



A STAR ALLIANCE MEMBER 

Croatia Airlines Consolidated and Separate Annual Report for the year ended 31.12.2019



June 2020



CONTENT:

Declaration	3
The Management's Business Report for 2019	4 - 47
Representation on the Application of the Corporate Governance Code	48 - 50
Consolidated and Separate Financial Statements for the year ended 31 December 2019 together with Independent auditors' report	51 - 136

Based on the Capital Market Act (NN 65/18, 17/20), we hereby give the following:

DECLARATION

That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31st December 2019 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 The Management's Business Report for 2019 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 Annual Report of the issuer Croatia Airlines d.d.

The person responsible for the preparation of the issuer statements:

President & CEO



Jasmin Bajić

Zagreb, 8 June 2020



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The Management's Business Report for 2019



June 2020

CONTENTS

30 years of Croatia Airlines	5
Typical indicators	6
Fleet	6
Traffic indicators	6
Financial indicators.....	7
Productivity indicators.....	7
Croatia Airlines in 2019 – introduction	8
Ownership structure	8
Company's management structure and organisation	9
Human resources	10
Social responsibility	16
Business environment and operational risks.....	22
Fleet and capacities.....	30
Fleet utilisation	31
The market	32
Financial operations.....	35
Profit and loss account	35
Assets, financing and investments	40
Cash flow.....	42
Consolidated business result	43
Current operations – Traffic performance in I-III 2020	46

30 years of Croatia Airlines

It was exactly three decades ago, on 7 August 1989 in Zagreb, that an airline company Zagreb Airlines d.d. (Zagal) was registered and began operating in December the same year as a mail carrier. About a year later, on 23 July 1990, Zagal changed name to Croatia Airlines d.d., a national airline for the transportation of passengers, cargo and mail.

Croatia Airlines operated its first flight on 5 May 1991 on the route Zagreb – Split, introducing scheduled passenger traffic within Croatia. Its operations on a global scale began on 5 April 1992 with its first international flight on the route Zagreb – Frankfurt, and it was this year that the Company started creating its own fleet by purchasing Boeing 737-200 aircraft. ATR42 aircraft followed soon, prompting the Company to advance and optimise all of its areas of operation, which resulted in a great commercial progress.

The Company's first development phase ended with a cycle of renewal of its medium-haul fleet in the period from 1998 to 2000, when the Boeing aircraft were replaced by six new Airbus aircraft (four A319 and two A320). Its next development chapter was marked by a renewal of its short-haul fleet (from 2008 to 2010), i.e. the introduction of six new Dash 8-Q400 aircraft to replace the ATR42 aircraft.

The Company has been expanding its destinations network since 2016, and has to date introduced ten new destinations.

Having been providing the passenger and goods transportation service in both scheduled and charter traffic for the past three decades, Croatia Airlines has grown into a European carrier known for the flight safety, professional staff and top service quality. The Company has joined major airline associations - International Air Transport Association (IATA) and Star Alliance, the world's leading airline associations.

To date, Croatia Airlines' aircraft have transported nearly 40 million passengers and operated about 600,000 flights.

In 2019, Croatia Airlines' aircraft operated in eight domestic and 30 international destinations in scheduled traffic, directly connecting Croatia with 24 countries.

As a national flag carrier, Croatia Airlines has been significantly contributing to the development of Croatia's tourism, by ensuring the interconnectivity of domestic



destinations, and that of Croatia with the rest of the world throughout the year. Nearly a third of all air travellers visiting Croatia on an annual basis fly Croatia Airlines' aircraft, and the Company is the fifth biggest exporter in Croatia.

Its 30th anniversary was marked in September 2019, at its Technical Centre at Zagreb Airport.

Typical indicators

Fleet

type of aircraft	number at the end of 2019	seats	ownership	lease	Ø age (years)	number at the end of 2018	ownership	lease
Airbus A320	2	348	1	1	20,08	2	1	1
Airbus A319	4	576	4	-	20,94	4	4	-
Q-400	6	456	-	6	10,60	6	-	6
TOTAL	12	1.380	5	7	15,63	12	5	7

Traffic indicators

Description			2019	2018	2017
flights (km)	DIST	000	18.934	18.793	18.321
departures	FLTS		28.432	28.003	27.491
growth rate		%	2	2	2
block hours	BH		40.553	40.196	39.345
growth rate		%	1	2	4
passengers carried	RPAX	000	2.179	2.169	2.125
growth rate		%	0	2	10
freight&mail carried	CGO	T	2.135	2.264	2.273
growth rate		%	-6	0	-12
passenger km flown	RPK	mil	1.676	1.666	1.630
available seat - km	ASK	mil	2.277	2.266	2.191
passenger load factor	PLF	%	73,6	73,5	74,4
tonne km flown	RTK	mil	169	168	165
available tonne-km	ATK	mil	240	239	231
weight load factor	WLF	%	70,3	70,4	71,3

Financial indicators

Indicators	Unit	2019	2018	2017
Operating revenue	mIn HRK	1.728	1.701	1.767
% of change	%	1,6	-3,7	
Total Revenue	mIn HRK	1.751	1.758	1.834
% of change	%	-0,4	-4,2	
Operating expenses	mIn HRK	1.784	1.778	1.745
% of change	%	0,3	1,9	
Total expenses	mIn HRK	1.831	1.841	1.827
% of change	%	-0,5	0,8	
Operating profit/loss	mIn HRK	-55,4	-76,5	22,2
Net profit/loss	mIn HRK	-79,4	-82,9	7,3
EBIT	mIn HRK	-59,9	-78,5	12,5
EBITDA	mIn HRK	148,7	22,3	106,9
EBIT margin	%	-3,5	-4,6	0,7
Efficiency ratio		1,0	1,0	1,0
ROA	%	-6,3	-9,6	0,9
ROE	%	-35,3	-27,3	1,9
Unit operating cost	HRK/ATKM	7,4	7,4	7,6
Unit operating revenue	HRK/ATKM	7,2	7,1	7,7
Passenger yield (passenger revenue in EUR/RPKM)	€cent/RPKM	12,2	12,2	11,6
Current ratio		0,4	0,4	0,5
Debt ratio		0,8	0,6	0,5
Investment ratio		4,6	1,7	1,1
Average number of employees		1.021	1.002	991

Productivity indicators

Productivity Indicators	2019	2018	2017
Employees (tkm/employee)	165.615	167.869	166.114
Aircraft (BH/day)	9,2	9,1	8,6
Fuel (tkm/tonne)	2.567	2.579	2.620

Croatia Airlines in 2019 – introduction

In nearly thirty years of existence and provision of transport services, Croatia Airlines has been connecting Croatian cities with major European metropolises, and in cooperation with its airline partners – with the entire world. As a member of the world's largest airline association Star Alliance, it provides its passengers access to the global network of flights, with numerous benefits.

Ownership structure

Croatia Airlines is a joint-stock company.

Its share capital amounts to HRK 277,879,530 and is divided into 27,787,953 ordinary shares with the nominal value of HRK 10.

Shareholder	No. of shares	Portion in the share capital (in %)
MINISTRY OF STATE ASSETS FOR THE REPUBLIC OF CROATIA	27.010.821	97,2033
AIRPORT ZAGREB D.O.O.	477.121	1,7170
HPB FOR THE REPUBLIC OF CROATIA	173.768	0,6253
JANAF D.D.	22.000	0,0792
CROATIA INSURANCE D.D.	8.950	0,0322
CROATIA LOTERY D.O.O.	4.000	0,0144
ASTRA INTERNATIONAL D.D.	3.682	0,0133
HP D.D.	2.750	0,0099
TURISTHOTEL D.D.	2.090	0,0075
TANKERKOMERC D.D.	2.090	0,0075

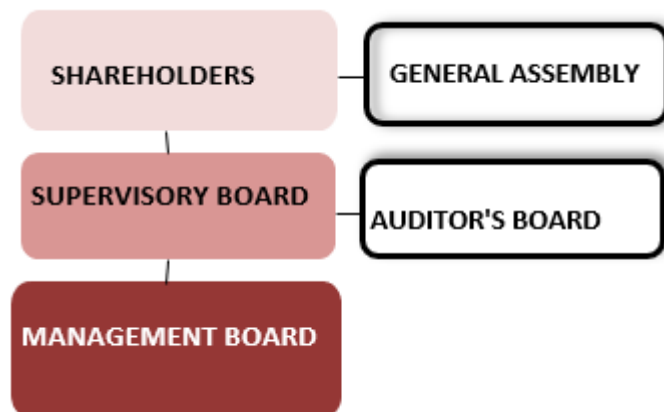
The associated companies owned by Croatia Airlines d.d. in 2019 were Amadeus Croatia d.d. and Obzor putovanja d.o.o., as independent business entities.

Amadeus Croatia d.d. was founded by Croatia Airlines (95% ownership) and Amadeus GDS, a global distribution system seated in Madrid. Its core activity is organisation of all activities and provision of technical support related to the use of Amadeus reservations system on the territory of Croatia and Bosnia and Herzegovina. Amadeus is a global reservations system through which transport and accommodation capacities are distributed and booked on a global level, via travel agencies and sales locations of the very airline companies.

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

Company's management structure and organisation

The Company's operations were in 2019 organised through its business functions grouped into business units and through the joint functions of the Company organised within the Management Secretariat, Quality and Safety Management Office, Crisis Management and Emergency Response Office, Controlling and Internal Audit Sector, and corporate functions comprising the Finance and Accounting Sector, Legal Affairs Sector, Human Resources and Asset Management Sector, and IT Sector.



The business sphere of traffic comprises flight and cabin operations, operations training centre, operations centre with a crew plan, operations engineering, ground operations and

traffic management.

The business sphere of technical works unifies engineering and technical works, material management, preparation and control of works, base and line maintenance, aircraft parts and equipment maintenance and the Technical Training Centre.

The third sphere comprises sales and marketing, and network and revenue management.

Pursuant to the Company's Articles of Association, the Company's Management Board has one member at least and a maximum of three members, while the Supervisory Board has five members, one of whom represents the employees. The Management Board is chaired by Jasmin Bajić, and the Supervisory Board by Zlatko Mateša, LLB. In 2019, Croatia Airlines' Supervisory Board had four members.

Foreign branch offices

Croatia Airlines has seven foreign branch offices: Brussels branch office - Benelux, Frankfurt branch office - Germany, Paris branch office - France, Rome branch office - Italy, Sarajevo branch office - Bosnia and Herzegovina, Skopje branch office - Macedonia, and Zurich branch office - Switzerland.

Rome	Italy
Address:	Aeroporto Leonardo Da Vinci Torre Uffici 2, room 518 00054 Fiumicino
Bruxelles	Benelux
Address:	Brussels Airport, Box 31 1930 Zaventem

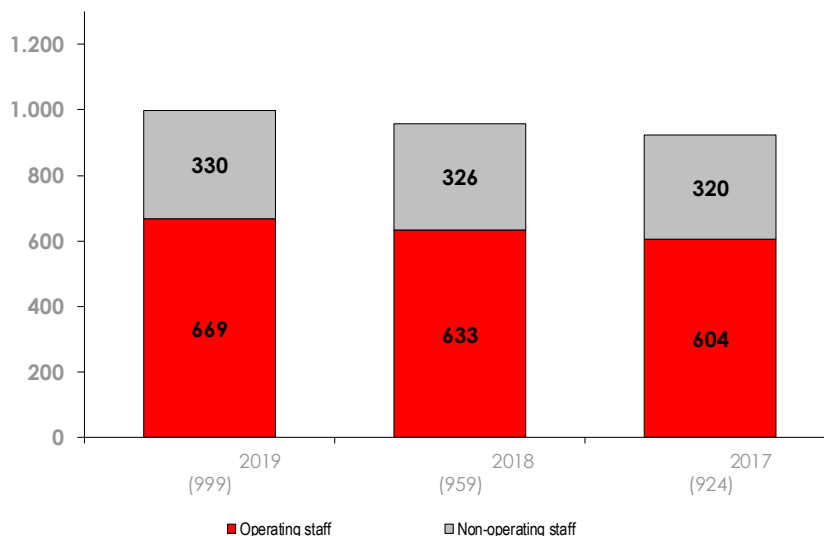
Paris	France
Address:	Roissypôle Le Dôme, 1 Rue de la Haye, BP 18913 Tremblay en France 95731 Roissy CDG Cedex
Frankfurt	Germany
Address:	Kaiserstr.7 60311 Frankfurt a.M.

Sarajevo	Bosnia and Herzegovina
Address:	Zračna luka Sarajevo Ul. Khurta Schorka 36, 71 210 Sarajevo
Skopje	Macedonia
Address:	Skopje International Airport 1043 Petrovec - Skopje
Zürich	Switzerland
Address:	Letzigraben 154; 8047 Zürich

Human resources

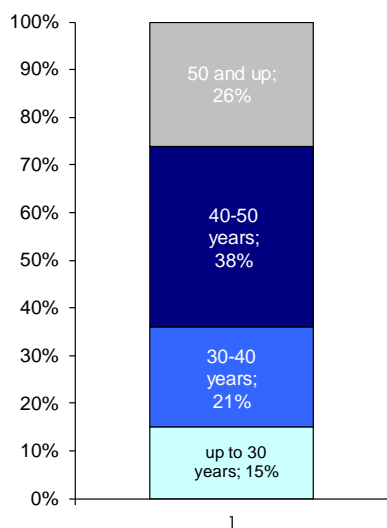
On 31 December 2019, the Company had 999 employees, including 36 foreign branch office employees. Compared to the end of 2018, the number of employees rose by 4%.

Number of employees on 31 12 2019



During 2019, Croatia Airlines also used the services of posted workers, hired primarily as auxiliary aircraft maintenance staff in the aircraft works season. On 31 December 2019, the Company had 19 posted workers.

Structure by age 2019

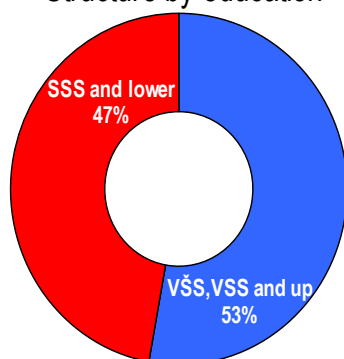


At the end of 2019, the **number of operative staff members** was 6% higher, while the **number of non-operative staff members** was 1% higher compared to the end of 2018. In order to cover its summer flight schedule, the Company hired 62 cabin staff employees on a seasonal basis.

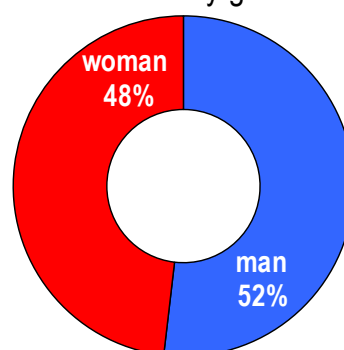
The share of operative staff members¹ within the Company was 67%, while that of non-operative staff members was 33%.

¹ Includes the following operational functions in the Company: traffic (pilots, cabin staff, operations centre, aircraft refuelling, ground services, station managers, assistant station managers); engineering (all functions) and sales (airport branch office managers, and sales and passenger service representatives); the operational functions exclude the Contact Centre and Customer Service functions

Structure by education

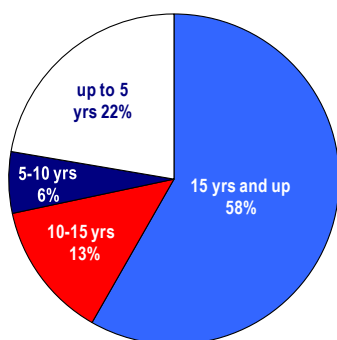


Structure by gender



According to the educational structure, 53% of employees held either an associate or a university degree, with the average age of employees being 43 years. In terms of gender structure, men were somewhat more represented (52%).

Structure by employment record



The average overall employment record of the Company's operative staff was 16 years of service, and that of the non-operative staff was 21 years, while the average employment record on the level of the entire Company was 17 years. The average employment record in the Company was 14 years of service for the operative staff, and 18 years for the non-operative staff, while the average employment record in the Company on the level of the entire Company was 15 years, showing a high level of loyalty on the part of employees, with many of them spending their entire career at Croatia Airlines.

The share of women in the senior management totalled 53%.

Investments and training programmes

As Croatia Airlines' operations highly depend on the use of sophisticated technology and the provision of services, significant financial means are each year allocated for employee training, particularly for specialist training and maintaining the high knowledge and skills standard of the flight, cabin and ground operative personnel, as well as of all other employees whose contribution is crucial for the Company's basic business processes.

Investment in education (HRK)	2019	2018	2017
Operative staff	8.497.736	7.188.758	4.648.913
Annual change rate	18%	55%	-19%
Non-operative staff	538.270	598.964	470.595
Annual change rate	-10%	27%	-33%
Total	9.036.006	7.787.722	5.119.508
Annual change rate	16%	52%	-20%

The training of Croatia Airlines' employees is carried out at three training centres: Operations Training Centre, whose activities are related to the training of flight, cabin and ground personnel, Technical Training Centre, which provides training to the technical and aircraft maintenance personnel, and the Training Centre, intended for non-operative sectors, whose target group are all other Company employees. In 2019, altogether 5,757 hours of internal training were provided for all three employee categories.

In 2019, the **Technical Training Centre** continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance of PART 66 licences².

The basic (commercial) training programme continued for the second group of foreign students, by which the prerequisites were met for conducting examinations in the basic training modules.

Within the PART 147 Type-training, two theoretical and three practical courses were held for the aircraft type A320, and about a hundred training courses as prescribed by the PART 145 regulations, comprising all of the planned courses for extending internal authorisations of Croatia Airlines' PART 145 engineers and mechanics.

In the segment of the "Operations Manual" covering the training of airport personnel in the sphere of aircraft towing, the Company continued providing training courses and maintaining/extending towing licences. Also, in cooperation with the colleagues from the Croatian Civil Aviation Agency, i.e. Airport Section, it continually works on manual revisions, appointments of new towing instructors and advancement of the entire operational segment.

In mid-2019, the Technical Training Centre as an authorised organisation expanded its activities to Airside Drive training and thus obtained the right to issue airside driving permits for Zagreb International Airport.

In 2019, the **Operations Training Centre** organised and carried out all of the planned mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the Company to extend all authorisations and licences necessary for the performance of its activities.

The entire training programme envisaged by the Business Plan for 2019 was carried through for Croatia Airlines' employees on both aircraft type within the fleet, and a number of base training courses for the A319/A320 and Q400 were provided in cooperation with the partners.

The Company also held the planned training courses for its cabin staff, and a number of courses related to the procedure of handling dangerous goods (DGR), CRM trainings for external users, and base training courses for Croatia Airlines' partners.

During 2019, the Croatian Civil Aviation Agency carried out a number of audits and inspections for the purpose of implementing on-going supervision of activities performed by the Operations Training Centre staff at Croatia Airlines' premises, on simulators and on the Croatia Airlines aircraft flights. 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 OM-D & Quality Inspection Orders for the purpose of monitoring and raising the quality of the work of TRI/TRE.

² PART66 – Aircraft Maintenance Licences

The TRE/TRI work was standardised for both aircraft types in the segment of regulatory changes, documentation and training for the entry of aircraft type authorisations.

The employees, in line with their scope of authority, attended workshops and refreshers at the Croatian Civil Aviation Agency, for the purpose of optimising and improving relevant processes within their domain.

Also, external users attended the Company's various web-based training programmes.

In 2019, the **Training Centre** carried out a number of internal training courses for the non-operative staff, with the aim of giving employees an opportunity to obtain additional industry expertise related to technological changes, and business skills needed for their everyday work.

They were traditionally organised before the start of the main season in order to fully prepare the employees that are in direct contact with the users of Croatia Airlines' services for more intensive sales activities, detecting and quickly removing irregularities within the business process, and for establishing general business standards required for keeping and improving a high level of passenger satisfaction.

During 2019, series of regular training courses were organised for sales employees, ground operations employees and travel agency employees; they were related to reservations, passenger tariffs and automated document printing. Along with Croatia Airlines' employees, the attendees were also external users from various institutions directly or indirectly involved in the airline industry, such as employees of airports and travel agencies.

Target groups of employees attended the necessary training courses prescribed by the Star Alliance, with an emphasis on the recognition and benefits of the privileged categories of Star Alliance passengers, and standard procedures in extraordinary situations, in order to maintain the high service quality and improve the level of passenger satisfaction in general.

Company employees also participated in various theme conferences, symposia and work groups, with the aim of becoming more familiar with operational and commercial innovations within the industry, while certain individual training courses were held at the Training Centre of IATA (International Air Transport Association) and other international, specialised training centres.

As the national flag carrier, Croatia Airlines organises 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 2019, Croatia Airlines Training Centre provided training to a significant number of employees of IATA-accredited agencies, in the sphere of reservations, tariffs and ticketing, and to employees of commodity agencies and freight forwarders in the sphere of dangerous goods handling.

The training process for the employees of Croatia Airlines relies primarily on internal resources, implying the use of its own authorised instructors. In addition to financial savings realised in this way, the nourishment of its own know-how results in reduced dependence on external resources and promotes the Company's cultural and business strategies.

Responsibility to employees

The Company's employees are in principle hired for an indefinite period. Additional operative personnel is hired for a definite term during the summer season (cabin staff, pilots), and during the winter for aircraft maintenance needs (auxiliary technical staff). Furthermore, temporary substitutes or vacancies in the periods of peak workload are settled through a fixed term contract basis.

Benefits and supports

In addition to regular income, the Company offers its employees various benefits, such as reimbursement for workplace transportation expenses, severance pay on the occasion of retirement, support in the event of a close family member's death, support for a continual sick leave longer than 90 days, right to paid leave in the event of child birth, moving home, entering into marriage, schooling, etc.

In the event of longer sick leaves, severe illnesses and difficult financial situation, the Company strives to help its employees and their families by co-financing the purchase of medicines and medical treatment costs. It also regularly helps children of the deceased employees through monthly supports during their regular schooling.

Occupational safety, fire protection and environmental protection

The organisation of occupational safety, fire protection and environmental protection is prescribed by the relevant legal regulations and the Company's internal rules.

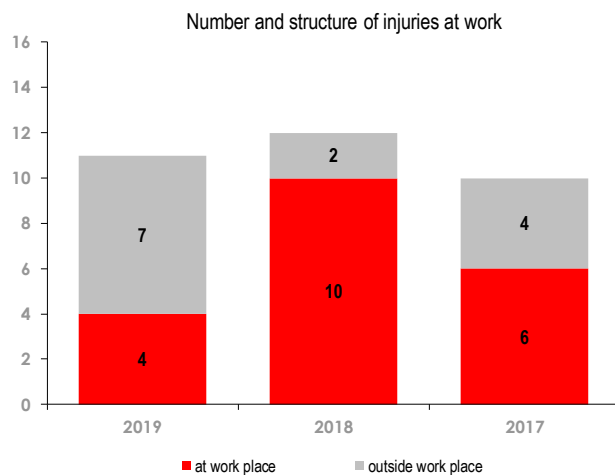
Employee training related to working in a safe manner and basic training in fire protection are regularly organised and implemented for all new employees. Specialist training for the safe handling of machines and devices posing a greater hazard (hydraulic platform lifts, metal and non-metal processing machines, fork-lifts, etc.), and courses on the protection against hazardous chemicals are organised in line with the needs of the Technical Sector. In 2019, specialist training was provided to 17 employees for handling hydraulic platform lifts, while the Croatian Public Health Institute provided training in handling hazardous chemicals to nine employees.

All employees at workplaces with special conditions regularly undergo medical examinations.

All work equipment (machines, devices, tools, plants and installations) within the operating process, as well as those serving for the fire signalling and extinction, undergo regular check-ups and testing.

All hazardous waste resulting from the work process is regularly and duly disposed of, with prescribed records (registers) being kept on it, and reports submitted for the Environmental Pollution Register with the Ministry of Environment and Energy.

In 2019, no inspection control was carried out in the sphere of occupational safety, fire protection and environmental protection.



Altogether 13 injuries at work were reported in 2019 (eight women and five men). Of the 13 reported injuries, 11 were acknowledged, while two were not characterised as injuries at work and were thus not recognised by the Croatian Health Insurance Institute. Of the 11 acknowledged ones, four were sustained at work, and seven while arriving to/leaving the workplace. When classifying the sustained injuries in accordance with the AUVVA method, all of them were minor. 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 prescribed the Complaint Receipt and Settlement Procedure and appointed a person to receive and handle complaints related to this issue. In order to ensure the confidentiality of personal data, the Company reached a decision to appoint a person for collecting, processing, utilising and delivering to third parties personal data on the Company employees.

Pursuant to the adopted Action Plan for the Promotion and Establishment of Gender Equality, the Company carries out analyses, on an on-going basis, of the position of both its female and male employees. During the preceding period there was no need for introducing new measures for establishing gender equality, and the plan for the promotion of gender equality is adopted on a regular basis, in line with relevant legal requirements. In 2019, two reports related to the dignity protection were filed, and handled in line with the prescribed procedure. No discriminatory conduct on the part of employees was identified, and recommendations for preventive measures were issued. There is also an Ethics Committee within the Company.

Employees and Management relations

There are five 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, the Independent Croatian Union of Airline Employees, and the Croatia Airlines' Employees Organisation (ORCA), whose members are pilots, cabin crew staff and aeromechanics and which, alongside the Independent Croatian Union of Airline Employees represents the mentioned employees.

There is also a Works Council within the Company, comprised of 9 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.

On 12 February 2019 a uniform collective bargaining agreement for Croatia Airlines d.d. was concluded for a five-year period, additionally improving the employees' rights and position and thus ensuring long-term social peace.

Social responsibility

Transport and tourism

As the national flag carrier, Croatia Airlines recognises its social responsibility in optimally connecting the country via air with the rest of the world, but also its 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 significance of connecting domestic airline destinations and maintaining traffic within Croatia has also been recognised by the Government of the Republic of Croatia time and again. Pursuant to the Decision on the obligation of carrying out domestic airline traffic operations for the 2016-2020 period (September 2015), Decision on the selection of bids for operating domestic route transport service, rendered by the Ministry of Maritime Affairs, Transport and Infrastructure in January 2016 and upon completion of the public tender process, the Government of the Republic of Croatia awarded the contract to perform the obligation of carrying out domestic airline traffic operations to Croatia Airlines. On the basis of the above-referenced decisions the Ministry of Maritime Affairs, Transport and Infrastructure and Croatia Airlines entered into an agreement setting out all rights and obligations of the parties thereto in performing domestic airline traffic on the following routes: DBV-ZAG-DBV; SPU-ZAG-SPU; ZAG-ZAD-PUY-ZAD-ZAG, ZAG-BWK-ZAG; OSI-DBV-OSI; OSI-SPU-OSI within the period from 27 March 2016 until 28 March 2020, for the purpose of maintaining the traffic connections between the regions and boosting the economic development of the Republic of Croatia.

Croatian brand

As a fully-fledged member of the International Air Transport Association (IATA) and the renowned airline organisation Star Alliance, Croatia Airlines has been recognised as a Croatian brand on all of the markets it flies to. Its corporate design aims to project its image of a highly reputable airline not only in Croatia but throughout the world, and its visual identity contributes to its being recognised as a Croatian brand. Croatia Airlines connects Croatia with the world throughout the year, thus strongly supporting the development of Croatia's tourism and economy, while the authentic visual identity of its aircraft carrying the „CROATIA“ sign, present at all airports the Company flies to, significantly contributes to the promotion of Croatia as the destination. Within its regular, planned fleet technical maintenance programme, in 2019 Croatia Airlines also took the opportunity to visually refresh its aircraft, in the year it celebrates its 30th anniversary. The CROATIA logo on its aircraft has been increased, and the checkerboard squares – the distinct symbol of the Croatian national identity, stretch even further across the aircraft fuselage. The blue colour of the lower part of the fuselage has been repainted white, visually increasing the aircraft and making it more elegant. Croatia Airlines' aircraft, introducing Croatia for the first time to many passengers, have thus become even greater and more prominent promoters of the country, and Croatia Airlines continues to actively contribute to the advancement of Croatia's tourism offer. Three Q400 and three A319 aircraft were repainted by the end of March, while the remaining aircraft will be repainted in the second phase, next year.

Croatia Airlines contributes to the development of Croatia's tourism and economy on an ongoing basis. Within the project Inspired by Croatia, it has been presenting the country's cuisine by offering its passengers quality meals made with the local groceries and based

on the local recipes. In June 2019, Croatia Airlines presented its new menu for the business class passengers, inspired primarily by the Zagreb cuisine, thus further promoting Croatia's tourism and gastronomy. This year's novelties in Croatia Airlines' offer include an introduction of a new project titled Croatia Airlines Full of Taste, developed in cooperation with the Croatian Tourist Board and to be launched in April 2020.

The Company has been promoting Croatia as a brand via the in-flight magazine Croatia, with an emphasis on the beauties of nature, historical values and cultural events. In cooperation with the Croatian Tourist Board and other tourist boards, the Company publishes advertisements and articles in the magazine, while films promoting the cultural values and natural beauties of various Croatian regions are shown on Airbus flights.

Croatia Airlines has long been engaged in a variety of sponsorship and donation activities taking place in the field of culture, science, sports, etc. As the Company's business operations are based on the principles of social responsibility, the projects and/or events it chooses to sponsor or donate to depend on their relevance to the wider community. The Company mainly sponsors cultural and sports events.

In 2019 it continued its cooperation with the Croatian Football Federation and the Croatian Olympic Committee, being their official carrier and promoting local athletes and sports. The Company also supports the work of the Croatian Paralympic Committee, by providing transport for disabled athletes, as well as the Croatian Tennis Association. Through sponsorships on a regular basis, Croatia Airlines promotes and presents its brand and services through numerous institutions and at numerous cultural events contributing to the advancement of Croatia's tourism (Dubrovnik Summer Festival, Easter Regatta, Weekend Media Festival, Days of Communication, Zagreb Dox, etc.).

Support for the community

Croatia Airlines provides help and direct humanitarian aid by granting cost-free transport for severely ill patients, children or people in need, and participating in charity actions by donating free transport. Whenever possible, Croatia Airlines strives to support institutions that need humanitarian aid or organise humanitarian projects. In the same year that Croatia Airlines celebrated its 30th anniversary, it took part in marking 30 years of the Convention on the Rights of the Child and joined the UNICEF's global child rights support initiative with its Smile Above the Clouds campaign by flying some fifty children and their foster parents (gathered around the Forum for Quality Foster Care) from Zagreb to Dubrovnik to celebrate the World Children's Day.

Furthermore, Croatia Airlines' employees participated in the 00:24 RUN night charity race that took place at Franjo Tuđman Airport and the proceeds of which were donated to the Children's Oncology Rebro Foundation for building a new ward. The said donations prove Croatia Airlines' ongoing support for children's welfare.

Croatia Airlines also cooperates with the Aeronautical Technical School Rudolf Perešin whose pupils undergo a traineeship at the Technical Sector, with the possibility of employment upon completion of schooling. The Company has for many years been presenting itself to students at the Career Days as a potential employer. It actively participates in the projects of the Faculty of Transport and Traffic Sciences related to aviation and in professional gatherings, offering jobs to the graduates.

Business ethics

The Committee for Monitoring the Ethics Code Implementation has been active within Croatia Airlines 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.

Environmental protection

The year of 2019 was the year of changes, in which the key words 'sustainable development' and 'ecology in aviation' came into even greater focus. In 2019, Croatia Airlines continued monitoring its greenhouse gas emissions within the EU ETS, began monitoring them within the CORSIA and made preparations for their monitoring within the so-called Swiss ETS. A mere reference to the said systems points to the fact that the airline industry has been under a close scrutiny of both the public and regulatory bodies. This also means that the already quite advanced industry needs to put in additional efforts to contribute more to the environmental protection on a global scale. We should point out here that Croatia Airlines' contribution is clearly visible and measurable. As of summer 2019, drinks are no longer served in plastic cups on flights. Wake vortex noise-reduction generators were installed on aircraft in the spring of 2019, while in the autumn all aircraft were equipped with satellite navigation equipment, boosting the precision of operations and reducing fuel consumption, the time needed to perform the operations and the amount of greenhouse gas emissions.

Environmental and energy management continued throughout the year, and independent auditors confirmed during the recertification audit compliance with the requirements of the international standard ISO14001/50001.

Also, the Company participated in a number of public panels and published articles about environmental protection, following a growing number of interested parties.

Also, it decided to use electricity from renewable sources (HEP Zelen) in 2019, too.

In 2020, the Company is expected to fully apply CORSIA regulations, continue cooperating with interested parties and make continuous efforts to improve its energy indicators and reduce environmental impact through responsible waste disposal. Also, it will keep up to date with the possibilities of using sustainable fuels, for which its aircraft are fully ready.

More detailed information about sustainable development and environmental protection is contained in the Company's Non-financial Statement.

Advancement of business operations and projects

The project of Q400 aircraft modernisation by installing the EGNOS equipment:

In early December 2019, the two-year Q400 aircraft modernisation project was brought to an end with the installation of state-of-the-art EGNOS navigation equipment enabling the aircraft to use the satellite signal of the European Geostationary Navigation Overlay Service and land using the Localiser Performance with Vertical Guidance (LPV) approach. Everyday operations of the Q400 fleet are carried out at the airports that have already implemented satellite-guided procedures such as the LPV. As Croatia Airlines is one of the first European airlines to equip its fleet with this type of navigation equipment, this is another proof that the Company keeps up with the most up-to-date trends in civil aviation. The project was devised and initiated in late 2017. Almost all of the Company's organisational units participated in the project implementation, while its Technical Sector experts performed the demanding upgrade without any external assistance. The European Commission recognised the significance of the project (worth approximately HRK 5,000,000) and decided to support it by providing 85% of the planned funds under the CEF (Connecting Europe Facility) programme owing to the INEA, which approved the co-financing. The new EGNOS equipment has displayed an exceptionally high level of navigation accuracy, and its application in pilot procedures has further boosted the safety of flying operations. It has also helped reduce fuel consumption and greenhouse gas emissions.

The ADS - B Out aircraft function upgrade project started in mid-2018 and is co-financed by the European Commission under the Connecting Europe Facility (CEF) programme, with 20% of the total project cost. The funds will be used to install the appropriate aircraft monitoring equipment that has become mandatory in 2020. More precisely, this refers to the installation of the Automatic Dependent Surveillance Broadcast (ADS-B) -Out) on Airbus and Q400 fleets. The new equipment will allow the air traffic control to receive the GPS coordinates of the aircraft, which is the most accurate report on their current position. Some 800 ground stations that make part of the Single European Sky ATM Research (SESAR) project have already been installed in the European aviation area for the ADS-B function. The amount of EUR 150,000 has been provided for this project from the EU funds (INEA)³. As of December 2019, all Dash aircraft are equipped with devices that meet the prescribed requirements. The equipment has also been installed on three Airbus aircraft, while the remaining three are expected to get it by the end of March 2020. The installation is expected to result in reduced route costs, shorter flights and reduced fuel consumption, fewer delays and increased network throughput at busy airports as well as reduced CO₂ emissions, which is significant for the environment.

With the aim of expanding its line maintenance services to other companies and opening new line bases, Croatia Airlines made preparations during the entire 2019 to **expand its scope of work for the line maintenance of other aircraft types**. In February 2019, it was granted by the CCAA a Part 145 Approval Certificate for expanding the scope of works for the line maintenance of the Bombardier CRJ 700/900/1000 aircraft. Consequently, it concluded with the company AirNostrum an agreement on maintaining two CRJ1000 aircraft flying with Croatia Airlines in the summer season of 2019. In 2019, the Company was granted approvals for the expansion of the scope of line maintenance works on the A320neo and A330 aircraft.

³ Innovation and Networks Executive Agency

An additional expansion of the scope of Approval for the new aircraft types will provide the Company a possibility to expand its aircraft line and base maintenance services to other companies.

In late July 2019, **Croatia Airlines extended two long-term Airbus fleet support contracts with Lufthansa Technik AG**, one of the world's top-quality aircraft maintenance companies. The Total Component Support (TCS®) Contract has been extended for another seven years, while the other, covering auxiliary power units (APUs), will remain in force for another five years. Let us also note that Croatia Airlines has become a user of the Lufthansa Technik's digital platform AVIATAR. By using the said independent, open digital platform containing selected products and solutions for the aviation sector, Croatia Airlines will further increase the reliability and availability of its aircraft.

In 2019, **Croatia Airlines extended its multi-year partnership with Sabre Corporation**, a leading technology provider in the global travel sector. Croatia Airlines has for the past four years used Sabre's revenue and fare management products; as part of a business cooperation agreement, it has also started using its AirVision Revenue Optimizer, a leading revenue optimisation solution in the aviation industry. Sabre's revenue optimisation solution provides an all-round approach to forecasting, analysing and optimising sources of revenue by reviewing total revenues for each flight, each market, and each real-time travel date. The product aims to optimise the air carrier's existing infrastructure and manage its data silos. The Revenue Optimizer offers a real-time data analysis through a simple integration with databases, costs, and pricing optimisation solutions.

The KAAT project: The activities related to the Cooperation Agreement on European Project in Aviation (KAAT – Knowledge Alliance in Air Transport) continued in 2019, with Croatia Airlines being one of the local partners. For the first time, the leading companies of the airline industry in Croatia are actively cooperating with the academic community on a major European project aimed at enhancing innovation in higher education. Air traffic requires a constant development of jobs done by a highly qualified workforce with multidisciplinary knowledge and skills. The project aims to develop, on the level of partners from six EU countries, a new curriculum for a joint master degree by applying innovative approaches to teaching and learning, and to establish close cooperation between the scientific community, industry and the economy. The Croatian team, led by the Faculty of Transport and Traffic Sciences, Zagreb, which is at the same time the project work package leader, prepared the final version of the Methodology for Sectorial Qualification Framework. A list of occupations and required qualifications in aviation has so far been defined within the project.

The activities related to the 5th work package (Elaboration of the Methodology for Sectorial Qualification Framework (SQF) and recognition of prior learning and work experience in aviation) were brought to an end in late 2019.

The same as in the preceding years, in 2019 Croatia Airlines continued developing user services aimed at improving user experience, achieving better sales results and increasing revenues. It primarily continued developing digital channels to enable their users to get access, at any moment, to all information and functionalities needed to plan their travels. The passenger notifications project was completed in March, when the sending of flight delay notifications was enabled. In July, the Company implemented the seat reservation for a charge service, available to the users of digital and all other sales channels. In the same month, Croatia Airlines expanded its offer of digital services by

introducing a new mobile application version. The functionally improved and visually more attractive application enables passengers to plan their travels faster and easier, and it can be accessed from mobile devices with iOS and Android operating systems. Compared to the previous version, it is largely redesigned, information can be obtained in four languages (Croatian, English, French and German), with an option of scanning and storing data from travel documents and tracking flight statuses in real time. Parallel with the launch of the new mobile application, users were offered a new web check-in service. In November, the Company implemented a responsive online interface for the purchase of tickets and additional services, and related functionalities – Reservation Management, Flight Schedule, Flight Status. Responsive interfaces for all these functionalities enable supreme user experience on all digital channels of Croatia Airlines, regardless of the type of device used. Furthermore, a number of new projects were initiated in 2019, as part of further development of services and advancement of operations.

Business environment and operational risks

Global economy

The economic situation is a key factor for the development of air traffic. Therefore, taking into account all factors of civil aviation, the forecasts of economic growth serve as the basic presumptions for the drawing up of business and development plans. The forecasts of economic trends for the U.S. and EU have direct and indirect effects on other developed and developing markets.

In its World Economic Outlook Update from January 2020, released for the major economies only, the IMF revised slightly downwards its forecast for the global economic growth in 2019 to 2.9%, which is the weakest growth since the financial crisis ten years ago.⁴ Its October 2019 projection was revised downwards by 0.1 pp.

The projection for the growth of the U.S. economy in 2019 was revised downwards to 2.3%, while that for the euro area remained unchanged at 1.2%. The IMF's 2019 growth projection for the emerging and developing economies, among them Croatia, also remained unchanged at 1.8%.

As early as October 2019 the IMF announced in its regular autumn outlook a growth slowdown due to the deepening of the trade war between the U.S. and China and growing geopolitical tensions, which are increasing the uncertainty related to the future of the global trade system, and thus undermining the trust, decreasing investments, and discouraging the risk-taking in financial markets. This is particularly prominent in the production sector, which depends the most on international trade.

The global market still faces significant risks resulting from the growing geopolitical tensions, particularly between the U.S. and Iran, new waves of social unrest, further worsening of relations between the U.S. and their trading partners, and deepening economic disagreements among other countries. International cooperation and a more balanced policy mix at the national level, while taking into account the available monetary and fiscal space, are what the IMF considers essential for reducing those risks.

It was until recently that the analysts projected a stable growth of the global economy in 2020. However, the evolution of a new, dangerous coronavirus strain (COVID-19) that has spread throughout the world in as few as several months and caused a pandemic has disrupted our way of life. The measures introduced in an attempt to stop the spread of the coronavirus are greatly affecting economic activities, pushing the world into the worst recession since the Great Depression, and resulting in a far more negative outcome than that caused by the global financial crisis in 2008.

Croatia's economy

The positive trends in Croatia's economy continued in 2019. In its regular October outlook, the IMF revised upwards its projection for Croatia's economic growth in 2019, putting it at 3%.⁵ The growth projections are based on the current indicators of economic activity and the expected continuation of a positive contribution of all factors affecting their level.

⁴ IMF World Economic Outlook Update, January 2020

⁵ IMF World Economic Outlook, October 2019

The released macroeconomic indicators for 2019 are set out in detail in the below paragraphs.

According to the first estimate of the Croatian Bureau of Statistics (CBS), the real growth of gross domestic product (GDP) in 2019 was 2.9%, which is faster than the year before, when it was 2.6%.⁶ The growth of personal spending and investments contributed to the largest extent to the growth of the Croatian economy.

According to calendar-adjusted data, industrial production in 2019 rose by 0.5% compared to 2018.⁷ It makes part of the positive trend that has been going on since 2014, with only a brief decline in 2018.

Compared to 2018, calendar-adjusted retail trade turnover saw a 3.6% increase in 2019⁸, thus continuing the positive trend that has been going on for six years now. Due to the above, 2019 was the first year in which the 2008 level of the real retail trade turnover was exceeded (by 0.3%).

The prices of goods and services intended for personal spending, measured by the consumer price index, rose by 0.8% in 2019.⁹ Such a level of inflation was almost 50% lower than that in the previous year (1.5%) and was also the lowest since 2016, when the prices fell by 1.1%.

The Bureau's analysis shows that the total number of employed persons in 2019 increased by 1% compared to 2018, with the registered unemployment rate in December 2019 being 7.9% (compared to 9.6% in December 2018).¹⁰ Such ongoing positive trends are the result of new employments and continued emigration of the most productive part of the working-age population.

Croatia's exports in 2019 rose by 5.8% compared to 2018, totalling HRK 114.2 billion, while its imports rose by 4.6%, totalling HRK 184.3 billion. The country's foreign trade deficit was HRK 70.1 billion, 2.6% greater than in 2018. The import-export coverage ratio was 62%.¹¹

The share of public debt in GDP continued to decrease, falling to 74.9% of GDP in late September 2019, and economic growth will contribute to a further reduction of the public debt and GDP ratio in 2019.¹²

Tourism figures for 2019 point to another record season. An increase in arrivals and overnight stays of both local and foreign tourists was recorded for the sixth year in a row, confirming Croatia's position of one of the most popular tourist destinations, attracting more and more guests throughout the year, with a positive effect on the demand for air traffic services.

In 2019, 19.6 million tourist arrivals and 91.2 million overnight stays were recorded, with a 4.8% rise in arrivals and a 1.8% rise in overnight stays compared to 2018.¹³ As for the overall tourist arrival structure, there were 89% foreign tourists and 11% local ones. The year of 2019 saw 9.4% more local tourist arrivals and 4.3% more foreign tourist arrivals,

⁶ www.dzs.hr; First estimate of quarterly gross domestic product for the fourth quarter of 2019, 28 February 2020

⁷ www.dzs.hr; Industrial production volume index and indices of stocks, persons employed and labour productivity in industry, in December 2017, 30 January 2020

⁸ www.dzs.hr; Retail trade in December 2019, 30 January 2020

⁹ www.dzs.hr; Consumer price indices in December 2017, 16 January 2020

¹⁰ www.dzs.hr; Persons in paid employment, by activities, in December 2017, 20 January 2020

¹¹ www.dzs.hr; Foreign trade in goods of the Republic of Croatia, provisional data for the period from January to December 2019 and for January 2020, 10 March 2020

¹² www.poslovni.hr, downloaded 8 January 2020

¹³ www.dzs.hr; Tourist arrivals and overnight stays in 2019, 28 February 2020

with the number of overnight stays of local tourists facing a 9.6% rise and of foreign tourists a 1.1% increase. As in the previous years, tourists from

Germany were the most numerous ones, followed by Slovenians, Austrians and Italians. It follows from the above that Croatia's economic growth is based primarily on personal spending and investments financed mostly from the European Union funds. Favourable trends are being recorded on the labour market, with a decreasing unemployment rate, lower share of public debt in GDP, and low inflation. Tourism is one of the key triggers of economic activity in Croatia; it is exceptionally sensitive to the changes in the economic trends.

Given a growth slowdown faced by Croatia's key foreign trade partners and tourist feeder markets, primarily Germany, Austria, Italy and Slovenia, the country's economy is exposed to external pressures, while limitations on a local level come from red tape and inefficiency of public services. The internal developments call for a fast implementation of the necessary structural reforms in a number of areas, and for continued fiscal consolidation.

A chronic lack of labour force and the issue of keeping the working population will most certainly be one of the key challenges for the Croatian economy, necessitating a motivating business environment. The implementation of reforms would unburden the economy, and the strengthening of its competitive position would create prerequisites for a more stable, stronger and more sustainable growth in the long run.

Global airline market

Not only is the air traffic industry a generator of the social and economic growth, but is also of vital importance for the economic development, creation of jobs (directly and indirectly), support for tourism and entrepreneurship, and encouragement of foreign investments and international trade.

According to the International Air Transport Association (IATA), around 39 million scheduled flights were operated in 2019, with a fleet of nearly 30,000 aircraft, and about 4.5 billion passengers and 61.2 million tonnes of cargo were transported.¹⁴

A rise in demand for air transport services continued in 2019 as well, but at a somewhat slower pace. Passenger traffic expressed in revenue passenger kilometres (RPK) rose by 4.2% compared to 2018, with 2019 being the first year since the 2009 global crisis in which the growth of passenger demand fell below the average annual growth rate of 5.5%.¹⁵

In 2019, 3.4% more capacities expressed in available seat-kilometres (ASK) were offered, which is a slower growth compared to demand, and the passenger load factor (PLF) reached a record 82.6% (+0.7 pp compared to 2018).

Cargo transport expressed in tonne kilometres (TK) recorded a 3.3% decline in 2019 year-on-year, as the first year facing a fall in the scope of cargo transport since 2012, and recording the poorest result since the 2009 global financial crisis.¹⁶

According to IATA's data, the global airline industry operated profitably in 2019; its total net profit was \$25.9 billion, with the EBIT margin of 5.1%. This result is somewhat poorer

¹⁴ IATA Economic Performance of the Airline Industry, December 2019

¹⁵ IATA Air Passenger Market Analyses, February 2020

¹⁶ IATA Air Freight Market Analyses, February 2020

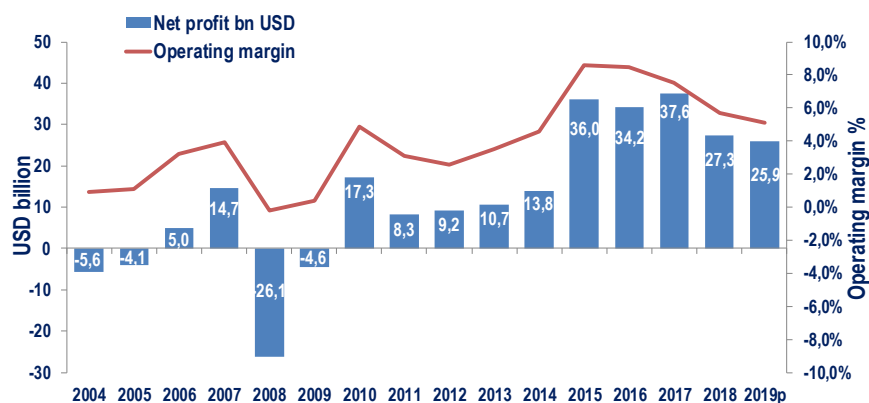
compared to 2018, when its net profit was \$27.3 billion, with the EBIT margin of 5.7%. The profit per passenger in 2019 amounted to \$5.70, while it was \$6.22 per passenger in 2018.

It is evident that airline companies managed to keep their growth stable in 2019 amidst many political, economic and security challenges. The consequences of a slowdown in the global economy, lower trading levels, geopolitical tensions and the trade relations between the USA and China have significantly affected the conditions in the freight market, and have also reflected in the passenger transport market. The grounding of the Boeing 737 Max aircraft, the shutdown of production and failed aircraft delivery resulted in reduced capacities, which made the management of the lower demand easier and contributed to the record-high load.

The regional outlook for the net profit in 2019 reflects different economic conditions in various parts of the world. North America, Europe, and Asia and Pacific operated on profit. In addition to the African market that has been facing the poorest results for a number of years now, the Middle East and Latin America markets also recorded a negative ultimate result in 2019.

The highest EBIT margin was estimated for the market of North America (9.6%), followed by the markets of Europe (4.7%), Latin America (3.6%), Asia and Pacific (3.5%) and Africa (1%). The Middle East market recorded a negative EBIT margin (-5.2%).

Profitability of global airline companies



Source: IATA, December 2019.

The coronavirus pandemic has had a devastating effect on the global airline industry, which is in 2020 facing the worst crisis ever. Its prospects are getting worse from one day to another, with airlines struggling to survive, cancelling flights, reducing capacities and costs, and grounding their fleet. The losses generated by certain airlines have already reached hundreds of million dollars.

European airline market

Air traffic plays a crucial role in Europe; according to the data of the Air Transport Action Group (ATAG), 12.2 million jobs in Europe are connected to the airline industry that contributes EUR 823 billion to the economic activities, i.e. makes 4.1% of the European GDP.¹⁷

¹⁷ ATAG Aviation Benefits Beyond Borders, October 2018

For over 60 years the European network air carriers came together through the Association of European Airlines (AEA), which in November 2016 ceased operating, and therefore also publishing statistical reports on traffic and financial results of its members.

In January 2016, a new association was founded - Airlines for Europe (A4E); it is seated in Brussels and currently comprises 15 members: along with the association founders Air France – KLM, easyJet, IAG, Lufthansa Group and Ryanair, there are also Aegean, airBaltic, Cargolux, Finnair, Icelandair, Jet2.com, Norwegian, TAP Portugal, Travel Service and Volotea. In addition to airlines, it gathers aircraft, engine and equipment producers.

Croatia Airlines became a member of the European Regions Airline Association (ERA) in 2016; the Association currently has 53 members and 153 associate and affiliate members, jointly covering the whole aviation sector (airlines, airports, and aircraft, engine and equipment manufacturers).

Passenger traffic on the European aviation market, expressed in revenue passenger kilometres (RPK), rose by 4.2% compared to 2018, and PLF reached 85.2% (+0.5 pp). Since Europe is among the regions that are most exposed to the negative international trade trends, cargo transport expressed in tome kilometres (TK) recorded a 1.8% decline.

According to IATA, the European carriers generated a net profit of \$6.2 billion in 2019 (\$9.1 billion in 2018), with the operating margin of 4.7% (6.2% in 2018). Europe has the highest break-even point of all other markets, as a result of low yields, high level of competition and high regulatory costs.

Poorer performance compared to 2018 can be attributed to a slowdown in economic activity, declining corporate trust, industrial actions, uncertainty related to Brexit, and the winding up and bankruptcy of a number of airlines (Thomas Cook, Adria Airways, Flybmi, Germania, Wow Air, Aigle Azur, XL Airways, etc.).

Croatian airline market

The economic situation is a key factor for the development of air traffic, and Croatia Airlines' operations are closely tied to Croatia's economic reality and depend on the state of the economies of the countries that represent the main feeder markets for travels to Croatia, particularly when it comes to tourism.

According to the data of the Croatian Bureau of Statistics, Croatia's airports recorded an 8.3% rise in the number of passengers compared to 2018.¹⁸ Altogether 11.4 million passengers were recorded at nine airports in Croatia, with Croatia Airlines' market share being 23%. The number of aircraft operations at Croatia's airports totalled 129,695 in 2019, up by 4.5% from 2018. Cargo transport saw an 8.5% fall, with altogether 11.3 thousand tonnes of cargo being transported.

¹⁸ www.dzs.hr; Traffic at Airports in December 2019, 7 February 2020

Croatia's airline market is characterised by high traffic seasonality, with a high level of competition in the summer months. More than half of all passengers on the Croatian airline market are transported in the third quarter, when nearly 100 airlines operate, while the competition in the winter period is minimal. Croatia Airlines operates throughout the year, enabling local airports to be open the entire year.

All of the above points to the significant influence of Croatia Airlines on operations of other economic entities within the air traffic system. It should also be emphasised that Croatia Airlines, as the national flag carrier, enables the country an airline connection with the rest of the world during the winter, when the demand is low.

Croatia Airlines

After more than two years of collective bargaining, on 12 February 2019 Croatia Airlines and its two representative unions signed a new collective bargaining agreement for a five-year period, thus ensuring long-term social peace as an important presumption for regular and stable business operations, particularly in the summer season when the Company generates the highest revenues. The agreement is also of great importance for Croatia Airlines' upcoming development phase, in which the goal is to find a strategic partner in line with the National Reform Programme.

The Government of the Republic of Croatia reached on 21 February 2019 a decision to initiate the procedure of seeking a strategic partner and to establish a commission to implement the procedure and propose the selection of a strategic partner for the company Croatia Airlines d.d.

The following is expected from the strategic partner:

- ➔ Expansion of the traffic network and increase of the market share of Croatia Airlines d.d., bearing in mind the importance of scheduled and year-round connectivity in domestic and international air traffic and the need for a strong support of further development of tourism potentials of the Republic of Croatia;
- ➔ Recapitalisation for the purpose of boosting the future development of Croatia Airlines d.d.;
- ➔ Participation in the renewal of the fleet of the company Croatia Airlines d.d., in line with the expansion plans;
- ➔ Further development of technical services of the company Croatia Airlines d.d. offered to external clients.

On 24 April 2019, the Commission held its first session and reached a decision on selecting a financial consultant. The contract was awarded to the consortium of Privredna banka Zagreb and DVB Bank SE for the provision of financial consultancy services to the company Croatia Airlines d.d. in relation to defining a recapitalisation model, and identifying and verifying potential investors.

On 19 September 2019, the Government of the Republic of Croatia reached a decision, setting the prerequisites for the implementation of the Croatia Airlines recapitalisation process, and stipulating an HRK 250 million worth prepayment to the Company for the stabilisation of its operations prior to recapitalisation.

The advance was paid in two instalments, i.e. HRK 100 million in 2019 and HRK 150 million in 2020.

On 30 January 2020, the Government of the Republic of Croatia made amendments to the above decision, according to which the prepayment made would be treated as a shareholder loan, with a two-year due date.

The plan was to initiate the recapitalisation no later than 1 June 2020, as an open procedure in which private investors would have the right to participate. However, in March 2020, the Commission in Charge of Implementing the Procedure and Proposing the Strategic Partner for Croatia Airlines d.d. decided that, amidst an unfavourable backdrop and the risks currently present in the sector, the procedure dynamics needed to be adjusted by putting it on hold due to force majeure, in line with the deadlines set by the Government Decision Setting the Prerequisites for the Implementation of the Croatia Airlines Recapitalisation Process. The Commission will continue to monitor the development of the situation in the aviation sector.

Operational risks

Airlines are faced with a wide range of strategic, operational and financial risks, whose specificities are related to the characteristics of individual markets, depending on the economic development level, features of demand (seasonality, tourism, etc.), current and future level of competition, and the size and financial strength of individual carriers. Within the implementation of the risk management process, major risks have been recognised according to their potential influence on Croatia Airlines' business operations, and the monitoring of these risks should help mitigate potential negative consequences and turn risks into opportunities whenever possible.

The biggest external risks affecting Croatia Airlines' business operations are: economic surroundings, (Croatia and destinations), competition, Star Alliance and partnerships, risks related to price changes (traffic charges and flight permits, suppliers, fuel), movements of currencies, interest rates, etc. The biggest internal risks include human resources, capacity management, operational disturbances, sales, revenue management, and liquidity risk, especially in the winter months.

Exposure to a recession and an economic crisis affects the demand for air traffic services, with international passengers generating the greatest demand for air traffic services in Croatia (85% in 2019). The share of Croatian citizens in Croatia Airlines' international passenger traffic (about 35%) is higher than that of the competition, so the exposure to the risks coming from the country's economic surroundings is proportionally higher.

Fuel

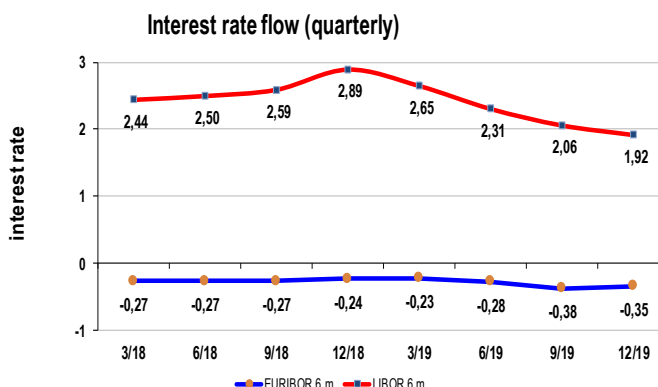
As fuel costs represent the most significant costs for airlines, the fuel consumption and cost management is constantly in the focus of Croatia Airlines' operating and finance management activities.

The oil price recorded a growth in the first four months of 2019, primarily as a result of the geopolitical tensions. The global economy's weakening signs stopped the growth of oil price, which dropped under 70 \$/barrel in June, and varied from 59 to 64 \$/barrel in the second half of the year. The average Brent oil price on the London Stock Exchange was 64.1 \$/barrel in 2019, or 7.5 \$ /barrel lower compared to 2018.

According to IATA, the Brent oil price in 2019 amounted to 65 \$/barrel (71.6 \$/barrel in 2018), while the average price of jet fuel amounted to 77 \$/barrel (86.1 \$/barrel in 2018). The fuel costs in 2019 on the industry level have been estimated at \$188 billion (\$180 billion in 2018), with their share in the operating costs slightly rising, from 23.5% in 2018 to 23.7% in 2019.

Interest risk

By taking long-term loans at a variable interest rate, the Company is exposed to the interest-related risk, too. It, therefore, regularly monitors interest rate movements on the global market, as well as their influence on its business operations. At present, the remainder of the principal owed by the Company under the long-term foreign-currency loan totals HRK 55.4 million.



In the first two quarters of 2019, the value of Euribor recorded no significant changes compared to the 2018 trends, while it faced a slight fall in the two final quarters. Libor recorded a significant drop in 2019, which did not affect Croatia Airlines' operations since it had no loan liabilities related to Libor.

Cash flow risks

Cash flow and liquidity maintenance risks are currently the biggest internal risks affecting Croatia Airlines' business operations. The Company has been managing risks by regularly monitoring its due liabilities and maintaining adequate and sufficient sums of ready cash and deposits for covering its due financial expenses. Given the high seasonality of operations, the Company usually takes short-term bank loans to bridge the periods of lower cash inflows.

In late 2019, the Company took fresh short-term loans worth HRK 10.6 million.

The Company fully paid off four short-term loans taken with PBZ, HPB and Erste bank, totalling HRK 42.3 million, and a long-term loan extended by PBZ. It also repaid syndicated loan instalments worth EUR 600,000.

Currency risk

The exposure to the risk of negative effects of foreign currency exchange rate changes against the kuna is reflected in the repayment of loan and lease instalments denominated in foreign currencies. Foreign currency inflows from the sale of tickets abroad significantly mitigate these risks. The exposure to the current volatility of USD is set off with the revenues from the sale on the U.S. market.

Fleet and capacities

In 2019, Croatia Airlines operated a fleet of 12 aircraft: six Airbus aircraft (two A320, of which one was under an operating lease, and four A319), and six Q400 aircraft under an operating lease.

A 320 – 2 aircraft

The aircraft has 174 seats – altogether 348 seats



A 319 – 4 aircraft

The aircraft has 144 seats – altogether 576 seats

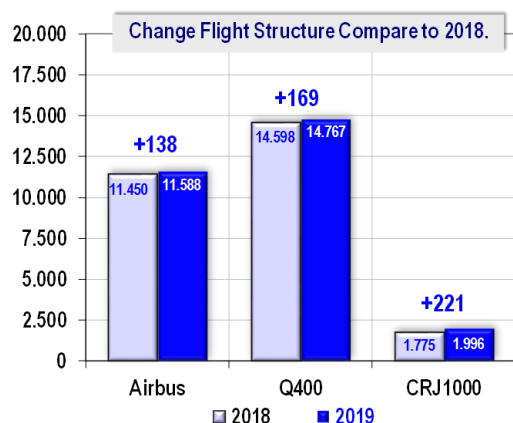


Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats



With the aim of expanding its destinations network and adhering to the planned flight schedule, Croatia Airlines took a lease, the same as in 2018, on two CRJ1000 100-seaters for the period from April to October 2019, thus supplementing its current fleet of 12 aircraft.



In 2019, Croatia Airlines' aircraft realised the block time of 40,553 block hours, which is 1% more than in the preceding year.

They operated 28,432 flights, 2% more than in the preceding year. With the aim of adapting the offer of capacities to the market demands, the Company retained the block time structure in favour of smaller aircraft, i.e. Q400.

Ad hoc chartered aircraft were used for a total of 81 flights for the purpose of maximally reducing traffic disruptions.

Fleet utilisation

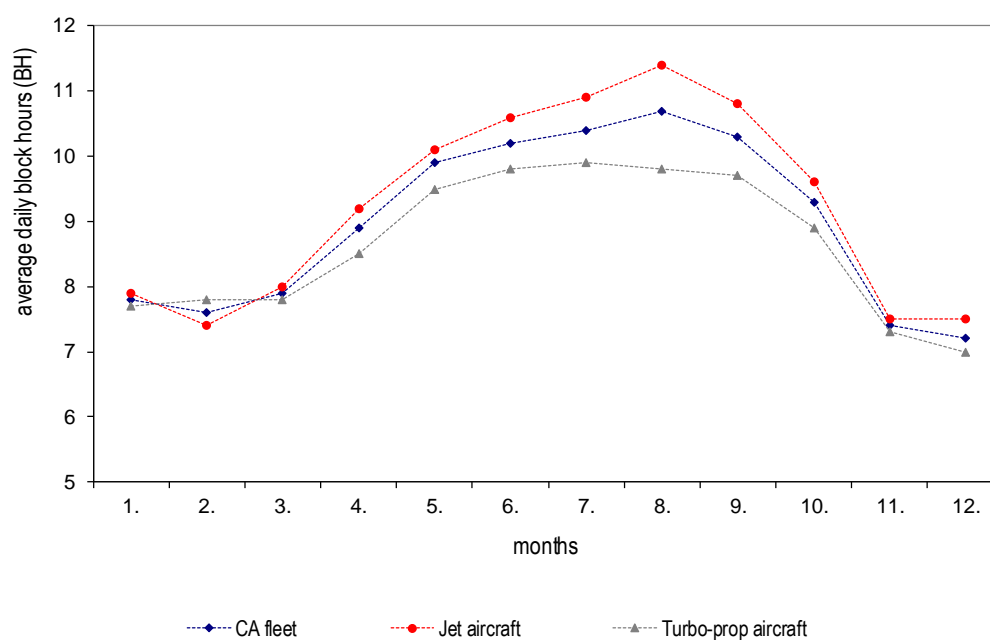
type of aircraft	number of aircraft	Ø daily block hours (BH)	growth 19-18	utilisation growth 19/18
Airbus A320	2	9,2	-0,4	-4,2%
Airbus A319	4	9,7	0,0	0,0%
Q-400	6	8,7	+0,1	1,2%
CRJ1000*	2	9,4	-0,1	-1,1%
TOTAL	14	9,2	0,0	0,0%

*leased during summer season

In 2019, Croatia Airlines' fleet realised on average 3,360 block hours per aircraft, or 1.7% more than in 2018.

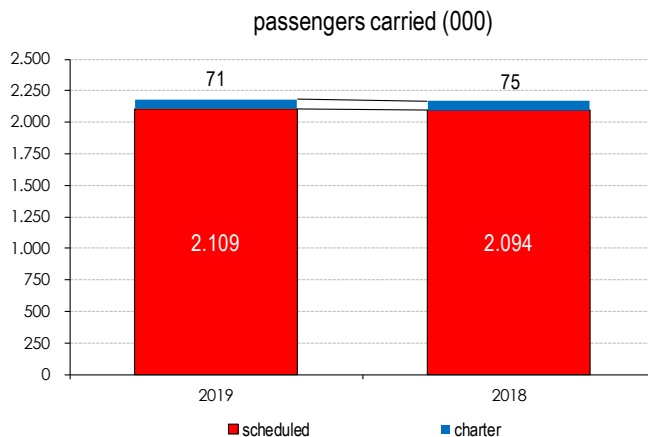
The average number of aircraft on the level of 2019 totalled 12.08 aircraft (excluding the aircraft leased for a short-term period). Available seat-kilometres (ASK) in 2019 were on the level of 2018, while revenue passenger kilometres (RPK) rose by 1%.

CA fleet utilization by month, 2019.



The market

In 2019, the total number of transported passengers remained at the same level as in 2018. The number of passengers carried in **domestic scheduled traffic** declined by 3%, while of those transported in **international scheduled traffic** rose by 2% compared to 2018.



Altogether 71,000 passengers were transported within the **charter traffic**, or 6% fewer compared to 2018. When compared to 2018, this decline results from a greater number of charter flights operated in June and July 2018 in relation to the 2018 FIFA World Cup in Russia. Charter traffic made up only 4% of the total traffic.

transported, which is 6% less than in 2018.

In 2019, 2,135 tonnes of cargo were

The **passenger load factor (PLF)** was 73.6% (0.1 pp up from 2018) and the **weight load factor (WLF)** was 70.3% (on the level of 2018).

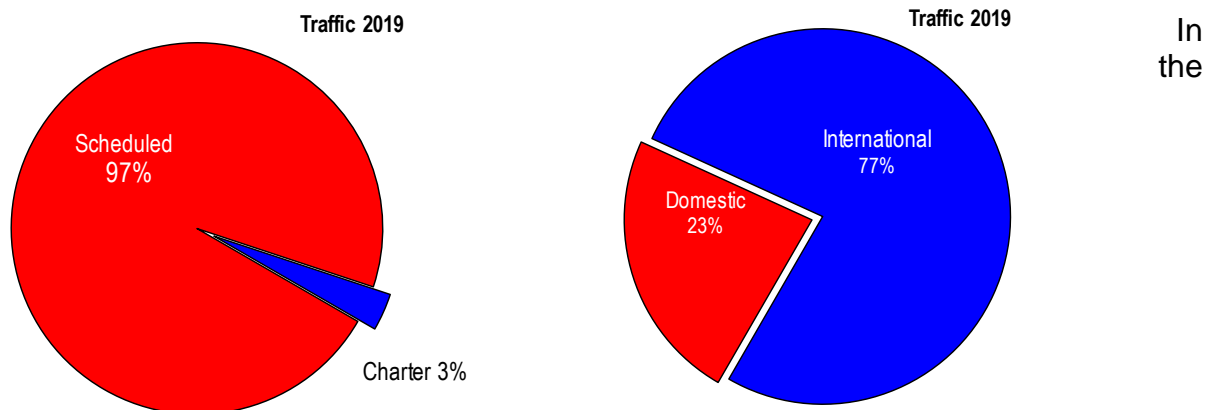
In 2019, Croatia Airlines was connecting Croatia within the international scheduled traffic with 38 destinations in 24 European countries, and in cooperation with its Star Alliance partners with the rest of the world as well. During the peak season, Croatia Airlines operated 105 flights a day.

In 2019, Croatia Airlines continued flying to all of the European destinations introduced over the past three years: Stockholm, Oslo, Helsinki, Bucharest, Lisbon, Milan, Prague, Saint Petersburg and Dublin, and on the seasonal routes Dubrovnik – Munich and Split – Copenhagen introduced in 2018. Year-round flights on the route Zagreb – Mostar, introduced in 2018, continued too, as well as the seasonal flights to many other attractive destinations, such as Athens, Barcelona and Venice. Passengers were offered a number of the well-established seasonal routes in both domestic and international traffic. An additional flight from Zagreb to Dublin on Tuesdays was a novelty in the summer flight schedule, offering the passengers flying this route three weekly frequencies – on Tuesdays, Thursdays and Sundays.

In 2019, Croatia Airlines collaborated with 16 codeshare partners, of which 13 were Star Alliance members (Lufthansa, Austrian Airlines, Swiss, Turkish Airlines, TAP, SAS, Brussels Airlines, United Airlines, Air Canada, LOT, Singapore Airlines, Air India and Asiana Airlines), and three Sky Team Alliance members (Air France, KLM and Alitalia). The goal of such cooperation agreements is to make the services of an airline available on the markets on which it does not physically operate flights or to increase the capacities on the existing routes.

In 2019, altogether 2,179,355 passengers were transported, which is a record **number of passengers** in the Company's history. Croatia Airlines also reached record passenger traffic figures on the level of April, with more than 150,000 passengers being recorded for the first time since 1992, when it started operating commercial flights. In April 2019, Croatia Airlines' aircraft carried nearly 173,000 passengers, which is the Company's record for this month.

Altogether 511,156 passengers were transported within the domestic scheduled traffic, 1,597,430 within the international scheduled traffic, and 70,769 within the charter traffic.



international scheduled traffic, 2% more passengers were transported in 2019, i.e. 30,021 more compared to 2018. Given a 2% rise in the capacities offered, the passenger load factor (PLF) in international scheduled traffic was 74.1% (+0.2 pp). The number of passengers transported in domestic scheduled traffic fell by 3%. The passenger load factor (PLF) in domestic scheduled traffic was 68.7% (-3.4 pp).

On 12 November 2019, the Company welcomed its 40 millionth passenger, in the year it celebrated its 30th anniversary.

The activities of the **Technical Sector** related to the works on the Croatia Airlines' aircraft were carried out in-house, in line with the standard procedure for planning annual work packages. The Technical Sector employees carried out 15 C-checks on other companies' aircraft.

In late July 2019, Croatia Airlines extended two long-term contracts with Lufthansa Technik, one of the world's leading companies in the field of technical aircraft maintenance. This confirms excellent relations between Croatia Airlines and its long-time partner, aimed at achieving the highest level of reliability, performance and safety.

A great deal of **Croatia Airlines' marketing activities in 2019** referred to the celebration of the full three decades of inter-connecting domestic destinations and Croatia with the rest of the world. With a strive to express gratitude to its service users for their long-term loyalty, the Company organised a number of prize competitions in cooperation with the media and on various social networks, and passengers were in for surprises during the flights, too. In addition to the promotional activities related to the celebration of Croatia Airlines' 30th anniversary, its other activities were primarily focused on the promotion of its summer flight schedule on international markets, and of its domestic routes on the Croatian market.

In cooperation with the Croatian Tourist Board and the Tourist Board of the City of Zagreb, Croatia Airlines participated in the tourism fairs in Dublin, Madrid, Bucharest, Milan, Munich, Berlin and Barcelona. It participated on its own in the Place2go fair in Zagreb, presenting its flights network.

In late September 2019, Croatia Airlines as the national flag carrier, the Dubrovnik Tourist Board and the Croatian Tourist Board presented Dubrovnik and year-round direct flights on the route Frankfurt – Dubrovnik to some fifty German travel agencies and travel journalists. The promotion of visits to Dubrovnik in winter months fits into the Croatian tourism strategic plans, as one of their key goals is to prolong the season, and Dubrovnik is most certainly a leader in this respect. Owing to direct connections in winter months, Frankfurt and its surroundings are ideal for attracting additional guests in this period.

Croatia Airlines regularly promotes its offers on Google search engines and communicates with its service users through social networks such as Facebook, Twitter, Instagram, LinkedIn, Google+, YouTube.

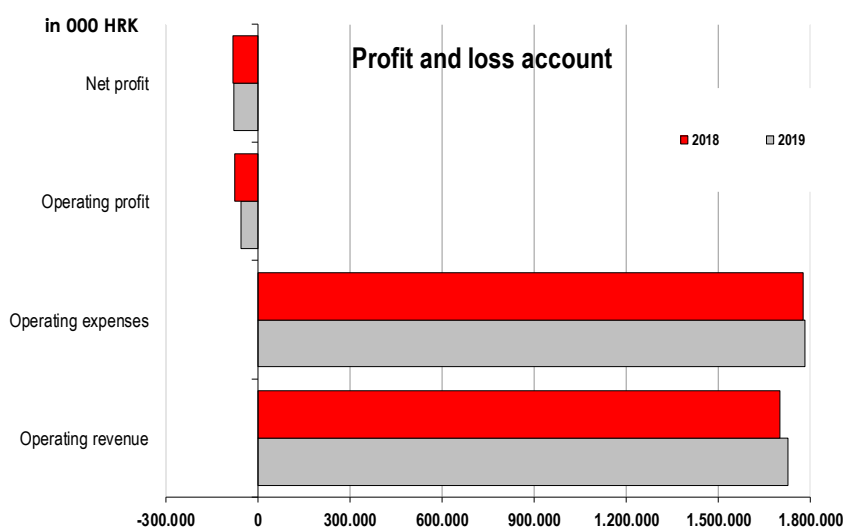
Financial operations

Profit and loss account

(000 HRK)	2019	2018	Index 19/18
Passenger traffic	1.521.320	1.501.706	101
Cargo traffic	11.518	11.614	99
Other revenues	195.451	188.022	104
OPERATING REVENUE	1.728.289	1.701.343	102
Flight operations	517.780	587.755	88
Maintenance	219.298	251.883	87
Passenger services	110.985	120.221	92
Aircraft and traffic services	395.028	394.295	100
Promotion and sales	228.948	225.794	101
General and administrative expenses	87.010	83.887	104
Amortization	208.647	100.868	207
Other expenses	15.978	13.143	122
OPERATING EXPENSES	1.783.673	1.777.846	100
PROFIT/LOSS FROM OPERATIONS	-55.384	-76.503	72
Interest expense	-19.410	-4.407	440
Interest revenue	167	113	147
Foreign exchange differences, net	-5.039	-1.773	-
Other financial expenses	-79	-455	17
Other financial revenues	386	88	440
NET FINANCIAL EXPENSES	-23.975	-6.434	373
NET PROFIT/LOSS	-79.359	-82.937	96

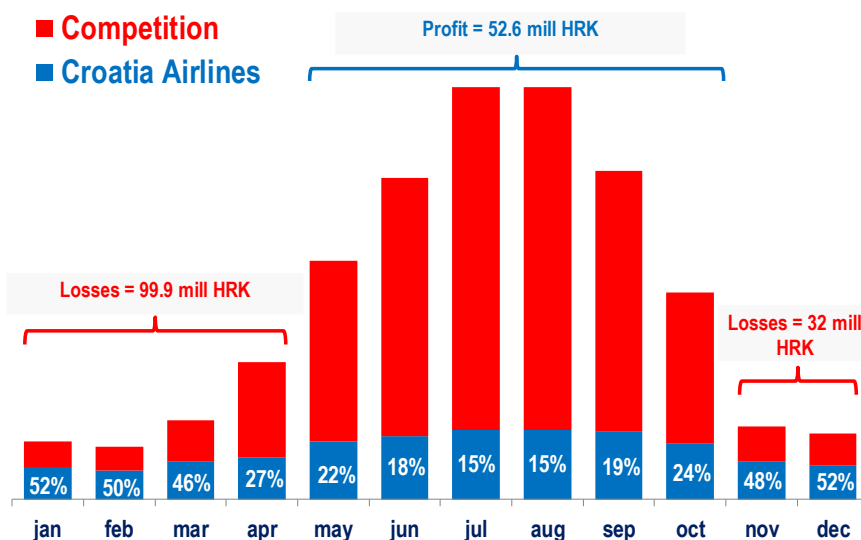
In 2019, Croatia Airlines' operating loss totalled HRK 55.4 million. With the net financing result included, its ultimate loss was HRK 79.4 million.

The application of IFRS 16 negatively affected the Company's business result, primarily due to a rise of depreciation costs, which together with the depreciation costs of obligatory major works on the fleet carried out in the preceding period rose by HRK 107.8 million. The application of this standard also brought changes to the cost structure, increasing the EBITDA indicator by HRK 128.9 million compared to the 2018 result. The net effect on the result coming from the changed method of recognising operating lease costs is HRK 19.9 million, the amount by which the total costs rose compared to the previous accounting treatment.



Croatia Airlines, as a rule, generates losses during the winter flight schedule, when the demand is low, and the level of competition minimal. In the summer season, when all major European carriers, both traditional and low-cost ones, are present on the market, it generates profit, which in 2019 was not sufficient to cover the winter period losses.

Passengers (000) by months + Croatia Airlines' market share vs. financial results



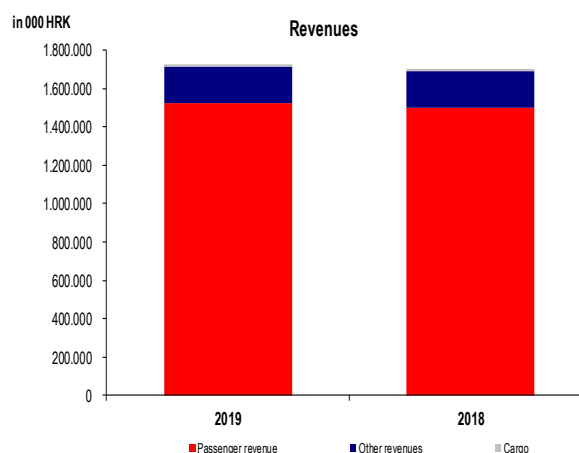
Source: Releases of the Croatian Bureau of Statistics, Traffic at Airports, and Croatia Airlines' internal data

The Company's **operating revenues** were 2% higher compared to 2018.

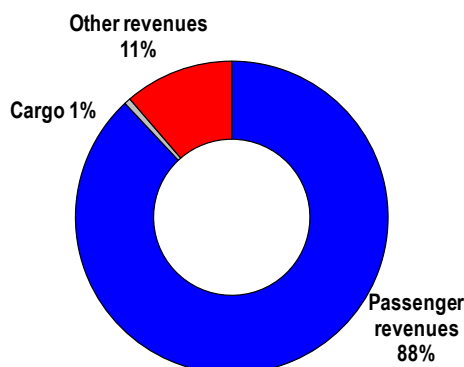
A 1% increase in **passenger revenues** comes from a somewhat higher average tariff, with the number of passengers having remained on the same level. The share of passenger revenues in the operating revenues was also on the level of 2018, being 88%.

Cargo revenues were 1% lower, with a 6% decline of transport in tonnes.

Other operating revenues were 4% higher compared to 2018, mostly as a result of crediting early made provisions.



Structure of operating revenues 2019



Operating costs were on the level of 2018.

Compared to 2018, the promotion and sales costs, general and administrative costs, depreciation costs and other expenditures saw the highest rise.

Depreciation costs recorded the highest rise, due to the changed method of recognising operating lease costs, i.e. the application of IFRS 16, and the major works on the engines carried out in the preceding period (+HRK 107.8 million).

The sales and promotion costs (+1%; +HRK 3.2 million) rose due to higher ticket sale commission costs and greater investments into promotion.

General and administrative costs rose by 4% (+HRK 3.1 million) compared to 2018 as a result of an increase of other various costs (intellectual services, current maintenance, various fees, etc.).

Other expenditures rose by HRK 2.8 million, mostly due to expenditures in the preceding years.

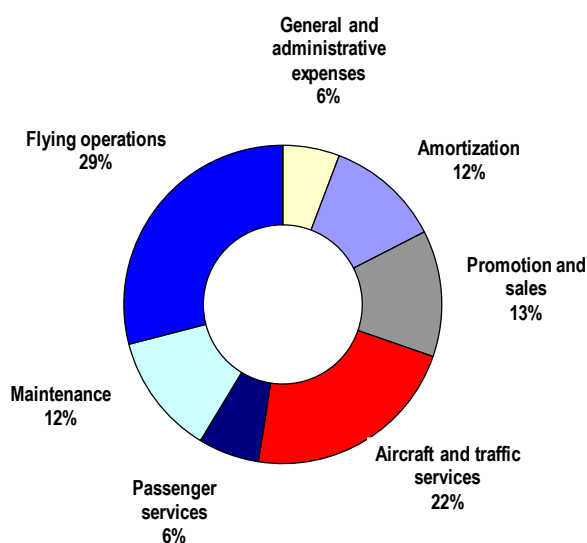
Other cost categories were on a lower level than those in 2018. Flight costs saw the biggest decline, as a result of lower fuel costs and aircraft lease costs, which are now, due to the application of IFRS 16, declared through depreciation and interest costs.

Maintenance costs were lower due to a different treatment of aircraft engine lease costs which, owing to the application of IFRS 16, are also declared through depreciation and interest, and due to lower costs of parts maintenance, expendables and other maintenance (works on third party aircraft and anti-icing/de-icing).

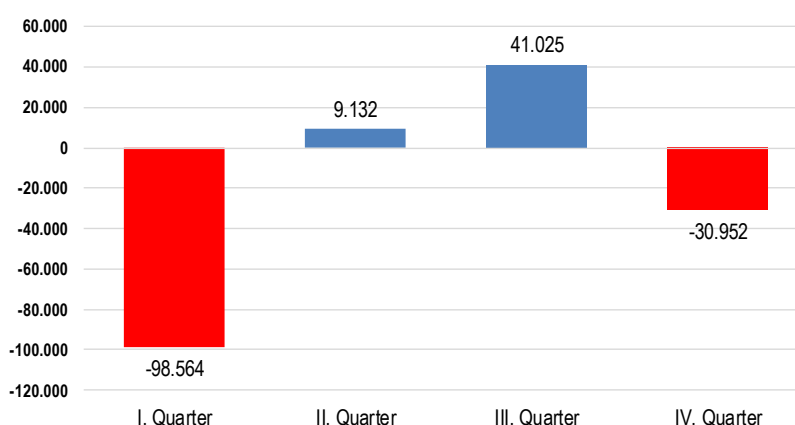
The costs of passenger services also recorded a decline, as a result of lower traffic irregularity costs compared to 2018.

Flight costs and air traffic service costs make up the highest share in the operating costs. In the observed period, the share of flight costs in the operating costs was 29%, while the share of air traffic service costs was 22%.

Structure of operating expenses 2019



Net financial result of Croatia Airlines by quarters



The net result by quarters shows a profit generated in the second and third quarters and a loss posted in the first and fourth ones. Such a business dynamics reflects the market seasonality. In such circumstances, Croatia Airlines, as a rule and as expected, generates losses during the winter season, when the demand is low, and the level of competition minimal. In the second and third quarters (summer season), when all major European carriers, both traditional and low-cost ones, are present on the market, it generates profit. However, the profit made was not sufficient for covering the losses generated in the other two quarters.

Assets, financing and investments

Statement of accounts

(000 HRK)	End 2019	End 2018	Index 2019/2018	End 2017	Index 2018/2017
ASSETS					
Non-current assets	1.059.935	660.283	161	616.832	107
Current assets	197.577	201.851	98	220.669	91
TOTAL ASSETS	1.257.512	862.134	146	837.502	103
LIABILITIES					
Capital and reserves	224.890	304.118	74	386.691	79
Provisions	5.832	33.279	18	35.274	94
Non-current liabilities	524.521	56.680	925	16.575	342
Current liabilities	502.269	468.056	107	398.962	117
TOTAL LIABILITIES	1.257.512	862.134	146	837.502	103

The end-of-year value of the Company's assets was 46% higher compared to 2018. The value of its non-current assets rose by 61%, and due to the changed accounting treatment of operating lease, the value of its fixed tangible assets almost doubled amidst the recognition of the right-of-use assets. The value of the Company's current assets declined by 2% over the end of 2018. Within the current assets structure, the level of accounts receivable declined, while supplies, financial assets and cash saw a rise. Receivables were collected within seven days on average, the same as in 2018.

The Company's capital and reserves totalled HRK 224.9 million at the end of 2019, and were 26% lower compared to the end of 2018, due to a negative result in 2019.

Total provisions were significantly reduced by crediting cost provisions.

The Company's long-term liabilities multiplied as a result of the application of IFRS 16, under which the lease liability is recognised in the amount of the current value of the lease payment liabilities until the expiry of individual lease contracts. The first portion of the shareholder loan intended for the stabilisation of operations prior to recapitalisation, worth HRK 100 million and paid by the Republic of Croatia, was declared within the long-term liabilities. The shareholder loan totals HRK 250,000,000, and was disbursed in September 2019 and January 2020.

The Company's short-term liabilities recorded a 7% rise, mostly due to the recognition of the short-term portion of the lease liabilities related to the application of IFRS 16.

At the end of 2019, Croatia Airlines' loan liabilities with local banks totalled HRK 86.9 million, of which HRK 55.4 million were long-term (medium-term) liabilities, and HRK 31.5 million were short-term liabilities.

No state guarantees were used for the financial liabilities arising from business operations. The Company settled all of its financial liabilities in a timely manner, i.e. within the set deadlines.

Investments in 2019

Investments	2019	2018	2017
Investments in aircraft	13.970.501	85.924.925	49.679.306
Investments in spare parts, tools and equip.	8.398.274	15.281.948	12.429.305
Construction investments	757.940	1.998.589	1.985.532
Intangible assets - leased aircraft	35.268.758	48.657.942	82.746.049
Other intangible assets	2.044.094	2.195.087	3.095.421
Other equipment	3.715.988	2.242.468	4.506.174
Total	64.155.556	156.300.959	154.441.787

In 2019, the investments directly related to flying, aircraft maintenance and operation, i.e. maintenance of the guaranteed level of security, were realised. Compared to 2018, the amount of investments was significantly lower, primarily due to a smaller scope of mandatory periodic works on the fleet.

The priority and biggest investments were those related to **aircraft**, including spare parts; they totalled HRK 57.6 million and made up about 89% of the overall investments made in 2019.

Investments into own fleet aircraft totalled about HRK 14 million, and in addition to the realised modifications (ADS-B, ESG, WINGS) included works on two landing gears (CTL and CTK) and the repainting of three Airbus aircraft.

Investments into the aircraft and engines under **operating lease** totalled HRK 35.3 million and included works on three leased engines, repair of the landing gear of the leased A320, repainting of three Q400 aircraft (CQA, CQB, CQE) and modifications on the Dash fleet.

In 2019, six C checks were carried out in-house, two on the Airbus aircraft (CTH, CTG) and four on the Dash fleet (CQC, CQD, CQE and CQF).

Investments into **spare parts** totalled HRK 8.4 million.

Of other investments, about HRK 2 million was spent on software, HRK 3.7 million on various equipment (HRK 2.6 million on IT equipment, and about HRK 1 million on other various equipment and tools). Some HRK 0.7 million was invested into construction facilities and infrastructure.

Cash flow

Cash flow (000 HRK)	2019	2018	Index
Cash at the beginning of the period	16.625	38.486	43
Inflow from activities	1.923.928	1.866.497	103
Shareholder loan	100.000	0	-
Inflow from sales of asset	123	5	-
Loans	10.654	105.028	10
Total inflow	2.034.705	1.971.530	103
Obligations	1.852.114	1.835.254	101
Investments	100.868	108.483	93
Loans	64.598	49.654	130
Total outflow	2.017.581	1.993.391	101
Net change for period	17.124	-21.861	-
Cash at the end of the period	33.749	16.625	203

At the end of 2019, the Company's cash balance was HRK 33.7 million, with a positive net cash flow of HRK 17.1 million. The inflow rose by 3%, and the outflow by 1% compared to the end of 2018.

In the overall inflow structure, the inflow from operating activities rose 3% due to the HRK 75.4 million worth advance payment of the PSO subsidy, made in January 2019. In line with the decision of the Government of the Republic of Croatia, the first instalment of the shareholder loan, i.e. HRK 100 million, intended for the stabilisation of operations prior to recapitalisation, was received in late September 2019. In late 2019, the Company took fresh short-term loans worth HRK 10.6 million.

The total outflow was 1% higher compared to 2018. The outflow related to operating liabilities rose by 1%, while the outflow related to investments was reduced by 7%. In the reporting period, the Company fully repaid four short-term loans taken with PBZ, HPB and Erste bank, and a long-term loan extended by PBZ. It also repaid four syndicated loan instalments.

Consolidated business result

000 HRK	Croatia Airlines		Obzor putovanja		Amadeus Croatia		Croatia Airlines Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Operating revenues	1.599.516	1.568.679	6.871	5.900	8.297	7.990	1.614.485	1.582.254
Other revenues	128.773	132.663	97	96	0	8	128.870	132.637
Operating expenses	1.783.673	1.777.846	5.356	4.376	8.171	7.878	1.797.056	1.789.654
Operating profit/loss	(55.384)	(76.503)	1.611	1.620	126	120	(53.701)	(74.763)
Net profit/loss	(23.975)	(6.434)	(51)	(85)	(7)	(26)	(24.409)	(6.602)
Pre-tax profit	(79.359)	(82.937)	1.560	1.535	119	94	(78.110)	(81.364)
Net profit	(79.359)	(82.937)	1.273	1.254	51	52	(78.465)	(81.688)

The Group's consolidated result comprises the result of the Company and its subsidiaries. All transactions within the Group have been eliminated, and the consolidated result for 2019 at the Group level amounts to a loss of HRK 78.5 million. Total revenues and expenditures of the subsidiaries account for less than 1% of the consolidated revenues and expenditures, showing that their business activities have only a minor impact on the business activities of Croatia Airlines.

As an air carrier, the Group is affected by the changes in interest and currency exchange rates. This is why it implements a policy for analysing and actively managing the current risk positions and market trends, as well as for setting off risk positions within the Group, to an extent possible.

Audit activities within Croatia Airlines comprise also an internal audit of the subsidiaries, as defined by the Croatia Airlines' Strategic Plan of Internal Audit Activities.

Plan objectives and goals for 2020

The Company's loss in 2020 is seen to total HRK 50.6 million. The envisaged result is based on the projected traffic performance, serving as a basis for the calculation of operating revenues and costs.

The flight schedule for 2020 comprises eight destinations within domestic scheduled traffic and 32 destinations within international, Euro-Mediterranean scheduled traffic. Within charter traffic, a series of charter flights to the markets of Austria, Israel, Lebanon, Sweden and Norway are planned.

The emphasis still lies on the maximum operations safety ensured by adhering to the legal regulations, maintaining the certificates and licences and following new trends in the airline industry. The goal is to retain the technical reliability of the fleet, while performing all regular check-ups, modifications and other works on the fleet aircraft and engines, in accordance with the applicable standards, and maintaining the high level of quality, safety and punctuality. The Plan envisages an increase in the revenues from maintenance services by entering into multiannual contracts with the clients who seek base maintenance services (airlines, lessors) and extending the major works season to the entire year (or to 10 months at least), as well as the forming of a technical profit centre by introducing systematic production process cost accounting and defining the value of the services performed. In order to meet the market demands and increase its market share, the Company continually monitors service user satisfaction by developing additional services and expanding its destinations network. It also focuses on improving the possibility for generating revenues by offering options tailored to passenger needs (ancillary revenues). The Plan for 2020 envisages two new destinations – a seasonal route for Sofia, and for Podgorica, starting from the summer flight schedule. It also envisages an introduction of an A319 and a Q400 under long-term dry lease and a CRJ1000 under wet lease in the period from April to October 2020.

In 2020, Croatia Airlines plans to implement the PSO scheme on domestic routes in line with the obligations assumed under the Contract for the period from 27 March 2016 to 28 March 2020. A new tender should be called for the upcoming period, for which the Company intends to apply.

It also intends to implement the PSO scheme on the international route Zagreb–Mostar–Zagreb, based on the Contract concluded for the period from 3 May 2018 to 28 March 2021.

The Company plans to continue with the activities related to the development of the recapitalisation model and to identifying and verifying potential investors with the help from consultants – financial advisors.

The projected result is based on the following presumptions:

- Introduction of a CRJ1000 aircraft under wet lease for the summer season, and of two aircraft under long-term dry lease (an A319 and a Q400);
- 29,519 - block time in flights;
- 41,372 - block time in block hours;
- Annual traffic of some 2,299,856 passengers (6% more compared to 2019), of which 2,216,145 within scheduled traffic and 83,711 within charter traffic;
- PLF on the level of 73.9%.

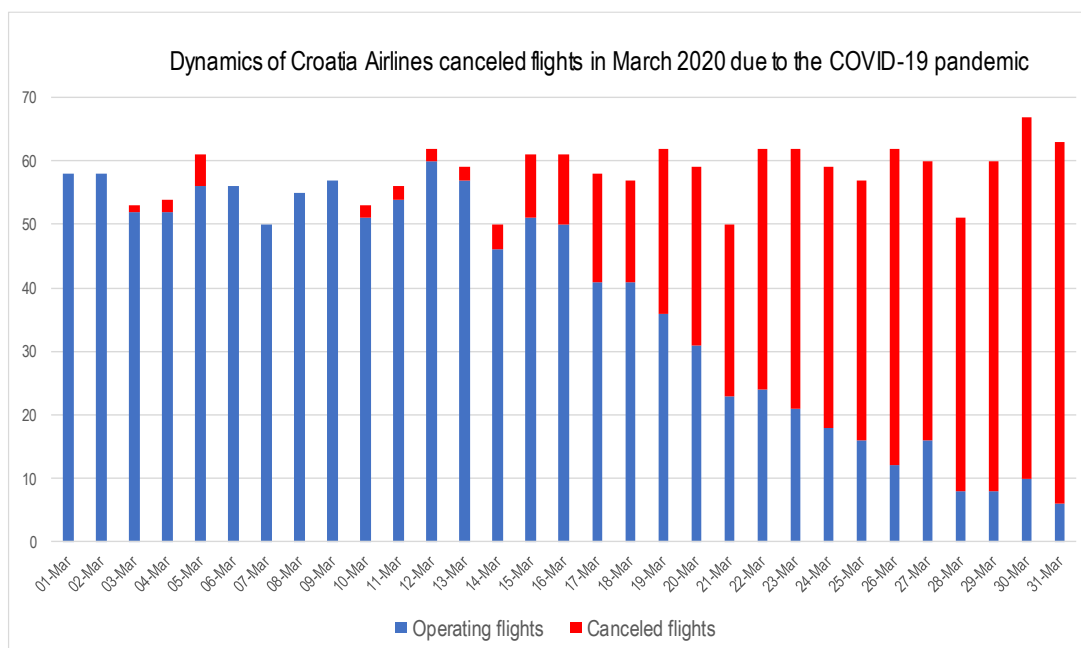
However, the business year of 2020 will be marked by the evolution of a new, dangerous coronavirus strain (COVID-19) that has spread throughout the world in as few as several months, and disrupted the usual way of life.

The coronavirus pandemic has had a devastating effect on the global airline industry, which is facing the worst crisis ever. Its prospects are getting worse from one day to another, with airlines struggling to survive, cancelling flights, reducing capacities and costs, and grounding their fleet. As Croatia Airlines is also unable to reach the planned goals, it has introduced a number of measures to rationalise its business operations with the aim of mitigating the effects of the crisis. Along with a crisis plan, several scenarios are being developed for resuming its flight operations.

The Company's operations in 2020 will greatly depend on external factors: decisions and recommendations of the National Civil Protection Headquarters that directly affect the possibility of travelling on scheduled domestic and international flights; reciprocal lifting or loosening of the measures among countries; realisation of optimum load and an average fare in the conditions of reduced aircraft capacity as a result of the social distancing measures; and appropriate flight network planning along with demand projections related to certain types of travel.

Current operations – Traffic performance in I-III 2020

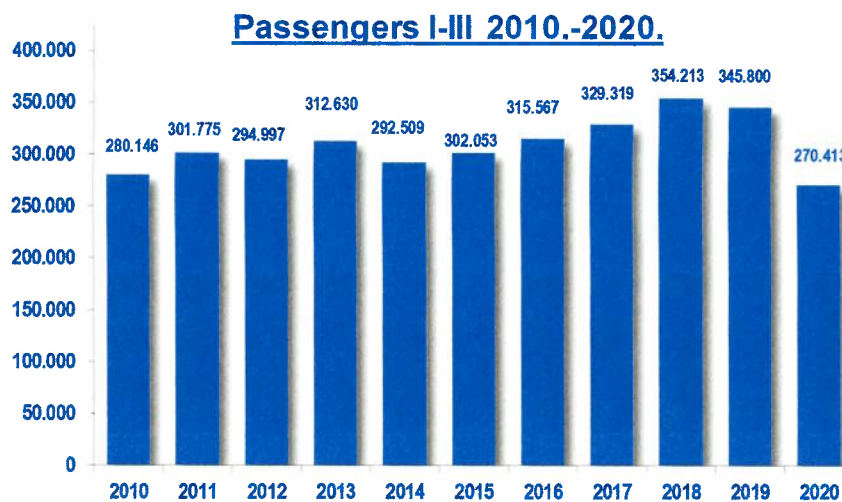
Croatia Airlines continued with its operations despite the extraordinary circumstances caused by the coronavirus pandemic and resulting in a reduced scope of the planned flights. On 10 March 2020, the Company gathered its Emergency Response and Crisis Management Team. The traffic operations continued on a reduced scale, with the Company adhering to the decisions of both public health and aviation authorities, while the majority of foreign carriers suspended all their flights to Croatia as early as mid-March. Due to the crisis caused by the coronavirus pandemic, Croatia Airlines cancelled 611 flights in March, i.e. 34% of the flights planned for March.



Description			I-III 2020	I-III 2019
flights (km)	DIST	000	2.713	2.879
departures	FLTS		4.528	5.019
growth rate		%	-9,8	-1,4
block hours	BH		6.105	6.583
growth rate		%	-7,3	-4,6
passengers carried	RPAX	000	270	346
growth rate		%	-21,8	-2,4
freight&mail carried	CGO	T	505	476
growth rate		%	6,1	-10,2
passenger km flown	RPK	mil	183	228
available seat - km	ASK	mil	305	333
passenger load factor	PLF	%	60,1	68,6
tonne km flown	TK	mil	19	23
available tonne-km	ATK	mil	33	35
weight load factor	WLF	%	57,2	65,5

The number of passengers carried in the first quarter of 2020 fell by 21.8% compared to the same period of 2019.

The number of passengers in the domestic scheduled traffic saw a 25% decline, while the international scheduled traffic recorded a 21% fall compared to the same period of 2019. The passenger load factor (PLF) was 60.1% in the first quarter of 2020, or 8.5 pp lower than in the same period of 2019.



Chairman of the Management Board

Jasmin Bajić



Pursuant to Article 272 (p) and in relation to Article 250 (a), paragraph 4 of the Companies Act (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter: the CA), the Management Board of CROATIA AIRLINES d.d. (hereinafter: the Company), represented by Jasmin Bajić, Chairman of the Management Board, makes the following

REPRESENTATION

on the Application of the Corporate Governance Code

The Company voluntarily applies the Corporate Governance Code (hereinafter: the Code), drawn up jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange and available at the Zagreb Stock Exchange official website www.zse.hr.

The Company has followed and applied the recommendations set out by the Code by publishing any and all information that needs to be published in accordance with applicable legal provisions, as well as any and all information that is in the interest of the Company's shareholders.

The Company has provided a detailed description of minor deviations from certain recommendations in the form of answers to the Corporate Governance Code Annual Questionnaire.

The Company fills in the above-mentioned questionnaire and submits it to the Zagreb Stock Exchange, while to the Croatian Financial Services Supervisory Agency it submits the data for the preparation of an annual report on corporate governance of the issuers whose securities were admitted for trading on the regulated market of the Zagreb Stock Exchange.

The Company's internal control system is based on the internal organisation and business procedures that define control points, thus ensuring the accuracy and integrity flow of specific data related to financial, business and regulatory obligations that may pose significant risks to the Company.

A risk assessment of financial reporting is carried out through analyses and management of internal and external risks during the preparation of realistic and objective financial statements in line with the Company's accounting policies.

With the existing system of internal controls the Company's management seeks to minimise and exclude the possibility of mistakes and fraudulent behaviour in the business operations.

The Company's Management Board is represented by the Company's Director Jasmin Bajić.

The Supervisory Board appoints the Management Board for a five-year term of office and dismisses it as required. The Management Board manages the Company's operations in accordance with the Company's Articles of Association and relevant regulations.

The Management Board has made sure that the Company's business records and other business documents comply with the Companies Act, kept bookkeeping records, assessed assets and liabilities in a realistic manner, and prepared financial and other reports in line with accounting regulations and standards, and other applicable regulations.

The Supervisory Board carries out an internal control in line with the requirements set out in the Code by controlling the submitted reports on a regular basis. The Supervisory Board has met regularly to discuss and decide on all matters within its sphere of responsibility set forth by the Companies Act and the Company's Articles of Association. The Supervisory Board draws up a report on the monitoring of business operations management, which makes an integral part of the Company's annual report and is submitted to the General Assembly.

In 2019, there was a change in the composition of the Supervisory Board since May 7th, after which the employee representative was replaced and the Board continued to function in the following composition:

Zlatko Mateša,

- Chairman of the Supervisory Board
- From 13 July 2016

Nataša Munitić,

- Deputy Chairman of the Supervisory Board
- From 13 July 2016

Zoran Barac,

- Member of the Supervisory Board
- From 13 July 2016, and

Vjekoslav Jelić,

- Member of the Supervisory Board – employee representative
- From 7 July 2015 until 7 May 2019, and

Zoran Viljac,

- Member of the Supervisory Board – employee representative
- From 7 May 2019.

In 2019, the Audit Committee was composed of Nataša Munitić as President and Jasnica Lozo as a member, since a third member of the Audit Committee was not elected.

The Audit Board held four theme sessions and discussed the Company's financial performance, audit plan, internal control system, risk management and other tasks for which the Supervisory Board needed assistance in order to efficiently fulfil obligations related to the Company's corporate governance, financial reporting and control.

The Company's Articles of Association do not set forth any limits to the shareholders' right to vote with regard to a percentage or number of votes, or a time limit for exercising this right. Each ordinary share entitles the owner to one vote at the General Assembly.

In the preceding year the Company did not purchase any of its own shares.

The Company's share capital amounts to HRK 277,879,530.00 and is divided into 27,787,953 ordinary shares with the nominal value of HRK 10.00.

Shareholder	No. of shares	Portion in the share capital (in %)
MINISTRY OF STATE ASSETS FOR THE REPUBLIC OF CROATIA	27.010.821	97,2033
AIRPORT ZAGREB D.O.O.	477.121	1,7170
HPB FOR THE REPUBLIC OF CROATIA	173.768	0,6253
JANAF D.D.	22.000	0,0792
CROATIA INSURANCE D.D.	8.950	0,0322
CROATIA LOTERY D.O.O.	4.000	0,0144
ASTRA INTERNATIONAL D.D.	3.682	0,0133
HP D.D.	2.750	0,0099
TURISTHOTEL D.D.	2.090	0,0075
TANKERKOMERC D.D.	2.090	0,0075

Pursuant to the provisions of Article 250, paragraph 4 and Article 272 (p) of the Companies Act, this Representation Letter is attached to the Management's Business Report for 2019 as an integral part thereof.

Zagreb, 8 June 2020



Jasmin Bajić,
Chairman of the Management Board

CROATIA AIRLINES d.d.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2019
together with Independent auditors' report**

	<i>Page</i>
Responsibility for the financial statements	53
Independent auditors' report to the shareholders of Croatia Airlines d.d.	54-59
Croatia Airlines Group consolidated statement of comprehensive income	60
Croatia Airlines d.d. separate statement of comprehensive income	61
Croatia Airlines Group consolidated statement of financial position	62
Croatia Airlines d.d. separate statement of financial position	63
Croatia Airlines Group consolidated statement of changes in equity	64
Croatia Airlines d.d. separate statement of changes in equity	65
Croatia Airlines Group consolidated statement of cash flows	66
Croatia Airlines d.d. separate statement of cash flows	67
Notes to the consolidated and separate financial statements	68-136

Responsibility for the financial statements

The Management Board of the Company Croatia Airlines d.d., Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the consolidated and separate financial statements for the year ended 31 December 2019 are prepared in accordance with the Accounting Act and the International financial reporting standards ("IFRS") effective in European Union and in accordance with the Regulation on the structure and content of the annual financial statements, to give a true and fair view of the financial position, the results of business operations, the changes in equity and the cash flows of the Company for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management Board has adopted the going concern basis in preparing the financial statements of the Company and the Group.

In preparing these consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting 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 unless such assumption is not appropriate.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and the results of operations of the Company and their compliance with the Accounting Law and International financial reporting standards ("IFRS") effective in European Union. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:



Jasmin Bajić

President and CEO

Croatia Airlines d.d.

Bani 75/b, Buzin

10000 Zagreb

Republic of Croatia

8 June 2020



Independent Auditors' Report to the Shareholders of Croatia Airlines d.d.

Opinion

We have audited the separate financial statements of Croatia Airlines d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2019, and their respective separate and consolidated statements of statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and consolidated financial position of the Group as at 31 December 2019 and of their respective unconsolidated and consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 u) (v) *Going concern* and Note 40 *Events after the reporting date*, which indicates negative impact of COVID-19 outbreak which is expected to have significant impact on the Company's operations. Without financial support from the majority owner the Government of Republic of Croatia, the Company will be unable to settle its liabilities as they fall due. As stated in 2 u) (v) *Going concern*, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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



Independent Auditors' Report to the Shareholders of Croatia Airlines d.d. (continued)

Key Audit Matters (continued)

Recognition of passenger revenue from scheduled services

Passenger revenue from scheduled services recognized in profit or loss in 2019: HRK 1,444,647 thousand (2018: HRK 1,412,630 thousand); carrying amount of air traffic liabilities as at 31 December 2019: HRK 121,229 thousand (31 December 2018: HRK 118,377 thousand).

Refer to Note 2 a) of *Significant accounting policies*, Note 4 on *Passenger traffic* and Note 33 on *Other current liabilities*.

Key audit matter	How our audit addressed the matter
<p>Passenger revenue is measured based on the selling prices charged to customers, net of commissions, discounts and rebates.</p> <p>Until the related transportation service is provided, sold flight documents are recognized as air traffic liabilities. Once a passenger coupon has been used, the corresponding transportation revenue is recognized in profit or loss.</p> <p>Determination of the amount of revenue to be recognized in the period relies on complex internal IT systems, including, among others, the revenue accounting system and schedule management system, and also involves the exchange of information with industry systems (such as the airline reservation system) and partner airlines for a high volume of transactions.</p> <p>Due to the significant dependence on various systems and the complexity of ticket pricing (tariff structures, fees, taxes, discounts, etc.), we considered this area a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • assessing the revenue recognition policy for compliance with relevant financial reporting standards; • using our own IT specialists, testing of the design, implementation and operating effectiveness of controls over the passenger revenue, including those controls in the IT systems that support the recording of passenger revenue; our tests of these controls were designed to evaluate whether key systems operate as designed, and are protected from manipulating of data or software logic that would result in inaccurate accounting information relating to passenger revenue; • performing predictive analytical procedures by developing an expectation of passenger revenue for the year based on data from publicly available industry database of passenger traffic and average ticket prices on flights; • on a sample basis, testing air traffic liabilities and passenger revenue by tracing the amounts recognized to underlying evidence and supporting documentation (flight document (ticket) and flown coupon used); • for different revenue categories, tracing selected high-risk journal entries posted by the Group throughout the year to supporting documentation in order to identify unusual and irregular items; • assessing the adequacy and completeness of disclosures within financial statements.

Independent Auditors' Report to the Shareholders of Croatia Airlines d.d. (continued)

Key Audit Matters (continued)

Effects of implementation of IFRS 16 Leases

The Group and the Company recognised right of use (ROU) assets for the year ended 31 December 2019 in the amount of HRK 447,034 thousand and HRK 446,168 thousand and lease liabilities of HRK 462,434 thousand and HRK 461,490 thousand, respectively.

Refer to Note 2 d) of *Significant accounting policies*, Note 3 *Changes in accounting policies* and Note 30 *Leases*.

Key audit matter	How our audit addressed the matter
<p>The Group and Company adopted IFRS 16 Leases from 1 January 2019. The standard introduces a new lease accounting model, where lessees are required to recognize a right-of-use (ROU) asset and a lease liability arising from a lease in their statement of financial position.</p> <p>As discussed in note 3 to the financial statements, IFRS 16 was initially applied using the modified retrospective approach with no restatement of comparative information, and with certain exemptions and/or practical expedients applied (such as with respect short-term and low-value leases and applying a single discount rate to a portfolio of leases with similar characteristics).</p> <p>As a result, as at 1 January 2019, the Group and the Company recognized an increase in ROU asset of HRK 532,533 thousand and HRK 531,358 thousand, reduction in prepaid expenses of HRK 4,790 thousand and for both the Group and the Company, and a corresponding increase in lease liabilities in the amount HRK 527,743 thousand for the Group and HRK 526,568 thousand for the Company.</p> <p>Significant judgement is required in identifying lease arrangements and in making assumptions and estimates in order to determine the ROU asset and the lease liability, in particular in relation to assessing the lease term, lease payments and discount rates, or characteristics of leases accounted for on a portfolio basis. Evaluating lease modifications introduces another element of complexity in the accounting for leases under the new Standard.</p> <p>Due to the above factors, accounting for leases is inherently complex and requires management to exercise significant judgment regarding material amounts in financial statements. It therefore required our increased attention in the audit and was considered by us to be a key audit matter.</p>	<p>With respect to the initial adoption of the lease standard and subsequent accounting for leases our procedures included:</p> <ul style="list-style-type: none"> • through inquiries of management and relevant finance personnel and reading of the internal accounting memoranda and policies, obtaining an understanding of the process for identifying leases and testing design and implementation of related controls. • assessing whether leases have been appropriately identified through inquiries of management and relevant finance personnel and by inspecting relevant documentation, such as legal registry, management reports, board minutes, and lease and non-lease contracts. • for the recognition exemptions and/or practical expedients applied, assessing, as appropriate and by reference to the relevant documents (including underlying lease contracts), that the Standard's conditions and requirements for the application of the exemptions and practical expedients were met. • identifying leases for which a portfolio approach has been applied and challenging the appropriateness of this approach through inquiries of management and relevant finance personnel and examining whether the leases have similar characteristics. • obtaining the transition-date measurement of the ROU asset and lease liabilities as well as detailed schedules reconciling these opening amounts to the closing amounts at the year-end ("roll-forward schedules"). • selecting a sample of leases at transition date, assessing key terms and conditions including lease term, lease payments (fixed and variable) by reference to the underlying lease contracts, and also: <ul style="list-style-type: none"> ○ re-performing the determination of the cost of the ROU asset, including, where relevant, examining whether the initial measurement of the lease liability used in the calculation of the ROU asset agrees to the lease liability recorded at lease commencement and tracing prepaid lease payments, lease incentives and initial direct costs to relevant documentation; ○ Inquiring of management and relevant finance personnel as to the reasons for any inconsistencies. • Examining whether the disclosures in the financial statements, as the lessee, appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.



Independent Auditors' Report to the Shareholders of Croatia Airlines d.d. *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Company and the Group, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information required by Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information required by Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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



Independent Auditors' Report to the Shareholders of Croatia Airlines d.d. (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



Independent Auditors' Report to the Shareholders of Croatia Airlines d.d. (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 9 July 2019 to audit the financial statements of the Company and the Group for the year ended 31 December 2019. Our total uninterrupted period of engagement is four years, covering the periods ending 31 December 2016 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 8 June 2020;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb, Croatia

8 June 2020

Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019		2018	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Operating revenues					
Passenger traffic	4	1,521,320	205,195	1,501,706	202,540
Cargo traffic		11,518	1,554	11,614	1,566
Other sales revenue	5	93,626	12,628	102,045	13,763
Total operating revenues		1,626,464	219,377	1,615,365	217,869
Other income	6	116,891	15,766	99,526	13,423
Operating expenses					
Flight operations		(517,780)	(69,838)	(587,755)	(79,273)
Maintenance		(219,298)	(29,579)	(251,883)	(33,972)
Passenger service		(110,985)	(14,970)	(120,221)	(16,215)
Aircraft and traffic services		(395,028)	(53,281)	(394,295)	(53,180)
Promotion and sales		(228,948)	(30,880)	(225,794)	(30,454)
General and administrative expenses		(99,948)	(13,481)	(95,511)	(12,882)
Depreciation and amortization	12, 13, 14, 30	(209,028)	(28,194)	(100,933)	(13,613)
Other operating expenses		(16,040)	(2,163)	(13,262)	(1,789)
Total expenses		(1,797,055)	(242,386)	(1,789,654)	(241,378)
Loss from operations		(53,700)	(7,243)	(74,763)	(10,086)
Finance income	9	22,596	3,048	56,191	7,579
Finance costs	10	(47,006)	(6,340)	(62,793)	(8,469)
Net finance costs		(24,410)	(3,292)	(6,602)	(890)
Loss before tax		(78,110)	(10,535)	(81,365)	(10,976)
Income tax expense	11	(355)	(48)	(323)	(44)
Loss for the year		(78,465)	(10,583)	(81,688)	(11,020)
Other comprehensive income					
Deferred exchange losses		(101)	(14)	450	61
The fair value of financial assets available for sale		232	31	(86)	(12)
Foreign exchange translation differences		-	(100)	-	679
Total other comprehensive income		131	(83)	364	728
Total comprehensive income / (loss)		(78,334)	(10,666)	(81,324)	(10,292)
Loss per share HRK / EUR	27	(2.82)	(0.38)	(2.94)	(0.40)

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 2019

	Note	2019		2018	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Operating revenues					
Passenger traffic	4	1,521,320	205,195	1,501,706	202,540
Cargo traffic		11,518	1,554	11,614	1,566
Other sales revenue	5	78,657	10,609	88,592	11,949
Total operating revenues		1,611,495	217,358	1,601,912	216,055
Other income	6	116,794	15,753	99,430	13,410
Operating expenses					
Flight operations		(517,780)	(69,838)	(587,755)	(79,273)
Maintenance		(219,298)	(29,579)	(251,883)	(33,972)
Passenger service		(110,985)	(14,970)	(120,221)	(16,215)
Aircraft and traffic services		(395,028)	(53,281)	(394,295)	(53,180)
Promotion and sales		(228,948)	(30,880)	(225,794)	(30,454)
General and administrative expenses		(87,010)	(11,736)	(83,887)	(11,313)
Depreciation and amortization	12, 13, 14, 30	(208,647)	(28,142)	(100,868)	(13,604)
Other operating expenses		(15,977)	(2,155)	(13,142)	(1,772)
Total expenses		(1,783,673)	(240,581)	(1,777,845)	(239,783)
Loss from operations		(55,384)	(7,470)	(76,503)	(10,318)
Finance income	9	22,925	3,092	56,236	7,585
Finance costs	10	(46,900)	(6,326)	(62,670)	(8,453)
Net finance costs		(23,975)	(3,234)	(6,434)	(868)
Loss before tax		(79,359)	(10,704)	(82,937)	(11,186)
Income tax expense	11	-	-	-	-
Loss for the year		(79,359)	(10,704)	(82,937)	(11,186)
Other comprehensive income					
Deferred exchange losses		(101)	(14)	450	61
The fair value of financial assets available for sale		232	31	(86)	(12)
Foreign exchange translation differences		-	(93)	-	670
Total other comprehensive income		131	(76)	364	719
Total comprehensive income / (loss)		(79,228)	(10,780)	(82,573)	(10,467)
Loss per share HRK / EUR	27	(2.86)	(0.39)	(2.98)	(0.40)

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

Croatia Airlines Group consolidated statement of financial position

As at 31 December 2019

	Note	2019		2018	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	12	125,511	16,864	139,423	18,796
Property, plant and equipment	13	462,124	62,092	495,639	66,820
Investment property	14	1	-	316	43
Right of use assets	30	447,034	60,064	-	-
Non-current deposits	16	23,715	3,186	22,687	3,059
Investments in equity instruments	17	1,118	150	886	119
Non-current receivables	18	313	42	369	50
		1,059,816	142,398	659,320	88,887
Current assets					
Inventories	19	61,354	8,244	59,925	8,079
Trade receivables	20	71,472	9,603	89,086	12,010
Other receivables	21	9,668	1,299	12,373	1,668
Income tax receivable		-	-	179	24
Prepaid expenses and accrued income	22	16,068	2,159	18,863	2,543
Current deposits	23	9,499	1,276	9,097	1,226
Cash and cash equivalents	24	39,071	5,250	20,638	2,782
		207,132	27,831	210,161	28,332
TOTAL ASSETS		1,266,948	170,229	869,481	117,219
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	25	277,880	36,399	277,880	36,399
Reserves	26	27,658	3,228	110,464	14,397
Retained earnings		2,745	395	1,496	229
Net loss for the year		(78,465)	(10,583)	(81,688)	(11,020)
Translation reserve rate		-	1,438	-	1,538
		229,818	30,877	308,152	41,543
Non-current liabilities					
Provisions	28	5,832	784	33,279	4,487
Non-current loans and borrowings	29	142,795	19,186	55,261	7,450
Non-current lease liabilities	30	381,074	51,202	-	-
Other non-current liabilities		1,287	173	1,419	191
		530,988	71,345	89,959	12,128
Current liabilities					
Current loans and borrowings	31	31,500	4,232	64,553	8,703
Current portion of non-current loans and borrowings	29	12,652	1,700	20,769	2,800
Current lease liabilities	30	81,360	10,932	-	-
Trade payables	32	187,241	25,158	196,164	26,446
Other current liabilities	33	162,096	21,781	154,519	20,832
Income tax liability		38	5	210	28
Accrued expenses and deferred income	34	31,255	4,199	35,155	4,739
		506,142	68,007	471,370	63,548
TOTAL EQUITY AND LIABILITIES		1,266,948	170,229	869,481	117,219

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2019

	Note	2019		2018	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	12	125,502	16,863	139,410	18,795
Property, plant and equipment	13	461,933	62,066	495,451	66,794
Investment property	14	1	-	316	43
Right of use assets	30	446,168	59,948	-	-
Investments in subsidiaries	15	1,210	163	1,210	163
Non-current deposits	16	23,690	3,183	22,640	3,052
Financial assets available for sale	17	1,118	150	886	119
Non-current receivables	18	313	42	369	50
		1,059,935	142,415	660,282	89,016
Current assets					
Inventories	19	61,354	8,244	59,925	8,079
Trade receivables	20	67,487	9,068	84,893	11,445
Other receivables	21	9,442	1,269	12,297	1,658
Income tax receivable		-	-	179	24
Prepaid expenses and accrued income	22	16,046	2,156	18,836	2,539
Current deposits	23	9,499	1,276	9,097	1,226
Cash and cash equivalents	24	33,749	4,535	16,625	2,241
		197,577	26,548	201,852	27,212
TOTAL ASSETS		1,257,512	168,963	862,134	116,228
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	25	277,880	36,399	277,880	36,399
Reserves	26	26,369	3,059	109,175	14,228
Net loss for the year		(79,359)	(10,704)	(82,937)	(11,186)
Translation reserve rate		-	1,464	-	1,557
		224,890	30,218	304,118	40,998
Non-current liabilities					
Provisions	28	5,832	784	33,279	4,487
Non-current loans and borrowings	29	142,795	19,186	55,261	7,450
Non-current lease liabilities	30	380,439	51,117	-	-
Other non-current liabilities		1,287	173	1,419	191
		530,353	71,260	89,959	12,128
Current liabilities					
Current loans and borrowings	31	31,500	4,232	64,553	8,703
Current portion of non-current loans and borrowings	29	12,652	1,700	20,769	2,800
Current lease liabilities	30	81,051	10,890	-	-
Trade payables	32	185,038	24,862	194,555	26,229
Other current liabilities	33	161,504	21,700	153,957	20,756
Accrued expenses and deferred income	34	30,524	4,101	34,223	4,614
		502,269	67,485	468,057	63,102
TOTAL EQUITY AND LIABILITIES		1,257,512	168,963	862,134	116,228

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

Croatia Airlines Group consolidated statement of changes in equity

For the year ended 31 December 2019

Croatia Airlines Group	Share capital		Reserves		Retained earnings		Profit / (loss) for the year		Translation reserve	Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Balance at 1 January 2018	277,880	36,399	102,740	13,362	1,440	221	7,416	994	859	389,476	51,835
Loss for the year	-	-	-	-	-	-	(81,688)	(11,020)	-	(81,688)	(11,020)
Other comprehensive income	-	-	364	49	-	-	-	-	679	364	728
Total comprehensive income	-	-	364	49	-	-	(81,688)	(11,020)	679	(81,324)	(10,292)
Transactions with owners											
Transfer of profit from 2017 to other capital reserves	-	-	7,360	986	56	8	(7,416)	(994)	-	-	-
Total transaction with owners	-	-	7,360	986	56	8	(7,416)	(994)	-	-	-
Balance at 31 December 2018	277,880	36,399	110,464	14,397	1,496	229	(81,688)	(11,020)	1,538	308,152	41,543
Loss for the year	-	-	-	-	-	-	(78,465)	(10,583)	-	(78,465)	(10,583)
Other comprehensive income	-	-	131	17	-	-	-	-	(100)	131	(83)
Total comprehensive income	-	-	131	17	-	-	(78,465)	(10,583)	(100)	(78,334)	(10,666)
Transactions with owners											
Cover of 2018 loss from other capital reserves	-	-	(82,937)	(11,186)	1,249	166	81,688	11,020	-	-	-
Total transaction with owners	-	-	(82,937)	(11,186)	1,249	166	81,688	11,020	-	-	-
Balance at 31 December 2019	277,880	36,399	27,658	3,228	2,745	395	(78,465)	(10,583)	1,438	229,818	30,877

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

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

For the year ended 31 December 2019

Croatia Airlines d.d.	Share capital		Reserves		Retained earnings		Profit / (loss) for the year		Translation reserve	Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Balance at 1 January 2018	277,880	36,399	101,474	13,196	-	-	7,337	983	887	386,691	51,465
Loss for the year	-	-	-	-	-	-	(82,937)	(11,186)	-	(82,937)	(11,186)
Other comprehensive income	-	-	364	49	-	-	-	-	670	364	719
Total comprehensive income	-	-	364	49	-	-	(82,937)	(11,186)	670	(82,573)	(10,467)
Transactions with owners											
Transfer of profit from 2017 to other capital reserves	-	-	7,337	983	-	-	(7,337)	(983)	-	-	-
Total transaction with owners	-	-	7,337	983	-	-	(7,337)	(983)	-	-	-
Balance at 31 December 2018	277,880	36,399	109,175	14,228	-	-	(82,937)	(11,186)	1,557	304,118	40,998
Loss for the year	-	-	-	-	-	-	(79,359)	(10,704)	-	(79,359)	(10,704)
Other comprehensive income	-	-	131	17	-	-	-	-	(93)	131	(76)
Total comprehensive income	-	-	131	17	-	-	(79,359)	(10,704)	(93)	(79,228)	(10,780)
Transactions with owners											
Cover of 2018 loss from other capital reserves	-	-	(82,937)	(11,186)	-	-	82,937	11,186	-	-	-
Total transaction with owners	-	-	(82,937)	(11,186)	-	-	82,937	11,186	-	-	-
Balance at 31 December 2019	277,880	36,399	26,369	3,059	-	-	(79,359)	(10,704)	1,464	224,890	30,218

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

Croatia Airlines Group consolidated statement of cash flows

For the year ended 31 December 2019

	Note	2019		2018	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Loss for the year		(78,465)	(10,583)	(81,688)	(11,018)
<i>Adjustments for:</i>					
Depreciation and amortization		209,028	28,194	100,933	13,613
Gain on sale of property, plant and equipment		(23)	(3)	(182)	(25)
Disposals of property, plant and equipment		7,766	1,047	8,734	1,178
Correction of impairment of intangible assets		-	-	1	-
Correction of impairment of property, plant and equipment		-	-	34	5
Impairment loss on trade receivables		872	118	3,702	499
Collection of previously written-off receivables		(101)	(14)	(47)	(6)
Change in provisions		(27,447)	(3,702)	(1,995)	(269)
Lease cancellation		(13)	(2)	-	-
Unrealized foreign exchange differences		3,858	520	(2,330)	(314)
Interest costs		19,434	2,621	4,407	594
Interest income		(167)	(23)	(113)	(15)
Income from shares in profit		(34)	(5)	(32)	(4)
Tax expense		355	48	323	44
		135,063	18,216	31,747	4,282
<i>Changes in:</i>					
Inventories		(1,429)	(193)	(3,047)	(411)
Trade and other receivables		9,924	1,339	2,364	319
Trade and other payables		20,796	2,805	1,632	220
Cash generated from operating activities		164,354	22,167	32,696	4,410
Interest paid		(18,773)	(2,532)	(1,691)	(228)
Interest received		163	22	119	16
Net change of deposits		(1,430)	(193)	2,553	344
Income tax paid		(348)	(47)	(177)	(24)
Net cash from operating activities		143,966	19,417	33,500	4,518
Cash flows from investing activities					
Acquisition of property, plant and equipment		(97,268)	(13,119)	(109,109)	(14,716)
Proceeds from sale of property, plant and equipment		148	20	5	1
Dividends received		34	5	32	4
Net cash used in investing activities		(97,086)	(13,094)	(109,072)	(14,711)
Cash flows from financing activities					
Proceeds from loans and borrowings	31	110,654	14,925	105,028	14,165
Repayment of loans and borrowings	31	(57,148)	(7,708)	(49,653)	(6,697)
Payment of finance lease liabilities	30	(81,953)	(11,054)	-	-
Net cash (used in) / from financing activities		(28,447)	(3,837)	55,375	7,468
Net decrease in cash and cash activities		18,433	2,486	(20,197)	(2,725)
Cash and cash equivalents at beginning of the year		20,638	2,782	40,835	5,435
Effect of foreign currency translation		-	(18)	-	72
Cash and cash equivalents at end of the year	24	39,071	5,250	20,638	2,782

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

Croatia Airlines d.d. separate statement of cash flows

For the year ended 31 December 2019

	Note	2019		2018	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Loss for the year		(79,359)	(10,704)	(82,937)	(11,186)
<i>Adjustments for:</i>					
Depreciation and amortization		208,647	28,142	100,868	13,604
Gain on sale of property, plant and equipment		(23)	(3)	(182)	(25)
Disposals of property, plant and equipment		7,755	1,046	8,734	1,178
Correction of impairment of intangible assets		-	-	1	-
Correction of impairment of property, plant and equipment		-	-	34	5
Impairment loss on trade receivables		821	111	3,630	490
Collection of previously written-off receivables		(101)	(14)	(47)	(6)
Change in provisions		(27,447)	(3,702)	(1,995)	(269)
Lease cancellation		(13)	(2)	-	-
Unrealized foreign exchange differences		3,858	520	(2,330)	(314)
Interest costs		19,410	2,618	4,407	594
Interest income		(167)	(23)	(113)	(15)
Income from shares in profit		(386)	(52)	(88)	(12)
		132,995	17,937	29,982	4,044
<i>Changes in:</i>					
Inventories		(1,429)	(193)	(3,047)	(411)
Trade and other receivables		9,912	1,337	3,203	432
Trade and other payables		20,455	2,759	3,114	420
Cash generated from operating activities		161,933	21,840	33,252	4,485
Interest paid		(18,749)	(2,529)	(3,911)	(527)
Interest received		163	22	119	16
Net change of deposits		(1,452)	(196)	2,499	337
Income tax paid		179	24	(179)	(24)
Net cash from operating activities		142,074	19,161	31,780	4,287
Cash flows from investing activities					
Acquisition of property, plant and equipment		(97,268)	(13,119)	(109,109)	(14,716)
Proceeds from sale of property, plant and equipment		148	20	5	1
Dividends received		386	52	88	12
Net cash used in investing activities		(96,734)	(13,047)	(109,016)	(14,703)
Cash flows from financing activities					
Proceeds from loans and borrowings	31	110,654	14,925	105,028	14,165
Repayment of loans and borrowings	31	(57,148)	(7,708)	(49,653)	(6,697)
Payment of finance lease liabilities	30	(81,722)	(11,023)	-	-
Net cash (used in) / from financing activities		(28,216)	(3,806)	55,375	7,468
Net decrease in cash and cash activities		17,124	2,308	(21,861)	(2,948)
Cash and cash equivalents at beginning of the year		16,625	2,241	38,486	5,122
Effect of foreign currency translation		-	(14)	-	67
Cash and cash equivalents at end of the year	24	33,749	4,535	16,625	2,241

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

Notes to the consolidated and separate financial statements

For the year ended 31 December 2019

1. GENERAL

The principal activity of the company 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).

Amadeus Croatia d.d. was established in Zagreb, on 19 October 1993, with the registered office at the address Ilica 150. Amadeus Croatia d.d. or ACO Croatia (Amadeus Commercial Organisation) is an international joint venture company established by the Company and Amadeus Global Travel Distribution from Madrid with the aim of representing the interests of Amadeus Global Travel Distribution within the territory of the Republic of Croatia, connecting travel agencies with Amadeus' base situated in Erding, near Munich, and, with the purpose of issuing passenger tickets in air, ship and train transportation and booking of rent-a-car and hotel accommodation. A part of its business is also marketing on the territory of the Republic of Croatia, advertising and sponsorship, organization of support for the users, which is available on every working day, and the organization of education of users for the effective application of Amadeus system.

Obzor putovanja d.o.o. is tourist agency established on 28 October 1993 registered in Zagreb, Bani 75/b, Buzin and an office in Teslina 5. The core business of the Company is issuing tickets for all airlines, organizing accommodation in the requested hotel category, transfers, rent a car and travel insurance etc.

General Assembly of the Company

The Ministry of State Property	97.20 %
Zagreb International Airport	1.72 %
HPB for The Republic of Croatia	0.63 %
Others	0.45 %
Total	100.00 %

Supervisory Board of the Company

Zlatko Mateša	President
Nataša Munitić	Vice President
Zoran Barac	Member
Darija Jurica Vuković	Member (resolved on 18 June 2018)
Vjekoslav Jelić	Member (from 7 July 2015; resolved on 7 May 2019)
Zoran Viljac	Member (from 7 May 2019)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

1. GENERAL (CONTINUED)

Management Board of the Company

Jasmin Bajić	President of the Management Board and CEO (from 4 November 2017)
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Subsidiaries' Management

Eugen Šunde	General Manager of Amadeus Croatia d.d.
Silvana Turčić	General Manager of Obzor putovanja d.o.o.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group and the unconsolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

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 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 and of cash flow statement

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	2019	2018
On 31 December	7.442580	7.417575
Average	7.414035	7.414359

Unless stated differently, values in the financial statements are rounded to the nearest thousand.

The financial statements have been prepared on the historical cost basis, excluding all 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 and the Company will continue to operate as a going concern.

The principal accounting policies adopted are as follows.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Revenue

Generally, in accordance with the requirements of the new standard, revenue is measured on the basis of the compensation determined in the contract with the customer, and is recognized when the control over the goods or services is transferred to the customer. Transfer of control over goods or services can take place continuously (revenue recognition over time) or at a certain date (point in time recognition). Prior to recognizing income, the Company identifies the contract and performance obligations contained in the contract. The number of performance obligations depends on the type of contract and activity.

Revenue recognition under IFRS 15 (effective from 1 January 2018) for the following sources of income is as follows:

- 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 realized in passenger revenue in the statement of comprehensive income.

- Income from charter and cargo transport services

Revenue from passenger transport services in charter flights and cargo transport are recognized in the period in which the transport services are carried out. Revenue from services is recognized by the degree of completion of the transaction at the reporting date. The degree of completeness is evaluated based on the documentation of the work done. Taxes, discounts and rebates are excluded from income.

- Other sales revenue

Revenue from technical services, i.e. revenue from repairs and maintenance of aircraft, is recognized according to the degree of completion of the project at the reporting date. The degree of completion is determined on the basis of the hours worked and planned hours of work required for the particular project.

Revenues from the provision of education, marketing and other services are recognized in the period in which the aforementioned services are performed, minus the value added tax, discounts and rebates.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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) Dividend income and income from share in profit

Dividend income and income from share in profit are recognized when the right to receive payment is established.

d) Leases

The Group and the Company have applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group and the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Company use the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group and the Company allocate the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group and the Company have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group and the Company recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's and the Company's incremental borrowing rate. Generally, the Group and the Company use its incremental borrowing rate as the discount rate.

The Group and the Company determine their incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group / the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Group / the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group / the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Groups and the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and the Company change their assessment of whether they will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group and the Company present right-of-use assets and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Group and the Company have elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group and the Company recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Leases (continued)

Policy applicable before 1 January 2019

In comparative period, leases of property, plant and equipment, where the Group or the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. If the operating lease terminated before the lease expired, all payments to the lessor in the form of a penalty were recognized as a cost in a period in which the termination was made.

e) 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 if such hedging is effective.

f) 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 capitalization.

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Government grants

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

h) 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 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 recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

i) Property, plant and equipment

Property, plant and equipment, except for aircraft, are stated at cost less accumulated depreciation and any recognized impairment loss. Aircraft and engines 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 reporting date.

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Property, plant and equipment (continued)

An element of the cost of aircraft relates to regular maintenance checks. These costs are depreciated over the period from the purchase of the aircraft till the estimated date of the first period check. Periodic checks are capitalized at the time of expenditure and depreciated 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.

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 free of charge are deferred and credited to the statement of comprehensive income on a proportional basis over the operational life of the aircraft.

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 asset is ready to be used. Equipment and spare parts with useful life span 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.

If as a result of the valuation is an increase of the value, increased value is recognized in the revaluation reserve. Impairment is recognized against of revaluation reserves in the amount of available revaluation surplus for the related asset, and the loss over the amount posted to the revaluation reserve is recognized in the profit and loss.

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

Airbus aircraft are depreciated on a straight-line basis over the period of 20 years. 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 Dash spare parts are stated at cost value 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 20 years, and other assets over their useful life, which ranges from 4 – 10 years.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Investment property

Investment property relates to property that is held for long-term rental yields or appreciation. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified, in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. Depreciation for buildings is calculated using the straight-line method to allocate cost over estimated useful life (20 years).

Subsequent costs are capitalised only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

k) Intangible assets

Intangible assets include software, which is measured initially at purchase cost and amortized on a straight-line basis over their estimated useful life, which is two years. Exception is SAP ERP software which is amortized on a straight-line basis over its estimated useful life of eight years.

Intangible assets also include leasehold improvements. Leasehold improvements relate to investments or maintenance that increase the value of assets (aircraft, engines and buildings) and the regular large examinations that the Company has on the assets it uses under the operating lease agreement. Leasehold improvements are recognized at cost and are amortized over the remaining period of the lease contract for the asset that is being upgraded or the expected next regular check, depending which one is shorter.

l) Investments in subsidiaries

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.

Investments in subsidiaries are presented in separate financial statements and stated at cost, i.e. at cost of acquisition, adjusted for impairment. An annual cost-effective impairment test is verified when events or changed circumstances indicate that the book value of the share may not be recoverable. Investments for which the impairment loss is stated are audited at each reporting date for possible rescission of the impairment.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. All Group transactions, balances, revenues and costs are eliminated in full consolidation. The subsidiaries' accounting policies are aligned with the accounting policies of the Company.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Inventories

Inventories are stated at the cost or net realizable value, depending which one is lower. Costs comprise of direct materials and, where applicable, direct labor costs and overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method (inventories of office supplies, catering and uniforms) and FIFO method (inventories of spare parts). Net realizable 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 and the Company's balance sheet when the subsidiary or the Company becomes a party to the contractual provisions of the instrument.

Derivative contracts initially are recognized at cost and subsequently measured at fair value. On contractual date derivatives classifies 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 statement of comprehensive income 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 Company 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 Company's policy is not to utilize 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 balance sheet of the Company.

(i) 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 90 days (from their origination date).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

(ii) Investments in equity instruments

Financial instruments included in investments in equity instruments are initially recognized at cost and subsequently stated at fair value. Dividend is recognised in profit and loss, unless it is clear that dividend presents return of part of the initial investment. Gains and losses arising from changes in the fair value are recognized within other comprehensive income and are never reclassified to profit and loss.

(iii) Loans and receivables

Loans and receivables originated by the Group are stated at amortized 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.

(iv) 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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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 reporting 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 income and classified as revenue or expense in the same periods during which the hedged firm commitment or forecast transaction affects the statement of income. The ineffective part of any gain or loss is recognised immediately in the statement of comprehensive income.

At the beginning of a transaction, the Company documents 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 and the Group are exposed to the risk of fluctuations in exchange rates. The Company and the Group have evaluated their foreign currency revenues and determined that foreign currency revenues form a highly effective cash flows hedge against their principal and interest payments in foreign currency. Accordingly, the Company and the Group account 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 the Management Board on a regular basis throughout the period.

p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The requirement and valuation of the provisions are re-examined at the reporting date each year taking into account info after the reporting date, up to the date of approval of the financial statements. Provisions in foreign currency are translated at the closing rate.

q) Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the General Assembly of the Company's shareholders.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

s) Adoption of new standards

As of 1 January 2019 the Company begins to apply IFRS 16 *Leases*.

IFRS 16 Leases

IFRS 16 introduces a unique balance sheet model for lessee's accounting. The lessee acknowledges the right to use the property and lease liability representing the obligation to pay the rent. There is an exception for short-term leases and rentals of small value items. The lessor's accountancy remains similar to the existing standard and they still classify the leases as financial or operating leases.

The new standard is applied using modified retrospective method. Impact of the application of the new standard is explained in note 3.

t) New standards and interpretations of published standards that have not yet been adopted

Certain standards, amendments and interpretations of existing standards that are applicable but not mandatory for the period ending 31 December 2019 have been published and as such have not been applied in the preparation of these financial statements. These standards are not expected to have a significant impact on the financial statements of the Company and the Group.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Use of estimates in the preparation of financial statements

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

The Company has made the following judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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.

(i) 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 of the Group and the Company is not materially different from their carrying amounts.

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.

(ii) Operating segments

As the passenger traffic represents the biggest segment of the Company's operations, the management of the Company believes that its reporting under the requirements of IFRS 8 for operational segments is not material.

(iii) Revaluation of property, plant and equipment

Aircraft are recognized in revaluated amounts in compliance with the revaluation accounting model pursuant to IAS 16 applied for the first time as of 31 December 2001. On 31 December 2017, the Company determined the need for new reassessment. Revaluation of aircraft has been performed by an independent appraiser using static methods of estimation of market value.

(iv) 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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(v) *Going concern*

In the first half of 2019, the Company started a strategic project with the aim of finding a strategic investor for capital increase. Negotiations with potential strategic partners have been going on since the third quarter of 2019 and the majority owner supports the entire process in various ways, primarily by approving a shareholder loan in the amount of HRK 250 million.

The key assumption is that the process of capital increase will be successful and will be completed in 2020. The process can be carried out with the contribution of a private investor in cash or in kind. In order to resolve existing situation and provide a solid foundation for the current business model transformation, the Business Plan 2020-2025 has developed a new strategic direction that will enable long-term business sustainability.

Key strategic goals:

- 1) ensuring profitability
- 2) liability to shareholders
- 3) capital increase
- 4) fleet renewal and optimization
- 5) concluding a PSO contract.

In order to meet the mentioned strategic goals, the Company will implement or is already implementing the following measures:

- 1) renewal of the existing fleet of mid-age aircraft A319 / 320
- 2) replacement of wet lease aircraft with dry lease
- 3) expansion of the destination network
- 4) increase in passenger revenues
- 5) increase in non-flying income
- 6) obtaining PSO contracts for domestic and international traffic
- 7) cost initiatives in the form of reducing different cost categories
- 8) negotiations with Airbus regarding the cancellation of the order for the A320neo aircraft
- 9) organizational changes and process improvement.

On 19 September 2019, the Government of the Republic of Croatia issued a decision creating the necessary conditions to ensure the capital increase process of Croatia Airlines, and within this decision is the approval of a Shareholder Loan to the Company in the amount of HRK 250 million to stabilize its operations. The shareholder loan was realized in two instalments, HRK 100 million in 2019 and HRK 150 million in January 2020, and interest and principal are due in January 2022. Repayment of the loan can also be realized by converting the amount of principal and interest into the Company's capital.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(v) *Going concern (continued)*

The implementation of the capital increase process should have started no later than 1 June 2020 with an open procedure in which private investors would have the right to participate. However, in March 2020 the Commission for the implementation of the procedure decided that, due to the unfavorable situation and risks for the sector caused by the outbreak of COVID 19 virus pandemic, the dynamics of the whole process is adjusted by putting the process on hold, in accordance with the deadlines set by the Government Decision on creating the necessary conditions for capital increase of Croatia Airlines. The Commission will continue to monitor the development of the situation in the aviation sector.

Croatia Airlines' operations continued despite extraordinary circumstances. On 10 March 2020, the Crisis Management Headquarters was activated in the Company. Due to the devastating impact of the coronavirus pandemic on the aviation industry, as well as on the operations of Croatia Airlines, and due to traffic restrictions and lack of demand, the Company urgently took measures to mitigate the consequences of this crisis and is currently developing business scenarios for the future.

At the beginning of this crisis situation, Croatia Airlines requested commercial banks for long-term and short-term financing, and the Company finally received three indicative offers, each for a loan amount of HRK 50 million, conditioned by a state guarantee for the entire loan amount.

Requests have been submitted for a moratorium on short-term loan from Zagrebačka banka and for a long-term loan from Privredna banka and Hrvatska poštanska banka (a total of HRK 3.2 million).

To mitigate the consequences of this crisis, the Company urgently took various cost reduction measures by cancelling the introduction of new routes to Sofia and Podgorica, cancelling the short-term seasonal lease of CRJ1000 aircraft, cancelling the long-term dry lease of Q400 aircraft. Through the agreement with the lessor it has been agreed to defer charges of the long-term dry lease of the A319 aircraft, and the charge for the year 2020 until March 28, 2021. will be based on the PBH principle (Power by the Hour). At the same time, an amendment to the Agreement agreed on a smaller instalment of aircraft lease for the first two years, starting with the summer flight schedule in 2021, with the possibility of extension. Of the current 13 aircraft and engine rental contracts, 11 contracts have been agreed with lessors to reduce monthly leasing instalments using PBH (Power by the Hour) calculation. The current savings in this category are more than HRK 3 million. The Company uses the measure of deferred payment of taxes and contributions related to employee income for three months, which reduces the cash outflow on this basis in the amount of HRK 22.3 million. Deferred payment of invoices has been approved by some suppliers at the level of the entire aviation industry, such as Eurocontrol, whose bills for February, March, April and May should be paid only in November 2020, ie February, May and August 2021.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(v) *Going concern (continued)*

In the fall of 2019, Croatia Airlines started negotiations with Airbus Industrie on the termination / change of the contract for purchasing 4 Airbus 320neo aircrafts whose paid advances as of 31 December 2019 amounted to HRK 63.4 million. Negotiations on the Termination Agreement, the subject of which is the cancellation of the purchase of A320neo aircrafts and the use of the advances paid so far for other Airbus services, have been put on hold at the beginning of the crisis caused by COVID-19 disease and will continue as soon as possible.

The traffic connection of Croatian territory was established on 11 May and the payment of an already approved advance in the amount of HRK 58 million is expected according to the Agreement between Croatia Airlines and the Ministry of the Sea, Transport and Infrastructure on preserving the continuity of transport connections and scheduled air services within the Republic of Croatia for the period from 29 March 2020 to 24 October 2020. The contract was signed on 18 March 2020, and the Company is entitled to compensation of up to HRK 60 million, within determined scope on certain domestic lines.

A business crisis plan was prepared, which was submitted to the Ministry of the Sea, Transport and Infrastructure and the Ministry of State Property, as well as to the Ministry of Finance, in accordance with the Guidelines for Rationalization of State-Owned Legal Entities Due to the COVID-19 virus pandemic.

Liquidity and sustainable operation of the Company urgently require additional financial resources that should be provided through an individual measure for Croatia Airlines to compensate for the damage caused by the outbreak of COVID-19 (based on Article 107 (2) (b) TFEU) in the form of a subsidy / donations from the owner - the Republic of Croatia.

The Company has prepared cash flow projections depending on the assumptions of the volume of traffic, where the greatest risk for planning is the lack of a reference model from the past on which a realistically expected travel demand can be developed. The first projection shows a negative cash balance of - HRK 220.2 million as at 31 December 2020. Cash injection in this amount ensure marginal liquidity, so sustainable operations require additional funds that will be realized through loans with a state guarantee.

The second cash flow projection, which implies the realization of revenue at the level of 52% of the realization in 2019 or 41% of the realization if the plan for the period from April to December is compared to the same period in 2019, is based on the abolition of some more seasonal lines and lower occupancy factor and the need for HRK 294.2 million is forecast as of 31 December 2020.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(v) *Going concern (continued)*

In case of prolongation of the crisis, by reducing the realization of revenues to 37% in relation to revenues realized in 2019 or to 22% of realization if only the period from April to December is compared with the realization in the same period in 2020, later opening of borders which will result in lack of demand and at the beginning of 2021, the flight schedule would be reduced to a much smaller number of destinations and rotations with a reduced number of passengers, resulting in a lack of cash of HRK 551.3 million as of 31 December 2020.

Given the above, the indefinite duration of the Company's operations depends on the financial assistance of the owner in the form of capital injection, which is currently the subject of intensive negotiations, and then on the timely decision of the Government of the Republic of Croatia to provide long-term credit. Fulfilment of the stated conditions would provide adequate resources for timely fulfilment of obligations, ie ensure fulfilment of preconditions that will enable the Company to continue to operate according to the principle of indefinite operation.

Taking into account all the previously mentioned facts, the Management Board of the Company concludes that the Company will be able to settle current liabilities on time and meet the requirements of the loan and lease agreements. The Management Board is convinced that it is appropriate to prepare the financial statements on the going concern basis.

However, the above events or conditions including the events described in note 40 Events after the reporting date indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group and the Company initially applied IFRS 16 *Leases* from 1 January 2019. The Group and the Company have applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of the lease

Previously, the Group and the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group and the Company now assess whether a contract is or contains a lease based on the definition of a lease, as explained in notes.

On transition to IFRS 16, the Group and the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group and the Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Lessor

The Group and the Company lease out its investment property. These leases have been classified as leases and there is no requirement for any adjustments on transition to IFRS 16 for leases in which the Group and the Company act as a lessor.

Lessee

As a lessee, the Group and the Company lease many assets including aircrafts, engines, business premises and vehicles. The Group and the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group and the Company. Under IFRS 16, the Group and the Company recognize right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-the statement of financial position.

At commencement or on modification of a contract that contains a lease component, the Group and the Company allocate the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group and the Company have elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Leases classified as operating leases under IAS 17

Previously, the Group and the Company classified leases of aircraft, engines, business premises and vehicles as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's and the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments. The Group and the Company applied this approach to all leases.

The Group and the Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used experience when determining the lease term.

ii. Leases classified as finance leases under IAS 17

The Group and the Company do not have any leases previously classified as finance leases under IAS 17.

Impact on transition

On transition to IFRS 16, the Group and the Company recognised right-of-use assets and lease liabilities. The impact on transition is summarised below.

	Croatia Airlines Group 2019.		Croatia Airlines d.d. 2019.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Right of use assets	532,533	71,794	531,358	71,635
Prepaid expenses	(4,790)	(646)	(4,790)	(646)
Lease liabilities	527,743	71,148	526,568	70,989

When measuring lease liabilities, the Group and the Company discounted lease payments using their incremental borrowing rate depending on the asset class, duration and currency of the lease. The weighted-average rate applied for Q fleet is 2.8%, for Airbus and engines 3.7% and for business premises and vehicles 2.5%.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

4. PASSENGER TRAFFIC

	2019		2018	
	Croatia Airlines d.d. i Grupa		Croatia Airlines d.d. i Grupa	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Scheduled services	1,444,647	194,853	1,412,630	190,526
Charter services	76,673	10,342	89,076	12,014
	1,521,320	205,195	1,501,706	202,540

Revenue by geographical area based on sales origin:

	2019		2018	
	Croatia Airlines d.d. i Grupa		Croatia Airlines d.d. i Grupa	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Croatia	507,664	68,473	504,423	68,033
Germany	139,657	18,837	149,270	20,133
USA	160,043	21,586	149,420	20,153
France	69,676	9,398	80,792	10,897
Great Britain	41,836	5,643	45,502	6,137
Other countries	602,444	81,258	572,299	77,187
	1,521,320	205,195	1,501,706	202,540

5. OTHER SALES REVENUE

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Revenue from technical services to others	47,038	6,344	58,200	7,850	47,038	6,344	58,200	7,850
Commission income from foreign air companies	6,722	907	6,795	916	6,722	907	6,795	916
Revenue from reservation system services	10,866	1,466	10,363	1,398	2,569	347	2,365	319
Revenue from advertising services	12,606	1,700	9,485	1,279	12,606	1,700	9,485	1,279
Revenue from educational services	1,068	144	1,742	235	1,068	144	1,742	235
Mileage related revenue	3,130	422	2,778	375	3,130	422	2,778	375
Other	12,196	1,645	12,682	1,710	5,524	745	7,227	975
	93,626	12,628	102,045	13,763	78,657	10,609	88,592	11,949

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

6. OTHER INCOME

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Income from PSO	82,788	11,166	84,136	11,348	82,788	11,166	84,136	11,348
Gain from sale of property, plant and equipment	59	8	182	25	59	8	182	25
Bad debts collected	101	14	47	6	101	14	47	6
Income from sale of spare parts	179	24	161	22	179	24	161	22
Other income	33,764	4,554	15,000	2,022	33,667	4,541	14,904	2,009
	116,891	15,766	99,526	13,423	116,794	15,753	99,430	13,410

Income from PSO arises from the differences of unrealized income in relation to the costs from maintaining domestic scheduled air transport from the Croatian Government (PSO - Public Service Obligation). The amount of PSO is determined as the difference between revenues from certain domestic flights and related direct flight operations expense, and realized as a part of project of maintaining connectivity of regions in domestic airline traffic. Other part of income from PSO arises based on maintaining international flight Zagreb – Mostar supported by the Government of Federation of Bosnia and Herzegovina.

Other income in includes income from release of provision for American taxes based on a settlement reached with American IRS (Internal Revenue Service) in the amount HRK 19,070 thousand, i.e. EUR 2,572 thousand – note 28.

7. EXPENSES BY NATURE

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Fuel	304,196	41,030	314,337	42,396	304,196	41,030	314,337	42,396
Airport costs	278,518	37,566	273,925	36,945	278,518	37,566	273,925	36,945
Staff costs	289,619	39,063	269,954	36,410	284,582	38,385	265,489	35,807
Rental and maintenance of engines and parts	130,625	17,619	159,256	21,479	130,625	17,619	159,256	21,479
Aircraft lease	74,430	10,039	146,542	19,765	74,430	10,039	146,542	19,765
Air traffic control costs	116,510	15,715	120,370	16,235	116,510	15,715	120,370	16,235
Reservation system costs	100,616	13,571	101,203	13,650	100,616	13,571	101,203	13,650
Amortisation and depreciation	209,028	28,194	100,933	13,613	208,647	28,142	100,868	13,604
Commision costs	60,405	8,147	56,408	7,608	60,405	8,147	56,408	7,608
Catering	33,330	4,496	32,367	4,365	33,330	4,496	32,367	4,365
Consumables	22,996	3,102	28,916	3,900	22,996	3,102	28,916	3,900
Promotion costs	21,746	2,933	20,524	2,768	21,746	2,933	20,524	2,768
Other expenses	155,036	20,911	164,919	22,244	147,072	19,836	157,640	21,261
	1,797,055	242,386	1,789,654	241,378	1,783,673	240,581	1,777,845	239,783

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

8. STAFF COSTS

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Net wages and salaries	134,819	18,184	126,155	17,015	132,152	17,825	123,816	16,699
Taxes and contributions form salaries	68,001	9,172	64,324	8,676	66,760	9,005	63,241	8,530
Contributions on salaries	45,819	6,180	42,952	5,793	45,205	6,097	42,383	5,716
Other employee related costs	40,980	5,527	36,523	4,926	40,465	5,458	36,049	4,862
	<u>289,619</u>	<u>39,063</u>	<u>269,954</u>	<u>36,410</u>	<u>284,582</u>	<u>38,385</u>	<u>265,489</u>	<u>35,807</u>

As at 31 December 2019 the Group had 1,026 employees (Croatia Airlines d.d. 999, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 19) while as at 31 December 2018 the Group had 984 employees (Croatia Airlines d.d. 959, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 17) - see note 36.

Staff costs are distributed and allocated in statement of comprehensive income within items of operating costs according to ICAO (International Civil Aviation Organization) methodology.

9. FINANCE INCOME

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Positive foreign exchange differences	22,395	3,021	56,046	7,560	22,372	3,018	56,035	7,558
Interest income	167	23	113	15	167	23	113	15
Income from share on profits and dividends	34	4	32	4	386	51	88	12
	<u>22,596</u>	<u>3,048</u>	<u>56,191</u>	<u>7,579</u>	<u>22,925</u>	<u>3,092</u>	<u>56,236</u>	<u>7,585</u>

10. FINANCE COSTS

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Negative foreign exchange differences	27,493	3,708	57,931	7,813	27,411	3,697	57,808	7,797
Interest expense	19,434	2,621	4,407	594	19,410	2,618	4,407	594
Other finance costs	79	11	455	62	79	11	455	62
	<u>47,006</u>	<u>6,340</u>	<u>62,793</u>	<u>8,469</u>	<u>46,900</u>	<u>6,326</u>	<u>62,670</u>	<u>8,453</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

11. INCOME TAX EXPENSE

Income tax in Croatia is calculated at the rate of 18% (2018: 18%) to taxable profit for the year, which is applied to taxable profit for the current year.

The Company does not have income tax liability for current year due to accumulated losses from previous years, but in accordance with applicable tax regulations, the Company paid income tax advances with regard to the use of tax incentives for education and training until April 2018. During 2019, prepayments in the amount of HRK 179 thousand (2018: HRK 179 thousand) were compensated with the obligation to pay VAT.

Income tax expense of the subsidiaries is as follows: Amadeus Croatia d.d. HRK 68 thousand, EUR 9 thousand (2018: HRK 42 thousand, EUR 6 thousand) and Obzor putovanja d.o.o. HRK 287 thousand, EUR 39 thousand (2018: HRK 281 thousand, EUR 38 thousand).

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

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Profit before tax	(78,110)	(10,535)	(81,365)	(10,976)	(79,359)	(10,704)	(82,937)	(11,186)
Tax at statutory rate	(14,060)	(1,896)	(14,646)	(1,976)	(14,285)	(1,927)	(14,929)	(2,013)
Non-deductible expenses	3,041	410	296	40	2,973	401	266	35
Non-taxable income	(6)	(1)	(11)	(1)	(69)	(9)	(21)	(3)
Tax incentives	(859)	(116)	(743)	(100)	(858)	(116)	(743)	(100)
Tax losses for which deferred tax asset is not recognised	12,239	1,651	15,427	2,081	12,239	1,651	15,427	2,081
Income tax	355	48	323	44	-	-	-	-

Group's tax losses carried forward are the same the one of the Company as the subsidiaries do not have any tax losses.

Overview of tax losses will available for utilization against future taxable profits is as follows:

	2019		2019		2018		2018	
	Tax losses available for utilisation		Tax allowance at tax rate of 18%		Tax losses available for utilisation		Tax allowance at tax rate of 20%	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Loss from 2014 (expires 2019)	-	-	-	-	5,753	776	1,036	140
Loss from 2018 (expires 2023)	85,674	11,511	15,421	2,072	85,674	11,550	15,421	2,079
Loss from 2019 (expires 2024)	67,994	9,136	12,239	1,644	-	-	-	-
	153,668	20,647	27,660	3,716	91,427	12,326	16,457	2,219

Deferred tax asset has not been recognized due to uncertainty as to whether sufficient future taxable income will be available against which the tax losses could be utilized. The non-recognized tax asset has been calculated using the tax rate enacted at the reporting date.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

12. INTANGIBLE ASSETS

Croatia Airlines Group

2019	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2019	37,782	5,094	237,470	32,013	56	8	275,308	37,115
Additions	971	131	35,285	4,759	140	19	36,396	4,909
Transfer	55	7	90	13	(145)	(20)	-	-
Transfer from property, plant and equipment	-	-	1,620	219	-	-	1,620	219
Disposals	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(17)	-	(127)	-	-	-	(144)
Balance at 31 December 2019	<u>37,344</u>	<u>5,018</u>	<u>274,465</u>	<u>36,877</u>	<u>51</u>	<u>7</u>	<u>311,860</u>	<u>41,902</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2019	35,581	4,797	100,304	13,522	-	-	135,885	18,319
Charge for the year	1,831	247	50,091	6,756	-	-	51,922	7,003
Transfer from property, plant and equipment	-	-	6	1	-	-	6	1
Disposal	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(17)	-	(71)	-	-	-	(88)
Balance at 31 December 2019	<u>35,948</u>	<u>4,830</u>	<u>150,401</u>	<u>20,208</u>	<u>-</u>	<u>-</u>	<u>186,349</u>	<u>25,038</u>
NET BOOK VALUE								
At 31 December 2019	<u>1,396</u>	<u>188</u>	<u>124,064</u>	<u>16,669</u>	<u>51</u>	<u>7</u>	<u>125,511</u>	<u>16,864</u>
At 1 January 2019	<u>2,201</u>	<u>297</u>	<u>137,166</u>	<u>18,491</u>	<u>56</u>	<u>8</u>	<u>139,423</u>	<u>18,796</u>

2018	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2018	35,814	4,767	187,054	24,895	-	-	222,868	29,662
Additions	1,968	265	50,346	6,790	56	8	52,370	7,063
Transfer from property, plant and equipment	-	-	70	9	-	-	70	9
Fx differences	-	62	-	319	-	-	-	381
Balance at 31 December 2018	<u>37,782</u>	<u>5,094</u>	<u>237,470</u>	<u>32,013</u>	<u>56</u>	<u>8</u>	<u>275,308</u>	<u>37,115</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2018	32,441	4,317	63,914	8,506	-	-	96,355	12,823
Charge for the year	3,140	424	36,376	4,906	-	-	39,516	5,330
Transfer	-	-	13	2	-	-	13	2
Correction of accumulated amortisation	-	-	1	-	-	-	1	-
Fx differences	-	56	-	108	-	-	-	164
Balance at 31 December 2018	<u>35,581</u>	<u>4,797</u>	<u>100,304</u>	<u>13,522</u>	<u>-</u>	<u>-</u>	<u>135,885</u>	<u>18,319</u>
NET BOOK VALUE								
At 31 December 2018	<u>2,201</u>	<u>297</u>	<u>137,166</u>	<u>18,491</u>	<u>56</u>	<u>8</u>	<u>139,423</u>	<u>18,796</u>
At 1 January 2018	<u>3,373</u>	<u>450</u>	<u>123,140</u>	<u>16,389</u>	<u>-</u>	<u>-</u>	<u>126,513</u>	<u>16,839</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

12. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

2019	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2019	37,291	5,027	237,080	31,963	56	8	274,427	36,998
Additions	971	131	35,285	4,759	140	19	36,396	4,909
Transfer	55	7	90	13	(145)	(20)	-	-
Transfer from property, plant and equipment	-	-	1,620	219	-	-	1,620	219
Disposals	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(16)	-	(129)	-	-	-	(145)
Balance at 31 December 2019	<u>36,853</u>	<u>4,952</u>	<u>274,075</u>	<u>36,825</u>	<u>51</u>	<u>7</u>	<u>310,979</u>	<u>41,784</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2019	35,098	4,732	99,919	13,471	-	-	135,017	18,203
Charge for the year	1,827	246	50,091	6,756	-	-	51,918	7,002
Transfer from property, plant and equipment	-	-	6	1	-	-	6	1
Disposals	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(16)	-	(72)	-	-	-	(88)
Balance at 31 December 2019	<u>35,461</u>	<u>4,765</u>	<u>150,016</u>	<u>20,156</u>	<u>-</u>	<u>-</u>	<u>185,477</u>	<u>24,921</u>
NET BOOK VALUE								
At 31 December 2019	<u>1,392</u>	<u>187</u>	<u>124,059</u>	<u>16,669</u>	<u>51</u>	<u>7</u>	<u>125,502</u>	<u>16,863</u>
At 1 January 2019	<u>2,193</u>	<u>295</u>	<u>137,161</u>	<u>18,492</u>	<u>56</u>	<u>8</u>	<u>139,410</u>	<u>18,795</u>
2018	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2018	35,324	4,701	186,664	24,844	-	-	221,988	29,545
Additions	1,967	265	50,346	6,790	56	8	52,369	7,063
Transfer from property, plant and equipment	-	-	70	9	-	-	70	9
Fx differences	-	61	-	320	-	-	-	381
Balance at 31 December 2018	<u>37,291</u>	<u>5,027</u>	<u>237,080</u>	<u>31,963</u>	<u>56</u>	<u>8</u>	<u>274,427</u>	<u>36,998</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2018	31,976	4,256	63,529	8,455	-	-	95,505	12,711
Charge for the year	3,122	421	36,376	4,906	-	-	39,498	5,327
Transfer from property, plant and equipment	-	-	13	2	-	-	13	2
Correction of accumulated amortisation	-	-	1	-	-	-	1	-
Fx differences	-	55	-	108	-	-	-	163
Balance at 31 December 2018	<u>35,098</u>	<u>4,732</u>	<u>99,919</u>	<u>13,471</u>	<u>-</u>	<u>-</u>	<u>135,017</u>	<u>18,203</u>
NET BOOK VALUE								
At 31 December 2018	<u>2,193</u>	<u>295</u>	<u>137,161</u>	<u>18,492</u>	<u>56</u>	<u>8</u>	<u>139,410</u>	<u>18,795</u>
At 1 January 2018	<u>3,348</u>	<u>445</u>	<u>123,135</u>	<u>16,389</u>	<u>-</u>	<u>-</u>	<u>126,483</u>	<u>16,834</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

Croatia Airlines Group

2019	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2019	72,220	9,736	62,451	8,419	1,230,699	165,917	207,383	27,958	69,807	9,411	1,642,560	221,441
Additions	752	101	3,798	512	9,901	1,335	9,334	1,259	11,011	1,485	34,796	4,692
Transfer	-	-	-	-	5,493	741	(88)	(12)	(5,405)	(729)	-	-
Transfer to investment property	(741)	(100)	-	-	-	-	-	-	-	-	(741)	(100)
Transfer to intangible assets	-	-	-	-	-	-	(100)	(13)	(1,520)	(205)	(1,620)	(218)
Disposals	-	-	(4,600)	(620)	-	-	(8,849)	(1,194)	(34)	(5)	(13,483)	(1,819)
Fx differences	-	(32)	-	(28)	-	(565)	-	(94)	1,524	172	1,524	(547)
Balance at 31 December 2019	<u>72,231</u>	<u>9,705</u>	<u>61,649</u>	<u>8,283</u>	<u>1,246,093</u>	<u>167,428</u>	<u>207,680</u>	<u>27,904</u>	<u>75,383</u>	<u>10,129</u>	<u>1,663,036</u>	<u>223,449</u>
ACCUMULATED DEPRECIATION												
Balance at 1 January 2019	27,964	3,770	48,891	6,591	929,129	125,260	140,937	19,000	-	-	1,146,921	154,621
Charge for the year	2,726	368	4,276	577	46,566	6,281	6,710	905	-	-	60,278	8,131
Transfer	-	-	-	-	14	2	(14)	(2)	-	-	-	-
Transfer to investment property	(689)	(93)	-	-	-	-	-	-	-	-	(689)	(93)
Transfer to intangible assets	-	-	-	-	-	-	(6)	(1)	-	-	(6)	(1)
Disposals	-	-	(4,583)	(618)	-	-	(1,009)	(136)	-	-	(5,592)	(754)
Fx differences	-	(14)	-	(22)	-	(445)	-	(66)	-	-	-	(547)
Balance at 31 December 2019	<u>30,001</u>	<u>4,031</u>	<u>48,584</u>	<u>6,528</u>	<u>975,709</u>	<u>131,098</u>	<u>146,618</u>	<u>19,700</u>	<u>-</u>	<u>-</u>	<u>1,200,912</u>	<u>161,357</u>
NET BOOK VALUE												
Balance at 31 December 2019	<u>42,230</u>	<u>5,674</u>	<u>13,065</u>	<u>1,755</u>	<u>270,384</u>	<u>36,330</u>	<u>61,062</u>	<u>8,204</u>	<u>75,383</u>	<u>10,129</u>	<u>462,124</u>	<u>62,092</u>
Balance at 1 January 2019	<u>44,256</u>	<u>5,966</u>	<u>13,560</u>	<u>1,828</u>	<u>301,570</u>	<u>40,657</u>	<u>66,446</u>	<u>8,958</u>	<u>69,807</u>	<u>9,411</u>	<u>495,639</u>	<u>66,820</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines Group

2018	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2018	72,442	9,641	61,207	8,146	1,148,815	152,897	204,668	27,240	61,250	8,152	1,548,382	206,076
Additions	1,999	270	2,312	312	80,301	10,830	15,652	2,111	8,603	1,160	108,867	14,683
Transfer	404	54	-	-	1,583	214	(74)	(10)	(1,913)	(258)	-	-
Transfer to intangible assets	-	-	-	-	-	-	(70)	(9)	-	-	(70)	(9)
Disposals	(2,625)	(354)	(1,068)	(144)	-	-	(12,793)	(1,725)	-	-	(16,486)	(2,223)
Fx differences	-	125	-	105	-	1,976	-	351	1,867	357	1,867	2,914
Balance at 31 December 2018	<u>72,220</u>	<u>9,736</u>	<u>62,451</u>	<u>8,419</u>	<u>1,230,699</u>	<u>165,917</u>	<u>207,383</u>	<u>27,958</u>	<u>69,807</u>	<u>9,411</u>	<u>1,642,560</u>	<u>221,441</u>
ACCUMULATED DEPRECIATION												
Balance at 1 January 2018	26,892	3,579	45,512	6,057	883,604	117,600	137,279	18,271	-	-	1,093,287	145,507
Charge for the year	3,356	453	4,447	600	45,493	6,135	7,489	1,010	-	-	60,785	8,198
Transfer	-	-	-	-	29	4	(29)	(4)	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	-	(13)	(2)	-	-	(13)	(2)
Disposals	(2,284)	(308)	(1,068)	(144)	-	-	(3,820)	(515)	-	-	(7,172)	(967)
Correction of accumulated depreciation	-	-	-	-	3	-	31	4	-	-	34	4
Fx differences	-	46	-	78	-	1,521	-	236	-	-	-	1,881
Balance at 31 December 2018	<u>27,964</u>	<u>3,770</u>	<u>48,891</u>	<u>6,591</u>	<u>929,129</u>	<u>125,260</u>	<u>140,937</u>	<u>19,000</u>	<u>-</u>	<u>-</u>	<u>1,146,921</u>	<u>154,621</u>
NET BOOK VALUE												
Balance at 31 December 2018	<u>44,256</u>	<u>5,966</u>	<u>13,560</u>	<u>1,828</u>	<u>301,570</u>	<u>40,657</u>	<u>66,446</u>	<u>8,958</u>	<u>69,807</u>	<u>9,411</u>	<u>495,639</u>	<u>66,820</u>
Balance at 1 January 2018	<u>45,550</u>	<u>6,062</u>	<u>15,695</u>	<u>2,089</u>	<u>265,211</u>	<u>35,297</u>	<u>67,389</u>	<u>8,969</u>	<u>61,250</u>	<u>8,152</u>	<u>455,095</u>	<u>60,569</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2019	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2019	72,220	9,736	59,777	8,058	1,230,699	165,917	207,383	27,958	69,807	9,411	1,639,886	221,080
Additions	752	101	3,716	501	9,901	1,335	9,334	1,259	11,011	1,485	34,714	4,681
Transfer	-	-	-	-	5,493	741	(88)	(12)	(5,405)	(729)	-	-
Transfer to investment property	(741)	(100)	-	-	-	-	-	-	-	-	(741)	(100)
Transfer to intangible assets	-	-	-	-	-	-	(100)	(13)	(1,520)	(205)	(1,620)	(218)
Disposals	-	-	(2,767)	(373)	-	-	(8,849)	(1,194)	(34)	(5)	(11,650)	(1,572)
Fx differences	-	(32)	-	(28)	-	(565)	-	(94)	1,524	172	1,524	(547)
Balance at 31 December 2019	<u>72,231</u>	<u>9,705</u>	<u>60,726</u>	<u>8,158</u>	<u>1,246,093</u>	<u>167,428</u>	<u>207,680</u>	<u>27,904</u>	<u>75,383</u>	<u>10,129</u>	<u>1,662,113</u>	<u>223,324</u>
ACCUMULATED DEPRECIATION												
Balance at 1 January 2019	27,965	3,770	46,405	6,256	929,129	125,260	140,937	19,000	-	-	1,144,435	154,286
Charge for the year	2,726	368	4,208	568	46,566	6,281	6,710	905	-	-	60,210	8,122
Transfer	-	-	-	-	14	2	(14)	(2)	-	-	-	-
Transfer to investment property	(689)	(93)	-	-	-	-	-	-	-	-	(689)	(93)
Transfer to intangible assets	-	-	-	-	-	-	(6)	(1)	-	-	(6)	(1)
Disposals	-	-	(2,761)	(372)	-	-	(1,009)	(136)	-	-	(3,770)	(508)
Fx differences	-	(14)	-	(23)	-	(445)	-	(66)	-	-	-	(548)
Balance at 31 December 2019	<u>30,002</u>	<u>4,031</u>	<u>47,852</u>	<u>6,429</u>	<u>975,709</u>	<u>131,098</u>	<u>146,618</u>	<u>19,700</u>	<u>-</u>	<u>-</u>	<u>1,200,180</u>	<u>161,258</u>
NET BOOK VALUE												
Balance at 31 December 2019	<u>42,229</u>	<u>5,674</u>	<u>12,874</u>	<u>1,729</u>	<u>270,384</u>	<u>36,330</u>	<u>61,062</u>	<u>8,204</u>	<u>75,383</u>	<u>10,129</u>	<u>461,933</u>	<u>62,066</u>
Balance at 1 January 2019	<u>44,255</u>	<u>5,966</u>	<u>13,372</u>	<u>1,802</u>	<u>301,570</u>	<u>40,657</u>	<u>66,446</u>	<u>8,958</u>	<u>69,807</u>	<u>9,411</u>	<u>495,451</u>	<u>66,794</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2018	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2018	72,442	9,641	58,537	7,791	1,148,815	152,897	204,668	27,240	61,250	8,152	1,545,712	205,721
Additions	1,999	270	2,241	302	80,301	10,830	15,652	2,111	8,603	1,160	108,796	14,673
Transfer	404	54	-	-	1,583	214	(74)	(10)	(1,913)	(258)	-	-
Transfer to intangible assets	-	-	-	-	-	-	(70)	(9)	-	-	(70)	(9)
Disposals	(2,625)	(354)	(1,001)	(135)	-	-	(12,793)	(1,725)	-	-	(16,419)	(2,214)
Fx differences	-	125	-	100	-	1,976	-	351	1,867	357	1,867	2,909
Balance at 31 December 2018	<u>72,220</u>	<u>9,736</u>	<u>59,777</u>	<u>8,058</u>	<u>1,230,699</u>	<u>165,917</u>	<u>207,383</u>	<u>27,958</u>	<u>69,807</u>	<u>9,411</u>	<u>1,639,886</u>	<u>221,080</u>
ACCUMULATED DEPRECIATION												
Balance at 1 January 2018	26,893	3,579	43,006	5,724	883,604	117,600	137,279	18,271	-	-	1,090,781	145,174
Charge for the year	3,356	453	4,400	593	45,493	6,136	7,489	1,010	-	-	60,738	8,192
Transfer	-	-	-	-	29	4	(29)	(4)	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	-	(13)	(2)	-	-	(13)	(2)
Disposals	(2,284)	(308)	(1,001)	(135)	-	-	(3,820)	(515)	-	-	(7,105)	(958)
Correction of accumulated depreciation	-	-	-	-	3	-	31	4	-	-	34	4
Fx differences	-	46	-	74	-	1,520	-	236	-	-	-	1,876
Balance at 31 December 2018	<u>27,965</u>	<u>3,770</u>	<u>46,405</u>	<u>6,256</u>	<u>929,129</u>	<u>125,260</u>	<u>140,937</u>	<u>19,000</u>	<u>-</u>	<u>-</u>	<u>1,144,435</u>	<u>154,286</u>
NET BOOK VALUE												
Balance at 31 December 2018	<u>44,255</u>	<u>5,966</u>	<u>13,372</u>	<u>1,802</u>	<u>301,570</u>	<u>40,657</u>	<u>66,446</u>	<u>8,958</u>	<u>69,807</u>	<u>9,411</u>	<u>495,451</u>	<u>66,794</u>
Balance at 1 January 2018	<u>45,549</u>	<u>6,062</u>	<u>15,531</u>	<u>2,067</u>	<u>265,211</u>	<u>35,297</u>	<u>67,389</u>	<u>8,969</u>	<u>61,250</u>	<u>8,152</u>	<u>454,931</u>	<u>60,547</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Aircraft are presented by the revaluation method. The Company regularly examines the value of owned aircraft and, if necessary, conducts aircraft value adjustment. Revaluation of Airbus fleet and spare engine owned by Company was conducted in December 2017, according to which the loss in the amount of HRK 56,923 thousand, EUR 7,629 thousand, is recognized under other operating expenses.

Carrying value of the property plant and equipment pledged as security for repayment of loans at the reporting date amounts to HRK 142,613 thousand, EUR 19,162 thousand (2018.: HRK 181,410 thousand, EUR 24,457 thousand).

Fleet at 31 December 2019

Aircraft type	number	ownership	Allowance for residual value	Estimated useful life	Pledged as a collateral
Airbus A319	3	owned by Company	Yes	20	No
Airbus A319	1	owned by Company	Yes	20	Yes
Airbus A320	1	owned by Company	Yes	20	Yes
Airbus A320	1	operating lease	-	-	No
Dash 8-Q400	6	operating lease	-	-	No
Total	12				

Property, plant and equipment under construction

Assets under construction includes advance payments in the amount of HRK 63,423 thousand, EUR 8,522 thousand (2018: HRK 54,752 thousand, EUR 7,381 thousand) paid to supplier for the acquisition of four new aircrafts in accordance with agreement and its annexes and investments in property, plant and equipment in the amount of HRK 11,960 thousand, EUR 1,607 thousand (2018: HRK 15,055 thousand, EUR 2,030 thousand), where the most part relates to investments into aircrafts and new business headquarter of the Company.

Capital commitments

The total agreed value of the investment in new aircrafts amounts to HRK 495,167 thousand, EUR 66,788 thousand (2018: HRK 487,533 thousand, EUR 65,755 thousand). The agreed repayment of capital commitment is disclosed in note 35.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

14. INVESTMENT PROPERTY

An overview of the investment property below shows real estate investments for both the Group and the Company.

2019	Investment property	
	HRK thousand	EUR thousand
COST		
Balance at 1 January 2019	12,768	1,721
Transfer from property, plant and equipment	741	100
Fx differences	-	(6)
Balance at 31 December 2019	<u>13,509</u>	<u>1,815</u>
ACCUMULATED AMORTIZATION		
Balance at 1 January 2019	12,452	1,678
Transfer from property, plant and equipment	689	93
Charge for the year	367	50
Fx differences	-	(6)
Balance at 31 December 2019	<u>13,508</u>	<u>1,815</u>
NET BOOK VALUE		
At 31 December 2019	<u>1</u>	<u>-</u>
At 1 January 2019	<u>316</u>	<u>43</u>
2018		
	HRK thousand	EUR thousand
COST		
Balance at 1 January 2018	12,768	1,699
Fx differences	-	22
Balance at 31 December 2018	<u>12,768</u>	<u>1,721</u>
ACCUMULATED AMORTIZATION		
Balance at 1 January 2018	11,820	1,573
Charge for the year	632	85
Fx differences	-	20
Balance at 31 December 2018	<u>12,452</u>	<u>1,678</u>
NET BOOK VALUE		
At 31 December 2018	<u>316</u>	<u>43</u>
At 1 January 2018	<u>948</u>	<u>126</u>

Revenue generated from investment property in amount of HRK 1,080 thousand and EUR 146 thousand (2018: HRK 1,023 thousand and EUR 138 thousand) is included in the category of Other within Other sales revenue.

The fair value of investment property at the reporting date amounted to HRK 12,653 thousand, EUR 1,700 thousand.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

15. INVESTMENTS IN SUBSIDIARIES

Name	Main activity	Share	2019		2018		2019		2018	
			Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
			HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
			thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Obzor putovanja d.o.o.	Tourism	100%	-	-	-	-	1,020	137	1,020	138
Amadeus Croatia d.d.	Marketing services	95%	-	-	-	-	190	26	190	25
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210</u>	<u>163</u>	<u>1,210</u>	<u>163</u>

Subsidiaries are founded in the Republic of Croatia. The percentages above refer to percentage ownership and voting rights.

16. NON-CURRENT DEPOSITS

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Deposits given to suppliers	19,302	2,593	16,957	2,286	19,277	2,590	16,910	2,280
Deposits at banks for employee loans	3,335	448	3,878	523	3,335	448	3,878	523
Deposits for bank guarantees	895	120	1,109	150	895	120	1,109	150
Deposits for business premises lease	183	25	743	100	183	25	743	99
	<u>23,715</u>	<u>3,186</u>	<u>22,687</u>	<u>3,059</u>	<u>23,690</u>	<u>3,183</u>	<u>22,640</u>	<u>3,052</u>

Non – current deposits given to suppliers consists of deposits given as guarantees to suppliers in the amount of HRK 19,277 thousand, EUR 2,590 thousand (2018: Deposits given as guarantees in the amount of HRK 16,910 thousand, EUR 2,280 thousand).

Interest rates on the non - current deposits for specified purpose loans for employees are 0% – 0.75%

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

17. INVESTMENTS IN EQUITY INSTRUMENTS

	Share	2019		2018		2019		2018	
		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Hrvatska poštanska									
banka d.d.	0.18%	929	125	697	94	929	125	697	94
Star Alliance		189	25	189	25	189	25	189	25
		<u>1,118</u>	<u>150</u>	<u>886</u>	<u>119</u>	<u>1,118</u>	<u>150</u>	<u>886</u>	<u>119</u>

Investments in equity instruments are classified as financial assets at fair value through other comprehensive income. Based on the fair value adjustments in the 2019 gain of HRK 232 thousand, EUR 31 thousand is recognized in other comprehensive income (2018: loss of HRK 86 thousand, EUR 12 thousand).

18. NON-CURRENT RECEIVABLES

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Receivables for sold flats	138	18	194	26	138	18	194	26
Other non-current receivables	175	24	175	24	175	24	175	24
	<u>313</u>	<u>42</u>	<u>369</u>	<u>50</u>	<u>313</u>	<u>42</u>	<u>369</u>	<u>50</u>

Long-term receivables for housing 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.

19. INVENTORIES

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Consumable spare parts	59,755	8,029	58,650	7,907	59,755	8,029	58,650	7,907
Catering, supplies and other inventories	1,599	215	1,275	172	1,599	215	1,275	172
	<u>61,354</u>	<u>8,244</u>	<u>59,925</u>	<u>8,079</u>	<u>61,354</u>	<u>8,244</u>	<u>59,925</u>	<u>8,079</u>

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

20. TRADE RECEIVABLES

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Domestic trade receivables	19,514	2,622	22,931	3,091	16,195	2,176	20,016	2,698
Foreign trade receivables	62,320	8,373	75,872	10,229	61,644	8,283	74,584	10,056
Allowance for doubtful receivables	(10,362)	(1,392)	(9,717)	(1,310)	(10,352)	(1,391)	(9,707)	(1,309)
	<u>71,472</u>	<u>9,603</u>	<u>89,086</u>	<u>12,010</u>	<u>67,487</u>	<u>9,068</u>	<u>84,893</u>	<u>11,445</u>

The following tables show changes in allowance for doubtful trade receivables:

	2019		2019	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Allowance for doubtful receivables				
1 January	9,717	1,310	9,707	1,309
Increase	872	118	821	111
Decrease	(101)	(14)	(101)	(14)
Write-offs	(204)	(27)	(153)	(21)
Foreign exchange differences	78	5	78	6
31 December	<u>10,362</u>	<u>1,392</u>	<u>10,352</u>	<u>1,391</u>

	2018		2018	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Allowance for doubtful receivables				
1 January	6,288	837	6,288	837
Increase	3,702	499	3,630	490
Decrease	(47)	(6)	(47)	(6)
Write-offs	(164)	(22)	(102)	(14)
Foreign exchange differences	(62)	2	(62)	2
31 December	<u>9,717</u>	<u>1,310</u>	<u>9,707</u>	<u>1,309</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

21. OTHER RECEIVABLES

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Receivables from employees	78	10	51	7	69	9	50	7
Receivables from the State	5,448	732	9,493	1,279	5,364	721	9,418	1,270
Receivables for advances	3,444	463	2,823	381	3,304	444	2,823	380
Other receivables	698	94	6	1	705	95	6	1
	<u>9,668</u>	<u>1,299</u>	<u>12,373</u>	<u>1,668</u>	<u>9,442</u>	<u>1,269</u>	<u>12,297</u>	<u>1,658</u>

22. PREPAYMENTS AND ACCRUED REVENUE

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Prepayments	6,925	931	15,455	2,084	6,903	928	15,428	2,080
Accrued revenue	9,143	1,228	3,408	459	9,143	1,228	3,408	459
	<u>16,068</u>	<u>2,159</u>	<u>18,863</u>	<u>2,543</u>	<u>16,046</u>	<u>2,156</u>	<u>18,836</u>	<u>2,539</u>

23. CURRENT DEPOSITS

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Deposits	9,499	1,276	9,097	1,226	9,499	1,276	9,097	1,226
	<u>9,499</u>	<u>1,276</u>	<u>9,097</u>	<u>1,226</u>	<u>9,499</u>	<u>1,276</u>	<u>9,097</u>	<u>1,226</u>

Deposits mainly relate to guarantee deposits for tickets sold in the US market.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

24. CASH AND CASH EQUIVALENTS

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Gyro account	20,125	2,704	13,131	1,770	17,541	2,357	10,049	1,355
Foreign currency accounts	17,825	2,395	6,815	919	15,114	2,031	5,978	806
Petty cash	24	3	95	13	7	1	12	2
Foreign currency petty cash	72	10	77	10	71	10	75	10
Short-term deposits	1,025	138	520	70	1,016	136	511	68
	39,071	5,250	20,638	2,782	33,749	4,535	16,625	2,241

Short-term deposits presents term deposits at the banks with maturities up to 90 days.

25. SHARE CAPITAL

Share capital of the Company amounts HRK 277,880 thousand is divided in 27,787,953 ordinary shares with a nominal value of HRK 10.00 each.

As at 31 December ownership structure was as follows:

2019	Number of shares	HRK thousand	Share %
Shareholders			
The Ministry of State Property for Republic of Croatia	27,010,821	270,109	97.20
Zagreb International Airport	477,121	4,771	1.72
HPB for Republic of Croatia	173,768	1,738	0.63
Others	126,243	1,262	0.45
	27,787,953	277,880	100.00
2018	Number of shares	HRK thousand	Share %
Shareholders			
The Ministry of State Property for Republic of Croatia	27,010,821	270,109	97.20
Zagreb International Airport	477,121	4,771	1.72
HPB for Republic of Croatia	173,768	1,738	0.63
Others	126,243	1,262	0.45
	27,787,953	277,880	100.00

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

26. RESERVES

Croatia Airlines Group	Legal reserves		Other capital reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2018	14,550	1,910	89,932	11,675	(920)	(120)	(822)	(103)	102,740	13,362
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Total comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Transactions with owners										
Transfer of profit from 2017 to other capital reserves	-	-	7,360	986	-	-	-	-	7,360	986
Total transaction with owners	-	-	7,360	986	-	-	-	-	7,360	986
Balance at 31 December 2018	14,550	1,910	97,292	12,661	(1,006)	(132)	(372)	(42)	110,464	14,397
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Total comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Transactions with owners										
Cover of 2018 loss from other capital reserves	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Total transaction with owners	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Balance at 31 December 2019	14,550	1,910	14,355	1,475	(774)	(101)	(473)	(56)	27,658	3,228

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

26. RESERVES (CONTINUED)

Croatia Airlines d.d.	Legal reserves		Other capital reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2018	14,550	1,910	88,666	11,509	(920)	(120)	(822)	(103)	101,474	13,196
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Total comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Transactions with owners										
Transfer of profit from 2017 to other capital reserves	-	-	7,337	983	-	-	-	-	7,337	983
Total transaction with owners	-	-	7,337	983	-	-	-	-	7,337	983
Balance at 31 December 2018	14,550	1,910	96,003	12,492	(1,006)	(132)	(372)	(42)	109,175	14,228
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Total comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Transactions with owners										
Cover of 2018 loss from other capital reserves	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Total transaction with owners	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Balance at 31 December 2019	14,550	1,910	13,066	1,306	(774)	(101)	(473)	(56)	26,369	3,059

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

26. RESERVES (CONTINUED)

Legal reserves

In accordance with the law, the legal reserve is formed as at least 5% of the profit for the year until the total legal reserve reaches 5% of the share capital of the Company. As at 31 December 2019 legal reserves amounts to HRK 14,550 thousand, EUR 1,910 thousand (2018: to HRK 14,550 thousand, EUR 1,910 thousand).

Other capital reserves

Other capital reserves resulted from the simplified reduction of share capital in 2013 as the difference between the amount by which share capital was decreased and losses carried forward that were covered from the decrease of capital. Based on the decision of the Assembly of 13 July 2015 the other capital reserves in the amount of HRK 662 thousand, EUR 97 thousand were used to cover losses carried forward. Based on the decision of the General Assembly of 17 July 2017, profit realized in 2016 in the amount of HRK 8,042 thousand, or EUR 1,068 thousand was transferred to other capital reserves. Based on the decision of the Assembly of 2 July 2018, the profit realized in 2017 in the amount of HRK 7,377 thousand (EUR 983 thousand) was allocated in other capital reserves. Based on the decision of the Assembly of 9 July 2019 other capital reserves in the amount HRK 82,937 thousand, EUR 11,186 thousand were used for covering loss realized in 2018.

Other capital reserves at the Group level include reserves of subsidiaries. Reserves of the Company Amadeus Croatia d.d. consists of HRK 10 thousand, EUR 1 thousand of legal reserves (2018: HRK 10 thousand, EUR 1 thousand), and HRK 100 thousand, EUR 14 thousand of other reserves (2018: HRK 100 thousand, EUR 14 thousand). The company Obzor putovanja d.o.o. has other reserves in the amount of HRK 1,179 thousand, EUR 154 thousand (2018: HRK 1,179 thousand, EUR 154 thousand).

Fair value reserve

Fair value reserve resulted from the basis of fair value adjustments on investments in equity instruments. Since the fair value of the investments in equity instruments on the reporting date is lower than the acquisition cost, fair value reserve is negative and amounts to HRK 774 thousand, EUR 101 thousand (2018: HRK 1,006 thousand, EUR 132 thousand).

Protection reserve

Changes in fair values of effective derivative instruments indicated and classified as cash flow hedges are recognized in protective reserve.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

27. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

Earnings per share are calculated based on the net result attributable to shareholders and weighted average of ordinary shares and the number of ordinary shares as follows:

	2019		2018	
	Croatia Airlines Grupa HRK	EUR	Croatia Airlines Grupa HRK	EUR
Loss for the year in thousands	<u>(78,465)</u>	<u>(10,583)</u>	<u>(81,688)</u>	<u>(11,020)</u>
Number of issued shares		27,787,953		27,787,953
Basic and diluted loss per share in HRK/EUR	<u>(2.82)</u>	<u>(0.38)</u>	<u>(2.94)</u>	<u>(0.40)</u>

	2019		2018	
	Croatia Airlines d.d. HRK	EUR	Croatia Airlines d.d. HRK	EUR
Loss for the year in thousands	<u>(79,359)</u>	<u>(10,704)</u>	<u>(82,937)</u>	<u>(11,186)</u>
Number of issued shares		27,787,953		27,787,953
Basic and diluted loss per share in HRK/EUR	<u>(2.86)</u>	<u>(0.39)</u>	<u>(2.98)</u>	<u>(0.40)</u>

Diluted earnings per share is equal to basic earnings per share as the Company did not have convertible instruments nor share options.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

28. PROVISIONS

Provisions of the Group and Companies are as follows:

	Provision for court cases		Provision for severance payments and jubilee awards		Other provisions		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance as at 31 December 2018	2,978	401	1,285	173	29,016	3,913	33,279	4,487
Provisions made during year	668	90	1,026	138	-	-	1,694	228
Provisions used during year	(61)	(8)	(64)	(9)	(10,569)	(1,426)	(10,694)	(1,443)
Provisions reversed during year	-	-	-	-	(19,070)	(2,572)	(19,070)	(2,572)
Foreign exchange differences	-	(1)	-	-	623	85	623	84
Balance as at 31 December 2019	<u>3,585</u>	<u>482</u>	<u>2,247</u>	<u>302</u>	<u>-</u>	<u>-</u>	<u>5,832</u>	<u>784</u>

Provision for legal claims refers to provision that relates to three labor dispute. Provisions are based on assessments of lawyers who represent the Company and key management of the Company.

Provisions for severance payments relates to the estimated long-term employee benefits at the time of retirement in accordance with the Collective Agreement. The obligation is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate, an annual discount rate, the age of retirement is determined for each individual employee taking into account their present age and the overall realized years of service.

Other provisions as at 31 December 2018 were related to the estimated obligations related to the process of the OIC (Offer in Compromise) in order to reach a settlement with the US IRS (Internal Revenue Service), about ways of settling the remaining liabilities for US taxes. During 2019 the settlement was agreed.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

29. NON-CURRENT LOANS AND BORROWINGS

	2019		2018		2019		2018	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Non-current loans	155,447	20,886	76,030	10,250	155,447	20,886	76,030	10,250
Current portion of non-current loans	(12,652)	(1,700)	(20,769)	(2,800)	(12,652)	(1,700)	(20,769)	(2,800)
	142,795	19,186	55,261	7,450	142,795	19,186	55,261	7,450

Description of long-term loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2019		2018	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for refinancing debts	EUR	15,000	3m EURIBOR + 4.8% (min 8%)	October 2019	-	-	16,319	2,200
Loan for maintenance of engines	EUR	8,500	3m EURIBOR + 3.07%	December 2022	55,447	7,450	59,711	8,050
Loan for maintaining financial stability	HRK	250,000	2%	January 2022	100,000	13,436	-	-
					155,447	20,886	76,030	10,250
Current portion					(12,652)	(1,700)	(20,769)	(2,800)
Non-current loans					142,795	19,186	55,261	7,450

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

	2019		2019	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
2020	12,652	1,700	12,652	1,700
2021	12,652	1,700	12,652	1,700
2022	130,143	17,486	130,143	17,486
After 2022	-	-	-	-
	155,447	20,886	155,447	20,886

Long-term loan is secured with pledge over two Airbus aircrafts.

Adjustment of long-term borrowings with cash flows from financial activities has been reported in note 31.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

30. LEASES

The Group and the Company leases aircrafts and engines, business premises and vehicles. Previously, all these leases were classified as operating leases in accordance with IAS 17. The Group and the Company did not have leases classified as finance leases in accordance with IAS 17.

Right of use assets

Croatia Airlines Group

2019	Land and buildings		Equipment and other		Aircraft		Aircraft		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION										
Balance at 1 January 2019	-	-	-	-	-	-	-	-	-	-
Initial recognition per IFRS 16	443,873	59,869	72,643	9,798	15,761	2,126	256	35	532,533	71,828
Adjusted balance at 1 January 2019	443,873	59,869	72,643	9,798	15,761	2,126	256	35	532,533	71,828
Additions	-	-	-	-	12,231	1,650	-	-	12,231	1,650
Disposals	-	-	-	-	(2,692)	(363)	-	-	(2,692)	(363)
Fx differences	-	(229)	-	(38)	-	(14)	-	(1)	-	(282)
Balance at 31 December 2019	443,873	59,640	72,643	9,760	25,300	3,399	256	34	542,072	72,833
ACCUMULATED DEPRECIATION										
Balance at 1 January 2019	-	-	-	-	-	-	-	-	-	-
Charge for the year	68,211	9,200	21,998	2,967	6,157	830	95	13	96,461	13,010
Disposals	-	-	-	-	(1,423)	(192)	-	-	(1,423)	(192)
Fx differences	-	(35)	-	(12)	-	(2)	-	-	-	(49)
Balance at 31 December 2019	68,211	9,165	21,998	2,955	4,734	636	95	13	95,038	12,769
NET BOOK VALUE										
Balance at 31 December 2019	375,662	50,475	50,645	6,805	20,566	2,763	161	21	447,034	60,064
Balance at 1 January 2019	443,873	59,869	72,643	9,798	15,761	2,126	256	35	532,533	71,828

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

30. LEASES (CONTINUED)

Croatia Airlines d.d.

2019	Land and buildings		Equipment and other		Aircraft		Aircraft		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION										
Balance at 1 January 2019	-	-	-	-	-	-	-	-	-	-
Initial recognition per IFRS 16	443,873	59,869	72,643	9,798	14,733	1,987	109	15	531,358	71,669
Adjusted balance at 1 January 2019	443,873	59,869	72,643	9,798	14,733	1,987	109	15	531,358	71,669
Additions	-	-	-	-	12,231	1,650	-	-	12,231	1,650
Disposals	-	-	-	-	(2,692)	(363)	-	-	(2,692)	(363)
Fx differences	-	(229)	-	(38)	-	(13)	-	-	-	(280)
Balance at 31 December 2019	443,873	59,640	72,643	9,760	24,272	3,261	109	15	540,897	72,676
ACCUMULATED DEPRECIATION										
Balance at 1 January 2019	-	-	-	-	-	-	-	-	-	-
Charge for the year	68,211	9,200	21,998	2,967	5,912	797	31	4	96,152	12,968
Disposals	-	-	-	-	(1,423)	(192)	-	-	(1,423)	(192)
Fx differences	-	(35)	-	(11)	-	(2)	-	-	-	(48)
Balance at 31 December 2019	68,211	9,165	21,998	2,956	4,489	603	31	4	94,729	12,728
NET BOOK VALUE										
Balance at 31 December 2019	375,662	50,475	50,645	6,804	19,783	2,658	78	11	446,168	59,948
Balance at 1 January 2019	443,873	59,869	72,643	9,798	14,733	1,987	109	15	531,358	71,669

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

30. LEASES (CONTINUED)

Lease liabilities

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Non-current lease liabilities	381,074	51,202	-	-	380,439	51,117	-	-
Current lease liabilities	81,360	10,932	-	-	81,051	10,890	-	-
	462,434	62,134	-	-	461,490	62,007	-	-

The repayment schedule for lease liabilities is as follows:

	2019.		2019.	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
2020	81,360	10,932	81,051	10,890
2021	85,432	11,479	85,138	11,439
2022	70,468	9,468	70,354	9,453
After 2022	225,174	30,255	224,947	30,225
	462,434	62,134	461,490	62,007

Reconciliation of lease liabilities with cash flows from financing activities is as follows:

	Croatia Airlines Group		Croatia Airlines d.d.	
	2019.		2019.	
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Initial recognition per IFRS 16	527,743	71,148	526,568	70,989
<i>Changes from non-cash transactions</i>				
Recognised during the year	12,231	1,650	12,231	1,650
Lease cancelation	(1,282)	(173)	(1,282)	(173)
Interest	14,966	2,019	14,942	2,015
Foreign exchange differences	5,695	768	5,695	768
Effect of FX recalculation	-	(205)	-	(204)
Total changes from non-cash transactions	31,610	4,059	31,586	4,056
<i>Changes from cash flows</i>				
Interest paid	(14,966)	(2,019)	(14,942)	(2,015)
Principal paid	(81,953)	(11,054)	(81,722)	(11,023)
Total changes from cash flows	(96,919)	(13,073)	(96,664)	(13,038)
	462,434	62,134	461,490	62,007

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

31. CURRENT LOANS AND BORROWINGS

	2019		2018		2019		2018	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Non-current loans	31,500	4,232	64,553	8,703	31,500	4,232	64,553	8,703
	<u>31,500</u>	<u>4,232</u>	<u>64,553</u>	<u>8,703</u>	<u>31,500</u>	<u>4,232</u>	<u>64,553</u>	<u>8,703</u>

Description of Company's current loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2019		2018	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for current liquidity	HRK	21,000	2.95% fixed	June 2020	21,000	2,821	-	-
Loan for current liquidity	HRK	6,000	3.40% fixed	January 2020	6,000	806	-	-
Loan for current liquidity	HRK	4,500	3.40% fixed	January 2020	4,500	605	-	-
Loan for current liquidity	EUR	3,000	2.05% fixed	June 2019	-	-	22,253	3,000
Loan for current liquidity	HRK	7,450	2.05% fixed	October 2019	-	-	7,450	1,004
Loan for current liquidity	HRK	7,400	3m ZIBOR + 3.01%	September 2019	-	-	7,400	998
Loan for current liquidity	HRK	7,450	4.75% variable	September 2018	-	-	7,450	1,004
Loan for current liquidity	HRK	20,000	3m EURIBOR + 3.50%	June 2018	-	-	20,000	2,697
					<u>31,500</u>	<u>4,232</u>	<u>64,553</u>	<u>8,703</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

31. CURRENT LOANS AND BORROWINGS (CONTINUED)

Reconciliation of borrowings with cash flows from financing activities is as follows:

	Non-current loans		Current loans		Total Loans	
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
Balance as at 1 January 2019	76,030	10,250	64,553	8,703	140,583	18,953
<i>Changes from financing cash flows</i>						
Proceeds from loans and borrowings	100,000	13,488	10,654	1,437	110,654	14,925
Repayment of loans and borrowings	(20,820)	(2,808)	(36,328)	(4,900)	(57,148)	(7,708)
Total changes from financing cash flows	79,180	10,680	(25,674)	(3,463)	53,506	7,217
<i>Other changes</i>						
Compensated with receivables from credit card companies	-	-	(7,450)	(1,005)	(7,450)	(1,005)
Foreign exchange differences	237	32	71	10	308	42
Effect of FX recalculation	-	(76)	-	(13)	-	(89)
Total other changes	237	(44)	(7,379)	(1,008)	(7,142)	(1,052)
Balance as at 31 December 2019	155,447	20,886	31,500	4,232	186,947	25,118

	Non-current loans		Current loans		Total Loans	
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
Balance as at 1 January 2018	31,557	4,200	54,044	7,193	85,601	11,393
<i>Changes from financing cash flows</i>						
Proceeds from loans and borrowings	62,728	8,460	42,300	5,705	105,028	14,165
Repayment of loans and borrowings	(18,177)	(2,452)	(31,476)	(4,245)	(49,653)	(6,697)
Total changes from financing cash flows	44,551	6,008	10,824	1,460	55,375	7,468
<i>Other changes</i>						
Foreign exchange differences	(78)	(11)	(315)	(42)	(393)	(53)
Effect of FX recalculation	-	53	-	92	-	145
Total other changes	(78)	42	(315)	50	(393)	92
Balance as at 31 December 2018	76,030	10,250	64,553	8,703	140,583	18,953

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

32. TRADE PAYABLES

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Domestic trade payables	110,932	14,905	84,849	11,439	108,914	14,634	83,427	11,247
Foreign trade payables	76,309	10,253	111,315	15,007	76,124	10,228	111,128	14,982
	<u>187,241</u>	<u>25,158</u>	<u>196,164</u>	<u>26,446</u>	<u>185,038</u>	<u>24,862</u>	<u>194,555</u>	<u>26,229</u>

33. OTHER CURRENT LIABILITIES

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Air traffic liabilities	121,229	16,289	118,377	15,959	121,229	16,289	118,377	15,959
Deposits and advances received	13,670	1,837	10,151	1,369	13,670	1,837	10,151	1,369
Liabilities for salaries	20,959	2,816	18,401	2,481	20,566	2,763	18,040	2,432
Other current liabilities	6,238	839	7,590	1,023	6,039	811	7,389	996
	<u>162,096</u>	<u>21,781</u>	<u>154,519</u>	<u>20,832</u>	<u>161,504</u>	<u>21,700</u>	<u>153,957</u>	<u>20,756</u>

Current air traffic liabilities refer to the value of tickets sold and not used but still valid. This items are reduced either when the Company completes the transportation service or when the passenger requests a refund.

34. ACCRUED EXPENSES AND DEFERRED INCOME

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Deferred income	1,088	146	6	1	1,088	146	6	1
Accrual for unused holiday	1,668	224	1,403	189	1,535	206	1,311	177
Accrued expenses	28,499	3,829	33,746	4,549	27,901	3,749	32,906	4,436
	<u>31,255</u>	<u>4,199</u>	<u>35,155</u>	<u>4,739</u>	<u>30,524</u>	<u>4,101</u>	<u>34,223</u>	<u>4,614</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

35. COMMITMENTS

Payment due dates of contractual obligations related to investment in new aircrafts is as follows:

	2019 HRK thousand	2019 EUR thousand	2018 HRK thousand	2018 EUR thousand
Less than one year	114,355	15,424	13,755	1,855
Between one and five years	380,812	51,364	473,778	63,900
More than five years	-	-	-	-
	<u>495,167</u>	<u>66,788</u>	<u>487,533</u>	<u>65,755</u>

36. EMPLOYEES

Number of employees as of 31 December is as follows:

	2019	2018
Croatia Airlines d.d.		
Pilots and co-pilots	138	127
Cabin attendants	179	155
Maintenance and overhaul	249	248
Ticket sales and promotion	152	130
Airport handling	115	119
Other staff	166	180
	<u>999</u>	<u>959</u>
Subsidiaries		
Obzor putovanja d.o.o.	19	17
Amadeus Croatia d.d.	8	8
Total	<u>1,026</u>	<u>984</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

37. RELATED PARTY TRANSACTIONS

37.1 TRANSACTIONS WITH SUBSIDIARIES

Transactions with related parties are as follows:

	2019 HRK thousand	2019 EUR thousand	2018 HRK thousand	2018 EUR thousand
Revenue				
Obzor putovanja d.o.o.	89	12	100	13
Amadeus Croatia d.d.	30	4	30	4
Total revenue	119	16	130	17
Income from share in profits				
Obzor putovanja d.o.o.	300	40	-	-
Amadeus Croatia d.d.	52	7	56	8
Total income from share in profits	352	47	56	8
Expenses				
Obzor putovanja d.o.o.	62	8	303	41
Amadeus Croatia d.d.	-	-	-	-
Total expenses	62	8	303	41
	2019 HRK thousand	2019 EUR thousand	2018 HRK thousand	2018 EUR thousand
Trade receivables				
Obzor putovanja d.o.o.	22	3	28	4
Amadeus Croatia d.d.	3	-	3	-
Total trade receivables	25	3	31	4
Receivables for share in profits				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Total receivables for share in profits	-	-	-	-
Trade payables				
Obzor putovanja d.o.o.	26	3	70	9
Amadeus Croatia d.d.	-	-	-	-
Total trade payables	26	3	70	9

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

37. RELATED PARTY TRANSACTIONS (CONTINUED)

37.2 RELATED PARTY TRANSACTIONS OWNED BY REPUBLIC OF CROATIA

The Company is the majority owned by the Republic of Croatia which has a significant influence on the Company's business with its shareholding and voting rights. Given the significant influence of the State in the ownership, the Company is also in a related party relationship with state institutions and other companies in which the State is a majority owner or has a significant influence.

For the purposes of related party disclosures, the Company does not consider routine transactions (such as taxes, levies etc.) with various communal entities (directly or indirectly owned by the State) or with other State bodies to be related party transactions.

Significant transactions that the Company has with State-owned companies relate to airport and fuel costs and revenue from ticket sales and from cargo (mail).

Related party transactions, i.e. transactions with the companies majority owned by Republic of Croatia or companies of strategic importance for Republic of Croatia are as follows:

	2019 HRK thousand	2019 EUR thousand	2018 HRK thousand	2018 EUR thousand
Revenue				
Zračna luka Osijek d.o.o., Klisa	28	4	216	29
Zračna luka Pula d.o.o., Pula	13	2	15	2
Zračna luka Rijeka d.o.o., Omišalj	43	6	638	86
Zračna luka Zadar d.o.o., Zadar	27	4	16	2
Zračna luka Split d.o.o., Kaštel Štafilić	648	87	585	79
Zračna luka Dubrovnik d.o.o., Čilipi	274	37	289	39
Zrakoplovno-tehnički centar d.d., Velika Gorica	8	1	3	-
HP – Hrvatska pošta d.d., Zagreb	1,719	232	1,635	221
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total revenue	2,760	373	3,397	458
Expenses				
Zračna luka Osijek d.o.o., Klisa	173	23	185	25
Zračna luka Pula d.o.o., Pula	2,130	287	2,197	296
Zračna luka Rijeka d.o.o., Omišalj	133	18	98	13
Zračna luka Zadar d.o.o., Zadar	3,100	418	3,426	462
Zračna luka Split d.o.o., Kaštel Štafilić	21,281	2,870	21,278	2,870
Zračna luka Dubrovnik d.o.o., Čilipi	15,929	2,148	16,402	2,212
Zrakoplovno-tehnički centar d.d., Velika Gorica	329	44	221	30
HP – Hrvatska pošta d.d., Zagreb	58	8	71	10
INA – Industrija nafte d.d., Zagreb	175,045	23,610	173,237	23,365
Total expenses	218,178	29,426	217,115	29,283

Transactions with other entities owned by the State and state institutions are not significant.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

37. RELATED PARTY TRANSACTIONS (CONTINUED)

37.2. RELATED PARTY TRANSACTIONS OWNED BY REPUBLIC OF CROATIA (CONTINUED)

	2019 HRK thousand	2019 EUR thousand	2018 HRK thousand	2018 EUR thousand
Receivables				
Zračna luka Osijek d.o.o., Klisa	-	-	-	-
Zračna luka Pula d.o.o., Pula	-	-	-	-
Zračna luka Rijeka d.o.o., Omišalj	-	-	-	-
Zračna luka Zadar d.o.o., Zadar	-	-	1	-
Zračna luka Split d.o.o., Kaštel Štafilić	-	-	-	-
Zračna luka Dubrovnik d.o.o., Čilipi	30	4	3	-
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-	1	-
HP – Hrvatska pošta d.d., Zagreb	214	29	214	29
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total receivables	244	33	219	29
Payables				
Zračna luka Osijek d.o.o., Klisa	20	3	-	-
Zračna luka Pula d.o.o., Pula	523	70	513	69
Zračna luka Rijeka d.o.o., Omišalj	45	6	44	6
Zračna luka Zadar d.o.o., Zadar	706	95	717	97
Zračna luka Split d.o.o., Kaštel Štafilić	10,693	1,437	7,832	1,056
Zračna luka Dubrovnik d.o.o., Čilipi	7,827	1,052	4,936	665
Zrakoplovno-tehnički centar d.d., Velika Gorica	65	9	56	8
HP – Hrvatska pošta d.d., Zagreb	9	1	13	2
INA – Industrija nafte d.d., Zagreb	15,772	2,119	15,667	2,112
Total payables	35,660	4,792	29,778	4,015

PSO benefit

During the year the Company realized revenue in the amount of HRK 78,783 thousand, EUR 10,626 thousand (2018: HRK 81,361 thousand, EUR 10,973 thousand), on the basis of PSO benefit, benefit from the Ministry of the Sea, Transport and Infrastructure for the preservation of region transport connections in domestic air transport. Receivables based on PSO benefits at the reporting date amounts HRK 5,029 thousand, EUR 676 thousand and is part of receivables from the State in the note 21 (2018: HRK 8,888 thousand, EUR 1,198 thousand).

Non-current loans

During the year the Company did not use long-term loans from bank owned by Republic of Croatia (2018: the Company took loan in the amount of HRK 31,339 thousand, EUR 4,250 thousand). Loan liability at the reporting date amounted to HRK 27,724 thousand, EUR 3,725 thousand (2018: HRK 29,856 thousand, EUR 4,025 thousand). Interest expense recognized during the year amounted to HRK 801 thousand, EUR 108 thousand (2018: HRK 505 thousand, EUR 68 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

37. RELATED PARTY TRANSACTIONS (CONTINUED)

37.2. RELATED PARTY TRANSACTIONS OWNED BY REPUBLIC OF CROATIA (CONTINUED)

Non-current loans (continued)

During the year based on loan totaling to HRK 250,000 thousand, the Company received HRK 100,000 thousand, EUR 13,488 thousand from the Ministry of the Sea, Transport and Infrastructure. The loan liability at the reporting date amounts to HRK 100,000 thousand, or EUR 13,436 thousand. Interest expense recognized during the year amounted to HRK 526 thousand, EUR 71 thousand. Liability for the accrued interest expense, disclosed within accrued expenses within note 34 amounts to HRK 526 thousand, EUR 71 thousand.

Current loans

During the year the Company did not use short-term loans from bank owned by Republic of Croatia (2018: the Company took loan in the amount of HRK 20,000 thousand, EUR 2,697 thousand). The loan received during last year is repaid so loan liability at the reporting date amounts to HRK nil, EUR nil (2018: HRK 20,000 thousand, EUR 2,697 thousand). Interest expense recognized during the year amounted to HRK 432 thousand, EUR 58 thousand (2018: HRK 88 thousand, EUR 12 thousand).

37.3 TRANSACTIONS WITH KEY MANAGEMENT AND SUPERVISORY BOARD MEMBERS

The total amount of remuneration paid to Management Board members, directors and other key management personnel was as follows:

	2019 HRK thousand	2019 EUR thousand	2018 HRK thousand	2018 EUR thousand
Gross salaries	7,457	1,006	7,367	994
Gross benefit in kind	134	18	127	17
	<u>7,591</u>	<u>1,024</u>	<u>7,494</u>	<u>1,011</u>

As at 31 December 2019 the number of Management Board members, directors and other key management personnel was 14 (2018: 14 employees).

Compensation to Supervisory Board members during 2019 amounted to HRK 158 thousand, EUR 21 thousand (2018: HRK 179 thousand, EUR 24 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. RISK MANAGEMENT

Financial instruments and financial risk management

In financial instruments transactions the Company assumes the financial risks. This risks includes market risk, credit risk and liquidity risk. The significant risks, together with the methods used to manage these risks are listed below.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is based on quoted market prices, if available. If market prices are not available, fair value is estimated using discounted cash flow models or other appropriate pricing techniques. Changes in the assumptions underlying the estimates, including discount rates and estimated future cash flows, significantly affect the estimates. For this reason, the estimated fair value cannot be obtained from the sale of a financial instrument at this point.

Valuation techniques and assumptions in determining the fair value

When calculating the fair value the Company takes into account the rules of IFRS fair value hierarchy that reflects the significance of inputs used in the valuation process. Each instrument is individually assessed in detail. The levels of the fair value hierarchy is determined based on the lowest level and input data which are important for determining the fair value of the instrument.

Financial instruments that are measured at fair value are categorized into three levels of the IFRS fair value hierarchy, as follows:

1. First level indicators - fair value measurements indicators are those derived from the (unadjusted) prices in active markets for identical assets and liabilities
2. Second level indicators - fair value measurements indicators are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability (their prices), either indirectly derived from prices) and
3. Third level indicators - indicators are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. RISK MANAGEMENT (CONTINUED)

The table below shows the Group's assets and the Company's fair value at the reporting date:

	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
2019				
<i>Investments in equity instruments</i>				
Listed entities	929	-	-	929
Unlisted entities	-	-	189	189
Total	929	-	189	1,118
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2019				
<i>Investments in equity instruments</i>				
Listed entities	125	-	-	125
Unlisted entities	-	-	25	25
Total	125	-	25	150
	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
2018				
<i>Investments in equity instruments</i>				
Listed entities	697	-	-	697
Unlisted entities	-	-	189	189
Total	697	-	189	886
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2018				
<i>Investments in equity instruments</i>				
Listed entities	94	-	-	94
Unlisted entities	-	-	25	25
Total	94	-	25	119

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. RISK MANAGEMENT (CONTINUED)

Risk management

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

Debt to equity ratio at year end was as follows:

	2019		2018		2019		2018	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Debt	649,381	87,252	140,583	18,953	648,437	87,125	140,583	18,953
Cash and cash equivalents	(39,071)	(5,250)	(20,638)	(2,782)	(33,749)	(4,535)	(16,625)	(2,241)
Net debt	<u>610,310</u>	<u>82,002</u>	<u>119,945</u>	<u>16,171</u>	<u>614,688</u>	<u>82,590</u>	<u>123,958</u>	<u>16,712</u>
Equity	<u>229,818</u>	<u>30,877</u>	<u>308,152</u>	<u>41,543</u>	<u>224,890</u>	<u>30,218</u>	<u>304,118</u>	<u>40,998</u>
Debt to equity	266%	266%	39%	39%	273%	273%	41%	41%

Interest rate risk

Interest rate risk is 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 Group and the Company are exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in notes 29 and 31. The interest rate on bank deposits is disclosed in note 16. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 17 thousand, EUR 2 thousand would debit income statement (2018: HRK 19 thousand, EUR 3 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 17 thousand, EUR 2 thousand would credit income statement for the period ended 31 December 2018 (2018: HRK 19 thousand, EUR 3 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

The Group and the Company are exposed to the transaction risk, which is the risk of the 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 Group's and the Company's principal foreign exchange risk is the long-term loans as described in note 29, which is denominated principally in Euro. This exposure is offset by the Group's and the Company's revenues from overseas ticket sales, which is sufficient to service the debt payments. Accordingly the Group and the Company have 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 impact of the currency on net monetary receivables / payables denominated in euros and dollars at the reporting date (strengthening / weakening by 0.50%) is as follows:

HRK thousand	Currency impact EUR		Currency impact USD	
	2019	2018	2019	2018
Profit / (loss)	<u>(1,932)</u>	<u>(541)</u>	<u>(554)</u>	<u>(60)</u>

The impact of the currency on revenue (strengthening / weakening by 0.50%) is as follows:

HRK thousand	Currency impact EUR		Currency impact USD	
	2019	2018	2019	2018
Profit / (loss)	<u>3,269</u>	<u>3,026</u>	<u>1,350</u>	<u>1,359</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. 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 the Company. 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 Group and the Company evaluate the solvency and payment history of customers and control 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 Group and the Company make appropriate allowances to reduce the carrying value of the receivable to their 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 Company's 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 by 5% in relation to current market price, the effect of HRK 15,104 thousand, EUR 2,037 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of HRK 15,104 thousand, EUR 2,037 thousand would credit profit and loss account for the year 2019 (2018: HRK 15,423 thousand, EUR 2,080 thousand).

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 Group and the Company manage liquidity risk by monitoring on a regular basis their maturing commitments, and by maintaining appropriate amounts of cash on hand and in deposits, to cover unexpected fluctuations.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. RISK MANAGEMENT (CONTINUED)

Hedging implemented at the Company

Business risk management is necessary in order to preserve the value of the Group and the Company in such unstable business environment and requires the application of appropriate financial instruments and methods. A significant business risk of the Group and the Company 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).

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

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

The Group and the Company use derivative instruments and the cash flows hedge to hedge their exposure to currency risk, interest rate risk and fuel price risk.

At the commencement of each transaction the Group and the Company document the relationship between the hedging instrument and the underlying hedged item, the scope of the hedge, as well as their 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 and the Company also document their 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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. RISK MANAGEMENT (CONTINUED)

38.1 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 2019 and 2018. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31.12.2019

	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Assets										
Non-current deposits	23,690	3,183	-	-	-	-	-	-	23,690	3,183
Investments in equity instruments	1,118	150	-	-	-	-	-	-	1,118	150
Non-current receivables	313	42	175	24	-	-	-	-	138	18
Trade receivables	67,487	9,068	67,487	9,068	-	-	-	-	-	-
Other receivables	18,585	2,497	18,585	2,497	-	-	-	-	-	-
Current deposits	9,499	1,276	804	108	8,695	1,168	-	-	-	-
Cash and cash equivalents	33,749	4,535	33,749	4,535	-	-	-	-	-	-
Total assets	154,441	20,751	120,800	16,232	8,695	1,168	-	-	24,946	3,351
Liabilities										
Non-current loans and borrowings	155,447	20,886	4,466	600	8,187	1,100	12,652	1,700	130,142	17,486
Current loans and borrowings	31,500	4,232	31,500	4,232	-	-	-	-	-	-
Interest on loans and borrowings	2,629	354	1,091	147	674	91	864	116	-	-
Lease liabilities	505,687	67,947	42,539	5,716	46,612	6,264	92,747	12,462	323,789	43,505
Trade payables	185,038	24,862	185,038	24,862	-	-	-	-	-	-
Other payables	56,041	7,529	55,515	7,458	-	-	-	-	526	71
Total liabilities	936,342	125,810	320,149	43,015	55,473	7,455	106,263	14,278	454,457	61,062
Difference	(781,901)	(105,059)	(199,349)	(26,783)	(46,778)	(6,287)	(106,263)	(14,278)	(429,511)	(57,711)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

38. RISK MANAGEMENT (CONTINUED)

38.1 Liquidity risk tables (continued)

31.12.2018

	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets										
Non-current deposits	22,640	3,052	-	-	-	-	-	-	22,640	3,052
Investments in equity instruments	886	119	-	-	-	-	-	-	886	119
Non-current receivables	369	50	194	26	19	3	38	5	118	16
Trade receivables	84,893	11,445	84,893	11,445	-	-	-	-	-	-
Other receivables	17,027	2,295	16,988	2,290	39	5	-	-	-	-
Current deposits	9,097	1,226	1,356	182	7,741	1,044	-	-	-	-
Cash and cash equivalents	16,625	2,241	16,625	2,241	-	-	-	-	-	-
Total assets	151,537	20,428	120,056	16,184	7,799	1,052	38	5	23,644	3,187
Liabilities										
Non-current loans and borrowings	76,030	10,250	6,676	900	14,093	1,900	12,610	1,700	42,651	5,750
Current loans and borrowings	64,553	8,703	37,103	5,002	27,450	3,701	-	-	-	-
Interest on loans and borrowings	4,180	563	2,247	303	1,069	144	864	116	-	-
Trade payables	194,555	26,229	194,555	26,229	-	-	-	-	-	-
Other payables	49,569	6,683	40,793	5,500	8,776	1,183	-	-	-	-
Total liabilities	388,887	52,428	281,374	37,934	51,388	6,928	13,474	1,816	42,651	5,750
Difference	(237,350)	(32,000)	(161,318)	(21,750)	(43,589)	(5,876)	(13,436)	(1,811)	(19,007)	(2,563)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

39. AUDITOR FEES

The agreed audit fee of separate and consolidated financial statements of the Company and Group Croatia Airlines for the year 2019 amounts to HRK 192 thousand plus the amount of value added tax (2018: HRK 192 thousand plus value added tax).

The auditor also provided a service of preparing a transfer pricing study, and the fee for the service amounted to HRK 10 thousand increased for value added tax (2018: HRK 10 thousand plus value added tax).

40. EVENTS AFTER THE REPORTING DATE

After 31 December 2019, there were no events that have a significant impact on the financial statements for 2019.

Following the reporting date, 11 March 2020, the World Health Organization declared a coronavirus outbreak (COVID-19) pandemic. Responding to the potentially serious threat posed by COVID-19 to public health, while pending further developments, the Croatian authorities have taken measures to fight the pandemic, including restrictions on cross-border movement of people, restrictions on foreign visitors and lock-down of certain industries. In particular, international traffic has been suspended to a significant extent and schools, universities, restaurants, cinemas, were been closed. In addition, certain companies in Croatia also instructed employees to stay at home and reduced or suspended operations. The Government of the Republic of Croatia has adopted certain measures to preserve jobs and mitigate the consequences of special circumstances caused by the COVID -19 pandemic.

Croatia Airlines operations since the outbreak of the crisis caused by the COVID-19 virus pandemic

In the first quarter of 2020, Croatia Airlines had a flight time of 6,105 block hours, and 4,528 flights were recorded. The total number of transported passengers was 270,413, which is 23% less than in the first quarter of 2019. Realized passenger kilometers were reduced by 20%, with a passenger occupancy factor (PLF) of 60.1%, which is 8.5 percentage points less than in the first quarter of 2019. The number of passengers in domestic regular traffic is lower by 26%, and in international regular traffic by 22% compared to the first quarter of 2019.

Croatia Airlines' operations continued despite extraordinary circumstances. On 10 March 2020, the Crisis Management Headquarters was activated in the Company. Traffic continued to a reduced extent and with respect for the decisions of public health authorities and aviation authorities, while most foreign carriers suspended flights to Croatia in mid-March. Croatia Airlines canceled 611 flights in March, or 34% of planned flights for March due to the crisis caused by the coronavirus pandemic.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

40. EVENTS AFTER THE REPORTING DATE (continued)

Croatia Airlines, as the Croatian national airline, represents a strategic part of the Croatian transport infrastructure, which was especially evident in this crisis period because the company contributed to maintaining a vital chain of transport connections to the Croatian economy and citizens. Since the beginning of the crisis, Croatia Airlines has enabled the return to Croatia of about 23,000 Croatian citizens, made itself available to the Croatian Government to transport humanitarian aid, return Croatian soldiers from Afghanistan, and performed several repatriation flights from different parts of Europe. During April, Croatia Airlines received an approval from the Croatian Civil Aviation Agency for Airbus fleet aircraft, which enables cargo transport in the passenger cabin, primarily for the needs of transporting humanitarian aid and protective equipment.

Due to the reduced level of demand, the flight schedule has been significantly reduced. From 5 April Croatia Airlines flies only one rotation a day Zagreb - Frankfurt - Zagreb. In addition, several repatriation flights and humanitarian flights were performed during this period. In addition to one rotation per day for Frankfurt from 11 May, four more rotations per day of domestic traffic were introduced (two for Split and two for Dubrovnik). From 25 May, a daily rotation for Amsterdam and an additional rotation for Frankfurt was introduced, and from 1 June, a rotation for Copenhagen. The official start of flying on other routes is still uncertain.

From the beginning of the crisis until the end of April 2020, lost revenues due to canceled flights and falling sales amounted to around EUR 29.4 million, and EUR 1.2 million more refunds were paid compared to the same period last year. Currently, most passengers are offered vouchers for canceled flights that could be used in a future period when traffic resumes, but it is expected that a significant part of tickets sold will have to be refunded, which will be an additional blow to business or liquidity, with minimal demand and sales.

In such conditions, a significant risk of maintaining liquidity is present, which is especially important when taking into account the unpredictability of the crisis caused by the coronavirus pandemic and the pressure on the Company's cash flows. According to existing estimates and data currently available to the Company, the devastating effect of the crisis will be clearly visible in the second quarter, which was largely affected by the crisis.

Also, by the end of April, an additional unplanned cost in the amount of HRK 700 thousand was realized by introducing protective measures due to coronavirus, and it refers to the procurement of protective equipment and disinfectants for employees, regular disinfection of aircraft and work areas.

In accordance with the decisions and recommendations of the Civil Protection Organization of the Republic of Croatia, and in order to reduce the possibility of spreading the virus and to protect employees, the work assignments were redistributed in such a way that employees were reassigned to work in several locations (work from home, offices on different locations, etc.), and a large proportion of employees, primarily crew and other operational staff, use annual leave due to reduced operations.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

40. EVENTS AFTER THE REPORTING DATE (continued)

Operational and financial measures

Due to the devastating impact of the coronavirus pandemic on the aviation industry and the operations of Croatia Airlines, as well as due to traffic restrictions and lack of demand, the Company urgently took measures to mitigate the consequences of this crisis and develop business scenarios in the coming period that include significant changes in the fleet and the planned flight schedule.

Due to significantly changed business circumstances and their impact on the financial position of the Company, the preparation of the Crisis Business Plan started. The plan is based on the Guidelines for streamlining the operations of state-owned legal entities due to the COVID-19 disease epidemic of the Government of the Republic of Croatia related to financial operations and review of the expenditure side of operations, which were applied during the projections. All applied measures and their results are based on a scenario that includes start of flying operations from 15 June 2020 with reduced number of flights and they represent the expected annual effects.

During April, Croatia Airlines also conducted a dialogue with the social partners with the aim of adjusting collective agreements during the crisis. On 4 May 2020, amendments to the Collective Agreement were signed with representative unions in order to adapt to the business conditions caused by the COVID 19 virus epidemic, and a 15% reduction in gross wages was agreed and the amendments to the Collective Agreement are temporary and last from 1 May 2020 to 30 April 2021.

Fleet and flight schedule changes (fleet of 13 aircraft)

Due to the lower traffic volume, the planned capacities are reduced and the planned seasonal lease of CRJ aircraft and dry lease aircraft Q400, which were supposed to complement the existing fleet from the summer flight schedule, was canceled, while the dry lease of A319 aircraft was postponed until 28 March 2021. Negotiations are also underway on more favorable terms for renting that aircraft.

Since March, flights on some existing international routes have been temporarily suspended or flights on some routes have been reduced, while traffic on domestic routes has been completely suspended by the Civil Protection Organization since mid-March.

The current projection of the start of reduced international traffic is 15 June 2020 (compared to the original plan, part of the seasonal flights were canceled, the opening of new routes was canceled and the number of rotations on certain year-round and seasonal routes was reduced, part of the charter was canceled).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

40. EVENTS AFTER THE REPORTING DATE (continued)

The result of these measures is 1.2 million less revenue passengers compared to the original business plan for 2020, which leads to the planned reduction of annual revenue from passenger transport in the amount of HRK 746.5 million or -46% compared to the original business plan.

As a result of the reduced number of flights, lower revenues from freight transport by HRK 4.3 million are planned, as well as other revenues that were reduced by HRK 16.7 million, especially those related to the traffic volume such as commissions and the reservation system.

Operating costs

In the cost segment of operations, part of the effect is an inevitable consequence of reduced flight (in flights -32% and in block hours -34%), while part is the result of the implementation of measures to mitigate the effects of the crisis. The planned cumulative total annual effect on costs would be a decrease of HRK 534.8 million or -29% compared to the original plan.

The applied measures are as follows (value amounts refer to the whole of 2020):

- reduction of flight schedules (regular and seasonal routes) and cancellation of the introduction of new routes - direct impact on variable costs that depend on the number of flights and passenger traffic;
- cancellation of the short-term seasonal lease of CRJ aircraft (HRK 31.8 million);
- waiver of long-term dry lease of Q400 aircraft (HRK 4.2 million in depreciation and interest expenses due to the application of IFRS 16);
- in agreement with the lessor due to the new crisis, it was agreed that the start of the calculation of long-term lease (dry lease) of A319 aircraft is extended to 28 March 2021. (visible through depreciation and interest costs due to IFRS 16 – HRK 2.3 million). Negotiations are also underway on more favorable terms for renting that aircraft, which should bring additional savings;
- intensive negotiations are underway with all lessors regarding the lease of the existing fleet and the reduction of the costs of monthly lease installments with the application of PBH calculation (Power by the Hour). Positive outcome is expected for most contracts. Of the current 13 aircraft and engine lease agreements, two have not been agreed with lessors. The current savings in this category are more than HRK 3 million, however, since negotiations with most lessors are underway, larger savings are expected;
- reduction of investments (a total of HRK 47.4 million, which includes HRK 3.4 million less depreciation based on investments);
- termination of employment of seasonal staff (approximately HRK 1.3 million);
- postponement of promotional campaigns and reduction of promotional costs in certain markets (HRK 4.5 million);
- reduction of staff costs with a reduction of the budget for business trips and training of non-operational staff by the end of the year (based on the reduction of gross salary by 15 percent in 2020, savings of around HRK 18.4 million will be achieved, no payment for annual holiday and Christmas fee additional HRK 1.6 million).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

40. EVENTS AFTER THE REPORTING DATE (continued)

To mitigate the impact of the emerging crisis on cash flow, companies will use the following measures:

- Requests have been submitted for a moratorium on a short-term loan from Zagrebačka banka and for a long-term loan from Privredna banka and Hrvatska poštanska banka (a total of HRK 3.2 million);
- A request for deferred payment of taxes and contributions related to employee income for three months was submitted and approved, which reduces the cash outflow on this basis in the amount of HRK 22.3 million;
- Croatia Airlines had to fulfill the obligation to purchase and hand over emission units for 2019 by the end of April 2020. Due to the crisis caused by the coronavirus pandemic and the sharp drop in traffic and cessation of operations, and in order to preserve current liquidity and reduce outflows, Croatia Airlines has decided to use free emissions for 2020 for its commitment for 2019 and thus in April release cash flow of HRK 15.5 million.

The moment of traffic normalization will largely depend on external factors, decisions and recommendations of the National Civil Protection Headquarters of the Republic of Croatia that directly affect the possibility of traveling in domestic and international regular traffic, reciprocity in abolishing or facilitating measures at the interstate level and achieving optimal occupancy and average tariffs in the conditions of reduced aircraft capacity caused by social distancing measures and adequate planning of the flight network with a forecast of demand for certain types of travel.

It is certain that Croatia Airlines will be the first airline to start bringing tourists to Croatia again and provide transport connections to the Croatian economy and citizens.

Any changes to the assumptions on which the plan is based will require an update of the contingency plan.

Long-term loans

In January 2020, the Company received the remaining HRK 150 million, based on a loan totaling HRK 250 million from the Ministry of the Sea, Transport and Infrastructure (note 29 and note 37.2).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2019

41. APPROVAL OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The consolidated and separate financial statements were approved by the Management Board and authorized for issue on 8 June 2020.

Signed for and on behalf of the Company on 8 June 2020:

Teodora Wenzler Brezak



Director of Finance and Accounting

Jasmin Bajić



President and CEO