

Croatia Airlines
Consolidated and Separate
Annual Report for the year
ended 31.12. 2017.



May 2017.



CONTENT:

The Management's Business Report for 2017	3 - 42
Declaration	43
Consolidated and Separate Financial Statements for the year ended 31 December 2017 together with Independent auditors' report	44 -114



A STAR ALLIANCE MEMBER 

The Management's Business Report for 2017



March 2018

CONTENTS

Typical indicators	5
Fleet	5
Traffic indicators	5
Financial indicators	6
Croatia Airlines in 2017 – introduction	7
Ownership structure	7
Company's management structure and organisation	8
Human resources	10
Social responsibility	17
Memberships, anniversaries and environmental protection	18
Business environment and operational risks	22
Fleet and capacities	30
The market	31
Financial operations	34
Profit and loss account	34
Assets, financing and investments	37
Statement of accounts	37
Cash flow	39
Consolidated business result	40
Plan objectives and goals for 2018	41
Current operations – traffic performance in the first two months of 2018	42

Typical indicators

Fleet

type of aircraft	number at the end of 2017	seats	ownership	lease	Ø age (years)	number at the end of 2016	ownership	lease
Airbus A320	2	348	1	1	18,08	2	1	1
Airbus A319	4	576	4	-	18,94	4	4	-
Q-400	6	456	-	6	8,60	6	-	6
TOTAL	12	1.380	5	7	13,63	12	5	7

Traffic indicators

Description			2017	2016	2015
flights (km)	DIST	000	18.321	17.220	16.388
departures	FLTS		27.491	26.848	25.863
growth rate		%	2	4	0
block hours	BH		39.345	37.890	37.007
growth rate		%	4	2	0
passengers carried	RPAX	000	2.125	1.939	1.850
growth rate		%	10	5	1
freight&mail carried	CGO	T	2.273	2.591	2.733
growth rate		%	-12	-5	-12
passenger km flown	RPK	mil	1.630	1.446	1.371
available seat - km	ASK	mil	2.191	2.066	1.967
passenger load factor	PLF	%	74,4	70	69,7
tonne km flown	RTK	mil	165	146	139
available tonne-km	ATK	mil	231	215	205
weight load factor	WLF	%	71,3	68,1	67,8

Financial indicators

Indicators	Unit	2017	2016	2015
Operating revenue	mIn HRK	1.767	1.561	1.551
% of change	%	13,2	0,7	
Total Revenue	mIn HRK	1.834	1.610	1.608
% of change	%	13,9	0,1	
Operating expenses	mIn HRK	1.728	1.553	1.534
% of change	%	11,2	1,3	
Total expenses	mIn HRK	1.809	1.602	1.594
% of change	%	12,9	0,5	
Operating profit/loss	mIn HRK	39,8	7,8	16,7
Net profit/loss	mIn HRK	24,9	8,0	13,8
EBIT	mIn HRK	30,1	15,6	24,2
EBITDA	mIn HRK	124,6	101,0	97,4
EBIT margin	%	1,7	1,0	1,6
Efficiency ratio		1,0	1,0	1,0
ROA	%	2,9	0,9	1,6
ROE	%	6,2	2,1	3,7
Unit operating cost	HRK/ATKM	7,5	7,2	7,5
Unit operating revenue	HRK/ATKM	7,7	7,3	7,6
Passenger yield (passenger revenue in EUR/RPKM)	€cent/RPKM	11,6	12,4	12,6
Current ratio		0,5	0,5	0,5
Debt ratio		0,5	0,6	0,6
Investment ratio		1,0	1,3	1,3
Average number of employees		931	946	925

Productivity indicators

Productivity Indicators	2017	2016	2015
Employees (tkm/employee)	176.819	154.824	150.365
Aircraft (BH/day)	8,4	8,2	8,4
Fuel (tkm/tonne)	2.620	2.434	2.451

Croatia Airlines in 2017 – 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.

Shareholder	No. of shares	Portion in the share capital (in %)
CERP FOR THE REPUBLIC OF CROATIA	26.886.888	96,7574
AIRPORT ZAGREB D.O.O.	477.121	1,7170
HPB FOR THE REPUBLIC OF CROATIA	297.701	1,0713
JANAF D.D.	22.000	0,0792
CROATIA INSURANCE D.D.	10.270	0,0370
CROATIA LOTTERY D.O.O.	4.000	0,0144
ASTRA INTERNATIONAL D.D. /IN BANKRUPTCY/	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

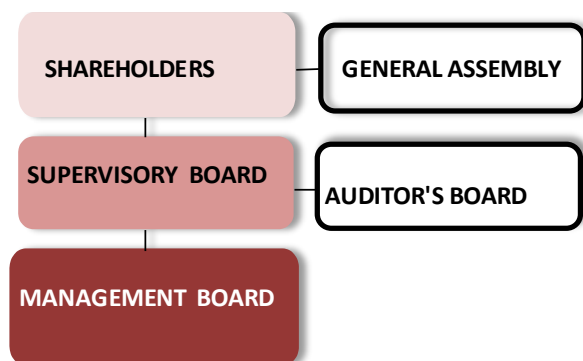
The associated companies owned by Croatia Airlines d.d. in 2017 were Amadeus Croatia d.d. and Obzor putovanja d.o.o., as independent business entities.

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 2017 organised through its business functions grouped into business units and through the joint functions of the Company organised within the Management Secretariat, Quality and Safety Management Office, Crisis



Management and Emergency Response Office, Controlling and Internal Audit Sector, and corporate functions comprising the Finance and Accounting Sector, Legal Affairs Sector, Human Resources and Asset Management Sector, and IT Sector.

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

operations and traffic management.

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

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

During 2017, the Company's management structure changed: Zlatko Širac was a member of the Management Board and the Chief Operating Officer until 28 February 2017, after which the Board had one member only. Krešimir Kučko was the Chairman of the Management Board until 3 November 2017, when the function was assumed by Mr. Jasmin Bajić, on 4 November 2017. The Supervisory Board is composed of five members, and is chaired by Zlatko Mateša, LLB.

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.

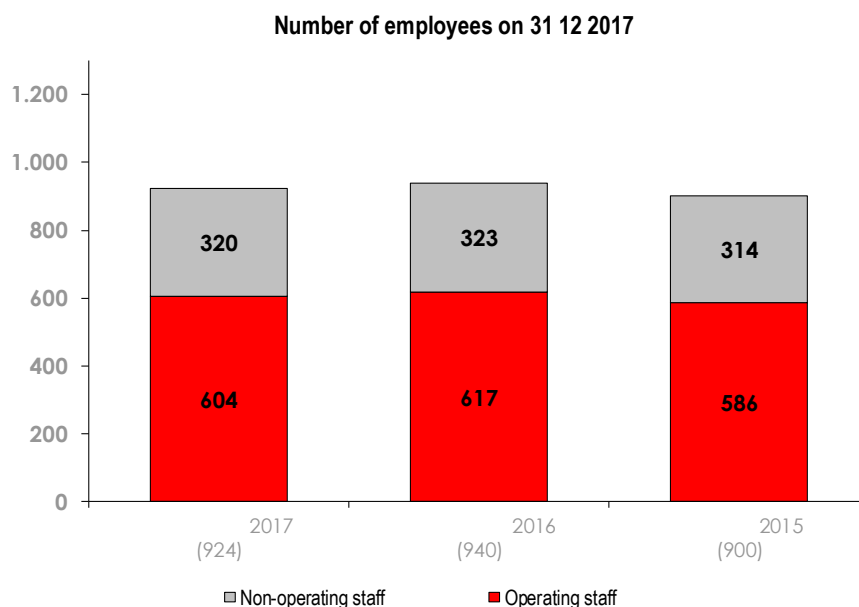
Bruxelles	Benelux
Address:	Brussels Airport, Box 31 1930 Zaventem
Frankfurt	Germany
Address:	FAC 1, Gebäude 234, HBK 49, Hugo-Eckener-Ring 60549 Frankfurt a.M.
London	Great Britain
Address:	Concorde North Wing Gatwick Airport Room 332 West Sussex RH6 0DW

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

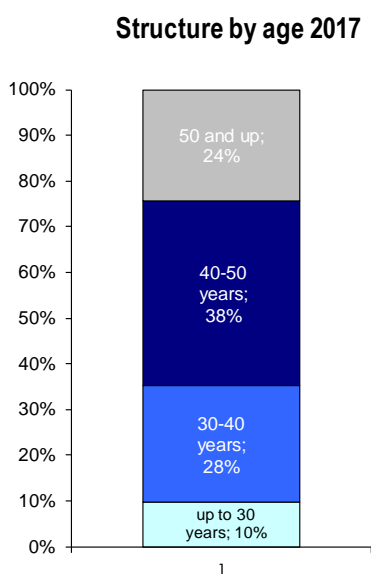
Sarajevo	Bosnia and Herzegovina
Address:	Zračna luka Sarajevo Ul. Khurta Schorka 36, 71 210 Sarajevo
Skopje	Macedonia
Address:	Alexander the Great Airport 1043 Petrovec - Skopje
Zürich	Switzerland
Address:	Letzigraben 154 8047 Zürich

Human resources

On 31 December 2017, the Company had 924 employees, including 36 foreign branch office employees. Compared to the end of 2016, the number of employees declined by 2%.



During 2017, Croatia Airlines also used the services of posted workers. On 31 December 2017, there were 60 posted workers, up from 34 in late 2016. The posted workers were hired primarily as auxiliary aircraft maintenance staff in the aircraft works season. When adding the number of posted workers to the total number of employees hired on the basis of an employment contract, the overall number of employees rose by 1% at the end of 2017.

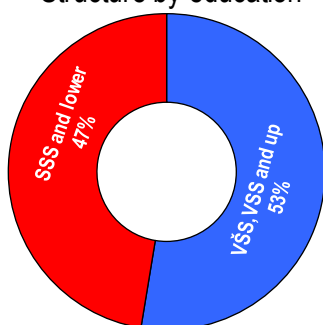


At the end of 2017, the **number of operative staff members** was 2% lower, while the number of **non-operative staff members** was 1% lower compared to the end of 2016. Taking into consideration the number of posted workers, too, the number of operative staff members was 2% higher compared to the end of 2016. In order to cover the summer flight schedule, the Company hired 60 cabin staff employees on a seasonal basis.

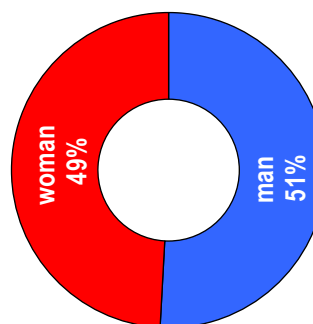
The share of operative staff members¹ within the Company was 65% (604), while that of non-operative staff members was 35% (320).

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)

Structure by education

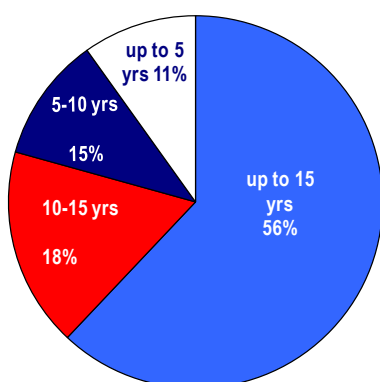


Structure by gender



According to the educational structure, 53% of employees held either an associate or a university degree, with the average age of employees being 43 years. In terms of gender structure, men were somewhat more represented (51%).

Structure by employment record



The average overall employment record of the Company's operative staff was 17 years of service, and that of the non-operative staff was 20 years, while the average employment record on the level of the entire Company was 18 years.

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

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

Training investments and programmes

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

Investment in education (HRK)	2017	2016	2015
Operative staff	4.648.913	5.728.993	6.500.959
Annual change rate	-19%	-12%	-3%
Non-operative staff	470.595	700.000	668.861
Annual change rate	-33%	5%	14%
Total	5.119.508	6.428.993	7.169.820
Annual change rate	-20%	-10%	-1%

The training of the Croatia Airlines' employees is carried out in three training centres: Traffic Training Centre, whose activities are related to the training of flight, cabin and ground personnel, Technical Training Centre, which provides training to the technical and aircraft maintenance personnel, and the Training Centre, intended for non-operative sectors, whose target group are all other Company employees.

In 2017, the Technical Training Centre continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance of PART 66 licences ² and harmonisation with the EASA ³ regulations.

It should be pointed out that in early July 2017, within EASA's audit of the Croatian Civil Aviation Agency, the Technical Training Centre underwent an audit, too, which confirmed that the new project of basic training for aeromechanics was fully compliant with the Part-147 standards. Since the basic training programme continued, in late 2017 the Technical Training Centre was granted authorisation to run exams for the basic training modules on its own, which will enable it to position itself even better as a relevant factor on the market. Due to the problems with obtaining temporary residence in the Republic of Croatia, the classes for a new group of external attendants was rescheduled for the beginning of 2018.

An increased scope of work necessitated the hiring of additional instructors at the Technical Training Centre. For this reason, an instructor training course was held, in which commercial attendants participated, too.

Within the PART 147⁴ Type-training, two theoretical and six 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.

About 90 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 145⁵ engineers and mechanics.

The training programme Limited Certification Authorisation to the Commander also continued for both types of aircraft A319/A320 and Q400.

In the segment of the "Operations Manual" covering the training of airport personnel in the sphere of aircraft towing, the Company continued providing training courses and maintaining/extending towing licences. Also, in cooperation with the colleagues

² PART 66 – Aircraft Maintenance Licences

³ EASA – European Aviation Safety Agency

⁴ PART 147 - Maintenance Training Organisations

⁵ PART 145 - Maintenance Organisation

from the Croatian Civil Aviation Agency, i.e. Airport Section, it continually works on Manual revisions, appointments of new towing instructors and advancement of the entire operational segment.

In 2017, the Traffic Training Centre organised mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the employees to extend all authorisations and licences necessary for performing their activities.

In order to ensure compliance with amended regulations, all the pilots underwent training on A319/A320 for upset prevention and recovery, and all crews on A319/A320 got certified.

Commercial training courses for the pilots of A319/A320 and Q400 were organised on both the simulators and aircraft, as well as all other training courses envisaged by the Business Plan for 2017. A number of base training courses for the A/319A320 and Q400 were provided in cooperation with the partners.

The Company also held the planned training courses for its cabin staff, and a number of courses related to the procedure of handling dangerous goods (DGR⁶), CRM⁷ trainings for external users, and base training courses for Croatia Airlines' partners.

During 2017, 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 and on the Croatia Airlines aircraft flights. The results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and TRI/TRE work on them were carried out⁸ in accordance with the provisions OM-D⁹ & 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.

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

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

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 2017, 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.

⁶ DGR - Dangerous Goods Regulations

⁷ CRM – Crew Resource Management

⁸ TRI/TRE - Type Rating Instructor and Type Rating Examiner

⁹ OM-D – Operational Manual Part D

A series of training courses were organised for the employees in direct contact with Croatia Airlines' service users. They were traditionally 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.

During 2017, 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 Croatia Airlines' employees, the attendees were also external users from various institutions directly or indirectly involved in the airline industry, such as employees of airports and travel agencies.

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 order to continuously monitor employee work, the performance assessment procedure based on goal management continued in 2017 along with annual interviews and assessments of competencies (business goals were set up to the level of all organisational units in line with the defined methodology, and then individual goals were determined for each employee). All participants underwent a training course related to goal management, improvement of teamwork and organisational cohesion aimed at more efficient definition and assessment of work performance indicators, and the cascading of strategic and sectoral goals to lower organisational levels. External experts were hired for individual training categories in 2017, who held in-house training courses for a number of target employee groups.

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

As 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 the employees of airports, freight forwarders and airline companies. In 2017, 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 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). Furthermore, temporary substitutes or vacancies in the periods of peak workload are settled through a fixed term contract basis.

Benefits and supports

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

In the event of longer sick leaves, severe illnesses or a 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 2017, specialist training was provided to 44 employees for handling hydraulic platform lifts and to four employees for handling wood processing machines (band saws). The Croatian Institute for Toxicology and Antidoping held a specialist training course for 30 employees in handling hazardous chemicals.

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 Protection.



Two inspections were carried out in 2017: one by the Interior Ministry's Inspectorate, in the sphere of fire prevention, and one by the Inspectorate of the Ministry of Environmental Protection. In 2017, no supervision of the implementation of occupational safety measures was carried out by the labour inspectorate.

Altogether thirteen injuries at work were reported in 2017 (seven women and six men). Of the thirteen reported injuries, nine were acknowledged, three claims were rejected, and one is still being processed by the Croatian

Health Insurance Institute. Of the nine acknowledged ones, five were sustained at work, two while arriving to/leaving the workplace, and the remaining two during a business trip. When classifying the sustained injuries in accordance with the AUVA method, all of them were minor. There were no deaths related to injuries at work, severe injuries or 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 to introduce 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. There is also an Ethics Committee within the Company.

Employees and Management relations

There are five labour unions within the Company - Croatian Union of Air Traffic Pilots, Union of Engineers and Technicians in Aviation, Independent Professional Union of Croatian Aeromechanics, Air Cabin Staff Union, and the Independent Croatian Union of Airline Employees, and Orca - Croatia Airlines' Employees Organisation, whose members are pilots, cabin crew staff and aeromechanics and which, alongside the Independent Croatian Union of Airline Employees represents the mentioned employees.

There is also a Works Council within the Company, composed of 9 members. Through the Works Council, and in a way and under the conditions prescribed by the Labour Act, the Company's employees participate in making decisions related to their economic and social rights and interests.

Social responsibility

Croatia Airlines Sustainability Report is available as a separate report on company web page <https://www.croatiaairlines.com>.

Transport and tourism

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

With the aim of further widening of the destination network and connecting the country, in 2017 Croatia Airlines introduced four new seasonal routes from Zagreb to Stockholm, Oslo, Helsinki and Bucharest.

The significance of connecting domestic airline destinations and maintaining traffic within Croatia has also been recognised by the Government of the Republic of Croatia time and again. Pursuant to the Decision on the obligation of carrying out domestic airline traffic operations for the 2016-2020 period (September 2015), Decision on the selection of bids for operating domestic route transport service, rendered by the Ministry of Maritime Affairs, Transport and Infrastructure in January 2016 and upon completion of the public tender process, the Government of the Republic of Croatia awarded the contract to perform the obligation of carrying out domestic airline traffic operations to Croatia Airlines. On the basis of the above-referenced decisions, the Ministry of Maritime Affairs, Transport and Infrastructure and Croatia Airlines entered into an agreement setting out all rights and obligations of the parties thereto in performing domestic airline traffic on the following routes: DBV-ZAG-DBV; SPU-ZAG-SPU; ZAG-ZAD-PUY-ZAD-ZAG, ZAG-BWK-ZAG; OSI-DBV-OSI; OSI-SPU-OSI within the period from 27 March 2016 until 28 March 2020, for the purpose of maintaining the traffic connection 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 development of Croatia's tourism and economy; for this purpose it has introduced a new offer of quality meals on its flights, thus promoting the country's cuisine based on the local recipes and groceries, all within the project Inspired by Croatia.

The Company has been promoting Croatia as a brand via the travel magazine Croatia, with an emphasis on the natural beauties, historical values and cultural events. In cooperation with the Croatian Tourist Board and other tourist boards, the Company publishes advertisements and articles in the magazine, while films promoting the cultural values and natural beauties of various Croatian regions (the sea bed, islands, coast, continental parts, etc.) are shown on Airbus flights.

In 2017, Croatia Airlines continued its cooperation with the Croatian Olympic Committee, being the official carrier of Croatia's Olympic team, and a promoter of local athletes and sports as its member. The Company also supports the work of the Croatian Paralympic Committee, by providing transport for disabled athletes.

Through sponsorships on a regular basis, Croatia Airlines promotes and presents its brand and services at numerous cultural events and institutions contributing to the advancement of Croatia's tourism (Dubrovnik Summer Festival, Easter Regatta, Polo

Beach Cup, Zagreb Dox, exhibition at Klovićevi dvori, Youth Sports Games, exhibition Nikola Tesla – Mind from the Future...).

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 2017 Croatia Airlines donated funds to the Paediatric Clinic of the Clinical Hospital Centre in Split for the purchase of the latest medical devices for the diagnostics and treatment of children with voiding dysfunction, to be used in the children's urodynamic laboratory. Since 2013, Croatia Airlines has been supporting hospitals throughout Croatia through donations, with the aim of helping the youngest patients.

Croatia Airlines presented its offer at the event AIRVG2017 – the first air show held in Velika Gorica, as a signatory to the Friendship Charter within the project Velika Gorica – the Aviation City.

In 2017, Croatia Airlines also participated in the Career Days held at the Faculty of Transport and Traffic Sciences and the Faculty of Mechanical Engineering and Naval Architecture, in order to familiarise the students with its business 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 Committee are elected among the employees.

Memberships, anniversaries and environmental protection

As of 28 March 2017, all flights from/to Zagreb will be operated from the new terminal at Franjo Tuđman Airport. A Croatia Airlines' aircraft was the first to fly from the new passenger terminal, opening it for civil air transport. The historical flight was operated on the aircraft Airbus A319 at 5:50 a.m. on the scheduled domestic route from Zagreb to Dubrovnik, marking the official opening of the new passenger building. The first international passengers departed for Brussels from the new terminal by a Croatia Airlines' aircraft at 6:15 a.m., on the scheduled route OU456 Zagreb - Brussels.

In early April 2017, Croatia Airlines and its long-term business partner Lufthansa Technik AG marked the 25th anniversary of their business cooperation, at a celebration held in Zagreb exactly 25 years after Croatia Airlines took over the first Boeing 737 from Lufthansa's fleet. Supporting the development of Croatia Airlines' engineering and

maintenance capacities also makes part of the partnership. Since 2000, Croatia Airlines and Lufthansa Technik AG have been exchanging their employees on a regular basis. In the year 2001, Croatia Airlines obtained a JAR 145 certificate for its technical centre in Zagreb, and the first two C-checks on Lufthansa's aircraft Airbus A320 were carried out in the same year. In 2012, the Company increased its internal aircraft maintenance capacities. The 200th check performed on Lufthansa's aircraft at the Croatia Airlines' Technical Centre was another great occasion to celebrate in 2017.

Croatia Airlines and Star Alliance jointly marked the 20th anniversary of the founding of the world's first and largest airline association. Croatia Airlines joined Star Alliance in 2004, first as its regional member, and as of 2010 as it fully-fledged member. The Star Alliance membership ensures Croatia Airlines' passengers high quality service in line with the association's excellence standards. The Company has advanced its network product by introducing numerous additional values for its passengers, thus contributing to its competitive position and service quality, and providing new possibilities for quality travels and using the joint global product.

Croatia Airlines recorded its two-millionth passenger for the first time ever, i.e. since it started offering passenger transport services in 1991, on a scheduled international flight OU481 Copenhagen – Zagreb.

In early 2017, Croatia Airlines joined the European Regions Airline Association (ERA), representing the interests of regional airlines on the European aviation market.

Environmental protection

In late 2016, Croatia Airlines adopted new standards: ISO14001 and ISO50001 as a new conduct pattern. Their full application in the Company's daily operations started during 2017.

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.

During 2017, Croatia Airlines participated in the revision of EU Directives dealing with EU ETS (EU Emissions Trading Scheme), at the same time marking its preparations for the implementation and development of CORSIA regulations (Carbon Offsetting and Reduction Scheme for International Aviation) that will come into force as early as 1 January 2019. This places a task on Croatia Airlines to draw up an emissions monitoring plan and to report regularly to competent bodies. CORSIA is one of the tools of the Paris Agreement for combating global climate changes by reducing greenhouse gas emissions; in aviation, through the emissions measuring and trading scheme. In 2017, the Company submitted its Plan of Monitoring Greenhouse Gas Emissions in the Swiss Airspace, which was adopted by the Swiss authorities and put into operation.

Croatia Airlines also contributed to the project IPA 2013 FFRAC *"Strengthening the environmental protection inspection for the purpose of efficient control of monitoring air quality and the greenhouse gas emissions trading scheme, in order to achieve better-quality air in the Republic of Croatia"* in cooperation with the Ministry of Environment and Energy and its Directorate for Inspectional Affairs.

During 2017, the Company reviewed the proposals of its passengers, partners and stakeholders, participated in the drawing up of many scientific papers, responded to numerous inquiries, and at the request of its stakeholders, in late 2017 it started to

prepare for the modifications on Airbus aircraft so that they would emit less noise when taking off and landing.

During the tourist season and with the aim of expanding its destinations network, the Company hired two CRJ1000 aircraft from its partner Air Nostrum. These aircraft, which were only six months old when introduced into the Company's fleet, greatly contributed to reducing carbon footprint per passenger seat during the year, enabling an increase in the number of passengers on an annual level.

By implementing various measuring activities, the Company has gained insight into various segments of business activities from the environmental and energy aspect, thus operating in a positive and preventative manner throughout the year. In 2017, a significant project of gasification of Croatia Airlines' Technical Sector was completed, converting from heating oil to a far cleaner and environmentally friendly energy-generating product - gas, thus reducing the impact on the environment.

In 2017, Croatia Airlines decided to go back to using electricity from renewable sources (HEP Zelen).

From the environmental protection aspect, the opening of the new terminal of Zagreb International Airport was a significant event in 2017, as the introduction of air bridges will reduce the use of passenger shuttles and thus the greenhouse gas emissions. The new terminal has ensured a new infrastructure for the space used by Croatia Airlines, thus positively affecting the issues of waste and energy consumption. Access to the airport by means of public transportation is also considered an environmentally friendly solution for both the passengers and employees of Croatia Airlines.

Being aware of the fact that the future rests on the new generations, the Company has jointly with the Ministry of Environment and Energy realised a project through which Croatia Airlines' animated mascot Supi was introduced to the characters Ozonko and Ozončica. The picture book/colouring book helps the youngest passengers on Company flights learn about the importance and ways of protecting the ozone.

The year of 2018 should see a continued application of good practices, an introduction of the CORSIA regulations and an application of new directives related to responsible waste management.

Advancement of business

In line with the set goals, in 2017 Croatia Airlines adjusted its offer to passenger needs. With the aim of further widening its destination network and connecting the country, in 2017 Croatia Airlines introduced four new seasonal routes from Zagreb to Stockholm, Oslo, Helsinki and Bucharest. This is the second year in a row that Croatia Airlines expanded its flight network with four new international routes. In 2016, Croatia Airlines introduced direct flights from Zagreb to Lisbon, Milan, Prague and Saint Petersburg that operated in the 2017 tourist season, as well.

During 2016, Croatia Airlines began the process of business reporting by using IBM Cognos technology (BI), which continued in 2017, and will be extended to mid-2019. The goal of this project is to centralise business reporting from all main applications the Company uses in its everyday operations, and enable optimisation of individual business processes within the Company. By developing the business reporting system, the Company created a single source with the features of a modern data storage that serves as a reporting template (Single Source of Truth). This process should also

contribute to a quicker and more efficient decision-making by the Company's management. Within the BI project, more than 200 reports should be created on the Company level, in accordance with the requirements and definitions of the users of individual areas. Also, training courses would be held for the users of the new tool. The use of automated reports that are periodically repeated and rarely changing, but currently requiring a lot of time to be prepared and drawn up, will make room for creativity and new ideas, in order to obtain useful information through the use of BI. Upon project completion and development of initial reports, Croatia Airlines is yet to embark on a real BI journey – there are many data that can offer fresh insights and thus increase the efficiency of the Company operations.

In 2017, Croatia Airlines introduced a new product - the FlyEasy tariff class, by which it additionally advanced its services. FlyEasy offers the passengers with only hand luggage of up to 8 kg to travel cheaper.

Furthermore, the first phase of the ancillary service sale project (AAAS - Amadeus Airline Ancillary Services) has been completed by implementing the possibility of purchasing the luggage transportation service. In addition to the routine practice of charging excess luggage, the FlyEasy tariff enables the charging of the transport of the first handed piece of luggage. This service can be purchased online, at the Call Centre and the Company's branch offices, as well as through sales agents, which was a prerequisite for introducing the FlyEasy tariff. The project will continue by working on the implementation of the sale of seats, meals, and upgrade and Time to Think options (online functionality).

Upon implementing the new user interface for the online sale of airline tickets in late 2016, Croatia Airlines began with a series of projects in 2017 within its digital channel development strategies, aimed at improving user experience and online sales. These projects will be implemented during 2018. One of them is a PNR Retrieve functionality that will enable passengers to manage the reservation for which the ticket has already been issued. They will be able to change their contact data or purchase an additional service if they failed to do so when purchasing the ticket. Furthermore, the Company started working on the functionality of online changes of the already issued tickets and charging the fees and potential price differences, all within the ATC Shopper project (Automatic Ticket Shopper). Campaign Management is another digital project, and the implementation of this software will enable the display of offer on the Company's web site in real time, with the belonging calendar, so that the users will be able to see the lowest prices by routes and days even before starting the purchase process. In this way, finding the most favourable offer for the desired flight in a certain period will be largely facilitated.

Business environment and operational risks

Global economy

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

In January 2018, the International Monetary Fund (IMF) released the revised World Economic Outlook¹⁰, mildly revising upwards its projections for the global economic growth. According to the revised estimates, the global economy saw a 3.7% growth in 2017, which is expected to speed up in 2018 and 2019 and projected to reach 3.9%.

The IMF points out that the cyclic ascent that started in mid-2016 faced further boost. In 2017, the strongest growth on the global level was recorded by some 120 economies, on which three quarters of the global GDP fall off, this being the biggest synchronised ascent of global growth since 2010. The IMF notes that about a half of the revised projection for the global economic growth in 2018 and 2019 is connected to the U.S. tax reform that should positively affect the economy of both the U.S. and its trade partners. According to the revised forecasts, the U.S. economy grew at the rate of 2.3% in 2017, and is expected to see a 2.7% growth in 2018. The IMF estimates that the Chinese economy, the world's second leading economy, grew by 6.8% in 2017, and is seen to face a 6.6% growth in 2018.

The IMF points out that the global recovery might not be sustainable on a longer term basis and that it is not occurring in all countries. The risks potentially arising from a number of factors, such as protectionism, increase of interest rates in the U.S., financial regulations, heightened geopolitical tensions, corruption, terrorism, safety concerns, and extreme weather conditions may have a negative impact on economic activities.

The fact that the global economy is still facing numerous challenges calls for multilateral cooperation of certain countries, which should be focused on preserving an open trade system, financial stability and tax system efficiency, as well as on adapting to climate changes.

The European economy is facing the greatest expansion in this decade; the growth of real GDP in 2017 exceeded expectations, and was not seriously affected by political events (Brexit, the U.S. presidential elections).

According to the IMF's revised forecasts, the economy of the eurozone saw a 2.4% rise in 2017, while a 2.2% growth is projected for 2018. Europe's leading economies, German, French and Italian, will record a faster growth in 2017 than initially projected.

It is important to support the growth of the European economy through all possible policy tools, while preserving competitiveness and the possibility to adapt to changing circumstances, which requires ongoing investments in structural reforms and a reduction of the high levels of deficit and debt aimed at boosting the resistance to potential economic shocks.

¹⁰ IMF, World Economic Outlook update, January 2018

Croatia's economy

Upon exiting a six-year crisis and recession in 2015, Croatia's economy continued to recover for the third year in a row. Since the IMF's revised forecasts from January 2018 cover the biggest economies, groups of countries and regions only, according to its regular autumn outlook, the Croatian economy's growth rate is put at 2.9% in 2017, while the growth rate of 2.7% is projected for 2018.¹¹

The released macroeconomic indicators for 2017 are set out in detail in the below paragraphs.

According to the initial estimates released by the Croatian Bureau of Statistics, in the fourth quarter of 2017 Croatia's economy rose by 2% year-on-year, significantly slower than in the preceding quarter and less than expected.¹² In the entire year of 2017, the country's economy rose by 2.8%, slower than the 3.2% growth recorded in 2016 and below expectations. The slowdown in GDP growth in 2017 is a result of a mild slowdown in personal spending growth and a considerable slowdown in investment growth.

Croatia's industrial production slowed down in the last quarter of 2017, which reflected in November through the calendar-adjusted decline of 1.7% on an annual level, while the fall reached 2.5% in December over the same month of 2016.¹³ Along with the final two months, a decline on an annual level was recorded in April only, and those were the only three months that saw a year-on-year fall in production since February 2015. The year of 2017 recorded a 1.9% growth, i.e. a positive trend for the fourth year in a row.

Croatia's retail trade grew by 1.4% in December 2017 year-on-year.¹⁴ Although the growth slowed down, a record trend of positive movements continued, as the decline in spending on an annual level was last recorded in August 2014. A growth in spending for 40 consecutive months has not been recorded since the Croatian Bureau of Statistics started keeping these data. In 2017, the calendar-adjusted retail trade turnover saw a real growth of 4.7%.

The prices of goods and services intended for personal spending, measured by the consumer price index, rose by 1.2% in December 2017 year-on-year, i.e. compared to December 2016. After three years of deflation, the consumer price index recorded a 1.1% growth on the level of entire 2017.¹⁵

According to the Croatian Bureau of Statistics, Croatia's registered unemployment rate was 12.2% in December 2017, 2.5 pp lower than in the same month of 2016.¹⁶ On the level of the entire year of 2017, the average registered unemployment rate was 12.4%, the lowest level since 2000 when the data was first available.

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 the supply and demand for labour force and a relatively low level of employment.

Croatia's exports in 2017 rose by 12.5% compared to 2016, totalling HRK 104.3 billion, while its imports rose by 9.6%, totalling HRK 162.7 billion. The country's foreign trade

¹¹ IMF, World Economic Outlook, October 2017

¹² www.dzs.hr; First estimate of quarterly gross domestic product for the fourth quarter of 2017, 28 February 2018

¹³ www.dzs.hr; Industrial production volume index and indices of stocks, persons employed and labour productivity in industry in December 2017, 29 January 2018

¹⁴ www.dzs.hr; Retail trade in December 2017, 8 February 2018

¹⁵ www.dzs.hr; Consumer price indices in December 2017, 16 January 2018

¹⁶ www.dzs.hr; Persons in paid employment, by activities, in December 2017, 31 January 2018

deficit was HRK 58.3 billion, 4.7% greater than in 2016. The import-export coverage ratio was 64.1%.¹⁷

The share of public debt in GDP continued to decrease in 2017. Taking into consideration further economic growth, the year of 2017 is expected to be the second year in a row to record further decrease of this share, i.e. below 80% of GDP.¹⁸

According to the non-monetary indicators for tourism in 2017, the tourist season reached a record, two-digit rise in overall tourist arrivals and overnight stays, thus confirming Croatia's position of one of the most popular tourist destinations, attracting more and more guests throughout the year, with a positive effect on the demand for air traffic services.

In 2017, 17.4 million tourist arrivals were recorded, or 13% more compared to 2016.¹⁹ As for the overall tourist arrival structure, there were 89% foreign tourists and 11% local ones. The year of 2017 saw 5% more local tourist arrivals and 14% more foreign tourist arrivals compared to 2016. Altogether 86.2 million overnight stays were recorded, or 11% more compared to 2016. As for the structure of overall overnight stays, there were 93% foreign tourists and 7% local ones. The number of overnight stays of domestic tourists increased by 3%, while that of foreign tourists saw an 11% rise. The same as in the preceding years, tourists from Germany were the most numerous, followed by those from Slovenia, Austria, Poland, Czech Republic and Italy.

Despite recent positive macro-economic indicators, Croatia is still facing high external risks, while the implementation of structural reforms and consolidation of public finance is expected on the country level. Of key importance are also the measures aimed at strengthening the competitiveness of the economy, primarily in relation to the improvement of the business environment, without which there can be no sustainable economic growth. The economic recovery should ultimately lead to a better credit rating, and all of the above should create solid grounds for addressing the issue of high unemployment, particularly among the youth, and the problem of emigration of the most vital population segment.

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 2017 there were around 36.8 million scheduled flights with a fleet of nearly 29,000 aircraft, and about 4.1 billion passengers and 59.9 million tonnes of cargo were transported.²⁰

There was a strong increase in demand for air transport services in 2017. IATA's data from February 2018 show an increase in passenger traffic in 2017 by 7.6%, expressed in passenger kilometres (RPK), considerably above the average of the past ten years (5.5%).²¹ The passenger load factor (PLF) reached 81.4%. Compared to 2016, the cargo

¹⁷ www.dzs.hr; Foreign trade in goods of the Republic of Croatia, temporary data for the period from January to December 2017, 8 March 2018

¹⁸ www.poslovni.hr (downloaded on 24 January 2018)

¹⁹ www.dzs.hr; Tourist arrivals and overnight stays in 2017, 13 February 2018

²⁰ IATA Economic Performance of the Airline Industry, December 2017

²¹ IATA Air Passenger Market Analysis - December 2017, February 2018

transport in 2017 also saw an increase; tonne kilometres (TKM) were 9% higher, representing the biggest growth since 2010.²²

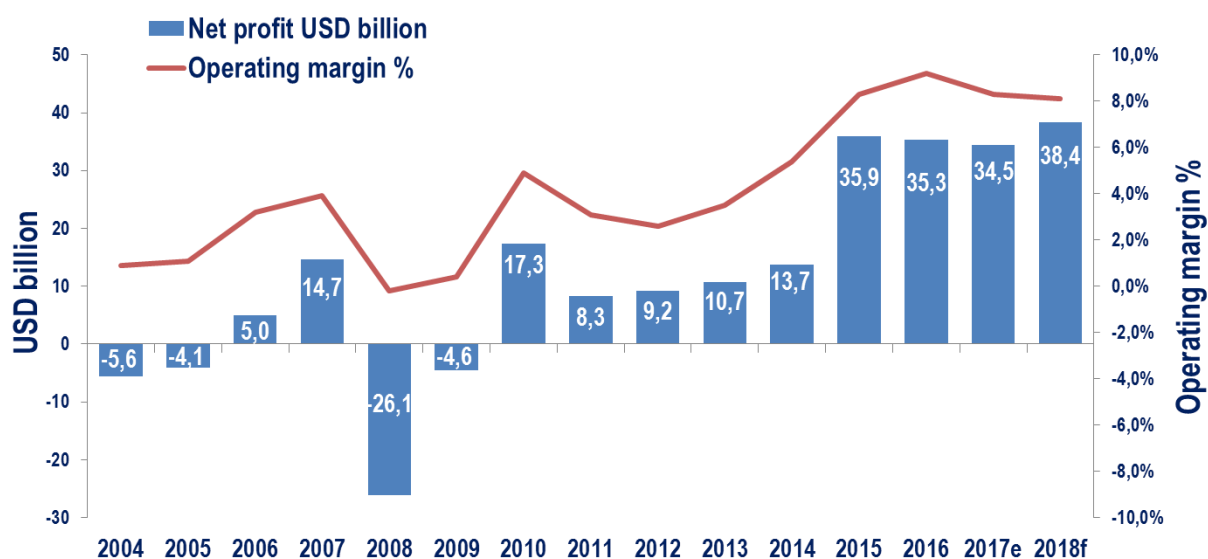
According to the IATA projections from December 2017, in 2017 the global airline industry operated profitably and generated the total net profit of \$34.5 billion, with the EBIT margin of 8.3%. This result is somewhat poorer compared to 2016, when its net profit was \$35.3 billion, with the EBIT margin of 9.2%. The estimated profit per passenger in 2017 amounted to \$8.45.

Looking at the level of profitability, the period from 2015 to 2017 has been the best in the history of the airline industry, despite numerous political, economic and security risks. This is very important from the point of view of investors, since in the period in question the average return on invested capital (ROIC)²³ at the level of the airline industry was higher compared to the average cost of capital (WACC)²⁴.

The regional outlook for the net profit in 2017 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 Latin America and Middle East, while the African region generated a loss.

North America recorded the highest EBIT margin (13.2%), followed by the markets of Asia and Pacific (8.5%), Europe (6.3%), Latin America (5.7%) and Middle East (0.6%). The African market also recorded a positive EBIT margin (0.5%).

Profitability of global airline companies



Source: IATA, December 2017

²² IATA Air Freight Market Analysis - December 2017, January 2018

²³ ROIC - Return on Invested Capital

²⁴ WACC - Weighted Average Cost of Capital

**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 publishing statistical reports on traffic and financial results of its members.

In January 2016, a new association was founded - Airlines for Europe (A4E); it is seated in Brussels and currently comprises 15 members: Aegean, airBaltic, Air France - KLM, Cargolux, easyJet, Finnair, International Airlines Group (IAG), Icelandair, Jet2.com, Lufthansa Group, Norwegian, Ryanair, Travel Service, TAP and Volotea.

In 2016, Croatia Airlines became a member of the European Regions Airline Association (ERA).

According to IATA, in 2017 the European air carriers generated a net profit of \$9.8 billion, with a net profit margin of 4.8%. It has the highest break-even point of all other markets, as a result of low yields, high level of competition and high regulatory costs.

Passenger traffic in passenger kilometres (RPK) rose by 8%, significantly more than in 2016 (+5.4%) when it was slowed down by the terrorist attacks in Europe in late 2015 and early 2016.

The impact of terrorism on the air transport industry is best described by IATA's estimate, stating that due to the terrorist attacks in Paris and Brussels, the European airlines' international passenger traffic fell by 1.6% percent (RPK), causing the airlines' 2016 revenue to decline by \$2.5 billion.²⁵

**Croatian
airline market**

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

According to the data of the Croatian Bureau of Statistics, Croatia's airports recorded an 18% rise in the number of passengers in 2017, compared to 2016.²⁶ Altogether 9.5 million passengers were recorded at nine airports in Croatia, with Croatia Airlines' market share being 27%. The number of aircraft operations at Croatia's airports totalled 115,843 in 2017, up by 7.1% from 2016. Cargo transport also saw a considerable growth (+21.4%), with altogether 9,976 tonnes of cargo being transported.

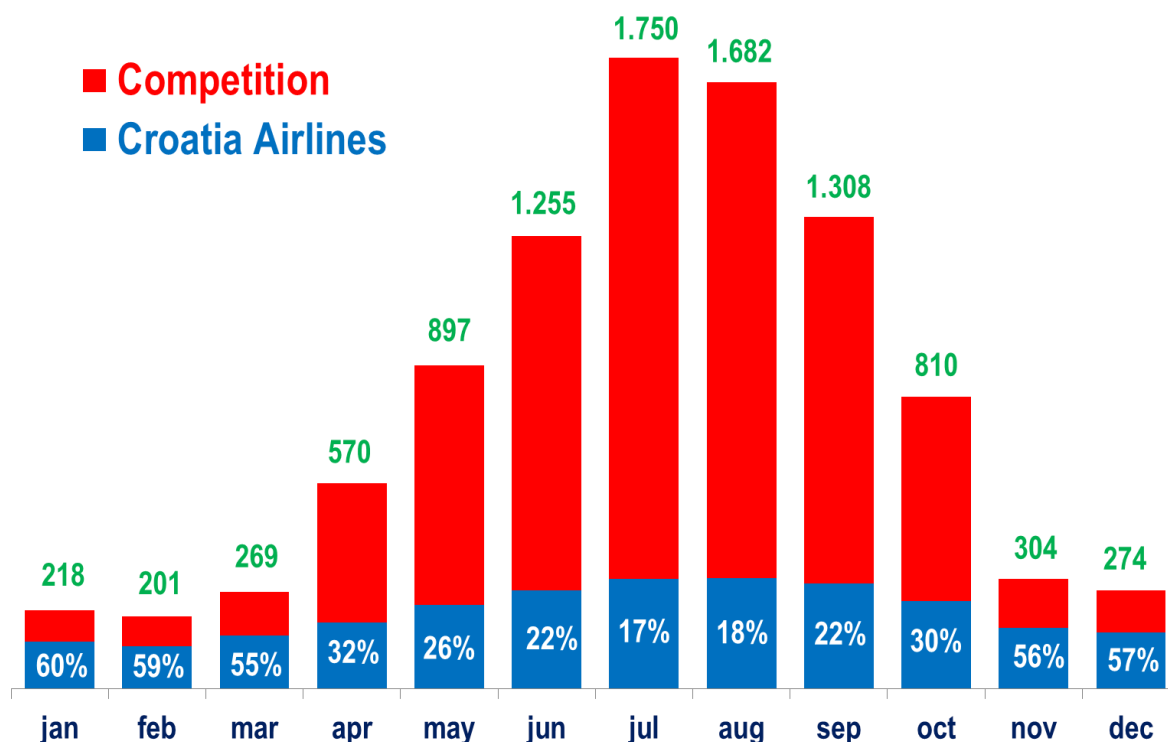
Croatia's airline market is characterised by high traffic seasonality, with a high level of competition in the summer months. More than half of all passengers on the Croatian airline market are transported in the third quarter, when nearly 100 airlines operate, while the competition in the winter period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

All of the above points to a 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.

²⁵ IATA, Estimating the impact of recent terrorist attacks in Western Europe, May 2017

²⁶ www.dzs.hr; Traffic at Airports in December 2017, 9 February 2018

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



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

Operational risks

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

The biggest external risks affecting Croatia Airlines' business operations are: economic surroundings (Croatia and destinations), competition, Star Alliance and partnerships, risks related to price changes (traffic charges and flight permits, suppliers, fuel), movements of currencies, interest rates, etc.). The biggest internal risks include human resources, capacity management, operational disturbances, sales, revenue management, and liquidity risk, especially in the winter months. Negotiations over a new collective bargaining agreement and a possible strike by operational staff represented one of the major risks in the 2017 summer season. The strike was avoided, and negotiations over a new collective bargaining agreement continued.

Exposure to a recession and an economic crisis affects the demand for air traffic services, with international passengers generating the greatest demand for air traffic services in Croatia (86%). The share of Croatian citizens in Croatia Airlines' international passenger traffic (about 35%) is higher than that of the competition, so the exposure to the risks coming from the country's economic surroundings is proportionally higher.

Along with the above stated external risks related to the changes of fuel prices, interest rates and exchange rates amidst seasonal demand on the highly competitive Croatian airline market, in 2017 a significant risk was related to the operational issues of the new terminal of Franjo Tuđman Airport.

In late March 2017, after undertaking extensive preparations, Croatia Airlines opened the new terminal of Franjo Tuđman Airport and began operating flights from there. Given the shortcomings noticed already in the process of preparing the transition to the new terminal, as well as the operational incidents that regularly took place since the Franjo Tuđman Airport had been opened, there was a growing risk of providing and maintaining the quality of the product, i.e. the existing Croatia Airlines' flight schedule, which had a direct effect on an unexpected increase in operating costs, aircraft delays (compared to the same period of 2016, minutes of delay increased by 25% in the period from the terminal opening until the end of 2017), passenger dissatisfaction and the image of Croatia Airlines.

Numerous problems have arisen since the opening of the new terminal at Franjo Tuđman Airport: a noticeable increase in delays due to waiting for connecting passengers, as a result of poorly designed passenger flows, problematic push-back procedures, as well as those dealing with the handling of local and transfer luggage, and frequent delays related to luggage loading and collection. Improvements should also be made in the segment of the passenger check-in and boarding process. Along with the above-mentioned delays related to the Airport operator and handling agent, there were also frequent delays in the fuel delivery. Furthermore, there are certain issues related to the Mol's customs control requirements and the passing of cabin crews on the way to the crew centre.

Franjo Tuđman Airport, as the operator, and the handling agents are aware of these shortcomings and are working on their elimination (modifications on the passenger terminal premises, purchase of new equipment, hiring of additional personnel), so as to make improvements in 2018.

Fuel

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

management activities.

The oil market in 2017 was marked by a growth in prices. IATA's projection of the Brent oil price in 2017 amounts to 54.2 \$/barrel (44.6 \$/barrel in 2016), while the average price of jet fuel amounts to 65.6 \$/barrel (52.1 \$/barrel in 2016).

IATA estimated that in 2017 the fuel costs of airlines would amount to \$130 billion, (\$132 billion in 2016), and make up 18.8% in the overall operating costs structure (20.6% in 2016).

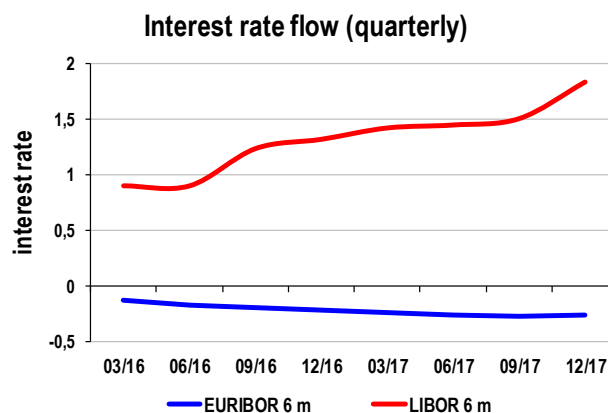
After a sudden rise in oil prices in January 2017, no significant change was noted in the coming months, except for June, when the oil price fell below 50 \$/bbl.

In 2017, the average Brent oil price on the London Stock Exchange was 55 \$/bbl, 10 \$/bbl more than in 2016. The oil prices are expected to continue growing in 2018 as well.

Interest rate 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 rate risk, as the remainder of the principal owed under the long-term foreign-currency loan totals HRK 31.5 million.

In 2017, Euribor continued to mildly decline, recording negative rates and the lowest level ever. 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.

For financing its short-term liabilities in 2017, the Company put to use funds from the HRK 7.5 million worth short-term loan by Erste Bank, repaid during the year, and the HRK 30 million worth short-term loan by HPB. It also repaid the short-term liquidity loan with PBZ, worth HRK 7.5 million. The revolving loan taken with Zagrebačka banka was partially repaid (EUR 200,000), and a fresh short-term loan 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 lease 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.

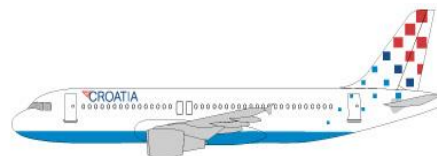
As a result of Brexit, whose effects have negatively influenced Croatia Airlines' revenue potential on the British market, a drop in the exchange rate of the British pound represented an additional risk in 2017, since the average value of GBP declined by 7.7% in 2017, compared to 2016.

Fleet and capacities

In 2017, 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, all under an operating lease. At the end of 2017, the total number of available seats was 1,380.

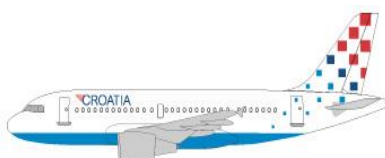
A 320 – 2 aircraft

The aircraft has 174 seats – altogether 348 seats

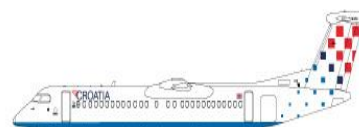


A 319 – 4 aircraft

The aircraft has



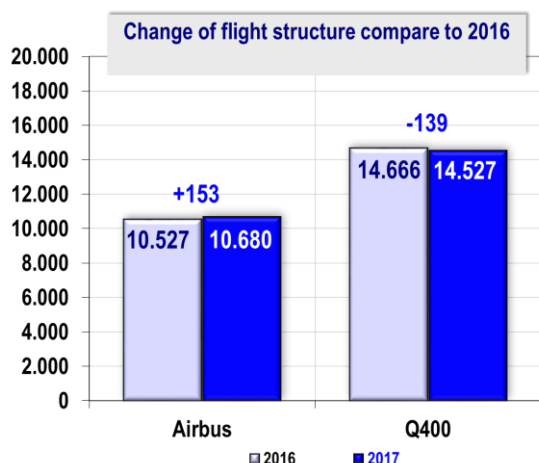
144 seats – altogether 576 seats



Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats

In early 2017, relevant preparations were carried out for the planned increase in capacities by introducing two additional CRJ1000 100-seater aircraft (wet lease) in the period from May to October 2017. The first aircraft began operating commercial flights on 1 May 2017, and the second one on 19 May 2017. They were used not only on new routes but also on other Croatia Airlines' routes within the summer flight schedule. The aircraft of such capacity have been added to the existing Airbus and Dash 8- 8-Q400 fleet in accordance with the Company's development plans, as the third type of aircraft in the fleet.



In 2017, Croatia Airlines' aircraft realised the block time of 39,345 block hours, which is 4% more than in the preceding year.

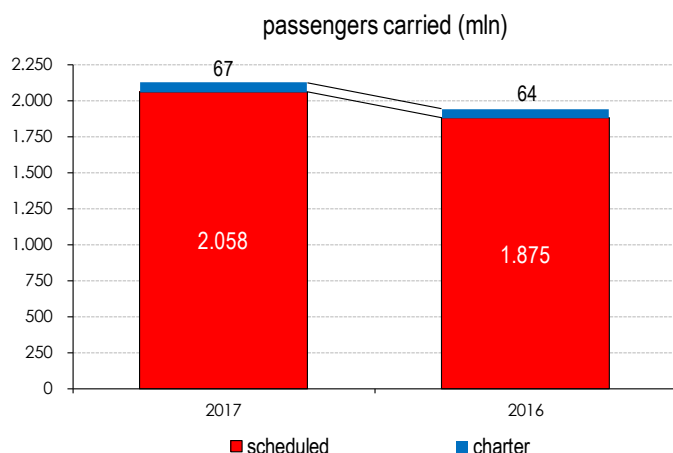
They operated 27,491 flights, 2% more than in the preceding year. With the aim of adapting its offer of capacities to the market demands, the Company retained the block

time structure in favour of smaller aircraft, i.e. Q400.

Ad-hoc chartered aircraft were used for a total of 68 flights for the purpose of maximally reducing traffic disruptions.

The market

In 2017, the measures aimed at increasing passenger traffic were systematically implemented. The capacities (ASK) were increased by 6%, which positively affected the scope of passenger traffic. Croatia Airlines increased its capacities by introducing two additional aircraft (wet lease) to operate in the period from May to October 2017 and expanded its network of European destinations by introducing four new international routes: Zagreb-Stockholm-Zagreb, Zagreb-Oslo-Zagreb, Zagreb-Helsinki-Zagreb and Zagreb-Bucharest-Zagreb.



The number of passengers rose by 10% compared to the result in 2016. The number of passengers in **domestic scheduled traffic** rose by 7% compared to 2016, while of those in **international scheduled traffic** saw an 11% increase compared to 2016.

Altogether 66,700 passengers were transported within the **charter** traffic, or 4% more compared to 2016. Charter

traffic made up only 3% of the total traffic.

In 2017, 2,273 tonnes of cargo were transported, which is 12% less than in 2016.

An increased number of passengers resulted in the **passenger load factor (PLF)** of **74.4%**, 4.4 pp higher than that in 2016.

The realised **weight load factor (WLF)** was **71.3%** (+3.2 pp).

In 2017, Croatia Airlines was connecting Croatia within the international scheduled traffic with 39 destinations in 24 European countries, and in cooperation with its Star Alliance partners with the rest of the world as well. During the peak season, Croatia Airlines operated 105 flights a day.

Croatia Airlines' aircraft operated on the summer flight schedule from 26 March to 28 October 2017, with flights being adjusted to passenger needs, particularly during the tourist season, and to the fleet capacities. Within the 2017 summer schedule, Croatia Airlines expanded its network of European destinations by introducing four new international routes. The biggest news was the introduction of three new routes connecting Croatia and Scandinavia. As of 19 May 2017, Croatia Airlines' aircraft started directly connecting Zagreb and Stockholm by offering afternoon flights three times a week (Mondays, Wednesdays and Fridays). Two days later, on 21 May, Croatia Airlines' aircraft started flying directly from Zagreb to Helsinki and Oslo for the first time in the Company's history. Flights between the Croatian and the Finnish capitals took place three times a week (Tuesdays, Thursdays and Sundays) with morning departures from Zagreb, while flights between Zagreb and Oslo took place on the same days of the week, but in the afternoon. Also for the first time in the Company's history, Croatia Airlines introduced direct international flights between Zagreb and Bucharest within its summer flight schedule.

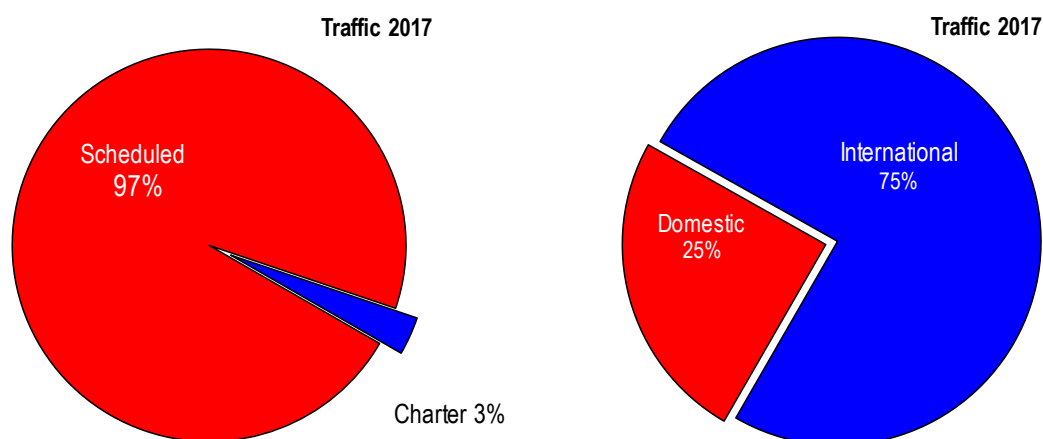
The flights started on 19 May 2017, connecting the Croatian and the Romanian capitals three times a week (Mondays, Wednesdays and Fridays). This is the second year in a row that Croatia Airlines expanded its flight network with four new international routes. In 2016, Croatia Airlines introduced direct flights from Zagreb to Lisbon, Milan, Prague and Saint Petersburg, offered in the 2017 tourist season as well. As of mid-April, Croatia Airlines reintroduced a number of seasonal flights connecting Croatia with major European destinations such as Athens, Barcelona, Nice, Venice, Düsseldorf, Berlin, Lyon and other European markets of great importance to Croatia's tourism. Within its winter flight schedule, Croatia Airlines continued to fly to Barcelona and Lisbon until 8 January 2018. By including Stockholm, Oslo, Helsinki and Bucharest in the Croatian Airlines' European destinations network, the Company further boosted passenger traffic. On 29 October 2017, the winter flight schedule came into force.

As of 28 March 2017, all flights from/to Zagreb were operated from the new terminal at Franjo Tuđman Airport.

Croatia Airlines entered 2017 with 13 code share partners, of which 11 were STAR Alliance members (Lufthansa, Austrian Airlines, Swiss Airlines, Turkish Airlines, TAP, SAS, Brussels Airlines, United Airlines, Air Canada, LOT and Singapore Airlines), and two Sky Team Alliance members (Air France/KLM, Alitalia). The goal of such cooperation agreements is to make the services of an airline available on the markets on which it does not physically operate flights or to increase the capacities on the existing routes. In late March 2017, Croatia Airlines and Air India, Indian national flag carrier and member of the STAR Alliance, signed a code share agreement in order to operate flights with flight codes of both carriers. The cooperation started on 1 April 2017 on Croatia Airlines' flights connecting Frankfurt, Paris and Rome with Zagreb, Dubrovnik and Split, and on those connecting London and Vienna with Zagreb and Split. By introducing joint code share flights (OU/AI), Croatia Airlines and Air India became the first and only air carriers from their respective countries to provide air transport services between Croatia and India. Under this agreement Croatia Airlines, as a European regional air carrier, got an opportunity to strengthen its position on the large and fast-growing Indian market. On 27 December 2017, Croatia Airlines started a code share cooperation based on a commercial agreement with Asiana Airlines, Korea's national flag carrier and a STAR Alliance member. Within this cooperation, Croatia Airlines enables its passengers connecting flights via Frankfurt, London and Paris to Seoul, i.e. from Seoul via the mentioned European hubs to Zagreb, Split and Dubrovnik. Also, it has made available its services to the Korean tourists, who have in the past several years taken the lead position when it comes to an increase in the number of Asian tourists visiting Croatia.

In 2017, altogether 2.124,528 passengers were transported, or 185,308 more compared to 2016 (+10%). On 5 December 2017, Croatia Airlines recorded its two-millionth passenger for the first time ever, i.e. since it started offering passenger transport services in May 1991. It also transported its one-millionth passenger on the earliest date in its history, i.e. on 4 July.

Altogether 526,024 passengers were transported within the domestic scheduled traffic, 1.531,838 within the international scheduled traffic, and 66,666 within the charter traffic.



In the international scheduled traffic, 11% more passengers were transported in 2017, i.e. 148,408 more compared to 2016.

All activities of the **Technical Sector** related to the works on Croatia Airlines' aircraft were carried out in-house and within the planned deadlines. Furthermore, the Technical Sector employees carried out one 6-year check, eleven C-checks and one engine replacement for other companies.

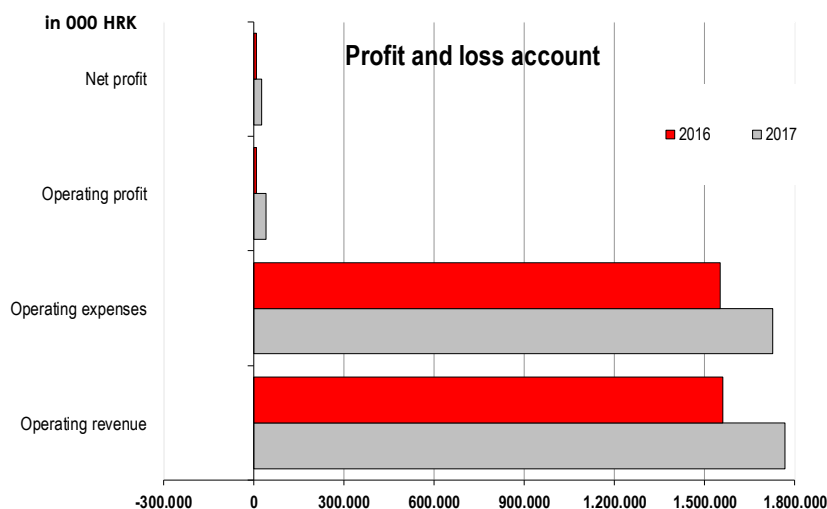
Croatia Airlines' marketing activities in 2017 were primarily focused on the promotion of its summer flight schedule and the introduction of the four new routes: Oslo, Helsinki, Stockholm and Bucharest. Croatia Airlines also advertised domestic flights and those to Lisbon, Saint Petersburg, Milan and Prague, introduced in the summer flight schedule in 2016, while in the third quarter it launched an additional promotional campaign for the winter flights to Barcelona and Lisbon. As of 27 July, Croatia Airlines promoted FlyEasy, a new tariff class offering the passengers with only hand luggage of up to 8 kg to travel cheaper. Within the promotional campaign "Look up at the Clouds", Croatia Airlines each month offered its current and potential passengers more favourable ticket prices for certain destinations. Croatia Airlines cooperates with the Zagreb Tourist Board on an ongoing basis through various marketing activities. They jointly organised presentations of Zagreb and new flights in Oslo, Stockholm and Helsinki – Croatia Airlines' new destinations, promotional travels of agents and media representatives from several foreign markets, and the participation at a fair in Barcelona. In cooperation with the Croatian Tourist Board, Croatia Airlines participated in tourism fairs in New York, Vienna, Milan, Moscow, and in ITB Berlin. In order to promote new routes, it participated on its own in Place2go fair in Zagreb, Days of Communication in Rovinj, and in Open Door Days at Pula Airport. In order to promote new routes, several incentive trips were organised for media representatives and travel agents in May and June. Croatia Airlines regularly promotes its offers on Google search engines and communicates with its service users through social networks such as Facebook, Twitter, Instagram, LinkedIn, Google+, YouTube.

Financial operations

Profit and loss account

(000 HRK)	2017	2016	Index 17/16	2015
Passenger traffic	1.413.172	1.351.736	105	1.319.619
Cargo traffic	12.079	14.275	85	15.069
Other revenues	342.227	195.173	175	216.101
OPERATING REVENUES	1.767.478	1.561.184	113	1.550.790
Flight operations	514.963	453.963	113	464.502
Maintenance	238.943	244.973	98	220.886
Passenger services	97.846	85.320	115	84.659
Aircraft and traffic services	389.988	379.503	103	375.367
Promotion and sales	233.063	216.377	108	217.595
General and administrative expenses	92.412	80.124	115	85.345
Amortization	94.433	85.450	111	73.200
Other expenses	66.016	7.704	857	12.504
OPERATING EXPENSES	1.727.665	1.553.415	111	1.534.057
PROFIT/LOSS FROM OPERATIONS	39.813	7.769	512	16.733
Interest expense	-5.179	-7.553	69	-10.348
Interest revenue	272	426	64	462
Foreign exchange differences, net	-9.777	6.804	-	5.969
Other financial expenses	-214	-261	82	-359
Other financial revenues	27	857	3	1.372
NET FINANCIAL EXPENSES	-14.872	273	-	-2.904
NET PROFIT/LOSS	24.941	8.042	310	13.829

In 2017, Croatia Airlines generated a **positive net result of HRK 24.9 million**. The Company's **operating profit** totalled HRK 39.8 million.

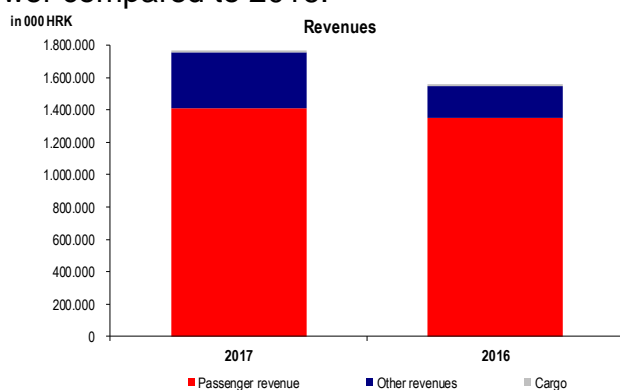


Operating revenues were 13% higher compared to 2016.

Passenger revenues rose by 5%, while the number of passengers transported rose by 10%. A weaker 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).

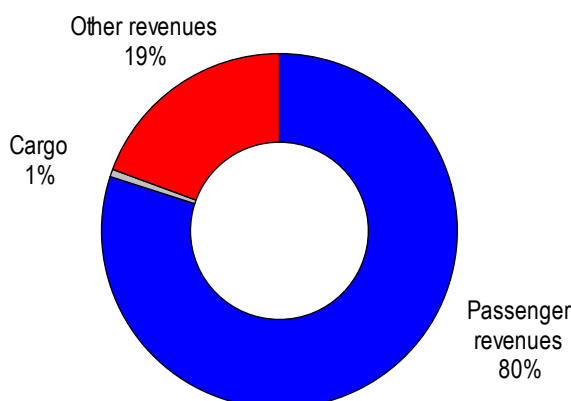
The **share of passenger revenues in operating revenues** totalled 80% and was 7% lower compared to 2016.



Cargo revenues were 15% lower compared to those generated in 2016, as a result of a 12% decline in cargo transport in tonnes.

Other revenues were significantly higher compared to 2016, as a result of the realised sale of some of the slots at Heathrow Airport for HRK 138.5 million.

Structure of operating revenues 2017



Operating costs were 11% higher compared to those generated in 2016.

Flight costs, other expenditures, and promotion and sales costs saw the biggest rise compared to 2016.

Compared to 2016, flight costs were higher due to higher fuel costs (+20%; +HRK 39.9 million) resulting from higher fuel prices in the market, and higher costs of aircraft lease (+16%; +HRK 22.2 million) amidst the introduction of two additional aircraft (wet lease) to operate from May to October, while for the 2016 summer season one additional aircraft was introduced.

Other expenditures were more than seven times higher compared to 2016, due to the aircraft value adjustment in the amount of HRK 56.9 million.

Compared to 2016, promotion and sales costs were 8% higher, i.e. HRK 16.7 million, due to higher booking system and commission costs resulting from an increase in the

sale of tickets and the number of passengers, and amidst higher promotion costs related to the advertising of four new routes in the summer schedule.

The costs of passenger services were also higher (by 15%), amidst greater passenger attendance costs and complaint-related costs resulting from a 10% increase in the number of passengers. The costs of air traffic services were also higher (+3% or HRK 10.5 million) due to higher airport costs. The costs of passenger services and airport costs saw an increase partly due to the problems in daily operations at Franjo Tuđman Airport, occurring since the opening of the new terminal.

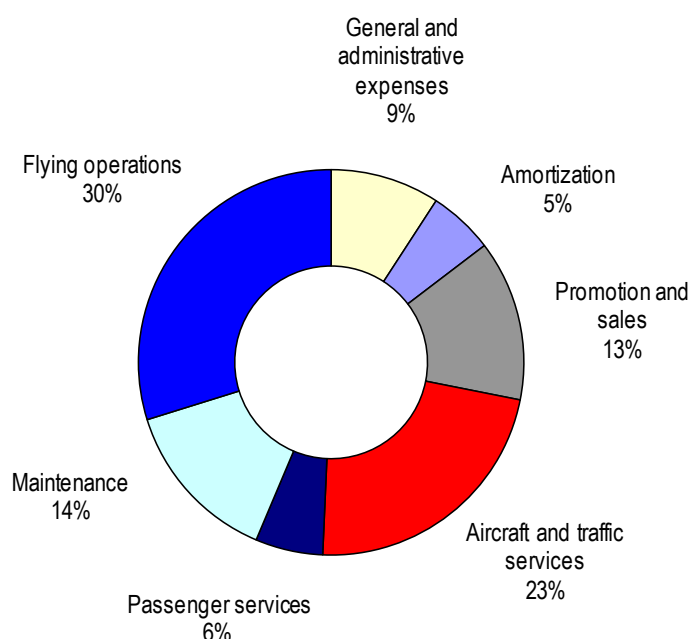
Provision costs related to the short-term liabilities pertaining to the taxes triggered the growth of general and administrative costs, which rose by 15%, i.e. HRK 12.3 million.

Compared to 2016, amortisation costs were 11% higher, i.e. HRK 9 million higher, due to a larger scope of investments into major works on aircraft and engines in 2016 and 2017.

Maintenance costs were 2% lower in 2017, amidst lower costs of consumables needed for the works on other companies' aircraft, since a major six-year check-up was carried out on an external client's aircraft in 2016, outside the regular maintenance season.

Flight costs and air traffic service costs make up the greatest share in the operating costs. In the observed period, the share of flight costs in the operating costs was 30%, while the share of air traffic service costs was 23%.

Structure of operating expenses 2017



Assets, financing and investments

Statement of accounts

(000 HRK)	End 2017	End 2016	Index 2017/2016	End 2015	Index 2016/2015
ASSETS					
Non-current assets	625.554	644.138	97	634.375	102
Current assets	229.551	218.274	105	212.632	103
TOTAL ASSETS	855.105	862.412	99	847.007	102
LIABILITIES					
Capital and reserves	404.295	379.064	107	370.632	102
Provisions	35.274	3.336	-	2.718	123
Non-current liabilities	16.575	31.825	52	47.406	67
Current liabilities	398.961	448.187	89	426.251	105
TOTAL LIABILITIES	855.105	862.412	99	847.007	102

The end-of-year value of the assets was 1% lower compared to 2016. The value of the Company's fixed assets fell by 3%, mostly due to the adjustment of the aircraft value to the market value. Compared to the end of 2016, the value of the current assets rose by 5%. Financial assets, prepayments and accrued income, i.e. non-invoiced income from customers accounted for the greatest rise within the current assets category.

The Company's capital and reserves totalled HRK 404.3 million at the end of 2017, and were 7% higher compared to the end of 2016, due to a positive result in 2017.

Provisions were significantly higher, mostly referring to the airport tax payment liabilities.

Long-term liabilities were reduced by 48% as a result of regular loan repayments. Short-term liabilities were 11% lower due to a decrease in liabilities to suppliers.

At the end of 2017, Croatia Airlines' loan liabilities with local banks totalled HRK 85.6 million, of which HRK 31.5 million were long-term (medium-term) liabilities, and HRK 54.1 million were short-term liabilities.

Investments in 2017

Investments	2017	2016	2015
Investments in aircraft	49.679.306	36.424.517	46.674.700
Investments in spare parts, tools and equip.	12.429.305	10.150.536	16.197.434
Construction investments	1.985.532	1.946.870	2.584.788
Intangible assets - leased aircraft	82.746.049	62.254.320	8.679.518
Other intangible assets	3.095.421	4.332.776	3.070.181
Other equipment	4.506.174	1.111.565	3.326.641
Total	154.441.787	116.220.583	80.533.262

In 2017, the Company made investments directly related to flights, aircraft maintenance and operation, and maintenance of the guaranteed level of safety. Compared to 2016, investments rose by 33%.

The priority investments and the biggest investments were those related to **aircraft**; they totalled HRK 49.7 million, and mostly referred to the planned overhauls of a CFM56-5B engines and the replacement of the undercarriage of three Airbus aircraft (CTG, CTH, CTI). Investments into aircraft and engines under an **operating lease** amounted to HRK 82.7 million and also encompassed the execution of the planned overhaul of three CFM56-5B engines, replacement of the undercarriage of two Q400 aircraft and works on a CTJ aircraft. In addition to the above investments, C checks were carried out **in-house** on three Airbus aircraft (CTG, CTH and CTL) and on a Q400 aircraft (CQD).

Investments into **spare parts** totalled HRK 12.4 million, and investments into **construction facilities** amounted to HRK 2 million, most of which referred to the technical infrastructure (workshops and hangars).

Total investments into aircraft and technical segment made up about 93% of the total investments made in 2017.

Investments into other intangible assets referred mainly to software and totalled HRK 3.1 million, while among **other investments** worth HRK 4.5 million, the greatest sum referred to the purchase and replacement of IT equipment and the purchase of a tow vehicle.

Cash flow

Cash flow (000 HRK)	2017	2016	Index
Cash at the beginning of the period	30.092	31.938	94
Inflow from activities	1.932.478	1.677.936	115
Inflow from sales of asset	9	118	-
Loans	37.450	29.850	125
Total inflow	1.969.937	1.707.904	115
Obligations	1.742.509	1.613.800	108
Investments	187.744	44.299	424
Loans	31.290	51.650	61
Total outflow	1.961.543	1.709.749	115
Net change for period	8.394	-1.845	-
Cash at the end of the period	38.486	30.092	128

At the end of 2017, the cash balance was higher than that realised in 2016.

The inflow from operating activities rose by 15%, mostly as a result of selling some of the slots at Heathrow Airport in London.

In 2017, the Company took two short-term loans, with HPB and Erste bank, worth altogether HRK 37.5 million. The revolving loan taken with a local bank was partially repaid (EUR 200,000), and a fresh short-term loan was taken on the same basis. In the observed period, the Company fully repaid the short-term loans taken with Erste bank and PBZ, and two instalments of the long-term loan taken with PBZ, totalling 2 million euros.

The total outflow was 15% higher, mostly as a result of investments into engine overhauls and the replacement of undercarriages on the Airbus and Q400 fleet, in addition to the outflow for covering operating costs.

Consolidated business result

000 HRK	Croatia Airlines		Obzor putovanja		Amadeus Croatia		Croatia Airlines Group	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating revenues	1.497.874	1.435.118	4.001	3.639	7.067	6.414	1.508.797	1.445.046
Other revenues	269.604	126.066	0	82	15	3	269.619	126.109
Operating expenses	1.727.665	1.553.415	3.930	3.320	6.954	6.275	1.738.405	1.562.843
Operating profit/loss	39.812	7.769	71	401	128	142	40.011	8.312
Net profit/loss	(14.872)	273	(41)	(34)	(32)	(31)	(14.944)	(604)
Pre-tax profit	24.941	8.042	30	367	96	111	25.067	7.708
Net profit	24.941	8.042	23	289	56	46	25.020	7.565

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 2017 at the Group level amounts to a profit of HRK 25 million, which is HRK 79,000 more compared to the result of Croatia Airlines, and several times better than the result at the end of 2016. 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 of analysing and actively managing the current risk positions and market trends, as well as of setting off risk positions within the Group, to an extent possible.

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

Plan objectives and goals for 2018

Based on the projected increase in the offered capacities and the number of passengers, Croatia Airlines expects a positive result in 2018.

The flight schedule for 2018 comprises seven destinations within domestic scheduled traffic and 29 destinations within international, Euro-Mediterranean scheduled traffic. Within charter traffic, a series of charter flights to the markets of Austria, Israel, Lebanon, Sweden and Norway are planned.

The emphasis still lies on the maximum operations safety ensured by adhering to the legal regulations, maintaining the certificates and licences and following new trends in the airline industry. The goal is to retain the technical reliability of the fleet, while performing all regular check-ups, modifications and other works on the fleet aircraft and engines, in accordance with the applicable standards, and maintaining the high level of quality, safety and punctuality. With the aim of expanding its line maintenance services to other companies and increasing its revenues, the Company plans to expand its scope of work for the line maintenance to at least two new aircraft types (e.g. A320neo, CRJ900/1000, B737, A330, etc.). In order to meet 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 two additional aircraft will be taken into lease during the summer season).

In 2018, Croatia Airlines plans to implement the PSO scheme on domestic routes in line with the obligations assumed under the Contract for the period from 27 March 2016 to 28 March 2020. The Company also intends to implement the PSO scheme on the international route Zagreb–Mostar–Zagreb, based on the Contract concluded for the period from 3 May 2018 to 28 March 2021.

The projected positive result is based on the following presumptions:

- ➔ Introduction of two additional aircraft for the period from May to October 2018 (wet lease);
- ➔ Opening of new routes SPU-CPH-SPU; ZAG-DUB-ZAG; DBV-MUC-DBV and ZAG-OMO-ZAG;
- ➔ 28,047 - block time in flights;
- ➔ 39,439 - block time in block hours;
- ➔ Annual traffic of some 2.206,858 passengers (4% more compared to 2017), of which 2.148,905 within scheduled traffic and 57,953 within charter traffic;
- ➔ PLF on the level of 74.7%.

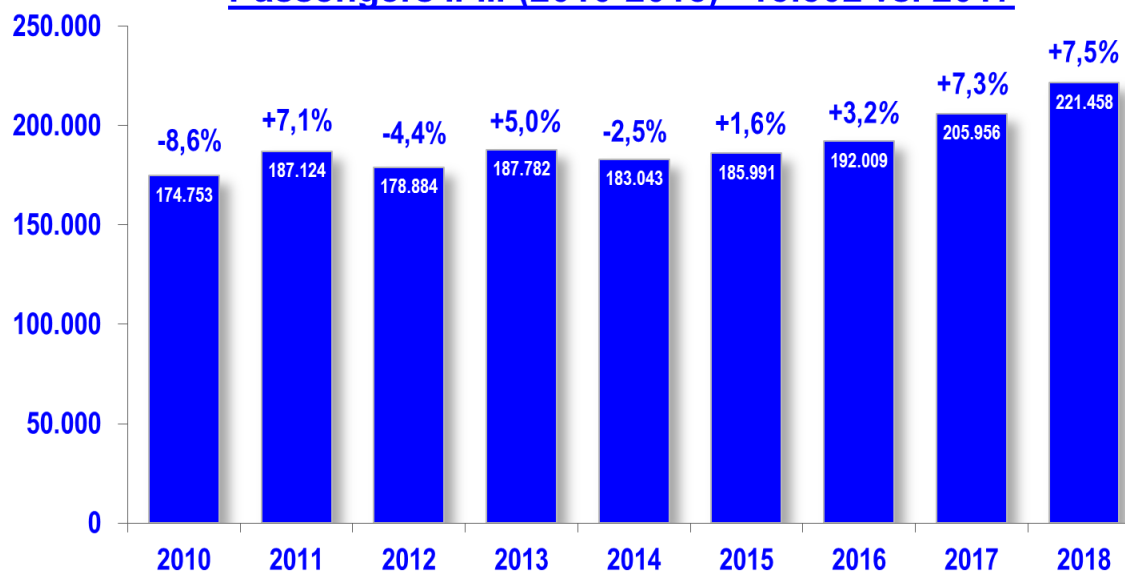
Current operations – traffic performance in the first two months of 2018

description		I-II 2018	I-II 2017
flights (km)	DIST 000	1.933	2.016
departures	FLTS	3.320	3.295
annual change rate	%	1	1
block hours	BH	4.472	4.561
annual change rate	%	-2	1
passengers carried	RPAX 000	221	206
annual change rate	%	8	7
freight&mail carried	CGO T	348	326
annual change rate	%	7	-20
passenger km flown	RPK mln	147	141
available seat - km	ASK mln	212	225
passenger load factor	PLF %	69,5	62,9
tonne km flown	RTK mln	15	14
available tonne-km	ATK mln	23	24
weight load factor	WLF %	66,2	60,0

The number of passengers rose by 8% in the first two months of 2018 compared to the same period of 2017.

The number of passengers in the domestic scheduled traffic rose by 9% compared to the same period of 2017, while the international scheduled passenger traffic saw an 8% rise. The passenger load factor (PLF) was 69.5% in the first two months of 2018, or 6.6 pp higher than in the same

Passengers I.-II. (2010-2018) +15.502 vs. 2017



Based on the Capital Market Act (NN 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15, 123/16, 131/17), we hereby give the following:

DECLARATION

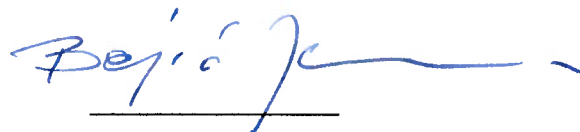
That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31st December 2017 have been prepared by using the appropriate financial reporting standards, and provide complete and truthful presentation of assets and liabilities, losses and gains, the 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



Jasmin Bajić

Zagreb, April 27th, 2018

CROATIA AIRLINES d.d.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2017
together with Independent auditors' report**

	<i>Page</i>
Responsibility for the financial statements	46
Independent auditors' report to the shareholders of Croatia Airlines d.d.	47-53
Croatia Airlines Group consolidated statement of comprehensive income	54
Croatia Airlines d.d. separate statement of comprehensive income	55
Croatia Airlines Group consolidated statement of financial position	56
Croatia Airlines d.d. separate statement of financial position	57
Croatia Airlines Group consolidated statement of changes in equity	58
Croatia Airlines d.d. separate statement of changes in equity	59
Croatia Airlines Group consolidated statement of cash flows	60
Croatia Airlines d.d. separate statement of cash flows	61
Notes to the consolidated and separate financial statements	62-114

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 2017 are prepared in accordance with the Accounting Act and the International financial reporting standards ("IFRS") effective in European Union and in accordance with the Regulation on the structure and content of the annual financial statements, to give a true and fair view of the financial position, the results of business operations, the changes in equity and the cash flows of the Company for that period.

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

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

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

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

Signed on behalf of the Management Board:

Jasmin Bajić



President of the Management Board and CEO

Croatia Airlines d.d.

Bani 75/b, Buzin

10000 Zagreb

Republic of Croatia

27 April 2018



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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Croatia Airlines d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the statements of financial position of the Company and the Group, as at 31 December 2017 and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

Key Audit Matters

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



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

Key Audit Matters (continued)

Recognition of passenger revenue from scheduled services

Passenger revenue from scheduled services recognized in profit or loss in 2017: HRK 1,343,698 thousand; carrying amount of air traffic liabilities as at 31 December 2017: HRK 128,287 thousand.

Refer to Note 2 a) of *Significant accounting policies*, Note 3 on *Passenger traffic* and Note 31 on *Other current liabilities* of the financial statements.

Key audit matter	How our audit addressed the matter
<p>Passenger revenue is measured based on the selling prices charged to customers.</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.



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

Key Audit Matters (continued)

Accounting for aircraft related assets and aircraft maintenance

The carrying amount of aircrafts as at 31 December 2017 totaled HRK 265,211 thousand; depreciation charge for the year: HRK 44,160 thousand; impairment loss for the year: HRK 56,923 thousand.

Refer to Note 2 k) of *Significant accounting policies*, Note 12 on *Property, plant and equipment*.

Key audit matter	How our audit addressed the matter
<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 assessment of fair value of the aircraft, determination of the useful lives and residual values of the aircraft, and determination of their components.</p> <p>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; • reconciliation of carrying value of aircraft with independent valuator's assessment and critically evaluating the assumptions used for determination of value of the aircraft; • 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).

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)*

Going concern basis of accounting

Refer to Note 2 u) (v) *Going concern*, Note 33 *Commitments and contingent liabilities* and Note 36 *Risk Management*

Key audit matter	How our audit addressed the matter
<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 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 2017 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 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.



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

Other Information

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

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

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

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

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

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

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

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)

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 17 July 2017 to audit the financial statements of the Company and the Group for the year ended 31 December 2017. Our total uninterrupted period of engagement is two years, covering the periods ending 31 December 2016 and 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 20 April 2018;
- for the period to which our statutory audit relates, in addition to the audit, we have provided tax advisory services relating to preparation of transfer pricing study to the Company which is not disclosed in the Management Report or in the financial statements of the Company and the Group.

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

27 April 2018

Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017		2016	
		HRK	EUR	HRK	EUR
		thousand	thousand	thousand	thousand
Operating revenues					
Passenger traffic	3	1,413,172	189,400	1,351,736	179,511
Cargo traffic		12,079	1,619	14,275	1,896
Other sales revenue	4	120,949	16,210	97,718	12,977
Total operating revenues		1,546,200	207,229	1,463,729	194,384
Other income	5	232,217	31,123	107,426	14,266
Operating expenses					
Flight operations		(514,963)	(69,018)	(453,963)	(60,287)
Maintenance		(238,944)	(32,024)	(244,973)	(32,533)
Passenger service		(97,846)	(13,114)	(85,320)	(11,331)
Aircraft and traffic services		(389,988)	(52,268)	(379,503)	(50,398)
Promotion and sales		(233,063)	(31,236)	(216,377)	(28,735)
General and administrative expenses		(103,001)	(13,805)	(89,363)	(11,867)
Depreciation and amortization	11, 12, 13	(94,492)	(12,664)	(85,535)	(11,359)
Other operating expenses		(66,108)	(8,860)	(7,809)	(1,036)
Total expenses		(1,738,405)	(232,989)	(1,562,843)	(207,546)
Profit from operations		40,012	5,363	8,312	1,104
Finance income	8	66,402	8,900	48,015	6,377
Finance costs	9	(81,347)	(10,903)	(48,619)	(6,457)
Net finance income / (costs)		(14,945)	(2,003)	(604)	(80)
Profit before tax		25,067	3,360	7,708	1,024
Income tax expense	10	(47)	(6)	(143)	(19)
Profit for the year		25,020	3,354	7,565	1,005
Other comprehensive income					
Deferred exchange losses		670	90	218	29
The fair value of financial assets available for sale		(380)	(51)	172	23
Foreign exchange translation differences		-	271	-	499
Total other comprehensive income		290	310	390	551
Total comprehensive income		25,310	3,664	7,955	1,556
Earnings per share HRK / EUR	26	0.90	0.12	0.27	0.04

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 2017

	Note	2017		2016	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Operating revenues					
Passenger traffic	3	1,413,172	189,400	1,351,736	179,511
Cargo traffic		12,079	1,619	14,275	1,896
Other sales revenue	4	110,025	14,746	87,832	11,664
Total operating revenues		1,535,276	205,765	1,453,843	193,071
Other income	5	232,202	31,121	107,341	14,255
Operating expenses					
Flight operations		(514,963)	(69,018)	(453,963)	(60,287)
Maintenance		(238,944)	(32,024)	(244,973)	(32,532)
Passenger service		(97,846)	(13,114)	(85,320)	(11,331)
Aircraft and traffic services		(389,988)	(52,268)	(379,503)	(50,398)
Promotion and sales		(233,063)	(31,237)	(216,377)	(28,734)
General and administrative expenses		(92,412)	(12,385)	(80,124)	(10,641)
Depreciation and amortization	11, 12, 13	(94,433)	(12,656)	(85,450)	(11,348)
Other operating expenses		(66,016)	(8,848)	(7,705)	(1,023)
Total expenses		(1,727,665)	(231,550)	(1,553,415)	(206,294)
Profit from operations		39,813	5,336	7,769	1,032
Finance income	8	66,380	8,897	48,804	6,481
Finance costs	9	(81,252)	(10,890)	(48,531)	(6,445)
Net finance income / (costs)		(14,872)	(1,993)	273	36
Profit before tax		24,941	3,343	8,042	1,068
Income tax expense	10	-	-	-	-
Profit for the year		24,941	3,343	8,042	1,068
Other comprehensive income					
Deferred exchange losses		670	90	218	29
The fair value of financial assets available for sale		(380)	(51)	172	23
Foreign exchange translation differences		-	273	-	490
Total other comprehensive income		290	312	390	542
Total comprehensive income		25,231	3,655	8,432	1,610
Earnings per share HRK / EUR	26	0.90	0.12	0.29	0.04

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

Croatia Airlines Group consolidated statement of financial position

As at 31 December 2017

	Note	2017		2016	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	11	126,513	16,838	67,442	8,924
Property, plant and equipment	12	463,817	61,730	529,926	70,117
Investment property	13	948	126	-	-
Non-current deposits	15	31,921	4,248	44,013	5,824
Financial assets available for sale	16	972	129	1,352	179
Non-current receivables	17	414	55	467	62
		624,585	83,126	643,200	85,106
Current assets					
Inventories	18	65,760	8,752	64,493	8,533
Trade receivables	19	79,273	10,551	72,916	9,648
Other receivables	20	12,490	1,662	16,621	2,199
Income tax receivable		803	107	885	117
Prepaid expenses and accrued income	21	34,021	4,528	26,335	3,484
Financial assets	22	2,416	322	9,937	1,315
Cash and cash equivalents	23	40,835	5,435	32,578	4,311
		235,598	31,357	223,765	29,607
TOTAL ASSETS		860,183	114,483	866,965	114,713
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	24	277,880	36,399	277,880	36,399
Reserves	25	102,740	13,362	94,119	12,217
Retained earnings		1,440	221	2,206	322
Net profit for the year		25,020	3,354	7,565	1,005
Translation reserve		-	842	-	571
		407,080	54,178	381,770	50,514
Non-current liabilities					
Provisions	27	35,274	4,695	3,336	442
Non-current loans and borrowings	28	16,530	2,200	31,743	4,200
Non-current finance lease		-	-	37	5
Other non-current liabilities		45	6	45	6
		51,849	6,901	35,161	4,653
Current liabilities					
Current loans and borrowings	29	54,044	7,193	33,146	4,386
Current portion of non-current loans and borrowings	28	15,027	2,000	15,116	2,000
Current portion of finance lease		-	-	15	2
Trade payables	30	149,585	19,908	203,831	26,970
Other current liabilities	31	162,290	21,600	172,633	22,841
Income tax liability		-	-	20	3
Accrued expenses and deferred income	32	20,308	2,703	25,273	3,344
		401,254	53,404	450,034	59,546
TOTAL EQUITY AND LIABILITIES		860,183	114,483	866,965	114,713

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2017

	Note	2017		2016	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	11	126,483	16,834	67,379	8,915
Property, plant and equipment	12	463,653	61,708	529,765	70,095
Investment property	13	948	126	-	-
Investments in subsidiaries	14	1,210	161	1,210	160
Non-current deposits	15	31,874	4,242	43,965	5,817
Financial assets available for sale	16	972	129	1,352	179
Non-current receivables	17	414	55	467	62
		625,554	83,255	644,138	85,228
Current assets					
Inventories	18	65,760	8,752	64,493	8,533
Trade receivables	19	75,945	10,108	70,260	9,296
Other receivables	20	12,412	1,652	16,718	2,212
Income tax receivable		688	92	812	107
Prepaid expenses and accrued income	21	33,898	4,512	25,982	3,438
Financial assets	22	2,362	314	9,917	1,312
Cash and cash equivalents	23	38,486	5,122	30,092	3,982
		229,551	30,552	218,274	28,880
TOTAL ASSETS		855,105	113,807	862,412	114,108
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	24	277,880	36,399	277,880	36,399
Reserves	25	101,474	13,196	93,142	12,089
Retained earnings		-	-	-	-
Net profit for the year		24,941	3,343	8,042	1,068
Translation reserve		-	870	-	597
		404,295	53,808	379,064	50,153
Non-current liabilities					
Provisions	27	35,274	4,695	3,336	442
Non-current loans and borrowings	28	16,530	2,200	31,743	4,200
Non-current finance lease		-	-	37	5
Other non-current liabilities		45	6	45	6
		51,849	6,901	35,161	4,653
Current liabilities					
Current loans and borrowings	29	54,044	7,193	33,146	4,386
Current portion of non-current loans and borrowings	28	15,027	2,000	15,116	2,000
Current portion of finance lease		-	-	15	2
Trade payables	30	148,188	19,723	202,767	26,829
Other current liabilities	31	161,720	21,523	172,137	22,776
Accrued expenses and deferred income	32	19,982	2,659	25,006	3,309
		398,961	53,098	448,187	59,302
TOTAL EQUITY AND LIABILITIES		855,105	113,807	862,412	114,108

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 2017

Croatia Airlines Group	Share capital		Reserves		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 2016	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
Profit for the year	-	-	-	-	-	-	25,020	3,354	-	25,020	3,354
Other comprehensive income	-	-	290	39	-	-	-	-	271	290	310
Total comprehensive income	-	-	290	39	-	-	25,020	3,354	271	25,310	3,664
Transactions with owners											
Transfer of profit from 2016 to other capital reserves	-	-	7,519	999	46	6	(7,565)	(1,005)	-	-	-
Transfer of retained earnings to other capital reserves	-	-	812	107	(812)	(107)	-	-	-	-	-
Total transaction with owners	-	-	8,331	1,106	(766)	(101)	(7,565)	(1,005)	-	-	-
Balance at 31 December 2017	277,880	36,399	102,740	13,362	1,440	221	25,020	3,354	842	407,080	54,178

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 2017

Croatia Airlines d.d.	Share capital		Reserves		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 2016	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
Profit for the year	-	-	-	-	-	-	24,941	3,343	-	24,941	3,343
Other comprehensive income	-	-	290	39	-	-	-	-	273	290	312
Total comprehensive income	-	-	290	39	-	-	24,941	3,343	273	25,231	3,655
Transactions with owners											
Transfer of profit from 2016 to other capital reserves	-	-	8,042	1,068	-	-	(8,042)	(1,068)	-	-	-
Total transaction with owners	-	-	8,042	1,068	-	-	(8,042)	(1,068)	-	-	-
Balance at 31 December 2017	277,880	36,399	101,474	13,196	-	-	24,941	3,343	870	404,295	53,808

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 2017

	Note	2017		2016	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Profit for the year		25,020	3,353	7,565	1,005
<i>Adjustments for:</i>					
Depreciation and amortization		94,492	12,664	85,535	11,359
Gain on sale of property, plant and equipment		(944)	(127)	(175)	(23)
Disposals of property, plant and equipment		6,730	902	4,675	621
Correction of impairment of intangible assets		92	12	-	-
Correction of impairment of property, plant and equipment		(28)	(4)	200	27
Impairment of aircraft		56,923	7,629	-	-
Impairment loss on trade receivables		931	125	175	23
Collection of previously written-off receivables		(198)	(27)	(267)	(35)
Change in provisions		11,122	1,491	618	82
Unrealized foreign exchange differences		6,466	867	(3,150)	(418)
Interest costs		5,179	694	7,554	1,003
Interest income		(272)	(36)	(427)	(57)
Income from shares in profit		(27)	(4)	(45)	(6)
Income tax expense		47	6	143	19
		205,533	27,545	102,401	13,600
<i>Changes in:</i>					
Inventories		(1,267)	(170)	(8,064)	(1,071)
Trade and other receivables		(18,183)	(2,437)	1,487	197
Trade and other payables		(53,044)	(7,109)	38,217	5,075
Cash generated from operating activities		133,039	17,829	134,041	17,801
Interest paid		(4,678)	(627)	(7,326)	(973)
Interest received		174	23	68	9
Net change of deposits		19,613	2,629	7,396	982
Income tax paid		(857)	(115)	(1,014)	(135)
Net cash from operating activities		147,291	19,739	133,165	17,684
Cash flows from investing activities					
Acquisition of intangible assets		(58,470)	(7,836)	(58,570)	(7,778)
Acquisition of property, plant and equipment		(94,988)	(12,731)	(56,352)	(7,484)
Proceeds from sale of property, plant and equipment		872	117	666	88
Dividends received		27	4	45	6
Net cash used in investing activities		(152,559)	(20,446)	(114,211)	(15,168)
Cash flows from financing activities					
Proceeds from loans and borrowings	29	37,450	5,019	29,850	3,964
Repayment of loans and borrowings	29	(23,923)	(3,206)	(51,598)	(6,852)
Payment of finance lease liabilities		(2)	-	(46)	(6)
Net cash from financing activities		13,525	1,813	(21,794)	(2,894)
Net decrease in cash and cash activities		8,257	1,106	(2,840)	(378)
Cash and cash equivalents at beginning of the year		32,578	4,311	35,418	4,638
Effect of foreign currency translation		-	18	-	51
Cash and cash equivalents at end of the year	23	40,835	5,435	32,578	4,311

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 2017

	Note	2017		2016	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Profit for the year		24,941	3,343	8,042	1,068
<i>Adjustments for:</i>					
Depreciation and amortization		94,433	12,656	85,450	11,348
Gain on sale of property, plant and equipment		(944)	(127)	(173)	(23)
Disposals of property, plant and equipment		6,730	902	4,675	621
Correction of impairment of intangible assets		92	12	-	-
Correction of impairment of property, plant and equipment		(28)	(4)	200	27
Impairment of aircraft		56,923	7,629	-	-
Impairment loss on trade receivables		839	112	73	10
Collection of previously written-off receivables		(198)	(27)	(267)	(35)
Change in provisions		11,122	1,491	618	82
Unrealized foreign exchange differences		6,466	867	(3,150)	(418)
Interest costs		5,179	694	7,553	1,003
Interest income		(272)	(36)	(426)	(57)
Income from shares in profit		(27)	(4)	(857)	(114)
Gain on sale of associate		-	-	-	-
		205,256	27,508	101,738	13,512
<i>Changes in:</i>					
Inventories		(1,267)	(170)	(8,064)	(1,071)
Trade and other receivables		(17,637)	(2,364)	1,917	255
Trade and other payables		(53,511)	(7,172)	38,188	5,071
Cash generated from operating activities		132,841	17,802	133,779	17,767
Interest paid		(4,678)	(627)	(7,326)	(973)
Interest received		174	23	24	3
Net change of deposits		19,646	2,633	7,437	988
Income tax paid		(748)	(100)	(896)	(119)
Net cash from operating activities		147,235	19,731	133,018	17,666
Cash flows from investing activities					
Acquisition of intangible assets		(58,470)	(7,836)	(58,560)	(7,777)
Acquisition of property, plant and equipment		(94,958)	(12,727)	(56,310)	(7,478)
Proceeds from sale of property, plant and equipment		872	117	661	88
Dividends received		190	25	1,139	151
Net cash used in investing activities		(152,366)	(20,421)	(113,070)	(15,016)
Cash flows from financing activities					
Proceeds from loans and borrowings	29	37,450	5,019	29,850	3,964
Repayment of loans and borrowings	29	(23,923)	(3,206)	(51,598)	(6,852)
Payment of finance lease liabilities		(2)	-	(46)	(6)
Net cash from financing activities		13,525	1,813	(21,794)	(2,894)
Net decrease in cash and cash activities		8,394	1,123	(1,846)	(244)
Cash and cash equivalents at beginning of the year		30,092	3,982	31,938	4,182
Effect of foreign currency translation		-	17	-	44
Cash and cash equivalents at end of the year	23	38,486	5,122	30,092	3,982

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 2017

1. GENERAL

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

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

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

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

General Assembly of the Company

Restructuring and Sale Center for The Republic of Croatia	96.76%
Zagreb International Airport	1.72%
HPB for The Republic of Croatia	1.07%
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
Vjekoslav Jelić	Member (from 7 July 2015)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

1. GENERAL (CONTINUED)

Management Board of the Company

Jasmin Bajić	President of the Management Board and CEO (from 4 November 2017)
Krešimir Kučko	President of the Management Board and CEO (up to 4 November 2017)
Zlatko Širac	Board Member and COO, resigned 1 March 2017

Subsidiaries' Management

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

EUR / HRK	2017	2016
On 31 December	7.513648	7.557787
Average	7.461312	7.530091

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 2017

2. 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 2017

2. 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 2017

2. 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 2017

2. 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.

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

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

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investment property

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

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

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

m) 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.

n) Investments in subsidiaries

Subsidiaries are those companies in which the Company has control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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.

p) 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 2017

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.

(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.

q) 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 2017

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 2017

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 2017 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.

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. The Company is currently working on an analysis of the impact of the new standard.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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, adopted by the European Union, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

The Company has made the following judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year or that have a significant effect on the amounts recognized in the financial statements.

(i) Financial assets and liabilities

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

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

(ii) Operating segments

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

(iii) Revaluation of property, plant and equipment

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

(iv) Impairment of property, plant and equipment

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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.

As of December 31, 2017, a two-year monitoring of the restructuring has been completed and a positive trend in the Company's business is expected to continue. The Company expects a 4% increase in passenger numbers compared to 2017, 2% more than in 2017 in domestic scheduled traffic and 5% more in international scheduled passenger traffic.

In 2018 a slightly lower investment is planned than in 2017. Total investments amounted to HRK 159.6 million, of which HRK 142.8 million would be invested in aircraft and technical equipment.

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:

- contracting long-term loan for investment in aircraft engines in the amount of HRK 65 million;
- revolving credit with the bank in the amount of HRK 22.5 million;
- payment of PSO fee in the amount of HRK 77.9 million, which is accounted for as the difference between income realized and direct flight costs on specific domestic lines.
- Payment of the amount of PSO fees by the Airport of Mostar amounting to EUR 500 thousand based on the Agreement on the performance of scheduled international traffic on the Zagreb-Mostar-Zagreb line. The contract was signed for a period of 3 years, and the total value of the contract is EUR 1.5 million.

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 from 2020 to delivery. An advance of USD 900,000 due on May 1, 2018, the Company intends to cover from its own resources.

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 2017

3. PASSENGER TRAFFIC

	2017		2016	
	Croatia Airlines d.d. i Grupa		Croatia Airlines d.d. i Grupa	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Scheduled services	1,343,698	180,089	1,282,710	170,345
Charter services	69,474	9,311	69,026	9,166
	1,413,172	189,400	1,351,736	179,511

Revenue by geographical area based on sales origin:

	2017		2016	
	Croatia Airlines d.d. i Grupa		Croatia Airlines d.d. i Grupa	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Croatia	429,604	57,578	396,059	52,597
Germany	145,557	19,508	155,450	20,644
USA	148,383	19,887	137,877	18,310
France	81,964	10,985	87,863	11,668
Great Britain	60,766	8,144	67,587	8,976
Other countries	546,898	73,298	506,900	67,316
	1,413,172	189,400	1,351,736	179,511

4. OTHER SALES REVENUE

	2017		2016		2017		2016	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Revenue from technical services to others	77,337	10,365	55,363	7,352	77,337	10,365	55,363	7,352
Commission income from foreign air companies	9,780	1,311	10,752	1,428	9,780	1,311	10,752	1,428
Revenue from reservation system services	10,686	1,432	10,057	1,336	3,619	485	3,643	484
Revenue from advertising services	7,904	1,059	5,609	745	7,904	1,059	5,609	745
Revenue from educational services	2,587	347	3,963	526	2,587	347	3,963	526
Mileage related revenue	2,617	351	2,302	306	2,617	351	2,302	306
Other	10,038	1,345	9,672	1,284	6,181	828	6,200	823
	120,949	16,210	97,718	12,977	110,025	14,746	87,832	11,664

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

5. OTHER INCOME

	2017		2016		2017		2016	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Income from PSO	75,322	10,095	82,604	10,970	75,322	10,095	82,604	10,970
Gain from sale of property, plant and equipment	944	127	175	23	944	127	173	23
Income from assets received free of charge	951	127	951	126	951	127	951	126
Bad debts collected	198	27	267	35	198	27	267	35
Income from sale of spare parts	157	21	273	36	157	21	273	36
Other income	154,645	20,726	23,156	3,076	154,630	20,724	23,073	3,065
	232,217	31,123	107,426	14,266	232,202	31,121	107,341	14,255

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

Other income includes the amount of HRK 138,558 thousand, i.e. EUR 18,570 thousand that are related to the sale of five out of the nine slots at London's Heathrow Airport to the US airline Delta Airlines. This transaction is one of the measures of the restructuring program that has been in the Company's plans since 2013.

6. EXPENSES BY NATURE

	2017		2016		2017		2016	
	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
Staff costs	256,828	34,422	256,939	34,122	252,774	33,877	253,047	33,604
Airport costs	268,732	36,017	256,466	34,059	268,732	36,017	256,466	34,059
Fuel	243,040	32,573	203,153	26,979	243,040	32,573	203,153	26,979
Rental and maintenance of engines and parts	151,249	20,271	149,026	19,791	151,249	20,271	149,026	19,791
Aircraft lease	158,069	21,185	135,867	18,043	158,069	21,185	135,867	18,043
Air traffic control costs	121,256	16,251	123,037	16,339	121,256	16,251	123,037	16,339
Reservation system costs	103,165	13,827	94,587	12,561	103,165	13,827	94,587	12,561
Amortisation and depreciation	94,492	12,664	85,535	11,359	94,433	12,656	85,450	11,348
Commission costs	65,253	8,746	60,246	8,001	65,253	8,746	60,246	8,001
Consumables	24,150	3,237	30,151	4,004	24,150	3,237	30,151	4,004
Catering	31,089	4,167	27,234	3,617	31,089	4,167	27,234	3,617
Promotion costs	19,892	2,666	18,534	2,461	19,892	2,666	18,534	2,461
Other expenses	201,190	26,963	122,068	16,210	194,563	26,077	116,617	15,487
	1,738,405	232,989	1,562,843	207,546	1,727,665	231,550	1,553,415	206,294

Other expenses include the cost of impairment of the aircraft in the amount of HRK 56,923 thousand, or EUR 7,629 thousand (2016 there was no impairment).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

7. STAFF COSTS

	2017		2016		2017		2016	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Net wages and salaries	119,775	16,053	116,937	15,529	117,615	15,763	114,935	15,263
Taxes and contributions form salaries	60,443	8,101	64,853	8,613	59,462	7,969	63,902	8,486
Contributions on salaries	40,736	5,460	41,209	5,473	40,194	5,387	40,700	5,405
Other employee related	35,874	4,808	33,940	4,507	35,503	4,758	33,510	4,450
	256,828	34,422	256,939	34,122	252,774	33,877	253,047	33,604

As at 31 December 2017 the Group had 945 employees (Croatia Airlines d.d. 924, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 13) while 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) - 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.

8. FINANCIAL INCOME

	2017.		2016.		2017.		2016.	
	Croatia Airlines Grupa		Croatia Airlines Grupa		Croatia Airlines d.d.		Croatia Airlines d.d.	
	tisuće	tisuće	tisuće	tisuće	tisuće	tisuće	tisuće	tisuće
	kuna	eura	kuna	eura	kuna	eura	kuna	eura
Pozitivne tečajne razlike	66,103	8,860	47,543	6,314	66,081	8,857	47,521	6,310
Prihodi od kamata	272	36	427	57	272	36	426	57
Prihodi od udjela u dobiti i dividendi	27	4	45	6	27	4	857	114
Dobit od prodaje pridruženog društva	-	-	-	-	-	-	-	-
	66,402	8,900	48,015	6,377	66,380	8,897	48,804	6,481

9. FINANCIAL EXPENSE

	2017		2016		2017		2016	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Negative foreign exchange differences	75,954	10,180	40,805	5,419	75,859	10,167	40,717	5,407
Interest expense	5,179	694	7,553	1,003	5,179	694	7,553	1,003
Other finance costs	214	29	261	35	214	29	261	35
	81,347	10,903	48,619	6,457	81,252	10,890	48,531	6,445

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

10. INCOME TAX EXPENSE

Income tax in Croatia is calculated at the rate of 18% (2016.:20%) to taxable profit for the year, which is applied to taxable profit for the current year.

The Company does not have income tax liability for current year due to accumulated losses from previous years, but in accordance with applicable tax regulations, the Company 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 872 thousand (2016.: 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 40 thousand, EUR 5 thousand (2016: HRK 65 thousand, EUR 9 thousand) and Obzor putovanja d.o.o. HRK 7 thousand, EUR 1 thousand (2016: HRK 78 thousand, EUR 10 thousand).

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

	2017		2016		2017		2016	
	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	25,067	3,360	7,708	1,024	24,941	3,343	8,042	1,068
Tax at statutory rate	4,512	605	1,542	205	4,489	602	1,608	214
Non-deductible expenses	346	45	297	39	322	42	249	33
Non-taxable income	(10)	(1)	(50)	(7)	(10)	(1)	(213)	(28)
Tax incentives	(695)	(93)	(797)	(105)	(695)	(93)	(795)	(106)
Utilised tax losses	(4,106)	(550)	(849)	(113)	(4,106)	(550)	(849)	(113)
Income tax	47	6	143	19	-	-	-	-

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:

	2017		2017		2016		2016	
	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 2012 (expires 2017)	-	-	-	-	505,233	66,849	90,942	12,033
Loss from 2013 (expires 2018)	98,335	13,088	17,700	2,356	98,335	13,011	17,700	2,342
Loss from 2014 (expires 2019)	5,753	766	1,036	138	5,753	761	1,036	137
	104,088	13,854	18,736	2,494	609,321	80,621	109,678	14,512

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 2017

11. INTANGIBLE ASSETS

Croatia Airlines Group

2017	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 2017	35,132	4,647	95,400	12,624	-	-	130,532	17,271
Additions	3,071	411	55,399	7,425	-	-	58,470	7,836
Transfer	(390)	(52)	390	52	-	-	-	-
Transfer from property, plant and equipment	-	-	35,865	4,807	-	-	35,865	4,807
Disposals	(1,999)	(268)	-	-	-	-	(1,999)	(268)
Fx differences	-	29	-	(13)	-	-	-	16
Balance at 31 December 2017	<u>35,814</u>	<u>4,767</u>	<u>187,054</u>	<u>24,895</u>	<u>-</u>	<u>-</u>	<u>222,868</u>	<u>29,662</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2017	29,585	3,914	33,505	4,433	-	-	63,090	8,347
Charge for the year	5,229	701	29,943	4,013	-	-	35,172	4,714
Transfer	(374)	(50)	374	50	-	-	-	-
Disposals	(1,999)	(268)	-	-	-	-	(1,999)	(268)
Correction of accumulated amortisation	-	-	92	12	-	-	92	12
Fx differences	-	21	-	(2)	-	-	-	19
Balance at 31 December 2017	<u>32,441</u>	<u>4,318</u>	<u>63,914</u>	<u>8,506</u>	<u>-</u>	<u>-</u>	<u>96,355</u>	<u>12,824</u>
NET BOOK VALUE								
At 31 December 2017	<u>3,373</u>	<u>449</u>	<u>123,140</u>	<u>16,389</u>	<u>-</u>	<u>-</u>	<u>126,513</u>	<u>16,838</u>
At 1 January 2017	<u>5,547</u>	<u>733</u>	<u>61,895</u>	<u>8,191</u>	<u>-</u>	<u>-</u>	<u>67,442</u>	<u>8,924</u>

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 property, plant and equipment	-	-	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	<u>35,132</u>	<u>4,647</u>	<u>95,400</u>	<u>12,624</u>	<u>-</u>	<u>-</u>	<u>130,532</u>	<u>17,271</u>
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	<u>29,585</u>	<u>3,914</u>	<u>33,505</u>	<u>4,433</u>	<u>-</u>	<u>-</u>	<u>63,090</u>	<u>8,347</u>
NET BOOK VALUE								
At 31 December 2016	<u>5,547</u>	<u>733</u>	<u>61,895</u>	<u>8,191</u>	<u>-</u>	<u>-</u>	<u>67,442</u>	<u>8,924</u>
At 1 January 2016	<u>5,641</u>	<u>738</u>	<u>19,176</u>	<u>2,512</u>	<u>173</u>	<u>23</u>	<u>24,990</u>	<u>3,273</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

11. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

2017	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 2017	34,252	4,530	95,400	12,624	-	-	129,652	17,154
Additions	3,071	412	55,399	7,425	-	-	58,470	7,837
Transfer from property, plant and equipment	-	-	35,865	4,807	-	-	35,865	4,807
Disposals	(1,999)	(268)	-	-	-	-	(1,999)	(268)
Fx differences	-	27	-	(12)	-	-	-	15
Balance at 31 December 2017	<u>35,324</u>	<u>4,701</u>	<u>186,664</u>	<u>24,844</u>	<u>-</u>	<u>-</u>	<u>221,988</u>	<u>29,545</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2017	28,768	3,806	33,505	4,433	-	-	62,273	8,239
Charge for the year	5,207	698	29,932	4,012	-	-	35,139	4,710
Disposals	(1,999)	(268)	-	-	-	-	(1,999)	(268)
Correction of accumulated amortisation	-	-	92	12	-	-	92	12
Fx differences	-	20	-	(2)	-	-	-	18
Balance at 31 December 2017	<u>31,976</u>	<u>4,256</u>	<u>63,529</u>	<u>8,455</u>	<u>-</u>	<u>-</u>	<u>95,505</u>	<u>12,711</u>
NET BOOK VALUE								
At 31 December 2017	<u>3,348</u>	<u>445</u>	<u>123,135</u>	<u>16,389</u>	<u>-</u>	<u>-</u>	<u>126,483</u>	<u>16,834</u>
At 1 January 2017	<u>5,484</u>	<u>724</u>	<u>61,895</u>	<u>8,191</u>	<u>-</u>	<u>-</u>	<u>67,379</u>	<u>8,915</u>
2016								
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 property, plant and equipment	-	-	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	<u>34,252</u>	<u>4,530</u>	<u>95,400</u>	<u>12,624</u>	<u>-</u>	<u>-</u>	<u>129,652</u>	<u>17,154</u>
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	<u>28,768</u>	<u>3,806</u>	<u>33,505</u>	<u>4,433</u>	<u>-</u>	<u>-</u>	<u>62,273</u>	<u>8,239</u>
NET BOOK VALUE								
At 31 December 2016	<u>5,484</u>	<u>724</u>	<u>61,895</u>	<u>8,191</u>	<u>-</u>	<u>-</u>	<u>67,379</u>	<u>8,915</u>
At 1 January 2016	<u>5,523</u>	<u>723</u>	<u>19,176</u>	<u>2,512</u>	<u>173</u>	<u>23</u>	<u>24,872</u>	<u>3,258</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

12. PROPERTY, PLANT AND EQUIPMENT

Croatia Airlines Group

2017	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 2017	84,184	11,139	56,340	7,457	1,136,245	150,341	212,755	28,151	100,600	13,311	1,590,124	210,399
Additions	1,404	188	7,872	1,055	45,270	6,067	13,452	1,803	32,426	4,346	100,424	13,459
Transfer	63	9	-	-	29,050	3,893	-	-	(29,113)	(3,902)	-	-
Transfer to investment property	(12,768)	(1,711)	-	-	-	-	-	-	-	-	(12,768)	(1,711)
Transfer to intangible assets	-	-	-	-	-	-	-	-	(35,865)	(4,807)	(35,865)	(4,807)
Disposals	(441)	(59)	(3,005)	(403)	(4,960)	(665)	(15,924)	(2,134)	-	-	(24,330)	(3,261)
Impairment	-	-	-	-	(56,923)	(7,629)	-	-	-	-	(56,923)	(7,629)
Spare parts replacement	-	-	-	-	133	18	(133)	(18)	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	6,263	839	-	-	6,263	839
Fx differences	-	75	-	37	-	872	-	162	(6,798)	(796)	(6,798)	350
Balance at 31 December 2017	<u>72,442</u>	<u>9,641</u>	<u>61,207</u>	<u>8,146</u>	<u>1,148,815</u>	<u>152,897</u>	<u>216,413</u>	<u>28,803</u>	<u>61,250</u>	<u>8,152</u>	<u>1,560,127</u>	<u>207,639</u>
ACCUMULATED DEPRECIATION												
Balance at 1 January 2017	35,486	4,695	44,641	5,909	844,367	111,721	135,704	17,957	-	-	1,060,198	140,282
Charge for the year	2,949	395	3,797	509	44,160	5,918	7,782	1,043	-	-	58,688	7,865
Transfer to investment property	(11,188)	(1,499)	-	-	-	-	-	-	-	-	(11,188)	(1,499)
Disposals	(355)	(48)	(2,926)	(392)	(4,960)	(665)	(9,382)	(1,257)	-	-	(17,623)	(2,362)
Spare parts replacement	-	-	-	-	37	5	(37)	(5)	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	6,263	839	-	-	6,263	839
Correction of accumulated depreciation	-	-	-	-	-	-	(28)	(4)	-	-	(28)	(4)
Fx differences	-	36	-	31	-	621	-	100	-	-	-	788
Balance at 31 December 2017	<u>26,892</u>	<u>3,579</u>	<u>45,512</u>	<u>6,057</u>	<u>883,604</u>	<u>117,600</u>	<u>140,302</u>	<u>18,673</u>	<u>-</u>	<u>-</u>	<u>1,096,310</u>	<u>145,909</u>
NET BOOK VALUE												
Balance at 31 December 2017	<u>45,550</u>	<u>6,062</u>	<u>15,695</u>	<u>2,089</u>	<u>265,211</u>	<u>35,297</u>	<u>76,111</u>	<u>10,130</u>	<u>61,250</u>	<u>8,152</u>	<u>463,817</u>	<u>61,730</u>
Balance at 1 January 2017	<u>48,698</u>	<u>6,444</u>	<u>11,699</u>	<u>1,548</u>	<u>291,878</u>	<u>38,620</u>	<u>77,051</u>	<u>10,194</u>	<u>100,600</u>	<u>13,311</u>	<u>529,926</u>	<u>70,117</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	58,253	7,631	1,161,213	152,090	197,031	25,807	66,374	8,693	1,566,080	205,119
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	<u>84,184</u>	<u>11,139</u>	<u>56,340</u>	<u>7,457</u>	<u>1,136,245</u>	<u>150,341</u>	<u>212,755</u>	<u>28,151</u>	<u>100,600</u>	<u>13,311</u>	<u>1,590,124</u>	<u>210,399</u>
ACCUMULATED DEPRECIATION												
Balance at 1 January 2016	32,004	4,192	43,287	5,670	827,901	108,434	115,955	15,188	-	-	1,019,147	133,484
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	<u>35,486</u>	<u>4,695</u>	<u>44,641</u>	<u>5,909</u>	<u>844,367</u>	<u>111,721</u>	<u>135,704</u>	<u>17,957</u>	<u>-</u>	<u>-</u>	<u>1,060,198</u>	<u>140,282</u>
NET BOOK VALUE												
Balance at 31 December 2016	<u>48,698</u>	<u>6,444</u>	<u>11,699</u>	<u>1,548</u>	<u>291,878</u>	<u>38,620</u>	<u>77,051</u>	<u>10,194</u>	<u>100,600</u>	<u>13,311</u>	<u>529,926</u>	<u>70,117</u>
Balance at 1 January 2016	<u>51,205</u>	<u>6,706</u>	<u>14,966</u>	<u>1,961</u>	<u>333,312</u>	<u>43,656</u>	<u>81,076</u>	<u>10,619</u>	<u>66,374</u>	<u>8,693</u>	<u>546,933</u>	<u>71,635</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2017	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 2017	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
Additions	1,404	188	7,843	1,051	45,270	6,067	13,452	1,803	32,426	4,346	100,395	13,455
Transfer	63	9	-	-	29,050	3,893	-	-	(29,113)	(3,902)	-	-
Transfer to investment property	(12,768)	(1,711)	-	-	-	-	-	-	-	-	(12,768)	(1,711)
Transfer to intangible assets	-	-	-	-	-	-	-	-	(35,865)	(4,807)	(35,865)	(4,807)
Disposals	(441)	(59)	(3,005)	(403)	(4,960)	(665)	(15,924)	(2,134)	-	-	(24,330)	(3,261)
Impairment	-	-	-	-	(56,923)	(7,629)	-	-	-	-	(56,923)	(7,629)
Spare parts replacement	-	-	-	-	133	18	(133)	(18)	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	6,263	839	-	-	6,263	839
Fx differences	-	75	-	37	-	872	-	163	(6,798)	(796)	(6,798)	351
Balance at 31 December 2017	<u>72,442</u>	<u>9,641</u>	<u>58,537</u>	<u>7,791</u>	<u>1,148,815</u>	<u>152,897</u>	<u>216,413</u>	<u>28,803</u>	<u>61,250</u>	<u>8,152</u>	<u>1,557,457</u>	<u>207,284</u>
ACCUMULATED DEPRECIATION												
Balance at 1 January 2017	35,487	4,695	42,161	5,580	844,367	111,721	135,704	17,956	-	-	1,057,718	139,952
Charge for the year	2,949	395	3,771	505	44,160	5,918	7,782	1,043	-	-	58,662	7,861
Transfer to investment property	(11,188)	(1,499)	-	-	-	-	-	-	-	-	(11,188)	(1,499)
Disposals	(355)	(48)	(2,926)	(392)	(4,960)	(665)	(9,382)	(1,257)	-	-	(17,623)	(2,362)
Spare parts replacement	-	-	-	-	37	5	(37)	(5)	-	-	-	-
Engines and aircraft spare part replacement	-	-	-	-	-	-	6,263	839	-	-	6,263	839
Correction of accumulated depreciation	-	-	-	-	-	-	(28)	(4)	-	-	(28)	(4)
Fx differences	-	36	-	31	-	621	-	101	-	-	-	789
Balance at 31 December 2017	<u>26,893</u>	<u>3,579</u>	<u>43,006</u>	<u>5,724</u>	<u>883,604</u>	<u>117,600</u>	<u>140,302</u>	<u>18,673</u>	<u>-</u>	<u>-</u>	<u>1,093,804</u>	<u>145,576</u>
NET BOOK VALUE												
Balance at 31 December 2017	<u>45,549</u>	<u>6,062</u>	<u>15,531</u>	<u>2,067</u>	<u>265,211</u>	<u>35,297</u>	<u>76,111</u>	<u>10,130</u>	<u>61,250</u>	<u>8,152</u>	<u>463,653</u>	<u>61,708</u>
Balance at 1 January 2017	<u>48,697</u>	<u>6,444</u>	<u>11,538</u>	<u>1,526</u>	<u>291,878</u>	<u>38,620</u>	<u>77,051</u>	<u>10,194</u>	<u>100,600</u>	<u>13,311</u>	<u>529,765</u>	<u>70,095</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

12. 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	129	7,119	945	9,282	1,233	38,050	5,053	56,397	7,489
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	-	77	-	1,568	-	254	1,337	250	1,337	2,260
Balance at 31 December 2016	<u>84,184</u>	<u>11,139</u>	<u>53,699</u>	<u>7,106</u>	<u>1,136,245</u>	<u>150,341</u>	<u>212,755</u>	<u>28,150</u>	<u>100,600</u>	<u>13,311</u>	<u>1,587,483</u>	<u>210,047</u>
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	<u>35,486</u>	<u>4,695</u>	<u>42,161</u>	<u>5,580</u>	<u>844,367</u>	<u>111,721</u>	<u>135,704</u>	<u>17,956</u>	<u>-</u>	<u>-</u>	<u>1,057,718</u>	<u>139,952</u>
NET BOOK VALUE												
Balance at 31 December 2016	<u>48,698</u>	<u>6,444</u>	<u>11,538</u>	<u>1,526</u>	<u>291,878</u>	<u>38,620</u>	<u>77,051</u>	<u>10,194</u>	<u>100,600</u>	<u>13,311</u>	<u>529,765</u>	<u>70,095</u>
Balance at 1 January 2016	<u>51,205</u>	<u>6,706</u>	<u>14,824</u>	<u>1,942</u>	<u>333,312</u>	<u>43,656</u>	<u>81,076</u>	<u>10,619</u>	<u>66,374</u>	<u>8,693</u>	<u>546,791</u>	<u>71,616</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

In 2017 on the basis of the analysis the estimated useful lives of major inspections on aircraft was changed from four to eight years. The depreciation cost for 2017 on the basis of the new estimate was HRK 22,251 thousand, or EUR 2,982 thousand. The effect of the change in the depreciation rate for 2017 amounted to HRK 21,374 thousand, or EUR 2,865 thousand in the favor of the profit and loss account.

Carrying value of the property plant and equipment pledged as security for repayment of loans at the reporting date amounts to HRK 106,335 thousand, EUR 14,152 thousand (2016.: HRK 135.845 thousand, EUR 17.974 thousand).

Fleet at 31 December 2017

Aircraft type	number	ownership	Allowance for residual value	Estimated useful life	Pledged as a collateral
Airbus A319	3	owned by Company	Yes	20	No
Airbus A319	1	owned by Company	Yes	20	Yes
Airbus A320	1	owned by Company	Yes	20	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 49,919 thousand, EUR 6,644 thousand (2016: HRK 54,220 thousand, EUR 7,174 thousand) paid to supplier for the acquisition of four new aircrafts in accordance with agreement and its annexes and investments in property, plant and equipment in the amount of HRK 11,331 thousand, EUR 1,508 thousand (2016: HRK 46,380 thousand, EUR 6,137 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 486,078 thousand, EUR 65,146 thousand (2016: HRK 555,760 thousand, EUR 73,805 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 2017

13. INVESTMENT PROPERTY

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

2017	Investment property	
	HRK thousand	EUR thousand
COST		
Balance at 1 January 2017	-	-
Transfer from property, plant and equipment	12,768	1,711
Fx differences	-	(12)
Balance at 31 December 2017	<u>12,768</u>	<u>1,699</u>
ACCUMULATED DEPRECIATION		
Balance at 1 January 2017	-	-
Transfer from property, plant and equipment	11,188	1,499
Charge for the year	632	85
Fx differences	-	(11)
Balance at 31 December 2017	<u>11,820</u>	<u>1,573</u>
NET BOOK VALUE		
At 31 December 2017	<u>948</u>	<u>126</u>
At 1 January 2017	<u>-</u>	<u>-</u>

Revenue generated from investment property in amount of HRK 1,030 thousand and EUR 138 thousand is included in the category of Other within Other sales revenue.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

14. INVESTMENTS IN SUBSIDIARIES

Name	Main activity	Share	2017		2016		2017		2016	
			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	136	1,020	135
Amadeus Croatia d.d.	Marketing services	95%	-	-	-	-	190	25	190	25
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210</u>	<u>161</u>	<u>1,210</u>	<u>160</u>

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

15. NON-CURRENT DEPOSITS

	2017		2016		2017		2016	
	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	25,941	3,453	38,230	5,058	25,894	3,446	38,182	5,052
Deposits at banks for employee loans	4,239	564	4,412	584	4,239	565	4,412	583
Deposits for bank guarantees	1,115	148	745	99	1,115	148	745	99
Deposits for business premises lease	626	83	626	83	626	83	626	83
	<u>31,921</u>	<u>4,248</u>	<u>44,013</u>	<u>5,824</u>	<u>31,874</u>	<u>4,242</u>	<u>43,965</u>	<u>5,817</u>

Non – current deposits given to suppliers consists of deposits given as guarantees to suppliers in the amount of HRK 25,894 thousand, EUR 3,446 thousand (2016: Deposits given as guarantees in the amount of HRK 21,694 thousand, EUR 2,870 thousand and deposit in the amount of HRK 16,488 thousand, EUR 2,182 thousand to supplier from whom the Company leases Airbus for future work on the aircraft).

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 2017

16. FINANCIAL ASSETS AVAILABLE FOR SALE

	Share	2017		2016		2017		2016	
		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%	783	104	1,163	154	783	104	1,163	154
Star Alliance		189	25	189	25	189	25	189	25
		<u>972</u>	<u>129</u>	<u>1,352</u>	<u>179</u>	<u>972</u>	<u>129</u>	<u>1,352</u>	<u>179</u>

Based on the fair value adjustments in the 2017 loss of HRK 380 thousand, EUR 51 thousand is recognized in other comprehensive income (2016: profit of HRK 172 thousand, EUR 23 thousand).

17. NON-CURRENT RECEIVABLES

	2017		2016		2017		2016	
	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	239	32	292	39	239	32	292	39
Other non-current receivables	175	23	175	23	175	23	175	23
	<u>414</u>	<u>55</u>	<u>467</u>	<u>62</u>	<u>414</u>	<u>55</u>	<u>467</u>	<u>62</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

	2017		2016		2017		2016	
	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	63,666	8,473	62,745	8,302	63,666	8,473	62,745	8,302
Catering, supplies and other inventories	2,094	279	1,748	231	2,094	279	1,748	231
	<u>65,760</u>	<u>8,752</u>	<u>64,493</u>	<u>8,533</u>	<u>65,760</u>	<u>8,752</u>	<u>64,493</u>	<u>8,533</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 2017

19. TRADE RECEIVABLES

	2017		2016		2017		2016	
	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 receivables	22,345	2,974	30,947	4,095	19,951	2,655	29,207	3,864
Foreign trade receivables	63,216	8,414	48,968	6,479	62,282	8,290	47,954	6,345
Allowance for doubtful receivables	(6,288)	(837)	(6,999)	(926)	(6,288)	(837)	(6,901)	(913)
	<u>79,273</u>	<u>10,551</u>	<u>72,916</u>	<u>9,648</u>	<u>75,945</u>	<u>10,108</u>	<u>70,260</u>	<u>9,296</u>

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

	2017		2017	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Allowance for doubtful receivables				
1 January	6,999	926	6,901	913
Increase	931	125	839	112
Decrease	(198)	(27)	(198)	(27)
Write-offs	(1,036)	(138)	(874)	(116)
Foreign exchange differences	(408)	(49)	(380)	(45)
31 December	<u>6,288</u>	<u>837</u>	<u>6,288</u>	<u>837</u>

	2016		2016	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Allowance for doubtful receivables				
1 January	13,621	1,784	13,446	1,761
Increase	175	23	73	10
Decrease	(267)	(35)	(267)	(35)
Write-offs	(6,267)	(832)	(6,192)	(822)
Foreign exchange differences	(263)	(14)	(159)	(1)
31 December	<u>6,999</u>	<u>926</u>	<u>6,901</u>	<u>913</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

20. OTHER RECEIVABLES

	2017		2016		2017		2016	
	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	50	7	239	32	48	6	238	31
Receivables from the State	8,749	1,163	10,186	1,347	8,673	1,154	10,121	1,339
Receivables from share in profits	-	-	-	-	-	-	163	22
Receivables from insurers	28	4	440	58	28	4	440	58
Receivables for advances	3,663	488	5,756	762	3,663	488	5,756	762
	<u>12,490</u>	<u>1,662</u>	<u>16,621</u>	<u>2,199</u>	<u>12,412</u>	<u>1,652</u>	<u>16,718</u>	<u>2,212</u>

21. PREPAYMENTS AND ACCRUED REVENUE

	2017		2016		2017		2016	
	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	21,969	2,924	20,628	2,729	21,846	2,908	20,275	2,683
Accrued revenue	12,052	1,604	5,707	755	12,052	1,604	5,707	755
	<u>34,021</u>	<u>4,528</u>	<u>26,335</u>	<u>3,484</u>	<u>33,898</u>	<u>4,512</u>	<u>25,982</u>	<u>3,438</u>

22. FINANCIAL ASSETS

	2017		2016		2017		2016	
	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	2,416	322	9,937	1,315	2,362	314	9,917	1,312
	<u>2,416</u>	<u>322</u>	<u>9,937</u>	<u>1,315</u>	<u>2,362</u>	<u>314</u>	<u>9,917</u>	<u>1,312</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

23. CASH AND CASH EQUIVALENTS

	2017		2016		2017		2016	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Gyro account	18,061	2,404	12,626	1,671	16,570	2,205	10,658	1,410
Foreign currency accounts	21,201	2,822	19,056	2,522	20,370	2,711	18,554	2,455
Petty cash	30	4	16	2	14	2	10	1
Foreign currency petty cash	84	11	100	13	82	11	99	13
Short-term deposits	1,459	194	780	103	1,450	193	771	103
	40,835	5,435	32,578	4,311	38,486	5,122	30,092	3,982

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:

2017	Number of shares	HRK thousand	Share %
Shareholders			
Restructuring and Sale Center for Republic of Croatia	26,886,888	268,870	96.76
Zagreb International Airport	477,121	4,771	1.72
HPB for Republic of Croatia	297,701	2,977	1.07
Others	126,243	1,262	0.45
	27,787,953	277,880	100.00
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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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 2016	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
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	(380)	(51)	670	90	290	39
Total comprehensive income	-	-	-	-	-	-	(380)	(51)	670	90	290	39
Transactions with owners												
Transfer of profit from 2016 to other reserves	-	-	7,519	999	-	-	-	-	-	-	7,519	999
Transfer of retained earnings to other reserves	-	-	812	107	-	-	-	-	-	-	812	107
Total transaction with owners	-	-	8,331	1,106	-	-	-	-	-	-	8,331	1,106
Balance at 31 December 2017	14,550	1,910	89,932	11,675	-	-	(920)	(120)	(822)	(103)	102,740	13,362

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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 2016	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
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	(380)	(51)	670	90	290	39
Total comprehensive income	-	-	-	-	-	-	(380)	(51)	670	90	290	39
Transactions with owners												
Transfer of profit from 2016 to other reserves	-	-	8,042	1,068	-	-	-	-	-	-	8,042	1,068
Total transaction with owners	-	-	8,042	1,068	-	-	-	-	-	-	8,042	1,068
Balance at 31 December 2017	14,550	1,910	88,666	11,509	-	-	(920)	(120)	(822)	(103)	101,474	13,196

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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 General Assembly of 6 July 2016 the profit from 2015 in the amount of HRK 13,829 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. Based on the decision of the General Assembly of 17 July 2017, profit realized in 2016 in the amount of HRK 8,042 thousand, or EUR 1,068 thousand was transferred to other capital reserves.

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 (2016: HRK 10 thousand, EUR 1 thousand), and HRK 100 thousand, EUR 14 thousand of other reserves (2016: HRK 100 thousand, EUR 14 thousand). The company Obzor putovanja d.o.o. has other reserves in the amount of HRK 1,156 thousand, EUR 151 thousand (2016: 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 919 thousand, EUR 120 thousand (2016: HRK 540 thousand, EUR 69 thousand).

Protection reserve

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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:

	2017 Croatia Airlines Grupa		2016 Croatia Airlines Grupa	
	HRK	EUR	HRK	EUR
Profit for the year in thousands	25,020	3,354	7,565	1,005
Number of issued shares		27,787,953		27,787,953
Basic and diluted earnings per share in HRK/EUR	0.90	0.12	0.27	0.04

	2017 Croatia Airlines d.d.		2016 Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR
Profit for the year in thousands	24,941	3,343	8,042	1,068
Number of issued shares		27,787,953		27,787,953
Basic and diluted earnings per share in HRK/EUR	0.90	0.12	0.29	0.04

27. PROVISIONS

Provisions of the Group and Companies are as follows:

	Provision for court cases		Provision for severance payments		Other provisions		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance as at 31 December 2016	2,334	309	1,002	133	-	-	3,336	442
Provisions made during year	1,115	149	321	43	10,131	1,358	11,567	1,550
Provisions used during year	(381)	(51)	(64)	(9)	-	-	(445)	(60)
Provisions reversed during year	-	-	-	-	-	-	-	-
Reclassified from other payables	-	-	-	-	20,816	2,790	20,816	2,790
Foreign exchange differences	-	1	-	1	-	(29)	-	(27)
Balance as at 31 December 2017	3,068	408	1,259	168	30,947	4,119	35,274	4,695

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.

Other provisions relate to the estimated obligations related to the process of the OIC (Offer in Compromise) in order to reach a settlement with the US IRS (Internal Revenue Service), about ways of settling the remaining liabilities for US taxes.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

28. NON-CURRENT LOANS AND BORROWINGS

	2017		2016		2017		2016	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Non-current loans	31,557	4,200	46,859	6,200	31,557	4,200	46,859	6,200
Current portion of non-current loans	(15,027)	(2,000)	(15,116)	(2,000)	(15,027)	(2,000)	(15,116)	(2,000)
	16,530	2,200	31,743	4,200	16,530	2,200	31,743	4,200

Description of long-term loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2017		2016	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
			3m EURIBOR + 5.5% (min 8%)	October 2019				
Loan for refinancing debts	EUR	15,000			31,557	4,200	46,859	6,200
					31,557	4,200	46,859	6,200
Current portion					(15,027)	(2,000)	(15,116)	(2,000)
Non-current loans					16,530	2,200	31,743	4,200

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

	2017		2017	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
2018	15,027	2,000	15,027	2,000
2019	16,530	2,200	16,530	2,200
	31,557	4,200	31,557	4,200

Long-term loan is secured with pledge over an aircraft.

Adjustment of long-term borrowings with cash flows from financial activities has been reported in Note 29.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

29. CURRENT LOANS AND BORROWINGS

	2017		2016		2017		2016	
	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	54,044	7,193	33,146	4,386	54,044	7,193	33,146	4,386
	54,044	7,193	33,146	4,386	54,044	7,193	33,146	4,386

Description of Company's current loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2017		2016	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
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	treasury bills 91 days + 5.8%	September 2017	-	-	7,450	986
Loan for current liquidity	HRK	30,000	4.75% variable	September 2018	30,000	3,993	-	-
Loan for current liquidity	EUR	3,200	3m EURIBOR + 3.50%	June 2018	24,044	3,200	-	-
					54,044	7,193	33,146	4,386

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

	Non-current loans		Current loans		Total loans	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance as at 1 January 2017	46,859	6,200	33,146	4,386	80,005	10,586
Changes from financing cash flows						
Proceeds from loans and borrowings	-	-	37,450	5,019	37,450	5,019
Repayment of loans and borrowings	(14,992)	(2,009)	(8,931)	(1,197)	(23,923)	(3,206)
Total changes from financing cash flows	(14,992)	(2,009)	28,519	3,822	13,527	1,813
Other changes						
Compensated with receivables from credit card companies	-	-	(7,450)	(998)	(7,450)	(998)
Foreign exchange differences	(310)	(42)	(171)	(23)	(481)	(65)
Effect of FX recalculation	-	51	-	6	-	57
Total other changes	(310)	9	(7,621)	(1,015)	(7,931)	(1,006)
Balance as at 31 December 2017	31,557	4,200	54,044	7,193	85,601	11,393

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

30. TRADE PAYABLES

	2017		2016		2017		2016	
	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	71,483	9,514	75,911	10,044	70,382	9,367	75,064	9,932
Foreign trade payables	78,102	10,394	127,920	16,926	77,806	10,356	127,703	16,897
	<u>149,585</u>	<u>19,908</u>	<u>203,831</u>	<u>26,970</u>	<u>148,188</u>	<u>19,723</u>	<u>202,767</u>	<u>26,829</u>

31. OTHER CURRENT LIABILITIES

	2017		2016		2017		2016	
	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	128,287	17,074	122,702	16,235	128,287	17,074	122,702	16,235
Deposits and advances received	12,779	1,701	14,865	1,967	12,779	1,701	14,865	1,967
Liabilities for salaries	17,097	2,275	18,185	2,406	16,797	2,236	17,889	2,367
Other current liabilities	4,127	550	16,881	2,233	3,857	512	16,681	2,207
	<u>162,290</u>	<u>21,600</u>	<u>172,633</u>	<u>22,841</u>	<u>161,720</u>	<u>21,523</u>	<u>172,137</u>	<u>22,776</u>

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

32. ACCRUED EXPENSES AND DEFERRED INCOME

	2017		2016		2017		2016	
	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	1,909	254	1,762	233	1,909	254	1,762	233
Accrual for unused holiday	1,298	173	908	120	1,213	161	823	109
Accrued expenses	17,101	2,276	22,603	2,991	16,860	2,244	22,421	2,967
	<u>20,308</u>	<u>2,703</u>	<u>25,273</u>	<u>3,344</u>	<u>19,982</u>	<u>2,659</u>	<u>25,006</u>	<u>3,309</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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 six 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. During 2017 Company signed a contract extension to continue the lease of four aircraft Bombardier Q400 of which for two aircraft by 2024 and two by 2025.

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:

	2017 HRK thousand	2017 EUR thousand	2016 HRK thousand	2016 EUR thousand
Less than one year	103,249	13,838	119,791	15,908
Between one and five years	307,808	41,254	267,686	35,549
More than five years	87,738	11,759	16,609	2,206
	<u>498,795</u>	<u>66,851</u>	<u>404,086</u>	<u>53,663</u>

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

	2017 HRK thousand	2017 EUR thousand	2016 HRK thousand	2016 EUR thousand
Less than one year	5,643	756	34,735	4,613
Between one and five years	480,435	64,390	521,025	69,192
More than five years	-	-	-	-
	<u>486,078</u>	<u>65,146</u>	<u>555,760</u>	<u>73,805</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

34. EMPLOYEES

Number of employees as of 31 December is as follows:

	2017	2016
Croatia Airlines d.d.		
Pilots i co-pilots	119	122
Cabin attendants	143	148
Maintenance and overhaul	237	254
Ticket sales and promotion	126	125
Airport handling	119	113
Other staff	180	178
	<u>924</u>	<u>940</u>
Subsidiaries		
Obzor putovanja d.o.o.	13	16
Amadeus Croatia d.d.	8	8
Total	<u>945</u>	<u>964</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

35. RELATED PARTY TRANSACTIONS

35.1 TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES

Transactions with related parties are as follows:

	2017 HRK thousand	2017 EUR thousand	2016 HRK thousand	2016 EUR thousand
Revenue				
Obzor putovanja d.o.o.	104	14	42	6
Amadeus Croatia d.d.	30	4	115	15
Total revenue	134	18	157	21
Income from share in profits				
Obzor putovanja d.o.o.	-	-	763	101
Amadeus Croatia d.d.	-	-	50	7
Total income from share in profits	-	-	813	108
Expenses				
Obzor putovanja d.o.o.	2	-	2	-
Amadeus Croatia d.d.	-	-	-	-
Total expenses	2	-	2	-
	2017 HRK thousand	2017 EUR thousand	2016 HRK thousand	2016 EUR thousand
Trade receivables				
Obzor putovanja d.o.o.	26	3	9	1
Amadeus Croatia d.d.	3	-	3	-
Total trade receivables	29	3	12	1
Receivables for share in profits				
Obzor putovanja d.o.o.	-	-	163	22
Amadeus Croatia d.d.	-	-	-	-
Total receivables for share in profits	-	-	163	22
Trade payables				
Obzor putovanja d.o.o.	2	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Total trade payables	2	-	-	-

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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:

	2017 HRK thousand	2017 EUR thousand	2016 HRK thousand	2016 EUR thousand
Revenue				
Zračna luka Osijek d.o.o., Klisa	1,016	136	213	28
Zračna luka Pula d.o.o., Pula	54	7	50	7
Zračna luka Rijeka d.o.o., Omišalj	23	3	12	2
Zračna luka Zadar d.o.o., Zadar	50	7	34	5
Zračna luka Split d.o.o., Kaštel Štafilić	578	77	494	66
Zračna luka Dubrovnik d.o.o., Čilipi	134	18	128	17
Zrakoplovno-tehnički centar d.d., Velika Gorica	2	-	4	1
HP – Hrvatska pošta d.d., Zagreb	1,498	201	1,777	236
INA – Industrija nafte d.d., Zagreb	1	-	-	-
Total revenue	3,356	449	2,712	362
Expenses				
Zračna luka Osijek d.o.o., Klisa	420	56	168	22
Zračna luka Pula d.o.o., Pula	3,730	500	2,575	342
Zračna luka Rijeka d.o.o., Omišalj	581	78	77	10
Zračna luka Zadar d.o.o., Zadar	5,494	736	3,405	452
Zračna luka Split d.o.o., Kaštel Štafilić	43,745	5,863	20,162	2,678
Zračna luka Dubrovnik d.o.o., Čilipi	38,592	5,172	14,727	1,956
Zrakoplovno-tehnički centar d.d., Velika Gorica	219	29	363	48
HP – Hrvatska pošta d.d., Zagreb	63	8	70	9
INA – Industrija nafte d.d., Zagreb	129,760	17,391	119,441	15,862
Total expenses	222,604	29,833	160,988	21,379

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 2017

35. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2017 HRK thousand	2017 EUR thousand	2016 HRK thousand	2016 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
Zračna luka Zadar d.o.o., Zadar	-	-	-	-
Zračna luka Split d.o.o., Kaštel Štafilić	20	3	19	3
Zračna luka Dubrovnik d.o.o., Čilipi	25	3	28	4
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-	-	-
HP – Hrvatska pošta d.d., Zagreb	155	21	235	31
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total receivables	200	27	288	39
Payables				
Zračna luka Osijek d.o.o., Klisa	3	-	17	2
Zračna luka Pula d.o.o., Pula	363	48	634	84
Zračna luka Rijeka d.o.o., Omišalj	-	-	-	-
Zračna luka Zadar d.o.o., Zadar	561	75	765	101
Zračna luka Split d.o.o., Kaštel Štafilić	6,603	879	8,309	1,099
Zračna luka Dubrovnik d.o.o., Čilipi	4,464	594	6,657	881
Zrakoplovno-tehnički centar d.d., Velika Gorica	50	7	21	3
HP – Hrvatska pošta d.d., Zagreb	10	1	9	1
INA – Industrija nafte d.d., Zagreb	12,716	1,692	11,590	1,534
Total payables	24,770	3,296	28,002	3,705

PSO benefit

During the year the Company realized revenue in the amount of HRK 75,322 thousand, EUR 10,095 thousand (2016: HRK 82,604 thousand, EUR 10,970 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 8,574 thousand, EUR 1,141 thousand and is part of receivables from the State in the Note 25 (2016: HRK 9,936 thousand, EUR 1,315 thousand).

Current loans

During the year Company used short-term loans from bank owned by Republic of Croatia in the amount of HRK 30,000 thousand, EUR 4,021 thousand (2016: HRK 7,450 thousand, EUR 989 thousand). The loan liability at the reporting date amounts to HRK 30,000 thousand, or EUR 3,933 thousand (2016: there were no obligation at the reporting date, loan was repaid in full amount during the year). Interest expense recognized during the year amounted to HRK 98 thousand, EUR 13 thousand (2016: HRK 334 thousand, EUR 44 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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:

	2017	2017	2016	2016
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Gross salaries	7,051	945	7,701	1,023
Gross benefit in kind	389	52	369	49
Severance payments	1,030	138	-	-
	<u>8,470</u>	<u>1,135</u>	<u>8,070</u>	<u>1,072</u>

As at 31 December 2017 the number of Management Board members, directors and other key management personnel was 14 (2016: 15 employees).

Compensation to Supervisory Board members during 2017 amounted to HRK 200 thousand, EUR 27 thousand (2016: HRK 235 thousand, EUR 31 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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 2017

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
2017				
<i>Financial assets available for sale</i>				
Listed entities	783	-	-	783
Unlisted entities	-	-	189	189
Total	783	-	189	972
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2017				
<i>Financial assets available for sale</i>				
Listed entities	104	-	-	104
Unlisted entities	-	-	25	25
Total	104	-	25	129
	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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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:

	2017		2016		2017		2016	
	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	85,601	11,393	80,057	10,593	85,601	11,393	80,057	10,593
Cash and cash equivalents	(40,835)	(5,435)	(32,578)	(4,311)	(38,486)	(5,122)	(30,092)	(3,982)
Net debt	<u>44,766</u>	<u>5,958</u>	<u>47,479</u>	<u>6,282</u>	<u>47,115</u>	<u>6,271</u>	<u>49,965</u>	<u>6,611</u>
Equity	<u>407,080</u>	<u>54,178</u>	<u>381,770</u>	<u>50,514</u>	<u>404,295</u>	<u>53,808</u>	<u>379,064</u>	<u>50,153</u>
Debt to equity	11%	11%	12%	12%	12%	12%	13%	13%

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 28 and 29. The interest rate on bank deposits is disclosed in Note 15. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 22 thousand, EUR 3 thousand would debit income statement (2016: HRK 33 thousand, EUR 4 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 22 thousand, EUR 3 thousand would credit income statement for the period ended 31 December 2017 (2016: HRK 33 thousand, EUR 4 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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	
	2017	2016	2017	2016
Profit / (loss)	<u>(380)</u>	<u>(504)</u>	<u>165</u>	<u>(27)</u>

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

HRK thousand	Currency impact EUR		Currency impact USD	
	2017	2016	2017	2016
Profit / (loss)	<u>3,077</u>	<u>2,916</u>	<u>2,090</u>	<u>1,283</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

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 12,337 thousand, EUR 1,659 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of HRK 12,337 thousand, EUR 1,659 thousand would credit profit and loss account for the year 2017 (2016: HRK 10,004 thousand, EUR 1,329 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 2017

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 2017

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 2017 and 2016. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31.12.2017.

	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Assets										
Non-current deposits	31,874	4,242	-	-	-	-	-	-	31,874	4,242
Investments available for sale	972	129	-	-	-	-	-	-	972	129
Non-current receivables	414	55	-	-	-	-	175	23	239	32
Trade receivables	75,945	10,108	75,945	10,108	-	-	-	-	-	-
Other receivables	25,225	3,357	25,185	3,352	40	5	-	-	-	-
Financial assets	2,362	314	1,353	180	1,009	134	-	-	-	-
Cash and cash equivalents	38,486	5,122	38,486	5,122	-	-	-	-	-	-
Total assets	175,278	23,327	140,969	18,762	1,049	139	175	23	33,085	4,403
Liabilities										
Non-current loans and borrowings	31,557	4,200	4,508	600	10,519	1,400	16,530	2,200	-	-
Current loans and borrowings	54,044	7,193	39,044	5,196	15,000	1,996	-	-	-	-
Interest on loans and borrowings	4,180	556	2,247	299	1,069	142	864	115	-	-
Trade payables	148,188	19,723	148,188	19,723	-	-	-	-	-	-
Other payables	81,889	10,899	40,752	5,424	5,863	780	34,015	4,527	1,259	168
Total liabilities	319,858	42,571	234,739	31,242	32,451	4,318	51,409	6,842	1,259	168
Difference	(144,580)	(19,244)	(93,770)	(12,480)	(31,402)	(4,179)	(51,234)	(6,819)	31,826	4,235

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2017

36. RISK MANAGEMENT (CONTINUED)

36.1 Liquidity risk tables (continued)

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	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	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	3,088	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	16,476	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)	(21,202)	(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 2017

37. AUDITOR FEES

The agreed audit fee of consolidated and separate financial statements of the Company and Group Croatia Airlines for the year 2017 amounts to HRK 192 thousand plus the amount of value added tax (2016: HRK 192 thousand + VAT).

38. EVENTS AFTER THE REPORTING DATE

After December 31, 2017, there were no events that have a significant impact on the financial statements for 2017 or are of such significance for the business to require disclosure in the notes to the financial statements

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 27 April 2018.

Signed for and on behalf of the Company on 27 April 2018:

Teodora Wenzler Brezak



Director of Finance and Accounting

Jasmin Bajić



President of the Management Board and CEO