

Consolidated and Separate Annual Reports for the year ended 31.12. 2015.



June 2016



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FINANCIAL STATEMENTS (REVISED) FOR THE YEAR ENDED 31 DECEMBER 2015:
Consolidated Croatia Airlines Income Statement for the year ended 31 December 2015

Position	amounts in Croatian kuna	
	Previous period 1 Jan-31 Dec 2014	Current period 1 Jan-31 Dec 2015
I. OPERATING INCOME	1.551.758.140	1.558.352.931
1. Sales revenue	1.371.313.783	1.406.422.881
2. Other operating income	180.444.357	151.930.050
II. OPERATING EXPENSES	1.537.312.630	1.540.482.909
1. Changes in inventories of finished products and work in progress	0	0
2. Material costs	1.108.076.079	1.134.987.186
3. Staff costs	226.225.125	221.745.426
4. Depreciation and amortization	71.672.995	73.304.165
5. Other expenses	85.174.909	96.546.122
6. Impairment	3.037.853	1.256.407
7. Provisions	12.535.609	95.348
8. Other operating expenses	30.590.060	12.548.255
III. FINANCIAL INCOME	8.299.274	7.743.492
1. Interest and exchange gains, dividends and similar income from related companies	721.293	1.372.459
2. Interest and exchange gains, dividends and similar income from other entrepreneurs	6.976.091	6.371.033
3. The income from associated undertakings and participating interests	0	0
4. Unrealized gains (revenues)	0	0
5. Other financial income	601.890	0
IV. FINANCIAL EXPENSES	13.828.797	10.725.242
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	13.828.797	10.725.242
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	1.560.057.414	1.566.096.423
VIII. TOTAL EXPENSE	1.551.141.427	1.551.208.151
IX. PROFIT BEFORE TAXATION	8.915.987	14.888.272
X. LOSS BEFORE TAXATION	0	0
XI. INCOME TAX	196.971	246.898
XII. PROFIT FOR THE YEAR	8.719.016	14.641.374
XIII. LOSS FOR THE YEAR	0	0
APPENDIX		
XIV. PROFIT FOR THE YEAR		
1. Attributable to shareholders of the parent company	8.719.016	14.641.374
2. Attributable to minority interests	0	0
CONSOLIDATED CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME		
PROFIT FOR THE YEAR	8.719.016	14.641.374
Movements in revaluation reserves of long-term tangible assets	0	0
Profit (loss) from reevaluation of financial assets available for sale	-820.378	-46.502
Hedging reserves	5.080.188	674.553
NET OTHER COMPREHENSIVE INCOME FOR THE YEAR	4.259.810	628.051
COMPREHENSIVE INCOME FOR THE YEAR	12.978.826	15.269.425

Croatia Airlines d.d. Income Statement for the year ended 31 December 2015

amounts in Croatian kuna

Position	Previous period		Current period	
	1 Jan-31 Dec 2014		1 Jan-31 Dec 2015	
I. OPERATING REVENUE	1.541.298.500		1.546.879.596	
1. Sales revenue	1.360.869.863		1.394.803.282	
2. Other operating income	180.428.637		152.076.314	
II. OPERATING EXPENSES	1.527.626.939		1.530.146.725	
1. Change in inventories of finished products and work in progress	0		0	
2. Material costs	1.107.124.015		1.133.986.788	
3. Staff costs	222.806.274		217.968.538	
4. Depreciation and amortization	71.509.218		73.199.538	
5. Other expenses	80.158.707		91.211.276	
6. Impairment	2.919.199		1.181.597	
7. Provisions	12.535.609		95.348	
8. Other operating expenses	30.573.917		12.503.640	
III. FINANCIAL INCOME	7.658.294		7.802.842	
1. Interest and exchange gains, dividends and similar income from related companies	721.293		1.372.459	
2. Interest and exchange gains, dividends and similar income from other entrepreneurs	6.937.001		6.430.383	
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	13.782.297		10.706.707	
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	13.782.297		10.706.707	
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	1.548.956.794		1.554.682.438	
VIII. TOTAL EXPENSE	1.541.409.236		1.540.853.432	
IX. PROFIT BEFORE TAX	7.547.558		13.829.006	
X. LOSS BEFORE TAXATION	0		0	
XI. INCOME TAX	0		0	
XII. PROFIT FOR THE YEAR	7.547.558		13.829.006	
XIII. LOSS FOR THE YEAR	0		0	
CROATIA AIRLINES D.D. SEPARATE STATEMENT OF COMPREHENSIVE INCOME				
PROFIT FOR THE YEAR	7.547.558		13.829.006	
Movements in revaluation reserves of long-term tangible assets	0		0	
Profit (loss) from reevaluation of financial assets available for sale	-820.378		-46.502	
Hedging reserves	5.080.188		674.553	
NET OTHER COMPREHENSIVE INCOME FOR THE YEAR	4.259.810		628.051	
COMPREHENSIVE INCOME FOR THE YEAR	11.807.368		14.457.057	

Consolidated Croatia Airlines Balance Sheet as at 31 December 2015

		amounts in Croatian kuna	
ASSETS	Position	31 December 2014	31 December 2015
A)	SUBSCRIBED CAPITAL UNPAID		
B)	NON-CURRENT ASSETS	659.917.631	633.450.211
I.	INTANGIBLE ASSETS	25.875.803	24.990.282
II.	TANGIBLE ASSETS	561.969.762	546.932.658
III.	LONG-TERM FINANCIAL ASSETS	71.896.938	61.352.143
IV.	LONG-TERM RECEIVABLES	175.128	175.128
V.	DEFERRED TAX ASSETS	0	0
C)	CURRENT ASSETS	178.226.074	191.710.277
I.	INVENTORIES	49.804.167	56.429.223
II.	RECEIVABLES	77.015.326	98.327.384
III.	SHORT-TERM FINANCIAL ASSETS	957.654	1.535.915
IV.	CASH AND CASH EQUIVALENTS	50.448.927	35.417.755
D)	PREPAID EXPENSES AND ACCRUED REVENUE	22.418.716	26.915.684
E)	TOTAL ASSETS	860.562.421	852.076.172
F)	OFF BALANCE SHEET ITEMS	0	0

		amounts in Croatian kuna	
EQUITY AND RESERVES	Position	31 December 2014	31 December 2015
A)	EQUITY AND RESERVES	360.656.853	373.815.315
I.	ISSUED CAPITAL	277.889.530	277.889.530
II.	CAPITAL RESERVES	0	0
III.	PROFIT RESERVES	81.539.422	80.612.845
IV.	REVALUATION RESERVES	-665.578	-712.080
V.	RETAINED EARNINGS	0	1.383.646
VI.	ACCUMULATED LOSS	6.825.537	0
VII.	PROFIT FOR THE YEAR	8.719.016	14.641.374
VIII.	LOSS FOR THE YEAR	0	0
IX.	MINORITY INTERESTS	0	0
B)	PROVISIONS	23.315.170	2.718.365
C)	NON-CURRENT LIABILITIES	67.471.777	47.405.713
D)	CURRENT LIABILITIES	370.585.563	397.239.666
E)	ACCRUED EXPENSES AND DEFERRED INCOME	38.533.058	30.897.113
F)	TOTAL EQUITY AND LIABILITIES	860.562.421	852.076.172
G)	OFF BALANCE SHEET ITEMS	0	0

APPENDIX
EQUITY AND RESERVES

1. Attributable to shareholders of the parent company	360.656.853	373.815.315
2. Attributable to minority interests	0	0

Croatia Airlines d.d. Balance Sheet as at 31 December 2015

ASSETS	Position	amounts in Croatian kuna	
		31 December 2014	31 December 2015
A) SUBSCRIBED CAPITAL UNPAID		0	0
B) NON-CURRENT ASSETS		659.181.448	634.374.908
I. INTANGIBLE ASSETS		25.687.275	24.871.690
II. TANGIBLE ASSETS		561.817.356	546.790.880
III. LONG-TERM FINANCIAL ASSETS		71.501.689	62.537.210
IV. LONG-TERM RECEIVABLES		175.128	175.128
V. DEFERRED TAX ASSETS		0	0
C) CURRENT ASSETS		172.430.767	186.189.150
I. INVENTORIES		49.515.167	56.429.223
II. RECEIVABLES		74.748.964	96.286.250
III. SHORT-TERM FINANCIAL ASSETS		957.654	1.535.915
IV. CASH AND CASH EQUIVALENTS		47.208.982	31.937.762
D) PREPAID EXPENSES AND ACCRUED REVENUE		22.315.623	26.442.976
E) TOTAL ASSETS		853.927.838	847.007.034
F) OFF BALANCE SHEET ITEMS		0	0

EQUITY AND RESERVES	Position	amounts in Croatian kuna	
		31 December 2014	31 December 2015
A) EQUITY AND RESERVES		356.175.315	370.632.371
I. ISSUED CAPITAL		277.879.530	277.879.530
II. CAPITAL RESERVES		0	0
III. PROFIT RESERVES		79.622.989	79.635.915
IV. REVALUATION RESERVES		-665.578	-712.080
V. RETAINED EARNINGS		0	0
VI. ACCUMULATED LOSS		8.209.184	0
VII. PROFIT FOR THE YEAR		7.547.558	13.829.006
VIII. LOSS FOR THE YEAR		0	0
IX. MINORITY INTERESTS		0	0
B) PROVISIONS		23.315.170	2.718.365
C) NON-CURRENT LIABILITIES		67.471.777	47.405.713
D) CURRENT LIABILITIES		368.590.789	395.609.212
E) ACCRUED EXPENSES AND DEFERRED INCOME		38.374.787	30.641.373
F) TOTAL EQUITY AND LIABILITIES		853.927.838	847.007.034

Consolidated Croatia Airlines Cash Flow Statement for the year ended 31 December 2015

Position	amounts in Croatian kuna	
	31 December 2014	31 December 2015
OPERATING ACTIVITIES		
1. Profit for the year before taxation	8.915.987	14.888.272
2. Depreciation and amortization	71.672.995	73.304.165
3. Increase in current liabilities	0	38.389.032
4. Decrease in short-term receivables	25.446.714	0
5. Decrease in inventories	0	0
6. Other increase in cash flow	42.213.958	10.302.528
I. Total increase in cash flow from operating activities	148.249.654	136.883.997
1. Decrease in current liabilities	19.627.752	0
2. Increase in short-term receivables	0	21.312.058
3. Increase in inventories	2.178.108	6.625.056
4. Other decrease in cash flow	85.655.190	70.313.328
II. Total decrease in cash flow from operating activities	107.461.050	98.250.442
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	40.788.604	38.633.555
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
INVESTING ACTIVITIES		
1. Proceeds from sale of long-term tangible and intangible assets	195.978.444	47.275.010
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	4.101.000
III. Total proceeds from investing activities	195.978.444	51.376.010
1. Payments for the purchase of long-term tangible and intangible assets	80.379.346	74.119.421
2. Payments for acquisition of equity and debt financial instruments	0	0
3. Other payments of investing activities	0	189.001
IV. Total payments used in investing activities	80.379.346	74.308.422
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	115.599.098	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	22.932.412
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt financial instruments	0	0
2. Proceeds from the credit principal, debentures and other borrowings	68.461.988	57.869.773
3. Other proceeds from financial activities	0	0
V. Total proceeds from financial activities	68.461.988	57.869.773
1. Repayments for credit principal of loans and bonds	216.736.727	80.252.858
2. Repayments for dividend	0	0
3. Repayments of finance leases	19.962	21.571
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	9.826.163	8.327.659
VI. Total payments used in financial activities	226.582.852	88.602.088
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	158.120.864	30.732.315
Total increase in cash flow	0	0
Total decrease in cash flow	1.733.162	15.031.172
Cash and cash equivalents at the beginning of the year	52.182.089	50.448.927
Increase in cash and cash equivalents	0	0
Decrease in cash and cash equivalents	1.733.162	15.031.172
Cash and cash equivalents at year end	50.448.927	35.417.755

Croatia Airlines d.d. Cash Flow Statement for the year ended 31 December 2015

Position	amounts in Croatian kuna	
	31 December 2014	31 December 2015
OPERATING ACTIVITIES		
1. Profit for the year before taxation	7.547.558	13.829.006
2. Depreciation and amortization	71.509.218	73.199.538
3. Increase in current liabilities	0	38.384.816
4. Decrease in short-term receivables	24.377.590	0
5. Decrease in inventories	0	0
6. Other increase in cash flow	42.764.187	9.500.772
I. Total increase in cash flow from operating activities	146.198.553	134.914.132
1. Decrease in current liabilities	19.198.203	0
2. Increase in short-term receivables	0	22.263.438
3. Increase in inventories	1.889.108	6.914.056
4. Other decrease in cash flow	85.290.136	68.465.869
II. Total decrease in cash flow from operating activities	106.377.447	97.643.363
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	39.821.106	37.270.769
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	0	0
INVESTING ACTIVITIES		
1. Proceeds from sale of long-term tangible and intangible assets	195.978.444	47.275.010
2. Proceeds from sale of equity and debt instruments	0	0
3. Proceeds from interests	0	0
4. Proceeds from dividends	803.487	726.152
5. Other proceeds from investing activities	0	4.101.000
III. Total proceeds from investing activities	196.781.931	52.102.162
1. Payments for the purchase of long-term tangible and intangible assets	80.280.938	74.091.369
2. Payments for acquisition of equity and debt financial instruments	0	0
3. Other payments of investing activities	0	189.001
IV. Total payments used in investing activities	80.280.938	74.280.370
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	116.500.993	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	0	22.178.208
FINANCIAL ACTIVITIES		
1. Proceeds from issuance of equity and debt financial instruments	0	0
2. Proceeds from the credit principal, debentures and other borrowings	68.461.988	57.869.773
3. Other proceeds from financial activities	0	0
V. Total proceeds from financial activities	68.461.988	57.869.773
1. Repayments for credit principal of loans and bonds	216.421.727	79.902.858
2. Repayments for dividend	0	0
3. Repayments of finance leases	19.962	21.571
4. Repayments for the purchase of own shares	0	0
5. Other repayments of financial activities	9.779.662	8.309.125
VI. Total payments used in financial activities	226.221.351	88.233.554
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	0	0
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	157.759.363	30.363.781
Total increase in cash flow	0	0
Total decrease in cash flow	1.437.264	15.271.220
Cash and cash equivalents at the beginning of the year	48.971.484	47.208.982
Increase in cash and cash equivalents	0	0
Decrease in cash and cash equivalents	1.762.502	15.271.220
Cash and cash equivalents at year end	47.208.982	31.937.762

**Consolidated Croatia Airlines Statement of Changes in Equity for the year ended
31 December 2015**

Position	amounts in Croatian kuna	
	31 December 2014	31 December 2015
1. ISSUED CAPITAL	277.889.530	277.889.530
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	81.539.422	80.612.845
4. (ACCUMULATED LOSS) / RETAINED EARNINGS	-6.825.537	1.383.646
5. NET PROFIT FOR THE YEAR	8.719.016	14.641.374
6. REVALUATION OF LONG-TERM TANGIBLE ASSETS	0	0
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	-665.578	-712.080
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	360.656.853	373.815.315
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	5.080.188	674.553
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES OF CAPITAL	7.177.346	12.483.909
17. TOTAL INCREASE / DECREASE OF CAPITAL	12.257.534	13.158.462
17 a. Attributable to shareholders of the parent company	12.257.534	13.158.462
17 b. Attributable to minority interests	0	0

**Croatia Airlines d.d. Statement of Changes in Equity for the year ended
31 December 2015**

Position	amounts in Croatian kuna	
	31 December 2015	31 December 2016
1. ISSUED CAPITAL	277.879.530	277.879.530
2. CAPITAL RESERVES	0	0
3. PROFIT RESERVES	79.622.989	79.635.915
4. (ACCUMULATED LOSS) / RETAINED EARNINGS	-8.209.184	0
5. NET PROFIT FOR THE YEAR	7.547.558	13.829.006
6. REVALUATION OF LONG-TERM TANGIBLE ASSETS	0	0
7. REVALUATION OF INTANGIBLE ASSETS	0	0
8. REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	-665.578	-712.080
9. OTHER REVALUATION	0	0
10. TOTAL EQUITY AND RESERVES	356.175.315	370.632.371
11. FOREIGN EXCHANGE DIFFERENCES ARISING FROM NET INVESTMENT IN FOREIGN OPERATIONS	0	0
12. CURRENT AND DEFERRED TAXES	0	0
13. CASH FLOW HEDGING	5.080.188	674.553
14. CHANGES OF ACCOUNTING POLICIES	0	0
15. CORRECTION OF MATERIAL ERRORS FROM PREVIOUS YEARS	0	0
16. OTHER CHANGES OF CAPITAL	6.727.181	13.782.503
17. TOTAL INCREASE / DECREASE OF CAPITAL	11.807.369	14.457.056

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

DECLARATION

That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31st December 2015 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, June 7th, 2016

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 2015



March 2016



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Typical indicators

Fleet

type of aircraft	number at the end of 2015	seats	ownership	lease	Ø age (years)	number at the end of 2014	ownership	lease
Airbus A320	2	348	1	1	16,08	2	1	1
Airbus A319	4	576	4	-	16,94	4	4	-
Q-400	6	456	-	6	6,60	6	-	6
TOTAL	12	1.380	5	7	10,63	12	5	7

Traffic indicators

Description		2015	2014	2013
flights (km)	DIST 000	16.388	16.328	16.223
departures	FLTS	25.863	25.879	25.179
growth rate	%	0	3	-8
block hours	BH	37.007	36.909	35.912
growth rate	%	0	3	-8
passengers carried	RPAX 000	1.850	1.825	1.797
growth rate	%	1	2	-8
freight&mail carried	CGO T	2.733	3.103	3.245
growth rate	%	-12	-4	-9
passenger km flown	RPKM mil	1.371	1.342	1.323
available seat - km	ASKM mil	1.967	1.938	1.922
passenger load factor	PLF %	69,7	69,2	68,8
tonne km flown	TKM mil	139	136	135
available tonne-km	ATKM mil	205	202	204
weight load factor	WLF %	67,8	67,4	65,9

Financial indicators

Indicators	Unit	2015	2014	2013
Operating revenue	mIn HRK	1.551	1.544	1.575
% of change	%	0,4	6,0	
Total Revenue	mIn HRK	1.608	1.595	1.647
% of change	%	0,8	-3,2	
Operating expenses	mIn HRK	1.534	1.530	1.558
% of change	%	0,2	-1,8	
Total expenses	mIn HRK	1.594	1.587	1.646
% of change	%	0,5	-3,6	
Operating profit/loss	mIn HRK	16,7	13,7	17,4
Net profit/loss	mIn HRK	13,8	7,5	0,7
EBIT	mIn HRK	24,2	19,1	14,5
EBITDA	mIn HRK	97,4	90,6	97,6
EBIT margin	%	1,6	1,2	0,9
Efficiency ratio		1,0	1,0	1,0
ROA		1,6	0,9	0,1
ROE		3,7	2,1	0,2
Unit operating cost	HRK/ATKM	7,5	7,6	7,6
Unit operating revenue	HRK/ATKM	7,6	7,6	7,7
Passenger yield (passenger revenue in EUR/RPKM)	€cent/RPKM	12,6	12,6	13,2
Current ratio		0,5	0,5	0,4
Debt ratio		0,6	0,6	0,6
Investment ratio		1,3	1,3	1,8
Average number of employees		925	967	1.076

Productivity indicators

Productivity Indicators	2015	2014	2013
Employees (tkm/employee)	150.365	140.913	125.118
Aircraft (BH/day)	8,4	8,4	7,9
Fuel (tkm/tonne)	2.451	2.458	2.389

Croatia Airlines in 2015 – introduction

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

Ownership structure

Croatia Airlines is a joint-stock company.

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

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

The associated companies owned by Croatia Airlines d.d. in 2015 were as follows: Amadeus Croatia d.d., Pleso prijevoz d.o.o., and Obzor putovanja d.o.o., all of which are independent business entities.

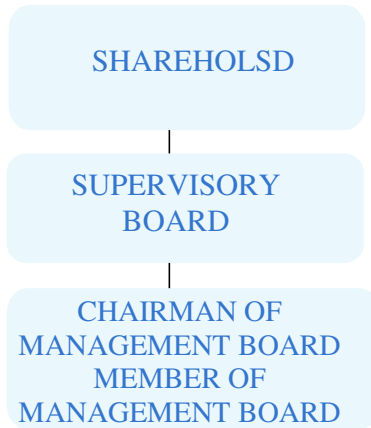
In November 2015, Croatia Airlines sold its entire share in the company **Pleso prijevoz d.o.o.**, which made up 50% of the share capital of the latter. The other half is owned by Zagreb Airport. Pleso prijevoz d.o.o. transports passengers travelling on the route airport - city, lost luggage, and personnel 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 2015 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 and marketing, and network and revenue management.

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

Foreign branch offices (representative offices)

Croatia Airlines has eight foreign branch offices: Benelux, Germany, Great Britain, France, Italy, Bosnia and Herzegovina, Macedonia and

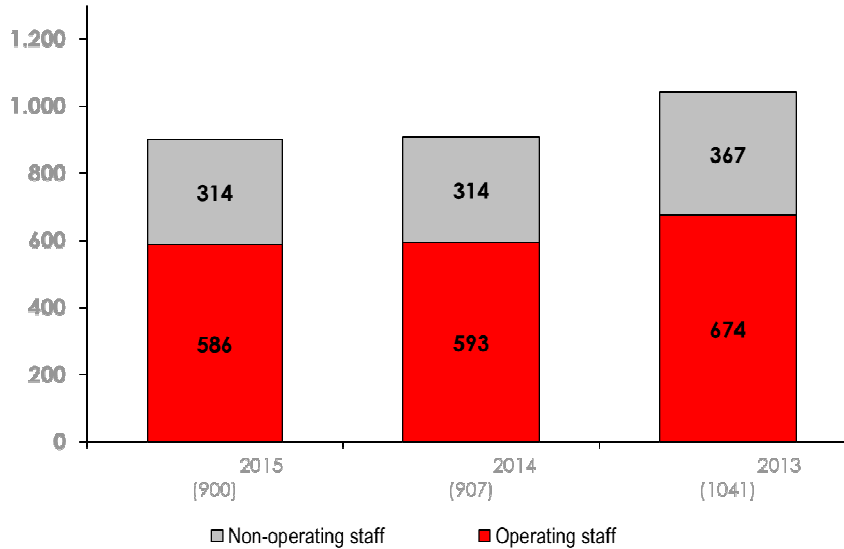
Switzerland.

Bruxelles	Benelux	Paris	France	Sarajevo	Bosnia and Herzegovina
Address:	Brussels Airport, Box 31 1930 Zaventem	Address:	Roissypôle Le Dôme, 1 Rue de la Haye, BP 18913 Tremblay en France 95731 Roissy CDG Cedex	Address:	Zračna luka Sarajevo Ul. Khurta Schorka 36, 71 210 Sarajevo
Frankfurt	Germany	Rome	Italy	Skopje	Macedonia
Address:	FAC 1, Gebäude 234, HBK 49, Hugo-Eckener-Ring 60549 Frankfurt a.M.	Address:	Aeroporto Leonardo Da Vinci Torre Uffici 2, room 518 00054 Fiumicino	Address:	Alexander the Great Airport 1043 Petrovec - Skopje
London	Great Britain	Zürich	Switzerland	Address:	Hardstr.2 8004 Zürich
Address:	Concorde North Wing Gatwick Airport Room 332 West Sussex RH6 0DW				

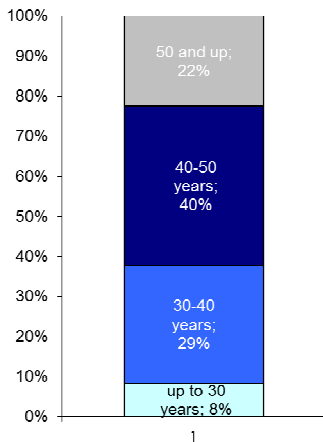
Human resources

On 31 December 2015, the Company had 900 employees, including 40 foreign branch office employees. Compared to the end of 2014, the number of employees declined by 1%.

Number of employees on 31 12 2015



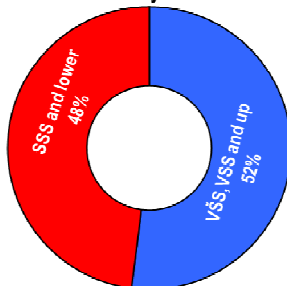
Structure by age 2015



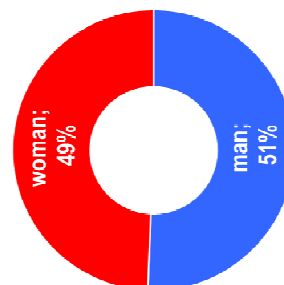
At the end of 2015, the **number of operative staff members** was 1% lower compared to the end of 2014, while the **number of non-operative staff members** was on the same level as at the end of 2014. For the needs of covering the summer flight schedule, the Company hired 51 cabin staff employees on a seasonal basis.

The share of operative staff members¹ within the Company was 65.1% (586), while that of non-operative staff members was 34.9% (314).

Structure by education



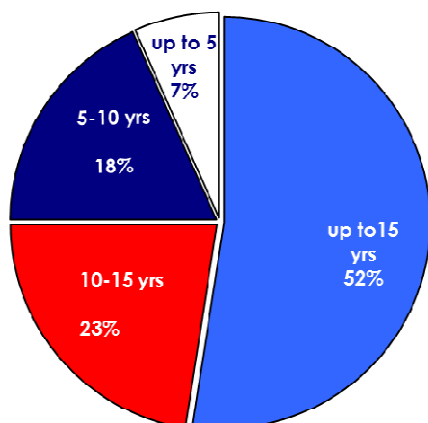
Structure by gender



¹ Includes the following operational functions in the Company: traffic (pilots, cabin staff, operations centre, aircraft refuelling, ground services, station managers, assistant station managers); engineering (all functions) and sales (airport branch office managers, and sales and passenger service representatives) – methodology change in 2013

According to the educational structure, 52% of employees held either an associate or a university degree, with the average age of employees being 42.2 years; in terms of gender structure, men were somewhat more represented (51%).

Structure by employment record



The average overall employment record of the Company's operative staff was 16.7 years of service, and that of the non-operative staff was 18.6 years, while the average employment record on the level of the entire Company was 17.4 years.

The average employment record in the Company was 13.5 years of service for the operative staff, and 15.3 years for the non-operative staff, while the average employment record in the Company on the level of the entire Company was 14.1 years, showing a high level of loyalty on the part of employees, with many

of them spending their entire career at Croatia Airlines.

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

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 operative personnel.

Investment in education (HRK)	2015	2014	2013
Operative staff	6.500.959	6.668.434	6.087.419
Annual change rate	-3%	10%	-15%
Non-operative staff	668.861	589.220	587.948
Annual change rate	14%	0,2%	85%
Total	7.169.820	7.257.654	6.675.367
Annual change rate	-1%	9%	-11%

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 2015, the Technical Training Centre continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance of PART 66 licences and harmonisation with the EASA regulations.

The Company completed the project of certifying its Technical Training Centre as a certified organisation for the provision of basic training for aircraft mechanics, as a prerequisite for acquiring PART 66 licences for maintenance mechanics. The project required certain modifications, and an increase, both qualitative and quantitative, of the scope of the Maintenance Training Organisation Exposition manual of the Technical Training Centre for the work of PART 147 training organisation, to which the training programme "Approved Basic Training Courses - Category B1.1 Syllabus" was added. In late 2015, the Company stated with the approved training courses for external users.

An increased scope of work necessitated the hiring of additional instructors, so an instructor training programme was initiated. In 2015, a total of three initial training courses were provided to airline technical instructors, as a prerequisite for appointing future instructors. Also, the Company organised a refresher for the current instructors.

As regards PART 147 Type Training, four theoretical and practical courses were held for the aircraft types A320 family and ATR42/72 for third parties, i.e. JAT Tehnika and Air Serbia. A training course for the aircraft type DHC-Q400 was organised for Croatia Airlines' employees.

Altogether 124 training courses were held as prescribed by the PART 145 regulations, comprising all of the planned courses for extending internal authorisations of Croatia Airlines' PART 145 engineers and mechanics.

The training programme Limited Certification Authorisation to the Commander also continued.

In addition to basic PART145 and PART147 training courses, the Technical Training Centre was certified by the Croatian Civil Aviation Agency for the provision of airport staff training courses, i.e. an "Aircraft Towing" course. For this purpose, an "Operations Manual" was developed, prescribing the standard for the "Aircraft Towing" training programme; it was approved by the Croatian Civil Aviation Agency. In late 2015, a training course was organised for Croatia Airlines' employees. Thus the prerequisites were met for the implementation of this course at the Company's premises, instead of using external training centres.

In 2015, 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.

Commercial training courses for the pilots of A320 and Q400 were held on both simulators and aircraft, and a number of base training courses for the A320 and Q400 were provided in cooperation with partners.

The Company also held commercial training courses for its cabin staff, and a number of courses related to the procedure of handling dangerous goods (DGR), as well as CRM trainings for external users.

During 2015, the Croatian Civil Aviation Agency carried out a number of audits and inspections for the purpose of implementing on-going supervision of activities performed by the Traffic Training Centre staff at Croatia Airlines' premises, on simulators in Vienna and on the Croatia Airlines aircraft flights. The results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and TRI/TRE work on them were carried out in accordance with the provisions of the quality systems OM-D & Quality Inspection Orders, for the purpose of monitoring and raising the quality of the work of TRI/TRE. The standardisation of

the TRE/TRI work was carried out for both types in the segment of Normal & Abnormal Procedures. An IOSA audit was carried out, with no negative findings.

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

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

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

Also, the Company offered various online training programmes for external users.

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

The year of 2015 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 2015, 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.

The Emergency Response and Crisis Management Service organised a training course for the members of the SAT and ETIC teams and for the operative staff of Ground Operations. Its purpose was to teach the Company employees how to proceed in crisis situations, and it was provided by the Croatian Red Cross experts with multiannual experience in assisting people who sustained great losses and went through stressful situations (floods, migrants, hostage situations, loss of a family member, etc.).

In cooperation with the Society for Psychological Assistance and the Psychology Department of the Faculty of Humanities and Social Sciences, a training course in crisis management was organised for the ERCM staff. Its purpose was to familiarise the managers with the specifics of proceeding, decision-making, managing and communicating in situations that result or might result in human and material losses, which could ultimately undermine the reputation and survival of the Company. The attendants were familiarised with the ways of communication aimed at preventing or reducing the damage, and taught how to provide active support to the employees and the Company in order to handle crises more efficiently.

In 2015, all employees in a direct contact with passengers attended the necessary training courses prescribed by the Star Alliance, with an emphasis on the benefits of the privileged categories of Star Alliance passengers, and standard procedures in extraordinary situations. A series of internal courses aimed at recognising passengers with special Star Alliance statuses was organised, in order to acquire an appropriate approach to this passenger category, maintain the high service standard and improve the level of passenger satisfaction in general.

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

As a national flag carrier, Croatia Airlines 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 2015, 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.

In 2015, the Company assessed employee performance by using the competence evaluation method. The persons in charge of assessing the competences of individual workers also carried out annual interviews regarding the work performed. The purpose of interviews was to make observations, and assess and analyse the achieved results, as well as to identify the areas that can be improved. Since this was the first such assessment, it had neither positive nor negative consequences for the employees, but it provided room for a further development of the process. Employee work was monitored and assessed by immediate superiors, while additional assessors were appointed for the large groups of employees with one formal superior (cabin, flight and technical personnel) so as to entrust the assessment of and distribute the annual feedback on the work to a number of assessors.

Responsibility to employees

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

Benefits and supports

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

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

Occupational safety, fire protection and environmental protection

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

Employee training related to working in a safe manner and basic training in fire protection are regularly organised and implemented for all new employees. Specialist training for the safe handling of machines and devices posing a greater hazard (hydraulic platform lifts, metal and non-metal processing machines, fork-lifts, etc.), and courses on the protection against hazardous chemicals are organised in line with the needs of the Technical Sector. In 2015, specialist training was provided to 38 employees.

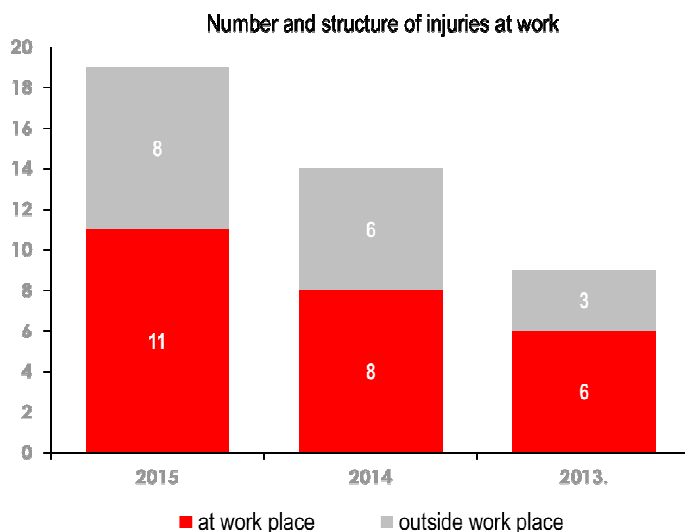
All employees at workplaces with special conditions regularly undergo medical examinations.

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.

Altogether three inspections were carried out in 2015: two by the State Inspectorate - in the sphere of occupational safety, and one by the Ministry of Environmental and Nature Protection, with no negative findings. In 2015, the Interior Ministry carried out no inspections concerning the implementation of fire protection measures.

Altogether nineteen injuries at work were recorded in 2015 (eight women and eleven men). Of those, eleven were sustained at the place of work, and seven while arriving to/leaving the workplace, of which five were a result of a traffic accident. One injury



occurred during a business trip. When classifying injuries sustained at work in accordance with the AUVA method, nine injuries sustained in 2015 were minor, and two were severe. The circumstances of one of the severe injuries were investigated by the Occupational Health and Safety State Inspectorate, and no omissions were found on the part of Croatia Airlines regarding the application of occupational

health and safety regulations. Of nineteen reported injuries, fourteen were acknowledged and five are still being processed by the Croatian Health Insurance Institute. There were neither deaths related to injuries at work, nor professional illnesses.

Protection of employees' dignity

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

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

Employees and Management

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 9 members in 2015. 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

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.

It 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 2015, Croatia Airlines continued its cooperation with the Croatian Olympic Committee and the Croatian Paralympic Committee, being the official carrier of Croatia's Olympic team, and a promoter of local athletes and sports as a member of these Committees.

Support for the community

Whenever possible, Croatia Airlines strives to support institutions that need humanitarian aid or organise humanitarian projects. It has been providing direct humanitarian aid by granting cost-free transport for severely ill patients, children or people in need. It has also been participating in charity actions by providing free transport. In an effort to contribute to the quality of medical treatment and health care in Croatia, Croatia Airlines this year donated funds to the Cardiology Division of the Dubrovnik General Hospital for the purchase of a treadmill with an ergometer. On this occasion, it also initiated a charity action titled A Selfie from the Heart, so as to raise public awareness about cardiovascular diseases in children. All Croatian citizens were given an opportunity to actively participate in the event and personally contribute to this cause by posting their photograph.

In support of the principles of socially responsible business, Croatia Airlines also organised a Small School of Aviation for elementary school pupils at its aircraft maintenance centre at Zagreb International Airport. The pupils were given a unique opportunity to see the exterior and the interior of the jet aircraft Airbus 319, guided by Croatia Airlines' pilots, flight attendants and aircraft mechanics.

Business ethics

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

Awards and environmental protection

Skytrax, a British consultancy firm that researches the service quality in aviation and each year awards prestigious World Airline Awards, declared Croatia Airlines the fourth best airline in Eastern Europe in 2015. This is also the fourth year in a row in which the Company was ranked by the passengers among the top 10 air carriers in Eastern Europe. Based on passengers' telephone votes, Skytrax each year carries out the biggest independent professional survey of the global civil aviation, assessing the check-in service, seat comfort, cleanliness of passenger cabins, quality of food and beverages on the flight, and staff service. This year's award ceremony was held at the international Paris Air Show.

In November 2015, Croatia Airlines was the first airline in the world to receive an international award White Flag for its contribution to the conservation of the cleanliness of water areas. The award is granted by the Global Underwater Awareness Association (GUWAA) and the Prince Albert II Foundation to the companies and organisations investing exceptional efforts to protect and conserve seas, rivers and lakes, and contributing to the raising of public awareness about this global issue. Croatia Airlines received the White Flag for its project of cleaning the seabed in the area of Žaborić beach near Šibenik in the summer of 2015. The cleaning was carried out by the professional divers from the GUWAA. At the same time, Croatia Airlines started showing the promotional film White Flag on its flights, to raise public awareness about the project.

Environmental protection

At Croatia Airlines, the year of 2015 was marked by the continual and significant improvements in the sphere of environmental protection.

The Company continued meeting its EU ETS (EU Emissions Trading System) obligations with great dedication. It also continued excellent cooperation with relevant authorities, and carried out successful monitoring and reporting on CO2 emissions.

The activities of the "Fuel Efficiency" group aimed at achieving fuel savings continued both internally and in active cooperation with Star Alliance, IATA and AEA. The Company's examples were also introduced in the reports for the European Commission.

Croatia Airlines was in May elected by IATA to be a representative of the entire association of airlines at an EU X-Noise conference held in Romania.

At a business conference on energy efficiency held in July 2015, Croatia Airlines presented texts on energy efficiency of aircraft and participated in a panel discussion where it stated its dedication to the activities aimed at achieving greater energy efficiency.

In line with its energy efficiency obligations transposed from the EU regulations, Croatia Airlines had its energy management system certified to the international quality system standard ISO 50001.

In addition to ISO 50001, Croatia Airlines plans to introduce ISO 14001, an international quality standard, to commit itself to continual work and progress in the sphere of environmental protection.

Croatia Airlines confirmed its dedication to sustainable development and environmental protection in 2015 by selecting the Airbus A320neo type of aircraft to

renew its fleet in 2021. In addition to modernising its fleet and services, the Company will achieve significant fuel savings, reduce the emission of greenhouse gases and their impact on the environment.

During 2015, Croatia Airlines' employees got involved in the "Bike to Work" project, thus contributing to a reduction of emission of greenhouse gases and achieving health benefits.

Croatia Airlines uses electrical energy supplied by the national power provider HEP from the renewable sources (*ZelEn* – Green Energy).

Together with relevant regulatory bodies, the Company participated in specialised, sector-intended workshops (Low-Carbon Development Strategy of the Republic of Croatia) and applied international conventions in quantifying and eliminating harmful substances (the Stockholm Convention).

By following the trends and meeting its obligations, during 2015 Croatia Airlines trained waste commissioners under a certified training programme, and introduced new business terms and elements in line with the obligations stipulated by the EU and the Republic of Croatia in the field of sustainable waste management.

In late 2015, the Company received recognition from the Croatian Chamber of Economy for the successful completion of a survey on the corporate social responsibility and for adhering to the relevant principles.

By adopting the Paris Agreement (COP21) in late 2015, the signatory countries and their business entities endeavoured to keep a global temperature rise below 2 degrees Celsius. Croatia Airlines will join these efforts by maintaining the existing and applying new procedures and standards related to environmental protection and energy efficiency, so as to meet the globally defined goal by 2020.

The restructuring of the Company

In 2011, Croatia Airlines started with the restructuring process that comprised 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 its 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: HRK 0.7 million.

In 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.

In 2015, the Company continued applying the measures as set out in the Restructuring Plan. The main goal of the restructuring process in 2015 was to further rationalise its business operations in line with the Restructuring Plan, by which it was crucial to reach the required amount of own contribution by the end of 2015, while at the same time maintaining the level of the implemented compensation measures, which was precisely what the Company achieved.

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

All of the defined compensation measures were fully implemented in 2013, 2014 and 2015, in line with the Decision of the Croatian Competition Agency. They comprised 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 2015, the following own contribution measures were realised:

- Sale & lease back of a CFM56-5B engine;
- Framework credit lines and short-term loans;
- Sale of share in Pleso prijevoz d.o.o.;
- Sale of business premises at Zagreb Bus Terminal.

In the period from 2011 to 2015, Croatia Airlines reached an own contribution amount of HRK 776.7 million, or HRK 15 million more (+2%) than the mandatory own contribution of HRK 761.6 million as stipulated by the Decision of the Croatian Competition Agency. Thus, its total own contribution amount reached 39.9% of the planned restructuring costs set out in the Restructuring Plan, while the planned own contribution share was 39.2%.

Advancement and expansion of operations

Construction of a third hangar

As current service users expressed additional interest in getting their aircraft serviced at Croatia Airlines' technical centre, and since other European airlines were 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, it provided for the opening of new jobs. 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 of 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 214 major aircraft check-ups, including the most demanding 6- and 12-year ones, were carried out on foreign airlines' aircraft.

International training programme for technical personnel

On 3 November 2015, a new international training programme for technical personnel (one of a kind in Europe) was introduced at Croatia Airlines' Technical Centre. It was initiated by the Company in cooperation with the Velika Gorica Polytechnic, and it is a project of both commercial and strategic potential. It was approved and certified by the European Aviation Safety Agency (EASA) and is expected to attract a large number of attendants from all over the world. It is unique in that it unifies theoretical and practical classes in one place, and enables attendants to obtain an academic degree.

In particular, the programme enables attendants to obtain a basic technical licence B1 for aircraft maintenance, as well as an engineering licence C1 for managing major aircraft checks. It also enables them to get the licence for the maintenance of Airbus 320. The students are, therefore, given an opportunity to combine both theory and practice during their studies and acquire the title of the Bachelor of Engineering.

Through hard and dedicated work, Croatia Airlines has gone from student to teacher on the global market. By initiating this programme, it has made a significant entrance to the international market of higher education in the airline industry, and enabled an even greater export of Croatian know-how. In other words, exporting the knowledge into which it has been continually investing gives it an opportunity to become a leading company in this segment.

Purchase of four Airbus 320neo aircraft

As a part of the compensation measures, Croatia Airlines postponed the delivery of four Airbus A319 contracted for 2015/2016, and thus reduced its future capacities, i.e. delayed a capacity increase for the post-restructuring period.

In 2015, the Company agreed with Airbus S.A.S. the conversion of its order of four Airbus A319 to best suit its business interests. The agreed upon delivery includes the replacement of its initial order of four Airbus 319ceo (current engine options) with four state-of-the-art models of Airbus 320neo (new engine options). In six to seven years, which is the period that overlaps with the expected exit of A319 and A320 from the fleet, the fleet will be renewed with completely new, most modern aircraft, characterised by lower fuel consumption and emission of harmful gases, and having greater capacity compared to the initially ordered aircraft. Airbus 320neo is a state-of-the-art aircraft that consumes about 15% less fuel than Airbus ceo, and boasts about 15% lower emission of harmful gases, as well as a greater range.

Business environment and operational risks

Global economy

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

According to the revised World Economic Outlook issued by the International Monetary Fund in January 2016, the global economy saw a 3.1% growth in 2015², and is expected to face a 3.4% growth in 2016.

More than 70% of the global growth refers to the emerging markets and developing economies, whose activities slowed down for the fifth year in a row, while the advanced economies saw a moderate recovery. The IMF still warns of the risks present, in particular: high indebtedness of public and private sectors, rising oscillations in financial markets, ongoing dollar appreciation, slowdown of growth in China, and rising geopolitical tensions in the Middle East, Ukraine and certain parts of Africa.

According to the IMF's forecasts, the economy of the eurozone saw a 1.5% rise in 2015, while a 1.7% growth is projected for 2016. The moderate recovery of the eurozone and the European Union continued for the third year in a row, with the same pace expected in 2016, despite the more challenging situation in the global economy.

The eurozone's economic growth is positively affected by low fuel prices, lower euro exchange rate, more favourable fiscal trends and abating debt-related tensions, simpler crediting terms and monetary policy adjustments. However, the long-lasting period of poor investment growth, a slowdown of emerging markets' growth, and more prominent financial volatility and tensions in the region still remain an obstacle.

According to Eurostat, the eurozone's unemployment rate was 10.4% in December 2015, down from 10.5% in November 2015 and 11.4% in December 2014³. This is the lowest unemployment rate recorded in the eurozone since September 2011.

Eurostat's data⁴ show that the eurozone's annual inflation rate was at 0.2% in December 2015. In December 2014, the eurozone recorded a 0.2% deflation rate.

Croatia's economy

The Croatian economy was in 2015 marked by the exit from a six-year crisis and recession. The country's gross domestic product rose more than expected. In early 2015, analysts projected a maximum growth of 0.5%, and some expected the recession to continue in the first months of the year. However, real GDP rose 1.6% in 2015 compared to 2014.⁵ All economic experts expect it to continue growing in 2016. The European Commission expects a 1.4% growth, while the IMF is less optimistic, putting it at 1%.⁶

² IMF, World Economic Outlook update, January 2016

³ Eurostat, News release Euro indicators, 2 February 2016

⁴ Eurostat, News release Euro indicators, 19 January 2016

⁵ www.bank.hr (downloaded on 2 March 2016)

⁶ www.poslovnih.hr (downloaded on 28 December 2015)

Greater than expected growth in 2015 is, among other things, a result of the first increase of investments after many years, and a record tourist season. A strong growth of export for the second year in a row also positively affected the overall economic activity, i.e. GDP trends.

The recovery of domestic demand, particular of personal spending, was also positively affected by an absence of inflationary pressures, a fall in fuel prices, growing trust on the part of consumers, and income tax changes that encouraged the growth of net salaries.

The export of goods rose by 11% in 2015 (expressed in HRK) compared to 2014, while the import increased by 7.7%.⁷ The foreign trade deficit totalled HRK 52.9 billion in 2015, while the coverage of import by export was 62.4%. This was the second year in a row seeing an export growth, thus continuing the positive trend that started in the second half of 2013, i.e. after Croatia joined the European Union.

According to the calendar-adjusted indices, Croatia's industrial production increased by 2.6% in 2015⁸, rising for the second year in a row. Positive annual growth rates are expected in 2016, too (+2.5%), and the greatest boost should come from the recovery of foreign demand, just like in 2015. The country should also further strengthen the competitiveness of its industrial and export sectors.

Croatia's real retail trade grew by 4.8% in December year-on-year, which was the fastest growth of spending in more than eight years.⁹

The year of 2015 was marked by deflation, mostly owing to decreased fuel prices, with the average annual level of consumer prices being 0.5% lower compared to 2014 – the first year of deflation in the country's history.¹⁰

The country's economic recovery is encouraging; however, growing public debt, insufficient fiscal consolidation and high budget deficit, lack of reforms, and high unemployment rate still represent the greatest risks for the national economy.

Croatia's public debt continues to grow; it totalled HRK 283.8 billion in late October 2015, or 85.5% of GDP estimated for 2015.¹¹ Compared to October 2014, the country's public debt rose by HRK 7.9 billion, or nearly 3%. Analysts fear it might reach almost 90% of GDP in late 2015.

Croatia's average registered unemployment rate was 17.7% in 2015, down by 1.9 pp from 2014.¹² Although it has been declining for the second year in a row, the market is still characterised by the low level of activity and employment.

Youth unemployment is particularly worrying, with Croatia being among the top countries in this respect (44.1% in the fourth quarter of 2015). Greece ranks first (48.6% in October 2015), and is followed by Spain (46.0% in December 2015).¹³

In 2015, Croatia's tourism once again reaffirmed its significance as an industry successfully addressing the challenges of a difficult economic situation. The 2015 tourist season brought positive results, with a strong growth of non-pecuniary indicators. An ongoing growth of tourist arrivals and overnight stays proves that Croatia is becoming an increasingly attractive and popular destination among tourists worldwide.

⁷ www.dzs.hr (downloaded on 14 March 2016)

⁸ www.banka.hr (downloaded on 1 Feb 2016)

⁹ www.banka.hr (downloaded on 3 Feb 2016)

¹⁰ www.banka.hr (downloaded on 1 Feb 2016)

¹¹ www.banka.hr (downloaded on 5 Feb 2016)

¹² www.poslovnipuls.com (downloaded on 1 Feb 2016)

¹³ Eurostat, News release Euro indicators, 2 February 2016

In 2015, over 14.3 million tourist arrivals were recorded, or 9.3% more compared to 2014.¹⁴ The arrivals of domestic tourists rose by 10.3%, and those of foreign tourists by 9.1% compared to 2014. Over 71.6 million of overnight stays were recorded, or 7.7% more compared to 2014. The number of overnight stays of domestic tourists increased by 11.3%, while that of foreign tourists saw a 7.4% rise. The same as in the preceding years, tourists from Germany were the most numerous, followed by those from Slovenia, Austria, Italy, Czech Republic and Poland. We should note a significant rise in the number of arrivals of tourists from Great Britain (+14%), U.S.A. (+24%) and Canada (+20%).

Global airline industry

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

According to the data of the International Air Transport Association (IATA), passenger traffic in 2015 expressed in passenger kilometres (RPKM) rose by 6.5%, which is a record growth since 2010.¹⁵ Driven by a strong rise in demand, passenger load factor (PLF) reached 80.3%. The growth of cargo transport slowed down from 2014, with tonne kilometres (TKM) being 2.2% higher (their growth in 2014 was 5.0%)¹⁶.

According to IATA's forecasts, the global airline industry faced a significant profitability growth in 2015.¹⁷ The latest projections say that its total net profit was \$33 billion, with the EBIT margin of 7.7%, nearly double the 2014 figure, when its net profit was \$17.3 billion, with the EBIT margin of 5.5%. The profit amounted to 9.31 U.S. dollars per passenger, which is a significant shift compared to 2014, when it was 5.20 \$/passenger.

The regional outlook for the net profit in 2015 reflects differing economic conditions in various parts of the world. The forecasts say that North America, Europe, Asia and Pacific were the most profitable areas, followed by the Middle East, while Latin America and Africa generated a loss. Compared to 2014, all markets except for Latin America and Africa had better results.

North America recorded the highest EBIT margin (14.3%), followed by the markets of Asia and Pacific (6.6%), Europe (5.3%), Middle East (2.9%) and Latin America (1.3%). The African market saw a negative EBIT margin (-1.7%).

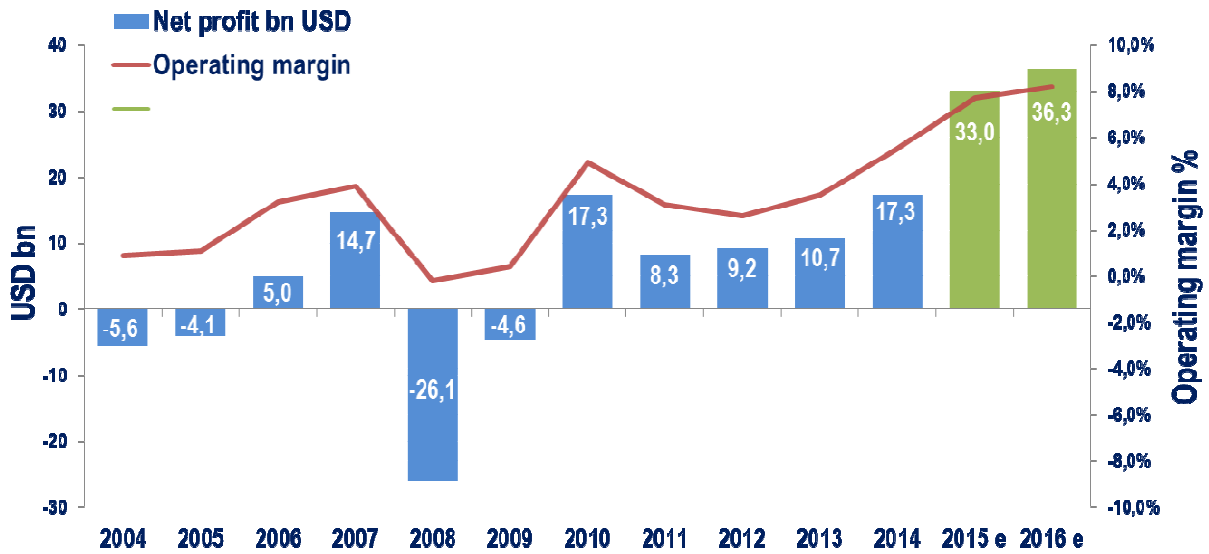
¹⁴ www.dzs.hr (downloaded on 9 Feb 2016)

¹⁵ IATA Air Passenger Market Analysis, February 2016

¹⁶ IATA Air Freight Market Analysis, February 2016

¹⁷ IATA Economic Performance of the Airline Industry, December 2015

Profitability of global airline companies



Izvor: IATA, December 2015

European airline market

The European network carriers are gathered in the Association of European Airlines (AEA) that currently has 22 members. The members transport about 310 million passengers and 4.5 million tonnes of cargo a year. The fleet of 1,860 aircraft operates 8,100 flights on a daily basis, to 530 destinations in 140 countries. The European airlines directly employ some 270,000 people and generate a total revenue of EUR 100 billion.

In 2015, the AEA members realised the highest passenger transport growth rate since 2011 (+4.3%).¹⁸ It is important to note that the AEA's reports (where changes are stated in % and pp) take into account the number of carriers included in the statistical overview (changes in the number of Association members). Based on this methodology, in 2015 altogether 318.9 million passengers were transported in 2015, or 4.3% more compared to 2014. RPKM rose by 4.6%, and the realised PLF was 80.6%, the same as in 2014. Cargo transport expressed in tonne kilometres (TKM) recorded a 0.4% decline.

All route areas recorded a rise in the number of passengers, except for North Africa and South Atlantic, which saw a decline of 2.8% and 0.7%, respectively. Of altogether 318.9 million passengers carried, 244.2 million travelled within the European route area (+4.4%). Aside from Europe, the Middle East realised the greatest rise in passenger traffic (+10.6%).

The good traffic results reflected on the European carriers' financial results, and according to IATA, their net profit in 2015 reached \$6.9 billion, with the EBIT margin of 5.3%.

In 2015, the European airline companies, particularly the traditional network carriers, continued implementing the restructuring process and redefining the flights network on

¹⁸ AEA Traffic & Capacity Data, 04/02/2016

the route area within Europe, with the aim of advancing their competitive positions. According to www.capstats.com¹⁹, low-cost carriers reached a 36% share in this route area in 2015.

Croatian airline market

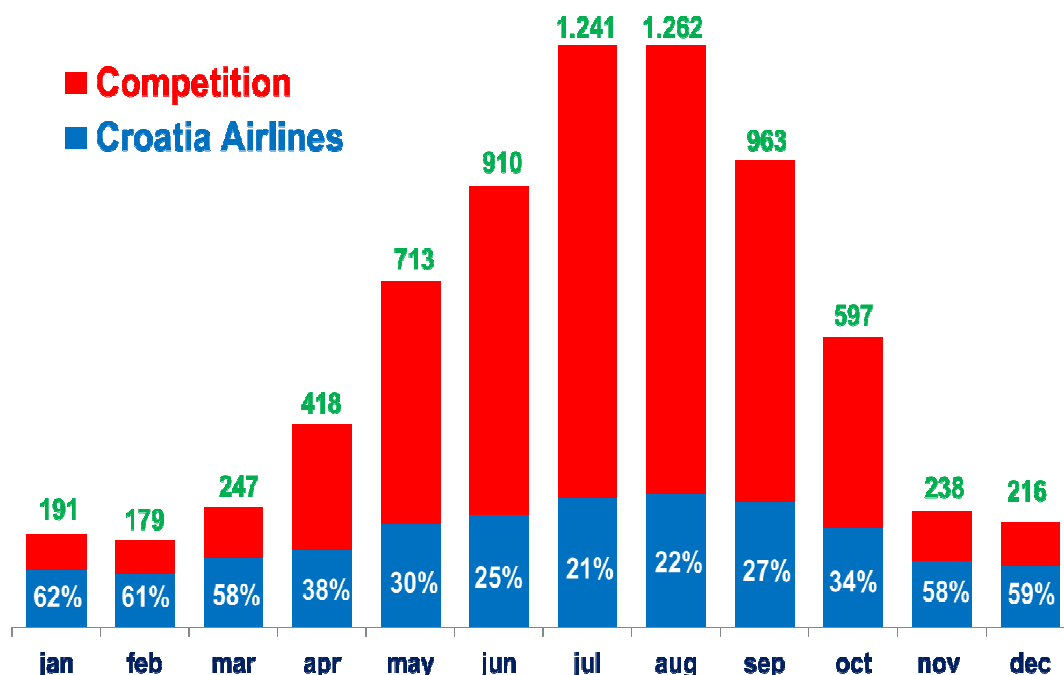
The economic situation is a key factor for the development of air traffic, and Croatia Airlines' operations are closely tied to Croatia's economic reality and depend on the state of the economies of the countries that represent the main feeder markets for travels to Croatia, particularly when it comes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

According to the data of the Croatian Bureau of Statistics, Croatia's airport recorded a 7.1% rise in the number of passengers in 2015, compared to 2014.²⁰ Altogether 7.2 million passengers were recorded at eight airports in Croatia, with Croatia Airlines' market share being 31% (33% in 2014).

The number of aircraft operations at Croatia's airports totalled 100,084 in 2015, up by 6.1% from 2014. Altogether 7,766 t of cargo were transported through Croatia's airports, which is 2.6% more compared to 2014.

Croatia Airlines' share of 31% 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.

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



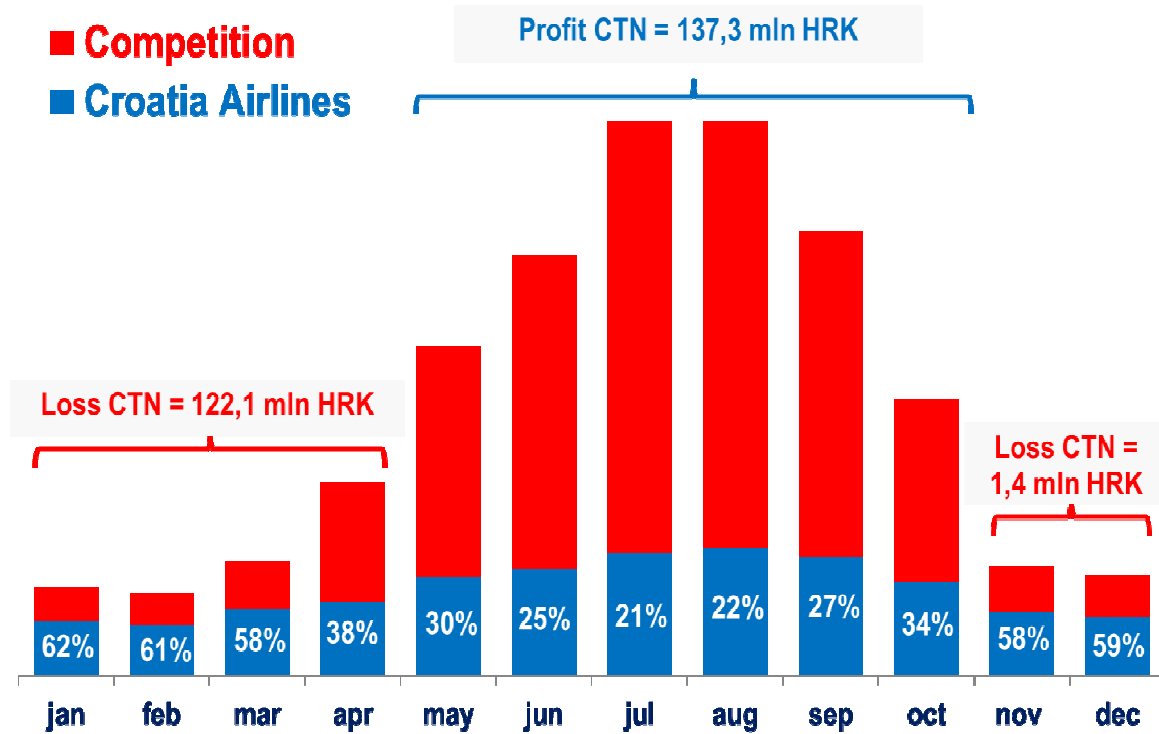
Source: Croatian Bureau of Statistics and Croatia Airlines' internal data

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

¹⁹ Airline Capacity and Flight Frequency Statistics, Global Capacity Report, December 2015

²⁰ Croatian Bureau of Statistics, Release – Traffic at Airports in Dec 2015, 10 Feb 2016

The below diagram shows that Croatia Airlines generates losses during the winter period, when the Company's share on Croatia's airline market reaches 62%, while it operates on profit in the summer period when its market shares ranges from 21% to 34%. 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.



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

Operational risks

In the light of the air traffic industry trends, it is evident that systematic and integrated management of risks that airlines are faced with is becoming a key dimension of corporate governance. All rivals in the market are faced with a wide range of strategic, operational and financial risks, whose particularities come from the specific characteristics of individual markets, depending on the level of economic development, demand (seasonality, tourism, etc.), existing and future level of competition, and the size and financial strength of an individual carrier. It is, therefore, necessary to contemplate the traditional, broad strategy of risk management at Croatia Airlines on all organisational levels, so as to adopt an optimal approach to risk management, supported by adequate proactive corporate governance infrastructure, which can be an additional competitive advantage. Taking into consideration specific industry requirements, Croatia Airlines will be using COSO 21 ERM Framework and ISO 22 31000:2009 risk management standard as a basis for defining its risk management policy. COSO ERM is an ongoing process in which risks are systematically monitored in line with their probability of occurrence and effect on the realisation of goals.

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

²¹ COSO - Committee of Sponsoring Organizations of the Treadway Commission

²² ISO - International Organization for Standardization



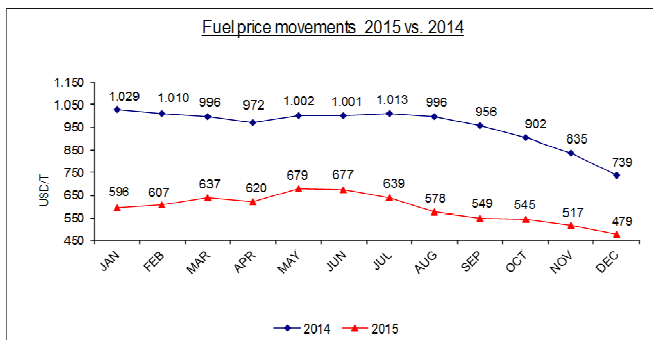
A consistent application of an integrated approach to managing external and internal risks enables the understanding of the true nature of individual risks and increases the ability to undertake relevant measures in due time. A systematic management of all of the above risks advances the level of the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

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 (86.5%), 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

The business year of 2015 was marked by a major decline in oil prices, which almost halved compared to 2014. The average oil price on London stock exchange was 54 \$/bbl in 2015. In line with these trends, the decreased price of jet fuel positively affected the forecasts 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.

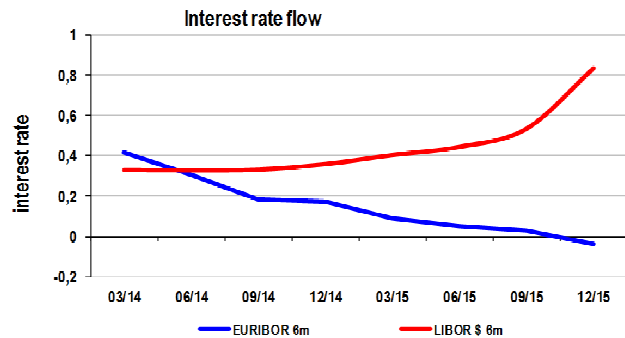


The average price at which Croatia Airlines purchased fuel in 2015 was 599 \$/t, or 29.7% less than planned. In 2014, the average fuel purchase price was 962 \$/t. The fuel cost in 2015 amounted to HRK 233 million, or HRK 72.7 million less compared to 2014. In

the overall operating costs structure, the share of fuel costs fell from 20% in 2014 to 15% in 2015.

Interest risk

By taking long-term loans at variable interest rate, the Company is exposed to interest-related risk, too. Euribor continued declining in 2015; in the final quarter it reached a record low since the introduction of euro. Unlike Euribor, Libor recorded a rise in 2015, particularly in the final quarter.



Cash flow risks

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

In 2015, the Company put to use funds from the short-term loans extended by PBZ and HPB, worth totally HRK 29.8 million, for financing its short-term liabilities. The existing short-term loan taken with ZABA (HRK 30.6 million) was partially repaid (HRK 2.4 million), and a new one worth HRK 28.2 million was taken.

Currency risk

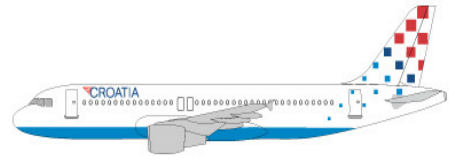
The exposure to the risk of negative effects of foreign currency exchange rate changes against the kuna is reflected in the repayment of loan and leasing instalments denominated in foreign currencies. Foreign currency inflows from the sale of tickets abroad significantly mitigate these risks. The exposure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

Fleet and capacities

In 2015, Croatia Airlines operated a fleet of 12 aircraft: six Airbus aircraft (two A320, of which one was under an operating lease, and four A319), and six Q400 aircraft under an operating lease. At the end of 2015, the total number of available seats was 1,380.

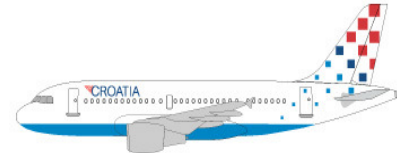
A 320 – 2 aircraft

The aircraft has 174 seats – altogether 348 seats



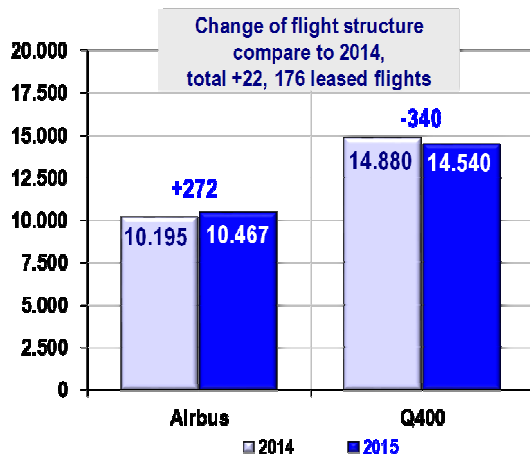
A 319 – 4 aircraft

The aircraft has 144 seats – altogether 576 seats



Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats



In 2015, Croatia Airlines' aircraft realised the block time of 37,007 block hours, which is on the level of the preceding year. They operated 25,863 flights, also on the level of 2014. Just like in 2014, the Q400 fleet realised greater block time, in line with the adjustments of the capacity offer to the market demands.

In 2015, Croatia Airlines took into lease aircraft that flew altogether 178 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.

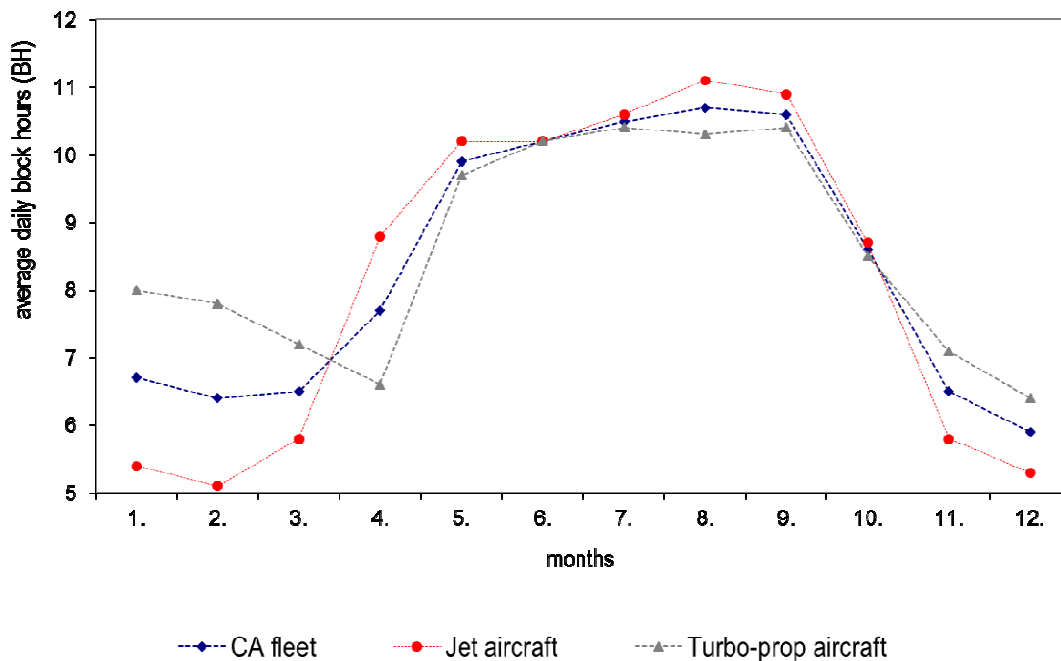
Fleet utilisation

type of aircraft	number of aircraft	Ø daily block hours (BH)	utilisation growth 15/14
Airbus A320	2	7,8	13,0%
Airbus A319	4	8,4	-3,4%
Q-400	6	8,6	-1,1%
TOTAL	12	8,4	0,0%

Croatia Airlines' fleet flew on average 3,060 block hours per aircraft in 2015, the same as in 2014.

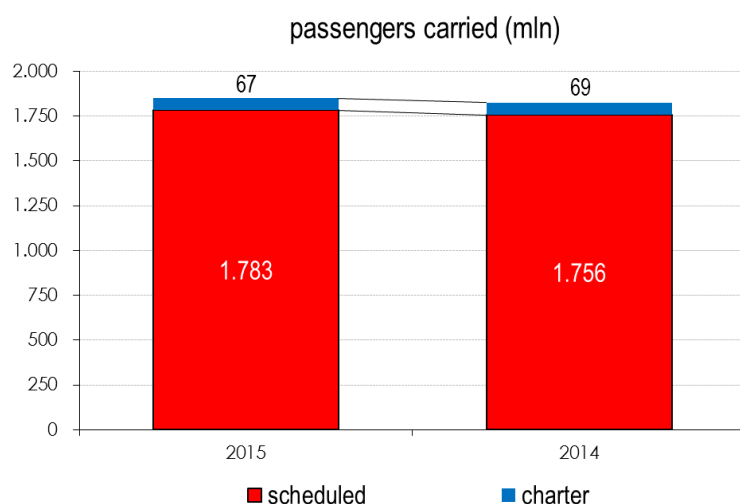
The average number of aircraft at the level of the entire year was 12 (excluding those under lease). The available seat-kilometres (ASKM) increased by 2%, the same as the realised passenger kilometres.

CA fleet utilization by month



The market

In 2015, the capacities (ASKM) were increased by 2%, which positively affected the scope of passenger traffic. Measures aimed at increasing passenger traffic were systematically implemented: the Company signed codeshare agreements with Singapore Airlines and Air Canada, carried out marketing activities aimed at promoting



new routes, and considered various possibilities for generating ancillary revenues.

The number of passengers rose by 1% compared to the result in 2014. The number of passengers in domestic scheduled traffic declined by 1% compared to 2014, while of those in international scheduled traffic saw a 2% increase compared to 2014.

Altogether 67,000 passengers were transported within the charter traffic, or 3% fewer compared to 2014. Charter traffic made up only 4% of the total traffic.

In 2015, 2,733 tonnes of cargo were transported, which is 12% less than in 2014.

An increased number of passengers resulted in the passenger load factor (PLF) of 69.7%, 0.5 pp higher than that in 2014.

The realised weight load factor (WLF) was 67.8% (+0.4 pp).

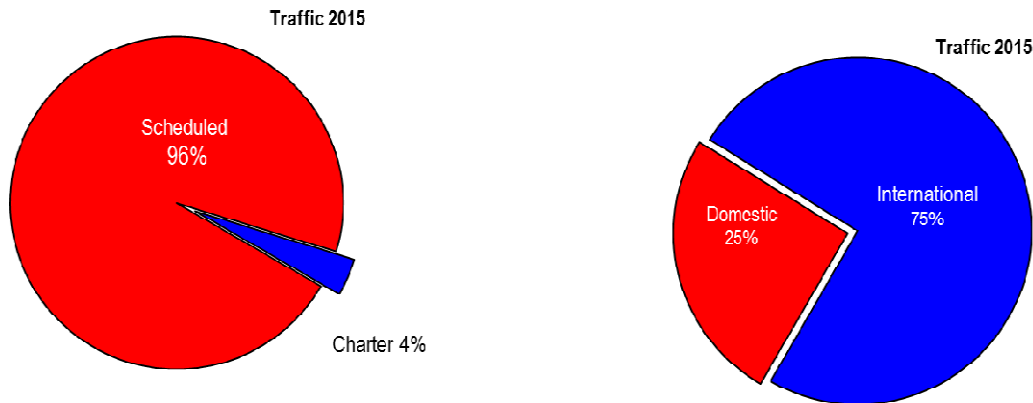
In 2015, Croatia Airlines directly connected eight destinations in domestic scheduled traffic and 21 destinations in international Euro-Mediterranean traffic.

It developed its destinations network through the codeshare commercial cooperation with Star Alliance members (Lufthansa, Austrian Airlines, TAP Portugal, SAS, Swiss, Turkish Airlines, Brussels Airlines, United Airlines, Singapore Airlines and Air Canada) and with three members of the SkyTeam alliance – Air France, Alitalia and KLM. The goal of such cooperation is to make its services available on the markets on which the airline does not physically operate flights or to increase the capacities on the existing route. On 1 May 2015, Croatia Airlines entered into a codeshare agreement with Singapore Airlines. It is an agreement on the joint use of codes for flights, under which Singapore Airlines adds its SQ code for Croatia Airlines' flights Zagreb↔London and Zagreb↔Copenhagen, while Croatia Airlines adds its code for the flights of Singapore Airlines operated between London/Copenhagen and Singapore. The commercial codeshare agreement between Croatia Airlines and Air Canada entered into force as of 26 October 2015, offering passengers a greater choice and additional benefits during the journeys from one country to another. Pursuant to the codeshare agreement with Air Canada, one of the five founders of Star Alliance will add its code (AC) for Croatia Airlines' flights from London Heathrow, Paris, Amsterdam, Brussels, Zürich and Copenhagen to Zagreb. During the summer season,

the AC code will be added for Croatia Airlines' flights to Split and Dubrovnik, from the above European cities. Reciprocally, Croatia Airlines will add its OU code for Air Canada' flights from London Heathrow, Paris, Amsterdam, Brussels, Zürich and Copenhagen to Toronto, Montreal, Halifax, Saint Johns, Ottawa, Vancouver and Calgary. At the end of 2015, Croatia Airlines had 14 codeshare agreements in place.

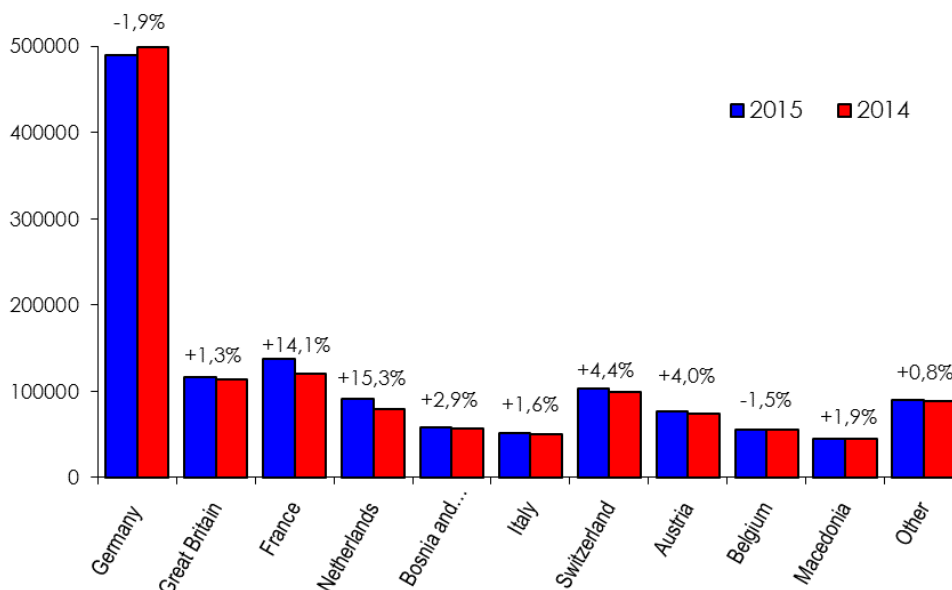
In 2015, altogether 1.849,676 passengers were transported, or 24,614 more compared to 2014 (+1%). Croatia Airlines recorded its millionth passenger on 27 July 2015, a day earlier compared to 2014.

Altogether 470,918 passengers were transported within the domestic scheduled traffic, 1.311,736 within the international scheduled traffic, and 67,022 within the charter traffic.



In the international scheduled traffic, 2% more passengers were transported in 2015, i.e. 31,686 more compared to 2014. Given a 2% rise in the capacities offered, the passenger load factor (PLF) saw an increase on the markets of the Netherlands, Switzerland, Bosnia and Herzegovina, Austria and Great Britain, while declining on the markets of France, Belgium, Italy, Germany and Macedonia.

International scheduled passengers by flights market



Croatia Airlines' aircraft operated on the summer flight schedule from 29 March to 24 October 2015, 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 Rijeka-Munich, Dubrovnik-Nice, and Split-Skopje. In 2015, Croatia Airlines connected the main European hubs with Split and Dubrovnik within the seasonal flights network. Also, Pula and Zadar were connected to the global flights network via Frankfurt several times a week. On 25 October 2015, the winter flight schedule came into force.

In 2015, the Company's **sales recorded a positive trend with a 4% growth** compared to 2014, mostly owing to the export results, i.e. **a 5% increase in the sales on the foreign markets**.

In 2015, Croatia Airlines focused its marketing activities on the promotion of individual routes and increasing the number of passengers outside the season. In cooperation with the Croatian Tourist Board, Croatia Airlines presented its offer at tourism fairs Fespo in Zurich, f.r.e.e in Munich and ITB in Berlin, and on its own at Place2go in Zagreb, with the aim of strengthening its brand and promoting its summer flight schedule for 2015. In November 2015, it introduced its offer at WTM in London. It also regularly promoted its offers on Google search engines and communicated with its service users via Facebook, where it posted all of its promotional offers and discounts. On 31 December 2015, Croatia Airlines had 110,971 Facebook fans. In May 2015, it expanded its communication to Twitter and Instagram (in addition to Facebook, LinkedIn, Google+, and YouTube).

Financial operations

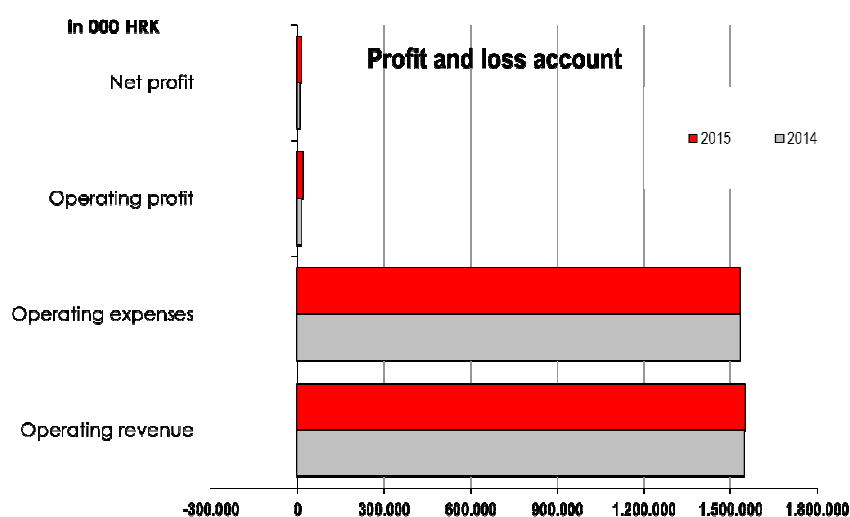
Profit and loss account

(000 HRK)	2015	2014	Index 15/14	2013
Passenger traffic	1.319.619	1.290.829	102	1.319.087
Cargo traffic	15.069	16.478	91	17.364
Other revenues	216.101	236.750	91	239.036
OPERATING REVENUES	1.550.790	1.544.058	100	1.575.488
Flight operations	464.502	532.825	87	565.489
Maintenance	220.886	164.480	134	156.601
Passenger services	84.659	78.581	108	86.503
Aircraft and traffic services	375.367	357.659	105	353.795
Promotion and sales	217.595	203.431	107	214.549
General and administ. expenses	85.345	91.327	93	84.240
Amortization	73.200	71.509	102	83.051
Other expenses	12.504	30.574	41	13.900
OPERATING EXPENSES	1.534.057	1.530.386	100	1.558.128
PROFIT/LOSS FROM OPERATIONS	16.733	13.672	122	17.359
Interest expense	-10.348	-11.585	89	-13.787
Interest revenue	462	794	58	1.007
Foreign exchange differences, net	5.969	6.143	97	-1.447
Other financial expenses	-359	-2.198	16	-2.684
Other financial revenues	1.372	721	190	272
NET FINANCIAL EXPENSES	-2.904	-6.124	47	-16.639
NET PROFIT/LOSS (excluding extraordinary items)	13.829	7.548	183	721

Note:

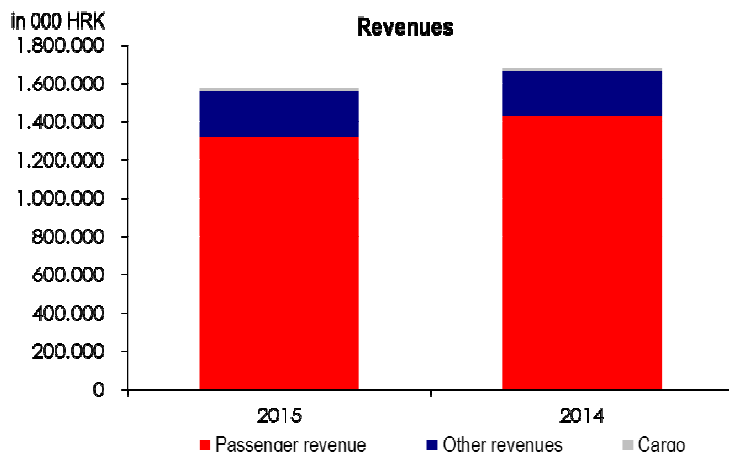
In the auditor's report for the profit and loss account, the revenues and costs of the booking system were shown as a net result within the promotion and sales costs item, and this Report, as well as all internal reports, declare revenues and costs by the gross principle (revenues from the booking system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

Croatia Airlines generated a **positive net result of HRK 13.8 million** for the third year in a row. Its **operating profit** totalled HRK 16.7 million.



The Company's **operating revenues** remained on the level of 2014.

Passenger revenues saw a 2% rise, with a 1% increase in the number of passengers compared to 2014.



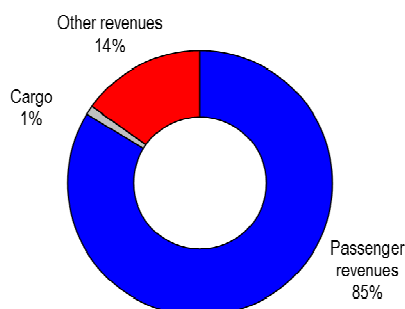
The **share of passenger revenues in operating revenues** totalled 85% and was 2% higher compared to 2014.

The **revenues from cargo transport** were 9% lower compared to 2014.

Other operating revenues fell by 9%. The revenues from the sale of fixed assets saw a

significant fall in 2015. While in 2014 an Airbus 320 CTJ and three CFM56-5B engines were sold, in 2015 only an CFM56-5B engine was sold, for the purpose of reaching the required own contribution amount.

Structure of operating revenues 2015



The Company's **operating costs** were on the level of 2014.

Fuel costs contributed the most to the reduction in operating costs, being 25% lower due to lower average fuel price (\$/t). General and administrative costs were also lower compared to 2014, as a result of the lower level of the planned costs, and lower utility and personnel costs. Other expenditures decreased compared to 2014, when a loss was generated from the sale of an A320, as a part of the Company's own contribution measures.

Compared to 2014, maintenance costs saw the biggest rise (+34%, i.e. + HRK 56.4 million), as a result of higher engine lease and maintenance costs, and maintenance reserves related to engine lease, given the sale and lease back of three Airbus engines in 2014 and one engine in May 2015. Maintenance costs rose also due to the unplanned works and higher costs of expendable material amidst greater investments into the fleet maintenance.

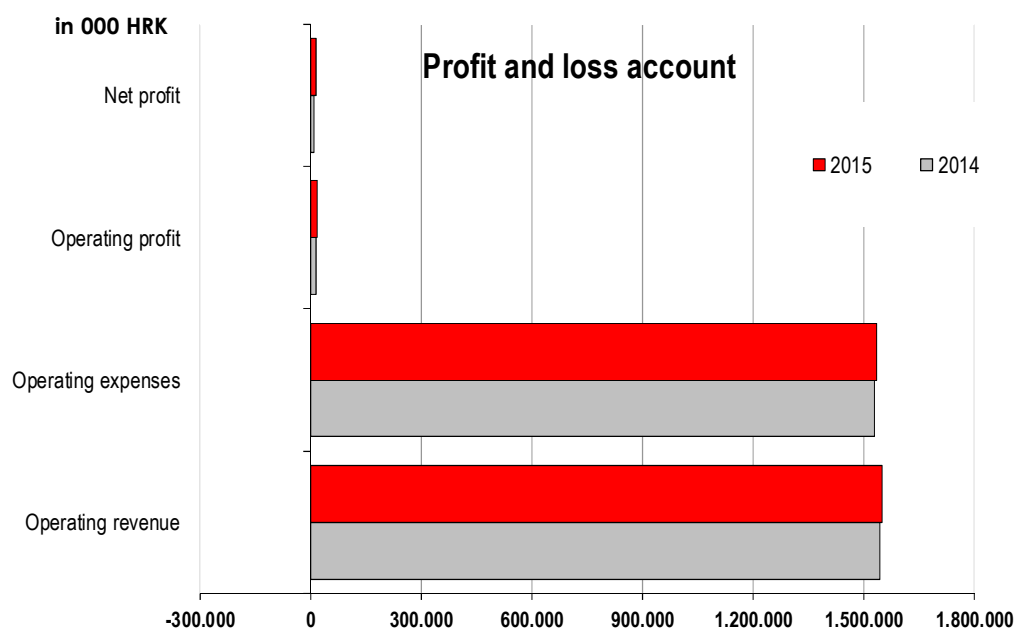
Within the operating costs, passenger service costs, costs of air traffic services, sales and promotion costs, and amortisation costs saw a rise.

The costs of passenger services were higher primarily due to the greater costs related to traffic disturbances.

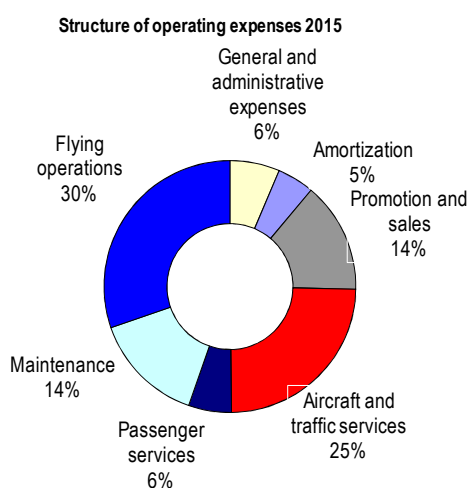
The costs of air traffic services rose due to higher airport costs amidst higher prices of individual airports and flight control costs due to increased unit rates by individual countries.

Sales and promotion costs rose due to higher booking system costs – resulting from a greater level of booking and higher unit price per passenger, and higher sales network commission costs.

Amortisation costs were higher amidst greater amortisation of intangible assets as a result of investments into third party assets.



Flight costs and air traffic services costs make up the highest share in the operating costs. In 2015, the share of flight costs in the overall operating costs fell by 5%, while the share of air traffic service costs rose by 1% compared to 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 2015	End 2014	Index 2015/2014	End 2013
ASSETS				
Non-current assets	634.375	657.118	97	779.865
Current assets	212.632	195.994	108	224.306
TOTAL ASSETS	847.007	853.112	99	1.004.170
LIABILITIES				
Capital and reserves	370.632	356.175	104	344.368
Provisions	2.718	23.315	12	22.215
Non-current liabilities	47.406	67.472	70	80.011
Current liabilities	426.251	406.966	105	557.576
TOTAL LIABILITIES	847.007	853.928	99	1.004.170

Note: The Management Board adopted in 2014 the accounting policy of making provisions for severance pays and costs of unused annual leaves, and adjusted 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 assets was 1% lower compared to 2014. The value of the fixed assets declined by 4% amidst the sale of an engine. The value of the current assets rose by 8% compared to the end of 2014, with higher accounts receivable and other short-term receivables.

The Company's **capital and reserves** totalled HRK 370.6 million at the end of 2015, and were 4% higher compared to the end of 2014, as a result of the greater positive operating result.

Provisions for severance pays, redemption of service years, disputes and damages, and other provisions were reduced through the cancellation of provisions for disputes in the second half of 2015.

The Company's **long-term liabilities** were reduced by 30%, as a result of regular loan repayments; its short-term liabilities were 5% higher, as a result of increased debts to suppliers and greater liabilities related to passenger transport.

At the end of 2015, Croatia Airlines' loan liabilities with local banks totalled HRK 110.3 million, of which HRK 67.2 million were long-term (medium-term) liabilities, and HRK 43.1 million were short-term liabilities. The remainder of the principal of the long-term loans owed to foreign banks amounted to HRK 11,500 on 31 December 2015.

Investments in 2015

Investments	2015	2014	2013
Investments in aircraft	46.674.700	34.606.919	48.683.973
Investments in spare parts, tools and equip.	16.197.434	16.173.828	12.511.074
Construction investments	2.584.788	11.488.189	366.632
Intangible assets - leased aircraft	8.679.518	11.360.509	11.020.530
Other intangible assets	3.070.181	4.738.825	545.523
Other equipment	3.326.641	3.188.173	2.800.804
Total	80.533.262	81.556.443	75.928.536

In 2015, the Company made investments directly related to flights, aircraft maintenance and operation, and the level of the guaranteed safety. Compared to 2014, investments were 1% lower.

The priority investments and the biggest investments were those related to **aircraft**; they totalled HRK 46.7 million, and mostly referred to the planned overhauls of two CFM56-5B engines and an unplanned overhaul of a CFM56-5B engine, as well as to 6-year checks of Airbus aircraft (CTG and CTH). Investments into aircraft and engines under an **operating lease** totalled HRK 8.7 million. In addition, four C checks were **carried out internally** on Q400 aircraft (CQA, CQB, CQD and CQF).

Investments into **spare parts** totalled HRK 16.2 million, and investments into **construction facilities** amounted to HRK 2.6 million, of which HRK 1.9 million referred to the construction of a new hangar.

Total investments into aircraft and technical segment made up about 91% of the total investments made in 2015.

Investments into other intangible assets referred mainly to software and totalled HRK 3.1 million, while among **other investments** worth HRK 3.3 million, the greatest sum referred to the purchase and replacement of IT equipment (HRK 2.9 million).

Cash flow

Cash flow (000 HRK)	2015	2014	Index
Cash at the beginning of the period	47.209	48.971	96
Inflow from activities	1.550.345	1.525.017	102
Inflow from Government	75.085	89.540	84
Inflow from sales of asset	48.807	175.170	28
Loans	29.800	38.040	78
Total inflow	1.704.038	1.827.766	93
Obligations	1.615.582	1.592.514	101
Investments	51.870	49.825	104
Loans	51.857	187.189	28
Total outflow	1.719.309	1.829.529	94
Net change for period	-15.271	-1.763	866
Cash at the end of the period	31.938	47.209	68

In 2015, both the cash inflow and outflow levels were lower compared to 2014. The cash balance was lower at the end of the year.

Although the inflow from operating activities rose by 2%, the total inflow was 7% lower. In addition to reduced loan liabilities, the reduced cash flow was affected by a lower inflow from the sale of assets compared to the same period of 2014 when an Airbus 320 CTJ and three CFM56-5B engines were sold as part of the Company's own contribution measures defined in the Restructuring Plan. For the purpose of reaching the defined own contribution amount, in 2015 the Company sold a CFM56-5B engine, its business premises at Zagreb Bus Terminal and its share in the associated company Pleso prijevoz.

A total of four short-term loans worth altogether HRK 29.8 million were taken in 2015 (two with PBZ and two with HPB).

The total outflow was 6% lower amidst reduced loan liabilities; the final instalment of the fleet financing loan taken with BLB was repaid in late 2014.

The Company also repaid two instalments of a long-term loan taken with PBZ, four instalments of a restructuring loan, and four short-term loans intended for liquidity maintenance. At the same time, the debt related to a short-term revolving loan was reduced by HRK 2.3 million, and a new revolving loan worth HRK 28.2 million was contracted.

Review of the Plan realisation

Traffic performance indicators compared to the Plan

description			Realization 2015	Plan 2015
flights (km)	DIST	000	16.388	16.513
departures	FLTS		25.863	26.297
annual change rate		%	-1,7	
block hours	BH		37.007	36.894
annual change rate		%	0,3	
passengers carried	RPAX	000	1.850	1.884
annual change rate		%	-1,8	
freight&mail carried	CGO	T	2.733	3.183
annual change rate		%	-14,1	
passenger km flown	RPKM	mIn	1.371	1.381
available seat - km	ASKM	mIn	1.967	1.958
passenger load factor	PLF	%	69,7	70,5
tonne km flown	TKM	mIn	139	140
available tonne-km	ATKM	mIn	205	204
weight load factor	WLF	%	67,8	68,7

In 2015, the fleet block time in block hours was 0.3% higher compared to the Plan, while the block time in flights saw a 1.7% decline. The number of transported passengers was 1.8% lower compared to the Plan.

Profit and loss account

In 2015, Croatia Airlines generated a net profit of HRK 13.9 million, or 35% more than anticipated.

(000 HRK)	2015	Plan 2015	Index
Passenger traffic	1.319.619	1.342.584	98
Cargo traffic	15.069	17.172	88
Other revenues	216.101	235.363	92
OPERATING REVENUES	1.550.790	1.595.119	97
Flight operations	464.502	530.509	88
Maintenance	220.886	202.728	109
Passenger services	84.659	82.801	102
Aircraft and traffic services	375.367	379.138	99
Promotion and sales	217.595	210.899	103
General and administ. expenses	85.345	79.264	108
Amortization	73.200	81.101	90
Other expenses	12.504	7.076	177
OPERATING EXPENSES	1.534.057	1.573.516	97
PROFIT/LOSS FROM OPERATIONS	16.733	21.603	77
Interest expense	-10.348	-11.833	87
Interest revenue	462	597	77
Foreign exchange differences, net	5.969	0	-
Other financial expenses	-359	-627	57
Other financial revenues	1.372	500	274
NET FINANCIAL EXPENSES	-2.904	-11.362	26
NET PROFIT/LOSS	13.829	10.241	135

The operating revenues were 3% lower than planned, primarily due to the lower passenger traffic revenues and other revenues as a result of decreased revenues from the sale of assets.

The generated costs were also 3% lower compared to the Plan, while maintenance costs, passenger service costs, promotion and sales costs, general and administrative costs and other expenditures saw a rise. Maintenance costs were higher primarily due to a sale and lease back of engines, extraordinary engine lease and greater scope of works on the fleet than planned. Higher sales costs resulted from the increased booking system costs and commission costs. General and administrative costs were higher than planned amidst higher costs of intellectual

services and litigation costs. Increased costs of passenger services resulted from the following: greater traffic disturbances due to various extraordinary circumstances (cancelled or delayed flights), particularly during the season, when the block time was greater; increased number of damage claims filed by passengers; and greater awareness on the part of the passengers as regards their rights. Other expenditures rose as a result of the higher costs from the preceding periods, and those assessed on the basis of an annual inventory.

Statement of accounts

(000 HRK)	End 2015	Plan 2015	Index 2015/plan
ASSETS			
Non-current assets	634.375	708.351	90
Current assets	212.632	156.338	136
TOTAL ASSETS	847.007	864.689	98
LIABILITIES			
Capital and reserve	370.632	374.240	99
Provisions	2.718	14.127	19
Non-current liabilities	47.406	104.882	45
Current liabilities	426.251	371.439	115
TOTAL LIABILITIES	847.007	864.689	98

At the end of 2015, the total value of assets, liabilities and capital was 2% lower than planned.

The value of the fixed assets was 10% lower than planned amidst the reduced value of the tangible assets compared to the Plan, while the value of the current assets rose by 36% amidst greater short-term receivables and a higher level of cash balance than planned.

The value of the capital and reserves at the end of 2015 was 1% lower than planned. The Company's **long-term liabilities were lower than planned**, as it did not realise a long-term loan for financing a business facility, while its **short-term liabilities** were 15% higher than planned, amidst greater short-term loans, liabilities to suppliers, and other short-term liabilities, primarily those related to passenger transport.

Consolidated business result

000 HRK	Croatia Airlines		Obzor		Amadeus		Pleso prijevoz		Croatia Airlines Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Operating revenues	1.402.149	1.369.342	4.729	3.970	6.902	6.408	0	0	1.413.580	1.379.514
Other revenues	144.730	171.957	25	58	17	229	0	0	144.773	172.244
Operating expenses	1.530.147	1.527.627	3.757	3.432	6.780	6.459	0	0	1.540.483	1.537.313
Operating profit/loss	16.733	13.672	997	596	140	178	0	0	17.870	14.446
Net profit/loss	(2.904)	(6.124)	(33)	45	(45)	(53)	0	602	(2.982)	(5.530)
Pre-tax profit	13.829	7.548	965	641	95	125	0	602	14.888	8.916
Net profit	13.829	7.548	763	505	50	64	0	602	14.641	8.719

The Group's consolidated result comprises the result of the Company and its subsidiaries. All transactions within the Group have been eliminated, and the consolidated result for 2015 at the Group level amounts to a profit of HRK 14.6 million, which is HRK 812,000 more compared to the result of Croatia Airlines, and 67% more compared to the result at the end of 2014. Total revenues and expenditures of the subsidiaries account for less than 1% of the consolidated revenues and expenditures, showing that their business activities have only a minor impact on the business activities of Croatia Airlines. The business share in the affiliated company Pleso prijevoz was sold in late 2015 within the own contribution measures as set in the Croatia Airlines Restructuring Plan, and presented in the 2014 Consolidated Report by way of the equity method.

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

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

Plan objectives and goals for 2016

On 31 December 2015, Croatia Airlines completed its restructuring process, and, as a result, the restrictions related to the capacity growth were lifted. The successful completion of this process is a presumption for the Company's long-term sustainable operations and is in line with the initiated privatisation processes.

The Business Plan for 2016 is focused on affirming the sustainability of operations, and validating the implementation of all strategic, operational and financial restructuring measures. The emphasis still lies on the maximum operations safety ensured by following the legal regulations and new trends in the airline industry. The goal is to retain the technical reliability of the fleet, while performing all regular check-ups, modifications and other works on the fleet aircraft and engines, in accordance with the applicable standards, and maintaining the high level of quality, safety and punctuality. In order to meet the high market demands and increase its market share, the Company has been monitoring service user satisfaction on an ongoing basis and developing its destinations network (for which purpose an additional aircraft will be taken into lease during the summer season). In 2016, Croatia Airlines plans to operate a public transport service under the PSO scheme in line with the decision of the Ministry of Maritime Affairs, Transport and Infrastructure on providing a domestic scheduled air traffic service. It will also continue to provide services to third parties, such as technical maintenance of foreign carriers' aircraft. For the purpose of advancing its operations, IT support will be optimised, as well.

Croatia Airlines expects a positive result in 2016; it is based on the projected revenues and costs which rely on the meeting of the following presumptions:

- Introduction of an additional aircraft for the period from May to October 2016 (wet lease);
- Introduction of four new routes in late May and in early June 2016 (Milan, Prague, Lisbon and Saint Petersburg);
- 27,300 – block time in flights;
- 38,184 – block time in block hours;
- Annual traffic of some 1.970,058 passengers (6% more compared to 2015), of which 1.853,134 within scheduled traffic and 70,396 within charter traffic;
- PLF on the level of 71.3%.

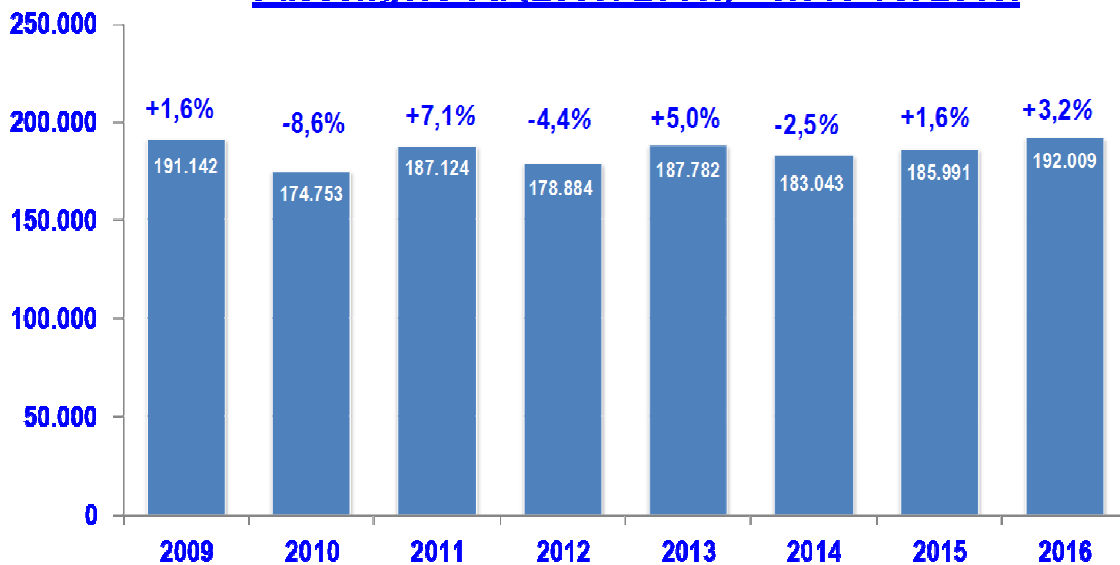
Current operations – Traffic performance in I-II 2016

description		I-II 2016	I-II 2015
flights (km)	DIST 000	1.927	1.970
departures	FLTS	3.277	3.322
annual change rate	%	-1	2
block hours	BH	4.494	4.657
annual change rate	%	-4	5
passengers carried	RPAX 000	192	186
annual change rate	%	3	2
freight&mail carried	CGO T	406	469
annual change rate	%	-13	7
passenger km flown	RPKM mln	128	127
available seat - km	ASKM mln	209	216
passenger load factor	PLF %	61,0	58,7
tonne km flown	TKM mln	13	13
available tonne-km	ATKM mln	22	23
weight load factor	WLF %	58,6	56,7

The number of passengers rose by 3% in the first two months of 2016 compared to the same period of 2015.

The number of passengers in the domestic scheduled traffic rose by 3% compared to the same period of 2015, while the international scheduled passenger traffic saw a 6% rise. The passenger load factor (PLF) was 61.0% in the first two months of 2016, or 2.3 pp higher than in the same period of 2015.

Passengers I-II (2009.-2016.) +6.018 vs. 2015.



CROATIA AIRLINES d.d.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2015
together with Independent Auditor's Report**

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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 for the year ended 31 December 2015 are prepared in accordance with the Accounting Act (Official gazette No 109/07, 54/13, 78/15, 134/15) 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, 78/15, 134 /15) 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 2016

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 2015, 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 2015, 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 2015 according to the Accountancy Act and the International Financial Reporting Standards effective in European Union.

Opinion on the compliance with other legal and regulatory requirements

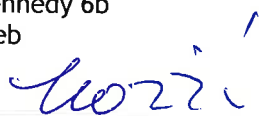
5. The Company's Management is responsible for the preparation of the annual consolidated and separated financial statements of the Company for the year ended 31 December 2015 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette 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 69 which are the subject of our opinion, as set out in the section Opinion, above.

Opinion on adjustment to Annual report

6. The Company's Management is responsible for the preparation of the Annual report of the Company. Pursuant to the provisions of article 20 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 2015, 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 shown on pages 4 to 69 which are the subject of our opinion, as set out in the section Opinion, above.

In Zagreb, 1 April 2016

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



Ines Rožić, Certified auditor



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



Zdenko Balen, Member of
the Management Board

Consolidated Croatia Airlines Statement of comprehensive income

For the year ended 31 December 2015

	Notes	2015		2014	
		HRK '000	EUR '000	HRK '000	EUR '000
REVENUE					
Passenger traffic	4	1,319,619	173,412	1,290,830	169,174
Cargo traffic		15,069	1,980	16,478	2,160
Other sales revenue	5	78,893	10,366	72,207	9,464
Total revenue		1,413,581	185,758	1,379,515	180,798
Other income and gains	6	144,771	19,025	172,243	22,574
EXPENSES					
Flight operations		(464,502)	(61,040)	(532,825)	(69,831)
Maintenance		(220,886)	(29,027)	(164,480)	(21,557)
Passenger service		(84,659)	(11,125)	(78,581)	(10,299)
Aircraft and traffic services		(375,367)	(49,327)	(357,659)	(46,874)
Promotion and sales		(213,685)	(28,080)	(200,672)	(26,300)
General and administrative expenses		(95,483)	(12,548)	(100,842)	(13,216)
Depreciation and amortization	11,12	(73,304)	(9,634)	(71,673)	(9,393)
Other operating expenses		(12,597)	(1,655)	(30,581)	(4,008)
Total expenses		(1,540,483)	(202,436)	(1,537,313)	(201,478)
Profit from operations		17,869	2,347	14,445	1,894
FINANCIAL INCOME/ (EXPENSES)					
Financial income	8	7,744	1,018	8,299	1,088
Financial expense	9	(10,726)	(1,410)	(13,829)	(1,812)
Net financial expense		(2,982)	(392)	(5,530)	(724)
Profit before tax		14,887	1,955	8,915	1,170
Income tax expense	10	247	32	(197)	(26)
Net profit for the year		14,640	1,923	8,718	1,144
Basic profit per share HRK/EUR	25	0.53	0.07	0.31	0.04

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

Consolidated Croatia Airlines Statement of comprehensive income
For the year ended 31 December 2015

	Notes	2015		2014	
		HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year		14,640	1,923	8,718	1,144
Hedging reserves		675	90	5,080	666
Revaluation of financial assets		(46)	(5)	(820)	(107)
Foreign exchange differences		-	128	-	(177)
Total other comprehensive profit (loss)		629	213	4,260	382
Income tax expense		-	-	-	-
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE YEAR		<u>15,269</u>	<u>2,136</u>	<u>12,978</u>	<u>1,526</u>
Basic profit / (loss) per share HRK / EUR		<u>0.55</u>	<u>0.07</u>	<u>0.47</u>	<u>0.06</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 2015

	Notes	2015		2014	
		HRK '000	EUR '000	HRK '000	EUR '000
REVENUE					
Passenger traffic	4	1,319,619	173,412	1,290,830	169,174
Cargo traffic		15,069	1,980	16,478	2,160
Other sales revenue	5	67,462	8,864	62,034	8,130
Total revenue		1,402,150	184,256	1,369,342	179,464
Other income and gains	6	144,729	19,020	171,957	22,537
EXPENSES					
Flight operations		(464,502)	(61,040)	(532,825)	(69,831)
Maintenance		(220,886)	(29,027)	(164,480)	(21,557)
Passenger service		(84,659)	(11,125)	(78,581)	(10,299)
Aircraft and traffic services		(375,367)	(49,327)	(357,659)	(46,874)
Promotion and sales		(213,685)	(28,080)	(200,672)	(26,300)
General and administrative expenses		(85,345)	(11,215)	(91,327)	(11,969)
Depreciation and amortization	11,12	(73,199)	(9,620)	(71,509)	(9,372)
Other operating expenses		(12,504)	(1,643)	(30,574)	(4,007)
Total expenses		(1,530,147)	(201,077)	(1,527,627)	(200,209)
Profit from operations		16,732	2,199	13,672	1,792
FINANCIAL INCOME/EXPENSE					
Financial income	8	7,803	1,025	7,658	1,003
Financial expense	9	(10,707)	(1,407)	(13,782)	(1,806)
Net financial expense		(2,904)	(382)	(6,124)	(803)
Profit before tax		13,828	1,817	7,548	989
Income tax expense	10	-	-	-	-
Net profit for the year		13,828	1,817	7,548	989
Basic profit / (loss) per share (HRK/EUR)	25	0.50	0.07	0.31	0.04

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

Croatia Airlines d.d. separate statement of comprehensive income

For the year ended 31 December 2015

	Notes	2015		2014	
		HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year		13,828	1,817	7,548	989
Hedging reserves		675	87	5,080	666
Revaluation of financial assets		(46)	(5)	(820)	(107)
Foreign exchange differences		-	141	-	(151)
Total other comprehensive (loss)		629	223	4,260	408
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE YEAR		14,457	2,040	11,808	1,397
Basic (loss) per share		0.52	0.07	0.42	0.05

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

Consolidated Croatia Airlines balance sheet

As at 31 December 2015

	Notes	2015		2014	
		HRK '000	EUR '000	HRK '000	EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	24,990	3,274	25,878	3,378
Property, plant and equipment	12	494,049	64,709	514,304	67,126
Investments in associated company	13	-	-	5,441	730
Deposits	14	6,989	915	7,145	934
Available for sale investments	15	1,180	155	1,037	135
Non-current receivables	16	106,242	13,915	106,115	13,851
		633,450	82,968	659,920	86,154
Current assets					
Inventories	17	56,429	7,391	49,804	6,501
Financial assets	20	1,538	201	958	125
Accounts receivable	18	76,016	9,957	63,313	8,264
Other receivables	19	22,310	2,922	13,793	1,800
Cash and cash equivalents	21	35,418	4,638	50,448	6,585
Prepaid expenses	22	26,916	3,525	22,327	2,914
		218,627	28,634	200,643	26,189
TOTAL ASSETS		852,077	111,602	860,563	112,343
EQUITY AND LIABILITIES					
Equity and reserves					
Issued capital	23	277,890	36,399	277,890	36,399
Capital reserves	24	80,891	10,499	82,423	10,700
Hedging reserves	24	(1,708)	(222)	(2,383)	(312)
Accumulated losses / retained earnings	24	2,103	290	(5,991)	(781)
Net profit for the year		14,640	1,923	8,718	1,144
Foreign exchange differences		-	72	-	(56)
		373,816	48,961	360,657	47,094
Provisions	26	2,718	356	23,315	3,043
Non-current liabilities					
Long-term loans	27	47,337	6,200	67,391	8,796
Long-term leases	28	-	-	12	2
Long-term liabilities		68	9	69	9
		47,405	6,209	67,472	8,807
Current liabilities					
Short-term loans	29	43,150	5,652	45,896	5,990
Short-term portion of long-term loans	27	19,833	2,598	19,891	2,596
Short-term portion of long-term obligations under finance leases	28	12	2	21	3
Accounts payable	30	151,509	19,844	134,567	17,564
Other current liabilities	31	182,737	23,934	170,210	22,216
Accrued expenses and deferred income	32	30,897	4,046	38,534	5,030
		428,138	56,076	409,119	53,399
TOTAL EQUITY AND LIABILITIES		852,077	111,602	860,563	112,343

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

Croatia Airlines d.d. separate balance sheet

As at 31 December 2015

	Notes	2015		2014	
		HRK '000	EUR '000	HRK '000	EUR '000
ASSETS					
Non-current assets					
Intangible assets	11	24,873	3,258	25,689	3,353
Property, plant and equipment	12	493,907	64,690	514,151	67,109
Investments in subsidiaries and associated companies	13	1,210	158	5,110	682
Deposits	14	6,964	912	7,081	924
Available for sale investments	15	1,180	155	1,037	135
Non-current receivables	16	106,242	13,915	106,115	13,851
		634,376	83,088	659,183	86,054
Current assets					
Inventories	17	56,429	7,391	49,515	6,463
Financial assets	20	1,536	201	958	125
Accounts receivable	18	73,736	9,658	61,123	7,978
Other receivables	19	22,550	2,953	13,625	1,778
Cash and cash equivalents	21	31,938	4,182	47,208	6,161
Prepaid expenses	22	26,443	3,464	22,316	2,913
		212,632	27,849	194,745	25,418
TOTAL ASSETS		847,008	110,937	853,928	111,472
Equity and reserves					
Issued capital	23	277,880	36,399	277,880	36,399
Capital reserves	24	79,914	10,355	80,622	10,457
Hedging reserves	24	(1,710)	(222)	(2,385)	(309)
Accumulated losses / retained earnings	24	720	87	(7,490)	(999)
Net profit for the year		13,828	1,817	7,548	989
Foreign exchange differences		-	107	-	(34)
		370,632	48,543	356,175	46,503
Provisions	26	2,718	356	23,315	3,043
Non-current liabilities					
Long-term loans	27	47,337	6,200	67,391	8,796
Obligations under finance leases	28	-	-	12	2
Other long-term liabilities		68	9	69	9
		47,405	6,209	67,472	8,807
Current liabilities					
Short-term loans	29	43,150	5,652	45,546	5,945
Short-term portion of long-term loans	27	19,833	2,598	19,891	2,596
Short-term portion of long-term finance leases	28	12	2	21	3
Accounts payables	30	150,362	19,693	133,646	17,444
Other current liabilities	31	182,254	23,871	169,486	22,121
Accrued expenses and deferred income	32	30,642	4,013	38,376	5,010
		426,253	55,829	406,966	53,119
TOTAL EQUITY AND LIABILITIES		847,008	110,937	853,928	111,472

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 2015

	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 2014	277,890	36,399	83,243	10,807	(6,711)	(874)	(7,463)	(978)	1,441	189	121	348,400	45,664
Transfer (from) / to	-	-	-	-	720	93	-	-	(1,441)	(189)	-	(721)	(96)
Total comprehensive profit for the period	-	-	(820)	(107)	-	-	5,080	666	8,718	1,144	(177)	12,978	1,526
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
Transfer (from) / to	-	-	-	-	7,548	989	-	-	(7,548)	(989)	-	-	-
Distribution of profits	-	-	-	-	-	-	-	-	(1,170)	(155)	-	(1,170)	(155)
Increase / decrease of capital reserves	-	-	(1,486)	(196)	546	82	-	-	-	-	-	(940)	(114)
Total comprehensive profit for the period	-	-	(46)	(5)	-	-	675	90	14,640	1,923	128	15,269	2,136
Balance at 31 December 2015	277,890	36,399	80,891	10,499	2,103	290	(1,708)	(222)	14,640	1,923	72	373,816	48,961

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 2015

	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 2014	277,880	36,399	81,442	10,564	(8,210)	(1,092)	(7,465)	(975)	720	93	117	344,367	45,106
Transfer (from) / to	-	-	-	-	720	93	-	-	(720)	(93)	-	-	-
Total comprehensive profit for the period	-	-	(820)	(107)	-	-	5,080	666	7,548	989	(151)	11,808	1,397
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
Transfer (from) / to	-	-	-	-	7,548	989	-	-	(7,548)	(989)	-	-	-
Increase / decrease of capital reserves	-	-	(662)	(97)	662	97	-	-	-	-	-	-	-
Total comprehensive profit for the period	-	-	(46)	(5)	-	-	675	87	13,828	1,817	141	14,457	2,040
Balance at 31 December 2015	277,880	36,399	79,914	10,355	720	87	(1,710)	(222)	13,828	1,817	107	370,632	48,543

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

Consolidated Croatia Airlines statement of cash flows

For the year ended 31 December 2015

	2015		2014	
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net profit for the year	14,640	1,923	8,718	1,144
<i>Adjustments for:</i>				
Depreciation	63,722	8,375	65,118	8,534
Amortization	9,582	1,259	6,555	859
Gain / (Loss) from the equity method	5,441	730	(168)	5
Net present value of disposed and sold tangible and intangible assets; impairment of assets	(20,562)	(2,694)	(37,297)	(4,869)
Exchange differences, net	(2,912)	(470)	(484)	(114)
Increase in deferred foreign exchange gains	675	87	5,080	666
(Increase) in non-current receivables	(113)	(67)	(27,512)	(3,550)
(Increase) / Decrease in accounts receivable and other receivables	(20,603)	(2,814)	25,355	3,351
(Increase) / Decrease in prepaid expenses	(4,590)	(611)	2,775	373
(Increase) in inventories	(6,625)	(890)	(2,178)	(265)
(Increase) in non-current liabilities	-	-	(5)	(1)
Increase / (Decrease) in accounts payable and other current liabilities	29,468	4,078	(28,102)	(3,804)
(Decrease) / Increase in provisions	(20,597)	(2,687)	1,100	135
(Decrease) / Increase in accrued expenses and deferred income	(7,635)	(983)	12,874	1,670
Payments for income tax	(616)	(81)	(625)	(82)
NET CASH GENERATED FROM OPERATING ACTIVITIES	39,275	5,155	31,204	4,052
Investing activities				
Payments for purchase of intangible assets	(8,696)	(1,139)	(15,196)	(1,983)
Payments for purchase of tangible assets	(70,180)	(9,192)	(65,104)	(8,498)
Proceeds from disposal of tangible assets	47,280	6,192	195,978	25,580
NET CASH (USED IN) / GENERATED FROM INVESTING ACTIVITIES	(31,596)	(4,139)	115,678	15,099
Financial activities				
Other changes in equity	(2,162)	(273)	(1,542)	(202)
(Increase) / Decrease of current financial assets	(580)	(76)	487	64
Proceeds from short-term borrowings	57,870	7,579	60,185	7,856
Repayment of short-term borrowings	(60,489)	(7,923)	(49,398)	(6,448)
Proceeds from long-term borrowings	-	-	8,277	1,080
Repayment of long-term borrowings	(19,786)	(2,590)	(167,359)	(21,843)
NET CASH (USED IN) FINANCIAL ACTIVITIES	(25,147)	(3,283)	(149,350)	(19,493)
DECREASE IN CASH AND CASH EQUIVALENTS	(17,468)	(2,267)	(2,468)	(342)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	50,448	6,585	52,182	6,831
Exchange differences for the cash and cash equivalents from the beginning of the year	2,438	320	734	96
CASH AND CASH EQUIVALENTS AT YEAR END	35,418	4,638	50,448	6,585

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 2015

	2015		2014	
	HRK '000	EUR '000	HRK '000	EUR '000
Operating activities				
Net profit for the year	13,828	1,817	7,548	989
<i>Adjustments for:</i>				
Depreciation	63,687	8,370	65,057	8,526
Amortization	9,512	1,250	6,452	846
Net present value of disposed and sold tangible and intangible assets; impairment of assets	(20,567)	(2,694)	(37,761)	(4,929)
Exchange differences, net	(2,912)	(456)	(480)	(87)
Increase in deferred foreign exchange differences	675	87	5,080	666
(Increase) in non-current receivables	(152)	(72)	(27,512)	(3,550)
(Increase) / Decrease in accounts receivable and other receivables	(21,885)	(2,902)	25,504	3,371
(Increase) / Decrease in prepaid expenses	(4,127)	(551)	2,767	371
(Increase) in inventories	(6,914)	(928)	(1,889)	(227)
(Increase) in non-current liabilities	-	-	(5)	(1)
Increase / (Decrease) in accounts payable and other current liabilities	29,482	3,998	(28,814)	(3,896)
(Decrease) / Increase in provisions	(20,597)	(2,687)	1,100	137
(Decrease) / Increase in accrued expenses and deferred income	(7,733)	(996)	12,836	1,665
Payments for income tax	(379)	(50)	(563)	(74)
Gains from dividends	726	95	803	105
NET CASH GENERATED FROM OPERATING ACTIVITIES	32,644	4,281	30,120	3,911
Investing activities				
Proceeds from investments in associated company	3,900	524	-	-
Payments for purchase of intangible assets	(8,696)	(1,139)	(15,195)	(1,983)
Payments for purchase of tangible assets	(70,152)	(9,188)	(65,085)	(8,497)
Proceeds from disposal of tangible assets	47,275	6,192	195,978	25,580
NET CASH (USED IN) / GENERATED INVESTING ACTIVITIES	(27,673)	(3,611)	115,698	15,100
Financial activities				
Other changes in equity	(46)	(5)	(820)	(107)
(Increase) / Decrease of current financial assets	(578)	(76)	487	64
Proceeds from short-term borrowings	57,870	7,579	60,185	7,856
Repayment of short-term borrowings	(60,139)	(7,877)	(49,083)	(6,406)
Proceeds from long-term borrowings	-	-	8,277	1,080
Repayment of long-term borrowings	(19,786)	(2,591)	(167,359)	(21,844)
NET CASH (USED IN) FINANCIAL ACTIVITIES	(22,679)	(2,970)	(148,310)	(19,356)
DECREASE IN CASH AND CASH EQUIVALENTS	(17,708)	(2,300)	(2,492)	(345)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	47,208	6,161	48,972	6,411
Exchange differences for the cash and cash equivalents from the beginning of the year	2,437	320	728	95
CASH AND CASH EQUIVALENTS AT YEAR END	31,938	4,182	47,208	6,161

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

1. GENERAL

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

The subsidiaries of the Company are Obzor putovanja d.o.o. (100 % owned) and Amadeus Croatia d.d. (95% owned), and its commonly controlled company is Pleso prijevoz d.o.o. (50% owned). Shares in Pleso prijevoz d.o.o. the Company was sold in November 2015, and after the final payment of the contracted amount on 23 December shares became property of the new buyer.

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2015

1. GENERAL (CONTINUED)

General Assembly of the Company

Central State Administrative Office for State Property Management (CSAOSPM) for Republic of Croatia	97.06%
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	0.45%
Total	100.00 %

Supervisory Board of the Company

Members from 7 October 2014

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

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

Management of the Company

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. (up to 31 October 2015)
Silvana Turčić	General Manager of Obzor putovanja d.o.o. (from 1 November 2015)

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective for the current period

Annual Improvements 2011-2013 Cycle - effective in EU for accounting periods beginning on or after 1 January 2015, with earlier application permitted. They include:

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

IFRIC 21 Levies (Effective in EU for accounting periods beginning on or after 17 June 2014, with earlier application permitted).

Application of the above mentioned Standards did not have effect on the on the financial statements for the period ended 31 December 2015.

New and revised IFRSs adopted by the EU in issue but not yet effective

- Changes and amendments to IAS 19 Defined Benefit Plans: Employee Contributions – IAS 19 requires subjects to consider employee or third party contributions when accounting their earnings. This amendment is effective in the EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted. The Company does not expect this amendment to be relevant to the Company.

New and revised IFRSs adopted by the EU in issue but not yet effective (continued)

- Annual Improvements from the 2010 to 2012 Cycle, as changes and amendments, are effective in the EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted and it is not expected that they will have any significant impact on the Company. They include:
 - IFRS 2 Share-based Payment,
 - IFRS 3 Business Combinations,
 - IFRS 8 Operating Segments,
 - IFRS 13 Fair Value Measurement
 - IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets,
 - IAS 24 Related Party Disclosures

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

New and revised IFRSs issued by the IASB but not yet adopted by the EU

The following standards and amendments to the existing standards have not been adopted for use in EU yet:

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions of IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The application of this standard will affect the classification and measurement of financial instruments.
- IFRS 14 Regulatory Deferral Accounts – this standard relates to subjects that operate on regulated markets and are applying IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. The Company prepares its Financial Statements in accordance with IFRS and does not apply this standard.
- IFRS 15 Revenue from Contracts with Customers - IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenue that results from contracts with customers. Management Board performs detailed analysis regarding possible effects of the mentioned standards on the Company's financial statements.

- Annual Improvements to IFRSs 2012–2014 Cycle
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)
 - IAS 19 Employee Benefits
 - IAS 34 Interim Financial Reporting

The effective date of the amendments is 1 January 2016. Earlier application is allowed.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (issued in December 2014)
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)
- Amendments to IAS 1 Disclosure Initiative (issued in December 2014)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)

The Management Board anticipates that the application of said standards, amendments and interpretations will not have a materially significant impact on the financial statements in the period of their initial application, except for IFRS 9 and IFRS 15 for which the Management Board is conducting detail analysis about possible effects from the application of this Standards on the financial statements.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2015

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	2015	2014
On 31 December	7.635047	7.661471
Average	7.609737	7.630182

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

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

The principal accounting policies adopted are 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 and the Company as lessor

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

e) The Group and the Company as lessee

Assets held under finance leases are recognised as assets 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 can be directly attributed to qualifying assets, in which case they are capitalised in accordance with the 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.

2. 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 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 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 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 free of charge 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 span over one year and individual cost value over HRK 3.5 thousand are recorded as property plant and equipment. Power generating and equipment of low value used in operating activities are recorded as property plant and equipment no matter their cost.

The Company has engaged an independent professional appraiser 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 profit and loss. The Management Board of the Company has estimated that during the years 2014 and 2015 there were no significant differences between the market and the book value, so the new valuation of the aircraft was not recorded.

Difference between the net book value of assets that were sold or otherwise disposed of 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 value and depreciated over the estimated useful life of the aircraft to which they refer (20 years). Ground Service Equipment ("GSE") and tools are stated at cost and depreciated over 16.6 years.

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

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 cost or net realisable value, depending which one is lower. 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 and the Company's balance sheet when the subsidiary or the Company becomes a party to the contractual provisions of the instrument.

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

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

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

The Company's policy is not to 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 90 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.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Provisions and contingencies

Provisions are recorded if an obligation to third parties exists, if 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 the Company's 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.

Financial assets and liabilities

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

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.

Going concern

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. The Restructuring Plan was completed on 31 December 2015 with a successfully implemented level of the compensation measures and completely achieved the Company's own contribution.

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

4. PASSENGER TRAFFIC

	2015		2014	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Scheduled services	1,246,133	163,755	1,214,044	159,111
Charter services	73,486	9,657	76,786	10,063
	1,319,619	173,412	1,290,830	169,174

Revenue by geographical segment:

	2015		2014	
	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
	HRK '000	EUR '000	HRK '000	EUR '000
Croatia	384,009	50,463	398,866	52,275
Germany	143,839	18,902	143,282	18,778
USA	146,478	19,249	129,083	16,917
Other countries	645,293	84,798	619,599	81,204
	1,319,619	173,412	1,290,830	169,174

5. OTHER SALES REVENUE

	2015		2014		2015		2014	
	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	35,747	4,697	33,604	4,404	35,747	4,697	33,604	4,404
Commission income from foreign air companies	13,251	1,741	9,202	1,206	13,251	1,741	9,202	1,206
Revenue from reservation system services	6,890	905	6,396	838	-	-	-	-
Revenue from consignment sales (duty free in aircraft)	90	12	165	22	90	12	165	22
Mileage related revenue	2,401	315	2,458	322	2,401	315	2,458	322
Other	20,514	2,696	20,382	2,672	15,973	2,099	16,605	2,176
	78,893	10,366	72,207	9,464	67,462	8,864	62,034	8,130

6. OTHER INCOME AND GAINS

	2015		2014		2015		2014	
	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	1,049	138	2,151	282	1,049	138	2,151	282
Income from government support	83,195	10,933	88,711	11,626	83,195	10,933	88,711	11,626
Collected bad debts	196	26	30	4	196	26	30	4
Gain from sale of fixed assets	29,657	3,897	60,131	7,881	29,652	3,897	60,131	7,881
Gain from sale of spare parts	56	7	75	10	56	7	75	10
Other	30,618	4,024	21,145	2,771	30,581	4,019	20,859	2,734
	144,771	19,025	172,243	22,574	144,729	19,020	171,957	22,537

During 2015 the Company has recognised as income the total amount of HRK 83,195 thousand (EUR 10,933 thousand) from the Croatian Government arising from the differences of unrealized income in relation to the costs from maintaining domestic scheduled air transport (PSO - Public Service Obligation). In 2014 revenues on the basis of these fees amounted to HRK 88,711 thousand (EUR 11,626 thousand). The amount of PSO is determined as the difference between revenues from certain domestic flights and related direct flight operations expense.

7. STAFF COSTS

	2015		2014		2015		2014	
	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	115,789	15,216	116,367	15,251	113,780	14,952	114,438	14,998
Tax, pension and health contributions from payroll	64,844	8,521	68,578	8,988	63,653	8,365	67,577	8,857
Employer's pension and health contributions on payroll	41,083	5,399	41,280	5,410	40,535	5,327	40,790	5,346
Other employee related costs	31,750	4,172	33,226	4,355	31,505	4,140	32,855	4,306
	253,466	33,308	259,451	34,004	249,473	32,784	255,660	33,507

Dated on 31 December 2015 the Group had 922 employees (Croatia Airlines d.d. 900, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 14) while as at 31 December 2014 the Group had 931 employees (Croatia Airlines d.d. 908, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 15) - see 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

	2015		2014		2015		2014	
	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	5,904	776	6,173	809	5,969	784	6,143	805
Interest gains	468	62	803	105	462	61	794	104
Other	1,372	180	1,323	174	1,372	180	721	94
	7,744	1,018	8,299	1,088	7,803	1,025	7,658	1,003

9. FINANCIAL EXPENSE

	2015		2014		2015		2014	
	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
Interest expense	10,367	1,363	11,632	1,524	10,348	1,360	11,585	1,518
Other	359	47	2,197	288	359	47	2,197	288
	10,726	1,410	13,829	1,812	10,707	1,407	13,782	1,806

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2015

10. INCOME TAX EXPENSE

Tax on profits earned in Croatia is calculated at 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, but in accordance with applicable tax regulations, the Company pays income tax advances with regard to the use of tax incentives for education and training.

Subsidiaries obligations for tax on profit are as follows: Amadeus Croatia d.d. HRK 45 thousand, EUR 6 thousand (2014: HRK 61 thousand, EUR 8 thousand) and Obzor putovanja d.o.o. HRK 202 thousand, EUR 27 thousand (2014: HRK 136 thousand, EUR 18 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.
	2015	2014
	HRK	HRK
	'000	'000
Net profit / (loss) before tax	13,828	7,548
Non-taxable income	(1,217)	(746)
Training incentives	(4,208)	(5,029)
Other expenses from previous periods	(3,902)	(10,478)
Non-deductible expenses	2,075	2,952
Tax base / tax loss	6,576	(5,753)
Tax losses brought forward	(1,050,748)	(1,137,548)
Tax loss expired	202,995	92,553
Losses utilised in current period	(6,576)	-
Tax loss to be carried forward	(847,753)	(1,050,748)

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

10. INCOME TAX EXPENSE (CONTINUED)

Subsidiaries do not have tax losses to carry forward.

		Tax loss carried forward	Tax loss carried forward	Tax benefit at 20%	Tax benefit at 20%
		HRK '000	EUR '000	HRK '000	EUR '000
2016	Not more than 1 year (from 2010)	160,280	20,993	32,056	4,199
2017	Not more than 2 years (from 2011)	78,152	10,236	15,630	2,047
2018	Not more than 3 years (from 2012)	505,233	66,173	101,047	13,235
2019	Not more than 4 years (from 2013)	98,335	12,879	19,667	2,576
2020	Not more than 5 years (from 2014)	<u>5,753</u>	<u>754</u>	<u>1,151</u>	<u>151</u>
		<u>847,753</u>	<u>111,035</u>	<u>169,551</u>	<u>22,208</u>

Deferred tax asset in the amount of HRK 169,551 thousand, in EUR 22,208 thousand (2014: HRK 208,999 thousand, in EUR 27,279 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%.

11. INTANGIBLE ASSETS

2015	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
COST				
Balance at 31 December 2014	76,779	10,020	75,907	9,908
Additions	8,694	1,139	8,696	1,139
Fx differences	-	35	-	34
Balance at 31 December 2015	85,473	11,194	84,603	11,081
ACCUMULATED AMORTIZATION				
Balance at 31 December 2014	50,901	6,642	50,218	6,555
Charge for the year	9,582	1,259	9,512	1,250
Fx differences	-	19	-	18
Balance at 31 December 2015	60,483	7,920	59,730	7,823
NET BOOK VALUE				
At 31 December 2015	24,990	3,274	24,873	3,258
At 31 December 2014	25,878	3,378	25,689	3,353
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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2015

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

At 31 December 2015

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 2014	77,944	10,174	34,860	4,550	62,175	8,115	1,149,899	150,088	151,364	19,757	1,476,242	192,684
Additions	675	88	36,161	4,736	107	14	15,695	2,056	17,542	2,298	70,180	9,192
Transfers of tangible assets	12,780	1,674	(53,900)	(7,060)	213	28	41,139	5,388	37,289	4,884	37,521	4,914
Disposals	(8,190)	(1,073)	(3,631)	(476)	(3,095)	(405)	(45,520)	(5,962)	(9,164)	(1,200)	(69,600)	(9,116)
Fx differences	-	35	-	17	-	28	-	520	-	68	-	668
31 December 2015	83,209	10,898	13,490	1,767	59,400	7,780	1,161,213	152,090	197,031	25,807	1,514,343	198,342
ACCUMULATED DEPRECIATION												
31 December 2014	33,358	4,354	-	-	41,833	5,462	812,101	105,998	74,646	9,744	961,938	125,558
Charge for the year	3,589	472	-	-	4,537	597	47,570	6,251	8,026	1,055	63,722	8,375
Disposals	(4,943)	(650)	-	-	(1,942)	(256)	(31,770)	(4,175)	(4,271)	(561)	(42,926)	(5,642)
Transfers of tangible assets	-	-	-	-	-	-	-	-	37,521	4,931	37,521	4,931
Correction of accumulated depreciation	-	-	-	-	6	1	-	-	33	4	39	5
Fx differences	-	16	-	-	-	16	-	360	-	14	-	406
31 December 2015	32,004	4,192	-	-	44,434	5,820	827,901	108,434	115,955	15,187	1,020,294	133,633
NET BOOK VALUE												
31 December 2015	51,205	6,706	13,490	1,767	14,966	1,960	333,312	43,656	81,076	10,620	494,049	64,709
31 December 2014	44,586	5,820	34,860	4,550	20,342	2,653	337,798	44,090	76,718	10,013	514,304	67,126

Aircrafts are stated under the revaluation model. Net book value of the aircrafts as at 31 December 2015 was in the amount of HRK 333,312 thousand, in EUR 43,656 thousand (2014: HRK 337,798 thousand, in EUR 44,090 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2015

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

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 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
NET BOOK VALUE												
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 stated 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 2015

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

At 31 December 2015

	Land and buildings		Property, plant and equipment in progress		Equipment and other		Aircraft		Spare parts, GSE and tools		Total	
	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000	HRK '000	EUR '000
COST OR VALUATION												
31 December 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
Additions	675	88	36,161	4,736	79	10	15,695	2,056	17,542	2,298	70,152	9,188
Transfers of tangible assets	12,780	1,674	(53,900)	(7,060)	213	28	41,139	5,388	37,289	4,884	37,521	4,914
Disposals	(8,190)	(1,073)	(3,631)	(476)	(3,049)	(399)	(45,520)	(5,962)	(9,164)	(1,200)	(69,554)	(9,110)
Fx differences	-	35	-	17	-	26	-	520	-	68	-	666
31 December 2015	83,209	10,898	13,490	1,767	55,637	7,287	1,161,213	152,090	197,031	25,807	1,510,580	197,849
ACCUMULATED DEPRECIATION												
31 December 2014	33,358	4,354	-	-	38,205	4,987	812,101	105,998	74,646	9,743	958,310	125,082
Charge for the year	3,589	472	-	-	4,502	592	47,570	6,251	8,026	1,055	63,687	8,370
Disposals	(4,943)	(650)	-	-	(1,900)	(250)	(31,770)	(4,175)	(4,271)	(561)	(42,884)	(5,636)
Transfers of tangible assets	-	-	-	-	-	-	-	-	37,521	4,931	37,521	4,931
Correction of accumulated depreciation	-	-	-	-	6	1	-	-	33	4	39	5
Fx differences	-	16	-	-	-	15	-	360	-	15	-	406
31 December 2015	32,004	4,192	-	-	40,813	5,345	827,901	108,434	115,955	15,187	1,016,673	133,158
NET BOOK VALUE												
31 December 2015	51,205	6,706	13,490	1,767	14,824	1,942	333,312	43,656	81,076	10,620	493,907	64,690
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

Aircrafts are stated under the revaluation model, Net book value of the aircrafts as at 31 December 2015 was in the amount of HRK 333,312 thousand, in EUR 43,656 thousand (2014: HRK 337,798 thousand, in EUR 44,090 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2015

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

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
COST OR VALUATION												
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
ACCUMULATED DEPRECIATION												
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
NET BOOK VALUE												
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 stated 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 2015

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 2014 and 2015 the Company's management estimated that there were no significant deviations between market and book value. Thus there was not a new aircraft value estimation recorded.

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% (2014 – 8.33%) and "6-year check" is amortized at rate of 16.67% (2014 – 16.67%).

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. In 2015 the Company sold one more engine CFM56-5B which is 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 moment of maintenance.

Fleet at 31 December 2015

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	2015		2014		2015		2014		%
		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	-	-	3,900	524	50
		-	-	5,441	730	1,210	158	5,110	682	

Subsidiary companies were founded in the Republic of Croatia. The percentages above refer to percentage ownership and voting rights.

The associated company Pleso prijevoz d.o.o. has been under the common control by the Company and by Zračna luka Zagreb d.d. equally until the November 2015 (50%: 50%). Shares in Pleso prijevoz d.o.o. are presented in the consolidated financial statements using the equity method for the period ending at 31 December 2014 and at cost method in the separate financial statement.

In November 2015 the Company sold own shares in Pleso prijevoz d.o.o., and after the final payment of the contracted amount on 23 December, shares become the property of the new buyer. For the year ended 31 December 2015 Pleso prijevoz d.o.o. is not included in the consolidation.

14. LONGTERM DEPOSITS

	2015		2014		2015		2014	
	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	5,007	656	4,911	641	5,007	656	4,911	641
Other deposits	1,982	259	2,234	293	1,957	256	2,170	283
	6,989	915	7,145	934	6,964	912	7,081	924

Interest rates on the long-term deposits for specified purpose loans in Privredna banka Zagreb d.d. are 0.5-0.75% and in Zagrebačka banka is 0%.

Long-term deposits in commercial banks are included in other deposits in the amount of HRK 1,241 thousand, EUR 163 thousand (for 2014: HRK 1,248 thousand, EUR 163 thousand). Deposits are given for the purpose of issuing bank guarantees to suppliers.

15. AVAILABLE FOR SALE INVESTMENTS

	Share	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
		2015		2014	
		HRK '000	EUR '000	HRK '000	EUR '000
Hrvatska poštanska banka d.d.	0.18 %	991	130	1,037	135
Star Alliance		189	25	-	-
		1,180	155	1,037	135

Investment in shares of Hrvatska poštanska banka d.d. were initially recognized at cost and subsequently measured at fair value in accordance with market prices. Based on the fair value adjustments in the 2015, a loss in the amount of HRK 712 thousand, EUR 87 thousand was recognized in the revaluation reserve (for 2014: loss in the amount HRK 666 thousand, EUR 87 thousand).

16. NON-CURRENT RECEIVABLES

	2015		2014		2015		2014	
	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	52,820	6,918	57,821	7,547	52,820	6,918	57,821	7,547
Long-term advances	52,883	6,926	47,667	6,222	52,883	6,926	47,667	6,222
Receivables for sold flats	364	48	452	59	364	48	452	59
Other long-term receivables	175	23	175	23	175	23	175	23
	106,242	13,915	106,115	13,851	106,242	13,915	106,115	13,851

Long-term deposit paid to supplier Lufthansa Technik in the amount of HRK 15,730 thousand, in the EUR 2,060 thousand (2014: HRK 24,678 thousand, EUR 3,221 thousand) represents a deposit with Lufthansa Technik for repairs and maintenance of Airbus engine. In 2015 interest income recorded by the Company in respect of the deposit amounted HRK 311 thousand, EUR 41 thousand (2014: HRK 472 thousand, EUR 62 thousand); based on the interest calculation received from Lufthansa Technik at an annual interest rate of 3.5%.

Long term deposit amounted of HRK 16,081 thousand, EUR 2,106 thousand was paid to supplier SASOF III (A7) AVIATION IRELAND (2014: HRK 14,495 thousand, EUR 1,892 thousand was paid to supplier Constitution Aircraft Leasing).

The amount of HRK 21,009 thousand, EUR 2,752 thousand (2014: HRK 18,648 thousand, EUR 2,434 thousand) relates to long-term deposits given to suppliers for guarantees.

The amount of HRK 52,883 thousand, EUR 6,926 thousand (2014: HRK 47,667 thousand, EUR 6,222 thousand), refers to advance payment to Airbus Industrie for purchase of four new aircraft type A320NEO according to Airbus Industrie sales proposal and annex signed between the Company and Airbus Industrie.

Long-term receivables for housing in the amount of HRK 364 thousand, EUR 48 thousand (2014: 452 thousand, EUR 59 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

	2015. Croatia Airlines Group		2014. Croatia Airlines Group		2015. Croatia Airlines d.d.		2014. Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	'000	'000	'000	'000	'000	'000	'000	'000
Spare parts	54,894	7,190	47,476	6,197	54,894	7,190	47,476	6,197
Catering, supplies and other	1,535	201	2,328	304	1,535	201	2,039	266
	56,429	7,391	49,804	6,501	56,429	7,391	49,515	6,463

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

18. ACCOUNTS RECEIVABLE

	2015		2014		2015		2014	
	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 accounts receivable	20,032	2,624	19,538	2,550	18,869	2,471	18,124	2,366
Foreign accounts receivable	64,261	8,417	57,395	7,492	62,986	8,250	56,445	7,367
Allowance for doubtful receivables	(8,277)	(1,084)	(13,620)	(1,778)	(8,119)	(1,063)	(13,446)	(1,755)
	76,016	9,957	63,313	8,264	73,736	9,658	61,123	7,978

18. ACCOUNTS RECEIVABLE (CONTINUED)

Tables below present changes in allowance for doubtful receivables in years 2015 and 2014:

	2015		2015	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK '000	EUR '000	HRK '000	EUR '000
Allowance for doubtful receivables				
Balance at 1 January 2015	13,620	1,778	13,446	1,755
Increase	1,182	155	1,182	155
Decrease	(213)	(28)	(196)	(26)
Bad debts write-off	(6,192)	(811)	(6,192)	(811)
Exchange differences	(120)	(10)	(121)	(10)
Balance at 31 December 2015	8,277	1,084	8,119	1,063

	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	11,615	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	13,446	1,755

19. OTHER RECEIVABLES

	2015		2014		2015		2014	
	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	100	13	43	6	-	-	-	-
Receivables from employees	109	14	165	21	98	13	156	20
Receivables from the State	11,642	1,525	8,479	1,106	11,612	1,521	8,454	1,103
Dividends and profit share receivable	40	5	-	-	445	58	-	-
Receivables from insurers	6,537	856	30	4	6,537	856	30	4
Receivables for advances	3,882	508	5,076	663	3,858	505	4,985	651
	22,310	2,922	13,793	1,800	22,550	2,953	13,625	1,778

20. FINANCIAL ASSETS

	2015		2014		2015		2014	
	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	1,538	201	955	125	1,536	201	955	125
Other financial assets	-	-	3	-	-	-	3	-
	1,538	201	958	125	1,536	201	958	125

20. FINANCIAL ASSETS (CONTINUED)

Deposits at 31 December 2015 and 31 December 2014 are as follows:

Financial institution	Annual interest rate	In thousands of original currency	Currency	2015		2014	
				HRK '000	EUR '000	HRK '000	EUR '000
Deposits:							
Flughafen Munchen	-	30	EUR	229	30	-	-
US Bank	0,04%	80	USD	559	73	504	66
ARC US	-	93	USD	647	85	311	41
Other	-	13	Various	101	13	140	18
Balance as at 31 December Croatia Airlines d.d.				1,536	201	955	125

The amounts presented in the table above represent the fair value of the financial asset as at 31 December 2015 and 31 December 2014.

21. CASH AND CASH EQUIVALENTS

	2015		2014		2015		2014	
	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
Bank accounts -HRK	23,361	3,059	18,894	2,466	20,350	2,665	16,872	2,202
Bank accounts - foreign currencies	10,685	1,399	29,014	3,787	10,242	1,341	27,805	3,629
Petty cash - HRK	24	3	21	3	11	1	12	2
Petty cash - foreign currencies	124	17	95	12	120	16	95	12
Short-term deposits	1,224	160	2,424	317	1,215	159	2,424	316
	35,418	4,638	50,448	6,585	31,938	4,182	47,208	6,161

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

22. PREPAID EXPENSES

	2015		2014		2015		2014	
	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	26,110	3,420	19,432	2,536	25,637	3,358	19,421	2,535
Accrued income	806	105	2,895	378	806	106	2,895	378
	26,916	3,525	22,327	2,914	26,443	3,464	22,316	2,913

The most significant part of prepaid expenses include prepaid expenses to suppliers in the amount of HRK 25,013 thousand, EUR 3,276 thousand (2014: HRK 19,094 thousand, EUR 2,492 thousand).

23. ISSUED CAPITAL

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 of the Company 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.

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

2015

Shareholders	Number of shares	HRK '000	%
Central State Administrative Office for State Property Management (CSAOSPM) for Republic of Croatia	26,971,437	269,715	97.06
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	126,243	1,262	0.45
	27,787,953	277,880	100.00

23. ISSUED CAPITAL (CONTINUED)**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>

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

The subsidiary Obzor putovanja d.o.o. Zagreb is fully owned by the Company.

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 2015 and 2014 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 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 867 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 7,342 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, in EUR 1,3 thousand (2014: HRK 10 thousand, in EUR 1,4 thousand) and other reserves HRK 100 thousand, in EUR 13 thousand (2014: HRK 100 thousand, in EUR 14 thousand).

Obzor putovanja d.o.o. has other reserves in the amount of HRK 867 thousand, in EUR 113 thousand (2014: HRK 867 thousand, in EUR 114 thousand).

25. BASIC AND DILUTED PROFIT PER SHARE

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

	Croatia Airlines Group		Croatia Airlines Group	
	2015		2014	
	HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year	14,640	1,923	8,718	1,144
Number of shares issued	27,787,953		27,787,953	
Basic profit per share in HRK/EUR	0.53	0.07	0.31	0.04

	Croatia Airlines d.d.		Croatia Airlines d.d.	
	2015		2014	
	HRK '000	EUR '000	HRK '000	EUR '000
Net profit for the year	13,828	1,817	7,548	989
Number of shares issued	27,787,953		27,787,953	
Basic and diluted profit per share in HRK/EUR	0.50	0.07	0.27	0.04

At 31 December 2015 number of shares were 27,787,953 at nominal value of HRK 10.00 (2014: 27,787,953 shares at nominal value HRK 10.00).

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 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
Charge for the year	95	12
Provisions utilised during the year	(20,692)	(2,710)
Fx differences	-	11
	<hr/>	<hr/>
At 31 December 2015	2,718	356

The amount of the HRK 2,718 thousand (EUR 356 thousand) includes the provisions for litigation in the amount of HRK 1,900 thousand, in EUR 249 thousand (2014: HRK 9,724 thousand, EUR 1,269 thousand) which relate to a dispute with former employees of the Company.

In the year 2013, against the Company was launched a lawsuit pending before a court in New Jersey from the company NETWORLD COMMUNICATIONS CORP for the compensation due to contract termination. During 2015 in the course of mediation a settlement with the NETWORLD COMMUNICATIONS CORP has been reached, and with the final payment in 2015 the litigation and the NCC action were dismissed, which caused a decrease in the provisions amounts in 2015.

Provisions in 2015 also include the amount of HRK 818 thousand, EUR 107 thousand (2014: HRK 791 thousand, EUR 103 thousand) which refer to the regular severance payments in accordance with the Collective Agreement.

The amount of provisions in 2014 include the amount of HRK 826 thousand, EUR 108 thousands (2013: HRK 10,483 thousand, EUR 1,372 thousand) refers 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.

27. LONG-TERM LOANS

	Croatia Airlines d.d. and the Group 2015		Croatia Airlines d.d. and the Group 2014	
	HRK	EUR	HRK	EUR
Long-term loans	67,170	8,798	87,282	11,392
Current portion of long-term loans	(19,833)	(2,598)	(19,891)	(2,596)
	47,337	6,200	67,391	8,796

Description of long-term loans is as follows:

Financial institution	Original currency	Loan amount in original currency (in 000)	Annual interest rate %	Due date	2015	2015	2014	2014
					HRK '000	EUR '000	HRK '000	EUR '000
PBZ 7510009556	EUR	15,000	3 m EURIBOR +5.5% (min.8%)	Oct 2019	62,607	8,200	78,147	10,200
PBZ 5110188453	EUR	1,350	3m EURIBOR +5.5% (min 7.5%)	Dec 2016	4,563	598	9,135	1,192
					67,170	8,798	87,282	11,392
Current portion					(19,833)	(2,598)	(19,891)	(2,596)
Long-term portion					47,337	6,200	67,391	8,796

In November 2014 the Company fully repaid the loan for refinancing the fleet for which the Government of the Republic of Croatia guaranteed.

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

	HRK '000	EUR '000
2016	19,833	2,598
2017	15,270	2,000
2018	15,270	2,000
2019	16,797	2,200
after 2019	-	-
Total	67,170	8,798

28. OBLIGATIONS UNDER FINANCE LEASES

Description of the long-term leases is as follows:

Financial institution	Original currency	Loan amount	Annual interest rate	Due date	Croatia Airlines d.d. and the Group		Croatia Airlines d.d. and the Group	
					2015	2015	2014	2014
					HRK '000	EUR '000	HRK '000	EUR '000
		(in 000)	%					
ASA Leasing	EUR	14	8	June 2016	12	2	33	5
Total					12	2	33	5
Current portion					(12)	(2)	(21)	(3)
Long-term portion					-	-	12	2

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	2015	2015	2014	2014
					HRK '000	EUR '000	HRK '000	EUR '000
						(in 000)	%	
Zagrebačka banka	EUR	4,000	3 m EURIBOR +6.15%	5.2015	-	-	30,646	4,001
Zagrebačka banka	EUR	3,700	3 m EURIBOR +6.15%	3.2016	28,250	3,700	-	-
Hrvatska poštanska banka	HRK	7,450	8.00%	5.2015	-	-	7,450	972
Hrvatska poštanska banka	HRK	7,450	6.50%	7.2016	7,450	976	-	-
Privredna banka Zagreb	HRK	7,450	Treasury bills on 91 days +margin 4.95% (min 8.5%)	8.2015	-	-	7,450	972
Privredna banka Zagreb	HRK	7,450	Treasury bills on 91 days + margin 6.80% (min 8.5%)	8.2016	7,450	976	-	-
					43,150	5,652	45,546	5,945

29. SHORT-TERM LOANS (CONTINUED)

As at 31 December 2015 liabilities from short-term loans amounted to HRK 43,150 thousand, in EUR 5,652 thousand (2014: HRK 45,546 thousand, EUR 5,945 thousand). On 6 July 2015 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 3,700 thousand. In 2015 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 and on 31 December 2014 liabilities under this loan was HRK 350 thousand, EUR 45 thousand. During 2015 the loan has been fully repaid.

30. ACCOUNTS PAYABLES

	2015		2014		2015		2014	
	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 trade accounts payables	59,029	7,732	66,574	8,690	58,305	7,636	65,855	8,596
Foreign trade accounts payables	92,480	12,112	67,993	8,874	92,057	12,057	67,791	8,848
	151,509	19,844	134,567	17,564	150,362	19,693	133,646	17,444

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

31. OTHER CURRENT LIABILITIES

	2015		2014		2015		2014	
	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
Air traffic liabilities	134,186	17,575	118,494	15,466	134,186	17,575	118,494	15,466
Deposits and advances received	11,126	1,457	15,836	2,067	11,106	1,455	15,648	2,042
Salaries	18,009	2,359	17,119	2,234	17,699	2,318	16,834	2,197
Other current liabilities	19,416	2,543	18,761	2,449	19,263	2,523	18,510	2,416
	182,737	23,934	170,210	22,216	182,254	23,871	169,486	22,121

Air traffic liabilities in the amount of HRK 134,186 thousand, EUR 17,575 thousand (2014: HRK 118,494 thousand, EUR 15,466 thousand) refers to the value of tickets sold and not used but still valid. This items are reduced either when the Company completes the transportation service or when the passenger requests a refund.

32. ACCRUED EXPENSES AND DEFERRED INCOME

	2015		2014		2015		2014	
	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	1,901	249	2,951	385	1,902	249	2,951	385
Accrued cost for unused annual leave	3,804	498	6,327	826	3,804	498	6,327	826
Accrued expenses	25,192	3,299	29,256	3,819	24,936	3,266	29,098	3,799
	30,897	4,046	38,534	5,030	30,642	4,013	38,376	5,010

32. ACCRUED EXPENSES AND DEFERRED INCOME (CONTINUED)

Deferred income in the amount of HRK 1,902 thousand, EUR 249 thousand (2014: HRK 2,951 thousand, EUR 385 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 3,804 thousand, EUR 498 thousand (2014: HRK 6,327 thousand, EUR 826 thousand) of unused annual leave in accordance with accounting regulations (IAS 19 - Employee Benefits).

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, aircraft Airbus A320 and Q400 and five engine for aircraft. Total monthly amount for rent and lease obligation is HRK 11,118 thousand, in EUR 1,461 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. With 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. With this agreement, the Company has taken average monthly lease payment obligation in the amount of USD 160 thousand.

In May and November 2014, and in May 2015 the Company signed Engine Lease Agreements for four 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 51 thousand.

The Company has spare engine CFM/56-5B under operating leases, for which the obligation to pay monthly leasing instalments in the amount of USD 52 thousand has been taken.

34. EMPLOYEES

Croatia Airlines d.d.	2015	2014
Pilots and co-pilots	115	115
Cabin attendants	146	149
Maintenance and overhaul	235	248
Ticket sales and promotion	111	115
Airport handling	114	108
Other staff	179	173
	<u>900</u>	<u>908</u>
Subsidiaries		
Amadeus Croatia d.d., Zagreb	8	8
Obzor Putovanja d.o.o., Zagreb	14	15
	<u>922</u>	<u>931</u>

35. RELATED PARTY TRANSACTIONS

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

Related parties of the Company are as follows:

- Obzor putovanja d.o.o.
- Amadeus Croatia d.d.
- Pleso prijevoz d.o.o. (up to 30 November 2015).

Transactions with related parties are as follows:

	2015	2014	2015	2014
	HRK	HRK	EUR	EUR
	'000	'000	'000	'000
Revenue				
Obzor putovanja d.o.o.	7,545	6,522	992	855
Amadeus Croatia d.d.	144	144	19	19
Pleso prijevoz d.o.o. (associate)	-	267	-	35
Total revenue	7,689	6,933	1,011	909
Expenses				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	-	4,861	-	637
Total expenses	-	4,861	-	637
	2015	2014	2015	2014
	HRK	HRK	EUR	EUR
	'000	'000	'000	'000
Receivables				
Obzor putovanja d.o.o.	412	11	54	1
Amadeus Croatia d.d.	55	15	7	2
Pleso prijevoz d.o.o. (associate)	-	36	-	5
Total receivables	467	62	61	8
Liabilities				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Pleso prijevoz d.o.o. (associate)	-	1,900	-	248
Total liabilities	-	1,900	-	248

35.1. RELATED PARTY TRANSACTIONS OWNED BY REPUBLIC OF CROATIA

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

	2015	2014	2015	2014
	HRK	HRK	EUR	EUR
	'000	'000	'000	'000
Revenue				
Hrvatske vode, Zagreb	377	50	247	33
Zračna luka Pula d.o.o., Pula	36	5	30	4
Zračna luka Rijeka d.o.o., Omišalj	414	54	31	4
Zračna luka Zadar d.o.o., Zadar	55	7	108	14
Zračna luka Split d.o.o., Kaštel Štafilić	691	91	608	80
Zračna luka Dubrovnik d.o.o., Čilipi	348	46	437	57
Narodne novine d.d., Zagreb	83	11	46	6
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-	-	-
HP – Hrvatska pošta d.d., Zagreb	1,456	191	1,346	177
INA – Industrija nafte d.d., Zagreb	-	-	9	1
Total revenue	3,460	455	2,862	376
Expenses				
Hrvatske vode, Zagreb	-	-	82	11
Zračna luka Pula d.o.o., Pula	4,039	531	3,773	496
Zračna luka Rijeka d.o.o., Omišalj	522	69	189	25
Zračna luka Zadar d.o.o., Zadar	5,384	708	6,060	796
Zračna luka Split d.o.o., Kaštel Štafilić	41,753	5,487	38,885	5,110
Zračna luka Dubrovnik d.o.o., Čilipi	36,617	4,812	35,029	4,603
Narodne novine d.d., Zagreb	882	116	1,845	242
Zrakoplovno-tehnički centar d.d., Velika Gorica	276	36	147	19
HP – Hrvatska pošta d.d., Zagreb	79	10	92	12
INA – Industrija nafte d.d., Zagreb	137,324	18,046	212,478	27,922
Total expenses	226,876	29,815	298,580	39,236

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

	2015 HRK '000	2014 HRK '000	2015 EUR '000	2014 EUR '000
Receivables				
Hrvatske vode, Zagreb	-	-	-	-
Zračna luka Pula d.o.o., Pula	-	-	-	-
Zračna luka Rijeka d.o.o., Omišalj	500	66	-	-
Zračna luka Zadar d.o.o., Zadar	-	-	-	-
Zračna luka Split d.o.o., Kaštel Štafilić	22	3	8	1
Zračna luka Dubrovnik d.o.o., Čilipi	5	1	41	5
Narodne novine d.d., Zagreb	-	-	-	-
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-	-	-
HP – Hrvatska pošta d.d., Zagreb	124	16	118	15
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total receivables	651	86	167	21
Liabilities				
Hrvatske vode, Zagreb	-	-	-	-
Zračna luka Pula d.o.o., Pula	503	66	537	70
Zračna luka Rijeka d.o.o., Omišalj	-	-	8	1
Zračna luka Zadar d.o.o., Zadar	679	89	728	95
Zračna luka Split d.o.o., Kaštel Štafilić	9,164	1,200	8,078	1,058
Zračna luka Dubrovnik d.o.o., Čilipi	8,076	1,058	7,316	958
Narodne novine d.d., Zagreb	216	28	331	43
Zrakoplovno-tehnički centar d.d., Velika Gorica	86	11	32	4
HP – Hrvatska pošta d.d., Zagreb	6	1	14	2
INA – Industrija nafte d.d., Zagreb	9,418	1,233	16,529	2,165
Total liabilities	28,148	3,686	33,573	4,396

36. RISK MANAGEMENT

Financial instruments

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

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 cannot be obtained from the sale of a financial instrument at this point.

Valuation techniques and assumptions in determining the fair value

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

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 and the Company are routinely exposed to fluctuations in fuel prices, credit risk, interest rates and exchange rates. In recognition of this fact, it is Group's and the Company'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:

	2015		2014		2015		2014	
	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	110,332	14,452	133,211	17,386	110,332	14,452	132,861	17,342
Cash and cash equivalents	(35,418)	(4,638)	(50,448)	(6,585)	(31,938)	(4,182)	(47,208)	(6,161)
Net debt	74,914	9,814	82,763	10,801	78,394	10,270	85,653	11,181
Equity	373,816	48,961	360,657	47,094	370,632	48,543	356,175	46,503
Net debt to equity ratio	20%	20%	23%	23%	21%	21%	24%	24%

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 Group and the Company are exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in notes 27 and 28. The interest rate on bank deposits is disclosed in Note 14.

In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 45 thousand (EUR 6 thousand) would debit income statement and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 45 thousand (EUR 6 thousand) would credit income statement for the period ended 31 December 2015.

36. RISK MANAGEMENT (CONTINUED)*Foreign exchange risk*

The Group and the Company are exposed to the following foreign exchange risks:

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

The Group's and the Company's principal foreign exchange risk is the long-term loans as described in notes 27 and 28, which is denominated principally in Euro. This exposure is offset by the Group's and the Company's revenues from overseas ticket sales, which is sufficient to service the debt payments.

Accordingly the Group and the Company have accounted for gains and losses on the foreign currency debts as a statement of cash flows hedge within equity as further described in the accounting policies. The Group's and 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	
	2015	2014
Profit / (Loss)	454	544

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

HRK 000	Currency impact EUR		Currency impact USD	
	2015	2014	2015	2014
Profit / (Loss)	2,890	2,263	1,494	2,892

36. RISK MANAGEMENT (CONTINUED)

Credit risk

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

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

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

Price Risk

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

In case that the fuel price was higher by 0.5% in relation to current market price, the effect of HRK 1,155 thousand (EUR 152 thousand) would debit profit and loss account and, contrary, in case that the fuel price was lower by 0.5% the effect of HRK 1,155 thousand (EUR 152 thousand) would credit profit and loss account for the year 2015.

Liquidity risk

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

36. RISK MANAGEMENT (CONTINUED)

Hedging implemented at the Company

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

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

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

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

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

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

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 2015 and 2014. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

31 December 2015	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	2,390	313	-	-	-	-	-	-	2,390	313
Long-term deposits	6,964	912	-	-	-	-	-	-	6,964	912
Long-term receivables	106,242	13,915	16,187	2,120	31	4	62	8	89,962	11,783
Short-term deposit	1,536	201	853	112	683	89	-	-	-	-
Trade receivables and other receivables	122,729	16,075	122,696	16,071	33	4	-	-	-	-
Total	239,861	31,416	139,736	18,303	747	97	62	8	99,316	13,008
Liabilities										
Short-term leasing	11	2	11	2	-	-	-	-	-	-
Short-term loans	62,983	8,250	41,608	5,450	21,375	2,800	-	-	-	-
Long-term loans	47,337	6,200	-	-	-	-	15,900	2,083	31,437	4,117
Trade payables and other liabilities	366,044	47,942	217,780	28,523	148,264	19,419	-	-	-	-
Total	476,375	62,394	259,399	33,975	169,639	22,219	15,900	2,083	31,437	4,117
Difference	(236,514)	(30,978)	(119,663)	(15,672)	(168,892)	(22,122)	(15,838)	(2,075)	67,879	8,891

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2015

36. RISK MANAGEMENT (CONTINUED)

36.1. Liquidity risk tables (continued)

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	7,081	924	-	-	-	-	-	-	7,081	924
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	955	125	-	-	955	125	-	-	-	-
Trade receivables and other receivables	97,064	12,669	97,030	12,665	34	4	-	-	-	-
Total	217,365	28,385	97,239	12,692	42,959	5,607	62	8	77,105	10,078
ties										
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	24,626	-	-	-	-
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)	(168,092)	(21,940)	(33,646)	(4,392)	43,409	5,680

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

37. OPERATING LEASES

The Company leases aircraft, engines for aircraft, 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 2015 the Company had 7 airplanes, 5 aircraft engines and 1 building under the operating lease. The future aggregate minimum lease payments are as follows:

	HRK '000	EUR '000
	2015	2015
No later than one year	121,868	15,962
Later than one year and no later than five years	349,916	45,830
Later than five years	51,011	6,681
	<u>522,795</u>	<u>68,473</u>

38. DIRECTORS' AND EXECUTIVES' REMUNERATION

The total amount of remuneration paid to directors and other key management personnel during 2015 and 2014, was as follows:

	HRK '000	EUR '000	HRK '000	EUR '000
	2015	2015	2014	2014
Gross salaries	7,504	986	7,961	1,043
Gross benefits in kind	377	50	459	60
Severance payments	-	-	311	41
	<u>7,881</u>	<u>1,036</u>	<u>8,731</u>	<u>1,144</u>

As at 31 December 2015 the number of directors and key management staff was 15 (2014: 15 directors and management staff).

39. AUDITOR FEES

For conducting audits of consolidated and separate financial statements for the year 2015 was contracted fee in the amount of HRK 194 thousand plus the amount of value added tax (in 2014: HRK 194 thousand + VAT).

40. APPROVAL OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The consolidated and separate financial statements were approved by the Management Board and authorised for issue on 30 March 2016.

Signed for and on behalf of the Company on 30 March 2016.

Teodora Wenzler-Brezak

Director of Finance
and Accounting

Zlatko Širac

Board Member and COO

Krešimir Kučko

President and CEO