

Croatia Airlines
Consolidated and Separate
Annual Report for the year
ended 31.12. 2016.



May 2017.



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A STAR ALLIANCE MEMBER 

The Management's Business Report for 2016



March 2017

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Typical indicators

Fleet

type of aircraft	number at the end of 2016	seats	ownership	lease	Ø age (years)	number at the end of 2015	ownership	lease
Airbus A320	2	348	1	1	17,09	2	1	1
Airbus A319	4	576	4	-	17,94	4	4	-
Q-400	6	456	-	6	7,60	6	-	6
TOTAL	12	1.380	5	7	12,63	12	5	7

Traffic indicators

Description			2016	2015	2014
flights (km)	DIST	000	17.220	16.388	16.328
departures	FLTS		26.848	25.863	25.879
growth rate		%	4	0	3
block hours	BH		37.890	37.007	36.909
growth rate		%	2	0	3
passengers carried	RPAX	000	1.939	1.850	1.825
growth rate		%	5	1	2
freight&mail carried	CGO	T	2.591	2.733	3.103
growth rate		%	-5	-12	-4
passenger km flown	RPK	mil	1.446	1.371	1.342
available seat - km	ASK	mil	2.066	1.967	1.938
passenger load factor	PLF	%	70,0	69,7	69,2
tonne km flown	RTK	mil	146	139	136
available tonne-km	ATK	mil	215	205	202
weight load factor	WLF	%	68,1	67,8	67,4

Financial indicators

Indicators	Unit	2016	2015	2014
Operating revenue	mIn HRK	1.561	1.551	1.544
% of change	%	0,7	6,0	
Total Revenue	mIn HRK	1.610	1.608	1.595
% of change	%	0,1	0,8	
Operating expenses	mIn HRK	1.553	1.534	1.530
% of change	%	1,3	0,2	
Total expenses	mIn HRK	1.602	1.594	1.587
% of change	%	0,5	0,5	
Operating profit/loss	mIn HRK	7,8	16,7	13,7
Net profit/loss	mIn HRK	8,0	13,8	7,5
EBIT	mIn HRK	15,6	24,2	19,1
EBITDA	mIn HRK	101,0	97,4	90,6
EBIT margin	%	1,0	1,6	1,2
Efficiency ratio		1,0	1,0	1,0
ROA	%	0,9	1,6	0,9
ROE	%	2,1	3,7	2,1
Unit operating cost	HRK/ATKM	7,2	7,5	7,6
Unit operating revenue	HRK/ATKM	7,3	7,6	7,6
Passenger yield (passenger revenue in EUR/RPKM)	€cent/RPKM	12,4	12,6	12,6
Current ratio		0,5	0,5	0,5
Debt ratio		0,6	0,6	0,6
Investment ratio		1,3	1,3	1,3
Average number of employees		946	925	967

Productivity indicators

Productivity Indicators	2016	2015	2014
Employees (tkm/employee)	154.851	150.365	140.913
Aircraft (BH/day)	8,2	8,4	8,4
Fuel (tkm/tonne)	2.434	2.451	2.458

Croatia Airlines in 2016 – introduction

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

Ownership structure

Croatia Airlines is a joint-stock company.

Its share capital amounts to HRK 277.879,530 and is divided into 27.787,953 ordinary shares with the nominal value of HRK 10.

Review of shareholders and their share in stock capital	number of shares	%
CERP FOR REPUBLIC OF CROATIA	26.971.437	97,0616
INTERNATIONAL AIRPORT ZAGREB D.O.O.	477.121	1,7170
CERP FOR DAB	213.152	0,7671
JANAF D.D.	22.000	0,0792
CROATIA LLOYD D.D.	10.270	0,0370
CROATIA LLOTERY D.O.O.	4.000	0,0144
ASTRA INTERNATIONAL D.D.	3.682	0,0133
HP D.D.	2.750	0,0099
TURISTHOTEL D.D.	2.090	0,0075
TANKERKOMERC D.D.	2.090	0,0075

The associated companies owned by Croatia Airlines d.d. in 2016 were Amadeus Croatia d.d. and Obzor putovanja d.o.o., as independent business entities.

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

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

Company's management structure and organisation

The Company's operations were in 2016 organised through its business functions grouped into business units and through the joint functions of the Company organised within the Management Secretariat, Quality and Safety Management Office, Controlling and Internal Audit Sector, and corporate functions comprising the Finance and Accounting Sector, Legal Affairs Sector, Human Resources and Asset Management Sector, and IT Sector.



The business sphere of traffic comprises flight and cabin operations, traffic training centre, operations centre with crew plan, operations engineering, ground operations, traffic administrative support, and traffic quality and operations safety management.

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

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

Pursuant to the Company's Articles of Association, the Company's Management Board has one member at least and a maximum of three members, while the Supervisory Board has five members. Krešimir Kučko is the Chairman of the Management Board, Zlatko Širac is a Management Board member, and Zlatko Mateša, LLB, is the Chairman of the Supervisory Board.

Foreign branch offices

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

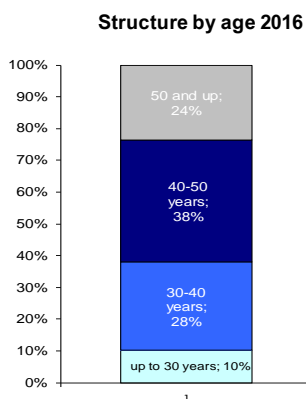
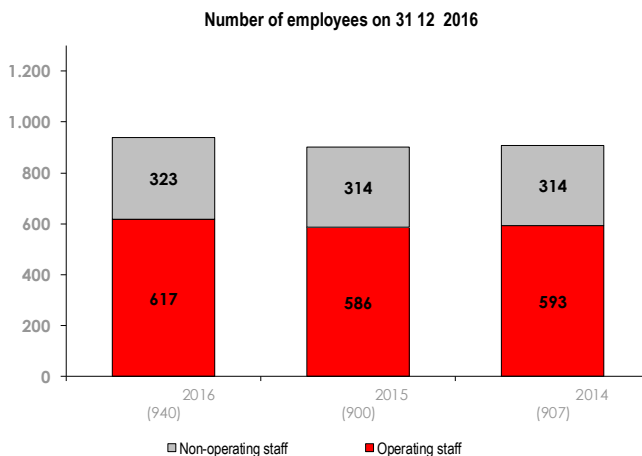
Bruxelles	Benelux
Address:	Brussels Airport, Box 31 1930 Zaventem
Frankfurt	Germany
Address:	FAC 1, Gebäude 234, HBK 49, Hugo-Eckener-Ring 60549 Frankfurt a.M.
London	Great Britain
Address:	Concorde North Wing Gatwick Airport Room 332 West Sussex RH6 0DW

Paris	France
Address:	Roissypôle Le Dôme, 1 Rue de la Haye, BP 18913 Tremblay en France 95731 Roissy CDG Cedex
Rome	Italy
Address:	Aeroporto Leonardo Da Vinci Torre Uffici 2, room 518 00054 Fiumicino

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

Human resources

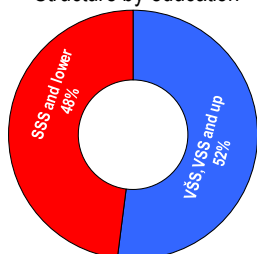
On 31 December 2016, the Company had 940 employees, including 38 foreign branch office employees. Compared to the end of 2015, the number of employees increased by 4.4%.



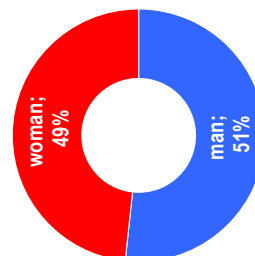
At the end of 2016, the **number of operative staff members** was 5% higher compared to the end of the preceding year, while the **number of non-operative staff members** was on the same level as at the end of 2015. For the needs of covering the summer flight schedule, the Company hired 62 cabin staff employees on a seasonal basis.

The share of operative staff members¹ within the Company was 65.6% (617), while that of non-operative staff members was 34.4% (323).

Structure by education



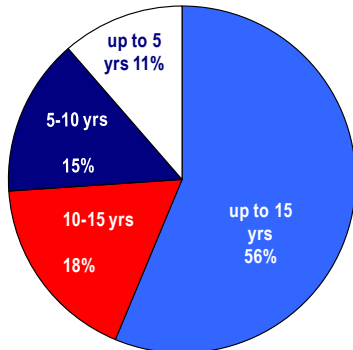
Structure by gender



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

According to the educational structure, 52% of employees held either an associate or a university degree, with the average age of employees being 42.3 years. In terms of gender structure, men were somewhat more represented (52%).

Structure by employment record



The average overall employment record of the Company's operative staff was 16.2 years of service, and that of the non-operative staff was 18.6 years, while the average employment record on the level of the entire Company was 17 years.

The average employment record in the Company was 13.2 years of service for the operative staff, and 15.5 years for the non-operative staff, while the average employment record in the Company on the level of the entire Company was 14 years, showing a high level of loyalty on the part of employees, with many of them spending their entire career at Croatia Airlines.

Airlines.

The share of women in the senior and medium management totalled 38%.

Training investments

Having recognised 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, cabin and ground operative personnel.

Investment in education (HRK)	2016	2015	2014
Operative staff	5.728.993	6.500.959	6.668.434
Annual change rate	-12%	-3%	10%
Non-operative staff	700.000	668.861	589.220
Annual change rate	5%	14%	0,2%
Total	6.428.993	7.169.820	7.257.654
Annual change rate	-10%	-1%	9%

Training of the Croatia Airlines' employees is carried out in three training centres: Traffic Training Centre, Technical Training Centre and Training Centre for Non-Operative Staff.

In 2016, the Technical Training Centre continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance of PART 66 licences² and harmonisation with the EASA³ regulations.

Even though in late 2015 the Company completed the project of certifying its Technical Training Centre as a certified organisation for the provision of basic training for aircraft mechanics, as a prerequisite for acquiring PART 66 licences for maintenance mechanics, in 2016 the Company continued to improve and enhance the training standards, which resulted in changes to MTOE⁴ and the development of additional training material. Furthermore, in the course of 2016, basic training was provided to the first group of attendants who started their training at the end of 2015.

An increased scope of work necessitated the hiring of additional instructors at the Technical Training Centre. Due to the inability to provide instructor trainings in the course of 2016, the training of new instructors was postponed for 2017.

Within the PART 147⁵ Type-training, two theoretical and two practical courses were held for the aircraft types A319/A320. The training courses were provided to the technical sector employees, but also to those attending the training on commercial bases.

Altogether 95 training courses were held as prescribed by the PART 145 regulations, comprising all of the planned courses for extending internal authorisations of Croatia Airlines' PART 145⁶ engineers and mechanics.

The training programme Limited Certification Authorisation to the Commander also continued for both types of the aircraft A319/A320 and Q400. The training programme was modified in late 2016 in line with the new maintenance procedures, so a new group of trainings will be carried out in 2017 based on a revised training programme as a constituent part of the TTM (Technical Training Manual), i.e. of the Technical Training Centre Manual setting out the PART-145 trainings.

In 2016, the Traffic Training Centre organised mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the traffic sector employees to extend all authorisations and licences necessary for performing their activities.

All the pilots underwent training on A319/A320 for RNP⁷ approaches, and all crews on A319/A320 got certified.

Commercial training courses for the pilots of A319/A320 and Q400 were held on both the simulators and aircraft, as well as all other training courses envisaged in the Business Plan for 2016. A number of base training courses for the A/319A320 and Q400 were provided in cooperation with partners.

The Company also held commercial training courses for its cabin staff, and a number of courses related to the procedure of handling dangerous goods (DGR⁸), CRM⁹ trainings for external users, and base training courses for Croatia Airlines' partners.

² PART 66 – Aircraft Maintenance Licences

³ and harmonisation with the EASA

⁴ MTOE – Maintenance Training Organisation Exposition

⁵ [PART 147 - Maintenance Training Organizations](#)

⁶ PART 145 - Maintenance Organization

⁷ RNP – Required navigation performance

⁸ DGR - Dangerous Goods Regulations

⁹ CRM – Crew Resource Management

During 2016, the Croatian Civil Aviation Agency carried out a number of audits and inspections for the purpose of implementing on-going supervision of activities performed by the Traffic Training Centre staff at Croatia Airlines' premises, on 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/TRE¹⁰ work on them were carried out in accordance with the provisions OM-D¹¹ & Quality Inspection Orders for the purpose of monitoring and raising the quality of the work of TRI/TRE. The standardisation of the TRE/TRI work was carried out for both aircraft types in the segment of Normal & Abnormal Procedures.

Savings measures were implemented in all business segments, as well as the rationalisation of operations of the Traffic Training Centre employees.

In line with the amended regulations and individual training programmes, the OM-D and ATO¹² manuals were revised.

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

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

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

A number of internal training courses were held for the non-operative staff in 2016, with the aim of giving employees an opportunity to obtain additional industry expertise related to technological changes, and business skills needed for their everyday work.

During 2016, three series of regular training courses were organised for sales employees, ground operations employees and travel agency employees, the topic being reservations, passenger tariffs and automated document printing. Along with the Croatia Airlines' employees, the attendees were also external users from various institutions directly or indirectly involved in the airline industry, such as employees of the airports and travel agencies.

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

The Emergency Response and Crisis Management Service organised a training course for its members in order to enable the Company' employees to respond in a crisis situation and to familiarise them with the specifics of proceeding, decision-making, and communicating in situations that result or might result in human and material losses, which could ultimately undermine the reputation and survival of the Company. Special attention was given to the ways of communication aimed at preventing or reducing the

¹⁰ TRI/TRE - Type Rating Instructor and Type Rating Examiner

¹¹ OM-D – Operational Manual Part D

¹² ATO - Approved Training Organisations

damage, and the provision of active support to the employees and the Company in order to handle crises more efficiently.

As is the case every year, in 2016 all employees in a direct contact with passengers attended the necessary training courses prescribed by the Star Alliance, with an emphasis on the benefits of the privileged categories of Star Alliance passengers, and standard procedures in extraordinary situations. A series of internal courses aimed at recognising passengers with special Star Alliance statuses was organised, in order to acquire an appropriate approach to this passenger category, maintain the high service standard and improve the level of passenger satisfaction in general.

In 2016, the Company continued with assessing employee competences. The persons in charge of assessing the competences of individual workers also carried out annual interviews regarding the work performed. The purpose of interviews was to make observations, and assess and analyse the achieved results, as well as to identify the areas that can be improved. As a rule, employee work was monitored and assessed by immediate superiors, while additional assessors were appointed for the large groups of employees with one formal superior so as to entrust the assessment of and distribute the annual feedback on the work to a number of assessors.

In order to achieve the purpose of monitoring employee work, as an addition to annual interviews and assessment of competencies the performance assessment procedure based on goal management was introduced in 2016 (business goals were set up to the level of all organisational units in line with the new methodology, and then individual goals were determined for each employee). The entire management of the Company underwent a training course related to goal management, improvement of teamwork and organisational cohesion aimed at a more unified and effective definition and assessment of work performance indicators, and the cascading of strategic and sectoral goals to lower organisational levels. The attendees were taught how to improve the teamwork and cohesion of their teams and how to remove obstacles preventing an efficient cooperation between certain organisational units, in order to boost sectoral synergy in achieving the Company's goals.

Any specialised training courses that cannot be organised due to a lack of internal resources are provided mostly at IATA (International Air Transport Association) Training Centre, and other international, specialised training centres, while external experts are hired for certain training categories. Those experts implement in-house programmes, in which a number of target employee groups participated. The Company employees regularly participate in various theme conferences, symposia and work groups, with the aim of getting familiar with operational and commercial innovations within the industry.

As a national flag carrier, Croatia Airlines organises within its Training Centre a series of training courses needed by travel and commodity agencies for the acquisition of the IATA licence, training courses for airports, freight forwarders and airline companies. In 2016, Croatia Airlines Training Centre provided training to a significant number of employees of IATA-accredited agencies, in the sphere of reservations, tariffs and ticketing, and to employees of commodity agencies and freight forwarders in the sphere of dangerous goods handling.

**Responsibility
to employees**

The Company's employees are in principle hired for an indefinite period. Additional operative personnel is hired for a definite term during the summer season (cabin staff, pilots), and during the

winter for aircraft maintenance needs (auxiliary technical staff). 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, such as reimbursement for workplace transportation expenses, severance pay on the occasion of retirement, support in the event of a close family member's death, support for a continual sick leave longer than 90 days, right to paid leave in the event of child birth, moving home, entering into marriage, schooling, etc.

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

Occupational safety, fire protection and environmental protection

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

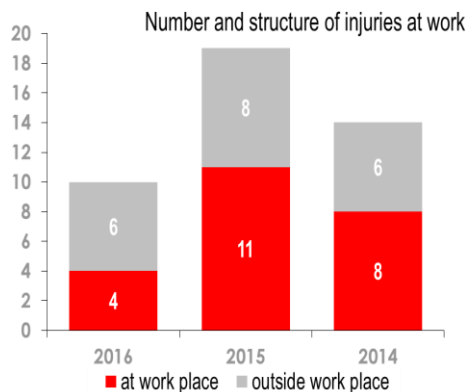
Employee training related to working in a safe manner and basic training in fire protection are regularly organised and implemented for all new employees. Specialist training for the safe handling of machines and devices posing a greater hazard (hydraulic platform lifts, metal and non-metal processing machines, fork-lifts, etc.), and courses on the protection against hazardous chemicals are organised in line with the needs of the Technical Sector. In 2016, 78 employees underwent a specialist training course for operating hydraulic lifts, and 4 employees underwent a specialist fork-lift training.

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

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

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

Altogether four inspections were carried out in 2016: three by the State Inspectorate - in the sphere of occupational safety, and one by the Ministry of Environmental and Nature Protection Inspectorate. In 2016, the Ministry of the Interior carried out no inspections concerning the implementation of fire protection measures.



Altogether ten injuries at work were reported in 2016 (four women and six men). Of those, four were sustained at the place of work, and three while arriving to/leaving the workplace, of which two were a result of a traffic accident. Three injuries occurred during a business trip. When classifying injuries sustained at work in accordance

with the AUVA method, nine injuries sustained in 2016 were minor, and one was severe. The circumstances of the severe injury were investigated by the Occupational Health and Safety State Inspectorate. Of ten reported injuries, nine were acknowledged and one is still being processed by the Croatian Health Insurance Institute. There were neither deaths related to injuries at work, nor professional illnesses.

Protection of employees' dignity

For the purpose of protecting its employees' dignity, the Company prescribed the Complaint Receipt and Settlement Procedure and appointed a person to receive and handle complaints related to this issue. In order to ensure the confidentiality of personal data, the Company reached a decision to appoint a person for collecting, processing, utilising and delivering to third parties personal data on the Company employees.

Pursuant to the adopted Action Plan for the Promotion and Establishment of Gender Equality, the Company carries out analyses, on an on-going basis, of the position of both its female and male employees. During the preceding period there was no need for introducing new measures for establishing gender equality, and the plan for the promotion of gender equality is adopted on a regular basis, in line with relevant legal requirements.

Employees and Management relations

There are five labour unions within the Company - Croatian Union of Air Traffic Pilots, Union of Engineers and Technicians in Aviation, Independent Professional Union of Croatian Aeromechanics, Air Cabin Staff Union, and the Independent Croatian Union of Airline Employees and in 2016 another one, the Croatia Airlines' Employees Organisation, was founded.

There is also a Works Council within the Company, which had 9 members in 2016. 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 recognises 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.

With the aim of widening the destination network and connecting the country, in 2016 Croatia Airlines introduced four new seasonal routes from Zagreb to Lisbon, Milan, Prague and Saint Petersburg.

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

Croatian brand

Croatia Airlines is making a great effort to contribute to the overall development of Croatia's tourism and economy. Therefore it introduced a new range of high-quality meals on the flights in order to present Croatian tourist offer and its national cuisine in a more prominent way. Within the project Inspired by Croatia, business class passengers can enjoy new versions of the meals, based on original recipes and ingredients from both coastal and inland Croatia.

The Company familiarises its passengers with Croatia's natural beauties, historical values and cultural events during the flights, via the magazine Croatia. In cooperation with the Croatian Tourist Board and other tourist boards, the Company publishes advertisements and articles in the magazine, while films promoting the cultural values and natural beauties of various regions (the sea bed, islands, coast, continental parts, etc.) are shown on Airbus flights.

There are also regular promotions and sponsorships of many cultural events and institutions contributing to the advancement of Croatia's tourism (Dubrovnik Summer Festival, Easter Regatta, Polo Beach Cup, Zagreb Dox, etc.).

In 2016, Croatia Airlines continued its cooperation with the Croatian Olympic Committee and the Croatian Paralympic Committee, being the official carrier of Croatia's Olympic team, and a promoter of local athletes and sports as a member of these Committees.

During the Olympic Games, special welcome events for Croatian Olympic medal winners were organised at the airports, as another way of promoting Croatia as a brand.

Support for the community

Whenever possible, Croatia Airlines strives to support institutions that need humanitarian aid or organise humanitarian projects. It has also been providing direct humanitarian aid by granting cost-free transport for severely ill patients, children or people in need, and participating in charity actions by providing free transport. In an effort to contribute to the quality of medical treatment and health care in Croatia, and especially to the treatment of young patients, in 2016 Croatia Airlines donated funds to the Paediatric Clinic of the General Hospital in Osijek for the purchase of a vital signs monitor and a biphasic defibrillator with a monitor.

Croatia Airlines started participating in the project Velika Gorica – the City of Aviation. The representatives of the city and of the business entities operating within the aviation industry in the city area signed a Charter of Friendship. The signing of the Charter of Friendship strengthened their relations and enabled a better cooperation between the business entities performing various aviation activities.

Business ethics

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

Awards, anniversaries and environmental protection

According to the survey of Air Help, the company specialised for assessing the quality of civil air transport and assisting passengers in exercising their rights, Croatia Airlines is globally the highest rated company in terms of passenger rights. Within the wider criteria of passenger satisfaction with the quality of service, flight punctuality and passenger rights, the Company was ranked high in the eighth place on the global scale. The international survey carried out by Air Help involved air carriers from all over the world, which were ranked on the basis of three categories: passenger satisfaction with the quality of service, flight punctuality and passenger rights.

At the prestigious World Airline Awards held at the 2016 Farnborough International Air Show, Croatia Airlines was named one of the best airline companies in Eastern Europe. Despite serious competition, Croatia Airlines was ranked fourth best in the world. The World Airline Awards is the most prestigious global award in the airline industry, considered the Oscar of the airline industry.

The Company marked 20 years of continuous flights on the international scheduled route Zagreb – Sarajevo. The first flight on the international route Zagreb - Sarajevo took place in August 1996, Croatia Airlines' being the first commercial air carrier to land at the reconstructed Sarajevo airport after the war. Since then, the aircraft of the Croatian national air carrier have been connecting the capitals of Croatia and Bosnia and Herzegovina on a daily basis throughout the year.

Environmental protection

The year 2016 saw the implementation of many changes in the field of environmental protection and energy efficiency. Following the implementation of the Energy Efficiency Directive and the Ordinance on Energy Efficiency of Large Companies, and in the light of a growing interest of the stakeholders, Croatia Airlines launched a certification project in accordance with the ISO¹³ 50001 energy management standard. Furthermore, the Company took the opportunity to gain the ISO 14001 Certification for Environmental Management Systems, which brings it an additional value and serves as a good example of implementing the principle of sustainable development. Both standards were successfully adopted in late 2016, and thus Croatia Airlines became one of the few airline companies in the world holding such valuable certificates. Even though a number of parameters have already been measured and an effort has been made to improve them, by introducing these important standards the number of the parameters increased, positively affecting the quality of measured data and their transparency. Even better results related to the parameters of environmental protection and energy are expected in the upcoming years.

The necessity to take an active approach regarding the issue of environmental protection and energy in aviation was confirmed at the 39th session of the ICAO¹⁴ Assembly in the autumn of 2016. The Assembly adopted a plan on the implementation of CORSIA,¹⁵ with the aim of ensuring a global approach to the supervision, reporting and compensation of greenhouse gas emissions (particularly CO₂), all in line with the COP21 (the Paris Agreement on limiting global warming below 2 °C). The Republic of Croatia and Croatia Airlines will participate in all phases of implementation of the CORSIA until 2021, thus continuing successful implementation of the EU ETS¹⁶ Directive. The EU ETS Directive represents an ongoing obligation of monitoring, reporting and verification of CO₂ emissions and the compensation through direct trading of ETS units. Croatia Airlines' investments in the emissions trading system drives the financing of programmes aimed at environmental protection and energy efficiency, as a part of Croatia Airlines' investments in a "greener" future of the Republic of Croatia and the EU.

Shown below are the selected data on the environmental impact, in line with the ISO 14001/50001 requirements.

Indicators within the administrative part of the organisation

Fuel	measurement unit	2016.	2015.	Index 2016/2015
Consumption ratio Eurosuper 95	(l/km)	0,096	0,091	105
Consumption ratio Eurodiesel	(l/km)	0,085	0,101	84

Diesel vehicles showed a decline in the consumption ratio while petrol vehicles, making up the major part of the fleet, showed a considerably smaller increase, probably due to a relatively aged fleet and mostly city driving. Compared to the preceding year, in 2016

¹³ ISO – International Organization for Standardization.

¹⁴ ICAO – International Civil Aviation Organization

¹⁵ CORSIA - Carbon Offsetting and Reduction Scheme for International Aviation

¹⁶ EU ETS - The European Union Emissions Trading System

a more precise measuring of fuel consumption was made possible by introducing GPS¹⁷ tracking.

Energy products	measurement unit	2016.	2015.	Index 2016/2015
Electrical energy	kWh/m ²	142,350	156,670	91
Gas	(m ³ /m ²)	9,240	8,790	105

While the segment of electricity consumption saw a decline in consumption, the segment of gas consumption (with gas being used for heating) saw a rise due to lower average temperatures during the year and an increased need for heating. According to the data of the Croatian Meteorological and Hydrological Service (DHMZ)¹⁸, in 2015 the average temperature was 13.7 °C while in 2016 it was 13.1 °C.

On the general organisational level, the Company successfully engaged in rationalising the consumption of stationery and office supplies. Where applicable, the print default on single-model printers was set on both pages, with expected cut in the number of papers used of some 100.000 a year. In addition to the above, the employees were familiarised with the need for conscious printing, by which the Company makes savings on both the input (paper, toner, electricity) and output resources (waste management, archiving).

Indicators within the technical sector

Fuel	measurement unit	2016.	2015.	Index 2016/2015
Consumption ratio Eurosuper 95	(l/km)	0,150	0,160	94
Consumption ratio Eurodiesel	(l/km)	0,180	0,190	95

Both types of vehicles showed a decline in consumption per kilometre. The particular manner of their use is additionally restricted by the rules related to the movement of vehicles on airport areas.

Energy products	measurement unit	2016.	2015.	Index 2016/2015
Electrical energy per employee	(kWh/working hour)	2,853	2,571	111

By the end of 2016, the existing heating system of some of the facilities for aircraft maintenance, powered by fuel oil, will be replaced by a heating system powered by gas, which will have a positive impact on energy consumption and the environment. During 2017, a base value will be determined and the works aimed at introducing gas into the remaining facilities will be continued.

Along with the Company's fleet maintenance, the Technical Sector carries out maintenance works for other companies, as well. As demand for maintenance works for other companies is growing, it is expected that the use of resources will increase, and so will the amount of hazardous and non-hazardous waste. Within the works performed, the segment of basic aircraft maintenance (major check-ups) and the wider scope of maintenance services saw the biggest rise. Croatia Airlines has in place a waste management system and pays equal attention to the managing of both hazardous and

¹⁷ GPS - Global Positioning System

¹⁸ DHMZ - Croatian Meteorological and Hydrological Service

non-hazardous waste. Separate waste collection can be carried out within the Technical Sector, and the appropriate management thereof eliminates the impact on the environment and ensures a sustainable development of the Company's technical activities. In 2016 the waste management capacity was increased and a more precise waste separation enabled.

Waste	measurement unit	2016.	2015.	Index 2016/2015
Hazardous waste	kg/working hour	0,0329	0,0235	140
Other waste material	kg/working hour	0,0088	0,0028	311

Indicators within the sector of flight operations

Flight operations consume most energy in Croatia Airlines, with relevant regulations and procedures for safe air traffic having the absolute priority. Due to congested airspace, the EU carriers have been forced to act in coordination with numerous factors of air traffic, which sometimes makes it hard to apply an environmentally friendly approach to business.

Four new routes were introduced in 2016 and a Fokker 100 aircraft was leased during the summer season, which led to an increase of the absolute amount of CO₂ emission. The standard EU ETS MRV method was used to collect the data.

During 2016, seven other aircraft of different types were used on a short-term basis; their results are not shown below.

Airbus fleet	measurement unit	2016.	2015.	Index 2016/2015
Fuel consumption in RH by RPK	kg	0,0599	0,0598	100
Fuel consumption on international flights by RPK	kg	0,0377	0,0379	99
Emissions of CO ₂ in RH by RPK	kg	0,1886	0,1883	100
Emissions of CO ₂ on international flights by RPK	kg	0,1187	0,1193	99

In relation to the Airbus fleet, slight oscillations were observed on domestic routes, while the international routes saw an improvement.

Q400 fleet	measurement unit	2016.	2015.	Index 2016/2015
Fuel consumption in RH by RPK	kg	0,0549	0,0556	99
Fuel consumption on international flights by RPK	kg	0,0416	0,0415	100
Emissions of CO ₂ in RH by RPK	kg	0,1729	0,1751	99
Emissions of CO ₂ on international flights by RPK	kg	0,1310	0,1307	100

In relation to the Q400 fleet, a considerable improvement was made on domestic routes, while the international routes saw a slight increase in the fuel consumption.

It should be mentioned here that the results were also affected by an average Load Factor, which was the same as in 2015, with slight oscillations in international and domestic traffic.

Fokker 100	measurement unit	2016.	2015.	Index 2016/2015
Fuel consumption in RH by RPK	kg	0,0591	-	-
Fuel consumption on international flights by RPK	kg	0,0486	-	-
Emissions of CO2 in RH by RPK	kg	0,1862	-	-
Emissions of CO2 on international flights by RPK	kg	0,1531	-	-

By adopting action plans, implementing employee suggestions, taking into account suggestions of our service users and adopting all regulator requirements, Croatia Airlines will actively participate in the implementation of its Policy on Environmental Protection and Energy Efficiency. In doing so, it will make an effort to improve its excellence and encourage its partners and associates to do the same. The Company delegated the above activities to an expert team cooperating in the field of environmental protection and energy efficiency.

In 2016 Croatia Airlines decided to go back to using the electricity from renewable sources (HEP Zelen).

Croatia Airlines is the first air carrier in the world to get the White Flag, an international award of the Global Under Water Awareness Association (GUWAA¹⁹). The award was given due to the Company's participation in cleaning the under water area in Žaborić, near Šibenik, and the screening of the promotional film White Flag, aimed at raising awareness about the importance of preserving aquatic ecosystems.

Within the next period, Croatia Airlines will, along with carrying out its own initiatives and participating in action plans of its partners, associates and stakeholders, be actively engaged in the field of environmental protection and energy efficiency. For that purpose, a communication channel for users was opened on the Company's website.

Even though the airline industry is not the worst polluter, it leads the way to positive changes and the implementation of advanced technologies that are more environmentally friendly. Croatia Airlines participates in positive changes and plans to do so in the future, as well.

¹⁹ GUWAA – Global Under Water Awareness Association

Advancement of business

On 31 December 2015, Croatia Airlines successfully completed its restructuring process, owing to a consistent implementation of compensation and own contribution measures in line with the rules of the European Union regarding state subsidies and with the Croatian Competition Agency's Decision of 27 June 2013. Upon completion of the restructuring process, the restrictions related to available seat kilometres were lifted. In line with the above, as of 30 April 2016, Croatia Airlines increased its capacities by introducing an additional aircraft (wet lease) to operate in the period from May to October 2016. Within last year's summer schedule, Croatia Airlines expanded its network of European destinations by introducing four new international routes, i.e. in May 2016 it started flying to Milan, Prague and Lisbon, and in June 2016 to Saint Petersburg.

Successful completion of the restructuring process created new business circumstances, so a number of new projects were launched with the aim of advancing the business operations and employee performance. Furthermore, a business process audit project was launched in order to simplify and optimise the input, processing and analysis of business data and thus boost business efficiency. Croatia Airlines also initiated the process of business reporting based on Cognos technology (Business Intelligence tool). This project aims to set up a centralised business reporting, leading to an optimisation of the Company's business processes. This process should also contribute to a quicker and more efficient decision-making by the Company's management.

A new mobile application was launched on the market in 2016, enabling the passengers to plan and organise their trip via their mobile telephones in a quicker and simpler way. The mobile application can be used to purchase airline tickets, check in and receive a bar code serving as a boarding pass, but also to access other important information related to the trip, such as flight schedule, flight status, etc.

In order to further improve the level of passenger service, in 2016 the Company's online check-in was fully set up. At most Croatian and European airports that Croatia Airlines flies to, the migration to a new passenger check-in system took place, i.e. to the Departure Control System (DCS), to which the online check-in is linked. Within the above process, the web check-in service was further upgraded and is now available both for departing and connecting flights, while the passengers can check in via their mobile telephones. Not only does the mobile check-in service help the passengers organise their trips, but it also simplifies the boarding procedure at the airport.

In late 2016, first tests of the traffic processes were carried out at the new terminal of the Zagreb International Airport. They were carried out for the purpose of testing the management of aircraft operations and harmonising them with regulatory safety standards and the operational efficiency standards agreed upon between Croatia Airlines and Zagreb International Airport. The above is part of the Company's plans to move the services and transfer business processes of the Traffic Sector from the old to the new terminal of Zagreb International Airport starting from March 2017. The state of the new terminal as of March 2017 is such that it raises concerns, primarily with regard to maintaining the product quality, i.e. the existing flight schedule of Croatia Airlines, together with accompanying operating expenses.

Business environment and operational risks

Global economy

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

The global economy has still not managed to get back on track of strong, sustainable and balanced growth. In January 2017, the International Monetary Fund (IMF) released the revised World Economic Outlook²⁰, with its forecasts for the global economy remaining unchanged from the regular projections released in October 2016. In 2016, the global economy saw a 3.1% growth, which is expected to speed up in 2017 and projected to reach 3.4%. Economic activity is projected to pick up pace in emerging economies, counterbalancing the weaker growth among advanced economies.

The IMF points out that, in light of possible changes of the new U.S. administration policy and their effect on the global economy, the above forecasts are highly uncertain. They also point to the presence of numerous risks, particularly drawing attention to geopolitical and economic instabilities, inefficiency of the monetary policy, oil price movements, weakness of the European banking sector, terrorist threats and the migrant crisis.

Europe is also faced with the political challenges, such as Brexit, the referendum results in Italy and those of the elections in France, Germany and the Netherlands, that might slow down the economic growth in 2017.

According to the IMF's forecasts, the economy of the eurozone saw a 1.7% rise in 2016, while a 1.6% growth is projected for 2017. Growth projections have been modified upwards for Germany, Spain and Great Britain on the basis of a more prominent growth in the second half of 2016. Growth projections for Italy have been modified downwards, while those for France have been left unchanged.

Since the recovery of the European economy is not balanced, both on the level of the Member States and on the level of social differences, it is necessary to implement structural reforms at a faster pace in order to resolve long-lasting problems in many countries, such as the high level of public and private debts, sensitivity of the financial sector and reduced competitiveness. The undertaking of decisive political actions aimed at reforming and modernising the European economies is the only way to ensure a strong and sustainable growth, more jobs and good social conditions.

Croatia's economy

The published macroeconomic indicators, which are generally much higher than expected, show that in 2016 the economic recovery continues.

According to the IMF's regular autumn outlook, in 2016 Croatia's economy should have grown by 1.9% and then slightly pick up to 2.1 in 2017. In the European Commission's economic forecast from February 2017, Croatia's economy growth forecast was modified upwards to a significant extent, i.e. to 2.8% for 2016 and to 3.1% for 2017.²¹

²⁰ IMF, World Economic Outlook update, January 2017

²¹ www.vlada.hr (downloaded on 16 February 2017)

According to the initial estimates released by the Croatian Bureau of Statistics, Croatia's economy rose by 3.4% in the fourth quarter of 2016, experiencing the fastest growth within the past nine years and greater than expected.²² This is already the ninth quarter in a row that GDP is growing. Within 2016 the economy saw a 2.9% growth - the biggest since 2007, when the GDP grew by 5.2%.

Croatia's industrial production recorded a 14.9% growth in December 2016 year on year, the highest since 2001.²³ Continuous annual growth during all months in 2016 resulted in an overall growth of 5% compared to 2015, thus confirming the growth trend for the third year in a row.

Last December, consumption in Croatia rose by 5.8% year on year, which is its biggest jump since September 2007.²⁴ The growth in December marks already the 28th consecutive month that consumption has risen, which has never been recorded by the Croatian Bureau of Statistics.

Consumer prices in December 2016 rose by 0.2 percent year on year. With the exception of December 2016, the year was marked by disinflationary trends, so for the third consecutive year the consumer price index recorded a -1.1% decline year on year.²⁵

According to the Croatian Bureau of Statistics, Croatia's registered unemployment rate in 2016 was 15%, or 2 pp lower than in 2015.

The above data do not fully reflect structural improvements due to employment growth, but are partly fuelled by other factors, such as removal of job seekers from the unemployment register because they went to seek employment abroad. Structural weaknesses are still present on the Croatian labour market, such as discrepancies between supply and demand for labour and the low level of employment.

Croatia's exports in 2016 rose by 5.7% compared to 2015, totalling HRK 92.8 billion, while its imports rose by 5.4%, totalling HRK 148.3 billion. The country's foreign trade deficit was HRK 55.5 billion, 4.7% greater than in 2015. The import-export coverage ratio was 62.6%.²⁶

According to an analysis of the Croatian Chamber of Economy (HGK), after eight years of growth, 2016 will be the first year to see a fall of public debt, as evidenced by the fact that at the end of the third quarter its share fell to about 85% of GDP.²⁷ The fall of public debt is the result of lower financing needs due to the successful implementation of fiscal consolidation, i.e. a reduction of the budget deficit.

The data on the movements of physical indicators in tourism in 2016 confirmed another record tourism season. An ongoing growth of tourist arrivals and overnight stays proves that Croatia is becoming an increasingly attractive and popular destination among tourists worldwide.

In 2016, over 15.5 million tourist arrivals were recorded, or 8.7% more compared to 2015.²⁸ The arrivals of domestic tourists rose by 7.6%, and those of foreign tourists by 8.9% compared to 2015. Over 78 million of overnight stays were recorded, or 9% more compared to 2015. The number of overnight stays of domestic tourists increased by 2%, while that of foreign tourists saw a 9.6% rise. The same as in the preceding years, tourists from Germany were the most numerous, followed by those from Slovenia, Austria, Italy,

²² www.dzs.hr; Gross domestic product in 2016 Press release, 28 February 2017

²³ www.dzs.hr; Industrial production volume index and indices of stocks, persons employed and labour productivity in industry, in December 2016, first results, 30 January 2017

²⁴ www.dzs.hr; Retail trade in December 2016, first results, 2 February 2017

²⁵ www.dzs.hr; Consumer price indices in December 2016, 16 January 2017

²⁶ www.dzs.hr; Foreign trade in goods of the Republic of Croatia from January to December 2016, 10 March 2017

²⁷ www.poslovnih.hr (downloaded on 16 February 2017)

²⁸ www.dzs.hr; Tourist arrivals and overnight stays in 2016, 9 February 2017

Poland and Czech Republic. What should be noted here is the increase in tourist arrivals from Great Britain (+21%), Canada (+17%) and the USA (+6%), which also had an impact on demand for air transport services.

Despite recent positive macro-economic indicators, Croatia is still facing high external risks, while the implementation of structural reforms is expected on the country level. In light of fluctuating global financial markets, repayment of public debt is another demanding task. The analysts deem that by implementing a combined monetary, fiscal and structural policy it will be possible to close the excessive deficit procedure, strengthen the country's competitiveness, boost its credit rating and ensure increased, stable and long-term sustainable economic growth. All of the above would create good conditions for tackling the high level of youth unemployment and emigration of the most productive age-groups of the country's population.

Global airline market

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

According to the International Air Transport Association (IATA), in 2016 there were around 36.6 million scheduled flights with a fleet of nearly 28,000 aircraft, and 3.8 billion passengers and 53.9 million tonnes of cargo were transported.²⁹

There was a strong increase in demand for air transport services in 2016. IATA data of February 2017 show an increase in passenger traffic in 2016 by 6.3%, expressed in passenger kilometres (RPK), while passenger load factor (PLF) reached 80.5%.³⁰ Compared to 2015, the cargo transport saw an increase, with tonne kilometres (TKM) being 3.8% higher.³¹

IATA forecasts from December 2016 show a significant increase in the airline industry profitability in 2016, which is very important from the point of view of investors since, in 2015 and 2016, the average return on invested capital (ROIC) on the level of the air transport industry was higher, compared to the average cost of capital (WACC).

The latest projections say that the total net profit of the global airline industry was \$35.6 billion, with the EBIT margin of 8.3%. This result is somewhat higher compared to 2015, when its net profit was \$35.3 billion, with the same EBIT margin. The net profit in 2016 amounted to \$9.43 per passenger.

The regional outlook for the net profit in 2016 reflects different economic conditions in various parts of the world. The forecasts say that North America, Europe, Asia and Pacific were the most profitable areas, followed by the Middle East and Latin America, while Africa generated a loss.

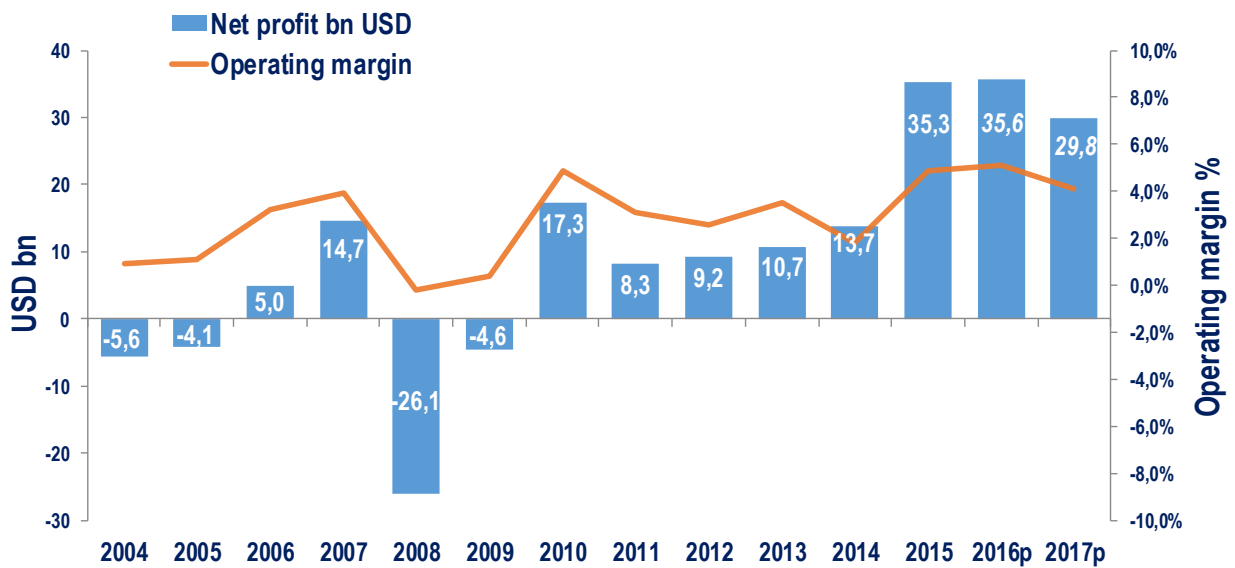
North America recorded the highest EBIT margin (14.2%), followed by the markets of Asia and Pacific (8.1%), Europe (5.7%), Latin America (3.4%) and Middle East (1.7%). The African market saw a negative EBIT margin (-3.3%).

²⁹ IATA Economic Performance of the Airline Industry, December 2016

³⁰ IATA Air Passenger Market Analysis, February 2017

³¹ IATA Air Passenger Market Analysis, February 2017

Profitability of global airline companies



Source: IATA, December 2016.

European airline market

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

The Airlines for Europe (A4E), a new association based in Brussels, was established in January 2016. As of March 2017, it has 14 members (Aegean, airBaltic, Cargolux, Air France - KLM, easyJet, Finnair, International Airlines Group (IAG), Icelandair, Jet2.com, the Lufthansa Group, Norwegian, Ryanair, TAP and Volotea). In 2016, Croatia Airlines became a member of the European Regions Airline Association (ERA).

According to IATA data, in 2016 the European air carriers achieved a net profit of \$7.5 billion, while net profit margin was 4%.

The majority of Europe's traditional network carriers found themselves in an unenviable financial position after exiting the economic crisis, and are searching for a strategic partner. However, it needs to be taken into account that an investor outside the European Union can acquire up to a 49% ownership share in an EU airline, and the same applies for the control rights.

In 2016 the European airline companies, especially the traditional network carriers, continued the process of restructuring and redefining the network of flights within the European route area in order to improve their competitive position, given the fact that in this route area low-cost LCC airline companies reached a share of 38% in 2016.

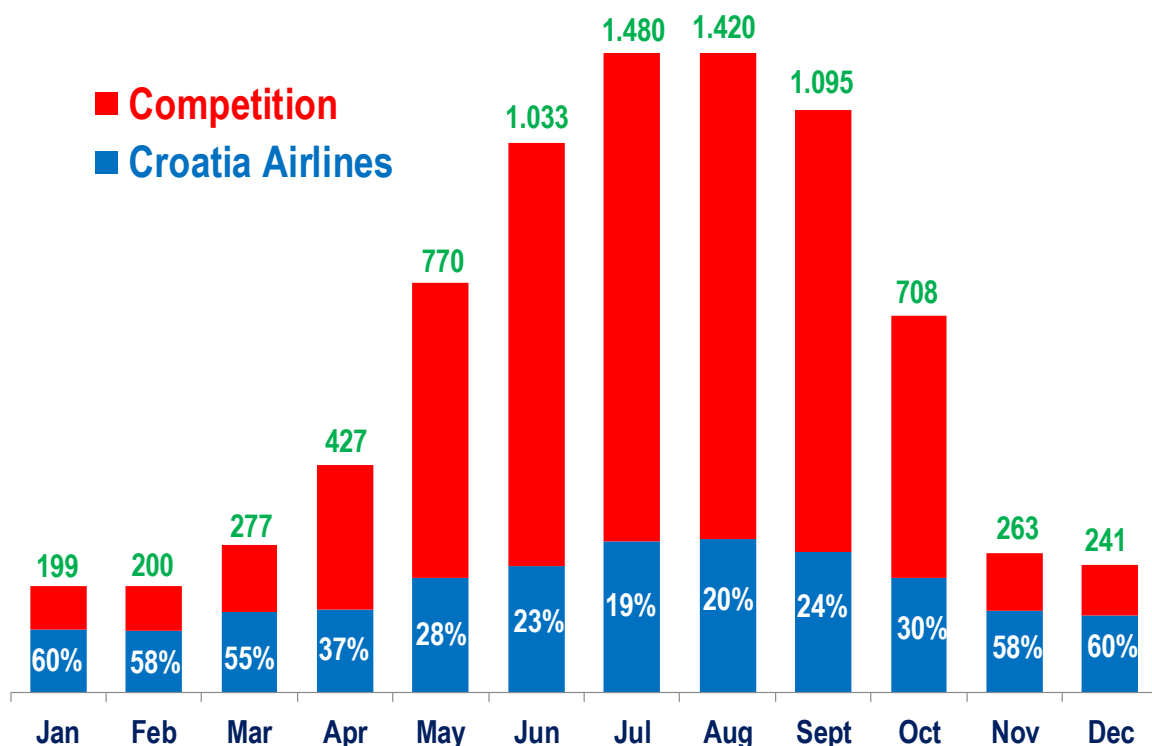
Croatian airline market

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

According to the data of the Croatian Bureau of Statistics, Croatia's airports recorded a 13% rise in the number of passengers in 2016, compared to 2015.³² Altogether 8.1 million passengers were recorded at eight airports in Croatia, with Croatia Airlines' market share being 29%. The number of aircraft operations at Croatia's airports totalled 108,174 in 2016, up by 8.1% from 2015. Altogether 8,216 t of cargo were transported through Croatia's airports, which is 5.8% more compared to 2015.

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

Passengers (000) by months + Croatia Airlines' market share

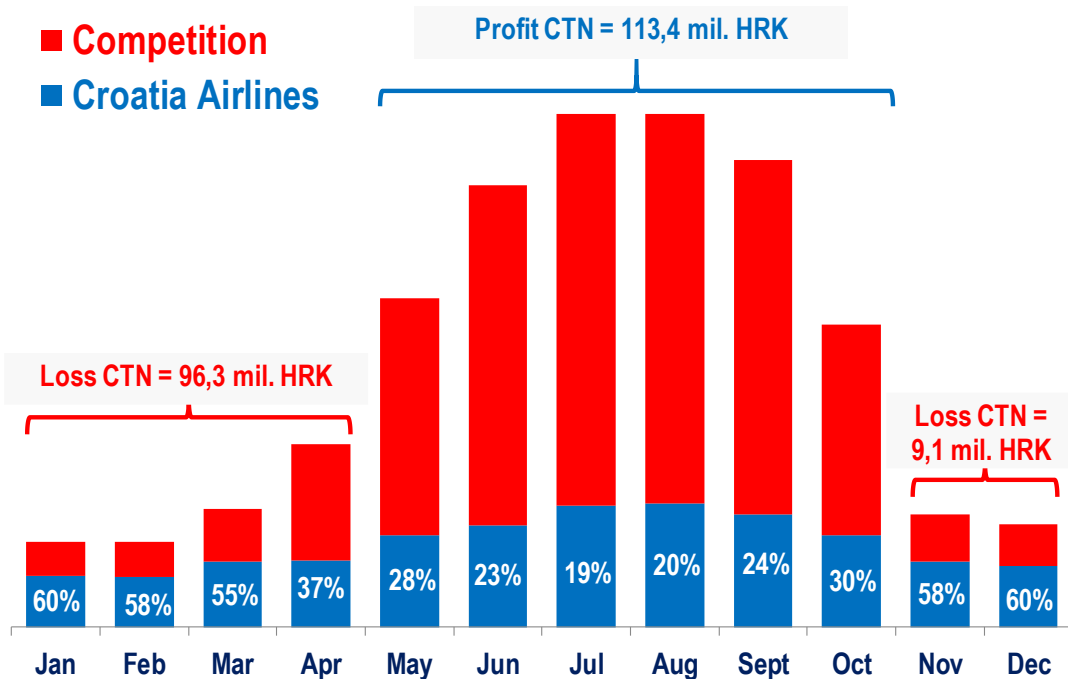


Source: Croatian Bureau of Statistics and Croatia Airlines' internal data

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

The below diagram shows that Croatia Airlines generates losses during the winter period, when the Company's share on Croatia's airline market reaches 60%, while it operates on profit in the summer period when its market shares ranges from 19% to 30%. This shows that in order to generate profit on an annual level, it is crucial to minimise the operating costs in the winter period, while optimising the flights network.

³² Croatian Bureau of Statistics, Release – Traffic at Airports in December 2016, 10 Feb 2017



Source: Croatian Bureau of Statistics and Croatia Airlines' internal data

Operational risks

In the light of the air traffic industry trends, it is evident that systematic and integrated management of risks that airlines are faced with is becoming a key dimension of corporate governance. All rivals in the market are faced with a wide range of strategic, operational and financial risks, whose particularities come from the specific characteristics of individual markets, depending on the level of economic development, demand (seasonality, tourism, etc.), existing and future level of competition, and the size and financial strength of an individual carrier. It is, therefore, necessary to contemplate the traditional, broad strategy of risk management at Croatia Airlines on all organisational levels, so as to adopt an optimal approach to risk management, supported by adequate proactive corporate governance infrastructure, which can be an additional competitive advantage. Taking into consideration specific industry requirements, Croatia Airlines will be using COSO³³ ERM Framework and ISO 31000: 2009 risk management standard as a basis for defining its risk management policy. COSO ERM is an ongoing process in which risks are continually monitored in line with their probability of occurrence and effect on the realisation of goals.

Within the implementation of Croatia Airlines' risk management process, key risks have been identified according to their likely impact on the Company's operations and their monitoring should ensure the mitigation of potential negative consequences whenever possible.

³³ COSO - Committee of Sponsoring Organizations of the Treadway Commission.



A consistent application of an integrated approach to managing external and internal risks enables the understanding of the true nature of individual risks and increases the ability to undertake relevant measures in due time. A systematic management of all of the above risks advances the level of the Company's organisational efficiency, which leads to a reduction of costs and greater competitiveness. Further awareness raising and the adoption of the culture of risk at all Company levels is one of the key factors for its sustainable operations.

Economic environment

A change in demand for air traffic services also affects the economic circumstances. Foreign citizens are the main generator of traffic in Croatia (88%), which also represents one of the risks in Croatia Airlines' operations, given the dependence on the economic trends in its surroundings and the need to advance its market position on foreign markets. The share of Croatian citizens in Croatia Airlines' international passenger traffic (about 35%) is higher than that of the competition, so the exposure to the risks coming from the country's economic surroundings is higher.

Fuel

Fuel costs represent the most significant cost for airline companies. The oil market in 2016 was marked by a fall in prices. The average price of oil was 44.6 \$/bbl, i.e. 17% less than in 2015, while the average jet fuel price was 52.1 \$/bbl, i.e. 22% less than in 2015.

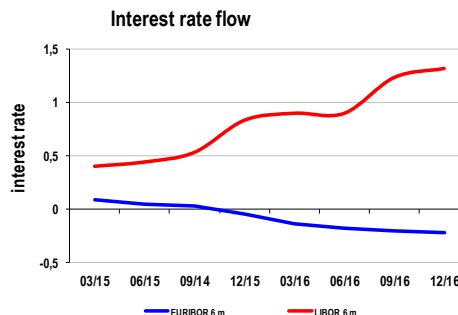
iATA data show that in 2016 the cost of fuel on the industry level amounted to \$124 billion, which is 31% less than in 2015. In the overall operating costs structure, the share of fuel costs fell from 27.3% in 2015 to 19.2% in 2016.

Croatia Airlines' operational and financial management activities have been steadily focused on the consumption management and fuel costs.

Interest risk

By taking long-term loans at a variable interest rate, the Company is exposed to the interest-related risk, too. It, therefore, regularly monitors interest rate movements on the global market, as well as their influence on its business operations. Croatia Airlines is currently not significantly exposed to interest risk, as the remainder of the principal owed under the long-term foreign-currency loan totals HRK 46.9 million.

Euribor continued declining in 2016. It recorded negative rates, reaching a record low since the introduction of euro. Libor, on the other hand, recorded a rise, which did not affect Croatia Airlines' operations since it had no loan liabilities related to Libor.

**Cash flow risks**

The Company has been managing the liquidity risk by planning and regularly monitoring its due liabilities and maintaining adequate and sufficient sums of ready cash and deposits for covering its due financial expenses, while taking into account the highly seasonal nature of inflow.

In 2016, the Company put to use funds from the four short-term loans extended by HPB, PBZ and Erste Bank, worth totally HRK 29.9 million, for financing its short-term liabilities. The revolving loan taken with a domestic bank was partially repaid (EUR 300,000), and a fresh one was taken on the same basis.

Currency risk

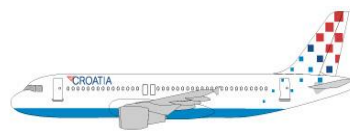
The exposure to the risk of negative effects of foreign currency exchange rate changes against the kuna is reflected in the repayment of loan and leasing instalments denominated in foreign currencies. Foreign currency inflows from the sale of tickets abroad significantly mitigate these risks. The exposure to the actual volatility of USD is set off with the revenues from the sale on the U.S. market. As a result of Brexit, whose effects have negatively influenced Croatia Airlines' revenue potential on the British market, a sharp drop in the exchange rate of the British pound represented an additional risk in 2016. The fall of the exchange rate has been especially prominent in the months following Brexit, so the value of GDP in July 2016 decreased by 17% compared to July 2015, while December saw a 15% fall.

Fleet and capacities

In 2016, Croatia Airlines operated a fleet of 12 aircraft: six Airbus aircraft (two A320, of which one was under an operating lease, and four A319), and six Q400 aircraft under an operating lease. At the end of 2016, the total number of available seats was 1,380.

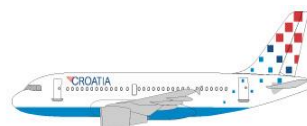
A 320 – 2 aircraft

The aircraft has 174 seats – altogether 348 seats



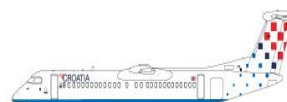
A 319 – 4 aircraft

The aircraft has 144 seats – altogether 576 seats

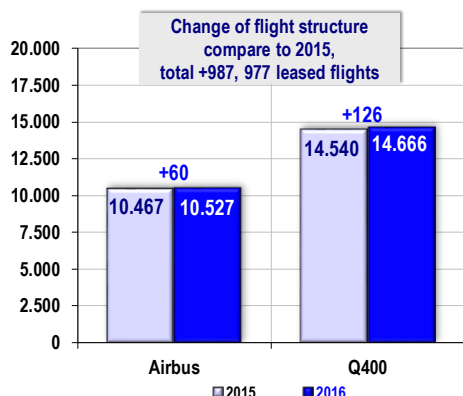


Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats



As of 30 April 2016, Croatia Airlines increased its capacities by introducing an additional aircraft (wet lease of a 109-seater Fokker 100) to operate in the period from May to October 2016, as planned.

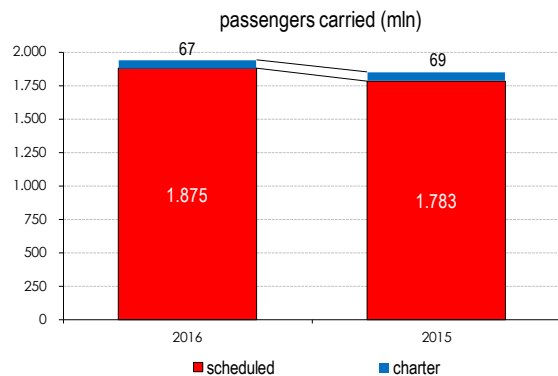


In 2016, Croatia Airlines' aircraft realised the block time of 37,890 block hours, which is 2% more than in the preceding year. They operated 26,848 flights, which is 4% more than in the preceding year. With the aim of adapting the offer of capacities to the market demands, the Company retained the block time structure in favour of smaller aircraft, i.e. Q400.

Ad-hoc chartered flight services were used for a total of 45 flights, for the purpose of addressing traffic disruptions.

The market

In 2016, the capacities (ASK) were increased by 5%, which positively affected the scope of passenger traffic. Measures aimed at increasing passenger traffic were systematically implemented. Croatia Airlines increased its capacities by introducing an additional aircraft (*wet lease*) to operate in the period from May to October 2016 and expanded its network of European destinations by introducing four new international routes: Zagreb-Milan-Zagreb, Zagreb-Prague-Zagreb, Zagreb-Lisbon-Zagreb and Zagreb- Saint Petersburg-Zagreb.



The number of passengers rose by 5% compared to the result in 2015. The number of passengers in **domestic scheduled traffic** rose by 4% compared to 2015, while of those in **international scheduled traffic** saw a 5% increase compared to 2015.

Altogether 63,800 passengers were transported within the **charter** traffic, or 5% fewer compared to 2015. Charter traffic made up only 3% of the total

traffic.

In 2016, 2,591 tonnes of cargo were transported, which is 5% less than in 2015.

An increased number of passengers resulted in the **passenger load factor (PLF) of 70%**, 0.3 pp higher than that in 2015.

The realised **weight load factor (WLF)** was **68.1%** (+0.2 pp).

In 2016, Croatia Airlines directly connected eight destinations in domestic scheduled traffic and 25 destinations in international Euro-Mediterranean traffic.

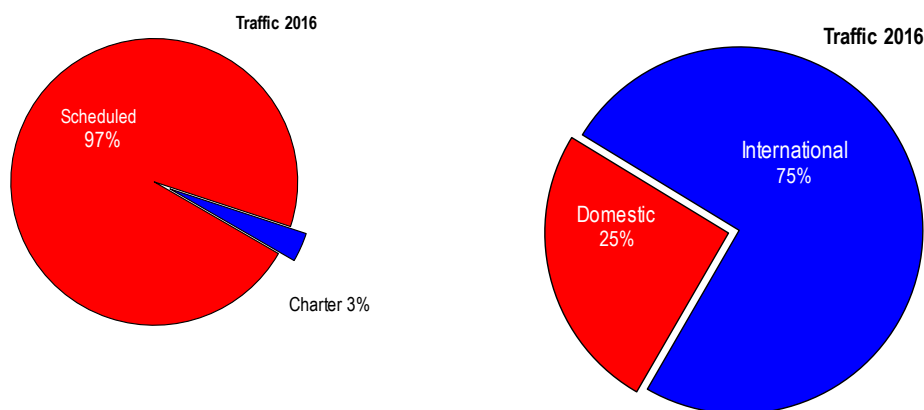
Croatia Airlines' aircraft operated on the summer flight schedule from 27 March to 29 October 2016, with flights being adjusted to passenger needs, particularly during the tourist season, as well as to the fleet capacities. Within this year's summer schedule, Croatia Airlines expanded its network of European destinations by introducing four new international routes. As of 20 May, Croatia Airlines' aircraft started directly connecting Zagreb and Lisbon for the first time in the Company's history, offering flights three times a week (Mondays, Wednesdays and Fridays), and Zagreb and Milan (Tuesdays, Fridays and Sundays). As of 21 May, direct flights are connecting Zagreb and Prague four times a week (Tuesdays, Thursdays, Saturdays and Sundays). One of the novelties are direct international flights between Zagreb and Saint Petersburg, also introduced for the first time in the Company's history, as of 2 June (Thursdays and Sundays). On 30 October 2016, the winter flight schedule came into force.

The expansion of the destinations network is enabled owing to the successful completion of the restructuring process in 2015, and the Company is no longer obliged to operate on a reduced market capacity.

Croatia Airlines entered the year of 2016 with 14 codeshare partners, among them three members of the Sky Team alliance – Air France, Alitalia and KLM. In early 2016, Croatia Airlines and Turkish Airlines expanded their codeshare cooperation to Croatia Airlines' flights ZAG-ZAD and ZAG-PUY throughout the year, and to Turkish Airlines' flights IST-DBV during the season. The goal of such cooperation agreements is to make the services of an airline available on the markets on which it does not physically operate flights or to increase the capacities on the existing routes.

In 2016, altogether 1.939,220 passengers were transported, or 89,544 more compared to 2015 (+5%). On 15 July 2016, Croatia Airlines recorded its millionth passenger, the earliest in its history.

Altogether 491,978 passengers were transported within the domestic scheduled traffic, 1.383,430 within the international scheduled traffic, and 63,812 within the charter traffic.



In the international scheduled traffic, 5.5% more passengers were transported in 2016, i.e. 71,694 more compared to 2015.

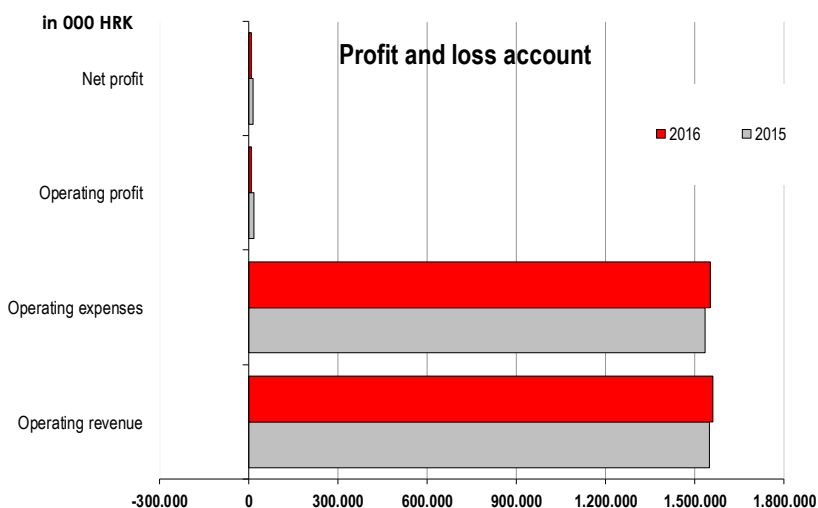
Croatia Airlines' marketing activities in 2016 were primarily focused on the promotion of its summer flight schedule and the introduction of the four new routes: Prague, Milan, Lisbon and Saint Petersburg. Domestic flights were also promoted. During the observed period, it extensively promoted its offer of flights on foreign markets. In cooperation with the Croatian Tourist Board, Croatia Airlines presented its new routes at tourism fairs in Milan, Vienna, Prague, ITB Berlin, and Lisbon, and on its own at Place2go in Zagreb. It also presented its new mobile services through a new mobile application. Based on the cooperation of Croatia Airlines and Zagreb International Airport, passengers with premium status were offered the Star Gold Track service. This service enables a faster and easier control of travel documents at the airport for the business and first class passengers, and the owners of Star Gold Card. Croatia Airlines regularly promotes its offers on Google search engines. It also communicates with its service users via Facebook, where it posts all of its promotional offers and discounts. At the end of 2016, the number of its Facebook fans reached 127,003. In addition to Facebook, the Company has been increasingly communicating with its users via Twitter, Instagram, LinkedIn, Google+ and YouTube.

Financial operations

Profit and loss account

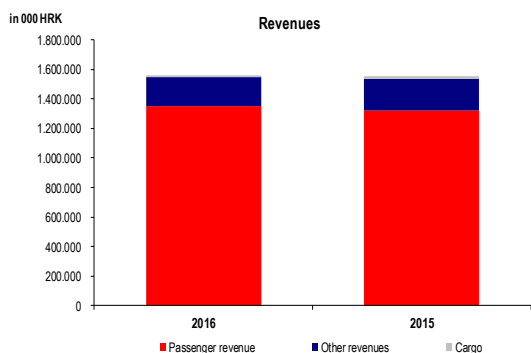
(000 HRK)	2016	2015	Index 16/15	2014
Passenger traffic	1.351.736	1.319.619	102	1.290.829
Cargo traffic	14.275	15.069	95	16.478
Other revenues	195.173	216.101	90	236.750
OPERATING REVENUES	1.561.184	1.550.790	101	1.544.058
Flight operations	453.963	464.502	98	532.825
Maintenance	244.973	220.886	111	164.480
Passenger services	85.320	84.659	101	78.581
Aircraft and traffic services	379.503	375.367	101	357.659
Promotion and sales	216.377	217.595	99	203.431
General and administ. expenses	80.124	85.345	94	91.327
Amortization	85.450	73.200	117	71.509
Other expenses	7.704	12.504	62	30.574
OPERATING EXPENSES	1.553.415	1.534.057	101	1.530.386
PROFIT/LOSS FROM OPERATIONS	7.770	16.733	46	13.672
Interest expense	-7.553	-10.348	73	-11.585
Interest revenue	426	462	92	794
Foreign exchange differences, net	6.804	5.969	114	6.143
Other financial expenses	-261	-359	73	-2.198
Other financial revenues	857	1.372	62	721
NET FINANCIAL EXPENSES	273	-2.904	-	-6.124
NET PROFIT/LOSS	8.042	13.829	58	7.548

In 2016 Croatia Airlines generated a **positive net result of HRK 8 million**. The Company's **operating profit** totalled HRK 7.7 million.



Its **operating revenues** were 1% higher compared to 2015..

Passenger revenues rose by 2%, while the number of the passengers transported rose by 5%. The lower growth of passenger revenues compared to the growth of passengers transported is a result of the decreased average value of tariffs amidst a significant rise in competition on the Croatian airline market, particularly during the high season (June-September).



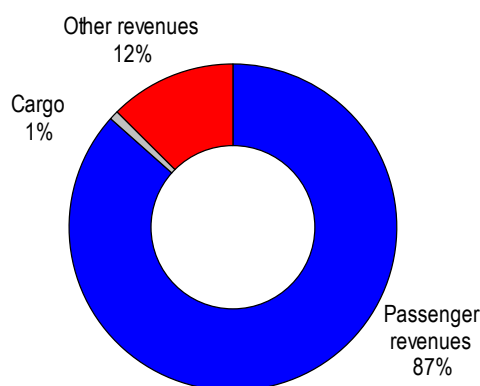
The **share of passenger revenues in operating revenues** totalled 87% and was 2% higher compared to 2015.

Cargo revenues were 5% lower compared to those generated in 2015, as a result of a 5% decline in cargo transport in tonnes.

Other revenues decreased by 10% compared to those generated in 2015, primarily due to lower revenues from the sale of fixed assets (in May 2015 an

engine was sold as an own contribution measure prescribed by the Restructuring Plan, and in December 2015 its business premises at Zagreb Bus Terminal and its share in the associated company Pleso prijevoz were sold).

Structure of operating revenues 2016



Operating costs were 1% higher compared to those generated in 2015.

Fuel costs contributed the most to the reduction in operating costs in 2016, being 13% lower due to lower average fuel price (\$/t). General and administrative costs were also lower compared to 2015, as a result of the lower level of the costs of intellectual services, as well as utility and litigation costs. Promotion and sales costs were lower, primarily as a result of the decreased costs of branch offices abroad. Compared to the same period in 2015, other expenditures were lower amidst lower expenditures in the preceding year.

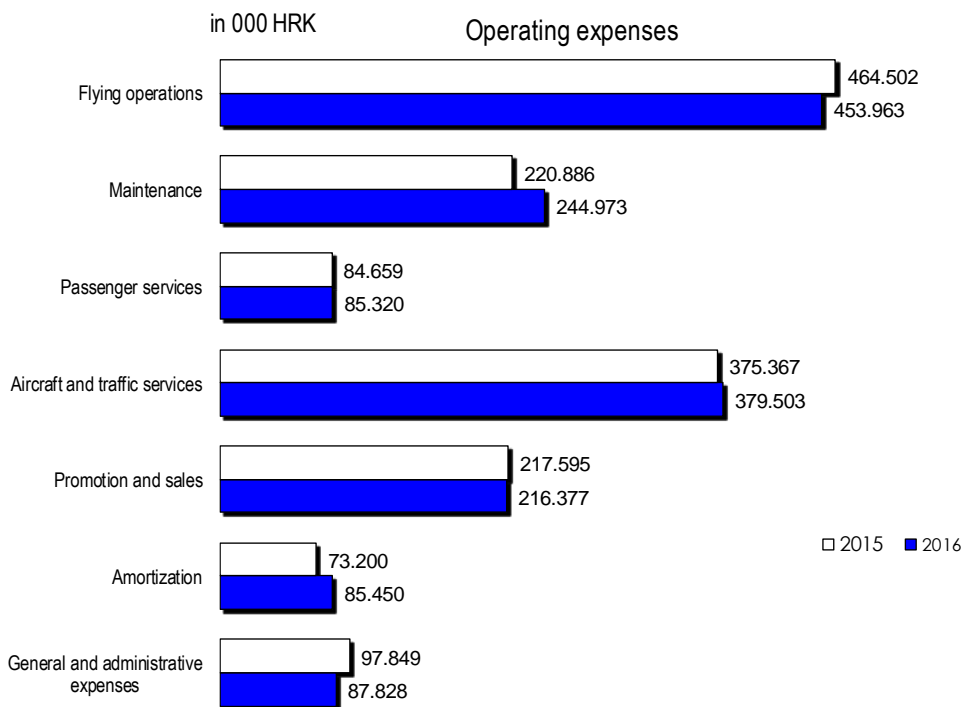
Compared to 2015, maintenance and amortisation costs saw the biggest rise. Maintenance costs were 11% higher, i.e. HRK 24 million higher, as a result of higher costs of: maintaining and replacing expendable parts, engine lease, and services provided to third parties amidst a greater scope of work, which brought greater revenues from the engineering sector.

Amortisation costs were 17% higher, i.e. HRK 12.3 million higher, due to greater investments into aircraft and engines compared to 2015.

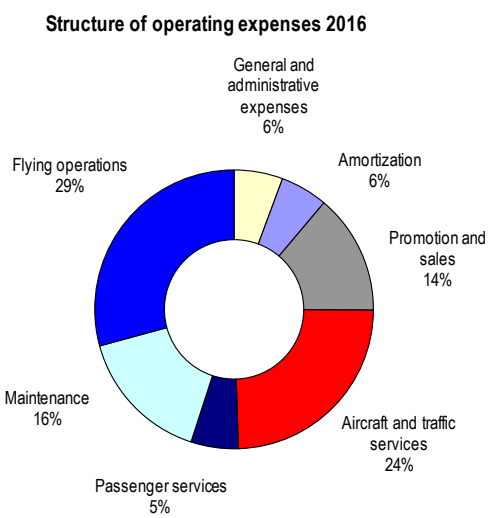
Within the operating costs, passenger service costs and costs of air traffic services saw a rise, too.

Passenger service costs saw an increase due to higher costs of attending 5% more passengers than in 2015.

The costs of air traffic services rose due to higher airport costs and flight control costs amidst higher prices of individual airports and the introduction of four new routes within the summer flight schedule.



Flight costs and air traffic services costs make up the highest share in the operating costs. In 2016, the share of flight costs in the overall operating costs fell by 1%, while the share of air traffic remained the same as in 2015.



Assets, financing and investments

Statement of accounts

(000 HRK)	End 2016	End 2015	Index 2016/2015	End 2014
ASSETS				
Non-current assets	644.138	634.375	102	657.933
Current assets	218.274	212.632	103	195.994
TOTAL ASSETS	862.412	847.007	102	853.928
LIABILITIES				
Capital and reserves	379.064	370.632	102	356.175
Provisions	3.336	2.718	123	23.315
Non-current liabilities	31.825	47.406	67	67.472
Current liabilities	448.187	426.251	105	406.966
TOTAL LIABILITIES	862.412	847.007	102	853.928

The end-of-year value of the assets was 2% lower compared to 2015. Long-term assets increased by 2% due to scheduled investment maintenance of the fleet. Compared to the end of 2015, the value of the current assets rose by 3%. Within the value of current assets, the items showing the most significant growth are financial assets, due to a higher level of deposits, and stocks, in particular stocks of expendable parts necessary for the maintenance of aircraft and engines.

The Company's **capital and reserves** totalled HRK 379.1 million at the end of 2016, and were 2% higher compared to the end of 2015, as a result of a higher level of reserves.

Provisions for severance pays, pension buy-ups, disputes and damage claims and other provisions increased by 23% due to new provisions needed for the dispute with the sales agent.

Log-term liabilities were reduced by 33% as a result of regular loan repayments. Short-term liabilities were 5% higher due to an increase in liabilities to suppliers.

At the end of 2016, Croatia Airlines' loan liabilities with local banks totalled HRK 80 million, of which HRK 46.9 million were long-term (medium-term) liabilities, and HRK 33.1 million were short-term liabilities. The remainder of the principal of the long-term loans owed to foreign banks amounted to HRK 51,800 on 31 December 2016.

Investments in 2016

Investments	2016	2015	2014
Investments in aircraft	36.424.517	46.674.700	34.606.919
Investments in spare parts, tools and equip.	10.150.536	16.197.434	16.173.828
Construction investments	1.946.870	2.584.788	11.488.189
Intangible assets - leased aircraft	62.254.320	8.679.518	11.360.509
Other intangible assets	4.332.776	3.070.181	4.738.825
Other equipment	1.111.565	3.326.641	3.188.173
Total	116.220.583	80.533.262	81.556.443

In 2016, the investments directly related to flying, aircraft maintenance and operation, and maintenance of the guaranteed level of security were realised. Compared to 2015, investments rose by 44%.

The priority investments and the biggest investments were those related to **aircraft**; they totalled HRK 36.4 million, and mostly referred to the planned overhauls of two CFM56-5B engines and to 6-year checks of Airbus aircraft (CTI). Investments in aircraft and engines in the **operating lease** amounted to HRK 62.3 million and also encompassed the execution of the planned overhaul on two CFM56-5B engines, a six-year check-up of the leased Airbus aircraft (CTJ), and the replacing of the nose legs of two Q400 aircraft. In addition to the above investments, C checks were carried out **internally** on two Airbus aircraft (CTL and CTK), and on four Q400 aircraft (CQC, CQD, CQE and CQF).

Investments into **spare parts** totalled HRK 10.2 million, and investments into **construction facilities** amounted to HRK 1.9 million, of which HRK 1.9 million referred to the technical infrastructure (workshops and hangars).

Total investments into aircraft and technical segment made up about 95% of the total investments made in 2016.

Investments into other intangible assets referred mainly to software and totalled HRK 4.3 million, while among **other investments** worth HRK 1.1 million, the greatest sum referred to the purchase and replacement of IT equipment (HRK 0.8 million).

Cash flow

Cash flow (000 HRK)	2016	2015	Index
Cash at the beginning of the period	31.938	47.209	68
Inflow from activities	1.677.936	1.625.431	103
Inflow from sales of asset	118	48.807	-
Loans	29.850	29.800	100
Total inflow	1.707.904	1.704.038	100
Obligations	1.613.800	1.615.582	100
Investments	44.299	51.870	85
Loans	51.650	51.857	100
Total outflow	1.709.749	1.719.309	99
Net change for period	-1.845	-15.271	12
Cash at the end of the period	30.092	31.938	94

At the end of 2016, the net cash flow level was lower than that realised in 2015.

Even though there was a 3% increase in inflows from operations, total inflows remained on the last year's level due to a lower inflow from the sale of assets, compared to the same period in 2015. For the purpose of reaching the defined own contribution amount, in 2015 the Company sold a CFM56-5B engine, its business premises at Zagreb Bus Terminal and its share in the associated company Pleso prijevoz.

In 2016, the Company took four short-term loans with PBZ, Erste bank and HPB, worth altogether HRK 29.9 million. The revolving loan taken with a domestic bank was partially repaid (EUR 300,000), and a fresh one was taken on the same basis. Within the observed period, five short-term loans and a long-term loan for restructuring purposes were fully repaid.

The total outflow is 1% lower due to postponed payment of the engine-related works, completed within the first two months of 2017. Part of the investments in engines was paid from the maintenance reserves collected in previous years.

Consolidated business result

000 HRK	Croatia Airlines		Obzor putovanja		Amadeus Croatia		Croatia Airlines Group	
	2016	2015	2016	2015	2016	2015	2016	2015
Operating revenues	1.435.118	1.398.714	3.639	4.729	6.414	6.902	1.445.046	1.410.332
Other revenues	126.066	152.076	82	25	3	17	126.109	151.930
Operating expenses	1.553.415	1.534.057	3.320	3.757	6.275	6.779	1.562.843	1.544.392
Operating profit/loss	7.769	16.733	401	997	142	140	8.312	17.870
Net profit/loss	273	(2.904)	(34)	(32)	(31)	(46)	(604)	(5.093)
Pre-tax profit	8.042	13.829	367	965	111	94	7.708	12.777
Net profit	8.042	13.829	289	763	46	49	7.565	12.530

The Group's consolidated result comprises the result of the Company and its subsidiaries. All transactions within the Group have been eliminated, and the consolidated result for 2016 at the Group level amounts to a profit of HRK 7.7 million, which is HRK 356,000 less compared to the result of Croatia Airlines, and 43% less compared to the result at the end of 2015. Total revenues and expenditures of the subsidiaries account for less than 1% of the consolidated revenues and expenditures, showing that their business activities have only a minor impact on the business activities of Croatia Airlines.

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

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

Plan objectives and goals for 2017

On 31 December 2015, Croatia Airlines successfully completed its restructuring process, owing to a consistent implementation of compensation and own contribution measures, in line with the rules of the European Union regarding state subsidies and with the Croatian Competition Agency's Decision of 27 June 2013. In the business year of 2017, the two-year monitoring of the implemented Restructuring Plan will continue until 31 December 2017.

As a result of the Company's meeting the restructuring measures, the restrictions related to the capacity growth have been lifted and two additional aircraft will operate under lease within the 2017 summer flight schedule.

The Business Plan for 2017 is focused on affirming the sustainability of operations, and validating the implementation of all strategic, operational and financial restructuring measures. The emphasis still lies on the maximum operations safety ensured by following the legal regulations and new trends in the airline industry. The goal is to retain the technical reliability of the fleet, while performing all regular check-ups, modifications and other works on the fleet aircraft and engines, in accordance with the applicable standards, and maintaining the high level of quality, safety and punctuality. In order to meet the high market demands and increase its market share, the Company has been monitoring service user satisfaction on an ongoing basis and developing its destinations network (for which purpose an additional aircraft will be taken into lease during the summer season). In 2017, Croatia Airlines plans to implement the PSO scheme for 2017 in line with the obligations assumed under the Contract for the period from 27 March 2016 to 28 March 2020. Furthermore, the Company plans to move the services and transfer business processes of the Traffic Sector from the old to the new terminal of Zagreb International Airport.

Croatia Airlines expects a positive result in 2017; it is based on the projected revenues and costs which rely on the meeting of the following presumptions:

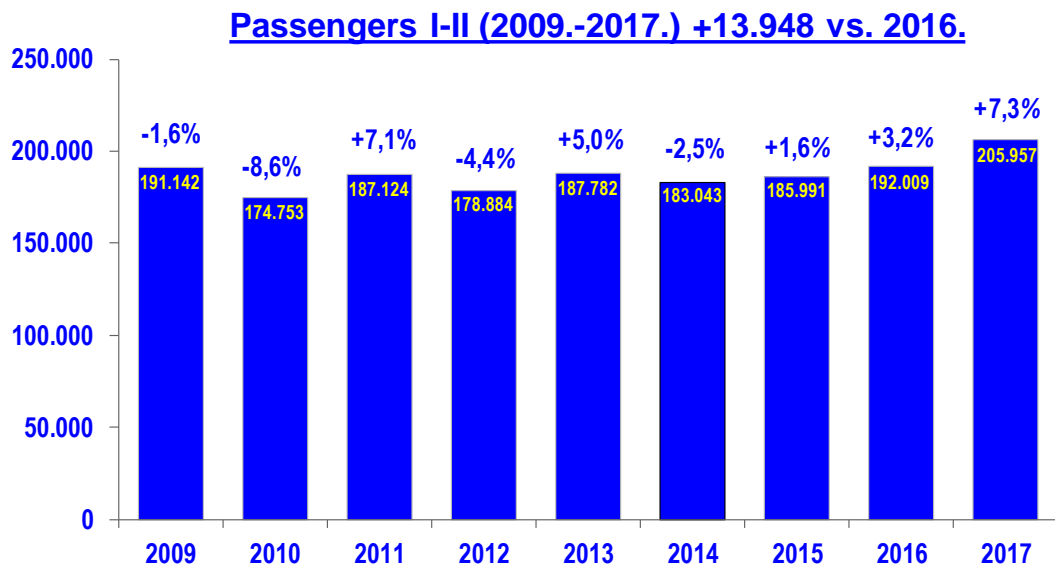
- Introduction of two additional aircraft for the period from May to October 2017 (wet lease);
- Opening of new routes to Stockholm, Helsinki, Oslo and Bucharest within the 2017 summer flight schedule;
- 27,881 - block time in flights;
- 39,837 - block time in block hours;
- Annual traffic of some 2.069,254 passengers (7% more compared to 2016), of which 2.005,752 within scheduled traffic and 63,502 within charter traffic;
- PLF on the level of 71.8%;

Current operations – traffic performance in I-II 2017

description		I-II 2017	I-II 2016
flights (km)	DIST 000	2.016	1.927
departures	FLTS	3.295	3.277
annual change rate	%	1	1
block hours	BH	4.561	4.494
annual change rate	%	1	1
passengers carried	RPAX 000	206	192
annual change rate	%	7	5
freight&mail carried	CGO T	326	406
annual change rate	%	-20	-8
passenger km flown	RPK mln	141	128
available seat - km	ASK mln	225	209
passenger load factor	PLF %	62,9	61,0
tonne km flown	RTK mln	14	13
available tonne-km	ATK mln	24	22
weight load factor	WLF %	60,0	58,6

The number of passengers rose by 7% in the first two months of 2017 compared to the same period of 2016.

The number of passengers in the domestic scheduled traffic fell by 1% compared to the same period of 2016, while the international scheduled passenger traffic saw a 10% rise. The passenger load factor (PLF) was 62.9% in the first two months of 2017, or 1.9 pp higher than in the same period of 2016.



Based on the Capital Market Act (NN 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15), we hereby give the following:

DECLARATION

That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31st December 2016 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 Report of the issuer Croatia Airlines d.d.

The person responsible for the preparation of the issuer statements:

President & CEO



Krešimir Kučko

Zagreb, March 31st, 2017

CROATIA AIRLINES d.d.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2016
together with Independent auditors' report**

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Responsibility for the financial statements

The Management Board of the Company Croatia Airlines d.d., Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the consolidated and separate financial statements for the year ended 31 December 2016 are prepared in accordance with the Accounting Act and the International financial reporting standards ("IFRS") effective in European Union and in accordance with the Regulation on the structure and content of the annual financial statements, to give a true and fair view of the financial position, the results of business operations, the changes in equity and the cash flows of the Company for that period.

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

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless such assumption is not appropriate.

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

Signed on behalf of the Management Board:



Krešimir Kučko

President and CEO

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

31 March 2017



Independent auditors' report to the shareholders of Croatia Airlines d.d.

Opinion

We have audited the accompanying separate financial statements of Croatia Airlines d.d. ("the Company") and consolidated financial statements of Croatia Airlines d.d. and its subsidiaries ("the Group"), which comprise, respectively, the separate and consolidated statements of financial position as at 31 December 2016, the separate and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of, respectively, the Company and the Group as at 31 December 2016 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent auditors' report to the shareholders of Croatia Airlines d.d. (continued)

Key Audit Matters (continued)

<i>Recognition of passenger revenue from scheduled services</i>	
<p><i>Passenger revenue from scheduled services</i> recognized in profit or loss in 2016: HRK 1,282,710 thousand; carrying amount of <i>air traffic liabilities</i> as at 31 December 2016: HRK 122,702 thousand. Refer to Note 2 a) of <i>Summary of significant accounting policies</i>, Note 4 on <i>Passenger traffic</i> and Note 31 on <i>Other current liabilities</i> of the financial statements.</p>	
Key audit matter	Our response
<p>Passenger revenue is measured based on the selling prices charged to customers, net of commissions, discounts and rebates.</p> <p>Until the related transportation service is provided, sold flight documents are recognized as air traffic liabilities. Once a passenger coupon has been used, the corresponding transportation revenue is recognized in profit or loss.</p> <p>Determination of the amount of revenue to be recognized in the period relies on complex internal IT systems, including, among others, the revenue accounting system and schedule management system, and also involves the exchange of information with industry systems (such as the airline reservation system) and partner airlines for a high volume of transactions.</p> <p>Due to the significant dependence on various systems and the complexity of ticket pricing (tariff structures, fees, taxes, discounts, etc.), we considered this area a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • assessing the revenue recognition policy for compliance with relevant financial reporting standards; • using our own IT specialists, testing of the design, implementation and operating effectiveness of controls over the passenger revenue, including those controls in the IT systems that support the recording of passenger revenue; our tests of these controls were designed to evaluate whether key systems operate as designed, and are protected from manipulating of data or software logic that would result in inaccurate accounting information relating to passenger revenue; • performing predictive analytical procedures by developing an expectation of passenger revenue for the year based on data from publicly available industry database of passenger traffic and average ticket prices on flights; • on a sample basis, testing air traffic liabilities and passenger revenue by tracing the amounts recognized to underlying evidence and supporting documentation (flight document (ticket) and flown coupon used); • for different revenue categories, tracing selected high-risk journal entries posted by the Group throughout the year to supporting documentation in order to identify unusual and irregular items.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.



Independent auditors' report to the shareholders of Croatia Airlines d.d. (continued)

Key Audit Matters (continued)

<i>Accounting for aircraft related assets and aircraft maintenance</i>	
<p>The carrying amount of aircrafts as at 31 December 2016 totaled HRK 291,878 thousand; depreciation charge for the year: HRK 51,132 thousand.</p> <p>Refer to Note 2 k) of <i>Summary of significant accounting policies</i>, Note 13 on <i>Property, plant and equipment</i>.</p>	
Key audit matter	Our response
<p>Accounting for aircraft has a material impact on the separate and consolidated financial statements due to the magnitude of the related asset balances and their long-lived nature.</p> <p>The key aspects requiring judgement include the determination of the useful lives and residual values of the aircraft, and determination of their components. Depreciation rates of aircraft are reviewed by management annually, taking into account key factors affecting useful lives of each significant component, maintenance intervals and mandatory major overhauls.</p> <p>Costs of heavy maintenance visits for airframes as well as those of engine and landing gear overhauls are capitalized as separate aircraft components and depreciated over the average expected life between these major overhauls. At the same time, costs associated with routine repairs and maintenance are expensed as incurred.</p> <p>Due to the above factors and complexities, we considered this area a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing the Company's policy for recognition and measurement of aircraft fleet for compliance with relevant financial reporting standards; • critically evaluating the estimated useful lives and residual values by reference to the Company's fleet plan, recent aircraft transactions and aviation industry practice, as well as through inquiries of technical personnel; • assessing the Company's determination of the significant components of aircraft assets against our understanding of the significant components as identified across the aviation industry; • evaluating the reasonableness of the annual depreciation charge by taking into account different useful lives of significant components, maintenance and major overhaul capitalized; • understanding and evaluating the key controls in place over the accounting for aircraft maintenance costs, either as a separate aircraft component or in profit or loss; • on a sample basis, testing the completeness, existence and accuracy of maintenance costs and the appropriateness of management's decision to either capitalize or expense these costs, by inspecting original invoices and supporting documentation (reports on works performed, materials used and labor hours spent).

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Independent auditors' report to the shareholders of Croatia Airlines d.d. *(continued)*

Key Audit Matters (continued)

<i>Going concern basis of accounting</i>	
Refer to Note 2 u) (v) <i>Going concern</i> , Note 33 <i>Commitments and contingent liabilities</i> , Note 36 <i>Risk Management</i> and Note 38 <i>Events after the reporting date</i> .	
Key audit matter	Our response
<p>The financial statements are prepared on a going concern basis. At the reporting date, the Company has negative net current assets. In addition to the liabilities recognized in the statement of financial position at the reporting date, the Company has significant capital commitments and contractual obligations arising from the operating lease arrangements.</p> <p>The going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date. The preparation of these forecasts incorporated a number of assumptions and significant judgment. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Note 2 u) (v) to the consolidated financial statements further explains how the judgment was formed by the management.</p> <p>The Company's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Company's plans for future actions and their financial impact.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • reading minutes of the meetings of the Management Board and Directors and Supervisory Boards with an aim to identify measures that the management intends to implement in order to secure adequate funding for its ongoing activities; • discussing with management their plans for future actions in relation to the going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances; • analyzing the Company's net working capital position as at 31 December 2016 to assess the availability of liquid funds to settle short-term financial obligations; • evaluating the reliability of the cash flow forecasts used by the Company in its going concern assessment by, among others, comparing the forecast cash operating costs with those incurred historically, inspecting the terms of contracts and agreements with customers and suppliers, and challenging the key assumptions (such as cash flows from operating activities, capex requirements and sources of financing) and related judgements; • considering whether any additional facts or information have become available since the date on which the Company made its assessment; • tracing the terms of standby facilities, as discussed in Note 2 u) (v) and Note 38, to underlying agreements; • evaluating whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about the events or conditions that had been identified that may cast significant doubt on the Company's ability to continue as a going concern.

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Independent auditors' report to the shareholders of Croatia Airlines d.d. *(continued)*

Other Matter

The separate financial statements of the Company and consolidated financial statements of the Group as at and for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 1 April 2016.

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Statement of implementation of corporate governance code, included in the Annual Report, but does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as explicitly stated in this report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this respect.

With respect to the Management Report and the Statement of implementation of corporate governance code, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management Report and the Statement of implementation of corporate governance code includes the disclosures required by Articles 21, 22 and 24 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Statement of implementation of corporate governance code.

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

- the information given in the Management Report and the relevant sections of the Statement of implementation of corporate governance code, containing the information referred to in Article 22, paragraph 1, items 3 and 4 and Article 24, paragraph 2 of the Croatian Accounting Act (hereinafter, "extracts of Statement of implementation of corporate governance code) for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the separate and consolidated financial statements.
- the Management Report and the extracts of the Statement of implementation of corporate governance have been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.
- the Statement on implementation of corporate governance code includes information required by Article 22 paragraph 1, items 2, 5, 6 and 7 of the Croatian Accounting Act.



Independent auditors' report to the shareholders of Croatia Airlines d.d. *(continued)*

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

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

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

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

Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

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

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

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Independent auditors' report to the shareholders of Croatia Airlines d.d. (continued)

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

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

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

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

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

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

KPMG Croatia d.o.o.

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

Zagreb, 31 March 2017

For and on behalf of KPMG Croatia d.o.o. za reviziju:

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

Domagoj Hrkać

Member of the Management Board, Croatian Certified Auditor

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Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016		2015	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Operating revenues					
Passenger traffic	4	1,351,736	179,511	1,319,619	173,412
Cargo traffic		14,275	1,896	15,069	1,980
Other sales revenue	5	97,718	12,977	82,803	10,881
Total operating revenues		1,463,729	194,384	1,417,491	186,273
Other income	6	107,426	14,266	144,771	19,024
Operating expenses					
Flight operations		(453,963)	(60,287)	(464,502)	(61,040)
Maintenance		(244,973)	(32,533)	(220,886)	(29,027)
Passenger service		(85,320)	(11,331)	(84,659)	(11,125)
Aircraft and traffic services		(379,503)	(50,398)	(375,367)	(49,327)
Promotion and sales		(216,377)	(28,735)	(217,595)	(28,594)
General and administrative expenses		(89,363)	(11,867)	(95,483)	(12,547)
Depreciation and amortization	12, 13	(85,535)	(11,359)	(73,303)	(9,633)
Other operating expenses		(7,809)	(1,036)	(12,597)	(1,655)
Total expenses		(1,562,843)	(207,546)	(1,544,392)	(202,948)
Profit from operations		8,312	1,104	17,870	2,349
Finance income	9	48,015	6,377	56,391	7,410
Finance costs	10	(48,619)	(6,457)	(61,484)	(8,080)
Net finance income / (costs)		(604)	(80)	(5,093)	(670)
Profit before tax		7,708	1,024	12,777	1,679
Income tax expense	11	(143)	(19)	(247)	(32)
Profit for the year		7,565	1,005	12,530	1,647
Other comprehensive income					
Deferred exchange losses		218	29	675	87
The fair value of financial assets available for sale		172	23	(46)	(5)
Foreign exchange translation differences		-	499	-	128
Total other comprehensive income		390	551	629	210
Total comprehensive income		7,955	1,556	13,159	1,857
Earnings per share HRK / EUR	26	0.27	0.04	0.45	0.06

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 2016

	Note	2016		2015	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Operating revenues					
Passenger traffic	4	1,351,736	179,511	1,319,619	173,412
Cargo traffic		14,275	1,896	15,069	1,980
Other sales revenue	5	87,832	11,664	71,373	9,378
Total operating revenues		1,453,843	193,071	1,406,061	184,770
Other income	6	107,341	14,255	144,729	19,020
Operating expenses					
Flight operations		(453,963)	(60,287)	(464,502)	(61,040)
Maintenance		(244,973)	(32,532)	(220,886)	(29,027)
Passenger service		(85,320)	(11,331)	(84,659)	(11,125)
Aircraft and traffic services		(379,503)	(50,398)	(375,367)	(49,327)
Promotion and sales		(216,377)	(28,734)	(217,595)	(28,594)
General and administrative expenses		(80,124)	(10,641)	(85,345)	(11,215)
Depreciation and amortization	12, 13	(85,450)	(11,348)	(73,199)	(9,620)
Other operating expenses		(7,705)	(1,023)	(12,504)	(1,643)
Total expenses		(1,553,415)	(206,294)	(1,534,057)	(201,591)
Profit from operations		7,769	1,032	16,733	2,199
Finance income	9	48,804	6,481	57,728	7,586
Finance costs	10	(48,531)	(6,445)	(60,632)	(7,968)
Net finance income / (costs)		273	36	(2,904)	(382)
Profit before tax		8,042	1,068	13,829	1,817
Income tax expense	11	-	-	-	-
Profit for the year		8,042	1,068	13,829	1,817
Other comprehensive income					
Deferred exchange losses		218	29	675	87
The fair value of financial assets available for sale		172	23	(46)	(5)
Foreign exchange translation differences		-	490	-	141
Total other comprehensive income		390	542	629	223
Total comprehensive income		8,432	1,610	14,458	2,040
Earnings per share HRK / EUR	26	0.29	0.04	0.50	0.07

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

Croatia Airlines Group consolidated statement of financial position

For the year ended 31 December 2016

	Note	2016		2015	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	12	67,442	8,924	24,990	3,273
Property, plant and equipment	13	529,926	70,117	546,933	71,635
Investments in subsidiaries and associates	14	-	-	-	-
Non-current deposits	15	44,013	5,824	59,808	7,833
Financial assets available for sale	16	1,352	179	1,180	155
Non-current receivables	17	467	62	539	71
		643,200	85,106	633,450	82,967
Current assets					
Inventories	18	64,493	8,533	56,429	7,391
Trade receivables	19	72,916	9,648	76,056	9,961
Other receivables	20	16,621	2,199	21,315	2,791
Income tax receivable		885	117	955	125
Prepaid expenses and accrued income	21	26,335	3,484	26,916	3,526
Financial assets	22	9,937	1,315	1,538	201
Cash and cash equivalents	23	32,578	4,311	35,418	4,638
		223,765	29,607	218,627	28,633
TOTAL ASSETS		866,965	114,713	852,077	111,600
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	24	277,880	36,399	277,880	36,399
Reserves	25	94,119	12,217	79,900	10,348
Accumulated loss / retained earnings		2,206	322	3,505	492
Net profit for the year		7,565	1,005	12,530	1,647
Translation reserve rate		-	571	-	72
		381,770	50,514	373,815	48,958
Non-current liabilities					
Provisions	27	3,336	442	2,718	356
Non-current loans and borrowings	28	31,743	4,200	47,337	6,200
Non-current finance lease		37	5	-	-
Other non-current liabilities		45	6	68	9
		35,161	4,653	50,123	6,565
Current liabilities					
Current loans and borrowings	29	33,146	4,386	43,150	5,652
Current portion of non-current loans and borrowings	28	15,116	2,000	19,833	2,598
Current portion of finance lease		15	2	12	2
Trade payables	30	203,831	26,970	151,510	19,844
Other current liabilities	31	172,633	22,841	182,579	23,913
Income tax liability		20	3	89	12
Accrued expenses and deferred income	32	25,273	3,344	30,966	4,056
		450,034	59,546	428,139	56,077
TOTAL EQUITY AND LIABILITIES		866,965	114,713	852,077	111,600

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2016

	Note	2016		2015	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	12	67,379	8,915	24,872	3,258
Property, plant and equipment	13	529,765	70,095	546,791	71,616
Investments in subsidiaries and associates	14	1,210	160	1,210	158
Non-current deposits	15	43,965	5,817	59,783	7,830
Financial assets available for sale	16	1,352	179	1,180	155
Non-current receivables	17	467	62	539	71
		644,138	85,228	634,375	83,088
Current assets					
Inventories	18	64,493	8,533	56,429	7,391
Trade receivables	19	70,260	9,296	73,736	9,658
Other receivables	20	16,718	2,212	21,608	2,830
Income tax receivable		812	107	942	123
Prepaid expenses and accrued income	21	25,982	3,438	26,443	3,464
Financial assets	22	9,917	1,312	1,536	201
Cash and cash equivalents	23	30,092	3,982	31,938	4,182
		218,274	28,880	212,632	27,849
TOTAL ASSETS		862,412	114,108	847,007	110,937
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	24	277,880	36,399	277,880	36,399
Reserves	25	93,142	12,089	78,923	10,220
Accumulated loss / retained earnings		-	-	-	-
Net profit for the year		8,042	1,068	13,829	1,817
Translation reserve rate		-	597	-	107
		379,064	50,153	370,632	48,543
Non-current liabilities					
Provisions	27	3,336	442	2,718	356
Non-current loans and borrowings	28	31,743	4,200	47,337	6,200
Non-current finance lease		37	5	-	-
Other non-current liabilities		45	6	68	9
		35,161	4,653	50,123	6,565
Current liabilities					
Current loans and borrowings	29	33,146	4,386	43,150	5,652
Current portion of non-current loans and borrowings	28	15,116	2,000	19,833	2,598
Current portion of finance lease		15	2	12	2
Trade payables	30	202,767	26,829	150,362	19,693
Other current liabilities	31	172,137	22,776	182,253	23,871
Income tax liability		-	-	-	-
Accrued expenses and deferred income	32	25,006	3,309	30,642	4,013
		448,187	59,302	426,252	55,829
TOTAL EQUITY AND LIABILITIES		862,412	114,108	847,007	110,937

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

Croatia Airlines Group consolidated statement of changes in equity

For the year ended 31 December 2016

Croatia Airlines Group	Share capital		Reserves		(Accumulated losses) / Retained earnings		Profit for the year		Translation reserve	Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Balance at 1 January 2015	277,880	36,399	79,933	10,363	(5,155)	(653)	7,998	1,048	(56)	360,656	47,101
Profit for the year	-	-	-	-	-	-	12,530	1,647	-	12,530	1,647
Other comprehensive income	-	-	629	82	-	-	-	-	128	629	210
Total comprehensive income	-	-	629	82	-	-	12,530	1,647	128	13,159	1,857
Transactions with owners											
Losses cover from profit from 2014	-	-	-	-	7,998	1,048	(7,998)	(1,048)	-	-	-
Losses cover from other capital reserves	-	-	(662)	(97)	662	97	-	-	-	-	-
Total transaction with owners	-	-	(662)	(97)	8,660	1,145	(7,998)	(1,048)	-	-	-
Balance at 31 December 2015	277,880	36,399	79,900	10,348	3,505	492	12,530	1,647	72	373,815	48,958
Profit for the year	-	-	-	-	-	-	7,565	1,005	-	7,565	1,005
Other comprehensive income	-	-	390	52	-	-	-	-	499	390	551
Total comprehensive income	-	-	390	52	-	-	7,565	1,005	499	7,955	1,556
Transactions with owners											
Transfer of profit from 2015 to legal reserves	-	-	12,530	1,647	-	-	(12,530)	(1,647)	-	-	-
Transfer of retained earnings to legal reserves	-	-	1,299	170	(1,299)	(170)	-	-	-	-	-
Total transaction with owners	-	-	13,829	1,817	(1,299)	(170)	(12,530)	(1,647)	-	-	-
Balance at 31 December 2016	277,880	36,399	94,119	12,217	2,206	322	7,565	1,005	571	381,770	50,514

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 2016

Croatia Airlines d.d.	Share capital		Reserves		(Accumulated losses) / Retained earnings		Profit for the year		Translation reserve	Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Balance at 1 January 2015	277,880	36,399	78,956	10,235	(8,210)	(1,086)	7,548	989	(34)	356,174	46,503
Profit for the year	-	-	-	-	-	-	13,829	1,817	-	13,829	1,817
Other comprehensive income	-	-	629	82	-	-	-	-	141	629	223
Total comprehensive income	-	-	629	82	-	-	13,829	1,817	141	14,458	2,040
Transactions with owners											
Losses cover from profit from 2014	-	-	-	-	7,548	989	(7,548)	(989)	-	-	-
Losses cover from other capital reserves	-	-	(662)	(97)	662	97	-	-	-	-	-
Total transaction with owners	-	-	(662)	(97)	8,210	1,086	(7,548)	(989)	-	-	-
Balance at 31 December 2015	277,880	36,399	78,923	10,220	-	-	13,829	1,817	107	370,632	48,543
Profit for the year	-	-	-	-	-	-	8,042	1,068	-	8,042	1,068
Other comprehensive income	-	-	390	52	-	-	-	-	490	390	542
Total comprehensive income	-	-	390	52	-	-	8,042	1,068	490	8,432	1,610
Transactions with owners											
Transfer of profit from 2015 to legal reserves	-	-	13,829	1,817	-	-	(13,829)	(1,817)	-	-	-
Total transaction with owners	-	-	13,829	1,817	-	-	(13,829)	(1,817)	-	-	-
Balance at 31 December 2016	277,880	36,399	93,142	12,089	-	-	8,042	1,068	597	379,064	50,153

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

Croatia Airlines Group consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016		2015	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Profit for the year		7,565	1,005	12,530	1,647
<i>Adjustments for:</i>					
Depreciation and amortization		85,535	11,359	73,303	9,633
Gain on sale of property, plant and equipment		(175)	(23)	(29,657)	(3,897)
Disposals of property, plant and equipment		4,675	621	9,051	1,189
Correction of impairment of property, plant and equipment		200	27	39	5
Impairment loss on trade receivables		175	23	1,257	165
Collection of previously written-off receivables		(267)	(35)	(213)	(28)
Change in provisions		618	82	(20,597)	(2,707)
Unrealized foreign exchange differences		(3,150)	(418)	(5,017)	(659)
Interest costs		7,553	1,003	10,367	1,362
Interest income		(426)	(57)	(469)	(62)
Income from shares in profit		(45)	(6)	-	-
Loss on sale of associate		-	-	739	97
Tax expense		143	19	247	32
		102,401	13,600	51,580	6,777
<i>Changes in:</i>					
Inventories		(8,064)	(1,071)	(6,625)	(871)
Trade and other receivables		1,487	197	(26,375)	(3,466)
Trade and other payables		38,217	5,075	19,813	2,604
Cash generated from operating activities		134,041	17,801	38,393	5,044
Interest paid		(7,326)	(973)	(8,328)	(1,094)
Interest received		68	9	477	63
Net change of deposits		7,396	982	4,577	601
Income tax paid		(1,014)	(135)	(666)	(88)
Net cash from operating activities		133,165	17,684	34,453	4,526
Cash flows from investing activities					
Acquisition of intangible assets		(58,570)	(7,778)	(8,696)	(1,143)
Acquisition of property, plant and equipment		(56,352)	(7,484)	(70,179)	(9,222)
Proceeds from sale of property, plant and equipment		666	88	47,280	6,213
Proceeds from sale of subsidiaries and associates		-	-	4,101	539
Net change in other financial assets		-	-	3	-
Investments in assets available for sale		-	-	(189)	(25)
Dividends received		45	6	601	79
Net cash used in investing activities		(114,211)	(15,168)	(27,079)	(3,559)
Cash flows from financing activities					
Proceeds from loans and borrowings		29,850	3,964	29,800	3,916
Repayment of loans and borrowings		(51,598)	(6,852)	(52,183)	(6,857)
Payment of finance lease liabilities		(46)	(6)	(21)	(3)
Net cash from financing activities		(21,794)	(2,894)	(22,404)	(2,944)
Net decrease in cash and cash activities		(2,840)	(378)	(15,030)	(1,977)
Cash and cash equivalents at beginning of the year		35,418	4,638	50,448	6,585
Effect of foreign currency translation		-	51	-	30
Cash and cash equivalents at end of the year	23	32,578	4,311	35,418	4,638

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 2016

	Note	2016		2015	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Profit for the year		8,042	1,068	13,829	1,817
<i>Adjustments for:</i>					
Depreciation and amortization		85,450	11,348	73,199	9,620
Gain on sale of property, plant and equipment		(173)	(23)	(29,652)	(3,897)
Disposals of property, plant and equipment		4,675	621	9,047	1,189
Correction of impairment of property, plant and equipment		200	27	39	5
Impairment loss on trade receivables		73	10	1,182	155
Collection of previously written-off receivables		(267)	(35)	(196)	(26)
Change in provisions		618	82	(20,597)	(2,707)
Unrealized foreign exchange differences		(3,150)	(418)	(5,017)	(659)
Interest costs		7,553	1,003	10,348	1,360
Interest income		(426)	(57)	(462)	(61)
Income from shares in profit		(857)	(114)	(1,171)	(154)
Gain on sale of associate		-	-	(201)	(26)
		101,738	13,512	50,348	6,616
<i>Changes in:</i>					
Inventories		(8,064)	(1,071)	(6,914)	(909)
Trade and other receivables		1,873	249	(25,338)	(3,330)
Trade and other payables		38,188	5,071	19,709	2,590
Cash generated from operating activities		133,735	17,761	37,805	4,967
Interest paid		(7,326)	(973)	(8,309)	(1,092)
Interest received		68	9	61	8
Net change of deposits		7,437	988	4,538	596
Income tax paid		(896)	(119)	(379)	(50)
Net cash from operating activities		133,018	17,666	33,716	4,429
Cash flows from investing activities					
Acquisition of intangible assets		(58,560)	(7,777)	(8,696)	(1,143)
Acquisition of property, plant and equipment		(56,310)	(7,478)	(70,152)	(9,219)
Proceeds from sale of property, plant and equipment		661	88	47,275	6,212
Proceeds from sale of subsidiaries and associates		-	-	4,101	539
Net change in other financial assets		-	-	3	-
Investments in assets available for sale		-	-	(189)	(25)
Dividends received		1,139	151	726	95
Net cash used in investing activities		(113,070)	(15,016)	(26,932)	(3,541)
Cash flows from financing activities					
Proceeds from loans and borrowings		29,850	3,964	29,800	3,916
Repayment of loans and borrowings		(51,598)	(6,852)	(51,833)	(6,811)
Payment of finance lease liabilities		(46)	(6)	(21)	(3)
Net cash from financing activities		(21,794)	(2,894)	(22,054)	(2,898)
Net decrease in cash and cash activities		(1,846)	(244)	(15,270)	(2,010)
Cash and cash equivalents at beginning of the year		31,938	4,182	47,208	6,161
Effect of foreign currency translation		-	44	-	31
Cash and cash equivalents at end of the year	23	30,092	3,982	31,938	4,182

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

Notes to the consolidated and separate financial statements

For the year ended 31 December 2016

1. GENERAL

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

The subsidiaries of the Company are Obzor putovanja d.o.o. (100 % owned) and Amadeus Croatia d.d. (95% owned).

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

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

General Assembly of the Company

Restructuring and Sale Center for Republic of Croatia	97.06%
Zagreb International Airport	1.72%
Restructuring and Sale Center for State Agency for Deposit Insurance and Bank Rehabilitation	0.77%
Others	0.45%
Total	100.00 %

Supervisory Board of the Company

Members from 13 July 2016

Zlatko Mateša	President
Nataša Munitić	Vice President
Zoran Barac	Member
Darija Jurica Vuković	Member
Vjekoslav Jelić	Member (from 7 July 2015)

Members up to 13 July 2016

Siniša Petrović	President
Darko Prebežac	Vice President
Berislav Matijević	Member
Marko Lesić	Member
Hrvoje Kujundžić	Member (up to 6 July 2015)
Vjekoslav Jelić	Member (from 7 July 2015)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

1. GENERAL (CONTINUED)

Management Board of the Company

Krešimir Kučko	President and CEO
Zlatko Širac	Board Member and COO, resigned 1 March 2017

Subsidiaries' Management

Eugen Šunde	General Manager of Amadeus Croatia d.d.
Jadranka Skelin-Hrvoj	General Manager of Obzor putovanja d.o.o. (up to 31 October 2015)
Silvana Turčić	General Manager of Obzor putovanja d.o.o. (from 1 November 2015)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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	2016	2015
On 31 December	7.557787	7.635047
Average	7.530091	7.609737

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

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

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

The principal accounting policies adopted are as follows.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

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

b) Income from charter and cargo transport services

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

c) Other sales revenue

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

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

d) 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.

e) Dividend income and income from share in profit

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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.

(i) The Group and the Company as lessor

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

(ii) The Group and the Company as lessee

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

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

g) Foreign currencies

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

h) Borrowing costs

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Government grants

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

j) Taxation

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

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

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

k) Property, plant and equipment

Property, plant and equipment, except for aircraft, are stated at cost less accumulated depreciation and any recognized impairment loss. Aircraft and engines are stated at their revaluated amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Property, plant and equipment (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 free of charge are deferred and credited to the statement of comprehensive income on a proportional basis over the operational life of the aircraft.

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

The Company has engaged an independent professional appraiser 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, i.e., 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. The Management Board of the Company has estimated that during the years 2016 and 2015 there were no significant differences between the market and the book value, so the new valuation of the aircraft was not recorded.

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

Airbus aircraft are depreciated on a straight-line basis over the period of 20 years. The cost of "12-year checks" is at a rate of 8.33%, and "6-year checks" are at a rate of 16.67%.

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Intangible assets

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

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

m) Investments in subsidiaries and associates

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

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

Investments in associates in consolidated financial statements are presented according to the equity method. The Group's share of the profits or losses of affiliated companies is recognized in the income statement and the change in other comprehensive income is recognized in other comprehensive income. The carrying amount of an investment is adjusted for cumulative changes after the acquisition.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Inventories

Inventories are stated at the cost or net realizable value, depending which one is lower. Costs comprise of direct materials and, where applicable, direct labor costs and overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method (inventories of office supplies, catering and uniforms) and FIFO method (inventories of spare parts). Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

o) Financial instruments

Financial instruments consist of contractual claims and rights. Financial instruments include both primary instruments, such as trade accounts receivable and payable, investments, and financial commitments and derivative financial instruments, which are used to hedge risks arising from changes in foreign exchange rates and interest rates.

Information on fair value and risk management of these financial instruments is set out below.

Financial assets and financial liabilities are recognized on the Group's and the Company's balance sheet when the subsidiary or the Company becomes a party to the contractual provisions of the instrument.

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

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

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

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

(i) Cash and cash equivalents

For the purposes of the of statement of cash flows, cash and cash equivalents comprise cash in hand, current accounts at banks, deposits up to 90 days (from their origination date).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Financial instruments (continued)

(ii) 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. Gains and losses arising from changes in the fair value are recognized directly in equity in the investments revaluation reserve. If estimated fair value is not reliable or its value significantly fluctuates, assets are recognized at cost.

(iii) Loans and receivables

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

(iv) Financial liabilities

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

p) Hedging reserves

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Hedging reserves (continued)

At the beginning of a transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Loans and finance leases for the purchase of aircraft are denominated in foreign currencies and as such the Company and the Group are exposed to the risk of fluctuations in exchange rates. The Company and the Group have evaluated their foreign currency revenues and determined that foreign currency revenues form a highly effective cash flows hedge against their principal and interest payments in foreign currency. Accordingly, the Company and the Group account for unrealised gains and losses on translation of the designated foreign currency debts as a separate component of equity. The effectiveness of the hedge is monitored by the Management Board on a regular basis throughout the period.

q) Provisions

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

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

r) Dividend distributions

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

s) Earnings per share

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Certain standards, revisions and interpretations of existing standards were published, that are applicable but not mandatory for the period ending 31 December 2016 and / or not adopted by the European Union and as such have not been applied in preparation of these financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining the manner and timing of recognition of revenue. It replaces existing revenue recognition guidelines, including IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 will be effective for the year periods beginning on or after 1 January 2018, with prior use allowed. The Company at this time has not assessed the impact of all the new IFRS 15 rules and will conduct a more detailed review in future periods.

IFRS 9 Financial instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial instruments. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, with prior use allowed. The Company plans to apply IFRS 9 from 1 January 2018. It is not expected that it will have a significant impact on the financial statements of the Group and the Company.

Disclosure Initiatives (Amendments to IAS 7)

Amendments require updates that allow users of financial reports to estimate changes to liabilities arising from financial activities, including changes resulting from cash flows as well as non-cash changes. Amendments will be effective for annual periods beginning on or after 1 January 2017, with prior use allowed. This new initiative is not expected to have a significant impact on the financial statements of the Group and the Company.

IFRS 16 Leases

IFRS 16 introduces a unique balance sheet model for lessee's accounting. The lessee acknowledges the right to use the property and the obligation to pay the rent. There is an exception for short-term leases and rentals of small value items. The lessor's accountancy remains similar to the existing standard and they still classify the leases as financial or operating leases. The Standard will be effective for annual periods beginning on or after 1 January 2019. Earlier application is allowed for entities that applied IFRS 15 Revenue from customer contracts on or before the date of first-time adoption of IFRS 16. For the time being, the most significant identified impact is that the Group and the Company will recognize new assets and liabilities under operating leases.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, 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 reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year or that have a significant effect on the amounts recognized in the financial statements.

(i) Financial assets and liabilities

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

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

(ii) Operating segments

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

(iii) Revaluation of property, plant and equipment

Aircraft are recognized in revaluated amounts in compliance with the revaluation accounting model pursuant to IAS 16 applied for the first time as of 31 December 2001. On 30 November 2012, the Company determined the need for new reassessment. Revaluation of aircraft has been performed by an independent appraiser using static methods of estimation of market value.

(iv) Impairment of property, plant and equipment

The Company has assumed that there is no significant impairment of property, plant and equipment on the basis of an evaluation of the current use and expected future revenues.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Use of estimates in the preparation of financial statements

(v) *Going concern*

As of 31 December 2015 Croatia Airlines successfully completed restructuring process initiated in 2011 by implementation of compensation measures and measures of own contributions in accordance with European regulations and practice and based on the approval of the Croatian Competition Agency dated 27 June 2013. Restructuring of the Company i.e. implementation of strategic, financial and operational goals of the restructuring was necessary in order to prepare the Company for long-term sustainable operations.

In 2017, a two-year monitoring of the restructuring carried out will be continued and a continuance of positive trend in the Company's business is expected. The Company expects an increase in passenger numbers by 7% compared to 2016, primarily by introducing four new lines.

In 2017, a high level of investment is planned, of which HRK 244 million relates to necessary investments in aircrafts.

Since the planned regular business inflows from operating activities cannot cover all operating expense and planned investments, the difference is planned to be covered through:

- agreement of three short-term loans in the amount of HRK 45 million;
- revolving credit with the bank in the amount of HRK 25.5 million;
- sale of London Heathrow slots for HRK 138.5 million;
- payment of PSO fee in the amount of HRK 80.5 million, which is accounted for as the difference between income realized and direct flight costs on specific domestic lines.

The Company considers funding sources necessary to meet the contractual obligations for the purchase of four aircrafts A320NEO. Negotiations are ongoing with potential lessors who will finance advances for new aircrafts in the period 2017 to delivery.

It is important to emphasize that the Company manages the liquidity risk by planning and regular monitoring of the maturity of its liabilities and maintaining adequate and sufficient amounts of cash and deposits to settle cash outflows as they fall due, taking into account the seasonal nature of the cash inflows.

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. The Company Management believes that the preparation of financial statements on a going-concern basis is reasonable.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

3. CORRECTION OF PRIOR PERIOD BALANCES

During the year, the Company reclassified certain items so that figures in the financial statements for the year 2016 were comparable to figures for 2015:

Reclassifications in the statement of financial position are as follows:

	Previously published 2015		Reclassification of avance payments 2015		Reclassification of deposits to suppliers 2015		Reclassified 2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines Group	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Property, plant and equipment	494,050	64,709	52,883	6,926	-	-	546,933	71,635
Non-current deposits	6,988	915	-	-	52,820	6,918	59,808	7,833
Non-current receivables	106,242	13,915	(52,883)	(6,926)	(52,820)	(6,918)	539	71
Total	607,280	79,539	-	-	-	-	607,280	79,539

	Previously published 2015		Reclassification of avance payments 2015		Reclassification of deposits to suppliers 2015		Reclassified 2015	
	Croatia Airlines d.d.		Croatia Airlines d.d.		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Property, plant and equipment	493,908	64,690	52,883	6,926	-	-	546,791	71,616
Non-current deposits	6,963	912	-	-	52,820	6,918	59,783	7,830
Non-current receivables	106,242	13,915	(52,883)	(6,926)	(52,820)	(6,918)	539	71
Total	607,113	79,517	-	-	-	-	607,113	79,517

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

3. CORRECTION OF PRIOR PERIOD BALANCES (continued)

In addition, the elimination of income from share in profits and elimination of sale of Pleso prijevoz were corrected in the consolidated financial statements. These transactions were eliminated in the financial statements for 2015 through the movement in equity rather than through the statement of comprehensive income. These corrections do not affect the equity balance presented as at 31 December 2015 as the elimination was carried out through equity as a deduction of retained earnings.

The impact of adjustments to the statement of comprehensive income is as follows:

	Previously published 2015		Reclassification of elimination of share in profits 2015		Reclassification of elimination of sale of Pleso prijevoz 2015		Reclassified 2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines Group	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Finance income	57,763	7,590	(1,171)	(154)	(201)	(26)	56,391	7,410
Finance costs	(60,745)	(7,983)	-	-	(739)	(97)	(61,484)	(8,080)
Net finance costs	(2,982)	(393)	(1,171)	(154)	(940)	(123)	(5,093)	(670)
Profit for the year	14,641	1,924	(1,171)	(154)	(940)	(123)	12,530	1,647
Earnings per share HRK / EUR	0.53	0.07					0.45	0.06

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

4. PASSENGER TRAFFIC

	2016		2015	
	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand
Scheduled services	1,282,710	170,345	1,246,133	163,755
Charter services	69,026	9,166	73,486	9,657
	1,351,736	179,511	1,319,619	173,412

Revenue by geographical area based on sales origin:

	2016		2015	
	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand
Croatia	396,059	52,597	384,009	50,463
Germany	155,450	20,644	143,838	18,902
USA	137,877	18,310	146,478	19,249
France	87,863	11,668	81,816	10,751
Great Britain	67,587	8,976	73,899	9,711
Other countries	506,900	67,316	489,579	64,336
	1,351,736	179,511	1,319,619	173,412

5. OTHER SALES REVENUE

	2016		2015		2016		2015	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Revenue from technical services to others	55,363	7,352	35,747	4,698	55,363	7,352	35,747	4,697
Commission income from foreign air companies	10,752	1,428	13,251	1,741	10,752	1,428	13,251	1,741
Revenue from reservation system services	10,057	1,336	10,800	1,419	3,643	484	3,910	514
Revenue from advertising services	5,609	745	5,445	716	5,609	745	5,445	716
Revenue from educational services	3,963	526	3,288	432	3,963	526	3,288	432
Mileage related revenue	2,302	306	2,401	316	2,302	306	2,401	316
Other	9,672	1,284	11,871	1,559	6,200	823	7,331	962
	97,718	12,977	82,803	10,881	87,832	11,664	71,373	9,378

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

6. OTHER INCOME

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Income from PSO	82,604	10,970	83,195	10,933	82,604	10,970	83,195	10,933
Gain from sale of property, plant and equipment	175	23	29,657	3,897	173	23	29,652	3,897
Income from assets received free of charge	951	126	1,049	138	951	126	1,049	138
Bad debts collected	267	35	213	28	267	35	196	26
Income from sale of spare parts	273	36	56	7	273	36	56	7
Other income	23,156	3,076	30,601	4,021	23,073	3,065	30,581	4,019
	107,426	14,266	144,771	19,024	107,341	14,255	144,729	19,020

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

7. EXPENSES BY NATURE

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Staff costs	256,939	34,122	253,557	33,320	253,047	33,604	249,477	32,785
Airport costs	256,466	34,059	253,244	33,279	256,466	34,059	253,244	33,279
Fuel	203,153	26,979	232,960	30,613	203,153	26,979	232,960	30,613
Rental and maintenance of engines and parts	149,026	19,791	142,947	18,785	149,026	19,791	142,947	18,785
Aircraft lease	135,867	18,043	115,376	15,162	135,867	18,043	115,376	15,162
Air traffic control costs	123,037	16,339	122,123	16,048	123,037	16,339	122,123	16,048
Reservation system costs	94,587	12,561	87,867	11,547	94,587	12,561	87,867	11,547
Amortisation and depreciation	85,535	11,359	73,303	9,633	85,450	11,348	73,199	9,620
Commission costs	60,246	8,001	61,724	8,111	60,246	8,001	61,724	8,111
Consumables	30,151	4,004	19,652	2,582	30,151	4,004	19,652	2,582
Catering	27,234	3,617	26,024	3,420	27,234	3,617	26,024	3,420
Promotion costs	18,534	2,461	19,412	2,551	18,534	2,461	19,412	2,551
Other expenses	122,068	16,210	136,203	17,897	116,617	15,487	130,052	17,088
	1,562,843	207,546	1,544,392	202,948	1,553,415	206,294	1,534,057	201,591

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

8. STAFF COSTS

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Net wages and salaries	116,937	15,529	115,790	15,216	114,935	15,263	113,780	14,952
Taxes and contributions form salaries	64,853	8,613	64,592	8,488	63,902	8,486	63,653	8,365
Contributions on salaries	41,209	5,473	41,083	5,399	40,700	5,405	40,535	5,327
Other employee related	33,940	4,507	32,092	4,217	33,510	4,450	31,509	4,141
	256,939	34,122	253,557	33,320	253,047	33,604	249,477	32,785

As at 31 December 2016 the Group had 964 employees (Croatia Airlines d.d. 940, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 16) while as at 31 December 2015 the Group had 922 employees (Croatia Airlines d.d. 900, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 14) - see Note 34.

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

9. FINANCIAL INCOME

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Positive foreign exchange differences	47,543	6,314	55,922	7,348	47,521	6,310	55,894	7,345
Interest income	427	57	469	62	426	57	462	61
Income from share on profits and dividends	45	6	-	-	857	114	1,171	154
Gain on sale of associate	-	-	-	-	-	-	201	26
	48,015	6,377	56,391	7,410	48,804	6,481	57,728	7,586

10. FINANCIAL EXPENSE

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Negative foreign exchange differences	40,805	5,419	50,019	6,574	40,717	5,407	49,925	6,561
Interest expense	7,553	1,003	10,367	1,362	7,553	1,003	10,348	1,360
Other finance costs	261	35	359	47	261	35	359	47
Loss on sale of associate	-	-	739	97	-	-	-	-
	48,619	6,457	61,484	8,080	48,531	6,445	60,632	7,968

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

11. INCOME TAX EXPENSE

Income tax in Croatia is calculated at the rate of 20% to taxable profit for the year.

The Company does not have income tax liability for current year due to accumulated losses from previous years, but in accordance with applicable tax regulations, the Company pays income tax advances with regard to the use of tax incentives for education and training. During the year, prepayments in the amount of HRK 1,026 thousand were compensated with the obligation to pay VAT.

Income tax expense of the subsidiaries is as follows: Amadeus Croatia d.d. HRK 65 thousand, EUR 9 thousand (2015: HRK 45 thousand, EUR 6 thousand) and Obzor putovanja d.o.o. HRK 78 thousand, EUR 10 thousand (2015: HRK 202 thousand, EUR 26 thousand).

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

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Profit before tax	7,708	1,024	12,777	1,679	8,042	1,068	13,829	1,817
Tax at rate of 20%	1,542	205	2,555	336	1,608	214	2,766	363
Non-deductible expenses	297	39	638	84	249	33	415	55
Non-taxable income	(50)	(7)	(789)	(104)	(213)	(28)	(1,024)	(134)
Tax incentives	(797)	(105)	(842)	(111)	(795)	(106)	(842)	(111)
Utilised tax losses	(849)	(113)	(1,315)	(173)	(849)	(113)	(1,315)	(173)
Income tax	143	19	247	32	-	-	-	-

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

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

	2016		2016		2015		2015	
	Tax losses available for utilisation		Tax allowance at tax rate of 18%		Tax losses available for utilisation		Tax allowance at tax rate of 20%	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Loss from 2011 (expires 2016)	-	-	-	-	78,152	10,236	15,630	2,047
Loss from 2012 (expires 2017)	505,233	66,849	90,942	12,033	505,233	66,173	101,047	13,235
Loss from 2013 (expires 2018)	98,335	13,011	17,700	2,342	98,335	12,879	19,667	2,576
Loss from 2014 (expires 2019)	5,753	761	1,036	137	5,753	753	1,151	151
	609,321	80,621	109,678	14,512	687,473	90,041	137,495	18,009

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

12. INTANGIBLE ASSETS

Croatia Airlines Group

2016	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2016	36,034	4,719	49,266	6,453	173	23	85,473	11,195
Additions	4,018	533	54,377	7,221	175	23	58,570	7,777
Transfer	-	-	348	46	(348)	(46)	-	-
Transfer from tangible assets	-	-	2,579	342	-	-	2,579	342
Disposals	(4,920)	(653)	(11,170)	(1,483)	-	-	(16,090)	(2,136)
Fx differences	-	48	-	45	-	-	-	93
Balance at 31 December 2016	35,132	4,647	95,400	12,624	-	-	130,532	17,271
ACCUMULATED AMORTIZATION								
Balance at 1 January 2016	30,393	3,981	30,090	3,941	-	-	60,483	7,922
Charge for the year	4,112	546	14,585	1,937	-	-	18,697	2,483
Disposals	(4,920)	(653)	(11,170)	(1,483)	-	-	(16,090)	(2,136)
Fx differences	-	40	-	38	-	-	-	78
Balance at 31 December 2016	29,585	3,914	33,505	4,433	-	-	63,090	8,347
NET BOOK VALUE								
At 31 December 2016	5,547	733	61,895	8,191	-	-	67,442	8,924
At 1 January 2016	5,641	738	19,176	2,512	173	23	24,990	3,273
2015	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2015	35,893	4,685	38,592	5,037	2,292	299	76,777	10,021
Additions	-	-	7,255	953	1,441	189	8,696	1,142
Transfer	141	19	3,419	449	(3,560)	(468)	-	-
Fx differences	-	15	-	14	-	3	-	32
Balance at 31 December 2015	36,034	4,719	49,266	6,453	173	23	85,473	11,195
ACCUMULATED AMORTIZATION								
Balance at 1 January 2015	27,089	3,536	23,812	3,108	-	-	50,901	6,644
Charge for the year	3,304	434	6,278	825	-	-	9,582	1,259
Fx differences	-	11	-	8	-	-	-	19
Balance at 31 December 2015	30,393	3,981	30,090	3,941	-	-	60,483	7,922
NET BOOK VALUE								
At 31 December 2015	5,641	738	19,176	2,512	173	23	24,990	3,273
At 1 January 2015	8,804	1,149	14,780	1,929	2,292	299	25,876	3,377

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

12. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

2016	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2016	35,164	4,605	49,266	6,453	173	23	84,603	11,081
Additions	4,008	531	54,377	7,221	175	23	58,560	7,775
Transfer	-	-	348	46	(348)	(46)	-	-
Transfer from tangible assets	-	-	2,579	342	-	-	2,579	342
Disposals	(4,920)	(653)	(11,170)	(1,483)	-	-	(16,090)	(2,136)
Fx differences	-	47	-	45	-	-	-	92
Balance at 31 December 2016	34,252	4,530	95,400	12,624	-	-	129,652	17,154
ACCUMULATED AMORTIZATION								
Balance at 1 January 2016	29,641	3,882	30,090	3,941	-	-	59,731	7,823
Charge for the year	4,047	537	14,585	1,937	-	-	18,632	2,474
Disposals	(4,920)	(653)	(11,170)	(1,483)	-	-	(16,090)	(2,136)
Fx differences	-	40	-	38	-	-	-	78
Balance at 31 December 2016	28,768	3,806	33,505	4,433	-	-	62,273	8,239
NET BOOK VALUE								
At 31 December 2016	5,484	724	61,895	8,191	-	-	67,379	8,915
At 1 January 2016	5,523	723	19,176	2,512	173	23	24,872	3,258

2015	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2015	35,023	4,571	38,592	5,037	2,292	299	75,907	9,907
Additions	-	-	7,255	953	1,441	189	8,696	1,142
Transfer	141	19	3,419	449	(3,560)	(468)	-	-
Fx differences	-	15	-	14	-	3	-	32
Balance at 31 December 2015	35,164	4,605	49,266	6,453	173	23	84,603	11,081
ACCUMULATED AMORTIZATION								
Balance at 1 January 2015	26,407	3,447	23,812	3,108	-	-	50,219	6,555
Charge for the year	3,234	425	6,278	825	-	-	9,512	1,250
Fx differences	-	10	-	8	-	-	-	18
Balance at 31 December 2015	29,641	3,882	30,090	3,941	-	-	59,731	7,823
NET BOOK VALUE								
At 31 December 2015	5,523	723	19,176	2,512	173	23	24,872	3,258
At 1 January 2015	8,616	1,124	14,780	1,929	2,292	299	25,688	3,352

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT

Croatia Airlines Group

2016	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2016	83,209	10,898	59,399	7,779	1,161,213	152,090	197,031	25,807	66,374	8,693	1,567,226	205,267
Additions	972	129	1,016	135	7,119	945	9,282	1,233	38,050	5,053	56,439	7,495
Transfer	3	1	-	-	2,579	342	-	-	(2,582)	(343)	-	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	(2,579)	(342)	(2,579)	(342)
Disposals	-	-	(2,929)	(389)	(26,201)	(3,480)	(9,090)	(1,207)	-	-	(38,220)	(5,076)
Spare parts replacement	-	-	-	-	(8,465)	(1,124)	8,465	1,124	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	7,067	939	-	-	7,067	939
Fx differences	-	111	-	80	-	1,568	-	255	1,337	250	1,337	2,264
Balance at 31 December 2016	84,184	11,139	57,486	7,605	1,136,245	150,341	212,755	28,151	100,600	13,311	1,591,270	210,547
ACCUMULATED DEPRECIATION												
Balance at 1 January 2016	32,004	4,192	44,433	5,819	827,901	108,434	115,955	15,187	-	-	1,020,293	133,632
Charge for the year	3,482	462	4,280	569	51,132	6,790	7,944	1,055	-	-	66,838	8,876
Disposals	-	-	(2,926)	(389)	(26,201)	(3,480)	(3,927)	(522)	-	-	(33,054)	(4,391)
Spare parts replacement	-	-	-	-	(8,465)	(1,124)	8,465	1,124	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	7,067	939	-	-	7,067	939
Correction of accumulated depreciation	-	-	-	-	-	-	200	27	-	-	200	27
Fx differences	-	41	-	59	-	1,101	-	146	-	-	-	1,347
Balance at 31 December 2016	35,486	4,695	45,787	6,058	844,367	111,721	135,704	17,956	-	-	1,061,344	140,430
NET BOOK VALUE												
Balance at 31 December 2016	48,698	6,444	11,699	1,547	291,878	38,620	77,051	10,195	100,600	13,311	529,926	70,117
Balance at 1 January 2016	51,205	6,706	14,966	1,960	333,312	43,656	81,076	10,620	66,374	8,693	546,933	71,635

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines Group

2015	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2015	77,944	10,174	62,175	8,115	1,149,899	150,088	151,364	19,757	82,527	10,772	1,523,909	198,906
Additions	675	88	106	13	15,695	2,056	17,542	2,298	36,161	4,736	70,179	9,191
Transfer	12,780	1,674	213	28	41,139	5,388	(232)	(30)	(53,900)	(7,060)	-	-
Disposals	(8,190)	(1,073)	(3,095)	(405)	(45,520)	(5,962)	(9,164)	(1,200)	(3,631)	(476)	(69,600)	(9,116)
Engines and aircraft spare part replacement	-	-	-	-	-	-	37,521	4,931	-	-	37,521	4,931
Fx differences	-	35	-	28	-	520	-	51	5,217	721	5,217	1,355
Balance at 31 December 2015	83,209	10,898	59,399	7,779	1,161,213	152,090	197,031	25,807	66,374	8,693	1,567,226	205,267
ACCUMULATED DEPRECIATION												
Balance at 1 January 2015	33,358	4,354	41,833	5,462	812,101	105,998	74,646	9,744	-	-	961,938	125,558
Charge for the year	3,589	472	4,536	596	47,570	6,251	8,026	1,055	-	-	63,721	8,374
Disposals	(4,943)	(650)	(1,942)	(256)	(31,770)	(4,175)	(4,271)	(561)	-	-	(42,926)	(5,642)
Engines and aircraft spare part replacement	-	-	-	-	-	-	37,521	4,931	-	-	37,521	4,931
Correction of accumulated depreciation	-	-	6	1	-	-	33	4	-	-	39	5
Fx differences	-	16	-	16	-	360	-	14	-	-	-	406
Balance at 31 December 2015	32,004	4,192	44,433	5,819	827,901	108,434	115,955	15,187	-	-	1,020,293	133,632
NET BOOK VALUE												
Balance at 31 December 2015	51,205	6,706	14,966	1,960	333,312	43,656	81,076	10,620	66,374	8,693	546,933	71,635
Balance at 1 January 2015	44,586	5,820	20,342	2,653	337,798	44,090	76,718	10,013	82,527	10,772	561,971	73,348

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2016	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2016	83,209	10,898	55,637	7,287	1,161,213	152,090	197,031	25,807	66,374	8,693	1,563,464	204,775
Additions	972	129	974	130	7,119	945	9,282	1,233	38,050	5,053	56,397	7,490
Transfer	3	1	-	-	2,579	342	-	-	(2,582)	(343)	-	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	(2,579)	(342)	(2,579)	(342)
Disposals	-	-	(2,912)	(387)	(26,201)	(3,480)	(9,090)	(1,207)	-	-	(38,203)	(5,074)
Spare parts replacement	-	-	-	-	(8,465)	(1,124)	8,465	1,124	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	7,067	939	-	-	7,067	939
Fx differences	-	111	-	76	-	1,568	-	254	1,337	250	1,337	2,259
Balance at 31 December 2016	84,184	11,139	53,699	7,106	1,136,245	150,341	212,755	28,150	100,600	13,311	1,587,483	210,047
ACCUMULATED DEPRECIATION												
Balance at 1 January 2016	32,004	4,192	40,813	5,345	827,901	108,434	115,955	15,188	-	-	1,016,673	133,159
Charge for the year	3,482	462	4,260	567	51,132	6,790	7,944	1,055	-	-	66,818	8,874
Disposals	-	-	(2,912)	(387)	(26,201)	(3,480)	(3,927)	(522)	-	-	(33,040)	(4,389)
Spare parts replacement	-	-	-	-	(8,465)	(1,124)	8,465	1,124	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	7,067	939	-	-	7,067	939
Correction of accumulated depreciation	-	-	-	-	-	-	200	27	-	-	200	27
Fx differences	-	41	-	55	-	1,101	-	145	-	-	-	1,342
Balance at 31 December 2016	35,486	4,695	42,161	5,580	844,367	111,721	135,704	17,956	-	-	1,057,718	139,952
NET BOOK VALUE												
Balance at 31 December 2016	48,698	6,444	11,538	1,526	291,878	38,620	77,051	10,194	100,600	13,311	529,765	70,095
Balance at 1 January 2016	51,205	6,706	14,824	1,942	333,312	43,656	81,076	10,619	66,374	8,693	546,791	71,616

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2015	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2015	77,944	10,174	58,394	7,622	1,149,899	150,088	151,364	19,757	82,527	10,772	1,520,128	198,413
Additions	675	88	79	10	15,695	2,056	17,542	2,298	36,161	4,736	70,152	9,188
Transfer	12,780	1,674	213	28	41,139	5,388	(232)	(30)	(53,900)	(7,060)	-	-
Disposals	(8,190)	(1,073)	(3,049)	(399)	(45,520)	(5,962)	(9,164)	(1,200)	(3,631)	(476)	(69,554)	(9,110)
Engines and aircraft spare part replacement	-	-	-	-	-	-	37,521	4,931	-	-	37,521	4,931
Fx differences	-	35	-	26	-	520	-	51	5,217	721	5,217	1,353
Balance at 31 December 2015	83,209	10,898	55,637	7,287	1,161,213	152,090	197,031	25,807	66,374	8,693	1,563,464	204,775
ACCUMULATED DEPRECIATION												
Balance at 1 January 2015	33,358	4,354	38,205	4,987	812,101	105,998	74,646	9,743	-	-	958,310	125,082
Charge for the year	3,589	472	4,502	592	47,570	6,251	8,026	1,055	-	-	63,687	8,370
Disposals	(4,943)	(650)	(1,900)	(250)	(31,770)	(4,175)	(4,271)	(561)	-	-	(42,884)	(5,636)
Engines and aircraft spare part replacement	-	-	-	-	-	-	37,521	4,931	-	-	37,521	4,931
Correction of accumulated depreciation	-	-	6	1	-	-	33	4	-	-	39	5
Fx differences	-	16	-	15	-	360	-	16	-	-	-	407
Balance at 31 December 2015	32,004	4,192	40,813	5,345	827,901	108,434	115,955	15,188	-	-	1,016,673	133,159
NET BOOK VALUE												
Balance at 31 December 2015	51,205	6,706	14,824	1,942	333,312	43,656	81,076	10,619	66,374	8,693	546,791	71,616
Balance at 1 January 2015	44,586	5,820	20,189	2,635	337,798	44,090	76,718	10,014	82,527	10,772	561,818	73,331

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company regularly examines the value of owned aircraft and, if necessary, conducts aircraft value adjustment. Revaluation of Airbus fleet was conducted in November 2012, while in 2016 and 2015 the Company's management estimated that there were no significant deviations between market and book value. Thus there was not a new aircraft value estimation recorded.

Carrying value of the property plant and equipment pledged as security for repayment of loans at the reporting date amounts to HRK 135.845 thousand, EUR 17.974 thousand (2015.: HRK 155.528 thousand, EUR 20.370 thousand).

Fleet at 31 December 2016

Aircraft type	number	ownership	Allowance for residual value	Estimated useful life	Pledged as a collateral
Airbus A319	2	owned by Company	Yes	20	No
Airbus A319	2	owned by Company	Yes	20	Yes
Airbus A320	1	owned by Company	Yes	20	No
Airbus A320	1	operating lease	-	-	No
Dash 8-Q400	6	operating lease	-	-	No
Total	12				

Property, plant and equipment under construction

Assets under construction includes advance payments in the amount of HRK 54,220 thousand, EUR 7,174 thousand (2015: HRK 52,883 thousand, EUR 6,926 thousand) paid to supplier for the acquisition of four new aircrafts in accordance with agreement and its annexes and investments in property, plant and equipment in the amount of HRK 46,380 thousand, EUR 6,137 thousand (2015: HRK 13,491 thousand, EUR 1,767 thousand), where the most part relates to investments into aircrafts and new business headquarter of the Company.

Capital commitments

The total agreed value of the investment in new aircrafts amounts to HRK 555,760 thousand, EUR 73,805 thousand (2015: HRK 542,058 thousand, EUR 71,232 thousand). The agreed repayment of capital commitment is disclosed in Note 33.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

14. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Name	Main activity	Share	2016		2015		2016		2015	
			Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
			HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Obzor putovanja d.o.o.	Tourism	100%	-	-	-	-	1,020	135	1,020	133
Amadeus Croatia d.d.	Marketing services	95%	-	-	-	-	190	25	190	25
Pleso prijevoz d.o.o.	Passenger transport	50%	-	-	-	-	-	-	-	-
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210</u>	<u>160</u>	<u>1,210</u>	<u>158</u>

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

15. NON-CURRENT DEPOSITS

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Deposits given to suppliers	38,230	5,058	52,845	6,921	38,182	5,052	52,820	6,918
Deposits at banks for employee loans	4,412	584	5,013	656	4,412	583	5,013	656
Deposits for bank guarantees	745	99	1,241	163	745	99	1,241	163
Deposits for business premises lease	626	83	709	93	626	83	709	93
	<u>44,013</u>	<u>5,824</u>	<u>59,808</u>	<u>7,833</u>	<u>43,965</u>	<u>5,817</u>	<u>59,783</u>	<u>7,830</u>

Non – current deposits given to suppliers consists of deposits given as guarantees to suppliers in the amount of HRK 21,694 thousand, EUR 2,870 thousand and deposits in the amount of HRK 16,488 thousand, EUR 2,182 thousand given to supplier from whom the Company leases Airbus for future work on the aircraft (2015: Deposits given as guarantees in the amount of HRK 21,009 thousand, EUR 2,752 thousand, deposit to supplier from whom the Company leases Airbus for future work on the aircraft in the amount of HRK 16,081 thousand, EUR 2,106 thousand and deposits given to the supplier for future work on engines for Airbus aircrafts in the amount of HRK 15,730 thousand, EUR 2,060 thousand).

Interest rates on the non - current deposits for specified purpose loans for employees are 0% – 0.5%

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

16. FINANCIAL ASSETS AVAILABLE FOR SALE

	Share	2016		2015		2016		2015	
		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Hrvatska poštanska banka d.d.	0.18%	1,163	154	991	130	1,163	154	991	130
Star Alliance		189	25	189	25	189	25	189	25
		<u>1,352</u>	<u>179</u>	<u>1,180</u>	<u>155</u>	<u>1,352</u>	<u>179</u>	<u>1,180</u>	<u>155</u>

Based on the fair value adjustments in the 2016 profit of HRK 172 thousand, EUR 23 thousand is recognized in other comprehensive income (2015: loss of HRK 46 thousand, EUR 5 thousand).

17. NON-CURRENT RECEIVABLES

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Receivables for sold flats	292	39	364	48	292	39	364	48
Other non-current receivables	175	23	175	23	175	23	175	23
	<u>467</u>	<u>62</u>	<u>539</u>	<u>71</u>	<u>467</u>	<u>62</u>	<u>539</u>	<u>71</u>

Long-term receivables for housing relate to 32 flats sold to the employees of the Company. The due dates range from 16 to 30 years with an annual interest of 1% according to the Law on Sale of Publicly Owned Flats with Tenancy Rights.

18. INVENTORIES

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Consumable spare parts	62,745	8,302	54,894	7,190	62,745	8,302	54,894	7,190
Catering, supplies and other inventories	1,748	231	1,535	201	1,748	231	1,535	201
	<u>64,493</u>	<u>8,533</u>	<u>56,429</u>	<u>7,391</u>	<u>64,493</u>	<u>8,533</u>	<u>56,429</u>	<u>7,391</u>

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

19. TRADE RECEIVABLES

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Domestic trade receivables	30,947	4,095	20,073	2,629	29,207	3,864	18,869	2,471
Foreign trade receivables	48,968	6,479	64,260	8,416	47,954	6,345	62,986	8,250
Allowance for doubtful receivables	(6,999)	(926)	(8,277)	(1,084)	(6,901)	(913)	(8,119)	(1,063)
	<u>72,916</u>	<u>9,648</u>	<u>76,056</u>	<u>9,961</u>	<u>70,260</u>	<u>9,296</u>	<u>73,736</u>	<u>9,658</u>

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

	2016		2016	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Allowance for doubtful receivables				
1 January	8,277	1,084	8,119	1,063
Increase	175	23	73	10
Decrease	(267)	(35)	(267)	(35)
Write-offs	(1,036)	(137)	(874)	(114)
Foreign exchange differences	(150)	(9)	(150)	(11)
31 December	<u>6,999</u>	<u>926</u>	<u>6,901</u>	<u>913</u>

	2015		2015	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Allowance for doubtful receivables				
1 January	13,621	1,778	13,446	1,755
Increase	1,257	165	1,182	155
Decrease	(213)	(28)	(196)	(26)
Write-offs	(6,267)	(824)	(6,192)	(814)
Foreign exchange differences	(121)	(7)	(121)	(7)
31 December	<u>8,277</u>	<u>1,084</u>	<u>8,119</u>	<u>1,063</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

20. OTHER RECEIVABLES

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Receivables from employees	239	32	109	14	238	31	98	13
Receivables from the State	10,186	1,347	10,787	1,413	10,121	1,339	10,670	1,398
Receivables from share in profits	-	-	-	-	163	22	445	58
Receivables from insurers	440	58	6,537	856	440	58	6,537	856
Receivables for advances	5,756	762	3,882	508	5,756	762	3,858	505
	16,621	2,199	21,315	2,791	16,718	2,212	21,608	2,830

21. PREPAYMENTS AND ACCRUED REVENUE

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Prepayments	20,628	2,729	26,110	3,420	20,275	2,683	25,637	3,358
Accrued revenue	5,707	755	806	106	5,707	755	806	106
	26,335	3,484	26,916	3,526	25,982	3,438	26,443	3,464

22. FINANCIAL ASSETS

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Deposits	9,937	1,315	1,538	201	9,917	1,312	1,536	201
	9,937	1,315	1,538	201	9,917	1,312	1,536	201

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

23. CASH AND CASH EQUIVALENTS

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Gyro account	12,626	1,671	23,361	3,060	10,658	1,410	20,350	2,665
Foreign currency accounts	19,056	2,522	10,685	1,399	18,554	2,455	10,242	1,341
Petty cash	16	2	24	3	10	1	11	1
Foreign currency petty cash	100	13	124	16	99	13	120	16
Short-term deposits	780	103	1,224	160	771	103	1,215	159
	32,578	4,311	35,418	4,638	30,092	3,982	31,938	4,182

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

24. SHARE CAPITAL

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

As at 31 December ownership structure was as follows:

2016	Number of shares	HRK thousand	Share %
Shareholders			
Restructuring and Sale Center for Republic of Croatia	26,971,437	269,715	97.06
Zagreb International Airport	477,121	4,771	1.72
Restructuring and Sale Center for Deposit Insurance and Bank Rehabilitation	213,152	2,132	0.77
Others	126,243	1,262	0.45
	27,787,953	277,880	100.00
2015			
	Number of shares	HRK thousand	Share %
Shareholders			
Restructuring and Sale Center for Republic of Croatia	26,971,437	269,715	97.06
Zagreb International Airport	477,121	4,771	1.72
Restructuring and Sale Center for Deposit Insurance and Bank Rehabilitation	213,152	2,132	0.77
Others	126,243	1,262	0.45
	27,787,953	277,880	100.00

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

25. RESERVES

Croatia Airlines Group	Legal reserves		Other capital reserves		Revaluation reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2015	721	93	82,263	10,666	-	-	(666)	(87)	(2,385)	(309)	79,933	10,363
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	(46)	(5)	675	87	629	82
Total comprehensive income	-	-	-	-	-	-	(46)	(5)	675	87	629	82
Transactions with owners												
Losses cover from profit from 2014	-	-	-	-	-	-	-	-	-	-	-	-
Losses cover from other capital reserves	-	-	(662)	(97)	-	-	-	-	-	-	(662)	(97)
Total transaction with owners	-	-	(662)	(97)	-	-	-	-	-	-	(662)	(97)
Balance at 31 December 2015	721	93	81,601	10,569	-	-	(712)	(92)	(1,710)	(222)	79,900	10,348
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	172	23	218	29	390	52
Total comprehensive income	-	-	-	-	-	-	172	23	218	29	390	52
Transactions with owners												
Transfer of profit from 2015 to legal reserves	12,530	1,647	-	-	-	-	-	-	-	-	12,530	1,647
Transfer of retained earnings to legal reserves	1,299	170	-	-	-	-	-	-	-	-	1,299	170
Total transaction with owners	13,829	1,817	-	-	-	-	-	-	-	-	13,829	1,817
Balance at 31 December 2016	14,550	1,910	81,601	10,569	-	-	(540)	(69)	(1,492)	(193)	94,119	12,217

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

25. RESERVES (CONTINUED)

Croatia Airlines d.d.	Legal reserves		Other capital reserves		Revaluation reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2015	721	93	81,286	10,538	-	-	(666)	(87)	(2,385)	(309)	78,956	10,235
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	(46)	(5)	675	87	629	82
Total comprehensive income	-	-	-	-	-	-	(46)	(5)	675	87	629	82
Transactions with owners												
Losses cover from profit from 2014	-	-	-	-	-	-	-	-	-	-	-	-
Losses cover from other capital reserves	-	-	(662)	(97)	-	-	-	-	-	-	(662)	(97)
Total transaction with owners	-	-	(662)	(97)	-	-	-	-	-	-	(662)	(97)
Balance at 31 December 2015	721	93	80,624	10,441	-	-	(712)	(92)	(1,710)	(222)	78,923	10,220
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	172	23	218	29	390	52
Total comprehensive income	-	-	-	-	-	-	172	23	218	29	390	52
Transactions with owners												
Transfer of profit from 2015 to legal reserves	13,829	1,817	-	-	-	-	-	-	-	-	13,829	1,817
Total transaction with owners	13,829	1,817	-	-	-	-	-	-	-	-	13,829	1,817
Balance at 31 December 2016	14,550	1,910	80,624	10,441	-	-	(540)	(69)	(1,492)	(193)	93,142	12,089

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

25. RESERVES (CONTINUED)

Legal reserves

In accordance with the law, the legal reserve is formed as at least 5% of the profit for the year until the total legal reserve reaches 5% of the share capital of the company. Based on the decision of the Assembly of 6 July 2016 the gain from 2015 in the amount of HRK 13,828 thousand, EUR 1,817 thousand is transferred to legal reserves.

Other capital reserves

Other capital reserves resulted from the simplified reduction of share capital in 2013 as the difference between the amount by which share capital was decreased and losses carried forward that were covered from the decrease of capital. Based on the decision of the Assembly of 13 July 2015 the other capital reserves in the amount of HRK 662 thousand, EUR 97 thousand were used to cover losses carried forward.

Other capital reserves at the Group level include reserves of subsidiaries. Reserves of the Company Amadeus Croatia d.d. consists of HRK 10 thousand, EUR 1 thousand of legal reserves (2015: HRK 10 thousand, EUR 1 thousand), and HRK 100 thousand, EUR 14 thousand of other reserves (2015: HRK 100 thousand, EUR 14 thousand). The company Obzor putovanja d.o.o. has other reserves in the amount of HRK 867 thousand, EUR 113 thousand (2015: HRK 867 thousand, EUR 113 thousand).

Fair value reserve

Fair value reserve resulted from the basis of fair value adjustments on investments available for sale. Since the fair value of the investment available for sale on the reporting date is lower than the acquisition cost, fair value reserve is negative and amounts to HRK 540 thousand, EUR 69 thousand (2015: HRK 712 thousand, EUR 92 thousand).

Protective reserve

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

26. BASIC AND DILUTED EARNINGS PER SHARE

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

	2016		2015	
	Croatia Airlines Grupa		Croatia Airlines Grupa	
	HRK	EUR	HRK	EUR
Profit for the year in thousands	<u>7,565</u>	<u>1,005</u>	<u>12,530</u>	<u>1,647</u>
Number of issued shares		27,787,953		27,787,953
Basic and diluted earnings per share in HRK/EUR	<u>0.27</u>	<u>0.04</u>	<u>0.45</u>	<u>0.06</u>

	2016		2015	
	Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR
Profit for the year in thousands	<u>8,042</u>	<u>1,068</u>	<u>13,829</u>	<u>1,817</u>
Number of issued shares		27,787,953		27,787,953
Basic and diluted earnings per share in HRK/EUR	<u>0.29</u>	<u>0.04</u>	<u>0.50</u>	<u>0.07</u>

27. PROVISIONS

	Provision for court cases		Provision for severance payments		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance as at 31 December 2015	1,900	249	818	107	2,718	356
Provisions made during year	434	58	216	29	650	87
Provisions used during year	-	-	(32)	(4)	(32)	(4)
Provisions reversed during year	-	-	-	-	-	-
Foreign exchange differences	-	<u>2</u>	-	<u>1</u>	-	<u>3</u>
Balance as at 31 December 2016	<u>2,334</u>	<u>309</u>	<u>1,002</u>	<u>133</u>	<u>3,336</u>	<u>442</u>

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

28. NON-CURRENT LOANS AND BORROWINGS

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Non-current loans	46,859	6,200	67,170	8,798	46,859	6,200	67,170	8,798
Current portion of non-current loans	<u>(15,116)</u>	<u>(2,000)</u>	<u>(19,833)</u>	<u>(2,598)</u>	<u>(15,116)</u>	<u>(2,000)</u>	<u>(19,833)</u>	<u>(2,598)</u>
	<u>31,743</u>	<u>4,200</u>	<u>47,337</u>	<u>6,200</u>	<u>31,743</u>	<u>4,200</u>	<u>47,337</u>	<u>6,200</u>

Description of long-term loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2016		2015	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for refinancing debts	EUR	15,000	3m EURIBOR + 5.5% (min 8%)	October 2019	46,859	6,200	62,607	8,200
Loan for restructuring	EUR	1,350	3m EURIBOR + 5.5% (min 7.5%)	December 2016	-	-	4,563	598
					<u>46,859</u>	<u>6,200</u>	<u>67,170</u>	<u>8,798</u>
Current portion					<u>(15,116)</u>	<u>(2,000)</u>	<u>(19,833)</u>	<u>(2,598)</u>
Non-current loans					<u>31,743</u>	<u>4,200</u>	<u>47,337</u>	<u>6,200</u>

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

	2016		2016	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
2017	15,116	2,000	15,116	2,000
2018	15,116	2,000	15,116	2,000
2019	16,627	2,200	16,627	2,200
After 2019	-	-	-	-
	<u>46,859</u>	<u>6,200</u>	<u>46,859</u>	<u>6,200</u>

Long-term loan is secured with pledge over property, plant and equipment.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

29. CURRENT LOANS AND BORROWINGS

	2016		2015		2016		2015	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Non-current loans	33,146	4,386	43,150	5,652	33,146	4,386	43,150	5,652
	33,146	4,386	43,150	5,652	33,146	4,386	43,150	5,652

Description of Company's current loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2016		2015	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for financing operating activities	EUR	3,700	3m EURIBOR + 6.15%	March 2016	-	-	28,250	3,700
Loan for financing operating activities	EUR	3,400	3m EURIBOR + 3.50%	July 2017	25,696	3,400	-	-
Loan for current liquidity	HRK	7,450	6.5% trez.zap na 91 dan + 6.8%	July 2016	-	-	7,450	976
Loan for current liquidity	HRK	7,450	(min 7.3%)	August 2016	-	-	7,450	976
Loan for current liquidity	HRK	7,450	trez.zap na 91 dan + 5.8%	September 2017	7,450	986	-	-
					33,146	4,386	43,150	5,652

The short-term loan amounting to HRK 7,450 thousand, or EUR 976 thousand, was settled by non-cash repayment, i.e. by compensation with receivable from credit card companies.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

30. TRADE PAYABLES

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Domestic trade payables	75,911	10,044	59,030	7,731	75,064	9,932	58,305	7,636
Foreign trade payables	127,920	16,926	92,480	12,113	127,703	16,897	92,057	12,057
	203,831	26,970	151,510	19,844	202,767	26,829	150,362	19,693

31. OTHER CURRENT LIABILITIES

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Air traffic liabilities	122,702	16,235	134,186	17,575	122,702	16,235	134,186	17,575
Deposits and advances received	14,865	1,967	11,126	1,457	14,865	1,967	11,106	1,455
Liabilities for salaries	18,185	2,406	17,991	2,356	17,889	2,367	17,700	2,318
Other current liabilities	16,881	2,233	19,276	2,525	16,681	2,207	19,261	2,523
	172,633	22,841	182,579	23,913	172,137	22,776	182,253	23,871

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

32. ACCRUED EXPENSES AND DEFERRED INCOME

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Deferred income	1,762	233	2,701	354	1,762	233	2,701	354
Accrual for unused holiday	908	120	3,872	507	823	109	3,804	498
Accrued expenses	22,603	2,991	24,393	3,195	22,421	2,967	24,137	3,161
	25,273	3,344	30,966	4,056	25,006	3,309	30,642	4,013

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

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: aircraft Airbus A320 and five aircrafts Q400 and five engines for aircrafts.

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. In April 2014 the Company signed Aircraft Lease Agreement for Airbus A320 CTJ for the period of 8 years.

In May and November 2014, and in May 2015 the Company signed Engine Lease Agreements for five aircraft engines CFM56-5B for the period of 8 years.

Future minimum lease payments under non-cancellable operating lease are as follows:

	2016 HRK thousand	2016 EUR thousand	2015 HRK thousand	2015 EUR thousand
Less than one year	119,791	15,908	121,208	15,928
Between one and five years	267,686	35,549	348,761	45,831
More than five years	16,609	2,206	51,011	6,703
	404,086	53,663	520,980	68,462

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

	2016 HRK thousand	2016 EUR thousand	2015 HRK thousand	2015 EUR thousand
Less than one year	34,735	4,613	-	-
Between one and five years	521,025	69,192	422,031	55,459
More than five years	-	-	120,027	15,773
	555,760	73,805	542,058	71,232

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

34. EMPLOYEES

	2016	2015
Croatia Airlines d.d.		
Pilots i co-pilots	122	115
Cabin attendants	148	146
Maintenance and overhaul	254	235
Ticket sales and promotion	125	111
Airport handling	113	114
Other staff	178	179
	<u>940</u>	<u>900</u>
Subsidiaries		
Obzor putovanja d.o.o.	16	14
Amadeus Croatia d.d.	8	8
Total	<u>964</u>	<u>922</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS

35.1 TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES

Transactions with related parties are as follows:

	2016 HRK thousand	2016 EUR thousand	2015 HRK thousand	2015 EUR thousand
Revenue				
Obzor putovanja d.o.o.	42	6	45	6
Amadeus Croatia d.d.	115	15	144	19
Total revenue	157	21	189	25
Income from share in profits				
Obzor putovanja d.o.o.	763	101	505	66
Amadeus Croatia d.d.	50	7	64	8
Pleso prijevoz d.o.o.	-	-	602	79
Total income from share in profits	813	108	1,171	153
Expenses				
Obzor putovanja d.o.o.	2	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Total expenses	2	-	-	-
	2016 HRK thousand	2016 EUR thousand	2015 HRK thousand	2015 EUR thousand
Trade receivables				
Obzor putovanja d.o.o.	3	-	7	1
Amadeus Croatia d.d.	9	1	15	2
Total trade receivables	12	1	22	3
Receivables for share in profits				
Obzor putovanja d.o.o.	163	22	405	53
Amadeus Croatia d.d.	-	-	40	5
Pleso prijevoz d.o.o.	-	-	-	-
Total receivables for share in profits	163	22	445	58
Trade payables				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Total trade payables	-	-	-	-

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS (CONTINUED)

35.2 RELATED PARTY TRANSACTIONS OWNED BY REPUBLIC OF CROATIA

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

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

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

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

	2016 HRK thousand	2016 EUR thousand	2015 HRK thousand	2015 EUR thousand
Revenue				
Zračna luka Osijek d.o.o., Klisa	213	28	224	29
Zračna luka Pula d.o.o., Pula	50	7	36	5
Zračna luka Rijeka d.o.o., Omišalj	12	2	414	54
Zračna luka Zadar d.o.o., Zadar	34	5	55	7
Zračna luka Split d.o.o., Kaštel Štafilić	494	66	691	91
Zračna luka Dubrovnik d.o.o., Čilipi	128	17	348	46
Zrakoplovno-tehnički centar d.d., Velika Gorica	4	1	-	-
HP – Hrvatska pošta d.d., Zagreb	1,777	236	1,456	191
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total revenue	2,712	362	3,224	423
Expenses				
Zračna luka Osijek d.o.o., Klisa	168	22	42	6
Zračna luka Pula d.o.o., Pula	2,575	342	2,488	327
Zračna luka Rijeka d.o.o., Omišalj	77	10	69	9
Zračna luka Zadar d.o.o., Zadar	3,405	452	3,424	450
Zračna luka Split d.o.o., Kaštel Štafilić	20,162	2,678	19,765	2,597
Zračna luka Dubrovnik d.o.o., Čilipi	14,727	1,956	14,385	1,890
Zrakoplovno-tehnički centar d.d., Velika Gorica	363	48	276	36
HP – Hrvatska pošta d.d., Zagreb	70	9	79	10
INA – Industrija nafte d.d., Zagreb	119,441	15,862	137,324	18,046
Total expenses	160,988	21,379	177,852	23,371

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2016 HRK thousand	2016 EUR thousand	2015 HRK thousand	2015 EUR thousand
Receivables				
Zračna luka Osijek d.o.o., Klisa	-	-	-	-
Zračna luka Pula d.o.o., Pula	-	-	-	-
Zračna luka Rijeka d.o.o., Omišalj	6	1	500	65
Zračna luka Zadar d.o.o., Zadar	-	-	-	-
Zračna luka Split d.o.o., Kaštel Štafilić	19	3	22	3
Zračna luka Dubrovnik d.o.o., Čilipi	28	4	5	1
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-	-	-
HP – Hrvatska pošta d.d., Zagreb	235	31	124	16
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total receivables	288	39	651	85
Payables				
Zračna luka Osijek d.o.o., Klisa	17	2	-	-
Zračna luka Pula d.o.o., Pula	634	84	503	66
Zračna luka Rijeka d.o.o., Omišalj	-	-	-	-
Zračna luka Zadar d.o.o., Zadar	765	101	679	89
Zračna luka Split d.o.o., Kaštel Štafilić	8,309	1,099	9,164	1,200
Zračna luka Dubrovnik d.o.o., Čilipi	6,657	881	8,076	1,058
Zrakoplovno-tehnički centar d.d., Velika Gorica	21	3	86	11
HP – Hrvatska pošta d.d., Zagreb	9	1	6	1
INA – Industrija nafte d.d., Zagreb	11,590	1,534	9,418	1,234
Total payables	28,002	3,705	27,932	3,659

PSO benefit

During the year the Company realized revenue in the amount of HRK 82,604 thousand, EUR 10,970 thousand (2015: HRK 83,195 thousand, EUR 10,933 thousand), on the basis of PSO benefit, benefit from the Ministry of Maritime Affairs, Transport and Infrastructure for the preservation of region transport connections in domestic air transport. Receivables based on PSO benefits at the reporting date amounts HRK 9,936 thousand, EUR 1,315 thousand and is part of receivables from the State in the Note 25 (2015: HRK 10,487 thousand, EUR 1,374 thousand).

Current loans

During the year Company used short-term loans from bank owned by Republic of Croatia in the amount of HRK 7,450 thousand, EUR 989 thousand (2015: HRK 7,450 thousand, EUR 979 thousand). The loan was fully repaid and there is no liability on the reporting date (2015: HRK 7,450 thousand, EUR 976 thousand). Interest expense recognized during the year amounted to HRK 334 thousand, EUR 44 thousand (2015: HRK 570 thousand, EUR 75 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS (CONTINUED)

35.3 TRANSACTIONS WITH KEY MANAGEMENT AND SUPERVISORY BOARD MEMBERS

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

	2016 HRK thousand	2016 EUR thousand	2015 HRK thousand	2015 EUR thousand
Gross salaries	7,701	1,023	7,504	986
Gross benefit in kind	369	49	377	50
	<u>8,070</u>	<u>1,072</u>	<u>7,881</u>	<u>1,036</u>

As at 31 December 2016 the number of Management Board members, directors and other key management personnel was 15 (2015: 15 employees).

Compensation to Supervisory Board members during 2016 amounted to HRK 235 thousand, EUR 31 thousand (2015: HRK 244 thousand, EUR 32 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

36. RISK MANAGEMENT

Financial instruments and financial risk management

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

Fair value of financial instruments

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

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

Valuation techniques and assumptions in determining the fair value

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

36. RISK MANAGEMENT (CONTINUED)

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

	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
2016				
<i>Financial assets available for sale</i>				
Listed entities	1,163	-	-	1,163
Unlisted entities	-	-	189	189
Total	1,163	-	189	1,352
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2016				
<i>Financial assets available for sale</i>				
Listed entities	154	-	-	154
Unlisted entities	-	-	25	25
Total	154	-	25	179
	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
2015				
<i>Financial assets available for sale</i>				
Listed entities	991	-	-	991
Unlisted entities	-	-	189	189
Total	991	-	189	1,180
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2015				
<i>Financial assets available for sale</i>				
Listed entities	130	-	-	130
Unlisted entities	-	-	25	25
Total	130	-	25	155

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

36. RISK MANAGEMENT (CONTINUED)

Risk management

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

Debt to equity ratio at year end was as follows:

	2016		2015		2016		2015	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Debt	80,057	10,593	110,332	14,452	80,057	10,593	110,332	14,452
Cash and cash equivalents	(32,578)	(4,311)	(35,418)	(4,638)	(30,092)	(3,982)	(31,938)	(4,182)
Net debt	<u>47,479</u>	<u>6,282</u>	<u>74,914</u>	<u>9,814</u>	<u>49,965</u>	<u>6,611</u>	<u>78,394</u>	<u>10,270</u>
Equity	<u>381,770</u>	<u>50,514</u>	<u>373,815</u>	<u>48,958</u>	<u>379,064</u>	<u>50,153</u>	<u>370,632</u>	<u>48,543</u>
Debt to equity	12%	12%	20%	20%	13%	13%	21%	21%

Interest rate risk

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

The Group and the Company are exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in Note 33. The interest rate on bank deposits is disclosed in Note 20. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 33 thousand, EUR 4 thousand would debit income statement (2015: HRK 45 thousand, EUR 6 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 33 thousand, EUR 4 thousand would credit income statement for the period ended 31 December 2016 (2015: HRK 45 thousand, EUR 6 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

36. RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

The Group and the Company are exposed to the transaction risk, which is the risk of the commercial cash flows being adversely affected by a change in exchange rates for foreign currencies against HRK; and statement of financial position risk – the risk of net monetary assets in foreign currencies acquiring a lower value when translated into HRK as a result of currency movements.

The Group's and the Company's principal foreign exchange risk is the long-term loans as described in note 28, which is denominated principally in Euro. This exposure is offset by the Group's and the Company's revenues from overseas ticket sales, which is sufficient to service the debt payments.

Accordingly the Group and the Company have accounted for gains and losses on the foreign currency debts as a statement of cash flows hedge within equity as further described in the accounting policies.

The impact of the currency on net monetary receivables / payables denominated in euros and dollars at the reporting date (strengthening / weakening by 0.50%) is as follows:

HRK thousand	Currency impact EUR		Currency impact USD	
	2016	2015	2016	2015
Profit / (loss)	<u>(504)</u>	<u>(449)</u>	<u>(27)</u>	<u>110</u>

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

HRK thousand	Currency impact EUR		Currency impact USD	
	2016	2015	2016	2015
Profit / (loss)	<u>2,916</u>	<u>2,890</u>	<u>1,283</u>	<u>1,494</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

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 the Company. The credit risk from sales agents is relatively low since the amount due from any one agent is not significant.

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

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

Price Risk

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

In case that the fuel price was higher by 5% in relation to current market price, the effect of HRK 1,000 thousand, EUR 133 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of HRK 10,004 thousand, EUR 1,329 thousand would credit profit and loss account for the year 2016 (2015: HRK 11,548 thousand, EUR 1,518 thousand)

Liquidity risk

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

36. RISK MANAGEMENT (CONTINUED)

Hedging implemented at the Company

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

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

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

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

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 2016 and 2015. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31.12.2016	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets										
Non-current deposits	43,965	5,817	-	-	-	-	21,690	2,870	22,275	2,947
Investments available for sale	1,352	179	-	-	-	-	-	-	1,352	179
Non-current receivables	467	62	-	-	-	-	175	23	292	39
Trade receivables	70,260	9,296	70,260	9,296	-	-	-	-	-	-
Other receivables	23,384	3,094	23,346	3,089	38	5	-	-	-	-
Financial assets	9,917	1,312	832	110	9,085	1,202	-	-	-	-
Cash and cash equivalents	30,092	3,982	30,092	3,982	-	-	-	-	-	-
Total assets	179,437	23,742	124,530	16,477	9,123	1,207	21,865	2,893	23,919	3,165
Liabilities										
Non-current loans and borrowings	46,859	6,200	4,535	600	10,581	1,400	15,116	2,000	16,627	2,200
Current loans and borrowings	33,146	4,386	26,034	3,445	7,112	941	-	-	-	-
Financial leasing	52	7	8	1	7	1	37	5	-	-
Interest on loans and borrowings	7,105	940	2,466	326	1,615	214	2,154	285	869	115
Trade payables	202,767	26,829	202,767	26,829	-	-	-	-	-	-
Other payables	87,224	11,541	48,949	6,477	25,055	3,315	12,218	1,617	1,003	133
Total liabilities	377,153	49,903	284,759	37,678	44,370	5,871	29,525	3,907	18,499	2,448
Difference	(197,716)	(26,161)	(160,229)	(21,201)	(35,247)	(4,664)	(7,660)	(1,014)	5,420	717

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

36. RISK MANAGEMENT (CONTINUED)

36.1 Liquidity risk tables (continued)

31.12.2015	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets										
Non-current deposits	59,783	7,830	-	-	-	-	15,981	2,093	43,802	5,737
Investments available for sale	1,180	155	-	-	-	-	-	-	1,180	155
Non-current receivables	539	71	207	28	31	4	62	8	239	31
Trade receivables	73,736	9,658	73,736	9,658	-	-	-	-	-	-
Other receivables	23,980	3,141	23,947	3,137	33	4	-	-	-	-
Financial assets	1,536	201	853	112	683	89	-	-	-	-
Cash and cash equivalents	31,938	4,182	31,938	4,182	-	-	-	-	-	-
Total assets	192,692	25,238	130,681	17,117	747	97	16,043	2,101	45,221	5,923
Liabilities										
Non-current loans and borrowings	67,170	8,798	4,581	600	15,252	1,998	15,900	2,083	31,437	4,117
Current loans and borrowings	43,150	5,652	37,027	4,850	6,123	802	-	-	-	-
Financial leasing	12	2	12	2	-	-	-	-	-	-
Interest on loans and borrowings	12,627	1,654	3,977	521	2,197	288	3,398	445	3,055	400
Trade payables	150,362	19,693	150,362	19,693	-	-	-	-	-	-
Other payables	104,931	13,744	67,418	8,831	37,513	4,913	-	-	-	-
Total liabilities	378,252	49,543	263,377	34,497	61,085	8,001	19,298	2,528	34,492	4,517
Difference	(185,560)	(24,305)	(132,696)	(17,380)	(60,338)	(7,904)	(3,255)	(427)	10,729	1,406

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2016

37. AUDITOR FEES

The agreed audit fee of consolidated and separate financial statements of the Company and Group Croatia Airlines for the year 2016 amounts to HRK 192 thousand plus the amount of value added tax (2015: HRK 194 thousand + VAT).

38. EVENTS AFTER THE REPORTING DATE

In January 2017, a contract was signed with US Delta Airlines by which five out of nine slots at London Heathrow were sold. The contract relates to morning slots on Tuesdays, Wednesdays, Thursdays, Saturdays and Sundays, while the Company has held four afternoon flights, meaning that it will continue flying to that airport. By concluding this contract, the Company realized one of the measures of the restructuring program that was in the Company's plans since 2013.

On 31 March 2017, a decision was made by the Government of the Republic of Croatia on granting approval to the Company for short-term loan with Hrvatska poštanska banka d.d. in the amount of HRK 30 million. Purpose of the loan is financing of working capital, in order to ensure the settlement of short-term liabilities in the months in which the liquidity of the Company, due to the seasonal nature of the business, is at a low level.

39. APPROVAL OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The consolidated and separate financial statements were approved by the Management Board and authorized for issue on 31 March 2017.

Signed for and on behalf of the Company on 31 March 2017:

Teodora Wenzler Brezak

Director of Finance and Accounting

Krešimir Kučko

President and CEO