

The share of operative staff¹ within the Company is 60pp (674), while that of non-operative staff is 40pp (443).

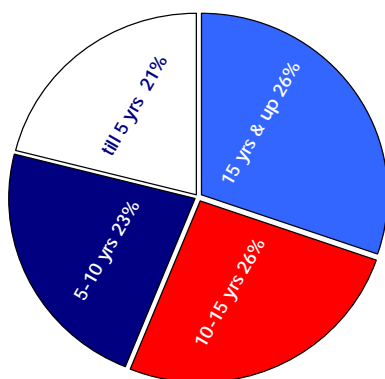
The educational structure (50pp of employees hold either an associate degree, university degree or higher degree) and the average age of employees (39 years) are exceptionally favourable; in terms of gender structure, men are somewhat more represented (53pp).

Of the total number of employees, 62 (5pp) are employed for a definite period.

Structure by age 2010



Structure by employment record

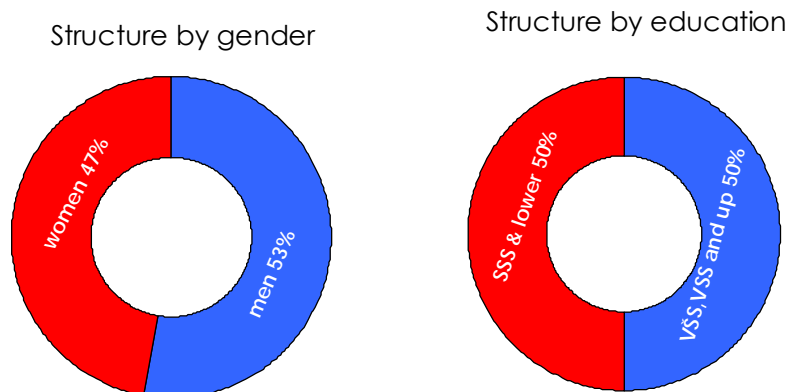


The average employment record of the operative staff was 9.5 years of service, and that of the non-operative staff was 12 years, while the average employment record on the level of the entire Company was 12.3 years.

These positive indicators show a low fluctuation in the Company, considering the fact that the Company has existed for 20 years and that it employed some 200 persons in the first years. During its later development, the employment rate progressively grew until 1998.

¹ Includes pilots, cabin staff, technical staff, traffic and ground operative staff, and excludes catering staff

The share of women in the structure of senior and medium management totalled 20pp.



Due to a significant decline in passenger transport and transport of goods and mail in 2010, as a result of the continued economic crisis in Croatia and a slow recovery of the European market, labour productivity measured by aviation-specific productivity indicators has been facing a fall.

Labour productivity

DESCRIPTION		2010	2009	2008
tonne km by employee	000	94,2	101,3	113,5
Annual change rate	%	-7	-11	0
passengers carried by employee		1.469	1548	1679
Annual change rate	%	-5	-8	0

Training investments and programmes

Having recognized its activity from day one as intensive both in terms of capital and work, Croatia Airlines has kept developing and strengthening its human resources through continual investments into training.

Significant financial means are each year allocated for employee training, particularly for specialist training and maintaining the readiness of the flight and cabin personnel.

Investment into education (kn)	2010	2009	2008
Operative staff	7.907.272	9.038.224	12.741.691
Annual change rate	-13%	-29%	51%
Non-operative staff	622.201	1.121.429	1.328.785
Annual change rate	-45%	-16%	-14%
Total	8.529.472	10.159.653	14.070.476
Annual change rate	-16%	-28%	-1%

Exceptionally high investments are made into operative training during certain years when they are required within the preparation for the introduction of new aircraft or for the planned capacity increase.

The training of Croatia Airlines' employees is simultaneously provided on three levels: training of operative sector employees, technical sector employees and non-operative sector employees.

During 2010, cooperation between the Technical Training Centre and CCAA² continued, for the purpose of coordinating the aviation regulations and implementing corrective measures resulting from the undertaken audits.

The Technical Training Centre organized training for Parker systems, i.e. APU, on Q400 aircraft. The training was provided by the instructors of the producer Parker and Hamilton Sundstrand.

A complete Type Training DHC – 8 Q400 General Familiarization was for the first time held in the English language for the attendants of Thomas Cook, as a significant move towards the European market.

During 2010, under the Agreement with Shannon Aerospace, the process of basic training for the acquisition of "A" licence in accordance with PART 66 regulations was continued.

A great part of the resources of the Technical Training Centre were allocated for the conversion of the national licences into Part 66 licences. The conversion process started in July 2010 with the release of the CCAA Procedure, and 98pp of the holders of B1/B2 licences kept the existing privileges, with the conversion of all licences. Altogether four Type Trainings were provided, in the total duration of 32 weeks.

At the start of 2010, a part of the initial crew training for Dash8 Q400 aircraft was held at the Flight Safety International Learning Centre in Canada. At the end of the year, an agreement with LFT (Lufthansa Flight Training) was concluded, under which initial crew training is implemented in cooperation with Tyrolean TRTO Dash8 Q400 within the LFT Group.

During 2010, CCAA, ICAO³ and FAA⁴ carried out an audit at the Traffic Training Centre, on the simulators in Vienna, on the aircraft, and within the very Company, and the results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and TRI/TRE work on them were carried out in accordance with the provisions of the quality system OM-D & Quality Inspection Orders, for the purpose of monitoring and raising the standard of the very operation of TRI/TRE/CREW.

Many OM-D & TRTO audits were carried out, in line with the existing regulations, and a number of ASO-Air Safety Orders issued by CCAA; the validity of the TRTO A320 certificate was extended to another three years.

The Instruction Course for Flight Personnel, with frequent cabin instructor courses, was reintroduced in order to ensure adequate monitoring and raise the quality level in certain operating segments of the Traffic Training Centre.

The cabin personnel attended all relevant training courses at the Croatia Airlines Training Centre in Zagreb.

The training process for the employees of Croatia Airlines relies primarily on internal resources, implying the use of its own authorized instructors. In addition to financial

² CCAA – Croatian Civil Aviation Agency

³ ICAO – International Civil Aviation Organization

⁴ FAA – Federal Aviation Administration

savings realized in this way, the nourishment of its own know-how results in a smaller dependence on external resources and promotes the Company's cultural and business strategies.

Due to the transition to the common Amadeus ticketing platform in 2010, the entire sales personnel of Croatia Airlines, as well as all authorized representatives on the foreign markets, underwent internal specialist training.

Any type of training that cannot be provided within the Croatia Airlines Training Centre due to a lack of internal resources is provided at IATA (International Air Transport Association) Training Centre, while external experts are hired for certain training categories. Those experts implement in-house programmes, in which a number of target employee groups can participate.

As a national flag carrier, Croatia Airlines organizes within its Training Centre a series of training courses needed by travel and commodity agencies for the acquisition of the IATA licence, training courses for airports, freight forwarders and airline companies. In 2010, Croatia Airlines provided training to a significant number of employees of IATA-accredited agencies, in the sphere of tariffs, ticketing and ticket replacement. It also organized specialized training courses for the employees of Sarajevo and Skopje airports, in the sphere of dangerous goods transport and goods sale.

Responsibility to employees

The Company's employees are in principle hired for an indefinite period, while a part of the cabin staff is usually employed for a definite period, due to increased needs in the summer season. Only temporary substitutes or vacancies in the periods of peak workload in certain work spheres and processes are settled through employment for a definite period.

Benefits and supports

In addition to regular income, the Company offers its employees various benefits. They manifest through the provision of occupational accidents insurance, meal vouchers, local public transportation bonus, severance pay on the occasion of retirement, support in the event of a close family member's death, and support for a continual sick leave longer than 90 days.

In the cases of longer sick leaves, severe illnesses and difficult financial situation, the Company makes efforts to help its employees and their families by providing a support for the purchase of medicines and for the medical treatment costs. It also regularly helps children of the deceased employees through monthly supports during their regular schooling.

Occupational safety

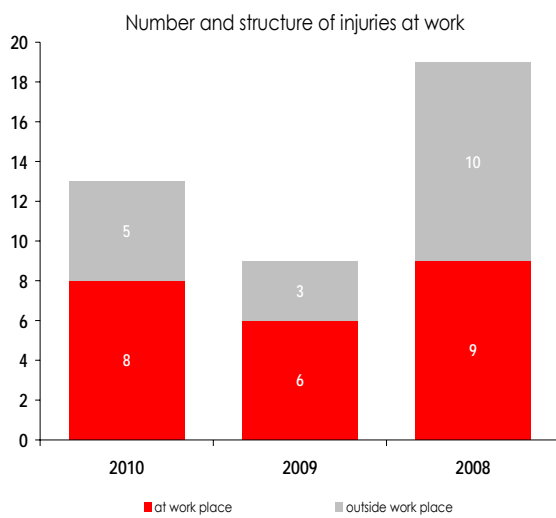
Organization of occupational safety and fire protection is prescribed by the law and by-laws and the Company's internal rules. In late 2010, the fourth revision of the Hazard Assessment was done, establishing additional occupational safety measures that had to be implemented, particularly those referring to workplaces with special conditions, i.e. employees performing such jobs. A system and criteria for regular medical examinations was created, too.

Employee training related to working in a safe manner and legally prescribed basic training in fire protection are regularly organized and implemented for all new

employees. Specialist training for the safe handling of machines and devices posing a higher hazard are organized according to the needs of the Technical Sectors.

Checkups and testing are regularly implemented for all machines, devices, equipment and installations within the operating process serving for the fire signalling and extinction. All hazardous waste resulting from the work process is regularly disposed of, with the prescribed records, reports and statistics being kept on it. All of the planned internal supervisions of the organizational units and supervisions in the cases of injuries were implemented.

A regular inspection by the fire protection inspectors was implemented for the Zagreb area, and there were no objections.



Altogether thirteen injuries at work were recorded in 2010 (seven women and six men). Of those, eight injuries occurred at the place of work, and five while arriving/leaving the workplace. When classifying injuries sustained at work in accordance with the AUVA method, there were two severe, two moderate and four minor injuries. There were neither deaths related to injuries at work nor professional illnesses.

Protection of employees' dignity

For the purpose of protecting its employees' dignity, the Company appointed a person, immediately after the legal prerequisites were created, for receiving and settling complaints related to the protection of the employees' dignity. In order to provide a work environment free of any conduct that might jeopardize the employees' dignity, procedural rules were set for the case of any kind of harassment or improper behaviour. The very procedures and the procedural data are inviolable and confidential, and the initiation of procedures is easy and fast accessible to all employees via the Company's Intranet pages.

Employees and Management relations

There are six labour unions within the Company - Croatian Union of Air Traffic Pilots, Union of Engineers and Technicians in Aviation, Independent Professional Union of Croatian Aeromechanics, Air Cabin Staff Union, Independent Croatian Union of Airline Employees and the New Union.

On 8 February 2010, a new collective agreement was signed with three unions organized within the company (Union of Engineers and Technicians in Aviation, Independent Professional Union of Croatian Aeromechanics and the Independent Croatian Union of Airline Employees). During the first six months, intensive talks were held with the Air Cabin Staff Union over the content of the collective agreement. Unfortunately, the talks fell through in July, which was followed by a two-day strike staged by the cabin staff. After the fresh talks, the Company - as the employer, and the Air Cabin Staff Union, plus representatives of the majority owner – Government of the RC, reached an agreement on all disputable issues related to the collective

agreement. In July, the Company also agreed the terms of the new collective agreement with the Croatian Union of Air Traffic Pilots.

A Common Collective Agreement for Croatia Airlines d.d. was concluded on 3 August 2010, while talks on entering into a new common collective agreement are underway.

In late 2010, the Company started talks with the joint negotiating committee of all unions, since the collective agreements were valid until the end of the year.

There is also a Works Council within the Company, founded in 2006, which is composed of 11 members. Through the Works Council, and in a way and under the conditions prescribed by the Labour Act, the Company's employees participate in making decisions related to their economic and social rights and interests.

Social responsibility

Transport and tourism

As a national flag carrier, Croatia Airlines recognizes its social responsibility in connecting the country via air, in international and domestic traffic, but also its great role in contributing to the development of Croatia's tourism. It has been continuously adjusting to the needs of tourism and tourist development with its network of direct flights to capital Zagreb and to the Adriatic destinations, in cooperation with its airline partners and through coordination with other forms of transport whenever possible.

The Company's significant role in connecting domestic airline destinations and in maintaining traffic within Croatia has also been recognized by the Republic of Croatia, and the Government of the Republic of Croatia reached a decision in late 2006 on the obligation of carrying out domestic airline traffic operations by Croatia Airlines until 2011.

Pursuant to this decision, the Company is compensated the difference between the unrealized income compared to the costs of domestic airline traffic operations from the state budget for an individual calendar year, in the form of a subsidy for preserving the traffic connectivity between the regions – domestic air traffic. Such a subsidy for the regional traffic maintenance is coordinated with the valid provisions and regulations of the European Union.

Croatian brand

As a part of its mission, Croatia Airlines is making best efforts to contribute to the overall development of Croatia's tourism and economy. Being aware of a very strong national identification with the passengers, Croatia Airlines serves and promotes Croatian food and wines on aircraft, and familiarizes its passengers with Croatia's natural beauties, historical values and cultural events during the flights, via the Inflight magazine and its video system.

The Company's films on the beauties of the clean and preserved islands, the sea bed, the coast, the national parks and other Croatian regions are each day shown within the network of the Company's Airbus flights. It also shows films aimed at raising awareness on the need to protect rare and threatened species by promoting the project of bottlenose dolphins in the local waters of Cres and Lošinj, and a story on Đakovo Lipizzaner horses.

There are also regular promotions and sponsorships of many cultural events contributing to the advancement of Croatia's tourism – Julian Rachlin and Friends Festival, Dubrovnik Summer Festival, Weekend Media Festival, Jazz Festival,

Šibenik Music Association, Knights game 'Sinjska alka', etc. In 2010, Croatia Airlines also sponsored the Croatian Olympic Committee with which it has been successfully cooperated for many years.

Support for the community

Whenever possible, Croatia Airlines strives to support institutions that need humanitarian aid or organize humanitarian projects, and it has been providing direct humanitarian aid by granting cost-free transport for severely ill patients, children or people in need, and has been participating in charity actions by providing free transport and the use of the video system and Inflight magazine services.

Donations in 2010 included support to the Mediterranean Institute for Life Sciences and to many cultural projects, as well as the provision of medical aid to severely ill children and disabled persons.

Business ethics

The Committee for Monitoring the Ethics Code Implementation has been active since 2002. Its purpose is to monitor the enforcement of the provisions of the Code of Ethics in the Company's work, proposing the way of settling problems related to any reported failure to follow the adopted ethical principles or their violation. The Committee's duty is also to improve ethical conduct and behaviour within the Company and to encourage changes and improvements by promoting ethical values in business operations, daily work and human relations. Members of the ethics committee are elected among the employees.

Internal Company activities

A number of various sports associations practising football, skiing, mountaineering, basketball and tennis are active within the Company. A number of them have achieved significant results in international airline competitions and have contributed to the quality of employees' free time.

Development position

Having transported 1.64 million passengers in 2010, Croatia Airlines reached a total of some 22 million of transported passengers in its overall development period since 1993. These traffic development figures show the Company's average annual growth rate of some 8pp in this period.

The existing **destinations network** in domestic, European and Euro-Mediterranean traffic that has been developed and maintained for many years was expanded in 2010 with the introduction of new destinations such as Athens, and a direct route Zagreb-Rome, while other new destinations, such as Istanbul, Venice and Belgrade, and new routes Dubrovnik-Athens, Rijeka-London, Zadar-Munich, Zadar-Zurich, Split-Hamburg are planned for 2011. The Company's goal is to further expand its destinations network in the next several years, primarily with destinations in the narrower region, but also with more distant European destinations, creating a broader market base and new service products parallel with the restructuring of its fleet capacities. By 2013, the market and economic valuation, amidst the expected EU entrance, should justify the network expansion to new destinations such as Milan, Warsaw, Moscow, Berlin, while destinations in the SE European such as Tirana, Sofia, Bucharest, Belgrade, etc, will be separately evaluated.

An increased number of code share agreements, in line with the possibilities within the Star Alliance, is a significant factor for the development of the network of destinations and for increasing revenues. There are currently nine code share agreements in place, the last two being concluded with Spanair and British Midland. Star Alliance approved the re-establishment of the code share agreement with Air France (on the route to Paris), and the reestablishment activities are underway.

The Company's development horizons do not stop at European destinations; it has been considering and discussing with numerous partners the issue of making better connections with, to the local market particularly interesting, destinations in the U.S.A. and Canada. During 2007, the Company started negotiations with its American partner United Airlines for the purpose of initiating better quality transfer possibilities between Croatia and North America. Based on this cooperation, the establishment of lines between the Airports of Zagreb, Split and Dubrovnik and those of Washington, Chicago, San Francisco and Los Angeles via seven European cities is expected soon. The Company will in this way offer its passengers direct flights from Croatia to the U.S.A. with one stopover only, on joint flights under the logos of both partners. The Code-share Agreement has not been put into force yet due to legislative and legal obstacles on the state level, but it represents a significant positive step regarding the future Croatia Airlines' development strategy. In early 2011, the U.S. airline authorities (FAA) established on the basis of supervision over the Croatian Civil Aviation Agency (CCAA) carried out in July 2010 that the Republic of Croatia met the international ICAO air traffic safety standards, and the U.S.A. and Croatia signed on 3 February 2011 in Washington an air traffic agreement. This enabled full realization of the Code-share Agreement on transport of passengers in scheduled traffic concluded with the United Airlines. The technical conditions for the realization of this Agreement are yet to be met; they are conditioned by the merger of United Airlines and Continental Airlines.

Having achieved the significance of the leading airline in the region in terms of traffic scope, Croatia Airlines has set its **strategic focus** on the position of a regional

leader, planning to expand to South-East Europe through its middle-term and long-term visions, while at the same time keeping its focus on Zagreb Airport as the hub. With its strategy of penetration to the market of the South-East Europe, Croatia Airlines has been coordinating its development rhythm with the Republic of Croatia's economic strategy. Despite the existence of competitive potentials in other countries in the region, Croatia Airlines has an objective opportunity to position itself as the regional leader. In this sense, it is necessary to ensure a sufficient level of synergy on the market with the Zagreb Airport as the future regional traffic hub. The Company sees its membership in the global airline association Star Alliance, which transports a quarter of the world's passengers, as a big comparative advantage. The Company's joining the global airline alliance should primarily bring long-term synergetic effects on the traffic and financial results.

Croatia Airlines focuses its **business model** towards a strong network scheduled operator focused on a single powerful, and in terms of traffic well-connected, hub at Zagreb Airport. Through a gradual reduction of the scope and significance of charter traffic for its overall business operations, the Company is dealing with the issues of the economic policy of tourism development that still does not support the whole-year tourism in the scope that corresponds to the national Company's development plans. By such traffic profiling, the Company is protecting itself from seasonal oscillations that are quite strong in the sphere of charter traffic, and is increasingly focusing on the traffic that keeps the Company's business operations stable throughout the year.

The strategy of network traffic activities is focused on defining primary, secondary and tertiary routes, i.e. domestic and regional routes, and on simultaneous defining of their specific weight and optimization of the number of frequencies.

The market segmentation strategy determines domestic airline traffic, which is of special interest for the Republic of Croatia, as a separate market on which Croatia airlines is obliged to carry out traffic operations until 2011. **Croatia Airlines assumed the obligation of carrying out domestic traffic operations with the compensation for the losses in line with the PSO5 practice in the European Union.** After 2011, a tender should be called (for three to five years), and Croatia Airlines will undertake the necessary steps to be granted concession again. Furthermore, due to the segmentation strategy involving the separation of the non-profitable domestic traffic within the state subsidy programme, the international scheduled air traffic will become a backbone of the profitable growth strategy.

During 2008, **the replacement of the short-haul fleet started** with the introduction of the first two Dash 8 – Q400 aircraft of the company Bombardier, via a 10-year operating lease, and the dismissal of three ATR aircraft from the fleet. Croatia Airlines continued with the **renewal and development of its fleet** by taking over another two Dash 8 - Q400 aircraft in June 2009, and another two in April 2010, thus completing the short-haul fleet replacement process.

The advancement of Croatia Airlines' fleet structure creates prerequisites for optimizing the application of the model of revenue management, through “pricing” models and booking protection models, as well as for a gradual reaching of the European standards of aircraft and fuel productivity, transport quality and punctuality.

The target fleet structure by 2014 is predetermined by the development conditions anticipating Croatia's EU entrance during 2012, with the expected positive effect on the scope of air traffic, felt by all new EU members so far.

The fleet structure also stipulates eight Airbus A319, two Airbus A320 and six Q400 aircraft, i.e. total increase in the number of aircraft from 12 in 2009 to 16 in 2014. The

⁵ Public Service Obligation

planned fleet expansion stipulates a seat capacity growth from 1,480 seats in 2009 to 1,836 seats in 2014, i.e. a 24pp capacity growth. This fleet structure will enable flexible and dynamic network planning with an optimal mix of various aircraft sizes in accordance with route loads and peak loads. Flexibility in planning and placement directly brings better quality possibilities for optimizing the network and traffic, and thus the costs within the system.

Also, the Company has defined significant strategic determinants in a number of areas of fleet capacity structure optimization – in the sphere of ownership relations and operating lease, reduction of the share of Airbus 320 aircraft in the fleet structure, realization of higher operative and commercial efficiency on primary Star Alliance routes by replacing ATR42 aircraft by Q400 aircraft (MUC, VIE, ZRH), and in the sphere of optimizing the fleet on the growing market of South-East Europe. The right-sizing policy⁶ is a significant development presumption for the successful implementation of the profitable growth strategy.

Each of these determinants in the sphere of managing the development of fleet capacities focuses the future development of the fleet and cost structure on inevitable optimization and growth in the most cost-effective way.

**Advancement
and expansion
of operations**

In early 2009, Croatia Airlines successfully switched to the Amadeus Altea module, which is a part of the **Star Alliance Common IT Platform (CITP)**. Croatia Airlines started replacing its previous information system in the sphere of booking and distribution system, and data keeping, dissemination and management, with the Star Alliance Common IT Platform in April 2007. The CITP is a strategic programme aimed at offering passengers better services, reducing distribution costs and significantly increasing the pace at which new products are entering the market. It was developed by Amadeus, supplier of one of the major airline reservation systems.

The transfer to the new inventory platform has enabled Croatia Airlines and other airline companies involved in the project to advance their revenue (yield) potential, while presenting a step forward for the Star Alliance association in the development of the common platform. Integration over the common IT platform will result in lower costs, equal services across the Alliance and maximization of their joined potentials.

On 30 June 2010, Croatia Airlines conducted migration and implementation of a new transport documents issuance system, thus completing the CITP project. The savings related to reducing Croatia Airlines' distribution costs, expected as a result of the CITP project implementation, are based on the anticipated realization of lower reservation fees within certain distribution channels (primarily within its own sales via Amadeus reservations system).

In mid-2008, Croatia Airlines started **implementing information SAP systems**. This project comprises an implementation of the SAP ERP system and the SAP SEM and BI/DWH umbrella system for planning and reporting. The selected SAP ERP solution replaced the existing domestic transaction system Laus in the sphere of finance, accountancy, supply and sales operations. In 2010, Croatia Airlines completed the implementation of the SAP ERP information system which comprised integration with the existing information business systems and operations support systems (Mona Lisa, NetLine, Fly on Line, PNR, HR Pro, and Amicos). Given the new SAP tools, the Company decided not to initiate the implementation of the SAP BI umbrella system for planning and reporting. A decision was made that the existing BW platform would be used for reporting, while the new SAP BPC tool would be used for planning,

⁶ Policy of reducing the unfavourable gap of the fleet capacity (42-132-162) based on short-haul ATR aircraft

instead of the SAP SAM. The BPC (Business Planning and Consolidation) tool is characterized by consistency, transparency and reliability with regard to financial planning, consolidation management, business reporting and activities. The SAP BPC enables the standardization of business processes and the flow of useful information needed for making business decisions, and the meeting of compliance requirements. Its implementation is planned for 2011 and 2012. It is expected that Croatia Airlines will thus increase productivity, gain better insight into its business operations and the needed adaptability for a faster fulfilment of its business strategies, and a firmer operative control of all activities parallel with the planning and adapting to the market and technological changes. It is difficult to quantify the effects of introducing the new system in this implementation stage, but they will surely not reflect on the direct reduction of costs, but rather as a tool and means of **rational conduct in the processes that will be standardized and established in a more transparent way through the SAP recording procedure**. Besides, these effects should not be expected before the completion of all project stages in 2012.

Within the **e-commerce project**, the online booking service and ticket sales via Croatia Airlines' web site were in 2010 improved with an additional way of searching, enabling passengers to plan their journey according to their own needs, desires and preferences. This service, called *Tailor-made Flight* offers a more personal approach to planning a journey, and improves the overall offer of Croatia Airlines, since it is adjusted and tailored to each passenger separately. New services, such as transfer booking, were introduced, enabling passengers to book on the company's web site transport from/to the airport. When buying tickets on-line, the live Chat service is available in all languages, enabling interaction with the Internet sales employees. This service enables Croatia Airlines' customers timely access to all information required for on-line purchase. Automatic issuance of invoices via electronic mail, as an optional offer when purchasing tickets, is also one of the novelties. The procedure is entirely automated and connected to Croatia Airlines' ERP system. In September, the company introduced a new service – flight schedule on mobile phones; in December, a new interactive service was introduced – purchase of airline tickets via MaxTV. This service enables the users of MaxTV, i.e. Croatia Airlines' passengers who previously booked a ticket at one of the Croatia Airlines branch offices or at the Contact Centre, to purchase a ticket in a simple and fast way, from their own home, by using a remote control for selecting television channels on MaxTV.

The introduction of Web Check-in at domestic and foreign airports is also a part of the e-commerce project. The Web Check-in service is available in Amsterdam, Brussels, Paris, Frankfurt, Düsseldorf, Munich, London Heathrow, Vienna, Zurich, Sarajevo, Skopje, Podgorica, Rome, Barcelona, Zagreb and Dubrovnik; it was recently introduced in Athens (June), Zadar (July), Copenhagen and London Gatwick (November). The use of Web Check-in recorded a 46pp rise compared to the previous year.

In 2010, the **Electronic Flight Bag (EFB) project** was completed under the supervision of the Civil Aviation Agency. It is an information system that assists the flight crews in performing all of the flight management activities, in a way that such activities are performed in a safer, faster and more efficient way. The EFB was developed in cooperation with Lufthansa Systems and it will directly affect the reduction of operating costs and advance the efficiency of the business processes, at the same time bringing a higher level of flight security. The system facilitates the flight preparation and documentation management processes, ensures a more precise and faster calculation of aircraft pre-takeoff performance and the exchange and integration of all necessary operating information in one place – flight plans,

weather forecasts, information on the developments in the air space, navigation means, company information, etc. This project is a continuation of all other activities that Croatia Airlines performs with the aim of preserving the environment, by reducing fuel consumption and harmful gases emission, and drastically reducing paper consumption. Before the end of April, the revision of the documentation and procedures for EFB was completed, training was provided to all crews, and a flight audit was carried out by the Civil Aviation Agency, on the basis of which an authorization was obtained for the use of EFB on Croatia Airlines flights. Croatia Airlines is the first company to integrate into the EFB platform all external information systems required for the comprehensive preparation of flight crews. By implementing this project, Croatia Airlines reaffirmed its position as the leading technological airline company in the region.

Anniversaries and awards

Based on an independent research, Croatia Airlines received the Best Buy Award for 2010 in the category of Airline Company. Croatian citizens, i.e. users of air traffic services, believe that Croatia Airlines is offering the best price-quality ratio among the companies operating on the Croatian market. The research confirmed the transparency of the Croatia Airlines' offer to service users, which means that the passengers get the comprehensive view of the price, i.e. that the airline ticket includes airport fees, ticket service charge, free transportation of 20 kg of luggage, food and beverage on aircraft, printed material, use of Internet booking services and web check-in; the passengers also collect reward miles.

In 2010, Croatia Airlines was for the third time in a row selected as the Croatian superbrand.

At the annual ceremony of Vidi Awards 2010, the joint service of Croatia Airlines and HT - IPTV (interactive content within MaxTV – purchase of airline tickets via MaxTV) won a Tesla's Silver Egg for the second place in the category of VIDDI e-novation in large companies. Croatia Airlines also won an award in the category VIDDI Web Top100 for the best mobile web (service by which our web pages are custom-made for browsing and use via mobile phone).

In April 2010, Croatia Airlines was awarded by the Croatian Association for Project Management for its professional approach and the results in managing the SAP ERP implementation project in Croatia Airlines during 2009.

In June 2010, Croatia Airlines received recognition from IATA, i.e. it reaffirmed its platinum status in the introduction of the 2D BCBP (2-dimensional Bar Coded Boarding Pass) project. Croatia Airlines managed to ensure before the set deadline (end of 2010) the issuance of a two-dimensional bar coded boarding pass in all destinations equipped with the required infrastructure. By granting the application of the BCBP, Croatia Airlines has enabled its passengers to have a better control over journeys and avoid waiting at airports; from a long-term perspective, this project will bring savings related to the passenger handling costs.

In November 2010, the Company marked the tenth anniversary of its continuous flights on the direct international route Zagreb – Brussels.

Environmental protection

Air traffic is a significant factor of development of the entire global economy, but it also contributes to global climatic changes by emitting greenhouse gases and generating noise, by using non-renewable sources of energy, and to a

smaller extent by generating waste.

Amidst the expected long-term growth of traffic, accompanied by an increased emission of carbon dioxide and its effect on the global warming, the inclusion of the air traffic into the emission reduction programme was stipulated on the occasion of defining the Kyoto Protocol. The process ended in 2008 when the final regulation was passed on the inclusion of all airline companies operating in the European Union, and of all of those flying to/from the EU airports, into the European Emission Trading Scheme (EU ETS).

Although airline companies will start participating in the EU ETS in 2012, complex and extensive preparations for the participation had to be made as early as in 2009, and the systematic monitoring of fuel, CO₂ emissions and ton kilometres as the market benchmarking and verification had to be implemented in 2010.

As a global industry, the airline industry also actively upholds the establishment of the global ETS, as the only solution that can lead to the realization of the global goals of reducing the aviation emissions and eliminating the situation of an unequal market competition in which airline companies from the territory of the European Union may find themselves if the global agreement is not reached.

Because of the significance of the effect and the financial extent of introducing these economic measures to their operations, airline companies have actively joined the development of regulations through ICAO, a United Nations organization that cares for civil aviation, but also through IATA as an international airlines association and AEA as the association of European airlines.

The Association of European Airlines, AEA, developed a programme setting forth the recommended measures for the reduction of emissions of harmful gases by the aviation industry⁷, based on four key pillars – further technological advancement through scientific-research work, advancement of infrastructure and operating measures (better regulation of air traffic, optimal selection of routes, reduction in circulating above airports, single European sky whose implementation is aimed at reducing the CO₂ emission by 12 pp) and economic instruments of ETS (based on offer and demand – the needed rights to emission will be acquired or the excess of such rights sold in line with the needs and the defined rights of the company).

As a member of the expert groups of AEA, Croatia Airlines has been active in the process of designing the ETS elements specific for airline companies, and has made the necessary preparations for joining the EU ETS, in line with the provisions of the respective regulation.

Since the Republic of Croatia is not yet a formal European Union member, the European Commission decided that Croatia Airlines would be supervised by the German Emissions Trading Authorities (DEHST) within the German Federal Environment Agency, pursuant to the EU ETS regulations, and for the needs of participating in the EU ETS. In line with the EU ETS regulations and the requirements of the competent authority, Croatia Airlines designed its ETS system for monitoring and measuring CO₂ emission and ton kilometres within the set deadline, and thus obtained the authorization from the competent authority.

The Company's EU ETS system was implemented by the end of 2009, and the official continuous monitoring of CO₂ emissions and ton kilometres has been performed since 1 January 2010, in line with the applicable regulations, and for the purpose of

⁷ Emissions Containment Policy of the European Aviation Industry

verified reporting under the EU ETS rules and as a basis for undertaking measures on the company level for the reduction of emissions.

The Company also participates in the activities of coordinating and implementing the European regulations related to the global climatic changes and the Kyoto Agreement for the air traffic in the Republic of Croatia. It has been continuously participating and working on the creation and application of the environmental regulations and those concerning the sustainable development in the country, coordinating them with the relevant European regulations referring to air traffic and the Company in general, as well as on the advancement of the technology, procedures and processes reducing the negative environmental effects.

Most of the activities within the environmental protection are focused on the sphere of reducing the fuel consumption, reducing the emissions of harmful gases, particularly of carbon dioxide (CO₂), and reducing the noise level when landing and taking off. The procedures of reduced engine power when taking off are applied, too, by which, in addition to the prolonged engine service life, savings are achieved in fuel consumption and CO₂ emission in this flight stage. The application of the programme for the flight planning and the Fuel Cost Index serves for establishing an optimal flight plan in terms of fuel consumption. The introduction of the Flight Data Monitoring system has enabled supervision of the noise intensity for each flight, which is necessary due to increasingly demanding regulations in the overcrowded European sky.

In addition to effects on its activities, in both narrow and broad sense, the Company's participation in the EU ETS also brings a continuous increase of the accompanying costs.

Business environment and operational risks

Environment in Croatia

The year of 2010 was marked by the recession of the Croatian economy. GDP saw a real fall of 1.2 pp, primarily due to a reduced local demand and the non-competitive economy, i.e. import. The fall of industrial production continued in 2010; it fell 1.5pp compared to the previous year. The average inflation rate in 2010 was 1.1pp, and the average unemployment rate was 17.6pp.

Tourism recorded a 3pp rise in the overall number of tourists compared to the year before. During the season, altogether 10.6 million tourists stayed in Croatia, and 56.4 million overnight stays were recorded, or 2.6pp more than in 2009. Most of the foreign tourist overnight stays refer to tourists from Germany, Slovenia, Italy, Austria and Czech Republic.

In 2010, aircraft traffic at Croatian airports declined by 3.4pp, while passenger traffic rose by 5.78pp. Of the recorded 5.2 million passengers at airports, Croatia Airlines transported 1.64 million, or 32pp of the total number of passengers at Croatian airports.

Altogether 35 foreign carriers operated within the scheduled air traffic (of which 19 within the network operating model, and 16 low cost carriers), or 13pp more than in 2009, from 56 destinations (+4pp) with 409 flights in the peak traffic weeks. There were altogether 51 foreign carriers in the charter traffic (three times more than in 2009) from 35 European destinations (+3pp) with 116 flights in the peak traffic weeks.

As a Croatian company representing a significant export potential that is at the centre of the strategic position of the entire economy, the Company has entered the international market carrying unfavourable factors of the local market and local monopolistic effects integrated in the inputs and price of the system, which often makes difficult its position compared to major competition systems that are either not burdened by such factors, or they are considerably more flexible due to their size and financial power. Therefore, the process of approaching the EU and equalizing external and local initial operating conditions is seen as exceptionally important for the Company's further development.

Croatia Airlines' business results are additionally burdened by the effects of short tourist seasons and uncertainty as to the start of the recovery of the domestic market and the influence of competition, given the fact that summer months bring the largest scope of passenger traffic. Croatia Airlines operates during the entire year, as opposed to many LCCs⁸ that fly only on a seasonal basis and thus take over a part of the passengers and revenues of the national carrier.

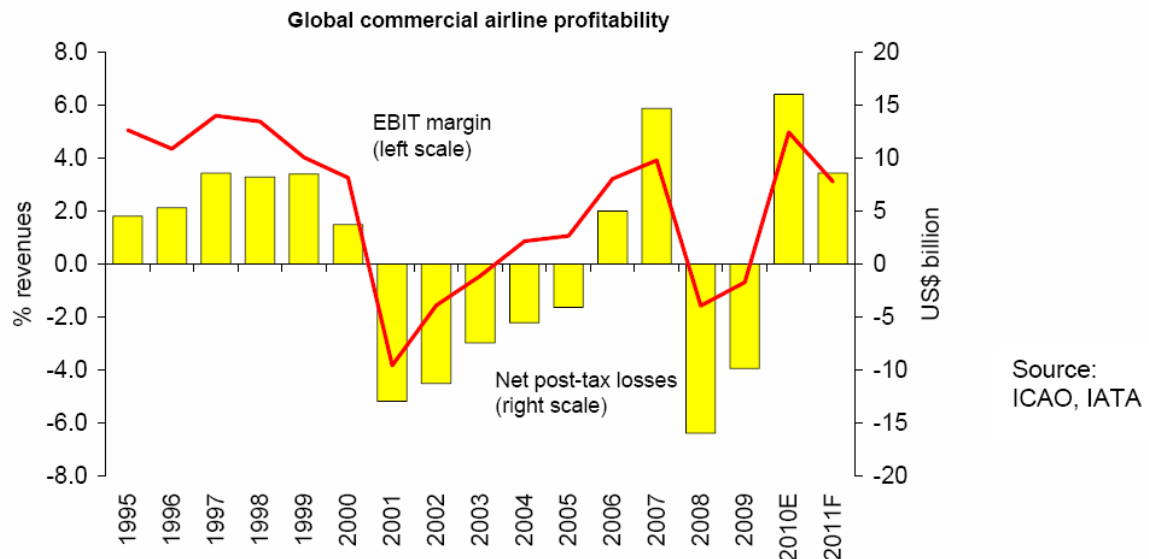
International environment

The airline industry is gradually exiting one of the most difficult periods in the history of the international air traffic. It will take the global airline industry at least three years to recover from the decline in passenger traffic caused by the worst recession of the sector in the past six decades. Its severity is best reflected by the fact that the global airline industry posted a \$49 billion loss in the past decade, while its profit in the past three decades (1970 – 1999) totalled \$42 billion.

⁸ Low cost carriers

Yet, the latest trends indicate that the global economy is recovering faster than expected, encouraging a strong growth of passenger traffic and profit, despite the volcanic ash crisis. The fast cyclical growth of traffic and yields after the global recession indicates the end of the two-year period of decline in the activity of the global airline industry.

Global Airline Profitability



The economic recovery has encouraged the market growth and increased the use of airline services, which has resulted in the growth of profitability in the airline industry. According to the latest projections of the International Air Transport Association – IATA, the net profit of the global airline companies will in 2010 reach \$16 billion; the previous forecast anticipated it to reach \$8.9 billion. The operating margin is expected to reach the level of 5%. Passenger air traffic rose 7pp in 2010.

The growth of revenues by \$70 billion (passenger revenues +14pp, revenues from goods +31pp) is the key generator of the above result. At the same time, the costs are seen to rise by 8pp (+\$38 billion), with fuel costs rising by 11pp.

Despite the signs of the global market recovery, European airline carriers are seen to operate at a loss at the end of 2010, primarily as a result of the volcanic crisis and the burden of the airlines' debts.

Operational risks

The global airline industry, including Croatia Airlines, is exposed to the effects of numerous external factors and risks. This primarily refers to global crises and natural disasters (wars, pandemics, volcanic eruptions, terrorist attacks). In its operations, Croatia Airlines is exposed to the risks related to price changes, interest rate changes, exchange rate changes and liquidity maintenance. The operational risk management is necessary to preserve the value of companies in unstable operating conditions and requires an application of adequate financial instruments and methods.

Recession and global economic crisis

Recession to which the global economies are exposed, i.e. which brings a decline in the living standards of potential

passengers, affects the scope of airline traffic. Foreign citizens are the main generator of traffic in Croatia, which also represents one of the risks in Croatia Airlines' operations, given the dependence on the economic trends in its surroundings. After the exceptionally difficult year of 2009, Croatia's economy is still faced with the problems caused by the economic crisis and recession. The year of 2010 was characterized by a further rise of foreign debt, GDP fall, rising insolvency and unemployment, reduced consumption and import of goods and services, and decreased industrial production. To surmount this difficult period, the rationalization of Croatia Airlines' business operations in 2010 was based on rationalizing the offer of capacities by restructuring the block time, i.e. by reducing the block time of Airbus aircraft and increasing that of smaller aircraft, i.e. Q400 aircraft, terminating the lease of Airbus CTM, which created a possibility for additional rationalization and direct savings by restructuring the block time in the summer season, when one of the Airbus aircraft was replaced by a Q400 aircraft on the routes with lower demand. In 2010, the Company also abandoned investments that were not directly related to its core business and flights, aircraft maintenance and operation, and the level of the guaranteed safety. Furthermore, the value of the base for calculating salaries was also reduced at the start of the year, affecting the reduction of income-related costs.

Fuel

The price of jet fuel on the market has been exceptionally volatile in the past few years. An indication of the U.S.A.'s exiting the crisis, increased consumption of oil in China and India, the effects of the

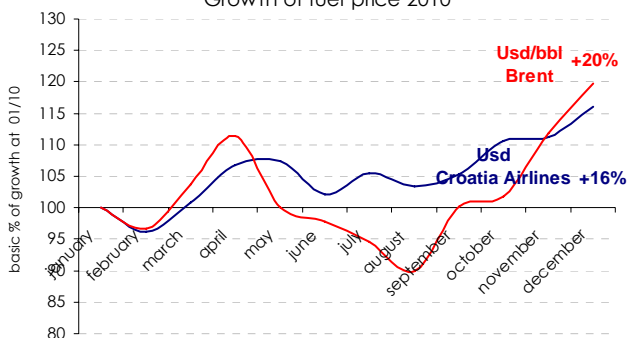
geopolitical situation and the possibility of imposing greater sanctions on Iran, resulted in a rise of oil price. Hedge funds and pension funds expressed more interest again in investing into the purchase of financial oil derivatives, which additionally boosted the oil price growth.

The problems the European Union was faced with slowed down the oil price growth in May and June. At the end of the summer, inflationary pressures, value oscillations on the foreign exchange

market, especially of the USD, resulted in intensified activities of hedge funds related to oil and metals, and affected the oil price growth. The final quarter was characterized by higher demand for oil, strikes in the French refineries and the cold winter, entailing a fresh growth of oil price, with the average price of oil amounting to some 92\$/bbl in December.

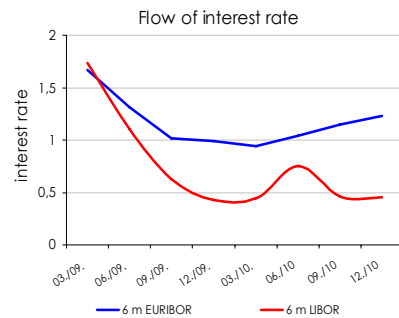
The average price at which Croatia Airlines purchased fuel in 2010 totalled 748 \$/t, or 22 \$/t lower than the planned one, and included a higher risk of change in the fuel price than the resulting one. In the observed period, a tonne of jet fuel was higher by some 147 \$/t on average compared to the previous year. The average price at which Croatia Airlines purchased fuel in this period was 748 \$/t, while the average price in the same period of the previous year totalled 601 \$/t. The fuel cost amounted to some HRK 238 million in this period, i.e. 18pp more compared to the same period in the previous year, making up 16pp of the overall operating costs.

Growth of fuel price 2010



Interest risk

By taking long-term loans at variable interest rate, the Company is exposed to interest-related risk, too. Interest rates continued falling in the first quarter of 2010, but this trend was stopped in the second quarter, i.e. interest rates started rising again, while the third and the fourth quarters were characterised by a further growth of EURIBOR, and a fresh fall and stagnation of LIBOR.

**Cash flow risks**

The Company has been managing the liquidity risk by regularly monitoring the liability maturity and maintaining adequate and sufficient sums of ready cash and deposits for covering its due financial expenses. The cash flow was in this period negatively affected by a lower inflow of funds from the company's core activity, as a result of lower operating revenues. The positive effect on the cash flow came from the stagnation of the investments that were not crucial for the safety of operations. In 2010, the Company met its short-term liabilities by using the funds from a revolving loan extended by Zagrebačka banka, while its long-term liabilities related to the BLB loan were financed by the Government of the Republic of Croatia. In late 2010, the Company agreed a credit line in the amount of HRK 33 million with Zagrebačka banka, which resulted in an automatic payoff and drawdown of a short-term liquidity loan.

Currency risk

Financing the fleet by taking loans denominated in foreign currencies exposes the Company to a risk of negative effects of changes in foreign currency exchange rates versus kuna. The Company has been setting off this exposure with the revenues from selling tickets abroad, thus realizing inflows used for covering its debts.

Natural disasters

The operations of Croatia Airlines and the air traffic sector were in 2010 affected by the negative consequences of the cloud of volcanic ash from Iceland, and the immediate damage sustained by Croatia Airlines totals some HRK 20.4 million. The consequences that Croatia Airlines was faced with due to the closing of the air space above a large part of Europe as a result of the volcanic dust were significantly bigger than the directly measurable damages. The continuity of "no show" passengers (those who do not turn up for the flight) and the cancelled and missed reservations was felt for weeks, while it took even longer to regain the passengers' trust in air traffic and increase the demand. The additional hotel accommodation, cancelled congresses, conventions and sports events added to the level of damage, plus the costs of aircraft maintenance, flight control and fuel consumption rose as well. There are many other immeasurable and indirect costs the Company was faced with, in relation to the lost trust and increased uncertainty when it comes to travelling by air.

Strikes

Considering the growing dissatisfaction of Croatia Airlines employees and the unsuccessful talks between the employer and the unions, Croatia Airlines is faced with a new internal operational risk – possibility of employees' strikes. In July 2010, a two-day strike of the cabin staff following the unsuccessful talks on the new collective agreement additionally aggravated the business operations of Croatia Airlines, but also the tourism activities

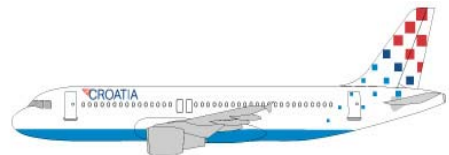
in the Republic of Croatia. Still, after the fresh and long-lasting talks, Croatia Airlines as the employer, and the Air Cabin Staff Union, with the participation of representatives of the majority owner – Government of the RC, reached an interim agreement on all disputable issues related to the collective agreement, and the strike was brought to an end. The total damage is estimated at HRK 6.2 million, of which HRK 3.9 million refers to lost revenues, and HRK 2.3 million to direct strike costs. Acting upon the appeal that Croatia Airlines filed with the Supreme Court, the Court pronounced the strike illegal.

Fleet and capacities

Since the beginning of the year, Croatia Airlines operated with the fleet of altogether 12 aircraft: eight Airbus aircraft, two of which were under an operating lease, and six Q-400 aircraft, all under an operating lease. On 15 March 2010, the leased Airbus CTM flew its final flight and was released from the Croatia Airlines' fleet, and in April, additional two Q400 joined the fleet. The total capacity of Croatia Airlines' fleet is therefore 1,480 available seats in altogether 13 aircraft. This optimization of the fleet structure, i.e. cancellation of the five-year lease of aircraft Airbus 320 (CTM) represents one of the savings measures and the rationalization of business operations amidst a reduced demand and decline in passenger traffic. Furthermore, the introduction of the fifth and the sixth Q400 into the fleet marked the end of the Croatia Airlines' fleet renewal process that started in the summer of 2008, when Croatia Airlines was delivered the first two aircraft of this type, and another two in 2009.

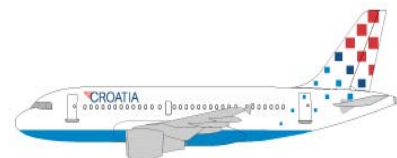
A 320 – 3 aircraft

The aircraft has 162 seats – altogether 486 seats



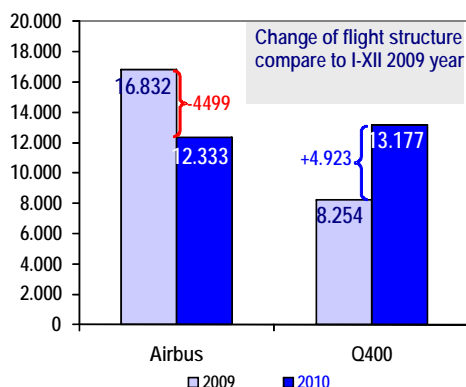
A 319 – 4 aircraft

The aircraft has 132 seats – altogether 528 seats



Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats



In 2010, Croatia Airlines' aircraft realized the block time of 35,228 block hours, which is 5pp more compared to the previous year. They flew 25,559 flights, i.e. 1pp more compared to 2009. Compared to the previous year, the block time structure changed in favour of smaller aircraft - Q400, with the aim of adapting the offer of capacities to

the market demands.

In 2010, Croatia Airlines took into lease *ad hoc* aircraft that flew altogether 43 flights for the purpose of covering the flight schedule in extraordinary situations such as various traffic disturbances, aircraft repairs, etc. The majority of such flights were flown in the period between 8 and 11 July, at the time of the strike.

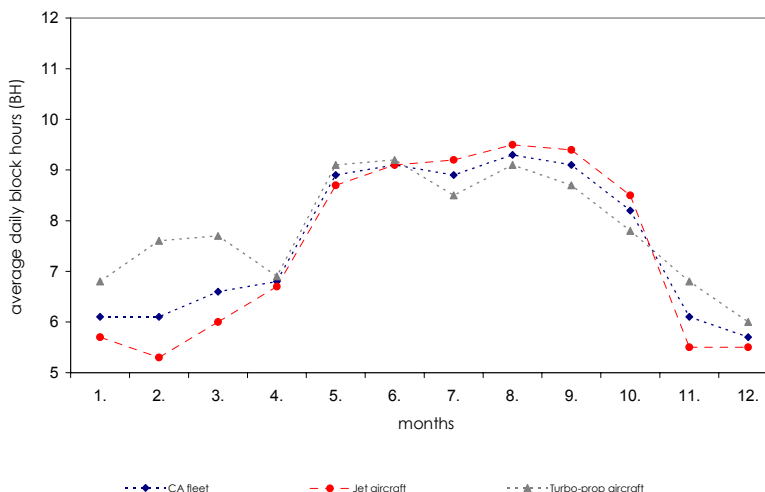
Fleet utilization

type of aircraft	Ø number of aircraft	Ø daily block hours (BH)	growth of utilisation 10/09
Airbus A320	3,2	6,5	-21%
Airbus A319	4	8,1	-5%
Q-400	5,4	7,9	0%
TOTAL	12,6	7,6	-7%

Croatia Airlines' fleet flew on average 2,796 block hours per aircraft in 2010, which represents an **8pp utilization decline** compared to a year before. The reduced utilization is a result of the increased number of aircraft.

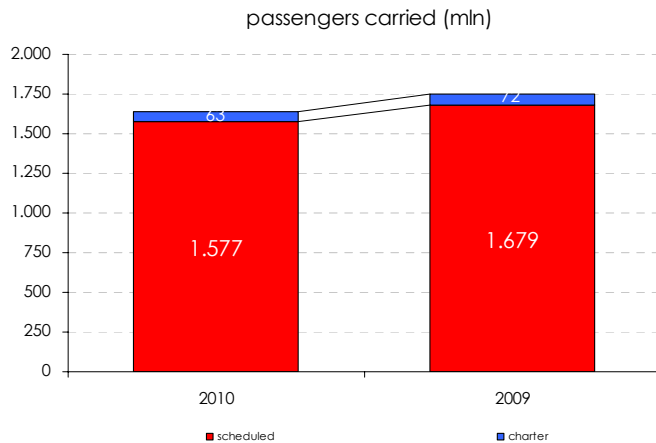
The average number of aircraft at the level of the entire year, i.e. 12.6 aircraft, was 14pp higher than the average in a year before. The average was increased as a result of the fleet renewal, i.e. introduction of two Dash 8-Q400 aircraft in April 2010 and dismissal of Airbus 320 (CTM) aircraft. In 2010, the available seat-kilometres (ASKM) were reduced by 9pp, and passenger kilometres were reduced by 8pp.

CA fleet utilization by month



Market

Croatia Airlines' operations and the decline in the number of passengers in 2010 were affected by the continuing recession in Croatia, slow recovery of the European economy, the "volcanic crisis" that affected Europe in April, and the strike staged by the cabin staff. The financial sales results for 2010 show a **9pp** decline in **the sale of scheduled traffic on the domestic market** within Croatia, and a **6pp decline in international sales** of scheduled traffic compared to the previous year.



The total number of passengers fell by 6pp compared to the previous year.

The number of passengers in the domestic scheduled traffic fell by 10pp, and the international passenger traffic saw a 4pp decline.

About 63,400 passengers were transported within the **charter traffic**, or 11pp fewer compared to the previous

year. In line with the Company's greater operational focus on scheduled traffic, charter traffic in the observed period made up as little as 3.9pp of the total traffic.

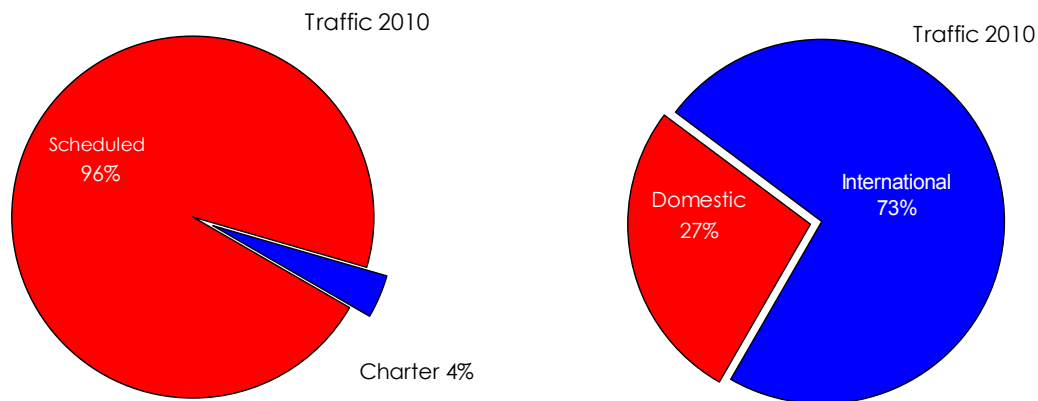
In the observed period, **cargo transport in tonnes saw a 15pp fall compared to the same period in the previous year**, as a result of the difficult global situation on the goods and mail transport market, directly affected by the recession. Croatia Airlines had had an agreed cooperation with the external freight agent Lufthansa Cargo, which took over the distribution and sales management, and the external sales network maintenance, but the agreement was cancelled on 31 July 2010 since the agent was unable to meet its contractual obligations. As of this date, the distribution and the external sales network maintenance were again taken over by Croatia Airlines' Sales Department.

Given a more favourable capacity structure, and the market decline, the **PLF⁹** was **62pp**, or 0.6pp higher, while the **WLF¹⁰** was **51.2pp** or 0.1pp higher compared to the previous year. **Altogether 1.640,585 passengers** were transported, of which 441,352 within the domestic scheduled traffic, 1.135,827 within the international scheduled traffic, and 63,406 within the charter traffic.

In 2010, Croatia Airlines directly connected seven destinations in domestic scheduled traffic and 18 destinations in international Euro-Mediterranean traffic. It developed its destinations network with the help of the existing and new commercial cooperation agreements with the Star Alliance members - Lufthansa, Austrian Airlines, TAP Portugal, SAS, Swiss, Turkish Airlines, Spanair, Brussels Airlines and British Midland. The Company utilizes all comparative advantages of the Alliance membership for strengthening its market position. In 2010, Croatia Airlines connected altogether 49 destinations in scheduled and charter traffic, and through commercial cooperation.

⁹ PLF – Passenger load factor - labour productivity measured by the utilization of passenger capacities

¹⁰ WLF – Weight load factor - labour productivity measured by the load utilization



In international scheduled traffic, 51,906 fewer passengers were transported compared to the previous year, and the passenger load factor (PLF) saw a rise on all markets, given a 9pp reduction of capacities offered, except on the Dutch, German and Macedonian markets.

The highest load level (PLF) was registered on the route for London and Amsterdam.

In line with the plans for restructuring the flight schedule and achieving better efficiency in the winter flight schedule, the routes Split-London and Dubrovnik-London were cancelled since the traffic on the British market declined 30pp as early as in the previous year as a result of the bankruptcy of the British tour operators specialized for Croatia.

On 28 March, Croatia Airlines' aircraft started flying according to the summer flight schedule. Weekly frequencies on the flights from the Croatian destinations to Rome were increased. The company introduced direct flights from Zagreb to Rome three times a week (Tuesdays, Thursdays and Sundays), from Split to Rome twice a week (Wednesdays and Saturdays) and from Dubrovnik to Rome on Mondays. There will be no changes regarding flights Zagreb-Split-Rome (Mondays, Tuesdays, Thursdays, Fridays and Sundays) and Zagreb-Dubrovnik-Rome (Wednesdays and Saturdays). An additional flight (Fridays) was introduced on the routes Split-Vienna and Split-Zurich, and the number of weekly frequencies on the route Dubrovnik-Zurich was increased with an additional flight on Wednesdays, while three additional flights were introduced on the route Split-Munich – Mondays, Wednesdays and Fridays. An additional evening flight on the route Zagreb-Pristina (Tuesdays), and an additional morning flight on the route Pristina-Zagreb (Wednesdays) was introduced in May. On 1 June, international flights from Zagreb to Athens were introduced within our network of scheduled destinations for the first time in the company's history. Croatia Airlines' aircraft fly three times a week on this route – Tuesdays, Thursdays and Sundays. At the same time, the route Rijeka-London was cancelled, as it was not cost-effective, despite the solid average passenger load. Also, the routes previously flown by Airbus aircraft (with the capacity of 132 and 162 seats) are now more frequently flown by Q400 aircraft (with the capacity of 76 seats), with the aim of rationalizing the flight costs and achieving better operating and commercial results.

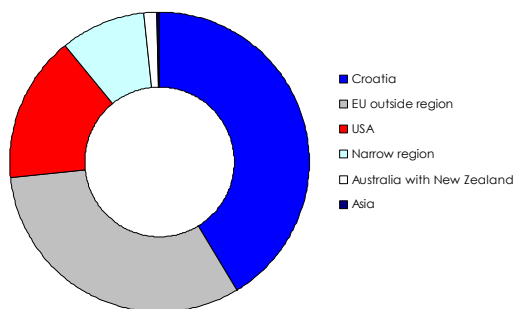
On 23 June 2010, Croatia Airlines and Spanair signed an agreement on strategic bilateral cooperation, enabling the companies better positioning on the Spanish and

Croatian markets, and offering their passengers excellent air connectivity between Barcelona and Croatia on a daily basis. This cooperation also provides passengers from Croatia connection with other Spanair's destinations via Barcelona and Madrid.

Croatia Airlines and British Midland International signed an agreement on strategic bilateral cooperation and introduction of code share flights as of 31 October 2010. This cooperation provides passengers from Croatia connection with British Midland's destinations – Aberdeen, Belfast, Dublin, Edinburgh, Glasgow and Manchester, and vice versa, via London.

The sale on the BSP markets of Russia, Moldavia, Romania, Hungary, South Africa, Hong Kong and Macao started in the observed period, as planned for this business year.

Distribution of sales market in scheduled traffic
2010

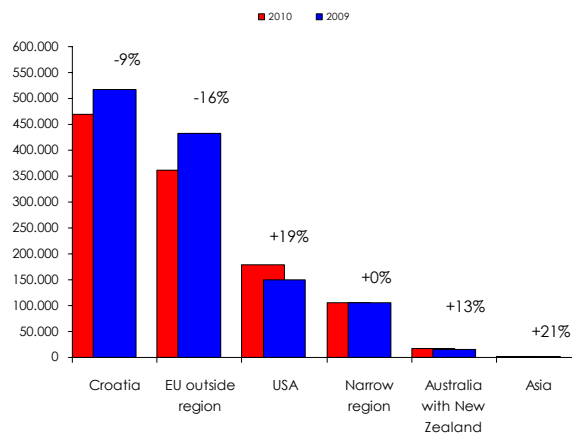


The data on the sale on the distribution sale markets in 2010 show that, apart from the Croatian market to which Croatia Airlines belongs, the European countries, and particularly the American market - on which demand historically gravitates toward Croatia - were the most significant for the Company's operations.

The **sales** through the Company's own sales channels (branch offices and representative offices) fell by 2pp, while the sales via other agents declined 38pp over the previous year. Compared to the two-digit rates of growth of Internet and telephone sales in the previous years when the new sales channels were just introduced and being developed, the year of 2010 still saw a rise in the Internet and telephone sales, but at significantly lower rates. Online bookings through the Internet service FlyOnLine recorded a 2pp rise, while the Internet sales grew 5pp, in financial terms, compared to the previous years. Telephone sales registered a 7pp rise in 2010.

The **domestic market sales** declined by **9pp** compared to 2009 as the recession trends in the Croatian economy continued. Croatia Airlines realizes about 59pp of its total sales on foreign markets. The **sales on the foreign markets** saw a **6pp** decline, as a result of the sales fall on the European markets, primarily those of the European Union. The markets of Germany, Great Britain, France and Spain registered the greatest absolute fall, while those of Greece and Italy faced a rise. Outside the European Union, a significant rise was registered on the Norwegian market. The sales on the American market, that exited recession, saw a 19pp rise, with its share in the total sales being about 16pp.

Growth by sales market (000 kn)



Croatia Airlines realizes significant revenues on the basis of commercial cooperation with other airlines through code share agreements, SPA (Special Prorate Agreements) and Interline agreements. In 2010, tariff revenues based on the above commercial cooperation agreements recorded a 2pp fall compared to the previous year, and their share in the total scheduled passenger traffic revenues was 21pp.

Croatia Airlines participated in the presentation of the Croatian tourism offer at a number of European fairs: ITB in Berlin, TUR in Gothenburg, SITC in Barcelona, IMEX in Frankfurt, World Travel Market in London.

Croatia Airlines started this year with a local campaign *Shopping, Sight-seeing or Fun?* – two return tickets at the price of HRK 800. In January, the company promoted the lowest ticket price of EUR 164 for international destinations. In February, a campaign *Travel for St. Valentine's Day* was launched, promoting international lines for London, Rome, Amsterdam and Paris, at the price of EUR 230 for two return tickets. In April, the campaign *Travel for Easter* was launched, promoting travels for Easter holidays to certain destinations in Croatia or Europe. In April and May, the company promoted a new direct route Zagreb-Athens on the Croatian and Greek markets, and a new direct route Düsseldorf-Split on the German market. The following two campaigns were launched in July: *EUR 99 – Good Enough Motive to Travel and Have Fun*, promoting flights to Athens, Barcelona and Copenhagen, and *Fly at Favourable Prices*, aimed at boosting the capacity load on local flights. In September, the company initiated a campaign aimed at promoting flights from Croatia to Germany at promotional prices. In October, the Company launched the campaign *Pair up and Travel around Croatia at HRK 800 only*, promoting the domestic lines and referring to the purchase of tickets for two persons. In November and December, several campaigns featuring the promotion of international flights from Zagreb at promotional prices were launched. In December, the campaign *One-way Flights within Croatia from as Little as HRK 245* was initiated. For the purpose of boosting direct ticket sales via www.croatiaairlines.com, the Company continued advertising through Google and the tourist portal Expedia on the markets of the UK, Germany, France, the Netherlands and Croatia. In the observed period, a marketing campaign *I Buy and Fly* was run in cooperation with PBZ Card, for the purpose of attracting as many users of Croatia Airlines American Express credit card as possible, while the co-brand cooperation with Diners was based on the development of a new product of VISA Business Card.

On 1 April 2010, the official web site of Croatia Airlines was published on Facebook, by which the Company entered the social networks with the goal to increase

awareness on its brand, promote services, encourage two-way communication for the purpose of building more favourable relations between Croatia Airlines and its stakeholders (passengers, partners, employees, etc.)

Financial operations

Profit and loss account¹¹

(000 kn)	2010	2009	Index 10/09	2008
Passenger traffic	1.109.174	1.081.830	103	1.352.819
Cargo traffic	19.498	18.323	106	26.348
Other revenues	257.863	247.102	104	252.138
OPERATING REVENUES	1.386.535	1.347.256	103	1.631.305
Flight operations	453.831	415.646	109	533.596
Maintenance	153.516	153.312	100	155.010
Passenger services	89.761	98.861	91	101.259
Aircraft and traffic services	335.055	355.873	94	338.589
Promotion and sales	224.013	222.298	101	225.753
General and administ. expenses	88.267	95.669	92	98.372
Amortization	148.071	147.889	100	172.440
Other expenses	18.652	22.948	81	36.832
OPERATING EXPENSES	1.511.166	1.512.495	100	1.661.850
PROFIT/LOSS FROM OPERATIONS	-124.631	-165.239	75	-30.546
Interest expense	-23.131	-35.944	64	-56.206
Interest revenue	647	1.638	39	2.995
Foreign exchange differences, net	-6.192	3.238	-	-6.542
Other financial expenses	-3.564	-8.098	44	-4.970
Other financial revenues	318	5.627	-	6.095
NET FINANCIAL EXPENSES	-31.923	-33.539	95	-58.628
NET PROFIT/LOSS	-156.554	-198.778	79	-89.174

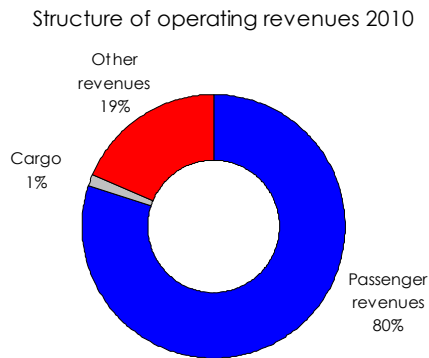
The revenues from passenger traffic and the operating revenues were 3pp higher, while the operating costs were on the level of the previous year's result. When the fleet financing costs are included, the **operating loss** of HRK 125 million brings an **ultimate net operating loss of HRK 156.5 million in 2010**, which is 21pp better than the 2009 result.

This result would have been **significantly better**, by as much as **HRK 53 million**, had there not been for the following negative circumstances:

- HRK 20.4 million worth of damage caused by the eruption of the Icelandic volcano – April 2010;
- HRK 6.2 million worth of damage as a result of the strike staged by the cabin staff – July 2010;

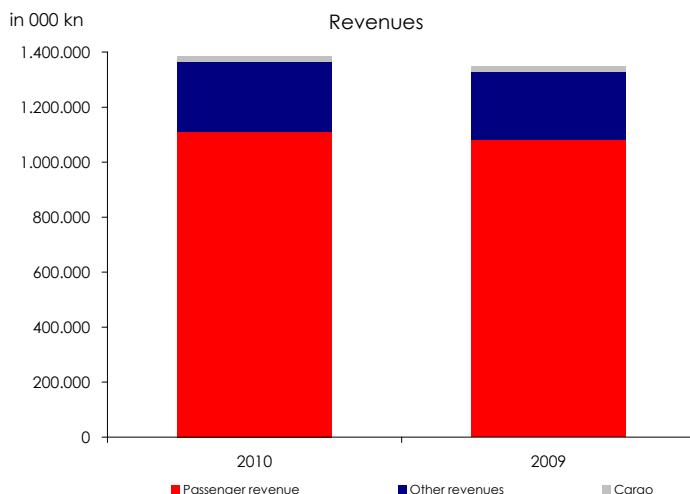
¹¹ The audit report of the profit and loss account shows the revenues and costs of the reservations system as a net result within the promotion and sales costs category, while this Report, as well as all internal reports, shows the above-referenced revenues and costs in line with the gross principle (revenues from the reservations system within other revenues, and costs within the promotion and sales costs).

→ HRK 26.2 million worth of penalty against the charged PSO charges in 2007-2009, which reduced the overall operating result of the Company.



The recovery of the company it can be anticipated thru the achieved financial results for the last quarter of 2010. While in the fourth quarter of 2009. the realized loss was 104.5 million HRK, during the **last quarter of 2010 the loss was halved, and realized on the level of 50.3 million HRK.**

The share of passenger revenues in operating revenues was on the level of the previous year, amounting to 80pp. The rise in the revenues from passenger transport compared to 2009 is a result of the increased average passenger tariff. Despite the



fall of the non-pecuniary indicators, **the revenues from cargo transport were 6pp higher.**

Croatia Airlines had had an agreed cooperation with the external freight agent Lufthansa Cargo, which took over the distribution and sales management, and the external sales network maintenance, but the agreement was cancelled on 31 July 2010 since the agent was unable to meet its contractual obligations. As of this date, the

distribution and the external sales network maintenance were again taken over by Croatia Airlines' Sales Department.

Other operating revenues were 4pp higher, primarily due to higher revenues from damages collected from insurance companies, higher other foreign revenues and higher other revenues from the previous years.

Despite the increased scope of operations based on a 1pp increase in the number of flights and a 5pp increase in block time in block hours, the operating costs were on the level of those realized in the previous year, amidst the implemented rationalization measures.

Within the operating costs, flight costs saw a rise due to higher aircraft lease costs amidst the fleet expansion, i.e. introduction of new Q400 aircraft, and due to increased fuel costs as a result of the higher prices. The fleet restructuring and an increase in the block time of Dash 8-Q400 resulted in a unit reduction of fuel consumption per BH and a reduction of the quantity of purchased fuel in 2010. With

an increased number of flights by 1pp and block time in block hours by 5pp, 6,250 tonnes of fuel less was purchased compared to the previous year; however, the fuel price was significantly higher than in the previous year, which resulted in greater fuel costs.

The promotion and sales costs saw a minimal growth amidst the expenditure resulting from the correction of the value of claims made (in court) against the customers who went bankrupt and somewhat higher costs of the reservations system.

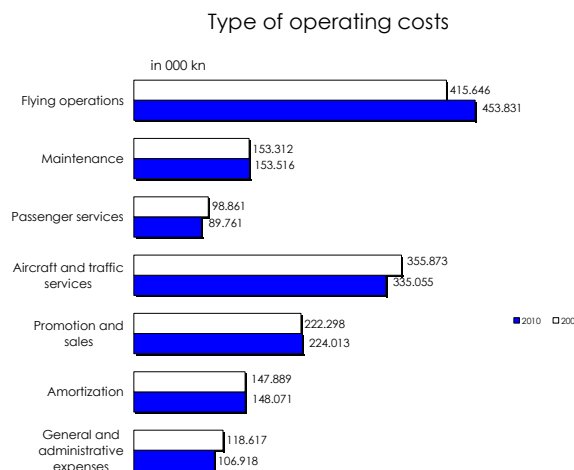
Aircraft maintenance and depreciation costs were on the level of the results of the previous year.

The costs of air traffic services were lower compared to the previous year, due to reduced block time of Airbus aircraft.

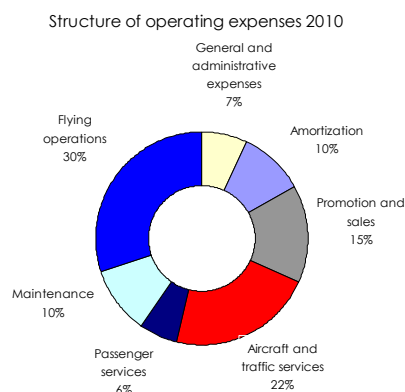
Costs of passenger services were also lower, as a direct result of the fall in the number of passengers compared to the previous year.

General and administrative costs were lower due to reduced personnel costs and other various cost categories. As of 1 January 2010, the value of the unit for calculating employee income was decreased by 5pp, which resulted in reduced income in 2010 in regard to all cost categories.

Other expenditures were lower due to lower costs in the previous years.



The highest share in the costs refers to the flight costs and air traffic services. The share of flight costs in the total costs rose 3pp in 2010, due to higher fuel costs compared to 2009, while the share of air traffic service costs fell by 2pp due to reduced block time of Airbus aircraft.



Assets, financing and investments

Statement of accounts

(000 Kn)	I-XII 2010	Plan I-XII 2010	End 2009	Index 2010/plan	Index 2010/2009
ASSETS					
Non-current assets	1.326.911	1.342.112	1.414.148	99	94
Current assets	253.754	252.064	290.287	101	87
TOTAL ASSETS	1.580.665	1.594.176	1.704.434	99	93
LIABILITIES					
Capital and reserve	140.596	339.867	316.607	41	44
Non-current liabilities	838.462	863.321	828.120	97	101
Current liabilities	601.607	390.988	559.708	154	107
TOTAL LIABILITIES	1.580.665	1.594.176	1.704.434	99	93

The value of assets (liabilities and capital) was 7pp lower at the end of the year compared to 2009. The value of the fixed assets decreased due to regular amortization of funds and the lower level of investments. The value of the current assets fell due to decreased financial assets and accounts receivable.

The overall capital was reduced due to the loss posted in 2010.

The Company's overall liabilities were higher compared to the same period in the previous year. Its long-term liabilities rose due to increased long-term liabilities to the state, while its long-term loan liabilities were reduced due to regular loan payments. The Company's current liabilities were higher due to increased liabilities to suppliers, short-term loan liabilities to local banks, and other short-term liabilities.

At the end of 2010, Croatia Airlines' long-term loan liabilities with local banks totalled HRK 110.8 million, while the remainder of the principal of the long-term loan owed to the foreign banks' union amounted to HRK 613.5 million. The Company's short-term loan liabilities with local banks totalled HRK 33.2 million at the end of 2010.

Investments in 2010

Investments	2010	2009	2008
Investments into aircraft	46.931.219	57.731.593	43.661.671
Investments into spare parts, tools and equip.	12.037.197	19.034.634	33.574.859
Construction investments	105.773	2.850.623	13.150.273
Intangible assets	7.116.641	6.312.363	6.861.115
Other equipment	520.805	5.199.195	2.922.564
Maintenance Reserve	2.156.562	18.571.237	39.254.966
Total	68.868.198	109.699.646	139.425.448
Financial investments into aircraft (predelivery financing)	4.790.018	15.028.271	29.602.418
Other financial investments	147.378	853.081	1.414.976

Within the investments into aircraft, HRK 13.9 million was invested into the planned 12-year checkups of Airbus aircraft (CTJ and CTI), and HRK 18.8 million into the works on two engines. In late 2010, the Company also purchased a spare engine for the Q400 aircraft, worth HRK 14.2 million.

In addition to the above investments, C checks were carried out internally on seven Airbus aircraft (CTG, CTK, CTL, CTM, CTH, CTL, and CTK).

Investments into spare parts, tools and equipment amounted to HRK 12 million.

Investments into construction facilities totalled HRK 106,000, comprising various minor infrastructure investments.

Investments into intangible assets amounted to HRK 7.1 million, of which HRK 2.7 million refers to investments into the SAP integrated information system, HRK 3.1 million to the implementation of the new system for issuing transport documents within the CITP project, and HRK 0.3 million to investments into other minor software. Altogether HRK 0.8 million was invested into third persons' property - leased aircraft, while HRK 151,000 was invested into the construction facilities.

Investments worth HRK 0.5 million made into **other equipment** mostly refer to a HRK 0.4 million investment into computer equipment.

Maintenance reserves (investments into future aircraft and engine maintenance works) totalled some HRK 2.16 million.

Financial investments into aircraft, referring to the deposit for the fifth and the sixth Q400 aircraft, totalled HRK 4.8 million.

Other financial investments totalled HRK 147,000, and refer to deposits made for employees' housing loans.

Cash flow movements

Cash flow (000 Kn)	2010	2009	Index
Cash at the beginning of the period	67.139	69.918	96
Inflow from activities	1.287.638	1.432.107	90
Inflow from Government	77.707	130.286	60
Loans	65.990	138.061	48
Total inflow	1.431.335	1.700.453	84
Obligations	1.362.986	1.458.364	93
Investments	37.832	46.014	82
Loans	46.293	198.854	23
Total outflow	1.447.112	1.703.232	85
Net change for period	-15.777	-2.779	568
Cash at the end of the period	51.362	67.139	77

The cash flow level (inflow and outflow), and the cash balance was in 2010 lower compared to the previous year.

Lower operating inflows decreased the possibilities for making payments within the usual deadlines.

During 2010, the Company activated a HRK 33 million worth revolving loan with Zagrebačka banka, in order to meet its financing needs,

and this revolving loan line was extended in December 2010.

The Company's long-term liabilities under the BLB loan were financed by the Government of the Republic of Croatia.

Srećko Šimunović
CEO

Based on the Capital Market Act (NN 88/08, 146/08), I hereby give the following:

DECLARATION

That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the fourth quarter of the year 2010 and for the year ending 31st December 2010 have been prepared by using the appropriate financial reporting standards, and provide complete and truthful presentation of assets and liabilities, losses and gains, the financial position and operations of the issuer and the companies involved in the consolidation as a whole.

That Report of the Croatia Airlines management contains a true view of development and results of operations and position of the issuer and the companies included in consolidation, with a description of the most important risks and uncertainties that the issuer and the society as a whole are exposed to.

This statement is given as an enclosure to the quarterly and Annual Reports of the issuer Croatia Airlines d.d.

Zagreb, April 29th, 2011

The person responsible for the preparation
of the issuer statements:

President & CEO
Srećko Šimunović

