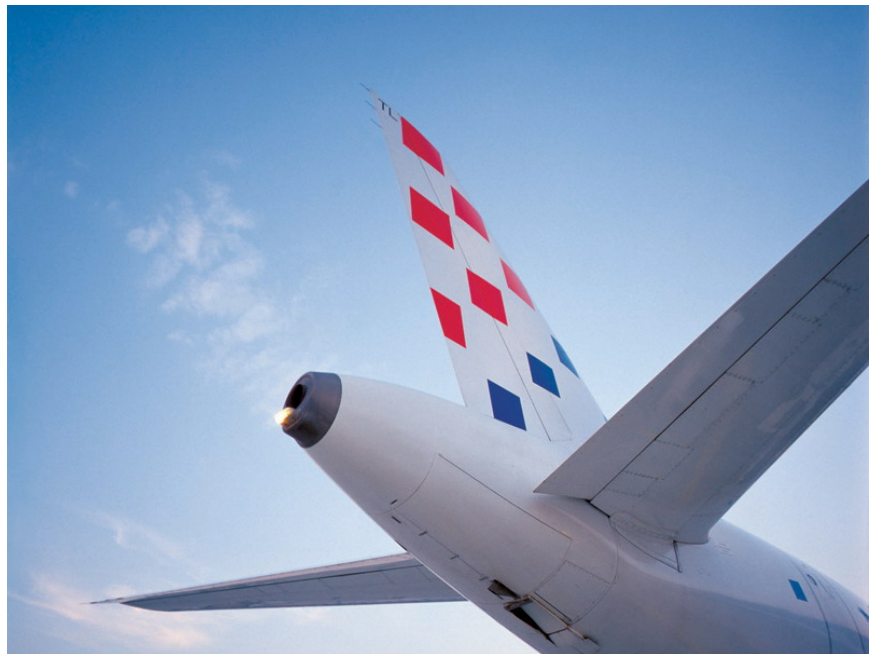


Consolidated and Separate Annual Reports for the year ended 31.12.2012.



April 2013



Table of Contents

Financial Statements (revised)	3
Consolidated Croatia Airlines Income Statement.....	3
Croatia Airlines d.d. Income Statement.....	4
Consolidated Croatia Airlines Balance Sheet.....	5
Croatia Airlines d.d. Balance Sheet.....	6
Consolidated Croatia Airlines Cash Flow Statement.....	7
Croatia Airlines d.d. Cash Flow Statement.....	8
Consolidated Croatia Airlines Statement of Changes in Equity.....	9
Croatia Airlines d.d. Statement of Changes in Equity.....	10
Declaration	11
2012 Annual Management Board Corporate Report	12
Consolidated and Separate Financial Statements for the year 2012 with Independent Auditor's Report	55

Consolidated Croatia Airlines Income Statement

amounts in Croatian kuna

Position	Previous period		Current period	
	1 Jan-31	Dec 2011	1 Jan-31	Dec 2012
I. OPERATING INCOME	1.599.070.680		1.693.145.038	
1. Sales revenue	1.426.681.143		1.537.851.271	
3. Other operating income	172.389.537		155.293.767	
II. OPERATING EXPENSES	1.642.902.925		2.091.318.669	
2. Changes in inventories of finished products and work in progress	0		0	
3. Material costs	1.159.669.827		1.244.722.964	
4. Staff costs	243.456.519		253.081.759	
5. Depreciation and amortization	140.226.197		130.345.601	
6. Other expenses	81.313.673		92.746.311	
7. Impairment	2.932.130		301.749.818	
8. Provisions	924.061		53.969.080	
9. Other operating expenses	14.380.518		14.703.136	
III. FINANCIAL INCOME	164.191.045		92.545.392	
1. Interest and exchange gains, dividends and similar income from related companies	202.207		563.966	
2. Interest and exchange gains, dividends and similar income from other entrepreneurs	163.566.967		91.902.089	
3. The income from associated undertakings and participating interests	0		0	
4. Unrealized gains (revenues)	0		0	
5. Other financial income	421.871		79.337	
IV. FINANCIAL EXPENSES	233.210.636		182.027.222	
1. Interest and exchange losses and other expenses with related companies	0		0	
2. Interest and exchange losses and other expenses related to other entrepreneurs	233.210.636		182.027.222	
3. Unrealized losses (expense) of financial assets	0		0	
4. Other financial expenses	0		0	
V. EXTRAORDINARY - OTHER INCOME	0		0	
VI. EXTRAORDINARY - OTHER EXPENSES	0		0	
VII. TOTAL INCOME	1.763.261.725		1.785.690.430	
VIII. TOTAL EXPENSE	1.876.113.561		2.273.345.891	
IX. PROFIT BEFORE TAX	0		0	
X. LOSS BEFORE TAXATION	112.851.836		487.655.461	
XI. INCOME TAX	274.294		188.169	
XII. PROFIT FOR THE YEAR	0		0	
XIII. LOSS FOR THE YEAR	113.126.130		487.843.630	
APPENDIX				
XIV. PROFIT / LOSS FOR THE YEAR				
1. Attributable to Shareholders of the Parent	-113.126.130		-487.843.630	
2. Attributable to minority interests	0		0	
CONSOLIDATED CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME				
PROFIT / LOSS FOR THE YEAR	-113.126.130		-487.843.630	
Hedging reserves	-9.991.626		2.883.721	
TOTAL COMPREHENSIVE PROFIT / LOSS FOR THE YEAR	-123.117.756		-484.959.909	

Croatia Airlines d.d. Income Statement

Position	amounts in Croatian kuna	
	Previous period 1 Jan-31 Dec 2011	Current period 1 Jan-31 Dec 2012
I. OPERATING INCOME	1.588.242.209	1.683.048.160
1. Sales revenue	1.416.107.742	1.527.655.536
3. Other operating income	172.134.467	155.392.624
II. OPERATING EXPENSES	1.632.888.097	2.081.696.275
1. Change in inventories of finished products and work in progress	0	0
3. Material costs	1.154.045.920	1.241.604.376
4. Staff costs	240.280.664	249.933.190
5. Depreciation and amortization	140.074.190	130.215.488
6. Other expenses	80.890.955	89.776.034
7. Impairment	2.932.130	301.528.336
8. Provisions	924.061	53.969.080
9. Other operating expenses	13.740.177	14.669.771
III. FINANCIAL INCOME	163.701.933	92.421.761
1. Interest and exchange gains, dividends and similar income from related companies	202.207	563.966
2. Interest and exchange gains, dividends and similar income from other entrepreneurs	163.499.726	91.857.795
3. The income from associated undertakings and participating interests	0	0
4. Unrealized gains (revenues)	0	0
5. Other financial income	0	0
IV. FINANCIAL EXPENSES	233.130.073	181.940.993
1. Interest and exchange losses and other expenses with related companies	0	0
2. Interest and exchange losses and other expenses related to other entrepreneurs	233.130.073	181.940.993
3. Unrealized losses (expense) of financial assets	0	0
4. Other financial expenses	0	0
V. EXTRAORDINARY - OTHER INCOME	0	0
VI. EXTRAORDINARY - OTHER EXPENSES	0	0
VII. TOTAL INCOME	1.751.944.142	1.775.469.921
VIII. TOTAL EXPENSE	1.866.018.170	2.263.637.268
IX. PROFIT BEFORE TAX	0	0
X. LOSS BEFORE TAXATION	114.074.028	488.167.347
XI. INCOME TAX	0	0
XII. PROFIT FOR THE YEAR	0	0
XIII. LOSS FOR THE YEAR	114.074.028	488.167.347
CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME		
PROFIT / LOSS FOR THE YEAR	-114.074.028	-488.167.347
Hedging reserves	-9.991.626	2.883.721
TOTAL COMPREHENSIVE PROFIT / LOSS FOR THE YEAR	-124.065.654	-485.283.626

Consolidated Croatia Airlines Balance Sheet

			amounts in Croatian kuna	
ASSETS	Position	31 December 2011	31 December 2012	
A) SUBSCRIBED CAPITAL UNPAID				
B) NON-CURRENT ASSETS		1.244.091.146	788.047.162	
I.	INTANGIBLE ASSETS	20.227.250	16.583.274	
II.	PROPERTY, PLANT AND EQUIPMENT	1.171.335.482	730.395.009	
III.	LONG-TERM FINANCIAL ASSETS	52.028.047	40.568.512	
IV.	LONG-TERM RECEIVABLES	500.367	500.367	
V.	DEFERRED TAX ASSETS	0	0	
C) CURRENT ASSETS		245.546.382	297.870.965	
I.	INVENTORIES	43.831.821	49.142.739	
II.	ACCOUNTS RECEIVABLES	172.639.390	208.095.391	
III.	SHORT-TERM FINANCIAL ASSETS	3.720.000	3.517.218	
IV.	CASH AND CASH EQUIVALENTS	25.355.171	37.115.617	
D) PREPAID EXPENSES AND ACCRUED INCOME		33.601.663	47.211.180	
E) TOTAL ASSETS		1.523.239.191	1.133.129.307	
F) OFF BALANCE SHEET ITEMS		0	0	
			amounts in Croatian kuna	
EQUITY AND RESERVES	Position	31 December 2011	31 December 2012	
A) EQUITY AND RESERVES		-141.601.041	146.986.923	
I.	ISSUED CAPITAL	989.985.500	1.852.212.900	
II.	CAPITAL RESERVES	0	0	
III.	PROFIT RESERVES	-9.849.272	-6.603.316	
IV.	REVALUATION RESERVES	88.115.871	0	
V.	RETAINED EARNINGS	0	0	
VI.	LOSS BROUGHT FORWARD	1.096.727.010	1.210.779.031	
VII.	NET PROFIT FOR THE YEAR	0	0	
VIII.	LOSS FOR THE YEAR	113.126.130	487.843.630	
IX.	MINORITY INTERESTS	0	0	
B) PROVISIONS		1.834.290	54.847.343	
C) NON-CURRENT LIABILITIES		1.043.043.210	238.345.219	
D) CURRENT LIABILITIES		613.201.733	669.953.546	
E) ACCRUED EXPENSES AND DEFERRED INCOME		6.760.999	22.996.276	
F) TOTAL EQUITY AND LIABILITIES		1.523.239.191	1.133.129.307	
G) OFF BALANCE SHEET ITEMS		0	0	
APPENDIX				
EQUITY AND RESERVES				
1.	Attributable to Shareholders of the Parent	-141.601.041	146.986.923	
2.	Attributable to minority interests	0	0	

Croatia Airlines d.d. Balance Sheet

amounts in Croatian kuna			
ASSETS	Position	31 December 2011	31 December 2012
A)	SUBSCRIBED CAPITAL UNPAID		
B)	NON-CURRENT ASSETS	1.243.132.717	787.158.744
I.	INTANGIBLE ASSETS	19.481.788	15.770.216
II.	PROPERTY, PLANT AND EQUIPMENT	1.171.101.475	730.167.010
III.	LONG-TERM FINANCIAL ASSETS	52.049.087	40.721.151
IV.	LONG-TERM RECEIVABLES	500.367	500.367
V.	DEFERRED TAX ASSETS	0	0
C)	CURRENT ASSETS	239.727.371	291.870.061
I.	INVENTORIES	43.831.821	49.071.003
II.	ACCOUNTS RECEIVABLES	170.122.902	205.329.288
III.	SHORT-TERM FINANCIAL ASSETS	3.630.181	3.374.214
IV.	CASH AND CASH EQUIVALENTS	22.142.467	34.095.556
D)	PREPAID EXPENSES AND ACCRUED INCOME	33.543.909	47.167.169
E)	TOTAL ASSETS	1.516.403.997	1.126.195.974
F)	OFF BALANCE SHEET ITEMS	0	0

amounts in Croatian kuna			
EQUITY AND RESERVES	Position	31 December 2011	31 December 2012
A)	EQUITY AND RESERVES	-145.423.624	143.404.589
I.	ISSUED CAPITAL	989.975.500	1.852.202.900
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	-11.403.470	-8.519.749
IV.	REVALUATION RESERVES	88.115.871	0
V.	RETAINED EARNINGS	0	0
VI.	LOSS BROUGHT FORWARD	1.098.037.497	1.212.111.215
VII.	NET PROFIT FOR THE YEAR	0	0
VIII.	LOSS FOR THE YEAR	114.074.028	488.167.347
IX.	MINORITY INTERESTS	0	0
B)	PROVISIONS	1.834.290	54.847.343
C)	NON-CURRENT LIABILITIES	1.043.043.210	238.345.219
D)	CURRENT LIABILITIES	610.812.035	667.115.087
E)	ACCRUED EXPENSES AND DEFERRED INCOME	6.138.086	22.483.736
F)	TOTAL EQUITY AND LIABILITIES	1.516.403.997	1.126.195.974
G)	OFF BALANCE SHEET ITEMS	0	0

Consolidated Croatia Airlines Cash Flow Statement

Position	amounts in Croatian kuna	
	31 December 2011	31 December 2012
OPERATING ACTIVITIES		
1. Profit / loss for the year before taxation	-112.851.836	-487.655.461
2. Depreciation and amortization	140.226.197	130.345.601
3. Increase in current liabilities	0	47.551.829
4. Decrease in short-term receivables	0	0
5. Decrease in inventories	0	0
6. Other increase in cash flow	392.162.373	451.883.324
I. Total increase in cash flow from operating activities	419.536.734	142.125.293
1. Decrease in current liabilities	1.567.359	0
2. Increase in short-term receivables	44.629.242	35.456.002
3. Increase in inventories	5.709.903	5.310.918
4. Other decrease in cash flow	7.346.525	464.009.352
II. Total decrease in cash flow from operating activities	59.253.029	504.776.272
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	360.283.705	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	362.650.979
INVESTING ACTIVITIES		
1. Proceeds from sale of tangible and intangible assets	691.518	242.591
2. Proceeds from sale of equity and debt instruments	0	0
3. Proceeds from interests	0	0
4. Proceeds from dividends	0	0
5. Other proceeds from investing activities	0	11.662.317
III. Total proceeds from investing activities	691.518	11.904.908
1. Payments for the purchase of tangible and intangible assets	45.213.677	67.043.641
2. Payments for acquisition of equity and debt instruments	0	0
3. Other payments of investing activities	16.806.063	0
IV. Total payments used in investing activities	62.019.740	67.043.641
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	61.328.222	55.138.733
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt instruments	0	0
2. Proceeds from the loan, debentures and others borrowings	8.653.721	24.456.326
3. Other proceeds from financial activities	0	588.696.174
V. Total proceeds from financial activities	8.653.721	613.152.500
1. Repayments for principal of loans and bonds	163.070.221	182.709.717
2. Repayments of dividends	0	0
3. Repayments of finance leases	508.510	892.625
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	172.148.045	0
VI. Total payments used in financial activities	335.726.776	183.602.342
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	429.550.158
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	327.073.055	0
Total increase in cash flow	0	11.760.446
Total decrease in cash flow	28.117.572	0
Cash and cash equivalents at the beginning of the year	53.472.743	25.355.171
Increase in cash and cash equivalents	0	11.760.446
Decrease in cash and cash equivalents	28.117.572	0
Cash and cash equivalents at year end	25.355.171	37.115.617

Croatia Airlines d.d. Cash Flow Statement

Position	amounts in Croatian kuna	
	31 December 2011	31 December 2012
OPERATING ACTIVITIES		
1. Profit / loss for the year before taxation	-114.074.028	-488.167.347
2. Depreciation and amortization	140.074.190	130.215.488
3. Increase in current liabilities	0	48.061.123
4. Decrease in short-term receivables	0	0
5. Decrease in inventories	0	0
6. Other increase in cash flow	392.153.509	451.993.697
I. Total increase in cash flow from operating activities	418.153.671	142.102.961
1. Decrease in current liabilities	1.835.173	0
2. Increase in short-term receivables	45.020.577	35.206.386
3. Increase in inventories	5.709.903	5.239.181
4. Other decrease in cash flow	7.242.461	651.570.347
II. Total decrease in cash flow from operating activities	59.808.114	692.015.914
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	358.345.557	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	549.912.953
INVESTING ACTIVITIES		
1. Proceeds from sale of tangible and intangible assets	691.518	242.590
2. Proceeds from sale of equity and debt instruments	0	0
3. Proceeds from interests	0	0
4. Proceeds from dividends	0	0
5. Other proceeds from investing activities	0	11.583.903
III. Total proceeds from investing activities	691.518	11.826.493
1. Payments for the purchase of tangible and intangible assets	44.944.769	66.851.940
2. Payments for acquisition of equity and debt instruments	0	0
3. Other payments of investing activities	16.441.114	0
IV. Total payments used in investing activities	61.385.883	66.851.940
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	60.694.365	55.025.447
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt instruments	0	0
2. Proceeds from the loan, debentures and others borrowings	8.203.721	23.006.325
3. Other proceeds from financial activities	0	776.995.561
V. Total proceeds from financial activities	8.203.721	800.001.886
1. Repayments for principal of loans and bonds	162.620.221	182.217.772
2. Repayments of dividends	0	0
3. Repayments of finance leases	508.510	892.625
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	171.945.838	0
VI. Total payments used in financial activities	335.074.569	183.110.397
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	616.891.489
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	326.870.848	0
Total increase in cash flow	0	11.953.089
Total decrease in cash flow	29.219.656	0
Cash and cash equivalents at the beginning of the year	51.362.124	22.142.467
Increase in cash and cash equivalents	0	11.953.089
Decrease in cash and cash equivalents	29.219.657	0
Cash and cash equivalents at year end	22.142.467	34.095.556

Consolidated Croatia Airlines Statement of Changes in Equity

Position	amounts in Croatian kuna	
	31 December 2011	31 December 2012
1. ISSUED CAPITAL	989.985.500	1.852.212.900
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	-9.849.272	-6.603.316
4. RETAINED EARNINGS / LOSSES BROUGHT FORWARD	-1.096.727.010	-1.210.779.031
5. NET PROFIT / LOSS FOR THE PERIOD	-113.126.130	-487.843.630
6. REVALUATION OF FIXED ASSETS	88.115.871	0
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	-141.601.041	146.986.923
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	-9.991.626	2.883.721
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES IN CAPITAL	-275.282.550	285.704.243
17. TOTAL INCREASE / DECREASE OF CAPITAL	-285.274.176	288.587.964
17 a. Attributable to Shareholders of the Parent	-285.274.176	288.587.964
17 b. Attributable to minority interests	0	0

Croatia Airlines d.d. Statement of Changes in Equity

Position	amounts in Croatian kuna	
	31 December 2011	31 December 2012
1. ISSUED CAPITAL	989.975.500	1.852.202.900
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	-11.403.470	-8.519.749
4. RETAINED EARNINGS / LOSSES BROUGHT FORWARD	-1.098.037.497	-1.212.111.215
5. NET PROFIT / LOSS FOR THE PERIOD	-114.074.028	-488.167.347
6. REVALUATION OF FIXED ASSETS	88.115.871	0
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	-145.423.624	143.404.589
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	-9.991.626	2.883.721
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES IN CAPITAL	-276.028.240	285.944.493
17. TOTAL INCREASE / DECREASE OF CAPITAL	-286.019.866	288.828.214

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 31st December 2012 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, 2013

The person responsible for the preparation
of the issuer statements:

President & CEO

Krešimir Kučko



 CROATIA AIRLINES

A STAR ALLIANCE MEMBER 

The Management's Business Report for 2012



April 2013



CONTENTS

Typical indicators	4
Fleet	4
Traffic indicators	4
Financial indicators	5
Productivity indicators	5
Croatia Airlines in 2012 – introduction	6
Ownership structure	6
Company's management structure and organization	6
Human resources	7
Training investments	9
Responsibility to	12
Social responsibility	14
Transport and	14
Support for the	15
Anniversaries, awards and environmental protection	16
The restructuring of the Company	18
Advancement and expansion of operations	20
Business environment and operational risks	23
Environment in	23
International	24
Recession and global economic crisis	26
Interest risk	27
Cash flow risks	27
Currency risk	27
Fleet and capacities	28
Fleet utilization	29
The market	30
Financial operations	35
Profit and loss account	35
Assets, financing and investments	39
Statement of accounts	39
Cash flow	41
Review of the Plan realization	42
Traffic performance indicators compared to the Plan	42
Profit and loss account	42
Statement of accounts	43
Current operations – Traffic performance I-III 2013	44

Typical indicators

Fleet

type of aircraft	number at the end of 2012	seats	ownership	lease	Ø age (years)	number at the end of 2011	ownership	lease
Airbus A320	3	486	2	1	15,81	3	2	1
Airbus A319	4	576	4	-	13,94	4	4	-
Q-400	6	456	-	6	3,6	6	-	6
TOTAL	13	1518	6	7	11,12	13	6	7

Traffic indicators

description		2012	2011	2010
flights (km)	DIST 000	17.672	17.126	15.832
departures	FLTS	27.277	27.589	25.559
growth rate	%	-1	8	1
block hours	BH	38.859	38.014	35.230
growth rate	%	2	8	5
passengers carried	RPAX 000	1.952	1.879	1.641
growth rate	%	4	15	-6
freight & mail carried	CGO T	3.567	3.347	3.066
growth rate	%	7	9	-17
passenger km flown	RPKM mln	1.441	1.317	1.145
available seat - km	ASKM mln	2.086	1.965	1.847
passenger load factor	PLF %	69,1	67	62
tonne km flown	TKM mln	147	121	105
available tonne-km	ATKM mln	218	219	205
weight load factor	WLF %	67,4	55,2	51,2

Note: WLF is incomparable due to the changed calculation methodology in 2012 (passenger weight was increased to 100 kg from 90 kg) in line with the EU ETS (Emissions Trading Scheme) requirements, as adopted by AEA.

Financial indicators

Indicators	Unit	2012	2011	2010	2009
Total revenue (operating)	mln kn	1.683	1.588	1.387	1.347
Annual change rate	%	6,0	14,5	2,9	-
Total Revenue (operating + financial)	mln kn	1.775	1.752	1.470	1.439
Growth rate	%	1,3	19,2	2,1	-
Total expense (operating)	mln kn	1.729	1.633	1.511	1.512
Annual change rate	%	5,9	8,1	-0,1	-
Total expense (operating + financial)	mln kn	1.840	1.827	1.627	1.638
Growth rate	%	0,7	12,4	-0,7	-
Total expense (operating) without fuel	mln kn	1.349	1.296	1.273	1.310
Growth rate	%	4,1	1,9	-2,8	0,0
Total expense (operating + financial) without fuel	mln kn	1.461	1.491	1.388	1.436
Growth rate	%	-2,0	7,4	-3,3	-
Net profit/loss	mln kn	-65	-76	-157	-199
EBIT	mln kn	-46	-49	-133	-163
EBITDA	mln kn	85	91	15	-15
Unit expense (operating)	kn/ASKM	7,94	7,47	7,35	6,74
Unit expense (operativng) without fuel	kn/RPKM	7,73	7,26	6,75	6,01
Passenger yield (total pass.rev.in EUR/RPKM)	€cent/RPKM	13,19	13,48	13,31	11,84
Avarage number of employees		1.128	1.136	1.142	1.171
Total asset turnover		1,58	1,16	0,93	0,84
Total asset operating turnover		1,49	1,05	0,88	0,79
Current asset turnover		6,08	7,31	6,78	5,64
Coefficient of current liquidity		0,05	0,04	0,09	0,13
Coefficient of rapid liquidity		0,36	0,31	0,30	0,37
Coffient of ongoing liquidity		0,44	0,39	0,37	0,48
Coefficient of financial stability		1,80	1,38	1,36	1,24
Coefficient of own financing (solvency)		0,13	-0,10	0,09	0,19
Coefficient of funding		6,85	-11,43	10,24	4,38
Cover ratio I (equity/non-current assets)		0,18	-0,12	0,11	0,22
Cover ratio II		0,55	0,72	0,74	0,81
Investment ratio		0,04	0,04	0,05	0,09

Note: Financial indicators calculated on the basis of the profit and loss account items exclude non-recurring items.

Productivity indicators

Productivity Indicators	2012	2011
Employees (tkm/employees)	117.208	106.336
Aircraft (BH/day)	8	8
Fuel (tkm/tonne)	2.153	1.992

Note: For the purpose of comparing productivity indicators, the official report of tkm for the business year of 2012 has not been used in the calculation (changed methodology).

Croatia Airlines in 2012 – introduction

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

Ownership structure

Croatia Airlines (the Company) is a joint-stock company. Its capital stock amounts to HRK 1,852,202.900, and is divided into 9,286,613 shares. Of the total number of shares, 51,197 refer to preference shares (CRAL-P-A, CRAL-P-A1, CRAL-P-A2, CRAL-P-A3, CRAL-P-A4) in the nominal value of HRK 100, while 4,924,279 (CRAL-R-A) and 4,311,137 (CRAL-R-B) refer to ordinary shares in the nominal value of HRK 200.

Review of shareholders and their share in stock capital	Capital (kn)	%
REPUBLIC OF CROATIA (AUDIO)	1.814.816.000	97,98
CROATIAN PRIVATISATION FUND (0/1) FOR DAB	21.315.200	1,15
JANAF DD	2.200.000	0,12
AIRPORT ZAGREB	1.302.500	0,07
CROATIA LLOYD	1.027.000	0,06
ENIKON D.D.	735.600	0,04
RATKO ŽURIĆ	610.000	0,03
CONING ENGINEERING	521.400	0,03
OTHERS	9.675.200	0,52
TOTAL	1.852.202.900	100,00

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

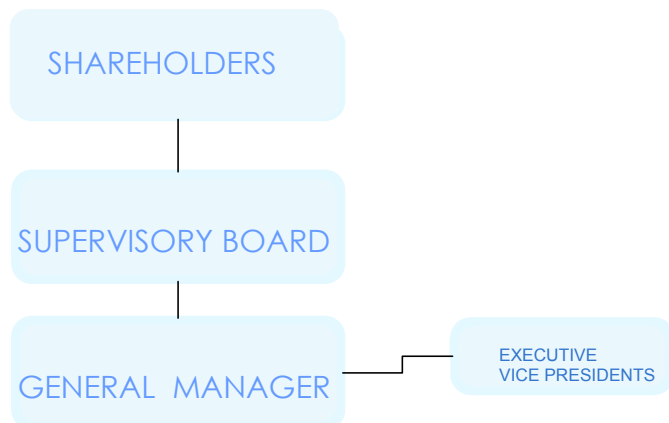
Pleso prijevoz d.o.o. is 50% owned by Croatia Airlines, whereas its other half is owned by Zagreb Airport. It transports passengers travelling on the route airport - city, lost luggage, as well as the personnel working at airports in Zagreb and Split.

Amadeus Croatia d.d. was founded by Croatia Airlines (95% ownership) and Amadeus GDS, a global distribution system seated in Madrid. It enables the connecting of travel agencies on the territory of the Republic of Croatia to Amadeus' database located in Erding near Munich, for the needs of booking and issuing passenger tickets in air, maritime and railway transport, and providing hotel accommodation booking services and car rental services.

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

Company's management structure and organization

The Company's operations were in 2012 organized through its business functions grouped into three business units managed by executive managers, and through the pivotal functions of the Company organized within the Chief Executive Officer's Office, Procurement Sector, Office for Operations Quality and Safety Management, and corporate functions that included the Finance and Controlling Sector, Legal Affairs Sector, Human Resources and Asset Management Sector and IT Sector.



The business sphere of traffic comprises flight and cabin operations, traffic training centre operations centre, operations engineering, crew plan and administrative support. The business sphere of technical works unifies aircraft maintenance, engineering works, technical support activities and technical training. The third

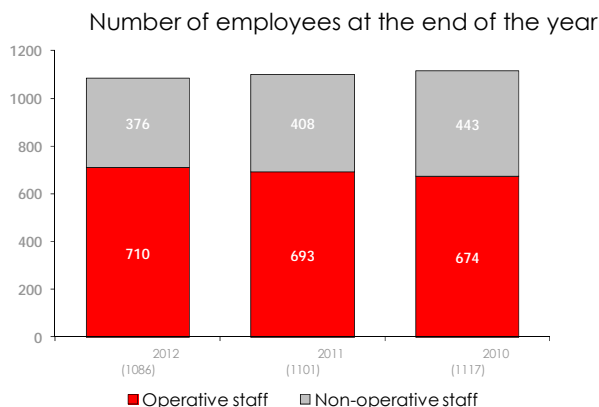
sphere comprises sales, marketing, network and revenue management, and ground services.

At the Company's general shareholders' assembly held in July 2012, a new Supervisory Board was elected, with Prof. Siniša Petrović, PhD, as its Chairman.

Pursuant to the latest amendments to the Company's Articles of Association, the Company's Management Board needs to have one member at least and a maximum of three members, while the Supervisory Board has five members at least and a maximum of thirteen members. In its first session held on 27 July 2012, the Supervisory Board appointed members to the new Management Board, and Krešimir Kučko assumed the function of Management Board Chairman on 1 September. In January 2013, the Croatia Airlines Supervisory Board appointed Zlatko Širac a member of the Company's Management Board in charge of operating activities.

Human resources

On 31 December 2012, the Company had 1,086 employees, including the 46 employees at its foreign branch offices. Compared to the end of 2011, the number of operative staff members fell by 1.5%.



At the end of the year, the number of operative staff members increased by 2.5% compared to the end of 2011, while the number of non-operative staff members

declined by 8%, primarily due to the fact that the Company hired no replacements for the employees who had left the job.

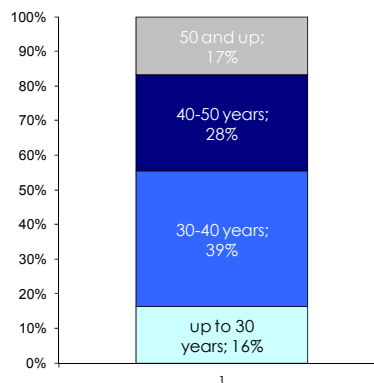
Due to the needs of covering the summer flight schedule, the Company hired 63 cabin staff employees on a seasonal basis.

The share of operative staff members¹ within the Company was 65.4% (710), while that of non-operative staff members was 34.6% (376).

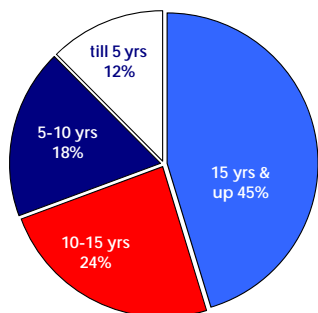
The educational structure (51% of employees hold either an associate degree, a university degree or a higher degree) and the average age of employees (40 years) are exceptionally favourable; in terms of gender structure, men are somewhat more represented (52%).

Of the total number of employees, 80 (7%) are employed on a definite contract basis.

Structure by age 2012



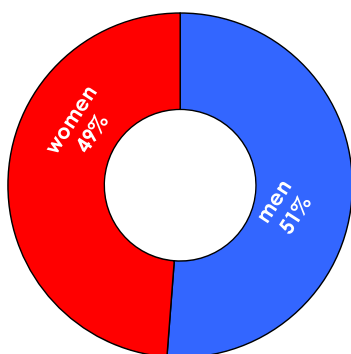
Structure by employment record



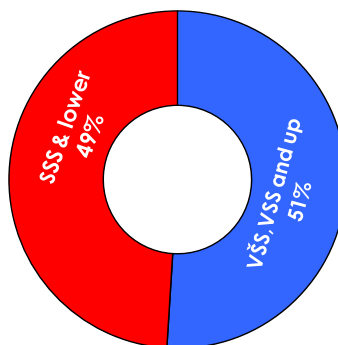
The average employment record of the operative staff was 11 years of service, and that of the non-operative staff was 14.7 years, while the average employment record on the level of the entire Company was 12 years.

These positive indicators point to a low fluctuation within the Company, given the fact that the Company has existed for 20 years and that it had employed some 200 persons in the first years. Subsequently, the employment rate grew progressively until 1998.

Structure by gender



Structure by education



The share of women in the senior and medium management totalled 43%.

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

Due to increased transport of passengers, goods and mail, and a decreased number of employees in 2012, labour productivity measured by aviation-specific productivity indicators saw a rise.

Labour productivity

DESCRIPTION		2012	2011	2010
tonne km per employee	000	117,2	106,3	92,4
growth rate	%	10	15	-9
passengers carried per employee		1.730,1	1.654,1	1.440,4
growth rate	%	5	15	-7

Note: For the purpose of comparing productivity indicators, the official report of tkm for the business year of 2012 has not been used in the calculation (changed methodology).

Training investments and programmes

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

Due to exceptionally sophisticated technologies and challenging business processes, significant financial means are each year allocated for employee training, particularly for specialist training and maintaining the high knowledge and skills standard of the flight and cabin personnel.

Investment in education (HRK)	2012	2011	2010
Operative staff	7.178.876	6.028.993	7.907.272
Annual change rate	19%	-13%	-29%
Non-operative staff	317.710	431.099	622.201
Annual change rate	-26%	-45%	-16%
Total	7.496.587	6.460.091	8.529.473
Annual change rate	16%	-24%	-16%

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

The Technical Training Centre staff actively cooperated with CCAA on issuing *Part 66* licences, implementing EU regulations, and assisting CTN with defining and implementing amendments made as a result of introducing new airline regulations. Periodic consultations with the CCAA representatives went on, which significantly simplified and shortened the process of issuing *Part 66* licences, and owing to which the taking of module examinations for acquiring "B" licence authorisations continued.

Altogether 17 new training programmes were introduced, and three revised versions of the MTOE (PART-147) manual and the TTM (Part 145) manual issued. The Company held two *All System* training courses and 37 *differences* training courses

in the total duration of 224 days. During the courses, the existing question bank underwent a comprehensive check-up and revision, with a new question bank being developed for ATR 42/72 training.

Due to the expanded scope of activities concerning ATR 72-212A, the Company needed to train mechanics and instructors for this type. Upon completion of instructor training with external contractors, the Technical Training Centre developed two theoretical differences training programmes, and an on job training programme. By the end of 2012, 40 mechanics completed theoretical training and 12 completed on job training.

In line with the initiative started by the Ministry of Maritime Affairs, Transport and Infrastructure and the Ministry of Defence of the Republic of Croatia, concerning possible cooperation between the Croatia Airlines' technical sector and ZTC, two instructors from the Technical Training Centre completed theoretical training for Canadair CL-415. Also, the EWIS obligatory initial training was provided to all employees obliged to undergo such training, and the SMS initial training was provided to the employees of the Part M organization.

Based on the RCB conclusions, the training programme *Limited Certification Authorisation to the Commander* continued; two new captains received delegation and authorisation training for the event of bird strikes and training for issuing limited pilot authorisations for the postponement of operations in accordance with MEL, while 69 captains completed refresher and task training for additional MEL procedures.

CCAA, LBA, LHT, EASA and EASA MAST implemented a series of audits at the Technical Training Centre in 2012, and no findings or recommendations were issued.

In 2012, the Traffic Training Centre organized mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the traffic sector employees to extend the authorisations and licences for performing their activities. Furthermore, all of the planned mandatory theoretical and practical training courses (*Special Qualification Training/ special procedures for CAT3A/D/ENEV in line with the CAA – NORWAY requirement*) were completed.

During 2012, CCAA carried out a number of audits and inspections for the purpose of ongoing supervision of activities performed by the Traffic Training Centre staff on the simulators in Vienna and on the Croatia Airlines aircraft flights. The results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and TRI/TRE work on them were carried out in accordance with the provisions of the quality system OM-D & Quality Inspection Orders, for the purpose of monitoring and raising the quality standard of the work of TRI/TRE/CREW.

The standardisation of TRE/TRI work was completed on both types in the normal & abnormal procedures segment, with new TRE being trained on Q400 needed for the expansion of TRTO Q400.

Savings measures were implemented in all business segments, as well as the rationalization of operations of the Traffic Training Centre employees. In line with the applicable regulations, OM-D, Annexa & TRTO and a series of ASO-Air Safety Orders issued by CCAA were revised, with the extension of all required employee and STD authorisations.

The basic TRTO certificate was expanded to DHC-8 Q400, which means Croatia Airlines is now authorised for TRTO A320/DHC-8 Q400. It also renewed contracts with LFT for three years, and a contract with Magellan Aviation Service and FSC Training B.V. These contracts enabled the Company to earn additional income by providing the base training service for A32F (training within the zone on aircraft of new candidates from the abovementioned centres).

All necessary preparatory measures were undertaken for the transition to the new Part OPS that will be in force as of 1 July 2013.

All TRE/TRI and cabin instructors attended workshops and refreshers at CCAA for the purpose of receiving additional training and improving various processes within their area of responsibility; the process and organization of transition from AIRBUS-SOP to A32F was also initiated.

The WEB sales of various training programmes was implemented and optimized, offering courses such as DGR and CRM, in line with the market demands, and cooperation with the Faculty of Electrical Engineering and Computing was initiated for the purpose of advancing their scientific projects.

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

The year of 2012 was marked by a series of educational activities within the Legal Affairs and the Human Resources and Asset Management sectors. A series of new internal trainings was developed, with the aim to enable the employees the opportunity to obtain additional industry expertise and business skills needed for their everyday work.

In addition to regular training intended for the sales sector and travel agencies employees, as well as training organized for the purpose of adjusting to various technological and work process changes, in 2012 the Company also introduced various development training packages. Their goal was to encourage the employees to develop their own resources for easier and better communication, acquire the skills for efficient setting and reaching of goals, as well as to raise their awareness about the ongoing changes in daily operations, particularly on such a turbulent and challenging market, in cooperation with external and internal associates and clients, as well as to realise the importance and dynamics of changes and adapt to the new conditions on the highly competitive and dynamic airline market. In 2012, altogether 59 various types of internal training were provided for 710 Company employees.

Training courses prescribed by the Star Alliance standards were an important educational segment in 2012; they were focused mainly on the benefits of the privileged categories of premium passengers, since Star Alliance pays particular attention to this passenger segment.

Croatia Airlines' employees have been undergoing various types of on-line training since 2009, and so far altogether 4,174 individual training courses were provided in the form of initial, i.e. refresher trainings.

Besides having access to all Star Alliance on-line training programmes, the Training Centre organizes additional lectures each year for the purpose of familiarizing the employees with the Star Alliance standards. In 2012, those were "Amadeus Ticket

Changer & Star Alliance Refresher” and “Star Status Recognition”, which were attended by some 250 employees.

The Star Alliance Report for 2012, based on the analysis of passenger satisfaction with the services provided by the Alliance members, shows again exceptionally positive results realised by Croatia Airlines, i.e. its employees, mainly as a result of extensive training courses aimed at maintaining the high Star Alliance business standards.

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

As a national flag carrier, Croatia Airlines organizes within its Training Centre a series of training courses needed by travel and commodity agencies for the acquisition of the IATA licence, training courses for airports, freight forwarders and airline companies. In 2012, Croatia Airlines provided training to a significant number of employees of IATA-accredited agencies, in the sphere of tariffs and ticketing, and to employees of commodity agencies and freight forwarders in the sphere of dangerous goods handling.

Responsibility to employees

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

Benefits and supports

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

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

Occupational safety

Organization of occupational safety and fire protection is prescribed by the law and by-laws and the Company's internal rules.

Employee training related to working in a safe manner and legally prescribed basic training in fire protection are regularly organized and implemented for all new employees. Specialist training for the safe handling of machines and devices posing a higher hazard are organized according to the needs of the Technical Sectors.

Pursuant to the Occupational Safety and Health Act, employee representatives undergo required occupational safety training courses; no additional training of the

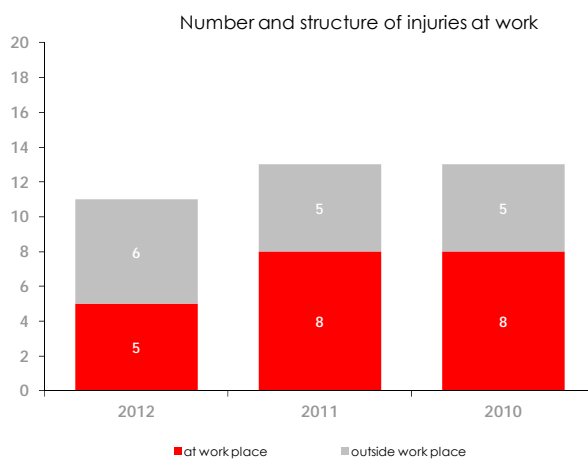
employer's authorised persons and immediate delegates was necessary after that provided in late 2011.

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

All machines, devices, equipment and installations within the operating process, as well as those serving for the fire signalling and extinction, undergo regular checkups and testing.

All hazardous waste resulting from the work process is regularly disposed of, with prescribed records, reports and statistics being kept on it.

A regular fire protection inspection and two occupational safety inspections were carried out.



Altogether eleven injuries at work were recorded in 2012 (eight women and three men). Of those, five injuries were sustained at the place of work, five while arriving at or leaving the workplace, and one as a consequence of a traffic accident. When classifying injuries sustained at work in accordance with the AUVA method, all of the injuries sustained in 2012 were minor. There were neither deaths related to injuries at work nor professional illnesses.

Protection of employees' dignity

For the purpose of protecting its employees' dignity, the Company prescribed the Complaint Receipt and Settlement Procedure and appointed a person to receive and handle complaints related to this issue and there is

also an Ethics Committee.

For the purpose of ensuring the confidentiality of personal data, the Management reached a decision to appoint a person in charge of collecting, processing, utilizing and delivering to third parties personal data on the Company employees.

Pursuant to the adopted Action Plan for the Promotion and Establishment of Gender Equality, the Company carries out analyses of the position of both its female and male employees. In the previous period, no special measures were required concerning this issue.

Employees and Management relations

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

On 5 June 2012, a new uniform collective agreement for Croatia Airlines d.d. was signed, while the negotiations on concluding a new uniform collective agreement for 2013 are underway.

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

Social responsibility

Transport and tourism

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

The Company's significant role in connecting domestic airline destinations and in maintaining traffic within Croatia has also been recognized by the Republic of Croatia, and the Government of the Republic of Croatia reached a decision in late 2006 on the obligation of carrying out domestic airline traffic operations by Croatia Airlines until 2011. Pursuant to this decision, the Company is compensated the difference between the unrealized income compared to the costs of domestic airline traffic operations from the state budget for an individual calendar year, in the form of a subsidy for maintaining the traffic connectivity between the regions – domestic route air traffic. Such a subsidy for the regional traffic maintenance is coordinated with the valid provisions and regulations of the European Union.

In its session held on 8 November 2012, the Government of the Republic of Croatia entrusted Croatia Airlines, by way of a decision, the obligation to provide domestic route air transport services in the period from 2012 to March 2013, with the traffic level as that realized in 2006.

The preparation of a public tender for providing domestic route transport services in the period from March 2013 to March 2016 is underway, with the Ministry of Maritime Affairs, Transport and Infrastructure being in charge of calling and implementing the tender. Any airline registered in the Republic of Croatia will be able to apply, and the service performance right will be awarded to the airline meeting the tender conditions.

Croatian brand

As a part of its mission, Croatia Airlines is making a great effort to contribute to the overall development of Croatia's tourism and economy. Being aware of a very strong national identification with the passengers, Croatia Airlines serves and promotes the Croatian cuisine and wines on its flights.

In 2012, Croatia Airlines introduced a new service on its flights – The Tastes of Croatia. It is based on the offer of food and beverages typical of individual Croatian regions. During the year, the oenogastronomy of Istria, Dalmatia, Hrvatsko zagorje and Slavonia was presented.

The Company familiarizes its passengers with Croatia's natural beauties, historical values and cultural events during the flights, via the Inflight magazine and its video system.

In cooperation with the Croatian Tourist Board, the Company publishes advertisements and articles in the magazine, while films promoting the cultural values and natural beauties of various regions - the sea bed, islands, coast, continental parts, etc. are shown on Airbus flights. Furthermore, our films related to the service The Tastes of Croatia promote the country's gastronomy and oenology.

There are also regular promotions and sponsorships of many cultural events contributing to the advancement of Croatia's tourism – Julian Rachlin and Friends Festival, Dubrovnik Summer Festival, Festival Bravo Dubrovnik, Museum of Contemporary Art, etc. In 2012, also sponsored the Croatian Olympic Committee with which it has been successfully cooperated for many years.

Support for the community

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

Donations in 2012 included support to various sports and cultural projects, and charity events (providing medical aid to severely ill children disabled persons, etc.).

Business ethics

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

Internal Company activities

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

Anniversaries, awards and environmental protection

On 5 April, Croatia Airlines marked the 20th anniversary of its first international flight flown on the route Zagreb – Frankfurt. It also marked the 20th anniversaries of its first flights to Amsterdam (18 June), Munich (9 October), Rome (30 July) and Istanbul (25 October).

On 14 May, Croatia Airlines celebrated together with the other Star Alliance members the Association's 15th anniversary. Airline companies Air Canada, Lufthansa, Scandinavian Airlines, THAI and United had realised that, given the growing globalisation, the need for more international travels to various destinations was becoming increasingly important. Since no airline could achieve this on its own, the five airlines founded the Star Alliance Association with the aim of making it the leading global association of airlines that would provide top quality services to international passengers.

According to the results of the quality survey QUDAL – QUality meDAL DEEPMA, Croatia Airlines ranked first in its category and can thus certify its products in 2011/2012 as Croatia's exclusive "Croatia Airlines – QUDAL-TOP Quality meDAL – No. 1" and boost the QUDAL 5-star top quality code.

In July 2012, based on the results of the Skytrax's annual survey on passenger satisfaction with airline companies, Croatia Airlines was pronounced the fourth best East European airline. The passengers anonymously assessed the cabin comfort and cleanness, the quality of food and beverages, the cordiality of personnel, etc., and the research covered over 200 airlines.

On 5 December, Croatia Airlines again received the global award *Superbrands Croatia 2012*, for the best brands on the Croatian markets in terms of quality, reliability, diversity and emotional dimension.

Environmental protection

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

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

Although airline companies started paying for the emissions within the EU ETS as of 2012, complex and extensive preparations for the participation had to be made as early as 2009, with the systematic monitoring of fuel, CO₂ emissions and ton kilometres as the market benchmarks, as well as their verification, required for 2010, 2011 and 2012.

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

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

The Association of European Airlines, AEA, developed a programme setting forth the recommended measures for the reduction of emissions of harmful gases by the aviation industry², based on four key pillars – further technological advancement through scientific-research work, advancement of infrastructure and operating measures (better regulation of air traffic, optimal selection of routes, reduction in circulating above airports, single European sky whose implementation is aimed at reducing the CO₂ emission by 12%) and economic instruments of ETS (based on offer and demand – the needed rights to emission will be acquired or the excess of such rights sold in line with the needs and the defined rights of the Company).

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

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

The Company's EU ETS system was implemented by the end of 2009, and the official continuous monitoring of CO₂ emissions and ton kilometres has been performed since 1 January 2010, in line with the applicable regulations, and for the purpose of verified reporting under the EU ETS rules and as a basis for undertaking measures on the Company level for the reduction of emissions.

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

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

² Emissions Containment Policy of the European Aviation Industry

necessary due to increasingly demanding regulations in the overcrowded European sky.

In addition to having effects on its activities, in both narrow and broad sense, the Company's participation in the EU ETS also brings an increase in the costs for the missing emission licences, for the first time obtained for 2012.

The restructuring of the Company

In the period from 2003 and 2011, Croatia Airlines generated operating losses which, despite their decrease in 2011, reached the level of the Company's capital. Liquidity problems, high level of indebtedness, negative working capital and negative net assets brought into question the Company's operations, which necessitated the implementation of certain restructuring measures, loan liabilities reprogram and capital increase, with bankruptcy being a realistic option.

As early as 2011, the Company's Supervisory Board drew up and adopted the Croatia Airlines Financial Recovery Plan and the Business Plan for 2011-2015, by which it created prerequisites for the restructuring process. The Financial Recovery Plan was also approved by the Ministry of Maritime Affairs, Transport and Infrastructure³. Pursuant to the Decision of the Croatian Competition Agency, the Ministry was obliged to deliver a restructuring plan for Croatia Airlines by the end of March 2012. After it was decided that an expert commission would be founded on 11 November 2011, a call for proposals was announced, and finally the best consultants were selected on 3 February 2012. The entire procedure was additionally assessed by the renowned law firm Holman Fenwick Willan of Brussels, experts in legislative elements of state aid realization by European Union members. Upon completion of the tender, the selected consultants - BDO Savjetovanje d.o.o., Intel d.o.o., and KPMG Croatia d.o.o. – drew up individual documents referring to the contracted obligation, as follows: BDO – financial restructuring, Intel – strategic restructuring, and KPMG – strategic and operational restructuring, within the agreed upon deadline, i.e. until the end of June 2012.

As the document presented at the ministerial meeting held on 10 July 2012 was not approved, the Ministry of Maritime Affairs, Transport and Infrastructure requested additions to the document referring to the proposal for the concept of additional restructuring scenarios and preliminary measures for operational and financial restructuring. After taking into account the given remarks and proposals, the consultants completed the amendment on 24 August 2012 and it was verified by all three consultancy firms.

It is evident from the amended "Additional scenarios concept proposal" that the consultants advocated the so-called minimalistic "soft scenario" that anticipates the keeping of the existing business model with a reduction in the number of routes, fleet restructuring in favour of lower-capacity aircraft, sale or lease of 1-2 Airbus aircraft, reduction of costs by some HRK 50 million in 2013, and a redundancy scheme for 250-290 employees; it also includes the owner reaching a decision on a capital injection and conversion of debt to the Government of the Republic of Croatia into equity.

The Restructuring Plan approved by the Supervisory Board on 22 October 2012 was presented to the representatives of the Government of the Republic of Croatia on 25 October 2012 and it comprised the operational, financial and strategic restructuring of

³ Class No.: 024-08/11-01/2, Ref. No.: 530-09-11-5

Croatia Airlines d.d. drawn up on the basis of the as-is analysis and the analysis of future development potentials. The Restructuring Plan suggested three scenarios: basic restructuring model, development restructuring model, and the insolvency option.

The development model was the one being initially considered, i.e. until late 2012; however, considering the subsequent developments (capital injection in late 2012 and high default interest charged by the Government of the Republic of Croatia), the development scenario was abandoned and the restructuring plan redirected towards a modified basic scenario, in line with the guidelines adopted at the Supervisory Board's session held on 23 January 2013. The Restructuring Plan covers the period of five years, i.e. 2011-2015, with an overview of additional two years as an assessment of the restructuring results upon its completion.

Shown below are the key elements of the adopted restructuring plan:

	Basic scenario
Recapitalisation by Government of the Republic of Croatia through debt equity swap	652 mil HRK
Recapitalisation by Government of the Republic of Croatia through debt equity swap - interest charge on overtaken guarantee	210 mil HRK
Recapitalisation by Government of the Republic of Croatia through debt equity swap based on overtaken guarantee - 2 instalments of BLB credit in 2013	150 mil HRK
Total recapitalisation (whit 47 mil HRK ZLZ)	1.060 mil HRK
Reducing the number of employees	cca 220
Period of restructuring plan	2011 - 2015 + 2y.
Reducing 10% capacity - compensatory measures	- 1 aircraft (A320 - CTF)
Own contribution (40% - 50% total State Aid)	cca 504 mil HRK
Sale & lease back 2 aircrafts (reaching own contribution)	2013 - A320 - CTJ 2014 - A320 - CTK
Fleet	0
The cost of restructuring	cca 41 mil HRK (with state guarantee)
Aircraft revaluation	375 mil HRK

In line with the defined restructuring areas, the Company set its strategic, financial and operational goals, the monitoring and control of which makes a key presumption for the successful implementation of the restructuring plan.

In 2011, certain measures were implemented for the purpose of rationalizing business operations and achieving savings by restructuring the block time, reorganizing the Company with the aim of optimizing organization and the management structure and adjustments to the actual work processes, by increasing traffic performance and revenues, traffic punctuality, labour productivity and by reviewing supplier contracts. The stopping of the negative trends and the achieved positive shifts create prospects and presumptions for a successful restructuring of the Company. Despite the negative trends in the surroundings, the implemented measures led to record results for Croatia Airlines in 2011, and positive trends in its operating activities continued in 2012, too. Further application of all elements of the restructuring plan creates prerequisites for profitable operations and enables sustainable future operations.

Advancement and expansion of operations

In the airline market conditions characterised by a fall in profits, pressure on the price reduction, fall in yields and exceptionally strong competition, the optimum allocation of capacities for the purpose of maximising the revenues, and prompt reaction to the price changes have become the key elements for a successful business. In order to advance its revenue management and speed up its response to price changes on the market, and thus improve its competitive position, Croatia Airlines implemented in 2012 a project to select systems serving to automate these functions. It finally opted for the AirVision Revenue Management and the Fare Management systems as top-quality, modern and flexible solutions, supported by the most relevant scientific achievements in this area. By doing so, Croatia Airlines joined the major group of airline carriers that use automated revenue and price management systems. The system implementation anticipates a 3.6% average annual increase in revenues during the five years of system utilization, making this solution one of the key pillars for the improvement of financial results and the Company's productivity in the upcoming period. The package includes the Calidris Revenue Integrity system upgrade for "cleaning the seats" from non-productive reservations, in the form of the latest software version and more frequent processing of reservations. The system implementation will last for six months, starting from April 2013. It comprises training, system calibration and bringing the revenue and price management process to the level of the world's best practices.

In 2012, Croatia Airlines continued implementing the IATA SIS (Simplified Interline Settlement) started in 2011. SIS is IATA's project aimed at integrated and simplified interline operations, and all IATA members are obliged to implement it as one of the industry requirements. It is based on an electronic exchange of documentation and improvement of the existing functionalities. The project gathers all airline companies that are members of IATA Clearing House. The implementation comprises categories of invoicing passenger traffic among the companies, cargo, UATP card transactions and other various transactions between airline companies. The introduction of electronic exchange of data in the SIS system has enabled faster and more detailed electronic collection of debts and gathering of documentation. This has advanced the existing business processes (faster booking of costs/revenues, insight into the costs/revenues with a shift of one month maximum, reduction of calculated costs/revenues, reduction of postage costs and costs of printing out documents for the Clearing House, introduction of verification of incoming invoices of the Clearing House through SAP, automated entry of incoming CH invoices). The categories of passenger traffic were implemented in January 2012, and the miscellaneous category in April 2012 (various services other than passenger transport and cargo), while the implementation of the remaining cargo category is planned for 2013, which would make this project complete.

In 2012, Croatia Airlines strengthened its cooperation with Belle Air, Albania's major aircraft operator disposing of seven Airbus A320 and two ATR72, and with its sister company Belle Air Europe. With the growth of this privately-owned operator came the opportunity for expansion and provision of route and base maintenance and engineering services to new clients. The prerequisites for initiating the cooperation were the certification of two line stations, one in Tirana, which started operating in

June 2012, and the other in Pristina, which started operating in September 2012. Furthermore, the maintenance of ATR72 aircraft that Croatia Airlines had not previously had within its fleet required certification, too. Most of the Belle Air aircraft will be flying to Zagreb for major checks (C, IL and D checks). This deal opens up new possibilities for the provision of route maintenance at airports Croatia Airlines' aircraft fly to, and which have no adequate certified technical services for aircraft maintenance.

In order to make flights on Croatia Airlines' aircraft even more comfortable, in May 2012 four A319 underwent passenger seat replacements. Croatia Airlines chose the highest quality seats – Recaro seats, developed in cooperation with the world's leading airlines and ergonomic institutes. When it comes to design, particular attention was paid to environmental issues. This is why the new Recaro seats are significantly lighter than the previous ones, which enables lower fuel consumption and emission of harmful gases into the atmosphere. The seats are designed to provide more room for knees, since this significantly contributes to passengers' comfort during the flight. Ergonomically shaped seats with thin backs take up less space than the previous ones, which enabled the installation of another two seat rows in each aircraft. Thus, four Croatia Airlines aircraft offer additional seats in both business and economy class, which will also boost the Company's competitiveness.

In 2012, great efforts were invested into advancing user services. In early January 2012, we created another two free of charge applications: one for iPads and one for mobile phones with the Android operational system. We also released a new version of the iPhone application, with significant design and content improvements. The first version was released in October last year. All three applications enable simple, fast, efficient, and location independent access to information passengers need when planning their travels. They can search the flight schedule, check the status of any flight, find data on the Contact Centre and Croatia Airlines' branch offices, learn information about check in, bus lines to and from airports, luggage, as well as how to access Croatia Airlines' webpage www.croatiaairlines.com.

Over more than ten years ago, Croatia Airlines introduced on its webpage www.croatiaairlines.hr the FlyOnLine service to enable its passengers to reserve and purchase airline tickets and organise their travels in as simple way as possible. The FlyOnLine service has been further improved for years, and, in addition to credit card purchases, since November our passengers can make online purchases of airline tickets with any Maestro debit card. Croatia Airlines has taken care of the security of online transactions, i.e. of service user data confidentiality, and received an award for integrating into the online payment process the Verified by Visa and MasterCard Secure code security standards, i.e. it received the prestigious Euro-Label certificate.

In 2012, Croatia Airlines introduced a new service concept on its international and domestic flights, entitled The Tastes of Croatia, thus additionally enhancing the quality of travels on Croatia Airlines' aircraft, as the passengers are given the opportunity to learn about Croatia's rich gastronomy. The new meals are based on the cuisine features typical of Croatia's individual regions. The key idea is to make a distinction from other airline companies based on a different and unique service, and to offer passengers meals and beverages that reflect the authentic cuisine of individual regions. The new service concept is intended primarily for the business class passengers on domestic and international flights, while meals containing a

cuisine component typical of individual regions are offered in economy class. The plan is to familiarise passengers with the cuisine of Croatia's eight regions in a two years' period. When boarding, passengers can enjoy music typical of a certain region, and watch a film during the flight presenting the region. Each gastro region will be presented both textually and through illustrations in the travel magazine Croatia. In the first quarter, authentic cuisine and wines of Istria were presented, followed by those typical of Dalmatia. From 1 October on, the gastronomy of Hrvatsko zagorje was presented, and from 12 December Croatia Airlines enabled its passengers to feel the spirit of Christmas as celebrated in Croatia. Wines and dishes customarily served at Christmas time in many Croatian households were offered on flights.

Business environment and operational risks

Environment in Croatia

In 2012, Croatia's economy failed to start the desired recovery and thus, just like many other countries, recorded a fall in the economic activity. GDP saw a real decline of 2%, contributing to the decline in the economy for the fourth year in a row. The GDP fall was not a surprise, since all leading indicators clearly pointed to this.

Industrial production recorded a fall for the fourth consecutive year. An annual decline of 5.5% in 2012 was the highest one since 2009. This reflects the collapse in personal consumption, and is also a result of the restructuring process and the closing of a part of the non-competitive production capacities.

Labour market trends are particularly worrying. The average annual unemployment rate reached 19.1%, the highest level since 2003. According to the Eurostat's data, the unemployment rate of persons under 25 years of age was 45.8% at the end of the last year, among the highest in Europe.

The average inflation rate was 3.4% in 2012, with the prices of food and energy having major influence on the price growth.

The economic crisis did not affect Croatia's tourism, and the year of 2012 was, in non-pecuniary indicators, the most successful tourist year since Croatia became independent. Altogether 11.8 million of tourist arrivals were registered, or 3.3% more than a year before, with altogether 62.7 million overnight stays, or 4% more than in 2011. The year of 2012 thus reached a new record level of the number of total overnight stays in the past twenty years. Such trends were mostly a result of an increased number of overnight stays of foreign tourists, while those of local tourists faced a decline. Tourists from Germany were the most numerous, as in the previous years, followed by the guests from Slovenia, Austria, Czech Republic, Italy and Poland.

According to the data of the State Statistics Bureau, traffic at Croatia's airports (number of aircraft operations) recorded a minimum growth of 0.3% compared to 2011. Passenger traffic at Croatia's airports saw a 6.7% growth (5.96 million passengers), with Croatia Airlines' market share being about 40%.

Following the adopted Business Plan for 2010-2013, in 2012 Croatia Airlines continued implementing its plan for exiting the crisis marked by great operating losses.

In late December 2011, Croatia Airlines' Supervisory Board confirmed the start of the recovery and restructuring process. Due diligence and the development of the restructuring plan started in late March 2012, and the process included strategic, financial and operational restructuring. The restructuring of the Company is necessary in order for Croatia Airlines to ensure long-term, sustainable operations in line with the European regulations and practices. The Supervisory Board adopted the Restructuring Plan in October, and it was presented to the Company owner (the Government of the Republic of Croatia).

A capital injection is one of the key financial presumptions for the restructuring of Croatia Airlines. On 27 December 2012, Croatia Airlines held an extraordinary assembly at which a decision was made on the capital increase by the Republic of Croatia based on the rights issue, related to the issued state guarantees and belonging interest in the amount of HRK 862.2 million.

The economic situation is a key factor for the development of air traffic, and Croatia Airlines' operations are closely tied to Croatia's economic reality and depend on the state of the economies of the countries that represent the main feeder markets for travels to Croatia, particularly when it comes to tourism. Public debts and fiscal deficits in the eurozone were predominant factors in 2012, along with high unemployment and a threat of a new wave of recession. These circumstances greatly affected Croatia's economy as a whole, and thus the operations of Croatia Airlines.

In 2012, Croatia was still faced with the problem of the air traffic value chain that could be resolved if the state, which, in addition to Croatia Airlines, owns another eight airports, the flight control and the monopolist fuel supplier INA, would apply the strategic approach.

As opposed to numerous low-cost carriers that operate mostly in high season, Croatia Airlines operates throughout the year. More than half of all passengers on the Croatian airline market are transported in the third quarter, when over 90 rival airlines operate. However, the competition in the winter summer schedule is minimal, which is understandable considering the low level of demand.

International environment

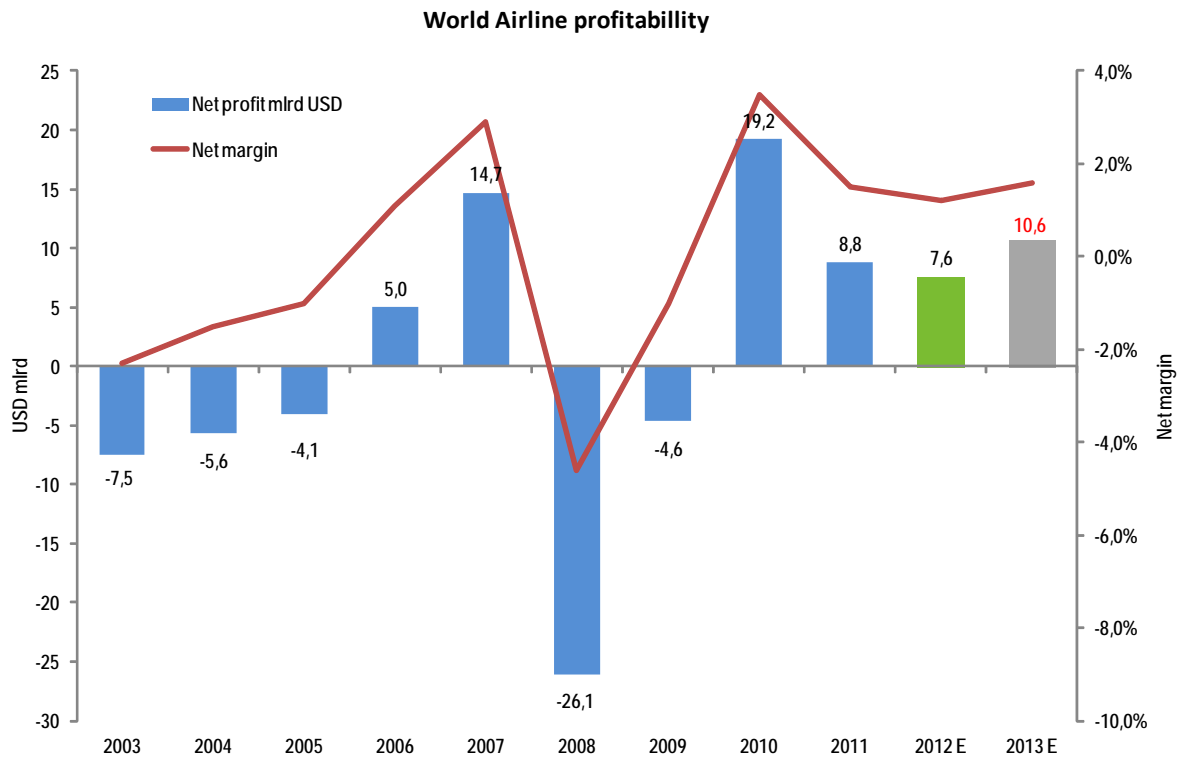
Global economy is still faced with major economic and financial problems. In January 2013, the International Monetary Fund released the revised World Economic Outlook, forecasting lower growth rates compared to the ones projected in October 2012. The International Monetary Fund again warned of the slowdown in the economic recovery despite the governments' efforts to encourage growth.

The global economic growth rate stood at 3.2% in 2012, with a 3.5% growth rate being expected in 2013. The economy in the eurozone saw a 0.4% decline in 2012. A 0.2% fall is expected in 2013, with no recovery being anticipated before 2014.

The greatest risks to the global economy still come from the eurozone countries and political instabilities related to the U.S. fiscal policy.

Recession in the eurozone further deepened in the final quarter of 2012, as shown by the data released by the European statistics bureau Eurostat. The economies of 17 countries with the euro as the official currency saw a 0.6% decline, much greater than projected by experts. This is also the greatest fall since the start of 2009. The information on the fall of economic production in Germany, France and Italy was also unexpected.

According to the forecasts of the International Air Transport Association IATA released in March 2013, the airline industry's net profit in 2012 totalled \$7.6 billion, with the operating margin of 2.3%. Despite the high fuel prices and a slowdown in the economic growth, the net profit forecasts are more optimistic than the initial ones, owing to an increase in airlines' profit. In 2013, their profit should reach \$10.6 billion, reflecting improvements in the air traffic sector. Besides the African airline companies, the European ones are also faced with a difficult position, as a result of the eurozone crisis (net profit totalled \$0.3 billion in 2012, while that for 2013 is seen to reach \$ 0.8 billion).



Source: IATA, March, 2013

In 2012, the average price of oil per barrel was \$111.8 (\$111.2 in 2011). The fuel costs amounted to \$209 billion (\$176 billion in 2011), making up 33% in the overall operating costs structure (30% in 2011). Passenger traffic faced a 5.3% growth, while cargo transport saw a 2% decline.

According to the data issued by the Association of European Airlines (AEA) in January this year, the European carriers – AEA members – transported 2.4% passengers more in 2012 (altogether 370 million passengers), while the PLF was 1.7pp higher, i.e. 79.1% (including long-distance traffic with the load of 82.9%); the PLF for the European route area, comparable with Croatia Airlines’ flight network, was 73%. These encouraging traffic indicators failed to reflect on the financial results of the AEA members. The operating loss of EUR 1.3 billion is projected, with the operating margin of -1.3%, as a result of the crisis of the European economy, high fuel prices, hikes in the costs caused by the depreciation of the euro, and regulatory constraints.

The bankruptcy of Spanair (Spain), Malev (Hungary), Cimber Sterling (Denmark) and Cirrus (Germany) points to the highly present negative trends and the extremely difficult situation in the European airline industry. The Czech Central Connect Airlines, Swedish Skyways and Air Finland have suspended all flights and ceased to operate. Airline carriers throughout Europe are undergoing transformations and restructuring with an uncertain outcome, which is particularly evident in SE Europe. All airlines in the region are faced with great problems. The loss of Adria Airways totalled nearly \$100 million in the past two years, while JAT Airways, Montenegro Airlines and BH Airlines are also in great difficulties; however, both IATA and major aircraft manufacturers Airbus and Boeing see this region as promising in terms of air traffic growth.

Operational risks

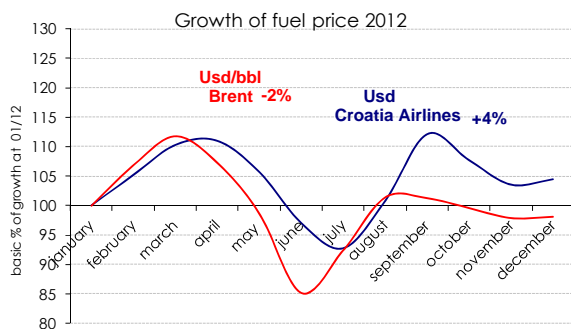
The global airline industry, including Croatia Airlines, is exposed to the effects of numerous external factors and risks. This primarily refers to global crises and natural disasters (wars, pandemics, volcanic eruptions, terrorist attacks). In its operations, Croatia Airlines is exposed to the risks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

Recession and global economic crisis

Recession to which the global economies are exposed, i.e. which brings a decline in the living standards of potential passengers, affects the scope of airline traffic. Foreign citizens are the main generator of traffic in Croatia, which also represents one of the risks in Croatia Airlines' operations, given the dependence on the economic trends in its surroundings.

Fuel

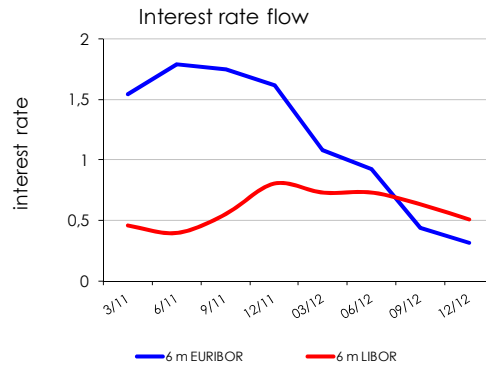
The price of jet fuel on the market has been exceptionally volatile in the past few years. In the first quarter of 2012, oil price movements were affected by the imposition of sanctions on Iran and the partial suspension of oil export from this country, along with the expectations that the geopolitical situation might become even worse. On the London stock exchange, Brent oil traded at the price exceeding 100 \$/bbl. The crisis in Europe resulted in the oil price falling under 100 \$/bbl in June; however, it started growing again in July. In September, it ranged between 108 and 114 \$/bbl. The oil price growth was a result of the increased margins due to repairs that the refineries underwent during the summer months, tensions over sanctions imposed on Iran, situation in Syria, and speculations that China and the U.S.A. would provide incentives for the recovery of their economies. The fourth quarter was marked by the U.S. election campaign followed by the usual price fall. The average price of Brent oil on the London stock exchange was 112 \$/bbl in 2012, which is the highest average price recorded so far. On the other hand, there are still concerns on the market over the deepening of the debt crisis in Europe and reduced demand for oil.



The average price at which Croatia Airlines purchased fuel in 2012 was 1.053 USD/t, or 47 USD/t lower than the planned one. In 2011, the average fuel supply price was 1.047 USD/t. The fuel cost amounted to HRK 379.5 million in 2012, or HRK 42.9 million more compared to 2011, making up 22.0% of the overall operating costs, up from the 20.6% in 2011.

Interest risk

By taking long-term loans at variable interest rate, the Company is exposed to interest-related risk, too. Compared to the end of 2011, Euribor faced a significant fall, while Libor declined at a somewhat lower rate.

**Cash flow risks**

The Company has been managing the liquidity risk by regularly monitoring the liability maturity and maintaining adequate and sufficient sums of ready cash and deposits for covering its due financial expenses.

In early 2012, Croatia Airlines financed its current liabilities from the HRK 7.5 million worth short-term loan taken with HPB, which was fully repaid in June 2012. The short-term loan taken with PBZ (in the same amount) and utilized in late 2011 was fully repaid in July 2012. In late 2012, the Company utilized short-term loans extended by PBZ and HPB, worth altogether HRK 14.9 million.

In June and December 2012, the Government of the Republic of Croatia financed, on the basis of the realized guarantees, the repayment of six-month instalments of the fleet refinancing loan extended by Bayerische Landesbank. The settlement of loan instalments by the state is an integral part of the planned financial flow of operations within the Financial Recovery Plan approved by the Croatian Competition Agency as the basic document for the Company's restructuring.

Currency risk

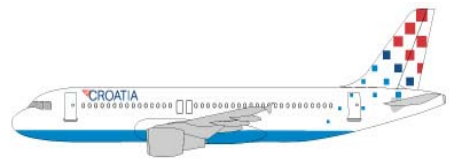
Financing the fleet by taking loans denominated in foreign currencies exposes the Company to a risk of negative effects of changes in foreign currency exchange rates versus HRK. The Company has been setting off this exposure with the revenues from ticket sales abroad, thus realizing inflows used for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

Fleet and capacities

In 2012, Croatia Airlines operated a fleet of altogether 13 aircraft: seven Airbus aircraft, one of which was under an operating lease, and six Q400 aircraft, all under an operating lease. In February, seat replacement started on the existing A319 fleet, with the number of seats being increased from 132 to 144. By the end of May, the seats on all four A319 were replaced, by which the capacity was increased by 48 seats, now totalling 1,518 available seats. The new ergonomically shaped seats with thin backs take up less space than the previous ones, which enabled the installation of another two seat rows in each aircraft. The new seats are much lighter, thus enabling lower fuel consumption and lower emission of harmful gases in the atmosphere, and greater comfort.

A 320 – 3 aircraft

The aircraft has 162 seats – altogether 486 seats



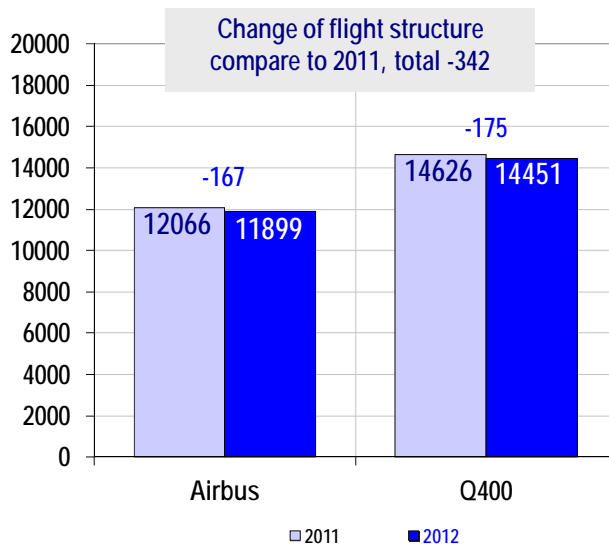
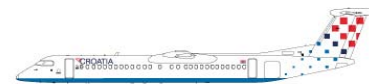
A 319 – 4 aircraft

The aircraft has 144 seats – altogether 576 seats



Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats



In 2012, Croatia Airlines' aircraft realized the block time of 38,859 block hours, or 2% more compared to the previous year. They flew 27,277 flights, i.e. 1% fewer than in 2011. The same as in 2011, the Q400 fleet realized greater block time, in line with the adjustments of the capacity offer

to the market demands.

In 2012, Croatia Airlines took into lease *ad hoc* aircraft that flew altogether 106 flights for the purpose of covering the flight schedule, particularly in the summer months, and for extraordinary situations such as various traffic disturbances, aircraft repairs, etc.

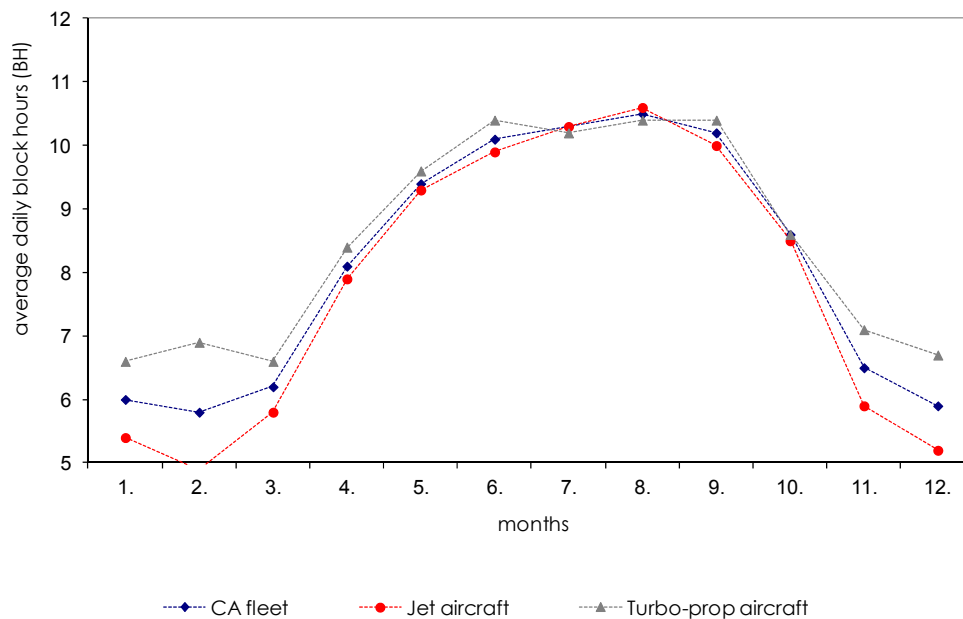
Fleet utilization

type of aircraft	Ø number of aircraft	Ø daily block hours (BH)	utilisation growth 12/11
Airbus A320	3	6,8	1,5%
Airbus A319	4	8,5	-2,3%
Q-400	6	8,5	4,9%
TOTAL	13	8,1	1,3%

Croatia Airlines' fleet flew on average 2,989 block hours per aircraft in 2012, which represents a 1.3% increase compared to the 2011 result. The increased utilization is a result of the increased flight duration.

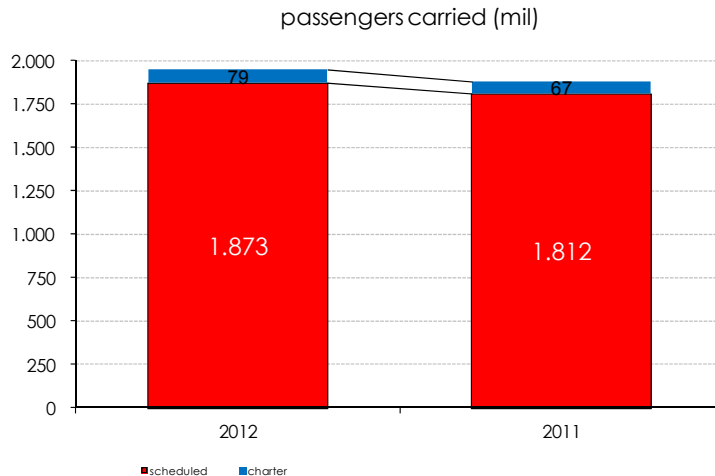
The average number of aircraft at the level of the entire year, i.e. 13.13 aircraft, was 0.5% higher than the average in 2011. The average seat-kilometres (ASKM) increased by 6%, and passenger kilometres rose by 9%.

CA fleet utilization by month



The market

The continued **positive sales trend in 2012** (+10% in financial terms) resulted in higher numbers of transported passengers, record passenger cabin load and higher passenger yield compared to 2011.



The **number of passengers** rose by 4% compared to the 2011 result. The number of passengers in the **domestic scheduled traffic** fell by 1%, while of those in the **international scheduled passenger traffic** saw a 5% increase compared to 2011.

Altogether 78,700 passengers were

transported within the **charter traffic**, or 18% more compared to 2011. Charter traffic makes up merely 4% of the total traffic.

In 2012, cargo transport in tonnes saw a 7% increase compared to 2011.

Given a more favourable capacity structure and an increase in the number of passengers, the **passenger load factor (PLF)** was **69.1%**, and the **weight load factor (WLF)** was **67.4%**.

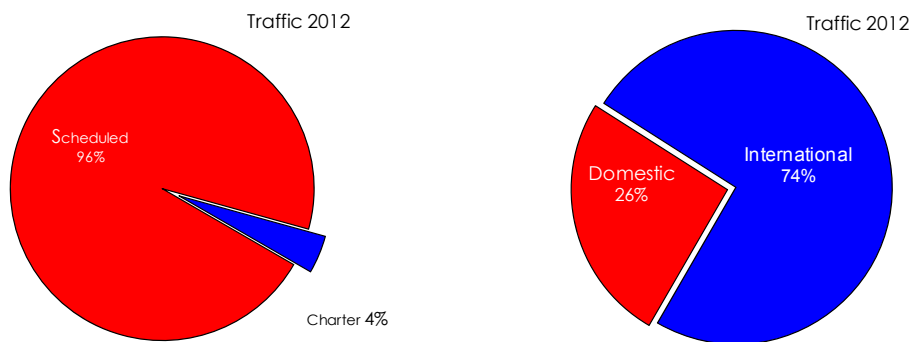
In 2012, Croatia Airlines directly connected eight destinations in domestic scheduled traffic and 24 destinations in international Euro-Mediterranean traffic. It developed its destinations network with the help of the existing and new commercial cooperation agreements with the Star Alliance members - Lufthansa, Austrian Airlines, TAP Portugal, SAS, Swiss, Turkish Airlines, Brussels Airlines, Spanair⁴ and British Midland⁵. In June 2012, Croatia Airlines renewed commercial cooperation with US Airways. The Company utilizes all comparative advantages of the Alliance membership for strengthening its market position. In 2012, Croatia Airlines connected some 50 destinations in scheduled and charter traffic, and through commercial cooperation.

Altogether 1.951,501 passengers were transported, or 72,485 (+4%) more compared to 2011. On 18 July 2012, Croatia Airlines recorded its millionth passenger, the earliest in its history. The traffic results realised in 2012 have an additional value since even the record year of 2011 was excelled (20 July), in which the millionth passenger was recorded as many as 27 days earlier than in 2010. In July 2012, a record number of 236,890 passengers were transported, or 4% more compared to the month that had previously held this record - July 2011.

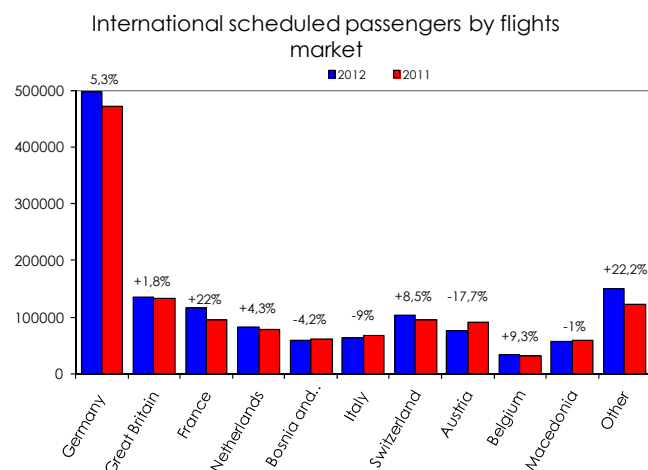
Altogether 500,956 passengers were transported within the domestic scheduled traffic, 1.371,848 within the international scheduled traffic, and 78,697 within the charter traffic.

⁴ The commercial cooperation between Croatia Airlines and Spanair lasted until the end of January 2012. Spanair went bankrupt in 2012.

⁵ The commercial cooperation between Croatia Airlines and British Midland lasted until the end of May 2012. After being taken over by British Airways, British Midland cancelled its Star Alliance membership.



In the international scheduled traffic, 5% more passengers were transported in the observed period, i.e. 64,851 passengers more compared to 2011. Given a 6% increase in the capacities offered, the passenger load factor (PLF) saw a rise on all markets, except for the Austrian market, while it retained the same level as in 2011 on the markets of Great Britain, Macedonia, and Bosnia and Herzegovina.

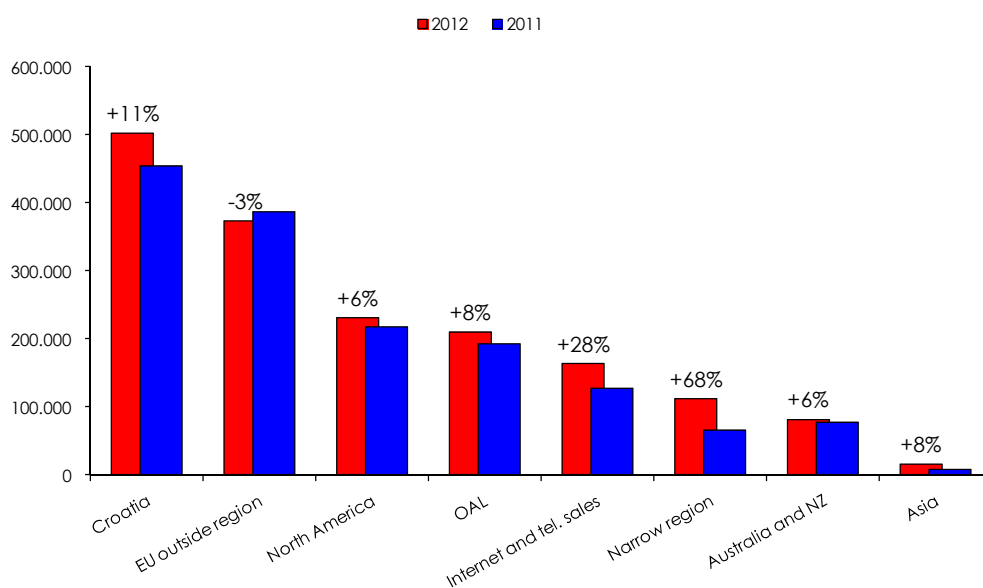


On 25 March, Croatia Airlines' aircraft started flying according to the summer flight schedule, with the flights being adjusted to passenger needs, particularly during the tourist season, as well as to the fleet capacities. Croatia Airlines invested a great effort to maximally expand its offer and flight possibilities by introducing scheduled and charter lines in new destinations. It introduced new routes within its summer flight schedule, such as: Zadar-Frankfurt as of 27 April – twice a week (Mondays and Fridays), Zadar-Paris offered from 1 May to the end of October (Tuesdays), Zadar-Munich offered from 1 May to 4 October (Tuesdays and Thursdays), and Zadar-Zurich offered from 30 April to 28 September (Mondays and Fridays). From 5 June to the end of October, the Company offered direct international flights (on Tuesdays) from Rijeka to Barcelona, and Rijeka was from 25 April 2012 directly connected to London. On 1 June, direct flights on the route Split-Belgrade were introduced for the first time, available twice a week (Mondays and Fridays). From 29 March to the end of October, passengers were offered direct flights on the route Zagreb-Barcelona (Tuesdays, Thursdays and Sundays), and from 8 May to 16 October on the route Zagreb-Athens-Dubrovnik. Dubrovnik was additionally connected with Istanbul on Sundays and with Venice on Thursdays and Sundays (from 27 May to 17 October).

In order to further expand Croatia's tourist potentials, the Company introduced more seasonal flights, directly connecting the German cities of Berlin, Dusseldorf, Frankfurt, Hamburg and Munich with the Adriatic airports and Zagreb. In domestic traffic, in addition to everyday scheduled flights, the seasonal routes Zagreb-Bol and Split-Osijek were introduced. From 28 October 2012, Croatia Airlines' aircraft flew according to the winter flight schedule (until 30 March 2013). One of the novelties was the introduction of everyday flights on the route Zagreb-Istanbul, as opposed to the 2011 winter schedule that offered three flights a week.

Despite the aggravated economic conditions, **Croatia Airlines increased its total sales** in 2012 **by 10%, i.e. by HRK 159.3 million**, compared to 2011.

Growth by sales market (000 HRK)



The sales through the Company's own sales channels (branch offices and representative offices) increased by 8%, BSP sales⁶ rose by 10%, and the sales via other channels saw a 39% rise compared to the same period in 2011. In 2012, ticket sales through the Internet saw a rise. Bookings through the Internet service FlyOnLine recorded a 17% rise, while the Internet sales grew 5pp, in financial terms, compared to 2011. Telephone sales registered a 29% increase in 2012.

The **domestic market sales declined by 3%** compared to 2011. The **sales on the foreign markets rose by 14%** as a result of increased sales on the American and Australian markets, as well as on the European markets (primarily those of the European Union). The sales on the American market saw a 4% rise, with their share in the total sales being 13%. The sales on the Australian market grew continually, and was 65% higher compared to 2011, reaching 6% in the total sales, which makes Australia the sixth market in terms of the sales volume. The markets of France, Germany, Great Britain, Slovenia and the Netherlands registered the greatest absolute rise, while the markets of Sweden, Italy and Portugal faced a fall. Outside the European Union, a significant rise was recorded on the Swiss and Norwegian

⁶ In March 2012, the sales on the BSP market of Canada started, as planned for this business year.

markets. The sales by other airlines also went up, by as much as 7%, testifying to the improved product offer within the flights network. Croatia Airlines realized about 64% of its total sales on foreign markets. This success is a result of the improved flight schedule and stronger development of the network carrier model. The Company introduced a number of new routes and intensified its activities on the existing markets, in line with its development guidelines aimed at strengthening its position of a regional leader in SE Europe. Since 27 June, Croatia Airlines and US Airways have been applying the code share agreement on cooperation in passenger transport between the Republic of Croatia and the U.S.A. Owing to the agreement, Croatia Airlines' passengers are provided with an even better access to the States and the benefit of purchasing a uniform ticket. The same benefit is available to the passengers of US Airways flying to Croatian destinations. Croatia Airlines' passengers travelling from Zagreb via Amsterdam, Brussels, Frankfurt, London (Heathrow), Munich and Zurich can now access Charlotte and Philadelphia, US Airways' hubs on the U.S. East Coast. Croatia Airlines also prides its code on US Airways' flights within the States, from Philadelphia to Cleveland, Dallas/Fort-Worth and St. Louis. Furthermore, this cooperation enables the passengers of US Airways to fly to Zagreb via the abovementioned European destinations. As a national flag carrier, Croatia Airlines keeps up with the development guidelines of the Republic of Croatia and the national strategic economic goals. Connecting the homeland with the rest of the world contributes to Croatia's overall export, as well as to the development of the country's tourism.

In the first half of 2012, Croatia Airlines intensified its marketing activities on the European markets, as a part of its preparations for the upcoming season, with special emphasis on advertising on the German market. February was marked by the following two promotional campaigns: *St. Valentine's Day Travels for Couples at EUR 250*, which promoted the purchase of tickets for two persons travelling together, and *Athens and Barcelona*, which referred to the purchase of an airline ticket from any Croatian destination to Athens and Barcelona at the promotional price of EUR 129, with the goal of increasing the number of passengers on these routes. In March, the Company promoted a special price of EUR 99 for one-way flights from Dalmatian to European destinations. On 5 April, Croatia Airlines marked the 20th anniversary of its first international flight, offering on this date return tickets for travels from Croatia to Europe at the price of EUR 129 only. In April, it offered a certain number of seats on one-way flights within Croatia at the price of HRK 249. In May and June, the new route Split – Belgrade was promoted, at the price of EUR 126 for the return ticket, i.e. EUR 87 for the one-way ticket. From 21 to 23 September, a weekend promotional campaign *Travel Europe from as little as EUR 119* was promoted. During the final week in September, the campaign *From SJJ/SKP/PRN/TGD to Europe and Croatia at EUR 139* was promoted, while promotional sales of tickets *From Croatia to Barcelona at EUR 128* and the promo tariff for flights to London were offered after 9 December 2012. For the purpose of increasing the number of passengers on domestic flights in the winter period, Croatia Airlines promoted in October the campaign *Couple Travels at HRK 800*. In December, passengers were offered tickets for flights from Croatia to Amsterdam, Brussels, Istanbul, Copenhagen, London, Paris, Rome and Zurich at the price of EUR 129, and tickets for one-way flights at the price of HRK 249 within the promotional campaign "Travel Croatia".

Croatia Airlines has been continually promoting its new and old routes on the foreign markets. In order to attract as many passengers as possible via Facebook and its webpage, it introduced voting for the destination of the month. Three destinations are presented each month, and the one with the highest number of votes is offered at a

promotional price for the online purchase of tickets. Paris was the destination of the month in January, Skopje in February, Istanbul in March, Zurich in April, Munich in May, Brussels in June, Skopje again in September, Zurich again in October, and Rome in November.

For the purpose of boosting direct ticket sales via *www.croatiaairlines.com*, Croatia Airlines continually appears on search engines on the Croatian market, and on the markets of Germany, Switzerland, Italy, Great Britain, the Netherlands and France, where it continues advertising via Google. Croatia Airlines regularly communicates with its service users via Facebook, too. In late December, the number of its Facebook fans reached some 49,000.

Financial operations

Profit and loss account

(000 HRK)	2012	2011	Index 12/11	2010
Passenger traffic	1.428.940	1.319.170	108	1.109.174
Cargo traffic	20.549	16.132	127	19.498
Other revenues	233.559	252.940	92	257.863
OPERATING REVENUES	1.683.048	1.588.242	106	1.386.535
Flight operations	618.140	561.980	110	453.831
Maintenance	154.936	144.850	107	153.516
Passenger services	113.424	101.636	112	89.761
Aircraft and traffic services	374.346	362.327	103	335.055
Promotion and sales	234.676	221.373	106	224.013
General and administ. expenses	88.381	86.908	102	88.267
Amortization	130.215	140.074	93	148.071
Other expenses	14.681	13.740	107	18.652
OPERATING EXPENSES	1.728.798	1.632.888	106	1.511.166
PROFIT/LOSS FROM OPERATIONS	-45.750	-44.646	102	-124.631
Interest expense	-19.031	-26.167	73	-23.131
Interest revenue	1.544	1.312	118	647
Foreign exchange differences, net	52	-4.195	-	-6.192
Other financial expenses	-2.117	-2.052	103	-3.564
Other financial revenues	564	202	279	318
NET FINANCIAL EXPENSES (excluding extraordinary items)	-18.987	-30.898	61	-31.923
NET PROFIT/LOSS	-64.738	-75.544	86	-156.554
Impairment of long-term assets	-298.934	-		
Interest charges on paid overtaken guarantee	-77.808	-38.530		
Restructuring costs	-40.858	-		
Reserved costs of litigation	-5.830	-		
NET FINANCIAL EXPENSES (including extraordinary items)	-488.167	-114.074		

Note: The Profit and Loss Account in the Annual Report of the Management differs from that shown in the Auditor's Report due to differently declared non-recurring items (calculated and charged interest on the basis of the guarantees paid by the state and the calculated dispute costs), and for the purpose of providing a more realistic overview and comparison of the operating result compared to 2011.

Pursuant to the Decision of the Government of the Republic of Croatia on granting approval for an increase in the stock capital of Croatia Airlines d.d. by converting the debts related to the paid guarantees, based on the calculation of 19 October 2012 (Ministry of Finance), the default interest on the paid guarantees totals HRK 210.3 million and is included in the total capital injection amount.⁷ Of the totally calculated interest, HRK 77.8 million directly burdens the current result for 2012 (calculated

⁷ Article 3 of the Decision of the Government of the Republic of Croatia on granting approval for an increase in the stock capital of Croatia Airlines d.d. by converting the debts related to the paid guarantees reads as follows: Siniša Hajdaš Dončić, PhD, Minister of Maritime Affairs, Transport and Infrastructure, is hereby authorised to approve at the Extraordinary Assembly of Croatia Airlines d.d. to be held on 27 December 2012 the Decision on the Capital Increase Through Rights Issue and New Shares and the Decision on Amendments to the Company's Articles of Association, in the text the Management and the Supervisory Board propose to the Company's Assembly, with an amendment to the proposed amount, by which the stock capital is increasing by HRK 651.889,400.00 to HRK 862.227,400.00, with the latter including default interest in the amount of HRK 210.338,344.82, and consequently the number of new ordinary shares.

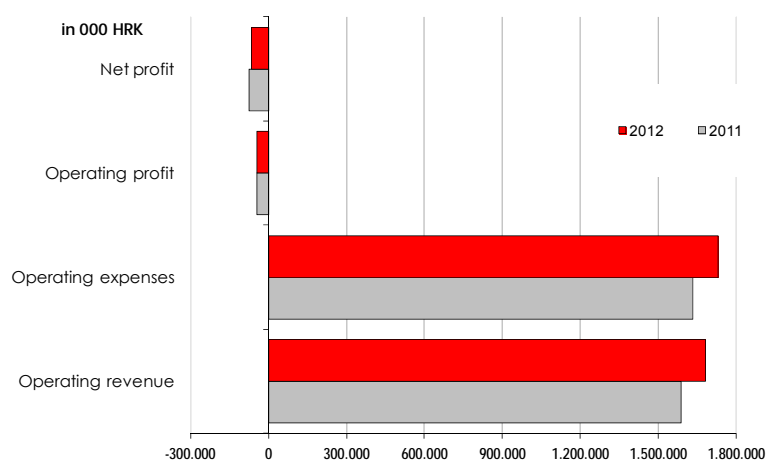
and charged interest by the end of 2012). The remainder of the calculated interest, together with the previously earned guarantees in 2012 was ascribed to the loss carried forward.

For the interest referring to 2011, the results for the same year were retroactively corrected by the amount of HRK 38.5 million for the purpose of providing a realistic overview.

In the auditor's report for the profit and loss account, the revenues and costs of the booking system were shown as a net result within the promotion and sales costs item, and this Report, as well as all internal reports, declare revenues and costs by the gross principle (revenues from the booking system within other revenues, and costs within the promotion and sales costs).

A 6% increase in the operating revenues in 2012 compared to the year before was followed by the same rate of increase in the operating costs.

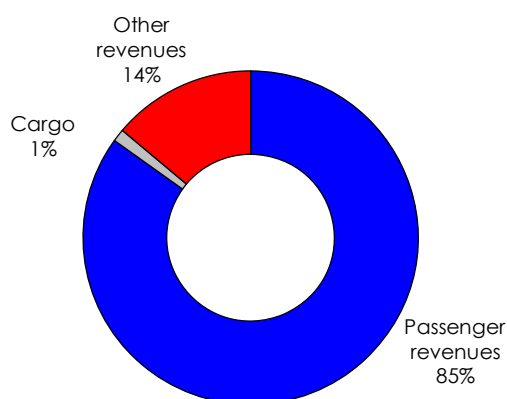
The Company's operating loss totalled HRK 45.8 million, or 2% more compared to 2011. The generated loss, excluding extraordinary items, totalled HRK 64.7 million, or 14% less than that in 2011. After including the items related to the restructuring process (correction of the value of fixed assets, interest on the paid guarantees, restructuring costs) and the estimated value of disputes the Company was a party to, the overall loss at the end of 2012 totalled HRK 488.2 million.

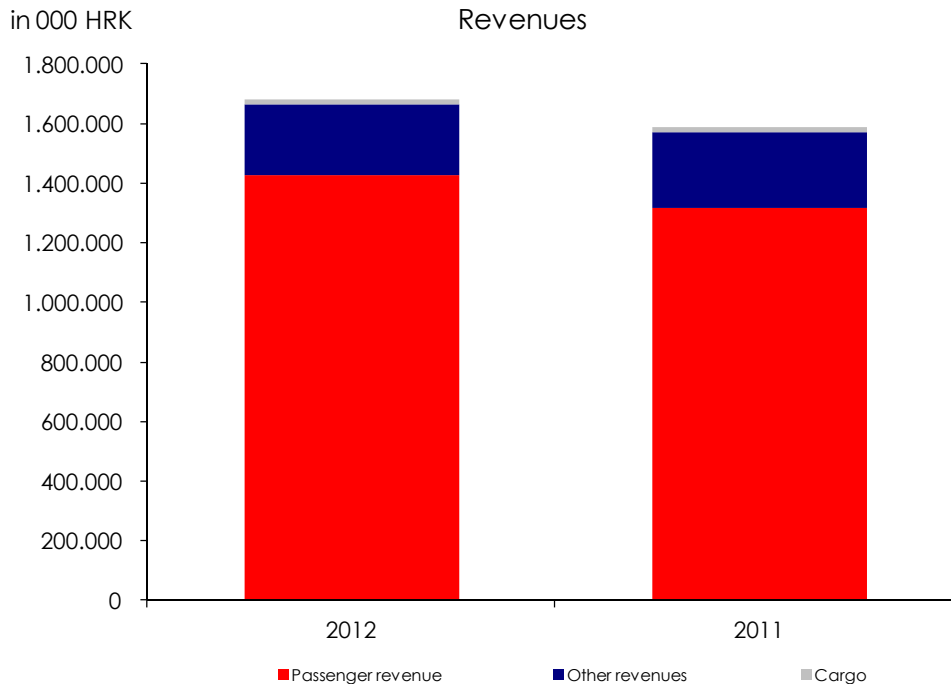


Passenger revenues increased 8%, as a result of a 4% rise in the number of passengers and the higher passenger yield.

The **share of passenger revenues in operating revenues** totalled 85%, or 2% more compared to 2011, as a result of a 4% increase in the number of passengers in 2012. The **revenues from cargo transport** were 27% higher, thus annulling the great decline in cargo transport revenues recorded in 2011 (2012/2010 +5%). **Other operating revenues** were 8% lower, mainly due to reduced PSO subsidy for domestic operations and lower technical sector revenues.

Structure of operating revenues 2012





The operating costs were 6% higher than those in 2011.

All cost categories within the operating costs saw a rise, except for amortization costs - as a result of the aircraft value adjustments.

Flight costs were 10% higher, primarily due to increased fuel costs, but also as a result of higher aircraft lease costs, salary costs and ETS⁸ costs in 2012.

Maintenance costs went up 7% due to higher aircraft maintenance costs, expendables costs and costs of personnel due to the application of new items under the collective agreement in force from 1 October 2011 (signed in May 2011).

The **costs of passenger services** rose by 12% amidst higher attendance costs and complaint costs, increased number of passengers and greater cabin personnel costs as a result of the application of new items from the collective agreement in force from 1 October 2011 (signed in May 2011).

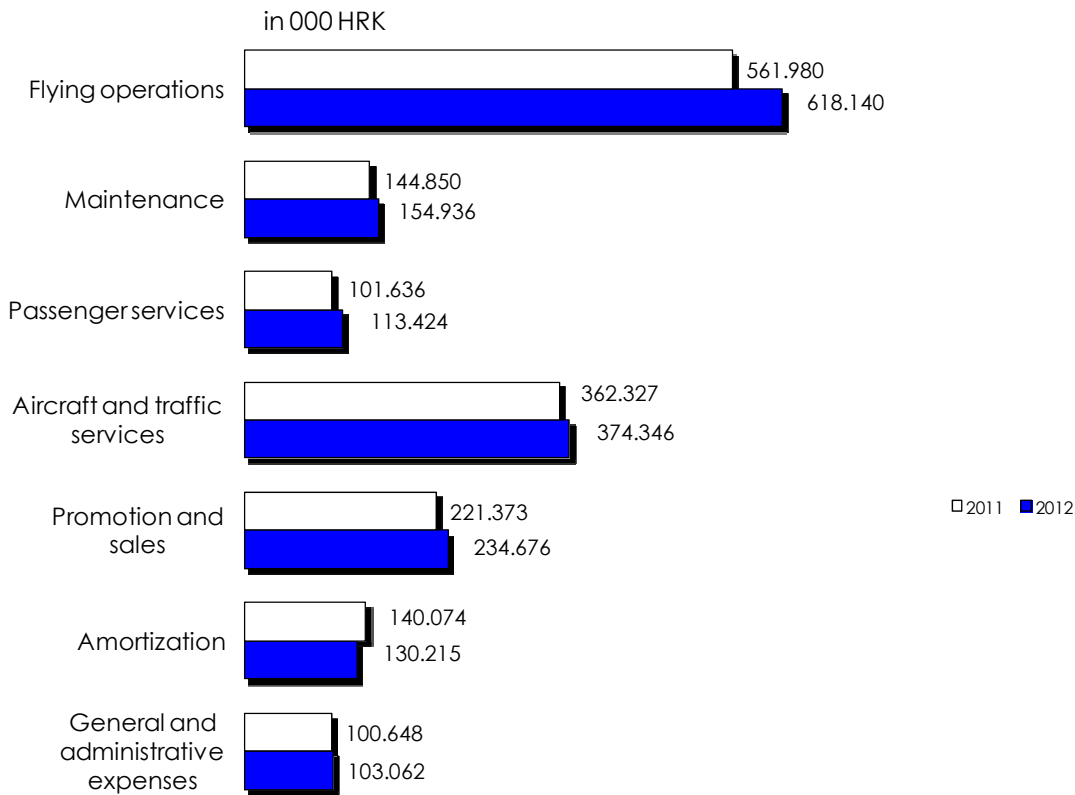
The **costs of air traffic services** grew 3% due to higher airport costs resulting from greater variable costs per passenger and greater passenger handling prices based on the application of CPI (Consumer Price Index) in certain countries. The route and navigation costs rose due to higher unit costs of flights over certain countries and increased block time of the A320 fleet on longer routes.

Promotion and sales costs were 6% higher compared to 2011 due to higher commission and booking system costs amidst greater sales, increased number of passengers, and higher promotion costs.

⁸ ETS – the international Emissions Trading Scheme aimed at the reduction of greenhouse gases in the European Union. In 2008, the final regulations were adopted on including in the European Emissions Trading Scheme (EU ETS) all airline companies operating in the European Union and those flying to and from airports in the European Union. After extensive and complex preparations for the participation in the 2009-2011 period, airline companies started paying emissions within the EU ETS in 2012.

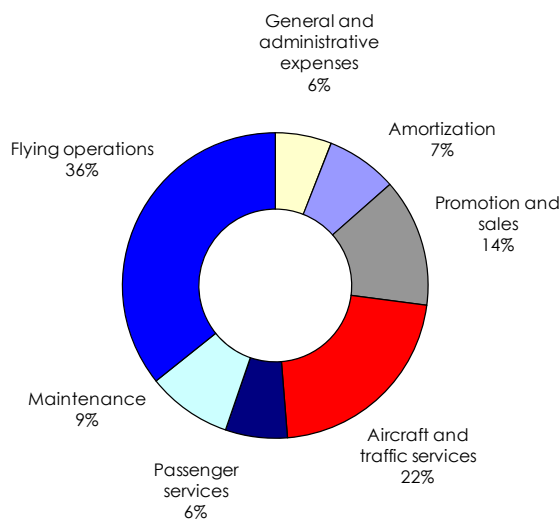
General and administrative costs increased 2% as a result of higher salaries in line with the provisions of the collective agreement of 1 October 2011 and other various cost categories.

Other expenditures were higher due to increased expenditures related to capital assets, and higher costs in the previous year compared to 2011.



Flight costs and air traffic services costs make up the highest share in the operating costs. The share of flight costs in the operating costs rose by 2% in 2012, due to higher fuel costs compared to 2011, while the share of air traffic service costs remained on the same level.

Structure of operating expenses 2012



Assets, financing and investments

Statement of accounts

(000 HRK)	End 2012	Plan 2012	Index 2012/plan	End 2011	Index 2012/end 2011
ASSETS					
Non-current assets	787.159	1.243.133	63	1.326.911	59
Current assets	291.870	239.727	122	216.813	135
TOTAL ASSETS	1.126.196	1.516.404	74	1.580.665	71
Capital and reserve	143.405	-145.425	-99	140.596	102
Provisions	54.847	1.835	-	858	-
Non-current liabilities	238.345	1.043.043	23	837.562	28
Current liabilities	667.115	610.812	109	590.193	113
TOTAL LIABILITIES	1.126.196	1.516.404	74	1.580.665	71

Note: The capital, reserves, and long-term liabilities items were corrected in 2011 by the amount of HRK 187.7 million, based on the liabilities assumed by the Government of the Republic of Croatia in relation to the settling of the debt to the consortium of banks and the interest charged on the same basis.

The value of the fixed assets was 37% lower at the end of the year, compared to 2011, as a result of the implemented aircraft value adjustments. At the same time, the value of the current assets rose by 24% amidst higher receivables, supplies and funds. The overall assets level was 26% lower compared to 2011.

Capital and reserves totalled HRK 143.4 million at the end of 2012, as a result of the state's capital injection by converting the debt into equity, and the result achieved in 2012.

Provisions in the amount of HRK 54.8 million mostly refer to the costs arising from the restructuring process (provisions for severance pays and supplemental pension purchase in the amount of HRK 37.2 million, and other provisions in the amount of HRK 3.6 million). The rest comprises provisions for interest on the RC's guarantee worth HRK 7.3 million, and provisions for disputes and damages totalling HRK 6.7 million.

The Company's long-term liabilities reduced (77%) due to decreased long-term liabilities to the state, upon converting the debt owed to the state into equity.

The short-term liabilities increased by 12% due to higher short-term loan liabilities and higher short-term liabilities to suppliers.

At the end of 2012, Croatia Airlines' loan liabilities with local banks totalled HRK 143.9 million, of which HRK 95.1 million were long-term (medium-term) liabilities, and HRK 48.9 million were short-term liabilities. The remainder of the principal of the long-term loan owed to the foreign consortium bank amounted to HRK 313.4 million.

Investments in 2012

Investments	2012	2011	2010
Investments in aircraft	55.067.252	26.389.987	46.931.219
Investments in spare parts, tools and equip.	9.150.369	9.495.456	12.037.197
Construction investments	0	5.500	105.773
Intangible assets	3.346.970	6.885.960	7.116.641
Other equipment	2.881.499	3.488.377	520.805
Total	70.446.090	46.265.280	66.711.635
Maintenance Reserve	1.783.010	22.628.866	2.156.562
Financial investments in aircraft (predelivery financing and aircraft deposits)	0	0	4.790.018
Other financial investments	0	144.390	147.378

In 2012, only the **imperative investments** needed to maintain the operations safety were made.

Investments into aircraft totalled HRK 55.1 million and referred to engine overhauls, 12-year check-ups on 9A-CTK and 9A-CTL aircraft, and seat replacements on A319 aircraft.

In addition to the above investments, C checks were carried out internally on five Q400 (CQC, CQB, CQA, CQF and CQE) and one Airbus (CTH).

Investments into spare parts totalled HRK 9.2 million.

Investments into intangible assets amounted to HRK 3.3 million, and they mostly referred to investments into the software and into third persons' property (construction facilities). Investments into **other equipment** totalled HRK 2.9 million.

Maintenance reserves (investments into future aircraft and engine maintenance works) amounted to some HRK 1.8 million.

Cash flow

Cash flow (000 HRK)	2012	2011	Index
Cash at the beginning of the period	22.142	51.362	43
Inflow from activities	1.593.623	1.440.655	111
Inflow from Government	84.836	88.200	96
Loans	22.313	7.450	300
Total inflow	1.700.772	1.536.305	111
Obligations	1.608.931	1.511.131	106
Investments	46.219	38.265	121
Loans	33.669	16.129	209
Total outflow	1.688.819	1.565.525	108
Net change for period	11.953	-29.220	-41
Cash at the end of the period	34.096	22.142	154

The cash flow level (inflow and outflow) and the cash balance were in 2012 higher compared to the previous year.

Greater operating inflows compared to the preceding year were a result of increased sales, while greater operating outflows resulted from increased liabilities to suppliers.

In early 2012, the Company utilized the short-term loan worth HRK 7.5 million, taken with HPB, for financing its current liabilities. The loan was fully repaid in June 2012. The short-term loan in the same amount, taken with PBZ, was utilized in late 2011 and fully repaid in July 2012. In late 2012, the Company took short-term loans with PBZ and HPB worth altogether HRK 14.9 million.

In June and December 2012, the Government of the Republic of Croatia financed, based on the realized guarantees, the repayment of six-month instalments for the fleet refinancing loan taken with Bayerische Landesbank. The covering of the loan instalments by the state is an integral part of the planned financial flow within the Croatia Airlines Financial Recovery Plan adopted by the Croatian Competition Agency as the Company's basic restructuring document.

Review of the Plan realization

Traffic performance indicators compared to the Plan

description			Realization 2012	Plan 2012
flights (km)	DIST	000	17.672	17.243
departures	FLTS		27.277	27.621
annual change rate		%	-1,2	-
block hours	BH		38.859	37.925
annual change rate		%	2,5	-
passengers carried	RPAX	000	1.952	1.959
annual change rate		%	-0,4	-
freight & mail carried	CGO	T	3.567	3.432
annual change rate		%	3,9	-
passenger km flown	RPKM	mln	1.441	1.377
available seat - km	ASKM	mln	2.086	2.045
passenger load factor	PLF	%	69,1	67,3
tonne km flown	TKM	mln	147	126
available tonne-km	ATKM	mln	218	229
weight load factor	WLF	%	67,4	55,3

In 2012, the fleet block time in BH increased by 2.5% compared to the Plan, while the block time in flights declined by 1.2%. The number of transported passengers was 0.4% lower compared to the Plan.

Profit and loss account

(000 HRK)	2012	PLAN 2012	Index
Passenger traffic	1.428.940	1.459.922	98
Cargo traffic	20.549	18.236	113
Other revenues	233.559	226.722	103
OPERATING REVENUES	1.683.048	1.704.880	99
Flight operations	618.140	586.526	105
Maintenance	154.936	146.894	105
Passenger services	113.424	114.290	99
Aircraft and traffic services	374.346	370.788	101
Promotion and sales	234.676	230.585	102
General and administ. expenses	88.381	86.297	102
Amortization	130.215	135.398	96
Other expenses	14.681	6.868	214
OPERATING EXPENSES	1.728.798	1.677.645	103
PROFIT/LOSS FROM OPERATIONS	-45.750	27.236	-168
Interest expense	-19.031	-26.348	74
Interest revenue	1.544	406	677
Foreign exchange differences, net	52	0	-
Other financial expenses	-2.117	-1.010	27
Other financial revenues	564	180	311
NET FINANCIAL EXPENSES (excluding extraordinary items)	-18.987	-26.771	71
NET PROFIT/LOSS	-64.738	464	-
Impairment of long-term assets	-298.934		
Interest charges on paid overtaken guarantee	-77.808		
Restructuring costs	-40.858		
Reserved costs of litigation	-5.830		
NET FINANCIAL EXPENSES (including extraordinary items)	-488.167		

The Company's net loss, excluding extraordinary items, totalled HRK 64.7 million. It is important to note the significant effect of the non-recurring items related to the restructuring of the Company (expenditure from the adjustment of the fixed assets value, expenditure from interest for the state guarantee, restructuring costs) on the overall business result, as well as the dispute costs totalling HRK 423.4 million, resulting in the final amount of HRK 488.2 million in 2012.

The realized revenues were 1% lower than planned, as a result of the 2% fall in passenger revenues.

The generated costs were 3% higher, with all cost categories except for passengers services (-1%) and amortization (-4% as a result of the implemented aircraft value adjustments) being higher than planned.

Statement of accounts

(000 HRK)	End 2012	Plan 2012	Index 2012/plan	End 2011	Index 2012/end 2011
ASSETS					
Non-current assets	787.159	1.186.065	66	1.326.911	59
Current assets	339.037	279.390	121	253.754	134
TOTAL ASSETS	1.126.196	1.465.455	77	1.580.665	71
LIABILITIES					
Capital and reserve	143.405	156.150	92	140.596	102
Provisions	54.847	194	-	858	-
Non-current liabilities	238.345	819.482	29	837.562	28
Current liabilities	667.115	478.783	139	590.193	113
TOTAL LIABILITIES	1.126.196	1.465.455	77	1.580.665	71

The value of assets, liabilities and capital was 23% lower than planned at the end of 2012. The value of the fixed assets was 34% lower than planned due to the implemented adjustments of the aircraft value with the market value, while the value of the current assets was higher due to a higher level of accounts receivable, greater supplies and cash balance.

The value of the capital and reserves was 8% lower than planned at the end of 2012. In 2012, the state increased the company's capital by converting liabilities into equity; however, the business result was additionally burdened by extraordinary items (aircraft value adjustments, company restructuring costs and state interest costs) that negatively affected the capital level.

The high level of provisions resulted primarily from the provisions for the restructuring costs, while the reduced long-term liabilities resulted from the conversion of liabilities into equity through the capital injection by the state. The Company's short-term liabilities rose as a result of increased liabilities to suppliers and short-term loan liabilities.

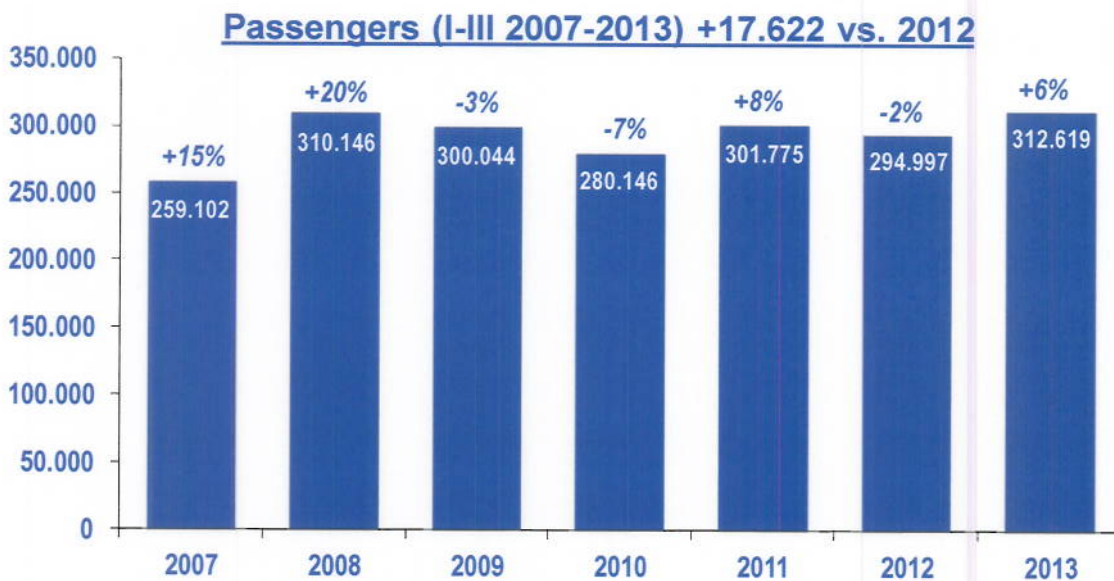
Current operations – Traffic performance I-III 2013

description			I-III 2013	I-III 2012
flights (km)	DIST	000	3.137	3.123
departures	FLTS		5.131	5.145
annual change rate		%	0	-3
block hours	BH		7.193	7.079
annual change rate		%	2	-1
passengers carried	RPAX	000	313	295
annual change rate		%	6	-2
freight & mail carried	CGO	T	800	743
annual change rate		%	8	-2
passenger km flown	RPKM	mln	210	198
available seat - km	ASKM	mln	350	329
passenger load factor	PLF	%	60	60,2
tonne km flown	TKM	mln	22	20
available tonne-km	ATKM	mln	38	35
weight load factor	WLF	%	57,1	58,1

The number of passengers rose by 6% in the first quarter of 2012 compared to the same period in 2011.

The number of passengers in the domestic scheduled traffic increased by 11% compared to the same period in 2011, while the international scheduled passenger transport saw a 4% rise. The passenger load factor (PLF) was in the first quarter of 2013 on the level of that in the same period of 2011.

Croatia Airlines' passenger transport – passengers transported



[Signature]
 Chairman of the Management Board
 Krešimir Kučko

[Signature]
 Member of the Management Board
 Zlatko Širac

CROATIA AIRLINES D.D.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2012
together with Independent Auditor's Report**

	<i>Page</i>
Responsibility for the financial statements	1
Independent Auditor's Report	2-3
Consolidated Croatia Airlines income statement	4
Consolidated Croatia Airlines statement of comprehensive income	5
Croatia Airlines d.d. separate income statement	6
Croatia Airlines d.d. separate statement of comprehensive income	7
Consolidated Croatia Airlines statement of financial position	8-9
Croatia Airlines d.d. separate statement of financial position	10-11
Consolidated Croatia Airlines statement of changes in equity	12
Croatia Airlines d.d. separate statement of changes in equity	13
Consolidated Croatia Airlines statement of cash flows	14
Croatia Airlines d.d. separate statement of cash flows	15
Notes to the consolidated and separate financial statements	16-69

Responsibility for the financial statements

Management Board of the Company **Croatia Airlines d.d.**, Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the financial statements of the Company for the year 2012 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 the Government of the Republic of Croatia, to give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows of the Company for that period.

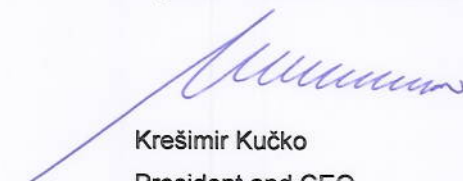
After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the financial statements of the Company.

In preparing those 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:



Krešimir Kučko
President and CEO

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

29 March 2013

INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying annual consolidated financial statements of the company Croatia Airlines d.d., Buzin, Bani 75/b, (hereinafter "the Company") and its subsidiary companies (hereinafter "the Group") for the year ended 31 December 2012, which comprise of the consolidated and the separate Balance sheet / Statement of Financial Position as of that date; the consolidated and the separate Statement of Income / Statement of Comprehensive Income; the consolidated and the separate Statement of Changes in Equity; the consolidated and the 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 the 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 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 the separate financial statements, in all material respects, truly and fairly present the financial position of the Company Croatia Airlines d.d. and the Group Croatia Airlines as of 31 December 2012 and the results of operations and the cash flows of the Company and the Group for the year 2012 in accordance with Accounting Law and the International Financial Reporting Standards effective in the Republic of Croatia.

Special emphasis

5. We draw special attention to note 3. to the financial statements where is described the financial position of the Company and the possible effect of this to the going concern concept. The Company is in a position of restructurization process which is confirmed by Supervisory Board. As the Restructuring plan and its effect to the market competition are in the process of observation by a part of authorized state bodies, the possibility exists that the Restructuring plan will have the effect to the already started contracted relations. Thus, at the date of proclamation of this statement, we were unable to observe the effects of these changes to the operations, financial statements as well as to the realization of the existing contracts on the supply of airplanes and the recognized related property of the Company, respectively stated in note 16 to the financial statements.

Other legal and regulatory requirements

6. The preparation of the annual financial statements of the Company and the Group for the year ended 31 December 2012 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 the Group are identical to information stated in the consolidated and the separate financial statements of the Company and the Group shown on pages 4 to 68 which are the subject of our opinion as set out in section Opinion, above.

In Zagreb, 29 March 2013

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

BDO

BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J.F. Kennedy 6b



Ines Rožić, certified auditor



Jeni Krstičević, President of the Management Board

Consolidated Croatia Airlines Income statement
For the year ended 31 December 2012

	Notes	2012		2011	
		HRK '000	EUR '000	HRK '000	EUR '000
Restated					
REVENUE					
Passenger traffic	4	1,428,940	190,070	1,319,171	177,449
Cargo traffic		20,549	2,733	16,132	2,170
Other sales revenue	5	97,393	12,955	104,572	14,067
Total revenue		1,546,882	205,758	1,439,875	193,686
Other income and gains	6	143,208	19,049	155,328	20,894
EXPENSES					
Flight operations		(618,140)	(82,222)	(561,980)	(75,595)
Maintenance		(154,936)	(20,609)	(144,850)	(19,485)
Passenger service		(113,424)	(15,087)	(101,636)	(13,672)
Aircraft and traffic services		(374,346)	(49,794)	(362,327)	(48,739)
Promotion and sales		(231,392)	(30,779)	(217,502)	(29,257)
General and administrative expenses		(104,236)	(13,865)	(90,330)	(12,151)
Depreciation and amortization	11,12	(130,346)	(17,338)	(140,226)	(18,862)
Other operating expenses		(21,651)	(2,878)	(20,183)	(2,715)
Total expenses		(1,748,471)	(232,572)	(1,639,034)	(220,476)
Loss from operations		(58,381)	(7,765)	(43,831)	(5,896)
FINANCIAL INCOME/ EXPENSES					
Financial income	8	92,544	12,310	164,189	22,086
Financial expense	9	(182,027)	(24,213)	(233,211)	(31,370)
Net financial expense		(89,483)	(11,903)	(69,022)	(9,284)
Impairment of assets	12	(298,934)	(39,763)	-	-
Restructuring costs		(40,858)	(5,435)	-	-
Loss before tax		(487,656)	(64,866)	(112,853)	(15,180)
Income tax expense	10	(188)	(25)	(274)	(37)
Net loss for the year		(487,844)	(64,891)	(113,127)	(15,217)
Basic and diluted loss per share HRK/EUR	25	(52.53)	(6.99)	(22.74)	(3.06)

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

Consolidated Croatia Airlines Statement of comprehensive income
 For the year ended 31 December 2012

Notes	2012		2011	
	HRK '000	EUR '000	HRK '000	EUR '000
			<u>Restated</u>	
Net loss for the year	<u>(487,844)</u>	<u>(64,891)</u>	<u>(113,127)</u>	<u>(15,217)</u>
Hedging reserves	2,884	385	(9,992)	(1,321)
Accumulated translation	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>(152)</u>
Total other comprehensive (loss)/income	<u>2,884</u>	<u>381</u>	<u>(9,992)</u>	<u>(1,473)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(484,960)</u>	<u>(64,510)</u>	<u>(123,119)</u>	<u>(16,690)</u>

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

Croatia Airlines d.d. separate income statement

For the year ended 31 December 2012

	Notes	2012		2011	
		HRK '000	EUR '000	HRK '000	EUR '000
				Restated	
REVENUE					
Passenger traffic	4	1,428,940	190,070	1,319,171	177,449
Cargo traffic		20,549	2,733	16,132	2,170
Other sales revenue	5	87,157	11,593	93,790	12,616
Total revenue		1,536,646	204,396	1,429,093	192,235
Other income and gains	6	143,119	19,037	155,278	20,887
EXPENSES					
Flight operations		(618,140)	(82,222)	(561,980)	(75,595)
Maintenance		(154,936)	(20,609)	(144,850)	(19,485)
Passenger service		(113,424)	(15,087)	(101,636)	(13,672)
Aircraft and traffic services		(374,346)	(49,794)	(362,327)	(48,739)
Promotion and sales		(231,392)	(30,779)	(217,502)	(29,257)
General and administrative expenses		(101,486)	(13,497)	(86,908)	(11,690)
Depreciation and amortization	11,12	(130,215)	(17,321)	(140,074)	(18,842)
Other operating expenses		(14,681)	(1,953)	(13,739)	(1,848)
Total expenses		(1,738,620)	(231,262)	(1,629,016)	(219,128)
Loss from operations		(58,855)	(7,829)	(44,645)	(6,006)
FINANCIAL INCOME/EXPENSE					
Financial income	8	92,421	12,294	163,701	22,021
Financial expense	9	(181,941)	(24,201)	(233,129)	(31,360)
Net financial expense		(89,520)	(11,907)	(69,428)	(9,339)
Impairment of long-term assets	12	(298,934)	(39,763)	-	-
Restructuring costs		(40,858)	(5,435)	-	-
Loss before tax		(488,167)	(64,934)	(114,073)	(15,345)
Income tax expense	10	-	-	-	-
Net loss for the year		(488,167)	(64,934)	(114,073)	(15,345)
Basic and diluted loss per share (HRK/EUR)		(52.57)	(6.99)	(22.93)	(3.08)

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

Croatia Airlines d.d. separate statement of comprehensive income
 For the year ended 31 December 2012

Notes	2012		2011	
	HRK '000	EUR '000	HRK '000	EUR '000
			<u>Restated</u>	
Net loss for the year	(488,167)	(64,934)	(114,073)	(15,345)
Hedging reserves	2,884	388	(9,992)	(1,321)
Accumulated translation	-	-	-	(158)
Total other comprehensive (loss) / income	<u>2,884</u>	<u>388</u>	<u>(9,992)</u>	<u>(1,479)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(485,283)</u>	<u>(64,546)</u>	<u>(124,065)</u>	<u>(16,824)</u>

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

Consolidated Croatia Airlines statement of financial position

As at 31 December 2012

	Notes	2012		2011	
		HRK '000	EUR '000	HRK '000	EUR '000
Restated					
ASSETS					
Non-current assets					
Intangible assets	11	16,585	2,198	20,228	2,687
Property, plant and equipment	12	687,082	91,057	1,127,317	149,701
Investments in associated company	13	4,919	678	5,050	695
Deposits	14	6,481	858	6,972	926
Available for sale investments	15	1,703	229	1,703	229
Non-current receivables	16	71,282	9,446	82,823	10,998
		788,052	104,466	1,244,093	165,236
Current assets					
Inventories	17	49,142	6,513	43,832	5,820
Other financial assets	18	3,517	466	3,705	493
Accounts receivable	19	90,971	12,056	88,860	11,801
Other receivables	20	117,125	15,522	83,795	11,128
Prepaid expenses	22	47,207	6,256	33,599	4,462
Cash and cash equivalents	21	37,115	4,920	25,356	3,367
		345,077	45,733	279,147	37,071
TOTAL ASSETS		1,133,129	150,199	1,523,240	202,307
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	1,852,213	245,501	989,986	131,150
Capital reserves	24	2,700	373	90,454	11,830
Accumulated losses and other reserves	24	(1,220,081)	(161,475)	(1,108,914)	(146,522)
Net loss for the year		(487,844)	(64,891)	(113,127)	(15,217)
		146,988	19,508	(141,601)	(18,759)
Provisions	28	54,847	7,269	1,834	245
Non-current liabilities					
Long-term loans	26	238,209	31,569	407,685	54,139
Long-term leases	27	53	7	70	10
Long-term liabilities towards the State	29	-	-	635,243	84,339
		238,262	31,576	1,042,998	138,488
Current liabilities					
Short-term loans		49,854	6,606	41,598	5,523
Short-term portion of long-term loans	26	170,299	22,569	166,944	22,169
Short-term portion of long-term obligations under finance leases	27	18	2	17	2
Accounts payable	30	284,830	37,748	233,805	31,048
Other current liabilities	31	165,036	21,872	170,883	22,694
Accrued expenses and deferred income	32	22,995	3,049	6,762	897
		693,032	91,846	620,009	82,333
TOTAL EQUITY AND LIABILITIES		1,133,129	150,199	1,523,240	202,307

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

Consolidated Croatia Airlines statement of financial position

As at 31 December 2012

		Croatia Airlines Group	
	Notes	2010	
		HRK '000	EUR '000
Restated			
ASSETS			
Non-current assets			
Intangible assets		17,181	2,326
Property, plant and equipment		1,230,962	166,680
Investments in associated company		4,744	639
Deposits		7,557	1,023
Available for sale investments		1,703	229
Non-current receivables		65,300	8,842
		1,327,447	179,739
Current assets			
Inventories		38,122	5,162
Other financial assets		2,062	279
Accounts receivable		74,649	10,108
Other receivables		53,557	7,252
Prepaid expenses		37,007	5,011
Cash and cash equivalents		53,473	7,241
		258,870	35,053
TOTAL ASSETS		1,586,317	214,792
EQUITY AND LIABILITIES			
Equity and reserves			
Issued capital		989,985	131,150
Capital reserves		103,203	13,523
Accumulated losses and other reserves	24	(942,485)	(123,577)
Net loss for the year		(156,236)	(21,445)
		(5,533)	(349)
Non-current liabilities			
Long-term loans		563,546	76,308
Long-term leases		-	-
Provisions		858	116
Long-term liabilities towards the State	24	423,222	56,901
		987,626	133,325
Current liabilities			
Short-term loans		33,294	4,508
Short-term portion of long-term loans		160,769	21,769
Short-term portion of long-term obligations under finance leases		-	-
Accounts payable		221,632	30,010
Other current liabilities		176,620	23,916
Accrued expenses and deferred income		11,909	1,613
		604,224	81,816
TOTAL EQUITY AND LIABILITIES		1,586,317	214,792

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2012

	Notes	2012		2011	
		HRK '000	EUR '000	HRK '000	EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	15,772	2,090	19,483	2,587
Property, plant and equipment	12	686,853	91,027	1,127,082	149,670
Investments in subsidiaries and associated companies	13	5,110	682	5,110	682
Deposits	14	6,441	853	6,934	921
Available for sale investments	15	1,703	229	1,703	229
Non-current receivables	16	71,282	9,446	82,823	10,998
		787,161	104,327	1,243,135	165,087
Current assets					
Inventories	17	49,071	6,504	43,832	5,820
Other financial assets	18	3,374	447	3,626	482
Accounts receivable	19	87,970	11,659	86,348	11,467
Other receivables	20	117,360	15,554	83,778	11,125
Prepaid expenses	22	47,164	6,250	33,542	4,454
Cash and cash equivalents	21	34,096	4,519	22,143	2,940
		339,035	44,933	273,269	36,288
TOTAL ASSETS		1,126,196	149,260	1,516,404	201,375
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	1,852,203	245,501	989,975	131,150
Capital reserves	24	899	130	89,015	11,634
Accumulated losses and other reserves	24	(1,221,530)	(161,684)	(1,110,341)	(146,727)
Net loss for the year		(488,167)	(64,934)	(114,073)	(15,345)
		143,405	19,013	(145,424)	(19,288)
Provisions	28	54,847	7,269	1,834	244
Non-current liabilities					
Long-term loans	26	238,209	31,569	407,685	54,139
Obligations under finance leases	27	53	7	70	10
Long-term liabilities towards the State	29	-	-	635,243	84,340
		238,262	31,576	1,042,998	138,489
Current liabilities					
Short-term loans		48,855	6,475	41,557	5,518
Short-term portion of long-term loans	26	170,299	22,569	166,944	22,169
Short-term portion of long-term finance leases	27	18	2	17	2
Accounts payables	30	283,321	37,548	231,914	30,795
Other current liabilities	31	164,704	21,828	170,423	22,632
Accrued expenses and deferred income	32	22,485	2,980	6,141	814
		689,682	91,402	616,996	81,930
TOTAL EQUITY AND LIABILITIES		1,126,196	149,260	1,516,404	201,375

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2012

		Croatia Airlines d.d.	
	Notes	2010	
		HRK '000	EUR '000
Restated			
ASSETS			
Non-current assets			
Intangible assets		16,640	2,253
Property, plant and equipment		1,230,640	166,637
Investments in associated company		5,110	682
Deposits		7,518	1,018
Available for sale investments		1,703	229
Non-current receivables		65,300	8,842
		1,326,911	179,661
Current assets			
Inventories		38,122	5,162
Other financial assets		2,062	279
Accounts receivable		71,727	9,712
Other receivables		53,540	7,250
Prepaid expenses		36,941	5,002
Cash and cash equivalents		51,362	6,955
		253,754	34,360
TOTAL ASSETS		1,580,665	214,021
EQUITY AND LIABILITIES			
Equity and reserves			
Issued capital		989,975	131,150
Capital reserves		101,764	13,328
Accumulated losses and other reserves	24	(943,795)	(123,761)
Net loss for the year		(156,554)	(21,488)
		(8,610)	(771)
Non-current liabilities			
Long-term loans		563,546	76,308
Long-term leases		-	-
Provisions		858	116
Long-term liabilities towards the State	24	423,222	56,901
		987,626	133,325
Current liabilities			
Short-term loans		33,294	4,508
Short-term portion of long-term loans		160,769	21,769
Short-term portion of long-term obligations under finance leases		-	-
Accounts payable		219,919	29,779
Other current liabilities		176,211	23,860
Accrued expenses and deferred income		11,456	1,551
		601,649	81,467
TOTAL EQUITY AND LIABILITIES		1,580,665	214,021

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

Consolidated Croatia Airlines statement of changes in equity

For the year ended 31 December 2012

	Issued capital		Capital Reserves		Accumulated translation	Hedging reserves		Accumulated losses		Result for the year		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2011	989,986	131,150	103,202	13,523	2,865	(2,311)	(313)	(940,173)	(126,129)	(156,236)	(21,445)	(5,532)	(349)
Transfer (from) / to	-	-	-	-	-	-	-	(156,438)	(21,472)	156,236	21,445	(202)	(27)
Foreign exchange differences	-	-	-	-	(152)	(9,992)	(1,321)	-	-	-	-	(9,992)	(1,473)
Revaluation of aircraft and engines (Note 3)	-	-	(12,748)	(1,693)	-	-	-	-	-	-	-	(12,748)	(1,693)
Net loss	-	-	-	-	-	-	-	-	-	(113,127)	(15,217)	(113,127)	(15,217)
Balance at 1 January 2012	989,986	131,150	90,454	11,830	2,713	(12,303)	(1,634)	(1,096,611)	(147,601)	(113,127)	(15,217)	(141,601)	(18,759)
Transfer (from) / to	-	-	362	48	-	-	-	(114,053)	(15,345)	113,127	15,217	(564)	(80)
Foreign exchange differences	-	-	-	173	7	2,886	385	-	-	-	-	2,886	565
Revaluation of aircraft and engines (Note 3)	-	-	(88,116)	(11,678)	-	-	-	-	-	-	-	(88,116)	(11,678)
Increase in shareholder equity	862,227	114,351	-	-	-	-	-	-	-	-	-	862,227	114,351
Net loss	-	-	-	-	-	-	-	-	-	(487,844)	(64,891)	(487,844)	(64,891)
Balance at 31 December 2012	1,852,213	245,501	2,700	373	2,720	(9,417)	(1,249)	(1,210,664)	(162,946)	(487,844)	(64,891)	146,988	19,508

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

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

For the year ended 31 December 2012

	Issued capital		Capital Reserves		Accumulated translation	Hedging reserves		Accumulated losses		Result for the year		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2011	989,975	131,150	101,763	13,327	2,876	(2,311)	(313)	(941,484)	(126,323)	(156,554)	(21,488)	(8,611)	(771)
Transfer (from) / to	-	-	-	-	-	-	-	(156,554)	(21,488)	156,554	21,488	-	-
Foreign exchange differences	-	-	-	-	(158)	(9,992)	(1,321)	-	-	-	-	(9,992)	(1,479)
Revaluation of aircraft and engines (Note 3)	-	-	(12,748)	(1,693)	-	-	-	-	-	-	-	(12,748)	(1,693)
Net loss	-	-	-	-	-	-	-	-	-	(114,073)	(15,345)	(114,073)	(15,345)
Balance at 1 January 2012	989,975	131,150	89,015	11,634	2,718	(12,303)	(1,634)	(1,098,038)	(147,811)	(114,073)	(15,345)	(145,424)	(19,288)
Transfer (from) / to	-	-	-	-	-	-	-	(114,073)	(15,345)	114,073	15,345	-	-
Foreign exchange differences	-	-	-	174	-	2,884	388	-	-	-	-	2,884	562
Correction of the result of previous years	-	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of aircraft and engines (Note 3)	-	-	(88,116)	(11,678)	-	-	-	-	-	-	-	(88,116)	(11,678)
Increase in shareholder's equity	862,228	114,351	-	-	-	-	-	-	-	-	-	862,228	114,351
Net loss	-	-	-	-	-	-	-	-	-	(488,167)	(64,934)	(488,167)	(64,934)
Balance at 31 December 2012	1,852,203	245,501	899	130	2,718	(9,419)	(1,246)	(1,212,111)	(163,156)	(488,167)	(64,934)	143,405	19,013

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

Consolidated Croatia Airlines statement of cash flows

For the year ended 31 December 2012

	2012		2011	
	HRK '000	EUR '000	HRK '000	EUR '000
			Restated	
Operating activities				
Net loss for the year	(487,844)	(64,890)	(113,127)	(15,217)
<i>Adjustments for:</i>				
Depreciation	123,366	16,410	136,146	18,313
Amortization	6,980	928	4,080	549
Net present value of disposed and sold tangible and intangible assets; impairment of assets	380,335	50,406	4,895	650
Exchange differences, net	1,266	423	13,588	2,691
(Decrease) / increase in deferred foreign exchange gains	2,884	385	(9,992)	(1,321)
Decrease / (increase) in non-current receivables	12,032	1,619	(16,939)	(2,059)
(Increase) in accounts receivable and other receivables	(35,441)	(4,651)	(44,448)	(5,568)
(Increase) / decrease in prepaid expenses	(13,608)	(1,792)	3,410	552
Increase in inventories	(5,311)	(692)	(5,710)	(659)
Increase in accounts payable and other current liabilities	45,178	5,879	6,476	(180)
Increase in provisions	53,013	7,025	977	127
Increase / (decrease) in accrued expenses and deferred income	16,234	2,150	(5,148)	(715)
Gain from reversal of revaluation reserves	(88,116)	(11,678)	(12,748)	(1,693)
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	10,968	1,521	(38,540)	(4,530)
Investing activities				
Increase in investments in subsidiaries	132	17	(306)	(56)
Payments for purchase of intangible assets	(3,045)	(404)	(7,127)	(946)
Payments for purchase of tangible assets	(63,999)	(8,482)	(38,087)	(5,058)
Proceeds from disposal of tangible assets	243	32	692	92
NET CASH (USED IN) INVESTING ACTIVITIES	(66,669)	(8,837)	(44,828)	(5,968)
Financial activities				
Increase in shareholder equity	862,227	114,351	-	-
Other changes in equity	(565)	(79)	(202)	(27)
Decrease / (increase) of current financial assets	188	26	(1,643)	(213)
Proceeds from short-term borrowings	24,006	3,181	8,551	1,136
Repayment of short-term borrowings	(15,818)	(2,096)	(450)	(60)
Proceeds from long-term borrowings	-	-	102	14
Repayment of long-term borrowings	(167,335)	(22,176)	(163,129)	(21,663)
(Decrease) / increase of government guarantees	(635,243)	(84,339)	212,022	27,438
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	67,460	8,868	55,251	6,625
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	11,759	1,552	(28,117)	(3,873)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	25,356	3,367	53,473	7,240
CASH AND CASH EQUIVALENTS AT YEAR END	37,115	4,919	25,356	3,367

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

Croatia Airlines d.d. separate statement of cash flows

For the year ended 31 December 2012

	2012		2011	
	HRK '000	EUR '000	HRK '000	EUR '000
			Restated	
Operating activities				
Net loss for the year	(488,167)	(64,934)	(114,073)	(15,345)
<i>Adjustments for:</i>				
Depreciation	123,292	16,400	136,029	18,298
Amortization	6,923	921	4,044	544
Net present value of disposed and sold tangible and intangible assets; impairment of assets	380,335	50,406	4,895	650
Exchange differences, net (Decrease) / increase in deferred foreign exchange differences	1,266	421	13,590	2,685
Decrease / (increase) in non-current receivables	2,884	388	(9,992)	(1,321)
(Decrease) in accounts receivable and other receivables	12,032	1,619	(16,939)	(2,059)
(Increase) / decrease in prepaid expenses	(35,202)	(4,620)	(44,860)	(5,630)
(Increase) / decrease in prepaid expenses	(13,623)	(1,796)	3,398	548
Decrease / (increase) in inventories	(5,239)	(683)	(5,710)	(659)
Increase in accounts payable and other current liabilities	45,687	5,947	6,208	(210)
Increase in provisions	53,013	7,025	976	127
Increase / (decrease) in accrued expenses and deferred income	16,346	2,165	(5,318)	(736)
Gain from reversal of revaluation reserves	(88,116)	(11,678)	(12,748)	(1,693)
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	11,431	1,581	(40,500)	(4,801)
Investing activities				
Payments for purchase of intangible assets	(2,922)	(387)	(6,886)	(914)
Payments for purchase of tangible assets	(63,931)	(8,474)	(38,058)	(5,055)
Proceeds from disposal of tangible assets	243	33	692	92
NET CASH (USED IN) INVESTING ACTIVITIES	(66,610)	(8,828)	(44,252)	(5,877)
Financial activities				
Increase in shareholder's equity	862,228	114,351	-	-
Other changes in equity	-	-	-	-
Decrease /(increase) of current financial assets	252	34	(1,564)	(202)
Proceeds from short-term borrowings	23,006	3,049	8,101	1,076
Repayment of short-term borrowings	(15,776)	(2,091)	(492)	(65)
Proceeds from long-term borrowings	-	-	102	14
Repayment of long-term borrowings (Decrease) /increase of government guarantees	(167,335)	(22,176)	(162,636)	(21,597)
	(635,243)	(84,341)	212,022	27,438
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	67,132	8,826	55,533	6,663
INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	11,953	1,579	(29,219)	(4,015)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	22,143	2,940	51,362	6,955
CASH AND CASH EQUIVALENTS AT YEAR END	34,096	4,519	22,143	2,940

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

1. GENERAL

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

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

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

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

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

Government Asset Management Agency (GAMA) for Republic of Croatia	97.98%
Government Asset Management Agency (GAMA) for State Agency for Deposit Insurance and Bank Rehabilitation	1.15%
Others	0.87%
Total	100.00 %

Croatia Airlines d.d. Supervisory BoardMembers from 13 July 2012Members up to 12 July 2012

Siniša Petrović	President	Zoran Šangut	President
Darko Prebežac	Vice President	Niko Raič	Vice President
Stanislav Pavlin	Member	Ratimir Andrijanić	Member
Tihomir Domazet	Member	Marija Čačić	Member
Izidor Alfirević	Member	Božo Josup	Member
Goran Becker	Member	Josip Horvat	Member
Berislav Matijević	Member	Ines Baniček-Vuk	Member
Marija Čačić	Member	Tonči Peović	Member
Božo Jusup	Member	Ivica Poljičak	Member
Tonči Peović	Member	Mislav Grgić	Member
Ratimir Andrijanić	Member	Krste Čveljo	Member
Josip Horvat	Member	Gordana Tomičić	Member
Ines Baniček-Vuk	Member	Željkan Simeonov	Member

Croatia Airlines d.d. Management

Krešimir Kučko	President and CEO (from 1 September 2012)
Srećko Šimunović	President and CEO (up to 31 August 2012)

Subsidiaries' Management

Eugen Šunde	General Manager of Amadeus Croatia d.d.
Jadranka Skelin-Hrvoj	General Manager of 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

- Changes and amendments to IFRS 7 „Financial instruments - disclosures“ – transfer of financial assets
- Changes and amendments to IAS 12 „Income taxes“ – deferred taxes: return of assets for deferred taxes

Standards and Interpretations not affecting the financial statements

- Changes and amendments to IFRS 1 „First time adoption of IFRS“ – severe hyperinflation and removal of fixed dates for the first time adopters of IFRS

Standards and Interpretations in issue not yet adopted

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

- IFRS 9 “Financial instruments” (applies to annual periods beginning on or after 1 January 2015).

2. ADOPTION OF NEW AND REVISED STANDARDS (continued)

- IFRS 10 „Consolidated financial statements”, published in May 2011, amended in 2012, substitutes the previous version IAS 27 (2008) "Consolidated and separate financial statements" (applies to annual periods beginning on or after 1 January 2013),
- IFRS 11 „Joint arrangements”, published in May 2011, amended in 2012 substitutes IAS 31 “Joint ventures” (applies to annual periods beginning on or after 1 January 2013),
- IFRS 12 „Disclosures of interests in other entities”, published in May 2011, amended in 2012, (applies to annual periods beginning on or after 1 January 2013),
- IFRS 13 „Fair value measurement”, published in May 2011, (applies to annual periods beginning on or after 1 January 2013),
- IAS 27 „Non-consolidated and financial statements” (altered and amended in 2011), consolidation requirements previously described in a part of IAS 27 (2008) are revised and now comprehended into IFRS 10 "Consolidated financial statements" (in effect IAS 27 (altered and amended 2011) (applies to annual periods beginning on or after 1 January 2013),
- IAS 28 „Investments in associates and joint ventures” (altered and amended in 2011). This version substitutes IAS 28 (2003) “Investments into associates” (in force IAS 28 (altered and amended 2011) (applies to annual periods beginning on or after 1 January 2013),
- Alterations and supplements of IFRS 1 „First adoption of IFRS“- published in March 2012, which deal with the state loan count at interest rates lower than market on occasion of transfer to IFRS (applies to annual periods beginning on or after 1 July 2013),
- Alterations and amendments of IFRS 7 “Financial instruments - disclosures” – published in December 2011, by which is prescribed the disclosure of the extended information on the set-off of financial property and financial liabilities (applies to annual periods beginning on or after 1 January 2013),
- Alterations and amendments of IFRS 9 “Financial instruments – classification and measurements” – published in December 2011, by which is prescribed the disclosure of information on the first application of IFRS 9, (applies to annual periods beginning on or after 1 January 2015),
- Alterations and amendments of IAS 1 "Presentation of financial statements" - the change in presentation of items of other comprehensive income (applies to annual periods beginning on or after 1 July 2012),
- Alterations and amendments of IAS 19 "Employee benefits" – finishing of the procedure for the count of employees' benefits after the cessation of job (applies to annual periods beginning on or after 1 January 2013),

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

- Alterations and amendments of IAS 32 “Financial instruments - disclosures” – published in December 2011, by which is prescribed the disclosure of expanded information on the set-off of financial property and financial liabilities (applies to annual periods beginning on or after 1 January 2014),
- IFRIC 20 “Stripping costs in the production phase of a surface mine“(applies to annual periods beginning on or after 1 January 2013),
- Alterations and amendments to various standards and interpretations under the name “Annual improvements in the period 2009 – 2011” which were published in May 2012 and which relate to the disclosed alterations and amendments since 2009 till 2011 and primarily have influence to five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34), with the consequent alterations and amendments and the supplements of various of other standards (applied to annual periods beginning on or after 1 January 2013),

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company 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	2012	2011
At 31 December	7.545624	7.530420
Average	7.517960	7.434075

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

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

The principal accounting policies adopted are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Passenger revenue

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

b) Interest income

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

c) Leases

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

d) The Group as lessor

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

e) The Group as lessee

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Foreign currencies

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

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

g) Borrowing costs

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

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

h) Government grants

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Taxation

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

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

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

j) Tangible fixed assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Tangible fixed assets (continued)

In connection with the acquisition of certain aircraft and engines, the Company received certain discounts. These discounts are deducted from the cost of the aircraft. The spare parts that are received gratis are deferred and credited to the statement of profit and loss on a proportional basis over the operational life of the aircraft, depending on the nature of the discounts (see Note 6 and 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 has engaged an independent professional appraiser society which at 30 November 2012 performed expert and independent valuation of aircraft using the static methods of estimation of market value. The result of valuation, ie, an impairment loss of aircraft was charged to the revaluation reserve in the amount of revaluation surplus for that asset. Loss over the amount posted to the revaluation reserve was charged to the profit and loss account.

Difference between the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Intangible fixed assets

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

l) Investments in subsidiaries and associated companies

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

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

m) Inventories

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

n) Financial instruments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Financial instruments (continued)

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

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

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

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

o) Cash and cash equivalents

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

p) Available for sale investments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Loans and receivables

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

r) Financial liabilities

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

s) Hedging reserves

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Provisions and contingencies

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

u) Use of estimates in the preparation of financial statements

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

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

Financial Crisis and Economic Recession

The management of Croatia Airlines d.d. is monitoring the potential impact of the financial crisis and the risk of economic recession on Croatia Airlines d.d. business activities. The revenues of the Company are generated primarily from passenger traffic. The level of passenger traffic for future periods cannot be reliably estimated in the current economic environment and therefore the extent of utilization of aircrafts is uncertain. During 2010 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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. In 2012, the Company determined the need for new reassessment, conducted as specified in Note 3 under paragraph j) Tangible Assets. Revaluation of aircraft has been performed by an independent appraiser using static methods of estimation of market value.

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. The exceptions are the aircrafts for which the Management Board, based on market trends and a sharp fall in prices caused by the consequences of the global recession, has assessed the need to make the determination of their fair value, and to carry out the value of assets in the Company's books.

During the year the Company received direct financial support from the Government of HRK 113,514 thousand, EUR 15,099 thousand (2011 HRK 121,673 thousand, EUR 16,367 thousand, Note 6).

Croatia Airlines has begun restructuring process according to the Restructuring programme relates to period 2011 - 2015 with two additional years as assessment of programme after its finalisation.

. The Restructuring Plan was adopted by the Supervisory Board in its eighth session held on 22 October 2012 and was presented to the representatives of the Government of the Republic of Croatia on 25 October 2012. Restructuring Plan comprised three possible business restructuring scenarios: basic, development, bankruptcy. Up to the end of 2012 introduction of development scenario has been considered. However, as a result of current situation (recapitalization at the end of 2012 and the high interest charged by the State) the final decision has been brought to give up the development scenario and to accept the modified basic scenario according to guidelines adopted on Supervisory Board session at 23 January 2013

Notes to the consolidated and separate financial statements (continued)
For the year ended 31 December 2012

The Restructuring Plan will be implemented in accordance with the Croatian Government's Rules for State Aid for Rehabilitation and Restructuring (OG 20/07) and special EU rules for the aviation 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), applied to capital investments, guarantees and loans related to air traffic. The preparation and implementation of the Plan will involve communication and cooperation with all relevant entities: owner-state, the production chain participants, employees, management, competent bodies and union representatives.

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

4. PASSENGER TRAFFIC

	2012		2011	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Scheduled services	1,352,143	179,855	1,256,208	168,980
Charter services	76,797	10,215	62,963	8,469
	1,428,940	190,070	1,319,171	177,449

Revenue by geographical segment:

	2012		2011	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Croatia	584,437	77,739	423,454	56,961
Germany	134,892	17,943	134,555	18,100
USA	80,449	10,701	151,705	20,407
Other countries	629,162	83,687	609,457	81,982
	1,428,940	190,070	1,319,171	177,450

5. OTHER SALES REVENUE

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Revenue from technical services to others	33,521	4,459	39,248	5,279	33,521	4,459	39,248	5,279
Revenue from reservation system services	7,145	950	6,700	901	-	-	-	-
Commission income from foreign air companies	19,898	2,647	16,874	2,270	19,898	2,647	16,874	2,270
Revenue from consignment sales (duty free in aircraft)	10,739	1,428	10,912	1,468	10,739	1,428	10,912	1,468
Mileage related	7,703	1,024	7,769	1,045	7,702	1,024	7,769	1,045
Other	18,387	2,447	23,069	3,104	15,297	2,035	18,987	2,554
	97,393	12,955	104,572	14,067	87,157	11,593	93,790	12,616

6. OTHER INCOME AND GAINS

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Amortisation of tangible assets received free of charge	1,207	160	1,207	162	1,207	160	1,207	162
Income from government support	113,514	15,099	121,673	16,367	113,514	15,099	121,673	16,367
Collected bad debts	201	27	370	50	198	26	369	50
Gain from sale of fixed assets	44	6	128	17	44	6	128	17
Gain from sale of spare parts	35	5	3,417	460	35	5	3,417	460
Other	28,207	3,752	28,533	3,838	28,121	3,741	28,484	3,831
	143,208	19,049	155,328	20,894	143,119	19,037	155,278	20,887

During 2012 the Company has recognised a total amount of HRK 113,514 thousand (EUR 15,099 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 2011 was recognised as income in the amount of HRK 121,673 thousand (EUR 16,367 thousand).

Included in other revenue is an amount of HRK 11,686 thousand (EUR 1,554 thousand) which represents the difference in connection with the depreciation provided on the basis of the revaluated amounts and the depreciation provided on the original asset cost basis.

7. STAFF COSTS

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Net wages and salaries	129,400	17,212	125,749	16,915	127,652	16,980	123,945	16,673
Tax, pension and health contributions from payroll	78,952	10,502	72,341	9,731	77,992	10,374	71,436	9,609
Employer's pension and health contributions on payroll	44,728	5,949	45,366	6,103	44,289	5,891	44,899	6,040
Other employee related costs	39,397	5,240	37,124	4,994	39,057	5,195	36,851	4,957
	292,477	38,903	280,580	37,743	288,990	38,440	277,131	37,279

The Group had 1.107 employees (Croatia Airlines d.d. 1,088, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 11) at 31 December 2012 (1,121 employees at 31 December 2011 - 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

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Foreign exchange gains	90,353	12,018	162,250	21,825	90,313	12,014	162,187	21,817
Interest gains	1,548	206	1,315	177	1,544	205	1,312	177
Other	643	86	624	84	564	75	202	27
	92,544	12,310	164,189	22,086	92,421	12,294	163,701	22,021

9. FINANCIAL EXPENSE

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Foreign exchange losses	(90,325)	(12,015)	(166,436)	(22,456)	(90,262)	(12,006)	(166,382)	(22,449)
Interest expense	(89,585)	(11,916)	(64,723)	(8,638)	(89,562)	(11,913)	(64,695)	(8,635)
Other	(2,117)	(282)	(2,052)	(276)	(2,117)	(282)	(2,052)	(276)
	(182,027)	(24,213)	(233,211)	(31,370)	(181,941)	(24,201)	(233,129)	(31,360)

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 130 thousand, EUR 17 thousand (2011: HRK 108 thousand, EUR 14 thousand) and Obzor putovanja d.o.o. HRK 58 thousand, EUR 8 thousand (2011: HRK 166 thousand, EUR 22 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. 2012 HRK '000	Croatia Airlines d.d. 2011 HRK '000
Net (loss) before tax	(488,167)	(75,544)
Non-taxable income	(722)	(244)
Training incentives	(4,247)	(4,400)
Non-deductible expenses	119,145	2,037
Adjustment to non-deductible expenses	-	-
Tax loss	(373,991)	(78,151)
Tax losses brought forward	(536,380)	(458,229)
Tax loss expired	2,400	-
Losses utilised in current period	-	-
Tax loss available for carry forward	(907,971)	(536,380)

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

10. INCOME TAX EXPENSE (CONTINUED)

Subsidiaries do not have tax losses to carry forward.

		Tax loss carried forward	Tax loss carried forward	Tax benefit at 20%	Tax benefit at 20%
		HRK '000	EUR '000	HRK '000	EUR '000
2013	Not more than 1 year (from 2008)	92,553	12,266	18,511	2,453
2014	Not more than 2 years (from 2009)	202,995	26,902	40,599	5,380
2015	Not more than 3 years (from 2010)	160,280	21,242	32,056	4,248
2016	Not more than 4 years (from 2011)	78,152	10,357	15,630	2,071
2017	Not more than 5 years (from 2012)	<u>373,991</u>	<u>49,564</u>	<u>74,798</u>	<u>9,913</u>
		<u>907,971</u>	<u>120,331</u>	<u>181,594</u>	<u>24,065</u>

Deferred tax asset in the amount of HRK 181,594 thousand, in EUR 24,065 thousand (2011: HRK 107,256 thousand, in EUR 14,243 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% (2011: 20%).

11. INTANGIBLE ASSETS

2012	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2011	50,109	6,654	48,917	6,496
Additions	3,046	403	2,922	387
Disposals	(375)	(50)	(375)	(50)
Fx differences	-	(13)	-	(13)
Balance at 31 December 2012	52,780	6,994	51,464	6,820
ACCUMULATED AMORTIZATION				
Balance at 31 December 2011	29,881	3,967	29,434	3,909
Charge for the year	6,980	928	6,923	921
Disposals	(666)	(88)	(665)	(88)
Fx differences	-	(11)	-	(12)
Balance at 31 December 2012	36,195	4,796	35,692	4,730
NET BOOK VALUE				
At 31 December 2012	16,585	2,198	15,772	2,090
At 31 December 2011	20,228	2,687	19,483	2,587
2011	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2010	46,212	6,257	45,260	6,128
Additions	7,127	946	6,886	914
Disposals	(3,230)	(434)	(3,230)	(434)
Fx differences	-	(115)	-	(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	28,620	3,875
Charge for the year	4,080	549	4,044	544
Disposals	(3,230)	(434)	(3,230)	(434)
Fx differences	-	(79)	-	(76)
Balance at 31 December 2011	29,881	3,967	29,434	3,909
NET BOOK VALUE				
At 31 December 2011	20,228	2,687	19,482	2,587
At 31 December 2010	17,181	2,326	16,640	2,253

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2012

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

At 31 December 2012

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2011	80,546	10,696	11,144	1,480	59,295	7,872	2,054,816	272,869	141,482	18,788	2,347,283	311,705
Additions	-	-	9,192	1,218	(907)	(120)	44,366	5,880	11,348	1,504	63,999	8,482
Transfers from property, plant and equipment in progress	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(1,629)	(216)	(437,734)	(58,012)	(4,473)	(593)	(443,836)	(58,821)
Fx differences	-	(21)	-	(3)	-	(14)	-	(550)	-	(38)	-	(626)
31 December 2012	80,546	10,675	20,336	2,695	56,759	7,522	1,661,448	220,187	148,357	19,661	1,967,446	260,740
ACCUMULATED DEPRECIATION												
31 December 2011	24,298	3,227	-	-	41,549	5,515	1,099,051	145,948	55,068	7,313	1,219,966	162,003
Charge for the year	3,034	404	-	-	3,300	439	109,564	14,574	7,468	993	123,366	16,410
Disposals	-	-	-	-	(1,629)	(225)	(60,383)	(8,032)	(956)	(127)	(62,968)	(8,384)
Correction of accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Fx differences	-	(8)	-	-	-	(1)	-	(318)	-	(18)	-	(345)
31 December 2012	27,332	3,623	-	-	43,220	5,728	1,148,232	152,172	61,580	8,161	1,280,364	169,684
NET BOOK VALUE												
31 December 2012	53,214	7,052	20,336	2,695	13,539	1,794	513,216	68,015	86,777	11,500	687,082	91,056
31 December 2011	56,248	7,469	11,144	1,480	17,746	2,357	955,765	126,921	86,414	11,475	1,127,317	149,702

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2012 was in the amount of HRK 513,216 thousand, in EUR 68,015 thousand (2011: HRK 957,765 thousand, in EUR 126,921 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2012

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

At 31 December 2011

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2010	80,546	10,906	10,040	1,359	57,085	7,730	2,115,580	286,463	137,491	18,617	2,400,742	325,075
Additions	-	-	1,292	172	3,485	463	22,781	3,334	10,528	1,398	38,086	5,367
Transfers from property, plant and equipment in progress	-	-	(188)	(25)	-	-	-	-	188	25	-	-
Disposals	-	-	-	-	(1,275)	(169)	(83,545)	(11,402)	(6,725)	(893)	(91,545)	(12,464)
Fx differences	-	(210)	-	(26)	-	(152)	-	(5,526)	-	(359)	-	(6,273)
31 December 2011	80,546	10,696	11,144	1,480	59,295	7,872	2,054,816	272,869	141,482	18,788	2,347,283	311,705
ACCUMULATED DEPRECIATION												
31 December 2010	21,264	2,879	-	-	37,729	5,109	1,061,443	143,726	49,342	6,681	1,169,778	158,395
Charge for the year	3,034	408	-	-	4,859	654	121,153	16,297	7,100	955	136,146	18,314
Disposals	-	-	-	-	(1,043)	(140)	(83,545)	(11,238)	(1,593)	(214)	(86,181)	(11,592)
Correction of accumulated depreciation	-	-	-	-	4	1	-	-	219	29	223	30
Fx differences	-	(60)	-	-	-	(108)	-	(2,837)	-	(138)	-	(3,143)
31 December 2011	24,298	3,227	-	-	41,549	5,515	1,099,052	145,948	55,068	7,313	1,219,966	162,003
NET BOOK VALUE												
31 December 2011	56,248	7,469	11,144	1,480	17,746	2,357	955,765	126,921	86,414	11,475	1,127,317	149,702
31 December 2010	59,282	8,027	10,040	1,359	19,356	2,621	1,054,137	142,737	88,149	11,936	1,230,964	166,680

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2011 was in the amount of HRK 955,765 thousand, in EUR 126,921 thousand (2010: HRK 1,054,138 thousand, in EUR 142,737 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2012

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

At 31 December 2012

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
<i>COST OR VALUATION</i>												
31 December 2011	80,545	10,696	11,143	1,480	55,548	7,376	2,054,817	272,869	141,482	18,788	2,343,535	311,209
Additions	-	-	9,192	1,219	(975)	(129)	44,366	5,880	11,348	1,504	63,931	8,474
Transfers from property, plant and equipment in progress	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(1,691)	(224)	(437,734)	(58,012)	(4,473)	(593)	(443,898)	(58,829)
Fx differences	-	(22)	-	(4)	-	(15)	-	(549)	-	(38)	-	(628)
31 December 2012	80,545	10,674	20,335	2,695	52,882	7,008	1,661,449	220,188	148,357	19,661	1,963,568	260,226
<i>ACCUMULATED DEPRECIATION</i>												
31 December 2011	24,298	3,227	-	-	38,036	5,051	1,099,051	145,948	55,068	7,313	1,216,453	161,539
Charge for the year	3,034	404	-	-	3,226	429	109,564	14,574	7,468	993	123,292	16,400
Disposals	-	-	-	-	(1,691)	(225)	(60,383)	(8,032)	(956)	(127)	(63,030)	(8,384)
Correction of accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Fx differences	-	(9)	-	-	-	(11)	-	(318)	-	(18)	-	(356)
31 December 2012	27,332	3,622	-	-	39,571	5,244	1,148,232	152,172	61,580	8,161	1,276,715	169,199
<i>NET BOOK VALUE</i>												
31 December 2012	53,213	7,052	20,335	2,695	13,311	1,764	513,217	68,016	86,777	11,500	686,853	91,027
31 December 2011	56,247	7,469	11,143	1,480	17,512	2,325	955,766	126,921	86,414	11,475	1,127,082	149,670

Aircrafts are carried under the revaluation model, Net book value of the aircrafts as at 31 December 2012 was in the amount of HRK 513,217 thousand, in EUR 68,016 thousand (2011: HRK 955,766 thousand, in EUR 126,921 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2012

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

At 31 December 2011

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
<i>COST OR VALUATION</i>												
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
Additions	-	-	1,292	172	3,457	459	22,781	3,026	10,528	1,398	38,058	5,055
Transfers from property, plant and equipment in progress	-	-	(188)	(25)	-	-	-	-	188	25	-	-
Disposals	-	-	-	-	(1,275)	(169)	(83,545)	(11,094)	(6,725)	(893)	(91,545)	(12,156)
Fx differences	-	(210)	-	(26)	-	(140)	-	(5,526)	-	(359)	-	(6,261)
31 December 2011	80,545	10,696	11,143	1,480	55,548	7,376	2,054,817	272,869	141,482	18,788	2,343,535	311,209
<i>ACCUMULATED DEPRECIATION</i>												
31 December 2010	21,264	2,879	-	-	34,333	4,648	1,061,443	143,726	49,342	6,681	1,166,382	157,934
Charge for the year	3,034	408	-	-	4,742	638	121,153	16,297	7,100	955	136,029	18,298
Disposals	-	-	-	-	(1,043)	(140)	(83,545)	(11,238)	(1,593)	(214)	(86,181)	(11,592)
Correction of accumulated depreciation	-	-	-	-	4	1	-	-	219	29	223	30
Fx differences	-	(60)	-	-	-	(96)	-	(2,837)	-	(138)	-	(3,131)
31 December 2011	24,298	3,227	-	-	38,036	5,051	1,099,051	145,948	55,068	7,313	1,216,453	161,539
<i>NET BOOK VALUE</i>												
31 December 2011	56,247	7,469	11,143	1,480	17,512	2,325	955,765	126,921	86,414	11,475	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 revaluation model, Net book value of the aircrafts as at 31 December 2011 was in the amount of HRK 955,765 thousand, in EUR 126,921 thousand (2010: HRK 1,054,138 thousand, in EUR 142,737 thousand).

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

Based on the valuation of independent appraisers in November 2012 the Company has carried out revaluation of six (6) owned aircraft, Airbus type, as specified in Note 3 j) and 3 u). It was determined the impairment in the total amount HRK 375,364, thousand (EUR 49,746 thousand). In the amount of HRK 76,430 thousand (EUR 10.129 thousand), was fully used the revaluation reserve. The remaining amount of an impairment loss, above the level of revaluation reserve, in the amount of HRK 298,934 thousand (EUR 39 617 thousand), was charged the profit and loss account.

The Airbus, Dash 8-Q400 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% (2011 - 8,33%) and "6-year check" is amortized at rate of 16,67% (2011 - 16,67%).

The Company held during 2012 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 the Company has taken obligation of an average monthly lease payment per aircraft in the amount of EUR 131 thousand and USD 26 thousand.

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

Fleet at 31 December 2012

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

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Name of the company	Main activity	2012		2011		2012		2011		%
		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.		
		HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
Obzor putovanja d.o.o.	Tourism	-	-	-	-	1,020	133	1,020	133	100
Amadeus Croatia d.d.	Marketing services	-	-	-	-	190	25	190	25	95
Pleso prijevoz d.o.o.	Passenger transport	4,919	678	5,050	695	3,900	524	3,900	524	50
		4,919	678	5,050	695	5,110	682	5,110	682	

All three companies are incorporated in the Republic of Croatia. The percentages above refer to percentage ownership and voting rights. 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

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deposits in PBZ and ZABA for loans of employees	5,728	758	6,220	826	5,728	759	6,220	826
Other deposits	753	100	752	100	713	94	714	95
	6,481	858	6,972	926	6,441	853	6,934	921

Interest rates on the long-term deposits for specified purpose loans in PBZ are 0.5-0.75% and in ZABA is 0%.

15. AVAILABLE FOR SALE INVESTMENTS

	Share	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
		2012		2011	
		HRK '000	EUR '000	HRK '000	EUR '000
Hrvatska poštanska banka	0,18 %	<u>1,703</u>	<u>229</u>	<u>1,703</u>	<u>229</u>

16. NON-CURRENT RECEIVABLES

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Long-term deposits	26,868	3,561	37,594	4,992	26,868	3,561	37,594	4,992
Long-term advances	43,315	5,740	44,020	5,846	43,315	5,740	44,020	5,846
Receivables for sold flats	599	79	709	94	599	79	709	94
Loans to employees for training	-	-	-	-	-	-	-	-
Long-term receivables for housing	500	66	500	66	500	66	500	66
	<u>71,282</u>	<u>9,446</u>	<u>82,823</u>	<u>10,998</u>	<u>71,282</u>	<u>9,446</u>	<u>82,823</u>	<u>10,998</u>

The part of long-term deposits in the amount of HRK 12,918 thousand, in the EUR 1,712 thousand (2011: HRK 23,254 thousand, EUR 3,088 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 2012 interest income recorded by the Company in respect of the deposit amounted EUR 60 thousand (HRK 452 thousand); (2011: EUR 53 thousand, HRK 398 thousand) and USD 12 thousand (HRK 66 thousand); (2011: USD 21 thousand, HRK 119 thousand), based on the interest calculation received from Lufthansa Technik at an annual interest rate of 3.5%.

The amount of HRK 43,315 thousand, EUR 5,740 thousand (2011: HRK 44,020 thousand, EUR 5,846 thousand), refers to advance payment to Airbus Industrie for purchase of four new aircraft type A319 according to Airbus Industrie sales proposal and annex signed between Croatia Airlines and Airbus Industrie.

16. NON-CURRENT RECEIVABLES (CONTINUED)

Long-term receivables for housing in the amount of HRK 599 thousand, EUR 79 thousand (in 2011: HRK 709 thousand, EUR 94 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

	2012. Croatia Airlines Group		2011. Croatia Airlines Group		2012. Croatia Airlines d.d.		2011. Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	'000	'000	'000	'000	'000	'000	'000	'000
Spare parts	43,547	5,771	37,166	4,935	43,476	5,762	37,166	4,935
Catering, supplies and other	5,595	742	6,666	885	5,595	742	6,666	885
	49,142	6,513	43,832	5,820	49,071	6,504	43,832	5,820

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

18. OTHER FINANCIAL ASSETS

	2012 Croatia Airlines Group		2011 Croatia Airlines Group		2012 Croatia Airlines d.d.		2011 Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	'000	'000	'000	'000	'000	'000	'000	'000
Deposits and loans receivable	3,370	447	3,622	481	3,370	447	3,622	481
Cheques	147	19	83	12	4	-	4	1
	3,517	466	3,705	493	3,374	447	3,626	482

18. OTHER FINANCIAL ASSETS (CONTINUED)

Deposits at 31 December 2012 are as follows:

Financial institution	Annual interest rate	In thousands of original currency	Currency	2012	2012	2011	2011
				HRK '000	EUR '000	HRK '000	EUR '000
Deposits:							
Dresdner Bank A,G,	1,00	75	EUR	567	75	566	75
ARC US	-	103	USD	592	78	967	128
US Bank	-	21	USD	117	16	639	85
Other	-	-	Various	2,094	278	1,450	193
Balance as at 31 December Croatia Airlines d.d.				3,370	447	3,622	481

The amount of HRK 567 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 2012 and 31 December 2011.

19. ACCOUNTS RECEIVABLE

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Domestic accounts receivable	26,432	3,503	41,292	5,484	24,211	3,209	39,532	5,250
Foreign accounts receivable	75,389	9,991	56,597	7,516	74,434	9,865	55,555	7,377
Allowance for doubtful receivables	(10,850)	(1,438)	(9,029)	(1,199)	(10,675)	(1,415)	(8,739)	(1,160)
	90,971	12,056	88,860	11,801	87,970	11,659	86,348	11,467

19. ACCOUNTS RECEIVABLE (CONTINUED)

Tables below present changes in allowance for doubtful receivables in years 2012 and 2011:

	2012		2012	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
Allowance for doubtful receivables				
Balance at 1 January 2012	9,029	1,199	8,739	1,160
Increase	2,792	370	2,570	341
Decrease	(198)	(26)	(198)	(26)
Bad debts write-off	(799)	(106)	(462)	(61)
Exchange differences	26	1	26	1
Balance at 31 December 2012	10,850	1,438	10,675	1,415

	2011		2011	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
Allowance for doubtful receivables				
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

20. OTHER RECEIVABLES

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
VAT receivable net	554	73	167	22	443	59	18	2
Receivables from employees	371	49	311	41	354	47	284	38
Receivables from the State	105,582	13,992	75,166	9,982	105,478	13,979	75,047	9,966
Dividends and profit share receivable	-	-	-	-	505	67	289	38
Receivables for advances	10,618	1,408	8,147	1,082	10,580	1,402	8,136	1,080
Short-term loans receivables	-	-	4	1	-	-	4	1
	117,125	15,522	83,795	11,128	117,360	15,554	83,778	11,125

21. CASH AND CASH EQUIVALENTS

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Short-term deposits	1,759	233	7,579	1,006	1,759	234	7,579	1,006
Gyro account	18,050	2,392	3,702	492	16,429	2,177	1,970	262
Foreign currency accounts	17,143	2,272	13,950	1,853	15,765	2,089	12,479	1,657
Foreign currency petty cash	105	14	83	11	105	14	83	11
Petty cash	58	8	42	5	38	5	32	4
	37,115	4,919	25,356	3,367	34,096	4,519	22,143	2,940

22. PREPAID EXPENSES

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Prepaid expenses	36,111	4,785	25,053	3,327	36,067	4,780	24,996	3,319
Accrued income	11,096	1,471	8,546	1,135	11,097	1,470	8,546	1,135
	47,207	6,256	33,599	4,462	47,164	6,250	33,542	4,454

The most significant part of prepaid expenses include amounts for: pilot training expenses in the amount of HRK 305 thousand, EUR 40 thousand (2011: HRK 1,421 thousand, EUR 189 thousand), loan refinancing cost in the amount of HRK 3,672 thousand, EUR 487 thousand (2011: HRK 5,412 thousand, EUR 719 thousand), and prepaid expenses to suppliers in the amount of HRK 32,090 thousand, EUR 4,253 thousand (2011: HRK 18,162 thousand, EUR 2,411 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2012

23. ISSUED CAPITAL

Pursuant to the Decision of the Government of the Republic of Croatia on the conversion of debt into equity, the General assembly of the Company, at its meeting held on 27 December 2012 has adopted a decision on the increase of share capital for the amount of 862,228 thousand and as at 31 December 2012 the subscribed capital amounts to HRK 1,852,203 thousand. Share capital increase in the balance sheet of the Company was carried out on the day of registration in the Court register, on 28 December 2012.

During 2011 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 the ownership structure of the Company was as follows:

2012

Shareholders	Number of shares	HRK '000	%
Government Asset Management Agency (GAMA) for Republic of Croatia	9,074,080	1,814,816	97.98
Government Asset Management Agency (GAMA) for State Agency for Deposit Insurance and Bank Rehabilitation	110,584	21,315	1.15
Others	101,949	16,072	0.87
	9,286,613	1,852,203	100.00

2011

Shareholders	Number of shares	HRK '000	%
Government Asset Management Agency (GAMA) for Republic of Croatia	4,762,943	952,588	96.22
Government Asset Management Agency (GAMA) for State Agency for Deposit Insurance and Bank Rehabilitation	110,584	21,315	2.16
Others	101,949	16,072	1.62
	4,975,476	989,975	100.00

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 2012 and 2011 was as follows:

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

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

24. CAPITAL RESERVES AND ACCUMULATED LOSSES

Impairment of aircraft, based on a professional assessment performed in November 2012, has resulted by the elimination of revaluation reserves, formed by the revaluation of aircraft and engines, and at 31 December 2012 those reserves are fully utilized and amounts nil Croatian kunas. On the same date of the previous year, revaluation reserves amounted to 88,116 thousand (EUR 11,701 thousand).

Legal reserve in the amount of HRK 931 thousand (EUR 135 thousand); (2011: 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 (2011: HRK 10 thousand, EUR 1,4 thousand) and other reserves HRK 100 thousand (EUR 14 thousand) (2011: HRK 100 thousand, EUR 14 thousand).

Obzor putovanja has other reserves in the amount of HRK 867 thousand (EUR 115 thousand) (2011: HRK 716 thousand, EUR 96 thousand).

24. CAPITAL RESERVES AND ACCUMULATED LOSSES (continued)

At 19 November 2012 Croatian Government charged the Company with interest based on realized guarantees in the total amount of HRK 210,338 thousand (EUR 27,925 thousand). Out of this, as a correction of the results in previous years is recognized the amount of HRK 149,206 thousand (EUR 19,798 thousand) which relates to the interest accrued till 1 January 2011 in the amount of HRK 101,277 thousand (EUR 13,446 thousand) and the previously recognized revenue from 2006 based on guarantees paid by the Government of the Republic of Croatia in the amount of HRK 47,929 thousand (EUR 6,352 thousand). For the year 2011 the Company has adjusted profit and loss account for a part of the mentioned interest, belonging to this year, in the amount of HRK 38,530 thousand (EUR 5,115 thousand).

Difference based on accrued interest in the amount of HRK 70,532 thousand (EUR 9,364 thousand) is booked by charging the profit and loss account for 2012.

25. BASIC AND DILUTED LOSS PER SHARE

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

	Croatia Airlines Group		Croatia Airlines Group	
	2012		2011	
	HRK '000	EUR '000	HRK '000	EUR '000
Net loss for the year	(487,844)	(64,890)	(113,126)	(15,217)
Number of shares issued	9,287	9,287	4,975	4,975
Basic and diluted loss per share in HRK/EUR	(52.53)	(6.99)	(22.74)	(3.06)

The management of the Company proposed that the loss for the year 2011 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 9,235,416 (2011: number of shares at nominal value HRK 100 were 51,197 and at nominal value HRK 200 were 4,924,279)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2012

26. LONG-TERM LOANS

	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	2012		2011	
	HRK '000	EUR '000	HRK '000	EUR '000
Long-term loans	408,508	54,138	574,629	76,308
Current portion of long-term loans	(170,299)	(22,569)	(166,944)	(22,169)
	238,209	31,569	407,685	54,139

Description of long-term loans is as follows:

Financial institution	Original currency	Loan amount in original currency	Annual interest rate	Due date	2012	2012	2011	2011
					HRK '000	EUR '000	HRK '000	EUR '000
		(in 000)	%					
			6 m					
BLB Tranche A	EUR	135,000	EURIBOR +0,5	Dec 2014	313,434	41,538	469,203	62,308
			3 m					
PBZ 2009	EUR	15,000	EURIBOR +5,5 (min.8%)	Oct 2017	95,074	12,600	105,426	14,000
					408,508	54,138	574,629	76,308
Current portion					(170,299)	(22,569)	(166,944)	(22,169)
Long-term portion					238,209	31,569	407,685	54,139

In the above amounts HRK 313,434 thousand, EUR 41,538 thousand, are under guarantee of Government of Croatia (in 2011 HRK 469,203 thousand, EUR 62.308 thousand).

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

	HRK '000	EUR '000
2013	163,508	21,669
2014	156,716	20,769
2015	17,657	2,340
2016	17,657	2,340
after 2016	52,970	7,020
Total	408,508	54,138

27. OBLIGATIONS UNDER FINANCE LEASES

	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	2012		2011	
	HRK '000	EUR '000	HRK '000	EUR '000
Long-term leases	71	9	87	12
Current portion of long-term leases	(18)	(2)	(17)	(2)
	53	7	70	10

Description of the long-term leases is as follows:

Financial institution	Original currency	Loan amount	Annual interest rate	Due date	2012	2012	2011	2011
					HRK '000	EUR '000	HRK '000	EUR '000
		(in 000)	%					
ASA Leasing	EUR	14	8	June 2016	71	9	87	12
Total					71	9	87	12
Current portion					(18)	(2)	(17)	(2)
Long-term portion					53	7	70	10

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

	HRK '000	EUR '000
2013	18	2
2014	20	3
2015	21	3
2016	12	2
Total	71	10

28. PROVISIONS**Croatia Airlines d.d. and Group**

	HRK	EUR
	'000	'000
At 31 December 2010	858	116
Charge for the year	1,640	218
Provisions utilised during the year	(664)	(88)
Fx differences	-	(1)
	<hr/>	<hr/>
At 31 December 2011	1,834	245
Charge for the year	53,972	7,153
Provisions utilised during the year	(959)	(127)
Fx differences	-	-
	<hr/>	<hr/>
At 31 December 2012	54,847	7,269

The amount of the HRK 54,847 thousand (EUR 7,269 thousand) includes the provisions for litigation in the amount of HRK 6,714 thousand, in EUR 890 thousand (2011: HRK 1,118 thousand, EUR 148 thousand) which relate to a dispute with former employees of JAT and Croatia Airlines.

The amount also includes provisions in the amount of HRK 40,858 thousand (EUR 5,415 thousands) which refer to the restructuring costs according to the Restructuring plan of the Company, of which the amount of HRK 37,228 thousand (EUR 4,934 thousand) relates to severance payments and the amount of HRK 3,630 thousand (EUR 481 thousand) to the other restructuring costs.

29. LONG-TERM LIABILITIES TOWARDS STATE

	2012		2011	
	Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR
	'000	'000	'000	'000
Long-term liabilities towards State	-	-	635,243	84,340
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	635,243	84,340

The amount of HRK 635,243 thousand, EUR 84,340 thousand disclosed for the year 2011 represents long-term liabilities of the Company to the Croatian Government based on realised guarantees for long-term loans related to the financing the fleet.

In accordance with the decision of the Government of the Republic of Croatia of the debt converting into equity, and the decision of the General Assembly on the share capital increase, all the long-term liabilities to the State are closed in December 2012 (see note 23).

30. ACCOUNTS PAYABLES

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Domestic trade accounts payables	169,730	22,494	155,988	20,714	168,705	22,358	154,811	20,556
Foreign trade accounts payables	115,100	15,254	77,817	10,334	114,616	15,190	77,103	10,239
	284,830	37,748	233,805	31,048	283,321	37,548	231,914	30,795

31. OTHER CURRENT LIABILITIES

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Air traffic liabilities	117,126	15,522	117,757	15,638	117,126	15,522	117,757	15,638
Deposits and advances received	9,071	1,202	13,416	1,782	9,031	1,197	13,416	1,782
Salaries	19,774	2,621	20,014	2,658	19,576	2,594	19,768	2,625
Other current liabilities	19,065	2,527	19,696	2,616	18,971	2,515	19,482	2,587
	165,036	21,872	170,883	22,694	164,704	21,828	170,423	22,632

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

32. ACCRUED EXPENSES AND DEFERRED INCOME

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deferred income	6,309	836	7,515	998	6,309	836	7,515	998
Accrued expenses	16,686	2,213	(753)	(101)	16,176	2,144	(1,374)	(184)
	22,995	3,049	6,762	897	22,485	2,980	6,141	814

Deferred income in the amount of HRK 6,309 thousand, EUR 836 thousand (2011: HRK 7,515 thousand, EUR 998 thousand) represents income from tangible assets received from aircraft and engine manufacturers free of charge, which are depreciated over the useful life of the related aircraft. The value of the spare parts and spare engine received free of charge in connection with the purchase of the Airbus fleet is included in deferred income and credited to income on a straight-line basis over the estimated useful life of the related aircraft.

33. COMMITMENTS AND CONTINGENT LIABILITIES

In order to maintain regular business activities the Group uses business premises on several locations. The Group also has assets under the operating leasing as follows: IT equipment, vehicles, aircraft Airbus A320 and Q400 and spare engine for aircraft. Total monthly amount for rent and lease obligation is HRK 9,687 thousand (EUR 1,288 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 and USD 26 thousand.

34. EMPLOYEES

Croatia Airlines d.d.	2012	2011
Pilots and co-pilots	141	144
Cabin attendants	195	192
Maintenance and overhaul	256	258
Ticket sales and promotion	181	282
Airport handling	122	67
Other staff	193	158
	<u>1,088</u>	<u>1,101</u>
Croatia Airlines d.d. subsidiaries		
Amadeus Croatia d.d., Zagreb	8	8
Obzor Putovanja d.o.o., Zagreb	11	12
	<u>1,107</u>	<u>1,121</u>

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:

	2012	2011	2012	2011
	HRK	HRK	EUR	EUR
	'000	'000	'000	'000
Revenue				
Obzor putovanja d.o.o.	4,580	5,099	609	686
Amadeus Croatia d.d.	182	168	24	23
Pleso prijevoz d.o.o. (associate)	265	272	35	37
Total revenue	5,027	5,539	668	746
Expenses				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	5,374	5,314	715	715
Total expenses	5,374	5,314	715	715
Receivables				
Obzor putovanja d.o.o.	278	11	37	1
Amadeus Croatia d.d.	304	333	40	44
Pleso prijevoz d.o.o. (associate)	52	45	7	6
Total receivables	634	389	84	51
Liabilities				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	2,126	1,915	282	254
Total liabilities	2,126	1,915	282	254

36. RISK MANAGEMENT

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

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

	2012		2011		2012		2011	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Debt	458,433	60,753	616,314	81,843	457,434	60,622	616,273	81,838
Cash and cash equivalents	(37,115)	(4,920)	(25,356)	(3,367)	(34,096)	(4,519)	(22,143)	(2,940)
Net debt	421,318	55,833	590,958	78,476	423,338	56,103	594,130	78,898
Equity	146,988	19,508	(141,601)	(18,759)	143,405	19,013	(145,424)	(19,288)
Net debt to equity ratio	287%	286%	-	-	295%	295%	-	-

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 86 thousand (EUR 11 thousand) would debit income statement and, contrary, in case that the interest rate was lower for 0.5% the effect of HRK 86 thousand (EUR 11 thousand) would credit income statement for the period ended 31 December 2012.

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 loans 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	
	2012	2011
Profit / Loss	2,213	3,043

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

HRK 000	Currency impact EUR		Currency impact USD	
	2012	2011	2012	2011
Profit / Loss	2,299	2,208	1,845	1,658

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 1,899 thousand (EUR 253 thousand) would debit profit and loss account and, contrary, in case that the fuel price was lower for 0,5% the effect of HRK 1,899 thousand (EUR 253 thousand) would credit profit and loss account for the year 2012.

Liquidity risk

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

Hedging implemented at the Company

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

36. RISK MANAGEMENT (CONTINUED)

Hedging implemented at the Company (continued)

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.

As regards to the loan balance as at 31 December 2008, the application of cash flows hedge until full repayment has been maintained.

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2012

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 2012 and 2011. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31 December 2012	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	6,813	911	-	-	-	-	-	-	6,813	911
Long-term deposits	6,441	853	-	-	-	-	-	-	6,441	853
Long-term receivables	71,282	9,446	-	-	14,049	1,862	-	-	57,233	7,584
Short - term deposit	3,370	447	-	-	3,370	447	-	-	-	-
Current financial assets	4	-	4	-	-	-	-	-	-	-
Trade receivables and other receivables	252,494	33,463	202,691	26,862	42,439	5,624	-	-	7,364	977
Total	340,404	45,113	202,695	26,862	59,858	7,933	-	-	77,851	10,325
Liabilities										
Short-term leasing	18	2	18	2	-	-	-	-	-	-
Short-term loans	219,154	29,044	85,253	11,298	133,901	17,746	-	-	-	-
Long term leases	53	7	-	-	-	-	-	-	53	7
Long-term loans	238,209	31,569	-	-	-	-	187,619	24,865	50,590	6,704
Trade payables and other liabilities	525,357	69,624	303,940	40,280	216,315	28,668	1,207	160	3,895	516
Total	982,791	130,246	389,211	51,580	350,216	46,414	188,826	25,025	54,538	7,227

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

31 December 2011	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	6,813	904	-	-	-	-	-	-	6,813	904
Long-term deposits	6,933	921	-	-	-	-	-	-	6,933	921
Long-term receivables	82,823	10,999	7,723	1,025	5,261	699	109	15	69,730	9,260
Short - term deposit	11,200	1,487	7,578	1,006	3,622	481	-	-	-	-
Current financial assets	4	1	4	1	-	-	-	-	-	-
Trade receivables and other receivables	203,667	27,046	168,825	22,419	34,842	4,627	-	-	-	-
Total	311,440	41,358	184,130	24,451	43,725	5,807	109	15	83,476	11,085
ties										
Short-term leasing	237	32	127	17	110	15	-	-	-	-
Short-term loans	208,280	27,658	83,565	11,097	124,715	16,561	-	-	-	-
Long-term loans	407,756	54,148	-	-	-	-	342,819	45,525	64,937	8,623
Trade payables and other liabilities	857,815	113,913	248,827	33,043	600,845	79,789	1,207	160	6,936	921
Total	1,474,088	195,751	332,519	44,157	725,670	96,365	344,026	45,685	71,873	9,544

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 2012 the Company had 7 airplanes, 2 buildings and 13 cars under the operating lease, The future aggregate minimum lease payments are as follows:

	HRK '000 2012	EUR '000 2012
No later than one year	110,371	14,627
Later than one year and no later than five years	369,975	49,032
Later than five years	<u>205,951</u>	<u>27,294</u>
	<u>686,297</u>	<u>90,953</u>

38. DIRECTORS' AND EXECUTIVES' REMUNERATION

The total amount of remuneration paid to directors and other key management personnel during 2012 and 2011, was as follows:

	HRK '000 2012	EUR '000 2012	HRK '000 2011	EUR '000 2011
Gross salaries	8,203	1,091	15,123	2,034
Gross benefits in kind	801	107	739	99
	<u>3,982</u>	<u>530</u>	<u>-</u>	<u>-</u>
	<u>12,986</u>	<u>1,728</u>	<u>15,862</u>	<u>2,133</u>

As at 31 December 2012 the number of directors and key management staff was 18. During 2011, due to the reorganization performed, there was a change in the number of directors and key management personnel, so, the number of 26 employees in key positions since the beginning of the year was reduced to 18 by the end of 2011.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorised for issue on 29 March 2013.

Signed for and on behalf of the Company on 29 March 2013.



Krešimir Kučko

President and CEO

Teodora Wenzler-Brezak



Director of Finance and Accounting