

Croatia Airlines Consolidated and Separate Annual Report for the year ended 31.12.2018



April 2019



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

DECLARATION

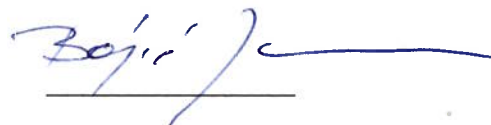
That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31st December 2018 have been prepared by using the appropriate financial reporting standards, and provide complete and truthful presentation of assets and liabilities, losses and gains, the 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

A handwritten signature in blue ink, appearing to read 'Bajić', followed by a horizontal line.

Jasmin Bajić

Zagreb, April 30th, 2019



A STAR ALLIANCE MEMBER 

The Management's Business Report for 2018



April 2019

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Typical indicators

Fleet

type of aircraft	number at the end of 2018	seats	ownership	lease	Ø age (years)	number at the end of 2017	ownership	lease
Airbus A320	2	348	1	1	19,08	2	1	1
Airbus A319	4	576	4	-	19,94	4	4	-
Q-400	6	456	-	6	9,60	6	-	6
TOTAL	12	1.380	5	7	14,63	12	5	7

Traffic indicators

Description			2018	2017	2016
flights (km)	DIST	000	18.793	18.321	17.220
departures	FLTS		28.003	27.491	26.848
growth rate		%	2	2	4
block hours	BH		40.196	39.345	37.890
growth rate		%	2	4	2
passengers carried	RPAX	000	2.169	2.125	1.939
growth rate		%	2	10	5
freight&mail carried	CGO	T	2.264	2.273	2.591
growth rate		%	0	-12	-5
passenger km flown	RPK	mil	1.666	1.630	1.446
available seat - km	ASK	mil	2.266	2.191	2.066
passenger load factor	PLF	%	73,5	74,4	70,0
tonne km flown	RTK	mil	168	165	146
available tonne-km	ATK	mil	239	231	215
weight load factor	WLF	%	70,4	71,3	68,1

Financial indicators

Indicators	Unit	2018	2017	2016
Operating revenue	mIn HRK	1.701	1.767	1.561
% of change	%	-3,7	13,2	
Total Revenue	mIn HRK	1.758	1.834	1.610
% of change	%	-4,2	13,9	
Operating expenses	mIn HRK	1.778	1.745	1.553
% of change	%	1,9	12,4	
Total expenses	mIn HRK	1.841	1.827	1.602
% of change	%	0,8	14,0	
Operating profit/loss	mIn HRK	-76,5	22,2	7,8
Net profit/loss	mIn HRK	-82,9	7,3	8,0
EBIT	mIn HRK	-78,5	12,5	15,6
EBITDA	mIn HRK	22,3	106,9	101,0
EBIT margin	%	-4,6	0,7	1,0
Efficiency ratio		1,0	1,0	1,0
ROA	%	-9,6	0,9	0,9
ROE	%	-27,3	1,9	2,1
Unit operating cost	HRK/ATKM	7,4	7,6	7,2
Unit operating revenue	HRK/ATKM	7,1	7,7	7,3
Passenger yield (passenger revenue in EUR/RPKM)	€cent/RPKM	12,2	11,6	12,4
Current ratio		0,4	0,5	0,5
Debt ratio		0,6	0,5	0,6
Investment ratio		1,7	1,1	1,3
Average number of employees		1.002	991	984

Productivity indicators

Productivity Indicators	2018	2017	2016
Employees (tkm/employee)	167.869	166.114	148.845
Aircraft (BH/day)	9,1	8,6	8,9
Fuel (tkm/tonne)	2.579	2.620	2.434

Croatia Airlines in 2018 – introduction

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

Ownership structure

Croatia Airlines is a joint-stock company.

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

Shareholder	No. of shares	Portion in the share capital (in %)
CERP FOR THE REPUBLIC OF CROATIA	27.010.821	97,2033
AIRPORT ZAGREB D.O.O.	477.121	1,7170
HPB FOR THE REPUBLIC OF CROATIA	173.768	0,6253
JANAF D.D.	22.000	0,0792
CROATIA INSURANCE D.D.	10.270	0,0370
CROATIA LOTERY D.O.O.	4.000	0,0144
ASTRA INTERNATIONAL D.D.	3.682	0,0133
HP D.D.	2.750	0,0099
TURISTHOTEL D.D.	2.090	0,0075
TANKERKOMERC D.D.	2.090	0,0075

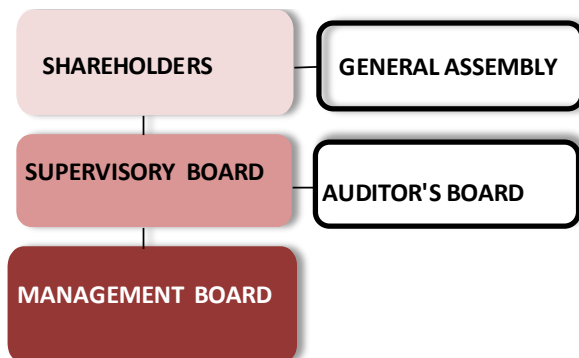
The related companies owned by Croatia Airlines d.d. in 2018 were Amadeus Croatia d.d. and Obzor putovanja d.o.o., as independent business entities.

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 2018 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.

Pursuant to the Company's Articles of Association, the Company's Management Board has one member at least and a maximum of three members, while the Supervisory Board has five members, one of whom is the representative of employees. The Management Board is chaired by Jasmin Bajić, and the Supervisory Board by Zlatko Mateša, LLB. In 2018, the Supervisory Board composition changed since its member Mrs Darija Jurica Vuković resigned.

Foreign branch offices

Croatia Airlines has seven foreign branch offices: Brussels branch office - Benelux, Frankfurt branch office - Germany, Paris branch office - France, Rome

branch office - Italy, Sarajevo branch office - Bosnia and Herzegovina, Skopje branch office - Macedonia, and Zurich branch office - Switzerland.

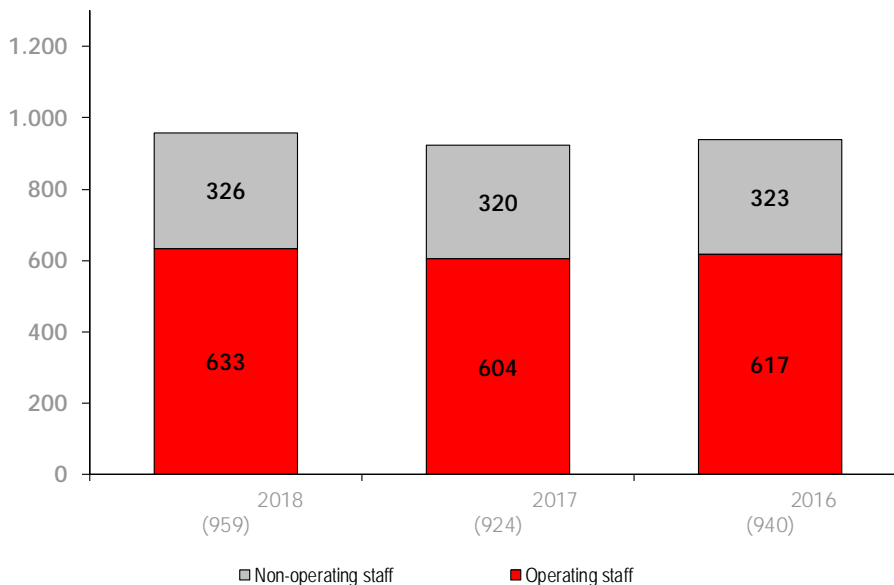
In January 2018, the London branch office – Great Britain closed down, while the Frankfurt branch office was relocated.

Rome	Italy	Paris	France	Sarajevo	Bosnia and Herzegovina
Address:	Aeroporto Leonardo Da Vinci Torre Uffici 2, room 518 00054 Fiumicino	Address:	Roissypôle Le Dôme, 1 Rue de la Haye, BP 18913 Tremblay en France 95731 Roissy CDG Cedex	Address:	Zračna luka Sarajevo Ul. Khurta Schorka 36, 71 210 Sarajevo
Bruxelles	Benelux	Frankfurt	Germany	Skopje	Macedonia
Address:	Brussels Airport, Box 31 1930 Zaventem	Address:	Kaiserstr.7 60311 Frankfurt a.M.	Address:	Skopje International Airport 1043 Petrovec - Skopje
				Zürich	Switzerland
				Address:	Letzigraben 154; 8047 Zürich

Human resources

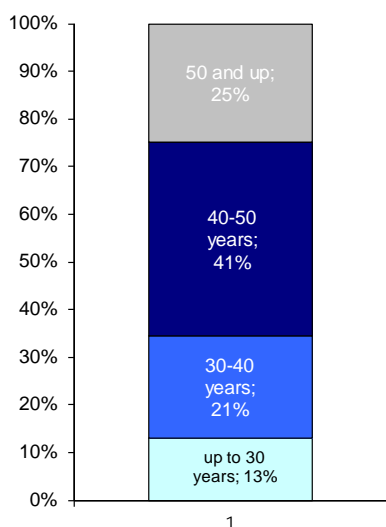
On 31 December 2018, the Company had 959 employees, including 36 foreign branch office employees. Compared to the end of 2017, the number of employees rose by 4%.

Number of employees on 31 12 2018



During 2018, Croatia Airlines also used the services of posted workers, hired primarily as auxiliary aircraft maintenance staff in the aircraft works season. On 31 December 2018, the Company had no posted workers.

Structure by age 2018

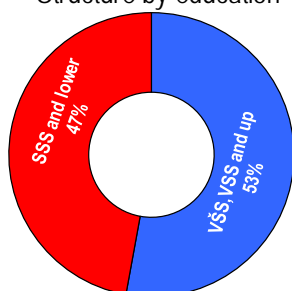


At the end of 2018, the **number of operative staff members** was 5% higher, while the **number of non-operative staff members** was 3% higher compared to the end of 2017. In order to cover the summer flight schedule, the Company hired 55 cabin staff employees on a seasonal basis.

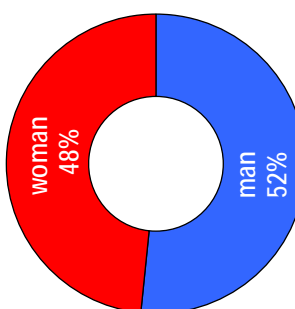
The share of operative staff members¹ within the Company was 66%, while that of non-operative staff members was 34%.

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

Structure by education

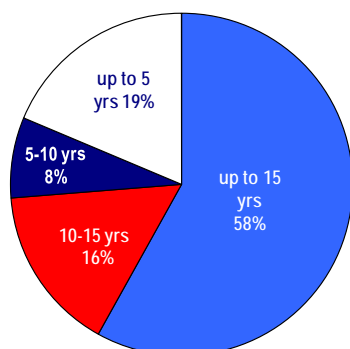


Structure by gender



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

Structure by employment record



The average overall employment record of the Company's operative staff was 16 years of service, and that of the non-operative staff was 21 years, while the average employment record on the level of the entire Company was 18 years. The average employment record in the Company was 13 years of service for the operative staff, and 18 years for the non-operative staff, while the average employment record in the Company on the level of the entire Company was 15 years, showing a high level of loyalty on the part of employees, with many of them spending their entire career at Croatia Airlines.

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

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)	2018	2017	2016
Operative staff	7.188.758	4.648.913	5.728.993
Annual change rate	55%	-19%	-12%
Non-operative staff	598.964	470.595	700.000
Annual change rate	27%	-33%	5%
Total	7.787.722	5.119.508	6.428.993
Annual change rate	52%	-20%	-10%

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

In 2018, the **Technical Training Centre** continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance of PART 66 licences².

The basic (commercial) training programme continued, with a new group of foreign students being enrolled in February, by which the prerequisites were met for conducting examinations in the basic training modules. The first module -1 examination for the Technical Sector employees was held in December, and the plan is to continue with these activities in 2019.

Within the PART 147³ Type-training, one theoretical and two practical courses were held for the aircraft types Q400. Also, one theoretical and two practical difference training courses were held for upgrades from A320 (CFM56) to A320 (V2500) aircraft type.

About a hundred training courses were held as prescribed by the PART 145⁴ regulations, comprising all of the planned courses for extending internal authorisations of Croatia Airlines' PART 145 engineers and mechanics.

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

In 2018, the **Operations Training Centre** organised and carried out all of the planned mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the Company to extend all authorisations and licences necessary for the performance of its activities.

For A319/A320 aircraft, all pilots received training in the change of SOPs (Standard Operating Procedures), enabling all first officers to be the PF (Pilot Flying) throughout the flight. By introducing this procedural change, Croatia Airlines almost completely complied with the manufacturer's procedures (Airbus SOP). A number of base training courses for the A319/A320 and Q400 were provided in cooperation with the partners.

Four out of six candidates underwent the planned commercial training for A320 aircraft pilots.

The Company also held all of the planned training courses for its cabin staff, and a number of courses related to the procedure of handling dangerous goods DGR⁵, CRM⁶ trainings for external users, and base training courses for Croatia Airlines' partners.

During 2018, the Croatian Civil Aviation Agency carried out a number of audits and inspections for the purpose of implementing on-going supervision of activities performed by the Operations Training Centre staff at Croatia Airlines' premises, on

² PART66 – Aircraft Maintenance Licences

³ PART147 – Maintenance Training Organizations

⁴ PART 145 – Maintenance Organization

⁵ DGR – Dangerous Goods Regulations

⁶ CRM – Crew Resource Management

simulators and on the Croatia Airlines aircraft flights. The results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and TRI/TRE work on them were carried out in accordance with the provisions of the OM-D⁷ & Quality Inspection Orders for the purpose of monitoring and raising the quality of the work of TRI/TRE. The TRE/TRI work was standardised for both aircraft types in the segment of regulatory changes, documentation and training for the entry of aircraft type authorisations. In line with the amended regulations and individual training programmes, the OM-D and ATO⁸ manuals were revised.

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.

In 2018, the **Training Centre** carried out a number of internal training courses for the non-operative staff, with the aim of giving employees an opportunity to obtain additional industry expertise related to technological changes, and business skills needed for their everyday work.

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 2018, series of regular training courses were organised for sales employees, ground operations employees and travel agency employees, the topic being reservations, passenger tariffs, automated document printing and ticket reissuance. 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.

The same as every year, all employees in direct contact with passengers attended the necessary training courses prescribed by the Star Alliance, with an emphasis on the recognition and benefits of the privileged categories of Star Alliance passengers, and standard procedures in extraordinary situations, in order to maintain the high service quality and improve the level of passenger satisfaction in general.

Training sessions were held for various employee profiles with the aim of making them qualified for key account management, ensuring efficient communication with clients, improving teamwork and organisational cohesion, and developing the managerial staff.

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

As 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 2018, Croatia Airlines Training Centre provided training to a

⁷ OM-D – Operational Manual Part D

⁸ ATO – Approved Training Organizations

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.

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

Responsibility to employees

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

Benefits and supports

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

In the event of longer sick leaves, severe illnesses 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

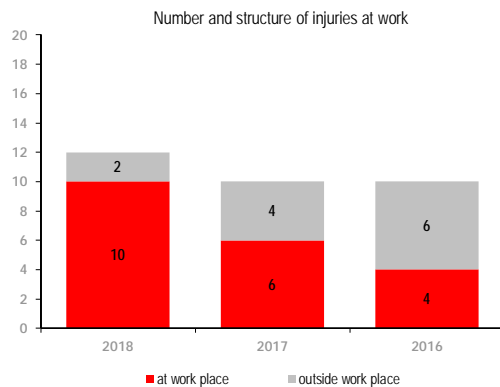
The organisation of occupational safety, fire protection and environmental protection is prescribed by the relevant legal regulations and the Company's internal rules.

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 2018, specialist training was provided to 25 employees for handling hydraulic platform lifts, to seven employees for handling a wood processing machine (band saw), and to two employees for handling a fork-lift. The Croatian Institute for Toxicology and Antidoping held a specialist training course for 17 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 periodical 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 2018: 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 2018, no supervision of the implementation of occupational safety measures was carried out by the labour inspectorate.

Altogether 14 injuries at work were reported in 2018 (four women and ten men). Of the 14 reported injuries, 12 were acknowledged,

one was rejected, and one is still being processed by the Croatian Health Insurance Institute. Of the 12 acknowledged ones, ten were sustained at work, and two while arriving to/leaving the workplace. When classifying the sustained injuries in accordance with the AUVA method, two were severe. There were no deaths related to injuries at work 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 nine members. Through the Works Council, and in a way and under the conditions prescribed by the Labour Act, the Company's employees participate in making decisions related to their economic and social rights and interests.

Social responsibility

Transport and tourism

As a national flag carrier, Croatia Airlines 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 2018 Croatia Airlines introduced two new destinations: Mostar and Dublin, and two new seasonal routes: Dubrovnik – Munich and Split – Copenhagen.

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

As a fully-fledged member of the International Air Transport Association (IATA) and the renowned airline organisation Star Alliance, Croatia Airlines has been recognised as a Croatian brand on all of the markets it flies to. Its corporate design aims to project its image of a highly reputable airline not only in Croatia but throughout the world, and its visual identity contributes to its being recognised as a Croatian brand. Croatia Airlines connects Croatia with the world throughout the year, thus strongly supporting the development of Croatia's tourism and economy, while the authentic visual identity of its aircraft carrying the „CROATIA“ sign, present at all airports the Company flies to, significantly contributes to the promotion of Croatia as the destination.

Croatia Airlines contributes to the development of Croatia's tourism and economy on an ongoing basis. Within the project Inspired by Croatia, it has been presenting the country's cuisine by offering its passengers quality meals made with the local groceries and based on the local recipes. A special meal offer – winter menu has been created for Croatia Airlines' business class passengers, based precisely on the recipes and groceries that have slipped into oblivion in Croatia or have not been sufficiently presented.

Croatia Airlines continues to promote Croatia as a brand via its travel magazine Croatia, with an emphasis on the natural beauties, historical values and cultural events.

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 2018, Croatia Airlines became the official air carrier of the Croatian Football Federation. The Croatian football team returned home on Croatia Airlines' flight after winning the silver medal at the World Cup in Russia. To mark this success of the Croatian sport, an Airbus 319 was specially emblazoned with the logo *Bravo Vatreni!* (*Congratulations to our Fiery Team!*) Croatia Airlines also organised transport of Croatia's tennis players after winning the Davis Cup, flying them from Paris to Zagreb, which was posted on the social networks.

It also 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, as well as the Croatian Tennis Association.

Through sponsorships on a regular basis, Croatia Airlines promotes and presents its brand and services through numerous institutions and at numerous cultural events contributing to the advancement of Croatia's tourism (Dubrovnik Summer Festival, Easter Regatta, exhibition Nikola Tesla – Mind from the Future, Weekend Media Festival, Days of Communication, Zagreb Dox).

Support for the community

Croatia Airlines provides help and direct humanitarian aid by granting cost-free transport for severely ill patients, children or people in need, and participating in charity actions by donating free transport. Whenever possible, Croatia Airlines strives to support institutions that need humanitarian aid or organise humanitarian projects.

With the aim of providing help to the children in need, in 2018 Croatia Airlines donated equipment to the SOS Children's Village Lekenik and the Special Hospital for Children with Chronic Illnesses in Gornja Bistra, thus continuing to support the youngest.

It also cooperates with nearby Velika Gorica – the Aviation City, where it participates in major events related to aviation, and with the Aeronautical Technical School Rudolf Perešin whose pupils undergo a traineeship at the Technical Sector, with the possibility of employment upon completion of schooling. The successful cooperation with the Faculty of Mechanical Engineering and Naval Architecture and the Faculty of Transport and Traffic Sciences in Zagreb continued in 2018, too. The Company has for many years been presenting itself to students at the Career Days as a potential employer. It actively participates in the projects of the Faculty of Transport and Traffic Sciences related to aviation and in professional gatherings, offering jobs to the graduates.

Business ethics

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

A dynamic growth of air traffic and its impact on the global climate changes through the greenhouse gas emissions, in particular CO₂, is one of the key challenges for

Environmental protection

sustainable development in aviation. During the summer season, the UN International Civil Aviation Organization (ICAO) introduced through the revision of Annex 16 an obligation to monitor and report global emissions - the CORSIA⁹ system, rendering it obligatory for the aviation sector to measure CO₂ emissions on all international flights as of the beginning of 2019. The system was accepted by the EU Member States as early as in the volunteer stage (2019-2021) and became obligatory for all airline carriers in the Republic of Croatia.

In 2018, Croatia Airlines' efforts in the sphere of environmental protection were focused primarily on setting up the new system for measuring, verifying and reporting greenhouse gas emissions. The adoption of the CORSIA system required Croatia Airlines to make adjustments of the existing EU ETS (Emissions Trading System) in order to cover a greater number of flights. Through the application of these regulations, all Croatia Airlines' flights are within a certain scheme of measuring and trading CO₂ emissions allowances (EU ETS, CORSIA, Swiss ETS); thus, the Company has joined numerous companies and countries investing significant efforts and implementing initiatives to reduce greenhouse gas emissions on a global level.

One of the key features of the emissions unit trading system is a drastic increase of the emission unit price from the average 5 EUR/t to nearly 25 EUR/t, with a tendency of further growth.

The Technical Sector gasification enabled the use of this environmentally friendly energy-generating product in the works on own aircraft and those of third parties.

Amidst a greater scope of aircraft works in 2018, the installation of wake vortex generators reducing the noise from take-off and landing operations of Airbus aircraft by some 9 dB was postponed for the winter maintenance season of 2018/2019, so the level of noise will be reduced with the start of the 2019 summer flight schedule.

Environmental and energy management continued throughout the year, and independent auditors confirmed compliance with the requirements of the international standard ISO14001/50001. Also, the Company participated in a number of public panels and published articles about environmental protection, following a growing number of interested parties.

Croatia Airlines decided to use electricity from renewable sources (HEP Zelen) in 2018 as well.

In 2019, the Company is expected to fully apply CORSIA regulations, continue cooperating with interested parties and make continuous efforts to improve its energy indicators and reduce environmental impact through responsible waste disposal.

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

⁹ Carbon Offsetting and Reduction Scheme for International Aviation

Advancement of business activities and projects

The business year of 2018 was the third in a row in which Croatia Airlines continued expanding its network of flights. Over the past three years, the Company introduced altogether ten new European destinations, i.e. twelve new routes. Three seasonal international routes were introduced: from Zagreb to Dublin, from Split to Copenhagen and from Dubrovnik to Munich, and a year-round international route from Zagreb to Mostar.

In 2018, Croatia Airlines implemented two projects related to equipment upgrades on the Airbus and Q400 aircraft, which were partly financed from the EU funds.

Croatia Airlines joining EGNOS10 Family - This project aims to upgrade the Bombardier Q400 aircraft equipment, thus enabling modern RNP APPROACH procedures to a demanding LPV minimum (LOCALIZER PERFORMANCE WITH VERTICAL GUIDANCE) via the EGNOS system. This will allow for safer aircraft operations. At the same time, aircraft will consume less fuel and produce less exhaust emissions, which is a more environmentally sustainable solution than the existing one. Through this tender Croatia Airlines received from the INEA¹¹ EUR 627,537.00, or 85% of the total amount needed for the project.

Implementation of the ADS-B OUT function on the Airbus and Q400 fleets - The Automatic Dependent Surveillance Broadcast (ADS-B)-Out function on the Airbus and Q400 fleets is another project supported with EUR 150,000.00 from the EU funds (INEA). It entails the installation of the equipment suitable for aircraft surveillance that will in 2020 become a standard and requires obligatory harmonisation with the said standard. The new equipment will allow the air traffic control to receive the GPS coordinates of the aircraft, which is the most accurate report on their current position. As part of the European Air Traffic Management Program, this system upgrade will meet the surveillance interoperability requirements by enabling all supervision techniques envisioned within the Single European Sky, at the same time reducing the time the aircraft have to spend in the hold awaiting a landing/take-off permission.

In 2018, Croatia Airlines invested a lot of efforts into advancing user services. It continued with the development of digital channels by implementing new functionalities enabling online users to organise their travels in an easier and faster way. The PNR Retrieve (reservation management) service was introduced, enabling passengers to change their contact data or enter their frequent flyer number, and to purchase additional services if they failed to do so when purchasing the ticket. The work on the PNR Retrieve service continues so that users can be provided with even more functionalities, and the Company is investing efforts to realise the sale of additional services. In October, it introduced a redesigned confirmation for all customers purchasing airline tickets online. It also started with several projects for the customers organising their journeys primarily over mobile devices.

The process of developing business reporting through the use of the IBM Cognos Technology (BI) continued throughout 2018 and will be extended until mid-2019. The Company's existing business processes are complex and supported by a large number of applications from which data are retrieved for a specific period of time, e.g. SAP, Mona Lisa, Amadeus, NetLine, Amicos, HR Net, etc. In order to keep pace with frequent market and business changes, it is necessary to promptly make quality and up-to-date

¹⁰ European Geostationary Navigation Overlay Services

¹¹ Carbon Offsetting and Reduction Scheme for International Aviation

business decisions based on quality reporting. Business reporting within the Company is, to an extent, directly covered by transactional software (SAP, Mona Lisa, etc.). Such reports often require additional processing and editing by another programme. Besides, data are often sourced from different databases that need to be further edited. This method of work is long-lasting, and brings about the risk of untimely information and possible mistakes. The BI system seeks to cover all business operations of the Company. By setting up a business reporting system, the Company creates a single source of data with the features of a modern data storage that will serve as a reporting template (Single Source of Truth). This will overcome the abovementioned problem of data inconsistency and will greatly facilitate user access to the required and already structured reports. This process should also contribute to a quicker and more efficient decision-making by the Company's management.

In addition to the BI system, efforts were made with the aim of developing new applications and improving the existing ones. The Netline operating system was upgraded in 2018, which is extremely important for the coordination of everyday activities (flight scheduling and current aircraft modifications, operational planning of flights and crews, etc.). In order to maintain compliance with the PCI DSS, all required compliance measures and supervision of previously implemented measures were carried out; quarterly reports and an extensive annual report on the harmonisation with the standard were delivered to the parent bank. The implementation of the GDPR, as well as all the related prescribed procedures (risk assessment, personal data folders, prescribed security measures, updated internal acts and signed annexes to existing contracts referring to the data processor obligations) were carried out. In order to meet the requirements of the GDPR, the Information Lifecycle Management (ILM) was implemented in the SAP business system. The ILM is a system that manages the information lifecycle and helps simplify the IT structure by removing old information. A sub-module for harmonisation with the GDPR was installed, tested and released into operation in the first project phase. The SAP system was further developed and the archiving of the preceding years' items was completed. The archiving covered the period from 2009 to 2014, and helped relieve the business IT system. In 2018, the Directive (EU) 2016/681 on the use of passenger name record (PNR) entered into force, according to which all EU carriers are obliged to send passenger, APIS, luggage, and all other data from the check-in system to all EU countries where they fly. As an EU Member State, Croatia is obliged to apply relevant legal provisions, and the implementation of the PNR regulation has been initiated accordingly. Intensive testing activities are being carried out, and it is currently being implemented in business activities with the Netherlands and Belgium, while negotiations with other EU Member States are underway. All activities are being coordinated with the Croatian Ministry of the Interior, with Croatia Airlines as a pilot airline.

The Cooperation Agreement on European Project in Aviation (KAAT - Knowledge Alliance in Air Transport) was signed at the Faculty of Transport and Traffic Sciences in 2018. For the first time, the leading companies of the airline industry in Croatia are actively cooperating with the academic community on a major European project aimed at enhancing innovation in higher education. Air traffic requires a constant development of jobs done by a highly qualified workforce with multidisciplinary knowledge and skills. The project aims to develop, on the level of partners from six EU countries, a new curriculum for a joint master degree by applying innovative approaches to teaching and learning, and to establish close cooperation between the scientific community, industry and the economy.

Business environment and operational risks

Global economy

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

The International Monetary Fund (IMF) forecasts a mild slowdown of economic growth. As early as October 2018, in its regular autumn World Economic Outlook the IMF revised downwards its forecast for the global economic growth in 2018 to 3.7%.¹² Despite poorer results of individual economies, especially in Europe and Asia, in its revised projections from January 2019 released for the major economies only, the IMF kept unchanged its forecast from October 2018.¹³ The projection of global growth in 2019 was revised downwards (3.5%) by 0.2pp.

The forecasts from October 2018 for the U.S. economy remained unchanged, with the IMF putting its growth in 2018 at 2.9%, and in 2019 at 2.5%, pointing out a steady, strong domestic demand. It also confirmed its forecasts of a 6.6% growth of the Chinese economy in 2018, i.e. 6.2% in 2019.

The IMF revised downwards its forecast for the eurozone's economic growth in 2018 to 1.8%, as a result of the disappointing indicators of the major European economies – German, French and Italian – in the third quarter. In 2019, the eurozone's growth should slow down to 1.6%, down by 0.3pp from the October forecast.

The global risks have become more prominent, from the slowdown of the global economic growth and the problem of economic inequality, to climate changes, geopolitical tensions and the accelerating pace of the fourth industrial revolution. The key risks stem from the growing tensions amongst the most powerful countries, with nationalism becoming more prominent in the global politics, introduction of protectionist measures, trade conflict between China and the U.S., and growing debts on a global level. There is also political polarisation within the countries, and growing risks related to the “public anger and distrust of elites”, not to mention concerns over extreme weather conditions, omissions in implementing the environmental policy, and technological risks related to cyber-attacks.

It is necessary for the governments of individual countries to jointly focus on removing economic weaknesses, particularly by reducing the public debt and resolving trade conflicts and consequential uncertainties, instead of building new detrimental barriers and destabilising the already weakening global economy.

Croatia's economy

The positive trends in Croatia's economy continued in 2018. In its regular autumn outlook from October 2018, the IMF retained its forecast for the country's GDP growth in 2018 at 2.8%, while putting it at 2.6% in 2019.

¹² IMF, World Economic Outlook, October 2018

¹³ IMF, World Economic Outlook update, January 2019

The released macroeconomic indicators for 2018 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 2018 Croatia's economy slowed down to 2.3% year-on-year.¹⁴ In the entire year of 2018, real GDP grew by 2.6%, slower than the 2.8% growth recorded in 2017. Greater personal spending and investments contributed to the growth of Croatia's economy the most, with export and industrial production facing a slowdown and causing concern.

According to the calendar-adjusted data, Croatia's industrial production fell by 6.6% in December 2018 over the same month of 2017¹⁵, facing the sharpest drop in the past two years, and falling by 1% in the entire 2018 year-on-year, for the first time after four years.

Croatia's retail trade grew by 4% in December 2018 year-on-year¹⁶, continuing a record trend of positive movements that started in September 2014. In 2018, the calendar-adjusted retail trade turnover saw a real growth of 3.8% year-on-year.

The prices of goods and services intended for personal spending, measured by the consumer price index, rose by 0.8% in December 2018 year-on-year, i.e. compared to December 2017, while the inflation rate reached 1.5% on the level of entire 2018.¹⁷

According to the Croatian Bureau of Statistics, Croatia's registered unemployment rate was 9.6% in December 2018. On the level of the entire year of 2018, the average registered unemployment rate was 9.9%, dropping below 10% for the first time since the data were first recorded.¹⁸ This drop is a result of a more dynamic economic activity, but also of negative demographic and emigration trends.

According to the interim data of the Croatian Bureau of Statistics, Croatia's exports in 2018 rose by 3% compared to 2017, totalling HRK 107.7 billion, while its imports rose by 7.5%, totalling HRK 175.5 billion. The country's foreign trade deficit was HRK 67.8 billion, 15.5% greater than in 2017. The import-export coverage ratio was 61.4%.¹⁹

The share of public debt in GDP continued to decrease in 2018. At the end of the third quarter of 2018, the public debt declined to 74.5% of GDP, the lowest level since 2012, putting Croatia among the European Union countries with the greatest drop of the public debt share in GDP.²⁰ This share is expected to stay below 75% at the end of 2018.

Tourism figures for 2018 point to another record season, marked by the best ever pre- and post-season, 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 2018, 18.7 million tourist arrivals were recorded, or 7% more compared to 2017.²¹ As for the overall tourist arrival structure, there were 89% foreign tourists and 11% local ones. The year of 2018 saw 10% more local tourist arrivals and 7% more foreign tourist arrivals compared to 2017. Altogether 89.7 million overnight stays were recorded, or 4% more compared to 2017. As for the structure of overall overnight

¹⁴ www.dzs.hr; First estimate of quarterly gross domestic product for the fourth quarter of 2018, 27 February 2019

¹⁵ www.dzs.hr; Industrial production volume index and indices of stocks, persons employed and labour productivity in industry in December 2017, 29 January 2019

¹⁶ www.dzs.hr; Retail trade in December 2018, 7 February 2019

¹⁷ www.dzs.hr; Consumer price indices in December 2017, 16 January 2019

¹⁸ www.dzs.hr; Persons in paid employment, by activities, in December 2017, 25 January 2019

¹⁹ www.dzs.hr; Foreign trade in goods of the Republic of Croatia, temporary data for the period from January to December 2018 and for January 2019, 8 March 2019

²⁰ www.poslovni.hr; downloaded on 21 January 2019

²¹ www.dzs.hr; Tourist arrivals and overnight stays in 2018, 15 February 2019

stays, there were 93% foreign tourists and 7% local ones. The number of overnight stays of domestic tourists increased by 8%, while that of foreign tourists saw a 4% 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.

External factors will present the greatest risk for the Croatian economy, in particular economic trends in Germany and Italy - Croatia's key trade partners. A slowdown of the Italian economy is a potential negative risk not only for foreign trade, but also in the context of tourism, affecting its potential, geopolitical tensions and the recovery of rival tourist destinations in the Mediterranean.

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

Global airline market

Not only is the airline 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 2018 there were around 38.1 million scheduled flights with a fleet of nearly 30,000 aircraft, and about 4.3 billion passengers and 63.7 million tonnes of cargo were transported.²²

A strong rise in demand for air transport services continued in 2018. Passenger traffic expressed in revenue passenger kilometres (RPK) rose by 6.5% compared to 2017, growing at a somewhat slower pace than in 2017 (+8%).²³ With the evident growth slowdown in the second half of 2018, IATA has been following the developments related to Brexit and the trade tensions between China and the U.S. with great concern. The passenger load factor (PLF) reached a record 81.9% (+0.3pp compared to 2017).

Cargo transport in 2018 expressed in tonne kilometres (TK) rose by 3.5% over 2017, significantly lower than the 9.7% growth seen in 2017.²⁴ In late 2018, cargo transport faced a slowdown amidst the weakening global trade, reduced consumer trust and rising geopolitical tensions.

According to IATA's data, in 2018 the global airline industry operated profitably, with its total net profit being estimated at \$32.3 billion, with the EBIT margin of 6.8%.

This result is somewhat poorer compared to 2017, when its net profit was \$37.7 billion, with the EBIT margin of 7.7%. The profit per passenger in 2018 amounted to \$7.45, while it was \$9.27 per passenger in 2017.

Looking at the level of profitability, the period from 2015 to 2018 was 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

²² IATA Economic Performance of the Airline Industry, December 2018

²³ IATA Air Passenger Market Analysis, 7 February 2019

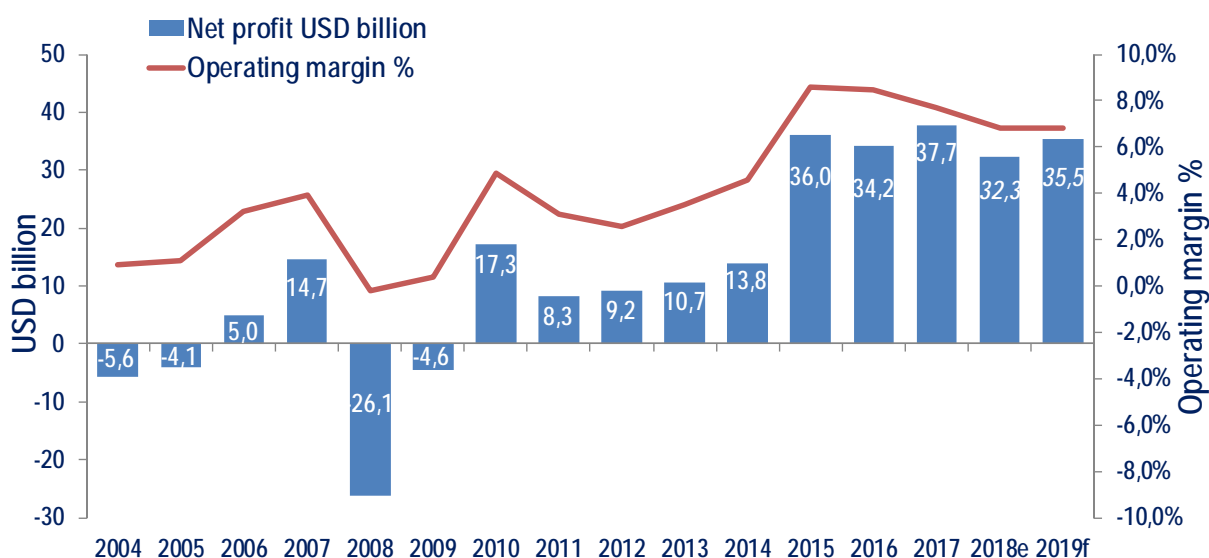
²⁴ IATA Air Freight Market Analysis, 6 February 2019

question the average return on invested capital (ROIC)²⁵ at the level of the airline industry was higher compared to the average cost of capital (WACC)²⁶.

The regional outlook for the net profit in 2018 reflects different economic conditions in various parts of the world. The forecasts say that North America, Asia and Pacific, and Europe were the most profitable areas, followed by the markets of the Middle East and Latin America, while the African region generated a loss.

North America recorded the highest EBIT margin (9.8%), followed by the markets of Asia and Pacific (6.1%), Europe (6.0%), Latin America (5.6%), and Middle East (1.2%). The African market also recorded a positive EBIT margin (0.6%).

Profitability of global airline companies



Source: IATA, December 2018

²⁵ ROIC - Return on Invested Capital

²⁶ WACC - Weight Average Cost of Capital

**European
airline market**

Air traffic plays a crucial role in Europe; according to the data of the Air Transport Action Group (ATAG), 12.2 million jobs in Europe are connected to the airline industry that contributes EUR 823 billion to the economic activities, i.e. makes 4.1% of the European GDP.²⁷

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: along with the association founders Air France – KLM, easyJet, IAG, Lufthansa Group and Ryanair, there are also Aegean, airBaltic, Cargolux, Finnair, Icelandair, Jet2.com, Norwegian, TAP Portugal, Travel Service and Volotea. In addition to airlines, it gathers aircraft, engine and equipment producers.

Croatia Airlines became a member of the European Regions Airline Association (ERA) in 2016; the Association currently has 49 members and 145 associate and affiliate members, jointly covering the whole aviation sector (airlines, airports, and aircraft, engine and equipment manufacturers).

According to IATA, in 2018 the European air carriers generated a net profit of \$7.5 billion, with an operating margin of 6%. Europe has the highest break-even point of all other markets, as a result of low yields, high level of competition and high regulatory costs. Passenger traffic in revenue passenger kilometres (RPK) rose by 6.6% compared to 2017, and PLF reached 84.5% (+0.6pp). Cargo transport expressed in tonne kilometres (TK) recorded a 3.2% rise.

The European air traffic was in 2018 characterised by a significant increase in flight delays. According to the data of the European Organisation for the Safety of Air Navigation (Eurocontrol) for 2018, flight delays expressed in minutes rose by 61% over 2017. The cause lies in the lack of personnel and airport capacities, weather conditions, and air traffic control strikes. The extent to which air traffic control strikes affect the air traffic is best shown by the fact that the International Airlines Group (IAG - British Airways, Iberia, Aer Lingus, Vueling) and the companies Ryanair, EasyJet and Wizz Air filed complaints to the European Commission against France and the strike of its air traffic controllers that limited the basic principles of mobility in the European Union. Airline companies do not question their right to stage a strike, but believe that France is breaking the law of the European Union by denying them to fly over its airspace while strikes are in progress. The passengers on those flights are denied the elementary freedom of travel to and from Member States where no strikes are held.

In early 2018, the Council of the European Union addressed the problem of flight delays and cancellations, in order to consider potential solutions with the aim of regaining trust in the reliability of European airlines and preventing possible negative consequences for passengers and the European economy.

²⁷ ATAG, 2018

Croatian airline market

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

According to the data of the Croatian Bureau of Statistics, Croatia's airports recorded a 10% rise in the number of passengers compared to 2017.²⁸ Altogether 10.5 million passengers were recorded at nine airports in Croatia, with Croatia Airlines' market share being 25%. The number of aircraft operations at Croatia's airports totalled 124,149 in 2018, up by 7% from 2017. Cargo transport saw a 23.8% rise, with altogether over 12,000 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.

By the decision of the Government of the Republic of Croatia, Croatia Airlines was on 4 January 2018 returned on the list of companies of strategic and special interest. In line with the National Reform Programme adopted on 26 April 2018, the Government of the Republic of Croatia reached on 21 February 2019 a decision to initiate the procedure of seeking a strategic partner and to establish a commission to implement the procedure and propose the selection of a strategic partner for the company Croatia Airlines d.d.

The following is expected from the strategic partner:

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

Croatia Airlines' business operations and activities were in the third quarter of 2018 under intense media scrutiny amidst the two strike announcements made by a portion of employees. The strikes were not staged after all. In this period, there was a total of 1,666 media releases about Croatia Airlines, exceeding a yearly level of announcements concerning the Company. Such media exposure, related to strike announcements, directly reflected on Croatia Airlines' business performance, resulting in a decreased scope of anticipated traffic, and thus in poorer financial results. Strikes had been announced in peak summer season (third quarter), at the worst moment for

²⁸ www.dzs.hr; Traffic at Airports in December 2018, 8 February 2019

the Company, given the exceptional seasonality of its operations and the fact that it generates the greatest revenues in this period, used for covering losses it records during the winter season.

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 are also one of the major risks.

Exposure to a recession and an economic crisis affects the demand for air traffic services, with international passengers generating the greatest demand for air traffic services in Croatia (85% in 2018). The share of Croatian citizens in Croatia Airlines' international passenger traffic (about 35%) is higher than that of the competition, so the exposure to the risks coming from the country's economic surroundings is proportionally higher.

Fuel

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

The oil market was in 2018 marked by a strong growth of prices, expected to reach a new record. However, in the final quarter of 2018, the global economy started to slow down, the price growth was halted and the oil price dropped by more than 20 \$/barrel.

According to IATA, the Brent oil price in 2018 amounted to 73.0 \$/barrel (54.9 \$/barrel in 2017), while the average price of jet fuel amounted to 87.6 \$/barrel (66.7 \$/barrel in 2017). In 2018, the average Brent oil price on the London Stock Exchange was 72 \$/barrel, or 17 \$/barrel more than in 2017.

IATA estimated that in 2018 the fuel costs of airlines would amount to \$180 billion (\$149 billion in 2017). The share of fuel costs in the overall operating costs rose from 21.4% in 2017 to 23.5% in 2018.

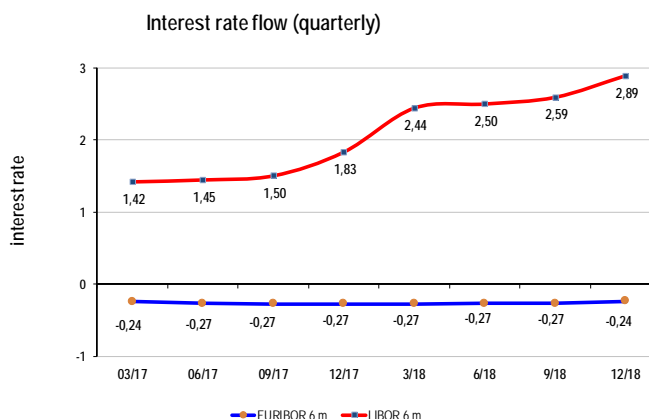
Interest rate risk

their influence on its business operations.

At present, the remainder of the principal owed by the Company under the long-term foreign-currency loan totals HRK 78.3 million.

In 2018, Euribor remained unchanged. Libor, on the other hand, recorded a rise, which did not affect Croatia Airlines' operations since it had no loan liabilities related to Libor.

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



Cash flow risks

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

In May 2018, the Government of the Republic of Croatia gave consent to Croatia Airlines for taking a long-term syndicated loan worth up to EUR 8.5 million with Hrvatska poštanska banka (HPB) and Privredna banka Zagreb (PBZ), for financing the investment maintenance of aircraft engines. The loan was fully disbursed during May and June 2018. The EUR 3.2 million worth revolving loan taken with Zagrebačka banka was partially repaid, and a fresh EUR 3 million worth short-term revolving loan taken. In November 2018, Croatia Airlines took two short-term loans with Erste bank, worth altogether HRK 14.9 million, a short-term loan worth HRK 7.4 million with Privredna banka, and a short-term loan worth HRK 20 million with Hrvatska poštanska banka.

Currency risk

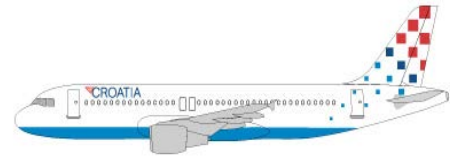
The exposure to the risk of negative effects of foreign currency exchange rate changes against the kuna is reflected in the repayment of loan and lease instalments denominated in foreign currencies. Foreign currency inflows from the sale of tickets abroad significantly mitigate these risks. The exposure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

Fleet and capacities

In 2018, 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 2018, the total number of available seats was 1,380.

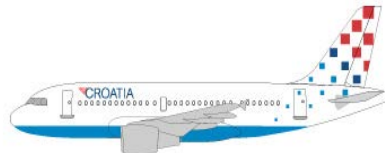
A 320 – 2 aircraft

The aircraft has 174 seats – altogether 348 seats

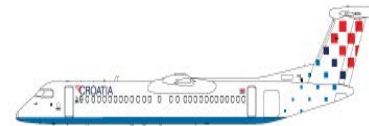


A 319 – 4 aircraft

The aircraft has



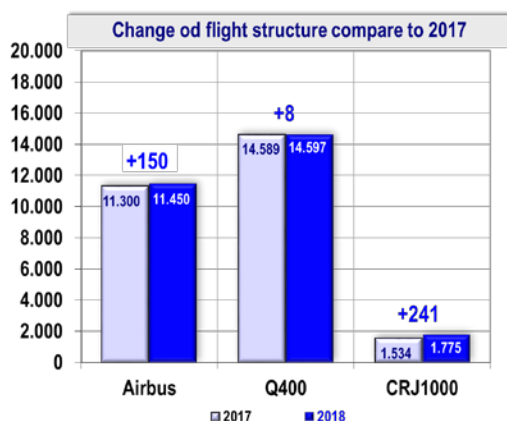
144 seats – altogether 576 seats



Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats

With the aim of expanding its destinations network and adhering to the planned flight schedule, Croatia Airlines took a lease, the same as in 2017, on two CRJ1000 100-seaters for the period from May to October 2018, thus supplementing its current fleet of 12 aircraft.



In 2018, Croatia Airlines' aircraft realised the block time of 40,196 block hours, which is 2% more than in the preceding year.

They operated 28,003 flights, 2% more than in 2017. 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 181 flights for the purpose of maximally reducing traffic disruptions.

Fleet utilisation

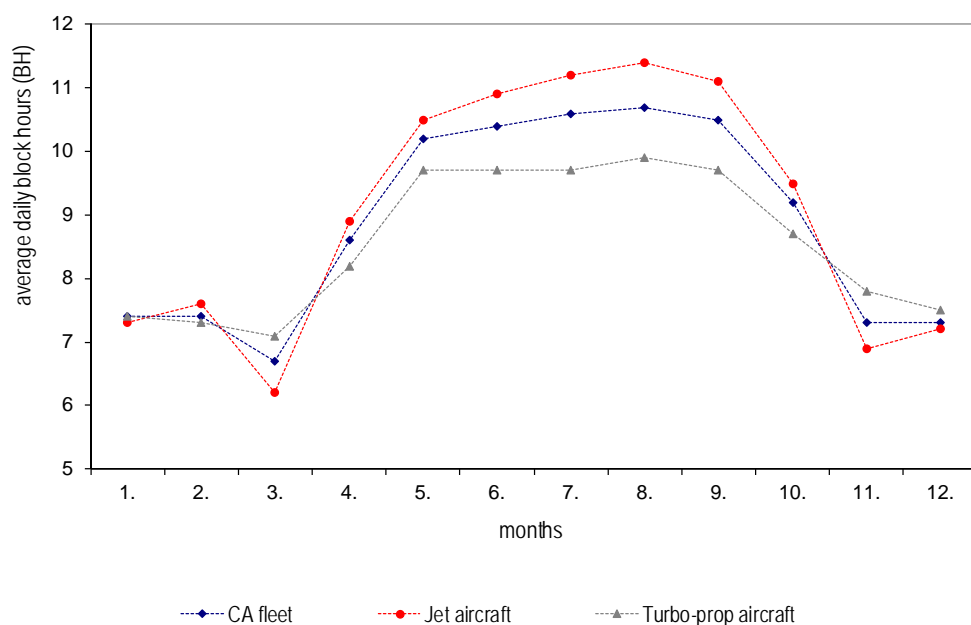
type of aircraft	number of aircraft	Ø daily block hours (BH)	utilisation growth 16/15
Airbus A320	2	9,4	13,3%
Airbus A319	4	9,5	4,4%
Q-400	6	8,6	2,4%
CRJ1000*	2	9,5	2,2%
TOTAL	14	9,1	4,6%

*leased aircraft for summer season

In 2018, Croatia Airlines' fleet realised on average 3,304 block hours per aircraft, or 4.9% more than in 2017.

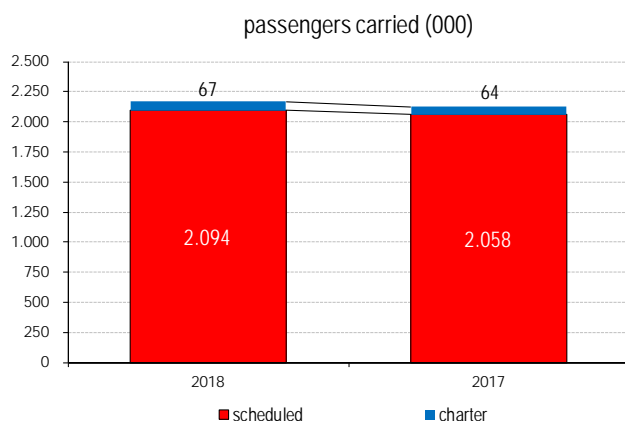
The average number of aircraft on the level of 2018 totalled 12.08 aircraft (excluding the aircraft leased for a short-term period). Available seat-kilometres (ASK) rose by 3%, and revenue passenger kilometres (RPK) by 2% in 2018.

CA fleet utilization by month



The market

In 2018, the capacities measured in available seat-kilometres (ASK) were increased by 3%, which positively affected the scope of passenger traffic. Croatia Airlines expanded its network of European destinations by introducing two new international routes: Zagreb-Dublin-Zagreb and Zagreb-Mostar-Zagreb.



The number of passengers rose by 2% compared to the result in 2017. The number of passengers in domestic scheduled traffic was on the level of 2017, while of those in international scheduled traffic saw a 3% increase compared to 2017. Altogether 75,300 passengers were transported within charter traffic, or 13% more compared to 2017. Charter traffic made up only 3% of the total traffic.

In 2018, 2,264 tonnes of cargo were transported, on the level of the 2017 result.

An increased number of passengers resulted in the passenger load factor (PLF) of 73.5%, 0.9pp lower than that in 2017.

The realised weight load factor (WLF) was 70.4% (-0.9pp).

In 2018, Croatia Airlines was connecting Croatia within the international scheduled traffic with 38 destinations in 24 European countries, and in cooperation with its Star Alliance partners with the rest of the world as well. During the peak season, Croatia Airlines operated 105 flights a day.

In 2018, Croatia Airlines introduced flights to two new destinations: Mostar throughout the year, and Dublin during the summer season. Including these two, the Company introduced altogether ten new destinations over the past three years. In addition to Dublin and Mostar, another two seasonal routes were introduced: Dubrovnik – Munich and Split – Copenhagen. The flights on the route Zagreb – Dublin were offered from 3 May to 28 October 2018, twice a week (Thursdays and Sundays). Flights to Mostar started on 3 May 2018; evening flights were offered from Zagreb to Mostar on Thursdays and Sundays, and morning flights from Mostar to Zagreb on Fridays and Mondays. This route was flown on the same days within the 2018/2019 winter flight schedule as well.

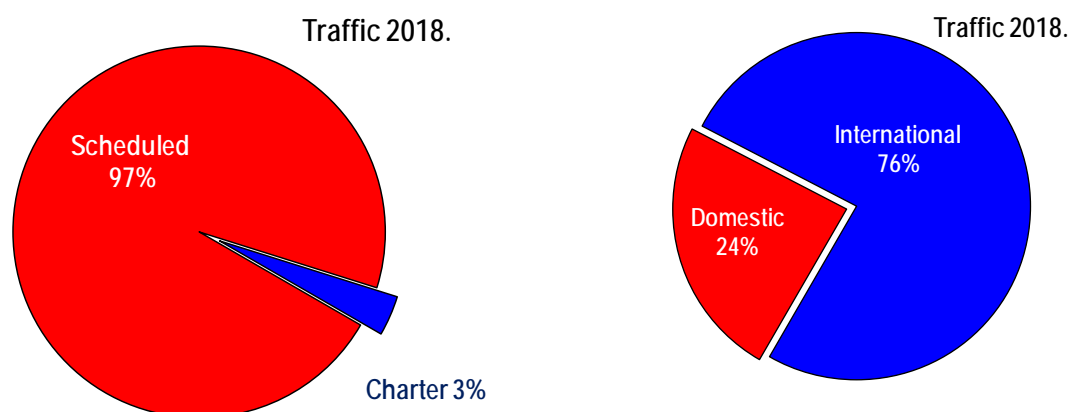
In addition to the new routes, the number of weekly flights on certain routes was also increased within this year's summer flight schedule. On 4 May, four additional afternoon flights were introduced on the route Zagreb – Skopje, as an extra benefit for the connecting passengers travelling via Zagreb to Skopje from the European hubs of Amsterdam, Brussels, Copenhagen, Frankfurt, etc. More weekly flights were offered on the route Zagreb – Dubrovnik – Rome as well; besides on Saturdays and Sundays, in early May an additional flight was introduced on Wednesdays, as well.

Croatia Airlines' aircraft continued flying to all of the eight new European destinations, i.e. on all seasonal routes introduced in 2016 and 2017- from Zagreb to Stockholm, Oslo, Helsinki, Bucharest, Lisbon, Milan, Prague and Saint Petersburg. In addition to Thursday and Sunday flights, weekly frequencies to Saint Petersburg were increased by an additional flight on Tuesdays. Within the summer flight schedule, seasonal flights were reintroduced to many attractive European destinations, such as Athens, Barcelona, Lisbon, Venice, etc.

Croatia Airlines entered 2018 with 16 codeshare partners, of which 13 were Star Alliance members (Lufthansa, Austrian Airlines, Swiss, Turkish Airlines, TAP, SAS, Brussels Airlines, United Airlines, Air Canada, LOT, Singapore Airlines, Air India and Asiana Airlines), and three Sky Team Alliance members (Air France, KLM and Alitalia). The goal of such cooperation agreements is to make the services of an airline available on the markets on which it does not physically operate flights or to increase the capacities on the existing routes.

In 2018, altogether 2.168,863 passengers were transported, which is a record **number of passengers** in the Company's history. Compared to 2017, 44,335 or 2% more passengers were transported. A record passenger traffic was recorded on the level of May, too, seeing over 200,000 passengers for the first time since the Company started with commercial flights in 1992. Nearly 214,000 passengers were transported, which is the greatest number of passengers carried in May in the Company's history. Due to the positive passenger traffic trends, Croatia Airlines recorded its two-millionth passenger in 2018 sixteen days earlier than in 2017.

Altogether 526,131 passengers were transported within the domestic scheduled traffic, 1.567,409 within the international scheduled traffic, and 75,323 within the charter traffic.



In the international scheduled traffic, 2% more passengers were transported in 2018, i.e. 35,571 more compared to 2017.

All activities of the **Technical Sector** related to the works on Croatia Airlines' aircraft were carried out in-house, in line with the scope and schedule planned for the year. While performing these aircraft works, the findings called for extensive communication with aircraft manufacturers, and required additional physical work.

The Technical Sector employees carried out four 6-year check-ups and five C-checks on other companies' aircraft.

Croatia Airlines' marketing activities in 2018 were primarily focused on the promotion of its summer flight schedule and the introduction of the four new routes: Zagreb – Dublin – Zagreb, Zagreb – Mostar – Zagreb, Dubrovnik – Munich – Dubrovnik and Split – Copenhagen – Split. Routes to Paris, Rome, Athens, Barcelona, Oslo, Stockholm, Helsinki, Sarajevo, Skopje, Saint Petersburg and Prague were also promoted within these activities, as well as domestic flights. In the final quarter, routes to Germany and Italy, as well as to Lisbon, Barcelona, Paris, Copenhagen, Vienna, Zurich and Amsterdam were promoted alongside the domestic routes.

In September 2018, Croatia Airlines signed a business cooperation agreement with the Croatian Football Federation (HNS), becoming its official air carrier for the period of two upcoming years.

In cooperation with the Croatian Tourist Board, Croatia Airlines participated in tourism fairs in Helsinki, Vienna, Moscow, Bucharest and Munich, and in the world's leading travel trade fair ITB Berlin. In order to promote new routes, it participated on its own in the Place2go fair in Zagreb and in the tourism fair in Mostar. In cooperation with the Tourist Board of the City of Zagreb, it presented its offer at the tourism fair in Barcelona.

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+, and YouTube.

Financial operations

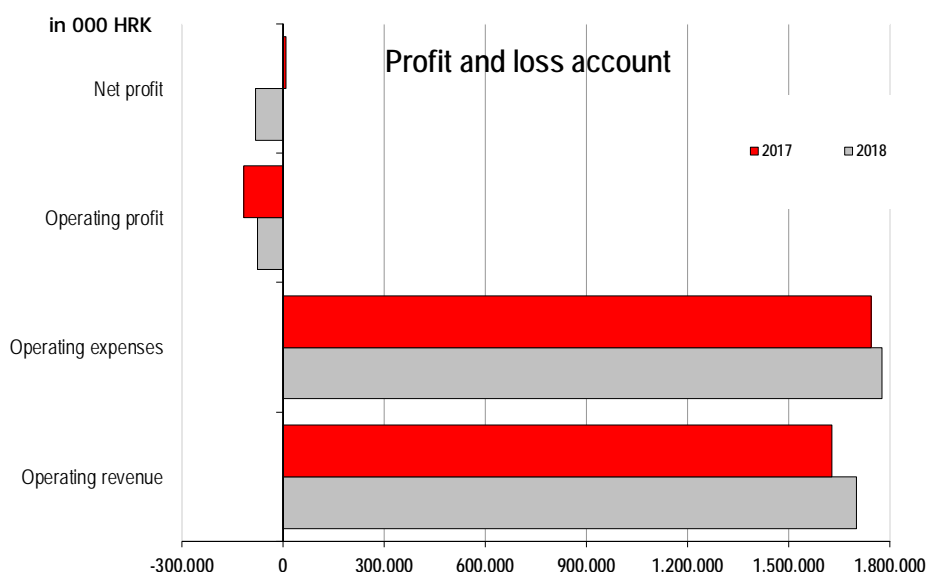
Profit and loss account

(000 HRK)	2018	2017	Index 18/17	2016
Passenger traffic	1.501.706	1.413.172	106	1.351.736
Cargo traffic	11.614	12.079	96	14.275
Other revenues	188.022	203.669	92	195.173
OPERATING REVENUES	1.701.343	1.628.919	104	1.561.184
Flight operations	587.755	514.963	114	453.963
Maintenance	251.883	247.825	102	244.973
Passenger services	120.221	97.846	123	85.320
Aircraft and traffic services	394.295	389.988	101	379.503
Promotion and sales	225.794	233.063	97	216.377
General and administrative expenses	83.887	92.412	91	80.124
Amortization	100.868	94.433	107	85.450
Other expenses	13.143	74.738	18	7.704
OPERATING EXPENSES	1.777.846	1.745.269	102	1.553.415
PROFIT/LOSS FROM OPERATIONS	-76.503	-116.349	66	7.770
Interest expense	-4.407	-5.179	85	-7.553
Interest revenue	113	272	42	426
Foreign exchange differences, net	-1.773	-9.777	-	6.804
Other financial expenses	-455	-214	212	-261
Other financial revenues	88	27	331	857
NET FINANCIAL EXPENSES	-6.434	-14.872	43	273
NET PROFIT/LOSS (excluding extraordinary items)	-82.937	-131.221	63	8.041
Extraordinary items – sale of the slots		138.558		
NET PROFIT/LOSS (including extraordinary items)	-82.937	7.337	-	8.041

In 2018, Croatia Airlines' operating loss totalled HRK 76.5 million²⁹. With the net financing result included, its ultimate loss was HRK 82.9 million.

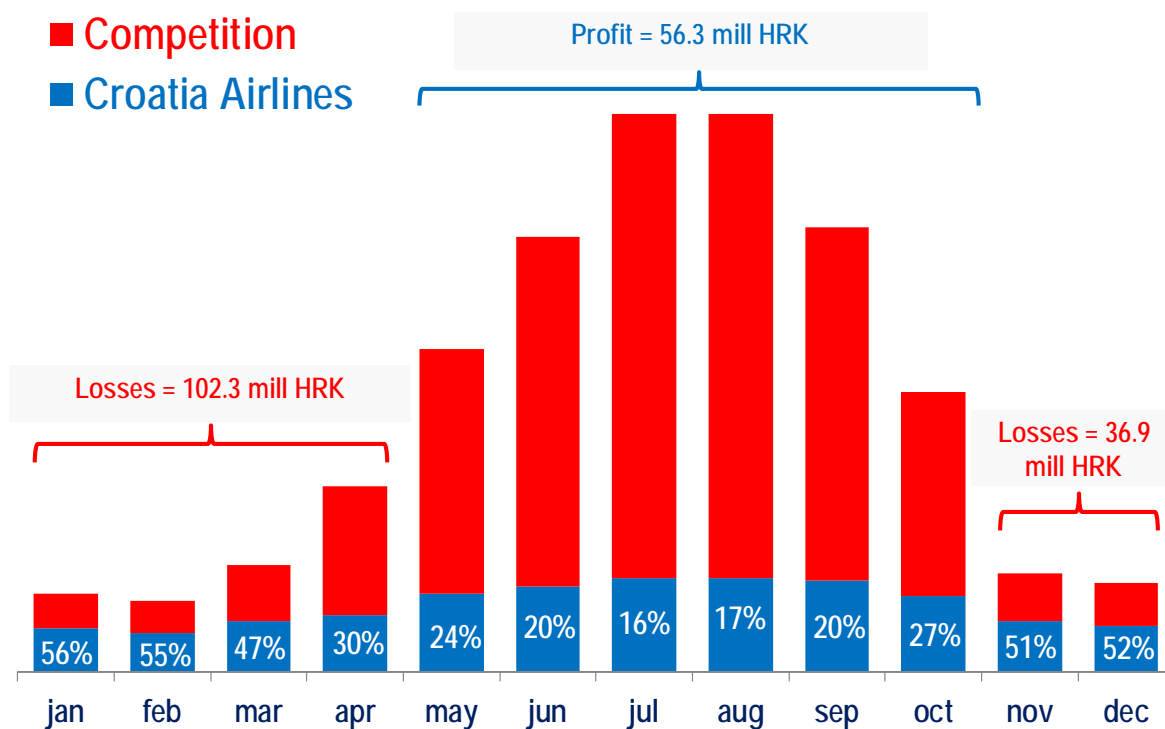
For the sake of realistic comparison of the achieved results, an extraordinary one-time item – the sale of some of the slots at Heathrow Airport for HRK 138.6 million - was excluded from the operating revenues generated in the same period of 2017. When compared to the result declared in such a way, the current period loss is 37% lower, i.e. lower by HRK 48.3 million. At the same time, fuel costs are HRK 71.3 million higher, as a result of the oil price growth.

²⁹ A comparative 2017 report has been modified in category of maintenance, other expenses and results in accordance with the requirements of IFRS 8 (accounting policies, changes in accounting estimates and errors). The adjustment is explained in the notes of Financial Statements for the year ended 31 December 2018 together with the Independent Auditors' Report.



Croatia Airlines, as a rule, generates losses during the winter flight schedule, when the demand is low, and the level of competition minimal. In the summer season, when all major European carriers, both traditional and low-cost ones, are present on the market, it generates profit, which in 2018 was not sufficient to cover the winter period losses.

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



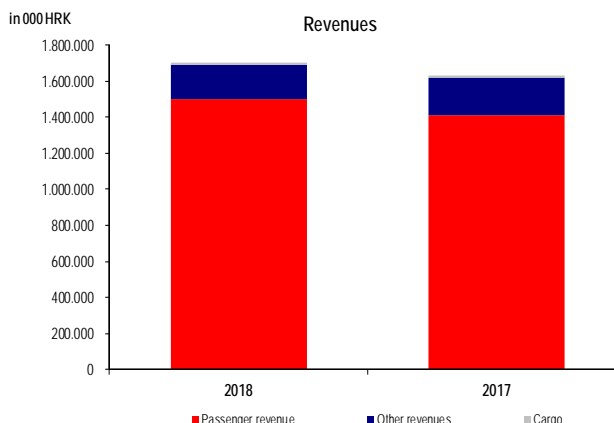
Source: Releases of the Croatian Bureau of Statistics, Traffic at Airports, and Croatia Airlines' internal data

Operating revenues were 4% higher compared to 2017.

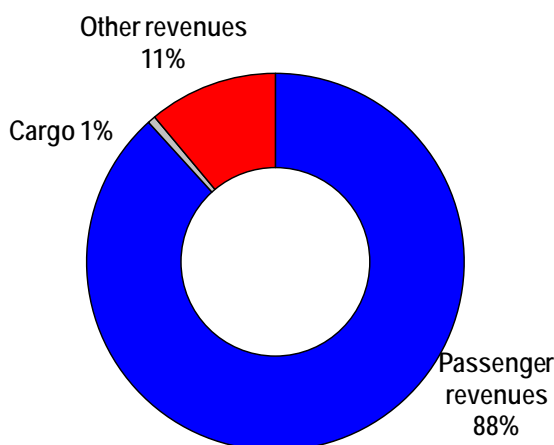
The **revenues from passenger traffic** rose by 6%, totalling HRK 88.5 million, as a result of 2% more passengers and an increase of the average tariff. The share of passenger revenues in operating revenues totalled 88% and was 1.5pp higher compared to 2017, which excluded one-time items.

Cargo revenues were 4% lower, although the transport in tonnes

was on the level of 2017. **Other revenues** were 8% lower, as a result of the lower return of the paid maintenance reserves intended for the works on the Company's own fleet, and lower revenues from the technical sector services related to the works on other companies' aircraft.



Structure of operating revenues 2018



Operating costs were 3% higher compared to 2017.

Flight costs, maintenance costs, passenger service costs, air traffic service costs and amortisation costs saw the biggest rise over 2017.

Flight costs (+14%; + HRK 72.8 million) were higher due to greater fuel costs, arising from the higher oil price on the market compared to 2017. Fuel costs totalled 18% of the overall costs.

Maintenance costs rose by 2% compared to 2017, amidst a greater scope and number of works and regular fleet maintenance activities.

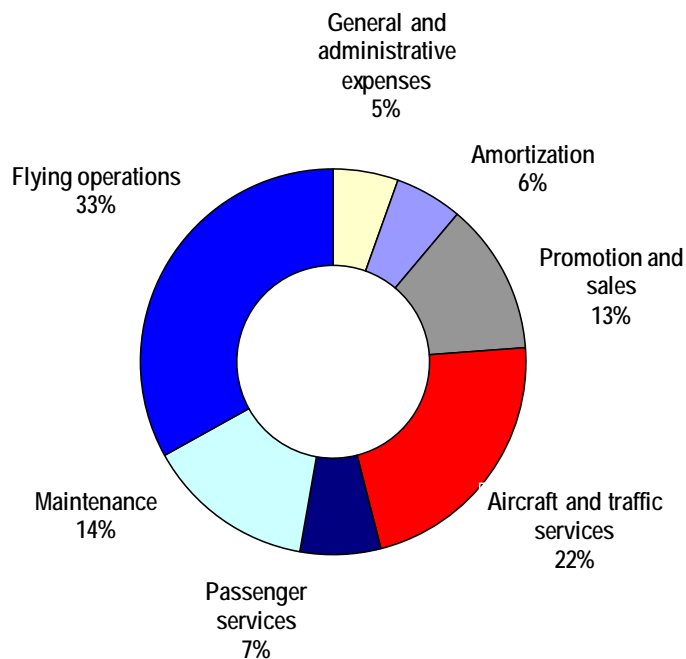
A greater number of claims arising from various traffic disturbances was the main reason why the costs of passenger services went up by HRK 22.4 million.

A significant number of major investment works on engines and aircraft in the past few years resulted in HRK 6.4 million (+7%) higher amortisation costs compared to 2017.

Costs of air traffic services were HRK 4.3 million higher (+1%), as a result of increased unit prices of services at certain airports, and a greater number of flights operated by larger and pricier aircraft.

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 33%, while the share of air traffic service costs was 22%.

Structure of operating expenses 2018



Assets, financing and investments

Statement of accounts

(000 HRK)	End 2018	End 2017	Index 2017/2016	End 2016	Index 2017/2016
ASSETS					
Non-current assets	660.283	616.832	107	644.138	96
Current assets	201.851	220.669	91	218.274	101
TOTAL ASSETS	862.134	837.502	103	862.412	97
LIABILITIES					
Capital and reserves	304.118	386.691	79	379.064	102
Provisions	33.279	35.274	94	3.336	1057
Non-current liabilities	56.680	16.575	342	31.825	52
Current liabilities	468.056	398.962	117	448.187	89
TOTAL LIABILITIES	862.134	837.502	103	862.412	97

The end-of-year value of the assets was 3% higher compared to 2017³⁰. The total value of the Company's fixed assets rose by 7%. Within the fixed assets structure, the value of both tangible and intangible assets rose as a result of the investments made into own fleet and the leased aircraft. Advance payments increased as a predelivery payment was made for the fleet renewal and the purchase of new aircraft.

The value of the Company's current assets declined by 9% over the end of 2017. Within the current assets structure, the level of supplies and cash declined, while accounts receivable, stock and financial assets saw a rise. Receivables were collected within seven days on average, the same as in 2017.

The Company's capital and reserves totalled HRK 304.1 million at the end of 2018, and were 21% lower compared to the end of 2017, due to a negative result in 2018 and the costs from previous years declared as losses brought forward.

Provisions were 6% lower, as a result of settling the airport tax liabilities for which provisions were made in the preceding periods.

The Company's long-term liabilities rose by HRK 40.1 million, as a fresh long-term loan was taken for financing the investment maintenance of aircraft engines.

In addition to financial liabilities, short-term liabilities include those to suppliers and other short-term liabilities. The Company's liabilities to suppliers increased primarily due to the investment maintenance (engine renewal) liabilities paid in early 2019. Its other liabilities were 5% lower compared to the end of 2017, and mostly referred to the air traffic liability related to the sale of transport services to passengers. One of the peculiarities of air

³⁰ A comparative 2017 report has been modified in category of non-current assets, stock and results in accordance with the requirements of IFRS 8 (accounting policies, changes in accounting estimates and errors). The adjustment is explained in the notes of Financial Statements for the year ended 31 December 2018 together with the Independent Auditors' Report.

traffic is that the sold tickets cease to be a short-term liability and become revenue only once the transport service has been provided.

At the end of 2018, Croatia Airlines' loan liabilities with local banks totalled HRK 142.8 million, of which HRK 78.3 million were long-term (medium-term) liabilities, and HRK 64.5 million were short-term liabilities. No state guarantees were used for the financial liabilities arising from business operations. The Company settled all of its financial liabilities in a timely manner, i.e. within the set deadlines.

Investments in 2018

Investments	2018	2017	2016
Investments in aircraft	85.924.925	49.679.306	36.424.517
Investments in spare parts, tools and equip.	15.281.948	12.429.305	10.150.536
Construction investments	1.998.589	1.985.532	1.946.870
Intangible assets - leased aircraft	48.657.942	82.746.049	62.254.320
Other intangible assets	2.195.087	3.095.421	4.332.776
Other equipment	2.242.468	4.506.174	1.111.565
Total	156.300.959	154.441.787	116.220.583

In 2018, the Company made investments directly related to flights, aircraft maintenance and operation, and maintenance of the guaranteed level of safety. Compared to 2017, investments rose by 1%.

The priority and biggest investments were those related to **aircraft**, including spare parts; they totalled HRK 149.9 million and made up about 96% of the overall investments made in 2018.

Investments into own fleet aircraft totalled HRK 85.9 million, and in addition to the planned and realised modifications (TCAS; WINGS; ADS-B Out) worth HRK 8.5 million, HRK 64.1 million was invested into three overhauls of CFM56-5B engines, HRK 8.2 million on three 6-year check-ups of Airbus aircraft, and HRK 5.1 million on two undercarriage replacements on the Airbus fleet.

Investments into aircraft and engines under an **operating lease** amounted to HRK 48.7 million and also encompassed the execution of the planned overhaul of the CFM56-5B engine, works on the undercarriage of two Q400 aircraft, and works on the leased A320 aircraft, as well as the planned modifications.

In the observed period, C-checks were carried out in-house on two Airbus aircraft (CTI, CTJ) and on four Q400 aircraft (CQA, CQB, CQD and CQF).

Investments into **spare parts** totalled HRK 15.3 million.

Of other investments, HRK 2 million were invested into the construction facilities and infrastructure, HRK 2.2 million into software, and HRK 2.2 million into other various equipment.

Cash flow

Cash flow (000 HRK)	2018	2017	Index
Cash at the beginning of the period	38.486	30.092	128
Inflow from activities	1.866.497	1.932.478	97
Inflow from sales of asset	5	9	-
Loans	105.028	37.450	280
Total inflow	1.971.530	1.969.937	100
Obligations	1.835.254	1.742.509	105
Investments	108.483	187.744	58
Loans	49.654	31.290	159
Total outflow	1.993.391	1.961.543	102
Net change for period	-21.861	8.394	-
Cash at the end of the period	16.625	38.486	43

At the end of 2018, the Company's cash balance was HRK 16.6 million, with a negative net cash flow of HRK 21.9 million. While the inflow was on the level of 2017, the outflow rose by 2%.

The inflow from operating activities was 3% lower compared to 2017, as the inflow of HRK 138.6 million was realised in 2017 from the sale of some of the slots at Heathrow Airport.

In 2018, the Company took fresh loans. In May 2018, the Government of the Republic of Croatia gave consent to Croatia Airlines for taking a long-term syndicated loan worth up to EUR 8.5 million with Hrvatska poštanska banka (HPB) and Privredna banka Zagreb (PBZ), for financing the investment maintenance of aircraft engines. The loan was fully disbursed during May and June 2018. The EUR 3.2 million worth revolving loan taken with Zagrebačka banka was partially repaid, and a fresh EUR 3 million worth short-term revolving loan taken. The remaining part of the loan liabilities refers to short-term loans that the Company usually takes during the winter season, in the period of low liquidity, and regularly repays during the year.

The total outflow was 2% higher compared to 2017. The outflow from operating activities rose 5% amidst greater liabilities from operating activities, with increased fuel price, maintenance and liabilities to passengers having the greatest effect. In 2018, the investment outflow was lower, as some of the investment work liabilities were settled in early 2019.

In the observed period, the Company fully repaid a short-term loan worth HRK 30 million taken with HPB, two syndicated loan instalments worth altogether EUR 450,000, and two instalments of a long-term loan taken with PBZ, totalling EUR 2 million.

Consolidated business result

000 HRK	Croatia Airlines		Obzor putovanja		Amadeus Croatia		Croatia Airlines Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating revenues	1.568.679	1.497.874	5.900	4.001	7.990	7.067	1.582.254	1.508.797
Other revenues	132.663	269.604	96	0	8	15	132.637	269.619
Operating expenses	1.777.846	1.745.269	4.376	3.930	7.878	6.954	1.789.654	1.756.008
Operating profit/loss	(76.503)	22.209	1.620	71	120	128	(74.763)	22.407
Net profit/loss	(6.434)	(14.872)	(85)	(41)	(26)	(32)	(6.602)	(14.944)
Pre-tax profit	(82.937)	7.337	1.535	30	94	96	(81.364)	7.463
Net profit	(82.937)	7.337	1.254	23	52	56	(81.688)	7.416

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 2018 at the Group level amounts to a loss of HRK 81.7 million. Total revenues and expenditures of the subsidiaries account for less than 1% of the consolidated revenues and expenditures, showing that their business activities have only a minor impact on the business activities of Croatia Airlines.

As an air carrier, the Group is affected by the changes in interest and currency exchange rates. This is why it implements a policy 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 2019

Taking into account the projected revenues and costs, which are based on the traffic presumptions of a 1% increase in the offered capacities measured in available seat kilometres, and a 5% increase in the projected number of passengers compared to 2018, Croatia Airlines is set to achieve a positive result in 2019.

The flight schedule for 2019 comprises eight destinations within domestic scheduled traffic and 30 destinations within international, Euro-Mediterranean scheduled traffic. Within charter traffic, series of charter flights to the markets of Austria, Israel, 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.

In 2019, 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.

In 2019, the Company plans to carry out preliminary activities related to the development of the recapitalisation model, and to identifying and verifying potential investors with the help from consultants – financial advisors.

After more than two years of collective bargaining, on 12 February 2019 a new collective bargaining agreement was signed for a five-year period, ensuring long-term social peace as an important presumption for stable business operations.

The projected positive result is based on the following presumptions:

- ➔ Introduction of two CRJ1000 aircraft (wet lease), one for the period from April to October 2019, and one for the period from April to December 2019;
- ➔ 28,908 – block time in flights;
- ➔ 40.566 – block time in block hours;
- ➔ Annual traffic of some 2.288,277 passengers (5% more compared to 2018), of which 2.220,697 within scheduled traffic and 67,580 within charter traffic;
- ➔ PLF on the level of 74.7%;

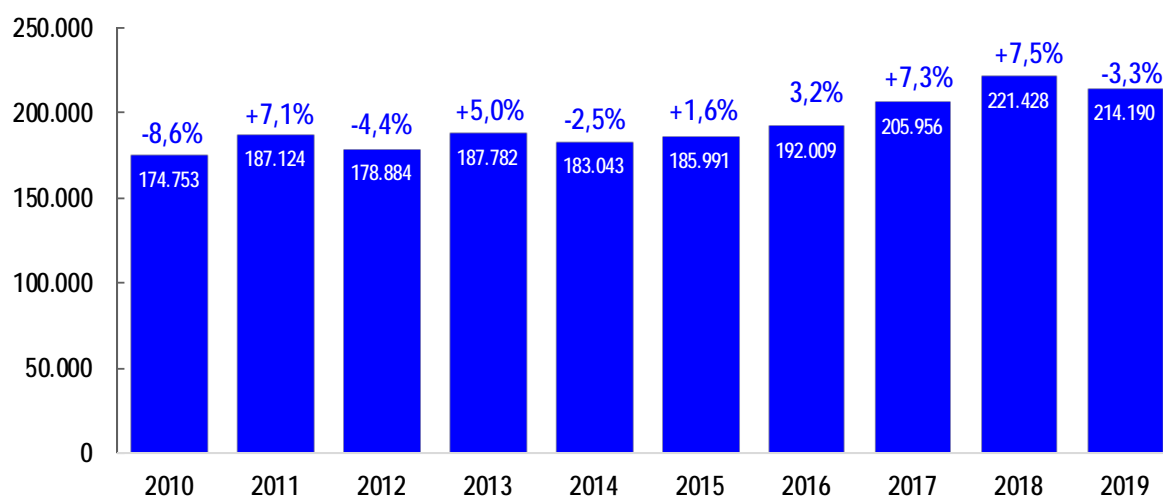
Current operations – traffic performance in the first two months of 2019

description		I-II 2019	I-II 2018
flights (km)	DIST 000	1.899	1.933
departures	FLTS	3.274	3.320
annual change rate	%	-1	1
block hours	BH	4.320	4.472
annual change rate	%	-3	-2
passengers carried	RPAX 000	214	221
annual change rate	%	-3	8
freight&mail carried	CGO T	317	348
annual change rate	%	-9	7
passenger km flown	RPK mln	143	147
available seat - km	ASK mln	221	212
passenger load factor	PLF %	64,6	69,5
tonne km flown	RTK mln	15	15
available tonne-km	ATK mln	24	23
weight load factor	WLF %	61,7	66,2

The number of passengers declined by 3% in the first two months of 2019 compared to the same period of 2018.

The number of passengers in the domestic scheduled traffic saw a 4% decline, while the international scheduled traffic recorded a 3% fall compared to the same period of 2018. The lower number of passengers carried is partly due to the fact that the European Handball Championship was held in Zagreb in January 2018. The passenger load factor (PLF) was 64.6% in the first two months of 2019, or 4.9pp lower than in the same period of 2018.

Passengers I.-II. (2010-2019)



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

REPRESENTATION

on the Application of the Corporate Governance Code

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

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

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

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

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

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

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

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

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

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

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

A change in the composition of the Supervisory Board occurred in 2018 due to the fact that on 18 June 2018 Mrs. Darija Jurica Vuković resigned from her position as a Supervisory Board member. After the said date, the following members of the Supervisory Board continued to perform its duties:

Zlatko Mateša,

- Chairman of the Supervisory Board
- From 13 July 2016

Nataša Munitić,

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

Zoran Barac,

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

Vjekoslav Jelić,

- Member of the Supervisory Board – employee representative
- From 7 July 2015.

In 2018, the Audit Board members were Nataša Munitić, Chairwoman, Jasnica Lozo and Darija Jurica Vuković (until 18 June 2018). The Audit Board held four theme sessions and discussed the Company's financial performance, audit plan, internal control system, risk management and other tasks for which the Supervisory Board needed assistance in order to efficiently fulfil obligations related to the Company's corporate governance, financial reporting and control.

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

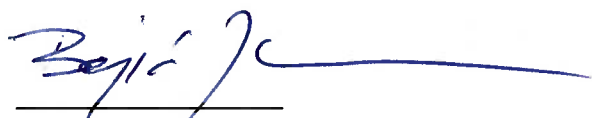
In the preceding year the Company did not purchase any of its own shares.

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

Shareholder	No. of shares	% in the share capital
MINISTRY OF STATE PROPERTY (FOR THE REPUBLIC OF CROATIA)	27,010,821	97.2033
ZRAČNA LUKA ZAGREB D.O.O.	477,121	1.7170
HPB (FOR THE REPUBLIC OF CROATIA)	173,768	0.6253
JANAF D.D.	22,000	0.0792
CROATIA OSIGURANJE D.D.	10,270	0.0370
HRVATSKA LUTRIJA 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

Pursuant to the provisions of Article 250, paragraph 4 and Article 272 (p) of the Companies Act, this Representation Letter is attached to the Management's Business Report for 2018 as an integral part thereof.

Zagreb, 30 April 2019



Jasmin Bajić,
President & CEO

CROATIA AIRLINES d.d.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2018
together with Independent auditors' report**

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Responsibility for the financial statements

The Management Board of the Company Croatia Airlines d.d., Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the consolidated and separate financial statements for the year ended 31 December 2018 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 & CEO

Croatia Airlines d.d.

Bani 75/b, Buzin

10000 Zagreb

Republic of Croatia

30 April 2019



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

Opinion

We have audited the separate financial statements of Croatia Airlines d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2018, and their respective separate and consolidated statements of statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2018, and of their respective financial performance and 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 2018: HRK 1,412,630 thousand; carrying amount of air traffic liabilities as at 31 December 2018: HRK 118,377 thousand.

Refer to Note 2 a) of *Significant accounting policies*, Note 3 on *Passenger traffic* and Note 32 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, net of commissions, discounts and rebates.</p> <p>Until the related transportation service is provided, sold flight documents are recognized as air traffic liabilities. Once a passenger coupon has been used, the corresponding transportation revenue is recognized in profit or loss.</p> <p>Determination of the amount of revenue to be recognized in the period relies on complex internal IT systems, including, among others, the revenue accounting system and schedule management system, and also involves the exchange of information with industry systems (such as the airline reservation system) and partner airlines for a high volume of transactions.</p> <p>Due to the significant dependence on various systems and the complexity of ticket pricing (tariff structures, fees, taxes, discounts, etc.), we considered this area a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none">● assessing the revenue recognition policy for compliance with relevant financial reporting standards and analysing the impact of IFRS 15;● using our own IT specialists, testing of the design, implementation and operating effectiveness of controls over the passenger revenue, including those controls in the IT systems that support the recording of passenger revenue; our tests of these controls were designed to evaluate whether key systems operate as designed, and are protected from manipulating of data or software logic that would result in inaccurate accounting information relating to passenger revenue;● performing predictive analytical procedures by developing an expectation of passenger revenue for the year based on data from publicly available industry database of passenger traffic and average ticket prices on flights;● on a sample basis, testing air traffic liabilities and passenger revenue by tracing the amounts recognized to underlying evidence and supporting documentation (flight document (ticket) and flown coupon used);● for different revenue categories, tracing selected high-risk journal entries posted by the Group throughout the year to supporting documentation in order to identify unusual and irregular items;● assessing the adequacy and completeness of disclosures within financial statements.



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

Key Audit Matters (continued)

Accounting for aircraft related assets and aircraft maintenance

The carrying amount of aircrafts as at 31 December 2018 totaled HRK 301,568 thousand; depreciation charge for the year: HRK 45,493 thousand.

Refer to Note 2 k) of *Significant accounting policies*, Note 13 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 determination of the useful lives and residual values of the aircrafts, and determination of their components. Depreciation rates of aircrafts 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).



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) within *Significant accounting policies*, section *Use of estimates in the preparation of financial statements*, *Going concern*, Note 34 *Commitments and contingent liabilities* and Note 37 *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 consolidated financial statements further explains how the judgment was formed by the management.</p> <p>The Company's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Company's plans for future actions and their financial impact.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • reading minutes of the meetings of the Management Board and Directors and Supervisory Boards with an aim to identify measures that the management intends to implement in order to secure adequate funding for its ongoing activities; • discussing with management their plans for future actions in relation to the going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances; • analyzing the Company's net working capital position as at 31 December 2018 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.

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.



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

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 2 July 2018 to audit the financial statements of the Company and the Group for the year ended 31 December 2018. Our total uninterrupted period of engagement is three years, covering the periods ending 31 December 2016 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 29 April 2019;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb, Croatia

30 April 2019

Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018		2017	
		HRK	EUR	HRK	EUR
		thousand	thousand	thousand	thousand
Operating revenues					
Passenger traffic	4	1,501,706	202,540	1,413,172	189,400
Cargo traffic		11,614	1,566	12,079	1,619
Other sales revenue	5	102,045	13,763	120,949	16,210
Total operating revenues		1,615,365	217,869	1,546,200	207,229
Other income	6	99,526	13,423	232,217	31,123
Operating expenses					
Flight operations		(587,755)	(79,273)	(514,963)	(69,018)
Maintenance		(251,883)	(33,972)	(247,826)	(33,215)
Passenger service		(120,221)	(16,215)	(97,846)	(13,114)
Aircraft and traffic services		(394,295)	(53,180)	(389,988)	(52,268)
Promotion and sales		(225,794)	(30,454)	(233,063)	(31,236)
General and administrative expenses		(95,511)	(12,882)	(103,001)	(13,805)
Depreciation and amortization	12, 13, 14	(100,933)	(13,613)	(94,492)	(12,664)
Other operating expenses		(13,262)	(1,789)	(74,830)	(10,029)
Total expenses		(1,789,654)	(241,378)	(1,756,009)	(235,349)
Profit / (loss) from operations		(74,763)	(10,086)	22,408	3,003
Finance income	9	56,191	7,579	66,402	8,900
Finance costs	10	(62,793)	(8,469)	(81,347)	(10,903)
Net finance income / (costs)		(6,602)	(890)	(14,945)	(2,003)
Profit / (loss) before tax		(81,365)	(10,976)	7,463	1,000
Income tax expense	11	(323)	(44)	(47)	(6)
Profit / (loss) for the year		(81,688)	(11,020)	7,416	994
Other comprehensive income					
Deferred exchange losses		450	61	670	90
The fair value of financial assets available for sale		(86)	(12)	(380)	(51)
Foreign exchange translation differences		-	679	-	288
Total other comprehensive income		364	728	290	327
Total comprehensive income / (loss)		(81,324)	(10,292)	7,706	1,321
Earnings per share HRK / EUR	27	(2.94)	(0.40)	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 2018

	Note	2018		2017	
		HRK	EUR	HRK	EUR
		thousand	thousand	thousand	thousand
Operating revenues					
Passenger traffic	4	1,501,706	202,540	1,413,172	189,400
Cargo traffic		11,614	1,566	12,079	1,619
Other sales revenue	5	88,592	11,949	110,025	14,746
Total operating revenues		1,601,912	216,055	1,535,276	205,765
Other income	6	99,430	13,410	232,202	31,121
Operating expenses					
Flight operations		(587,755)	(79,273)	(514,963)	(69,018)
Maintenance		(251,883)	(33,972)	(247,826)	(33,215)
Passenger service		(120,221)	(16,215)	(97,846)	(13,114)
Aircraft and traffic services		(394,295)	(53,180)	(389,988)	(52,268)
Promotion and sales		(225,794)	(30,454)	(233,063)	(31,237)
General and administrative expenses		(83,887)	(11,313)	(92,412)	(12,385)
Depreciation and amortization	12, 13, 14	(100,868)	(13,604)	(94,433)	(12,656)
Other operating expenses		(13,142)	(1,772)	(74,738)	(10,017)
Total expenses		(1,777,845)	(239,783)	(1,745,269)	(233,910)
Profit / (loss) from operations		(76,503)	(10,318)	22,209	2,976
Finance income	9	56,236	7,585	66,380	8,897
Finance costs	10	(62,670)	(8,453)	(81,252)	(10,890)
Net finance income / (costs)		(6,434)	(868)	(14,872)	(1,993)
Profit / (loss) before tax		(82,937)	(11,186)	7,337	983
Income tax expense	11	-	-	-	-
Profit / (loss) for the year		(82,937)	(11,186)	7,337	983
Other comprehensive income					
Deferred exchange losses		450	61	670	90
The fair value of financial assets available for sale		(86)	(12)	(380)	(51)
Foreign exchange translation differences		-	670	-	290
Total other comprehensive income		364	719	290	329
Total comprehensive income / (loss)		(82,573)	(10,467)	7,627	1,312
Earnings per share HRK / EUR	27	(2.98)	(0.40)	0.26	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 2018

	Note	2018		2017	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	12	139,423	18,796	126,513	16,838
Property, plant and equipment	13	495,639	66,820	455,095	60,569
Investment property	14	316	43	948	126
Non-current deposits	16	22,687	3,059	31,921	4,248
Financial assets available for sale	17	886	119	972	129
Non-current receivables	18	369	50	414	55
		659,320	88,887	615,863	81,965
Current assets					
Inventories	19	59,925	8,079	56,878	7,570
Trade receivables	20	89,086	12,010	79,273	10,551
Other receivables	21	12,373	1,668	12,490	1,662
Income tax receivable		179	24	803	107
Prepaid expenses and accrued income	22	18,863	2,543	34,021	4,528
Financial assets	23	9,097	1,226	2,416	322
Cash and cash equivalents	24	20,638	2,782	40,835	5,435
		210,161	28,332	226,716	30,175
TOTAL ASSETS		869,481	117,219	842,579	112,140
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	25	277,880	36,399	277,880	36,399
Reserves	26	110,464	14,397	102,740	13,362
Retained earnings		1,496	229	1,440	221
Net profit / (loss) for the year		(81,688)	(11,020)	7,416	994
Translation reserve		-	1,538	-	859
		308,152	41,543	389,476	51,835
Non-current liabilities					
Provisions	28	33,279	4,487	35,274	4,695
Non-current loans and borrowings	29	55,261	7,450	16,530	2,200
Other non-current liabilities		1,419	191	45	6
		89,959	12,128	51,849	6,901
Current liabilities					
Current loans and borrowings	30	64,553	8,703	54,044	7,193
Current portion of non-current loans and borrowings	29	20,769	2,800	15,027	2,000
Trade payables	31	196,164	26,446	149,585	19,908
Other current liabilities	32	154,519	20,832	162,290	21,600
Income tax liability		210	28	-	-
Accrued expenses and deferred income	33	35,155	4,739	20,308	2,703
		471,370	63,548	401,254	53,404
TOTAL EQUITY AND LIABILITIES		869,481	117,219	842,579	112,140

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2018

	Note	2018		2017	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets					
Non-current assets					
Intangible assets	12	139,410	18,795	126,483	16,834
Property, plant and equipment	13	495,451	66,794	454,931	60,547
Investment property	14	316	43	948	126
Investments in subsidiaries	15	1,210	163	1,210	161
Non-current deposits	16	22,640	3,052	31,874	4,242
Financial assets available for sale	17	886	119	972	129
Non-current receivables	18	369	50	414	55
		660,282	89,016	616,832	82,094
Current assets					
Inventories	19	59,925	8,079	56,878	7,570
Trade receivables	20	84,893	11,445	75,945	10,108
Other receivables	21	12,297	1,658	12,412	1,652
Income tax receivable		179	24	688	92
Prepaid expenses and accrued income	22	18,836	2,539	33,898	4,512
Financial assets	23	9,097	1,226	2,362	314
Cash and cash equivalents	24	16,625	2,241	38,486	5,122
		201,852	27,212	220,669	29,370
TOTAL ASSETS		862,134	116,228	837,501	111,464
EQUITY AND LIABILITIES					
Equity and reserves					
Share capital	25	277,880	36,399	277,880	36,399
Reserves	26	109,175	14,228	101,474	13,196
Net profit / (loss) for the year		(82,937)	(11,186)	7,337	983
Translation reserve		-	1,557	-	887
		304,118	40,998	386,691	51,465
Non-current liabilities					
Provisions	28	33,279	4,487	35,274	4,695
Non-current loans and borrowings	29	55,261	7,450	16,530	2,200
Other non-current liabilities		1,419	191	45	6
		89,959	12,128	51,849	6,901
Current liabilities					
Current loans and borrowings	30	64,553	8,703	54,044	7,193
Current portion of non-current loans and borrowings	29	20,769	2,800	15,027	2,000
Trade payables	31	194,555	26,229	148,188	19,723
Other current liabilities	32	153,957	20,756	161,720	21,523
Accrued expenses and deferred income	33	34,223	4,614	19,982	2,659
		468,057	63,102	398,961	53,098
TOTAL EQUITY AND LIABILITIES		862,134	116,228	837,501	111,464

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

Croatia Airlines Group consolidated statement of changes in equity

For the year ended 31 December 2018

Croatia Airlines Group	Share capital		Reserves		Retained earnings		Profit / (loss) for the year		Translation reserve	Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Balance at 1 January 2017	277,880	36,399	94,119	12,217	2,206	322	7,565	1,005	571	381,770	50,514
Profit for the year (restated)	-	-	-	-	-	-	7,416	994	-	7,416	994
Other comprehensive income	-	-	290	39	-	-	-	-	288	290	327
Total comprehensive income	-	-	290	39	-	-	7,416	994	288	7,706	1,321
Transactions with owners											
Transfer of profit from 2016 to legal reserves	-	-	7,519	999	46	6	(7,565)	(1,005)	-	-	-
Transfer of retained earnings to legal reserves	-	-	812	107	(812)	(107)	-	-	-	-	-
Total transaction with owners	-	-	8,331	1,106	(766)	(101)	(7,565)	(1,005)	-	-	-
Balance at 31 December 2017 (restated)	277,880	36,399	102,740	13,362	1,440	221	7,416	994	859	389,476	51,835
Loss for the year	-	-	-	-	-	-	(81,688)	(11,020)	-	(81,688)	(11,020)
Other comprehensive income	-	-	364	49	-	-	-	-	679	364	728
Total comprehensive income	-	-	364	49	-	-	(81,688)	(11,020)	679	(81,324)	(10,292)
Transactions with owners											
Transfer of profit from 2017 to other capital reserves	-	-	7,360	986	56	8	(7,416)	(994)	-	-	-
Total transaction with owners	-	-	7,360	986	56	8	(7,416)	(994)	-	-	-
Balance at 31 December 2018	277,880	36,399	110,464	14,397	1,496	229	(81,688)	(11,020)	1,538	308,152	41,543

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 2018

Croatia Airlines d.d.	Share capital		Reserves		Profit / (loss) for the year		Translation reserve	Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2017	277,880	36,399	93,142	12,089	8,042	1,068	597	379,064	50,153
Profit for the year (restated)	-	-	-	-	7,337	983	-	7,337	983
Other comprehensive income	-	-	290	39	-	-	290	290	329
Total comprehensive income	-	-	290	39	7,337	983	290	7,627	1,312
Transactions with owners									
Transfer of profit from 2016 to legal 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 (restated)	277,880	36,399	101,474	13,196	7,337	983	887	386,691	51,465
Loss for the year	-	-	-	-	(82,937)	(11,186)	-	(82,937)	(11,186)
Other comprehensive income	-	-	364	49	-	-	670	364	719
Total comprehensive income	-	-	364	49	(82,937)	(11,186)	670	(82,573)	(10,467)
Transactions with owners									
Transfer of profit from 2017 to other capital reserves	-	-	7,337	983	(7,337)	(983)	-	-	-
Total transaction with owners	-	-	7,337	983	(7,337)	(983)	-	-	-
Balance at 31 December 2018	277,880	36,399	109,175	14,228	(82,937)	(11,186)	1,557	304,118	40,998

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 2018

	Note	2018		2017	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Profit / (loss) for the year		(81,688)	(11,018)	7,416	994
<i>Adjustments for:</i>					
Depreciation and amortization		100,933	13,613	94,492	12,664
Gain on sale of property, plant and equipment		(182)	(25)	(944)	(127)
Disposals of property, plant and equipment		8,734	1,178	15,452	2,071
Correction of impairment of intangible assets		1	-	92	12
Correction of impairment of property, plant and equipment		34	5	(28)	(4)
Impairment of aircraft		-	-	56,923	7,629
Impairment loss on trade receivables		3,702	499	931	125
Collection of previously written-off receivables		(47)	(6)	(198)	(27)
Change in provisions		(1,995)	(269)	11,122	1,491
Unrealized foreign exchange differences		(2,330)	(314)	6,466	867
Interest costs		4,407	594	5,179	694
Interest income		(113)	(15)	(272)	(36)
Income from shares in profit		(32)	(4)	(27)	(4)
Tax expense		323	44	47	6
		31,747	4,282	196,651	26,355
<i>Changes in:</i>					
Inventories		(3,047)	(411)	7,615	1,021
Trade and other receivables		2,364	319	(18,183)	(2,437)
Trade and other payables		1,632	220	(53,044)	(7,109)
Cash generated from operating activities		32,696	4,410	133,039	17,830
Interest paid		(1,691)	(228)	(4,678)	(627)
Interest received		119	16	174	23
Net change of deposits		2,553	344	19,613	2,629
Income tax paid		(177)	(24)	(857)	(115)
Net cash from operating activities		33,500	4,518	147,291	19,740
Cash flows from investing activities					
Acquisition of intangible assets		(52,370)	(7,063)	(58,470)	(7,836)
Acquisition of property, plant and equipment		(56,739)	(7,653)	(94,988)	(12,731)
Proceeds from sale of property, plant and equipment		5	1	872	117
Dividends received		32	4	27	4
Net cash used in investing activities		(109,072)	(14,711)	(152,559)	(20,446)
Cash flows from financing activities					
Proceeds from loans and borrowings	30	105,028	14,165	37,450	5,019
Repayment of loans and borrowings	30	(49,653)	(6,697)	(23,923)	(3,206)
Payment of finance lease liabilities		-	-	(2)	-
Net cash from financing activities		55,375	7,468	13,525	1,813
Net decrease in cash and cash activities		(20,197)	(2,725)	8,257	1,107
Cash and cash equivalents at beginning of the year		40,835	5,435	32,578	4,311
Effect of foreign currency translation		-	72	-	17
Cash and cash equivalents at end of the year	24	20,638	2,782	40,835	5,435

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 2018

	Note	2018		2017	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Profit / (loss) for the year		(82.937)	(11.186)	7.337	983
<i>Adjustments for:</i>					
Depreciation and amortization		100.868	13.604	94.433	12.656
Gain on sale of property, plant and equipment		(182)	(25)	(944)	(127)
Disposals of property, plant and equipment		8.734	1.178	15.452	2.071
Correction of impairment of intangible assets		1	-	92	12
Correction of impairment of property, plant and equipment		34	5	(28)	(4)
Impairment of aircraft		-	-	56.923	7.629
Impairment loss on trade receivables		3.630	490	839	112
Collection of previously written-off receivables		(47)	(6)	(198)	(27)
Change in provisions		(1.995)	(269)	11.122	1.491
Unrealized foreign exchange differences		(2.330)	(314)	6.466	867
Interest costs		4.407	594	5.179	694
Interest income		(113)	(15)	(272)	(36)
Income from shares in profit		(88)	(12)	(27)	(4)
		<u>29.982</u>	<u>4.044</u>	<u>196.374</u>	<u>26.317</u>
<i>Changes in:</i>					
Inventories		(3.047)	(411)	7.615	1.021
Trade and other receivables		3.203	432	(17.637)	(2.364)
Trade and other payables		3.114	420	(53.511)	(7.172)
Cash generated from operating activities		<u>33.252</u>	<u>4.485</u>	<u>132.841</u>	<u>17.802</u>
Interest paid		(3.911)	(527)	(4.678)	(627)
Interest received		119	16	174	23
Net change of deposits		2.499	337	19.646	2.633
Income tax paid		(179)	(24)	(748)	(100)
Net cash from operating activities		<u>31.780</u>	<u>4.287</u>	<u>147.235</u>	<u>19.731</u>
Cash flows from investing activities					
Acquisition of intangible assets		(52.369)	(7.063)	(58.470)	(7.836)
Acquisition of property, plant and equipment		(56.740)	(7.653)	(94.958)	(12.727)
Proceeds from sale of property, plant and equipment		5	1	872	117
Dividends received		88	12	190	25
Net cash used in investing activities		<u>(109.016)</u>	<u>(14.703)</u>	<u>(152.366)</u>	<u>(20.421)</u>
Cash flows from financing activities					
Proceeds from loans and borrowings	30	105.028	14.165	37.450	5.019
Repayment of loans and borrowings	30	(49.653)	(6.697)	(23.923)	(3.206)
Payment of finance lease liabilities		-	-	(2)	-
Net cash from financing activities		<u>55.375</u>	<u>7.468</u>	<u>13.525</u>	<u>1.813</u>
Net decrease in cash and cash activities		<u>(21.861)</u>	<u>(2.948)</u>	<u>8.394</u>	<u>1.123</u>
Cash and cash equivalents at beginning of the year		38.486	5.122	30.092	3.982
Effect of foreign currency translation		-	67	-	17
Cash and cash equivalents at end of the year	24	<u>16.625</u>	<u>2.241</u>	<u>38.486</u>	<u>5.122</u>

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 2018

1. GENERAL

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

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

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

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

General Assembly of the Company

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

Supervisory Board of the Company

Members of Supervisory Board from 13 July 2016

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

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)

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 2018

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	2018	2017
On 31 December	7.417575	7.513648
Average	7.414359	7.461312

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 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Revenue

During 2018, the Group and the Company adopted a new standard for revenue recognition, IFRS 15 *Revenue from Contracts with Customers*. The application of IFRS 15 did not have significant effects on accounting policies related to revenue recognition. Below is a policy for revenue recognition harmonized with the new standard.

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

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

- Passenger revenue

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

- Income from charter and cargo transport services

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

- Other sales revenue

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Interest income

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

c) Dividend income and income from share in profit

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

d) Leases

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.

e) Foreign currencies

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Borrowing costs

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

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

g) Government grants

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

h) Taxation

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

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

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

i) Property, plant and equipment

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Property, plant and equipment (continued)

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

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

In connection with the acquisition of certain aircraft and engines, the Company received certain discounts. These discounts are deducted from the cost of the aircraft. The spare parts that are received free of charge are deferred and credited to the statement of comprehensive income on a proportional basis over the operational life of the aircraft.

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

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

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

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Investment property

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

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

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

k) Intangible assets

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

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

l) Investments in subsidiaries

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Inventories

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

n) Financial instruments

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

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

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

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

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

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

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

(i) Cash and cash equivalents

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

(ii) Investments in equity instruments

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

(iii) Loans and receivables

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

(iv) Financial liabilities

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Hedging reserves

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

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

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

p) Provisions

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

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

q) Dividend distributions

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Earnings per share

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

s) Adoption of new standards

As of January 1, 2018, the Company begins to apply IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*.

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.

The Company adopted IFRS 15 using the cumulative effect, applying the standard on January 1, 2018. Accordingly, the information presented for the year 2017 has not been revised – i.e. they are presented as described above, in accordance with IAS 18 and IAS 11 and related interpretations. Given the nature of the Group's and the Company's business and the level of disclosure in the previous financial statements, management believes that the adoption of a new standard of accounting for revenue recognition has not changed significantly and no additional disclosures are required. Regardless, the Group's estimates of the type of services and contracts did not have any impact on the transitional financial statement of the Group as of 31 December 2018 or on the statement of comprehensive income for the year then ended. There was no significant impact on the transitional cash flow statement for the period ended 31 December 2018. In short, the new IFRS 15 does not have a significant impact on the financial statements, both in terms of amount and in terms of disclosures and the accounting policies applied.

IFRS 9 Financial instruments

The Group applies IFRS 9 from 1 January 2018. IFRS 9 establishes requirements for the recognition and measurement of financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. It replaces IAS 39 *Financial Instruments: Recognition and measurement*. The main changes introduced by the new standard are outlined below as well as their impact on the financial statements.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Adoption of new standards (continued)

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three major categories of financial assets: assets carried at amortized cost, assets at fair value through other comprehensive income and assets at fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on a business model that manages the financial assets and characteristics of their contracted cash flow. IFRS 9 eliminates certain categories of assets that existed under IAS 39, such as: held-to-maturity assets, loans and receivables and available-for-sale assets.

The impact on the financial statements is as follows:

Financial Assets	Classification by IAS 39	New Classification by IFRS 9
Investments in equity instruments	Financial assets available for sale	Equity investments at fair value through other comprehensive income
Other financial assets	Financial assets held to maturity	Financial assets at amortized cost
Trade receivables	Loans and receivables	Financial assets at amortized cost

IFRS 9 mostly retains the existing requirements of IAS 39 related to the classification and measurement of financial liabilities and there were no effects on the financial statements in this respect.

ii. Impairment of financial assets

IFRS 9 replaces the "resulting loss" model in IAS 39 with the "expected credit loss" model. The new model of impairment applies to financial assets measured at amortized cost. According to IFRS 9, credit losses are recognized earlier than in IAS 39. Management has determined that the effect of using the "expected credit loss" model on the financial statements is not material.

iii. Transitional provisions

The Group and the Company have applied a retrospective approach to IFRS 9 adoption, however, as there is no significant impact on the financial statements as a result of the adoption, the comparative information has not been restated. As a result, management believes that information presented on December 31, 2017 reflects the requirements of IFRS 9 and are therefore comparable with the information presented for the period ended 31 December 2018.

Due to the simplicity of the structure of financial assets and financial liabilities, applied standards did not require significant and complex assessments by management.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Certain standards, amendments and interpretations of existing standards that are applicable but not mandatory for the period ending 31 December 2018 have been published and as such have not been applied in the preparation of these financial statements. Below is an overview:

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. The Group and the Company shall apply IFRS 16 from 1 January 2019.

The new standard will not be applied retrospectively in full and will be used the provision on exemption i.e. modified retrospective method. During the transition to IFRS 16, payment obligations based on existing operating leases will be discounted using the appropriate incremental borrowing rate and will be recognized as a lease liability. The property with right of use will be stated as the amount of the lease obligation, adjusted for the prepaid amount for rent.

Based on management analysis, it is expected that the transition to the new standard as of January 1, 2019 will have the following effects: increase of total assets as a result of the recognition of assets with right of use in the amount of approximately HRK 530,804 thousand and increase in liabilities as a result of recognition of lease liabilities amounting to approximately HRK 526,335 thousand. The difference between total recognized assets and liabilities relates to prepayments in 2018 concerning to the lease period after 1 January 2019.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

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 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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 5% increase in passenger numbers compared to 2018, 4% more than in 2018 in domestic scheduled traffic and 6% more in international scheduled passenger traffic.

In 2019 a slightly lower investment is planned than in 2018. Total investments amounted to HRK 112 million, of which HRK 96,6 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 short-term loan in the amount of HRK 42.3 million;
- revolving credit with the bank in the amount of HRK 22.3 million;
- payment of PSO fee in the amount of HRK 75.7 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 advances of USD 900 thousand due on May 1, 2019 and USD 1,226 thousand due on October 1, 2019, 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 2018

3. CORRECTION OF ERROR

During 2018, management discovered errors in the data transfer from a system where the technical sector records equipment and inventories related to aircrafts to the accounting system that is the basis for the financial reporting process.

The analysis discovered that the interface does not recognize a particular type of transaction during the automatic data transfer from one system to another system as that specific transaction was not anticipated or defined in the initial setup of the interface. Because of non-recognizing this type of transaction in the accounting system, the disposal or the usage of the item for the specified type of transaction was not accounted for. Although disposed, these items were still recorded in the accounting system and as such were included either within the property, plant and equipment or within the inventories.

Given that this error is a result of the failure in the previous years, it has been corrected in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

For this prior period error, it is impracticable to determine the period-specific effects and thus the Company has restated the opening balances of property, plant and equipment, inventories and equity for the earliest period for which retrospective restatement is practicable, being the prior period year end as of 31 December 2017.

The effect of this prior period error correction on the Croatia Airlines Group's statements of financial position and is as follows:

	Previously published 2017 HRK thousand	Correction of error 2017 HRK thousand	Restated 2017 HRK thousand	Previously published 2017 EUR thousand	Correction of error 2017 EUR thousand	Restated 2017 EUR thousand
Property, plant and equipment	463,817	(8,722)	455,095	61,730	(1,161)	60,569
Inventories	65,760	(8,882)	56,878	8,752	(1,182)	7,570
Profit for the year	25,020	(17,604)	7,416	3,354	(2,360)	994

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

3. CORRECTION OF ERROR (CONTINUED)

The effect of this prior period error correction on the Croatia Airlines Group's statement of comprehensive income is as follows:

	Previously published 2017 HRK thousand	Correction of error 2017 HRK thousand	Restated 2017 HRK thousand	Previously published 2017 EUR thousand	Correction of error 2017 EUR thousand	Restated 2017 EUR thousand
Maintenance	(238,944)	(8,882)	(247,826)	(32,024)	(1,191)	(33,215)
Other operating expenses	(66,108)	(8,722)	(74,830)	(8,860)	(1,169)	(10,029)

The effect of this prior period error correction on the Croatia Airlines d.d.'s statement of financial position is as follows:

	Previously published 2017 HRK thousand	Correction of error 2017 HRK thousand	Restated 2017 HRK thousand	Previously published 2017 EUR thousand	Correction of error 2017 EUR thousand	Restated 2017 EUR thousand
Property, plant and equipment	463,653	(8,722)	454,931	61,708	(1,161)	60,547
Inventories	65,760	(8,882)	56,878	8,752	(1,182)	7,570
Profit for the year	24,941	(17,604)	7,337	3,343	(2,360)	983

The effect of this prior period error correction on the Croatia Airlines d.d.'s statement of comprehensive income is as follows:

	Previously published 2017 HRK thousand	Correction of error 2017 HRK thousand	Restated 2017 HRK thousand	Previously published 2017 EUR thousand	Correction of error 2017 EUR thousand	Restated 2017 EUR thousand
Maintenance	(238,944)	(8,882)	(247,826)	(32,024)	(1,191)	(33,215)
Other operating expenses	(66,016)	(8,722)	(74,738)	(8,848)	(1,169)	(10,017)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

4. PASSENGER TRAFFIC

	2018		2017	
	Croatia Airlines d.d. i Grupa	Croatia Airlines d.d. i Grupa	Croatia Airlines d.d. i Grupa	Croatia Airlines d.d. i Grupa
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Scheduled services	1,412,630	190,526	1,343,698	180,089
Charter services	89,076	12,014	69,474	9,311
	1,501,706	202,540	1,413,172	189,400

Revenue by geographical area based on sales origin:

	2018		2017	
	Croatia Airlines d.d. i Grupa	Croatia Airlines d.d. i Grupa	Croatia Airlines d.d. i Grupa	Croatia Airlines d.d. i Grupa
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Croatia	504,423	68,033	429,604	57,578
Germany	149,270	20,133	145,557	19,508
USA	149,420	20,153	148,383	19,887
France	80,792	10,897	81,964	10,985
Great Britain	45,502	6,137	60,766	8,144
Other countries	572,299	77,187	546,898	73,298
	1,501,706	202,540	1,413,172	189,400

5. OTHER SALES REVENUE

	2018		2017		2018		2017	
	Croatia Airlines Group	Croatia Airlines Group	Croatia Airlines Group	Croatia Airlines Group	Croatia Airlines d.d.	Croatia Airlines d.d.	Croatia Airlines d.d.	Croatia Airlines d.d.
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Revenue from technical services to others	58,200	7,850	77,337	10,365	58,200	7,850	77,337	10,365
Commission income from foreign air companies	6,795	916	9,780	1,311	6,795	916	9,780	1,311
Revenue from reservation system services	10,363	1,398	10,686	1,432	2,365	319	3,619	485
Revenue from advertising services	9,485	1,279	7,904	1,059	9,485	1,279	7,904	1,059
Revenue from educational services	1,742	235	2,587	347	1,742	235	2,587	347
Mileage related revenue	2,778	375	2,617	351	2,778	375	2,617	351
Other	12,682	1,710	10,038	1,345	7,227	975	6,181	828
	102,045	13,763	120,949	16,210	88,592	11,949	110,025	14,746

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

6. OTHER INCOME

	2018		2017		2018		2017	
	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	84,136	11,348	75,322	10,095	84,136	11,348	75,322	10,095
Gain from sale of property, plant and equipment	182	25	944	127	182	25	944	127
Income from assets received free of charge	-	-	951	127	-	-	951	127
Bad debts collected	47	6	198	27	47	6	198	27
Income from sale of spare parts	161	22	157	21	161	22	157	21
Other income	15,000	2,022	154,645	20,726	14,904	2,009	154,630	20,724
	99,526	13,423	232,217	31,123	99,430	13,410	232,202	31,121

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 in 2017 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.

7. EXPENSES BY NATURE

	2018		2017		2018		2017	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Fuel	314,337	42,396	243,040	32,573	314,337	42,396	243,040	32,573
Airport costs	273,925	36,945	268,732	36,017	273,925	36,945	268,732	36,017
Staff costs	269,954	36,410	256,828	34,422	265,489	35,807	252,774	33,877
Rental and maintenance of engines and parts	159,256	21,479	151,249	20,271	159,256	21,479	151,249	20,271
Aircraft lease	146,542	19,765	158,069	21,185	146,542	19,765	158,069	21,185
Air traffic control costs	120,370	16,235	121,256	16,251	120,370	16,235	121,256	16,251
Reservation system costs	101,203	13,650	103,165	13,827	101,203	13,650	103,165	13,827
Amortisation and depreciation	100,933	13,613	94,492	12,664	100,868	13,604	94,433	12,656
Commission costs	56,408	7,608	65,253	8,746	56,408	7,608	65,253	8,746
Catering	32,367	4,365	31,089	4,167	32,367	4,365	31,089	4,167
Consumables	28,916	3,900	33,032	4,427	28,916	3,900	33,032	4,427
Promotion costs	20,524	2,768	19,892	2,666	20,524	2,768	19,892	2,666
Other expenses	164,919	22,244	209,912	28,133	157,640	21,261	203,285	27,247
	1,789,654	241,378	1,756,009	235,349	1,777,845	239,783	1,745,269	233,910

In 2017 other expenses include the cost of impairment of the aircraft in the amount of HRK 56,923 thousand, or EUR 7,629 thousand while during 2018 there was no impairment.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

8. STAFF COSTS

	2018		2017		2018		2017	
	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	126,155	17,015	119,775	16,053	123,816	16,699	117,615	15,763
Taxes and contributions form salaries	64,324	8,676	60,443	8,101	63,241	8,530	59,462	7,969
Contributions on salaries	42,952	5,793	40,736	5,460	42,383	5,716	40,194	5,387
Other employee related	36,523	4,926	35,874	4,808	36,049	4,862	35,503	4,758
	269,954	36,410	256,828	34,422	265,489	35,807	252,774	33,877

As at 31 December 2018 the Group had 984 employees (Croatia Airlines d.d. 959, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 17) while 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) - see Note 35.

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

9. FINANCE INCOME

	2018		2017		2018		2017	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Positive foreign exchange differences	56,046	7,560	66,103	8,860	56,035	7,558	66,081	8,857
Interest income	113	15	272	36	113	15	272	36
Income from share on profits and dividends	32	4	27	4	88	12	27	4
	56,191	7,579	66,402	8,900	56,236	7,585	66,380	8,897

10. FINANCE COSTS

	2018		2017		2018		2017	
	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	57,931	7,813	75,954	10,180	57,808	7,797	75,859	10,167
Interest expense	4,407	594	5,179	694	4,407	594	5,179	694
Other finance costs	455	62	214	29	455	62	214	29
	62,793	8,469	81,347	10,903	62,670	8,453	81,252	10,890

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

11. INCOME TAX EXPENSE

Income tax in Croatia is calculated at the rate of 18% (2017.: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 179 thousand (2017.: HRK 872 thousand) were compensated with the obligation to pay VAT.

Income tax expense of the subsidiaries is as follows: Amadeus Croatia d.d. HRK 42 thousand, EUR 6 thousand (2017: HRK 40 thousand, EUR 5 thousand) and Obzor putovanja d.o.o. HRK 281 thousand, EUR 38 thousand (2017: HRK 7 thousand, EUR 1 thousand).

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

	2018		2017		2018		2017	
	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	(81,365)	(10,976)	7,463	1,000	(82,937)	(11,186)	7,337	983
Tax at statutory rate	(14,646)	(1,976)	1,343	180	(14,929)	(2,013)	1,321	177
Non-deductible expenses	296	40	3,515	470	266	35	3,490	467
Non-taxable income	(11)	(1)	(10)	(1)	(21)	(3)	(10)	(1)
Tax incentives	(743)	(100)	(695)	(93)	(743)	(100)	(695)	(93)
Tax losses for which deferred tax assets are not recognized	15,427	2,081	-	-	15,427	2,081	-	-
Utilised tax losses	-	-	(4,106)	(550)	-	-	(4,106)	(550)
Income tax	323	44	47	6	-	-	-	-

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:

	2018		2018		2017		2017	
	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 2013 (expires 2018)	-	-	-	-	98,335	13,088	17,700	2,356
Loss from 2014 (expires 2019)	5,753	776	1,036	140	5,753	766	1,036	138
Loss from 2018 (expires 2023)	85,706	11,554	15,427	2,080	-	-	-	-
	91,459	12,330	16,463	2,220	104,088	13,854	18,736	2,494

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 2018

12. INTANGIBLE ASSETS

Croatia Airlines Group

2018	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2018	35,814	4,767	187,054	24,895	-	-	222,868	29,662
Additions	1,968	265	50,346	6,790	56	8	52,370	7,063
Transfer from property, plant and equipment	-	-	70	9	-	-	70	9
Fx differences	-	62	-	319	-	-	-	381
Balance at 31 December 2018	<u>37,782</u>	<u>5,094</u>	<u>237,470</u>	<u>32,013</u>	<u>56</u>	<u>8</u>	<u>275,308</u>	<u>37,115</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2018	32,441	4,318	63,914	8,506	-	-	96,355	12,824
Charge for the year	3,140	424	36,376	4,906	-	-	39,516	5,330
Fx differences	-	-	13	2	-	-	13	2
Balance at 31 December 2018	<u>35,581</u>	<u>4,742</u>	<u>100,303</u>	<u>13,414</u>	<u>-</u>	<u>-</u>	<u>135,884</u>	<u>18,156</u>
NET BOOK VALUE								
At 31 December 2018	<u>2,201</u>	<u>352</u>	<u>137,167</u>	<u>18,599</u>	<u>56</u>	<u>8</u>	<u>139,424</u>	<u>18,959</u>
At 1 January 2018	<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>

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>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

12. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

2018	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2018	35,324	4,701	186,664	24,844	-	-	221,988	29,545
Additions	1,967	265	50,346	6,790	56	8	52,369	7,063
Transfer from property, plant and equipment	-	-	70	9	-	-	70	9
Fx differences	-	61	-	320	-	-	-	381
Balance at 31 December 2018	<u>37,291</u>	<u>5,027</u>	<u>237,080</u>	<u>31,963</u>	<u>56</u>	<u>8</u>	<u>274,427</u>	<u>36,998</u>
ACCUMULATED AMORTIZATION								
Balance at 1 January 2018	31,976	4,256	63,529	8,455	-	-	95,505	12,711
Charge for the year	3,122	421	36,376	4,906	-	-	39,498	5,327
Fx differences	-	55	-	108	-	-	-	163
Balance at 31 December 2018	<u>35,098</u>	<u>4,732</u>	<u>99,905</u>	<u>13,469</u>	<u>-</u>	<u>-</u>	<u>135,003</u>	<u>18,201</u>
NET BOOK VALUE								
At 31 December 2018	<u>2,193</u>	<u>295</u>	<u>137,175</u>	<u>18,494</u>	<u>56</u>	<u>8</u>	<u>139,424</u>	<u>18,797</u>
At 1 January 2018	<u>3,348</u>	<u>445</u>	<u>123,135</u>	<u>16,389</u>	<u>-</u>	<u>-</u>	<u>126,483</u>	<u>16,834</u>

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>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT

Croatia Airlines Group

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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)	(27,669)	(3,708)	-	-	(36,075)	(4,835)
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	-	173	(6,798)	(796)	(6,798)	361
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>204,668</u>	<u>27,240</u>	<u>61,250</u>	<u>8,152</u>	<u>1,548,382</u>	<u>206,076</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)	(12,405)	(1,663)	-	-	(20,646)	(2,768)
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	-	104	-	-	-	792
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>137,279</u>	<u>18,271</u>	<u>-</u>	<u>-</u>	<u>1,093,287</u>	<u>145,507</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>67,389</u>	<u>8,969</u>	<u>61,250</u>	<u>8,152</u>	<u>455,095</u>	<u>60,569</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 2018

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

13. 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)	(27,669)	(3,708)	-	-	(36,075)	(4,835)
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	-	174	(6,798)	(796)	(6,798)	362
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>204,668</u>	<u>27,240</u>	<u>61,250</u>	<u>8,152</u>	<u>1,545,712</u>	<u>205,721</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)	(12,405)	(1,663)	-	-	(20,646)	(2,768)
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	-	105	-	-	-	793
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>137,279</u>	<u>18,271</u>	<u>-</u>	<u>-</u>	<u>1,090,781</u>	<u>145,174</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>67,389</u>	<u>8,969</u>	<u>61,250</u>	<u>8,152</u>	<u>454,931</u>	<u>60,547</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 2018

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Carrying value of the property plant and equipment pledged as security for repayment of loans at the reporting date amounts to HRK 181,410 thousand, EUR 24,457 thousand (2017.: HRK 106,335 thousand, EUR 14,152 thousand).

Fleet at 31 December 2018

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

Property, plant and equipment under construction

Assets under construction includes advance payments in the amount of HRK 54,752 thousand, EUR 7,381 thousand (2017: HRK 49,919 thousand, EUR 6,644 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 15,055 thousand, EUR 2,030 thousand (2017: HRK 11,331 thousand, EUR 1,508 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 487,533 thousand, EUR 65,755 thousand (2017: HRK 486,078 thousand, EUR 65,146 thousand). The agreed repayment of capital commitment is disclosed in Note 34.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

14. INVESTMENT PROPERTY

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

2018	Investment property	
	HRK thousand	EUR thousand
COST		
Balance at 1 January 2018	12,768	1,699
Fx differences	-	22
Balance at 31 December 2018	<u>12,768</u>	<u>1,721</u>
ACCUMULATED AMORTIZATION		
Balance at 1 January 2018	11,820	1,573
Charge for the year	632	85
Fx differences	-	20
Balance at 31 December 2018	<u>12,452</u>	<u>1,678</u>
NET BOOK VALUE		
At 31 December 2018	<u>316</u>	<u>43</u>
At 1 January 2018	<u>948</u>	<u>126</u>
2017		
	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 AMORTIZATION		
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 1,023 thousand and EUR 138 thousand (2017: HRK 1,030 thousand and EUR 139 thousand) is included in the category of Other within Other sales revenue.

The fair value of investment property at the reporting date amounted to HRK 12,653 thousand, EUR 1,706 thousand.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

15. INVESTMENTS IN SUBSIDIARIES

Name	Main activity	Share	2018		2017		2018		2017	
			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	138	1,020	136
Amadeus Croatia d.d.	Marketing services	95%	-	-	-	-	190	25	190	25
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210</u>	<u>163</u>	<u>1,210</u>	<u>161</u>

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

16. NON-CURRENT DEPOSITS

	2018		2017		2018		2017	
	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	16,957	2,286	25,941	3,453	16,910	2,280	25,894	3,446
Deposits at banks for employee loans	3,878	523	4,239	564	3,878	523	4,239	565
Deposits for bank guarantees	1,109	150	1,115	148	1,109	150	1,115	148
Deposits for business premises lease	743	100	626	83	743	99	626	83
	<u>22,687</u>	<u>3,059</u>	<u>31,921</u>	<u>4,248</u>	<u>22,640</u>	<u>3,052</u>	<u>31,874</u>	<u>4,242</u>

Non – current deposits given to suppliers consists of deposits given as guarantees to suppliers in the amount of HRK 16,910 thousand, EUR 2,280 thousand (2017: Deposits given as guarantees in the amount of HRK 25,894 thousand, EUR 3,446 thousand).

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

17. INVESTMENTS IN EQUITY INSTRUMENTS

	Share	2018		2017		2018		2017	
		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%	697	94	783	104	697	94	783	104
Star Alliance		189	25	189	25	189	25	189	25
		<u>886</u>	<u>119</u>	<u>972</u>	<u>129</u>	<u>886</u>	<u>119</u>	<u>972</u>	<u>129</u>

Investments in equity instruments are classified as financial assets at fair value through other comprehensive income. Based on the fair value adjustments in the 2018 loss of HRK 86 thousand, EUR 12 thousand is recognized in other comprehensive income (2017: loss of HRK 380 thousand, EUR 51 thousand).

18. NON-CURRENT RECEIVABLES

	2018		2017		2018		2017	
	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	194	26	239	32	194	26	239	32
Other non-current receivables	175	24	175	23	175	24	175	23
	<u>369</u>	<u>50</u>	<u>414</u>	<u>55</u>	<u>369</u>	<u>50</u>	<u>414</u>	<u>55</u>

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

19. INVENTORIES

	2018		2017		2018		2017	
	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 (restated)	58,650	7,907	54,784	7,291	58,650	7,907	54,784	7,291
Catering, supplies and other inventories	1,275	172	2,094	279	1,275	172	2,094	279
	<u>59,925</u>	<u>8,079</u>	<u>56,878</u>	<u>7,570</u>	<u>59,925</u>	<u>8,079</u>	<u>56,878</u>	<u>7,570</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 2018

20. TRADE RECEIVABLES

	2018		2017		2018		2017	
	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	22,931	3,091	22,345	2,974	20,016	2,698	19,951	2,655
Foreign trade receivables	75,872	10,229	63,216	8,414	74,584	10,056	62,282	8,290
Allowance for doubtful receivables	(9,717)	(1,310)	(6,288)	(837)	(9,707)	(1,309)	(6,288)	(837)
	<u>89,086</u>	<u>12,010</u>	<u>79,273</u>	<u>10,551</u>	<u>84,893</u>	<u>11,445</u>	<u>75,945</u>	<u>10,108</u>

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

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

	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>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

21. OTHER RECEIVABLES

	2018		2017		2018		2017	
	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 from employees	51	7	50	7	50	7	48	6
Receivables from the State	9,493	1,279	8,749	1,163	9,418	1,270	8,673	1,154
Receivables from insurers	6	1	28	4	6	1	28	4
Receivables for advances	2,823	381	3,663	488	2,823	380	3,663	488
	<u>12,373</u>	<u>1,668</u>	<u>12,490</u>	<u>1,662</u>	<u>12,297</u>	<u>1,658</u>	<u>12,412</u>	<u>1,652</u>

22. PREPAYMENTS AND ACCRUED REVENUE

	2018		2017		2018		2017	
	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
Prepayments	15,455	2,084	21,969	2,924	15,428	2,080	21,846	2,908
Accrued revenue	3,408	459	12,052	1,604	3,408	459	12,052	1,604
	<u>18,863</u>	<u>2,543</u>	<u>34,021</u>	<u>4,528</u>	<u>18,836</u>	<u>2,539</u>	<u>33,898</u>	<u>4,512</u>

23. FINANCIAL ASSETS

	2018		2017		2018		2017	
	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	9,097	1,226	2,416	322	9,097	1,226	2,362	314
	<u>9,097</u>	<u>1,226</u>	<u>2,416</u>	<u>322</u>	<u>9,097</u>	<u>1,226</u>	<u>2,362</u>	<u>314</u>

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

24. CASH AND CASH EQUIVALENTS

	2018		2017		2018		2017	
	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	13,131	1,770	18,061	2,404	10,049	1,355	16,570	2,205
Foreign currency accounts	6,815	919	21,201	2,822	5,978	806	20,370	2,711
Petty cash	95	13	30	4	12	2	14	2
Foreign currency petty cash	77	10	84	11	75	10	82	11
Short-term deposits	520	70	1,459	194	511	68	1,450	193
	20,638	2,782	40,835	5,435	16,625	2,241	38,486	5,122

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

25. SHARE CAPITAL

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

As at 31 December ownership structure was as follows:

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

26. RESERVES

Croatia Airlines Group	Legal reserves		Other capital reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2017	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 legal reserves	-	-	7,519	999	-	-	-	-	7,519	999
Transfer of retained earnings to legal 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
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Total comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Transactions with owners										
Transfer of profit from 2017 to other capital reserves	-	-	7,360	986	-	-	-	-	7,360	986
Transfer of retained earnings to other capital reserves	-	-	-	-	-	-	-	-	-	-
Total transaction with owners	-	-	7,360	986	-	-	-	-	7,360	986
Balance at 31 December 2018	14,550	1,910	97,292	12,661	(1,006)	(132)	(372)	(42)	110,464	14,397

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

26. RESERVES (CONTINUED)

Croatia Airlines d.d.	Legal reserves		Other capital reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2017	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 legal 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
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Total comprehensive income	-	-	-	-	(86)	(12)	450	61	364	49
Transactions with owners										
Transfer of profit from 2017 to other capital reserves	-	-	7,337	983	-	-	-	-	7,337	983
Total transaction with owners	-	-	7,337	983	-	-	-	-	7,337	983
Balance at 31 December 2018	14,550	1,910	96,003	12,492	(1,006)	(132)	(372)	(42)	109,175	14,228

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

26. RESERVES (CONTINUED)

Legal reserves

In accordance with the law, the legal reserve is formed as at least 5% of the profit for the year until the total legal reserve reaches 5% of the share capital of the company. 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. Based on the decision of the Assembly of July 2, 2018, the profit realized in 2017 in the amount of HRK 7,377 thousand (EUR 983 thousand) was allocated in 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 (2017: HRK 10 thousand, EUR 1 thousand), and HRK 100 thousand, EUR 14 thousand of other reserves (2017: HRK 100 thousand, EUR 14 thousand). The company Obzor putovanja d.o.o. has other reserves in the amount of HRK 1,179 thousand, EUR 154 thousand (2017: HRK 1,156 thousand, EUR 151 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 1,006 thousand, EUR 132 thousand (2017: HRK 919 thousand, EUR 120 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 2018

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

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

	2018		2017	
	Croatia Airlines Grupa HRK	EUR	Croatia Airlines Grupa HRK	EUR
(Loss)/profit for the year in thousands	(81,688)	(11,020)	7,416	994
Number of issued shares		27,787,953		27,787,953
Basic and diluted (loss)/earnings per share in HRK/EUR	(2.94)	(0.40)	0.27	0.04

	2018		2017	
	Croatia Airlines d.d. HRK	EUR	Croatia Airlines d.d. HRK	EUR
(Loss)/profit for the year in thousands	(82,937)	(11,186)	7,337	983
Number of issued shares		27,787,953		27,787,953
Basic and diluted (loss)/earnings per share in HRK/EUR	(2.98)	(0.40)	0.26	0.04

28. 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 2017	3,068	408	1,259	168	30,947	4,119	35,274	4,695
Provisions made during year	291	39	90	12	-	-	381	51
Provisions used during year	(381)	(51)	(64)	(9)	(2,804)	(378)	(3,249)	(437)
Foreign exchange differences	-	5	-	2	873	171	873	178
Balance as at 31 December 2018	2,978	401	1,285	173	29,016	3,912	33,279	4,487

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

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

Other provisions 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 2018

29. NON-CURRENT LOANS AND BORROWINGS

	2018		2017		2018		2017	
	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	76,030	10,250	31,557	4,200	76,030	10,250	31,557	4,200
Current portion of non-current loans	(20,769)	(2,800)	(15,027)	(2,000)	(20,769)	(2,800)	(15,027)	(2,000)
	55,261	7,450	16,530	2,200	55,261	7,450	16,530	2,200

Description of long-term loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2018		2017	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for refinancing debts	EUR	15,000	3m EURIBOR + 4.8% (min 8%)	October 2019	16,319	2,200	31,557	4,200
Loan for maintenance of engines	EUR	8,500	3m EURIBOR + 3.07%	December 2022	59,711	8,050	-	-
					76,030	10,250	31,557	4,200
Current portion					(20,769)	(2,800)	(15,027)	(2,000)
Non-current loans					55,261	7,450	16,530	2,200

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

	2018		2018	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
2019	20,769	2,800	20,769	2,800
2020	12,610	1,700	12,610	1,700
2021	12,610	1,700	12,610	1,700
After 2021	30,041	4,050	30,041	4,050
	76,030	10,250	76,030	10,250

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

Adjustment of long-term borrowings with cash flows from financial activities has been reported in Note 30.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

30. CURRENT LOANS AND BORROWINGS

	2018		2017		2018		2017	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Non-current loans	64,553	8,703	54,044	7,193	64,553	8,703	54,044	7,193
	64,553	8,703	54,044	7,193	64,553	8,703	54,044	7,193

Description of Company's current loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2018		2017	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for current liquidity	EUR	3,000	3m EURIBOR + 3.00%	June 2019	22,253	3,000	-	-
Loan for current liquidity	HRK	7,450	treasury bills 91 days + 2.90%	May 2019	7,450	1,004	-	-
Loan for current liquidity	HRK	7,400	2.05% fixed	June 2019	7,400	998	-	-
Loan for current liquidity	HRK	7,450	2.05% fixed	October 2019	7,450	1,004	-	-
Loan for current liquidity	HRK	20,000	3m ZIBOR + 3.01%	September 2019	20,000	2,697	-	-
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
					64,553	8,703	54,044	7,193

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

30. CURRENT LOANS AND BORROWINGS (CONTINUED)

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

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

	Non-current loans		Current loans		Total Loans	
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
Balance as at 1 January 2017	46,859	6,200	33,146	4,386	80,005	10,586
<i>Changes from financing cash flows</i>						
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
<i>Other changes</i>						
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 2018

31. TRADE PAYABLES

	2018		2017		2018		2017	
	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	84,849	11,439	71,483	9,514	83,427	11,247	70,382	9,367
Foreign trade payables	111,315	15,007	78,102	10,394	111,128	14,982	77,806	10,356
	<u>196,164</u>	<u>26,446</u>	<u>149,585</u>	<u>19,908</u>	<u>194,555</u>	<u>26,229</u>	<u>148,188</u>	<u>19,723</u>

32. OTHER CURRENT LIABILITIES

	2018		2017		2018		2017	
	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	118,377	15,959	128,287	17,074	118,377	15,959	128,287	17,074
Deposits and advances received	10,151	1,369	12,779	1,701	10,151	1,369	12,779	1,701
Liabilities for salaries	18,401	2,481	17,097	2,275	18,040	2,432	16,797	2,236
Other current liabilities	7,590	1,023	4,127	550	7,389	996	3,857	512
	<u>154,519</u>	<u>20,832</u>	<u>162,290</u>	<u>21,600</u>	<u>153,957</u>	<u>20,756</u>	<u>161,720</u>	<u>21,523</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.

33. ACCRUED EXPENSES AND DEFERRED INCOME

	2018		2017		2018		2017	
	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	6	1	1,909	254	6	1	1,909	254
Accrual for unused holiday	1,403	189	1,298	173	1,311	177	1,213	161
Accrued expenses	33,746	4,549	17,101	2,276	32,906	4,436	16,860	2,244
	<u>35,155</u>	<u>4,739</u>	<u>20,308</u>	<u>2,703</u>	<u>34,223</u>	<u>4,614</u>	<u>19,982</u>	<u>2,659</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

34. 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 six 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. During 2018 Company signed agreements to continue the lease for two more aircraft of the Bombardier Q400 until October and November 2026.

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. In 2018 was signed a contract for lease of spare engine CFM56-5B to February 2020.

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

	2018 HRK thousand	2018 EUR thousand	2017 HRK thousand	2017 EUR thousand
Less than one year	91,213	12,302	103,249	13,838
Between one and five years	302,165	40,754	307,808	41,254
More than five years	108,813	14,676	87,738	11,759
	<u>502,191</u>	<u>67,732</u>	<u>498,795</u>	<u>66,851</u>

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

	2018 HRK thousand	2018 EUR thousand	2017 HRK thousand	2017 EUR thousand
Less than one year	13,755	1,855	5,643	756
Between one and five years	473,778	63,900	480,435	64,390
More than five years	-	-	-	-
	<u>487,533</u>	<u>65,755</u>	<u>486,078</u>	<u>65,146</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

35. EMPLOYEES

Number of employees as of 31 December is as follows:

	2018	2017
Croatia Airlines d.d.		
Pilots i co-pilots	127	119
Cabin attendants	155	143
Maintenance and overhaul	248	237
Ticket sales and promotion	130	126
Airport handling	119	119
Other staff	180	180
	<u>959</u>	<u>924</u>
Subsidiaries		
Obzor putovanja d.o.o.	17	13
Amadeus Croatia d.d.	8	8
Total	<u>984</u>	<u>945</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS

36.1 TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES

Transactions with related parties are as follows:

	2018 HRK thousand	2018 EUR thousand	2017 HRK thousand	2017 EUR thousand
Revenue				
Obzor putovanja d.o.o.	100	13	104	14
Amadeus Croatia d.d.	30	4	30	4
Total revenue	130	17	134	18
Income from share in profits				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	56	8	-	-
Total income from share in profits	56	8	-	-
Expenses				
Obzor putovanja d.o.o.	303	41	2	-
Amadeus Croatia d.d.	-	-	-	-
Total expenses	303	41	2	-
	2018 HRK thousand	2018 EUR thousand	2017 HRK thousand	2017 EUR thousand
Trade receivables				
Obzor putovanja d.o.o.	28	4	26	3
Amadeus Croatia d.d.	3	-	3	-
Total trade receivables	31	4	29	3
Receivables for share in profits				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Total receivables for share in profits	-	-	-	-
Trade payables				
Obzor putovanja d.o.o.	70	9	2	-
Amadeus Croatia d.d.	-	-	-	-
Total trade payables	70	9	2	-

Notes to the consolidated and separate financial statements (continued)

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36. RELATED PARTY TRANSACTIONS (CONTINUED)

36.2 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:

	2018 HRK thousand	2018 EUR thousand	2017 HRK thousand	2017 EUR thousand
Revenue				
Zračna luka Osijek d.o.o., Klisa	216	29	1,016	136
Zračna luka Pula d.o.o., Pula	15	2	54	7
Zračna luka Rijeka d.o.o., Omišalj	638	86	23	3
Zračna luka Zadar d.o.o., Zadar	16	2	50	7
Zračna luka Split d.o.o., Kaštel Štafilić	585	79	578	77
Zračna luka Dubrovnik d.o.o., Čilipi	289	39	134	18
Zrakoplovno-tehnički centar d.d., Velika Gorica	3	-	2	-
HP – Hrvatska pošta d.d., Zagreb	1,635	221	1,498	201
INA – Industrija nafte d.d., Zagreb	-	-	1	-
Total revenue	3,397	458	3,356	449
Expenses				
Zračna luka Osijek d.o.o., Klisa	185	25	420	56
Zračna luka Pula d.o.o., Pula	2,197	296	3,730	500
Zračna luka Rijeka d.o.o., Omišalj	98	13	581	78
Zračna luka Zadar d.o.o., Zadar	3,426	462	5,494	736
Zračna luka Split d.o.o., Kaštel Štafilić	21,278	2,870	43,745	5,863
Zračna luka Dubrovnik d.o.o., Čilipi	16,402	2,212	38,592	5,172
Zrakoplovno-tehnički centar d.d., Velika Gorica	221	30	219	29
HP – Hrvatska pošta d.d., Zagreb	71	10	63	8
INA – Industrija nafte d.d., Zagreb	173,237	23,365	129,760	17,391
Total expenses	217,115	29,283	222,604	29,833

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 2018

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2018 HRK thousand	2018 EUR thousand	2017 HRK thousand	2017 EUR thousand
Receivables				
Zračna luka Osijek d.o.o., Klisa	-	-	-	-
Zračna luka Pula d.o.o., Pula	-	-	-	-
Zračna luka Rijeka d.o.o., Omišalj	-	-	-	-
Zračna luka Zadar d.o.o., Zadar	1	-	-	-
Zračna luka Split d.o.o., Kaštel Štafilić	-	-	20	3
Zračna luka Dubrovnik d.o.o., Čilipi	3	-	25	3
Zrakoplovno-tehnički centar d.d., Velika Gorica	1	-	-	-
HP – Hrvatska pošta d.d., Zagreb	214	29	155	21
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total receivables	219	29	200	27
Payables				
Zračna luka Osijek d.o.o., Klisa	-	-	3	-
Zračna luka Pula d.o.o., Pula	513	69	363	48
Zračna luka Rijeka d.o.o., Omišalj	44	6	-	-
Zračna luka Zadar d.o.o., Zadar	717	97	561	75
Zračna luka Split d.o.o., Kaštel Štafilić	7,832	1,056	6,603	879
Zračna luka Dubrovnik d.o.o., Čilipi	4,936	665	4,464	594
Zrakoplovno-tehnički centar d.d., Velika Gorica	56	8	50	7
HP – Hrvatska pošta d.d., Zagreb	13	2	10	1
INA – Industrija nafte d.d., Zagreb	15,667	2,112	12,716	1,692
Total payables	29,778	4,015	24,770	3,296

PSO benefit

During the year the Company realized revenue in the amount of HRK 81,361 thousand, EUR 10,973 thousand (2017: HRK 75,322 thousand, EUR 10,095 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 8,888 thousand, EUR 1,198 thousand and is part of receivables from the State in the Note 21 (2017: HRK 8,574 thousand, EUR 1,141 thousand).

Current loans

During the year Company used short-term loans from bank owned by Republic of Croatia in the amount of HRK 20,000 thousand, EUR 2,697 thousand (2017: HRK 30,000 thousand, EUR 3,993 thousand). The loan liability at the reporting date amounts to HRK 20,000 thousand, or EUR 2,697 thousand (2017: HRK 30,000, EUR 3,933 thousand). Interest expense recognized during the year amounted to HRK 88 thousand, EUR 12 thousand (2017: HRK 98 thousand, EUR 13 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS (CONTINUED)

36.3 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:

	2018	2018	2017	2017
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Gross salaries	7,367	994	7,051	945
Gross benefit in kind	127	17	389	52
Severance payments	-	-	1,030	138
	<u>7,494</u>	<u>1,011</u>	<u>8,470</u>	<u>1,135</u>

As at 31 December 2018 the number of Management Board members, directors and other key management personnel was 14 (2017: 14 employees).

Compensation to Supervisory Board members during 2018 amounted to HRK 179 thousand, EUR 24 thousand (2017: HRK 200 thousand, EUR 27 thousand).

Notes to the consolidated and separate financial statements (continued)

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37. 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 2018

37. 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
2018				
<i>Investments in equity instruments</i>				
Listed entities	697	-	-	697
Unlisted entities	-	-	189	189
Total	697	-	189	886
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2018				
<i>Investments in equity instruments</i>				
Listed entities	94	-	-	94
Unlisted entities	-	-	25	25
Total	94	-	25	119
	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
2017				
<i>Investments in equity instruments</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>Investments in equity instruments</i>				
Listed entities	104	-	-	104
Unlisted entities	-	-	25	25
Total	104	-	25	129

Notes to the consolidated and separate financial statements (continued)

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37. 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:

	2018		2017		2018		2017	
	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	140,583	18,953	85,601	11,393	140,583	18,953	85,601	11,393
Cash and cash equivalents	(20,638)	(2,782)	(40,835)	(5,435)	(16,625)	(2,241)	(38,486)	(5,122)
Net debt	119,945	16,171	44,766	5,958	123,958	16,712	47,115	6,271
Equity	308,152	41,543	389,476	51,835	304,118	40,998	386,691	51,465
Debt to equity	39%	39%	11%	11%	41%	41%	12%	12%

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 29 and 30. The interest rate on bank deposits is disclosed in Note 16. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 19 thousand, EUR 3 thousand would debit income statement (2017: HRK 22 thousand, EUR 3 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 19 thousand, EUR 3 thousand would credit income statement for the period ended 31 December 2018 (2017: HRK 22 thousand, EUR 3 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

37. RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

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

The Group's and the Company's principal foreign exchange risk is the long-term loans as described in note 29, which is denominated principally in Euro. This exposure is offset by the Group's and the Company's revenues from overseas ticket sales, which is sufficient to service the debt payments. Accordingly the Group and the Company have accounted for gains and losses on the foreign currency debts as a statement of cash flows hedge within equity as further described in the accounting policies.

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

HRK thousand	Currency impact EUR		Currency impact USD	
	2018	2017	2018	2017
Profit / (loss)	<u>(541)</u>	<u>(380)</u>	<u>(60)</u>	<u>165</u>

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

HRK thousand	Currency impact EUR		Currency impact USD	
	2018	2017	2018	2017
Profit / (loss)	<u>3,026</u>	<u>3,077</u>	<u>1,359</u>	<u>2,090</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

37. RISK MANAGEMENT (CONTINUED)

Credit risk

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

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

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

Price risk

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

In case that the fuel price was higher by 5% in relation to current market price, the effect of HRK 15,423 thousand, EUR 2,080 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of HRK 15,423 thousand, EUR 2,080 thousand would credit profit and loss account for the year 2018 (2017: HRK 12,337 thousand, EUR 1,659 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 2018

37. RISK MANAGEMENT (CONTINUED)

Hedging implemented at the Company

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

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

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

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

37. RISK MANAGEMENT (CONTINUED)

37.1 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 2018 and 2017. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31.12.2018

	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Assets										
Non-current deposits	22,640	3,052	-	-	-	-	-	-	22,640	3,052
Investments available for sale	886	119	-	-	-	-	-	-	886	119
Non-current receivables	369	50	194	26	19	3	38	5	118	16
Trade receivables	84,893	11,445	84,893	11,445	-	-	-	-	-	-
Other receivables	17,027	2,295	16,988	2,290	39	5	-	-	-	-
Financial assets	9,094	1,226	1,353	182	7,741	1,044	-	-	-	-
Cash and cash equivalents	16,625	2,241	16,625	2,241	-	-	-	-	-	-
Total assets	151,534	20,428	120,053	16,184	7,799	1,052	38	5	23,644	3,187
Liabilities										
Non-current loans and borrowings	55,261	7,450	-	-	-	-	12,610	1,700	42,651	5,750
Current loans and borrowings	85,322	11,503	43,779	5,902	41,543	5,601	-	-	-	-
Interest on loans and borrowings	4,180	563	2,247	303	1,069	144	864	116	-	-
Trade payables	194,555	26,229	194,555	26,229	-	-	-	-	-	-
Other payables	49,569	6,683	40,793	5,500	8,776	1,183	-	-	-	-
Total liabilities	388,887	52,428	281,374	37,934	51,388	6,928	13,474	1,816	42,651	5,750
Difference	(237,353)	(32,000)	(161,321)	(21,750)	(43,589)	(5,876)	(13,436)	(1,811)	(19,007)	(2,563)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2018

37. RISK MANAGEMENT (CONTINUED)

37.1 Liquidity risk tables (continued)

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	-	-	-	-
Financial leasing	-	-	-	-	-	-	-	-	-	-
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 2018

38. AUDITOR FEES

The agreed audit fee of consolidated and separate financial statements of the Company and Group Croatia Airlines for the year 2018 amounts to HRK 192 thousand plus the amount of value added tax (2017: HRK 192 thousand plus VAT).

The auditor also provided a service of preparing a transfer pricing study, and the fee for the service amounted to HRK 10 thousand increased for VAT (2017: HRK 13 thousand plus VAT).

39. EVENTS AFTER THE REPORTING DATE

After 31 December 2018, there were no events that have a significant impact on the financial statements for 2018 or are of such significance for the business to require disclosure in the notes to the financial statements

40. 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 30 April 2019.

Signed for and on behalf of the Company on 30 April 2019:

Teodora Wenzler Brezak



Director of Finance and Accounting

Jasmin Bajić



President & CEO