

Consolidated and Separate Annual Reports for the year ended 31.12. 2014.



August 2015



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FINANCIAL STATEMENTS (REVISED) FOR THE YEAR ENDED 31 DECEMBER 2014:
Consolidated Croatia Airlines Income Statement for the year ended 31 December 2014

amounts in Croatian kuna

Position	Previous period		Current period	
	1 Jan-	31 Dec 2013	1 Jan-	31 Dec 2014
I. OPERATING INCOME		1.583.028.952		1.551.758.140
1. Sales revenue		1.406.823.437		1.370.815.352
2. Other operating income		176.205.515		180.942.788
II. OPERATING EXPENSES		1.565.103.131		1.537.312.630
1. Changes in inventories of finished products and work in progress		0		0
2. Material costs		1.131.169.383		1.108.076.079
3. Staff costs		238.277.582		226.225.125
4. Depreciation and amortization		83.207.462		71.672.995
5. Other expenses		86.385.438		85.174.909
6. Impairment		9.963.176		3.037.853
7. Provisions		5.035.824		12.535.609
8. Other operating expenses		11.064.266		30.590.060
III. FINANCIAL INCOME		71.916.523		51.334.085
1. Interest and exchange gains, dividends and similar income from related companies		272.254		721.293
2. Interest and exchange gains, dividends and similar income from other entrepreneurs		71.210.463		50.010.902
3. The income from associated undertakings and participating interests		0		0
4. Unrealized gains (revenues)		0		0
5. Other financial income		433.806		601.890
IV. FINANCIAL EXPENSES		88.246.303		56.863.608
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		88.246.303		56.863.608
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		1.654.945.475		1.603.092.225
VIII. TOTAL EXPENSE		1.653.349.434		1.594.176.238
IX. PROFIT BEFORE TAXATION		1.596.041		8.915.987
X. LOSS BEFORE TAXATION		0		0
XI. INCOME TAX		153.970		196.971
XII. PROFIT FOR THE YEAR		1.442.071		8.719.016
XIII. LOSS FOR THE YEAR		0		0
APPENDIX				
XIV. PROFIT / (LOSS) FOR THE YEAR				
1. Attributable to shareholders of the parent company		1.442.071		8.719.016
2. Attributable to minority interests		0		0
CONSOLIDATED CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME				
PROFIT / (LOSS) FOR THE YEAR		1.442.071		8.719.016
Movements in revaluation reserves of long-term tangible assets		0		0
Profit or loss from reevaluation of financial assets available for sale		154.800		-665.578
Hedging reserves		-7.464.369		-2.384.181
NET OTHER COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR		-7.309.569		-3.049.759
COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR		-5.867.498		5.669.257

Croatia Airlines d.d. Income Statement for the year ended 31 December 2014

amounts in Croatian kuna

Position	Previous period		Current period	
	1 Jan-31 Dec 2013		1 Jan-31 Dec 2014	
I. OPERATING REVENUE	1.572.873.285		1.541.298.500	
1. Sales revenue	1.396.802.611		1.360.371.432	
2. Other operating income	176.070.674		180.927.068	
II. OPERATING EXPENSES	1.555.513.940		1.527.626.939	
1. Change in inventories of finished products and work in progress	0		0	
2. Material costs	1.130.282.562		1.107.124.015	
3. Staff costs	235.147.808		222.806.274	
4. Depreciation and amortization	83.051.040		71.509.218	
5. Other expenses	81.012.182		80.158.707	
6. Impairment	9.951.233		2.919.199	
7. Provisions	5.035.824		12.535.609	
8. Other operating expenses	11.033.291		30.573.917	
III. FINANCIAL INCOME	71.433.019		50.635.997	
1. Interest and exchange gains, dividends and similar income from related companies	272.254		721.293	
2. Interest and exchange gains, dividends and similar income from other entrepreneurs	71.160.765		49.914.704	
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	88.071.586		56.760.000	
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	88.071.586		56.760.000	
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	1.644.306.304		1.591.934.497	
VIII. TOTAL EXPENSE	1.643.585.526		1.584.386.939	
IX. PROFIT BEFORE TAX	720.778		7.547.558	
X. LOSS BEFORE TAXATION	0		0	
XI. INCOME TAX	0		0	
XII. PROFIT FOR THE YEAR	720.778		7.547.558	
XIII. LOSS FOR THE YEAR	0		0	

CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME

PROFIT / (LOSS) FOR THE YEAR	720.778	7.547.558
Movements in revaluation reserves of long-term tangible assets	0	0
Profit or loss from reevaluation of financial assets available for sale	154.800	-665.578
Hedging reserves	-7.464.369	-2.384.181
NET OTHER COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR	-7.309.569	-3.049.759
COMPREHENSIVE INCOME OR (LOSS) FOR THE YEAR	-6.588.791	4.497.799

Consolidated Croatia Airlines Balance Sheet as at 31 December 2014

		amounts in Croatian kuna	
ASSETS	Position	31 December 2013	31 December 2014
A)	SUBSCRIBED CAPITAL UNPAID		
B)	NON-CURRENT ASSETS	781.039.224	658.669.575
I.	INTANGIBLE ASSETS	17.696.478	25.875.803
II.	TANGIBLE ASSETS	714.505.685	561.969.762
III.	LONG-TERM FINANCIAL ASSETS	48.336.694	70.648.882
IV.	LONG-TERM RECEIVABLES	500.367	175.128
V.	DEFERRED TAX ASSETS	0	0
C)	CURRENT ASSETS	204.965.589	179.474.130
I.	INVENTORIES	47.626.059	49.804.167
II.	RECEIVABLES	102.462.040	77.015.326
III.	SHORT-TERM FINANCIAL ASSETS	2.695.401	2.205.710
IV.	CASH AND CASH EQUIVALENTS	52.182.089	50.448.927
D)	PREPAID EXPENSES AND ACCRUED REVENUE	25.104.306	22.418.716
E)	TOTAL ASSETS	1.011.109.119	860.562.421
F)	OFF BALANCE SHEET ITEMS	0	0
		amounts in Croatian kuna	
EQUITY AND RESERVES	Position	31 December 2013	31 December 2014
A)	EQUITY AND RESERVES	348.399.319	360.656.853
I.	ISSUED CAPITAL	277.889.530	277.889.530
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	75.738.455	81.539.422
IV.	REVALUATION RESERVES	154.800	-665.578
V.	RETAINED EARNINGS	0	0
VI.	ACCUMULATED LOSS	6.825.537	6.825.537
VII.	PROFIT FOR THE YEAR	1.442.071	8.719.016
VIII.	LOSS FOR THE YEAR	0	0
IX.	MINORITY INTERESTS	0	0
B)	PROVISIONS	22.214.951	23.315.170
C)	NON-CURRENT LIABILITIES	80.010.550	67.471.777
D)	CURRENT LIABILITIES	534.824.160	370.585.563
E)	ACCRUED EXPENSES AND DEFERRED INCOME	25.660.139	38.533.058
F)	TOTAL EQUITY AND LIABILITIES	1.011.109.119	860.562.421
G)	OFF BALANCE SHEET ITEMS	0	0
APPENDIX			
EQUITY AND RESERVES			
1.	Attributable to shareholders of the parent company	348.399.319	360.656.853
2.	Attributable to minority interests	0	0

Croatia Airlines d.d. Balance Sheet as at 31 December 2014

		amounts in Croatian kuna	
ASSETS	Position	31 December 2013	31 December 2014
A)	SUBSCRIBED CAPITAL UNPAID	0	0
B)	NON-CURRENT ASSETS	779.864.557	657.933.392
I.	INTANGIBLE ASSETS	16.943.537	25.687.275
II.	TANGIBLE ASSETS	714.311.123	561.817.356
III.	LONG-TERM FINANCIAL ASSETS	48.109.530	70.253.633
IV.	LONG-TERM RECEIVABLES	500.367	175.128
V.	DEFERRED TAX ASSETS	0	0
C)	CURRENT ASSETS	199.222.985	173.678.823
I.	INVENTORIES	47.626.059	49.515.167
II.	RECEIVABLES	99.930.041	74.748.964
III.	SHORT-TERM FINANCIAL ASSETS	2.695.401	2.205.710
IV.	CASH AND CASH EQUIVALENTS	48.971.484	47.208.982
D)	PREPAID EXPENSES AND ACCRUED REVENUE	25.082.712	22.315.623
E)	TOTAL ASSETS	1.004.170.254	853.927.838
F)	OFF BALANCE SHEET ITEMS	0	0

		amounts in Croatian kuna	
EQUITY AND RESERVES	Position	31 December 2013	31 December 2014
A)	EQUITY AND RESERVES	344.367.946	356.175.315
I.	ISSUED CAPITAL	277.879.530	277.879.530
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	73.822.022	79.622.989
IV.	REVALUATION RESERVES	154.800	-665.578
V.	RETAINED EARNINGS	0	0
VI.	ACCUMULATED LOSS	8.209.184	8.209.184
VII.	PROFIT FOR THE YEAR	720.778	7.547.558
VIII.	LOSS FOR THE YEAR	0	0
IX.	MINORITY INTERESTS	0	0
B)	PROVISIONS	22.214.951	23.315.170
C)	NON-CURRENT LIABILITIES	80.010.550	67.471.777
D)	CURRENT LIABILITIES	532.038.337	368.590.789
E)	ACCRUED EXPENSES AND DEFERRED INCOME	25.538.470	38.374.787
F)	TOTAL EQUITY AND LIABILITIES	1.004.170.254	853.927.838

Consolidated Croatia Airlines Cash Flow Statement for the year ended 31 December 2014

Position	amounts in Croatian kuna	
	31 December 2013	31 December 2014
OPERATING ACTIVITIES		
1. Profit / (loss) for the year before taxation	1.596.041	8.915.987
2. Depreciation and amortization	83.207.462	71.672.995
3. Increase in current liabilities	0	0
4. Decrease in short-term receivables	105.633.351	25.446.714
5. Decrease in inventories	1.516.680	0
6. Other increase in cash flow	244.325.705	42.539.197
I. Total increase in cash flow from operating activities	436.279.239	148.574.893
1. Decrease in current liabilities	108.295.881	19.627.752
2. Increase in short-term receivables	0	0
3. Increase in inventories	0	2.178.108
4. Other decrease in cash flow	39.743.860	64.157.933
II. Total decrease in cash flow from operating activities	148.039.741	85.963.793
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	288.239.498	62.611.100
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
INVESTING ACTIVITIES		
1. Proceeds from sale of long-term tangible and intangible assets	1.286.936	195.978.444
2. Proceeds from sale of equity and debt instruments	0	0
3. Proceeds from interests	0	0
4. Proceeds from dividends	0	0
5. Other proceeds from investing activities	0	0
III. Total proceeds from investing activities	1.286.936	195.978.444
1. Payments for the purchase of long-term tangible and intangible assets	76.373.092	80.379.346
2. Payments for acquisition of equity and debt financial instruments	0	0
3. Other payments of investing activities	6.946.366	21.822.496
IV. Total payments used in investing activities	83.319.458	102.201.842
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	93.776.602
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	82.032.522	0
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt financial instruments	0	0
2. Proceeds from the credit principal, debentures and other borrowings	35.800.013	68.461.988
3. Other proceeds from financial activities	0	0
V. Total proceeds from financial activities	35.800.013	68.461.988
1. Repayments for credit principal of loans and bonds	217.457.916	216.736.727
2. Repayments for dividend	0	0
3. Repayments of finance leases	18.256	19.962
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	9.464.345	9.826.163
VI. Total payments used in financial activities	226.940.517	226.582.852
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	191.140.504	158.120.864
Total increase in cash flow	15.066.472	0
Total decrease in cash flow	0	1.733.162
Cash and cash equivalents at the beginning of the year	37.115.617	52.182.089
Increase in cash and cash equivalents	15.066.472	0
Decrease in cash and cash equivalents	0	1.733.162
Cash and cash equivalents at year end	52.182.089	50.448.927

Croatia Airlines d.d. Cash Flow Statement for the year ended 31 December 2014

Position	amounts in Croatian kuna	
	31 December 2013	31 December 2014
OPERATING ACTIVITIES		
1. Profit / (loss) for the year before taxation	720.778	7.547.558
2. Depreciation and amortization	83.051.040	71.509.218
3. Increase in current liabilities	0	0
4. Decrease in short-term receivables	104.751.253	24.377.590
5. Decrease in inventories	1.444.944	0
6. Other increase in cash flow	244.694.157	42.764.187
I. Total increase in cash flow from operating activities	434.662.172	146.198.553
1. Decrease in current liabilities	108.577.209	19.198.203
2. Increase in short-term receivables	0	0
3. Increase in inventories	0	1.889.108
4. Other decrease in cash flow	39.317.637	63.960.962
II. Total decrease in cash flow from operating activities	147.894.846	85.048.273
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	286.767.326	61.150.280
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
INVESTING ACTIVITIES		
1. Proceeds from sale of long-term tangible and intangible assets	1.286.936	195.978.444
2. Proceeds from sale of equity and debt instruments	0	0
3. Proceeds from interests	0	0
4. Proceeds from dividends	647.994	803.487
5. Other proceeds from investing activities	0	0
III. Total proceeds from investing activities	1.934.930	196.781.931
1. Payments for the purchase of long-term tangible and intangible assets	76.310.224	80.280.938
2. Payments for acquisition of equity and debt financial instruments	0	0
3. Other payments of investing activities	6.709.566	21.654.412
IV. Total payments used in investing activities	83.019.790	101.935.350
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	94.846.581
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	81.084.860	0
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt financial instruments	0	0
2. Proceeds from the credit principal, debentures and other borrowings	35.800.013	68.461.988
3. Other proceeds from financial activities	0	0
V. Total proceeds from financial activities	35.800.013	68.461.988
1. Repayments for credit principal of loans and bonds	217.123.952	216.421.727
2. Repayments for dividend	0	0
3. Repayments of finance leases	18.255	19.962
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	9.464.344	9.779.662
VI. Total payments used in financial activities	226.606.551	226.221.351
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES	190.806.538	157.759.363
Total increase in cash flow	14.875.928	0
Total decrease in cash flow	0	1.762.502
Cash and cash equivalents at the beginning of the year	34.095.556	48.971.484
Increase in cash and cash equivalents	14.875.928	0
Decrease in cash and cash equivalents	0	1.762.502
Cash and cash equivalents at year end	48.971.484	47.208.982

**Consolidated Croatia Airlines Statement of Changes in Equity for the year ended
31 December 2014**

Position	amounts in Croatian kuna	
	31 December 2013	31 December 2014
1. ISSUED CAPITAL	277.889.530	277.889.530
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	75.738.455	81.539.422
4. RETAINED EARNINGS / ACCUMULATED LOSS	-6.825.537	-6.825.537
5. NET PROFIT / (LOSS) FOR THE YEAR	1.442.071	8.719.016
6. REVALUATION OF LONG-TERM TANGIBLE ASSETS	0	0
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	154.800	-665.578
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	348.399.319	360.656.853
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	1.954.263	5.080.188
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES OF CAPITAL	199.458.133	7.177.346
17. TOTAL INCREASE / DECREASE OF CAPITAL	201.412.396	12.257.534
17 a. Attributable to shareholders of the parent company	201.412.396	12.257.534
17 b. Attributable to minority interests	0	0

**Croatia Airlines d.d. Statement of Changes in Equity for the year ended
31 December 2014**

Position	amounts in Croatian kuna	
	31 December 2013	31 December 2014
1. ISSUED CAPITAL	277.879.530	277.879.530
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	73.822.022	79.622.989
4. RETAINED EARNINGS / ACCUMULATED LOSS	-8.209.184	-8.209.184
5. NET PROFIT / (LOSS) FOR THE YEAR	720.778	7.547.558
6. REVALUATION OF LONG-TERM TANGIBLE ASSETS	0	0
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	154.800	-665.578
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	344.367.946	356.175.315
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	1.954.263	5.080.188
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES OF CAPITAL	199.009.094	6.727.181
17. TOTAL INCREASE / DECREASE OF CAPITAL	200.963.357	11.807.369

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 2014 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.

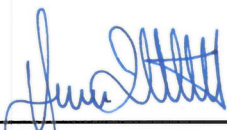
That Report of the Croatia Airlines management contains a true view of development and results of operations and position of the issuer and the companies included in consolidation, with a description of the most important risks and uncertainties that the issuer and the society as a whole are exposed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

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

Zagreb, August 12th, 2015


The persons responsible for the preparation of the issuer statements:

Board Member & COO



Zlatko Širac

President & CEO



Krešimir Kučko

 CROATIA AIRLINES

A STAR ALLIANCE MEMBER 

The Management's Business Report for 2014



April 2015



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Typical indicators

Fleet

type of aircraft	number at the end of 2014	seats	ownership	lease	Ø age (years)	number at the end of 2013	ownership	lease
Airbus A320	2	348	1	1	15,08	2	2	-
Airbus A319	4	576	4	-	15,94	4	4	-
Q-400	6	456	-	6	5,60	6	-	6
TOTAL	12	1.380	5	7	10,63	12	6	6

Traffic indicators

Description		2014	2013	2012
flights (km)	DIST 000	16.328	16.223	17.672
departures	FLTS	25.879	25.179	27.277
growth rate	%	3	-8	-1
block hours	BH	36.909	35.912	38.859
growth rate	%	3	-8	2
passengers carried	RPAX 000	1.825	1.797	1.952
growth rate	%	2	-8	4
freight&mail carried	CGO T	3.103	3.245	3.567
growth rate	%	-4	-9	7
passenger km flown	RPKM mil	1.342	1.323	1.441
available seat - km	ASKM mil	1.938	1.922	2.086
passenger load factor	PLF %	69,2	68,8	69,1
tonne km flown	TKM mil	136	135	147
available tonne-km	ATKM mil	202	204	218
weight load factor	WLF %	67,4	65,9	67,4

Financial indicators

Indicators	Unit	2014	2013	2012
Operating revenue	mln HRK	1.544	1.575	1.683
% of change	%	-2,0	6,0	
Total Revenue	mln HRK	1.595	1.647	1.775
% of change	%	-3,2	-7,2	
Operating expenses	mln HRK	1.530	1.558	1.729
% of change	%	-1,8	-9,9	
Total expenses	mln HRK	1.587	1.646	1.840
% of change	%	-3,6	-10,5	
Total operating expenses - fuel excluded	mln HRK	13,7	17,4	-45,8
Operating profit/loss	mln HRK	13,7	17,4	-45,8
Net profit/loss	mln HRK	7,5	0,7	-64,7
EBIT	mln HRK	19,1	14,5	-45,7
EBITDA	mln HRK	90,6	97,6	84,5
EBIT margin	%	1,2	0,9	-2,7
Efficiency ratio		1,0	1,0	1,0
ROA		0,9	0,1	-5,7
ROE		2,1	0,2	-45,1
Unit operating cost	HRK/ATKM	7,6	7,6	7,9
Unit operating revenue	HRK/ATKM	7,6	7,7	7,7
Passenger yield (passenger revenue in EUR/RPKM)	€cent/RPKM	12,6	13,2	13,2
Current ratio		0,5	0,4	0,4
Debt ratio		0,6	0,6	0,9
Investment ratio		1,3	1,8	6,9
Average number of employees		967	1.076	1.128

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

Productivity indicators

Productivity Indicators	2014	2013	2012
Employees (tkm/employee)	140.913	125.118	129.984
Aircraft (BH/day)	8,4	7,9	8,1
Fuel (tkm/tonne)	2.458	2.389	2.387

Croatia Airlines in 2014 – introduction

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

Ownership structure

Croatia Airlines is a joint-stock company.

At an extraordinary meeting held in October 2014, the General Assembly made a decision on the basis of which 13.686,378 ordinary shares in the nominal amount of HRK 20 were divided into two shares in the nominal amount of HRK 10. At the same time, 51,197 preference shares with no voting rights and with the nominal value of HRK 10 were converted into ordinary shares with the nominal value of HRK 10. After the recorded changes, the Company's share capital amounts to HRK 277.879,530 and is divided into 27.787,953 ordinary shares with the nominal value of HRK 10.

Review of shareholders and their share in stock capital	%	Capital (HRK)
DUUDI for the REPUBLIC OF CROATIA	97,02	269.594.610
INTERNATIONAL AIRPORT ZAGREB	1,72	4.771.210
DUUDI for DAB	0,77	2.131.520
JANAF	0,08	220.000
CROATIA LLOYD	0,04	102.700
PASKA ANA	0,02	67.620
CONING ENGINEERING	0,02	52.140
CROATIA LLOTERY	0,01	40.000
OTHERS	0,32	899.730
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.

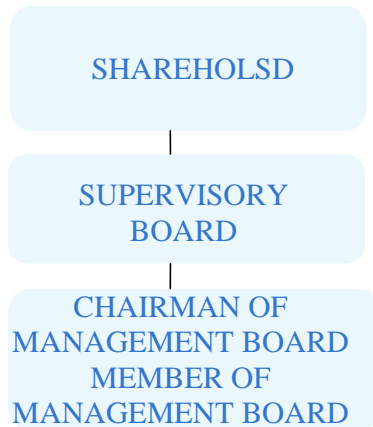
Pleso prijevoz d.o.o. is 50% owned by Croatia Airlines, whereas its other half is owned by Zagreb Airport. It transports passengers travelling on the route airport - city, lost luggage, as well as the personnel working at airports in Zagreb and Split.

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 organisation of all activities and provision of technical support related to the use of Amadeus reservations system on the territory of Croatia and Bosnia and Herzegovina. Amadeus is a global reservations system through which transport and accommodation capacities are distributed and booked on a global level, via travel agencies and sales locations of the very airline companies.

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

Company's management structure and organisation

The Company's operations were in 2014 organised through its business functions grouped into business units and through the joint functions of the Company organised within the Management Secretariat, Quality and Safety Management Office, Controlling and Internal Audit Sector, and corporate functions comprising the Finance and Accounting Sector, Legal Affairs Sector, Human Resources and Asset Management Sector, and IT Sector.



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

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

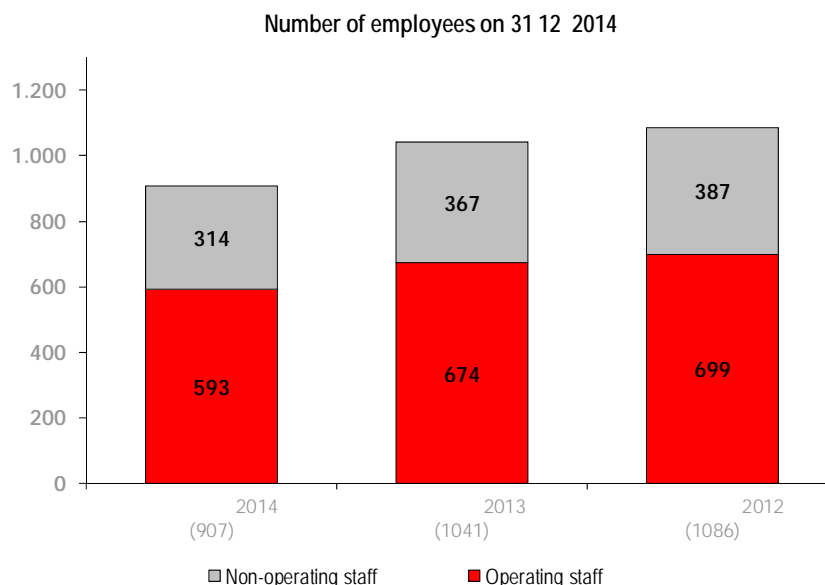
and safety management in the engineering sector.

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

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

Human resources

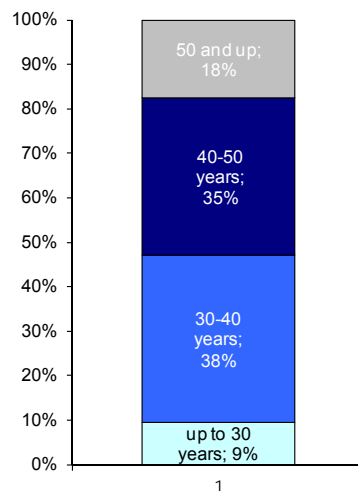
On 31 December 2014, the Company had 907 employees, including 41 foreign branch office employees. Compared to the end of 2013, the number of employees fell by 12.9%.



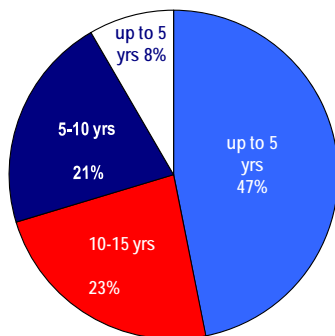
At the end of 2014, the **number of operative staff members** was reduced by 12.1% compared to the end of 2013, while **the number of non-operative staff members** declined by 14.4%, primarily due to the fact that the Company hired no replacements for the employees who had left the job.

Due to the needs of covering the summer flight schedule, the Company hired 55 cabin staff employees on a seasonal basis.

Structure by age 2014



Structure by employment record



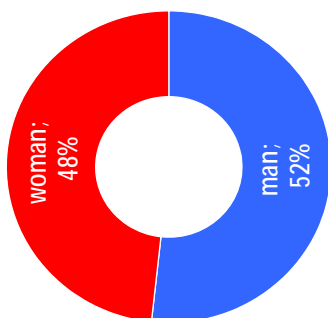
The share of operative staff members¹ within the Company was 65.4% (593), while that of non-operative staff members was 34.6% (314).

According to the educational structure, 52% of employees held either an associate or a university degree, with the average age of employees being 42 years; in terms of gender structure, men were somewhat more represented (52%).

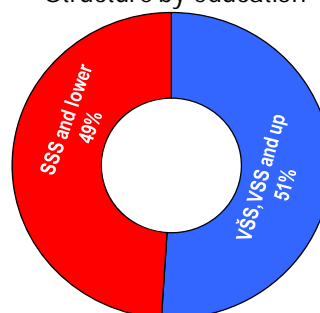
Of the total number of employees, including those at the local representative offices, 16 (1.8%) were employed on a definite contract basis.

The average overall employment record of the Company's operative staff was 16.3 years of service, and that of the non-operative staff was 19.0 years, while the average employment record on the level of the entire Company was 17.2 years. The average employment record in the Company was 13.1 years of service for the operative staff, and 15.6 years for the non-operative staff, while the average employment record in the Company on the level of the entire Company was 13.9 years.

Structure by gender



Structure by education



The share of women in the senior and medium management totalled 37%.

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

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

Investment in education (HRK)	2014	2013	2012
Operative staff	6.668.434	6.087.419	7.178.876
Annual change rate	10%	-15%	19%
Non-operative staff	589.220	587.948	317.710
Annual change rate	0%	85%	-26%
Total	7.257.654	6.675.367	7.496.587
Annual change rate	9%	-11%	16%

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

In 2014, the activities of the Technical Training Centre were focused on the cooperation with the Croatian Civil Aviation Agency (CCAA) concerning the issuance of Part 66 licences and the implementation of the new EU aviation regulations. Active cooperation with the CCAA representatives continued, which significantly simplified and shortened the Part 66 licence issuance process.

As a result of the objective needs of the Technical Sector, the following training programmes were developed:

- One-class monthly refresher
- ATR 72-100/200 series PWC PW 120 on job training
- Engine run-up differences ATR 42-200/300 (PW120) to ATR 72-100/200 (PW120)
- Engine run-up differences ATR 72-212A (PW120) to ATR 72-100/200 (PW120).

During 2014, a reviewed edition of the Maintenance Training Organisation Exposition manual was issued in line with the "Regulation on the Continuing Airworthiness of Aircraft and Aeronautical Products, Parts and Appliances" (PART-147), as well as three reviewed editions of the Technical Training Manual.

In 2014, the Company started digitalising employee personal data, as well as education and training records. The former was fully completed, and the employee database was harmonised with the hard copy records and the digital copies of certificates. The digitalisation process continues in 2015.

The expansion of operations to ATR 72-100/200 type of aircraft required the provision of training to mechanics and instructors for the additional type. The Technical Training Centre hired external experts to run practical classes, so that the mechanics could complete the contracted work for foreign customers. The initial Safety Management System training was provided to all employees of the Part 145 organisation.

As organised by the Technical Training Centre, 100 training courses with 1,422 classes were held in 2014. The training price per employee was reduced by 23%, with the price of one class per employee being reduced by 37%. On the average, each Technical Sector employee attended training for 5.14 days.

In addition to the trainings prescribed by relevant regulations as necessary for maintaining the required operating licences, obtaining new ones, and registering aircraft types, the main goal of the Technical Training Centre was to become competitive on the global market and to coordinate its training programmes with the commercial demands.

In 2014, the Traffic Training Centre organised mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the traffic sector employees to extend all authorisations and licences necessary for performing their activities.

During 2014, the CCAA carried out a number of inspections for the purpose of implementing an on-going 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 Operations Manual, Part D & Quality Inspection Orders, for the purpose of monitoring and raising the quality of the work of TRI/TRE and cabin personnel instructors.

Savings measures were implemented in all business segments, as well as the rationalisation of operations of the Traffic Training Centre employees. In line with the new regulations, the Operations Manual, Part D and Annexa were revised, and adjustments were made for the new Approved Training Organization (ATO) certificate. All required employee and flight trainer authorisations were extended, and the project of transition and adjustment of the A32F fleet to AIRBUS standard operating procedures was completed.

In 2014, the Company started the project of commercial training of pilots for A320 and Q400 aircraft. Also, all necessary preparations for the introduction of the commercial training programme for cabin personnel were undertaken, and various online training programmes were offered on a commercial basis, which resulted in an increase of other revenues. In line with relevant authorisations, 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.

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 2014 was marked by a series of educational activities within the Legal Affairs and the Human Resources and Asset Management sectors. A number of internal training courses were held, with the aim of giving employees an opportunity to obtain additional industry expertise and business skills needed for their everyday work.

During 2014, several series of regular training courses were organised for sales employees, ground operations employees and travel agency employees; they were related to reservations, passenger tariffs and automated document printing.

Various internal specialised training courses were organised for a number of employees, with the aim of familiarising them with the EU aviation regulations, training internal auditors, etc. Other numerous trainings focused on crisis and extraordinary event management were held for the employees of all organisational units.

Training courses prescribed by the Star Alliance standards were an important educational segment in 2014; they were focused mainly on the benefits of the privileged categories of Star Alliance passengers. A series of internal courses aimed at recognising passengers with special Star Alliance statuses was organised, in order to acquire an appropriate approach to this passenger category, maintain the high service standard and improve the level of passenger satisfaction in general.

Croatia Airlines' employees have been undergoing various types of Star Alliance online training since 2009, and so far altogether 4,800 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, specialised training centres, while external experts are hired for certain training categories. Those experts implement in-house programmes, in which a number of target employee groups 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.

In 2014, the Company started with the preparations for implementing the process of monitoring employee performance, with the key purpose being systematic monitoring of their work and getting feedback on it in order to maintain or improve the results. This is a prerequisite for other important elements of human resource management: recognition of top quality work, monitoring of standards and competences, planning of training courses and career developments, etc. The introduction of a performance monitoring model promotes certain Company values, depending on the type of work activities, i.e. competences, being monitored. The establishment of this system also encourages managers to provide their teams with more active support in their realisation of the business goals. The aim is to develop and further improve, based on the professional approach, cooperation and adaptation of the model to the Company's specificities, a reliable tool that will become an integral part of the human resource management function. In order to ensure a transparent and even application, all Croatia Airlines' employees were given an insight, in writing, into the performance monitoring model, and were also orally informed thereof. The appraisers attended both training courses, to get familiarised with the assessment process, and annual consultations aimed at achieving the objectivity and reliability of assessments and getting valuable feedback.

As a national flag carrier, Croatia Airlines organises within its Training Centre a series of training courses needed by travel and commodity agencies for the acquisition of the IATA licence, training courses for airports, freight forwarders and airline companies. In 2014, 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.

During 2014, 23 workers were hired on a temporary basis within the Technical Sector, for the needs of the "Third Hangar" project.

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, fire protection and environmental protection

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

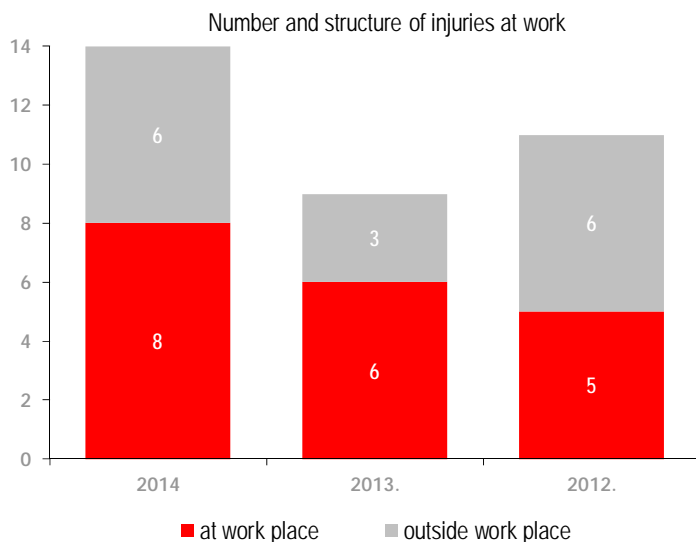
Employee training related to working in a safe manner and legally prescribed basic training in fire protection are regularly organized and implemented for all new employees. Specialist training for the safe handling of machines and devices posing a greater hazard (platform lifts, fork-lifts, etc.), and courses on the protection against hazardous chemicals are organised in line with the needs of the Technical Sector.

Pursuant to the Occupational Safety and Health Act, training in the sphere of occupational safety was provided in 2014 to 36 authorised employer representatives in the technical sector.

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 check-ups and testing.

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



In 2014, the State Inspectorate and the Inspectorate of the Ministry of Environmental and Nature Protection carried out no inspections in the spheres of occupational safety and environmental protection. The Inspectorate of the Interior Ministry issued no negative findings after its regular annual inspection of the implementation of fire protection measures.

Altogether fourteen injuries at work were recorded in 2014 (ten women and four men). Of those, eight injuries were sustained at the place of work, and six while arriving to the workplace, of which four were a result of a traffic accident. When classifying injuries sustained at work in accordance with the AUVA method, all injuries sustained in 2014 were minor. All fourteen reported injuries were acknowledged by the Croatian Health Insurance Institute. There were neither deaths related to injuries at work, nor professional illnesses.

Protection of employees' dignity

For the purpose of protecting its employees' dignity, the Company prescribed the Complaint Receipt and Settlement Procedure and appointed a person to receive and handle complaints related to this issue. 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, utilising and delivering to third parties personal data on the Company employees.

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

Employees and Management relations

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

Independent Croatian Union of Airline Employees.

There is also a Works Council within the Company, which had 11 members in 2014. Through the Works Council, and in a way and under the conditions prescribed by the Labour Act, the Company's employees participate in making decisions related to their economic and social rights and interests.

Social responsibility

Transport and tourism

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

The Company's significant role in connecting domestic airline destinations and in maintaining traffic within Croatia has also been recognised 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.

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

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

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

In 2014, Croatia Airlines continued its cooperation with the Croatian Olympic Committee and the Croatian Paralympic Committee, being the official carrier of Croatia's Olympic team, and a promoter of local athletes and sports as a member of the Committees.

Support for the community

Whenever possible, Croatia Airlines strives to support institutions that need humanitarian aid or organise 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. In an effort to contribute to the quality of medical treatment and health care provided to children, Croatia Airlines donated funds to the

Children's Hospital Srebrnjak in Zagreb and to the Clinical Hospital Centre in Split for the purchase of the latest otorhinolaryngology and pulmonology diagnostics devices.

Business ethics

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

Anniversaries, awards and environmental protection

In 2014, Croatia Airlines marked its 25th anniversary. The celebration was attended by high representatives from Croatia's political circles, Chief Executive Officer of the Star Alliance, representatives of international airline associations and organisations, Company's numerous business partners and employees, all with the aim of jointly celebrating the successful cooperation. In the 25 years of existence, Croatia Airlines evolved in a medium-size airline recognised by its passengers for the flight safety, top quality services and highly professional personnel. In this period, Croatia Airlines' aircraft operated about 470,000 flights and transported over 29 million passengers, of which more than 20 million on international and about nine million on domestic flights.

Croatia Airlines also marked the 20th anniversary of its travel magazine Croatia. At the exhibition VISUAL - 25 Year of Design and Photography in Croatia Airlines, held at the Museum of Arts and Crafts, the visitors had the opportunity to get an insight into the Company's visual development. The magazine Croatia, available to the passengers on all flights, also has an important role in communicating both the corporate values and the national identity. Its visual identity reflects that of the Company and therefore successfully promotes the national features and specificities of the Republic of Croatia throughout the world.

Environmental protection

The 2014 – 2016 period with the projection for 2020 is of significant importance for all companies in the EU and the Republic of Croatia and, therefore, for Croatia Airlines as well.

The European Union is the most active global player when it comes to introducing new and more restrictive regulations which contribute to a reduced consumption of resources. Preparations are currently underway for the introduction of significant amendments to relevant regulations, by which the EU wishes to notably reduce the influence of both individuals and business entities on the environment.

In line with provisions of the resolutions adopted at the 38th session of the ICAO Assembly, in the year 2014 a number of activities were carried out at the global level with the aim of setting up a global system of trading in carbon credits, which resulted in changes to the EU ETS Regulations. Consequently, Croatia Airlines modified its reporting models so the data related to trading in carbon credits for the years 2013 and 2014 will be presented in a single report in spring 2015.

In 2014 Croatia Airlines entrusted the Ministry of Environmental and Nature Protection and the Croatian Environment Agency with its EU ETS emission plans. In collaboration with the Ministry, Croatia Airline established cooperation with the EU Environmental and Climate Regional Accession Network (ECRAN TAIEX). As a member of trade associations AEA, IATA and STAR Alliance, Croatia Airlines followed and implemented all changes and adjustments related to the EU ETS reporting. Furthermore, Croatia Airlines followed local initiatives affecting its business by fulfilling additional requirements (technological or financial) about reporting and impact reduction. At the national level, in 2014 Croatia Airlines participated in collecting, monitoring and entering into the EU Registers the data related to waste, halons and CO₂ emissions in line with national (EU) requirements.

In 2014, Croatia Airlines was also actively involved in establishing and organising the activities of *Fuel Efficiency*, a group of company experts carrying out analyses of company processes related to the aircraft fuel consumption. The analyses were then followed by required activities and tests, by which business processes were optimised through inter-sector cooperation. Such an approach helps generate not only financial profit (by reducing fuel expenses), but also ecological gains (by reducing emissions and consumption of natural resources). Further endeavours of the group will be based on measuring improvements, made possible owing to the use of the level 2 Electronic Flight Bag system. The group will strongly focus on seeking improvements that can be quantified in terms of fuel and emission reductions. Croatia Airlines presented a number of initiatives at the annual meeting of the Star Alliance *Fuel Efficiency* group in 2014.

In 2014 Croatia Airlines presented a paper at the 6th National Conference on Corporate Social Responsibility. Furthermore, the Company continued cooperation with Croatian Chamber of Commerce in the field of ecology, and provided consultancy advice to the Ministry of Environmental and Nature Protection in the process of drafting the Regulation amending the Regulation on the trading with greenhouse gas emissions, as it did for the Croatian Environmental Agency in relation to the project "Improving the estimate of GHG emissions from the aviation sector".

In 2015, relevant bodies in the Republic of Croatia are expected to draw up the following documents: Low-Carbon Development Strategy until 2030, with the projection for 2050, Programme for the Gradual Reduction of Emission of Certain Pollutants in the Republic of Croatia, with Emission Projections until the Year 2020, 2025 and 2030, and the Projection for 2050, Draft Programme for the Reduction of Emissions from Transport in the Republic of Croatia for the 2015 – 2017 Period, with the Projection for 2020, and Strategic Assessment of Environmental Impact of the Low-Carbon Development Strategy of the Republic of Croatia until 2030, with the Projection for 2050.

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 strategic, financial and operational restructuring goals were set in line with the defined restructuring areas. The monitoring and control of those goals represents the key presumption for the successful realisation of the Restructuring 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.

In the course of restructuring, the Company was focused on implementing the planned measures aimed at rationalising business operations and achieving savings by restructuring the block time and the flights network, reorganising the Company by optimizing its management structure, making adjustments to the actual work processes, and rationalising its operations by increasing process efficiency. In line with the planned dynamics, the Company started implementing compensation measures and own contribution measures, rationalising its sales network and implementing the Redundancy Scheme.

The implementation of the planned measures resulted in a positive financial result at the end of 2013 for the first time in five years.

According to the financial result for 2014, Croatia Airlines generated an operating profit of HRK 13.7 million, while its net profit totalled HRK 7.5 million, recording a positive result for the second year in a row.

Croatia Airlines implements compensation measures and own contribution measures in line with the Restructuring Plan and the Decision of the Croatian Competition Agency.

All of the set compensation measures were fully implemented both in 2013 and 2014, in line with the Decision of the Croatian Competition Agency. The compensation measures comprise as follows:

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

In 2014, the following own contribution measures were realised:

- Sale & lease back of an A320 CTJ;
- Sale & lease back of three CFM56-5B engines;
- Framework credit lines and short-term loans;
- Sale of a part of the land to Zagreb Airport.

The Restructuring Plan implementation process requires careful and efficient risk identification and management. The monitoring, implementation and control of the realisation of each of the set goals at the predefined dynamics is the key presumption for the future successful realisation 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 the pressure on the price reduction, fall in yields and exceptionally strong competition, the optimum allocation of capacities for the purpose of maximising the revenues and prompt reaction to the price changes have become the key elements for a successful business.

In order to advance its revenue management and speed up its response to price changes on the market, and thus improve its competitive position, Croatia Airlines implemented in late 2013 Sabre AirVision Revenue Management system, making a transition from manual to automated revenue management.

In 2014, the Company continued further improving its Revenue Management system, including the Fare Manager. After implementing this application in late 2014 within the Revenue Management project, the system performance and revenue results were monitored on an on-going basis. After the first four months of use, a system performance analysis was carried out. The results showed that automation improved the revenue management on a certain number of flights, and indicated the areas that still had room for improvement. The implementation of such advancements resulted in increased flight revenues. The Fare Manager application required an additional development in the sphere of information on charges, and it was upgraded in cooperation with the producer in order to achieve the full system use potential and greater pricing efficiency.

Other operating systems and applications

In order to improve the quality of flight personnel's preparations and work, in 2014 the Company decided to replace the EFB (*Electronic Flight Bag*) system Lido/FlightBag. The goal was to find a solution that would initially cover pilot operational processes and connect the cockpit with the rest of the Company's systems. Also, it was important to install a system that could be further developed and adapted to the needs of the pilot position and the Company in general. The new EFB system is based on aircraft, and EFB computers were installed on the aircraft, while power will be supplied via airline systems.

In order to adopt the new modules as easier as possible, their implementation comprises two stages. The first one, fully implemented in 2014, comprised the module implementation: EFF (Electronic Flight Folder) for operational flight plans; Documentation (Large Content Manager); Performance Calculator (TOPAS) and Lido eRM for electronic navigation maps. The second stage comprises eJourneyLog module that enables electronic flight order management; W&B for the calculation of loadsheets; Reporting for filling out reports, and Flightman performance calculator for take-offs and landings, all to be implemented in 2015. The new EFB system will boost the efficiency of operating processes, speed up aircraft handling and make CTOT time management more efficient. It is also expected to significantly shorten the time needed for briefing the pilots.

The implementation of the SAP HANA in-memory database is also underway. The data are stored and processed in the RAM, which enables the processing of large quantities of data in real time. Calculations are carried out within the base, and the results are sent to the application. Croatia Airlines also implemented accelerators for the FI and CO modules, thus significantly speeding up the reporting process and the

implementation of BW on HANA CO-PA boxes. This part of the project should be completed in 2015, when HANA will be an integral BW with the business areas of finance, sales and procurement.

Construction of a third hangar

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, in 2013 the Company management decided to build a third hangar at Zagreb Airport. The construction works started in 2014, and the hangar was put into operation in February 2015. It covers the area of some 2,200 m², increasing the capacities of the technical centre by 30%. In addition to increased revenues, new jobs will also be opened. The hangar is fully suitable for performing the most demanding repairs on Airbus aircraft, and 6- and 12-year check-ups, and it will at the same time enable faster and more efficient maintenance of Croatia Airlines' fleet. The third hangar enables the engineering sector experts to promote and export their know-how, i.e. it opens up greater possibilities for the maintenance of foreign airlines' aircraft, thus additionally contributing to the strengthening Croatia's economy and its competitive position. Croatia Airlines has had an authorisation for base and line maintenance of foreign aircraft at its base in Zagreb since 2001. To this day, altogether 206 major aircraft check-ups, including the most demanding 6- and 12-year ones, were carried out, and more than 280 various technical interventions on foreign airlines' aircraft.

Business environment and operational risks

Global economy

The global economy continued to recover in 2014. In January 2015, the International Monetary Fund revised the World Economic Outlook² according to which the global economy was to see a 3.3% growth in 2014. No significant improvements are expected in 2015, with a 3.5% growth being projected.

In 2014, advanced economies faced a growth and continued to implement the financial sector recovery measures and fiscal consolidation, and to boost employment growth, while the developing economies faced a growth slowdown and more stringent global financial conditions.

According to the IMF's forecasts, the economy of the eurozone saw a 0.8% rise in 2014. A mild growth of 1.2% is projected for 2015, with differences between individual countries becoming more prominent.

The latest data show that the eurozone's economy rose 0.3% in the final quarter of 2013, compared to the preceding three months; the growth in the last quarter was 0.2%³. The eurozone's gross domestic product rose by 0.9% on the level of 2014 compared to 2013, mostly owing to the strengthening of the German economy, which should positively affect Croatia's economy since Germany is among the key markets for Croatia's exporters.

The eurozone exited recession, and the countries hit by the crisis increased their export volumes and reduced their budget deficits. However, the issues that led to the euro crisis, such as high indebtedness of national economies, still remain unresolved, and many countries continue to struggle with the competitiveness problem. Europe still remains in the vicious circle of slow growth, low inflation and high unemployment.

With the debt crisis in Greece, there are still great concerns about the French and Italian economies – as the second and third largest economies of the eurozone. France's deficit keeps growing despite the savings measures, and Italy has been struggling for years to exit economic stagnation, having the highest debt amount the EU countries. France and Italy are advocating changes that would enable greater consumption, while Germany on the other hand insists on maintaining the fiscal discipline.

According to Eurostat, the eurozone's unemployment rate was 11.4% in December 2014, down from 11.5% in November of 2014 and 11.8% in December 2013⁴. This is the lowest rate recorded in the eurozone since August 2012.

Eurostat's data⁵ show that the eurozone's annual inflation rate fell to -0.2% in December 2014, the lowest level since September 2009, thus officially entering the deflation zone, which might have a negative effect on the economy. The eurozone last recorded deflation in October 2009, after the financial crisis emerged.

² www.imf.org (downloaded on 19 March 2015)

³ www.poslovni.hr (downloaded on 16 February 2015)

⁴ <http://ec.europa.eu/eurostat/web/products-press-releases/-/3-30012015-AP> (downloaded on 30 January 2015)

⁵ <http://ec.europa.eu/eurostat/web/products-press-releases/-/2-16012015-AP> (downloaded on 16 January 2015)

Croatia's economy

Despite the more positive indicators in the final quarter of 2014, that year will be recorded as the sixth consecutive year of recession, with the real economy fall of 0.4% compared to 2013. According to the initial estimates of the Croatian Bureau of Statistics⁶, gross domestic product rose 0.3% in the final quarter of 2014 over the same period of 2013, rising for the first time after facing a decline for 12 quarters in a row.

A lack of reforms, growing public debt, long-lasting pre-bankruptcy settlements, fiscal consolidation, high unemployment, excessive macroeconomic imbalance and entrance into the excessive deficit procedure were the key features of Croatia's economy in 2014.

The export growth and the good results of the tourist season failed to compensate for the poor investments and low consumption. Croatia's EU membership was not sufficiently utilised. There were no stronger inflows of foreign investments, as a result of both the country's specific structural weaknesses and the slow recovery of the EU economy.

The labour market trends are particularly worrying. According to Eurostat⁷, with the unemployment rate of 16.4% Croatia ranks third (together with Cyprus) among the European Union countries. Croatia is also among the countries with the highest youth unemployment rate (44.8%), right after Greece (50.6%) and Spain (51.4%).

In 2014, Croatia recorded deflation for the first time in its history. The Croatian Bureau of Statistics⁸ announced that Croatia's consumer prices were 0.2% lower on the average than in 2013. In 2015, oil prices will have a crucial role in forming the consumer price index.

Croatia's public debt continues to grow, and will reach HRK 269 billion on the level of 2014, i.e. 82% of GDP⁹. The GDP growth dynamics is unsustainable, as a result of the piled up deficits and postponed restructuring of the public sector. The situation is not likely to improve unless structural reforms are implemented.

Industrial production figures were among the positive indicators in 2014. The country's industrial production¹⁰ rose by 1.3% compared to 2013. The year of 2014 was the first one facing a growth after a decline for five consecutive years. A positive annual growth is expected in 2015, too, with low domestic demand being a limiting factor.

The export of goods is another positive indicator, reaching HRK 78.9 billion in 2014 according to the interim data of the Croatian Bureau of Statistics¹¹, 8.7% up from 2013. The goods deficit in HRK faced a 1.9% decline in 2014, amidst significantly greater rise of export over import value.

Croatia's tourism was not affected by the economic crisis, thus reaffirming its significance as an industry successfully addressing the challenges of a difficult economic situation. Despite the unfavourable weather conditions, the tourist season brought positive results, and the continued growth of tourist arrivals and overnight stays proves Croatia is becoming an increasingly attractive and popular destination among tourists worldwide.

⁶ www.bank.hr (downloaded on 27 February 2015)

⁷ www.bank.hr (downloaded on 30 January 2015)

⁸ www.bank.hr (downloaded on 2 February 2015)

⁹ www.poslovni.hr (downloaded on 10 February 2015)

¹⁰ www.bank.hr (downloaded on 29 January 2015)

¹¹ www.dzs (downloaded on 10 March 2015)

In 2014, altogether 13.1 million tourist arrivals were recorded, or 5.6% more compared to 2013, with altogether 66.5 million overnight stays, 2.6% up from 2013. The number of overnight stays of foreign tourists increased by 2.8%, while that of domestic tourists saw a 0.4% rise. The same as in the preceding years, tourists from Germany were the most numerous, followed by those from Slovenia, Italy, Austria, Czech Republic and Poland. We should note a significant rise in the number of arrivals of tourists from Great Britain (10%), U.S.A. (16%) and Canada (+20%).

Global airline industry

The airline industry has a cyclical nature and highly depends on the economic situation. In 2014, the global airline industry continued facing a growth, driven by the GDP growth on the global level and lower oil prices as the main generators of improved airline profitability. Over 3.3 billion passengers used airline services in 2014, or 172 million more compared to 2013.

According to the forecasts of the International Air Transport Association (IATA)¹², passenger traffic expressed in passenger kilometres (RPKM) rose by 5.9%, exceeding the last decade's average growth rate of 5.6%. Driven by a strong rise in demand, passenger load factor (PLF) reached 79.7%. Cargo transport also recorded a significant rise¹³, with tonne kilometres (TKM) being 4.5% higher (their growth in 2013 was 1.4%).

According to IATA's forecasts¹⁴, the global airline industry faced a significant profitability growth in 2014. The latest projections say that its total net profit was \$19.9 billion, with EBIT margin of 5.1%, which is a significant shift compared to 2013, when its net profit was \$10.6 billion, with EBIT margin of 3.5%. The profit was 6.02 U.S. dollars per passenger, almost twice as much as that in 2013, when it was 3.38 \$/passenger.

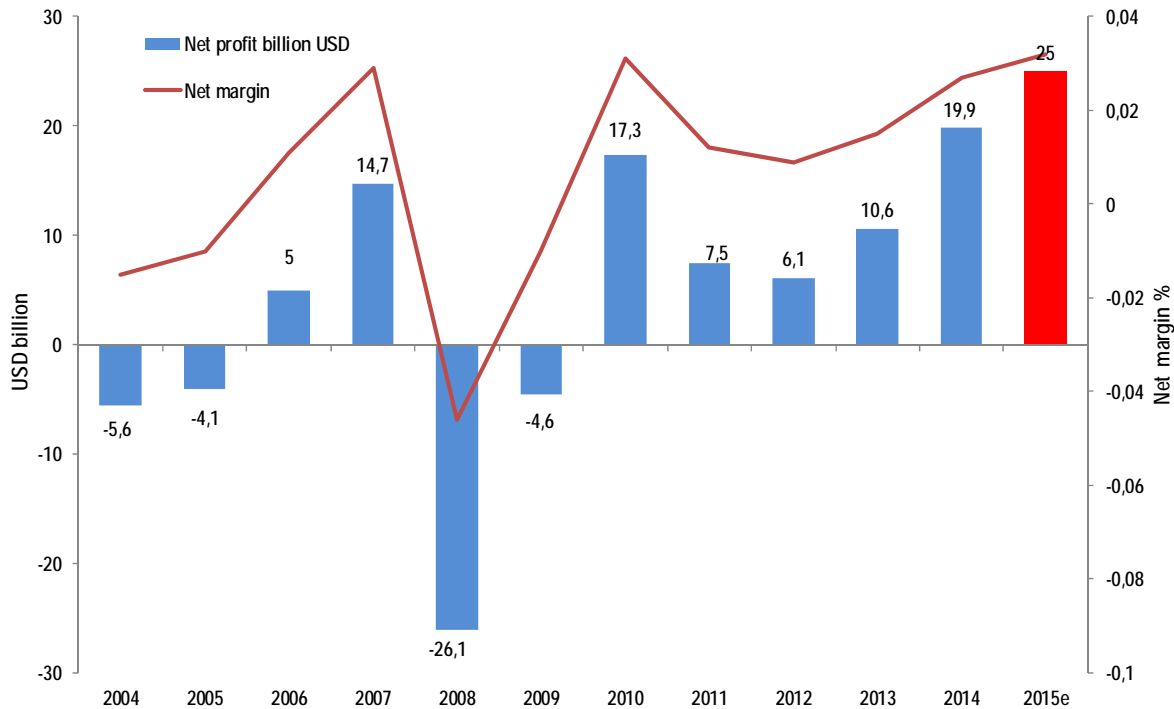
The regional outlook for the net profit in 2014 reflects differing economic conditions in various parts of the world. All global markets generated a profit, with North America, Asia and Pacific and the European market being the most profitable ones, followed by the Middle East and Latin America markets, while Africa's market generated a marginal profit.

¹² IATA Air Passenger Market Analysis, February 2015

¹³ IATA Air Freight Market Analysis, February 2015

¹⁴ IATA Economic Performance of the Airline Industry, December 2014

World Airline profitability



Source: IATA, December 2014

European airline market

Despite the slow economic growth in Europe, according to the data issued by the Association of European Airlines (AEA), in 2014 the AEA members transported 11 million passengers more (+3%) than in 2013. Passenger kilometres (RPKM) saw a 4.4% growth, with a record passenger load factor (PLF) of nearly 81%. Cargo transport expressed in tonne kilometres (TKM) recorded a 2% rise.

In 2014, altogether 368.9 million passengers were transported in scheduled traffic, or 2.9% more than in 2013. RPKM rose by 4.1%, and the realised PLF, including long-haul traffic, was 80.6%, i.e. 0.3 pp up from 2013.

The European route area (scheduled traffic), comparable with Croatia Airlines' network, saw a 2.5% rise in passenger numbers (Croatia Airlines: +2.3%) and a 3.7% rise in passenger kilometres (Croatia Airlines: +2.6%). AEA members' passenger load factor was 76.2%, and Croatia Airlines' was 68.9%.

All route areas recorded a rise in the number of passengers, except for North Africa which faced a 3.5% traffic decline. Of altogether 368.9 million passengers carried, 277.3 million travelled in the European route area (+2.5%). The Middle East and North America realised the greatest rise (+5.1%), followed by South America (+4.9%), Far East and Australia (+4.7%).

According to IATA's forecasts¹⁵, the airline industry's net profit in 2014 should reach some \$2.7 billion, with the net of 1.3%, rising over the preceding year when its net profit was \$0.5 billion, and net margin 0.2%. Despite the high load factor, the combination of low yields and high costs will bring modest financial results.

¹⁵ IATA Economic Performance of the Airline Industry, December 2014

In 2014, the European airline companies, particularly the traditional network carriers, continued implementing the restructuring process and redefining the flights network on the route area within Europe, with the aim of advancing their competitive positions. According to *www.capstats.com*¹⁶, in 2014 low-cost carriers reached a 35% share in this route area.

The majority of Europe's traditional network carriers found themselves in an unenviable financial position after exiting the economic crisis, and are searching for a strategic partner. However, it needs to be taken into account that an investor outside the European Union can acquire up to a 49% ownership share in an EU airline, and the same applies for the control rights. The European Commission, therefore, reached a decision on conducting due diligence on several most recent investment cases¹⁷.

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 6.3% in 2014 compared to 2013. Altogether 6.7 million passengers were recorded on eight airports in Croatia, with Croatia Airlines' market share being 33%. The number of aircraft operations at Croatia's airports totalled 94,331 in 2014, 1.7% down from 2013. Altogether 7,567 tonnes of cargo were transported through Croatia's airports, remaining on the level of 2013.

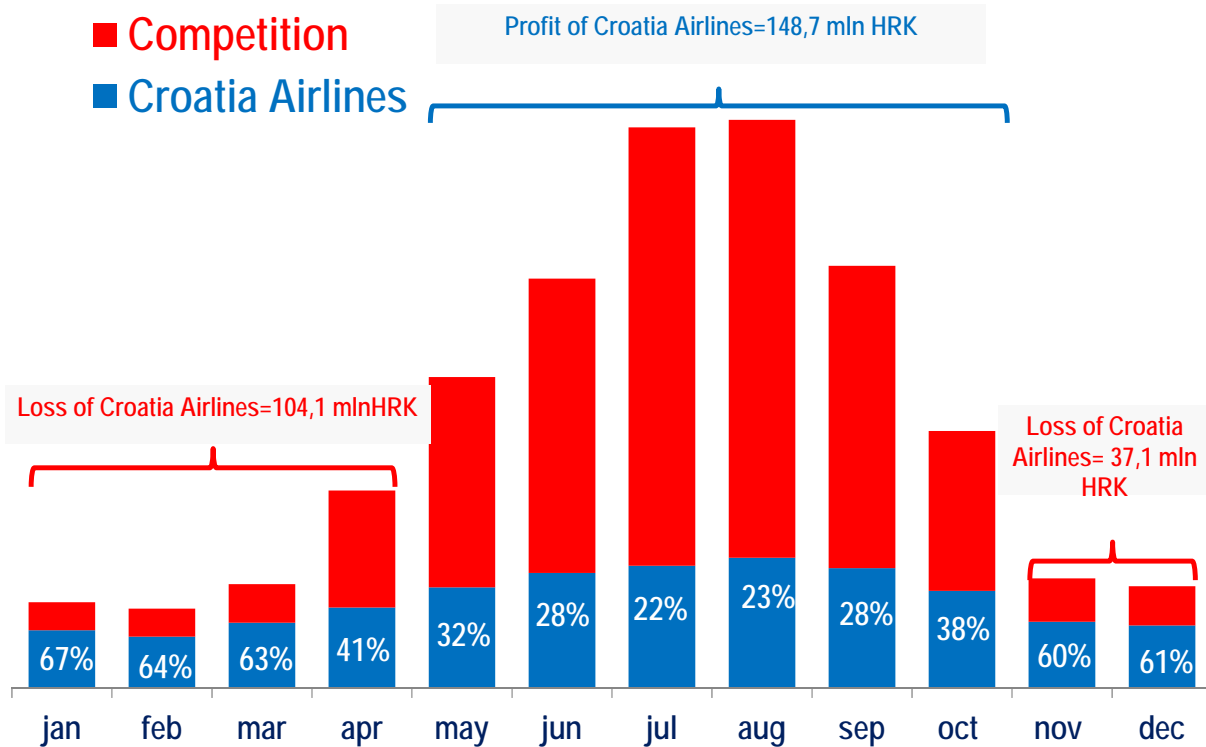
Croatia Airlines' share of 33% testifies to the high traffic seasonality on Croatia's airline market, with a high level of competition in the summer months. More than half of all passengers on the Croatian airline market are transported in the third quarter, when nearly 100 rival airlines operate, while 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 emphasised that Croatia Airlines, as a national flag carrier, enables the country an airline connection with the rest of the world during the winter, when the demand is low.

The below diagram shows that Croatia Airlines generates losses during the winter period, when the Company's share on Croatia's airline market reaches up to 67%, while it operates on profit in the summer period when its market shares ranges from 22% to 38%. This shows that in order to generate profit on an annual level, it is crucial to minimise the operating costs in the winter period, while optimising the flights network.

¹⁶ Airline Capacity and Flight Frequency Statistics, Global Capacity Report, December 2014

¹⁷ <https://login.flightglobal.com/?ReturnUrl=http://pro.flightglobal.com/news/articles/analysis-europe-faces-task-of-defining-foreign-39control39-398421/> (downloaded on 24 October 2014)



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

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), natural disasters and global epidemics.

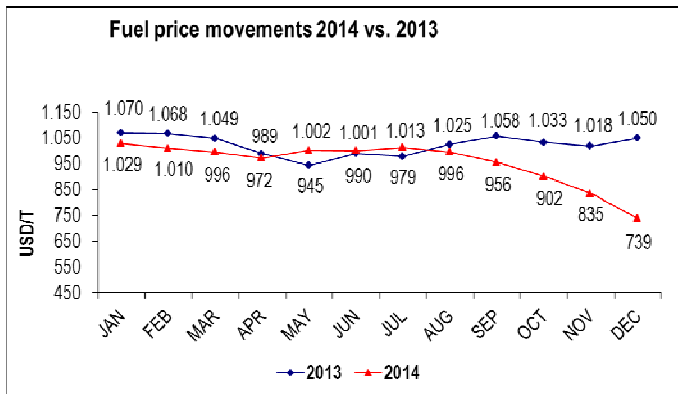
Croatia Airlines' operations are exposed to the risks related to price changes, especially fuel price changes, interest rate changes, exchange rate changes and liquidity maintenance in the conditions of high seasonality of demand on the Croatian airline market, with a high level of competition being present.

Recession and economic crisis

Being exposed to recession and economic crisis affects the demand for air traffic services. Foreign citizens are the main generator of traffic in Croatia (87%), which also represents one of the risks in Croatia Airlines' operations, given the dependence on the economic trends in its surroundings and the need to advance its market position on foreign markets. The share of Croatian citizens in Croatia Airlines' international passenger traffic (about 35%) is higher than that of the competition, so the exposure to the risks coming from the country's economic surroundings is higher.

Fuel

In 2014, the average price of oil was 99 \$/bbl. The year of 2014 was marked by the great shift on the oil market; in mid-June, the oil price was about 120 \$/bbl, while it fell to 55 \$/bbl in late 2014. Accordingly, the fall of jet fuel price positively affected the projections of airlines' profitability. For the European companies generating revenues



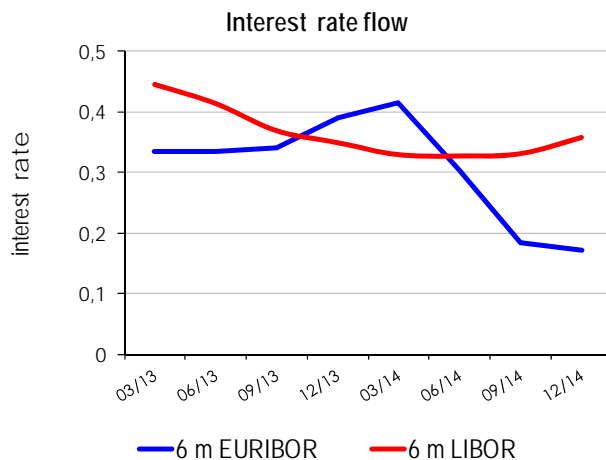
in euros, the effects of the USD growth decreased positive financial effects of the fuel price reduction.

The average price at which Croatia Airlines purchased fuel in 2014 was 962 USD/t, or 11.7% less than the price planned for 2014. In 2013, the average fuel purchase price was 1,018 USD/t. The fuel cost

amounted to HRK 305.7 million, or HRK 21.9 million less compared to 2013. In the overall operating costs structure, the share of fuel costs fell from 21% in 2013 to 20% in 2014, still remaining on the high level.

Interest risk

By taking long-term loans at variable interest rate, the Company is exposed to interest-related risk, too. In the first quarter of 2014, Euribor recorded a mild growth before significantly falling in the following two quarters. The fall slowed down in the final quarter. As opposed to Euribor, Libor faced no significant changes in 2014.



Cash flow risks

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

In 2014, the Company used funds worth altogether HRK 22.4 million from the short-term loans extended by HPB and PBZ for financing its current liabilities. A short-term loan worth HRK 7.4 million, taken in late December of 2014, was utilised in January 2015.

The Company also utilised funds within the long-term loan worth HRK 8.3 million, extended by PBZ, for the needs of financing the restructuring costs (the overall debt had totalled HRK 10.3 million - a part was used in December 2013).

Currency risk

The exposure to the risk of negative effects of foreign currency exchange rate changes against the kuna is reflected in the repayment of loan and leasing instalments denominated in foreign currencies. Foreign currency inflows from the sale of tickets abroad significantly mitigate these risks. The liabilities and inflows in USD are higher amidst the USD exchange rate growth. The exposure to the actual volatility of USD and CHF is set off with the revenues from the sale on the U.S. and Swiss markets.

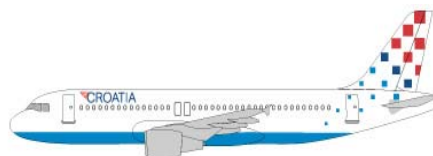
Fleet and capacities

In 2014, Croatia Airlines operated a fleet of 12 aircraft: six Airbus aircraft (two A320 and four A319), and six Q400 aircraft under an operating lease. In 2014, the Company sold a leased A320 (sale & lease back) as an own contribution measure.

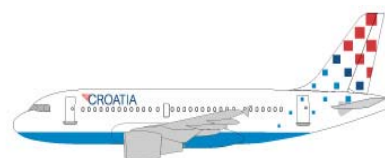
During 2014, seats were replaced on the A320 aircraft. The modern slim seats enabled the Company to increase the number of seats per aircraft from 162 to 174 (two additional seat rows) while at the same time keeping the same level of comfort.

At the end of 2014, the total number of available seats was 1,380.

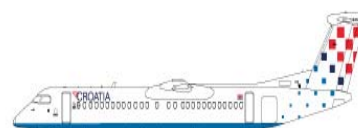
A 320 – 2 aircraft
The aircraft has 174 seats – altogether 348 seats



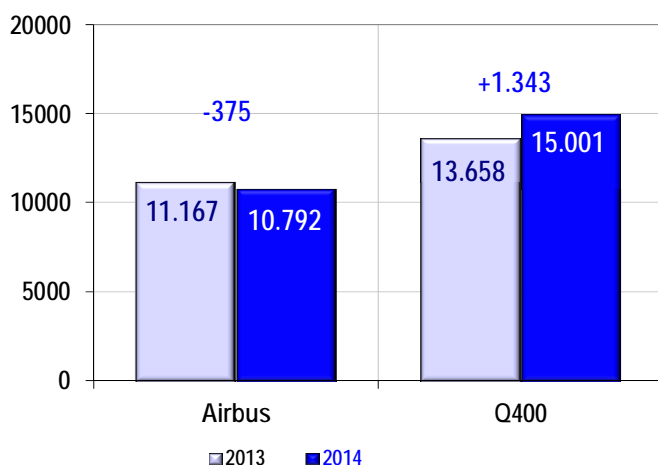
A 319 – 4 aircraft
The aircraft has 144 seats – altogether 576 seats



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



Change of flight structure compare to 2013, total +700, +86 leased flights 2014



In 2014, Croatia Airlines' aircraft realised the block time of 36,909 block hours, or 3% more compared to 2013. They operated 25,879 flights, i.e. 3% more compared to 2013. Just like in 2013, the Q400 fleet realised greater block time, in line with the adjustments of the capacity offer to the market demands.

In 2014, Croatia Airlines took into lease *ad hoc* aircraft that flew altogether 86 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.

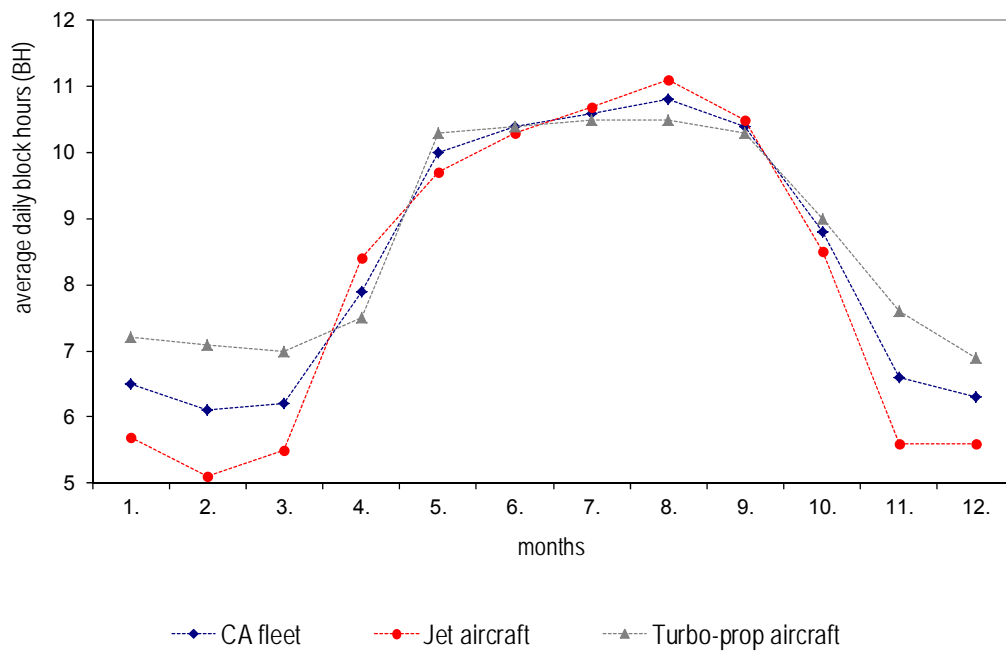
Fleet utilisation

type of aircraft	number of aircraft	Ø daily block hours (BH)	utilisation growth 14/13
Airbus A320	2	6,9	-1,4%
Airbus A319	4	8,7	4,8%
Q-400	6	8,7	8,7%
TOTAL	12	8,4	6,3%

Croatia Airlines' fleet flew on average 3,076 block hours per aircraft in 2014, with their utilisation being increased by 7% compared to 2013.

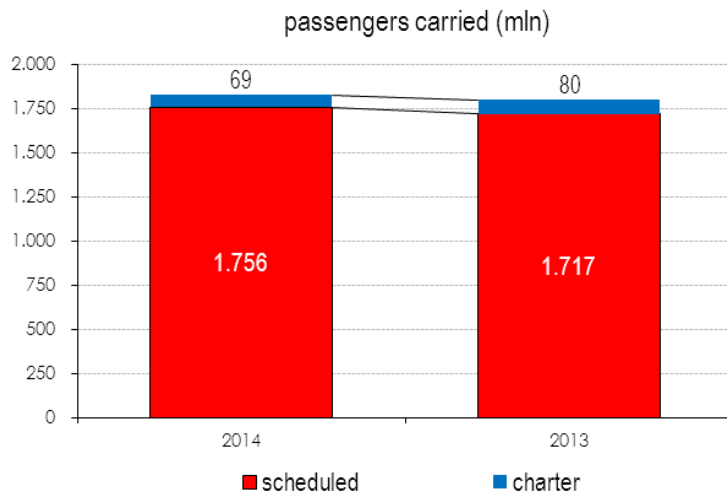
The average number of aircraft at the level of the entire year was 12 aircraft (excluding those under lease), or 2% fewer than the average in 2013. The available seat-kilometres (ASKM) increased by 1%, the same as the realised passenger kilometres.

CA fleet utilization by month



The market

In 2014, the capacities (ASKM) were increased by 1%, which positively affected the scope of passenger traffic. Measures aimed at increasing passenger traffic were systematically implemented: the Company signed code share agreements with Alitalia and Air France, implemented the Revenue Management system, intensified online promotion abroad, and considered various possibilities for generating ancillary revenues.



The number of passengers rose by 2% compared to the result in 2013. The number of passengers in domestic scheduled traffic remained on the level of 2013, while of those in international scheduled traffic saw a 3% increase compared to 2013.

Altogether 69,000 passengers were transported within the

charter traffic, or 14% fewer compared to 2013. Charter traffic made up only 4% of the total traffic.

In 2014, 3,103 tonnes of cargo were transported, which is 4% less than in 2013.

An increased number of passengers resulted in the passenger load factor (PLF) of 69.2%, 0.4 pp higher than that in 2013. It should be emphasised that the PLF growth was realised due to the increased number of seats on A320 aircraft (from 162 to 174).

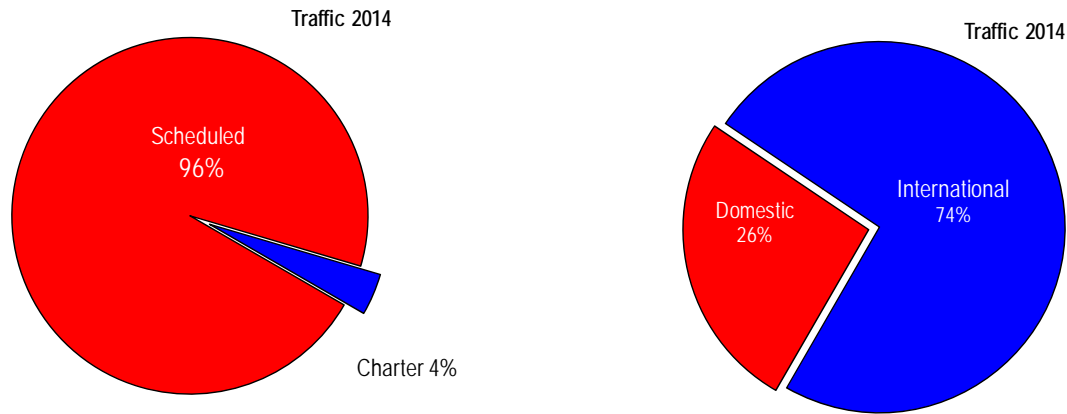
The realised weight load factor (WLF) was 67.4% (+1.5 pp).

In 2014, 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, United Airlines). Also, in 2014 it contracted code share agreements with partner members of the Skyteam association (Alitalia, Air France, KLM). It contracted a code share agreement with Alitalia for the flights Zagreb-Rome, Split-Rome, Dubrovnik-Rome operated by Croatia Airlines' aircraft. In late 2014, Croatia Airlines also started code share cooperation with Air France, reciprocally providing transport services on the route Zagreb-Paris-Zagreb. A code share agreement for the flights Zagreb-Amsterdam-Zagreb was entered into with the company KLM.

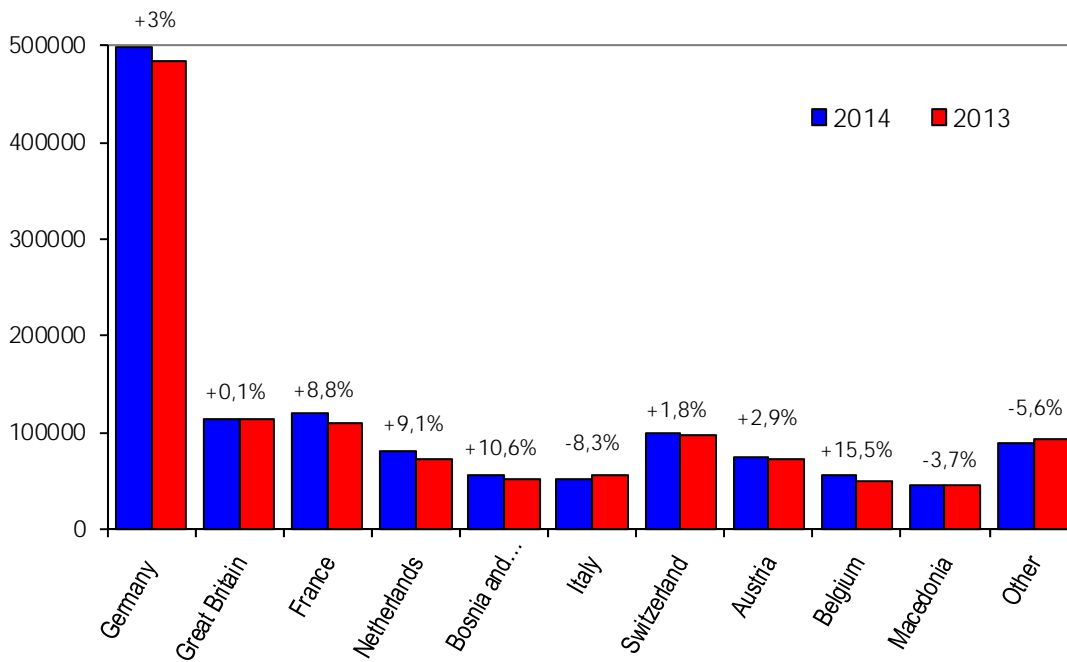
In 2014, altogether 1.825,062 passengers were transported, or 28,117 more compared to 2013 (+2%). Croatia Airlines recorded its millionth passenger on 28 July, a few days later compared to 2013.

Altogether 476,011 passengers were transported within the domestic scheduled traffic, 1.280.049 within the international scheduled traffic, and 69,002 within the charter traffic.



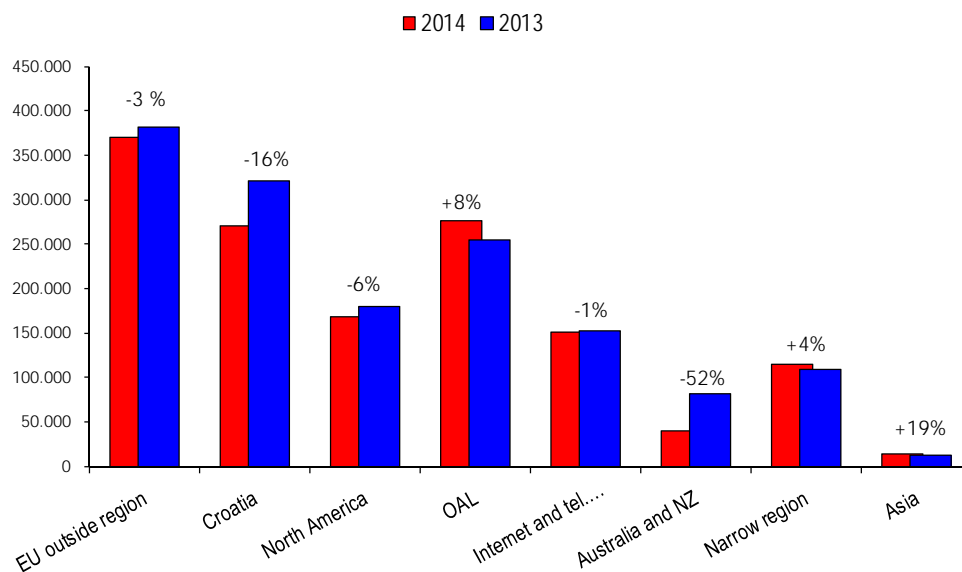
In the international scheduled traffic, 3% more passengers were transported in 2014, i.e. 36,476 more compared to 2013. Given a 1% rise in the capacities offered, the passenger load factor (PLF) saw an increase on the markets of Italy, Macedonia, France, Bosnia and Herzegovina, Germany, Austria, Great Britain and the Netherlands, while declining on the markets of Switzerland and Belgium.

International scheduled passengers by flights market



Croatia Airlines' aircraft operated on the summer flight schedule from 30 March to 25 October 2014, with flights being adjusted to passenger needs, particularly during the tourist season, as well as to the fleet capacities. Some of the novelties in the summer flight schedule were the seasonal routes Split – Athens, Dubrovnik/Pula – Amsterdam, and additional flights on the routes Split – Munich, and Dubrovnik – Paris (on Tuesdays and Thursdays). Within the summer flight schedule, Croatia Airlines' aircraft connected Zagreb and Barcelona, Split and Lyon, as well as Split and Belgrade (on Mondays, Fridays and Saturdays). On 26 October 2014, the winter flight schedule came into force.

Growth by sales market (000 HRK)



The sales activities in 2014 were marked by the fierce price competition on the flights within European route area. The AEA members recorded an average yield fall of 5.5% in 2014 on flights within Europe. In addition, the sales availability of long-haul traffic to smaller non-operative carriers was reduced. This affected Croatia Airlines' sales results and resulted in 2% lower passenger revenues compared to 2013. The implementation of the restructuring compensation measures by putting one aircraft out of operation (A320) and cancelling the winter schedule routes (W13/14) Zagreb-Istanbul, Zagreb-London Gatwick, Zagreb-Podgorica, Dubrovnik-Paris and Dubrovnik-Frankfurt reduced the combinability of the fleet and revenue potentials in 2014.

In 2014, the **sales** through the Company's own sales channels (branch offices and representative offices) declined by 11%, and BSP sales fell by 5% compared to 2013. The fall was partly compensated for with increased online ticket sales. Bookings through the Internet service FlyOnLine recorded a 7.6% rise, with the online sales – in financial terms - rising 4.3% compared to 2013. Telephone sales registered a 17% fall.

The **domestic market sales** declined by **16%** compared to 2013. The fall in demand is a result of the economic crisis that hit Croatia, which is also reflected in a 1.2% decline in the number of Croatian citizens in international passenger traffic (9,000 fewer compared to 2013).

The **sales on the foreign markets** saw an **8%** fall, as a result of reduced sales on the American and Australian markets, and on certain European markets. The sales on the American market fell by 6%, with their share in the total sales being 12%. The fall on this market resulted from the inability of selling market tariffs of individual interline partners for Croatia Airlines' tickets, cancellation of long-haul tariffs with MARS partners and termination of the Code Share cooperation with US Airways and SAS. The sales on the Australian market, the eighth market in terms of sales volume, making up 2.5% in the total sales, fell by 50% compared to 2013, as a result of the cancellation of flights of the Australian company Quantas for Frankfurt, which could not be compensated with a suitable quality product for flights between Australia and Croatia. Within the European Union, the markets of Sweden, Ireland, Great Britain, Denmark, Italy, Belgium and Greece saw the greatest absolute sales rise, while the

markets of Germany, Netherlands, France and Finland faced the biggest fall. Outside the European Union, the greatest fall was recorded on the markets of Norway, Bosnia and Herzegovina, Macedonia and Kosovo. The sales by other airlines went up by 8%. Croatia Airlines realised about 63% of its total sales on foreign markets.

In the first quarter of 2014, Croatia Airlines focused its marketing activities on the promotion of individual routes, increasing the number of passengers outside the season and making preparations for the upcoming season. In the second quarter it additionally intensified these activities, particularly on the foreign markets, and continued promoting its flights in the third quarter, both on the domestic and foreign markets, with an emphasis on the celebration of its 25th anniversary.

January was marked by the promotional campaign *Return Flights to Amsterdam, Vienna, Brussels, Copenhagen, Frankfurt, London, Munich, Paris, Rome and Zurich From as Little as EUR 129*. For St. Valentine's Day, the Company offered a 30% discount on any ticket purchased via Croatia Airlines' webpage between 3 and 6 February, and offered promotional prices within the campaign *From Pristina, Sarajevo and Skopje to Croatia and Europe*, for the travels from 11 February to 13 April 2014. In March, flights for Athens and Barcelona were offered at the promotional price from 139 EUR. Flights within Croatia were also promoted in the first quarter: *Two tickets for HRK 800 and One-Way Ticket for HRK 259*. During April, May and June, a number of one-way flights were offered from HRK 295, valid from 30 June until the end of the summer flight schedule, i.e. until 25 October 2014. The offer referred to a certain number of seats on flights from Zagreb to Dubrovnik, Pula, Split, and vice versa. It was also advertised during July, August and September, when certain one-way flights were offered at the price of HRK 270. The purpose was to increase the number of passengers on these routes. On the occasion of Croatia Airlines' 25th anniversary, the Company organised a promotional campaign in the period from 19 to 23 May, offering a 25% discount on airline ticket prices. Croatia Airlines' anniversary was also marked with the campaign *50,000 Seats from as Little as EUR 125* for the flights from Croatia to Amsterdam, Vienna, Brussels, Frankfurt, Copenhagen, London, Munich, Paris, Sarajevo, Skopje, Pristina, Rome and Zurich. In late November and throughout December, on the occasion of Advent, the Company offered a certain number of tickets for international flights from Croatia to: Vienna, Frankfurt, Munich and Zurich, at the price of EUR 99 for the return ticket.

Summer schedule routes were advertised through various channels on the markets of Germany, Netherlands, Great Britain, Denmark, Greece, Spain, Austria, Switzerland and Serbia. Also, the Company organised incentive trips for Croatian and Greek agents, as well as for Greek and Austrian journalists, with the aim to present Split and Zagreb on the Greek market, and Split on the Austrian market.

In 2014, Croatia Airlines continued supporting the organisation of congresses, conferences and other events as the national flag carrier or within the Star Alliance Conventions Plus service, through which the member airlines offer flights for international conferences at lower prices.

In 2014, 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, ITB in Berlin, Place2go in Zagreb, SITC in Barcelona and WTM in London.

Croatia Airlines regularly promotes its offers on Google search engines, on the social networking service LinkedIn and via its Newsletter. It also communicates with its service users via Facebook, where it posts all of its promotional offers and discounts. In late December 2014, the number of Croatia Airlines' Facebook fans reached 100,531.

Financial operations

Profit and loss account

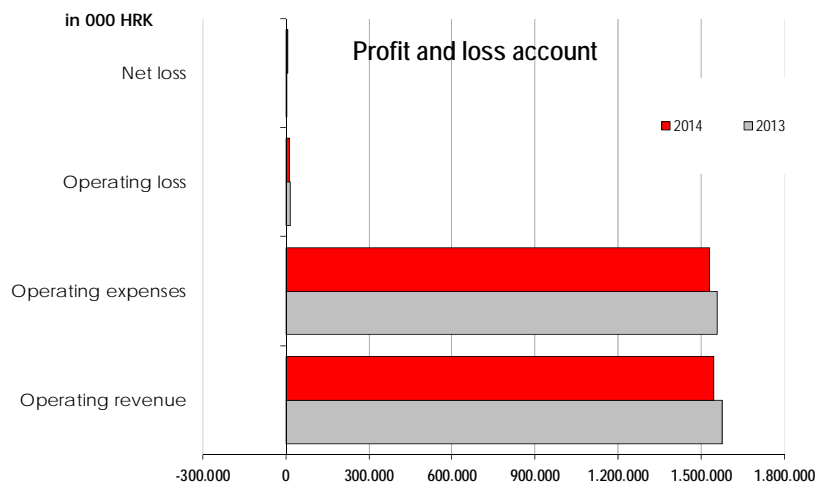
(000 HRK)	2014	2013	Index 14/13	2012
Passenger traffic	1.290.829	1.319.087	98	1.428.940
Cargo traffic	16.478	17.364	95	20.549
Other revenues	236.750	239.036	99	233.559
OPERATING REVENUES	1.544.058	1.575.488	98	1.683.048
Flight operations	532.825	565.489	94	618.140
Maintenance	164.480	156.601	105	154.936
Passenger services	78.581	86.503	91	113.424
Aircraft and traffic services	357.659	353.795	101	374.346
Promotion and sales	203.431	214.549	95	234.676
General and administ. expenses	91.327	84.240	108	88.381
Amortization	71.509	83.051	86	130.215
Other expenses	30.574	13.900	220	14.681
OPERATING EXPENSES	1.530.386	1.558.128	98	1.728.798
PROFIT/LOSS FROM OPERATIONS	13.672	17.359	79	-45.750
Interest expense	-11.585	-13.787	84	-19.031
Interest revenue	794	1.007	79	1.544
Foreign exchange differences, net	6.143	-1.447	-	52
Other financial expenses	-2.198	-2.684	82	-2.117
Other financial revenues	721	272	265	564
NET FINANCIAL EXPENSES	-6.124	-16.639	37	-18.987
NET PROFIT/LOSS (excluding extraordinary items)	7.548	721	-	-64.738
extraordinary items				-423.430
NET PROFIT/LOSS (including extraordinary items)	7.548	721	-	-488.167

Note:

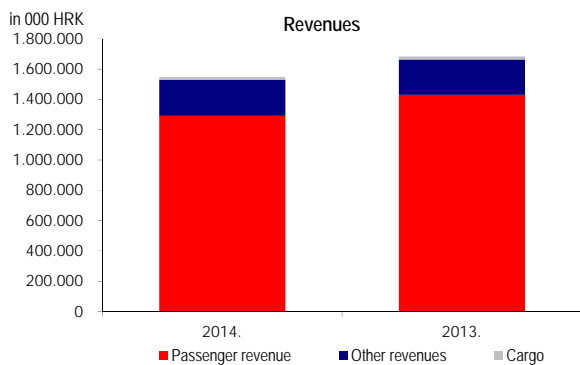
In the auditor's report for the profit and loss account, the revenues and costs of the booking system were shown as a net result within the promotion and sales costs item, and this Report, as well as all internal reports, declare revenues and costs by the gross principle (revenues from the booking system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

The 2012 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).

Croatia Airlines generated a **positive net result** for the second year in a row, **totalling HRK 7.5 million**. Its **operating profit** was HRK 13.7 million.



The Company's **operating revenues were 2% lower**, as all categories of operating revenues saw a fall compared to 2013.



Passenger revenues fell by 2%. At the same time, the number of passengers rose by 2% compared to 2013.

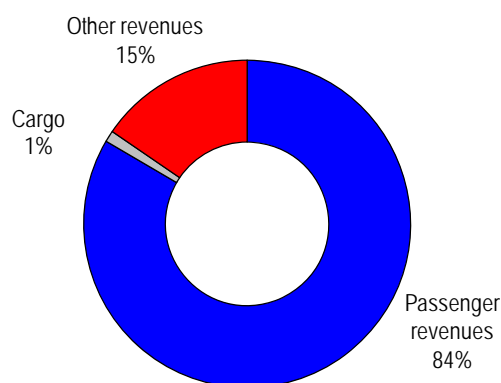
The **share of passenger revenues in operating revenues** totalled 84% and was on the level of 2013.

The **revenues from cargo transport** were 5% lower compared to 2013.

Other operating revenues fell by 1%. The revenues from the sale of fixed assets, as one of the Company's own contribution measures within the Restructuring Plan, and revenues from commercial trainings saw a significant rise in 2014.

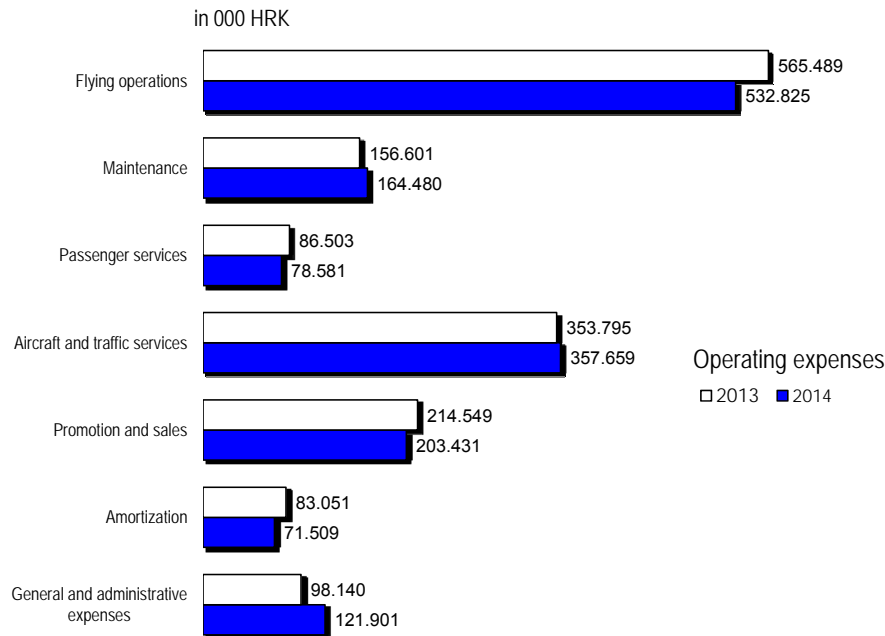
The Company's **operating costs were 2% lower** compared to 2013.

Structure of operating revenues 2014



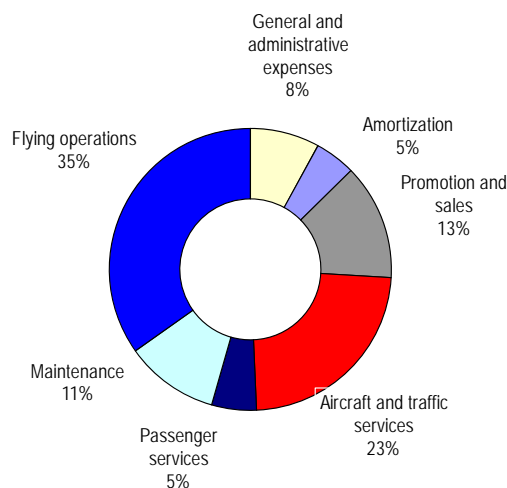
Fuel costs contributed the most to the reduction in operating costs, being 6% lower due to lower average fuel price (\$/t) and lower amortisation costs amidst the aircraft and engine sale (-14%). Aircraft lease costs were significantly lower, too, due to lower costs of extraordinary leases, which were high in 2013 as a result of the eight-day strike staged by the flight and cabin personnel.

Reduced operating costs resulted from the following: rationalisation of personnel costs, reduction of representative office costs, and more than twice fewer corrections of the receivables value, which shows the efficiency of their collection. Maintenance costs were higher compared to 2013, due to higher engine sale & lease back costs and amidst making provisions for future major engine works. The costs of air traffic services were higher due to higher airport and air traffic control costs, while general and administrative costs were higher due to making provisions for litigations. Other expenditures rose amidst the losses from the sale of assets (an A320) and due to the costs from the previous years.



Flight costs and air traffic services costs make up the highest share in the operating costs. In 2014, the share of flight costs in the overall operating costs fell by 1%, while the share of air traffic service costs remained on the level of 2013.

Structure of operating expenses 2014



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

Assets, financing and investments

Statement of accounts

(000 HRK)	End 2014	End 2013	Index 2014/2013	End 2012	Index 2013/2012
ASSETS					
Non-current assets	657.933	779.865	84	787.159	99
Current assets	195.994	224.306	87	339.037	66
TOTAL ASSETS	853.928	1.004.170	85	1.126.196	89
LIABILITIES					
Capital and reserves	356.175	344.368	103	135.155	255
Provisions	23.315	22.215	105	63.097	35
Non-current liabilities	67.472	80.011	84	238.262	34
Current liabilities	406.966	557.576	73	689.682	81
TOTAL LIABILITIES	853.928	1.004.170	85	1.126.196	89

Note: The Management Board adopted in 2014 the accounting policy of making provisions for severance pays and costs of unused annual leaves, and corrected the balance sheet items of capital, provisions and short-term liabilities by HRK 8.2 million in 2012 and 2013.

The end-of-year value of the fixed assets was 16% lower compared to 2013. In 2014, the value of tangible fixed assets declined due to the sale of an Airbus A320 (CTJ) and three CFM56-5B engines taken into an operating lease. The value of the current assets declined by 13%, mostly due to lower other short-term receivables. The overall assets level was 15% lower compared to 2013.

The Company's capital and reserves totalled HRK 356 million at the end of 2014, and were 3% greater compared to the end of 2013, as a result of the higher positive operating result in 2014.

The Company's long-term liabilities were reduced by 16%, as a result of regular loan repayments; its short-term liabilities were reduced by 27% as a result of reduced loan liabilities, liabilities to suppliers and other short-term liabilities.

At the end of 2014, Croatia Airlines' loan liabilities with local banks totalled HRK 132.9 million, of which HRK 87.3 million were long-term (medium-term) liabilities, and HRK 45.5 million were short-term liabilities.

The remainder of the principal of the long-term loans owed to foreign banks amounted to HRK 33,000 on 31 December 2014. The long-term fleet financing loan taken with the consortium bank was fully repaid in 2014.

Investments in 2014

Investments	2014	2013	2012
Investments in aircraft	45.967.428	48.683.973	55.067.252
Investments in spare parts, tools and equip.	16.173.828	12.511.074	9.150.369
Construction investments	11.525.299	366.632	0
Intangible assets	4.701.715	11.566.053	3.346.970
Other equipment	3.188.173	2.800.804	2.881.499
Total	81.556.443	75.928.536	70.446.090

In 2014, the Company made investments directly related to flights, aircraft maintenance and operation, and the level of the guaranteed safety, as well as investments into the new hangar. Investments were 7% greater compared to 2013.

The priority investments were related to **investments into aircraft**, mostly referring to engine overhauls (HRK 23.7 million), aircraft modifications (HRK 11 million), and investments into aircraft under an operating lease (HRK 11.3 million). In addition to the above investments, C checks were carried out **internally** on three Airbus aircraft (CTK, CTJ and CTH), and on four Q400 aircraft (CQA, CQB, CQD and CQF).

Investments into **spare parts** totalled HRK 16 million, and investments into the **construction of the new hangar** totalled HRK 11.3 million. Total investments into aircraft and engineering made up 90% of overall investments in 2014.

Investments into intangible assets, mainly software, amounted to HRK 4.7 million, while among **other investments** in this category greater sums referred to the purchase and replacement of IT equipment.

Cash flow

Cash flow (000 HRK)	2014	2013	Index
Cash at the beginning of the period	48.971	34.096	144
Inflow from activities	1.525.017	1.489.211	102
Inflow from Government	89.540	194.101	46
Inflow from sales of asset	175.170	0	-
Loans	38.040	2.000	-
Total inflow	1.827.766	1.685.312	108
Obligations	1.592.514	1.613.872	99
Investments	49.825	37.109	134
Loans	187.189	19.455	-
Total outflow	1.829.529	1.670.436	110
Net change for period	-1.763	14.876	-
Cash at the end of the period	47.209	48.971	96

In 2014, both the cash inflow and outflow levels were higher compared to 2013, while the cash balance was somewhat lower at the end of the year.

The cash flow level was higher a result of the sale of an Airbus 320 CTJ worth HRK 78.4 million and three CFM56-5B engines worth HRK 113 million, and as a result of the repayment of two instalments of the fleet refinancing loan taken with Bayerische Landesbank, worth HRK 158.9 million.

In 2014, the Company utilised funds within the long-term loan worth HRK 8.3 million, extended by PBZ, for the needs of financing the restructuring costs (the overall debt had totalled HRK 10.3 million - a part was used in December 2013)

The Company also used funds worth altogether HRK 22.4 million from the short-term loans extended by HPB and PBZ for financing its current liabilities. A short-term loan worth HRK 7.4 million, taken in late December of 2014, was utilised in January 2015.

The short-term revolving loan taken with ZABA (HRK 34.1 million) was fully repaid, and a new one – worth HRK 30.3 million – contracted.

In 2014, in addition to paying instalments of the loan extended by Bayerische Landesbank, which was fully repaid, the Company also repaid an instalment of the long-term restructuring loan taken with PBZ (HRK 1.2 million), and two instalments of the short-term loan also taken with PBZ (HRK 7.6 million). During the summer season, owing to a higher level of inflow, Croatia Airlines also fully repaid the short-term loans taken with HPB and PBZ at the start of the year.

Review of the Plan realization

Traffic performance indicators compared to the Plan

description			Realization 2014	Plan 2014
flights (km)	DIST	000	16.328	16.564
departures	FLTS		25.879	26.183
annual change rate		%	-1	0,0
block hours	BH		36.909	36.595
annual change rate		%	1	0,0
passengers carried	RPAX	000	1.825	1.879
annual change rate		%	-3	0,0
freight&mail carried	CGO	T	3.103	3.049
annual change rate		%	2	0,0
passenger km flown	RPKM	mIn	1.342	1.376
available seat - km	ASKM	mIn	1.938	1.965
passenger load factor	PLF	%	69,2	70,0
tonne km flown	TKM	mIn	136	140
available tonne-km	ATKM	mIn	202	205
weight load factor	WLF	%	67,4	68,2

In 2014, the fleet block time in BH was 1% higher compared to the Plan, while the block time in flights saw a 1% decline. The number of transported passengers was 3% lower compared to the Plan.

Profit and loss account

(000 HRK)	2014	Plan 2014	Index
Passenger traffic	1.290.829	1.378.199	94
Cargo traffic	16.478	16.633	99
Other revenues	236.750	184.639	128
OPERATING REVENUES	1.544.058	1.579.471	98
Flight operations	532.825	572.215	93
Maintenance	164.480	166.847	99
Passenger services	78.581	86.824	91
Aircraft and traffic services	357.659	367.041	97
Promotion and sales	203.431	218.146	93
General and administ. expenses	91.327	81.009	113
Amortization	71.509	64.688	111
Other expenses	30.574	2.762	1107
OPERATING EXPENSES	1.530.386	1.559.533	98
PROFIT/LOSS FROM OPERATIONS	13.672	19.938	69
Interest expense	-11.585	-12.090	96
Interest revenue	794	854	93
Foreign exchange differences, net	6.143	0	-
Other financial expenses	-2.198	-2.032	108
Other financial revenues	721	300	240
NET FINANCIAL EXPENSES	-6.124	-12.969	47
NET PROFIT/LOSS	7.548	6.969	108

In 2014, Croatia Airlines generated a net profit of HRK 7.5 million or 8% more than the anticipated result.

The operating revenues were 2% lower than planned, primarily due to the lower passenger traffic revenues.

The generated costs were also 2% lower compared to the Plan, while general and administrative costs, amortisation costs and other expenditures saw a rise. Higher amortisation costs are a result of the giving up on the sale of an Airbus A320.

General and administrative costs were higher than planned amidst higher provisions for litigations and

greater costs of intellectual services. Other expenditures saw a rise as a result of the higher than planned costs from the previous years.

Statement of accounts

(000 HRK)	End 2014	Plan 2014	Index 2014/plan
ASSETS			
Non-current assets	657.933	580.589	113
Current assets	195.994	259.965	75
TOTAL ASSETS	853.928	840.554	102
LIABILITIES			
Capital and reserve	356.175	354.470	100
Provisions	23.315	19.072	122
Non-current liabilities	67.472	71.588	94
Current liabilities	406.966	395.423	103
TOTAL LIABILITIES	853.928	840.554	102

At the end of 2014, the total value of assets, liabilities and capital was 2% higher than planned.

The value of the fixed assets was 13% higher compared to the Plan, as a result of the greater value of tangible and financial assets and accounts receivable, while the value of the current assets declined due

to a lower level of accounts receivable at the end of 2014.

The value of the capital and reserves at the end of 2014 was as planned. The Company's **long-term and short-term liabilities** were also as planned, and the realised difference refers to the exchange rate differences.

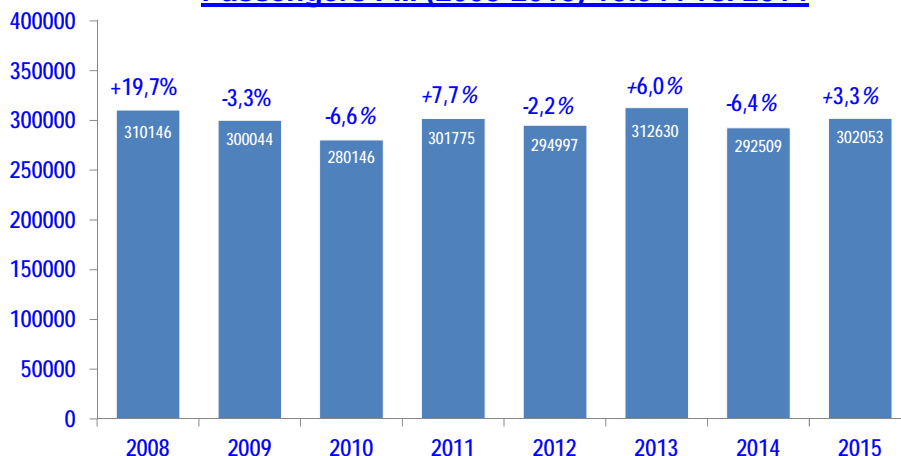
Current operations – Traffic performance in I-III 2015

description			I-III 2015	I-III 2014
flights (km)	DIST	000	3.006	2.939
departures	FLTS		5.079	4.989
annual change rate		%	2	-3
block hours	BH		7.086	6.772
annual change rate		%	5	-6
passengers carried	RPAX	000	302	293
annual change rate		%	3	-6
freight&mail carried	CGO	T	697	666
annual change rate		%	5	-17
passenger km flown	RPKM	mIn	204	192
available seat - km	ASKM	mIn	334	321
passenger load factor	PLF	%	61,1	60,0
tonne km flown	TKM	mIn	21	20
available tonne-km	ATKM	mIn	36	34
weight load factor	WLF	%	58,9	57,1

The number of passengers rose by 2% in the first quarter of 2015 compared to the same period of 2014.

The number of passengers in the domestic scheduled traffic fell by 1% compared to the same period of 2014, while the international scheduled passenger traffic saw a 6% rise. The passenger load factor (PLF) was 61.1% in the first quarter of 2015, or 1.1 pp higher than in the same period of 2014.

Passengers I-III (2008-2015) +9.544 vs. 2014



Chairman of the Management Board
Krešimir Kučko

Member of the Management Board
Zlatko Širac

CROATIA AIRLINES d.d.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2014
together with Independent Auditor's Report**

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Responsibility for the financial statements

The Management Board of the Company **Croatia Airlines d.d.**, Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the financial statements of the Company 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.

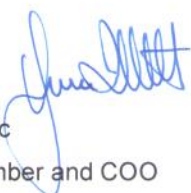
After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the financial statements of the Company.


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
Board Member and COO


Krešimir Kučko
President and CEO

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

30 March 2015

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 separated financial statements of the company Croatia Airlines d.d., Buzin, Bani 75b (hereinafter: "the Company") for the year ended 31 December 2014, which comprise the consolidated and separated balance sheet/statement of financial position as of that date; the consolidated and separated comprehensive income statement; the consolidated and separated statement of changes in equity and the consolidated and separated cash flows statement for the year then ended; and the accompanying Notes to the consolidated and separated 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 consolidated and separated 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 consolidated and separated 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 separated 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 separated 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 separated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements in the consolidated and separated 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 separated 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 consolidated and separated 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 separated financial statements, in all significant matters, truthfully and fairly represent the consolidated financial position of the Group and the financial position of the company Croatia Airlines d.d., Buzin at 31 December 2014, 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 2014 according to the Accountancy Act and the International Financial Reporting Standards effective in European Union.

Emphasis of Matter

5. Without conditioning our opinion stated in paragraph 4 above, we draw attention that the Company is in the process of the Restructuring program implementation which covers a period of 5 years (2011-2015). The Restructuring program is carried out in accordance with the plan with minor modifications.

Furthermore, we draw attention on the Note 26 to the consolidated and separated financial statements due to uncertainty in the outcome of legal proceedings. In this matter our opinion is not qualified.

Other legal and regulatory requirements

6. The Company's Management is responsible for the preparation of the annual consolidated and separated financial statements of the Company for the year ended 31 December 2014 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) and in accordance with other regulations governing the Company's operations („Standard annual consolidated and separated financial statements“). The financial information set out in the standard annual consolidated and separated financial statements of the Company are in accordance with the information stated in the annual consolidated and separated financial statements of the Company shown on pages 4 to 70 which are the subject of our opinion, as set out in the section Opinion, above.

Opinion on adjustment to Annual report

7. The Company's Management is responsible for the preparation of the Annual report of the Company. Pursuant to the provisions of article 17 of the Accountancy act, we are obliged to state an opinion on the compliance of the Annual report of the Company with the annual consolidated and separated financial statements of the Company. In our opinion, on the basis of the performed audit of the annual consolidated and separated financial statements of the Company and the comparison with the Annual report of the Company for the year which ended 31 December 2014, the financial information set out in the Annual report 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 separated financial statements of the Company set out on pages 4 to 70 which were the object of our opinion, as set out in paragraph Opinion, above.


In Zagreb, 10 April 2015

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



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

Consolidated Croatia Airlines Statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014		2013	
		HRK '000	EUR '000	HRK '000	EUR '000
Restated					
REVENUE					
Passenger traffic	4	1,290,830	169,174	1,319,087	174,166
Cargo traffic		16,478	2,160	17,364	2,293
Other sales revenue	5	<u>72,207</u>	<u>9,464</u>	<u>97,494</u>	<u>12,874</u>
Total revenue		<u>1,379,515</u>	<u>180,798</u>	<u>1,433,945</u>	<u>189,333</u>
Other income and gains	6	172,243	22,574	149,084	19,683
EXPENSES					
Flight operations		(532,825)	(69,831)	(565,489)	(74,665)
Maintenance		(164,480)	(21,557)	(156,601)	(20,677)
Passenger service		(78,581)	(10,299)	(86,503)	(11,422)
Aircraft and traffic services		(357,659)	(46,874)	(353,795)	(46,713)
Promotion and sales		(200,672)	(26,300)	(211,935)	(27,983)
General and administrative expenses		(100,842)	(13,216)	(93,673)	(12,368)
Depreciation and amortization	11,12	(71,673)	(9,393)	(83,209)	(10,987)
Other operating expenses		<u>(30,581)</u>	<u>(4,008)</u>	<u>(11,033)</u>	<u>(1,457)</u>
Total expenses		<u>(1,537,313)</u>	<u>(201,478)</u>	<u>(1,562,238)</u>	<u>(206,272)</u>
Profit from operations		<u>14,445</u>	<u>1,894</u>	<u>20,791</u>	<u>2,744</u>
FINANCIAL INCOME/ EXPENSES					
Financial income	8	51,334	6,728	71,918	9,495
Financial expense	9	<u>(56,864)</u>	<u>(7,452)</u>	<u>(88,247)</u>	<u>(11,651)</u>
Net financial expense		<u>(5,530)</u>	<u>(724)</u>	<u>(16,329)</u>	<u>(2,156)</u>
Impairment of assets	12	-	-	(2,867)	(379)
Profit before tax		<u>8,915</u>	<u>1,170</u>	<u>1,595</u>	<u>209</u>
Income tax expense	10	<u>(197)</u>	<u>(26)</u>	<u>(154)</u>	<u>(20)</u>
Net profit for the year		<u>8,718</u>	<u>1,144</u>	<u>1,441</u>	<u>189</u>
Basic and diluted profit per share HRK/EUR	25	<u>0.31</u>	<u>0.04</u>	<u>0.10</u>	<u>0.01</u>

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

Consolidated Croatia Airlines Statement of comprehensive income

For the year ended 31 December 2014

Notes	2014		2013	
	HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year	8,718	1,144	1,441	189
Hedging reserves	(2,384)	(311)	(7,464)	(977)
Revaluation reserves	(666)	(87)	155	20
Foreign exchange differences	-	(2,541)	-	(228)
Total other comprehensive (loss)	(3,050)	(2,939)	(7,309)	(1,185)
Income tax expense	-	-	-	-
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE YEAR	5,668	(1,795)	(5,868)	(996)
Basic and diluted profit / (loss) per share HRK / EUR	0.20	0.03	(0.42)	(0.06)

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

Croatia Airlines d.d. separate statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014		2013	
		HRK '000	EUR '000	HRK '000	EUR '000
Restated					
REVENUE					
Passenger traffic	4	1,290,830	169,174	1,319,087	174,166
Cargo traffic		16,478	2,160	17,364	2,293
Other sales revenue	5	<u>62,034</u>	<u>8,130</u>	<u>87,475</u>	<u>11,550</u>
Total revenue		<u>1,369,342</u>	<u>179,464</u>	<u>1,423,926</u>	<u>188,009</u>
Other income and gains	6	171,957	22,537	148,947	19,665
EXPENSES					
Flight operations		(532,825)	(69,831)	(565,489)	(74,665)
Maintenance		(164,480)	(21,557)	(156,601)	(20,677)
Passenger service		(78,581)	(10,299)	(86,503)	(11,422)
Aircraft and traffic services		(357,659)	(46,874)	(353,795)	(46,713)
Promotion and sales		(200,672)	(26,300)	(211,935)	(27,983)
General and administrative expenses		(91,327)	(11,969)	(84,240)	(11,123)
Depreciation and amortization	11,12	(71,509)	(9,372)	(83,052)	(10,966)
Other operating expenses		<u>(30,574)</u>	<u>(4,007)</u>	<u>(11,033)</u>	<u>(1,457)</u>
Total expenses		<u>(1,527,627)</u>	<u>(200,209)</u>	<u>(1,552,648)</u>	<u>(205,006)</u>
Profit from operations		<u>13,672</u>	<u>1,792</u>	<u>20,225</u>	<u>2,668</u>
FINANCIAL INCOME/EXPENSE					
Financial income	8	50,636	6,636	71,434	9,432
Financial expense	9	<u>(56,760)</u>	<u>(7,439)</u>	<u>(88,072)</u>	<u>(11,628)</u>
Net financial expense		<u>(6,124)</u>	<u>(803)</u>	<u>(16,638)</u>	<u>(2,196)</u>
Impairment of long-term assets	12	-	-	(2,867)	(379)
Profit before tax		<u>7,548</u>	<u>989</u>	<u>720</u>	<u>93</u>
Income tax expense	10	-	-	-	-
Net profit for the year		<u>7,548</u>	<u>989</u>	<u>720</u>	<u>93</u>
Basic and diluted profit / (loss) per share (HRK/EUR)	25	<u>0.27</u>	<u>0.04</u>	<u>0.05</u>	<u>0.01</u>

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

Croatia Airlines d.d. separate statement of comprehensive income

For the year ended 31 December 2014

Notes	2014		2013	
	HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year	7,548	989	720	93
Hedging reserves	(2,385)	(309)	(7,465)	(975)
Revaluation reserves	(666)	(87)	155	20
Foreign exchange differences	-	(2,513)	-	(241)
Total other comprehensive (loss)	(3,051)	(2,909)	(7,310)	(1,196)
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR	4,497	(1,920)	(6,590)	(1,103)
Basic and diluted (loss) per share	0.16	0.02	(0.47)	(0.06)

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

Consolidated Croatia Airlines balance sheet/consolidated statement of financial position

As at 31 December 2014

	Notes	2014		2013	
		HRK '000	EUR '000	HRK '000	EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	25,878	3,378	17,699	2,317
Property, plant and equipment	12	514,304	67,127	672,536	88,054
Investments in associated company	13	5,441	730	5,273	735
Deposits	14	5,898	770	6,140	803
Available for sale investments	15	1,037	135	1,858	249
Non-current receivables	16	106,115	13,851	77,537	10,152
		658,673	85,991	781,043	102,310
Current assets					
Inventories	17	49,804	6,501	47,626	6,236
Other financial assets	20	2,205	288	2,696	353
Accounts receivable	18	63,313	8,264	67,758	8,872
Other receivables	19	13,793	1,800	34,703	4,544
Cash and cash equivalents	21	50,448	6,585	52,182	6,831
Prepaid expenses	22	22,327	2,914	25,101	3,287
		201,890	26,352	230,066	30,123
TOTAL ASSETS		860,563	112,343	1,011,109	132,433
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	277,890	36,399	277,890	34,037
Capital reserves	24	82,423	10,700	83,243	10,807
Hedging reserves	24	(2,383)	(312)	(7,463)	(978)
Accumulated losses	24	(5,991)	(781)	(6,711)	(874)
Net profit for the year		8,718	1,144	1,441	189
Foreign exchange differences		-	(56)	-	2,483
		360,657	47,094	348,400	45,664
Provisions	26	23,315	3,043	22,215	2,907
Non-current liabilities					
Long-term loans	27	67,391	8,796	79,904	10,462
Long-term leases	28	12	2	33	4
Long-term liabilities		69	9	73	10
		67,472	8,807	80,010	10,476
Current liabilities					
Short-term loans	29	45,896	5,990	35,034	4,587
Short-term portion of long-term loans	27	19,891	2,596	166,266	21,769
Short-term portion of long-term obligations under finance leases	28	21	3	20	3
Accounts payable	30	134,567	17,564	165,571	21,678
Other current liabilities	31	170,210	22,216	167,933	21,987
Accrued expenses and deferred income	32	38,534	5,030	25,660	3,362
		409,119	53,399	560,484	73,386
TOTAL EQUITY AND LIABILITIES		860,563	112,343	1,011,109	132,433

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

Consolidated Croatia Airlines balance sheet/consolidated statement of financial position

As at 31 December 2014

	Notes	2012	
		HRK '000	EUR '000
		Restated	
SSETS			
Non-current assets			
Intangible assets		16,585	2,198
Property, plant and equipment		687,082	91,057
Investments in associated company		4,919	678
Deposits		6,481	858
Available for sale investments		1,703	229
Non-current receivables		71,282	9,446
		788,052	104,466
Current assets			
Inventories		49,142	6,513
Other financial assets		3,517	466
Accounts receivable		90,971	12,056
Other receivables		117,125	15,522
Cash and cash equivalents		37,115	4,920
Prepaid expenses		47,207	6,256
		345,077	45,733
TOTAL ASSETS		1,133,129	150,199
EQUITY AND LIABILITIES			
Equity and reserves			
Issued capital		1,852,213	245,501
Capital reserves		2,700	373
Accumulated losses and other reserves	24	(1,228,330)	(162,568)
Net loss for the year		(487,844)	(64,891)
		138,739	18,415
Provisions	26	55,797	7,395
Non-current liabilities			
Long-term loans		238,209	31,569
Long-term leases		53	7
		238,262	31,576
Current liabilities			
Short-term loans		49,854	6,606
Short-term portion of long-term loans		170,299	22,569
Short-term portion of long-term obligations under finance leases		18	2
Accounts payable		284,830	37,748
Other current liabilities		165,036	21,872
Accrued expenses and deferred income	32	30,294	4,016
		700,331	92,813
TOTAL EQUITY AND LIABILITIES		1,133,129	150,199

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

Croatia Airlines d.d. separate balance sheet/statement of financial position

As at 31 December 2014

	Notes	2014		2013	
		HRK '000	EUR '000	HRK '000	EUR '000
ASSETS					
Non-current assets				Restated	
Intangible assets	11	25,689	3,353	16,946	2,219
Property, plant and equipment	12	514,151	67,109	672,342	88,029
Investments in subsidiaries and associated companies	13	5,110	682	5,110	682
Deposits	14	5,833	761	6,100	798
Available for sale investments	15	1,037	135	1,858	249
Non-current receivables	16	106,115	13,851	77,512	10,149
		657,935	85,891	779,868	102,126
Current assets					
Inventories	17	49,515	6,463	47,626	6,236
Other financial assets	20	2,206	288	2,696	353
Accounts receivable	18	61,123	7,978	65,290	8,549
Other receivables	19	13,625	1,778	34,639	4,535
Cash and cash equivalents	21	47,208	6,161	48,972	6,411
Prepaid expenses	22	22,316	2,913	25,079	3,284
		195,993	25,581	224,302	29,368
TOTAL ASSETS		853,928	111,472	1,004,170	131,494
Equity and reserves					
Issued capital	23	277,880	36,399	277,880	34,037
Capital reserves	24	80,622	10,457	81,442	10,564
Hedging reserves	24	(2,385)	(309)	(7,465)	(975)
Accumulated losses	24	(7,490)	(999)	(8,210)	(1,092)
Net profit for the year		7,548	989	720	93
Foreign exchange differences		-	(34)	-	2,479
		356,175	46,503	344,367	45,106
Provisions	26	23,315	3,043	22,215	2,907
Non-current liabilities					
Long-term loans	27	67,391	8,796	79,904	10,462
Obligations under finance leases	28	12	2	33	4
Other long-term liabilities		69	9	73	10
		67,472	8,807	80,010	10,476
Current liabilities					
Short-term loans	29	45,546	5,945	34,369	4,500
Short-term portion of long-term loans	27	19,891	2,596	166,266	21,769
Short-term portion of long-term finance leases	28	21	3	20	3
Accounts payables	30	133,646	17,444	163,821	21,449
Other current liabilities	31	169,486	22,121	167,563	21,939
Accrued expenses and deferred income	32	38,376	5,010	25,539	3,345
		406,966	53,119	557,578	73,005
TOTAL EQUITY AND LIABILITIES		853,928	111,472	1,004,170	131,494

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

Croatia Airlines d.d. separate balance sheet/statement of financial position

As at 31 December 2014

	Notes	2012	
		HRK '000	EUR '000
		Restated	
ASSETS			
Non-current assets			
Intangible assets		15,772	2,090
Property, plant and equipment		686,853	91,027
Investments in associated company		5,110	682
Deposits		6,441	853
Available for sale investments		1,703	229
Non-current receivables		71,282	9,446
		787,161	104,327
Current assets			
Inventories		49,071	6,504
Other financial assets		3,374	447
Accounts receivable		87,970	11,659
Other receivables		117,360	15,554
Cash and cash equivalents		34,096	4,519
Prepaid expenses		47,164	6,250
		339,035	44,933
TOTAL ASSETS		1,126,196	149,260
EQUITY AND LIABILITIES			
Equity and reserves			
Issued capital		1,852,203	245,501
Capital reserves		899	130
Accumulated losses and other reserves	24	(1,229,779)	(162,777)
Net loss for the year		(488,167)	(64,934)
		135,156	17,920
Provisions	26	55,797	7,395
Non-current liabilities			
Long-term loans		238,209	31,569
Long-term leases		53	7
		238,262	31,576
Current liabilities			
Short-term loans		48,855	6,475
Short-term portion of long-term loans		170,299	22,569
Short-term portion of long-term obligations under finance leases		18	2
Accounts payable		283,321	37,548
Other current liabilities		164,704	21,828
Accrued expenses and deferred income	32	29,784	3,947
		696,981	92,369
TOTAL EQUITY AND LIABILITIES		1,126,196	149,260

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

Consolidated Croatia Airlines statement of changes in equity

For the year ended 31 December 2014

	Issued capital		Capital Reserves		Accumulated losses		Hedging reserves		Result for the year		Accumulated translation	Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2013	1,852,213	245,501	2,700	373	(1,218,914)	(164,043)	(9,417)	(1,249)	(487,844)	(64,891)	2,711	138,738	18,402
Transfer (from) / to	-	-	-	-	(488,075)	(64,921)	-	-	487,844	64,891	-	(231)	(30)
Foreign exchange differences	-	-	-	-	-	5,399	1,954	271	-	-	(228)	1,954	5,442
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	(6,711)	(874)	(7,463)	(978)	1,441	189	2,483	348,400	45,664
Transfer (from) / to	-	-	-	-	720	93	-	-	(1,441)	(189)	-	(721)	(96)
Foreign exchange differences	-	2,362	-	-	-	-	5,080	666	-	-	(2,539)	5,080	489
Increase / decrease of capital reserves	-	-	(820)	(107)	-	-	-	-	-	-	-	(820)	(107)
Net profit	-	-	-	-	-	-	-	-	8,718	1,144	-	8,718	1,144
Balance at 31 December 2014	277,890	36,399	82,423	10,700	(5,991)	(781)	(2,383)	(312)	8,718	1,144	(56)	360,657	47,094

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

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

For the year ended 31 December 2014

	Issued capital		Capital Reserves		Accumulated losses		Hedging reserves		Result for the year		Accumulated translation	Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	EUR '000	HRK '000	EUR '000
Balance at 1 January 2013	1,852,203	245,501	899	130	(1,220,361)	(164,254)	(9,419)	(1,246)	(488,167)	(64,934)	2,720	135,155	17,917
Transfer (from) / to	-	-	-	-	(488,127)	(64,928)	-	-	488,167	64,934	-	40	6
Foreign exchange differences	-	-	-	-	-	5,399	1,954	271	-	-	(241)	1,954	5,429
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	(8,210)	(1,092)	(7,465)	(975)	720	93	2,479	344,367	45,106
Transfer (from) / to	-	-	-	-	720	93	-	-	(720)	(93)	-	-	-
Foreign exchange differences	-	2,362	-	-	-	-	5,080	666	-	-	(2,513)	5,080	515
Increase / decrease of capital reserves	-	-	(820)	(107)	-	-	-	-	-	-	-	(820)	(107)
Net profit	-	-	-	-	-	-	-	-	7,548	989	-	7,548	989
Balance at 31 December 2014	277,880	36,399	80,622	10,457	(7,490)	(999)	(2,385)	(309)	7,548	989	(34)	356,175	46,503

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

Consolidated Croatia Airlines statement of cash flows

For the year ended 31 December 2014

	2014		2013	
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net loss for the year	8,718	1,144	1,441	189
<i>Adjustments for:</i>				
Depreciation	65,118	8,534	74,904	9,891
Amortization	6,555	859	8,306	1,096
(Loss) / gain from the equity method	(168)	5	(355)	(57)
Net present value of disposed and sold tangible and intangible assets; impairment of assets	(37,297)	(4,869)	5,310	695
Exchange differences, net	(484)	(114)	4,685	557
Increase in deferred foreign exchange gains (Increase) / Decrease in non-current receivables	5,080	666	1,954	271
(27,515)	(3,551)	(6,069)	(670)	
Decrease / (Increase) in accounts receivable and other receivables	25,355	3,351	105,633	14,163
Decrease / (Increase) in prepaid expenses	2,775	373	22,107	2,970
(Decrease) / Increase in inventories	(2,178)	(265)	1,517	277
Increase in non-current liabilities	(5)	(1)	159,977	21,027
(Decrease) / Increase in accounts payable and other current liabilities	(28,102)	(3,804)	(69,780)	(9,810)
(Decrease) / Increase in provisions	1,100	135	(33,583)	(4,479)
(Decrease) / Increase in accrued expenses and deferred income	12,874	1,670	(4,635)	(649)
Payments for income tax	(625)	(82)	(171)	(22)
Gains from dividends	-	-	-	-
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	31,201	4,051	271,241	35,449
Investing activities				
Payments for purchase of intangible assets	(15,196)	(1,983)	(11,583)	(1,517)
Payments for purchase of tangible assets	(65,104)	(8,498)	(64,790)	(8,483)
Proceeds from disposal of tangible assets	195,978	25,580	1,287	168
NET CASH (USED IN) INVESTING ACTIVITIES	115,678	15,099	(75,086)	(9,832)
Financial activities				
Other changes in equity	(1,542)	(202)	(47)	(7)
Decrease of current financial assets	490	65	822	113
Proceeds from short-term borrowings	60,185	7,856	33,800	4,425
Repayment of short-term borrowings	(49,398)	(6,448)	(48,700)	(6,376)
Proceeds from long-term borrowings	8,277	1,080	2,000	262
Repayment of long-term borrowings	(167,359)	(21,843)	(168,776)	(22,097)
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	(149,347)	(19,492)	(180,901)	(23,680)
INCREASE IN CASH AND CASH EQUIVALENTS	(2,468)	(342)	15,254	1,937
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	52,182	6,831	37,115	4,920
Exchange differences for the cash and cash equivalents from the beginning of the year	734	96	(187)	(26)
CASH AND CASH EQUIVALENTS AT YEAR END	50,448	6,585	52,182	6,831

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

Croatia Airlines d.d. separate statement of cash flows

For the year ended 31 December 2014

	2014		2013	
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net profit / loss for the year	7,548	989	720	93
<i>Adjustments for:</i>				
Depreciation	65,057	8,526	74,824	9,880
Amortization	6,452	846	8,228	1,086
Net present value of disposed and sold tangible and intangible assets; impairment of assets	(37,761)	(4,929)	5,311	695
Exchange differences, net	(480)	(87)	4,686	554
Increase in deferred foreign exchange differences	5,080	666	1,954	271
(Increase) / Decrease in non-current receivables	(27,515)	(3,551)	(6,044)	(667)
Decrease / (Increase) in accounts receivable and other receivables	24,378	3,223	104,751	14,043
Decrease / (Increase) in prepaid expenses	2,767	371	22,084	2,967
Decrease / (Increase) in inventories	(1,889)	(227)	1,445	268
Increase in non-current liabilities	(5)	(1)	159,977	21,027
(Decrease) / Increase in accounts payable and other current liabilities	(28,814)	(3,896)	(70,233)	(9,866)
(Decrease) / Increase in provisions	1,100	137	(33,583)	(4,479)
Increase / (Decrease) in accrued expenses and deferred income	12,836	1,665	(4,245)	(597)
Payments for income tax	563	74	-	-
Gains from dividends	803	105	648	85
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	30,120	3,911	270,523	35,360
Investing activities				
Payments for purchase of intangible assets	(15,195)	(1,983)	(11,566)	(1,514)
Payments for purchase of tangible assets	(65,085)	(8,497)	(64,744)	(8,477)
Proceeds from disposal of tangible assets	195,978	25,580	1,287	168
NET CASH (USED IN) INVESTING ACTIVITIES	115,698	15,100	(75,023)	(9,823)
Financial activities				
Other changes in equity	(820)	(107)	225	29
Decrease of current financial assets	490	65	679	94
Proceeds from short-term borrowings	60,185	7,856	33,800	4,425
Repayment of short-term borrowings	(49,083)	(6,406)	(48,700)	(6,376)
Proceeds from long-term borrowings	8,277	1,080	2,000	262
Repayment of long-term borrowings	(167,359)	(21,844)	(168,442)	(22,054)
NET CASH GENERATED FROM / (USED IN) FINANCIAL ACTIVITIES	(148,310)	(19,356)	(180,438)	(23,620)
INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	(2,492)	(345)	15,062	1,917
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	48,972	6,411	34,096	4,519
Exchange differences for the cash and cash equivalents from the beginning of the year	728	95	(186)	(24)
CASH AND CASH EQUIVALENTS AT YEAR END	47,208	6,161	48,972	6,412

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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

1. GENERAL (CONTINUED)

Croatia Airlines d.d. General Assembly

Central State Administrative Office for State Property Management (CSAOSPM) for Republic of Croatia	97.02%
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	0.49%
Total	100.00 %

Croatia Airlines d.d. Supervisory Board

Members from 7 October 2014

Siniša Petrović	President
Darko Prebežac	Vice President
Berislav Matijević	Member
Marko Lesić	Member
Hrvoje Kujundžić	Member

Members up to 7 October 2014

Siniša Petrović	President
Darko Prebežac	Vice President
Stanislav Pavlin	Member
Tihomir Domazet	Member
Izidor Alfirević	Member
Goran Becker	Member
Berislav Matijević	Member
Marija Čačić	Member
Božo Jusup	Member
Tonči Peović	Member
Ratimir Andrijanić	Member
Josip Horvat	Member
Ines Baniček-Vuk	Member

Croatia Airlines d.d. Management

Krešimir Kučko	President and CEO
Zlatko Širac	Board Member and COO

Subsidiaries' Management

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

2. ADOPTION OF NEW AND REVISED STANDARDS

The 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 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)

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)

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

Amendments to IAS 32 - “Offsetting Financial Assets and Financial Liabilities” (effective for annual periods beginning on or after 1 January 2014)

Alterations and amendments to IAS 39 – “Novation of Derivatives and Continuation of Hedge Accounting” (effective for annual periods beginning on or after 1 January 2014)

The adoption of these standards did not bring significant changes in the financial statements of the Group and the Company.

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 9 – Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which reflects all phases of the financial instruments of the project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018,

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

with early application permitted. The application of the standards will have an impact on the classification and measurement of financial instruments.

2. ADOPTION OF NEW AND REVISED STANDARDS (continued)

IFRS 14 – Regulatory Deferral Accounts

The standard applies to entities operating on regulated markets which for the first time apply International Financial Reporting Standards. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The Company prepares the financial statements in accordance with IFRS and it does not apply this standard.

Alterations and amendments to IAS 19 - Defined Benefit Plans: Employee Contributions

The amendment specifies the accounting for contribution from employees or third parties set out in the formal terms of a defined benefit plan. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this change will be relevant for the Company.

Annual improvements 2010-2012

These improvements are effective from 1 July 2014 and is not expected that they will have a significant impact for the Company. They include:

- IFRS 2 – Share-based Payment
- IFRS 3 – Business Combinations
- IFRS 8 – Operating Segments
- IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets
- IAS 24 – Related party Disclosures

Annual improvements 2011-2013

These improvements are effective from 1 July 2014 and it is not expected that they will have a significant impact for Company. They include:

- IFRS 3 - Business Combinations
- MSFI 13 – Fair Value Measurement
- IAS 40 – Investment Property

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and represents a new model in five steps that will apply to income arising from contracts with customers. The new standard is effective for annual periods beginning on or after 1 January 2017.

Management of the Company anticipates that the application of other standards, amendments and interpretations will not have materially significant impact on the 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	2014	2013
At 31 December	7.661471	7.637643
Average	7.630182	7.573731

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 and the Company will continue to operate as a going concern.

The principal accounting policies adopted are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Passenger revenue

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

b) Interest income

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

c) Leases

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

d) The Group as lessor

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

e) The Group as lessee

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Foreign currencies

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 balance sheet date.

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.

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 comprehensive income 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 statement of comprehensive income. The Management Board of the Company has estimated that during the years 2013 and 2014; 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Tangible fixed assets (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) balance sheet when the Group (Company) becomes a party to the contractual provisions of the instrument.

Derivative contracts initially are recognized at cost and subsequently measured at fair value. On contractual date 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 statement of comprehensive income together with all changes in fair value of assets or liabilities that are hedged items. Gain or losses from derivative financial instruments that are used as hedging instruments are recognized regarding the nature of hedged item. The 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 balance sheet of the Group and separate balance sheet 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. If estimated fair value is not reliable or its value significantly fluctuates, assets are recognized at cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Loans and receivables

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

r) Financial liabilities

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

s) Hedging reserves

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

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

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 balance sheet 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 balance sheet 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 the Company 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 2013 and 2014 the Company obtained support from the government in the form of subsidies under the Government Grants Act (Official gazette No. 47/2014). 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 88,710 thousand, EUR 11,626 thousand (2013 HRK 94,741 thousand, EUR 12,509 thousand, Note 6).

In 2011, the Company 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.

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

	2014		2013	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Scheduled services	1,214,044	159,111	1,240,812	163,831
Charter services	<u>76,786</u>	<u>10,063</u>	<u>78,275</u>	<u>10,335</u>
	<u>1,290,830</u>	<u>169,174</u>	<u>1,319,087</u>	<u>174,166</u>

Revenue by geographical segment:

	2014		2013	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Croatia	398,866	52,275	423,427	55,907
Germany	143,282	18,778	141,142	18,636
USA	129,083	16,917	137,185	18,113
Other countries	<u>619,599</u>	<u>81,204</u>	<u>617,333</u>	<u>81,510</u>
	<u>1,290,830</u>	<u>169,174</u>	<u>1,319,087</u>	<u>174,166</u>

5. OTHER SALES REVENUE

	2014		2013		2014		2013	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Revenue from technical services to others	33,604	4,404	37,518	4,954	33,604	4,404	37,518	4,954
Commission income from foreign air companies	9,202	1,206	11,329	1,496	9,202	1,206	11,329	1,496
Revenue from reservation system services	6,396	838	6,951	918	-	-	-	-
Revenue from consignment sales (duty free in aircraft)	165	22	3,675	485	165	22	3,675	485
Mileage related	2,458	322	3,737	493	2,458	322	3,737	493
Other	20,382	2,672	34,284	4,528	16,605	2,176	31,216	4,122
	72,207	9,464	97,494	12,874	62,034	8,130	87,475	11,550

6. OTHER INCOME AND GAINS

	2014		2013		2014		2013	
	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
Income from tangible assets received free of charge	2,151	282	1,207	159	2,151	282	1,207	159
Income from government support	88,711	11,626	94,741	12,509	88,711	11,626	94,741	12,509
Collected bad debts	30	4	342	45	30	4	342	45
Gain from sale of fixed assets	60,131	7,881	943	124	60,131	7,881	943	124
Gain from sale of spare parts	75	10	202	27	75	10	202	27
Other	21,145	2,771	51,649	6,819	20,859	2,734	51,512	6,801
	172,243	22,574	149,084	19,683	171,957	22,537	148,947	19,665

During 2014 the Company has recognised a total amount of HRK 88,711 thousand (EUR 11,626 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 2013 was recognised as income in the amount of HRK 94,741 thousand (EUR 12,509 thousand).

7. STAFF COSTS

	2014		2013		2014		2013	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Net wages and salaries	116,367	15,251	122,538	16,179	114,438	14,998	120,746	15,943
Tax, pension and health contributions from payroll	68,578	8,988	74,811	9,878	67,577	8,857	73,883	9,755
Employer's pension and health contributions on payroll	41,280	5,410	40,929	5,404	40,790	5,346	40,519	5,350
Other employee related costs	33,226	4,355	35,498	4,687	32,855	4,306	35,260	4,656
	259,451	34,004	273,776	36,148	255,660	33,507	270,408	35,704

The Group had 931 employees (Croatia Airlines d.d. 908, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 15) at 31 December 2014 (1.063 employees at 31 December 2013 - Note 34).

Staff costs are distributed and allocated in statement of comprehensive income within items of operating costs according to ICAO methodology.

8. FINANCIAL INCOME

	2014		2013		2014		2013	
	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	49,208	6,449	70,201	9,268	49,121	6,438	70,153	9,263
Interest gains	803	105	1,011	133	794	104	1,008	133
Other	1,323	174	706	93	721	94	273	36
	51,334	6,728	71,918	9,494	50,636	6,636	71,434	9,432

9. FINANCIAL EXPENSE

	2014		2013		2014		2013	
	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	43,035	5,640	71,702	9,467	42,978	5,633	71,601	9,454
Interest expense	11,632	1,524	13,861	1,830	11,585	1,518	13,787	1,820
Other	2,197	288	2,684	354	2,197	288	2,684	354
	56,864	7,452	88,247	11,651	56,760	7,439	88,072	11,628

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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 61 thousand, EUR 8 thousand (2013: HRK 86 thousand, EUR 11 thousand) and Obzor putovanja d.o.o. HRK 136 thousand, EUR 18 thousand (2013: HRK 68 thousand, EUR 9 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.	Croatia Airlines d.d.
	2014	2013
	HRK	HRK
	'000	'000
Net profit / (loss) before tax	7,548	720
Non-taxable income	(746)	(366)
Training incentives	(5,029)	(3,755)
Other expenses from previous periods	(10,478)	(103,643)
Non-deductible expenses	2,952	8,709
Tax loss	(5,753)	(98,335)
Tax losses brought forward	(1,044,995)	(1,039,213)
Tax loss expired	202,995	92,553
Losses utilised in current period	-	-
Tax loss available for carry forward	(847,753)	(1,044,995)

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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
2015	Not more than 1 year (from 2010)	160,280	20,920	32,056	4,184
2016	Not more than 2 years (from 2011)	78,152	10,201	15,630	2,040
2017	Not more than 3 years (from 2012)	505,233	65,945	101,047	13,189
2018	Not more than 4 years (from 2013)	98,335	12,835	19,667	2,567
2019	Not more than 5 years (from 2014)	<u>5,753</u>	<u>751</u>	<u>1.151</u>	<u>150</u>
		<u>847,753</u>	<u>110,652</u>	<u>169,551</u>	<u>22,130</u>

Deferred tax asset in the amount of HRK 169,551 thousand, in EUR 22,130 thousand (2013: HRK 208,999 thousand, in EUR 27,364 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 balance sheet date of 20% (2013: 20%).

11. INTANGIBLE ASSETS

2014	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2013	62,045	8,122	60,712	7,949
Additions	15,196	1,983	15,195	1,983
Disposals	(462)	(60)	-	-
Fx differences	-	(25)	-	(24)
Balance at 31 December 2014	76,779	10,020	75,907	9,908
ACCUMULATED AMORTIZATION				
Balance at 31 December 2013	44,346	5,805	43,766	5,730
Charge for the year	6,555	859	6,452	846
Fx differences	-	(22)	-	(21)
Balance at 31 December 2014	50,901	6,642	50,218	6,555
NET BOOK VALUE				
At 31 December 2014	25,878	3,378	25,689	3,353
At 31 December 2013	17,699	2,317	16,946	2,219
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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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

At 31 December 2014

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
<i>COST OR VALUATION</i>												
31 December 2013	80,526	10,543	33,917	4,441	61,821	8,094	1,693,112	221,680	155,290	20,333	2,024,666	265,091
Additions	69	9	19,672	2,569	5,288	691	29,695	3,876	10,380	1,355	65,104	8,500
Transfers from property, plant and equipment in progress	-	-	(15,489)	(2,022)	-	-	15,489	2,022	-	-	-	-
Disposals	(2,651)	(346)	(3,240)	(423)	(4,934)	(644)	(588,397)	(76,799)	(14,306)	(1,867)	(613,528)	(80,079)
Fx differences	-	(32)	-	(15)	-	(26)	-	(691)	-	(63)	-	(827)
31 December 2014	77,944	10,174	34,860	4,550	62,175	8,115	1,149,899	150,088	151,364	19,758	1,476,242	192,685
<i>ACCUMULATED DEPRECIATION</i>												
31 December 2013	30,312	3,969	-	-	43,152	5,651	1,209,846	158,406	68,820	9,011	1,352,130	177,037
Charge for the year	3,046	399	-	-	3,411	447	50,753	6,652	7,908	1,036	65,118	8,534
Disposals	-	-	-	-	(4,853)	(636)	(449,173)	(58,868)	(2,082)	(273)	(456,108)	(59,777)
Correction of accumulated depreciation	-	-	-	-	123	16	675	88	-	-	798	104
Fx differences	-	(14)	-	-	-	(16)	-	(280)	-	(30)	-	(340)
31 December 2014	33,358	4,354	-	-	41,833	5,462	812,101	105,998	74,646	9,744	961,938	125,558
<i>NET BOOK VALUE</i>												
31 December 2014	44,586	5,820	34,860	4,550	20,342	2,653	337,798	44,090	76,718	10,014	514,304	67,127
31 December 2013	50,214	6,574	33,917	4,441	18,669	2,443	483,266	63,274	86,470	11,322	672,536	88,054

Aircrafts are carried under the revaluation model. Net book value of the aircrafts as at 31 December 2014 was in the amount of HRK 337,798 thousand, in EUR 44,090 thousand (2013: HRK 483,266 thousand, in EUR 63,274 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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

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
<i>COST OR VALUATION</i>												
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	8,121	1,063	26,844	3,516	11,361	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)	-	(235)	-	(3,140)
31 December 2013	80,526	10,543	33,917	4,441	61,821	8,094	1,693,112	221,680	155,290	20,333	2,024,666	265,091
<i>ACCUMULATED DEPRECIATION</i>												
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	-	-	2,796	370	61,388	8,105	7,685	1,015	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	-	-	43,152	5,651	1,209,846	158,406	68,820	9,011	1,352,130	177,037
NET BOOK VALUE												
31 December 2013	50,214	6,574	33,917	4,441	18,670	2,443	483,266	63,274	86,470	11,322	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 513,216 thousand, in EUR 68,015 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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

At 31 December 2014

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
<i>COST OR VALUATION</i>												
31 December 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
Additions	69	9	19,672	2,569	5,269	688	29,695	3,876	10,380	1,355	65,085	8,497
Transfers from property, plant and equipment in progress	-	-	(15,489)	(2,022)	-	-	15,489	2,022	-	-	-	-
Disposals	(2,651)	(346)	(3,240)	(423)	(4,773)	(623)	(588,397)	(76,799)	(14,306)	(1,867)	(613,367)	(80,058)
Fx differences	-	(32)	-	(15)	-	(24)	-	(691)	-	(63)	-	(825)
31 December 2014	77,944	10,174	34,860	4,550	58,394	7,622	1,149,899	150,088	151,364	19,757	1,472,461	192,191
<i>ACCUMULATED DEPRECIATION</i>												
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
Charge for the year	3,046	399	-	-	3,350	439	50,753	6,652	7,908	1,036	65,057	8,526
Disposals	-	-	-	-	(4,691)	(615)	(449,173)	(58,868)	(2,082)	(273)	(455,946)	(59,756)
Correction of accumulated depreciation	-	-	-	-	123	16	675	88	-	-	798	104
Fx differences	-	(14)	-	-	-	(15)	-	(280)	-	(31)	-	(340)
31 December 2014	33,358	4,354	-	-	38,205	4,987	812,101	105,998	74,646	9,743	958,310	125,082
<i>NET BOOK VALUE</i>												
31 December 2014	44,586	5,820	34,860	4,550	20,189	2,635	337,798	44,090	76,718	10,014	514,151	67,109
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

Aircrafts are carried under the revaluation model, Net book value of the aircrafts as at 31 December 2014 was in the amount of HRK 337,798 thousand, in EUR 44,090 thousand (2013: HRK 483,266 thousand, in EUR 63,274 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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

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
<i>COST OR VALUATION</i>												
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
<i>ACCUMULATED DEPRECIATION</i>												
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
<i>NET BOOK VALUE</i>												
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 63,274 thousand (2012: HRK 513,216 thousand, in EUR 68,015 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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

The Company regularly examines the value of owned aircraft and, if necessary, conducts aircraft value adjustment. Value adjustment of Airbus fleet was conducted in November 2012, while in 2013 and 2014 the Company's management estimated that there were no significant deviations between market and book value. Thus there was not a new aircraft value estimation recorded.

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% (2013 – 8.33%) and "6-year check" is amortized at rate of 16.67% (2013 – 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 December 2013 when it was returned to the leasing company in accordance with the contract.

During the year 2014, besides six aircraft type Dash 8-400 used in operating leases, in accordance with the Restructuring Plan, the Company sold one aircraft type Airbus 320 (9A-CTJ), and three engines CFM56-5B which are still used by the Company through the operating lease.

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. For Airbus 320 9A-CTJ the Company has taken obligation of an average monthly lease payment per aircraft in the amount of USD 160 thousand.

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

Fleet at 31 December 2014

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

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Name of the company	Main activity	2014		2013		2014		2013		%
		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.		
		HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	
Obzor putovanja d.o.o.	Tourism	-	-	-	-	1,020	133	1,020	133	100
Amadeus Croatia d.d.	Marketing services	-	-	-	-	190	25	190	25	95
Pleso prijevoz d.o.o.	Passenger transport	5,441	730	5,273	735	3,900	524	3,900	524	50
		5,441	730	5,273	735	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

	2014		2013		2014		2013	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deposits in PBZ and ZABA for loans of employees	4,911	641	5,326	697	4,911	641	5,326	697
Other deposits	987	129	814	106	922	120	774	101
	5,898	770	6,140	803	5,833	761	6,100	798

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	
		2014		2013	
		HRK '000	EUR '000	HRK '000	EUR '000
Hrvatska poštanska banka	0.18 %	<u>1,037</u>	<u>135</u>	<u>1,858</u>	<u>249</u>

Investment in shares of Hrvatska poštanska banka were initially recognized at cost and subsequently measured at fair value in accordance with market prices. Based on the fair value adjustments in the 2014, a loss in the amount of HRK 666 thousand, EUR 87 thousand was recognized in the revaluation reserve (for 2013: profit in the amount HRK 155 thousand, EUR 21 thousand).

16. NON-CURRENT RECEIVABLES

	2014		2013		2014		2013	
	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	57,821	7,547	34,552	4,521	57,821	7,547	34,527	4,521
Long-term advances	47,667	6,222	41,970	5,495	47,667	6,222	41,970	5,495
Receivables for sold flats	452	59	515	67	452	59	515	67
Long-term receivables for housing	175	23	500	69	175	23	500	66
	<u>106,115</u>	<u>13,851</u>	<u>77,537</u>	<u>10,152</u>	<u>106,115</u>	<u>13,851</u>	<u>77,512</u>	<u>10,149</u>

The part of long-term deposits in the amount of HRK 24,678 thousand, in the EUR 3,221 thousand (2013: HRK 20,717 thousand, EUR 2,712 thousand) represents a deposit with Lufthansa Technik for repairs and maintenance of Airbus engine. The amount of the deposit has been paid to Lufthansa Technik on a monthly basis since 1998. In 2014 interest income recorded by the Company in respect of the deposit amounted EUR 62 thousand (HRK 472 thousand); (2013: EUR 70 thousand, HRK 535 thousand) and USD 1 thousand (HRK 5 thousand); based on the interest calculation received from Lufthansa Technik at an annual interest rate of 3.5%.

The amount of HRK 47,667 thousand, EUR 6,222 thousand (2013: HRK 41,970 thousand, EUR 5,495 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 the Company and Airbus Industrie.

16. NON-CURRENT RECEIVABLES (CONTINUED)

Long-term receivables for housing in the amount of HRK 452 thousand, EUR 59 thousand (in 2013: HRK 515 thousand, EUR 67 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

	2014. Croatia Airlines Group		2013. Croatia Airlines Group		2014. Croatia Airlines d.d.		2013. Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Spare parts	47,476	6,197	45,206	5,919	47,476	6,197	45,206	5,919
Catering, supplies and other	2,328	304	2,420	317	2,039	266	2,420	317
	49,804	6,501	47,626	6,236	49,515	6,463	47,626	6,236

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

18. ACCOUNTS RECEIVABLE

	2014		2013		2014		2013	
	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	19,538	2,550	18,711	2,450	18,124	2,366	16,555	2,168
Foreign accounts receivable	57,395	7,492	60,838	7,966	56,445	7,367	60,351	7,902
Allowance for doubtful receivables	(13,620)	(1,778)	(11,791)	(1,544)	(13,446)	(1,755)	(11,616)	(1,521)
	63,313	8,264	67,758	8,872	61,123	7,978	65,290	8,549

Tables below present changes in allowance for doubtful receivables in years 2014 and 2013:

	2014		2014	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
Allowance for doubtful receivables				
Balance at 1 January 2014	11,791	1,544	11,616	1,521
Increase	2,919	381	2,919	381
Decrease	(30)	(4)	(30)	(4)
Bad debts write-off	(1,315)	(172)	(1,315)	(172)
Exchange differences	255	29	257	29
Balance at 31 December 2014	13,620	1,778	13,447	1,755

	2013		2013	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
Allowance for doubtful receivables				
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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

19. OTHER RECEIVABLES

	2014		2013		2014		2013	
	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	43	6	664	87	-	-	545	71
Receivables from employees	165	21	311	41	156	20	306	40
Receivables from the State	8,509	1,110	18,332	2,400	8,484	1,107	18,263	2,391
Dividends and profit share receivable	-	-	-	-	-	-	129	17
Receivables for advances	5,076	663	15,396	2,016	4,985	651	15,396	2,016
	13,793	1,800	34,703	4,544	13,625	1,778	34,639	4,535

20. OTHER FINANCIAL ASSETS

	2014		2013		2014		2013	
	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	2,203	288	2,694	353	2,203	288	2,694	353
Cheques	2	-	2	-	3	-	2	-
	2,205	288	2,696	353	2,206	288	2,696	353

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

20. OTHER FINANCIAL ASSETS (CONTINUED)

Deposits at 31 December 2014 are as follows:

Financial institution	Annual interest rate	In thousands of original currency	Currency	2014	2014	2013	2013
				HRK '000	EUR '000	HRK '000	EUR '000
Deposits:							
Commerz Bank A.G.	1,00	75	EUR	576	75	724	95
ARC US	-	214	USD	1,351	176	1,518	199
US Bank	-	-	USD	19	2	-	-
Other	-	-	Various	257	35	452	59
Balance as at 31 December Croatia Airlines d.d.				2,203	288	2,694	353

The amount of HRK 576 thousand (75 thousand EUR) is short-term deposit at Commerz Bank A.G. paid for Bank guarantees issued to Company's suppliers (in 2013: HRK 724 thousand, EUR 95 thousand).

The amounts presented in the table above represent the fair value of the financial asset as at 31 December 2014 and 31 December 2013.

21. CASH AND CASH EQUIVALENTS

	2014		2013		2014		2013	
	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	18,894	2,466	20,718	2,712	16,872	2,202	18,692	2,447
Foreign currency accounts	29,014	3,787	30,506	3,994	27,805	3,629	29,330	3,840
Petty cash	21	3	18	2	12	2	10	1
Foreign currency petty cash	95	12	67	9	95	12	67	9
Short-term deposits	2,424	317	873	114	2,424	316	873	114
	50,448	6,585	52,182	6,831	47,208	6,161	48,972	6,411

22. PREPAID EXPENSES

	2014		2013		2014		2013	
	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	19,432	2,536	17,121	2,242	19,421	2,535	17,099	2,239
Accrued income	2,895	378	7,980	1,045	2,895	378	7,980	1,045
	22,327	2,914	25,101	3,287	22,316	2,913	25,079	3,284

The most significant part of prepaid expenses include prepaid expenses to suppliers in the amount of HRK 19,094 thousand, EUR 2,492 thousand (2013: HRK 15,210 thousand, EUR 1,991 thousand).

23. ISSUED CAPITAL

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 Company and between the Zagreb International Airport and the Company.

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 the Company 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.

At the meeting of the General Assembly of the Company held on 7 October 2014 it was decided that 13,868,378 ordinary shares with nominal value of HRK 20.00 each would be divided into two shares with a nominal amount of HRK 10.00 each. After the implementation of the division the total number of ordinary shares is 27,736,756 with a nominal value of HRK 10.00 each. It was also decided to abolish 51,197 preference shares without voting rights with a nominal value of HRK 10.00 each, in a way that they were converted into 51,197 ordinary shares with a nominal value of HRK 10.00 each.

Following the registered changes the share capital amounts to HRK 277,880 thousand, divided into a total of 27,787,953 ordinary shares with a nominal value of HRK 10.00 each.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

23. ISSUED CAPITAL (CONTINUED)

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

2014

Shareholders	Number of shares	HRK '000	%
Central State Administrative Office for State Property Management (CSAOSPM) for Republic of Croatia	26,959,461	269,595	97.02
Zagreb International Airport	477,121	4,771	1.72
Central State Administrative Office for State Property Management (CSAOSPM) for State Agency for Deposit Insurance and Bank Rehabilitation	213,152	2,132	0.77
Others	<u>138,219</u>	<u>1,382</u>	<u>0.49</u>
	<u>27,787,953</u>	<u>277,880</u>	<u>100.00</u>

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	<u>88,924</u>	<u>1,477</u>	<u>0.53</u>
	<u>13,919,575</u>	<u>277,880</u>	<u>100.00</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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 2014 and 2013 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	<u>5</u>	<u>5.00</u>	<u>10</u>	<u>1</u>
	<u>100</u>	<u>100.00</u>	<u>200</u>	<u>26</u>

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

24. CAPITAL RESERVES AND ACCUMULATED LOSSES

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 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.

In accordance with accounting standards (MRS19 - Employee Benefits) in the year 2014, the Company adopted the accounting policy for the recognition of accrued expenses for unused annual leave. The financial statements for previous periods have been restated retroactively. For the amount of the cost of unused annual leave relating to the period up to 2013 in the amount of 7,342 thousand are recognized as accumulated loss within equity and reserves.

In addition, in 2014 the Company adopted a policy of recognizing future severance payments' expenses in accordance with the collective agreement and engaged a professional actuary to calculate the required provisions. The provisions for severance payments related to the period up to 2013 are also recognized as a loss carried forward in the context of capital and reserves in the amount of HRK 867 thousand and are included in the amount of retroactively restated financial statements for previous periods.

Pursuant to the abovementioned, the amount of HRK 8,209 thousand is recognized as loss carried forward within the equity and reserves on 31 December 2014.

Amadeus Croatia has reserves in the amount as follows: legal reserve HRK 10 thousand, EUR 1.4 thousand (2013: HRK 10 thousand, EUR 1.4 thousand) and other reserves HRK 100 thousand (EUR 14 thousand) (2013: HRK 100 thousand, EUR 14 thousand).

Obzor putovanja d.o.o. has other reserves in the amount of HRK 867 thousand (EUR 114 thousand) (2013: HRK 867 thousand, EUR 114 thousand).

25. BASIC AND DILUTED PROFIT 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	
	2014		2013	
	HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year	8,718	1,144	1,441	189
Number of shares issued	27,787,953		13,919,575	
Basic and diluted profit per share in HRK/EUR	0.31	0.04	0.10	0.01

	Croatia Airlines d.d.		Croatia Airlines d.d.	
	2014		2013	
	HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year	7,548	989	720	93
Number of shares issued	27,787,953		13,919,575	
Basic and diluted profit per share in HRK/EUR	0.27	0.04	0.05	0.01

At 31 December 2014 number of shares were 27,787,953 at nominal value of HRK 10 (2013: 51,197 preference shares at nominal value HRK 10 and 13,868,378 ordinary shares at nominal value HRK 20).

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 2012	55,798	7,395
Charge for the year	5,036	659
Provisions utilised during the year	(38,619)	(5,056)
Fx differences	-	(91)
	<hr/>	<hr/>
At 31 December 2013	22,215	2,907
Charge for the year	12,568	1,640
Provisions utilised during the year	(11,468)	(1,497)
Fx differences	-	(7)
	<hr/>	<hr/>
At 31 December 2014	23,315	3,043

The amount of the HRK 23,315 thousand (EUR 3,043 thousand) includes the provisions for litigation in the amount of HRK 9,724 thousand, in EUR 1,269 thousand (2013: HRK 10,866 thousand, EUR 1,423 thousand) which relate to a dispute with former employees of Croatia Airlines.

In the year 2013, against the Company was launched a lawsuit pending before a court in New Jersey from the company NETWORKORLD COMMUNICATIONS CORP for the compensation due to contract termination. In order not to prejudice the position of the Company in disputes with other parties other information are not published (in accordance with paragraph 92 of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets).

The provisions also include the amount of HRK 826 thousand, EUR 108 thousands (2013: HRK 10,483 thousand, EUR 1,372 thousand) which refer to severance payments according to the Restructuring plan of the Company. During the year 2014 the amount of provisions for the severance payments was decreased by HRK 6,843 thousand, EUR 893 thousand due to realized payments.

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.

Provisions in 2014 also include the amount of HRK 791 thousand, EUR 103 thousand which refer to the regular severance payments in accordance with the Collective Agreement. In the financial statements for the previous periods the Company did not made provisions of severance payments, and retrospectively made adjustments in the financial statements for the previous comparative periods in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (see note 24).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

27. LONG-TERM LOANS

	Croatia Airlines d.d. and the Group 2014		Croatia Airlines d.d. and the Group 2013	
	HRK '000	EUR '000	HRK '000	EUR '000
Long-term loans	87,282	11,392	246,170	32,231
Current portion of long-term loans	<u>(19,891)</u>	<u>(2,596)</u>	<u>(166,266)</u>	<u>(21,769)</u>
	<u>67,391</u>	<u>8,796</u>	<u>79,904</u>	<u>10,462</u>

Description of long-term loans is as follows:

Financial institution	Original currency	Loan amount in original currency	Annual interest rate	Due date	2014		2013	
					HRK '000	EUR '000	HRK '000	EUR '000
		(in 000)	%					
			6 m EURIBOR					
BLB Tranche A	EUR	135,000	+0.5	Dec 2014	-	-	158,628	20,769
			3 m EURIBOR					
PBZ 7510009556	EUR	15,000	+5.5 (min.8%)	Oct 2019	<u>78,147</u>	<u>10,200</u>	<u>85,542</u>	<u>11,200</u>
			3m EURIBOR					
PBZ 5110188453	EUR	1,350	+5.5% (min 7.5%)	Dec 2016	<u>9,135</u>	<u>1,192</u>	<u>2,000</u>	<u>262</u>
					<u>87,282</u>	<u>11,392</u>	<u>246,170</u>	<u>32,231</u>
Current portion					<u>(19,891)</u>	<u>(2,596)</u>	<u>(166,266)</u>	<u>(21,769)</u>
Long-term portion					<u>67,391</u>	<u>8,796</u>	<u>79,904</u>	<u>10,462</u>

In November 2014 the Company fully repaid the loan for refinancing the fleet for which the Government of the Republic of Croatia guaranteed. In 2013 the amount of the loan for the refinancing the fleet, was HRK 158,628 thousand (EUR 20,769 thousand).

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

	HRK '000	EUR '000
2015	19,920	2,600
2016	19,861	2,592
2017	15,323	2,000
2018	15,323	2,000
after 2018	<u>16,855</u>	<u>2,200</u>
Total	<u>87,282</u>	<u>11,392</u>

28. OBLIGATIONS UNDER FINANCE LEASES

Description of the long-term leases is as follows:

Financial institution	Original currency	Loan amount (in 000)	Annual interest rate %	Due date	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
					2014	2014	2013	2013
					HRK '000	EUR '000	HRK '000	EUR '000
ASA Leasing	EUR	14	8	June 2016	33	5	53	7
Total					33	5	53	7
Current portion					(21)	(3)	(20)	(3)
Long-term portion					12	2	33	4

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

	HRK '000	EUR '000
2015	21	3
2016	12	2
Total	33	5

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	2014	2014	2013	2013
					HRK '000	EUR '000	HRK '000	EUR '000
		(in 000)	%					
			3 m					
Zagrebačka banka	EUR	4,000	EURIBOR +6.15%	5.2015	30,646	4,001	34,369	4,500
Hrvatska poštanska banka	HRK	7,450	8,0%	7.2015	7,450	972	-	-
			Treasury bills on 91 days +4.95% (min 8.5%)					
Privredna banka Zagreb	HRK	7,450		8.2015	7,450	972	-	-
					45,546	5,945	34,369	4,500

As at 31 December 2014 liabilities from short-term loans amounted to HRK 45,546 thousand (EUR 5,945 thousand). On 27 May 2014 a contract was signed with Zagrebačka banka d.d. for short-term loan to finance the Company's business. The Company was granted a loan in the amount of EUR 4,000 thousand. In 2014 the Company also used short-term loans of the Hrvatska poštanska banka d.d. and Privredna banka Zagreb d.d. for current liquidity.

In addition to the specified liabilities of the Company, current liabilities also include liabilities arising from loans to the subsidiary Amadeus Croatia d.d.. The loan was realized at Privredna banka Zagreb d.d. and on 31 December 2014 liabilities under this loan was HRK 350 thousand, EUR 45 thousand (2013: HRK 665 thousand, EUR 87 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

30. ACCOUNTS PAYABLES

	2014		2013		2014		2013	
	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
Domestic trade accounts payables	66,574	8,690	91,802	12,020	65,855	8,596	91,048	11,921
Foreign trade accounts payables	67,993	8,874	73,769	9,658	67,791	8,848	72,773	9,528
	134,567	17,564	165,571	21,678	133,646	17,444	163,821	21,449

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

31. OTHER CURRENT LIABILITIES

	2014		2013		2014		2013	
	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
Air traffic liabilities	118,494	15,466	118,676	15,538	118,494	15,466	118,676	15,538
Deposits and advances received	15,836	2,067	17,061	2,234	15,648	2,042	17,061	2,234
Salaries	17,119	2,234	17,631	2,308	16,834	2,197	17,322	2,268
Other current liabilities	18,761	2,449	14,565	1,907	18,510	2,416	14,504	1,899
	170,210	22,216	167,933	21,987	169,486	22,121	167,563	21,939

32. ACCRUED EXPENSES AND DEFERRED INCOME

	2014		2013		2014		2013	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
Deferred income	2,951	385	5,102	668	2,951	385	5,102	668
Accrued cost for unused annual leave	6,327	826	7,342	961	6,327	826	7,342	961
Accrued expenses	<u>29,256</u>	<u>3,819</u>	<u>13,216</u>	<u>1,733</u>	<u>29,098</u>	<u>3,799</u>	<u>13,095</u>	<u>1,716</u>
	<u>38,534</u>	<u>5,030</u>	<u>25,660</u>	<u>3,362</u>	<u>38,376</u>	<u>5,010</u>	<u>25,539</u>	<u>3,345</u>

Deferred income in the amount of HRK 2,951 thousand, EUR 385 thousand (2013: HRK 5,102 thousand, EUR 668 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.

Deferred income includes the amount of HRK 6,327 thousand, EUR 826 thousand of unused annual leave in accordance with accounting regulations (IAS 19 - Employee Benefits). In the financial statements for previous periods the Company has not disclosed provisions of unused annual leave, and in accordance with IAS 8 adjustments have been applied retrospectively restating the financial statements for the previous comparative period (see note 24).

For the amount of accrued expenses for unused annual leave which refers on the period until 2013, balance sheet of the Company and the Group as at 31 December 2013 was restated on the positions of losses carried forward and accrued expenses and deferred income in the amount of HRK 7,342 thousand (EUR 961 thousand).

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 three engine for aircraft. Total monthly amount for rent and lease obligation is HRK 9,462 thousand (EUR 1,240 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.

In April 2014 the Company signed Aircraft Lease Agreement for Airbus A320 CTJ for the period of 8 years. By this agreement, the Company has taken average monthly lease payment obligation in the amount of USD 160 thousand.

In May and November 2014 the Company signed Engine Lease Agreements for three aircraft engines CFM56-5B for the period of 8 years. Accordingly, the Company has taken the obligation to pay monthly leasing instalments in the amount of USD 114 thousand.

34. EMPLOYEES

Croatia Airlines d.d.	2014	2013
Pilots and co-pilots	115	126
Cabin attendants	149	156
Maintenance and overhaul	248	301
Ticket sales and promotion	115	159
Airport handling	108	114
Other staff	173	185
	908	1,041
Croatia Airlines d.d. subsidiaries		
Amadeus Croatia d.d., Zagreb	8	8
Obzor Putovanja d.o.o., Zagreb	15	14
	931	1,063

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:

	2014	2013	2014	2013
	HRK	HRK	EUR	EUR
	'000	'000	'000	'000
Revenue				
Obzor putovanja d.o.o.	6,522	5,655	855	747
Amadeus Croatia d.d.	144	144	19	19
Pleso prijevoz d.o.o. (associate)	267	264	35	35
Total revenue	6,933	6,063	909	801
Expenses				
Obzor putovanja d.o.o.	-	36	-	5
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	4,861	5,112	637	675
Total expenses	4,861	5,148	637	680
	2014	2013	2014	2013
	HRK	HRK	EUR	EUR
	'000	'000	'000	'000
Receivables				
Obzor putovanja d.o.o.	11	141	1	18
Amadeus Croatia d.d.	15	15	2	2
Pleso prijevoz d.o.o. (associate)	36	42	5	6
Total receivables	62	198	8	26
Liabilities				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	1,900	2,019	248	264
Total liabilities	1,900	2,019	248	264

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:

	2014		2013		2014		2013	
	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	133,211	17,386	281,257	36,825	132,861	17,342	280,592	36,738
Cash and cash equivalents	(50,448)	(6,585)	(52,182)	(6,832)	(47,208)	(6,161)	(48,972)	(6,411)
Net debt	82,763	10,801	229,075	29,993	85,653	11,181	231,620	30,327
Equity	360,657	47,094	348,400	45,664	356,175	46,503	344,367	45,106
Net debt to equity ratio	23%	23%	66%	66%	24%	24%	67%	67%

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 27 and 28. 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 49 thousand (EUR 6 thousand) would debit income statement and, contrary, in case that the interest rate was lower for 0.5% the effect of HRK 49 thousand (EUR 6 thousand) would credit income statement for the period ended 31 December 2014.

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 27 and 28, 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	
	2014	2013
Profit / (Loss)	544	1,393

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

HRK 000	Currency impact EUR		Currency impact USD	
	2014	2013	2014	2013
Profit / (Loss)	2,263	2,364	2,892	1,714

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 1,726 thousand (EUR 226 thousand) would debit profit and loss account and, contrary, in case that the fuel price was lower for 0.5% the effect of HRK 1,726 thousand (EUR 226 thousand) would credit profit and loss account for the year 2014.

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 procure to finance its fleet out of loans denominated in foreign currencies. The Company hedges its exposure to those risks in accordance with its approved strategies (Currency Risk Hedging Strategy for Long-Term FX Loans; and Fuel Pricing Risk Hedging Strategy).

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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 2014 and 2013. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31 December 2014	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	6,147	817	-	-	-	-	-	-	6,147	817
Long-term deposits	5,833	761	-	-	-	-	-	-	5,833	761
Long-term receivables	106,115	13,850	206	27	41,970	5,478	62	8	63,877	8,337
Current financial assets	3	-	3	-	-	-	-	-	-	-
Short-term deposit	2,203	288	-	-	2,203	288	-	-	-	-
Trade receivables and other receivables	97,064	12,669	97,030	12,665	34	4	-	-	-	-
Total	217,365	28,385	97,239	12,692	44,207	5,770	62	8	75,857	9,915
Liabilities										
Short-term leasing	22	3	11	2	11	1	-	-	-	-
Short-term loans	65,437	8,541	43,063	5,621	22,374	2,920	-	-	-	-
Long term leases	12	2	-	-	-	-	12	2	-	-
Long-term loans	67,392	8,796	-	-	-	-	33,696	4,398	33,696	4,398
Trade payables and other liabilities	364,891	47,627	176,225	23,001	188,666	24,625	-	-	-	-
Total	497,754	64,969	219,299	28,624	211,051	27,547	33,708	4,400	33,696	4,398
Difference	(280,389)	(36,584)	(122,060)	(15,932)	(166,844)	(21,777)	(33,646)	(4,392)	42,161	5,517

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

36. RISK MANAGEMENT (CONTINUED)

36.1. Liquidity risk tables (continued)

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
Current financial assets	2	-	2	-	-	-	-	-	-	-
Short – term deposit	2,694	353	-	-	2,694	353	-	-	-	-
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
ties										
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
Difference	(433,304)	(56,714)	(178,382)	(23,356)	(241,260)	(31,588)	(17,482)	(2,289)	3,820	519

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2014

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 and engines 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 and engines.

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 2014 the Company had 7 airplanes, 3 engines, 2 buildings and 3 cars under the operating lease. The future aggregate minimum lease payments are as follows:

	HRK '000	EUR '000
	2014	2014
No later than one year	115,749	15,108
Later than one year and no later than five years	381,987	49,858
Later than five years	63,077	8,233
	<u>560,813</u>	<u>73,199</u>

38. DIRECTORS' AND EXECUTIVES' REMUNERATION

The total amount of remuneration paid to directors and other key management personnel during 2014 and 2013, was as follows:

	HRK '000	EUR '000	HRK '000	EUR '000
	2014	2014	2013	2013
Gross salaries	7,961	1,043	10,572	1,396
Gross benefits in kind	459	60	1,136	150
Severance payments	311	41	1,386	183
	<u>8,731</u>	<u>1,144</u>	<u>13,094</u>	<u>1,729</u>

As at 31 December 2014 the number of directors and key management staff was 15 (2013: 19 directors and management staff).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorised for issue on 30 March 2015.

Signed for and on behalf of the Company on 30 March 2015.

Teodora Wenzler-Brezak



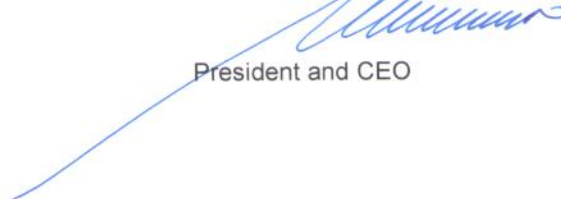
Director of Finance
and Accounting

Zlatko Širac



Board Member and COO

Krešimir Kučko



President and CEO