

A STAR ALLIANCE MEMBER

# Consolidated and Separate Annual Reports for the year ended 31.12.2011.



# April 2012

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## **Consolidated Croatia Airlines Income Statement**

	amounts in Croatian kuna				
	Previous period Current period				
	Position	1 Jan-31 Dec 2010	1 Jan-31 Dec 2011		
I.	OPERATING INCOME	1.395.404.751	1.599.070.680		
1.	Sales revenue	1.219.720.815	1.415.228.692		
3.	Other operating income	175.683.936	183.841.988		
<b>II.</b> 2.	OPERATING EXPENSES Changes in inventories of finished products and work in	1.519.778.140	1.642.902.925		
	progress	0	0		
3. 4.	Material costs Staff costs	1.032.957.046 234.527.307	1.159.669.827 243.456.519		
 5.	Depreciation and amortization	148.215.020	140.226.197		
6.	Other expenses	80.184.069	81.313.673		
7. 8.	Impairment Provisions	4.811.026 90.924	2.932.130 924.061		
9.	Other operating expenses	18.992.748	14.380.518		
III.	FINANCIAL INCOME	83.725.002	164.191.045		
1.	Interest and exchange gains, dividends and similar income from related companies	65.820	202.207		
2.	Interest and exchange gains, dividends and similar	05.620	202.207		
3.	income from other entrepreneurs The income from associated undertakings and participating	83.176.280	163.566.967		
-	interests	231.143	0		
4. 5.	Unrealized gains (revenues) Other financial income	0 251.759	0 421.871		
IV.	FINANCIAL EXPENSES	115.465.713	194.680.939		
1.	Interest and exchange losses and other expenses with related companies	0	0		
2.	Interest and exchange losses and other expenses related	· ·	· ·		
0	to other entrepreneurs	114.223.941	194.680.939		
3. 4.	Unrealized losses (expense) of financial assets Other financial expenses	538.233 703.539	0 0		
V.	EXTRAORDINARY - OTHER INCOME	0	0		
VI.	EXTRAORDINARY - OTHER EXPENSES	0	0		
VII.	TOTAL INCOME	1.479.129.753	1.763.261.725		
VIII.	TOTAL EXPENSE	1.635.243.853	1.837.583.864		
IX.	PROFIT BEFORE TAX	0	0		
Х.	LOSS BEFORE TAXATION	156.114.100	74.322.139		
XI.	INCOME TAX	121.904	274.294		
XII.	PROFIT FOR THE YEAR	0	0		
XIII.	LOSS FOR THE YEAR	156.236.004	74.596.433		
	APPENDIX				
XIV.	PROFIT / LOSS FOR THE YEAR	0	0		
1. 2.	Attributable to Shareholders of the Parent Attributable to minority interests	-156.236.004 0	-74.596.433 0		
cor	NSOLIDATED CROATIA AIRLINES D.D. SEPARATE STAT	EMENT OF COMPREH	ENSIVE INCOME		
	NET LOSS FOR THE YEAR	-156.236.004	-74.596.433		
	Hedging reserves TOTAL COMPREHENSIVE LOSS FOR THE YEAR	-6.708.275 <b>-162.944.279</b>	-9.991.626 <b>-84.588.059</b>		
		.02.044.275	04.000.000		

## Croatia Airlines d.d. Income Statement

	amounts in Croatian kuna				
	Previous period Curren				
	Position	1 Jan-31 Dec 2010	1 Jan-31 Dec 2011		
I.	OPERATING INCOME	1.386.534.974	1.588.242.209		
1. 3.	Sales revenue Other operating income	1.210.957.632 175.577.342	1.404.655.291 183.586.918		
U.	OPERATING EXPENSES	1.511.165.602	1.632.888.098		
<b>1</b> .	Change in inventories of finished products and work in	1.511.105.002	1.032.000.090		
3. 4. 5. 6. 7. 8. 9.	progress Material costs Staff costs Depreciation and amortization Other expenses Impairment Provisions Other operating expenses	0 1.028.557.757 231.394.673 148.071.473 79.590.494 4.811.026 90.924 18.649.255	0 1.154.045.921 240.280.664 140.074.190 80.890.955 2.932.130 924.061 13.740.177		
III.	FINANCIAL INCOME	83.438.490	163.701.934		
1. 2.	Interest and exchange gains, dividends and similar income from related companies	65.820	202.207		
2. 3.	Interest and exchange gains, dividends and similar income from other entrepreneurs The income from associated undertakings and participating	83.372.670	163.499.727		
4. 5.	interests Unrealized gains (revenues) Other financial income	0 0 0	0 0 0		
IV.	FINANCIAL EXPENSES	115.361.644	194.600.376		
1. 2. 3. 4.	Interest and exchange losses and other expenses with related comapanies Interest and exchange losses and other expenses related to other entrepreneurs Unrealized losses (expense) of financial assets Other financial expenses	0 114.823.411 538.233 0	0 194.600.376 0 0		
V.	EXTRAORDINARY - OTHER INCOME	0	0		
VI.	EXTRAORDINARY - OTHER EXPENSES	0	0		
VII.	TOTAL INCOME	1.469.973.464	1.751.944.143		
VIII	. TOTAL EXPENSE	1.626.527.246	1.827.488.474		
IX.	PROFIT BEFORE TAX	0	0		
Х.	LOSS BEFORE TAXATION	156.553.782	75.544.331		
XI.	INCOME TAX	0	0		
XII.	PROFIT FOR THE YEAR	0	0		
XIII	LOSS FOR THE YEAR	156.553.782	75.544.331		
<b>6</b> -					
CR	OATIA AIRLINES D.D. SEPARATE STATEMENT OF COMP NET LOSS FOR THE YEAR	REHENSIVE INCOME -156.553.782	-75.544.331		

CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME		
NET LOSS FOR THE YEAR	-156.553.782	-75.544.331
Hedging reserves	-6.708.275	-9.991.626
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	-163.262.057	-85.535.957

### **Consolidated Croatia Airlines Balance Sheet**

AS	SETS		
	Position	31 December 2010	31 December 2011
A)	SUBSCRIBED CAPITAL UNPAID		
B)	NON-CURRENT ASSETS	1.327.446.186	1.244.091.146
I. II. III. IV.	INTANGIBLE ASSETS PROPERTY, PLANT AND EQUIPMENT LONG-TERM FINANCIAL ASSETS LONG-TERM RECEIVABLES	17.181.342 1.273.077.639 36.684.490 502.715	20.227.250 1.171.335.482 52.028.047 500.367
V.	DEFFERED TAX ASSETS	0	0
C)	CURRENT ASSETS	221.862.304	245.546.382
I. II. III. IV.	INVENTORIES ACCOUNTS RECIVABLES SHORT-TERM FINANCIAL ASSETS CASH AND CASH EQUIVALENTS	38.121.918 128.010.149 2.257.494 53.472.743	43.831.821 172.639.390 3.720.000 25.355.171
D)	PREPAID EXPENSES AND ACCRUED INCOME	37.008.247	33.601.663
E)	TOTAL ASSETS	1.586.316.737	1.523.239.191
F)	OFF BALANCE SHEET ITEMS	0	0
		amounts	s in Croatian kuna
EQ	UITY AND RESERVES	31 December	31 December

	Position	31 December 2010	31 December 2011
A)	EQUITY AND RESERVES	143.673.134	46.134.379
Ι.	ISSUED CAPITAL	989.985.500	989.985.500
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	26.783	-9.849.272
IV.	REVALUATION RESERVES	100.864.360	88.115.871
V.	RETAINED EARNINGS	0	0
VI.	LOSS BROUGHT FORWARD	790.967.505	947.521.287
VII.	NET PROFIT FOR THE YEAR	0	0
VIII.	LOSS FOR THE YEAR	156.236.004	74.596.433
IX.	MINORITY INTERESTS	0	0
B)	PROVISIONS	840.321	1.117.989
C)	NON-CURRENT LIABILITIES	837.604.457	855.307.790
D)	CURRENT LIABILITIES	592.289.857	613.201.733
E)	ACCRUED EXPENSES AND DEFERRED INCOME	11.908.968	7.477.300
F)	TOTAL EQUITY AND LIABILITIES	1.586.316.737	1.523.239.191
G)	OFF BALANCE SHEET ITEMS	0	0
APF	PENDIX		
EQI	JITY AND RESERVES		
	tributable to Shareholders of the Parent tributable to minority interests	143.673.134 0	46.134.379 0

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### Croatia Airlines d.d. Balance Sheet

		amounts	s in Croatian kuna
AS	SETS Position	31 December 2010	31 December 2011
		2010	2011
A)	SUBSCRIBED CAPITAL UNPAID		
с) В)	NON-CURRENT ASSETS	1.326.910.957	1.243.132.717
-, I.	INTANGIBLE ASSETS	16.640.142	19.481.788
II.	PROPERTY, PLANT AND EQUIPMENT	1.272.756.271	1.171.101.475
III.	LONG-TERM FINANCIAL ASSETS	37.011.829	52.049.087
IV.	LONG-TERM RECEIVABLES	502.715	500.367
V.	DEFFERED TAX ASSETS	0	0
C)	CURRENT ASSETS	216.812.691	239.727.371
I.	INVENTORIES	38.121.918	43.831.821
II.	ACCOUNTS RECIVABLES	125.102.325	170.122.902
III.	SHORT-TERM FINANCIAL ASSETS	2.226.324	3.630.181
IV.	CASH AND CASH EQUIVALENTS	51.362.124	22.142.467
D)	PREPAID EXPENSES AND ACCRUED INCOME	36.941.628	33.543.909
E)	TOTAL ASSETS	1.580.665.276	1.516.403.997
F)	OFF BALANCE SHEET ITEMS	0	0

#### amounts in Croatian kuna

EQUITY AND RESERVES		
Position	31 December 2009	31 December 2010
A) EQUITY AND RESERVES	140.596.240	42.311.796
I. ISSUED CAPITAL	989.975.500	989.975.500
II. CAPITAL RESERVES	0	0
III. PROFIT RESERVES	-1.411.845	-11.403.470
IV. REVALUATION RESERVES	100.864.360	88.115.871
V. RETAINED EARNINGS	0	0
VI. LOSS BROUGHT FORWARD	792.277.992	948.831.774
VII. NET PROFIT FOR THE YEAR	0	0
VIII. LOSS FOR THE YEAR	156.553.783	75.544.331
IX. MINORITY INTERESTS	0	0
B) PROVISIONS	840.321	1.117.989
C) NON-CURRENT LIABILITIES	837.604.457	855.307.790
D) CURRENT LIABILITIES	590.167.973	610.812.035
E) ACCRUED EXPENSES AND DEFERRED INCOME	11.456.285	6.854.387
F) TOTAL EQUITY AND LIABILITIES	1.580.665.276	1.516.403.997
G) OFF BALANCE SHEET ITEMS	0	0

### **Consolidated Croatia Airlines Cash Flow Statement**

	amounts	in Croatian kuna
Position	31 December 2010	31 December 2011
OPERATING ACTIVITIES		
<ol> <li>Net loss for the year</li> <li>Depreciation and amortization</li> <li>Increase in current liabilities</li> <li>Decrease in short-term recivables</li> <li>Decrease in inventories</li> <li>Other increase in cash flow</li> </ol>	-156.236.004 148.215.020 16.709.715 3.280.892 643.377 176.783.063	-74.322.139 140.226.197 0 0 203.710.652
<ol> <li>Total increase in cash flow from operating activities</li> <li>Decrease in current liabilities</li> <li>Increase in short-term receivables</li> <li>Increase in inventories</li> <li>Other decrease in cash flow</li> </ol>	<b>189.396.063</b> 0 0 20.674.819	<b>269.614.710</b> 1.567.359 44.629.242 5.709.903 6.630.224
II. Total decrease in cash flow from operating activities A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	20.674.819 168.721.244	58.536.728 211.077.982
	168.721.244	211.077.982
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
<ul> <li>INVESTING ACTIVITIES</li> <li>Proceeds from sale of tangible and intangible assets</li> <li>Proceeds from sale of equity and debt instruments</li> <li>Proceeds from interests</li> <li>Proceeds from dividends</li> <li>Other proceeds from investing activities</li> <li>III. Total proceeds from investing activities</li> <li>Payments for the purchase of tangible and intangible assets</li> <li>Payments for acquisition of equity and debt instruments</li> <li>Other payments of investing activities</li> <li>IV. Total payments used in investing activities</li> </ul>	2.600.893 0 0 25.126.208 <b>27.727.101</b> 68.752.280 0 0 <b>68.752.280</b>	691.518 0 0 691.518 45.213.677 0 16.806.063 62.019.740
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	02.013.740
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	41.025.179	61.328.222
FINANCIAL ACTIVITIES		
<ol> <li>Proceeds from issuance of equity and debt instruments</li> <li>Proceeds from the loan, debentures and others borrowings</li> <li>Other proceeds from financial activities</li> <li><b>V. Total proceeds from financial activities</b></li> </ol>	0 33.014.657 0 <b>33.014.657</b>	0 8.653.721 0 <b>8.653.721</b>
<ol> <li>Repayments for principal of loans and bonds</li> <li>Repayments of dividends</li> <li>Repayments of finance leases</li> </ol>	156.879.036 0 380.137	163.070.221 0 508.510
<ol> <li>Repayments for the purchase of own shares</li> <li>Other repayments of financial activities</li> <li>Total payments used in financial activities</li> </ol>	0 19.522.585 <b>176.781.758</b>	0 22.942.322 <b>186.521.053</b>
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	143.767.101	177.867.332
Total increase in cash flow Total decrease in cash flow	0 16.071.036	0 28.117.572
Cash and cash equivalents at the beginning of the year	69.543.779	53.472.743
Increase in cash and cash equivalents Decrease in cash and cash equivalents	0 16.071.036	0 28.117.572
Cash and cash equivalents at year end	53.472.743	25.355.171

## Croatia Airlines d.d. Cash Flow Statement

	amounts	in Croatian kuna
Position	31 December 2010	31 December 2011
OPERATING ACTIVITIES		
<ol> <li>Profit for the year</li> <li>Depreciation and amortization</li> <li>Increase in current liabilities</li> <li>Decrease in short-term recivables</li> <li>Decrease in inventories</li> <li>Other increase in cash flow</li> <li><b>I Total increase in cash flow from operating activities</b></li> <li>Decrease in current liabilities</li> </ol>	-156.553.782 148.071.473 15.938.796 3.883.004 643.377 176.783.063 <b>188.765.931</b> 0	-75.544.331 140.074.190 0 203.701.787 <b>268.231.646</b>
<ol> <li>Decrease in current habilities</li> <li>Increase in short-term receivables</li> </ol>	0	1.835.173 45.020.577
3. Increase in inventories	0	5.709.903
4. Other decrease in cash flow	20.190.623	6.526.160
II. Total decrease in cash flow from operating activities	20.190.623	59.091.813
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	168.575.308	209.139.833
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
INVESTING ACTIVITIES		
<ol> <li>Proceeds from sale of tangible and intangible assets</li> <li>Proceeds from sale of equity and debt instruments</li> <li>Proceeds from interests</li> <li>Proceeds from dividends</li> </ol>	2.600.893 0 0 0	691.518 0 0 0
<ol> <li>Other proceeds from investing activities</li> <li>Total proceeds from investing activities</li> <li>Payments for the purchase of tangible and intangible assets</li> <li>Payments for acquisition of equity and debt insturments</li> </ol>	25.385.853 <b>27.986.746</b> 68.638.104 0	0 <b>691.518</b> 44.944.769 0
3. Other payments of investing activities	0	16.441.114
IV. Total payments used in investing activities B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	68.638.104 0	61.385.883 0
	U	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	40.651.358	60.694.365
FINANCIAL ACTIVITIES	<u>^</u>	0
<ol> <li>Proceeds from issuance of equity and debt instruments</li> <li>Proceeds from the loan, debentures and others borrowings</li> <li>Other proceeds from financial activities</li> </ol>	0 33.014.657 0	0 8.203.721 0
<ul> <li>V. Total proceeds from financial activities</li> <li>1. Repayments for principal of loans and bonds</li> <li>2. Repayments of dividends</li> </ul>	<b>33.014.657</b> 156.879.036 0	<b>8.203.721</b> 162.620.221 0
<ol> <li>Repayments of finance leases</li> <li>Repayments for the purchase of own shares</li> <li>Other repayments of financial activities</li> </ol>	380.137 0	508.510 0
<ol> <li>Other repayments of financial activities</li> <li>VI. Total payments used in financial activities</li> </ol>	19.456.764 <b>176.715.937</b>	22.740.115 <b>185.868.846</b>
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	440 704 000	477 005 405
Total increase in cash flow	<b>143.701.280</b> 0	<b>177.665.125</b> 0
Total decrease in cash flow	15.777.330	29.219.657
Cash and cash equivalents at the beginning of the year	67.139.454	51.362.124
Increase in cash and cash equivalents Decrease in cash and cash equivalents	0 15.777.330	0 29.219.657
Cash and cash equivalents at year end	51.362.124	22.142.467
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# Consolidated Croatia Airlines Statement of Changes in Equity

		amounts	in Croatian kuna
	Position	31 December 2010	31 December 2011
1.	ISSUED CAPITAL	989.985.500	989.985.500
2.	CAPITAL RESERVES	0	0
3.	PROFIT RESERVES	26.782	-9.849.272
4.	RETAINED EARNINGS / LOSSES BROUGHT FORWARD	-790.967.505	-947.521.287
5.	NET PROFIT / LOSS FOR THE PERIOD	-156.236.004	-74.596.433
6.	REVALUATION OF FIXED ASSETS	100.864.360	88.115.871
7.	REVALUATION OF INTENGIBLE ASSETS	0	0
8.	REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0
9.	OTHER REVALUATION	0	0
10.	TOTAL EQUITY AND RESERVES	143.673.133	46.134.379
11.	FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12.	CURRENT AND DEFERRED TAXES	0	0
13.	CASH FLOW HEDGING	-6.708.275	-9.991.626
14.	CHANGES OF ACCOUNTING POLICIES	0	0
15.	CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16.	OTHER CHANGES IN CAPITAL	-169.050.313	-87.547.129
17.	TOTAL INCREASE / DECREASE OF CAPITAL	-175.758.588	-97.538.755
17 a.	Attributable to Shareholders of the Parent	-175.758.588	-97.538.755
17 b.	Attributable to minority interests	0	0

# Croatia Airlines d.d. Statement of Changes in Equity

		amounts	in Croatian kuna
	Position	31 December 2010	31 December 2011
1.	ISSUED CAPITAL	989.975.500	989.975.500
2.	CAPITAL RESERVES	0	0
3.	PROFIT RESERVES	-1.411.845	-11.403.470
4.	RETAINED EARNINGS / LOSSES BROUGHT FORWARD	-792.277.992	-948.831.774
5.	NET PROFIT / LOSS FOR THE PERIOD	-156.553.782	-75.544.331
6.	REVALUATION OF FIXED ASSETS	100.864.360	88.115.871
7.	REVALUATION OF INTENGIBLE ASSETS	0	0
8.	REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0
9.	OTHER REVALUATION	0	0
10.	TOTAL EQUITY AND RESERVES	140.596.241	42.311.796
11.	FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12.	CURRENT AND DEFERRED TAXES	0	0
13.	CASH FLOW HEDGING	-6.708.275	-9.991.626
14.	CHANGES OF ACCOUNTING POLICIES	0	0
15.	CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16.	OTHER CHANGES IN CAPITAL	-169.302.271	-88.292.820
17.	TOTAL INCREASE / DECREASE OF CAPITAL	-176.010.546	-98.284.446

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

#### DECLARATION

That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31<sup>st</sup> December 2011 have been prepared by using the appropriate financial reporting standards, and provide complete and truthful presentation of assets and liabilities, losses and gains, the financial position and operations of the issuer and the companies involved in the consolidation as a whole.

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

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

Zagreb, April 30th, 2012

The person responsible for the preparation of the issuer statements:

President & CEO Srećko Šimunović

A STAR ALLIANCE MEMBER

# 2011 Annual Management Board Corporate Report



# April 2012

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# **Characteristic Indicators**

#### Fleet

type of aircarft	number at the end of 2011	seats	ownership	lease	Ø age (years)	number at the end of 2010	ownership	lease
Airbus A320	3	486	2	1	14,14	3	2	1
Airbus A319	4	528	4	-	12,89	4	4	-
Q-400	6	456	-	6	2,58	6	-	6
TOTAL	13	1470	6	7	9,87	13	6	7

## **Transport Indicators**

description			2011	2010	2009
flights (km)	DIST	000	17.126	15.832	15.771
departures	FLTS		27.589	25.559	25.383
growth rate		%	8	1	-2
block hours	BH		38.014	35.230	33.515
growth rate		%	8	5	-6
passengers carried	RPAX	000	1.879	1.641	1.751
growth rate		%	15	-6	-6
freight&mail carried	CGO	Т	3.347	3.066	3.672
growth rate		%	9	-17	-16
passenger km flown	RPKM	mln	1.317	1.145	1.245
available seat - km	ASKM	mln	1.965	1.847	2.027
passenger load factor	PLF	%	67	62	61,4
tonne km flown	TKM	mln	121	105	115
available tonne-km	ATKM	mln	219	205	224
weight load factor	WLF	%	55,2	51,2	51,1

#### **Financial Indicators**

Indicators	Unit	2011	2010	2009	2008
Total revenue (operating)	mln kn	1.588	1.387	1.347	1.631
Annual change rate	%	14,5	2,9	-17,4	
Total Revenue (operating + financial)	mln kn	1.752	1.470	1.439	1.729
Growth rate	%	19,2	2,1	-16,7	
Total expense (operating)	mln kn	1.633	1.511	1.512	1.662
Annual change rate	%	8,1	-0,1	-9,0	1.818
Total expense (operating + financial)	mln kn	1.827	1.627	1.638	
Growth rate	%	12,4	-0,7	-9,9	
Total expense (operating) without fuel	mln kn	1.296	1.273	1.310	1.304
Growth rate	%	1,9	-2,8	0,5	
Total expense (operating + financial) without fuel	mln kn	1.491	1.388	1.436	1.460
Growth rate	%	7,4	-3,3	-1,7	
Operating profit/loss	mln kn	-45	-125	-165	-31
Net profit/loss	mln kn	-76	-157	-199	-89
EBIT	mln kn	-49	-133	-163	-33
EBITDA	mln kn	91	15	-15	139
Unit expense (operating)	kn/ASKM	0,76	0,72	0,67	0,72
Unit expense (operativng) without fuel	kn/RPKM	0,67	0,60	0,53	0,64
Passenger yield (total pass.rev.in EUR/RPKM)	€cent/RPKM	13,48	13,31	11,84	13,65
Avarage number of employees		1.136	1.142	1.171	1.122
Total asset turnover		1,16	0,93	0,84	0,94
Total asset operating turnover		1,05	0,88	0,79	0,89
Current asset turnover		7,31	6,78	5,64	5,52
Coefficient of current liquidity		0,04	0,09	0,13	0,14
Coefficient of rapid liquidity		0,31	0,30	0,37	0,50
Coffient of ongoing liquidity		0,39	0,37	0,48	0,62
Coefficient of financial stability		1,38	1,36	1,24	1,14
Coefficient of own financing (solvency)		0,03	0,09	0,19	0,29
Coefficient of funding		34,84	10,24	4,38	2,47
Cover ratio I (equity/non-current assets)		0,03	0,11	0,22	0,36
Cover ratio II		0,72	0,74	0,81	0,88
Investment ratio		0,72	0,74	0,09	0,10

## **Croatia Airlines in 2011 – Introduction**

The mission of Croatia Airlines as a national airline is to connect the homeland and the world, including a special task of contributing to development of tourism in the Republic of Croatia. During twenty years of existence and providing transport services, it has connected Croatian cities with the most important European metropolises in cooperation with its airline partners and with the entire world.

#### Shareholding

Croatia Airlines (the Company) is a stock company. The Company has share capital of 989,975,500 HRK divided into 4,975,476 shares. 51,197 of them area preferred shares (CRAL-P-A, CRAL-P-A1, CRAL-P-A2, CRAL-P-A3, CRAL-P-A4) of a nominal amount of 100 HRK and 4,924,279 are common shares (CRAL-R-A) of a nominal amount of 200 HRK.

Review of shareholders and their share in stock capital	Capital (kn)	%
REPUBLIC OF CROATIA (AUDIO)	952.588.600	96,22
CROATIAN PRIVATISATION FUND (0/1) FOR DAB	21.315.200	2,16
JANAF DD	2.200.000	0,22
AIRPORT ZAGREB	1.302.500	0,13
CROATIA LLOYD	1.027.000	0,10
ENIKON D.D.	735.600	0,08
RATKO ŽURIĆ	676.200	0,07
CONING ENGENEERING	521.400	0,05
CROATIAN LOTTERY	400.000	0,04
OTHERS	9.209.000	0,93
TOTAL	989.975.500	100,00

Affiliates owned by Croatia Airlines are Amadeus d.d., Pleso prijevoz d.o.o. and Obzor putovanja d.o.o., which are independent business entities.

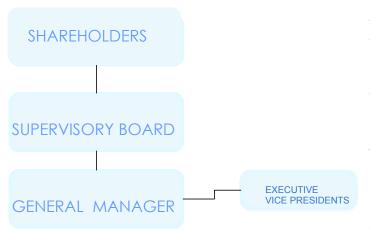
Pleso prijevoz d.o.o. is 50%-owned by Croatia Airlines and the other half is owned by Zagreb Airport. It transports passengers between the airport and the city and transports lost luggage and employees working at Zagreb Airport and Split Airport.

Amadeus Croatia d.d. was established by Croatia Airlines (95%) and Amadeus GDS, a global distribution system headquartered in Madrid. It connects travel agencies on the territory of the Republic of Croatia to the Amadeus database located in Erding near Munich for reservations and issuing of airline, ship and train tickets and for hotel and rent-a-car reservations.

Obzor putovanja d.o.o. is a travel agency 100%-owned by Croatia Airlines, arranging business and tourist travel, symposia, conferences, congresses and incentive travel.

#### Management Structure and Organization

In 2011, the Company was reorganized to achieve more efficient management and operation, rationalization and savings by downsizing the management structure and adjusting to the actual operating processes.



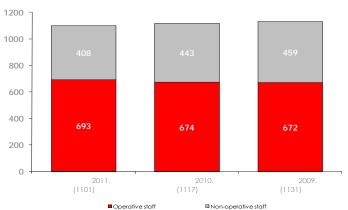
Company operations are organized through business functions grouped in three business units with competent executive directors and through basic corporate functions organized within the CEO Office, Procurement Sector, Quality and Operating Safety Management Office, and corporate functions including the Finance and Controlling Sector, Legal Sector, HR and Asset Management Sector and the IT Management Sector.

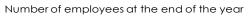
The transport area includes flying and cabin operations, a transport training

center, an operations center, operations engineering, crew schedule and administrative support. The technical area combines airplane maintenance, engineer activities, technical support and technical training. Sales, marketing, network and revenue management and ground services are part of the third business area. Corporate services comprise the finance area including finance, accounting and controlling, the HR, legal, asset and infrastructure management business unit, and the IT Management Sector.

#### Human Resources

On 31 December 2011, the Company employed 1.101 people, including 51 employees in international representative offices. There is 1% less employees than at the end of the preceding year.





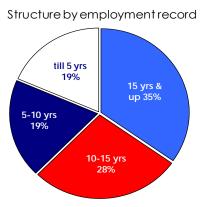
At year-end, the number of operating employees was increased by 3% compared to the end of the preceding year, while the number of non-operating staff decreased by 8%, primarily because some employees left and no substitutes were employed.

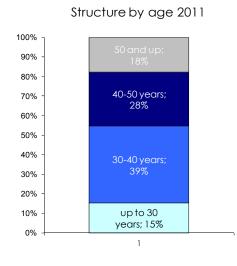
To cover the summer flight schedule, the Company employed 55 cabin crew staff on a seasonal basis.

Company's operating staff<sup>1</sup> accounts for 63% (693) and non-operating staff accounts for 37% (408) of all employees.

The educational structure (51% of employees have college, university or higher education) and the average age of employees (40) are very favorable, with some more men in the gender structure (51%).

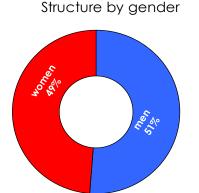
75 (5%) of all employees are employed on a temporary basis.



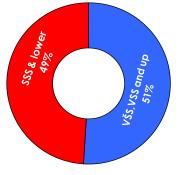


The average length of service for operating staff in the Company was 10.2 years, 13 years for nonoperating staff, while the average length of service for the entire Company was 11.6 years.

These positive indicators demonstrate low fluctuation in the Company, considering that the Company has only existed for some 20 years and that it employed around 200 people in the initial years of its existence. In later development of the Company, the employment rate grew progressively until 1998.



Structure by education



The share of women in senior and middle management was 26%.

<sup>&</sup>lt;sup>1</sup> Includes pilots, cabin staff, engineering staff, transport and ground operations staff, and excludes catering staff

As a result of an increase in passenger transport and transport of cargo and mail in 2011, significant growth was recorded in work productivity as measured by productivity indicators specific to aviation.

#### Work Productivity

DESCRIPTION		2011	2010	2009
tonne km per employee	000	109,7	94,2	101,3
growth rate	%	17	-7	-11
passengers carried per employee		1.707	1.469	1.548
growth rate	%	16	-5	-8

Education Investments and Programs

Ongoing investments of Croatia Airlines in education develop and strengthen human resources, having recognized its activity as both a capital-intensive and work-intensive one.

As a result of highly sophisticated technology and demanding business processes, substantial funds are invested in employee training every year, primarily in specialized training and maintenance of training standards for flying and cabin staff.

Investment in education (HRK)	2011	2010	2009
Operative staff	6.028.993	7.907.272	9.038.224
Annual change rate Non-operative staff	-24% 431.099	-13% 622.201	-29% 1.121.429
Annual change rate	-31%	-45%	-16%
Total	6.460.091	8.529.472	10.159.653
Annual change rate	-24%	-16%	-28%

As a result of operating reasons of accepting new airplanes or planned capacity increase, investments in operating education represent very substantial investments in certain periods.

Education of Croatia Airlines employees is conducted on three levels at the same time: education of employees in operating sectors, engineering sectors and employees in nonoperating sectors.

In 2011, intensive cooperation between the Technical Training Center and CCAA continued for the purpose of resolving issues arising from aviation regulations and implementing corrective measures arisen from completed audits. Such intensive cooperation resulted in substantial simplification of the Part 66 license issuing process and an agreement was reached regarding the test modules for A and B license authorization.

In addition to developing 10 new training programs, the Company revised the AIRBUS A318/319/320/321 training program. The revised training program includes NG and classic airplanes and its duration is now in conformity to the standards of most other Part 147 organizations in the world.

By approving MTOE manuals and expanding the scope of authority, the Technical Training Center fully transferred to the latest generation of VACBI LMS, which it fully administers alone.

The basic training process for PART 66 A licenses according to the Agreement with Shannon Aerospace was completed in 2011 and 29 candidates acquired A license authority. Three All System training programs and a General Familiarization program were held and their overall duration was 20 weeks.

The Limited Certification Authorization to the Commander was developed according to RCB's conclusions – 74 captains were trained to issue authorization delegation in case of a bird strike and limited pilot authorization for postponed work under MEL.

In late November of 2011, the Technical Training Center submitted its request to the Civil Aviation Directorate of Bosnia and Herzegovina for recognition of CA Part 147 training organization, after which Croatia Airlines certificates will be automatically recognized, thus opening the possibility of commercial training in Bosnia and Herzegovina in the future.

In 2011, the Transport Training Center organized mandatory knowledge renewal and required airplane, simulator and ground tests that enabled extension of all authorizations and licenses for transport employees' activities.

All mandatory theoretical and practical training programs required to implement P-RNAV, Special Qualification Training special procedures ILS12 x LQSA, as requested by the Bosnia and Herzegovina CAA.

Initial training was provided to the seasonal employees of Cabin Operations and the statuses of all other employees that were required to do so to continue to perform their activities were renewed.

CCAA<sup>2</sup> & IOSA<sup>3</sup> conducted a series of audits during the year for the purpose of continuously supervising the activities of the Transport Training Center, on simulators in Vienna and on Croatia Airlines flights. The achieved results demonstrated a remarkable level of conformity to the required standards. Multiple inspections of simulators and their operation by TRI/TRE were conducted according to the provisions of the OM-D & Quality Inspection Orders quality system for the purpose of monitoring and raising the operating quality of TRI/TRE/CREW.

These activities resulted in renewal of IOSA quality certificate validity.

Cost-cutting measures were implemented in each business segment and rationalization in the work of Transport Training Center employees, which resulted in less Cabin Instructors and introduction of the Line Training Purser position to optimize the training process in Cabin Operations and to reduce costs.

OM-D, Annexa & TRTO audits were conducted in accordance with the current regulations and a series of ASO-Air Safety Order audits by the CCAA, and all necessary authorities of employees and STDs were extended, thus enabling smooth conduct of the training process and knowledge renewal according to the regulations.

The Croatia Airlines employee training process primarily relies on internal resources, including the use of internal authorized instructors. In addition to financial savings thereby achieved, cultivation of internal know-how results in less dependence on external resources and promotion of corporate culture and business strategy.

<sup>&</sup>lt;sup>2</sup> CCAA – Agencija za civilno zrakoplovstvo

<sup>&</sup>lt;sup>3</sup> IOSA - IATA Operational Safety Audit

Training of non-operating staff n 2011 was focused on training in standards required by Star Alliance, attended by around 500 employees of Croatia Airlines, and on adopting new knowledge through training programs developed in 2011 by Star Alliance professional teams, such as Emergency Response attended by 110 Croatia Airlines employees. These trainings aimed at providing knowledge and skills to staff in direct contact with Croatia Airlines customers, required to implement operating procedures in accordance with Star Alliance standards.

In addition to the above trainings, in 2011 the Company organized all necessary operating training programs intended for sales staff, Fraud Prevention and Security Awareness training programs intended for Contact Center employees, and a number of other functional training programs intended for various categories of non-operating employees that educated 200 Croatia Airlines employees.

Training programs that cannot be implemented within the Croatia Airlines Education Center because there are no internal resources for them are implemented at the IATA Training Center and external professionals are hired for certain training categories to conduct *in-house* programs that can be attended by several employee target groups.

As the national airline of the Republic of Croatia, Croatia Airlines organizes within its Training Center a number of training programs required by travel and cargo agencies to obtain IATA licenses, training programs intended for airports, forwarding organizations and airlines. In 2011, Croatia Airlines trained a number of IATA accredited agencies' staff in the area of tariffs and ticketing, and employees of cargo agencies and forwarding organizations in the area of dangerous goods handling.

Responsibility to Employees Company employees are normally employed on a permanent basis, while temporary employees are mostly cabin staff employed due to higher requirements during the summer season. Temporary employment is only used for

temporary substitutes or to fill vacancies during peak HR load period in certain operating areas and processes.

# Remuneration and Support

In addition to regular income, the Company provides different benefits to its employees. They include workplace accident insurance, reimbursement of transport expenses,

severance payment at retirement, support in case of immediate family member's death, and support for sick leaves in excess of 90 consecutive days.

In case of lengthy sick leaves, serious illness or difficult financial situation, the Company attempts to help the employee and his/her family by providing support to buy medications and cover treatment costs. The Company also regularly helps the children of deceased employees by paying monthly benefits throughout their regular education.

#### Workplace Safety

Organization of workplace protection and fire protection is required by laws and statutory documents, and by Company's internal rules.

The Company regularly organizes and implements employee training for safe work and basic employee training in fire protection for all new employees. Specialist trainings for safe work in handling machines and devices are arranged according to the actual needs of Technical Sectors.

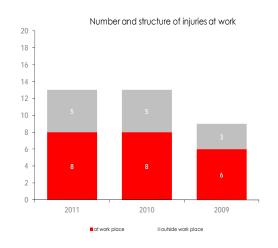
Pursuant to the Workplace Safety Act, elected employee delegates are trained for workplace protection and so is the required number of employer's authorized persons and indirect authorized persons.

All employees working in positions with special working conditions are required to undergo regular medical examinations.

Inspections and tests are regularly organized and performed for all machines, devices, eqiupment and installation in the work process, and for fire alarming and extinguishing devices and installations.

All hazardous waste from work processes is disposed of and proper records, reports and statistics are maintained.

A fire inspector performed his regular fire audit. No audits were carried out by workplace safety inspectors.



A total of 13 workplace injuries were reported in 2011 (eight women and five men). Eight injuries occurred at a working site and five occurred at arrival at or departure from work. Classification of the injuries according to the AUVA method, one inury in 2011 was medium in severity and seven were light. There were no deaths related to workplace injuries or occupational diseases.

Protection of Employee Dignity To protect employee dignity, the Company issued its "Receipt and Resolution of Complaints Regarding Violation of Employee Dignity" procedure and a person was

authorized to receive and resolve complaints regarding employee dignity protection.

To protect personal information, the Management Board made its Decision to Appoint a Person to Collect; process, Use and Provide to Third Parties Personal Information of Company Employees.

Pursuant to the adopted Action Plan to Promote and Establish Gender Equality in the Society, the positions of men and women are constantly analyzed. There was no need to implement any special measures regarding the establishment of gender equality in the preceding period.

Employee and Management Board Relations Six unions are active within the Company – the Croatian Union of Transport Pilots, the Union of Aviation Engineers and Technicians, the Independent Trade Union of Aviation Mechanics of Croatia, the Union of Airplane Cabin Staff, the

Independent Croatian Union of Aviation Employees, and the New Union.

The Uniform Collective Bargaining Agreement for Croatia Airlines d.d. was entered into on 17 May 2011 and negotiations of a new Uniform Collective Bargaining Agreement for 2012 are in progress.

The Workers Council established in 2006 and comprising 11 members also operates within the Company. Company employees participate in decisions on issues regarding their economic and social rights and interests through the workers council, as prescribed by and subject to the conditions of the Labor Act.

#### Social Responsibility

#### Transport and Tourism

As a national airline, Croatia Airlines recognizes its social responsibility in connective the country by air, in international and local transport, but also its major role in contributing to development of Croatian tourism. The Company constantly

adapts to the requirements of tourism economy and tourism development through its network of direct flights to Zagreb as the capital city and to Adriatic destinations in cooperation with its aviation partners and by adjusting to other forms of transport wherever possible.

The Republic of Croatia has recognized Company's significant role in connecting local air destinations within Croatia and the Government of the Republic of Croatia made its decision in late 2006 to require of Croatia Airlines to provide local airline transport by 2011.

Pursuant to this decision, the Company is reimbursed for the difference in revenue not generated in relation to the costs of local airline transport from national budget funds for each calendar year in the form of subsidies for preservation of transport connections between regions – local airline transport. Such support to regional transport preservation is in accordance with the provisions and applicable regulations of the European Union.

## A Croatian Brand

As part of its mission, Croatia Airlines makes efforts to contribute to the overall development of Croatian tourism and economy. Aware of very strong national identification among passengers,

Croatia Airlines serves and promotes Croatian food and wine in its airplane cabins and Croatian natural beauties, historical values and cultural events are brought closed to passengers during flights through *inflight magazines* and a the video system.

Corporate films on beauties of environmentally clean and preserved islands, the underwater domain, the coast, national parks and other Croatian regions are shown on a daily basis on Airbus flights. The Company also shows films to raise awareness of the need to protect special and endangered species by promoting a project regarding bottle-nosed dolphins in the sea around Lošinj and Cres and a film story of Lipizzaner horses in Đakovo stables.

The Company regularly promotes and sponsors numerous cultural events contributing to improvement of Croatian tourism – The Julian Rachlin and Friends Festival, Dubrovnik Summer Games, Weekend Media Festival, Knightly Alka Society Sinj, etc. In 2011, Croatia Airlines also sponsored the Croatian Olympic Committee with which it has successfully cooperated for years.

#### **Community Aid**

When possible, Croatia Airlines makes efforts to support institutions in need of humanitarian aid or organizing humanitarian projects and also provides direct humanitarian aid

through free transport for serious patients, children or people in trouble and participates in charity campaigns by donating transport services and using its video system and *inflight magazines*.

The 2011 donations included donations made to the Mediterranean Institute for Life Sciences and many other supports to cultural projects and supports for provision of medical assistance to seriously ill children and disabled persons.

#### **Business Ethics**

As of 2002, a committee monitoring the implementation of the Code of Ethics has operated within the Company. Its purpose is to monitor the implementation of the Code of Ethics in Company's operations and to propose solutions to problems for

each reported event of noncompliance with or violation of accepted ethical principles. The committee is required to promote ethical behavior and activity in the Company and to encourage changes and improvements by promoting ethical values in operations, daily work and interpersonal relations. Members of the ethics committee are elected among Company employees.

# Internal Social Activities

Several sport associations are active within the Company, engaging in football, skiing, mountaineering, basketball and tennis. Some of them achieve significant results at international

aviation competitions and enhance the quality of employees' leisure time.

## Anniversaries, Awards and Environmental Protection

In early 2011, Croatia Airlines was presented with a Best Buy Award in the airline category on the basis of an independent survey. Croatian air transport customer think Croatia Airlines offers the best value for money among the airlines flying on the Croatian market. The survey also confirmed the transparency of the offer provided by Croatia Airlines to its customers – passengers are provided with a complete specification of the travel price i.e. they are made aware that the ticket price includes airport charges, the ticket service charge (TSC), free transport of up to 20 kg of luggage, onboard food and beverage, magazines, online reservation service and *web check-in*, as well as frequent flyer miles.

In a special "QUDAL –QUality meDAL DEEPMA" quality survey, Croatia Airlines won the first prize in its category and is able to certify its products in 2011/2012 as an exclusive Croatia "Croatia Airlines – QUDAL-TOP Quality meDAL – No. 1 in Quality" and bear a QUDAL superior quality symbol with the maximum 5 stars.

# Environmental protection

Air transport is an important factor in development of the overall global economy, but also contributes to global climate changes as a result of greenhouse gas emissions and has an impact on the environment by generating noise, using non-renewable

energy sources and by generating waste to a minor extent.

Due to the anticipated long-term increase in traffic, accompanied by an increase in carbon dioxide emissions and its impact on global warming, inclusion of air transport in the emission-reducing program was provided for at definition of the Kyoto Protocol. The process was completed in 2008 by the adoption of final regulations on inclusion of all airlines flying on the territory of the European Union and all that fly to and from airports within the European Union in the European Emissions Trading System (EU ETS).

Although airlines hav begun to pay emissions in the EU ETS as of 2012, complex and comprehensive preparations for participation needed to be carried out in 2009, ad systematic monitoring of fuel, CO2 emissions and ton kilometers as market *benchmarking* and their verification for 2010 and 2011.

As a global industry, the airline industry also actively advocates establishment of a global ETS as the only solution that may help achieve global goals to reduce aivation emissions and eliminate unfair competition that may affect airlines in the European Union in case a global agreement is not reached.

Due to the importance of the impact and financial value of introducing such economic measures on their business, airlines have become actively involved in creating regulations through ICAO, a United Nations organization in charge of civil aviation, but also through IATA as a global association of airlines, and AEA as an assocition of European airlines.

AEA, an assocation of European airlines, adopted a program of recommended measures to reduce emissions of harmful aviation gases<sup>4</sup> based on four main pillars – further technological progress through scientific and research work, improvement of infrastructure, operating measures (better air transport regulation, optimal route selection,

<sup>&</sup>lt;sup>4</sup> Emissions Containment Policy of the European Aviation Industry

reducing circling above airports, a unique European sky to reduce CO2 emissions by 12%), and ETS economic instruments (emission right deficit will be acquired or emission right surplus will be sold based on supply and demand according to the needs and defined rights of the Company).

As a member of AEA's expert groups, Croatia Airlines actively anticipated in designing ETS elements specific to airlines and carried out the required preparations for inclusion in the EU ETS in accordance with the provisions of the relevant regulations.

As the Republic of Croatia is not formally a member of the European Union, the European Commission assigned the German Emissions Trading Authorities (DEHST) attached to the German Federal Environmental Protection Agency to Croatia Airlines as its competent authority for administration of its participation in the EU ETS in accordance with the established EU ETS rules. Pursuant to the EU ETS regulations and competent authorities' requirements, Croatia Airlines designed a corporate ETS system to monitor and measure CO2 emissions and ton kilometers and obtained approval from the competent authorities.

The corporate EU ETS system was implemented in 2009 and CO2 emissions and ton kilometers have been officially monitored since 1 January 2010 in accordance with the regulations for verified reporting within the EU ETS rules and as a basis for taking corporate measures to reduce emissions.

Croatia Airlines also participated in activities to conform to and apply European regulations in connection with global climate changes and the Kyoto Protocol to air transport in the Republic of Croatia. In addition, Croatia Airlines continuously participates in applying environmental and sustainable development regulations to air transport and the Company in general, and in improvement of technologies, procedures and processes to reduce adverse environmental impacts.

Most environmental protection activities are focused on reducing fuel consumption, harmful gas emissions (primarily CO2) and takeoff and landing noise. Procedures for reduce engine power at takeoff are also used to extend engine useful life and to achieve savings in fuel consumption and CO2 emissions in this flight phase. By using a flight planning program and Fuel Cost Index, an optimal flight place is established with respect to fuel efficiency. The implementation of a Flight Data Monitoring system enabled monitoring of noise intensity for each flight, necessary as a result of increasingly demanding regulations in the saturated European sky.

In addition to impacts in the operating and broader corporate business contexts, Company's participation in the EU ETS also results in ongoing increase in costs.

## **Development Position**

Having carried 1.879 million passengers by the end of 2011, Croatia Airlines reached a total of approximately 24 million passengers within the overall development period that started in 1993. These transport development figures show an average annual growth rate of around 8%.

Having reached the status of a leading airline in the region in terms of transport, Croatia Airlines focused its strategic orientation on its regional leader position and its mid-term and long-term visions provide for its expansion to Southeast Europe, while remaining based at Zagreb Airport as its junction airport. To that effect, a sufficient degree of market synergy with Zagreb Airport needs to be ensured in the context of a future regional transport junction. As its major comparative advantage, the Company values its membership in Star Alliance, a global association of airlines transporting a quarter of all passengers in the world. Having joined the global association of airlines, the Company primarily expects to achieve synergy effects on its transport and financial indicators.

Croatia Airlines focuses its business model on being a strong network regular operator. By choosing this transport profile, the Company aims to protect against seasonal oscillations. The network transport strategy is directed to clearly determining primary, secondary and tertiary routes and local and regional routes, and to defining their specific weights and optimizing the number of frequencies.

The present **destination network** in local European and Euro-Mediterranean traffic, which has been developed and maintained for years, was enriched in 2011 by introducing new destinations: Athens, Venice, Belgrade and Hamburg, and new flights: Dubrovnik-Athens, Dubrovnik-Belgrade, Dubrovnik-Venice, Rijeka-London, Zadar-Munich, Zadar-Zürich, Split-Hamburg, and direct Zagreb-Istanbul flights. The Company aims to continue expanding the destination network for the next several years, primarily to immediate region destinations, but also to more remote European destinations and U.S. and Canadian destinations, in business cooperation with U.S. airlines that are STAR Alliance members. Increasing the number of *code* share agreement according to the abilities within Star Alliance is an important factor in development of the destination network and in increasing revenues. In 2011, nine *code* share agreements were in place.

Sustainable development is of particular significance to Croatia Airlines, which actively participates as a member of AEA expert groups in improving technology, procedures and processes reducing adverse environmental impacts. Within the process of designing ETS elements specific to airlines, Croatia Airlines is actively preparing for its application.

Having improved its fleet structure by replacing its short-range fleet from 2008 to 2010, Croatia Airlines met the requirements for optimizing the revenue management model, pricing models and booking protection models, and for gradually reaching the European standards of airplane and fuel productivity and transport quality and punctuality.

The targeted fleet structure by 2016 is predetermined by the anticipated development conditions including Croatia's entry into the European Union in 2012, with an expected positive effect on the scope of air transport that has so far been present in all new members of the European Union.

The fleet structure should include eight Airbus A319 airplaces and six Q400 airplaces, which means the total number of airplanes should grow from 13 in 2011 to 14 in 2016. In 2012, the Company plans to introduce thinner and lighter seats on the A319 airplanes within the existing fleet, whereby the number of seats will be increased from 132 to 144 (four airplanes). The new airplanes to join the fleet in 2015 and 2016 (2+2) should have the same seat configuration (144). At the same time, the Company plans to withdraw its Airbus 320 airplanes from traffic. With such new 144-seat configuration in A319 airplanes and the planned fleet growth, the seating capacity should grow from 1,470 seats in 2011 to 1,608 seats in 2016, an increase of 9.4%. This means the cabin and airplane load factor should grow in the following period.

Such fleet structure will provide flexibility and dynamics in network planning and capacity marketing in an optimal mix of different airplane sizes, according to flight load and network peak loads. Planning and marketing flexibility drectly results in better possibilities of network, transport and system cost optimization.

Guidelines in several areas of fleet capacity structure optimization were established as strategically significant – in the area of ownership vs. operating lease, in the area of reducing the share of Airbus 320 airplanes in the fleet structure, in the area of achieving higher operating and commercial efficiency on primary Star Alliance routes by replacing the ATR42 airplane by a Q400 airplane (MUC, VIE, ZRH), and in the Southeast European market. The *right sizing*<sup>5</sup> policy is an important development prerequisite for successful implementation of a profitable growth strategy.

Each one of these determinants in the area of fleet capacity development directs future fleet and cost structure development to inevitable optimization and growth in the most economic manner.

**International regular air transport** is a basis for a **profitable growth strategy**, which requires continuity in the analysis and optimization of the route portfolio as a key factor of transport economic and competitive ability enhancement.

The market segmentation strategy determines local airline transport, which is special interest to the Republic of Croatia, as a separate market with a significant commitment from Croatia Airlines until 2011 in terms of transport. Croatia Airlines has committed to provide local transport with compensation for losses incurred in accordance with the PSO<sup>6</sup> practice in the European Union. After 2011, a tender is expected to be launched (for three to five years) and Croatia Airlines will undertake all necessary actions to obtain a concession again.

Between 2008 and 2011, Croatia Airlines incurred a cumulative operating loss of 520.3 million HRK. Such loss reflected negatively on financial indicators. From 2006 to the end of 2011, around 668 million HRK of capital was lost as a result of losses incurred. Current and debt ratios indicated the necessity of implementing efficient rationalization and corporate restructuring measures.

The reasons for Croatia Airlines' difficulties and weakened competitive position lie in the air transport crisis on the global European and Croatian airline market accompanied by the financial crisis and recession in Croatia and economies of the countries that are primary emitting markets for travel to Croatia, especially in the context of tourism. The monopolistic position and conduct of stakeholders in the air transport system of the Republic of Croatia i.e. the food chain (HKZP, INA, airports...) is an additional element

<sup>&</sup>lt;sup>5</sup> A policy to reduce the unfavorable operating fleet capacity gap (42-132-162) based on short-range ATR airplanes

<sup>&</sup>lt;sup>6</sup> Public Service Obligation

that has aggravated our business conditions and resulted in a performance crisis, which additionally increased our liquidity and payment problems.

# Over the past few years, Croatia Airlines has intensively worked on rationalizing all business areas to minimize negative effects.

Over the past three years, certain measures have been taken to rationalize operations and achieve savings of 132.8 million HRK with regard to decreased production, decrease in nonproductive costs, decrease in remuneration for the management board, executive directors, middle and operating management, and rationalization of flight time costs and withdrawal of Airbus CTM airplanes from the fleet, reduction of HANDA fees and reduction of airplane fueling fees.

In 2012, Croatia Airlines expect to undergo a restructuring process that will include strategic positioning and restructuring and financial and operating restructuring. The restructuring plan will be implemented according to the rules of the Republic of Croatia for state aid for rescuing and restructuring (Official Gazette 20/07) and special EU rules for the air transport sector - Guidelines on the "Application of Articles 92 and 93 of the EC Treaty and Article 61 of the EEA agreement to State aids in the aviation sector" (O.J., December 1994, C350, p.5), applicable to capital investments, guarantees and loans in air transport. Independent consultants will be hired for the restructuring plan and the Company will communicate and cooperate with all relevant factors of its implementation: the owner (government), production chain stakeholders, employees, management, expert bodies and union representatives.

Plan projections for 2012 based on assumptions in documents accepted by the Supervisory Board ("Business Plan 2010 - 2013 – Basic Restructuring Prerequisites", April 2010; "Business Plan 2011 - 2015, September 2011) with appropriate adjustments include several objective toward recovery – reaching borderline profitability in 2012/2013, restructuring the business functions, increasing business model efficiency, retaining the market with optimal positioning of key resources – employees, fleet, network and flights. The following potentials to increase productivity and financial efficiency were identified in a study as key parameters to enable better financial results and improved business indicators in 2012/2013:

	Po	tentials	
Restructuring of flight	>	8,0 €m	Q400 vs. Airbus
Revenues	>	7,0 €m	Rev. Manag, Pricing, Code Share, C class
Administration		1,0 €m	Reduction of employees
Labour productivity		1,5 €m	Reduction of unit labour costs
Suppliers	>	4,0 €m	Contribution of suppliers
Quality-punctuality		0,5 €m	Direct and indirect costs of disorder

In 2011, some of these potentials were fulfilled through flight time restructuring, corporate reorganization for the purpose of establishing an optimal organization, downsizing the management structure and adjusting to the actual operating processes, by increasing transport effects and revenues and transport punctuality, by increasing working

productivity and by reexamining supplier contracts. The Company aims to continue along the same path to achieving the ultimate objective: "Reaching zero in 2012".

#### Business Improvement and Expansion

In 2011, Croatia Airlines intensively worked on the IATA SIS (Simplified Interline Settlement) project implementation. SIS is an IATA project intended to provide integrated and simplified interline business and is considered to be an industry requirements that

must be implemented by each IATA member.

It is based on electronic exchange of documentation and improvement of present functionalities. The project involves all member airlines of the IATA Clearing House. The implementation includes interline passenger and cargo transport and UATP card transactions billing and various other interline invoices. Introduction of electronic document exchange in the SIS system will enable quicker, more detailed and electronic settlement and document collection. The foregoing is expected to improve the present business processes (faster cost/revenue recording, access to costs/revenue with a delay of no more than a month, decreased calculated costs/revenues, decreased postal costs and costs of document printing for the Clearing House, introduction of Clearing House incoming invoice verification in SAP, CH incoming invoice automation). The passenger and cargo transport categories were implemented in January of 2012, while the rest of the categories should be implemented by the end of April of 2012.

Last year, the Company intensively worked on improving its customer service.

In October of 2011, a new mobile application was introduced to enable iPHone users to plan their travel more simply, quickly and efficiently and to improve availability of information relevant to air travel arrangements.

Two more applications were introduced in December of 2011 – an iPad application and an application for Android mobile phones. By introducing these applications, the Company continued with its ongoing use of state-of-the-art technologies and essential travel information is now available to even more mobile technology users.

Croatia Airlines and Erste Bank provided an additional ticket payment option to FlyOnLine users. As of November of 2011, all Erste Bank electronic banking users in Croatia can purchase airline tickets in a secure, simple and quick manner via the Erste Bank website.

As of mid-November of 2011 Croatia Airlines new website has been in service www.croatiaairlines.hr. The new website is easier to use and more organized, visually improved and fully adapted to the requirements of modern passengers who primarily want to find flight schedule and price information and detailed and diverse information on special offers as quickly as possible and book and purchase an airline ticket online at a better price.

### **Business Environment and Operational Risks**

Environment in Croatia A poor macroeconomic situation is the main characteristic of the Croatian economy in 2011. According to the data provided by the Croatian Bureau of Statistics, a zero growth

rate was achieved, which confirms that the Croatian economy failed to recover for the third year in a row, but also reflecting the fact that Croatia faces deep internal structural weaknesses and problems that are additionally emphasized by the situation in the global environment.

A 1.2% drop in industrial production was recorded (for the third year in a row). The average rate of registered unemployment for 2011 was 17.9%. In 2011, the average inflation rate was 2.3%. Although somewhat higher than 2010 (1.1%), this level falls in the mild inflation category, even though it causes further impairment of the average living standard in the context of the employment drop, real salaries and disposable income.

The global economic crisis did not affect Croatian tourism. In 2011, 11.5 million tourist arrivals were recorded, which is 8% more that the year before, with a total of 60.4 million overnights or 7% more than 2010. Moreover, Croatia had more overnights in the first nine months of the preceding year than the entire year 2010. The year 2011 thus achieved a new record level of the total number of overnights in the past twenty years. Such trends are mostly a result of an increase in the number of foreign tourists' overnights and, to a minor extent, a result of an increase in the number of domestic tourist. Like in years before, the most numerous tourists were those coming from Germany, followed by Italy, Slovenia, Austria and Czech Republic.

According to the data provided by the Croatian Bureau of Statistics, traffic in Croatian airports (number of airplane operations) in 2011 recorded a 4.5% growth compared to 2010. Croatia Airlines transported 1.9 million of 5.6 million passengers recorded in airports. Passenger traffic in Croatian airports in 2011 recorded an 8.6% growth, which makes Croatia Airlines' result even more valuable. The market share of Croatia Airlines was thus increased by 2 percentage points (from a 34% to a 36% share).

A change in the business trend of Croatia Airlines was the most important characteristic of the fiscal year 2011. Month after month, Croatia Airlines recorded growth in passenger transport – 2011 was a record year in Company's history in the number of transported passengers.

In 2011, Croatia Airlines launched its program to recover from the deep crisis marked by operating losses (2008 - 89 million HRK, 2009 - 199 million HRK, 2010 - 157 million HRK). Pursant to the adopted 2011-2015 Business Plan, the level of operating loss must be gradually brought to borderline profitability by 2012.

This resulted in changes in top management, the Company was reorganized and decisively proceeded to implement the program in all business segments.

We also identified and quantified Company's potentials through flight time restructuring, revenue increase, administration cost cutting, supplier contributions and improved punctuality and quality, which resulted in significant positive shifts in business. We continued our intensive work on rationalizing all business areas. We withdrew from investments not directly related to the core business and flying, airplane maintenance and operation and the guaranteed level of safety, all for Company recovery purposes.

As a Croatian company with substantial export potential, which is in the center of the entire economy's strategy, Croatia Airlines appears on the international market under the influence of adverse domestic market factors and domestic monopolistic impacts incorporated in the system inputs and price. This often makes things difficult for the Company compared to major competition's systems that are not burdened by these factors or are much more flexible in carrying such burdens thanks to their size and financial strength. The process of joining the EU and equalizing foreign and domestic baseline business conditions is believed to be very important for the Company in its further growth.

Croatia Airlines conducts its business in conditions of high transport seasonality on the Croatian aviation market with a high degree of competition and most passenger transport is carried out in summer months. Croatia Airlines operates all year, unlike numerous low cost carriers that only operate during the season, thus taking a part national airline's passengers and revenue. Beside Croatia Airlines, 85 airlines operate on the Croatian market and over 50 percent of all passengers are transported in the third quarter, while the presence of competition in the winter period is insignificant.

# **International Environment** Phase and that there is actual risk of a new global economy is in a new dangerous

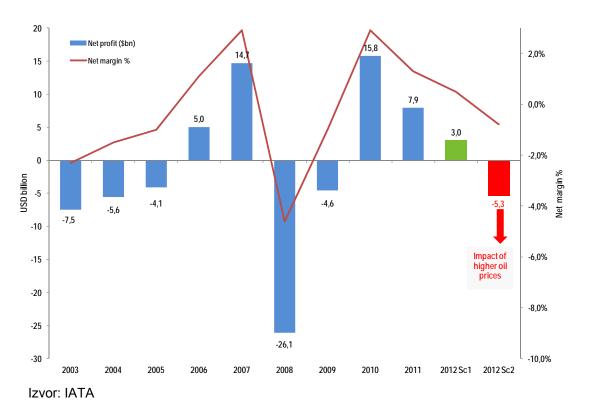
Even though a 0.7% growth was achieved in 2011, the Eurozone economy is on its way to a new recession, for the second time in the three years. According to European Commission's forecasts, a drop in GDP in the Eurozone will be 0.3% in 2012. A drop in economic activity was recorded across the Eurozone in the last quarter of 2011 and what was particularly surprising was poor economic activity in two strongest European economies – Germany and France. We should also mention an increase in unemployment in countries such as Spain, Portugal and Italy and the situation in Greece where savings measures caused new unrest.

The impact of the global economic crisis on air transport slowly diminished in 2011. Despite the crisis in Europe, economic recovery stimulated market growth and increase the use of airline services. The most important factors that had an adverse impact on airlines' profitability growth and demand for air transport services were the oil prices and savings measures adopted by European countries to prevent negative effects of the debt crisis.

According to the information provided by IATA, airline industry profits in 2011 amounted to USD 7.9 billion and the operating margin was at a level of 2.7%. The main generator of such result, which is much lower than initially expected, was a strong growth in oil prices. The average price of a barrel in 2011 was 111.2 USD (79.4 USD in 2010). Fuel costs were 177 billion USD (139 billion USD in 2010) and accounted for 30% of the costs in the operating cost structure (26% in 2010). Passenger transport grew 5.9%, while cargo transport recorded a 0.6% drop.

According to forecasts for 2012, profits will be 62% less, around 3 billion dollars, with an operating margin of 1.3%. Such sharp drop in profits is a result of further growth in oil prices and the Eurozone debt crisis that prevents potential economic growth. European carriers will have the most difficult situation (the European market will generate loss), while the rest of the global markets other than Africa will generate profit.

IATA prepared another scenario for 2012 under the name of "oil price spike", according to which a sharp increase in oil prices could push the airline industry toward a loss of 5.3 billion USD with an operating margin of -0.6%. The originally estimated profit is thus reduced by as much as 8 billion USD.



#### **Global Aviation Profitability**

The bankruptcy of Spanish Spanair, Hungarian Malev and German Cirrus also indicates a presence of highly adverse trends and a difficult situation in the European airline industry. Scandinavian Cimber Sterling sold its Airbus fleet and will only operate on regional flights, while Blue1 moved its corporate headquarters from Helsinki to Copenhagen. Carriers across Europe are undergoing a process of transformation with an uncertain outcome, and this is particularly expressed in Southeast Europe. All airlines in the region are facing serious problems (Adria Airways, JAT Airways, Montenegro Airlines, BH Airlines), but this is also a promising area that has room for significant growth in air transport based on tourism growth and GDP growth in general.

#### **Operational Risks**

The global airline industry, including Croatia Airlines, is exposed to the influence of numerous external factors and risks. This primarily pertains to global crises and natural

disasters (wars, pandemics, volcano eruptions, terrorist actions). In its business, Croatia Airlines is exposed to price risks, interest rate risks, currency risks and liquidity risks. Operational risk management is necessary to preserve the value of the Company in unstable business situations and requires the use of appropriate financial instruments and methods.

Recession and Global Economic Crisis The recession to which global economies are exposed affects the magnitude of air transport in terms of a drop in potential passengers' living standard. Traffic in Croatia I mostly generated by foreign nationals rather than domestic

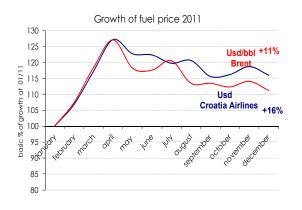
passengers, which is also one of the risks in Croatia Airlines' business considering the dependence on economic trends in the environment.

Fuel

Jet fuel prices on the market have been highly volatile in recent years. The year 2011 is characterized by the fact that, other than January, oil was traded on the London Exchange at a price of over 100

USD/bbl. In 2011, the average price of IPE London Brent oil was 111 USD/bbl.

The increase in oil prices in 2011 resulted from oscillations in US value, the situation in Lybia, sabotages in Nigeria, and sanctions imposed on Iran for developing their nuclear program.



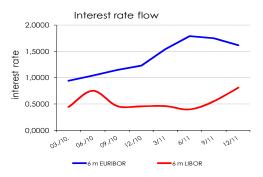
The average price at which Croatia Airlines purchase fuel in 2011 was 1,047 USD/t, which is 207 USD/t more than the planned price for 2011. In 2010, the average purchase price of fuel was 748 USD/t. The fuel cost in 2011 was 336.5 million HRK, which is 98.2 million HRK more than 2010. The share of fuel costs in the operating cost structure increased from 16% in 2010 to 21% in 2011.

Interest Rate Risk

variable

the year.

The Company is also exposed to interest rate risk as a result of using long-term loans with interest rates. The year 2011 is characterized by a sharp growth in interest rates, Euribor in the first, and Libor in the second part of



#### **Cash Flow Risks**

The Company manages liquidity risk by regularly monitoring the maturity of its liabilities and by maintaining apropriate

and sufficient amounts of cash and deposits to cover due cash expenditures. In this period, cash flow was negatively affected by a lack of inflow from core business caused by the recession. Stagnation of investments that does not affect operating security had a positive impact on cash flow. In 2011, long-term liabilities under a BLB loan were financed by the Government of the Republic of Croatia. In late 2011, a short-term loan provided by Privredna banka Zagreb in the amount of 7.5 million HRK was used to finance current liabilities and a credit line of 33 million HRK with Zagrebačka banka was extended, which resulted in automatic repayment and withdrawal of the short-term liquidity loan.

Currency Risk

The Company is mostly exposed to the risk of an adverse impact of currency exchange rate variations in relation to HRK through fleet financing by using loans denominated in foreign currencies. The

Company compensated for this exposure by revenues from ticket sales abroad, whereby it generates cash flows to repay its debts.

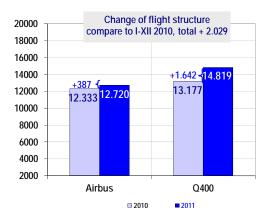
### **Fleet and Capacities**

In 2011, Croatia Airlines operated a fleet of 13 airplanes: seven Airbus airplanes, one of which is under an operating lease, and six Q400 airplanes under operating lease, which makes a total Croatia Airlines fleet capacity of 1,470 available seats. The 2010 fleet renewal process optimized the fleet structure, rationalized the offer of capacities and restructured flight time by more intensive use of Q400 airplanes, especially during the winter season and on low-demand routes, for the purpose of adjusting operations to the changed amount of demand and passenger transport volumes. These measures result in substantial savings with respect to direct operating costs, airport services and navigation, especially in winter months.

A 320 – 3 airplanes Each airplane has 162 seats – a total of 486 seats

A 319 – 4 airplanes Each airplane has 132 seats – a total of 528 seats

Q 400 – 6 airplanes Each airplane has 76 seats – a total of 456 seats





In 2011, Croatia Airlines airplanes had a flight time of 38,014 block hours, which is 8% more than the preceding year. 27,589 more flights were made or 8% more than 2010. The flight time structure changed from the preceding year in favor of the smaller Q400 airplanes to adjust the capacity offering to market demands.

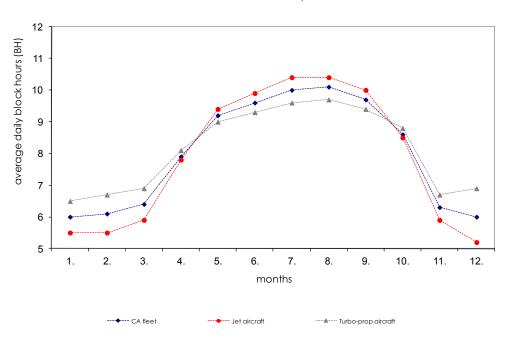
In 2011, Croatia Airlines rented airplanes ad hoc and they made a total of 50 flights to cover the flight schedule, primarily in summer months and in extraordinary situations such as various traffic disruptions, repairs, etc.

#### Fleet Utilization

type of aircraft	Ø number of aircraft	Ø daily block hours (BH)	utilisation growth 11/10
Airbus A320	3	6,7	3%
Airbus A319	4	8,7	7%
Q-400	6	8,1	3%
TOTAL	13	8	5%

In 2011, the Croatia Airlines fleet made 2,924 block hours per airplane on the average, which means utilization was 5% higher than the preceding year. Such increase in utilization is a result of more flights in summer months.

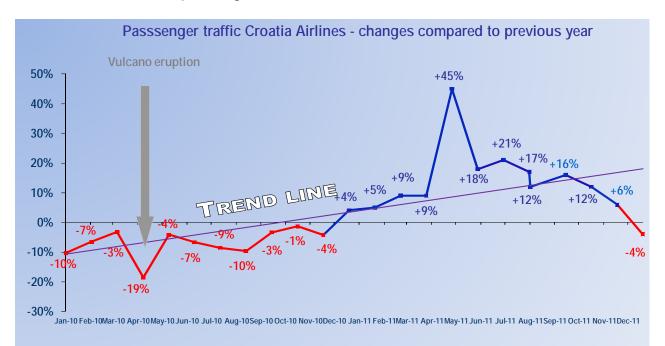
The average number of airplanes on an annual basis is 13, which is 3% more than last year's average. This somewhat higher average is a result of year-round operation of two Q400 airplanes that joined the fleet in April of 2010. In spring of 2010, the lease fo an Airbus 320 (CTM) expired and it was withdrawn from the fleet. Available seat-kilometers (ASKM) in 2011 were up 6% and passenger kilometers were up 15%.

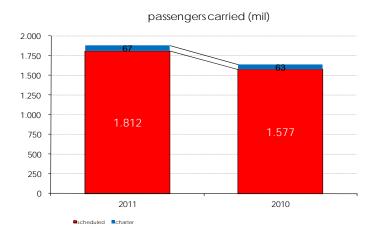


CA fleet utilization by month

## Market

Flight schedule optimization and intensified strategic activities stopped the negative transport effect trend in December of 2010 after a long period. The positive trend continued in 2011 and was characterized by constant growth in cabin load and a record increase the number of passengers.





The number of passengers in regular domestic transport and in international regular passenger transport was up 15% compared to 2010.

66.6 thousand passengers were transported in extraordinary **charter transport**, which is 5% more than 2010. Charter transport accounts for only 4% of total transport.

In 2011, cargo transport on tons was up 9% compared to 2010. As

of the middle of the preceding year distribution and external sales network maintenance have been entirely under the responsibility of Croatia Airlines sales.

As a result of a more favorable capacity structure and such growth on the market, Croatia Airlines had a record PLF<sup>7</sup> of 67%, which is 5pp higher, and WLF<sup>8</sup> of 55,2%, which is 4% higher than the preceding year.

<sup>&</sup>lt;sup>7</sup> PLF – Passenger load factor – operating productivity measured by passenger load

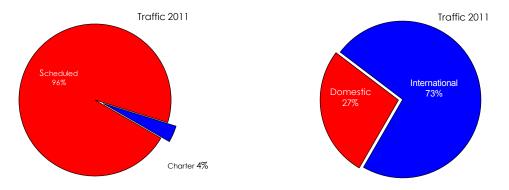
<sup>&</sup>lt;sup>8</sup> WLF – Weight load factor – operating productivity measured by load capacity utilization

# CROATIA AIRLINES

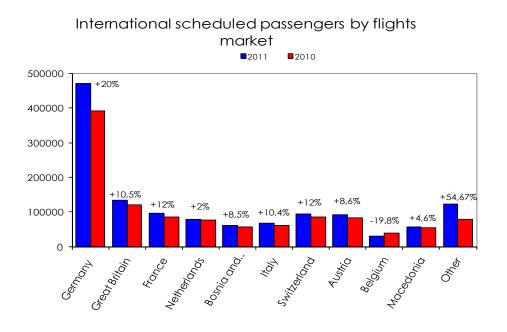
In 2011, Croatia Airlines directly connected seven destinations in regular domestic transport and 23 destinations in international Euro-Mediterranean transport. Croatia Airlinesx developed its network of destinations in commercial cooperation with Star Alliance members - Lufthansa, Austrian Airlines, TAP Portugal, SAS, Swiss, Turkish Airlines, Spanair, Brussels Airlines and British Midland. To reinforce its market position, the Company uses all comparative advantages of its membership in the association. In 2011, Croatia Airlines connected a total of fifty destinations in regular and *charter* transport.

A total of 1,879,106 passengers were transported, which is 238,400 passengers (+15%) more than 2010. This result is the best achievement in the history of Croatia Airlines, achieved by transporting 505,432 passengers in domestic regular transport, 1,306,999 passengers in international regular transport and 66,585 passengers in charter transport.

The half-million passenger threshold was crossed (505,432) in domestic regular transport for the second time in Company's history, which is the highest figure since 2008 (543,000 passengers).



The number of passengers transported in international regular transport during the observed period was 15% higher i.e. the Company transported 171,148 passengers more than the year before and the passenger load factor (PLF) has grown on all markets with the same capacity to offer. Pronounced growth in PLF of 6-7% was achieved on the markets of Belgium, Bosnia and Herzegovina, France and Germany.

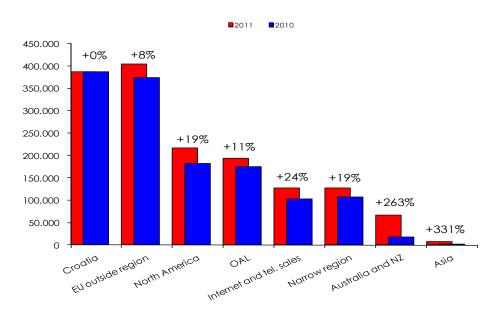


As of 27 March, Croatia Airlines airplanes have flown according to the summer flight schedule where flights are adapted to passenger requirements, especially during the tourist season and fleet capacity. By introducing regular and charter flights at new destinations, Croatia Airlines expands the offer and flight availability to an increasing number of passengers. New destinations covered by Croatia Airlines' summer flight schedule are:

- > Athens
- Venice
- Belgrade
- Hamburg

From 21 October, Dubrovnik was directly connected with Athens three times a week (Tuesdays, Thursdays and Sundays). From 22 May, Croatia Airlines airplanes flew between Dubrovnik and Venice (Thursdays and Sundays) and Dubrovnik-Belgrade flights were introduced in summertime from 20 June to 7 September for the first time in the history of Croatia Airlines (twice a week, Mondays and Wednesdays). Another novelty was direct Split-Hamburg flights available twice a week (Tuesdays and Saturdays). The Company also introduced new flights for existing destinations. In early May, Croatia Airlines began directly connecting Zadar with Zürich and Munich. Flights from Zadar to Zürich were available Mondays and Fridays. Croatia Airlines airplanes operated between Zadar and Munich Tuesdays and Thursdays. On 17 May, direct flights between Zagreb and Istanbul were introduced three times a week (Tuesdays, Thursdays and Sundays). On 27 April, direct Rijeka-London Heathrow flights were introduced on Wednesdays. A novelty in charter transport was flights from Pula to Manchester and London Gatwick (both flights on Fridays) from 22 April to the end of September.

In March 2011, the Company started selling on the Japanese BSP market as planned for 2011.



### Growth by sales market (000 HRK)

Sales through internal channels (outlets and representative offices) were up 7%, BSP sales was up 14%, and sales through other sales channels were up 52% compared to the preceding year. Online ticket sales grew in 2011. Online reservations via the FlyOnLine service recorded an increase of 19% and the financial value of online sales was up 25%

compared to the preceding year. Telephone sales remained at preceding year's level in 2011.

Sales on the local market remained at the 2010 level. International sales were up 21% as a result of increased sales on the European market (primarily on European Union markets), America and Australia. The highest absolute growth in sales within the European Union was recorded on the markets of Sweden, Spain, Greece and Italy, while drops were recorded on the markets of France, Belgium and Germany. Substantial growth outside the European Union was recorded on the markets of Norway and Switzerland. Sales on the American market were up 19% and their share in total sales was 16%. Better utilization of sales potentials arising from the Star Alliance membership resulted in an increase in sales by other airlines of 11%. Croatia Airlines generated around 62% of its total sales on international markets. Such export success is a result of improvement in business segments in terms of fleet renewal, thus providing prerequisites for additional improvements in the flight schedule and stronger development of a network carrier business model. Many new flights were introduced and activities on the existing markets were intensified in accordance with the corporate development guidelines, with a focus on reinforcing the Southeast European regional leader position. As a national airline, Croatia Airlines follows the development guidelines of the Republic of Croatia and strategic national economic goals. By connecting the homeland with the world, it contributes to overall domestic exports and development of Croatian tourism.

In late January, February and March, marketing activities were intensified to prepare for the season on the markets of the UK, France, Germany, Belgium, Switzerland, Denmark and The Netherlands. February was marked by the Take a Valentine's Day Trip Within Croatia for only 800 HRK promotional campaign promoting domestic flights, with tickets only available to two persons travelling together; and the Valentine's Day in Dubrovnik campaign relating to the purchase of two return tickets from any Croatia Airlines European destination to Dubrovnik at the promotional price of 189 EUR. An intensive campaign was conducted in April and May for new flights from Dubrovnik (Athens, Belgrade and Venice) and flights to Istanbul from Zagreb and Dubrovnik both on the local market and on the markets of said destinations. On 5 May, we marked the twentieth anniversary of the first Croatia Airlines commercial flight with a special offer for that day the price of a one-way ticket on flights within Croatia starting at 250 HRK. In July we conducted the Pula Starting at 199 HRK campaign and in September we had an autumn campaign entitled Europe Starting at 99 EUR. The purpose of the campaign was to attract as many passengers for off-season travel. In September, we promoted flights from Sarajevo and Skopje to Europe at the promotional price of 139 EUR. On 1 October, we launched our Travel as a Couple Within Croatia at Prices Starting at 800 HRK campaign. The offer applied to weekend flights from Zagreb to Dubrovnik, Split, Zadar, Pula, and in the opposite directions. In early December, Croatia Airlines had a campaign for return tickets from Zagreb, Dubrovnik, Pula, Split and Zadar to Amsterdam, Brussels, Istanbul, Copenhagen, London, Paris, Rome or Zürich at prices starting at 129 EUR for the purpose of attracting as many passengers in the winter season.

To boost its direct ticket sales via www.croatiaairlines.com, Croatia Airlines is constantly present in search engines on the Croatian market and on the markets of Germany, Switzerland, Italy, UK, The Netherlands and France where the Company continues to advertise on Google. Croatia Airlines also constantly communicates with its customers on Facebook. At the beginning of the year, the page had 22,332 fans and the number grew to 38,856 fans by the end of the year.

# **Financial Operations**

### Profit and Loss Account<sup>9</sup>

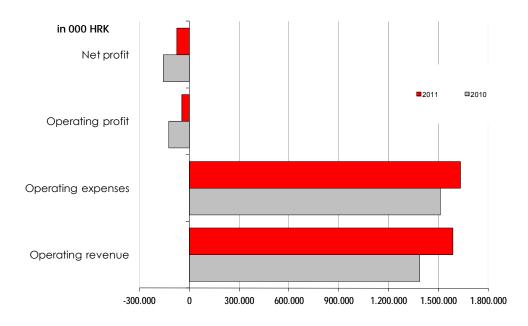
(000 HRK)	2011	2010	Index 11/10	2009
Passenger traffic	1.319.170	1.109.174	119	1.081.830
Cargo traffic	16.132	19.498	83	18.323
Other revenues	252.940	257.863	98	247.102
OPERATING REVENEUS	1.588.242	1.386.535	115	1.347.256
Flight operations	561.980	453.831	124	415.646
Maintenance	144.850	153.516	94	153.312
Passenger services	101.636	89.761	113	98.861
Aircraft and traffic services	362.327	335.055	108	355.873
Promotion and sales	221.373	224.013	99	222.298
General and administ. expenses	86.908	88.267	98	95.669
Amortization	140.074	148.071	95	147.889
Other expenses	13.740	18.652	74	22.948
OPERATING EXPENSES	1.632.888	1.511.166	108	1.512.495
PROFIT/LOSS FROM OPERATIONS	-44.646	-124.631	36	-165.239
Interest expense	-26.167	-23.131	113	-35.944
Interest revenue	1.312	647	203	1.638
Foreign exchange differences, net	-4.195	-6.192	68	3.238
Other financial expenses	-2.052	-3.564	58	-8.098
Other financial revenues	202	318	64	5.627
NET FINANCIAL EXPENSES	-30.898	-31.923	97	-33.539
NET PROFIT/LOSS	-75.544	-156.554	48	-198.778

Revenue from passenger transport was up 19%, operating revenue was up 15%, and operating costs were up 8% compared to the preceding year. **Operating loss** of 44.6 million HRK, including the fleet financing costs, resulted in a **final net operating loss of 75.5 million HRK in 2011**, which is 52% better than the 2010 result and is in line with the planned target for 2011.

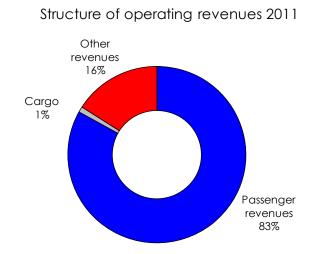
<sup>&</sup>lt;sup>9</sup> The reservation system revenue and costs are stated in the auditor's profit & loss account report as a net result within the promotion and sales costs, while this report and all other internal reports present such revenue and costs on a gross basis (reservation system revenue is within other revenues and costs are within the promotion and sales costs).

It is important to mention that the Company would have reached its borderline profitability target foreseen for 2012 in 2011 had it not been for the fuel cost effects.

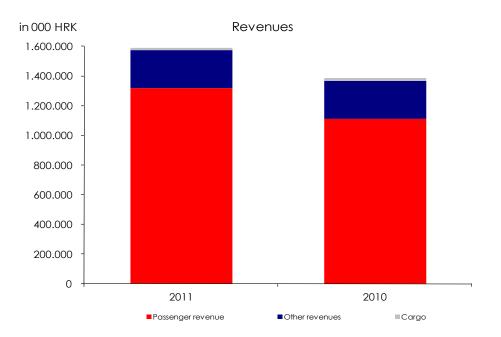
If we eliminate the fuel price change effect on the 2011 result, the total financial positive shift compared to 2010 is 165 million HRK.



The share of passenger revenue in operating revenues was 83%, which is 3% more than the preceding year as a result of 15% more passengers in 2011. Cargo transport revenue was down 17%. Other operating revenues were down 2%, mostly as a result of the reservation system revenue/costs that have been stated on a net basis as of 2011 due to changes in the invoicing method.



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#### Operating costs were up 8% compared to the preceding year.

Flying costs, passenger service costs and air traffic service costs all grew as part of the operating costs.

Flying costs were primarily increased as a result of higher fuel prices and flying staff and airplane lease costs were also higher.

Passenger service costs were also increased due to more passengers, higher consignment sales costs and higher cabin staff costs arising from a new collective bargaining agreement.

Air traffic service costs were higher as a result of higher airport and flight control costs accompanying an increase in flight time by 8% in flights and block hours.

Operating costs were reduced in airplane maintenance, promotion & sales, amortization and administration costs and other expenses.

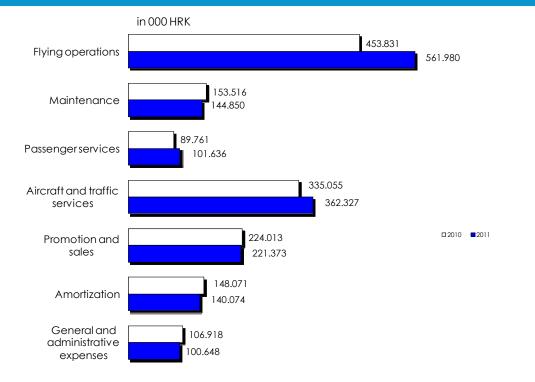
Airplane maintenance costs were lower as a result of a discount under a new maintenance contract with Lufthansa Technik.

Promotion and sales costs were lower because of the reservation system revenue/costs that have been stated on a net basis as of 2011 due to changes in invoicing.

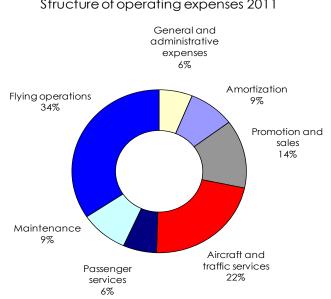
General and administrative costs were lower as a result of lower staff costs and overhead.

Other expenses were lower as a result of lower costs in previous years.

# CROATIA AIRLINES



Flying and air traffic service costs account for most of the operating costs. The share of flying costs in operating costs in 2011 was up 4% as a result of higher fuel costs than the preceding year, while the share of air traffic service costs remained at the same level.



#### Structure of operating expenses 2011

# **Assets, Financing and Investments**

### **Balance Sheet**

(000 HRK)	End 2011	End 2010	Index 2011/2010	End 2009	Index 2010/2009
ASSETS					
Non-current assets	1.243.133	1.326.911	94	1.414.148	94
Current assets	273.271	253.755	108	290.286	87
TOTAL ASSETS	1.516.404	1.580.666	96	1.704.434	93
LIABILITIES					
Capital and reserve	42.312	140.596	30	316.606	44
Non-current liabilities	856.426	838.463	102	828.120	101
Current liabilities	617.666	601.607	103	559.708	107
TOTAL LIABILITIES	1.516.404	1.580.666	96	1.704.434	93

The value of assets (liabilities and capital) as at the end of the year was down 4% compared to the preceding year as a result of impairment of non-current assets through regular amortization and as a result of a lower level of investments made. Current assets were up 8% as a result of growth in current receivables, inventories and financial assets.

Total capital was decreased as a result of the 2011 loss.

Total liabilities were higher than the same period of the preceding year. Non-current liabilities were higher as a result of non-current liabilities to the government, while liabilities for long-term loans recorded a decrease as a result of regular loan repayment. Current liabilities were higher as a result of an increase in trade liabilities and short-term loan liabilities.

As at the end of 2011, liabilities for long-term loans with local banks amounted to a total of 105.4 million HRK and outstanding principal under a long-term syndicated loan was 469.3 million HRK. Liabilities for short-term loans received from local banks amounted to 41.3. million HRK at the end of 2011.

# CROATIA AIRLINES

#### **Investments in 2011**

Investments	2011	2010	2009
Investments in aircraft	26.389.987	46.931.219	57.731.593
Investments in spare parts, tools and equip.	9.495.456	12.037.197	19.034.634
Construction investments	5.500	105.773	2.850.623
Intangible assets	6.885.960	7.116.641	6.312.363
Other equipment	3.488.377	520.805	5.199.195
Total	46.265.280	66.711.635	91.128.408
Maintenance Reserve	22.628.866	2.156.562	18.571.237
Financial investments in aircraft (predelivery financing and aircraft deposits)	0	4.790.018	15.028.271
Other financial investments	144.390	147.378	853.081

Investments in airplanes amounted to a total of 26.4 million HRK; 25.1 million HRK of this amount was spent on Airbus engine inspections, 883 thousand HRK was spent on replacement of seats in the A319, and costs of spare parts for a D-check started on the CTK account for 404 thousand HRK.

Investments in spare parts, tools and equipment amounted to 9.5 million HRK.

**Investments in intangible assets** amounted to 6.9 million HRK; 1.3 million HRk was spent on investments in software and 5.3 million HRK on investments in other party assets i.e. airplane rental.

Investments of 3.5 million HRK in **other equipment** were made mostly in computing equipment – 1.9 million HRK.

*Maintenance* reserve (investments in future airplance and engine maintenance work) was approximately 22.6 milion HRK.

**Other financial investments** in the preceding year were made for security deposits provided to suppliers.

### **Cash Flow**

Cash flow (000 HRK)	2011	2010	Index
Cash at the beginning of the period	51.362	67.139	77
Inflow from activities	1.440.655	1.287.638	112
Inflow from Government Loans	88.200 7.450	77.707 65.990	114 11
Total inflow	1.536.305	1.431.335	107
Obligations Investments Loans	1.511.131 38.265 16.129	1.362.986 37.832 46.293	111 101 35
Total outflow	1.565.525	1.447.112	108
Net change for period	-29.220	-15.777	185
Cash at the end of the period	22.142	51.362	43

In 2011, the level of cash flow (inflow and outflow) was higher than the preceding year, while the balance of cash as at year end was lower.

Higher operating inflows compared to the preceding year were a result of a larger scope of operation and higher operating outflows were a result of higher trade liabilities.

In 2011, long-term liabilities under a BLB loan were financed by the Government of the Republic of Croatia. In late 2011, a short-term loan provided by Privredna banka Zagreb in the amount of 7.5 million HRK was used to finance current liabilities and a credit line of 33 million HRK with Zagrebačka banka was extended, which resulted in automatic repayment and withdrawal of the short-term liquidity loan.

# **A Review of Plan Fulfillment**

#### **Transport Indicators Compared to the Plan**

description			Realization 2011	Plan 2011
flights (km)	DIST	000	17.126	17.351
departures	FLTS		27.589	27.520
annual change rate		%	0,3	
block hours	BH		38.014	37.924
annual change rate		%	0,2	
passengers carried	RPAX	000	1.879	1.800
annual change rate		%	4,4	
freight&mail carried	CGO	Т	3.347	3.380
annual change rate		%	-1,0	
passenger km flown	RPKM	mln	1.317	1.285
available seat - km	ASKM	mln	1.965	2.023
passenger load factor	PLF	%	67	63,5
tonne km flown	TKM	mln	121	118
available tonne-km	ATKM	mln	219	227
weight load factor	WLF	%	55,2	52,1

In 2011, fleet flight time expressed in BH was 0.2% higher than planned, while flight time expressed in flights was 0.3% higher. The number of transported passengers was 4.4% higher than planned.

#### Profit and Loss Account

(000 HRK)	2011	PLAN 2011	Index
Passenger traffic	1.319.170	1.296.645	102
Cargo traffic	16.132	20.875	77
Otherrevenues	252.940	231.622	109
OPERATING REVENEUS	1.588.242	1.549.141	103
Flight operations	561.980	509.626	110
Maintenance	144.850	152.875	95
Passenger services	101.636	96.010	106
Aircraft and traffic services	362.327	367.251	99
Promotion and sales	221.373	214.196	103
General and administ. expenses	86.908	86.921	100
Amortization	140.074	142.923	98
Other expenses	13.740	6.141	224
OPERATING EXPENSES	1.632.888	1.575.943	104
PROFIT/LOSS FROM OPERATIONS	-44.646	-26.801	167
Interest expense	-26.167	-35.464	74
Interest revenue	1.312	194	677
Foreign exchange differences, net	-4.195	0	-
Other financial expenses	-2.052	-7.528	27
Other financial revenues	202	65	311
NET FINANCIAL EXPENSES	-30.898	-42.733	72
NET PROFIT/LOSS	-75.544	-69.534	109

The generated transport effects directly affected he amount of revenues and costs. Revenues were 3% and costs were 4% higher than planned.

Net loss was 9% higher than planned for 2011.

Passenger transport revenues were 2%
 higher than planned while cargo
 transport revenues were 23% lower
 than planned. Other operating
 revenues were 9% higher than
 planned.

Operating costs were 4% higher than planned. Flying, passenger service, promotion and sales costs and other expenses were higher than planned, wile airplane maintenance, air traffic service and amortization costs were lower than planned for 2011. General and administrative costs were as planned.

# CROATIA AIRLINES

#### **Balance Sheet**

(000 HRK)	End 2011	Plan 2011	Index
ASSETS			
Non-current assets	1.243.133	1.280.866	97
Current assets	239.727	179.594	133
TOTAL ASSETS	1.516.404	1.494.475	101
LIABILITIES			
Capital and reserve	42.312	377.527	11
Non-current liabilities	856.426	718.878	119
Current liabilities	610.812	393.203	155
TOTAL LIABILITIES	1.516.404	1.494.475	101

The value of assets, liabilities and capital at the end of 2011 was 1% higher than planned. Non-current assets were 3% lower than planned as a result of minor investments, while current assets were higher as a result of higher receivables, inventories and financial assets.

Capital and reserve at the end of 2011 were lower than planned as a result of unfulfilled share capital increase and higher loss.

Unfulfilled share capital increase also resulted in a higher amount of non-current liabilities than planned. A higher amount of current liabilities is a result in higher trade liabilities and short-term loan liabilities.

### CROATIA AIRLINES

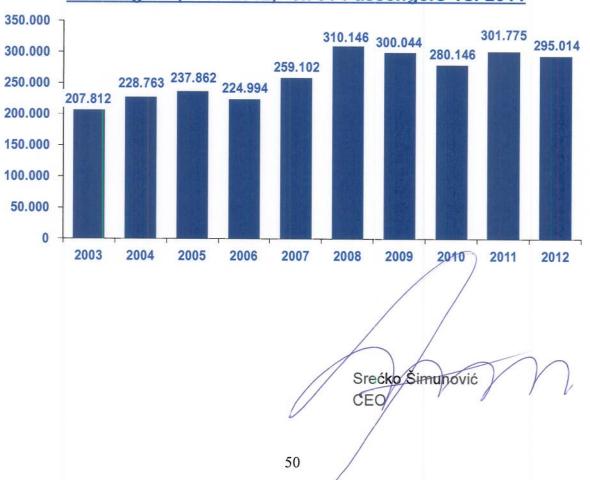
#### Present Operations – Transport Effects Jan-Apr 2012

description			I-III 2012	I-III 2011
flights (km)	DIST	000	3.123	3.14
departures	FLTS		5.145	5.31
annual change rate		%	-3	
block hours	вн		7.079	7.170
annual change rate		~ %	-1	8
passengers carried	RPAX	000	295	302
annual change rate		%	-2	8
freight & mail carried	CGO	Т	743	757
annual change rate		%	-2	(
passenger km flown	RPKM	mln	198	195
available seat - km	ASKM	mln	329	332
passenger load factor	PLF	%	60,2	58,6
tonne km flown	ткм	min	20	18
available tonne-km	ATKM	mln	35	37
weight load factor	WLF	%	58,1	48,3

The number of passengers in the first quarter of 2012 was down 3% compared to the same period of the preceding year.

The number of passengers in regular domestic transport was 6% lower than the same period of the preceding year, while international regular passenger transport recorded a 1% increase. The passenger load factor (PLF) for the first quarter of 2012 was up 1.6% compared to the same period of the preceding year.

#### Croatia Airlines passenger transport – transported passengers



#### Passengers (2003-2012) -6.761 Passengers vs. 2011

# Consolidated and Separate Financial Statements for the year 2011 with Independent Auditor's Report

## CROATIA AIRLINES D.D.

Consolidated and Separate Financial Statements for the year ended 31 December 2011 together with Independent Auditor's Report

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Management Board of the Company **Croatia Airlines d.d.**, Buzin, Bani 75/b ("the Company") is responsible for ensuring that the consolidated and separate financial statements of the Company for the year 2011 are prepared in accordance with the Accounting Law (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) issued by the Committee for Financial Reporting Standards, nominated by Government of the Republic of Croatia, to give a true and fair view of the consolidated and separate financial position, consolidated and separate results of operations, consolidated and separate changes in equity and the consolidated and separate cash flows of the Company for that period.

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

In preparing those consolidated and separate financial statements, the responsibilities of the 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 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 (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) issued by the Committee for Financial Reporting Standards. The 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 Board:

Sreéko Šimunović President and CEO

Croatia Airlines d.d. Bani 75/b, Buzin 10000 Zagreb Republic of Croatia

31 March 2012



Tel: 385 1 2395-741 Fax: 385 1 2303-691 E-mail: bdo-croatia@bdo.hr BDO Croatia d.o.o. 10000 ZAGREB Trg J. F. Kennedy 6b

#### INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying consolidated and separate financial statements of the company **Croatia Airlines d.d.**, **Buzin**, Bani 75/b, ("the Company") and subsidiaries ("the Group") for the year ended 31 December 2011, which comprise of the consolidated and separate Balance sheet/ Statement of Financial Position as of that date; consolidated and separate Statement of Income / Statement of Comprehensive Income; consolidated and separate Statement of Changes in Equity; consolidated and separate Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

#### Responsibility of the Company's management

2. The preparation and a fair presentation of the enclosed consolidated and separate Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's management.

#### Responsibility of Auditor

3. Our responsibility is to express an opinion on the enclosed consolidated and separate Financial Statements based on the audit performed. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

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

We believe that auditing proof and evidence being collected by us are sufficient and suitable as the basis for our opinion.



#### Opinion

4. In our opinion, the enclosed consolidated and separate Financial Statements, in all material respects, truly and fairly present the financial position of the Company and the Group as of 31 December 2011 and the results of operations and the cash flows of the Company and the Group for the year 2011 in accordance with International Financial Reporting Standards effective in the Republic of Croatia.

#### Other legal and regulatory requirements

5. The preparation of the annual Financial Statements of the Company and the Group for the year ended 31 December 2011 in prescribed form on the basis of Regulation on the structure and content of the annual Financial Statements (National gazette No 38/08, 12/09, 130/10) ('Standard annual financial statements'') is responsibility of the Company's management. Financial information set out in standard annual Financial Statements of the Company and subsidiaries are identical to information stated in the annual Financial Statements of the Company shown on pages 4 to 65 which are the subject of our opinion as set out in section Opinion, above.

In Zagreb, 31 March 2012

BDO Croatia d.o.o. Trg J. F. Kennedy 6b 10000 Zagreb

horid

Ines Rožić, certified auditor

IBDO BDO Crnatia d.o.o. za pružaoje revizorskih, konzalting i računovodstvenih usluga Zugreh, J.F. Kennedy 6/10

Jeni Krstičević, President of the Management Board

# Consolidated Croatia Airlines Income statement

# For the year ended 31 December 2011

1

	Notes		2011		2010
		HRK	EUR	HRK	EUR
REVENUE		<b>'000</b> '	' <b>000</b> '	000	000'
Passenger traffic	4	1,319,171	177,449	1,120,153	153,750
Cargo traffic		16,132	2,170	19,498	2,676
Other sales revenue	5	104,572	14,067	84,636	11,617
Total revenue		1,439,875	193,686	1,224,287	168,043
Other income and gains	6	155,328	20.904	140.000	00.400
gano	0	100,020	20,894	149,339	20,498
EXPENSES					
Flight operations		(561,980)	(75,595)	(453,831)	(62,292)
Maintenance		(144,850)	(19,485)	(153,516)	(21,071)
Passenger service		(101,636)	(13,672)	(89,761)	(12,320)
Aircraft and traffic					
services		(362,327)	(48,739)	(335,055)	(45,989)
Promotion and sales		(217,502)	(29,257)	(202,234)	(27,758)
General and administrative					
expenses		(90,330)	(12,151)	(90,997)	(12,490)
Depreciation and		(***,****)	(14,101)	(00,001)	(12,400)
amortization	11,12	(140,226)	(18,862)	(148,215)	(20,344)
Other operating					-
expenses		(20,183)	(2,715)	(24,390)	(3,348)
Total expenses		(1,639,034)	(220,476)	(1,497,999)	(205,612)
Loss from operations		(43,831)	(5,896)	(124,373)	(17,071)
FINANCIAL INCOME/ EXPENSES					
Financial income	8	164,189	22,086	83,725	11,492
Financial expense	9	(194,681)	(26,188)	(115,466)	(15,849)
Net financial expense		(30,492)	(4,102)	(31,741)	(4,357)
Loss before tax		(74,323)	(9,998)	(156,114)	(21,428)
Income tax expense	10	(274)	(37)	(122)	(17)
Net loss for the year		(74,597)	(10,035)	(156,236)	(21,445)
•					(21,440)
Basic and diluted					
loss per share HRK/EUR	25	(14,99)	(2,02)	(31,40)	(4,31)

	Notes	2011	20	010
	HF '00		HRK '000	EUR '000
Net loss for the year	(74,59	7) (10,035)	(156,236)	(21,445)
Hedging reserves	(9,99	2) (1,321)	(6,708)	(915)
Accumulated translation		- (220)	-	(155)
Total other comprehensive (loss)/income	(9,99	2) (1,541)	(6,708)	(1,070)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(84,58	) (11,576)	(162,944)	(22,515)

	Notes	20	11	2	010
	nous	HRK	EUR	HRK	EUR
REVENUE		<b>'000</b> '	<b>'000</b> '	000	<b>'000</b> '
NEVENUE					
Passenger traffic	4	1,319,171	177,449	1,120,153	153,750
Cargo traffic		16,132	2,170	19,498	2,676
Other sales revenue	5	93,790	12,616	75,856	10,412
Total revenue		1,429,093	192,235	1,215,507	166,838
Other income and gains	6	155,278	20,887	149,248	20,486
EXPENSES					
Flight operations		(561,980)	(75,595)	(453,831)	(62,292)
Maintenance		(144,850)	(19,485)	(153,516)	(21,071)
Passenger service		(101,636)	(13,672)	(89,761)	(12,320)
Aircraft and traffic					
services		(362,327)	(48,739)	(335,055)	(45,989)
Promotion and sales		(217,502)	(29,257)	(202,234)	(27,758)
General and administrative expenses		(86,908)	(11,690)	(88,267)	(12,115)
Depreciation and amortization	11,12	(140,073)	(18,842)	(148,071)	(20,324)
Other operating	11,14	(140,073)	(10,042)	(140,071)	(20,324)
expenses		(13,740)	(1,848)	(18,650)	(2,560)
Total expenses		(1,629,016)	(219,128)	(1,489,385)	(204,429)
Loss from operations		(44,645)	(6,006)	(124,630)	(17,105)
FINANCIAL					
INCOME/EXPENSE					
Financial income	8	163,701	22,021	83,438	11,453
Financial expense	9	(194,600)	(26,177)	(115,362)	(15,834)
Net financial expense		(30,899)	(4,156)	(31,924)	(4,381)
Loss before tax		(75 544)	(40,409)	(AEC EEA)	(24,496)
	40	(75,544)	(10,162)	(156,554)	(21,486)
Income tax expense	10				
Net loss for the year		(75,544)	(10,162)	(156,554)	(21,486)
Basic and diluted loss					
per share (HRK/EUR)		(15,18)	(2,04)	(31,47)	(4,32)

	Notes	2	2011	20	10
		HRK '000	EUR '000	HRK '000	EUR '000
Net loss for the year		(75,544)	(10,162)	(156,554)	(21,486)
Hedging reserves		(9,992)	(1,321)	(6,708)	(915)
Accumulated translation		**	(224)	*	(140)
Total other comprehensive (loss) / income		(9,992)	(1.545)	(6,708)	(1,055)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(85,536)	(11,707)	(163,262)	(22,541)

# Consolidated Croatia Airlines statement of financial position

### As at 31 December 2011

	Notes	201	14	20	10
	110103	HRK '000	EUR	HRK	EUR
ASSETS		000	000	<b>'000</b> '	<b>'000</b>
Non-current assets					
Intangible assets	11	20,227	2,686	17,181	2,326
Property, plant and equipment Investments in associated	12	1,127,316	149,701	1,230,962	166,680
company	13	5,050	695	4,744	639
Deposits	14	6,972	926	7,557	1,023
Available for sale investments	15	1,703	229	1,703	229
Non-current receivables	16	82,823 1,244,091	<u> </u>	65,300	8,842
Current assets		1,244,031	100,200	1,327,447	179,739
Inventories	17	40.000	E 000	00 400	E 400
Other financial assets	18	43,832	5,820	38,122	5,162
Accounts receivable		3,705	493	2,062	279
Other receivables	19 20	88,860	11,800	74,649	10,108
Prepaid expenses	20	83,795	11,129	53,557	7,252
Cash and cash equivalents	22	33,602 25,355	4,461 3,368	37,007	5,011
outen und eusin equivalents	~ 1		where the second s	53,473	7,241
TOTAL ASSETS		279,149	37,071	258,870	35,053
TOTAL ASSETS		1,523,240	202,306	1,586,317	214,792
EQUITY AND LIABILITIES Equity and reserves	0.0	000.005			
Issued capital	23	989,985	131,150	989,985	131,150
Capital reserves Accumulated losses and other reserves	24	90,455	11,830	103,203	13,523
Net loss for the year		(959,709)	(129,437)	(793,279)	(103,779)
Not loss for the year		<u>(74,597)</u> <u>46,134</u>	(10,035) 6, <b>153</b>	(156,236) 143,673	(21,445) 19,449
Non-current liabilities					
Long-term loans	26	407,685	54,139	563,546	76,308
Long-term leases	27	70	10	~	-
Provisions	28	1,118	148	858	116
Long-term liabilities towards the State	29	447,508	59,427	274,016	37,103
		856,381	113,724	838,420	113,527
Current liabilities				<u></u>	
Short-term loans Short-term portion of long-term		41,598	5,523	33,294	4,508
loans Short-term portion of long-term	26	166,944	22,169	160,769	21,769
obligations under finance leases	27	17	2	-	-
Accounts payable	30	233,805	31,048	221,632	30,010
Other current liabilities Accrued expenses and deferred	31	170,883	22,694	176,620	23,916
income	32	7,478	993	11,909	1,613
		620,725	82,429	604,224	81,816
TOTAL EQUITY AND LIABILITIES		1,523,240	202,306	1,586,317	214,792

### As at 31 December 2011

.

	Notes	20	11	20	10
		HRK	EUR	HRK	EUR
100FT0		<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	000
ASSETS					
Non-current assets					
Intangible assets	11	19,482	2,587	16,640	2,253
Property, plant and equipment Investments in subsidiaries and	12	1,127,082	149,670	1,230,640	166,637
associated companies	13	5,110	682	5,110	682
Deposits	14	6,934	921	7,518	1,018
Available for sale investments	15	1,703	229	1,703	229
Non-current receivables	16	82,823	10,998	65,300	8,842
		1,243,134	165,087	1,326,911	179,661
Current assets					
Inventories	17	43,832	5,820	38,122	5,162
Other financial assets	18	3,627	482	2,062	279
Accounts receivable	19	86,348	11,467	71,727	9,712
Other receivables	20	83,778	11,125	53,540	7,250
Prepaid expenses	22	33,542	4,454	36,941	5,002
Cash and cash equivalents	21	22,143	2,940	51,362	6,955
		273,270	36,288	253,754	34,360
TOTAL ASSETS		1,516,404	201,375	1,580,665	214,021
EQUITY AND LIABILITIES Equity and reserves	00	000 075			
Issued capital	23	989,975	131,150	989,975	131,150
Capital reserves	24	89,016	11,635	101,764	13,328
Accumulated losses and other reserves		(004 405)	(400.000)		(400.000)
Net loss for the year		(961,135)	(126,996)	(794,589)	(103,963)
Necloss for the year		(75,544) <b>42,312</b>	(10,162) <b>5,627</b>	(156,554) <b>140,596</b>	(21,488)
		42,012	J,027	140,030	19,027
Non-current liabilities					
Long-term loans	26	407,685	54,139	563, <b>54</b> 6	76,308
Obligations under finance leases	27	70	10	-	-
Provisions	28	1,118	148	858	116
Long-term liabilities towards the State	29	447,508	59,426	274,016	37,103
		856,381	113,723	838,420	113,527
Current liabilities				······	
Short-term loans		41,557	5,518	33,294	4,508
Short-term portion of long-term loans Short-term portion of long-term	26	166,944	22,169	160,769	21,769
finance leases	27	17	2	-	•-
Accounts payables	30	231,914	30,795	219,919	29,779
Other current liabilities Accrued expenses and deferred	31	170,423	22,632	176,211	23,860
income	32	6,855	909	11,456	1,551
		617,710	82,025	601,649	81,467
TOTAL EQUITY AND LIABILITIES		1,516,404	201,375	1,580,665	214,021

Consolidated Croatia Airlines statement of changes in equity	equity	
Croe	Ξ.	
Croe	changes	
Croe	oť	
Croe	statement	
Croe	ŝ	
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Consolidated C	roa	
Consolid:	ated (	
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December 2011	
For the year ended 31	

	Issue	Issued capital	Capital F	Capital Reserves	Accumulated		Hedging reserves	Accumulated losses		Result for the year	A VOAT	ţ	
	НКК 000,	500 100	000,	EUR 000	translation EUR '000		900, SUE	HRK 000,	κ.e	HRK 000	BUR BUR	LOURI HRK 000	EUR 000
Balance at 1 January 2010	989,985	131,150	115,608	15,221	3,020	4,397	602	(592.057)	(12, 231)	(108 500)	137 04E)		
Transfer (from) / to	,	r	343	47	1			(198 011)	(122 400)	100,000	1040(17)	013,400	43,777
Foreign exchange differences	ı	,			14 H W		ļ	(110:00:1)	(00) (22)	130,500	27,045	(68)	8)
Revaluation of			r	1	(661)	(b, /U8)	(915)	\$	1	ſ	4	(6,708)	(010.1)
aircraft and engines (Note 3)			:										
Net loss	I	t	(12,748)	(1,745)	'	·	ı	£	4	ı	1	(12,748)	(1,745)
	ł	-	ſ	ſ	•	F	•	3	1	(156,236)	(21,445)	(156,236)	(21,445)
balance at 1 January 2011	989,985	131,150	103,203	13,523	2,865	(2,311)	(313)	(790.968)	(106 331)	(466 036)	(34 44E)	4 5 C T C	
Transfer (from) / to	,	1						1000100-1	11000001	10034001	(04+,12)	143,513	19,449
Foreign exchange			I	ı	r	ł	I	(156,438)	(21,472)	156,236	21,445	(202)	(27)
differences	ł	ſ	r	r	(220)	(3,992)	(1,321)	ı	I	ł	ſ	(6,992)	(1,541)
Kevaluation of aircraft and engines (Note 3)													
Not loco		ı	(12,748)	(1,693)	,	r	ſ	I	1	,	I	(12,748)	(1,693)
	-	F	r	I	1	ı	f	ŝ	\$	(74,597)	(10,035)	(74,597)	(10,035)
Balance at 31 December 2011	989,985	131,150	90,455	11,830	2,645	(12,303)	(1,634)	(947,406)	(127,803)	(74,597)	(10,035)	46.134	6.153
			i										

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

Croatia Airlines d.d. and its subsidiaries

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Airlines d.d. separate statement of changes in equity
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ğ	Capital Reserves	Accumulated translation	Hedging reserves	serves	Accumulated losses	ed losses	Result for the year	the year	Totai	****
000, 000,		900 100	НRК 000,	EUR 000	HRK 000	000, 2000	000,	EUR 000	1000 000	EUR 000
114,512 15,073		3,013	4,397	602	(593,499)	(79,443)	(198,779)	(27,082)	316,606	43.313
ţ		\$	r	ł	(198,779)	(27,082)	198,779	27,082	,	r r
, ,		(140)	(6,708)	(915)	ı	ĩ	ı	3	(6,708)	(1,055)
(12,748) (1,745)		,	3	,	ı	ſ	ı	ſ	(12,748)	(1,745)
-		•	l	1	-	5	(156,554)	(21,486)	(156,554)	(21,486)
101,764 13,328 2		2,873	2,311	(313)	(792,278)	(106,525)	(156,554)	(21,486)	140,596	19,027
1		ş	\$	ş	(156,554)	(21,486)	156,554	21,486	r	1
		(224)	(8,992)	(1,321)	ı	1	ı	ł	(6,992)	(1.545)
(12,748) (1,693)		٤	3	,	r	ź	,	'	(12,748)	(1,693)
J		Г	1	1	*	1	(75,544)	(10,162)	(75,544)	(10,162)
89,016 11,635		2.649	(12.303)	(1.634)	(048 832)	(128 011)	(75 £44)	(10 169)	42 319	5.626

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

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	2011		2010	
	HRK	EUR	HRK	EUF
Operating activities	000	<b>'000</b>	<b>'000</b> '	<b>'00</b> (
Net loss for the year	(74,597)	(10,035)	(156,236)	(01 445
Adjustments for:	(14,037)	(10,055)	(100,200)	(21,445
Depreciation	136,145	18,313	145,527	19,975
Amortization	4,081	549	2,688	369
Net present value of disposed and sold	1,001	0.10	2,000	008
tangible and intangible assets	4,895	650	2,020	274
Exchange differences, net	13,588	2,624	9,043	1,622
(Decrease) / increase in deferred foreign			·	
exchange gains	(9,992)	(1,321)	(6,708)	(915
Decrease / (increase) in non-current				
receivables	(16,939)	(2,059)	3,172	541
Decrease in accounts receivable and other receivables	(44,440)	(5.500)	0.400	
	(44,448)	(5,568)	3,406	654
(Decrease) / increase in prepaid expenses Decrease / (increase) in inventories	3,410	552	(1,665)	(171
Increase in accounts payable and other	(5,710)	(659)	643	144
current liabilities	6,476	(180)	16,408	1,663
(Decrease) in provisions	260	(100) 32	(2,242)	(308)
(Decrease) in accrued expenses and	200	52	(2,242)	(300)
deferred income	(4,432)	(620)	(11,993)	(1,659)
Gain from reversal of revaluation reserves	(12,950)	(1,720)	(12,816)	(1,910)
NET CASH (USED IN) / GENERATED				
ROM OPERATING ACTIVITIES	(213)	558	(8,753)	(1,166)
nuonting activities				
nvesting activities ncrease in investments in subsidiaries	(000)	(50)	(00.4)	(2.2.)
Payments for purchase of intangible	(306)	(56)	(231)	(20)
issets	(7,127)	(946)	(7,434)	(1,007)
Payments for purchase of tangible assets	(38,087)	(5,058)	(61,316)	(1,007) (8,303)
Proceeds from disposal of tangible assets	692	92	2,601	(0,303) 352
IET CASH (USED IN) INVESTING	002		2,001	552
CTIVITIES	(44,828)	(5,968)	(66,380)	(8,978)
inancial activities				
	(1.0.10)	(0 (0)		
roceeds from current financial assets roceeds from short-term borrowings	(1,643)	(213)	17,801	2,439
epayment of short-term borrowings	8,551	1,136	33,015	4,470
roceeds from long-term borrowings	(450)	(60)	(153)	(21)
epayment of long-term borrowings	102	14	1,104	150
roceeds from government guarantees	(163,129)	(21,663)	(158,271)	(21,431)
ET CASH GENERATED FROM /	173,492	22,323	165,566	22,260
JSED IN) FINANCIAL ACTIVITIES	16,923	1,537	59,062	7,867
ECREASE IN CASH AND CASH				
QUIVALENTS	(28,118)	(3,873)	(16,071)	(2,277)
ASH AND CASH EQUIVALENTS AT	······································			,_,_,,/
E BEGINNING OF THE YEAR	53,473	7,240	69,544	9,518
ASH AND CASH EQUIVALENTS AT				
EAR END	25,355	3,367	53,473	7,241

		2011	2	010
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net loss for the year	(75,544)	(10,162)	(156,554)	(21,486)
Adjustments for:				
Depreciation	136,029	18,298	145,419	19,960
Amortization Net present value of disposed and sold tangible and intangible assets	4,044 4,895	544 650	2,652	364 274
Exchange differences, net	4,695	2.617	2,021 9,044	274 1,482
(Decrease) / increase in deferred foreign exchange differences	(9,992)	(1,321)	(6,708)	(915)
Decrease / (increase ) in non-current receivables	(16,939)	(2,059)	3,180	542
Decrease in accounts receivable and other receivables	(44,860)	(5,630)	4,041	736
(Increase) / decrease in prepaid expenses	3,398	548	(1,720)	(181)
Decrease / (increase) in inventories	(5,710)	(659)	643	144
Increase in accounts payable and other current liabilities	6,208	(210)	15,595	1,555
Decrease in provisions	260	32	(2,242)	(308)
Decrease in accrued expenses and deferred income	(4,602)	(641)	(11,457)	(1,585)
Gain from reversal of revaluation reserves	(12,748)	(1,693)	(12,748)	(1,745)
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	(1,970)	314	(8,834)	(1,163)
Investing activities				
Payments for purchase of intangible assets	(6,886)	(914)	(7,414)	(1,004)
Payments for purchase of tangible assets	(38,058)	(5,055)	(61,222)	(8,290)
Proceeds from disposal of tangible assets	692	92	2,601	352
NET CASH (USED IN) INVESTING ACTIVITIES	(44,252)	(5,877)	(66,035)	(8,942)
Financial activities				
Proceeds from current financial assets	(1,564)	(202)	17,790	2,438
Proceeds from short-term borrowings	8,101	1,076	33,015	4,470
Repayment of short-term borrowings	(492)	(65)	(153)	(21)
Proceeds from long-term borrowings	102	14	1,104	150
Repayment of long-term borrowings	(162,636)	(21,597)	(158,230)	(21,425)
Proceeds from government guarantees	173,492	22,322	165,566	22,259
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	17,003	1,548	59,092	7,871
DECREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS AT THE BEGINNING	(29,219)	(4,015)	(15,777)	(2,234)
OF THE YEAR	51,362	6,955	67,139	9,189
CASH AND CASH EQUIVALENTS AT YEAR END	22,143	2,940	51,362	6,955

#### 1. GENERAL

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

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2011

#### 1. GENERAL (CONTINUED)

#### Croatia Airlines d.d. General Assembly

Government Asset Management Agency (GAMA) for Republic of Croatia	96.22%
Government Asset Management Agency (GAMA) for State Agency for Deposit Insurance and Bank Rehabilitation	2.16%
Others	1.62%
Total	100.00 %

#### Croatia Airlines d,d, Supervisory Board

Zoran Šangut	President
Niko Raič	Vice President
Ratimir Andrijanić	Member
Marija Čačić	Member
Božo Josup	Member
Josip Horvat	Member
Ines Baniček-Vuk	Member
Tonći Peović	Member
lvica Poljičak	Member
Mislav Grgić	Member
Krste Čveljo	Member
Željan Simeonov	Member
Gordana Tomičić	Member

#### Croatia Airlines d.d. Management

President and CEO (from 6 October 2010)

#### Subsidiaries Management

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

#### 2. ADOPTION OF NEW AND REVISED STANDARDS

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

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

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

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

#### Standards and Interpretations effective in the current period

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

#### Standards and Interpretations affecting the financial statements

- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- Amendments to various standards and interpretations "Improvements to IFRSs (May,2010)" (MRS 1, MRS 21, MRS 28, MRS 31, MRS 32, MRS 39, MSFI 7 i IFRIC 13) relating primarily to transitional and final provisions (period of application)
- Amandments to IAS 1 "Presentation of financial statements" statements of changes in equity (effective for annual periods beginning on or after 1 January 2010),

#### 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

#### Standards and Interpretations not affecting the financial statements

- Amandments to IFRS 1 "Presentation of financial statements" use of alternative costs in the activity with regulated prices
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 3 "Acquisition method" –measurement principles and exceptions to the recognition and measurements principles (effective for annual periods beginning on or after 1 January 2010),.
- Amendments to IFRS 3 " Establishing constituent parts of a business combinations" Acquiree share-based payments exchanged for the right to a share-based payment to its employees assigned to the acquire and Payment transactions with equity instruments based on acquiree schares. (effective for annual periods beginning on or after 1 January 2010),.
- Amendments to IFRS 7 " Type and size of risks related to financial instruments" Disclosure data and Credit risk (effective for annual periods beginning on or after 1 January 2010),.
- Amendments to IFRS 34 "Contents of financial statements for the period during the year and Other disclosure data (effective for annual periods beginning on or after 1 January 2010),.

#### Standards and Interpretations in issue not yet adopted

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

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

Notes to the consolidated and separate financial statements (continued) For the year ended 31 December 2011

#### 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

#### Standards and Interpretations in issue not yet adopted (continued)

- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011),
- Amendments to IFRIC 14 "IAS 19 The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

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

#### 3, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

EUR / HRK	2011	2010
31 December	7.530420	7.385173
Average	7.434075	7.285527

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

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

The principal accounting policies adopted are set out below.

### a) Passenger revenue

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

### b) Interest income

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

### c) Leases

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

### d) The Group as lessor

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

### e) The Group as lessee

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

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

### f) Foreign currencies

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

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

### g) Borrowing costs

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

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

### h) Government grants

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

### i) Taxation

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

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

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

### j) Tangible fixed assets

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

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

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

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

### j) Tangible fixed assets (continued)

In connection with the acquisition of certain aircraft and engines, the Company received certain discounts. These discounts are deducted from the cost of the aircraft. The spare parts that are received gratis are deferred and credited to the statement of profit and loss on a proportional basis over the operational life of the aircraft, depending on the nature of the discounts (see Note 6 and 32).

Included in the cost of aircraft is the residual value for each type of aircraft. Depreciation is charged on a straight-line basis from the first day of the next month after the tangible asset is put in use. Equipment and spare parts with useful life over one year and individual cost value over HRK 3.5 thousand are recorded as property plant and equipment. Power generating and equipment of low value used in operating activities are recorded as property plant and equipment no matter their cost.

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

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

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

Airbus aircraft are depreciated on a straight-line basis over the period of 20 years (except for the second hand Airbus 320 which was depreciated over period of 12 years) after making allowance for their estimated residual value. The cost of "12-year checks" is at a rate of 8,33%, and "6-year checks" are at a rate of 16,67%.

The Airbus and ATR 42 spare parts are stated at cost and depreciated over the estimated useful life of the aircraft to which they refer (20 years). Ground Service Equipment ("GSE") and tools are stated at cost and depreciated over 16,6 years.

Buildings are depreciated over their estimated useful life of 20 years, and other assets over their useful life, which ranges from 4 – 10 years.

### k) Intangible fixed assets

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

### I) Investments in subsidiaries and associated companies

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

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

### m) Inventories

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

### n) Financial instruments

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

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

### n) Financial instruments (continued)

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

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

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

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

### o) Cash and cash equivalents

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

### p) Available for sale investments

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

### q) Loans and receivables

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

### r) Financial liabilities

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

### s) Hedging reserves

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

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

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

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

### t) Provisions and contingencies

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

### u) Use of estimates in the preparation of financial statements

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

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

### Financial Crisis and Economic Recession

The management of Croatia Airlines d.d. is monitoring the potential impact of the financial crisis and the risk of economic recession on Croatia Airlines d.d. business activities. The revenues of the Company are generated primarily from passenger traffic. The level of passenger traffic for future periods cannot be reliably estimated in the current economic environment and therefore the extent of utilization of aircrafts is uncertain. During 2010 and 2011 the Company obtained support from the government in the form of subsidies under the Government Grants Act (National gazette No. 140/05). Under the Act the Company will continue to receive subsidies and support from the State in meeting its financial and operational plans.

### Financial assets and liabilities

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

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

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

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

### Revaluation of Property, Plant and Equipment

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

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

### Impairment of Property, Plant and Equipment

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

During the year the Company received direct financial support from the Government of HRK 121,673 thousand, EUR 16,367 thousand (2010 HRK 98,839 thousand, EUR 13,567 thousand, Note 6).

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

### 4. PASSENGER TRAFFIC

	201	1	2010 Croatia Airlines d.d. and the Group			
	Croatia Airlin the Gr					
	HRK '000	EUR '000	HRK '000	EUR '000		
Scheduled services	1,256,208	168,980	1,063,928	146,033		
Charter services	62,963	8,469	56,225	7,717		
	1,319,171	177,449	1,120,153	153,750		

### Revenue by geographical segment:

	201	1	2010					
	Croatia Airling the Gr		Croatia Airlines d.d. and the Group					
	HRK '000	EUR '000	HRK '000	EUR '000				
Croatia	423,454	56,961	379,732	52,121				
Germany	134,555	18,100	110,895	15,221				
USA	151,705	20,407	120,977	16,605				
Other countries	609,457	81,981	508,549	69,803				
	1,319,171	177,449	1,120,153	153,750				

Notes to the consolidated and separate financial statements (continued) For the year ended 31 December 2011

### 5. OTHER SALES REVENUE

	20	2011	20	10	20	11	2010			
		Airlines oup		Airlines oup	Croatia d.	Airlines d.	Croatia d.			
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000		
Revenue from technical services to others	39,248	5.279	33,398	4,584	39,248	5,279	33,398	4,584		
Revenue from reservation system services	6,700	901	6,238	856		5,210		<b>4,00</b> 4		
Commission income from foreign air companies	16,874	2,270	12,459	1,710	16,874	2,270	12,459	1,710		
Revenue from consignment sales (duty free in aircraft)	10.912	1,468	8,092			·				
Mileage	10,014	1,400	0,092	1,111	10,912	1,468	8,092	1,111		
related	7,769	1,045	7,288	1,000	7,769	1,045	7,287	1,000		
Other	23,068	3,104	28,140	3,863	18,987	2,554	14,620	2,007		
44	104,572	14,067	95,615	13,124	93,790	12,616	75,856	10,412		

For the year ended 31 December 2011

### 6. OTHER INCOME AND GAINS

	20	011	20	10	20	11	20	10
		Airlines oup	Croatia . Gro		Croatia d.		Croatia d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Amortisation of tangible assets received free of charge	1,207	162	1,207	166	1,207	162	1,207	166
Income from government support	121,673	16,367	98,839	13,567	121,673	16,367	98,839	13,567
Collected bad debts	370	50	41	5	370	50	8	. 1
Gain from sale of fixed assets	128	17	655	90	128	17	655	90
Gain from sale of spare parts	3,417	460	1,008	138	3,417	460	1,008	138
Other	28,533	3,838	47,589	6,532	28,483	3,831	47,531	6,524
	155,328	20,894	149,339	20,498	155,278	20,887	149,248	20,486

During 2011 the Company has recognised a total amount of HRK 121,673 thousand (EUR 16,367 thousand) income from the Croatian Government as a direct support in respect of maintaining domestic flights. The amount of reimbursement is determined as the difference between revenues from certain domestic flights and related direct flight operations expense. Direct financial Government support in 2010 was recognised as income in the amount of HRK 98,839 thousand (EUR 13,567 thousand).

Included in other revenue is an amount of HRK 12,748 thousand (EUR 1,715 thousand) which represents the difference in connection with the depreciation provided on the basis of the revaluated amounts and the depreciation provided on the original asset cost basis.

Notes to the consolidated and separate financial statements (continued) For the year ended 31 December 2011

### 7. STAFF COSTS

	201	11	201	10	201	11	20	10	
	Croatia / Gro		Croatia / Gro		Croatia d.d		Croatia d.		
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
Net wages and salaries	125,749	16,915	118,720	16,295	123,945	16,673	116,989	16,058	
Tax, pension and health contributions from payroll	72,341	9,731	72,231	9,914	71,436	9,609	71,290	9,785	
Employer's pension and health contributions on payroll	45,366	6,103	43,575	5,981	44,899	6,040	43,115	5,918	
Other employee related costs	37,124	4,994	36,692	5,036	36,851	4,957	36,476	5,007	
	280,580	37,743	271,218	37,226	277,131	37,279	267,870	36,768	

The Group had 1,121 employees (Croatia Airlines d.d. 1,101, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 12) at 31 December 2010 (1,138 employees at 31 December 2010 - Note 34).

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

### 8. FINANCIAL INCOME

	201	11	201	10	201	1	2010			
	Croatia Airlines Group		Croatia / Gro		Croatia A d.d		Croatia Airlines d.d.			
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000		
Foreign exchange gains	162,250	21,825	82,523	11,327	162,187	21,818	82,473	11,320		
Interest gains	1,315	177	653	90	1,312	177	647	89		
Other	202	27	549	75	202	27	318	44		
	163,767	22,029	83,725	11,492	163,701	22,021	83,438	11,453		

### 9. FINANCIAL EXPENSE

	2011	2010	2011	2010			
	Croatia Airlines Group HRK EUR '000 '000	Croatia Airlines Group HRK EUR '000 '000	Croatia Airlines d.d. HRK EUR '000 '000	Croatia Airlines d.d. HRK EUR '000 '000			
Foreign exchange losses	(166,436) (22,388)	(88,748) (12,181)	(166,382) (22,381)	(88,667) (12,170)			
Interest expense	(26,193) (3,523)	(23,154) (3,179)	(26,167) (3,520)	(23,131) (3,175)			
Other	(2,052) (277)	(3,564) (489)	(2,052) (276)	(3,564) (489)			
	(194,681) (26,188)	(115,466) (15,849)	(194,600) (26,177)	(115,362) (15,834)			

### 10. INCOME TAX EXPENSE

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

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

Subsidiaries obligations for tax on profit are as follows: Amadeus Croatia d,d, HRK 108 thousand, EUR 14 thousand (2010: HRK 99 thousand, EUR 14 thousand ) and Obzor putovanja d.o.o. HRK 166 thousand, EUR 22 thousand (2010: HRK 23 thousand, EUR 3 thousand).

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

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

	Croatia Airlines d.d.	Croatia Airlines d.d.
	2011 HRK '000	2010 HRK '000
Net (loss) before tax	(75,544)	(156,554)
Non-taxable income	(244)	(74)
Training incentives	(4,400)	(5,630)
Non-deductible expenses	2,136	1,928
Adjustment to non-deductible expenses	*	49
Tax loss	(78,052)	(160,281)
Tax losses brought forward	(434,920)	(302,491)
Tax loss expired	(23,309)	27,852
Losses utilised in current period		<u> </u>
Tax loss available for carry forward	(536,281)	(434,920)

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

For the year ended 31 December 2011

### 10. INCOME TAX EXPENSE (CONTINUED)

Subsidiaries do not have tax losses to carry forward.

		Tax loss carried forward	Tax loss carried forward	Tax benefit at 20%	Tax benefit at 20%
		HRK '000	EUR '000	HRK '000	EUR '000
2012	Not more than 1 year (from 2007)	2,400	319	480	64
2013	Not more than 2 years (from 2008)	92,553	12,290	18,511	2,458
2014	Not more than 3 years (from 2009)	202,995	26,957	40,599	5,391
2015	Not more than 4 years (from 2010)	160,281	21,284	32,056	4,257
2016	Not more than 5 years (from 2011)	78,052	10,365	15,610	2,073
		536,281	71,215	107,256	14,243

Deferred tax asset in the amount of HRK 107,256 thousand, in EUR 14,243 thousand (2010: HRK 86,994 thousand, in EUR 11,779 thousand) stated above has not been recognized in the Company's accounts due to uncertainty as to whether sufficient future taxable income will be available against which the tax losses could be utilised. The non-recognised tax asset has been calculated using the tax rate enacted at the statement of financial position date of 20% (2010: 20%).

For the year ended 31 December 2011

### 11. INTANGIBLE ASSETS

2011	Croatia Airlin	ies Group	Croatia Airlines d.d.			
	HRK '000	EUR '000	HRK '000	EUR '000		
COST						
Balance at 31 December 2010	46,212	6,257	45,261	6,128		
Additions	7,127	946	6,886	914		
Disposals	(3,230)	(434)	(3,230)	(434)		
Fx differences	<b>~</b>	(115)	<u> </u>	(112)		
Balance at 31 December 2011	50,109	6,654	48,917	6,496		
ACCUMULATED AMORTIZATION						
Balance at 31 December 2010	29,031	3,931	28,621	3,875		
Charge for the year	4,081	549	4,044	544		
Disposals	(3,230)	(434)	(3,230)	(434)		
Fx differences		(78)	*	(76)		
Balance at 31 December 2011	29,882	3,968	29,435	3,909		
NET BOOK VALUE						
At 31 December 2011	20,227	2,686	19,482	2,587		
At 31 December 2010	17,181	2,326	16,640	2,253		

2010	Croatia Airlin	les Group	Croatia Airlines d,d,			
	HRK '000	EUR '000	HRK '000	EUR '000		
COST						
Balance at 31 December 2009	38,778	5,299	37,847	5,170		
Additions	7,434	1,007	7,414	1,004		
Fx differences	······································	(49)		(46)		
Balance at 31 December 2010	46,212	6,257	45,261	6,128		
ACCUMULATED AMORTIZATION						
Balance at 31 December 2009	26,337	3,596	25,963	3,543		
Charge for the year	2,688	369	2,652	364		
Disposals	6	1	6	1		
Fx differences		(35)		(33)		
Balance at 31 December 2010	29,031	3,931	28,621	3,875		
NET BOOK VALUE						
At 31 December 2010	17,181	2,326	16,640	2,253		
At 31 December 2009	12,441	1,703	11,884	1,627		

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For the year ended 31 December 2011

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

At 31 December 2011

aner.	EUR 000	325.075	5,059		(12 156)	(15, 100) (6, 271)	311,707			158,395	(11,592)	C c	9746 1941 G	162 006		149,701	166,680
Total	НКК '000	2,400,740	38,086	r	(91,545)		2,347,281			1,103,178	(186,181)	223	) I 1	1.219.965		1,127,316	1,230,962
ts, GSE ols	500	18,617	1,090	25	(893)	(359)	18,480		0000	0,001 055	(214)	56	(138)	7.313	,	11,167	11,936
Spare parts, GSE and tools	НRК 000,	137,491	8,206	188	(6,725)	- 1 -	139,160		CVC 0V	100,04	(1,593)	219	1 I 1	55,068		84,092	88,149
Ħ	800,	286,463	3,334	ł	(11,094)	(5,526)	273,177		142 796	16.432	(11,238)	,	(2,838)	146,083		127,094	142,737
Aircraft	000,	2,115,581	25,103	ł	(83,545)	3	2,057,139		1.061 443	122 166	(83,545)	ſ	\$	1,100,064		957,075	1,054,138
ıt and r	000,	7,730	463	\$	(169)	(150)	7,874		5.109	517	(140)	<b>~~</b>	(104)	5,383		2,491	2,621
Equipment and other	НRК 000,	57,084	3,485	;	(1,275)		59,294		37.729	3,845	(1,043)	4	9	40,535		18,759	19,355
ant and nt in ss	EUR 000,	1,359	172	(25)	ſ	(26)	1,480		ı	,	ł	r	5	•		1,480	1,359
Property, plant and equipment in progress	000,	10,039	1,292	(188)	ı	r	11,143		z	ł	ı	ł	ſ	1		11,143	10,039
and ngs	EUR 000	10,906	1	r	r	(210)	10,696		2,879	408	ſ	1	(09)	3,227		1,469	8,027
Land and buildings	НRК 000,	80,545	ł	r	ſ	1	80,545		21,264	3,034	,	ı	F	24,298		50,24 <i>(</i>	59,281
	COST OR VALUATION	31 December 2010 Additions	Transfers from property, plant and equipment in	progress	Uisposais Ev differences	r X uliterences	st uecember 2011	ACCUMULATED DEPRECIATION	31 December 2010	Charge for the year	Disposals Correction of accumulated	depreciation	FX differences	31 December 2011	NET BOOK VALUE 31 December 2011		31 December 2010

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2011 was in the amount of HRK 957,075 thousand, in EUR 127,094 thousand (2010: HRK 1,054,138 thousand, in EUR 142,737 thousand).

Croatia Airlines d.d. and its subsidiaries

For the year ended 31 December 2011

## CONSOLIDATED CROATIA AIRLINES GROUP - PROPERTY, PLANT AND EQUIPMENT (continued) ц Ц

### At 31 December 2010

Total	HRK EUR 000		222 331,890 316 8,303			08) (11 800)					151,351 527 10.075		(21478)	85 12	- (1.514)	6		162 466 620	
		000 407 6				(87 708)		2,400,740			1,101,434 146 607	_	(00,2,00)			1,169,778	1	1 230 962	1
Spare parts, GSE and tools	000. NU3	18 237	1,508		1	(1 025)	(203)	18,617		707 G	0,134 060	10001	(ppt)	<u>5</u>	(80)	6,681		11.936	12,143
Spare pa and	HRK 000,	133 926	11,135		ſ	(7.570)		137,491		AE 242	7 008	(1) 071)	(1) (1)	92	3	49,342		88.149	88,713
aft	000, MB	295.208	4,750		ភ្	(10,572)	(2,938)	286,463		127 629	18,157	(10.717)		ı	(1,353)	143,726		142.737	157,569
Aircraft	нкк 1000	2,158,465	35,080		114	(78,078)	• f	2,115,581		1 007 237	132.285	(28 079)		1	ſ	1,061,443		1,054,138	1,151,228
nt and sr	EUR 000	6,069	2,006		t	(291)	(54)	7,730		5.019	440	(304)		Ē	(45)	5,109		2,621	1,050
Equipment and other	900, МХН	44,426	14,808		ı	(2,150)	•	57,084		36.752	3,202	(2,218)	Ē	$(\mathbf{y})$	1	37,729		19,355	7,674
lant and ent in	EUR EUR	1,357	31		(15)	,	(14)	1,359		'	1	'		ſ	-	,		1,359	1,357
Property, plant equipment in	000, HRK	9,921	232		(114)	t	9	10,039		3	t	ı		I	\$	1		10,039	9,921
and ings	EUR 000	11,019	œ		•	\$	(121)	10,906		2,499	416	ı	1	1961	(nc)	2,879		8,027	8,520
Land and buildings	Н <b>КК</b> 000	80,484	61		1	ł	1	80,545		18,232	3,032	r	ſ		f	21,264		59,281	62,252
	COST OR VALUATION	31 December 2009	Additions Transfers from property,	plant and equipment in	progress	Lusposais	FX differences	31 December 2010	ACCUMULATED DEPRECIATION	31 December 2009	Charge for the year	Disposals	Correction of accumulated depreciation	Ex differences		31 December 2010	NET BOOK VALUE	31 December 2010	31 December 2009

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

Croatia Airlines d.d. and its subsidiaries

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For the year ended 31 December 2011

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

At 31 December 2011

	Land and buildings	Land and buildings	Property, plant and equipment in	, plant ment in	Equipment and other	nt and :r	Aircraft	aft	Spare parts, GSE and tools	rts, GSE ools	Total	ä
COST OR VALUATION	НRK 000	EUR 000	000, XXH	ess EUR 000,	900, 000,	EUR 000	000, 1	800°	НRК 000,	900 200	НКК 000,	2000, 2013
<b>31 December 2010</b> Additions Transfers from property, plant	80,545 -	10,906	<b>10,039</b> 1,292	<b>1,359</b> 172	<b>53,366</b> 3,457	<b>7,226</b> 459	<b>2,115,581</b> 25,103	<b>286,463</b> 3,334	<b>137,491</b> 8,206	<b>18,617</b> 1,090	<b>2,397,022</b> 38,058	<b>324,571</b> 5,055
and equipment in progress	ł	,	(188)	(25)	I	,	1	ŝ	188	25	J	ł
Ex differences	1 f	(210)	F F	, (26)	(1,275)	(169) (140)	(83,545) -	(11.094) (5.526)	(6,725)	(893) (360)	(91,545)	(12,156)
31 December 2011	80,545	10,696	11,143	1,480	55,548	7,376	2,057,139	273,177	139,160	18,480	2.343.535	311.209
ACCUMULATED DEPRECIATION												
31 December 2010	21,264	2,879	·	,	34,333	4,648	1,061,443	143.726	49.342	6 681	1 166 207	100 Kas
Charge for the year Disposals	3,034	408	F	ı	3,729	502	122,166	16,433	7,100	955	136,029	18,298
Correction of accumulated	ſ	ł	I	,	(1,043)	(140)	(83,545)	(11,238)	(1,593)	(214)	(86,181)	(11,592)
depreciation	1	1	1	¢	4	<b>t</b>	1	ı	219	29	223	30
	1	(00)	-	*	Γ	(96)	,	(2,837)	,	(138)	, r   	(3 121)
31 December 2011	24,298	3,227	ž	'	37,023	4,915	1,100,064	146,084	55.068	7.313	1 216 453	161 530
NET BOOK VALUE												2225121
	56,247	7,469	11,143	1,480	18,525	2,461	957,075	127,094	84,092	11,167	1,127,082	149.670
31 December 2010	59,281	8,027	10,039	1,359	19,033	2,578	1,054,138	142,737	88,149	11,936	1,230,640	166,637
Aircrafts are carried under the reveluation model. Not hook while of the circular of the	terrahan et	ion model	Not book up	لا بند عد فلت				:				

Aircrafts are carried under the revaluation model, Net book value of the aircrafts as at 31 December 2011 was in the amount of HRK 957,075 thousand, in EUR 127,094 thousand (2010: HRK 1,054,138 thousand, in EUR 142,737 thousand),

Croatia Airlines d.d. and its subsidiaries

For the year ended 31 December 2011

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

### At 31 December 2010

	Land and buildings	Land and buildings	Property, plant and equipment in	olant and ent in	Equipn ot	Equipment and other	Air	Aircraft	Spare r and	Spare parts, GSE and tools	·	Total
COST OR VALUATION	HRK 000,	000, EUR	HRK EL HRK EL 000,	EUR 600	ИКК 000,	900, 1	000, HRK	000, EUR	000, HRK	EUR 000	НRК 000	800, 2000,
<b>31 December 2009</b> Additions Transfers from property, plant	<b>80,484</b> 61	<b>11,019</b> 8	<b>9,921</b> 232	<b>1,357</b> 31	<b>40,802</b> 14,714	<b>5,576</b> 1,993	<b>2,158,465</b> 35,080	<b>295,401</b> 4,750	<b>133,926</b> 11,135	<b>18,344</b> 1,508	<b>2,423,598</b> 61,222	<b>331,697</b> 8,290
and equipment in progress	ı	i	(114)	(15)	ſ	ı	114	15	\$	ı	ı	,
Disposals Fx differences	r F	(121)	1 1	. (14)	(2,150) -	(291) (52)	(78.078) -	(10,572) (3 131)	(7,570)	(1,025) (210)	(87,798)	(11,888) /2 528)
31 December 2010	80,545	10,906	10,039	1,359	53,366	7,226	2,115,581	286,463	137,491	18,617	2.397.022	324.571
ACCUMULATED DEPRECIATION												
31 December 2009	18,232	2,498	r	,	33,463	4,571	1.007.237	137,832	45 213	6 203	4 404 445	202 484
Charge for the year	3,032	416	I	ı	3,094	425	132,285	18, 157	7,008	962	145,419	19,960
Uisposais Correction of accumulated	I	1	r	•	(2,218)	(304)	(78,079)	(10,717)	(2,971)	(408)	(83,268)	(11,429)
depreciation	1	r	r	r	(9)	(1)	\$	4	92	13	ű	С Т
Fx differences	f	(35)	ſ	s	ş	(43)	J	(1.546)		(RR)	3	15 710)
31 December 2010	21,264	2,879	T		34,333	4,648	1,061,443	143,726	49,342	6,681	1.166.382	157.934
NET BOOK VALUE 31 December 2010	59,281	8,027	10.039	1.359	19.033	2.578	1 NEA 428	140 797	077 00			
31 December 2009	62,252	8,521	9,921	1,357	7,339	1,005	1,151,228	157,569	00, 145 88.713	12.142	1,230,040	100,03/ 180 594
											20162.267	

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

Croatia Airlines d.d. and its subsidiaries

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

The Airbus and ATR 42 spare parts are stated at cost and depreciated over the estimated useful life of the aircraft to which they refer. Ground Service Equipment ("GSE") and tools are stated at cost and depreciated over 16,6 years.

The cost of "12-year check" is amortized at rate of 8,33% (2010 - 8,33%) and "6-year check" is amortized at rate of 16,67% (2010 - 16,67%).

The Company held under operating lease one Airbus 320 and six Dash 8-Q400. Airbus 320 was rented in December 2008 until December 2013. The monthly lease payment is USD 206 thousand. For Dash 8-Q400 Company has taken obligation of average monthly lease payment per aircraft in the amount of EUR 131 thousand.

Overhaul expenses on aircraft are accrued up to the point of maintenance.

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

### Fleet at 31 December 2011

For the year ended 31 December 2011

		201	11	201	10	201	11	201	10	
Name of the company	Main activity	Croa Airlii Gro	nes	Croa Airli Gro	nes	Croa Airline		Croa Airline		%
		HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
Obzor putovanja d.o.o.	Tourism		-		•	1,020	133	1,020	133	100
Amadeus Croatia d,d,	Marketing services	-	**	~	-	190	25	190	25	95
Pleso prijevoz d.o.o.	Passenger transport	5,050	695	4,744	639	3,900	524	3,900	524	50
		5,050	695	4,744	639	5,110	682	5,110	682	

### 13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

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

### 14. DEPOSITS

	201	1	201	0	201	i	201	0
	Croatia A Grou		Croatia A Grou		Croatia A d.d.		Croatia A d.d	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deposits in PBZ and ZABA for Ioans of employees	6,220	826	6,797	920	6,220	826	6,797	920
Other deposits	752	100	760	103	714	95	721	98
	6,972	926	7,557	1,023	6,934	921	7,518	1,018

Interest rates on the long-term deposits for specified purpose loans in PBZ are 0,75% and in ZABA is 0%,

For the year ended 31 December 2011

### 15. AVAILABLE FOR SALE INVESTMENTS

	Share	Croatia Airlines d.d Group	. and the	Croatia Airlines d.d Group	l. and the
		2011		2010	
		HRK '000	EUR '000	HRK '000	EUR '000
Hrvatska poštanska banka	0,26 %	1,703	229	1,703	229

### 16. NON-CURRENT RECEIVABLES

	20	11	201	0	20 <sup>-</sup>	11	201	0
	Croatia Gro		Croatia / Gro		Croatia / d.c		Croatia A d.d	
	HRK 1000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Long-term deposits	37,594	4,992	21,894	2,965	37,594	4,992	21,894	2,965
Long-term advances	44,020	5,846	42,116	5,702	44,020	5,846	42,116	5,702
Receivables for sold flats	709	94	783	106	709	94	783	106
Loans to employees for training	×	-	4	1	-	•	4	1
Long-term receivables for housing	500	66	503	68	500	66	503	68
	82,823	10,998	65,300	8,842	82,823	10,998	65,300	8,842

The amount of HRK 23,254 thousand, in the EUR 3,088 thousand (2010: HRK 8,168 thousand, EUR 1,106 thousand) represents a deposit with Lufthansa Technik for repairs and maintenance of Airbus aircraft. The amount of the deposit has been paid to Lufthansa Technik on a monthly basis since 1998. In 2011. interest income recorded by the Company in respect of the deposit amounted EUR 53 thousand (HRK 398 thousand); (2010: HRK 393 thousand, EUR 54 thousand) and USD 21 (HRK 119 thousand), based on the interest calculation received from Lufthansa Technik at an annual interest rate of 3.5%.

The amount of HRK 44,020 thousand, EUR 5,846 thousand (2010: HRK 42,116 thousand, EUR 5,702 thousand), refers to advance payment to Airbus Industrie for purchase of four new aircraft type A319 which should be delivered in years 2015 and 2016 according to Airbus Industrie sales proposal and anex signed between Croatia Airlines and Airbus Industrie.

### 16. NON-CURRENT RECEIVABLES (CONTINUED)

Long-term receivables for housing in the amount of HRK 709 thousand, EUR 94 thousand (in 2010: HRK 783 thousand, EUR 106 thousand) relate to 32 flats sold to the employees of the Company. The due dates range from 16 to 30 years with an annual interest of 1% according to the Law on Sale of Publicly Owned Flats with Tenancy Rights (National Gazette 43/92).

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

### 17. INVENTORIES

	Croatia Air and the			
	201	1	Croatia Air and the 201 HRK '000 31,738 6,384 38,122	10
	HRK '000	EUR '000		EUR '000
Spare parts	37,166	4,935	31,738	4,298
Catering, supplies and other	6,666	885	and the 20 HRK '000 31,738 6,384	864
	43,832	5,820		5,162

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

### 18. OTHER FINANCIAL ASSETS

	20 <sup>-</sup>	11	20	)10	20	011	20	010
	Croatia A Grou		Croatia A Grou		Croatia A d.d.		Croatia A d.d. HRK '000 1,817 245	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000		EUR '000
Deposits and loans receivable	3,622	481	1,817	246	3,622	481	1,817	246
Cheques	83	12	245	33	5	1	245	33
-	3,705	493	2,062	279	3,627	482	2,062	279

For the year ended 31 December 2011

### 18, OTHER FINANCIAL ASSETS (CONTINUED)

Deposits at 31 December 2011 are as follows:

Financial institution	Annual interest rate	In thousands of original currency	Currency	2011	2011	2010	2010
Deposits:				HRK '000	EUR '000	HRK '000	EUR '000
Dresdner Bank A,G,	1,00	75	EUR	566	75	555	75
ARC US	-	166	USD	967	128	732	99
US Bank	-	110	USD	639	85	-	***
Other	-	-	Various	1,450	193	530	72
Balance as at 31 December Croatia Airlines d,d,			*****	3,622	481	1,817	246

The amount of HRK 566 thousand (75 thousand EUR) is short-term deposit at Dresdner Bank paid for Bank guarantees issued to Company's suppliers.

The amounts presented in the table above represent the fair value of the financial asset as at 31 December 2011 and 31 December 2010.

### 19. ACCOUNTS RECEIVABLE

	20	11	20	10	20	11	201	0
	Croatia Gro		Croatia . Gro		Croatia d.		Croatia A d.d	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Domestic accounts receivable	41,292	5,483	37,059	5,018	39,532	5,250	34,850	4,719
Foreign accounts receivable	56,597	7,516	44,239	5,990	55,555	7,377	43,238	5,854
Allowance for doubtful receivables	(9,029)	(1,199)	(6,649)	(900)	(8,739)	(1,160)	(6,361)	(861)
	88,860	11,800	74,649	10,108	86,348	11,467	71,727	9,712

For the year ended 31 December 2011

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### 19. ACCOUNTS RECEIVABLE (CONTINUED)

Tables below present changes in allowance for doubtful receivables in years 2011 and 2010:

	2011		2011	
	Croatia Airline	s Group	Croatia Airli	nes d.d.
Allowance for doubtful receivables	HRK '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2011	6,649	900	6,361	861
Increase	2,939	390	2,939	390
Decrease	(370)	(49)	(370)	(49)
Bad debts write-off	(379)	(50)	(379)	(50)
Exchange differences	190	8	188	8
Balance at 31 December 2011	9,029	1,199	8,739	1,160

	2	2010	2010		
	Croatia Ai	rlines Group	Croatia Airlines d.d.		
Allowance for doubtful receivables	HRK '000	EUR '000	HRK '000	EUR '000	
Balance at 1 January 2010	6,507	891	6,187	847	
Increase	4,811	651	4,811	651	
Decrease	(41)	(6)	(9)	(1)	
Bad debts write-off	(4,846)	(656)	(4,846)	(656)	
Exchange differences	218	20	218	20	
Balance at 31 December 2010	6,649	900	6,361	861	

### 20. OTHER RECEIVABLES

	2011		201	2010		11	201	0	
	Croatia Gro		Croatia Airlines Group			Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
VAT receivable net	167	22	2,431	329	18	2	2,332	316	
Receivables from employees	311	41	304	41	284	38	287	39	
Receivables from the State	75,166	9,982	42,442	5,747	75,047	9,966	42,324	5,731	
Dividends and profit share receivable	~	×	_		289	38	248	34	
Receivables for advances	8,147	1,083	8,215	1,113	8,136	1,080	8,184	1,108	
Short-term loans receivables		1_	165	22	4	1	165	22_	
-	83,795	11,129	53,557	7,252	83,778	11,125	53,540	7,250	

### 21. CASH AND CASH EQUIVALENTS

	2011 Croatia Airlines Group		20 <sup>4</sup>	2010		2011		10
			Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Short-term deposits	7,579	1,006	28,205	3,819	7,579	1,006	28,205	3,819
Gyro account	3,702	492	7,550	1,022	1,970	262	6,472	876
Foreign currency accounts	13,950	1,854	17,484	2,368	12,479	1,657	16,488	2,233
Foreign currency petty cash	83	11	184	25	83	11	184	25
Petty cash	41	5	50	7	32	4	13	2
	25,355	3,368	53,473	7,241	22,143	2,940	51,362	6,955

### 22. PREPAID EXPENSES

	2011		201	2010 Croatia Airlines Group		2011 Croatia Airlines d.d.		2010 Croatia Airlines d.d.	
		Croatia Airlines Group							
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
Prepaid expenses	25,054	3,327	23,296	3,154	24,995	3,319	23,230	3,145	
Accrued income	8,548	1,134	13,711	1,857	8,547	1,135	13,711	1,857	
	33,602	4,461	37,007	5,011	33,542	4,454	36,941	5,002	

Prepaid expenses include amounts for: pilot training expenses in the amount of HRK 1,421 thousand, in EUR 189 thousand (2010: HRK 2,618 thousand, EUR 354 thousand), loan refinancing cost in the amount of HRK 5,412 thousand, in EUR 719 thousand (2010: HRK 7,338 thousand, EUR 994 thousand), and prepaid expenses to suppliers in the amount of HRK 18,162 thousand, in EUR 2,411 thousand (2010: HRK 13,274 thousand, EUR 1,797 thousand).

### 23. ISSUED CAPITAL

During 2011 and 2010 there were no changes in paid-in issued capital and it amounted to HRK 989,975 thousand (EUR 131,150 thousand).

As at 31 December 2011 and 2010 the ownership structure of the Company was as follows:

Shareholder	Number of shares	%	31 December (HRK '000)
Government Asset Management Agency (GAMA) for Republic of Croatia	4,762,943	96.22	952,588
Government Asset Management Agency (GAMA) for State Agency for Deposit Insurance and Bank Rehabilitation	110,584	2.16	21,315
Others	101,949	1.62	16,072
	4,975,476	100,00	989,975

### 23,1, Subsidiary Obzor putovanja d.o.o., Zagreb

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

### 23.2. Subsidiary Amadeus Croatia d.d., Zagreb

The share capital of the subsidiary Amadeus Croatia d.d., Zagreb consists of 100 ordinary shares, with a nominal value of HRK 2,000 per share. The ownership of Amadeus Croatia d.d., Zagreb as at 31 December 2011 and 2010 was as follows:

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

During 2004, the subscribed capital of Amadeus Croatia d,d,, was increased by HRK 90 thousand (EUR 12 thousand) of which is HRK 85,5 thousand (EUR 11 thousand) in favour of Croatia Airlines and HRK 4,5 thousand (EUR 0,6 thousand) in favour of Amadeus Marketing, Madrid.

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

### 24. CAPITAL RESERVES

Revaluation reserves amounting to HRK 88,116 thousand (EUR 11,701 thousand) (2010: HRK 100,864 thousand, EUR 13,658 thousand) were formed by the revaluation of aircraft and engines.

Legal reserve in the amount of HRK 931 thousand (EUR 135 thousand) (2010: HRK 931 thousand. EUR 135 thousand) may be used for covering of losses if the losses are not covered from the net income for the year. or if other reserves are not available.

Amadeus Croatia has reserves in the amount as follows: legal reserve HRK 10 thousand, EUR 1,4 thousand (2010: HRK 10 thousand, EUR 1,4 thousand) and other reserves HRK 100 thousand (EUR 14 thousand) (2010: HRK 100 thousand, EUR 14 thousand).

Obzor putovanja has other reserves in the amount of HRK 716 thousand (EUR 96 thousand) (2010: HRK 716 thousand, EUR 96 thousand).

### 25. BASIC AND DILUTED LOSS PER SHARE

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

	Croatia Airlin	nes Group	Croatia Airlines Group 2010	
	201	1		
	HRK '000	EUR '000	HRK '000	EUR '000
Net loss for the year	(74,597)	(10,035)	(156,236)	(21,445)
Number of shares issued	4,975	4,975	4,975	4,975
Basic and diluted loss per share in HRK/EUR	(14,99)	(2,02)	(31,40)	(4,31)

The management of the Company proposed that the loss for the year 2010 will be covered out of future profit, Earnings per share have been calculated under weighted average method. Number of shares at nominal value HRK 100 are 51,197 and number of shares at nominal value HRK 200 are 4,924,279.

### 26, LONG-TERM LOANS

	Croatia Airlines d.d. and the Group		Croatia Air and the	Group
	2011 HRK EUR '000 '000		20* HRK '000	EUR '000
Long-term loans	574,629	76,308	724,315	98,077
Current portion of long-term loans	(166,944)	(22,169)	(160,769)	(21,769)
	407,685	54,139	563,546	76,308

Description of long-term loans is as follows:

Financial institution	Original currency	Loan amount in original currency	Annual interest rate	Due date	2011	2011	2010	2010
		(in 000)	%		HRK '000	EUR	HRK	EUR
סוס		(11 000)	6m	<b>F</b>	000	'000'	000	<b>'000</b> '
BLB Tranche A	EUR	135,000	EURIBOR +0,5	Dec 2014	469,203	62,308	613,537	83,077
			3m EURIBOR					
PBZ			+6,5	Oct				
2009	EUR	15,000	(min,8% )	2017	105,426	14,000	110,778	15,000
					574,629	76,308	724,315	98,077
Current po	rtion				(166,944)	(22,169)	(160,769)	(21,769)
Long-term	portion				407,685	54,139	563,546	76,308

In the above amounts HRK 469,203 thousand, EUR 62.308 thousand are under guarantee of Government of Croatia (in 2010 HRK 613,537 thousand, EUR 83,077 thousand).

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

	HRK '000	EUR '000
2012	166,944	22,169
2013	169,956	22,569
2014	172,968	22,969
2015	19,579	2,600
after 2015	45,182	6,001
Total	574,629	76,308

### 27. OBLIGATIONS UNDER FINANCE LEASES

	Croatia Airlines the Grou 2011		Croatia Airlines d.d. and the Group 2010		
	HRK '000	EUR '000	HRK '000	EUR '000	
Long-term leases	87	12	~	**	
Current portion of long-term leases	(17)	(2)	•	<b></b>	
	70	10	101 2011		

Description of the long-term leases is as follows:

Financial institution	Original currency	Loan amoun t	Annual interest rate	Due date	2011	2011	2010	2010
		(in 000)	%		HRK '000	EUR '000	HRK '000	EUR '000
ASA Leasing	EUR	14	8	June 2016	87	12		-
Total					87	12	44 	
Current portion Long- term					(17)	(2)	<u> </u>	
portion					70	10	44 2010-1210-1210-1210-1210-1210-1210-1210	5

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

	HRK '000	EUR '000
2012	17	2
2013	18	2
2014	20	3
2015	21	3
after 2015	11	2
Total		12

### 28. PROVISIONS

Croatia Airlines d.d. and Group	Legal claims			
	HRK	EUR		
	<b>'000</b> '	<b>'000</b> '		
At 31 December 2009	3,100	424		
Charge for the year	23	3		
Provisions utilised during the year	(2,265)	(307)		
Fx differences	<b>~</b>	(5)		
At 31 December 2010	858	116		
Charge for the year	924	123		
Provisions utilised during the year	(664)	(88)		
Fx differences		(3)		
At 31 December 2011	1,118	148		

Litigation of HRK 1,118 thousand, in EUR 148 thousand (2010: HRK 858 thousand, EUR 116 thousand) relates to a dispute with former employees of JAT and Croatia Airlines.

### 29. LONG-TERM LIABILITIES TOWARDS STATE

	2011 Croatia Airlines d.d.		2010 Croatia Airlines d.d.	
	tisuće kuna	tisuće eura	tisuće kuna	tisuće eura
Long-term liabilities towards State	447,508	59,426	274,016	37,103
	447,508	59,426	274,016	37,103

The amount of HRK 447,508 thousand, EUR 59,426 thousand (2010: HRK 274,016 thousand; EUR 37,103 thousand) represents interest free long-term liabilities of Company to the Croatian Governant based on realised guarantees for long-term loans related to the financing the fleet.

### 30. ACCOUNTS PAYABLES

	2011 Croatia Airlines Group		2010 Croatia Airlines Group		2011 Croatia Airlines d.d.		2010 Croatia Airlines d.d.	
	HRK	< EUR	HRK	EUR	HRK	EUR	HRK	EUR
	<b>'000</b> '	'000	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '
Domestic trade accounts payables	155,988	20,714	134,397	18,198	154,811	20,556	133,091	18,022
Foreign trade accounts payables	77,817	10,334	87,235	11,812	77,103	10,239	86,828	11,757
	233,805	31,048	221,632	30,010	231,914	30,795	219,919	29,779

### 31. OTHER CURRENT LIABILITIES

	20	11	20	10	201	11	20 <sup>-</sup>	10
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '
Air traffic liabilities	117,757	15,638	130,599	17,684	117,757	15,638	130,599	17,684
Deposits and advances								
received	13,418	1,782	6,251	846	13,416	1,782	6,151	833
Salaries	20,014	2,658	19,577	2,651	19,768	2,625	19,314	2,615
Other current liabilities	19,694	2,616	20,193	2,735	19,482	2,587	20,147	2,728
	170,883	22,694	176,620	23,916	170,423	22,632		23,860

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

Notes to the consolidated and separate financial statements (continued) For the year ended 31 December 2011

### 32. ACCRUED EXPENSES AND DEFERRED INCOME

	201	1	201	0	201	1	201	0
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	<b>'000'</b>	<b>'000'</b>	<b>'000</b> '	<b>'000</b> '	<b>'000'</b>	<b>'000</b> '	<b>'000'</b>	<b>'000</b> '
Deferred income	7,515	998	8,722	1,181	7,515	998	8,722	1,181
Accrued expenses	(37)	(5)	3,187	432	(660)	(89)	2,734	370
	7,478	993	11,909	1,613	6,855	909	11,456	1,551

Deferred income in the amount of HRK 7,515 thousand, EUR 998 thousand (2010: HRK 8,722 thousand, EUR 1,181 thousand) represents income from tangible assets received from aircraft and engine manufacturers free of charge, which are depreciated over the useful life of the related aircraft. The value of the spare parts and spare engine received free of charge in connection with the purchase of the Airbus fleet is included in deferred income and credited to income on a straight-line basis over the estimated useful life of the related aircraft.

Croatia Airlines d.d. and its subsidiaries

### 33. COMMITMENTS AND CONTINGENT LIABILITIES

In order to maintain regular business activities the Group uses business premises on several locations. The Group also has assets under the operating leasing as follows: IT equipment, vehicles, aircraft Airbus A320 and Q400 and spare engine for aircraft, Total monthly amount for rent and lease obligation is HRK 9,321 thousand (EUR 1,254 thousand).

In June 2007 Company signed Aircraft Lease Agreement for four aircraft DASH 8-Q400 which will be taken in operating lease for the period of 10 years. Two of them were delivered in May and July 2008, and two of others were delivered in June 2009. In September 2008 Company signed additional Lease Agreement for two aircraft DASH 8-Q400 which is delivered in March and April 2010. By these Agreements Company has taken monthly lease payment average obligation per aircraft in the amount of EUR 131 thousand.

### 34. EMPLOYEES

Croatia Airlines d.d.	2011	2010
Pilots and co-pilots	144	147
Cabin attendants	192	185
Maintenance and overhaul	258	256
Ticket, sales and promotion	282	220
Airport handling	67	102
Other staff	158	207
	1,101	1,117
Croatia Airlines d.d. subsidiaries		
Amadeus Croatia d.d., Zagreb	8	8
Obzor Putovanja d.o.o., Zagreb		13

1,138

1,121

For the year ended 31 December 2011

### 35. RELATED PARTY TRANSACTIONS

Croatia Airlines Group does not have any other related parties except those named below. Related parties of Croatia Airlines d.d. are as follows:

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

Transactions with related parties are as follows:

	2011	2010	2011	2010
	HRK	HRK	EUR	EUR
	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '
Revenue				
Obzor putovanja d.o.o.	5,099	4,600	686	631
Amadeus Croatia d.d.	168	144	23	20
Pleso prijevoz d.o.o. (associate)	272	286	37	39
Total revenue	5,537	5,030	745	690
Expenses				
Obzor putovanja d.o.o.	-	5	**	1
Amadeus Croatia d.d.	-	5	~	1
Pleso prijevoz d.o.o. (associate)	5,314	4,999	715	686
Total expenses	5,314	5,009	715	688
	2011	2010	2011	2010
	HRK	HRK	EUR	EUR
	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '
Receivables				
Obzor putovanja d.o.o.	11	45	1	6
Amadeus Croatia d.d.	333	292	44	40
Pleso prijevoz d.o.o. (associate)	45	39	6	5
Total receivables	389	376	52	51
Liabilities				
Obzor putovanja d.o.o.	-	2	-	-
Amadeus Croatia d.d.	-	*	-	~
Pleso prijevoz d.o.o. (associate)	1,915	2,423	254	328
Total liabilities	1,915	2,425	254	328

### 36. RISK MANAGEMENT

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

	20 <sup>-</sup>	11	201	0	201	1	201	0	
		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	
	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	<b>'000</b> '	
Debt	616,314	81,843	757,609	102,585	616,273	81,838	757,609	102,585	
Cash and cash equivalents	(25,355)	(3,368)	(53,473)	(7,241)	(22,143)	(2,940)	(51,362)	(6,955)	
Net debt	590,959	78,475	704,136	95,344	594,130	78,898	706,247	95,630	
Equity	46,134	6,153	143,673	19,449	42,312	5,627	140,596	19,027	
Net debt to equity ratio	1,281%	1,275%	490%	490%	1,404%	1,402%	502%	503%	

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

### Interest rate risk

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

The Company is exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in notes 26 and 27. The interest rate on bank deposits is disclosed in Note 14. In case that the interest rate was higher for 0.5%, in relation to current market interest rate, the effect of HRK 110 thousand (EUR 15 thousand) would debit income statement and, contrary, in case that the interest rate was lower for 0.5% the effect of HRK 110 thousand (EUR 15 thousand) would credit income statement for the period ended 31 December 2011.

### 36. RISK MANAGEMENT (CONTINUED)

### Foreign exchange risk

The Company is exposed to the following foreign exchange risks:

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

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

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

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

HRK 000	Currency impact EUR		
	2011	2010	
Profit / Loss	3,043	3,788	

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

HRK 000	Currency im	pact EUR	Currency impact USD		
	2011	2010	2011	2010	
Profit / Loss	2,208	2,137	1,658	1,396	

### 36. **RISK MANAGEMENT (CONTINUED)**

### Credit risk

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

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

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

### Price Risk

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

In case that the fuel price was higher for 0.5%. in relation to current market price, the effect of HRK 1,682 thousand (EUR 226 thousand) would debit profit and loss account and, contrary, in case that the fuel price was lower for 0,5% the effect of HRK 1,682 thousand (EUR 226 thousand) would credit profit and loss account for the year 2011.

### Liquidity risk

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

### Hedging implemented at the Company

Business risk management is necessary in order to preserve the value of a Company in such unstable business environment and requires the application of appropriate financial instruments and methods. A significant business risk of Croatia Airlines in the past few years has been the permanent increase in oil, i.e. fuel prices. In addition, the Company is exposed to conditions prevailing on international markets, as its funds procures 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).

Notes to the consolidated and separate financial statements (continued) For the year ended 31 December 2011

### 36. RISK MANAGEMENT (CONTINUED)

### Hedging implemented at the Company (continued)

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

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

As regards to the loan balance as at 31 December 2008, the application of cash flows hedge until full repayment has been maintained, given that these loans mature within a year (London Club).

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

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

The Group also documents is 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.

For the year ended 31 December 2011

### 36. RISK MANAGEMENT (CONTINUED)

### 36.1. Liquidity risk tables

The following table details the Company's expected maturity for its non-derivative financial assets and liabilities for the years ended 31 December 2011 and 2010. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31 December 2011	Maturity										
	Total		Less than 6 months		6 months to 1 year		ar	1-2 years		2 + years	
Assets	HRK '000	EUR '000	HRK '000	EUR '000	HR '00				HRK '000	EUR '000	
Long term financial asset Long-term	6,813	904			•		•			6,813	904
deposits Long-term	6,933	921	-		-	~		**		6,933	921
receivables Short - term	82,823	10,999	7,723		1,025	5,261	699	109	15	69,730	9,260
deposit Current financial	11,200	1,487	7,578		1,006	3,622	481	.,	-		-
assets Trade receivables and other	4	1	4		1	Ľ	-	~	-	~	·
receivables	203,667	27,046	168,825	22	2,419	34,842	4,627		-	-	
Total	311,440	41,358	184,130	24	,451	43,725	5,807	109	15	83,476	11,085
Liabilities Short-term			<u></u>	****	*********************		***************************************				
leasing Short-term	237	32	127		17	110	15	•		-	~
loans Long-term	208,280	27,658	83,565	11,0	97	124,715	16,561	~	in.	~	
loans Trade payables and	407,756	54,148	44		÷	•.	*	342,819	45,525	64,937	8,623
other liabilities	857,815	113,913	248,827	33,0	43 (	600,845	79,789	1,207	160	6,936	921
Total	1,474,088	195,751	332,519	44,1		725,670	96,365	344,026	45,685	71,873	9,544

For the year ended 31 December 2011

### 36. RISK MANAGEMENT (CONTINUED)

### 36.1. Liquidity risk tables (continued)

31 December 2010	Maturity									
	Total		Less than 6 months		6 months to 1 year		1-2 years		2 + years	
Assets	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Long term financial asset Long-term	6,813	923	***	•		s.			6,813	923
deposits Long-term	7,518	1,018	6 <b>1</b>			~	-	-	7,518	1,018
receivables Short - term	65,300	8,842	5,024	680	3,442	466	100	13	56,734	7,683
deposit Current financial	30,022	4,065	28,205	3,819	1,817	246	-	-	-	~
assets Trade receivables and other	244	33	244	33	~	-	ĸ	*	×	-
receivables	162,063	21,944	122,535	16,592	39,528	5,352			-	
Total	271,960	36,825	156,008	21.124	44,787	6,064	100	13	71,065	9,624
Liabilities Short-term		*********								0,024
leasing Short-term	61	8	31	4	30	4	~	~	-	-
loans Long-term	194,002	26,269	80,322	10,876	113,680	15,393	'n	*	٦	•
oans Trade Dayables and	563,546	76,308	-	-	-	**	163,724	22,170	399,822	54,138
other liabilities	682,314	92,390	239,888	32,481	434,053	58,776	1,207	163	7,166	970
Total	1,439,923	194,975	320,241	43,361	547,763	74,173	164,931	22,333	406,988	55,108

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

### 37. OPERATING LEASES

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

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

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

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

As at 31 December 2011 the Company had 7 airplanes, 2 buildings and 44 cars under the operating lease. The future aggregate minimum lease payments are as follows:

	HRK	EUR '000	
	000		
	2011	2011	
No later than one year	110,713	14,702	
Later than one year and no later than five years	389,649	51,743	
Later than five years	294,108	39,056	
	794,471	105,502	

### 38. DIRECTORS' AND EXECUTIVES' REMUNERATION

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

	HRK '000 2011	EUR '000 2011	HRK '000 2010	EUR '000 2010
Gross salaries	15,123	2,034	13,341	1,831
Gross benefits in kind	739	99	1,329	182
	15,862	2,133	14,670	2,013

The remuneration of directors and other member of key management included remuneration for 31 employees. Due to reorganisation during 2011, the number of directors and key management staff accounted 18 members in 2011 and 26 in 2010.

### 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorised for issue on 31 March 2012.

Signed for and on behalf of the Company on 31 March 2012.

Srećko Šimunović

**President and CEO** 

**Jasmin Bajić Director Finance and Controlling** 

Croatia Airlines d.d. and its subsidiaries