Consolidated and Separate Annual Reports for the year ended 31.12. 2013.

May 2014

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Consolidated Croatia Airlines Income Statement for the year ended 31 December 2013

amounts in Croatian kuna

	Position	Previous period 1 Jan-31 Dec 2012	Current period 1 Jan-31 Dec 2013
I.	**OPERATING INCOME**	**1.689.860.849**	**1.583.028.952**
1.	Sales revenue	1.534.567.082	1.406.823.437
2.	Other operating income	155.293.767	176.205.515
II.	**OPERATING EXPENSES**	**2.088.034.480**	**1.565.103.131**
1.	Changes in inventories of finished products and work in progress	0	0
2.	Material costs	1.241.438.775	1.131.169.383
3.	Staff costs	253.081.759	238.277.582
4.	Depreciation and amortization	130.345.601	83.207.462
5.	Other expenses	92.746.311	86.385.438
6.	Impairment	301.749.818	9.963.176
7.	Provisions	53.969.080	5.035.824
8.	Other operating expenses	14.703.136	11.064.266
III.	**FINANCIAL INCOME**	**92.545.392**	**71.916.523**
1.	Interest and exchange gains, dividends and similar income from related companies	563.966	272.254
2.	Interest and exchange gains, dividends and similar income from other entrepreneurs	91.902.089	71.210.463
3.	The income from associated undertakings and participating interests	0	0
4.	Unrealized gains (revenues)	0	0
5.	Other financial income	79.337	433.806
IV.	**FINANCIAL EXPENSES**	**182.027.222**	**88.246.303**
1.	Interest and exchange losses and other expenses with related companies	0	0
2.	Interest and exchange losses and other expenses related to other entrepreneurs	182.027.222	88.246.303
3.	Unrealized losses (expense) of financial assets	0	0
4.	Other financial expenses	0	0
V.	**EXTRAORDINARY - OTHER INCOME**	**0**	**0**
VI.	**EXTRAORDINARY - OTHER EXPENSES**	**0**	**0**
VII.	**TOTAL INCOME**	**1.782.406.241**	**1.654.945.475**
VIII.	**TOTAL EXPENSE**	**2.270.061.702**	**1.653.349.434**
IX.	**PROFIT BEFORE TAXATION**	**0**	**1.596.041**
X.	**LOSS BEFORE TAXATION**	**487.655.461**	**0**
XI.	**INCOME TAX**	**188.169**	**153.970**
XII.	**PROFIT FOR THE YEAR**	**0**	**1.442.071**
XIII.	**LOSS FOR THE YEAR**	**487.843.630**	**0**
XIV.	**APPENDIX PROFIT / (LOSS) FOR THE YEAR**		
1.	Attributable to shareholders of the parent company	-487.843.630	1.442.071
2.	Attributable to minority interests	0	0
CONSOLIDATED CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME			
	PROFIT / (LOSS) FOR THE YEAR	**-487.843.630**	**1.442.071**
	Movements in revaluation reserves of long-term tangible assets	-76.245.515	0
	Profit or loss from reevalutaion of financial assets available for sale	0	154.800
	Hedging reserves	-9.418.632	-7.464.369
	NET OTHER COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR	-85.664.147	-7.309.569
	COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR	**-573.507.777**	**-5.867.498**

Croatia Airlines d.d. Income Statement for the year ended 31 December 2013

amounts in Croatian kuna

	Position	Previous period 1 Jan-31 Dec 2012	Current period 1 Jan-31 Dec 2013
I.	**OPERATING REVENUE**	**1.679.763.971**	**1.572.873.285**
1.	Sales revenue	1.524.371.347	1.396.802.611
2.	Other operating income	155.392.624	176.070.674
II.	**OPERATING EXPENSES**	**2.078.412.086**	**1.555.513.940**
1.	Change in inventories of finished products and work in progress	0	0
2.	Material costs	1.238.320.187	1.130.282.562
3.	Staff costs	249.933.190	235.147.808
4.	Depreciation and amortization	130.215.488	83.051.040
5.	Other expenses	89.776.034	81.012.182
6.	Impairment	301.528.336	9.951.233
7.	Provisions	53.969.080	5.035.824
8.	Other operating expenses	14.669.771	11.033.291
III.	**FINANCIAL INCOME**	**92.421.761**	**71.433.019**
1.	Interest and exchange gains, dividends and similar income from related companies	563.966	272.254
2.	Interest and exchange gains, dividends and similar income from other entrepreneurs	91.857.795	71.160.765
3.	The income from associated undertakings and participating interests	0	0
4.	Unrealized gains (revenues)	0	0
5.	Other financial income	0	0
IV.	**FINANCIAL EXPENSES**	**181.940.993**	**88.071.586**
1.	Interest and exchange losses and other expenses with related comapanies	0	0
2.	Interest and exchange losses and other expenses related to other entrepreneurs	181.940.993	88.071.586
3.	Unrealized losses (expense) of financial assets	0	0
4.	Other financial expenses	0	0
V.	**EXTRAORDINARY - OTHER INCOME**	**0**	**0**
VI.	**EXTRAORDINARY - OTHER EXPENSES**	**0**	**0**
VII.	**TOTAL INCOME**	**1.772.185.732**	**1.644.306.304**
VIII.	**TOTAL EXPENSE**	**2.260.353.079**	**1.643.585.526**
IX.	**PROFIT BEFORE TAX**	**0**	**720.778**
X.	**LOSS BEFORE TAXATION**	**488.167.347**	**0**
XI.	**INCOME TAX**	**0**	**0**
XII.	**PROFIT FOR THE YEAR**	**0**	**720.778**
XIII.	**LOSS FOR THE YEAR**	**488.167.347**	**0**

CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME		
PROFIT / (LOSS) FOR THE YEAR	**-488.167.347**	**720.778**
Movements in revaluation reserves of long-term tangible assets	-76.245.515	0
Profit or loss from reevalutaion of financial assets available for sale	0	154.800
Hedging reserves	-9.418.632	-7.464.369
NET OTHER COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR	-85.664.147	-7.309.569
COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR	**-573.831.494**	**-6.588.791**

Consolidated Croatia Airlines Balance Sheet as at 31 December 2013

amounts in Croatian kuna

ASSETS Position		31 December 2012	31 December 2013
A)	**SUBSCRIBED CAPITAL UNPAID**		
B)	**NON-CURRENT ASSETS**	**788.047.162**	**781.039.224**
I.	INTANGIBLE ASSETS	16.583.274	17.696.478
II.	TANGIBLE ASSETS	730.395.009	714.505.685
III.	LONG-TERM FINANCIAL ASSETS	40.568.512	48.336.694
IV.	LONG-TERM RECEIVABLES	500.367	500.367
V.	DEFFERED TAX ASSETS	0	0
C)	**CURRENT ASSETS**	**297.870.965**	**204.965.589**
I.	INVENTORIES	49.142.739	47.626.059
II.	RECEIVABLES	208.095.391	102.462.040
III.	SHORT-TERM FINANCIAL ASSETS	3.517.218	2.695.401
IV.	CASH AND CASH EQUIVALENTS	37.115.617	52.182.089
D)	**PREPAID EXPENSES AND ACCRUED REVENUE**	**47.211.180**	**25.104.306**
E)	**TOTAL ASSETS**	**1.133.129.307**	**1.011.109.119**
F)	**OFF BALANCE SHEET ITEMS**	**0**	**0**

amounts in Croatian kuna

EQUITY AND RESERVES Position		31 December 2012	31 December 2013
A)	**EQUITY AND RESERVES**	**146.986.923**	**356.608.503**
I.	ISSUED CAPITAL	1.852.212.900	277.889.530
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	-6.603.316	75.738.455
IV.	REVALUATION RESERVES	0	154.800
V.	RETAINED EARNINGS	0	1.383.647
VI.	ACCUMULATED LOSS	1.210.779.031	0
VII.	PROFIT FOR THE YEAR	0	1.442.071
VIII.	LOSS FOR THE YEAR	487.843.630	0
IX.	MINORITY INTERESTS	0	0
B)	**PROVISIONS**	**54.847.343**	**21.348.248**
C)	**NON-CURRENT LIABILITIES**	**238.345.219**	**80.010.550**
D)	**CURRENT LIABILITIES**	**669.953.546**	**534.824.160**
E)	**ACCRUED EXPENSES AND DEFERRED INCOME**	**22.996.276**	**18.317.658**
F)	**TOTAL EQUITY AND LIABILITIES**	**1.133.129.307**	**1.011.109.119**
G)	**OFF BALANCE SHEET ITEMS**	**0**	**0**
APPENDIX			
EQUITY AND RESERVES			
1. Attributable to shareholders of the parent company		146.986.923	356.608.503
2. Attributable to minority interests		0	0

Croatia Airlines d.d. Balance Sheet as at 31 December 2013

amounts in Croatian kuna

ASSETS Position		31 December 2012	31 December 2013
A)	**SUBSCRIBED CAPITAL UNPAID**	**0**	**0**
B)	**NON-CURRENT ASSETS**	**787.158.744**	**779.864.557**
I.	INTANGIBLE ASSETS	15.770.216	16.943.537
II.	TANGIBLE ASSETS	730.167.010	714.311.123
III.	LONG-TERM FINANCIAL ASSETS	40.721.151	48.109.530
IV.	LONG-TERM RECEIVABLES	500.367	500.367
V.	DEFFERED TAX ASSETS	0	0
C)	**CURRENT ASSETS**	**291.870.061**	**199.222.985**
I.	INVENTORIES	49.071.003	47.626.059
II.	RECEIVABLES	205.329.288	99.930.041
III.	SHORT-TERM FINANCIAL ASSETS	3.374.214	2.695.401
IV.	CASH AND CASH EQUIVALENTS	34.095.556	48.971.484
D)	**PREPAID EXPENSES AND ACCRUED REVENUE**	**47.167.169**	**25.082.712**
E)	**TOTAL ASSETS**	**1.126.195.974**	**1.004.170.254**
F)	**OFF BALANCE SHEET ITEMS**	**0**	**0**

amounts in Croatian kuna

EQUITY AND RESERVES Position		31 December 2012	31 December 2013
A)	**EQUITY AND RESERVES**	**143.404.589**	**352.577.130**
I.	ISSUED CAPITAL	1.852.202.900	277.879.530
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	-8.519.749	73.822.022
IV.	REVALUATION RESERVES	0	154.800
V.	RETAINED EARNINGS	0	0
VI.	ACCUMULATED LOSS	1.212.111.215	0
VII.	PROFIT FOR THE YEAR	0	720.778
VIII.	LOSS FOR THE YEAR	488.167.347	0
IX.	MINORITY INTERESTS	0	0
B)	**PROVISIONS**	**54.847.343**	**21.348.248**
C)	**NON-CURRENT LIABILITIES**	**238.345.219**	**80.010.550**
D)	**CURRENT LIABILITIES**	**667.115.087**	**532.038.337**
E)	**ACCRUED EXPENSES AND DEFERRED INCOME**	**22.483.736**	**18.195.989**
F)	**TOTAL EQUITY AND LIABILITIES**	**1.126.195.974**	**1.004.170.254**
G)	**OFF BALANCE SHEET ITEMS**	**0**	**0**

Consolidated Croatia Airlines Cash Flow Statement for the year ended 31 December 2013

amounts in Croatian kuna

	Position	31 December 2012	31 December 2013
	OPERATING ACTIVITIES		
1.	Profit / (loss) for the year before taxation	-487.655.461	1.596.041
2.	Depreciation and amortization	130.345.601	83.207.462
3.	Increase in current liabilities	47.551.829	0
4.	Decrease in short-term recivables	0	105.633.351
5.	Decrease in inventories	0	1.516.680
6.	Other increase in cash flow	678.866.879	241.661.841
I.	**Total increase in cash flow from operating activities**	**369.108.848**	**433.615.375**
1.	Decrease in current liabilities	0	117.760.225
2.	Increase in short-term receivables	35.456.002	0
3.	Increase in inventories	5.310.918	0
4.	Other decrease in cash flow	102.296.732	38.946.465
II.	**Total decrease in cash flow from operating activities**	**143.063.652**	**156.706.690**
A1)	NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	226.045.196	276.908.685
A2)	NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
	INVESTING ACTIVITIES		
1.	Proceeds from sale of long-term tangible and intangible assets	242.590	1.286.936
2.	Proceeds from sale of equity and debt instruments	0	0
3.	Proceeds from interests	0	0
4.	Proceeds from dividends	0	0
5.	Other proceeds from investing activities	11.662.317	0
III.	**Total proceeds from investing activities**	**11.904.907**	**1.286.936**
1.	Payments for the purchase of long-term tangible and intangible assets	67.043.641	76.373.092
2.	Payments for acquisition of equity and debt financial instruments	0	0
3.	Other payments of investing activities	0	6.946.366
IV.	**Total payments used in investing activities**	**67.043.641**	**83.319.458**
B1)	NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	0
B2)	NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	55.138.734	82.032.522
	FINANCIAL ACTIVITIES		
1.	Proceeds from issuance of equity and debt financial instruments	0	0
2.	Proceeds from the credit principal, debentures and other borrowings	24.456.326	35.800.013
3.	Other proceeds from financial activities	0	2.138.723
V.	**Total proceeds from financial activities**	**24.456.326**	**37.938.736**
1.	Repayments for credit principal of loans and bonds	182.709.717	217.457.916
2.	Repayments for dividend	0	0
3.	Repayments of finance leases	892.625	18.255
4.	Repayments for the purchase of own shares	0	0
5.	Other repayments of financial activities	0	272.256
VI.	**Total payments used in financial activities**	**183.602.342**	**217.748.427**
C1)	NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2)	NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	159.146.016	179.809.691
	Total increase in cash flow	11.760.446	15.066.472
	Total decrease in cash flow	0	0
	Cash and cash equivalents at the beginning of the year	**25.355.171**	**37.115.617**
	Increase in cash and cash equivalents	**11.760.446**	**15.066.472**
	Decrease in cash and cash equivalents	**0**	**0**
	Cash and cash equivalents at year end	**37.115.617**	**52.182.089**

Croatia Airlines d.d. Cash Flow Statement for the year ended 31 December 2013

amounts in Croatian kuna

Position		31 December 2012	31 December 2013
	OPERATING ACTIVITIES		
1.	Profit / (loss) for the year before taxation	-488.167.347	720.778
2.	Depreciation and amortization	130.215.488	83.051.040
3.	Increase in current liabilities	48.061.123	0
4.	Decrease in short-term recivables	0	104.751.253
5.	Decrease in inventories	0	1.444.944
6.	Other increase in cash flow	678.977.252	241.639.423
I.	**Total increase in cash flow from operating activities**	**369.086.516**	**431.607.438**
1.	Decrease in current liabilities	0	118.041.553
2.	Increase in short-term receivables	35.554.866	0
3.	Increase in inventories	5.239.181	0
4.	Other decrease in cash flow	101.558.340	38.401.626
II.	**Total decrease in cash flow from operating activities**	**142.352.387**	**156.443.179**
A1)	**NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES**	**226.734.129**	**275.164.259**
A2)	**NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES**	**0**	**0**
	INVESTING ACTIVITIES		
1.	Proceeds from sale of long-term tangible and intangible assets	242.590	1.286.936
2.	Proceeds from sale of equity and debt instruments	0	0
3.	Proceeds from interests	0	0
4.	Proceeds from dividends	348.479	647.994
5.	Other proceeds from investing activities	11.583.903	0
III.	**Total proceeds from investing activities**	**12.174.972**	**1.934.930**
1.	Payments for the purchase of long-term tangible and intangible assets	66.851.940	76.310.224
2.	Payments for acquisition of equity and debt financial instruments	0	0
3.	Other payments of investing activities	0	6.709.566
IV.	**Total payments used in investing activities**	**66.851.940**	**83.019.790**
B1)	**NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES**	**0**	**0**
B2)	**NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES**	**54.676.968**	**81.084.860**
	FINANCIAL ACTIVITIES		
1.	Proceeds from issuance of equity and debt financial instruments	0	0
2.	Proceeds from the credit principal, debentures and other borrowings	23.006.325	35.800.013
3.	Other proceeds from financial activities	0	2.138.723
V.	**Total proceeds from financial activities**	**23.006.325**	**37.938.736**
1.	Repayments for credit principal of loans and bonds	182.217.772	217.123.952
2.	Repayments for dividend	0	0
3.	Repayments of finance leases	892.625	18.255
4.	Repayments for the purchase of own shares	0	0
5.	Other repayments of financial activities	0	0
VI.	**Total payments used in financial activities**	**183.110.397**	**217.142.207**
C1)	**NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES**	**0**	**0**
C2)	**NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES**	**160.104.072**	**179.203.471**
	Total increase in cash flow	11.953.089	14.875.928
	Total decrease in cash flow	0	0
	Cash and cash equivalents at the beginning of the year	**22.142.467**	**34.095.556**
	Increase in cash and cash equivalents	**11.953.089**	**14.875.928**
	Decrease in cash and cash equivalents	**0**	**0**
	Cash and cash equivalents at year end	**34.095.556**	**48.971.484**

Consolidated Croatia Airlines Statement of Changes in Equity for the year ended 31 December 2013

amounts in Croatian kuna

	Position	31 December 2012	31 December 2013
1.	ISSUED CAPITAL	1.852.212.900	277.889.530
2.	CAPITAL RESERVES	0	0
3.	PROFIT RESERVES	-6.603.316	75.738.455
4.	RETAINED EARNINGS / ACCUMULATED LOSS	-1.210.779.031	1.383.647
5.	NET PROFIT / (LOSS) FOR THE YEAR	-487.843.630	1.442.071
6.	REVALUATION OF LONG-TERM TANGIBLE ASSETS	0	0
7.	REVALUATION OF INTENGIBLE ASSETS	0	0
8.	REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	154.800
9.	OTHER REVALUATION	0	0
10.	**TOTAL EQUITY AND RESERVES**	**146.986.923**	**356.608.503**
11.	FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12.	CURRENT AND DEFERRED TAXES	0	0
13.	CASH FLOW HEDGING	2.883.721	1.954.263
14.	CHANGES OF ACCOUNTING POLICIES	0	0
15.	CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16.	OTHER CHANGES OF CAPITAL	285.704.243	207.667.317
17.	**TOTAL INCREASE / DECREASE OF CAPITAL**	**288.587.964**	**209.621.580**
17 a.	Attributable to shareholders of the parent company	0	209.621.580
17 b.	Attributable to minority interests	0	0

Croatia Airlines d.d. Statement of Changes in Equity for the year ended 31 December 2013

amounts in Croatian kuna

	Position	31 December 2012	31 December 2013
1.	ISSUED CAPITAL	1.852.202.900	277.879.530
2.	CAPITAL RESERVES	0	0
3.	PROFIT RESERVES	-8.519.749	73.822.022
4.	RETAINED EARNINGS / ACCUMULATED LOSS	-1.212.111.215	0
5.	NET PROFIT / (LOSS) FOR THE YEAR	-488.167.347	720.778
6.	REVALUATION OF LONG-TERM TANGIBLE ASSETS	0	0
7.	REVALUATION OF INTANGIBLE ASSETS	0	0
8.	REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	154.800
9.	OTHER REVALUATION	0	0
10.	**TOTAL EQUITY AND RESERVES**	**143.404.589**	**352.577.130**
11.	FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12.	CURRENT AND DEFERRED TAXES	0	0
13.	CASH FLOW HEDGING	2.883.721	1.954.263
14.	CHANGES OF ACCOUNTING POLICIES	0	0
15.	CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16.	OTHER CHANGES OF CAPITAL	285.944.493	207.218.278
17.	**TOTAL INCREASE / DECREASE OF CAPITAL**	**288.828.214**	**209.172.541**

Based on the Capital Market Act (NN 88/08, 146/08, 74/09, 54/13, 159/13), 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 2013 have been prepared by using the appropriate financial reporting standards, and provide complete and truthful presentation of assets and liabilities, losses and gains, the financial position and operations of the issuer and the companies involved in the consolidation as a whole.

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

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

Zagreb, May 07th, 2014

The persons responsible for the preparation
of the issuer statements:

Board Member & COO	President & CEO
Zlatko Širac	Krešimir Kučko

CROATIA AIRLINES

A STAR ALLIANCE MEMBER

The Management's Business Report for 2013

March 2014

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Typical indicators

Fleet

type of aircarft	number at the end of 2013	seats	ownership	lease	Ø age (years)	number at the end of 2012	ownership	lease
Airbus A320	2	324	2	-	14,08	3	2	1
Airbus A319	4	576	4	-	14,94	4	4	-
Q-400	6	456	-	6	4,6	6	-	6
TOTAL	**12**	**1.356**	**6**	**6**	**10,43**	**13**	**6**	**7**

Traffic indicators

Description			2013	2012	2011
flights (km)	DIST	000	16.223	17.672	17.126
departures	FLTS		25.179	27.277	27.589
growth rate		%	-8	-1	8
block hours	BH		35.912	38.859	38.014
growth rate		%	-8	2	8
passengers carried	RPAX	000	1.797	1.952	1.879
growth rate		%	-8	4	15
freight&mail carried	CGO	T	3.245	3.567	3.347
growth rate		%	-9	7	9
passenger km flown	RPKM	mil	1.323	1.441	1.317
available seat - km	ASKM	mil	1.922	2.086	1.965
passenger load factor	**PLF**	**%**	**68,8**	**69,1**	**67,0**
tonne km flown	TKM	mil	135	147	121
available tonne-km	ATKM	mil	204	218	219
weight load factor	**WLF**	**%**	**65,9**	**67,4**	**55,2**

Note: WLF is incomparable with 2011 due to the calculation methodology changes introduced in 2012 (passenger weight was increased to 100 kg from 90 kg) in line with the EU ETS (Emissions Trading Scheme) requirements, as adopted by AEA (Association of European Airlines).

Financial indicators

Indicators	Unit	2013	2012	2011
Operating revenue	mln HRK	1.575	1.683	1.588
% of change	%	-6,4	6,0	
Total Revenue	mln HRK	1.647	1.775	1.752
% of change	%	-7,2	1,3	
Operating expenses	mln HRK	1.558	1.729	1.633
% of change	%	-9,9	5,9	
Total expenses	mln HRK	1.646	1.840	1.827
% of change	%	-10,5	0,7	
Total operating expenses - fuel excluded	mln HRK	1.226	1.349	1.296
% of change	%	-9,2	4,1	
Operating profit/loss	mln HRK	17	-46	-45
Net profit/loss	mln HRK	1	-65	-76
EBIT	mln HRK	15	-46	-49
EBITDA	mln HRK	98	85	91
Efficiency ratio		1	1	1
Unit operating cost	HRK/ATKM	8	8	7
Unit operating revenue	HRK/ATKM	8	8	7
Passenger yield (passenger revenue in EUR/RPKM)	€cent/RPKM	13	13	13
Total asset turnover		1,64	1,58	1,16
Cash ratio		0,09	0,05	0,04
Quick ratio		0,28	0,36	0,31
Current ratio		0,37	0,44	0,39
Debt ratio		0,63	0,87	1,10
Debt/equity ratio		1,79	6,85	-11,43
Investment ratio		0,05	0,04	0,04
Average number of employees		1.076	1.128	1.136

Note: Financial indicators calculated on the basis of the profit and loss account items exclude non-recurring items in 2012 and 2011.

Croatia Airlines in 2013 – introduction

In more than twenty 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, Croatia Airlines provides its passengers access to the global network of flights, with numerous benefits.

Ownership structure

Croatia Airlines (the Company) is a joint-stock company. **Its share capital amounts to HRK 277.879,530 and is divided into 13.919,575 shares.** Of the total number of shares, 51,197 refer to preference shares (CRAL-P-A, CRAL-P-A1, CRAL-P-A2, CRAL-P-A3, CRAL-P-A4) in the nominal value of HRK 10, while 4.924,279 (CRAL-R-A) and 8.944,099 (CRAL-R-B) refer to ordinary shares in the nominal value of HRK 20.

Review of shareholders and their share in stock capital	%	Capital (HRK)
DUUDI for the REPUBLIC OF CROATIA	96,98	269.499.880
ZAGREB INTERNATIONAL AIRPORT	1,72	4.771.210
DUUDI for DAB	0,77	2.131.520
JANAF	0,08	220.000
CROATIA LLOYD	0,04	102.700
ENIKON D.D.	0,03	73.560
PASKA ANA	0,02	67.620
CONING ENGENEERING	0,02	52.140
OTHERS	0,35	960.900
TOTAL	**100,00**	**277.879.530**

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

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

Amadeus Croatia d.d. was founded by Croatia Airlines (95% ownership) and Amadeus GDS, a global distribution system seated in Madrid. Its core activity is organization 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 organizing official and tourist travels, counselling, conferences, congresses and incentive trips.

Company's management structure and organization

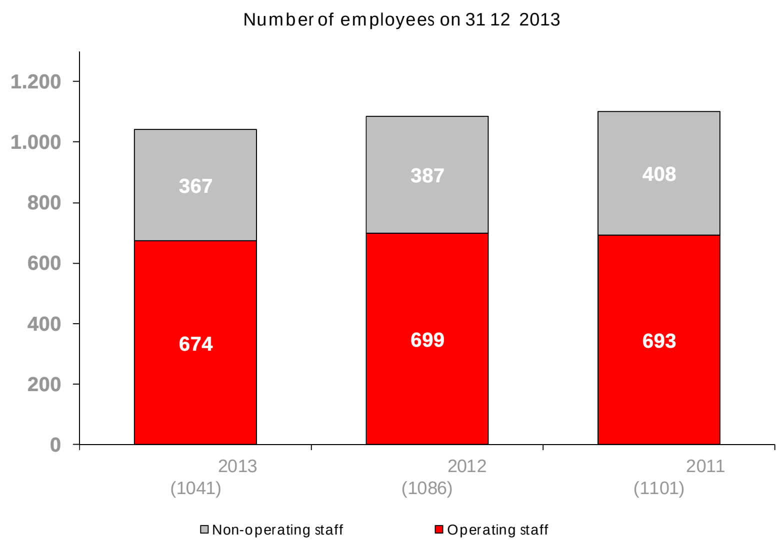
The Company's operations were in 2013 organized through its business functions grouped into three business units and through the joint functions of the Company organized within the Management Secretariat, Quality and Safety Management Office, Controlling and Internal Audit Sector, and corporate functions comprising the Finance and Controlling Sector, Legal Affairs Sector, Human Resources and Asset Management Sector, and IT Sector.

The business sphere of traffic comprises flight and cabin operations, traffic training centre, operations centre, operations engineering, crew plan, ground operations and administrative support. The business sphere of technical works unifies engineering and technical works, material management, preparation and control of works, base maintenance, line maintenance, aircraft parts and equipment maintenance, and the Technical Training Centre. The third sphere comprises sales, 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 at least and a maximum of thirteen members. Mr. Krešimir Kučko is the Chairman of the Management Board, while prof. Siniša Petrović, PhD, is the Chairman of the Supervisory Board. In January 2013, the Croatia Airlines Supervisory Board appointed Zlatko Širac a member of the Company's Management Board in charge of operating activities.

Human resources

On 31 December 2013, the Company had 1,041 employees, including two trainees and 45 foreign branch office employees. Compared to the end of 2012, the number of employees fell by 4.1%. In late 2013, an Employee Redundancy Scheme was introduced within the Restructuring Plan, with the aim of optimizing the number of employees; the effect of its implementation will be seen upon the expiry of notice periods in 2014.



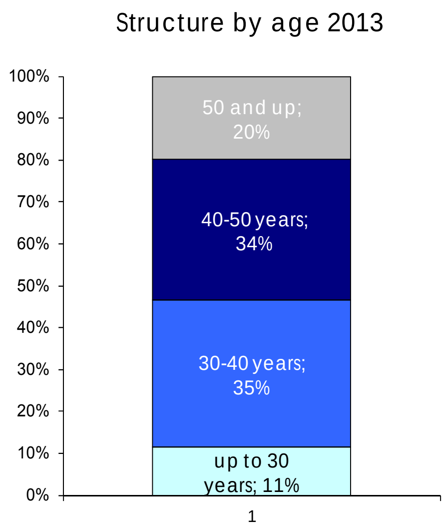
At the end of the year, **the number of operative staff members** was reduced by 3.6% compared to the end of 2012, while **the number of non-operative staff members** declined by 5.2%, primarily due to the fact that the Company hired no replacements for the employees who had left the job.

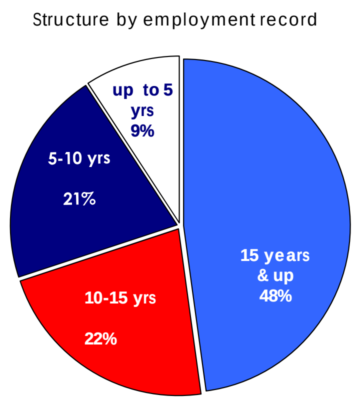
Due to the needs of covering the summer flight schedule, the Company hired 49 cabin staff employees on a seasonal basis.

The share of operative staff members[1] within the Company was 67.4% (674), while that of non-operative staff members was 35.3% (367).

According to the educational structure, 51% of employees hold either an associate degree, a university degree or a higher degree, with the average age of employees being 41 years; in terms of gender structure, men are somewhat more represented (54%).

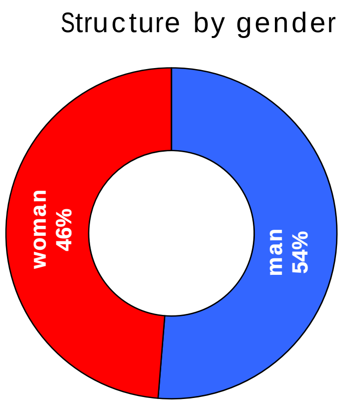
Of the total number of employees, 50 (5%) are employed on a definite contract basis.

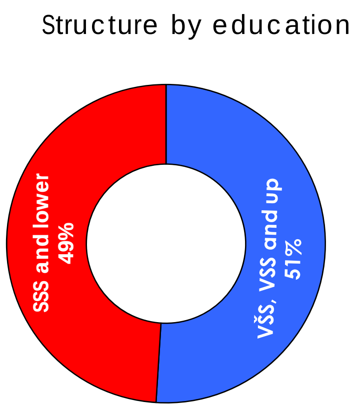




The average overall employment record of the Company's operative staff was 15.3 years of service, and that of the non-operative staff was 19.2 years, while the average employment record on the level of the entire Company was 16.7 years. The average employment record in the Company was 11.9 years of service for the operative staff, and 15 years for the non-operative staff, while the average employment record in the Company on the level of the entire Company was 13 years.

The Company has existed for some 20 years and it had initially, i.e. in the first few years, employed some 200 persons. Subsequently, the employment rate grew progressively until 1998.





The share of women in the senior and medium management totalled 35%.

[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) – methodology change in 2013

Training investments and programmes

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

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

Investment in education (HRK)	2013	2012	2011
Operative staff	6.087.419	7.178.876	6.028.993
Annual change rate	-15%	19%	-24%
Non-operative staff	587.948	317.710	431.099
Annual change rate	85%	-26%	-31%
Total	**6.675.367**	**7.496.587**	**6.460.092**
Annual change rate	-11%	16%	-24%

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

In 2013, the Technical Training Centre continued actively cooperating with CCAA on the issuance of Part 66 licences, coordination with the EASA regulations and implementation of changes resulting from the introduction of new airline regulations.

The coming into force of the amended EASA regulations, the Commission Regulation (EU) No. 1149/2011 required a thorough revision of the type training procedures, described in the MTOE manual, as well as a Training Needs analysis and coordination of all training programmes. As a result, three versions of the MTOE manual were released, eight Training Needs analyses carried out, and 13 aircraft type trainings completely revised.

By implementing the above activities, the training procedures and programmes were completely coordinated with EASA regulations, so the Technical Training Centre obtained approval from the CCAA and the EASA Part 147 certificate. This opened up the path for commercial training on the international market, since the certificates issued by the Technical Training Centre are accepted in all EU countries and broader.

As far as the training prescribed by the Part 145 regulations is concerned, three training procedures and plans were revised and amended, and five new training programmes developed, which were approved through four revisions of the TTM manual.

Altogether 14 type training courses were held, of which two commercial ones for a foreign customer. Commercial training courses were held for Belle Air, JAT Tehnika, BH Airlines and the Customs Administration.

All of the planned training courses for the purpose of extending internal authorizations of engineers and mechanics were completed; the SMS training courses for the Part 145 organization employees were initiated, and eight new instructors completed training for Part 147 and Part 145.

The training programme Limited Certification Authorisation to the Commander continued, and a part of the flight personnel completed both refresher and task training for the MEL procedures.

The Technical Training Centre developed a mechanic and engineer competence assessment programme and procedure, and actively participates in implementation thereof.

CCAA, EASA LBA, EASA MAST, IOSA and Thomas Cook implemented a series of audits at the Technical Training Centre in 2013, and confirmed high-level compliance with the prescribed standards.

In 2013, the Traffic Training Centre organized mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the traffic sector employees to extend the authorizations and licences for performing their activities; all of the planned mandatory theoretical and practical training courses (Special Qualification Training/ special procedures for ILS S 12 LQSA in line with the CAA – BOSNIA AND HERZEGOVINA requirement) were completed.

During 2013, CCAA carried out a number of audits and inspections for the purpose of implementing ongoing supervision of activities performed by the Traffic Training Centre staff on simulators in Vienna and on the Croatia Airlines aircraft flights. The results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and TRI/TRE work on them were carried out in accordance with the provisions of the quality system OM-D & Quality Inspection Orders, for the purpose of monitoring and raising the quality standard of the work of TRI/TRE/CREW.

The standardization of TRE/TRI work was completed on both types in the normal & abnormal procedures segment. An IOSA audit was prepared and implemented, and for the first time received no findings at all. Savings measures were implemented in all business segments, as well as the rationalization of operations of the Traffic Training Centre employees. In line with the applicable regulations, OM-D, Annexa & TRTO were revised, adjustments made for the new ATO and a series of ASO-Air Safety Orders issued by CCAA, with the extension of all required employee and STD (synthetic training device) authorizations.

A major project of transition and adjustment of the A32F fleet to AIRBUS-SOP (Standard Operating Procedures) was initiated. Furthermore, a training programme for the new SOP intended for the CA operative personnel was developed, and training provided for all A32F TRE/TRI in Toulouse (Airbus Training Center) for the standardization purposes when transiting to new SOPs. Simulator training of all A32F pilots was planned and coordinated, as well as the training of cabin personnel for the new SOPs.

Base training for A32F (training within the zone on aircraft of new candidates from the abovementioned centres) was provided to several candidates, which resulted in additional revenues when providing this type of training.

In line with relevant authorizations, all employees attended workshops and refreshers at the CCAA for the purpose of receiving additional training and improving various processes within their area of responsibility.

In cooperation with the CCAA, a process and organization of transit from AIRBUS-SOP to A32F was implemented, and the required documentation adapted for the new SOP.

Various training programmes on a commercial basis were offered on the WEB.

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

The year of 2013 was marked by a series of educational activities within the Legal Affairs and the Human Resources and Asset Management sectors. A series of new internal training courses was developed, with the aim of providing employees the opportunity to obtain additional industry expertise and business skills needed for their everyday work.

Given the announced change regarding the process of using the MCO document, instead of which the implementation of EMD (Electronic Miscellaneous Document) is planned, training was organized in 2013 for the entire sales personnel and for other Company personnel whose work processes required familiarizing with the planned change.

During 2013, several series of regular training courses were organized for sales employees, ground operations employees and travel agency employees; they were related to reservations, passenger tariffs and automated document printing.

Various development training courses were organized with the aim of encouraging employees to develop their own resources for easier and better communication, acquire the skills for efficient setting out and reaching of goals, as well as to raise their awareness about the ongoing changes in daily operations.

Furthermore, a number of employees attended training courses aimed at improving their communication skills, presentation techniques, personal productivity, and revenue and productivity management, while various managerial structures within the Company attended trainings aimed at familiarizing them with executive roles and responsibilities, as well as with communication management within the Company restructuring process.

Training courses prescribed by the Star Alliance standards were an important educational segment in 2013; they were focused mainly on the benefits of the privileged categories of premium passengers, since Star Alliance pays particular attention to this passenger segment.

Croatia Airlines' employees have been undergoing various types of online training since 2009, and so far altogether 4,562 individual training courses were provided in the form of initial and refresher trainings.

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

As a national flag carrier, Croatia Airlines organizes within its Training Centre a series of training courses needed by travel and commodity agencies for the acquisition of the IATA licence, training courses for airports, freight forwarders and airline companies. In 2013, Croatia Airlines Training Centre provided training to a significant number of employees of IATA-accredited agencies, in the sphere of reservations, tariffs and ticketing, and to employees of commodity agencies and freight forwarders in the sphere of dangerous goods handling.

Responsibility to employees

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

In the period from 1 November 2013 to 31 January 2014, 38 workers were employed on a temporary basis to perform aircraft maintenance works within the Technical Sector, i.e. servicing Airbus 320, a technically complex D-check for a foreign partner. Furthermore, six of Croatia Airlines' employees placed under the Redundancy Scheme were also engaged for the same type of work. Four of external candidates, and all six of internal ones remained employed on a temporary 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 cases of longer sick leaves, severe illnesses and difficult financial situation, the Company makes efforts to help its employees and their families by providing a support for the purchase of medicines and for the medical treatment costs. It also regularly helps children of the deceased employees through monthly supports during their regular schooling.

Occupational safety

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

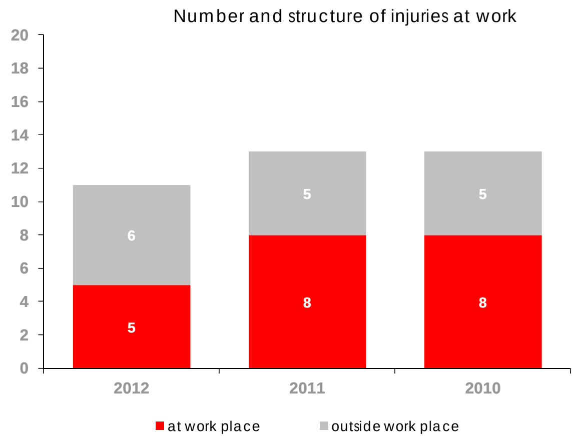
Employee training related to working in a safe manner and legally prescribed basic training in fire protection are regularly organized and implemented for all new employees. Specialist training for the safe handling of machines and devices posing a higher hazard are organized according to the needs of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

Pursuant to the Occupational Safety and Health Act, training in the sphere of occupational safety was provided in 2013 to the newly-elected employees' representatives, and to an employer's authorized person.

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

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

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



At the employer's initiative, two mandatory inspectorate supervisions in the sphere of occupational safety were carried out. With regard to two serious injuries, there were no objections on the part of the state inspectorate.

Altogether nine injuries at work were recorded in 2013 (three women and six men). Of those, six injuries were sustained at the place of work, and three while arriving to the workplace, of which two were a result of a traffic accident. When classifying injuries sustained at work in accordance with the AUVA method, four injuries sustained in 2013 were minor, and two were severe. There were neither deaths related to injuries at work nor professional illnesses.

Protection of employees' dignity

For the purpose of protecting its employees' dignity, the Company prescribed the Complaint Receipt and Settlement Procedure and appointed a person to receive and handle complaints related to this issue. There is also an Ethics Committee dealing with this issue.

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

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

Employees and Management relations

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

A uniform collective agreement for Croatia Airlines d.d. was entered into on 27 May 2013.

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

Social responsibility

Transport and tourism

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

The Company's significant role in connecting domestic airline destinations and in maintaining traffic within Croatia has also been recognized by the Republic of Croatia.

In line with the Strategy of the Government programmes for the period 2012-2014, on 8 November 2012 the Government of the Republic of Croatia reached a decision on the obligation of carrying out domestic airline traffic operations.

Based on the public tender called for operating domestic route transport service, the Ministry of Maritime Affairs, Transport and Infrastructure and Croatia Airlines entered into a public service obligation agreement for the period from 31 March 2013 to 26 March 2016.

Croatian brand

As a part of its mission, Croatia Airlines is making a great effort to contribute to the overall development of Croatia's tourism and economy, and therefore serves and promotes the Croatian cuisine and wines on its flights.

In 2013, Croatia Airlines continued presenting the offer of food and beverages typical of individual Croatian regions, by introducing Dalmatian and continental cuisine to its passengers.

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

In cooperation with the Croatian Tourist Board and other tourist boards, the Company publishes advertisements and articles in the magazine, while films promoting the cultural values and natural beauties of various regions (the sea bed, islands, coast, continental parts, etc.) are shown on Airbus flights.

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

In 2013, Croatia Airlines continued its cooperation with the Croatian Olympic Committee, being the official carrier of Croatia's Olympic team, and a promoter of local athletes and sports as a member of the Committee.

Support for the community

Whenever possible, Croatia Airlines strives to support institutions that need humanitarian aid or organize humanitarian projects, and it has been providing direct humanitarian aid by granting cost-free transport for severely ill patients, children or people in need, and has been participating in charity actions by providing free transport. Instead of the usual business gifts and banquets for business partners, in 2013 Croatia Airlines donated medical devices to the Clinical Hospital Centre Zagreb, i.e. the Paediatric Clinic.

Business ethics

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

Internal social activities

A number of various sports associations practising football, skiing and mountaineering are active within the Company, achieving significant results in international airline competitions and contributing to the quality of employees' free time.

Anniversaries, awards and environmental protection

In 2013, Croatia Airlines marked the 11th anniversary of introducing the service of reservation and purchase of airline tickets via its webpage www.croatiaairlines.hr, enabling Croatia Airlines' passengers to organize their journeys in as simple manner as possible.

Based on an analysis of the specialized international web portal AirlineRatings.com, which included 448 airlines from all around the globe, the flight safety at Croatia Airlines was given the highest score and the Company was given the highest safety ratings in civil aviation.

Environmental protection

Croatia Airlines proactively adopts global and European trends, as well as the Republic of Croatia's regulations in the sphere of environmental protection and environmental standards, with the aim of ensuring the Company's sustainability based on ecological principles.

Climate changes are one of the greatest challenges faced by the mankind. In this respect, a global initiative was started via the UN to reduce and stop the negative consequences of climate changes, i.e. to reduce the emission of greenhouse gases in the atmosphere. The Kyoto Protocol is an international agreement linked to the United Nations Framework Convention on Climate Change, signed with the aim of reducing carbon dioxide and other greenhouse gas emissions. The Republic of Croatia ratified the Kyoto Protocol in 2007. Croatia Airlines is, therefore, obliged to adhere to the European Union regulations on sustainable waste management, monitoring and reporting of greenhouse gas emissions.

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

Because of the importance of introducing the above measures, as well as due to their financial effect on airline operations, Croatia Airlines actively joined the process of developing regulations through cooperation with IATA and AEA (Association of European Airlines).

In addition to having effects on its activities, in both narrow and broad sense, the Company's participation in the EU ETS also brought an increase in the costs for the missing emission licences. Croatia Airlines was the first company in the Republic of Croatia to participate in EU ETS; based on a tender for the purchase of emission licences in 2013, it purchased relevant licences for 2012. Until 1 January 2014, Croatia Airlines' ETS programme was supervised by the German Federal Environment Agency - Dehs't. Since 1 January 2014, Croatia Airlines has been under the supervision of the Ministry of Environmental and Nature Protection of the Republic of Croatia.

With due care of a prudent manager obliged to adhere to the EU ETS regulations, Croatia Airlines aims to rationalize its jet fuel consumption. In 2013, it developed its own Post Flight Analysis system, enabling a quality analysis of jet fuel consumption by various parameters.

The Montreal Protocol prescribes measures and deadlines for phasing out the consumption of substances depleting the ozone layer. One of them is halon, which is used in aircraft as a fire extinguishing agent. Croatia Airlines obtained an approval for licensing the reporting of halon use, and reporting it to competent authorities.

As Croatia Airlines generates waste through the production processes at technical bases at Zagreb, Dubrovnik and Split airports, it is required to submit reports on an annual basis to the Croatian Environment Agency, i.e. for the Environmental Pollution Register, in line with the Sustainable Waste Management Act. Croatia Airlines' goal is to establish the Company policy of sustainable waste management.

The restructuring of the Company

In 2011, Croatia Airlines started with the restructuring process that comprises strategic, financial and operational restructuring. The restructuring of the Company was necessary to prepare it, in line with the European regulations and its own practices, for long-term sustainable operations.

The key goals of the Croatia Airlines Restructuring Plan have been set in line with the defined strategic, financial and operational restructuring areas; the monitoring, implementation and control of the realization of each of the set goals represents the key presumption for the successful realization of the Plan.

The Restructuring Plan covers a 5-year period (2011-2015), with an overview of additional two years as an assessment of the restructuring results upon its completion.

The final version of the Restructuring Plan was approved by the Croatian Competition Agency on 27 June 2013. The Restructuring Plan adoption in the middle of the business year prolonged the start of the application of the anticipated restructuring measures, thus affecting the results in 2013 and the performance anticipated for 2014. However, despite the above, the implementation of the planned measures generated a positive financial result at the end of the business year of 2013.

In the course of 2013, the Company was focused on implementing the Restructuring Plan, pursuant to which it actively worked on the implementation of the planned measures aimed at rationalizing business operations and achieving savings by restructuring the block time and the flights network, reorganizing the Company by optimizing its management structure, making adjustments to the actual work processes, and rationalizing its operations by increasing process efficiency. In line with the planned dynamics, the Company started implementing compensation measures and own contribution measures, rationalizing its sales network and implementing the Redundancy Scheme.

In 2013, Croatia Airlines implemented the following compensation measures:

- Reduction of fleet by an Airbus A320;
- Postponement of delivery of four Airbus A319;
- Reduction of capacities – available seat-kilometres;
- Cancellation (decrease in the number of frequencies) of certain routes.

In 2013, the following own contribution measures were realized:

- Loan rescheduling;
- Credit line realization;
- Restructuring loan realization;
- Wet lease of an aircraft pulled out of service;
- Preparation activities for the sale of property (aircraft and engine S&LB, land at Zagreb Airport).

The Restructuring Plan implementation process requires careful and efficient risk identification and management. The monitoring, implementation and control of the realization of each of the set goals at the predefined dynamics is the key presumption for the future successful realization of the Restructuring Plan. Further application of the Structuring Plan components creates conditions for profitable operations and enables the sustainability of the Company's future operations.

Advancement and expansion of operations

Revenue management

In the airline market conditions characterised by a fall in profit, pressure on the price reduction, fall in yields and exceptionally strong competition, the optimum allocation of capacities for the purpose of maximising the revenues, and prompt reaction to the price changes have become the key elements for a successful business.

In order to advance its revenue management and speed up its response to price changes on the market, and thus improve its competitive position, Croatia Airlines implemented on 20 November 2013 the Sabre AirVision Revenue Management system, making a transition from manual to automated revenue management. This is a result of a comprehensive project aimed at improving revenue management and generating additional profit.

Sabre AirVision was selected as the best solution for Croatia Airlines and the Company entered into a five-year cooperation agreement with Sabre Inc., which, in addition to being a solution provider, became a business partner to support the Company's development of a modern approach to RM in the upcoming period. Croatia Airlines uses the platform used by more than 50 companies worldwide.

One of the most significant changes compared to Croatia Airlines' past activities in the sphere of revenue management are forecasts. For the first time in history, Croatia Airlines has at disposal forecasts for future passenger load and number for each flight. This is a smart system that enables aircraft configuration and type adjustment on the basis of forecasts derived from the historical data updated for the current reservation trends, optimal allocation of seats into individual classes, as well as timely opening and closing of classes to achieve maximum possible income from each flight.

The cutover completion does not imply that the work is finished; on the contrary, the most demanding task – adaption of the system to the Croatia Airlines environment and conditions - has only just started. This adaptation is twofold, and requires changes to the past way of work in order for get the processes as closer as possible to the way of functioning of the modern revenue management system.

Other operating systems and applications

In 2013, the Netline operating system was upgraded; this system is exceptionally important for everyday work coordination (setting up the flight schedule and aircraft changes, operational planning of flights, crews, etc.).

The application My ID Travel was also implemented, intended for the issuance of private and official airline documents to Croatia Airlines' employees and colleagues from other airline companies.

The Company intensified its activities on the future solution for the transition from the check-in system - Distributed Control System (DCS) to Altea DCS, which will greatly change the current functioning of the very check-in system and the web check-in service for passengers.

Croatia Airlines also started upgrading its Flyonline system (online purchase of airline tickets), and is expected to finalize it by the end of the second quarter of 2014.

Croatia Airlines is also implementing the ATC (Amadeus ticket changer) application, with the help of which passengers will be able to replace their tickets online for some other date or destination.

In order to enable Croatia Airlines' pilots as efficient and simple as possible performance of all activities prior, during and after the flight, the Company cancelled its EFB (Electronic Flight Bag) contract with Lufthansa Systems and started implementing a new, better, more cost-effective and satisfactory solution with the Flightman company.

Technical check-ups

On 5 December 2013, the major D-check of Airbus 320 owned by the company Thomas Cook was successfully completed at Croatia Airlines' technical centre. This was the first D-check of Airbus 319/320 in Croatia and its surroundings, i.e. the most demanding technical service of commercial aircraft. Having successfully realized the service check, Croatria Airlines' technical sector once more proved itself a top-quality profit centre, at which 12 C-checks and 19 A-checks were carried out in 2013 on foreign airline aircraft.

As current service users expressed additional interest in getting their aircraft serviced at Croatia Airlines' technical centre, and given that other European airlines are also interested in such services, the Company management decided to build a third hangar at Zagreb Airport. The new hangar will have the area of some 2,200 m², and will increase the capacities of the technical centre by some 30%. In addition to increased revenues, new jobs will also be opened. The hangar is expected to be put into operation in the autumn of 2014.

Aircraft lease

In 2013, Croatia Airlines for the first time leased an aircraft - Airbus 9A-CTF, together with the crew, to the Tunisian airline Syphax, in the period from 31 May to 1 September 2013. The Company thus actively entered the foreign airline market and generated unplanned revenues from aircraft lease.

Advertizing in aircraft

A new advertising option was introduced in Croatia Airlines' aircraft – in hand luggage compartments. This way, our clients are provided a specific, appealing channel that guarantees the visibility of messages.

Business environment and operational risks

Global economy

In 2013, the global economy increasingly showed positive signs, and the economic activities intensified in the second half of the year, particularly in the most developed countries. Most analysts believe that five years after the onset of the global financial crisis the global economy is at a turning point.

In January 2014, the International Monetary Fund revised its global economic growth projections (World Economic Outlook), according to which the global economy saw a growth of 3% in 2013, while a 3.7% growth is expected in 2014.

In line with the expectations, the developed economies faced growth in 2013, owing to the ongoing implementation of financial sector recovery measures, fiscal consolidation and measures aimed at boosting employment growth, while the new economies faced a growth slowdown and more stringent financial conditions.

According to the IMF’s forecasts, the economy of the eurozone saw a 0.4% fall in 2013. The eruozne should in 2014 face gradual economic recovery, with the growth of 1%, even though the recovery will be uneven. Despite the more optimistic forecasts for individual economies, those hit by the crisis will see a modest recovery.

According to the European statistics bureau Eurostat, the eurozone’s economy faced a 0.5% decline in 2013, while the economy of 28 European Union member states grew by 0.1%.

Eurostat confirmed a slow recovery in the eurozone at the end of 2013. Increased export activities and gradual intensification of investments supported the growth of the European economy, which faced a 0.3% growth in the final quarter of 2013 compared to the preceding quarter. Compared to the same period in 2012, the eurozone’s economy saw a 0.5% growth in the final quarter, which was the first growth on an annual basis in two years. The economic activity of 28 European Union member states faced a 0.4% growth in the fourth quarter of 2013 compared to the preceding three months, and 1.1% over the same period in 2012.

According to the data released by Eurostat, unemployment rate in the eurozone and the European Union stagnated in late 2013. In December 2013, the unemployment rate in the eurozone was 12%, with no changes compared to the preceding months, while the unemployment rate in the European Union was 10.8%, also with no major changes on a monthly basis. The biggest problem by far is high youth unemployment rate, totalling 24% in the eurozone and 23.3% in the European Union in December 2013.

The eurozone’s annual inflation rate was 0.8% in December 2013, falling mildly from 0.9% in November, while that of the European Union remained on the level of the preceding month, i.e. 1%.

Croatia's economy

Although the European Union members and the surrounding countries started recovering in late 2013, Croatia is still faced with an economic depression, with no indications of a significant recovery in near future.

At the end of 2013, Croatia had over 363,000 unemployed, and saw a decline in gross domestic product and industrial production for the fifth year in a row, with its credit rating being reduced to the non-investment level. The country also entered the excessive deficit procedure. Most of the relevant economic indicators point to negative trends. However, the year was also marked by fiscalization, introduction of order in the Company's financial operations and tax activities, with positive shifts towards a reduction of insolvency and illiquidity, and a "fresh start" for many companies faced with difficulties enabled through their entering into pre-bankruptcy settlements. Tourism stood out among the few economic activities with a positive close to the year.

Croatia's gross domestic product saw a 1.2% fall in the fourth quarter of 2013 compared to the same period of 2012, weakening for the ninth quarter in a row. On an annual level, Croatia's economy faced a 1% fall. The country's economy has been weakening ever since the beginning of 2009. On two occasions, in the third quarter of 2010 and the second quarter of 2011, it technically exited recession, but the negative trends started again.

The country's industrial production fell by 2.8% in December 2013 on an annual basis, which is a significantly greater decline compared to a moth before. It has been weakening continually since April 2013, with a total fall of 2% compared to 2012. However, the annual production fall of 2% represents a slowdown in negative trends given the 5.5% decline in 2012.

Labour market trends are exceptionally worrying. The registered unemployment rate was 21.6% in December 2013, or 0.5pp up on both monthly and annual levels. The average unemployment rate totalled 20.3% in 2013, up by 1.2pp compared to 2012, being the highest one since 2002. Croatia's youth unemployment rate (15-24 years of age) ranges about 50% and is the third highest among the EU members, right after Spain and Greece.

Croatia's inflation rate fell by 0.2% in December 2013 compared to November, while it grew 0.3% on an annual level. The average annual inflation rate was 2.2% in 2013, down by 1.2pp compared to 2012.

Croatia's tourism has not been hit by the economic crisis, reaffirming its significance as an industry that has been successfully addressing the challenges of a difficult economic situation. In 2013, altogether 12.5 million tourist arrivals were recorded, or 5.1% more than a year before, with a total of 64.8 million overnight stays, or 3.3% more compared to 2012. Such trends are a result of increased number of overnight stays of foreign tourists, while those of local tourists faced a fall. As in the previous years, tourists from German were the most numerous, followed by guests from Slovenia, Italy, Austria, Czech Republic and Poland.

Global airline market

Despite the difficulties faced by the global economy, particularly by the eurozone, in 2013, the global airline industry continued with a growth.

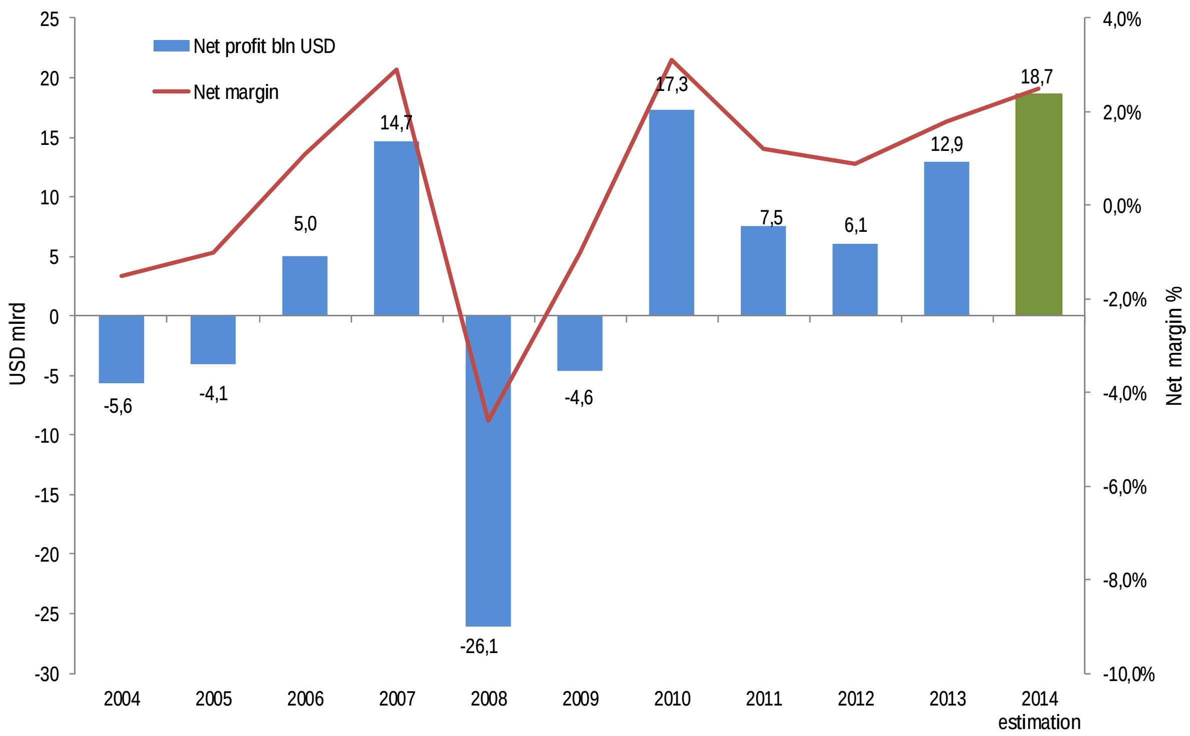
According to the forecasts of the International Air Transport Association (IATA) released in March 2014, the airline industry's net profit in 2013 reached some $12.9 billion, with the net margin of 1.8%. These profit figures are much higher compared to the $6.1 billion generated in 2012. In 2014, IATA expects a total net profit of airline companies to reach $18.7 billion, topping the current record $17.3 billion generated in 2010.

The regional outlook for the net profit in 2013 reflects differing economic conditions in various parts of the world. According to the projections, all global markets but Africa's generated a profit, with North America ($6.8 billion) and Asia and Pacific ($3 billion) being the most profitable ones, while the European market reached a net profit of $1.2 billion.

Fuel costs represent the most significant cost for airline companies. According to IATA's projections, the average price of oil barrel in 2013 was around $108.8 ($111.8 in 2012). The fuel costs amounted to $210 billion ($208 billion in 2012) and made up 31% in the overall operating costs structure (the same as in 2012).

According to IATA's projections, passenger traffic saw a 5.3% growth in 2013 (4.9% in 2012), while cargo transport saw a 1.4% growth after the decline in 2012 (-1%).

Profitability of global airline companies



Source: IATA, March 2014.

European airline market

According to the data issued by the Association of European Airlines (AEA), in 2013 the European carriers – AEA members – transported 2.7% more passengers in scheduled traffic measured in realized passenger kilometres (RPKM) compared to 2012. The overall number of passengers transported by AEA members thus reached 400 million in 2013.

The realized passenger load factor (PLF) in scheduled traffic, including long-distance traffic, was 80.1%, or 0.7pp higher compared to 2012. The PLF for the European route area, comparable with Croatia Airlines' flight network, was 75.4% (Croatia Airlines: 68%).

In the first three quarters of 2013, AEA members realized better operating margins compared to 2012. The Association forecast positive EBIT with a 1% margin for 2013, on condition of continuation of positive trends.

Regardless of the positive trends of natural and financial indicators, in 2013 the European airline companies still felt the consequences of the economic crisis. The declining economic growth, European countries' debts to the state, rising unemployment and general distrust in the economic and financial systems affected not only their profitability, but also their survival on the market.

The bankruptcy of Spanair (Spain), Malev (Hungary), Cimber Sterling (Denmark) and Cirrus (Germany) points to the highly present negative trends and the extremely difficult situation in the European airline industry. The Czech Central Connect Airlines, Swedish Skyways and Air Finland have suspended all flights and ceased to operate. Airline carriers throughout Europe, even as big as Alitalia, Iberia and Lufthansa, are undergoing transformations and restructuring with an uncertain outcome, which is particularly evident in SE Europe. All airlines in the region are faced with great problems. The loss of Adria Airways totalled nearly $100 million in the past two years, while Montenegro Airlines Airlines and BH Airlines are also in great difficulties. JAT Airways ceased to exist after 66 years, starting anew as Air Serbia. However, both IATA and major aircraft manufacturers Airbus and Boeing see this region as promising in terms of air traffic growth.

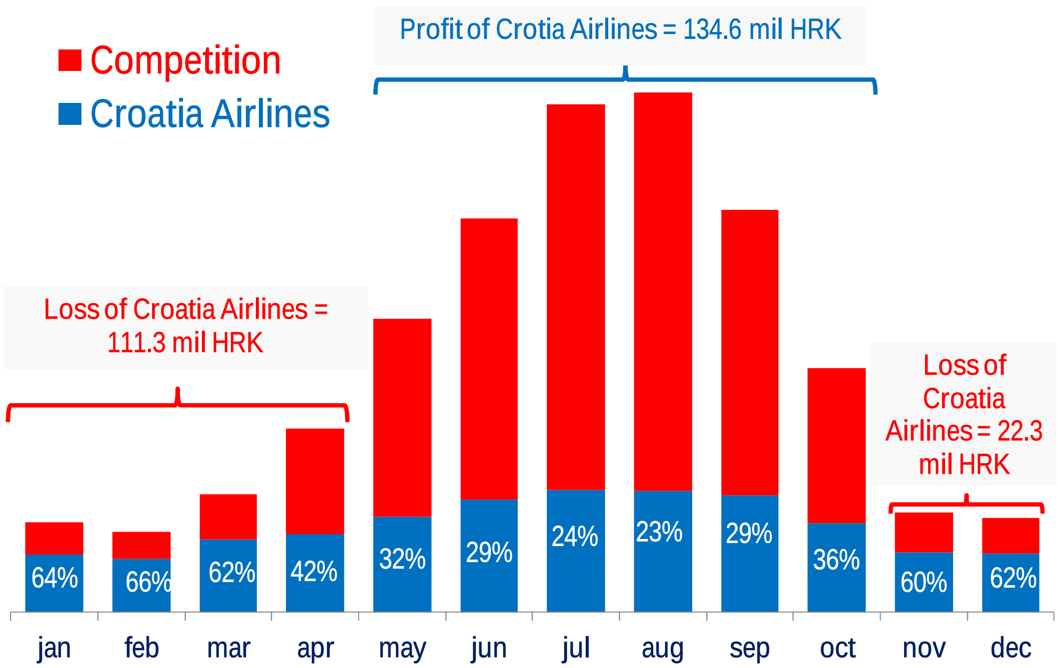
Croatian airline market

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, traffic at Croatia's airports (number of aircraft operations) recorded a growth of 3.3% in 2013 compared to 2012. Passenger traffic at Croatia's airports saw a 5.8% growth; altogether 6.3 million passengers were transported, with Croatia Airlines' market share being 34.6%.

A high level of seasonality of demand on Croatia's airline market, with a high level of competition in summer months, still represents a major problem for Croatia Airlines' operations. More than half of all passengers on the Croatian airline market are transported in the third quarter, when nearly 100 rival 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 the significant influence of Croatia Airlines on operations of other economic entities within the air traffic system. It should also be emphasized that Croatia Airlines, as a national flag carrier, enables the country an airline connection with the rest of the world during the winter.

The below diagram shows that Croatia Airlines generates losses during the winter period, when the Company's share on Croatia's airline market reaches up to 66%, while it operates on profit in the summer period when its market shares ranges from 23% to 36%. This shows that in order to generate profit on an annual level, it is crucial to minimize the operating costs in the winter period, while optimizing the flights network.



In 2013, Croatia was still faced with the problem of the air traffic value chain that could be resolved if the state, which, in addition to Croatia Airlines, owns eight airports, the flight control and the monopolist fuel supplier INA, would apply the strategic approach. In 2013, the Republic of Croatia and the ZAIC consortium (Zagreb Airport International Company) signed a concession contract for Zagreb Airport.

Operational risks

The global airline industry, including Croatia Airlines, is exposed to the effects of numerous external factors and risks. This primarily refers to economic and political crises (wars, terrorist attacks) and natural disasters (volcanic eruptions).

In its operations, Croatia Airlines is exposed to the risks related to price changes, especially fuel price changes, interest rate changes, exchange rate changes and liquidity maintenance in the conditions of high seasonality of demand on the Croatian airline market, with a high level of competition. The operational risk management is necessary to preserve the value of companies in unstable operating conditions and requires an application of adequate financial instruments and methods.

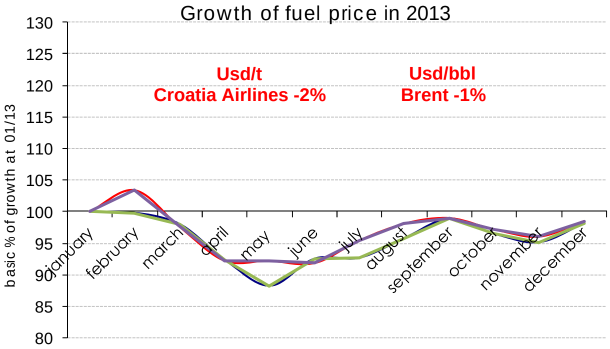
Recession and global economic crisis

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

Fuel

The price of jet fuel on the market has been exceptionally volatile in the past few years. The beginning of 2013 was marked by the high oil price; on the London stock exchange, Brent oil traded at the price exceeding 110 $/bbl. March saw stabilisation and then a further fall. In the second quarter of 2013, the oil price on the London stock exchange was about 103 $/bbl. In the third quarter, the prices started rising again, as a result of demonstrations in Libya, tensions in Syria and the Middle East, and negotiations on the Iranian nuclear programme, so the oil price reached the level of 116 $/bbl in September. In the fourth quarter, the oil price ranged from 108 to 110 $/bbl.

The oil price movements in 2014 will be affected by the geopolitical situation in certain parts of the world, the still present global economic crisis, development of gas extraction from shale in North America, as well as by investments of the European Union in alternative energy resources, for the purpose of achieving energy independence.

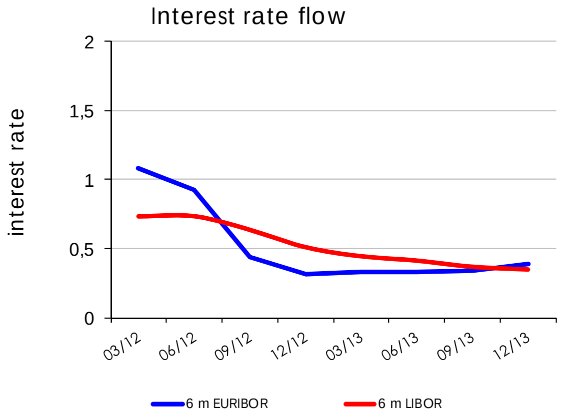


The average price at which Croatia Airlines purchased fuel in 2013 was 1,020 $/t, or 4% lower than planned. In 2012, the average fuel purchase price was 1,053 $/t. The fuel cost amounted to HRK 332.4 million, or HRK 47.3 million less compared to 2012. Lower fuel costs are a result of lower oil price (109 $/bbl vs. 112 $/bbl), lower USD exchange rate (5.7 vs. 5.9) and reduced block time in block hours by 8%. In the overall operating costs structure, the share of fuel costs fell from 21.9% in 2012 to 21.3% in 2013.

Altogether 1% more fuel than planned was purchased, due to increased block time in the period from May to August, lease of aircraft during the May strike with no equal consumption as the Croatia Airlines' fleet, and the flights structure by aircraft type.

Interest risk

By taking long-term loans at variable interest rate, the company is exposed to interest-related risk, too. As opposed to 2012 which was marked by a significant fall in Euribor and a slightly milder decline of Libor, the year of 2013 saw a mild growth of Euribor, while Libor slightly declined.



Cash flow risks

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

In June and December 2013, the Government of the Republic of Croatia financed, based on the realised guarantees, the repayments of six-month instalments of the fleet refinancing loans extended by Bayerische Landesbank. The settlement of loan instalments by the state is an integral part of the planned financial flow of operations within the Restructuring Plan approved by the Croatian Competition Agency.

In October 2013, an Annex I to the Contract on a long-term foreign currency loan was entered into with PBZ, rescheduling the existing loan of EUR 11.7 million, thus changing the semi-annual instalment and the repayment deadline.

In December 2013, PBZ approved an HRK 10 million worth long-term foreign currency loan for the needs of financing the restructuring costs, of which HRK 2 million was put to use.

Currency risk

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

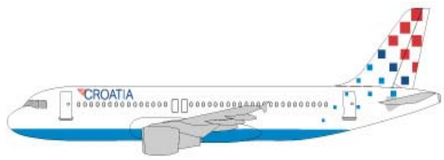
Fleet and capacities

In 2013, Croatia Airlines operated a fleet of altogether 13 aircraft: seven Airbus aircraft, one of which was under an operating lease, and six Q400 aircraft, all under an operating lease. Based on the planned compensation measures, and in line with the Restructuring Plan, Croatia Airlines pulled an A320 (CTF) aircraft out of service at the start of the year, thus significantly changing the fleet structure in favour of smaller aircraft, with lower operating costs. The overall effect of the reduction in capacities (in ASK) resulting from this measure is estimated at some 6.2%.

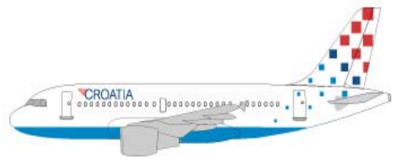
In mid December 2013, upon the lease expiry, the A320 (FOX) aircraft was released from the Croatia Airlines' fleet in line with the lease contract terms, i.e. returned to the leasing company.

Upon releasing the above aircraft from the fleet, the total number of available seats at the end of 2013 was 1,356.

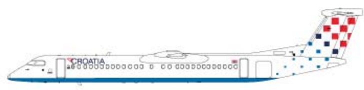
A 320 – 2 aircraft
The aircraft has 162 seats – altogether 324 seats

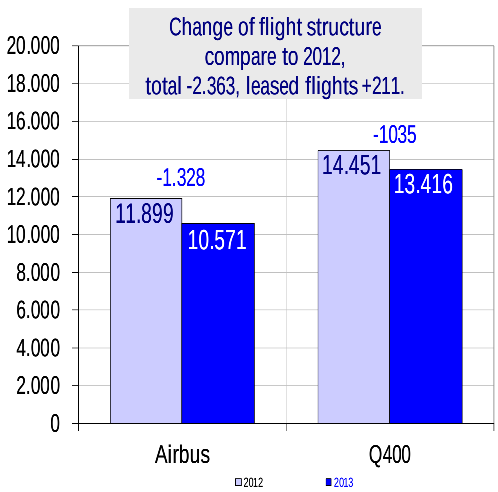


A 319 – 4 aircraft
The aircraft has 144 seats – altogether 576 seats



Q 400 – 6 aircraft
The aircraft has 76 seats – altogether 456 seats





In 2013, Croatia Airlines' aircraft realized the block time of 35,912 block hours, or 8% fewer compared to 2012. They flew 25,179 flights, i.e. 8% fewer compared to 2012. The Q400 fleet realized greater block time, in line with the adjustments of the capacity offer to the market demands.

In 2013, Croatia Airlines took into lease *ad hoc* aircraft that flew altogether 354 flights for the purpose of covering the flight schedule, particularly in the summer months, and for extraordinary situations such as various traffic disturbances, aircraft repairs, etc.

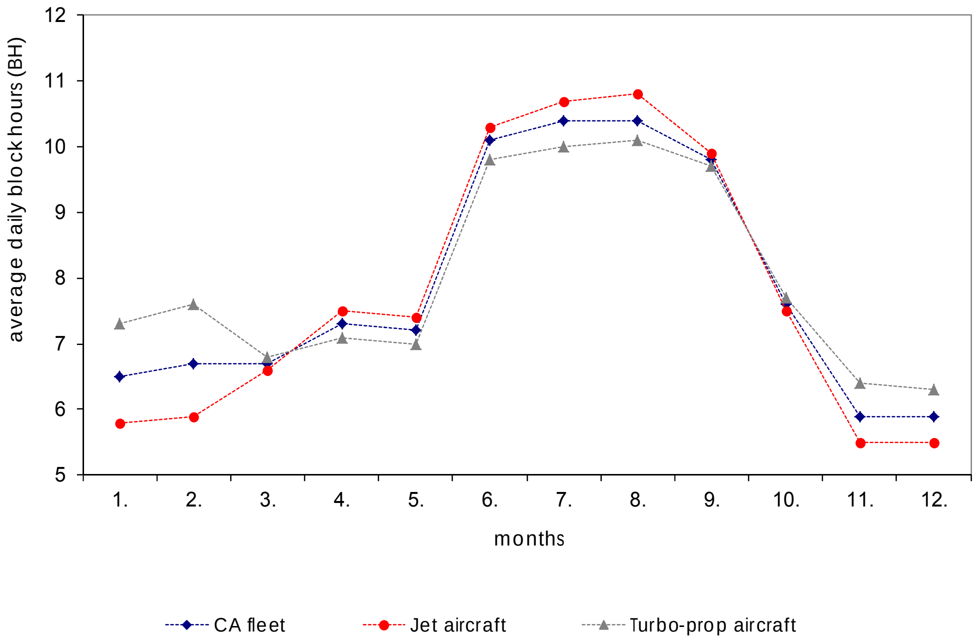
Fleet utilization

type of aircraft	Ø number of aircraft	Ø daily block hours (BH)	utilisation growth 13/12
Airbus A320	3	7,00	2,9%
Airbus A319	4	8,30	-2,4%
Q-400	6	8,00	-5,9%
TOTAL	**13**	**7,9**	**-2,5%**

Croatia Airlines' fleet flew on average 2,881 block hours per aircraft in 2013, which means that their utilization was reduced by 3% compared to 2012, as a result of pulling the A320 (FOX) out of service.

The average number of aircraft at the level of the entire year, i.e. 12.28 aircraft, was 5.5% lower than the average in 2012. The available seat-kilometres (ASKM) declined by 8%, the same as the realized passenger kilometres.

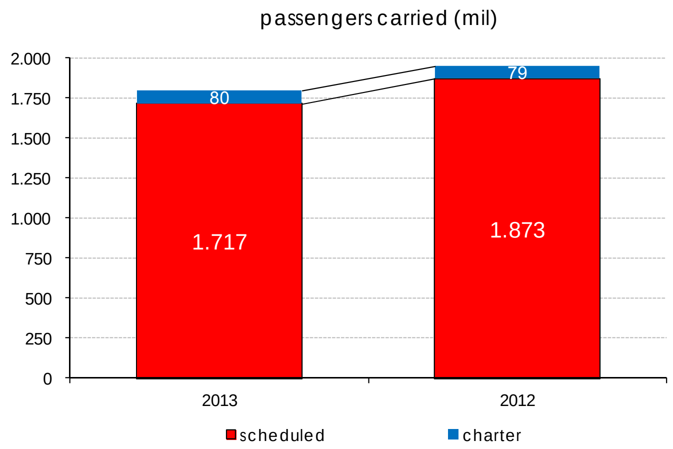
CA fleet utilization by month



The market

In 2013, in line with the Restructuring Plan and as a part of the compensation measures, the capacities were reduced by some 7%, which directly reflected on the scope of passenger traffic. The capacity reduction affected the sales potentials, and thus directly caused a sales decline. An eight-day strike staged in May by the pilots and the cabin personnel, followed by the negative media publicity, brought an additional negative effect on the sale at the points of sale in Croatia.

Through the Sales Up project, the Company actively dedicated itself to neutralizing these effects, and introduced a series of other measures, such as signing a code share agreement with the United Airlines, giving consideration to new commercial agreements, implementing the Revenue Management system, intensifying online promotion abroad, examining various possibilities for generating ancillary revenues.



The number of passengers fell by 8% compared to 2012: by 5% in **domestic scheduled traffic**, and by 9% in **international scheduled traffic**.

A total of 79,900 passengers were transported within the **charter traffic**, or 2% more compared to 2012. Charter traffic makes up merely 4% of the total traffic.

In 2013, cargo transport in tonnes saw a 9% decline compared to 2012.

Given the existing capacity structure and a decline in the number of passengers, the realized **passenger load factor (PLF)** was **68.8%**, while the **weight load factor (WLF)** was **65.9%.**

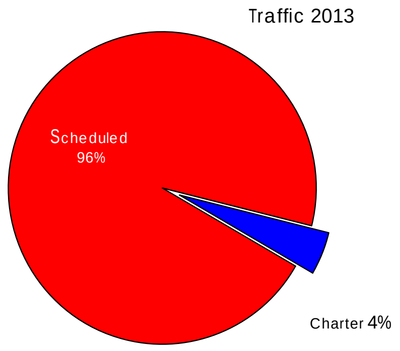
In 2013, Croatia Airlines directly connected eight destinations in domestic scheduled traffic and 23 destinations in international Euro-Mediterranean traffic.

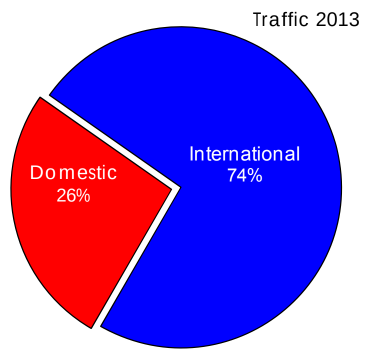
It developed its destinations network through the code share commercial cooperation with Star Alliance members (Lufthansa, Austrian Airlines, TAP Portugal, SAS, Swiss, Turkish Airlines, Brussels Airlines, US Airways).

In December 2013, Croatia Airlines started commercial cooperation (core share) with United Airlines, making the Company's services even more available on the U.S. market. The cooperation is based on coordinating IT operating processes, and the companies also mutually coordinated their flight schedules, as well as their passenger handling rules. Within the cooperation, United Airlines assigns its flight code (UA) for Croatia Airlines' routes from Amsterdam, Brussels, Paris, Frankfurt, London, Munich and Zurich to Zagreb, and from Frankfurt and Munich to Split and Dubrovnik. As a national flag carrier, Croatia Airlines follows the Republic of Croatia's development guidelines and strategic economic goals. By connecting the homeland with the rest of the world it contributes to Croatia's overall export, as well as to the development of the country's tourism.

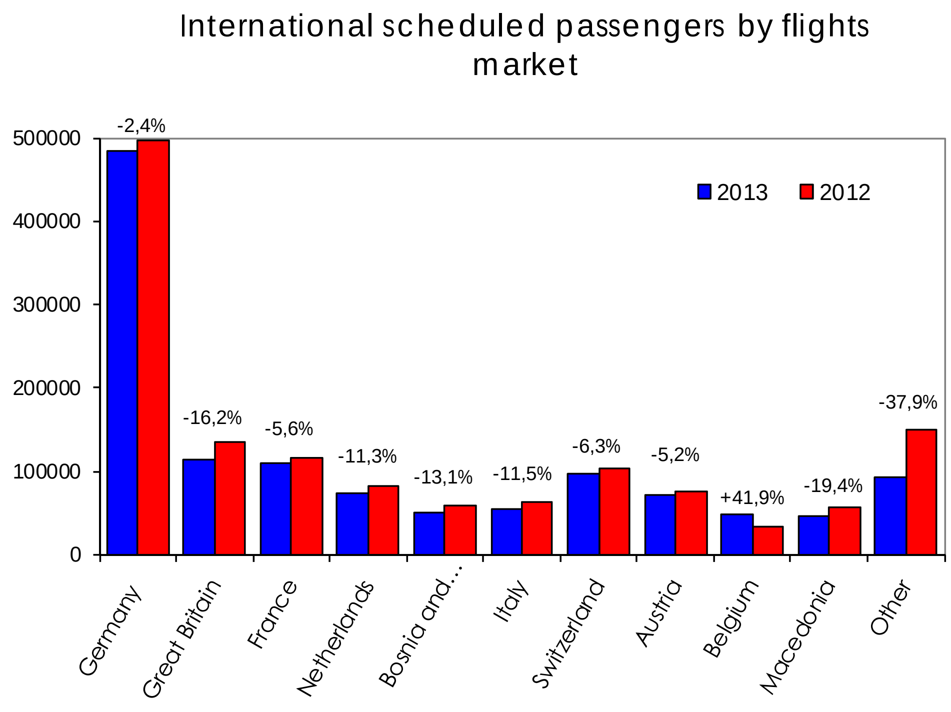
In 2013, altogether 1.796,885 passengers were transported, or 154,616 fewer (-8%) compared to 2012. Croatia Airlines recorded its millionth passenger on 25 July, a few days later compared to 2012.

Altogether 473,833 passengers were transported within the domestic scheduled traffic, 1.243.098 within the international scheduled traffic, and 79,954 within the charter traffic.





In the international scheduled traffic, 9% fewer passengers were transported in 2013, i.e. 128,750 fewer compared to 2012. Given an 8% decline in the capacities offered, the passenger load factor (PLF) saw a fall on all markets, except for the Belgian.

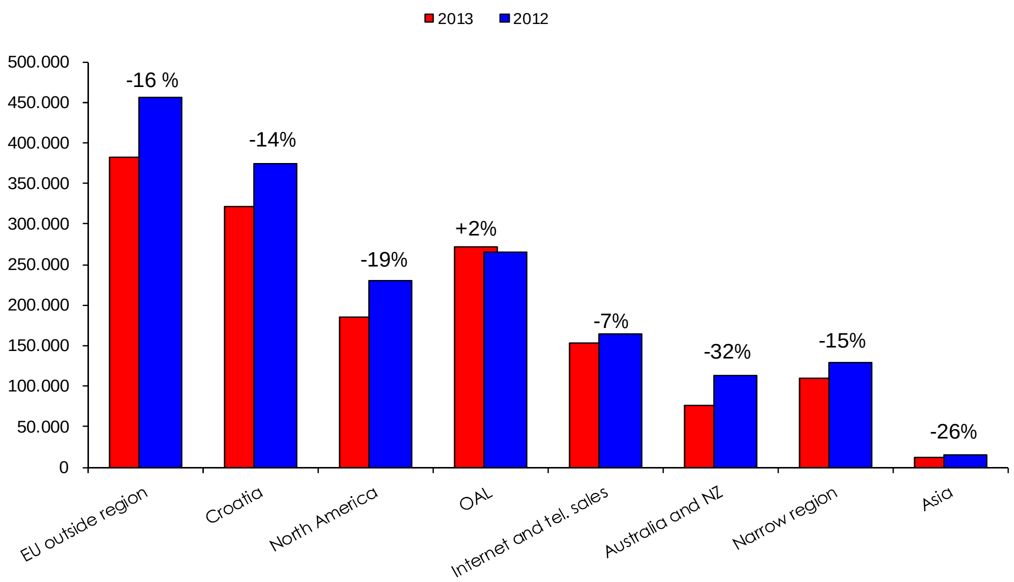


From 31 March to 26 October, the summer flight schedule was in force, with flights being adjusted to passenger needs, particularly during the tourist season, as well as to the fleet capacities. The novelties were as follows: flights from Pula to Frankfurt on Tuesdays and Thursdays in the period from May to October, and from Split to Kassel on Thursdays, in the same period. The route Zagreb-Dubrovnik-Athens and Zagreb-Barcelona was operated on Tuesdays, Thursdays and Sundays, from April to October. Furthermore, flights on the route Split-Belgrade were available on Mondays and Fridays, from May to September, from Split to Dusseldorf on Wednesdays and Saturdays, and to Berlin on Saturdays, from May to October. Croatia Airlines' aircraft

connected Dubrovnik and Venice on Thursdays and Sundays, from May to October. Since the fleet had one aircraft less compared to 2012, Croatia Airlines was forced to reduce the offer of capacities within the network of domestic and international lines. In accordance with the Restructuring Plan, Croatia Airlines' aircraft no longer flew in scheduled passenger traffic towards Turkey and Montenegro. The capacities at certain European airports, such as London Gatwick, Paris, Amsterdam, Zurich, Munich and Pristina, were reduced by introducing smaller aircraft or cancelling frequencies, all for the purpose of consolidating the Company's operations and maintaining competitiveness on the market. From 27 October 2013, the winter flight schedule was in force.

The reduction in fleet capacities in line with the approved Restructuring Plan, poor economic situation in Croatia, the May strike staged by the pilots and cabin personnel, and negative media publicity, all contributed to the reduction of Croatia Airlines' sales potentials (a 14% sales decline), as evident from the below graph.

Growth by sales market (000 HRK)



The **domestic market sales declined by 12%** compared to 2012. The **sales on the foreign markets** saw a **19% fall**, as a result of reduced sales on the American, Australian and European markets. The sales on the American market fell by 20%, with their share in the total sales being 12%. The sales on the Australian market, the seventh market in terms of sales volume, making up 5% in the total sales, fell by 32% compared to 2012. Within the European Union, the markets of Greece, Belgium and Finland registered the greatest absolute sales rise, while the markets of Germany, Great Britain, the Netherlands, Sweden, France and Austria faced the biggest fall. Outside the European Union, the greatest fall was recorded on the markets of Switzerland, Turkey, Bosnia and Herzegovina, and Macedonia. The sales by other airlines went up by 2%. Croatia Airlines realized about 62% of its total sales on foreign markets.

In the first half of 2013, Croatia Airlines intensified its marketing activities on the European markets, as a part of its preparations for the upcoming season.

January was marked by the promotional campaign *Pick and Travel for EUR 129*, offering 11 international destinations (from Croatia to Europe).

In February, the Company promoted the following two campaigns: *Two Tickets for St. Valentine's Day for London, Paris or Rome from EUR 249, and From Europe to Croatia, Sarajevo, Skopje and Pristina at the price from EUR 129 for a return ticket.*

For the anniversary of the *FlyOnLine* service, Croatia Airlines promoted a special offer, granting anyone who bought tickets via *FlyOnLine* on 22 February 2013 a 20% discount for their next purchase of tickets for international flights. Flights for Athens and Barcelona were also promoted, at a special price starting from EUR 129, as well as flights from Athens and Barcelona to Croatia.

As of April, the company promoted flights within Croatia from as Little as HRK270.

In April, May and June, the following seasonal routes were introduced: Split-Belgrade EUR 126, Split-Lyon EUR 183, Dubrovnik-Venice EUR 162, and Split/Pula-Amsterdam from as little as EUR 169.

In partnership with the representatives of the Tourist Board in Madrid, external advertising was carried out in April and May, and an online campaign promoting flights from Barcelona to Croatia was implemented. The efforts were aimed at jointly attracting as many tourists from Spain as possible.

In May, the Company promoted a new route Belgrade-Split within the summer flight schedule, with the aim of presenting Croatia Airlines' new direct seasonal route and attracting as many passengers as possible.

In June, the route from Athens to Croatia was promoted in Greece. Croatia Airlines advertised its offer online in cooperation with AIA (Athens International Airport). The campaign goal was to present the route Athens-Dubrovnik and Athens-Zagreb and attract as many passengers from Greece as possible.

On occasion of Croatia's European Union entry, the company boasted a major promotional offer *From EU to Croatia* in late June and early July, with the aim of achieving a maximum possible flight load in August. Online advertising continued until 20 July on the German, Austrian, Italian, Swiss, Belgian, British and Dutch markets, with the aim of promoting flights to Croatia.

Croatia Airlines continued advertising its flights and offers in Germany. It presented its summer flight schedule, with an emphasis on the routes Kassel-Split and Frankfurt-Split.

In September, Croatia Airlines offered a 40% discount for the purchase of tickets for flights from Zagreb, Split, Dubrovnik, Zadar and Pula to Pristina, Sarajevo and Skopje (from EUR 99), to Frankfurt, Munich, Rome and Zurich (from EUR 119), and to Amsterdam, Barcelona, Brussels, Copenhagen, London and Paris (from EUR 139).

In late October, the Company promoted the offer *Two Tickets for Travels within Croatia at the price of HRK 800.*

In late November, a 20% discount was granted for the purchase of Croatia Airlines tickets to all registered recipients of its newsletters, with the goal of increasing the user base.

Ahead of Christmas holidays, travels from Zagreb, Split, Dubrovnik, Zadar and Pula to Vienna, Frankfurt and Zurich at the price of EUR 99 were promoted.

Furthermore, Croatia Airlines organized on an ongoing basis incentive trips for agents and journalists. In 2013, a number of Greek agents visited Croatia for the purpose of getting familiar with Zagreb, Dubrovnik and Plitivice Lakes, and boosting the sale of Croatia Airlines' flights. At the end of the year, Croatia Airlines organized a gathering of agents in Sarajevo and Skopje with the aim of expanding its business cooperation.

In 2013, Croatia Airlines attended a number of international tourism fairs. Jointly with the Croatian Tourist Board, it presented its offer at F.r.e.e. in Munich (20-24 February 2013), ITB in Berlin (6-10 March 2013), Place2go in Zagreb (15-17 March 2013), SITC in Barcelona (19-21 April 2013), and at IFT in Belgrade (21-24 February 2013). Croatia Airlines presented its flights and special offers at these fairs, with the aim of introducing its products to a broader public. At the British Croatia Business Club fair, held on 24 and 25 May in London, the Company promoted its flights from London.

In 2013, Croatia Airlines continued supporting the organization of congresses, conferences and other events in the capacity of an official airline carrier or within the Star Alliance Conventions Plus service, through which the Alliance members offer lower-price flights for international conferences.

For the purpose of boosting direct ticket sales via www.croatiaairlines.com, Croatia Airlines continually appears on search engines on the Croatian market, and on the markets of Germany, Italy, Great Britain, the Netherlands and France, where it continues advertising via Google.

Croatia Airlines also regularly communicated with its service users via Facebook, where it advertised all of its promotional offers, thus promoting the Company and raising the brand awareness. In cooperation with PBZ Card, a prize game *Play and Win Airline Tickets!* was organized on Facebook from 27 March to 9 April 2013. A prize contest (*memory*) *With Croatia Airlines to Brussels* was organized on Facebook from 1 to 22 July 2013. In late December 2013, the number of Croatia Airlines Facebook fans reached some 77,464.

Financial operations

Profit and loss account

(000 HRK)	2013	2012	Index 13/12	2011
Passenger traffic	1.319.087	1.428.940	92	1.319.170
Cargo traffic	17.364	20.549	85	16.132
Other revenues	239.036	233.559	102	252.940
OPERATING REVENEUS	**1.575.488**	**1.683.048**	**94**	**1.588.242**
Flight operations	565.489	618.140	91	561.980
Maintenance	156.601	154.936	101	144.850
Passenger services	86.503	113.424	76	101.636
Aircraft and traffic services	353.795	374.346	95	362.327
Promotion and sales	214.549	234.676	91	221.373
General and administ. expenses	84.240	88.381	95	86.908
Amortization	83.051	130.215	64	140.074
Other expenses	13.900	14.681	95	13.740
OPERATING EXPENSES	**1.558.128**	**1.728.798**	**90**	**1.632.888**
PROFIT/LOSS FROM OPERATIONS	**17.359**	**-45.750**	**-**	**-44.646**
Interest expense	-13.787	-19.031	72	-26.167
Interest revenue	1.007	1.544	65	1.312
Foreign exchange differences, net	-1.447	52	-	-4.195
Other financial expenses	-2.684	-2.117	127	-2.052
Other financial revenues	272	564	48	202
NET FINANCIAL EXPENSES (excluding extraordinary items)	**-16.639**	**-18.987**	**88**	**-30.898**
NET PROFIT/LOSS	**721**	**-64.738**	**-**	**-75.544**
extraordinary items	-	-423.430		-38.530
NET FINANCIAL EXPENSES (including extraordinary items)	**721**	**-488.167**	**-**	**-114.074**

Note:

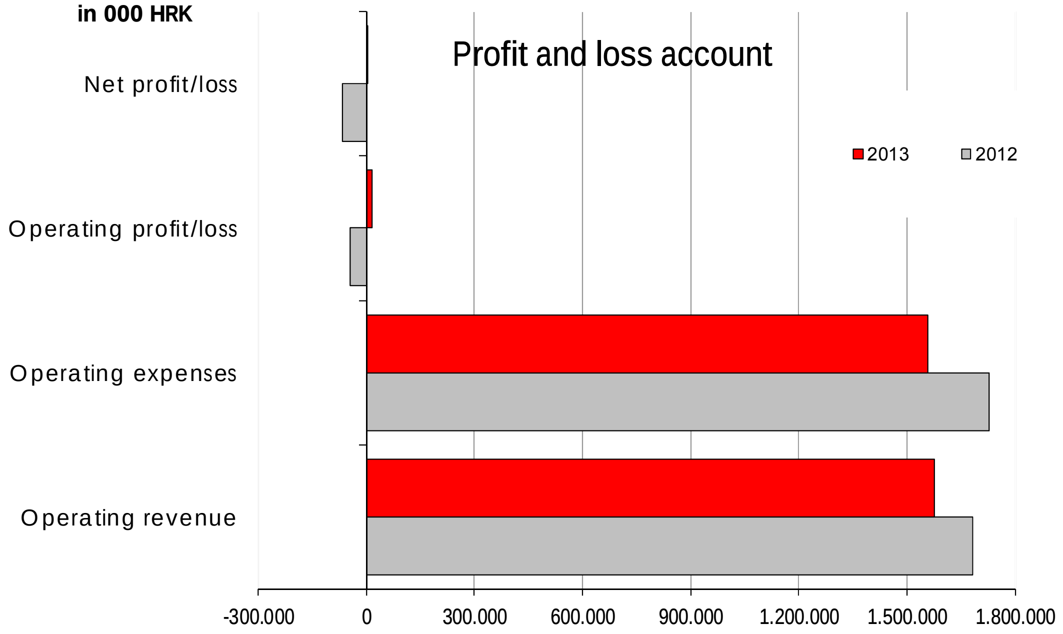
In the auditor's report for the profit and loss account, the revenues and costs of the booking system were shown as a net result within the promotion and sales costs item, and this Report, as well as all internal reports, declare revenues and costs by the gross principle (revenues from the booking system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

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

It should be emphasized that the Company in 2013 generated for the first time after five years a **positive net result of HRK 721,000,** which represents a **total positive**

shift of HRK 65.5 million compared to 2012 which saw a loss of HRK 64.7 million (excluding non-recurring items).

The Company also generated an **operating profit of HRK 17.4 million**, as opposed to the operating loss of HRK 45.8 million in the preceding year.



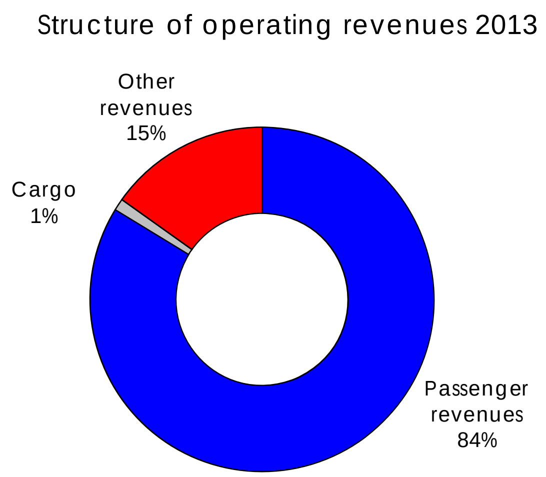
Operating revenues were 6% lower, due to lower revenues from passenger and cargo transport, while the other revenue categories saw a rise.

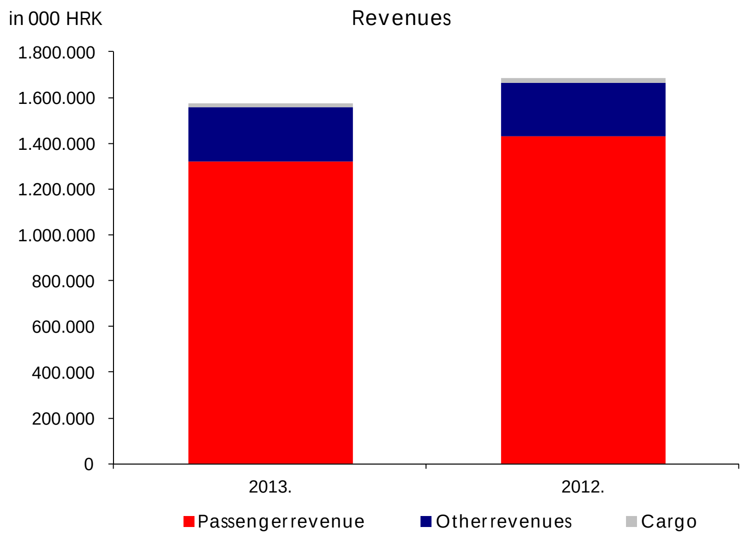
Passenger revenues declined by 8%, as a result of the restructuring measures and the eight-day strike staged in May by the flight and cabin personnel, followed by the negative media publicity. At the same time, the number of passengers declined by 8% compared to 2012.

The **share of passenger revenues in operating revenues** totalled 83.7% and was lower compared to 2012 (84.9%).

The **revenues from cargo transport** were 15% lower compared to 2012.

Other operating revenues rose by 2%, mainly as a result of aircraft lease, sale of property in Dubrovnik, higher revenues from the technical sector and from the sale of material and spare parts.



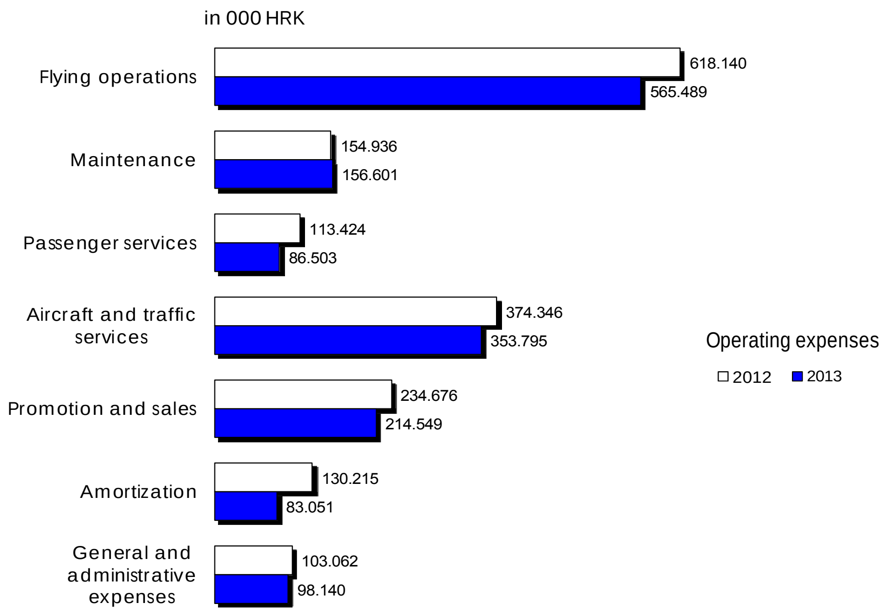


As a result of implementing the operational and financial restructuring measures in 2013, **operating costs were significantly reduced (10%)** compared to 2012.

Fuel costs contributed the most to the reduction in operating costs, as a result of reduced block time (8%) and lower average fuel price ($/t), and **amortization costs** as a result of the aircraft book value adjustments carried out in late 2012.

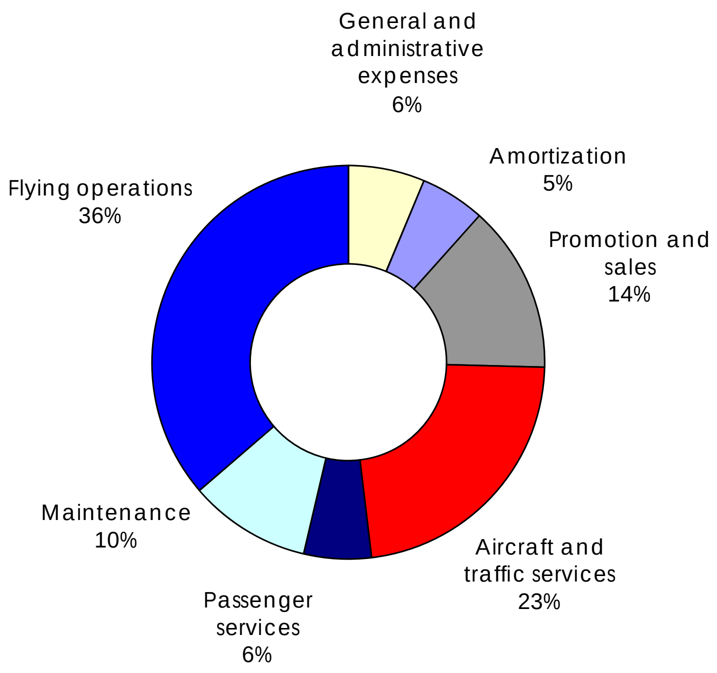
Reduced operating costs resulted from the following: lower passenger attendance costs – due to a reduced number of passengers and the redefining of passenger services; costs of airport services – as a result of fewer flights and changed supplier contract terms; promotion and sales costs – as a result of reduced commission costs amidst lower sales levels; lower costs of the Miles&More programme; lower general and administrative costs, particularly those of intellectual services related to the restructuring process; and other employee reimbursements.

Compared to 2012, only maintenance costs saw a rise, as a result of performing works for other airline companies and the costs of anti-icing / de-icing during the exceptionally lengthy and cold winter.



Flight costs and air traffic services costs make up the highest share in the operating costs. In 2013, the share of flight costs in the overall operating costs remained on the same level, while the share of air traffic service costs rose by 1pp compared to 2012.

Structure of operating expenses 2013



The realized results justified the adoption of the Croatia Airlines Restructuring Plan by the Croatian Competition Agency in line with the Croatian and European regulations.

Once again, it should be noted that the Company generated a net profit in 2013 for the first time since 2007, i.e. when the country entered recession.

Assets, financing and investments

Statement of accounts

(000 HRK)	End 2013	End 2012	Index 2013/2012	End 2011	Index 2012/2011
ASSETS					
Non-current assets	779.865	787.159	99	1.243.133	63
Current assets	224.306	339.037	66	273.271	124
TOTAL ASSETS	**1.004.170**	**1.126.196**	**89**	**1.516.404**	**74**
LIABILITIES					
Capital and reserve	352.577	143.405	246	-145.425	-
Provisions	21.348	54.847	39	1.835	-
Non-current liabilities	80.011	238.345	34	1.043.043	23
Current liabilities	550.234	689.599	80	616.950	112
TOTAL LIABILITIES	**1.004.170**	**1.126.196**	**89**	**1.516.404**	**74**

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

The value of the fixed assets was 1% lower at the end of the year, compared to 2012, through the regular asset depreciation calculation, with minimum investments. The value of the current assets fell by 34% amidst lower receivables, supplies and financial assets. The overall assets level was 11% lower compared to 2012.

In 2013, the Company received two capital injections from the state in the amount of HRK 159.9 million, and a capital injection from Zagreb Airport in the amount of HRK 46.4 million through the debt into equity conversion. The Company reached a decision on simplified reduction of share capital in the amount of HRK 1.780,6 million, of which HRK 1.699,3 million refers to covering the losses carried forward from the previous years, and HRK 81.3 million is allocated for the Company’s reserves. Equity and reserves at the end of the year totalled HRK 352 million.

Given the changed employee redundancy scheme conditions, and a number of employees voluntary leaving the job, the provision amount was 61% lower compared to the end of 2012.

In addition to provisions for the restructuring costs, the amount of HRK 21.3 million also comprises provisions for labour disputes and damages.

The Company’s long-term liabilities were 66% lower, as a result of regular loan repayments; its short-term liabilities were 20% lower as a result of reduced loan liabilities and liabilities to suppliers.

At the end of 2013, Croatia Airlines’ loan liabilities with local banks totalled HRK 130.2 million, of which HRK 95.9 million were long-term (medium-term) liabilities, and HRK 34.4 million were short-term liabilities. The remainder of the principal of the long-term loan owed to the foreign consortium bank amounted to HRK 158.6 million.

Investments in 2013

Investments	2013	2012	2011
Investments in aircraft	48.683.973	55.067.252	26.389.987
Investments in spare parts,tools and equip.	12.511.074	9.150.369	9.495.456
Construction investments	366.632	0	5.500
Intangible assets	11.566.053	3.346.970	6.885.960
Other equipment	2.800.804	2.881.499	3.488.377
Total	**75.928.536**	**70.446.090**	**46.265.280**
Maintenence Reserves	**7.632.132**	**1.783.010**	**22.628.866**
Other financial investments	**0**	**0**	**144.390**

In 2013, the Company made only investments directly related to its core business and flights, aircraft maintenance and operation, and the level of the guaranteed safety.

Due to additional interest in aircraft servicing at Croatia Airlines Technical Centre, the Company management decided that a third hangar would be built at Zagreb Airport, by which the capacities of the Technical Centre would be increased by some 30%. The hangar is expected to be put into operation in the autumn of 2014.

Investments into aircraft totalled HRK 48.7 million and referred to Airbus engine overhauls, modifications on the Airbus fleet aircraft, and procurement of seats for A320 aircraft (CTJ and CTK) that will be installed in early 2014.

In addition to the above investments, C checks were carried out internally on five Airbus aircraft (CTL, CTJ, CTI, CTG, and CTF), and on a Q400 (CQC) aircraft.

Investments into spare parts totalled HRK 12.5 million.

Investments into intangible assets amounted to HRK 11.6 million, and mostly referred to investments into the software and into third persons' property (aircraft and software).

Investments into **other equipment** totalled HRK 2.8 million.

Maintenance reserves (investments related to future aircraft and engine maintenance works) amounted to some HRK 7.6 million.

Cash flow

Cash flow (000 HRK)	2013	2012	Index
Cash at the beginning of the period	**34.096**	**22.142**	**154**
Inflow from activities	1.489.211	1.593.623	93
Inflow from Government	194.101	84.836	229
Loans	2.000	22.313	9
Total inflow	**1.685.312**	**1.700.772**	**99**
Obligations	1.613.872	1.608.931	100
Investments	37.109	46.219	80
Loans	19.455	33.669	58
Total outflow	**1.670.436**	**1.688.819**	**99**
Net change for period	**14.876**	**11.953**	**124**
Cash at the end of the period	**48.971**	**34.096**	**144**

In 2013, both the cash inflow and outflow levels were lower compared to the same period in 2012, while the cash balance was somewhat higher at the end of the year.

Lower operating inflows compared to 2012 are a result of reduces sales, while lower operating outflows are a result of decreased investments and loan liabilities.

In June and December 2013, the Government of the Republic of Croatia financed, on the basis of realized guarantees, the repayment of six-month instalments of the fleet refinancing loan taken with Bayerische Landesbank. The covering of the loan instalments by the state is an integral part of the planned financial flow within the Croatia Airlines Restructuring Plan approved by the Croatian Competition Agency.

In October 2013, an Annex I to the Contract on a long-term foreign currency loan was entered into with PBZ, rescheduling the existing loan of EUR 11.7 million, thus changing the semi-annual instalment and the repayment deadline.

In December 2013, PBZ approved an HRK 10 million worth long-term foreign currency loan for the needs of financing the restructuring costs, of which HRK 2 million was put to use.

Review of the Plan realization

Traffic performance indicators compared to the Plan

description			Realization 2013	Plan 2013
flights (km)	DIST	000	16.223	16.522
departures	FLTS		25.179	26.161
annual change rate		%	-3,8	
block hours	BH		35.912	36.148
annual change rate		%	-0,7	
passengers carried	RPAX	000	1.797	1.881
annual change rate		%	-4,5	
freight&mail carried	CGO	T	3.245	3.659
annual change rate		%	-11,3	
passenger km flown	RPKM	mln	1.323	1.347
available seat - km	ASKM	mln	1.922	1.957
passenger load factor	**PLF**	**%**	**68,8**	**68,8**
tonne km flown	TKM	mln	135	137
available tonne-km	ATKM	mln	204	204
weight load factor	**WLF**	**%**	**65,9**	**67,2**

In 2013, the fleet block time in BH declined by 0.7% compared to the Plan, while the block time in flights saw a 3.8 fall. The number of transported passengers was 4.5% lower compared to the Plan.

Profit and loss account

(000 HRK)	2013	PLAN 2013	Index
Passenger traffic	1.319.087	1.396.008	94
Cargo traffic	17.364	20.649	84
Other revenues	239.036	187.210	128
OPERATING REVENEUS	**1.575.488**	**1.603.867**	**98**
Flight operations	565.489	584.613	97
Maintenance	156.601	148.774	105
Passenger services	86.503	94.548	91
Aircraft and traffic services	353.795	357.371	99
Promotion and sales	214.549	226.683	95
General and administ. expenses	84.240	80.556	105
Amortization	83.051	81.812	102
Other expenses	13.900	9.079	153
OPERATING EXPENSES	**1.558.128**	**1.583.436**	**98**
PROFIT/LOSS FROM OPERATIONS	**17.359**	**20.431**	**85**
Interest expense	-13.787	-16.017	86
Interest revenue	1.007	1.543	65
Foreign exchange differences, net	-1.447	0	-
Other financial expenses	-2.684	-2.453	109
Other financial revenues	272	560	49
NET FINANCIAL EXPENSES (excluding extraordinary items)	**-16.639**	**-16.367**	**102**
NET PROFIT/LOSS	**721**	**4.065**	**18**

Although the result is lower than expected, it should be emphasized that Croatia Airlines for the first time in five years generated a **positive net result of HRK 721,000.**

Lower operating revenues are a result of the 6% decline in passenger traffic compared to the planned figures.

The generated costs were 2% lower, while maintenance costs, general and administrative costs, amortization costs and other expenditures saw a rise. Maintenance costs rose due to higher costs of material, services provided to third persons and personnel costs resulting from the different savings dynamics compared to the Plan. Anti-icing and de-icing costs and aircraft cleaning costs brought an additional increase in the costs. Amortization costs rose due to higher engine amortization sums compared to those stipulated by the 2013 Plan. General and administrative costs rose due to increased personnel costs after adopting a different savings dynamics compared to the Plan, and due to an increase in other various cost categories. Other expenditure was higher as a result of greater fixed assets write-off than planned.

Statement of accounts

(000 HRK)	2013	Plan 2013	Index
ASSETS			
Non-current assets	779.865	732.988	106
Current assets	224.306	275.511	81
TOTAL ASSETS	**1.004.170**	**1.008.498**	**100**
LIABILITIES			
Capital and reserve	352.577	352.075	100
Provisions	21.348	13.291	161
Non-current liabilities	80.011	106.368	75
Current liabilities	550.234	536.764	103
TOTAL LIABILITIES	**1.004.170**	**1.008.498**	**100**

At the end of 2013, **the total value of assets, liabilities and capital** was on the level of the planned values.

The value of the fixed assets was 6% higher compared to the Plan, as a result of greater investments into tangible assets, while the value of the current assets declined as a result of a lower level of both accounts receivable and cash balance.

The value of the capital and reserves in 2013 was as planned. In 2013, the Company received a capital injection by the state and Zagreb Airports through the conversion of debt into equity and the reduction of the Company's share capital by covering the losses carried forward from the preceding years and increasing the Company's reserves.

The high level of provisions resulted primarily from a different dynamics of the restructuring process, while the reduced long-term liabilities resulted from the conversion of debts into equity through capital injections received by the state and Zagreb Airport. The Company’s short-term liabilities rose as a result of increased liabilities to suppliers and short-term loan liabilities.

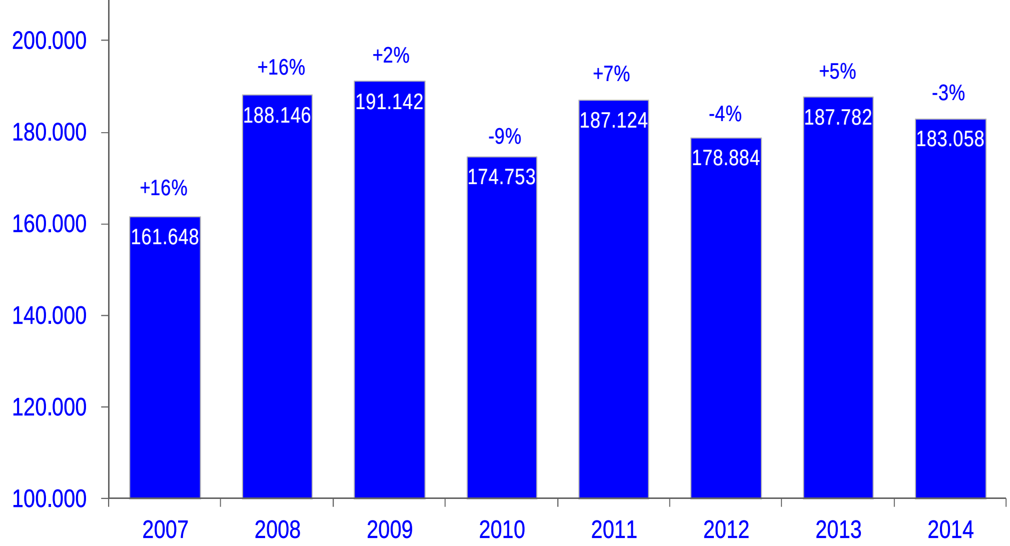
Current operations – Traffic performance I-II 2014

description			I-II 2014	I-II 2013
flights (km)	DIST	000	1.931	2.027
departures	FLTS		3.247	3.351
annual change rate		%	-3,1	1,5
block hours	BH		4.451	4.691
annual change rate		%	-5,1	2,3
passengers carried	RPAX	000	183	188
annual change rate		%	-2,5	5,0
freight&mail carried	CGO	T	439	523
annual change rate		%	-16,1	16,8
passenger km flown	RPKM	mln	121	124
available seat - km	ASKM	mln	210	223
passenger load factor	**PLF**	**%**	**57,8**	**55,5**
tonne km flown	TKM	mln	12	13
available tonne-km	ATKM	mln	23	23
weight load factor	**WLF**	**%**	**55,0**	**54,4**

The number of passengers fell by 2.5% in the first two months of 2014 over the same period in 2013.

The number of passengers in the domestic scheduled traffic fell by 5% compared to the same period in 2013, while the international scheduled passenger transport saw a 4% decline. The passenger load factor (PLF) was 57.8% in the first two months of 2014, or 2.3pp higher compared to the same period in 2013.

Passengers (I-II 2007-2014) - 4.724 compared to 2013



President & CEO
Krešimir Kučko

Board Member & COO
Zlatko Širac

CROATIA AIRLINES D.D.

Consolidated and Separate Financial Statements
for the year ended 31 December 2013
together with Independent Auditor's Report

Content

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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 financial statements of the Company for the year 2013 are prepared in accordance with the Accounting Act (Official gazette No 109/07, 54/13) 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 (Official gazette No 38/08, 12/09, 130/10), to give a truthful and objective review 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 Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the financial statements of the Company.

In preparing these financial statements, the responsibilities of the Board include ensuring that:

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

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and the results of operations of the Company and their compliance with the Accounting Law (Official gazette No 109/07, 54/13) and International financial reporting standards ("IFRS") effective in European Union. The Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Board:

Zlatko Širac	Krešimir Kučko
Board Member and COO	President and CEO

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

8 April 2014

BDO

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INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying annual financial consolidated financial statements of the company Croatia Airlines d.d., Buzin, Bani 75b (hereinafter. "the Group") and the separate financial statements of the company Croatia Airlines d.d., Buzin, Bani 75b (hereinafter: "the Company") for the year ended 31 December 2013,which comprise the consolidated and separate balance sheet/statement of financial position as of that date; the consolidated and separate comprehensive income statement; consolidated and separate statement of changes in equity and the cash flows statement for the year then ended; and the accompanying Notes to the consolidated and separate financial statements which concisely set out the principal accounting policies and other disclosures.

Responsibility of the Company's Management

2. The Company's Management is responsible for the preparation and fair presentation of the enclosed financial statements according to the International financial reporting standards effective in the European Union and also those internal controls which are determined by the Company's Management as necessary to enable the preparation of the financial statements free of material misstatements whether due to fraud or error.

Responsibility of the Auditor

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

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

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

Opinion

4. In our opinion, the enclosed consolidated and separate financial statements, in all significant determinations, truthfully and fairly represent the consolidated financial position of the Group and the financial position of the company Croatia Airlines d.d. at 31 December 2013, and the consolidated financial efficiency and the consolidated cash flows of the Group as well as the financial efficiency and the cash flows of the Company for 2013 according to the Accountancy Act and the International Financial Reporting Standards effective in European Union.

Emphasize of matter

5. Without modification of our opinion, stated in paragraph 4 above, we draw special attention to note 3 /u/ to the consolidated and separate financial statements where is explained the procedure of the implementation of the Restructuring program which covers a period of 5 years (2011-2015). In this final form the Restructuring program is accepted at 27 June 2013 by the Agency for protection of market competition. The former part of the restructuring together with smaller modifications is performed according to Plan.

Other legal and regulatory requirements

6. The Company's Management is responsible for the preparation of the annual consolidated and separate financial statements of the Company for the year ended 31 December 2013 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette No 38/08,12/09,130/10) („Standard annual financial statements"). The financial information set out in the standard annual consolidated and separate financial statements of the Company are in accordance with the information stated in the annual consolidated and separate financial statements of the Company shown on pages 4 to 71 which are the subject of our opinion, as set out in the section Opinion, above.

Opinion on adjustment to Annual statement

7. The Company's Management is responsible for the preparation of the Annual statement of the Company. As a result of the provisions of article 17 of the Accountancy act, we are obliged to express an opinion on adjustment of the Annual statement of the Company with the annual consolidated and separate financial statements of the Company. In our opinion, on the basis of the performed audit of the annual consolidated and separate financial statements of the Company and the comparison with the Annual statement of the Company for the year which ended 31 December 2013, the financial information set out in the Annual statement of the Company, approved for their issuance by the Company's Management, are in accordance with the financial information set out in the annual consolidated and separate financial statements of the Company set out on pages 4 to 71 which were the object of our opinion, as set out in section Opinion, above.

In Zagreb, 8 March 2014

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

Ines Rožić, Certified auditor

Zdenko Balen, Member of the Management Board

	Notes	2013 HRK '000	2013 EUR '000	2012 HRK '000	2012 EUR '000
REVENUE					
Passenger traffic	4	1,319,087	174,166	1,428,940	190,070
Cargo traffic		17,364	2,293	20,549	2,733
Other sales revenue	5	97,494	12,874	97,393	12,955
Total revenue		**1,433,945**	**189,333**	**1,546,882**	**205,758**
Other income and gains	6	149,084	19,683	143.208	19,049
EXPENSES					
Flight operations		(565,489)	(74,665)	(618,140)	(82,222)
Maintenance		(156,601)	(20,677)	(154,936)	(20,609)
Passenger service		(86,503)	(11,422)	(113,424)	(15,087)
Aircraft and traffic services		(353,795)	(46,713)	(374,346)	(49,794)
Promotion and sales		(211,935)	(27,983)	(231,392)	(30,779)
General and administrative expenses		(93,673)	(12,368)	(104,236)	(13,865)
Depreciation and amortization	11,12	(83,209)	(10,987)	(130,346)	(17,338)
Other operating expenses		(11,033)	(1,457)	(21,651)	(2,878)
Total expenses		**(1,562,238)**	**(206,272)**	**(1,748,471)**	**(232,572)**
Profit / (loss) from operations		**20,791**	**2,744**	**(58,381)**	**(7,765)**
FINANCIAL INCOME/ EXPENSES					
Financial income	8	71,918	9,495	92,544	12,310
Financial expense	9	(88,247)	(11,651)	(182,027)	(24,213)
Net financial expense		**(16,329)**	**(2,156)**	**(89,483)**	**(11,903)**
Impairment of assets	12	(2,867)	(379)	(298,934)	(39,763)
Restructuring costs		-	-	(40,858)	(5,435)
Profit / (loss) before tax		**1,595**	**209**	**(487,656)**	**(64,866)**
Income tax expense	10	(154)	(20)	(188)	(25)
Net profit / (loss) for the year		**1,441**	**189**	**(487,844)**	**(64,891)**
Basic and diluted profit / (loss) per share HRK/EUR	25	**0.10**	**0.01**	**(52.53)**	**(6.99)**

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

	Notes	2013		2012	
		HRK '000	EUR '000	HRK '000	EUR '000
Net profit / (loss) for the year		**1,441**	**189**	**(487,844)**	**(64,891)**
Hedging reserves		**(7,464)**	**(977)**	**(9,419)**	**(1,248)**
Revaluation reserves		155	20	(76,246)	(10,105)
Foreign exchange differences		-	(249)	-	5
Total other comprehensive (loss)		**(7,309)**	**(1,206)**	**(85,665)**	**(11,348)**
Income tax expense		0	0	0	0
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE YEAR		**(5,868)**	**(1,017)**	**(573,509)**	**(76,239)**
Basic and diluted (loss) per share HRK / EUR		**(0,42)**	**(0,06)**	**(61,76)**	**(8,21)**

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

	Notes	2013		2012	
		HRK '000	EUR '000	HRK '000	EUR '000
REVENUE					
Passenger traffic	4	1,319,087	174,166	1,428,940	190,070
Cargo traffic		17,364	2,293	20,549	2,733
Other sales revenue	5	87,475	11,550	87,157	11,593
Total revenue		**1,423,926**	**188,009**	**1,536,646**	**204,396**
Other income and gains	6	148,947	19,665	143,119	19,037
EXPENSES					
Flight operations		(565,489)	(74,665)	(618,140)	(82,222)
Maintenance		(156,601)	(20,677)	(154,936)	(20,609)
Passenger service		(86,503)	(11,422)	(113,424)	(15,087)
Aircraft and traffic services		(353,795)	(46,713)	(374,346)	(49,794)
Promotion and sales		(211,935)	(27,983)	(231,392)	(30,779)
General and administrative expenses		(84,240)	(11,123)	(101,486)	(13,497)
Depreciation and amortization	11,12	(83,052)	(10,966)	(130,215)	(17,321)
Other operating expenses		(11,033)	(1,457)	(14,681)	(1,953)
Total expenses		**(1,552,648)**	**(205,006)**	**(1,738,620)**	**(231,262)**
Profit / (loss) from operations		**20,225**	**2,668**	**(58,855)**	**(7,829)**
FINANCIAL INCOME/EXPENSE					
Financial income	8	71,434	9,432	92,421	12,294
Financial expense	9	(88,072)	(11,628)	(181,941)	(24,201)
Net financial expense		**(16,638)**	**(2,196)**	**(89,520)**	**(11,907)**
Impairment of long-term assets	12	(2,867)	(379)	(298,934)	(39,763)
Restructuring costs		-	-	(40,858)	(5,435)
Profit / (loss) before tax		**720**	**93**	**(488,167)**	**(64,934)**
Income tax expense	10	-	-	-	-
Net profit / (loss) for the year		**720**	**93**	**(488,167)**	**(64,934)**
Basic and diluted profit / (loss) per share (HRK/EUR)	25	**0.05**	**0.01**	**(52.57)**	**(6.99)**

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

	Notes	2013 HRK '000	2013 EUR '000	2012 HRK '000	2012 EUR '000
Net profit / (loss) for the year		**720**	**93**	**(488,167)**	**(64,934)**
Hedging reserves		(7,465)	(975)	(9,419)	(1,246)
Revaluation reserves		155	20	(76,246)	(10,105)
Foreign exchange differences		-	(258)	-	-
Total other comprehensive (loss)		**(7,310)**	**(1,213)**	**(85,665)**	**(11,351)**
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR		**(6,590)**	**(1,120)**	**(573,832)**	**(76,285)**
Basic and diluted (loss) per share		**(0,47)**	**(0,06)**	**(61,79)**	**(8,22)**

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

	Notes	2013 HRK '000	2013 EUR '000	2012 HRK '000	2012 EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	17,699	2,317	16,585	2,198
Property, plant and equipment	12	672,536	88,054	687,082	91,057
Investments in associated company	13	5,273	735	4,919	678
Deposits	14	6,140	803	6,481	858
Available for sale investments	15	1,858	249	1,703	229
Non-current receivables	16	77,537	10,152	71,282	9,446
		781,043	**102,310**	**788,052**	**104,466**
Current assets					
Inventories	17	47,626	6,236	49,142	6,513
Accounts receivable	18	67,758	8,872	90,971	12,056
Other receivables	19	34,703	4,544	117,125	15,522
Other financial assets	20	2,696	353	3,517	466
Prepaid expenses	22	25,101	3,287	47,207	6,256
Cash and cash equivalents	21	52,182	6,831	37,115	4,920
		230,066	**30,123**	**345,077**	**45,733**
TOTAL ASSETS		**1,011,109**	**132,433**	**1,133,129**	**150,199**
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	277,890	34,037	1,852,213	245,501
Capital reserves	24	83,243	10,807	2,700	373
Accumulated losses and hedging reserves	24	(5,965)	(761)	(1,220,081)	(164,195)
Net profit / (loss) for the year		1,441	189	(487,844)	(64,891)
Foreign exchange differences		-	2,469	-	2,720
		356,609	**46,741**	**146,988**	**19,508**
Provisions	**26**	**21,348**	**2,795**	**54,847**	**7,269**
Non-current liabilities					
Long-term loans	27	79,904	10,462	238,209	31,569
Long-term leases	28	33	4	53	7
Long-term liabilities		73	10	-	-
		80,010	**10,476**	**238,262**	**31,576**
Current liabilities					
Short-term loans	29	35,034	4,587	49,854	6,606
Short-term portion of long-term loans	27	166,266	21,769	170,299	22,569
Short-term portion of long-term obligations under finance leases	28	20	3	18	2
Accounts payable	30	165,571	21,678	284,830	37,748
Other current liabilities	31	167,933	21,987	165,036	21,872
Accrued expenses and deferred income	32	18,318	2,397	22,995	3,049
		553,142	**72,421**	**693,032**	**91,846**
TOTAL EQUITY AND LIABILITIES		**1,011,109**	**132,433**	**1,133,129**	**150,199**

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

	Notes	2013 HRK '000	2013 EUR '000	2012 HRK '000	2012 EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	16,946	2,219	15,772	2,090
Property, plant and equipment	12	672,342	88,029	686,853	91,027
Investments in subsidiaries and associated companies	13	5,110	682	5,110	682
Deposits	14	6,100	798	6,441	853
Available for sale investments	15	1,858	249	1,703	229
Non-current receivables	16	77,512	10,149	71,282	9,446
		779,868	**102,126**	**787,161**	**104,327**
Current assets					
Inventories	17	47,626	6,236	49,071	6,504
Accounts receivable	18	65,290	8,549	87,970	11,659
Other receivables	19	34,639	4,535	117,360	15,554
Other financial assets	20	2,696	353	3,374	447
Prepaid expenses	22	25,079	3,284	47,164	6,250
Cash and cash equivalents	21	48,972	6,411	34,096	4,519
		224,302	**29,368**	**339,035**	**44,933**
TOTAL ASSETS		**1,004,170**	**131,494**	**1,126,196**	**149,260**
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	277,880	34,037	1,852,203	245,501
Capital reserves	24	81,442	10,564	899	130
Accumulated losses and hedging reserves	24	(7,465)	(975)	(1,221,530)	(164,402)
Net profit / (loss) for the year		720	93	(488,167)	(64,934)
Foreign exchange differences		-	2,460	-	2,718
		352,577	**46,179**	**143,405**	**19,013**
Provisions	26	**21,348**	**2,795**	**54,847**	**7,269**
Non-current liabilities					
Long-term loans	27	79,904	10,462	238,209	31,569
Obligations under finance leases	28	33	4	53	7
Other long-term liabilities		73	10	-	-
		80,010	**10,476**	**238,262**	**31,576**
Current liabilities					
Short-term loans	29	34,369	4,500	48,855	6,475
Short-term portion of long-term loans	27	166,266	21,769	170,299	22,569
Short-term portion of long-term finance leases	28	20	3	18	2
Accounts payables	30	163,821	21,449	283,321	37,548
Other current liabilities	31	167,563	21,939	164,704	21,828
Accrued expenses and deferred income	32	18,196	2,384	22,485	2,980
		550,235	**72,044**	**689,682**	**91,402**
TOTAL EQUITY AND LIABILITIES		**1,004,170**	**131,494**	**1,126,196**	**149,260**

Consolidated Croatia Airlines statement of changes in equity

For the year ended 31 December 2013

	Issued capital		Capital Reserves		Accumulated translation	Hedging reserves		Accumulated losses		Result for the year		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2012	**989,986**	**131,150**	**90,454**	**11,830**	**2,713**	**(12,303)**	**(1,634)**	(1,096,611)	**(147,601)**	**(113,127)**	**(15,217)**	**(141,601)**	**(18,759)**
Transfer (from) / to	-	-	362	48	-	-	-	(114,053)	(15,345)	113,127	15,217	(564)	(80)
Foreign exchange differences	-	-	-	173	7	2,886	385	-	-	-	-	2,886	565
Revaluation of aircraft and engines (Note 3)	-	-	(88,116)	(11,678)	-	-	-	-	-	-	-	(88,116)	(11,678)
Recapitalization	862,227	114,351	-	-	-	-	-	-	-	-	-	862,227	114,351
Net (loss)	-	-	-	-	-	-	-	-	-	(487,844)	(64,891)	(487,844)	(64,891)
Balance at 1 January 2013	**1,852,213**	**245,501**	**2,700**	**373**	**2,720**	**(9,417)**	**(1,249)**	**(1,210,664)**	**(162,946)**	**(487,844)**	**(64,891)**	**146,988**	**19,508**
Transfer (from) / to	-	-	-	-	-	-	-	(488,116)	(64,927)	487,844	64,891	(272)	(36)
Foreign exchange differences	-	-	-	-	(251)	1,954	271	-	5,399	-	-	1,954	5,419
Increase in shareholder's equity	(1,780,636)	(238,602)	-	-	-	-	-	1,700,278	222,691	-	-	(80,358)	(15,911)
Increase / decrease of capital reserves	-	-	80,513	10,430	-	-	-	-	-	-	-	80,513	10,430
Recapitalization	206,313	27,138	-	-	-	-	-	-	-	-	-	206,313	27,138
Own shares	-	-	30	4	-	-	-	-	-	-	-	30	4
Net profit	-	-	-	-	-	-	-	-	-	1,441	189	1,441	189
Balance at 31 December 2013	**277,890**	**34,037**	**83,243**	**10,807**	**2,469**	**(7,463)**	**(978)**	**1,498**	**217**	**1,441**	**189**	**356,609**	**46,741**

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

	Issued capital		Capital Reserves		Accumulated translation	Hedging reserves		Accumulated losses		Result for the year		Total	
	HRK ‘000	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**
Balance at 1 January 2012	**989,975**	**131,150**	**89,015**	**11,634**	**2,718**	**(12,303)**	**(1,634)**	**(1,098,038)**	**(147,811)**	**(114,073)**	**(15,345)**	**(145,424)**	**(19,288)**
Transfer (from) / to	-	-	-	-	-	-	-	(114,073)	(15,345)	114,073	15,345	-	-
Foreign exchange differences	-	-	-	174	-	2,884	388	-	-	-	-	2,884	562
Revaluation of aircraft and engines (Note 3)	-	-	(88,116)	(11,678)	-	-	-	-	-	-	-	(88,116)	(11,678)
Recapitalization	862,228	114,351	-	-	-	-	-	-	-	-	-	862,228	114,351
Net (loss)	-	-	-	-	-	-	-	-	-	(488,167)	(64,934)	(488,167)	(64,934)
Balance at 31 December 2012	**1,852,203**	**245,501**	**899**	**130**	**2,718**	**(9,419)**	**(1,246)**	**(1,212,111)**	**(163,156)**	**(488,167)**	**(64,934)**	**143,405**	**19,013**
Transfer (from) / to	-	-	-	-	-	-	-	(488,167)	(64,934)	488,167	64,934	-	-
Foreign exchange differences	-	-	-	-	(258)	1,954	271	-	5,399	-	-	1,954	5,412
Increase in shareholder’s equity	(1,780,636)	(238,602)	-	-	-	-	-	1,700,278	222,691	-	-	(80,358)	(15,911)
Increase / decrease of capital reserves	-	-	80,513	10,430	-	-	-	-	-	-	-	80,513	10,430
Recapitalization	206,313	27,138	-	-	-	-	-	-	-	-	-	206,313	27,138
Own shares	-	-	30	4	-	-	-	-	-	-	-	30	4
Net profit	-	-	-	-	-	-	-	-	-	720	93	720	93
Balance at 31 December 2013	**277,880**	**34,037**	**81,442**	**10,564**	**2,460**	**(7,465)**	**(975)**	**-**	**-**	**720**	**93**	**352,577**	**46,179**

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

	2013		2012	
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net loss for the year	1,441	189	(487,844)	(64,890)
Adjustments for:				
Depreciation	74,904	9,891	123,368	16,410
Amortization	8,306	1,096	6,980	928
(Loss) / gain from the equity method	(355)	(57)	132	17
Net present value of disposed and sold tangible and intangible assets; impairment of assets	5,310	695	292,220	38,728
Exchange differences, net	4,314	508	1,222	419
Increase in deferred foreign exchange gains	1,954	271	2,884	385
(Increase) / Decrease in non-current receivables	(6,069)	(670)	12,032	1,619
Decrease / (Increase) in accounts receivable and other receivables	105,633	14,163	(35,441)	(4,651)
Decrease / (Increase) in prepaid expenses	22,107	2,970	(13,610)	(1,795)
(Decrease) / Increase in inventories	1,517	277	(5,311)	(692)
Increase in non-current liabilities	159,977	21,027	226,984	30,012
(Decrease) / Increase in accounts payable and other current liabilities	(69,780)	(9,810)	45,586	5,933
(Decrease) / Increase in provisions	(33,499)	(4,474)	53,013	7,025
(Decrease) / Increase in accrued expenses and deferred income	(4,679)	(649)	16,235	2,150
Payments for income tax	(171)	(22)	(408)	(54)
Gains from dividends	-	-	-	-
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	**270,910**	**35,405**	**238,040**	**31,544**
Investing activities				
Payments for purchase of intangible assets	(11,583)	(1,517)	(3,045)	(404)
Payments for purchase of tangible assets	(64,790)	(8,483)	(63,999)	(8,482)
Proceeds from disposal of tangible assets	1,287	168	243	32
NET CASH (USED IN) INVESTING ACTIVITIES	**(75,086)**	**(9,832)**	**(66,801)**	**(8,854)**
Financial activities				
Other changes in equity	(88)	(12)	(564)	(79)
Decrease of current financial assets	822	113	188	26
Proceeds from short-term borrowings	33,800	4,425	24,006	3,181
Repayment of short-term borrowings	(48,700)	(6,376)	(15,818)	(2,096)
Proceeds from long-term borrowings	2,000	262	-	-
Repayment of long-term borrowings	(168,776)	(22,097)	(167,335)	(22,176)
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	**(180,942)**	**(23,685)**	**(159,523)**	**(21,144)**
INCREASE IN CASH AND CASH EQUIVALENTS	**14,882**	**1,888**	**11,716**	**1,546**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**37,115**	**4,920**	**25,355**	**3,367**
Exchange differences for the cash and cash equivalents from the beginning of the year	185	23	44	7
CASH AND CASH EQUIVALENTS AT YEAR END	**52,182**	**6,831**	**37,115**	**4,920**

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

	2013 HRK '000	2013 EUR '000	2012 HRK '000	2012 EUR '000
Operating activities				
Net profit / loss for the year	720	93	(488,167)	(64,934)
Adjustments for:				
Depreciation	74,824	9,880	123,292	16,400
Amortization	8,228	1,086	6,923	921
Net present value of disposed and sold tangible and intangible assets; impairment of assets	5,311	695	292,220	38,728
Exchange differences, net	4,314	505	1,223	416
Increase in deferred foreign exchange differences	1,954	271	2,884	385
(Increase) / Decrease in non-current receivables	(6,044)	(667)	12,032	1,619
Decrease / (Increase) in accounts receivable and other receivables	104,751	14,043	(35,550)	(4,666)
Decrease / (Increase) in prepaid expenses	22,084	2,967	(13,623)	(1,796)
Decrease / (Increase) in inventories	1,445	268	(5,239)	(683)
Increase in non-current liabilities	159,977	21,027	226,984	30,012
(Decrease) / Increase in accounts payable and other current liabilities	(70,233)	(9,866)	45,687	5,947
(Decrease) / Increase in provisions	(33,499)	(4,474)	53,012	7,025
Increase / (Decrease) in accrued expenses and deferred income	(4,288)	(597)	16,346	2,165
Payments for income tax	-	-	-	-
Gains from dividends	648	85	348	46
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	**270,192**	**35,316**	**238,372**	**31,585**
Investing activities				
Payments for purchase of intangible assets	(11,566)	(1,514)	(2,922)	(387)
Payments for purchase of tangible assets	(64,745)	(8,477)	(63,930)	(8,472)
Proceeds from disposal of tangible assets	1,287	169	243	32
NET CASH (USED IN) INVESTING ACTIVITIES	**(75,024)**	**(9,822)**	**(66,609)**	**(8,827)**
Financial activities				
Other changes in equity	185	24	-	-
Decrease of current financial assets	679	94	252	34
Proceeds from short-term borrowings	33,800	4,425	23,006	3,049
Repayment of short-term borrowings	(48,700)	(6,376)	(15,776)	(2,091)
Proceeds from long-term borrowings	2,000	262	-	-
Repayment of long-term borrowings	(168,442)	(22,054)	(167,335)	(22,176)
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	**(180,478)**	**(23,625)**	**(159,853)**	**(21,184)**
INCREASE IN CASH AND CASH EQUIVALENTS	**14,690**	**1,869**	**11,910**	**1,574**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**34,096**	**4,519**	**22,143**	**2,940**
Exchange differences for the cash and cash equivalents from the beginning of the year	186	23	43	5
CASH AND CASH EQUIVALENTS AT YEAR END	**48,972**	**6,411**	**34,096**	**4,519**

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

1. GENERAL

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

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

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

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

1. GENERAL (CONTINUED)

Croatia Airlines d.d. General Assembly

Central State Administrative Office for State Property Management (CSAOSPM) for Republic of Croatia	96.98%
Zagreb International Airport	1.72%
Central State Administrative Office for State Property Management (CSAOSPM) for State Agency for Deposit Insurance and Bank Rehabilitation	0.77%
Others	0.53%
Total	**100.00 %**

Croatia Airlines d.d. Supervisory Board

Members from 13 July 2012		Members up to 12 July 2012	
Siniša Petrović	President	Zoran Šangut	President
Darko Prebežac	Vice President	Niko Raič	Vice President
Stanislav Pavlin	Member	Ratimir Andrijanić	Member
Tihomir Domazet	Member	Marija Čačić	Member
Izidor Alfirević	Member	Božo Josup	Member
Goran Becker	Member	Josip Horvat	Member
Berislav Matijević	Member	Ines Baniček-Vuk	Member
Marija Čačić	Member	Tonći Peović	Member
Božo Jusup	Member	Ivica Poljičak	Member
Tonči Peović	Member	Mislav Grgić	Member
Ratimir Andrijanić	Member	Krste Čveljo	Member
Josip Horvat	Member	Gordana Tomičić	Member
Ines Baniček-Vuk	Member	Željan Simeonov	Member

Croatia Airlines d.d. Management

Krešimir Kučko	President and CEO (from 1 September 2012)
Zlatko Širac	Board Member and COO
Srećko Šimunović	President and CEO (up to 31 August 2012)

Subsidiaries' Management

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

2. ADOPTION OF NEW AND REVISED STANDARDS

Statement of compliance and basis of the presentation

Financial statements of the Company for 2013 are prepared in accordance with the Accounting Act (Official gazette No 109/07, 54/13) and International financial reporting standards ("IFRS") effective in European Union and in accordance with the Regulations on the structure and content of the annual financial statements (Official gazette No 38/08, 12/09, 130/10) in order to provide true and fair presentation of the financial position, the result of operations, the changes in equity and cash flows of the Company.

IFRS published by the Council for standards of financial reporting appointed by the Croatian Government (Official gazette 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12, 45/13, 69/13), which were in force until the Croatian accession to the European Union, are in accordance with the IFRS established by the European Commission and published in the Official Journal of the European Union.

The financial statements have been prepared by applying the fundamental accounting assumption of accrual basis whose effects are recognized when incurred and included in the financial statements for the period to which they relate, and the application of basic accounting assumption of going concern.
Financial statements have been prepared on the historical cost basis except for certain financial instruments stated at fair value.

The adoption of new and revised International Financial Reporting Standards (IFRS)

The following amendments to existing standards issued by the International Accounting Standard Board and interpretations issued by the International Financial Reporting Interpretations Committee and adopted in the Republic of Croatia, are effective in the current period:

- IFRS 13 “Fair Value Measurement”, issued in May 2011 (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 1 “First-time Adoption of IFRS” – issued in March 2012, dealing in calculation of government loans at interest rates lower than the market interest rates during the transition to IFRS (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 “Financial instruments: Disclosures” – issued in December 2011, which prescribes disclosure of extended information on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 1 “Presentation of Financial Statements” – changes in the method of displaying positions of comprehensive income (effective for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 19 “Employee benefits” – update of procedures for calculating benefits after the termination of employment (effective for annual periods beginning on or after 1 January 2013)
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013)
- Amendments to various standards and interpretations “Annual Improvements 2009-2011 Cycle”, issued in May 2012, which relate to the issued amendments from 2009 to 2011 and primarily affect five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) with consequential amendments to numerous other standards (effective for annual periods beginning on or after 1 January 2013)

2. ADOPTION OF NEW AND REVISED STANDARDS (continued)

Adoption of IFRS 13 "Fair Value Measurement" led to the publication of more exhausting information in the financial statements. International Financial Reporting Standard 13 - Fair Value Measurement ("IFRS 13") improves consistency and reduces complexity because it accurately defines fair value and is a single source of guidance for fair value measurement, which are currently located in different standards. With certain limited exceptions, IFRS 13 is used whenever they are measured at fair value or fair value disclosure required or permitted in accordance with other IFRSs. Standard allows entities to use the average cost or pricing conventions used by other market participants. Approval of these amendments to standards and interpretations has not led to significant changes in accounting policies.

Issued and not yet adopted standards and interpretations

At the date of issuing of these financial statements, following standards, revisions and interpretations were issued but not yet effective:

- IFRS 10 “Consolidated financial statements”, issued in May 2011 and amended in 2012, replaces the previous version of IAS 27 (2008) “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2014)
- IFRS 11 “Joint Arrangements”, issued in May 2011 and amended in 2012, replaces IAS 31 “Interests in Joint Ventures” (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 “Disclosure of interests in Other Entities”, issued in May 2011 and amended in 2012 (effective for annual periods beginning on or after 1 January 2014)
- IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2015)
- Amendments to IFRS 9 “Financial instruments – classification and measurement” - issued in December 2011, which prescribes disclosures on first application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015)
- Amendments to IFRS 1 “First-time Adoption of IFRS” – issued in March 2012, which prescribes an exemption of requirements for reclassification of comparative information as required by IFRS 9 (effective for application simultaneously as IFRS 9)
- Amendments to IFRS 10 “Consolidated financial statements”, issued in October 2012, which allows an exemption from preparing consolidated financial statements for entities that meet the definition of investment entities (effective for annual periods beginning on or after 1 January 2014)
- IAS 27 “Consolidated and Separate Financial Statements” (amended in 2011), consolidation requirements previously described in IAS 27 (2008) have been revised and are now contained in IFRS 10 “Consolidated financial statements”, (in effect - IAS 27 (amended in 2011), effective for annual periods beginning on or after 1 January 2014)
- IAS 28 “Investment in Associates and Joint Ventures”, (amended in 2011). This version replaces IAS 28 (2003) “Investment in Associates” (in effect - IAS 28 (amended in 2011), effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 32 “Financial instruments - Presentation” – issued in December 2011, which prescribes disclosure of extended information on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 36 “Impairment of assets”, issued in May 2013, clarifying doubts arisen from the IFRS 13 coming into effect, which relate to disclosure of information on recoverable amount for non-financial assets (effective for annual periods beginning on or after 1 January 2014)

3. ADOPTION OF NEW AND REVISED STANDARDS (continued)

- Amendments to IAS 39 “Financial instruments – recognition and measurement”, issued in June 2013, which prescribes possibilities for recognition and measurements of derivatives as part of hedge accounting (effective for annual periods beginning on or after 1 January 2014)

- IFRIC 21 “Levies”, published in May 2013. (effective for annual periods beginning on or after 1 January 2014)

Management of the Company anticipates that the application of other standards, amendments and interpretations will not have materially significant impact on financial statements in the period of their initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- Yearly average exchange rate has been used for all items in the statement of comprehensive income.

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

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

EUR / HRK	2013	2012
At 31 December	7.637643	7.545624
Average	7.573731	7.517960

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

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

The principal accounting policies adopted are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Passenger revenue

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

b) Interest income

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

c) Leases

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

d) The Group as lessor

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

e) The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lesser is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of

interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Foreign currencies

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

g) Borrowing costs

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

h) Government grants

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Taxation

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

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

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

j) Tangible fixed assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Tangible fixed assets (continued)

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

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

The Company has engaged an independent professional appraiser society which at 30 November 2012 performed expert and independent valuation of aircraft using the static methods of estimation of market value. The result of valuation, i.e., an impairment loss of aircraft was charged to the revaluation reserve in the amount of revaluation surplus for that asset. Loss over the amount posted to the revaluation reserve was charged to the profit and loss account. The Management Board of the Company has estimated that during the year 2013; there were no significant differences between the market and the book value, so the new valuation of the aircraft was not recorded.

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

Airbus aircraft are depreciated on a straight-line basis over the period of 20 years. 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, ATR 42 and Dash spare parts are stated at cost and depreciated over the estimated useful life of the aircraft to which they refer (20 years). Ground Service Equipment (“GSE”) and tools are stated at cost and depreciated over 16,6 years.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Intangible fixed assets

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

l) Investments in subsidiaries and associated companies

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

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

m) Inventories

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

n) Financial instruments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Financial instruments (continued)

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

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

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

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

o) Cash and cash equivalents

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

p) Available for sale investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss or loans and receivables. Financial instruments included in available for sale financial assets are initially recognized at cost and subsequently stated at fair value based on the quoted prices, or amounts based on hierarchy specified in IFRS13. Gains and losses arising from changes in the fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses. If estimated fair value is not reliable or its value significantly fluctuates, assets are recognized at cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Loans and receivables

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

r) Financial liabilities

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

s) Hedging reserves

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

Changes in the fair value of derivatives that are designated and qualify as cash flows hedges and that are highly effective, are recognised in equity. Amounts deferred in equity are transferred to the statement of 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 income.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Provisions and contingencies

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

u) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.
In the process of applying the accounting policies, which are described in Note 3 (a-u), the Company has made the following judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year or that have a significant effect on the amounts recognized in the financial statements.

Financial Crisis and Economic Recession

The management of Croatia Airlines d.d. is monitoring the potential impact of the financial crisis and the risk of economic recession on Croatia Airlines d.d. business activities. The revenues of the Company are generated primarily from passenger traffic. The level of passenger traffic for future periods cannot be reliably estimated in the current economic environment and therefore the extent of utilization of aircrafts is uncertain. During 2012 and 2013 the Company obtained support from the government in the form of subsidies under the Government Grants Act (Official gazette No. 140/05). Under the Act the Company will continue to receive subsidies and support from the State in meeting its financial and operational plans.

Financial assets and liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Revaluation of property, plant and equipment

Aircraft are recognised in revaluated amounts in compliance with the revaluation accounting model pursuant to IAS 16 applied for the first time as of 31 December 2001. On 30th November 2012, the Company determined the need for new reassessment, conducted as specified in Note 3 under paragraph j) Tangible Assets. Revaluation of aircraft has been performed by an independent appraiser using static methods of estimation of market value.

Impairment of property, plant and equipment

The Company has assumed that there is no significant impairment of property, plant and equipment on the basis of an evaluation of the current use and expected future revenues. The exceptions are the aircrafts for which the Management Board, based on market trends and a sharp fall in prices caused by the consequences of the global recession, has assessed the need to make the determination of their fair value, and to carry out the value of assets in the Company's books.

During the year the Company received direct financial support from the Government of HRK 94,741 thousand, EUR 12,509 thousand (2012 HRK 113,514 thousand, EUR 15,099 thousand, Note 6).

In 2011, Croatia Airlines started with the restructuring process that comprises strategic, financial and operational restructuring. The restructuring of the Company was necessary to prepare it, in line with the European regulations and its own practices, for long-term sustainable operations.

The key goals of the Croatia Airlines Restructuring Plan have been set in line with the defined strategic, financial and operational restructuring areas; the monitoring, implementation and control of the realization of each of the set goals represents the key presumption for the successful realization of the Plan.

The Restructuring Plan covers a 5-year period (2011-2015), with an overview of additional two years as an assessment of the restructuring results upon its completion. The final version of the Restructuring Plan was approved by the Croatian Competition Agency on 27 June 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

4. PASSENGER TRAFFIC

	2013		2012	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Scheduled services	1,240,812	163,831	1,352,143	179,855
Charter services	78,275	10,335	76,797	10,215
	1,319,087	**174,166**	**1,428,940**	**190,070**

Revenue by geographical segment:

	2013		2012	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Croatia	423,427	55,907	442,971	58,922
Germany	141,142	18,636	155,754	20,718
USA	137,185	18,113	154,326	20,527
Other countries	617,333	81,510	675,889	89,903
	1,319,087	**174,166**	**1,428,940**	**190,070**

5. OTHER SALES REVENUE

	2013 Croatia Airlines Group		2012 Croatia Airlines Group		2013 Croatia Airlines d.d.		2012 Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Revenue from technical services to others	37,518	4,954	33,521	4,459	37,518	4,954	33,521	4,459
Revenue from reservation system services	6,951	918	7,145	950	-	-	-	-
Commission income from foreign air companies	11,329	1,496	19,898	2,647	11,329	1,496	19,898	2,647
Revenue from consignment sales (duty free in aircraft)	3,675	485	10,739	1,428	3,675	485	10,739	1,428
Mileage related	3,737	493	7,703	1,024	3,737	493	7,702	1,024
Other	34,284	4,528	18,387	2,447	31,216	4,122	15,297	2,035
	97,494	**12,874**	**97,393**	**12,955**	**87,475**	**11,550**	**87,157**	**11,593**

6. OTHER INCOME AND GAINS

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Amortisation of tangible assets received free of charge	1,207	159	1,207	160	1,207	159	1,207	160
Income from government support	94,741	12,509	113,514	15,099	94,741	12,509	113,514	15,099
Collected bad debts	342	45	201	27	342	45	198	26
Gain from sale of fixed assets	943	124	44	6	943	124	44	6
Gain from sale of spare parts	202	27	35	5	202	27	35	5
Other	51,649	6,819	28,207	3,752	51,512	6,801	28,121	3,741
	149,084	**19,683**	**143,208**	**19,049**	**148,947**	**19,665**	**143,119**	**19,037**

During 2013 the Company has recognised a total amount of HRK 94,741 thousand (EUR 12,509 thousand) income from the Croatian Government as a direct support in respect of maintaining domestic flights. The amount of reimbursement is determined as the difference between revenues from certain domestic flights and related direct flight operations expense. Direct financial Government support in 2012 was recognised as income in the amount of HRK 113,514 thousand (EUR 15,099 thousand).

Included in other revenue for the year 2012 is an amount of HRK 11,686 thousand (EUR 1,554 thousand) which represents the difference in connection with the depreciation provided on the basis of the revaluated amounts and the depreciation provided on the original asset cost basis.

7. STAFF COSTS

	2013 Croatia Airlines Group		2012 Croatia Airlines Group		2013 Croatia Airlines d.d.		2012 Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Net wages and salaries	122,538	16,179	129,400	17,212	120,746	15,943	127,652	16,980
Tax, pension and health contributions from payroll	74,811	9,878	78,952	10,502	73,883	9,755	77,992	10,374
Employer's pension and health contributions on payroll	40,929	5,404	44,728	5,949	40,519	5,350	44,289	5,891
Other employee related costs	35,498	4,687	39,397	5,240	35,260	4,656	39,057	5,195
	273,776	**36,148**	**292,477**	**38,903**	**270,408**	**35,704**	**288,990**	**38,440**

The Group had 1.063 employees (Croatia Airlines d.d. 1.041, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 14) at 31 December 2013 (1.107 employees at 31 December 2012 - Note 34).

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

8. FINANCIAL INCOME

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Foreign exchange gains	70,201	9,269	90,353	12,018	70,153	9,263	90,313	12,014
Interest gains	1,011	133	1,548	206	1,008	133	1,544	205
Other	706	93	643	86	273	36	564	75
	71,918	**9,495**	**92,544**	**12,310**	**71,434**	**9,432**	**92,421**	**12,294**

9. FINANCIAL EXPENSE

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Foreign exchange losses	71,702	9,467	90,325	12,015	71,601	9,454	90,262	12,006
Interest expense	13,861	1,830	89,585	11,916	13,787	1,820	89,562	11,913
Other	2,684	354	2,117	282	2,684	354	2,117	282
	88,247	**11,651**	**182,027**	**24,213**	**88,072**	**11,628**	**181,941**	**24,201**

10. INCOME TAX EXPENSE

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

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

Subsidiaries obligations for tax on profit are as follows: Amadeus Croatia d.d. HRK 86 thousand, EUR 11 thousand (2012: HRK 130 thousand, EUR 17 thousand) and Obzor putovanja d.o.o. HRK 68 thousand, EUR 9 thousand (2012: HRK 58 thousand, EUR 8 thousand).

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

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

	Croatia Airlines d.d. 2013 HRK '000	Croatia Airlines d.d. 2012 HRK '000
Net profit / (loss) before tax	720	(488,167)
Non-taxable income	(366)	(722)
Training incentives	(3,755)	(4,247)
Other expenses from previous periods	(103,643)	(131,242)
Non-deductible expenses	8,709	119,145
Adjustment to non-deductible expenses	-	-
Tax loss	**(98,335)**	**(505,233)**
Tax losses brought forward	(1,039,213)	(536,380)
Tax loss expired	92,553	2,400
Losses utilised in current period	-	-
Tax loss available for carry forward	**(1,044,995)**	**(1,039,213)**

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

10. INCOME TAX EXPENSE (CONTINUED)

Subsidiaries do not have tax losses to carry forward.

		Tax loss carried forward	**Tax loss carried forward**	**Tax benefit at 20%**	**Tax benefit at 20%**
		HRK ‘000	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**
2014	Not more than 1 year (from 2009)	202,995	26,578	40,599	5,316
2015	Not more than 2 years (from 2010)	160,280	20,986	32,056	4,197
2016	Not more than 3 years (from 2011)	78,152	10,232	15,630	2,046
2017	Not more than 4 years (from 2012)	505,233	66,150	101,047	13,230
2018	Not more than 5 years (from 2013)	98,335	12,875	19,667	2,575
		1,044,9955	**136,821**	**208,999**	**27,364**

Deferred tax asset in the amount of HRK 208,999 thousand, in EUR 27,364 thousand (2012: HRK 181,594 thousand, in EUR 24,065 thousand) stated above has not been recognized in the Company's accounts due to uncertainty as to whether sufficient future taxable income will be available against which the tax losses could be utilised. The non-recognised tax asset has been calculated using the tax rate enacted at the statement of financial position date of 20% (2012: 20%).

11. INTANGIBLE ASSETS

2013	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2012	**52,780**	**6,994**	**51,464**	**6,820**
Additions	11,583	1,516	11,566	1,514
Disposals	(2,318)	(304)	(2,318)	(304)
Fx differences	-	(84)	-	(81)
Balance at 31 December 2013	**62,045**	**8,122**	**60,712**	**7,949**
ACCUMULATED AMORTIZATION				
Balance at 31 December 2012	**36,195**	**4,796**	**35,692**	**4,730**
Charge for the year	8,306	1,096	8,228	1,086
Disposals	(155)	(20)	(154)	(20)
Fx differences	-	(67)	-	(66)
Balance at 31 December 2013	**44,346**	**5,805**	**43,766**	**5,730**
NET BOOK VALUE				
At 31 December 2013	**17,699**	**2,317**	**16,946**	**2,219**
At 31 December 2012	**16,585**	**2,198**	**15,772**	**2,090**

2012	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2011	**50,109**	**6,654**	**48,917**	**6,496**
Additions	3,046	403	2,922	387
Disposals	(375)	(50)	(375)	(50)
Fx differences	-	(13)	-	(13)
Balance at 31 December 2012	**52,780**	**6,994**	**51,464**	**6,820**
ACCUMULATED AMORTIZATION				
Balance at 31 December 2011	**29,881**	**3,967**	**29,434**	**3,909**
Charge for the year	6,980	928	6,923	921
Disposals	(666)	(88)	(665)	(88)
Fx differences	-	(11)	-	(12)
Balance at 31 December 2012	**36,195**	**4,796**	**35,692**	**4,730**
NET BOOK VALUE				
At 31 December 2012	**16,585**	**2,198**	**15,772**	**2,090**
At 31 December 2011	**20,228**	**2,687**	**19,483**	**2,587**

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

At 31 December 2013

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK ‘000	EUR ‘000	HRK ‘000	EUR ‘000	HRK ‘000	EUR ‘000	HRK ‘000	EUR ‘000	HRK ‘000	EUR ‘000	HRK ‘000	EUR ‘000
COST OR VALUATION												
31 December 2012	**80,546**	**10,675**	**20,336**	**2,695**	**56,759**	**7,522**	**1,661,448**	**220,187**	**148,357**	**19,661**	**1,967,446**	**260,740**
Additions	63	7	18,401	2,410	8,118	1,063	26,844	3,516	11,364	1,487	64,791	8,483
Transfers from property, plant and equipment in progress	-	-	(4,820)	(631)	-	-	4,820	631	-	-	-	-
Disposals	(83)	(11)	-	-	(3,059)	(401)	-	-	(4,428)	(580)	(7,570)	(992)
Fx differences	-	(128)	-	(33)	-	(90)	-	(2,654)	-	(236)	-	(3,140)
31 December 2013	**80,526**	**10,543**	**33,917**	**4,441**	**61,818**	**8,094**	**1,693,112**	**221,680**	**155,293**	**20,333**	**2,024,666**	**265,091**
ACCUMULATED DEPRECIATION												
31 December 2012	**27,332**	**3,622**	**-**	**-**	**43,220**	**5,728**	**1,148,232**	**152,172**	**61,580**	**8,161**	**1,280,364**	**169,683**
Charge for the year	3,035	401	-	-	2,761	365	61,388	8,105	7,720	1,020	74,904	9,891
Disposals	(55)	(7)	-	-	(2,889)	(381)	-	-	(447)	(59)	(3,391)	(447)
Correction of accumulated depreciation	-	-	-	-	25	3	226	30	2	-	253	33
Fx differences	-	(47)	-	-	-	(69)	-	(1,901)	-	(106)	-	(2,123)
31 December 2013	**30,312**	**3,969**	**-**	**-**	**43,117**	**5,646**	**1,209,846**	**158,406**	**68,855**	**9,016**	**1,352,130**	**177,037**
NET BOOK VALUE												
31 December 2013	**50,214**	**6,574**	**33,917**	**4,441**	**18,701**	**2,448**	**483,266**	**63,274**	**86,438**	**11,317**	**672,536**	**88,054**
31 December 2012	**53,214**	**7,053**	**20,336**	**2,695**	**13,539**	**1,794**	**513,216**	**68,015**	**86,777**	**11,500**	**687,082**	**91,057**

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2013 was in the amount of HRK 483,266 thousand, in EUR 63,274 thousand (2012: HRK 513,217 thousand, in EUR 68,016 thousand).

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

At 31 December 2012

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2011	**80,546**	**10,696**	**11,144**	**1,480**	**59,295**	**7,872**	**2,054,816**	**272,869**	**141,482**	**18,788**	**2,347,283**	**311,705**
Additions	-	-	9,192	1,218	(907)	(120)	44,366	5,880	11,348	1,504	63,999	8,482
Transfers from property, plant and equipment in progress	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(1,629)	(216)	(437,734)	(58,012)	(4,473)	(593)	(443,836)	(58,821)
Fx differences	-	(21)	-	(3)	-	(14)	-	(550)	-	(38)	-	(626)
31 December 2012	**80,546**	**10,675**	**20,336**	**2,695**	**56,759**	**7,522**	**1,661,448**	**220,187**	**148,357**	**19,661**	**1,967,446**	**260,740**
ACCUMULATED DEPRECIATION												
31 December 2011	**24,298**	**3,227**	**-**	**-**	**41,549**	**5,515**	**1,099,051**	**145,948**	**55,068**	**7,313**	**1,219,966**	**162,003**
Charge for the year	3,034	404	-	-	3,300	439	109,564	14,574	7,468	993	123,366	16,410
Disposals	-	-	-	-	(1,629)	(225)	(60,383)	(8,032)	(956)	(127)	(62,968)	(8,384)
Correction of accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Fx differences	-	(9)	-	-	-	(1)	-	(318)	-	(18)	-	(346)
31 December 2012	**27,332**	**3,622**	**-**	**-**	**43,220**	**5,728**	**1,148,232**	**152,172**	**61,580**	**8,161**	**1,280,364**	**169,683**
NET BOOK VALUE												
31 December 2012	**53,214**	**7,053**	**20,336**	**2,695**	**13,539**	**1,794**	**513,216**	**68,015**	**86,777**	**11,500**	**687,082**	**91,057**
31 December 2011	**56,248**	**7,469**	**11,144**	**1,480**	**17,746**	**2,357**	**955,765**	**126,921**	**86,414**	**11,475**	**1,127,317**	**149,702**

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2012 was in the amount of HRK 513,216 thousand, in EUR 68,015 thousand (2011: HRK 955,765 thousand, in EUR 126,921 thousand).

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

At 31 December 2013

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2012	**80,546**	**10,675**	**20,336**	**2,695**	**52,881**	**7,008**	**1,661,448**	**220,187**	**148,357**	**19,661**	**1,963,568**	**260,226**
Additions	63	7	18,401	2,410	8,076	1,057	26,844	3,516	11,361	1,487	64,745	8,477
Transfers from property, plant and equipment in progress	-	-	(4,820)	(631)	-	-	4,820	631	-	-	-	-
Disposals	(83)	(11)	-	-	(3,059)	(401)	-	-	(4,428)	(580)	(7,570)	(992)
Fx differences	-	(128)	-	(33)	-	(83)	-	(2,654)	-	(236)	-	(3,134)
31 December 2013	**80,526**	**10,543**	**33,917**	**4,441**	**57,898**	**7,581**	**1,693,112**	**221,680**	**155,290**	**20,332**	**2,020,743**	**264,577**
ACCUMULATED DEPRECIATION												
31 December 2012	**27,332**	**3,622**	**-**	**-**	**39,571**	**5,244**	**1,148,232**	**152,172**	**61,580**	**8,161**	**1,276,715**	**169,199**
Charge for the year	3,035	401	-	-	2,716	359	61,388	8,105	7,685	1,015	74,824	9,880
Disposals	(55)	(7)	-	-	(2,889)	(381)	-	-	(447)	(59)	(3,391)	(447)
Correction of accumulated depreciation	-	-	-	-	25	3	226	30	2	-	253	33
Fx differences	-	(47)	-	-	-	(63)	-	(1,901)	-	(106)	-	(2,117)
31 December 2013	**30,312**	**3,969**	**-**	**-**	**39,423**	**5,162**	**1,209,846**	**158,406**	**68,820**	**9,011**	**1,348,401**	**176,548**
NET BOOK VALUE												
31 December 2013	**50,214**	**6,574**	**33,917**	**4,441**	**18,475**	**2,419**	**483,266**	**63,274**	**86,470**	**11,321**	**672,342**	**88,029**
31 December 2012	**53,214**	**7,053**	**20,336**	**2,695**	**13,310**	**1,764**	**513,216**	**68,015**	**86,777**	**11,500**	**686,853**	**91,027**

Aircrafts are carried under the revaluation model, Net book value of the aircrafts as at 31 December 2013 was in the amount of HRK 483.266 thousand, in EUR 63.275 thousand (2012: HRK 513,217 thousand, in EUR 68,016 thousand).

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

At 31 December 2012

	Land and buildings		**Property, plant and equipment in progress**		**Equipment and other**		**Aircraft**		**Spare parts, GSE and tools**		**Total**	
	HRK ‘000	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**
COST OR VALUATION												
31 December 2011	**80,546**	**10,696**	**11,143**	**1,480**	**55,548**	**7,376**	**2,054,817**	**272,869**	**141,482**	**18,788**	**2,343,535**	**311,209**
Additions	-	-	9,193	1,219	(976)	(129)	44,365	5,879	11,348	1,504	63,931	8,474
Transfers from property, plant and equipment in progress	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(1,691)	(224)	(437,734)	(58,012)	(4,473)	(593)	(443,898)	(58,829)
Fx differences	-	(21)	-	(4)		(15)		(549)		(38)		(628)
31 December 2012	**80,546**	**10,675**	**20,336**	**2,695**	**52,881**	**7,008**	**1,661,448**	**220,187**	**148,357**	**19,661**	**1,963,568**	**260,226**
ACCUMULATED DEPRECIATION												
31 December 2011	**24,298**	**3,227**	**-**	**-**	**38,036**	**5,051**	**1,099,051**	**145,948**	**55,068**	**7,313**	**1,216,453**	**161,539**
Charge for the year	3,034	404	-	-	3,226	429	109,564	14,574	7,468	993	123,292	16,400
Disposals	-	-	-	-	(1,691)	(225)	(60,383)	(8,032)	(956)	(127)	(63,030)	(8,384)
Correction of accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Fx differences	-	(9)	-	-	-	(11)	-	(318)	-	(18)	-	(356)
31 December 2012	**27,332**	**3,622**	**-**	**-**	**39,571**	**5,244**	**1,148,232**	**152,172**	**61,580**	**8,161**	**1,276,715**	**169,199**
NET BOOK VALUE												
31 December 2012	**53,214**	**7,053**	**20,336**	**2,695**	**13,310**	**1,764**	**513,216**	**68,015**	**86,777**	**11,500**	**686,853**	**91,027**
31 December 2011	**56,247**	**7,469**	**11,143**	**1,480**	**17,512**	**2,325**	**955,766**	**126,921**	**86,414**	**11,475**	**1,127,082**	**149,670**

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

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

Based on the valuation of independent appraisers in November 2012 the Company has carried out revaluation of six (6) owned aircraft, Airbus type, as specified in Note 3 j) and 3 u). It was determined the impairment in the total amount HRK 375,364, thousand (EUR 49,746 thousand). In the amount of HRK 76,430 thousand (EUR 10,129 thousand), was fully used the revaluation reserve. The remaining amount of an impairment loss, above the level of revaluation reserve, in the amount of HRK 298,934 thousand (EUR 39,617 thousand), was charged the profit and loss account. The Management Board of the Company has estimated that during the year 2013; there were no significant differences between the market and the book value, so the new valuation of the aircraft was not recorded.

The Airbus, Dash 8-Q400 and ATR 42 spare parts are stated at cost and depreciated over the estimated useful life of the aircraft to which they refer. Ground Service Equipment ("GSE") and tools are stated at cost and depreciated over 16,6 years.

The cost of "12-year check" is amortized at rate of 8,33% (2012 - 8,33%) and "6-year check" is amortized at rate of 16,67% (2012 - 16,67%).

During 2013 the Company under the operating lease held one Airbus 320 and six Dash 8-Q400. The Airbus 320, register number 9A-CTF, was rented since December 2008 until 11 December 2013 when it was returned to the leasing company in accordance with the contract.

For Dash 8-Q400 the Company has taken obligation of an average monthly lease payment per aircraft in the amount of EUR 131 thousand and USD 26 thousand.

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

Fleet at 31 December 2013

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

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Name of the company	Main activity	2013 Croatia Airlines Group		2012 Croatia Airlines Group		2013 Croatia Airlines d.d.		2012 Croatia Airlines d.d.		%
		HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
Obzor putovanja d.o.o.	Tourism	-	-	-	-	1,020	133	1,020	133	100
Amadeus Croatia d.d.	Marketing services	-	-	-	-	190	25	190	25	95
Pleso prijevoz d.o.o.	Passenger transport	5,273	735	4,919	678	3,900	524	3,900	524	50
		5,273	**735**	**4,919**	**678**	**5,110**	**682**	**5,110**	**682**	

All three companies are incorporated in the Republic of Croatia. The percentages above refer to percentage ownership and voting rights. Pleso prijevoz d.o.o. is associated company not fully controlled by Company, as owned by Zračna luka Zagreb d.d. and Croatia Airlines d.d. equally (50%: 50%). In the consolidated financial statements the Group reports its interests in Pleso prijevoz d.o.o. using the equity method of accounting and in the separate financial statements of the Company the interest is accounted for at cost.

14. DEPOSITS

	2013 Croatia Airlines Group		2012 Croatia Airlines Group		2013 Croatia Airlines d.d.		2012 Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deposits in PBZ and ZABA for loans of employees	5,326	697	5,728	758	5,326	697	5,728	759
Other deposits	814	106	753	100	774	101	713	94
	6,140	**803**	**6,481**	**858**	**6,100**	**798**	**6,441**	**853**

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

15. AVAILABLE FOR SALE INVESTMENTS

	Share	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
		2013		2012	
		HRK '000	EUR '000	HRK '000	EUR '000
Hrvatska poštanska banka	0,18 %	**1,858**	**249**	**1,703**	**229**

16. NON-CURRENT RECEIVABLES

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Long-term deposits	34,552	4,521	26,868	3,561	34,527	4,521	26,868	3,561
Long-term advances	41,970	5,495	43,315	5,740	41,970	5,495	43,315	5,740
Receivables for sold flats	515	67	599	79	515	67	599	79
Long-term receivables for housing	500	69	500	66	500	66	500	66
	77,537	**10,152**	**71,282**	**9,446**	**77,512**	**10,149**	**71,282**	**9,446**

The part of long-term deposits in the amount of HRK 20,717 thousand, in the EUR 2,712 thousand (2012: HRK 12,918 thousand, EUR 1,712 thousand) represents a deposit with Lufthansa Technik for repairs and maintenance of Airbus aircraft. The amount of the deposit has been paid to Lufthansa Technik on a monthly basis since 1998. In 2013 interest income recorded by the Company in respect of the deposit amounted EUR 70 thousand (HRK 535 thousand); (2012: EUR 60 thousand, HRK 452 thousand) and USD 1 thousand (HRK 5 thousand); (2012: USD 12 thousand, HRK 66 thousand), based on the interest calculation received from Lufthansa Technik at an annual interest rate of 3.5%.

The amount of HRK 41,970 thousand, EUR 5,495 thousand (2012: HRK 43,315 thousand, EUR 5,740 thousand), refers to advance payment to Airbus Industrie for purchase of four new aircraft type A319 according to Airbus Industrie sales proposal and annex signed between Croatia Airlines and Airbus Industrie.

16. NON-CURRENT RECEIVABLES (CONTINUED)

Long-term receivables for housing in the amount of HRK 515 thousand, EUR 67 thousand (in 2012: HRK 599 thousand, EUR 79 thousand) relate to 32 flats sold to the employees of the Company. The due dates range from 16 to 30 years with an annual interest of 1% according to the Law on Sale of Publicly Owned Flats with Tenancy Rights (Official Gazette 43/92).

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

17. INVENTORIES

	2013. Croatia Airlines Group		2012. Croatia Airlines Group		2013. Croatia Airlines d.d.		2012. Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Spare parts	45,206	5,919	43,547	5,771	45,206	5,919	43,476	5,762
Catering, supplies and other	2,420	317	5,595	742	2,420	317	5,595	742
	47,626	**6,236**	**49,142**	**6,513**	**47,626**	**6,236**	**49,071**	**6,504**

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

18. ACCOUNTS RECEIVABLE

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Domestic accounts receivable	18,711	2,450	26,432	3,503	16,555	2,168	24,211	3,209
Foreign accounts receivable	60,838	7,966	75,389	9,991	60,351	7,902	74,434	9,865
Allowance for doubtful receivables	(11,791)	(1,544)	(10,850)	(1,438)	(11,616)	(1,521)	(10,675)	(1,415)
	67,758	**8,872**	**90,971**	**12,056**	**65,290**	**8,549**	**87,970**	**11,659**

Tables below present changes in allowance for doubtful receivables in years 2013 and 2012:

	2013		2013	
	Croatia Airlines Group		Croatia Airlines d.d.	
Allowance for doubtful receivables	**HRK '000**	**EUR '000**	**HRK '000**	**EUR '000**
Balance at 1 January 2013	**10,851**	**1,438**	**10,676**	**1,415**
Increase	7,085	928	7,085	928
Decrease	(342)	(45)	(342)	(45)
Bad debts write-off	(5,899)	(772)	(5,899)	(772)
Exchange differences	96	(5)	96	(5)
Balance at 31 December 2013	**11,791**	**1,544**	**11,616**	**1,521**

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

19. OTHER RECEIVABLES

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
VAT receivable net	664	87	554	73	545	71	443	59
Receivables from employees	311	41	371	49	306	40	354	47
Receivables from the State	18,332	2,400	105,582	13,992	18,263	2,391	105,478	13,979
Dividends and profit share receivable	-	-	-	-	129	17	505	67
Receivables for advances	15,396	2,016	10,618	1,408	15,396	2,016	10,580	1,402
Short-term loans receivables	-	-	-	-	-	-	-	-
	34,703	**4,544**	**117,125**	**15,522**	**34,639**	**4,535**	**117,360**	**15,554**

20. OTHER FINANCIAL ASSETS

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deposits and loans receivable	2,694	353	3,370	447	2,694	353	3,370	447
Cheques	2	-	147	19	2	-	4	-
	2,696	**353**	**3,517**	**466**	**2,696**	**353**	**3,374**	**447**

20. OTHER FINANCIAL ASSETS (CONTINUED)

Deposits at 31 December 2013 are as follows:

Financial institution	Annual interest rate	In thousands of original currency	Currency	2013	2013	2012	2012
Deposits:				**HRK '000**	**EUR '000**	**HRK '000**	**EUR '000**
Commerz Bank A.G.	1,00	95	EUR	724	95	567	75
ARC US	-	274	USD	1,518	199	592	78
US Bank	-	-	USD	-	-	117	16
Other	-	-	Various	452	59	2,094	278
Balance as at 31 December Croatia Airlines d.d.				**2,694**	**353**	**3,370**	**447**

The amount of HRK 724 thousand (95 thousand EUR) is short-term deposit at Commerz Bank A.G. paid for Bank guarantees issued to Company's suppliers (in 2012: HRK 567 thousand, EUR 75 thousand).

The amounts presented in the table above represent the fair value of the financial asset as at 31 December 2013 and 31 December 2012.

21. CASH AND CASH EQUIVALENTS

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Gyro account	20,718	2,712	18,050	2,392	18,692	2,447	16,429	2,177
Foreign currency accounts	30,506	3,994	17,143	2,272	29,330	3,840	15,765	2,089
Petty cash	18	2	58	8	10	1	38	5
Foreign currency petty cash	67	9	105	14	67	9	105	14
Short-term deposits	873	114	1,759	234	873	114	1,759	234
	52,182	**6,831**	**37,115**	**4,920**	**48,972**	**6,411**	**34,096**	**4,519**

22. PREPAID EXPENSES

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Prepaid expenses	17,121	2,242	36,111	4,785	17,099	2,239	36,067	4,780
Accrued income	7,980	1,045	11,096	1,471	7,980	1,045	11,097	1,470
	25,101	**3,287**	**47,207**	**6,256**	**25,079**	**3,284**	**47,164**	**6,250**

The most significant part of prepaid expenses include amounts for loan refinancing cost in the amount of HRK 1,807 thousand, EUR 237 thousand (2012: HRK 3,672 thousand, EUR 487 thousand), and prepaid expenses to suppliers in the amount of HRK 15,210 thousand, EUR 1,991 thousand (2012: HRK 32,090 thousand, EUR 4,253 thousand).

23. ISSUED CAPITAL

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

Two General Assembly meetings of the Company were held during 2013, where were adopted the decisions on the change in share capital, as follows:

- The General Assembly of the Company, held on 16 July 2013, has adopted the Decision on the increase of share capital by issuing of new shares, i.e. by conversion of debt into capital. The share capital was increased by the amount of HRK 126,282 thousand (EUR 16,656 thousand) and after the increase, it amounted to HRK 1,978,485 thousand (EUR 262,157 thousand).The increase in share capital was conducted by assigning the rights of receivables in accordance with the investment contracts concluded between the Republic of Croatia and the Croatia Airlines and between the Zagreb International Airport and the Croatia Airlines.

Increase in share capital was conducted on the day of registration in the Register of the Commercial Court, on 16 September 2013.

- At the meeting of the General Assembly of the Company performed on 20 December 2013 the following decisions were adopted:
  - The decision on simplified decrease of share capital of the Company to cover the loss: the share capital of the Company was decreased by the amount of HRK 1,780,636 thousand (EUR 238,602 thousand) to cover losses from previous years. The decrease of share capital was conducted by reducing the nominal value of shares, namely: the nominal amount of preferred shares is decreased from HRK 100.00 to the amount of HRK 10.00 and the nominal amount of ordinary shares was reduced from HRK 200.00 to HRK 20.00. The share capital after the reduction amounts to HRK 197,849 thousand (EUR 26,511 thousand).
  - The decision on the increase of share capital of the Company by assigning the rights and issuing new shares: the subscribed capital is increased by the amount of HRK 80,031 thousand (EUR 10,482 thousand) and after the increase amounts to HRK 277,880 thousand (EUR 34,037 thousand). The increase in share capital was conducted by assigning the rights of receivables in accordance with the investment agreement concluded between the Republic of Croatia and Croatia Airlines pursuant to the issued State guarantee.

Change of the share capital was carried out on the day of registration in the Register of the Commercial Court, dated 27 December 2013.

23. ISSUED CAPITAL (CONTINUED)

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

2013

Shareholders	**Number of shares**	**HRK '000**	**%**
Central State Administrative Office for State Property Management (CSAOSPM) for Republic of Croatia	13,474,994	269,500	96.98
Zagreb International Airport	245,073	4,771	1.72
Central State Administrative Office for State Property Management (CSAOSPM) for State Agency for Deposit Insurance and Bank Rehabilitation	110,584	2,132	0.77
Others	88,924	1,477	0.53
	13,919,575	**277,880**	**100.00**

2012

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

23.1 Subsidiary Obzor putovanja d.o.o., Zagreb

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

23.2 Subsidiary Amadeus Croatia d.d., Zagreb

The share capital of the subsidiary Amadeus Croatia d.d., Zagreb consists of 100 ordinary shares, with a nominal value of HRK 2,000 per share. The ownership of Amadeus Croatia d.d., Zagreb as at 31 December 2013 and 2012 was as follows:

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

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

24. CAPITAL RESERVES AND ACCUMULATED LOSSES

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

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

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

In accordance with the decision of the General Assembly of 16 July 2013, legal reserve of the Company in the amount of HRK 931 thousand and EUR 135 thousand, respectively (in 2012: HRK 931 thousand and EUR 135 thousand, respectively) was used to cover a part of losses from previous years.

By the decision of the General Assembly held on 20 December 2013, was conducted a simplified decrease in share capital in the amount of HRK 1,780,636 thousand (EUR 233,215 thousand) of which the amount of HRK 1,699,347 (EUR 222,569 thousand) was used for covering loss from previous years. The difference between the amount of the decrease in share capital and the amount for the coverage of loss, in the amount of HRK 81,289 thousand (EUR 10,647 thousand,) was allocated to other capital reserves.

Amadeus Croatia has reserves in the amount as follows: legal reserve HRK 10 thousand, EUR 1.4 thousand (2012: HRK 10 thousand, EUR 1.4 thousand) and other reserves HRK 100 thousand (EUR 14 thousand) (2012: HRK 100 thousand, EUR 14 thousand).

Obzor putovanja has other reserves in the amount of HRK 867 thousand (EUR 114 thousand) (2012: HRK 867 thousand, EUR 115 thousand).

25. BASIC AND DILUTED PROFIT / (LOSS) PER SHARE

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

	Croatia Airlines Group		Croatia Airlines Group	
	2013		2012	
	HRK '000	EUR '000	HRK '000	EUR '000
Net profit / (loss) for the year	1,441	189	(487,844)	(64,890)
Number of shares issued	13,920	13,920	9,287	9,287
Basic and diluted profit / (loss) per share in HRK/EUR	**0.10**	**0.01**	**(52.53)**	**(6.99)**

At 31st December 2013 number of shares were 13,919,575 of which 51,197 were preference shares at nominal value of HRK 10 and 13,868,378 ordinary shares at nominal value of HRK 20 per share (2012: 51,197 preference shares at nominal value HRK 100 and 9,235,416 ordinary shares at nominal value HRK 200).

Earnings per share have been calculated under weighted average method.

26. PROVISIONS

Croatia Airlines d.d. and Group

	HRK '000	EUR '000
At 31 December 2011	**1,834**	**244**
Provisions utilised during the year	53,972	7,152
Charge for the year	(959)	(127)
Fx differences	-	-
At 31 December 2012	**54,847**	**7,269**
Provisions utilised during the year	5,036	659
Charge for the year	(38,535)	(5,045)
Fx differences	-	(88)
At 31 December 2013	**21,348**	**2,795**

The amount of the HRK 21,348 thousand (EUR 2,795 thousand) includes the provisions for litigation in the amount of HRK 10,866 thousand, in EUR 1,423 thousand (2012: HRK 6,714 thousand, EUR 890 thousand) which relate to a dispute with former employees of JAT and Croatia Airlines.

The amount also includes provisions in the amount of HRK 10,483 thousand, EUR 1,372 thousands (2012: HRK 40,858 thousand, EUR 5,415 thousand) which refer to the restructuring costs according to the Restructuring plan of the Company, of which the amount of HRK 7,669 thousand, EUR 1,004 thousand (2012: HRK 37,228 thousand, EUR 4,934 thousand) relates to severance payments and the amount of HRK 2,814 thousand, EUR 368 thousand (2012: HRK 3,630 thousand, EUR 481 thousand) to the other restructuring costs.

In 2013 the amount of provision for the severance payments was decreased by HRK 29,559 thousand (EUR 3,870 thousand), of which a part of the reduction in the amount of HRK 4,426 thousand (EUR 580 thousand) has referred to realized payments, and the amount of HRK 25,133 thousand (EUR 3,291 thousand) referred to the repeal provisions due to changed conditions i.e. amounts for supplementary pension purchase or for severance payments for employees who were entitled to an early retirement. In addition, a significant amount of the decrease of provisions was caused by employees voluntarily leaving the Company prior to the beginning of the restructuring program implementation, for which the largest amount of severance (the flight crew) were planned and ensured.

27. LONG-TERM LOANS

	Croatia Airlines d.d. and the Group 2013 HRK '000	Croatia Airlines d.d. and the Group 2013 EUR '000	Croatia Airlines d.d. and the Group 2012 HRK '000	Croatia Airlines d.d. and the Group 2012 EUR '000
Long-term loans	246,170	32,231	408,508	54,138
Current portion of long-term loans	(166,266)	(21,769)	(170,299)	(22,569)
	79,904	**10,462**	**238,209**	**31,569**

Description of long-term loans is as follows:

Financial institution	Original currency	Loan amount in original currency (in 000)	Annual interest rate %	Due date	2013 HRK '000	2013 EUR '000	2012 HRK '000	2012 EUR '000
BLB Tranche A	**EUR**	**135,000**	**6 m EURIBOR +0,5**	**Dec 2014**	158,628	20,769	313,434	41,538
PBZ 7510009556	**EUR**	**15,000**	**3 m EURIBOR +5,5 (min.8%)**	**Oct 2019**	85,542	11,200	95,074	12,600
PBZ 5110188453	**EUR**	**262**	**3m EURIBOR +5,5%(min 7,5%)**	**Dec 2016**	2,000	262	-	-
					246,170	**32,231**	**408,508**	**54,138**
Current portion					(166.266)	(21,769)	(170,299)	(22.569)
Long-term portion					**79,904**	**10,462**	**238,209**	**31,569**

In the above amounts HRK 158,628 thousand, EUR 20,769 thousand, are under guarantee of Government of Croatia (in 2012 HRK 313,434 thousand, EUR 41,538 thousand).

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

	HRK '000	EUR '000
2014	166,488	21,798
2015	16,164	2,116
2016	16,164	2,116
2017	15,275	2,000
after 2017	32,079	4,201
Total	**246,170**	**32,231**

28. OBLIGATIONS UNDER FINANCE LEASES

Description of the long-term leases is as follows:

Financial institution	Original currency	Loan amount	Annual interest rate	Due date	Croatia Airlines d.d. and the Group 2013	Croatia Airlines d.d. and the Group 2013	Croatia Airlines d.d. and the Group 2012	Croatia Airlines d.d. and the Group 2012
		(in 000)	%		HRK '000	EUR '000	HRK '000	EUR '000
ASA Leasing	EUR	14	8	June 2016	53	7	71	9
Total					**53**	**7**	**71**	**9**
Current portion					(20)	(3)	(18)	(2)
Long-term portion					**33**	**4**	**53**	**7**

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

	HRK '000	EUR '000
2014	20	3
2015	22	3
2016	11	1
Total	**53**	**7**

29. SHORT-TERM LOANS

Description of Company's long-term loans is as follows:

Financial institution	Original currency	Loan amount in original currency	Annual interest rate	Due date	2013	2013	2012	2012
		(in 000)	%		HRK '000	EUR '000	HRK '000	EUR '000
Zagrebačka banka	EUR	4.500	3 m EURIBOR +6,15%	5.2014	34,369	4,500	33,955	4,500
Hrvatska poštanska banka	HRK	7.450	8,5	8.2013	-	-	7,450	987
Privredna banka Zagreb	HRK	7.450	Tresury billson 91 days +4,95% (min 8%)	8.2013	-	-	7,450	987
					34,369	**4,500**	**48,855**	**6,474**

The amount of HRK 34,369 thousands (EUR 4,500 thousand) refer to short-term loan realized in Zagrebačka banka based on the contract of framework revolving amount of 4,500 thousand euros for granting short-term loans. As of 12th June 2013 the Company signed the short-term contract for business financing.
In the year 2012 the Company used two short-terms loans approved by Hrvatska poštanska banka and Privredna banka Zagreb for current liquidity and both were repaid in August 2013.

In addition to the presented liabilities of Croatia Airlines, the Group's current liabilities include liabilities arising from loans of the subsidiary Amadeus Croatia. The loan was realized in Privredna banka Zagreb and at 31 December 2013 liabilities under this loan amount to HRK 665 thousand (EUR 87 thousand) in 2012: HRK 999 thousand (EUR 132 thousand).

30. ACCOUNTS PAYABLES

	2013 Croatia Airlines Group		2012 Croatia Airlines Group		2013 Croatia Airlines d.d.		2012 Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Domestic trade accounts payables	91,802	12,020	169,730	22,494	91,048	11,921	168,705	22,358
Foreign trade accounts payables	73,769	9,658	115,100	15,254	72,773	9,528	114,616	15,190
	165,571	**21,678**	**284,830**	**37,748**	**163,821**	**21,449**	**283,321**	**37,548**

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

31. OTHER CURRENT LIABILITIES

	2013 Croatia Airlines Group		2012 Croatia Airlines Group		2013 Croatia Airlines d.d.		2012 Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Air traffic liabilities	118,676	15,538	117,126	15,522	118,676	15,538	117,126	15,522
Deposits and advances received	17,061	2,234	9,071	1,202	17,061	2,234	9,031	1,197
Salaries	17,631	2,308	19,774	2,621	17,322	2,268	19,576	2,594
Other current liabilities	14,565	1,907	19,065	2,527	14,504	1,899	18,971	2,515
	167,933	**21,987**	**165,036**	**21,872**	**167,563**	**21,939**	**164,704**	**21,828**

32. ACCRUED EXPENSES AND DEFERRED INCOME

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	'000	'000	'000	'000	'000	'000	'000	'000
Deferred income	5,102	668	6,309	836	5,102	668	6,309	836
Accrued expenses	13,216	1,729	16,686	2,213	13,094	1,716	16,176	2,144
	18,318	**2,397**	**22,995**	**3,049**	**18,196**	**2,384**	**22,485**	**2,980**

Deferred income in the amount of HRK 5,102 thousand, EUR 668 thousand (2012: HRK 6,309 thousand, EUR 836 thousand) represents income from tangible assets received from aircraft and engine manufacturers free of charge, which are depreciated over the useful life of the related aircraft. The value of the spare parts and spare engine received free of charge in connection with the purchase of the Airbus fleet is included in deferred income and credited to income on a straight-line basis over the estimated useful life of the related aircraft.

33. COMMITMENTS AND CONTINGENT LIABILITIES

In order to maintain regular business activities the Group uses business premises on several locations. The Group also has assets under the operating leasing as follows: IT equipment, vehicles, aircraft Airbus A320 and Q400 and spare engine for aircraft. Total monthly amount for rent and lease obligation is HRK 9,536 thousand (EUR 1,259 thousand).

In June 2007 Company signed Aircraft Lease Agreement for four aircraft DASH 8-Q400 which will be taken in operating lease for the period of 10 years. Two of them were delivered in May and July 2008, and two of others were delivered in June 2009. In September 2008 Company signed additional Lease Agreement for two aircraft DASH 8-Q400 which is delivered in March and April 2010. By these Agreements Company has taken monthly lease payment average obligation per aircraft in the amount of EUR 131 thousand and USD 26 thousand.

34. EMPLOYEES

Croatia Airlines d.d.	2013	2012
Pilots and co-pilots	126	141
Cabin attendants	156	195
Maintenance and overhaul	301	256
Ticket sales and promotion	159	181
Airport handling	114	122
Other staff	185	193
	1,041	**1,088**
Croatia Airlines d.d. subsidiaries		
Amadeus Croatia d.d., Zagreb	8	8
Obzor Putovanja d.o.o., Zagreb	14	11
	1,063	**1,107**

35. RELATED PARTY TRANSACTIONS

Croatia Airlines Group does not have any other related parties except those named below.

Related parties of Croatia Airlines d.d. are as follows:

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

Transactions with related parties are as follows:

	2013	2012	2013	2012
	HRK '000	HRK '000	EUR '000	EUR '000
Revenue				
Obzor putovanja d.o.o.	5,655	4,580	747	609
Amadeus Croatia d.d.	144	182	19	24
Pleso prijevoz d.o.o. (associate)	264	265	35	35
Total revenue	**6,063**	**5,027**	**801**	**668**
Expenses				
Obzor putovanja d.o.o.	36	-	5	-
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	5,112	5,374	675	715
Total expenses	**5,148**	**5,374**	**680**	**715**

	2013	2012	2013	2012
	HRK '000	HRK '000	EUR '000	EUR '000
Receivables				
Obzor putovanja d.o.o.	141	278	18	37
Amadeus Croatia d.d.	15	304	2	40
Pleso prijevoz d.o.o. (associate)	42	52	6	7
Total receivables	**198**	**634**	**26**	**84**
Liabilities				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	2,019	2,126	264	282
Total liabilities	**2,019**	**2,126**	**264**	**282**

36. RISK MANAGEMENT

Fair value

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 can not 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.

The balance sheet items 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)

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

36. RISK MANAGEMENT (CONTINUED)

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

	2013		2012		2013		2012	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	'000	'000	'000	'000	'000	'000	'000	'000
Debt	281,257	36,825	458,433	60,753	280,592	36,738	457,434	60,622
Cash and cash equivalents	(52,182)	(6,832)	(37,115)	(4,920)	(48,971)	(6,412)	(34,096)	(4,519)
Net debt	**229,075**	**29,993**	**421,318**	**55,833**	**231,621**	**30,326**	**423,338**	**56,103**
Equity	**356,609**	**46,741**	**146,988**	**19,508**	**352,577**	**46,182**	**143,405**	**19,013**
Net debt to equity ratio	**64%**	**64%**	**287%**	**286%**	**66%**	**66%**	**295%**	**295%**

Interest rate risk

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

The Company is exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in notes 26 and 27. The interest rate on bank deposits is disclosed in Note 14.

In case that the interest rate was higher for 0.5%, in relation to current market interest rate, the effect of HRK 58 thousand (EUR 8 thousand) would debit income statement and, contrary, in case that the interest rate was lower for 0.5% the effect of HRK 58 thousand (EUR 8 thousand) would credit income statement for the period ended 31 December 2013.

36. RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

The Company is exposed to the following foreign exchange risks:

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

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

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

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

HRK 000	**Currency impact EUR**	
	2013	**2012**
Profit / (Loss)	1,393	2,213

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

HRK 000	**Currency impact EUR**		**Currency impact USD**	
	2013	**2012**	**2013**	**2012**
Profit / (Loss)	2,364	2,299	1,714	1,845

36. RISK MANAGEMENT (CONTINUED)

Credit risk

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

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

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

Price Risk

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

In case that the fuel price was higher for 0.5% in relation to current market price, the effect of HRK 1,633 thousand (EUR 216 thousand) would debit profit and loss account and, contrary, in case that the fuel price was lower for 0,5% the effect of HRK 1,633 thousand (EUR 216 thousand) would credit profit and loss account for the year 2013.

Liquidity risk

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

36. RISK MANAGEMENT (CONTINUED)

Hedging implemented at the Company

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

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

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

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

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

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

36. RISK MANAGEMENT (CONTINUED)

36.1. Liquidity risk tables

The following table details the Company's expected maturity for its non-derivative financial assets and liabilities for the years ended 31 December 2013 and 2012. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31 December 2013	Maturity									
	Total		Less than 6 months		6 months to 1 year		1-2 years		2 + years	
Assets	**HRK '000**	**EUR '000**	**HRK '000**	**EUR '000**	**HRK '000**	**EUR '000**	**HRK '000**	**EUR '000**	**HRK '000**	**EUR '000**
Long term financial asset	6,968	931	-	-	-	-	-	-	6,968	931
Long-term deposits	6,100	799	-	-	-	-	-	-	6,100	799
Long-term receivables	77,512	10,148	-	-	21,410	2,803	-	-	56,102	7,345
Short - term deposit	2,694	353	-	-	2,694	353	-	-	-	-
Current financial assets	2	-	2	-	-	-	-	-	-	-
Trade receivables and other receivables	125,013	16,368	124,981	16,364	32	4	-	-	-	-
Total	**218,289**	**28,599**	**124,983**	**16,364**	**24,136**	**3,160**	**-**	**-**	**69,170**	**9,075**
Liabilities										
Short-term leasing	20	3	20	3	-	-	-	-	-	-
Short-term loans	200,635	26,269	117,502	15,385	83,133	10,884	-	-	-	-
Long term leases	33	4	-	-	-	-	-	-	33	4
Long-term loans	79,904	10,462	-	-	1,000	131	16,275	2,131	62,629	8,200
Trade payables and other liabilities	371,001	48,575	185,843	24,332	181,263	23,733	1,207	158	2,688	352
Total	**651,593**	**85,313**	**303,365**	**39,720**	**265,396**	**34,748**	**17,482**	**2,289**	**65,350**	**8,556**

36. RISK MANAGEMENT (CONTINUED)

36.1. Liquidity risk tables (continued)

31 December 2012	Maturity									
	Total		Less than 6 months		6 months to 1 year		1-2 years		2 + years	
Assets	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**	**HRK ‘000**	**EUR ‘000**
Long term financial asset	6,813	911	-	-	-	-	-	-	6,813	911
Long-term deposits	6,441	853	-	-	-	-	-	-	6,441	853
Long-term receivables	71,282	9,446	-	-	14,049	1,862	-	-	57,233	7,584
Short - term deposit	3,370	447	-	-	3,370	447	-	-	-	-
Current financial assets	4	-	4	-	-	-	-	-	-	-
Trade receivables and other receivables	252,494	33,463	202,691	26,862	42,439	5,624	-	-	7,364	977
Total	**340,404**	**45,120**	**202,695**	**26,862**	**59,858**	**7,933**	**-**	**-**	**77,851**	**10,325**
ties										
Short-term leasing	18	2	18	2	-	-	-	-	-	-
Short-term loans	219,154	29,044	85,253	11,298	133,901	17,746	-	-	-	-
Long term leases	53	7	-	-	-	-	-	-	53	7
Long-term loans	238,209	31,569	-	-	-	-	187,619	24,865	50,590	6,704
Trade payables and other liabilities	525,357	69,624	303,940	40,280	216,315	28,668	1,207	160	3,895	516
Total	**982,791**	**130,246**	**389,211**	**51,580**	**350,216**	**46,414**	**188,826**	**25,025**	**54,538**	**7,227**

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

37. OPERATING LEASES

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

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

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

As at 31 December 2013 the Company had 6 airplanes, 2 buildings and 4 cars under the operating lease. The future aggregate minimum lease payments are as follows:

	HRK '000 2013	EUR '000 2013
No later than one year	96,240	12,707
Later than one year and no later than five years	340,435	44,949
Later than five years	53,044	7,004
	489,719	**64,660**

38. DIRECTORS' AND EXECUTIVES' REMUNERATION

The total amount of remuneration paid to directors and other key management personnel during 2013 and 2012, was as follows:

	HRK '000 2013	EUR '000 2013	HRK '000 2012	EUR '000 2012
Gross salaries	10,572	1,396	8,203	1,091
Gross benefits in kind	1,136	150	801	107
Severance payments	1,386	183	3,982	530
	13,094	**1,729**	**12,986**	**1,728**

As at 31 December 2013 the number of directors and key management staff was 19 (2012: 18 directors and management staff).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorised for issue on 8 April 2014.

Signed for and on behalf of the Company on 8 April 2014.

Teodora Wenzler-Brezak	**Zlatko Širac**	**Krešimir Kučko**
Director of Finance and Accounting	Board Member and COO	President and CEO