



A STAR ALLIANCE MEMBER 

# Croatia Airlines Consolidated and Separate Annual Report for the year Ended 2021



April 2022

**CONTENT:**

<b>Declaration</b>	<b>2</b>
<b>The Management's Business Report for 2021</b>	<b>3 – 45</b>
<b>Representation on the Application of the Corporate Governance Code</b>	<b>46 – 49</b>
<b>Consolidated and Separate Financial Statements for the year ended 31 December 2021 together with Independent auditors' report</b>	<b>50 – 142</b>

Based on the Capital Market Act (NN 65/18, 18/20), we hereby give the following:

## DECLARATION

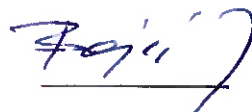
That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31<sup>st</sup> December 2021 have been prepared by using the appropriate financial reporting standards, and provide complete and truthful presentation of assets and liabilities, losses and gains, the financial position and operations of the issuer and the companies involved in the consolidation as a whole.

That The Management's Business Report for 2021 contains a true view of development and results of operations and position of the issuer and the companies included in consolidation, with a description of the most important risks and uncertainties that the issuer and the society as a whole are exposed to.

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

The person responsible for the preparation of the issuer statements:

President & CEO



Jasmin Bajić

Zagreb, April 27<sup>th</sup>, 2022



A STAR ALLIANCE MEMBER 

## The Management's Business Report for 2021



April 2022

## CONTENTS

<b>Typical indicators.....</b>	<b>5</b>
Fleet .....	5
Traffic indicators .....	5
Financial indicators.....	6
Productivity indicators.....	6
<b>Croatia Airlines in 2021 – introduction .....</b>	<b>7</b>
Ownership structure .....	7
<b>Company's management structure and organisation .....</b>	<b>8</b>
<b>Human resources .....</b>	<b>9</b>
<b>Social responsibility.....</b>	<b>15</b>
<b>Business environment and operational risks.....</b>	<b>20</b>
Risk of fall in demand as a result of the COVID-19 epidemic and the travel ban .....	25
Liquidity risk.....	25
Fuel .....	26
Emission allowance price .....	26
<b>Fleet and capacities.....</b>	<b>28</b>
Fleet utilisation .....	29
The market .....	30
<b>Financial operations.....</b>	<b>33</b>
<b>Assets, financing and investments .....</b>	<b>37</b>
<b>Consolidated business result .....</b>	<b>40</b>
<b>Going concern principle .....</b>	<b>41</b>
<b>Objectives and goals for 2022.....</b>	<b>44</b>
<b>Current operations – traffic performance in the first quarter of 2022 .....</b>	<b>45</b>

## Typical indicators

### Fleet

Type of aircraft	Number at the end of 2021	Seats	Ownership	Lease	Ø age (years)	Number at the end of 2020	Ownership	Lease
Airbus A320	2	348	1	1	22.08	2	1	1
Airbus A319	5	720	4	1	20.30	4	4	-
Q-400	6	456	-	6	12.60	6	-	6
<b>TOTAL</b>	<b>13</b>	<b>1,524</b>	<b>5</b>	<b>8</b>	<b>17.02</b>	<b>12</b>	<b>5</b>	<b>7</b>

### Traffic indicators

Description		2021	2020	2019	Index 21/20	Index 20/19
Flights (km)	<i>DIST 000</i>	10,279	8,004	18,934	128	42
<b>Departures</b>	<b><i>FLTS</i></b>	<b>16,507</b>	<b>13,052</b>	<b>28,432</b>	<b>126</b>	<b>46</b>
<b>Block hours</b>	<b><i>BH hours</i></b>	<b>22,395</b>	<b>17,570</b>	<b>40,553</b>	<b>127</b>	<b>43</b>
<b>Passengers carried</b>	<b><i>RPAX 000</i></b>	<b>788</b>	<b>618</b>	<b>2,179</b>	<b>127</b>	<b>28</b>
<b>Freight &amp; mail carried</b>	<b><i>CGO t</i></b>	<b>1,320</b>	<b>1,442</b>	<b>2,135</b>	<b>92</b>	<b>68</b>
Passenger km flown	<i>RPK mil.</i>	562	432	1,676	130	26
Available seat - km	<i>ASK mil.</i>	1,128	871	2,277	130	38
<b>Passenger load factor</b>	<b><i>PLF %</i></b>	<b>49.9</b>	<b>49.6</b>	<b>73.6</b>	<b>101</b>	<b>67</b>
Tonne km flown	<i>RTK mil.</i>	57	44	169	130	26
Available tonne-km	<i>ATK mil.</i>	118	92	240	128	38
<b>Weight load factor</b>	<b><i>WLF %</i></b>	<b>48.5</b>	<b>48.4</b>	<b>70.3</b>	<b>100</b>	<b>69</b>

## Financial indicators

Indicators	2021	2020	2019	Index 21/20	Index 20/19
<b>Operating revenue</b>	<b>848</b>	<b>759</b>	<b>1,728</b>	<b>112</b>	<b>44</b>
Total Revenue	891	809	1,751	110	46
<b>Operating expenses</b>	<b>1,098</b>	<b>1,095</b>	<b>1,784</b>	<b>100</b>	<b>61</b>
Total expenses	1,179	1,167	1,831	101	64
Operating profit/loss	-249.7	-335.4	-55.4	74	606
<b>Net profit/loss</b>	<b>-288</b>	<b>-358</b>	<b>-79</b>	<b>80</b>	<b>451</b>
<b>EBIT</b>	<b>-261</b>	<b>-336</b>	<b>-60</b>	<b>78</b>	<b>560</b>
EBIT DA	-58.2	-125.7	148.7	46	-
EBIT margin	-30.8	-44.2	-3.5	70	-
Efficiency ratio	0.8	0.7	1.0	109	72
ROA	-20.5	-21.5	-6.3	95	340
ROE	-	-165.9	-35.3	-	470
Unit operating cost	9.3	11.9	7.4	78	161
Unit operating revenue	7.2	8.3	7.2	87	115
Passenger yield (passenger revenue)	14.2	14.2	12.2	100	116
Current ratio	1.4	1.8	0.4	75	478
Debt ratio	1.1	0.9	0.8	121	106
Investment ratio	-	5.8	4.6	-	127
Average number of employees	942	1,014	1,021	93	99

## Productivity indicators

Productivity Indicators	2021	2020	2019	Index 21/20	Index 20/19
Employees (tkm/employee)	60,906	43,849	165,615	139	26
Aircraft (BH/day)	6.8	6.4	9.2	106	70
Fuel (tkm/tonne)	2,750	1,768	2,567	156	69

## Croatia Airlines in 2021 – introduction

As the national flag carrier, Croatia Airlines has a strategic role in Croatia's traffic infrastructure, which has proved to be particularly crucial during the coronavirus crisis, given the Company's contribution to the maintenance of traffic connectivity vital for both the country's economy and citizens. In more than thirty years of existence and provision of transport services, Croatia Airlines has been connecting Croatian cities with major European metropolises, and in cooperation with its airline partners – with the entire world. As a member of the world's largest airline association Star Alliance, it provides its passengers access to the global network of flights, with numerous benefits.

### Ownership structure

Croatia Airlines is a joint-stock company. On 31 December 2021, its share capital amounted to HRK 627,879,530 and was divided into 62,787,953 ordinary shares with the nominal value of HRK 10.00.

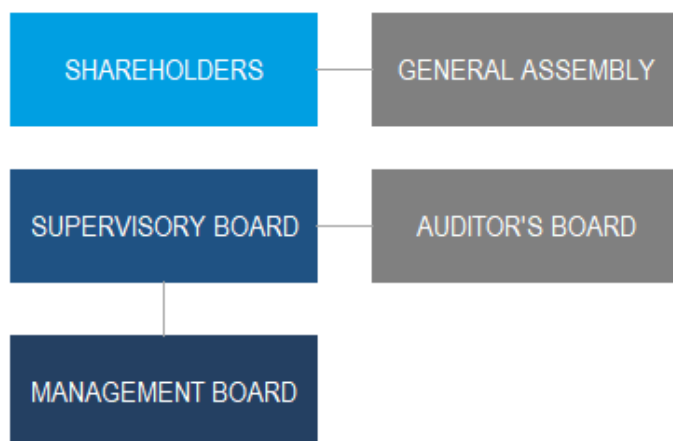
On 15 January 2021, upon entry into the court register the Company's capital was increased to the above sum, in cash contribution, based on a decision of the General Assembly. The capital of HRK 277,879,530 was increased by HRK 350,000,000 through the issuance of 35,000,000 new registered shares. The table below provides an overview of the Company's major shareholders:

Top 10 Shareholders	No. of shares	Portion in the share capital (in %)
REPUBLIC OF CROATIA	62,010,821	98.762%
AIRPORT ZAGREB D.O.O.	477,121	0.760%
HPB FOR THE REPUBLIC OF CROATIA	173,768	0.277%
JANAF D.D.	22,000	0.035%
CROATIA INSURANCE D.D.	7,165	0.011%
CROATIA LOTERY D.O.O.	4,000	0.006%
ASTRA INTERNATIONAL D.D. in bankruptcy	3,682	0.006%
HP D.D.	2,750	0.004%
TURISTHOTEL D.D.	2,090	0.003%
TANKERKOMERC D.D.	2,090	0.003%



## Company's management structure and organisation

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



The business sphere of traffic comprises flight and cabin operations, Operations Training Centre, operations and HUB centre, operations engineering and traffic management.

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

Training Centre.

The third sphere comprises commercial activities, i.e. sales and marketing, user and operational support, acquisitions, and network and revenue management.

Pursuant to the Company's Articles of Association, the Company's Management Board has at least one and a maximum of three members, while the Supervisory Board has five members, one of whom is the representative of employees. The Management Board is chaired by Jasmin Bajić, and the Supervisory Board by Zlatko Mateša, LLB. In 2021, Croatia Airlines' Supervisory Board had five members.

### Foreign branch offices

Croatia Airlines has six foreign branch offices: Brussels – Belgium, Frankfurt – Germany, Paris – France, Sarajevo – Bosnia and Herzegovina, Skopje – North Macedonia and Zurich – Switzerland. The Rome branch office (Italy) closed in late 2021.

Pariz	France	Frankfurt	Germany	Zürich	Switzerland
<b>Address:</b>	Roissypôle Le Dôme, 1 Rue de la Haye BP 18913 Tremblay en France 95731 Roissy CDG Cedex	<b>Address:</b>	Kaiserstrasse 7 60311 Frankfurt a.M.	<b>Address:</b>	Letzigraben 154, 8047 Zurich

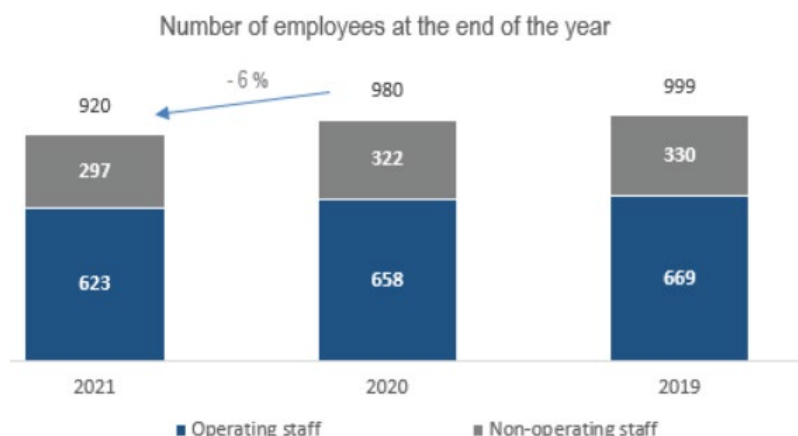
  

Bruxelles	Belgium	Skopje	North Macedonia	Sarajevo	Bosnia and Herzegovina
<b>Address:</b>	Brussels Airport, Box 31 1930 Zaventem	<b>Address:</b>	Skopje International Airport 1043 Petrovec - Skopje	<b>Address:</b>	Sarajevo Airport Ul. Khurta Schorka 36, 71 210 Sarajevo

## Human resources

On 31 December 2021, the Company had 920 employees, including the locally employed staff at its branch offices, i.e. 60 (6%) fewer than on 31 December 2020. On 31 December 2021, the Company had no posted workers.

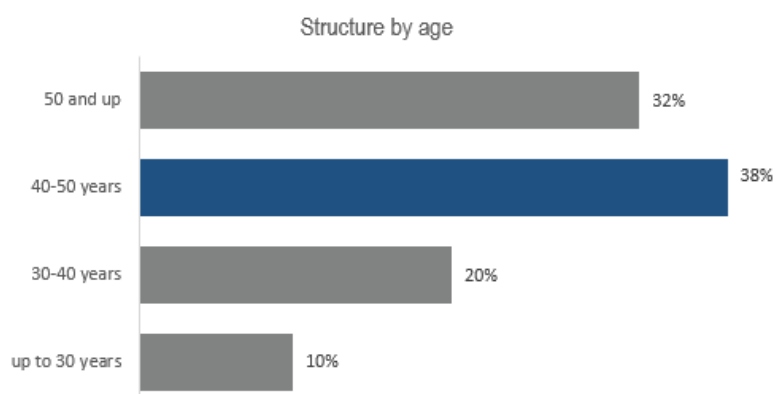
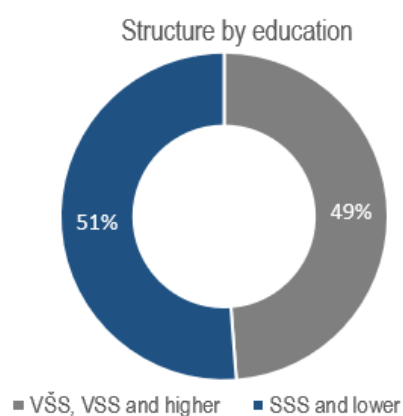
This figure is a result of non-renewal of fixed-term employment contracts upon expiry, not hiring posted workers, and regular retirements.



At the end of 2021, the Company had 35 (5%) **operative staff members** fewer, and 25 (8%) **non-operative staff members** fewer compared to the end of 2020.

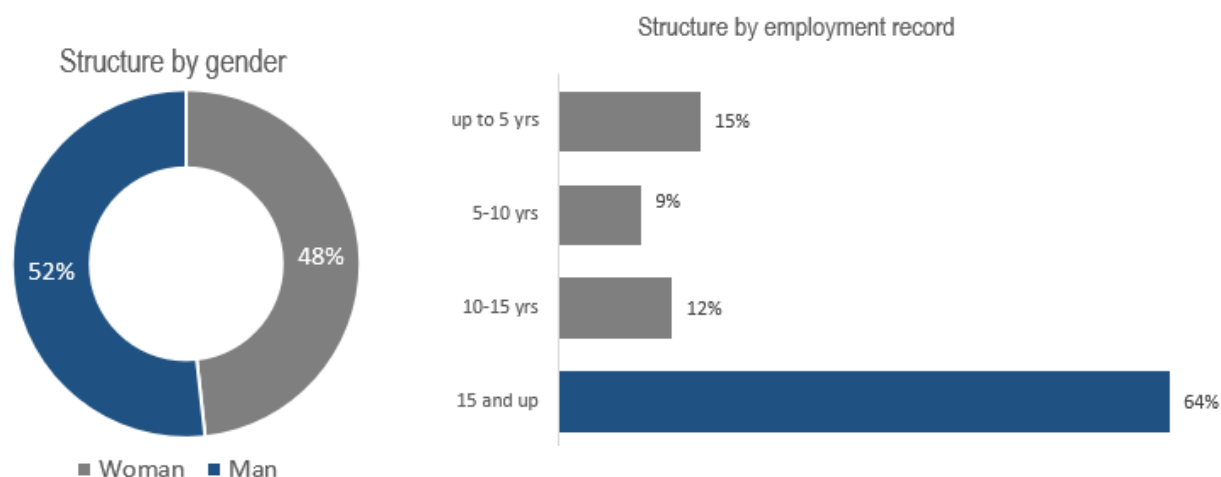
The share of operative staff members<sup>1</sup> within the Company was 68%, while that of non-operative staff was 32%.

According to the educational structure, 49% of employees held either an associate or a university degree, with the average age of employees being 44 years.



<sup>1</sup> Includes the following operational functions in the Company: traffic (pilots, cabin staff, operations centre, ground services, station managers, assistant station managers); engineering and parts of commercial activities (airport branch office managers, and sales and passenger service representatives, aircraft catering staff); the operational functions exclude the Contact Centre and Customer Service functions

In terms of gender structure, men were somewhat more represented (52%).



The average employment record in the Company was 16 years of service for the operative staff, and 21 years for the non-operative staff, while the average employment record on the level of the entire Company was 17 years, showing a high level of loyalty on the part of employees, with many of them spending their entire career at Croatia Airlines.

The share of women in the senior management was 53%.

### Training investments and programmes

Croatia Airlines boasts three employee training centres:

- *Operations Training Centre*, whose activities are related to the training of flight, cabin and ground personnel,
- *Technical Training Centre*, which provides training to the technical and aircraft maintenance personnel,
- *Training Centre*, intended for non-operative sectors, whose target group are all other Company employees.

In 2021, a total of 4,673 hours of internal training were provided to Company employees.

Investment in education (HRK)	2021	2020	Index 21/20
Operative staff	4,109,328	6,452,221	64
Non-operative staff	109,839	126,741	87
<b>Total</b>	<b>4,219,167</b>	<b>6,578,962</b>	<b>64</b>

In 2021, the **Technical Training Centre** continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance and extension of PART 66<sup>2</sup> licences.

<sup>2</sup> PART66 – Aircraft Maintenance Licences

Despite the COVID-19 pandemic, the Company held more training courses prescribed by the PART 145 regulations than in 2020, as well as all of the planned courses for extending internal authorisations of Croatia Airlines' PART 145 engineers and mechanics<sup>3</sup>.

Amidst the pandemic and special population protection measures that restricted the work of training centres (limited number of attendees, temporarily banned training in the classroom), the Technical Training Centre obtained from the Croatian Civil Aviation Agency an approval for synchronous distance learning (SDL). No issues were reported by the representatives of the Croatian Civil Aviation Agency regarding the supervision.

In 2021, the Operations Training Centre organised and carried out all of the planned mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the Company to extend all authorisations and licences necessary for its employees to perform their activities. The training and refreshers took place in line with the prescribed epidemiological measures, and schedule changes were made accordingly.

During 2021, the Croatian Civil Aviation Agency carried out a number of audits and inspections for the purpose of implementing on-going supervision of activities performed by the **Operations Training Centre** at Croatia Airlines' premises, on both the simulators and flights of Croatia Airlines' aircraft. The results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and TRI/TRE<sup>[4]</sup> work on them were carried out in accordance with the provisions of the OM-D<sup>[5]</sup> & Quality Inspection Orders for the purpose of monitoring and improving the quality of the work of TRI/TRE.

Since the year of 2021 was also marked by the pandemic, the Company employees mostly participated in various online themed conferences, symposia and work groups organised by external professional institutions, with the aim of becoming more familiar with the industry's operational and commercial innovations, and new procedures and regulations introduced to overcome the industry crisis.

Most of the internal training courses for non-operative staff were also held online; however, the part referring to crisis response, auditor refreshers, dangerous goods handling procedures, passenger reservations, tariffs and ticketing took place in a classroom.

The Company also held a series of internal courses with the aim of offering all of its employees the knowledge and skills needed to cope with extraordinary situations and boost resilience in the demanding and stressful business and private environment they have been working and living in for quite some time now.

As the national flag carrier, Croatia Airlines organises within its Training Centre a series of training courses needed by travel and commodity agencies for the acquisition of the IATA licence, training courses for the employees of airports, freight forwarders and airline companies. Despite the unfavourable circumstances, in 2021 the Company held courses for external associates related to reservations, tariffs and ticketing, dangerous goods transport procedures, as well as online beginner courses in the sphere of air cargo transport intended for external associates and business partners. Given the poor

---

<sup>3</sup> PART 145 - Maintenance Organisation

<sup>[4]</sup> TRI/TRE - Type Rating Instructor and Type Rating Examiner

<sup>[5]</sup> OM-D – Operational Manual Part D

results in the passenger segment and a strong trend of shifting the focus to goods transport during the crisis period, the attendees were primarily employees of freight transport agencies.

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

#### **Responsibility to employees**

to

The Company's employees are in principle hired for an indefinite period. Additional operative staff is hired for a definite term during the summer season (cabin staff and pilots) – which was not the case in 2021, as the scope of business activities greatly shrank amidst the COVID-19 pandemic, and in the winter for aircraft maintenance needs (auxiliary technical staff). Temporary substitutes or vacancies in the periods of peak workload are settled through fixed term contracts.

The business year of 2021 was marked by the COVID-19 epidemic, which created the need for increased health protection measures at work. In order to balance private life and business activities with anti-epidemic measures, shift team work was introduced, as well as remote work for jobs that allowed for such an arrangement. Employees who were required by competent institutions to go into self-isolation as well as those whose minor children had to be quarantined were allowed to work remotely in order to safeguard everyday business processes and family life.

In order to protect its employees and help them cope with the pandemic, the Company organised the usual on-site flu vaccination as well as COVID-vaccination as soon as the vaccines became available.

The Company's efforts in 2021 were focused on preserving the jobs of permanent employees, so there were no redundancy processes. Amidst significantly reduced business activity, job preservation measures were applied in accordance with the requirements prescribed by the Government of the Republic of Croatia.

#### **Benefits and supports**

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

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

### Occupational safety, fire protection and environmental protection

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

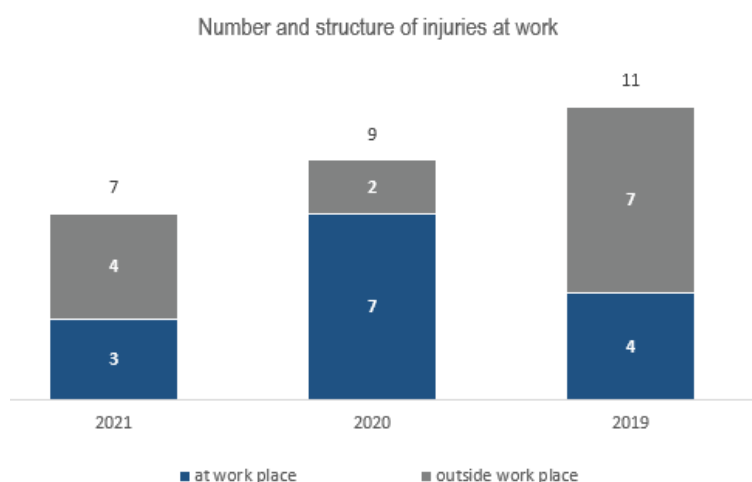
In line with the decisions and recommendations of the Civil Protection Headquarters of the Republic of Croatia, in 2021 the Company implemented all of the prescribed epidemiological measures to protect its employees to the greatest extent possible from potential virus spread. Croatia Airlines' Crisis Management Team, activated on 10 March 2020, coordinated all of the above activities in 2021 and organised vaccination of all employees who opted for it. The Company also set up a record of employees in isolation and self-isolation, introduced inspection of COVID certificates and organised the testing of unvaccinated employees.

Employee training related to working in a safe manner and basic training in fire protection are regularly organised and implemented for all new employees and those who need to refresh their knowledge. 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. However, due to the COVID-19 epidemic and the absence of hiring new employees, no such courses were held in 2021.

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

The entire work equipment (machines, devices, tools, plants and installations) within the operating process, as well as that serving for fire signalling and extinction, undergo regular check-ups and periodical testing.

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



In 2021, no inspection control was carried out in the sphere of occupational safety, fire protection and environmental protection.

Altogether seven injuries at work were reported in 2021 (one woman and six men). Of those, six were acknowledged and one is still being processed by the Croatian Health Insurance Institute. Of the six acknowledged ones, three were

sustained at work, and two while commuting. There were neither cases of death 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. No such procedures took place in 2021, as there were no complaints.

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 and number of both its female and male employees. It also regularly adopts a plan for the promotion of gender equality, in line with relevant legal requirements. In 2021, 52% of the Company's workforce was male, while 48% was female.

**Personal data protection**

In order to ensure the confidentiality of personal data, the Company reached a decision to appoint a person for collecting, processing, utilising and disclosing to third parties personal data of Company employees. It also introduced supervision in line with the GDPR obligations and appointed a commissioner to receive complaints related to personal data protection.

**Employees and Management relations**

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

There is also a Works Council within the Company, composed of nine members. Through the Works Council, 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. Also, the Works Council receives employment notifications on a quarterly basis and provides counselling in line with the obligations prescribed by the Labour Act.

In 2021, the Company continued adapting to the current circumstances by implementing a number of measures in various operational segments to mitigate the consequences of the coronavirus crisis. Some of them included labour cost savings. In agreement with the social partners, gross salaries were reduced by 15%, until the end of 2021.

## Social responsibility

### Transport and tourism

As the national flag carrier, Croatia Airlines recognises its social responsibility in ensuring an optimum connection of the country via air with the rest of the world, but also its role in contributing to the development of Croatia's tourism. With its network of direct flights to capital Zagreb and Adriatic destinations, it has been continuously adjusting to the needs of tourism and its development, in cooperation with its airline partners and through coordination with other modes of transport whenever possible. Croatia Airlines enables local airports to be open all year round, thus guaranteeing all passengers excellent connectivity.

The significance of connecting domestic airline destinations and maintaining traffic within Croatia has also been recognised by the Government of the Republic of Croatia time and again. Pursuant to the Decision on the obligation of carrying out domestic airline traffic operations for the 2016-2020 period (September 2015), Decision on the selection of bids for operating domestic route transport service, rendered by the Ministry of Maritime Affairs, Transport and Infrastructure in January 2016 upon completion of the public tender process, the Government of the Republic of Croatia awarded the contract to provide scheduled air transport service on certain domestic routes to Croatia Airlines. On the basis of the above-referenced decisions, the Ministry of Maritime Affairs, Transport and Infrastructure and Croatia Airlines entered into an agreement setting out all rights and obligations of the parties thereto in performing domestic airline traffic on the following routes: DBV-ZAG-DBV; SPU-ZAG-SPU; ZAG-ZAD-PUY-ZAD-ZAG, ZAG-BWK-ZAG; OSI-DBV-OSI; OSI-SPU-OSI in the period from 27 March 2016 until 28 March 2020, for the purpose of maintaining the traffic connection between the regions and boosting the economic development of the Republic of Croatia. Several annexes were signed upon Agreement expiry, prolonging the service provision period until 26 March 2022. In late 2021, the Ministry of the Sea, Transport and Infrastructure called a new public tender for the award of scheduled air traffic services to be provided within the Republic of Croatia in the period from 2022 to 2026, for which Croatia Airlines applied.

### Croatian brand

Today, Croatia Airlines is a distinctive brand in both Europe and the rest of the world, actively contributing to the development of Croatia's tourism. The Company branding started parallel with its founding (7 August 1989), with the development of its corporate visual identity being one of the most important components of the process. Croatia Airlines' visual identity undeniably contributes to its being recognised as a Croatian brand. Its corporate design aims to project its image of a highly reputable airline not only in Croatia but throughout the world, while at the same time demonstrating its safety, reliability and technical precision. The image of Croatia Airlines is not only a visual expression of the Company's culture; it has become a part of the national identity. The 'Croatia' logo on its aircraft is exceptionally important, as it promotes the country throughout Europe. Croatia Airlines contributes to the development of Croatia's tourism and economy on an ongoing basis. The coronavirus crisis has suspended many of the Company's projects, but they are expected to continue once the pandemic subsides.



With the easing of the epidemiological measures, in June 2021 Croatia Airlines reintroduced inflight meals and beverages, while the inflight Sky Shop service was reintroduced in July. Since the beginning of Zagreb Advent, Croatia Airlines has in cooperation with the Zagreb Tourist Board been offering its passengers meals inspired by Zagreb, and creating a special ambiance typical of the country's capital (short films, leaflets, heart-shaped decorations).

The inflight magazine Croatia has a great role in the Company's visual corporate identity and greatly promotes the country. It places emphasis on its stunning nature, historical values and cultural events. In cooperation with the Croatian Tourist Board and other tourist boards, the Company publishes advertisements and articles in the magazine, while films promoting various Croatian regions are shown on Airbus flights.

Croatia Airlines actively supports sports in Croatia. In 2021, it was the official airline of the Croatian Olympic Committee and the Croatian Football Federation, thus contributing to the country's promotion and visibility throughout the world. In the summer of 2021, it provided transport services to Croatia's top athletes who participated in the Olympic Games and the Paralympic Games in Tokyo.

#### **Support for the community**

Croatia Airlines actively supports institutions in need of humanitarian aid and those organising charity projects. It provides help and direct humanitarian aid by granting cost-free transport for severely ill patients, children and people in need, and participates in charity actions by donating transport services.

In cooperation with the Ozana association, on 30 May – World Multiple Sclerosis Day, Croatia Airlines distributed 4,500 hand-made butterflies and leaflets on its flights, with the aim of raising awareness about this illness as a global issue.

#### **Business ethics**

The Company has a committee for monitoring the enforcement of the provisions of the Ethics Code in performance of business activities. Its duty is to discuss and check the information about potential Ethics Code violations and to propose the way of settling problems related to any reported failure to follow the adopted ethical principles. The committee has seven members (employees).

In line with the requirements under the Whistleblower Protection Act, the Company's Management Board appointed a confidential person and a deputy confidential person responsible for receiving complaints about breaches of the law and other serious wrongdoings. No complaints were filed in 2021.

#### **Environmental protection**

Challenges related to the system of environmental protection and energy efficiency continued in 2021. Even though health protection was the Company's main focus during the pandemic, it also fulfilled the usual regulatory requirements. In general, indicators of resource (water, electricity, gas) consumption in its business premises were much more favourable due to frequent remote work and reduced business activities. Fuel consumption indicators (i.e. CO<sub>2</sub> emissions) showed a slight improvement compared to 2020, but remained unfavourable due to the pandemic conditions.

In 2021, Croatia Airlines' experts participated in activities of both domestic and international working groups in order to harmonise the Company's future operations to the new environmental framework, the EU's Fit for 55 package of legislative proposals.

The year of 2021 was the first year of applying UK ETS, with the offsetting obligation within CORSIA (although the very emissions trading scheme was conditioned by the application of the 'Fit for 55 package'). EU ETS and Swiss ETS as active emissions trading schemes continue to be applied. The same as in the preceding years, a surveillance audit of compliance with the ISO14001/50001 standards regarding environmental protection and energy consumption was carried out, and the Company continued using electricity from a renewable, environmentally-friendly source – HEP Zelen.

The 'Fit for 55' legislative package should in the upcoming period be set up across all segments (use of sustainable aviation fuels (SAF), further improvement of process and equipment efficiency, changes in the emissions trading scheme, etc.). The Company's Post-COVID Strategy also focuses on a carbon footprint reduction through increased operational efficiency and fleet renewal.

Like many other air carriers, Croatia Airlines undertook to follow a path to decarbonisation by 2050, in cooperation with IATA and Star Alliance partners.

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

## Advancement of business activities and projects

Despite the ongoing airline industry crisis caused by the coronavirus pandemic, in 2021 Croatia Airlines continued advancing its business operations and developing customer services in line with the possibilities.

It intensified activities on the **C4C project** of developing a CRM (Customer Relationship Management) system, enabling its sales and support teams a more efficient way of managing relations with private and corporate clients (B2C and B2B). The project implementation will also enable a more efficient use of human resources and ensure the mobility of sales representatives, who will be able to respond to customer needs in real time, since the system functionalities will be available on a mobile application. The project should be fully completed by the end of the first half of 2022.

Since 16 September 2021, Croatia Airlines passengers can access our **new website** ([www.croatiaairlines.com](http://www.croatiaairlines.com)). Its refreshed design allows for a user-friendly browsing experience of the national airline's current offer. The new website is responsive, i.e. adaptable to any type of device and screen size, thus enabling a unique user experience. Our official website now includes a new online payment system for easier payment of airline tickets. The new payment system is also available to passengers who want to buy tickets by making a phone call to the Croatia Airlines Contact Centre or one of the Company's branch offices. The new website design has been adapted to online trends and meets all modern technology requirements. Additional changes are planned in the further stages of development to offer an even better functionality to private and business users through the creation of a new sales channel, all with maximum protection of personal data and security of online payments. The new website makes part of further digitalisation of Croatia Airlines' operations throughout its business processes and business segments, aimed at boosting sales processes, sales staff efficiency and passenger service. The project should be completed by the end of the first half of 2022.

In December 2021, Croatia Airlines, Pula Airport and the Obzor putovanja travel agency set up a **joint travel centre at Pula Airport**. Owing to the synergy of all participants and complementary activities, this is now a place where passengers can easily book and buy Croatia Airlines' tickets for both domestic and international scheduled flights. Pula Airport participated in this joint project by providing space and staff, while Croatia Airlines and its subsidiary Obzor putovanja provided a marketing platform and employee training.

In 2021, the Technical Sector **extended the works season to summer months**, and carried out five A checks, nine C checks and two main landing gear and nose gear replacements on third party aircraft. Maintenance works are carried out in three hangars, and as of this season on the platform as well, so that the works stipulated by the Parked Aircraft Maintenance Programme could be performed. Amidst increased aircraft parking needs, the Company implemented the Parking Expansion Project on Croatia Airlines' premises. The parking services charged for third party aircraft covered both the project costs and brought ancillary revenues.

In 2021, the Company started **forming a technical profit centre**. The goal of the project is to introduce an internal invoicing system between the operator (CTN) and the MRO sector in order to set up better internal control and profitability reporting systems within the technical profit centre (MRO). In the project's first stage, the Company defined the types of services to be invoiced internally and their prices, while

the second stage involves preparation and implementation of internal invoicing within the SAP system, and related adjustments of the existing processes within it. The final portion of the second stage of the project will be implemented in the first half of 2022 and will include preparation of reports for a monthly tracking of results of the technical profit centre, and potential updates and additional adjustments of the processes.

## Business environment and operational risks

### Global economy

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

The world has managed to overcome two pandemic years, yet it is still impossible to predict if 2022 will mark the end of the COVID-19 crisis.

The global economy recorded a strong recovery in the business year of 2021. Vaccines made it possible to control the global coronavirus pandemic more efficiently than in 2020; in most countries, the economic recovery was supported by the application of targeted monetary and fiscal policy measures.

In January 2022, the International Monetary Fund (IMF) published a revised outlook covering only the world's biggest economies and regions, and stating that the global economy grew 5.9% in 2021.<sup>4</sup>

Economies are recovering from the pandemic, but at a pace that varies greatly from one country to the next. Developed economies are slowly returning to the pre-pandemic trend, while some emerging and developing ones are facing significant gross domestic product (GDP) losses.

According to the IMF, in 2021 the U.S. economy recorded a 5.6% growth, eurozone's economy rose by 5.2%, and China saw an 8.1% growth in economic activity.

Following a strong recovery in 2021, analysts warn of the risks stemming from the uncertainty regarding the war in Ukraine and its impact, an unpredictable course of the pandemic, ongoing challenges in the labour market, supply disruptions, growing inflationary pressures, rising debts, stricter U.S. monetary policy, etc. Inflationary pressures will probably last longer than expected given the current supply chain disruptions and high energy prices. All of this, including the current economic trends, requires more targeted and coordinated policies and financial measures on both national and international levels.

### Croatia's economy

After Croatia's GDP recorded a sharp fall in 2020 as a result of the coronavirus pandemic, not even the most optimistic of analysts expected it to see such a fast and strong recovery in 2021. An excellent tourist season and a high economic growth rate, with reaffirmed investment rating, placed Croatia among the CEE countries that mostly exceeded the level of their pre-pandemic economic activity.

In its regular autumn outlook, the IMF put Croatia's economic growth in 2021 at 6.3%<sup>5</sup>, while the Government of the Republic of Croatia (in its October projections) put it at 9%.<sup>6</sup>

The released macroeconomic indicators for 2021, detailed below, also point to a strong economic recovery from the coronavirus crisis.

<sup>4</sup> International Monetary Fund, World Economic Outlook Update, January 2022

<sup>5</sup> International Monetary Fund, World Economic Outlook, October 2021

<sup>6</sup> <https://vlada.gov.hr/vijesti/plenkovic-rast-bdp-a-ove-godine-9-posto-proracun-za-2022-164-5-milijarde-kuna/33260>, 28 October 2021

According to the first estimates of the Croatian Bureau of Statistics, Croatia's GDP rose by 10.4% in 2021 on an annual basis, which is a record growth.<sup>7</sup> Its economic activity exceeded the 2019 level, thus closing the negative GDP gap. In the final quarter of 2021, Croatia's economy grew significantly faster than the EU average on an annual basis. Its public debt is expected to decline in 2021, bringing the country back to its pre-coronavirus crisis path.

According to the calendar-adjusted data, Croatia's industrial production in 2021 rose by 6.7% compared to 2020.<sup>8</sup> Its real retail trade increased by 12.1% compared to 2020.<sup>9</sup> Consumer price inflation accelerated gradually since July 2021, and the inflation rate in Croatia averaged 2.6% in 2021.<sup>10</sup>

According to the Croatian Bureau of Statistics, the number of persons in employment rose by 0.7% compared to 2020, and Croatia's registered unemployment rate was 7.4% in December 2021 (9.5% in December 2020).<sup>11</sup> In 2021, the Croatian Employment Service continued extending support for the preservation of jobs in the sectors affected by the coronavirus crisis.

The first results published by the Croatian Bureau of Statistics say that the country's foreign trade deficit reached HRK 69.3 billion in 2021, with the total value of exports being HRK 143.7 billion, and of imports HRK 213 billion. The import-export ratio was 67.5%.<sup>12</sup>

The 2021 tourist season exceeded all expectations. Its results largely topped those from 2020 and are comparable to those from the pre-pandemic year of 2019. Despite the worsening epidemiological situation in entire Europe, Croatia has been perceived as a safe destination in key markets, as a result of the exceptional responsibility on the part of all tourist workers and the project titled 'Safe stay in Croatia' that defines safety protocols in tourism and related activities.

Tourism figures say that 12.8 million tourist arrivals and 70.2 million overnight stays were recorded in 2021, which is an 82.5% rise in arrivals and a 72.1% rise in overnight stays compared to 2020.<sup>13</sup> The year of 2021 saw 46.6% more local tourist arrivals and 91.9% more foreign tourist arrivals. When it comes to overnight stays, a 35.8% growth is contributed to local tourists, and a 77.6% growth to foreign ones. As for the overall tourist arrival structure, there were 83% foreign tourists and 17% local ones, and as for overnight stays, the ratio was 89.5% to 10.5% in favour of foreign guests.

Most tourists came from Germany, Poland, Austria, Slovenia, Czech Republic, Hungary and Italy.

<sup>7</sup> [www.dzs.hr/](http://www.dzs.hr/) First estimate of quarterly gross domestic product for the fourth quarter of 2021, 25 February 2021

<sup>8</sup> [www.dzs.hr/](http://www.dzs.hr/) Industrial production volume index and indices of stocks, persons employed and labour productivity in industry, in December 2021, 31 January 2022

<sup>9</sup> [www.dzs.hr/](http://www.dzs.hr/) Retail trade in December 2021, 28 January 2022

<sup>10</sup> [www.dzs.hr/](http://www.dzs.hr/) Consumer price indices in December 2021, 17 January 2022

<sup>11</sup> [www.dzs.hr/](http://www.dzs.hr/) Persons in paid employment, by activities, in December 2021, 20 January 2022

<sup>12</sup> [www.dzs.hr/](http://www.dzs.hr/) Foreign trade in goods of the Republic of Croatia, temporary data for the period from January to December 2021 and for January 2022, 11 March 2022

<sup>13</sup> [www.dzs.hr/](http://www.dzs.hr/) Tourist arrivals and overnight stays in commercial accommodation in December 2021, 10 February 2022



**Global  
airline market**

The airline industry has over the past two years been faced with the worst crisis ever, resulting from the global COVID-19 pandemic. Although there had already been crises leading to a fall of air traffic, a recovery would soon follow. However, both the International Air Transport Association (IATA) and the International Civil Aviation Organization (ICAO) forecast that it will take air traffic much longer to recover this time.

In order to return the employment rates and economic activities supported by the airline industry to the pre-crisis levels as soon as possible, governments throughout the world have reached decisions to grant financial aid and support to airlines, with packages including recapitalisation, state guarantees for loans, shareholder loans, etc. Such an approach helps reduce the negative effects of the COVID-19 crisis so that the benefits from aviation could be reaped again once the pandemic gets under control. In October 2021, IATA announced that airlines received a total of \$243 billion worth of state aid since the start of the pandemic until the end of September 2021.<sup>14</sup>

It is hard to say when the air traffic will return to the pre-crisis levels; airlines and related industries do not expect a recovery in years to come. IATA does not see air traffic reach the pre-crisis level before 2024.

After facing record losses of \$137.7 billion in 2020, IATA sees the global airline industry's losses at a still high \$51.8 billion in 2021, which calls for further state support. Airlines will continue generating losses in 2022, estimated at \$11.6 billion.<sup>15</sup> However, they will be much lower in the said year owing to a recovery from the coronavirus crisis. Yet, IATA warns that the recovery dynamics will depend on the pace of vaccine rollout and border-crossing restrictions, which in addition to uncertainty and complex policies affect international travels.

A demand for air transport services expressed in revenue passenger kilometres (RPK) fell by 58.4% in 2021 compared to 2019, which is an improvement compared to 2020, when air traffic saw a record fall of 65.8%.<sup>16</sup> In 2021, the demand on a global level was 75.5% lower compared to 2019, while the domestic demand recorded a 28.2% fall.

On the other hand, demand for cargo transport expressed in tonne kilometres (TKM) rose by 6.9% in 2021 compared to the pre-pandemic year of 2019, and by 18.7% compared to 2020.<sup>17</sup> For many airlines, cargo transport was the crucial source of revenue.

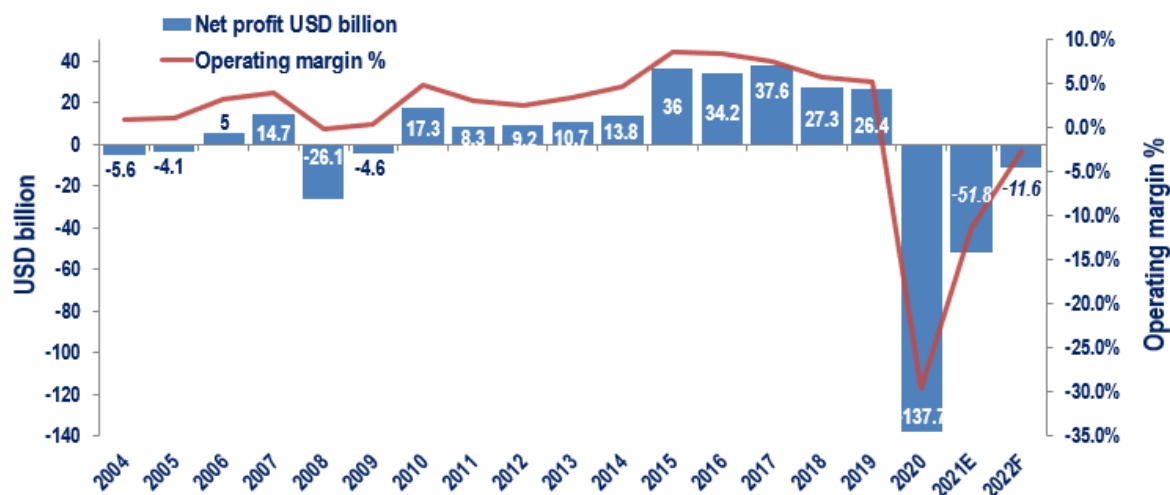
<sup>14</sup> IATA Economic Performance of the Airlines Industry, October 2021

<sup>15</sup> IATA Economic Performance of the Airlines Industry, October 2021

<sup>16</sup> IATA Press Release: Passenger Demand Recovery Continued in 2021 but Omicron Having Impact, 25 January 2022, No: 05

<sup>17</sup> IATA Press Release: Strong December Performance Contributes to Stellar Year for Air Cargo in 2021, Year-on-year Demand up 18.7%, 25 January 2022, No: 04

### Profitability of global airline companies



Source: <https://www.iata.org/en/iata-repository/publications/economic-reports/airline-industry-economic-performance---october-2021---data-tables/>

#### European airline market

According to IATA's October releases, in 2021 the European air carriers generated a loss of \$20.9 billion, with an operating margin of -17%. Passenger traffic expressed in revenue passenger kilometres (RPK) declined by 61.3% compared to 2019.

The European Commission adopted on 19 March 2020 a Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak. It has been amended six times so far, with the last amendment prolonging the state aid support measure until 30 June 2022. Based on this document, European airlines are granted substantial state aid, with packages including recapitalisation, state guarantees for loans, shareholder loans, etc. Such an approach helps reduce the negative effects of the COVID-19 crisis so that the benefits from aviation could be reaped again once the pandemic gets under control.

In 2021, the EU's decision about the airlines retaining the right to coordinated airport slots was valid for the summer season, which allowed them to make financially sound decisions on whether to fly and thus avoid operating empty flights, while for the winter season of 2021/2022 a new decision stipulated the utilisation of 50% of allocated slots. Under normal circumstances, operators must use 80% of the slots allocated to preserve slots allocations for the next season.

#### Croatian airline market

Croatia's airline market is characterised by high traffic seasonality, with a high level of competition in the summer months. Under normal circumstances, more than half of all passengers on the Croatian airline market are transported in the third quarter, when nearly 100 airlines operate, while the competition in the winter period is minimal.



Croatia Airlines operates throughout the year, enabling local airports to be open the entire year, which points to the significant influence of Croatia Airlines on operations of other entities within the air traffic system. It should also be emphasised that Croatia Airlines, as the national flag carrier, enables the country an airline connection with the rest of the world during the winter, when the demand is low.

Although the Croatian airports recorded a significant rise in the number of passengers in 2021, it was still as much as 59% lower compared to the 2019 result. According to the data of the Croatian Bureau of Statistics, altogether 4.7 million passengers were recorded at Croatian airports in 2021, i.e. 121.5% more than in 2020.<sup>18</sup> Croatia Airlines' market share in 2021 was 21%. In the period from January to May 2021, at the peak of the pandemic, it was 53.3%. The number of aircraft operations at Croatia's airports totalled 85,547 in 2021, up by 58.2% compared to 2020, but still less than the 130,000 realised in 2019. Cargo transport saw a 14.7% rise, with altogether 8,841 tonnes of cargo being transported. With more than 1.5 million passengers recorded in 2021, Split Airport for the first time beat Franjo Tuđman Airport (1.4 million passengers). Dubrovnik Airport ranked third, with 918,000 passengers.

#### Croatia Airlines

In 2021, during the most severe period of crisis caused by the coronavirus pandemic, Croatia Airlines continued connecting Croatia with the rest of the world, by gradually reintroducing routes and increasing the number of frequencies in line with the demand and the epidemiological measures of individual countries.

Altogether 16,507 flights were operated in 2021, which is a 26% rise compared to the year before. With 22,395 block hours, the block time rose by 27%. When compared to 2019, Croatia Airlines recorded a 42% fall in flights, i.e. a 45% fall in block hours. A total of 787,860 passengers were transported in 2021, or 27% more compared to 2020, but 64% less than in 2019. The realised passenger kilometres rose by 30%, with the passenger load factor (PLF) being 49.9%, on the level of 2020 (+0.3 pp). The number of passengers transported in domestic scheduled traffic rose by 36%, while of those carried in international scheduled traffic increased by 22% compared to 2020.

On 21 February 2019, the Government of the Republic of Croatia reached a decision to initiate the procedure of seeking a strategic partner and to establish a commission to implement the procedure and propose a strategic partner for the company Croatia Airlines d.d. However, the procedure was suspended due to the outbreak of the COVID-19 crisis, and in March 2020 the Commission decided to put it on hold amidst the unfavourable situation and force majeure. The procedure will resume as soon as the market conditions allow for it.

Within the process of recovery from the COVID-19 crisis, in both the second and third quarters Croatia Airlines continued cooperating with Boston Consulting Group (BCG), a leading global strategy consulting firm, on drafting a post-COVID strategy to define the strategic initiatives to be implemented in the following three years in order to ensure long-term sustainable operations.

<sup>18</sup> [www.dzs.hr/](http://www.dzs.hr/) Traffic at airports in December 2021, 11 February 2022

**Operational risks**

The crisis related to the coronavirus pandemic still remains the biggest immediate threat to airline operations. After the devastating year of 2020, the airline industry was faced with uncertainty in 2021 as well. The tourism sector started recovering after the countries reopened borders for tourist travels in late June. However, air traffic is facing a much slower pace of recovery compared to other modes of transport. It is, therefore, still among the most affected sectors, but prospects for the industry that is faced with the worst crisis ever are slightly improving, although the emergence of new virus strains raises new concerns and the traffic scope is not expected to reach the pre-crisis level before 2024. Airlines should in the upcoming period focus on the rationalisation of costs and development of post-COVID business strategies.

Airlines' operations in the period to follow will largely depend on external factors such as the recommendations and measures implemented by individual countries, directly affecting the possibility for travels in both domestic and international traffic, and on potential solutions to facilitate travels (COVID vaccine passport), which is of particular importance for the countries like Croatia that depend on tourism.

Under normal operating circumstances, airlines are faced with a wide range of strategic, operational and financial risks, whose specificities are related to the characteristics of individual markets, depending on the economic development level, features of demand (seasonality, tourism, etc.), current and future level of competition, and the size and financial strength of individual carriers.

Within the implementation of the risk management process, major risks have been recognised according to their potential influence on Croatia Airlines' business operations, and the monitoring of these risks should help mitigate potential negative consequences and turn risks into opportunities whenever possible. The biggest external risks affecting Croatia Airlines' business operations are: economic surroundings (Croatia and destinations), competition, Star Alliance and partnerships, risks related to price changes (traffic charges and flight permits, suppliers, fuel, emission allowances), movements of currencies, interest rates, etc. The biggest internal risks include human resources, capacity management, operational disturbances, sales, revenue management, and liquidity risk, especially in the winter months.

**Risk of fall in demand as a result of the COVID-19 epidemic and the travel ban**

A reduced demand for air traffic services poses a significant additional risk for the Company's operations, entailing a need to continuously adapt the capacity offer and optimise the flight schedule.

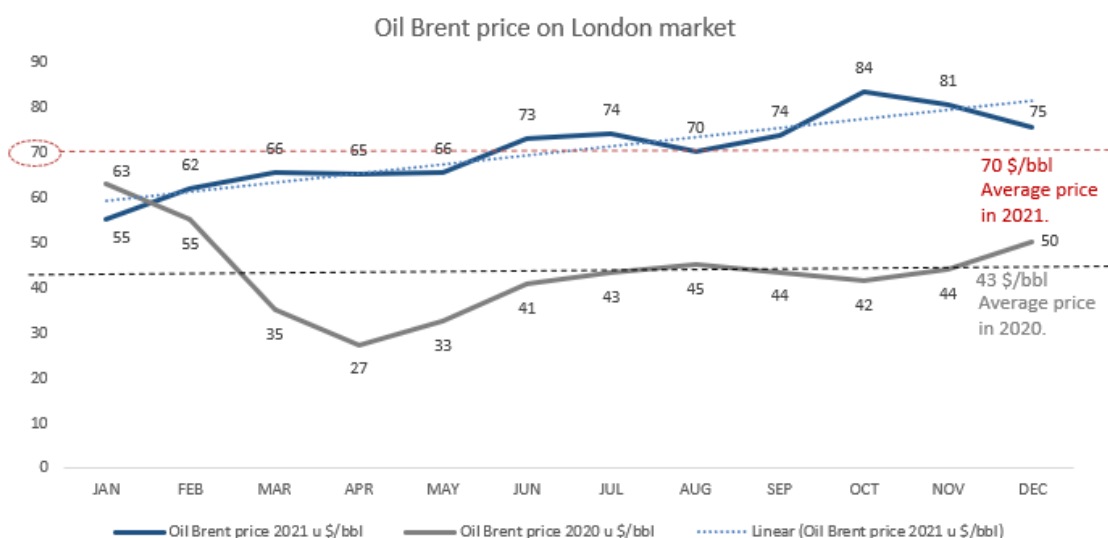
**Liquidity risk**

Given a great decline in revenues, liquidity maintenance is the most significant internal risk affecting Croatia Airlines' operations. The coronavirus pandemic has resulted in a greatly reduced demand for air traffic services. Many companies, among them Croatia Airlines, have become beneficiaries of state aid and other various forms of financial support from the state, while at the same time actively applying various internal forms of business rationalisation and supervision, optimising flight schedules and adapting the fleet to the demand and booking trends in order to adapt to the current market conditions. In addition to regularly monitoring its due liabilities, it makes cash

flow projections for the period of one year to identify on time potential operational risks and risks related to liability settlement.

### Fuel

The oil price was quite volatile in 2021, and the average price of oil barrel on the London market was 62% higher than in 2020 (70 \$/barrel vs. 43 \$/barrel). The COVID-19 vaccination process that started in late 2020 livened up economic activities, and thus a demand for oil and its derivatives, opening room for speculative rising of oil price. The oil price grew throughout 2021, nearing the price of 90 \$/barrel. At the end of the year it fell beneath 80 \$/barrel, amidst the fear that the new virus strain, Omicron, would lead to more restrictions and less consumption.



Although the world is resorting to new alternative solutions, the prices of oil and oil derivatives are expected to remain high until the technology has changed and sustainable fuels become more widely accessible. This is due to an announced introduction of new fossil fuel charges, ETS for the shipping industry, and problems with goods and raw material supply. According to Goldman Sachs, the price of crude oil might top 100 \$/barrel in the third quarter of 2022. IATA warns that airlines, which have already been affected by the coronavirus pandemic, will be facing additional pressures of growing operating costs caused by energy price escalations.

IATA has estimated the 2021 fuel costs on the industry level at \$100 billion (\$78 billion in 2020), with their share in the overall operating costs rising from 16.2% to 19%.

### Emission allowance price

The emission allowance prices have been on the rise since the beginning of 2021, reaching new daily records (99 €/tonne). Amidst the crisis, in 2020 airlines fulfilled their obligation for 2019 by using their 2020 free allowances, thus increasing the

need for their purchase in 2021 for 2020 and affecting the demand for EUA/EUAA in 2021.

The demand was also affected by the European Commission's ban on using free-of-charge 2021 allowances to fulfil the obligation for 2020.

Croatia Airlines currently gets slightly over 50% of free emission allowances, and purchases the rest on the OTC market, which has no allowance oversight mechanism in place. Since the start of the first purchase in 2013, their price rose from EUR 2.9 per allowance to about EUR 80. With the opening of the emission allowance market it is expected to rise even more. The IEA (International Energy Agency) sees it ranging

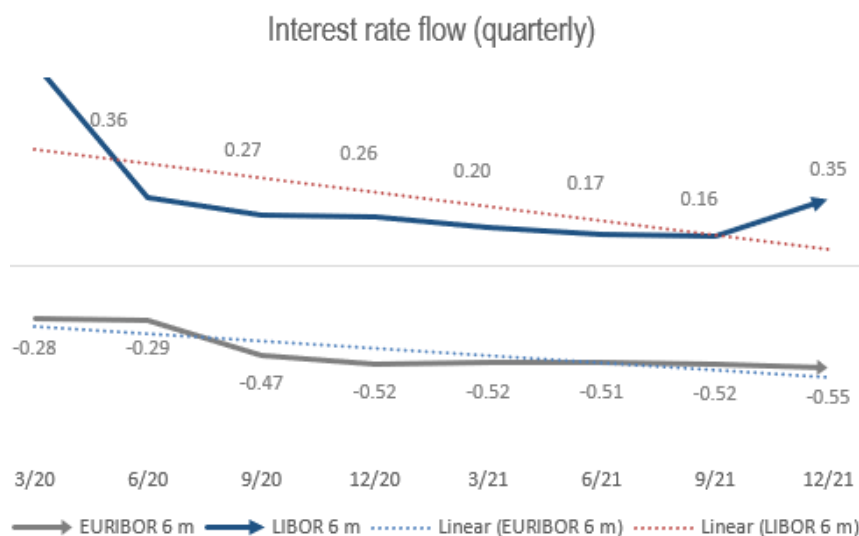
between EUR 50 and EUR 150 per allowance, which will additionally affect airlines' operating costs.

With its 'Fit for 55 package', the European Commission strives to reduce greenhouse gas emissions in the EU by 55% by 2030, as well as to reduce and phase out free emission allowances for the aviation sector. The price of emission allowances would thus rise by 100% as of 2027, while sustainable fuels, which are more expensive, will not be widely accessible yet.

#### Interest rate risk

By taking long-term loans at a variable interest rate, the Company is exposed to the interest-related risk, too. It, therefore, regularly monitors interest rate movements on the global market, as well as their influence on its business operations. At present, the remainder of the principal owed by the Company under the long-term foreign-currency loans totals HRK 34.9 million.

In 2021, Euribor still recorded negative values, with minor oscillations, compared to the 2020 trends. Libor, on the other hand, recorded a continuing fall before a relatively sharp rise in the final quarter of 2021. Since Croatia Airlines' had no loan liabilities related to Libor, it did not affect its operations.



#### Currency risk

The exposure to the risk of negative effects of foreign currency exchange rate changes against the kuna is reflected in the repayment of loan and lease instalments denominated in foreign

currencies. Foreign currency inflows from the sale of tickets abroad significantly mitigate these risks. The exposure to the current volatility of USD is set off with the revenues from the sale on the U.S. market.

## Fleet and capacities

In 2021, Croatia Airlines operated a fleet of 13 aircraft: seven Airbus aircraft – two A320 (one under an operating lease) and five A319 (one under an operating lease), and six Q400, all under an operating lease.

A 320 – 2 aircraft

The aircraft has 174 seats – altogether 348 seats



A 319 – 5 aircraft

The aircraft has 144 seats/150 seats\* – altogether 726 seats



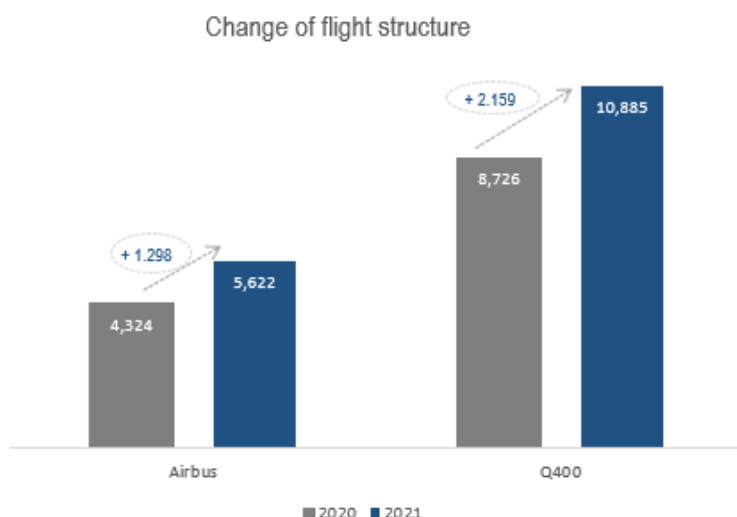
Q 400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats



\*Four have 144 seats, and one has 150 seats

In 2021, Croatia Airlines' aircraft realised the block time of 22,395 block hours, or 27% more compared to 2020.



They operated a total of 16,507 flights, or 26% more than in 2020.

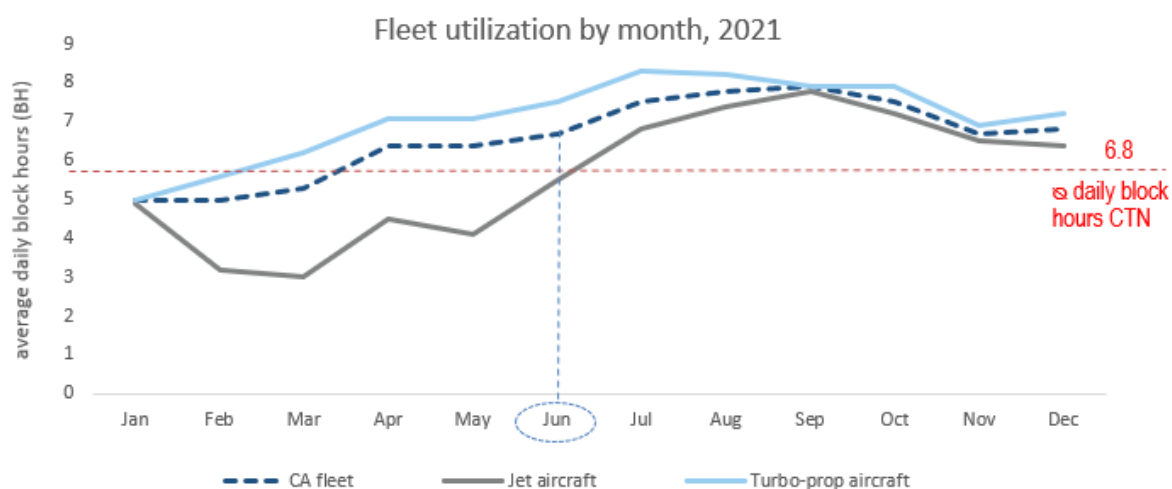
The block time structure was adapted to the traffic needs, with a greater emphasis on using the Q400 fleet (smaller aircraft capacity compared to the Airbus fleet), given the circumstances and reduced demand amidst the coronavirus pandemic.

## Fleet utilisation

type of aircraft	number of aircraft	Ø daily block hours (BH)	growth 20-19	utilisation growth 21/20
Airbus A320	2	6.80	1.20	21.4%
Airbus A319	5	6.40	0.00	0.0%
Q-400	6	7.20	0.70	10.8%
<b>TOTAL</b>	<b>13</b>	<b>6.80</b>	<b>0.63</b>	<b>10.3%</b>

In 2021, Croatia Airlines' fleet realised on average 2,459 block hours per aircraft, or 4.5% more compared to 2020.

The average number of aircraft on the level of 2021 was 8.98. Available seat-kilometres (ASK) and revenue passenger kilometres (RPK) rose by 30% compared to 2020.





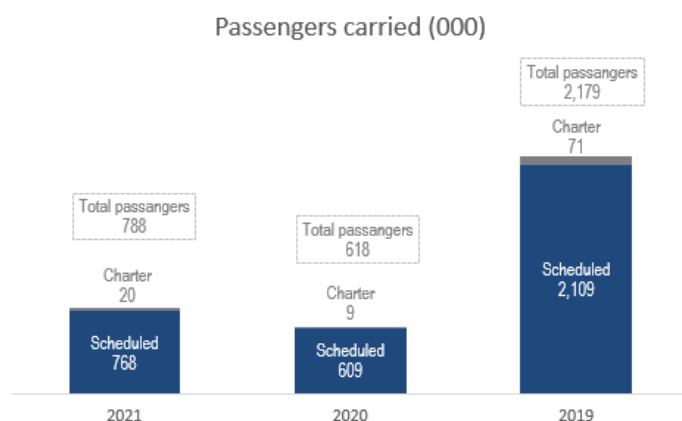
## The market

**Croatia Airlines' business operations were in 2021** marked by the ongoing civil aviation crisis caused by the coronavirus (COVID-19) pandemic.

In 2021, the national flag carrier connected the country to 19 destinations in scheduled international traffic, and seven in domestic traffic.

In the summer season the Company operated flights from Zagreb to 14 European destinations, from Split to 12 international destinations and from Dubrovnik to six international destinations. In late May the Company introduced a new seasonal route Split-Prague, and reintroduced the seasonal route Rijeka-Munich. A new route, Osijek-Munich, was introduced in November. In addition to expanding its international network of flights, Croatia Airlines continues to connect Croatian cities and regions within domestic scheduled traffic, through flights between Zagreb, Split, Dubrovnik, Osijek, Zadar, Pula and Brač airports.

Throughout the COVID-19 crisis Croatia Airlines has continued to monitor the epidemiological situation and concrete demand in certain markets on an everyday basis, and to optimise its flight schedule accordingly, both in terms of frequencies and aircraft capacities. Although the Company's expectations about resuming a normal flow of traffic were significantly higher, the realisation of the winter flight schedule was notably poorer compared to the summer. However, more flights and seats were offered compared to the winter before. The crisis proportions reflected both in a significantly reduced demand compared to the pre-crisis period and in the dynamics of inflow from booking, as the crisis prompted passengers to change the usual way of purchasing tickets and making reservations in favour of late booking.



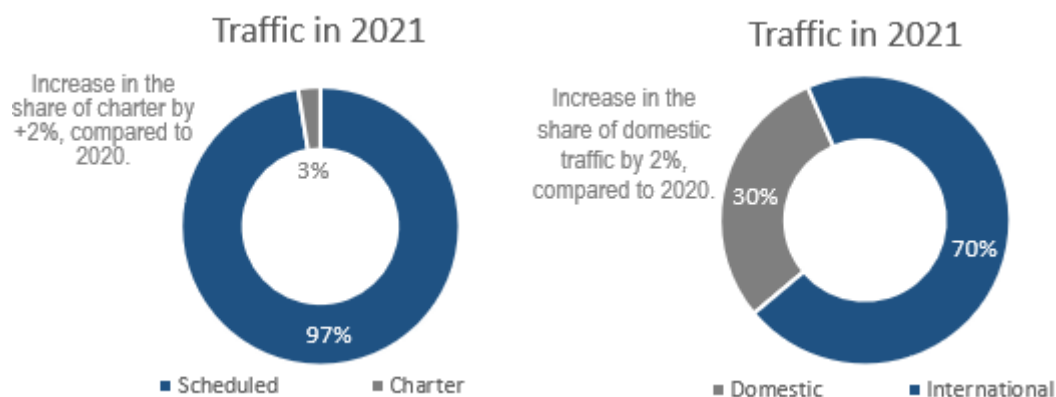
In 2021, Croatia Airlines transported 788,000 passengers, or 27% more than in 2020. The number of passengers carried in **domestic scheduled traffic** rose by 36%, while of those transported in **international scheduled traffic** rose by 22% compared to 2020.

Altogether 20,000 passengers were transported within **charter traffic**, or 32% more compared to 2020. Charter traffic made up only 3% of the total traffic.

In 2021, a total of 1,320 tonnes of cargo were transported, or 8% less than in 2020.

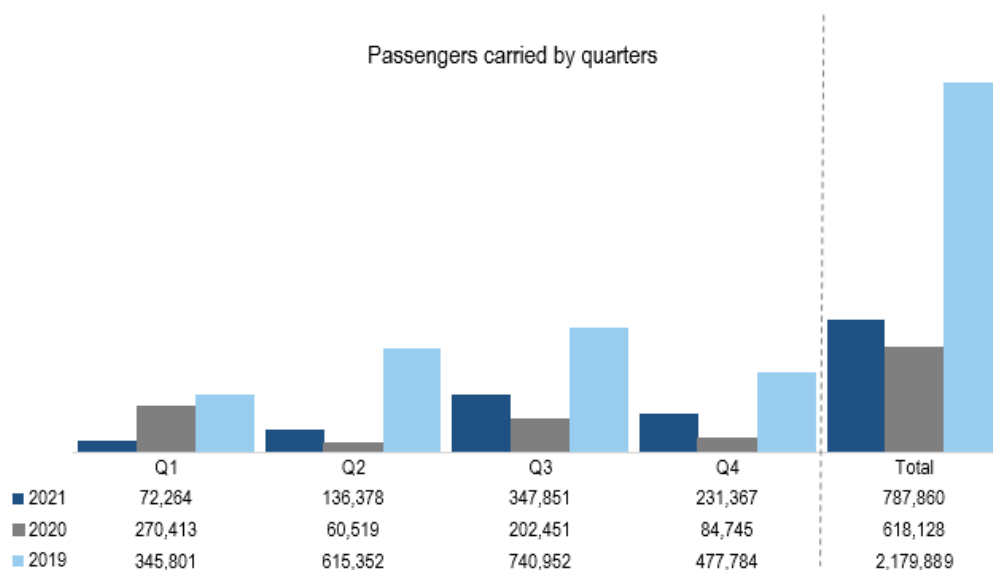
The **passenger load factor (PLF)** of 49.9% was 0.3 pp higher than in 2020, with the **weight load factor (WLF)** being 48.5%, or 0.1 pp higher.

**A total of 787,860 passengers were transported in 2021.** Of this figure, 233,311 were transported in domestic scheduled traffic, 534,382 in international traffic, and 20,167 in charter traffic.



The number of passengers transported in international scheduled traffic was 22% higher, i.e. 97,000 more passengers were transported compared to 2020.

Given a 25% rise in the capacities offered, the passenger load factor (PLF) in international scheduled traffic was 51.3% (+0.4 pp). The number of passengers carried in domestic scheduled traffic rose by 36%, with 61,000 more passengers compared to 2020. The passenger load factor (PLF) in domestic scheduled traffic was 45% (-0.9 pp compared to 2020).



Despite some positive shifts compared to 2020 and a 27% growth in the number of passengers in 2021, Croatia Airlines transported 64% passengers less compared to 2019 (pre-pandemic year), and this clearly points to the ongoing negative effects of the



crisis on its results. It was not until the third quarter that a more significant shift was made compared to 2020, but still far from the results of the pre-pandemic 2019.

The planning of scheduled traffic will continue to depend on the following external factors beyond the Company's control:

- Instructions, restrictions, bans and other measures introduced by local civil protection headquarters and those of other countries, directly affecting the possibility for travels in domestic and international scheduled traffic, with the routes that depend on point to point demand being particularly sensitive;
- Vaccination coverage and application of measures that should facilitate or simplify travels (COVID vaccine passports);
- Flexible flight network planning along with demand projections related to certain types of travel;
- Realisation of optimum load and an average fare in the conditions of reduced aircraft capacity due to the social distancing measures.

## Financial operations

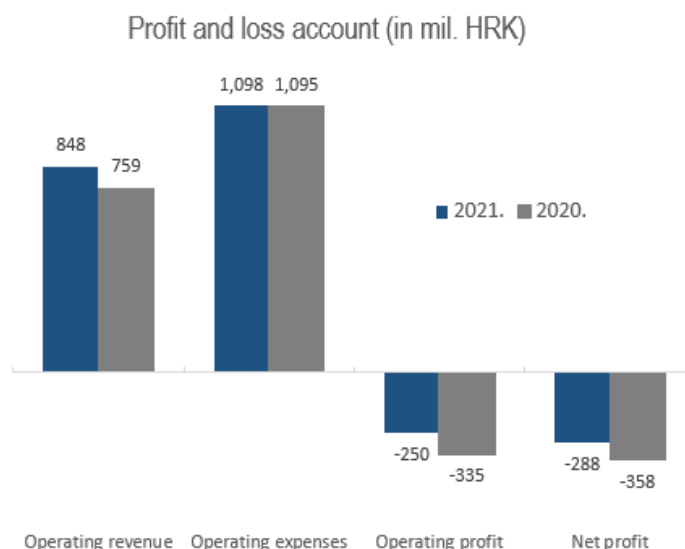
### Profit and loss account

Although the scope of traffic increased in the second half of 2021, as expected given the summer season and with the reopening of borders for tourist travels, the effects of the pandemic on the Company's operations remained substantial. A demand for air traffic services rose compared to 2020, but was still on a significantly lower level compared to the pre-crisis year of 2019.

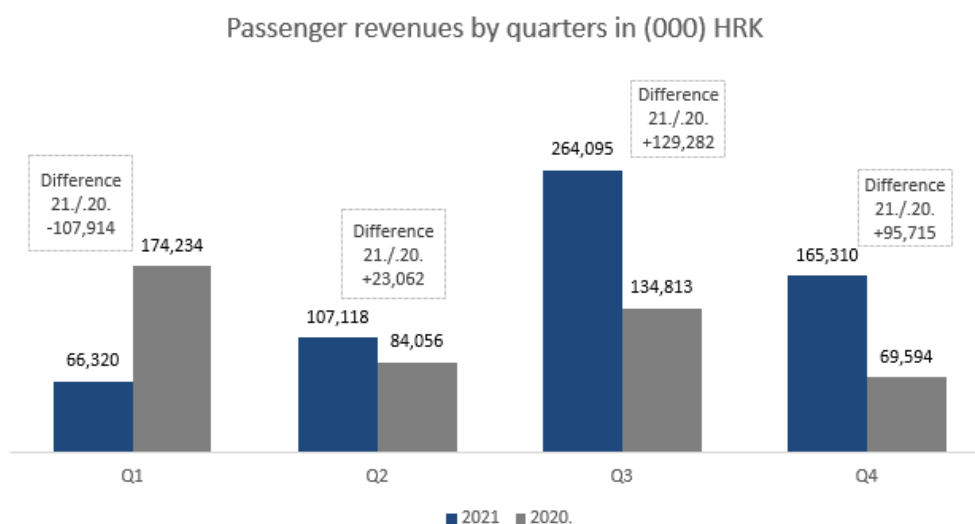
In cooperation with the BDO Savjetovanje d.o.o. consultancy firm, in early 2021 the Company drew up a document titled "An analysis of targeted use of state aid and a verification of savings achieved since the start of the COVID-19 pandemic", covering all aspects of the rigorous savings measures applied. The document included a plan of activities within the savings scheme for 2021. Accordingly, the Company continued streamlining its operations and applying the predefined measures aimed at mitigating the crisis impact on its financial result, with further utilisation of state support it was entitled to given the reduced scope of traffic.

(000 HRK)	2021	2020	Index 21/20
Passenger traffic	602,813	462,698	130
Cargo traffic	8,053	8,484	95
Other revenues	237,306	288,313	82
<b>Operating revenues</b>	<b>848,172</b>	<b>759,495</b>	<b>112</b>
Flight operations	261,117	196,382	133
Maintenance	158,688	150,801	105
Passenger services	53,880	56,089	96
Aircraft and traffic services	222,431	173,125	128
Promotion and sales	102,146	96,296	106
General and administrative expenses	83,591	71,708	117
Amortization	203,192	210,036	97
Other expenses	12,807	140,432	9
<b>Operating expenses</b>	<b>1,097,853</b>	<b>1,094,869</b>	<b>100</b>
<b>Profit/loss from operations</b>	<b>-249,681</b>	<b>-335,374</b>	<b>74</b>
Interest expense	-26,866	-22,505	119
Interest revenue	137	4,037	3
Foreign exchange differences, net	-11,770	-4,300	274
Other financial expenses	-38	-82	46
<b>Net financial expenses</b>	<b>-38,536</b>	<b>-22,851</b>	<b>169</b>
<b>Net profit/loss</b>	<b>-288,217</b>	<b>-358,225</b>	<b>80</b>

In such market conditions, the Company's operating loss at the end of 2021 totalled HRK 249.7 million. Its net loss for the business year totalled HRK 288.2 million, which is HRK 70 million less compared to 2020.

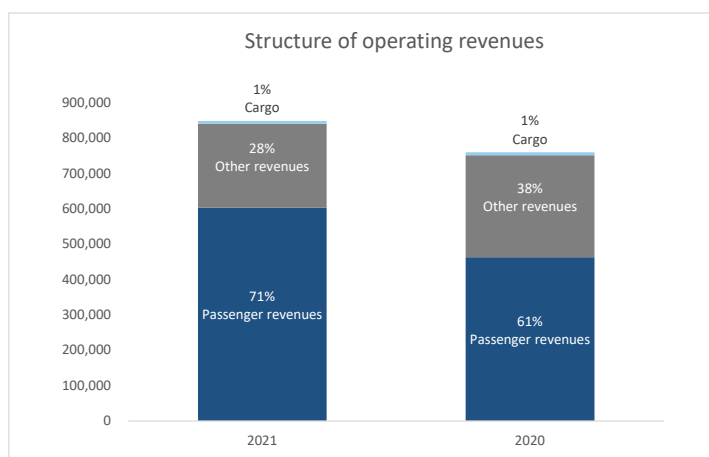


The Company's operating revenues were 12% higher compared to 2020, as a result of a growth in passenger revenues. Passenger revenues rose by 30% (HRK +140 million), with 27% more passengers being transported compared to 2020. However, they fell by as much as 60% compared to 2019, which clearly attests to a slow recovery of the airline market from the crisis caused by the COVID-19 pandemic, and reflects in Croatia Airlines' results.



In the first quarter of 2021, the Company generated HRK 108 million less than in the same period of 2020, and we should bear in mind that the coronavirus pandemic started in March 2020. It was not until the third and fourth quarters that a more significant growth of passenger revenues was generated compared to 2020, and in the second half of the year they were HRK 225 million greater than in the same period of 2020.

Cargo traffic in tonnes recorded an 8% fall compared to 2020, resulting in 5% lower cargo transport revenues.



Other revenues generated in 2021 were 18% lower year-on-year, since Croatia Airlines received state aid worth HRK 88.5 million for the compensation of damage resulting from the COVID-19 pandemic.

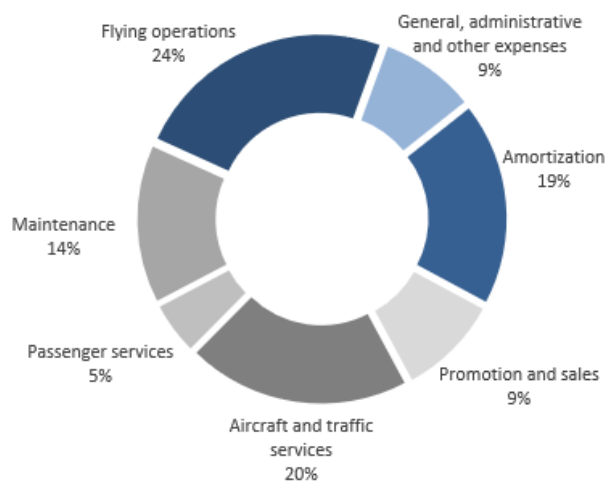
Besides the evident growth of the total revenues compared to 2020, the very revenue structure also noticeably changed: passenger revenues rose, while others declined. Cargo transport

revenues made up only 1% of the operating revenues, the same as in 2020.

Croatia Airlines' operating costs were on the level of 2020. The category of other expenditures saw a decrease in costs compared to the year before, as in 2020 they were affected by the aircraft market value adjustment that had to be made as the COVID-19 crisis resulted in a decrease of aircraft market value. Also, passenger service costs decreased due to fewer traffic disturbances and depreciation costs amidst a smaller scope of investments compared to 2020 and the settled depreciation costs of major investments made in the preceding years. Staff costs were reduced within all cost categories since the agreement reached with the social partners about a 15% reduction in gross salaries was in force throughout 2021.

Flight and air traffic service costs rose as a result of an increased scope of traffic, i.e. number of flights, with the costs of fuel, airports and air traffic control facing the greatest increase. Fuel costs rose by 79% (HRK +62.5 million) compared to 2020, due to a greater traffic scope and a significant growth of jet fuel prices. Aircraft maintenance costs were 5% higher compared to 2020, with promotion and sales costs being 6% higher given a 28% rise in passenger numbers.

## Structure of operating expenses in 2021



Flight costs and costs of air traffic services have the highest share in the operating costs. In 2021, flight costs had a 24% share and air traffic services a 20% share in the overall operating costs.

## Assets, financing and investments

### Balance sheet

(000 HRK)	End 2021	End 2020	Index 21/20	End 2019	Index 20/19
<b>ASSETS</b>					
Non-current assets	891,797	931,333	96	1,209,542	77
Current assets	517,485	736,195	70	197,577	373
<b>Total Assets</b>	<b>1,409,283</b>	<b>1,667,528</b>	<b>85</b>	<b>1,407,119</b>	<b>119</b>
<b>LIABILITIES</b>					
Capital and reserves	-71,536	215,930	-	224,890	96
Provisions	268,928	203,075	132	212,716	95
Non-current liabilities	818,822	820,800	100	467,244	176
Current liabilities	393,069	427,724	92	502,269	85
<b>Total Liabilities</b>	<b>1,409,283</b>	<b>1,667,528</b>	<b>85</b>	<b>1,407,119</b>	<b>119</b>

The end-of-year **value of the Company's assets** was 15% lower compared to 2020.

The value of its fixed assets declined by 4% compared to the end of 2020 through regular write-offs and low investments into tangible and intangible assets. The value of its long-term financial assets and accounts receivable rose amidst increased bank deposits and funds allocated for future works on the fleet.

The value of the Company's current assets was 30% lower compared to the end of 2020, mostly as a result of the 46% lower cash balance, while accounts receivable and financial assets rose amidst greater sales volume, which led to a greater level of deposits retained (for up to a year) and released upon operating flights.

A decrease in the value of the total assets was followed by a 15% **decrease in the value of liabilities and capital** compared to the end of 2020.

The loss of HRK 288 million generated in 2021 resulted in a negative capital level.

Higher provisions resulted from increased maintenance reserve payments intended for future works on the fleet.

The Company's long-term liabilities remained on the level of the end of 2020. Within this category, liabilities related to leased assets rose, while loan-related liabilities were reduced through regular repayments.

The value of the Company's short-term liabilities declined by 8%, with passenger transport liabilities seeing the greatest fall. Liabilities to suppliers rose amidst an increased scope of traffic; short-term liabilities related to leased assets also recorded a rise.

**At the end of 2021, Croatia Airlines liabilities** related to a long-term syndicated loan taken with PBZ/HPB totalled HRK 34.9 million, while its liabilities related to two shareholder loans totalled HRK 500 million.

The Company settled all of its financial liabilities in a timely manner, i.e. within the set deadlines.

## Investments in 2021

Investments	2021	2020	2019
Investments in aircraft	3,886,473	11,924,103	13,970,501
Investments in spare parts, tools and equip.	7,616,995	7,938,396	8,398,274
Construction investments	0	127,789	757,940
Leased aircraft	2,498,081	45,375,091	35,268,758
Other intangible assets	1,891,534	2,564,266	2,044,094
Other equipment	1,111,005	1,493,028	3,715,988
<b>Total</b>	<b>17,004,088</b>	<b>69,422,674</b>	<b>64,155,556</b>

In 2021, the Company made only necessary investments, primarily those directly related to flights, aircraft maintenance and operation, and keeping the guaranteed level of safety.

Investments into aircraft, together with spare parts, totalled HRK 14 million and made up over 82% of total investments. Investments into own fleet amounted to HRK 3.9 million and referred to an ESG modification on a CTG aircraft, while investments into aircraft under an operating lease totalled HRK 2.5 million and included an overhaul of the landing gear of two Q400 aircraft and modifications (EGNOS and ADS-B) on the Q400 fleet. Investments into spare parts, tools and other equipment totalled HRK 7.6 million.

A number of periodical aircraft check-ups were done on Croatia Airlines' fleet in 2021. Two six-year checks, and two C checks on the Q400 fleet were carried out in-house.

Other investments totalled about HRK 3 million: HRK 1.9 million for software, HRK 0.7 million for IT equipment, and HRK 0.4 million for other types of equipment and infrastructure.

## Cash flow

Cash flow (000 HRK)	2021	2020	Index 21/20
<b>Cash at the beginning of the period</b>	<b>574,324</b>	<b>33,749</b>	<b>1,702</b>
Inflow from activities	800,196	772,571	104
Shareholder loan	-	400,000	-
Recapitalization	-	350,000	-
COVID-19 damage aid	-	88,500	-
Loans	-	7,450	-
Sale of property	1,071	1,029	104
<b>Total inflow</b>	<b>801,267</b>	<b>1,619,550</b>	<b>49</b>
Obligations	1,033,897	969,644	107
Investments	17,267	60,744	28
Loans	13,171	48,586	27
<b>Total outflow</b>	<b>1,064,335</b>	<b>1,078,975</b>	<b>99</b>
<b>Net change in the period</b>	<b>-263,067</b>	<b>540,575</b>	<b>-</b>
<b>Cash at the end of the period</b>	<b>311,256</b>	<b>574,324</b>	<b>54</b>

At the end of 2021, the Company's cash balance was HRK 311.3 million, with a negative net cash flow.

Its total inflow made up 49% of the value generated in 2020, when the Company received extraordinary funds from its owner, in the form of compensation for the damage resulting from the COVID-19 pandemic (HRK 88.5 million), shareholder loan (HRK 250 million) and recapitalisation (HRK 350 million) in line with the Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak, and the second tranche of the shareholder loan approved in 2019 (HRK 150 million).

The Company's total cash outflow was 1% lower compared to 2020.

As Croatia Airlines expanded its network of flights compared to 2020, it recorded a greater operating cash outflow.

Investments were significantly lower and totalled HRK 17.3 million. They mostly referred to aircraft, spare parts, tools and equipment.

In the reporting period, the Company repaid four instalments of a long-term syndicated loan, and there was no fresh borrowing.

Despite some positive shifts compared to 2020, the Company is still faced with a reduced demand, and consequently a low level of inflow, and this might bring into question liquidity maintenance in the upcoming period, particularly when an uncertain duration of the crisis is taken into account. The Company is undertaking all available measures to continue actively managing its liquidity, optimising its business operations and applying rigorous savings measures. Activities related to the implementation of the Post-COVID Strategy are focused on the same goals.



## Consolidated business result

(000 Kn)	Croatia Airlines		Obzor putovanja		Amadeus Croatia		Croatia Airlines Group*	
	2021	2020	2021	2020	2021	2020	2021	2020
Operating revenues	691.494	509.453	5.317	2.898	2.454	2.976	699.020	515.104
Other revenues	156.677	250.042	816	1.075	344	220	157.837	251.336
Operating expenses	1.097.853	1.094.869	5.392	4.226	3.404	5.512	1.106.406	1.104.352
Operating profit/loss	(249.681)	(335.374)	741	(253)	(606)	(2.316)	(249.549)	(337.912)
Net profit/loss	(38.536)	(22.851)	(87)	(88)	(55)	43	(38.686)	(22.867)
Pre-tax profit	(288.217)	(358.225)	654	(341)	(661)	(2.274)	(288.235)	(360.779)
<b>Net profit</b>	<b>(288.217)</b>	<b>(358.225)</b>	<b>654</b>	<b>(341)</b>	<b>(661)</b>	<b>(2.274)</b>	<b>(288.235)</b>	<b>(360.779)</b>

\* Croatia Airlines Consolidate data do not include mutual transactions (mutual revenues and expenses are eliminated)

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 2021 at the Group level amounts to a loss of HRK 288.2 million. Total revenues and expenditures of the subsidiaries account for less than 1% of the consolidated revenues and expenditures, showing that their business activities have only a minor impact on the business activities of Croatia Airlines.

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

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

## Going concern principle

In 2020, during the most severe period of crisis caused by the coronavirus pandemic, Croatia Airlines continued connecting Croatia with the rest of the world. It followed through with its mission in 2021, by gradually reintroducing routes and increasing the number of frequencies in line with the demand and the epidemiological measures of individual countries.

A reduced demand for air traffic services, resulting from the COVID-19 epidemic and travel restrictions, remains to be the main risk for the Company's business operations. Throughout the crisis Croatia Airlines has continued to monitor the epidemiological situation and concrete demand in certain markets on an everyday basis, and to optimise its flight schedule accordingly, both in terms of frequencies and aircraft capacities. A slow recovery of sales still jeopardises its operations, with liquidity maintenance being particularly challenging in such circumstances.

On 21 February 2019, the Government of the Republic of Croatia reached a decision to initiate the procedure of seeking a strategic partner and to establish a commission to implement the procedure and propose a strategic partner for the company Croatia Airlines d.d. However, the procedure was suspended due to the outbreak of the COVID-19 crisis, and in March 2020 the Commission decided to put it on hold amidst the unfavourable situation and force majeure. The procedure will resume as soon as the market conditions allow for it.

Although the Company's expectations about resuming a normal flow of traffic were far more optimistic, the ongoing coronavirus crisis and its effects on the airline's operations prompted it to continue implementing streamlining measures in 2021.

It also kept implementing the operations management system adapted to the crisis circumstances, and optimising its flight schedule on a weekly basis, in line with the changing market conditions. The block time structure was also adapted to the demand, with an emphasis on using lower-capacity Dash Q400 aircraft. The Company also continuously adjusted its offer of flights, depending on the market and booking trends. It also wet-leased an aircraft in the period from July to September. In order to reduce costs and maintain liquidity, it kept implementing rigorous savings measures and made only strictly necessary investments – primarily related to the fleet. Under an annex to the collective bargaining agreement from 2020, gross salaries were reduced by 15% in 2021 as well.

To further mitigate the effects of the newly-occurred crisis on its cash flow, over the course of the year the Company utilised horizontal measures introduced by the Government of the Republic of Croatia to preserve jobs in the sectors most affected by the pandemic. It continually monitored its liquidity and made cash flow projections for an upcoming period, to timely identify potential operating risks and settle its liabilities.

A wide range of streamlining measures applied on all corporate levels throughout the coronavirus crisis contributed to a better efficiency of the Company's business processes, and this will be continued in order to adjust better to future market conditions once the crisis is over. In this context, the Company undertook to develop its post-COVID strategy.

A proposal for Croatia Airlines' Post-COVID Strategy, drawn up in mid-2021 jointly with the Boston Consulting Group (BCG), was adopted in the Company's Supervisory Board session held on 31 August 2021, paving the way for further talks with the

Republic of Croatia as the Company owner, and other entities crucial to ensure a successful and sustainable future of the national flag carrier and Star Alliance member.

The strategic initiatives stipulated by the Post-COVID Strategy that will be implemented in the next three years will ensure long-term sustainable operations for Croatia Airlines and a new development cycle. Along with increasing its efficiency and competitiveness by transforming the current operating models and methods, ahead of the Company are key operational and structural challenges, including fleet renewal and optimisation of its flights network throughout the year. Taking into account the trends in the highly competitive Croatian airline market, fuel and CO<sub>2</sub> emission prices, as well as the EU green policy objectives, there is no alternative to the defined strategic initiatives, and their implementation will enable the Company to seize any opportunities it will come across in the following two years, when air traffic is expected to recover.

The Business Plan for 2020-2025 is based on the Post-COVID Strategy proposal that would ensure long-term sustainability of operations, while defining the strategic goals and measures to achieve them.

Key strategic goals:

- 1) Profitability;
- 2) Responsibility to shareholders;
- 3) Capital increase;
- 4) Fleet renewal and optimisation;
- 5) Entering into a new PSO contract for the upcoming period.

In order to achieve the above stated strategic goals, the Company will initiate, or has already initiated, the following measures:

*1) Fleet structure optimisation*

In addition to post-COVID recovery of operations, one of the key goals of the Business Plan is replacement of the existing fleet with newer and more cost-effective aircraft, via operating lease. It also envisages a fleet renewal as of 2024 by introducing one aircraft, so that the fleet would comprise 15 aircraft at the end of 2025.

*2) Optimisation and expansion of the destinations network*

In line with the expected recovery of demand for air traffic services once the pandemic comes to an end, the Plan envisages a gradual increase in the number of destinations and frequencies, and optimisation of the expanded destinations network.

*3) Increase in passenger revenues*

An increase in passenger revenues is based on the envisaged rise in the number of transported passengers, while at the same time expanding the offer of services (products) and diversifying their prices, and increasing efficiency through further digitalisation of all commercial activities for the purpose of realising fresh revenue potential.

#### *4) Increase in non-flight revenues*

One of the measures includes the profiling the technical sector as an autonomous profit centre, with an increase in revenue from maintenance services provided to third parties. The increase is based on the envisaged prolongation of the aircraft maintenance season to ten months a year, i.e. on the utilisation of maximum capacities for third party maintenance.

#### *5) Award of a PSO contract for the upcoming period*

Croatia's traffic connectivity remains in the Company's focus, and it strives towards an award of a PSO contract for the upcoming period. A new public tender has been called for the provision of scheduled air traffic services (PSO contract) within the Republic of Croatia for the period from 2022 to 2026, and Croatia Airlines has applied for it.

#### *6) Cost initiatives (decrease of various cost categories)*

Some of the planned rationalisation measures include optimisation of airport service costs through negotiations with suppliers, better control of existing contracts and search for a new aircraft handling service provider in monopolistic markets, as well as negotiating lower airport fees and charges, reducing passenger attendance costs by changing the inflight service model, rationalising the sales network (branch offices), and reducing agency commissions. One of the initiatives is to reduce labour costs by implementing crew scheduling optimisation measures and increasing the productivity of technical, commercial and administrative staff through business process optimisation.

#### *7) Negotiations with Airbus with respect to A320neo order cancellation*

The negotiations with Airbus about the termination/ amendment to the contract with Airbus Industrie for the procurement of four A320neo aircraft started in the autumn of 2019. The negotiations on the Termination Agreement the subject-matter of which is cancelling the acquisition of A320neo aircraft were put on hold at the onset of the COVID-19 crisis, and resumed in early 2021, with a focus on terminating the purchase contract, after which Croatia Airlines would no longer have obligations to Airbus related to pre-delivery payments, i.e. any further payments.

The implementation of the defined Post-COVID Strategy, and continuing with the privatisation process once the prerequisites are met, should reduce risks related to great uncertainties and doubts concerning the Company's ability to continue operating under the going concern principle in the upcoming period. However, it needs to be noted that, in view of the unpredictability regarding the pandemic scope and duration, measures to fight it and its impacts on the business operations, the Company cannot exclude a potential need for additional financial support from the owner.

## Objectives and goals for 2022

The year of 2022 should see a gradual increase in the scope of traffic. IATA does not expect it to reach the pre-pandemic levels before 2024, and warns that the pace of recovery will depend on the vaccination coverage and the lifting of border-crossing restrictions, which, in addition to uncertainties and complex rules, have so far affected international travels.

The Business Plan for 2022 also includes the strategic initiatives as part of the Post-COVID Strategy proposal, drawn up in 2021 by Croatia Airlines and Boston Consulting Group (BCG). It was adopted in Croatia Airlines' Supervisory Board session held on 31 August 2021, paving the way for further talks with the Republic of Croatia as the Company owner, and other entities crucial to ensure a successful and sustainable future of the national flag carrier and Star Alliance member.

The Post-COVID Strategy implementation that started in the final quarter of 2021 will ensure long-term sustainable operations for Croatia Airlines and a new development cycle within the next three years, during which the key strategic initiatives are expected to be implemented.

Croatia Airlines is expecting a loss of HRK 278 million in 2022. This result is based on the projection of traffic performance that serves as a basis for the calculation of operating revenues and expenses.

The projected result is based on the following presumptions:

- 24,846 – block time in flights;
- 33,479 – block time in block hours;
- Annual traffic of some 1,399,720 passengers (612,000 more compared to 2021), of which 1,362,635 within scheduled traffic and 37,085 within charter traffic;
- PLF on the level of 53.9%.

The flight schedule for 2022 comprises seven destinations within domestic scheduled traffic and 18 destinations within international, Euro-Mediterranean scheduled traffic.

The emphasis still lies on the maximum operations safety ensured by adhering to the legal regulations, maintaining the certificates and licences and taking special care of the health and protection of both passengers and employees. 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. The Company plans to enter into multiannual contracts with the clients who seek base maintenance services (airlines, lessors) and extending the major works season to the entire year (or 10 months at least), all with the aim of increasing revenues from maintenance services. In 2022, Croatia Airlines plans to provide transport services on domestic routes under the PSO scheme, and has applied for a new tender for the 2022-2026 PSO scheme.

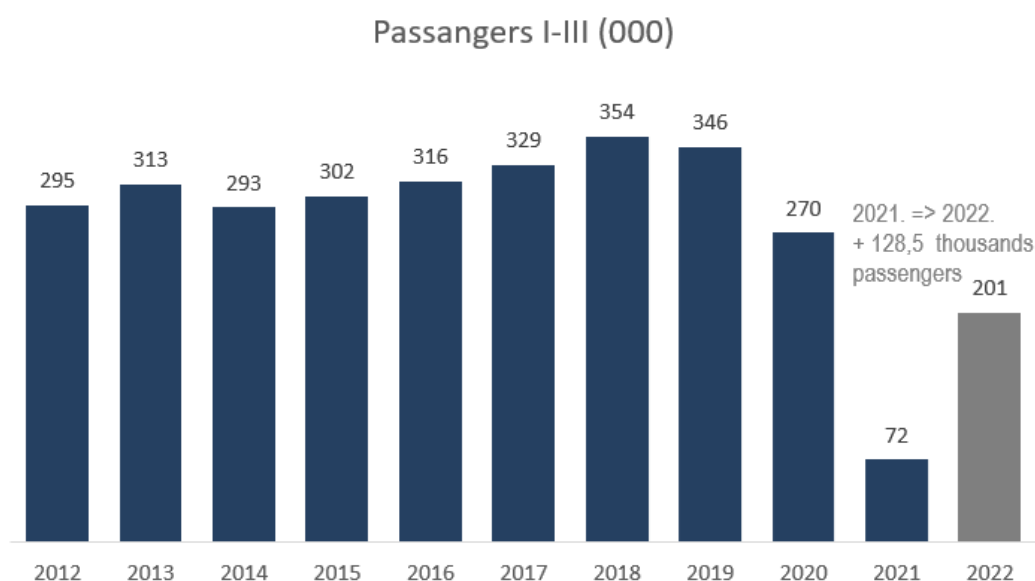
The realisation of the results envisaged for 2022 will largely depend on the expected demand for air traffic services. The war in Ukraine, fuel and other energy product prices, and inflationary pressures will be the main risks affecting the demand.

## Current operations – traffic performance in the first quarter of 2022

Description		I-III 2022	I-III 2021	Index
Flights (km)	<i>DIST 000</i>	2,558	1,179	217
<b>Departures</b>	<b><i>FLTS</i></b>	<b>4,149</b>	<b>1,951</b>	<b>213</b>
<b>Block hours</b>	<b><i>BH hours</i></b>	<b>5,641</b>	<b>2,697</b>	<b>209</b>
<b>Passengers carried</b>	<b><i>RPAX 000</i></b>	<b>201</b>	<b>72</b>	<b>278</b>
<b>Freight &amp; mail carried</b>	<b><i>CGO t</i></b>	<b>349</b>	<b>298</b>	<b>117</b>
Passenger km flown	<i>RPK mil.</i>	138	48	288
Available seat - km	<i>ASK mil.</i>	268	107	251
<b>Passenger load factor</b>	<b><i>PLF %</i></b>	<b>51.4</b>	<b>44.8</b>	<b>115</b>
Tonne km flown	<i>RTK mil.</i>	14	5	279
Available tonne-km	<i>ATK mil.</i>	29	11	252
<b>Weight load factor</b>	<b><i>WLF %</i></b>	<b>49.2</b>	<b>44.4</b>	<b>111</b>

The number of passengers in the first quarter of 2022 rose 2.8 times (129,000 passengers) compared to the same period of 2021. Domestic scheduled traffic saw a 123% rise, while international scheduled traffic recorded a 208% rise compared to the same period of 2021.

The passenger load factor (PLF) was 51.4%, or 6.6 pp higher than in the same period of 2021.





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

## REPRESENTATION

### on the Application of the Corporate Governance Code

Being a joint-stock company with shares listed on the regulated market of the Zagreb Stock Exchange, Croatia Airlines applies the Corporate Governance Code (hereinafter: the Code). Drawn up jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange, it is available at the Zagreb Stock Exchange official website [www.zse.hr](http://www.zse.hr).

As it is majority-owned by the Republic of Croatia, the Company is also required to comply with the provisions of the Corporate Governance Code of the companies in which the Republic of Croatia holds shares or stakes, adopted by the Croatian Government and published in the Official Gazette 132/17.

*The Company has submitted to the Croatian Financial Services Supervisory Agency a detailed description of minor deviations from certain recommendations in the form of answers to the Corporate Governance Code Annual Questionnaire.*

The Company submits the answers to the compliance questionnaire and the one about the corporate governance practices to the Croatian Financial Services Supervisory Agency. The answers to the latter are made available on the Company's website.

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

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

The Management Board has, with prior approval of the Supervisory Board, adopted a policy about the type and scope of risks that the Company is required and willing to take in order to achieve all of the strategic long-term goals (the extent of risk-taking).

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



## **Corporate Governance Structure**

The Company's corporate governance structure is based on a two-tier board system, i.e. the Company's Management Board and Supervisory Board. Together with the General Assembly, they represent three fundamental bodies of the Company.

### **The Management Board of Croatia Airlines d.d.**

The Company's Management Board is represented by the Company's Director Jasmin Bajić as its sole member.

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

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

### **The Supervisory Board**

In 2021 the Supervisory Board consists of:

Zlatko Mateša,

- chairman of the Supervisory Board

- from 14 July 2020;

Nataša Munitić,

- deputy Chairman of the Supervisory Board

- from 14 July 2020;

Zoran Barac,

- member of the Supervisory Board

- from 14 July 2020;

Mirko Tatalović,

- member of the Supervisory Board

- from 14 July 2020; and

Zoran Viljac,

- member of the Supervisory Board – employee representative

- from 7 May 2019.

In 2021, the Supervisory Board held nine regular sessions attended by all of its members and, in accordance with the provisions of the Articles of Association, adopted three decisions on issues within its sphere of competence remotely, by electronic voting. The Supervisory Board carried out an internal control in line with the requirements set out in the Code by controlling the submitted reports on a regular basis. The Supervisory Board members discussed and decided on any and all relevant matters set forth by the Companies Act and the Company's Articles of Association. The Supervisory Board self-assessed the efficiency and composition of its members,

as well as those of the Audit Committee. It was carried out by the Chairman of the Supervisory Board together with its members, without the participation of any external associates. The results show that its members function well together and possess the necessary expert knowledge; the same applies to the individual contribution of each member. The Supervisory Board's report on the supervision of business operations makes part of the Annual Report that the Company submits to the General Assembly.

An appointment or incentives committee was not established since the provisions of the Articles of Association set out that the Company's Supervisory Board consists of five members and carries out tasks within their sphere of competence.

In 2021, the Audit Board members were Chairwoman Nataša Munitić, Zoran Barac, member and Rudi Grubišić, external member. The Audit Board held six themed sessions and discussed the Company's financial performance, audit plan, internal control system, risk management and other tasks for which the Supervisory Board needed assistance in order to efficiently fulfil obligations related to the Company's corporate governance, financial reporting and control. All three Audit Board members attended all of the sessions.

As for future appointments, the Supervisory Board set a target of at least 25% representation of female members on the Supervisory Board and the Management Board to be achieved in the next five years. This will be taken into account when announcing the next call for applications to serve as a member of the Supervisory Board or the Management Board.

## **General Assembly**

The Company's General Assembly is made up of shareholders. One share gives them the right to one vote at the General Assembly. The voting right is not limited by the Articles of Association to a certain percentage or number of votes, and there are no time limits for exercising the right to vote.

Three General Assembly meetings were held in 2021. The Company did not acquire its own shares during that period. However, pursuant to the decision of the Extraordinary General Assembly of 14 December 2020, the Company's share capital was increased through a payment made by the Republic of Croatia in the amount of HRK 350,000,000.00 and the issuance of new 35,000,000 ordinary registered shares, with a nominal amount of HRK 10 each. As a result, the new share capital amounts to HRK 627,879,530 as of 15 January 2021.

**SHAREHOLDER STRUCTURE 31 December 2021:**

Shareholders	No. of shares	Portion in the share capital (in %)
REPUBLIC OF CROATIA	62,010,821	98.762%
AIRPORT ZAGREB D.O.O.	477,121	0.760%
HPB FOR THE REPUBLIC OF CROATIA	173,768	0.277%
JANAF D.D.	22,000	0.035%
CROATIA INSURANCE D.D.	7,165	0.011%
CROATIA LOTERY D.O.O.	4,000	0.006%
ASTRA INTERNATIONAL D.D. in bankruptcy	3,682	0.006%
HP D.D.	2,750	0.004%
TURISTHOTEL D.D.	2,090	0.003%
TANKERKOMERC D.D.	2,090	0.003%
OTHERS	82,466	0.131%

Pursuant to the provisions of Article 272 (p) of the Companies Act, this Representation Letter is attached to the Management's Business Report for 2021 as an integral part thereof.

Zagreb, 27 April 2022



**Jasmin Bajić,**  
Chairman of the Management Board

**CROATIA AIRLINES d.d.**

**Consolidated and Separate Financial Statements  
for the year ended 31 December 2021  
together with Independent auditors' report**

	Page
Responsibility for the financial statements	52
Independent auditors' report to the shareholders of Croatia Airlines d.d.	53-60
Croatia Airlines Group consolidated statement of comprehensive income	61
Croatia Airlines d.d. separate statement of comprehensive income	62
Croatia Airlines Group consolidated statement of financial position	63-64
Croatia Airlines d.d. separate statement of financial position	65-66
Croatia Airlines Group consolidated statement of changes in equity	67
Croatia Airlines d.d. separate statement of changes in equity	68
Croatia Airlines Group consolidated statement of cash flows	69-70
Croatia Airlines d.d. separate statement of cash flows	71-72
Notes to the consolidated and separate financial statements	73-142

## Responsibility for the financial statements

---

The Management Board of the Company Croatia Airlines d.d., Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the consolidated and separate financial statements for the year ended 31 December 2021 are prepared in accordance with the Accounting Act and the International financial reporting standards ("IFRS") effective in European Union and in accordance with the Regulation on the structure and content of the annual financial statements, to give a true and fair view of the financial position, the results of business operations, the changes in equity and the cash flows of the Company for that period.

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

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

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

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

Signed on behalf of the Management Board:



Jasmin Bajić

President and CEO

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

27 April 2022



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

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the separate financial statements of Croatia Airlines d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2021, and their respective separate and consolidated statements of statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and consolidated financial position of the Group as at 31 December 2021 and of their respective unconsolidated and consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

#### **Basis for Opinion**

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

#### **Material Uncertainty Related to Going Concern**

We draw attention to Note 3 *Going concern* and Note 40 *Events after the reporting date*, which indicates negative impact of COVID - 19 outbreak which is expected to have significant impact on the Company's and the Group's operations. Without financial support from the majority owner the Government of Republic of Croatia, the Company and the Group will be unable to settle its liabilities as they fall due. As stated in Note 3 *Going concern*, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Relating to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.





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

## Report on the Audit of the Financial Statements *(continued)*

### Key Audit Matters *(continued)*

#### Recognition of passenger revenue from scheduled services

Passenger revenue from scheduled services recognized in profit or loss in 2021: HRK 565,793 thousand (2020: HRK 441,474 thousand); carrying amount of air traffic liabilities as at 31 December 2021: HRK 155,122 thousand (31 December 2020: HRK 206,021 thousand).

Refer to Note 2 a) *Significant accounting policies*, Note 4 on *Passenger traffic* and Note 34 on *Other current liabilities*.

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



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

## Report on the Audit of the Financial Statements *(continued)*

### Key Audit Matters *(continued)*

#### Recoverability of own and leased aircraft

Carrying amount of own aircraft at 31 December 2021: HRK 161,960 thousand (31 December 2020: HRK 184,111 thousand). Carrying amount of leased aircraft at 31 December 2021: HRK 322,195 thousand (31 December 2020: HRK 318,292 thousand).

Refer to Note 2 d), h) and s) of *Significant accounting policies*, Note 13 *Property, plant and equipment* and note 31 *Leases* of the financial statements.

Key audit matter	How our audit addressed the matter
<p>The Company incurred a net loss of HRK 288,217 thousand and the Group incurred a net loss of HRK 288,235 thousand for the year ended 31 December 2021. Furthermore, the deteriorated economic outlook caused by the COVID 19 pandemic and significant decline in passenger revenue represent indicators of potential impairment of the aircraft.</p> <p>As required by relevant financial reporting standards, individual items of property, plant and equipment, right of use or cash generating units (CGUs) for which impairment indicators exist are required to be tested by the Company and the Group for potential impairment. Any such impairment would be recognised in the amount by which the carrying amount of the asset (or a related CGU) exceeds its recoverable amount.</p> <p>The estimation of the recoverable amount of CGU, which is generally considered to be its value in use (based on discounted cash flow models) or, in some cases fair value less costs to sell, relies on significant judgments and assumptions about the future, including: future profitability growth, capital expenditure, working capital, inflation and the most appropriate discount rate. These projections are exposed to significant variability due to changing market conditions, particularly in view of the impact of the COVID-19 pandemic.</p> <p>Therefore, the assessment of recoverable amount and impairment testing of own and leased aircraft is determined to be a key audit matter.</p>	<p>We have performed, amongst others, the following procedures:</p> <ul style="list-style-type: none"> <li>▪ Assessing whether the Company and the Group included all relevant assets in the impairment test;</li> <li>▪ Challenging the Company's and the Group's data, assumptions and methods used to determine the recoverable amount of CGU and any impairment losses recognised, with the assistance from our own valuation specialists. This included: <ul style="list-style-type: none"> <li>– Comparing fair values of aircrafts determined by management to observable external data on prices; analysing comparable past purchase transactions;</li> <li>– Assessing the historical accuracy of management's budgeting by comparing the prior periods' budgeted figures to actual results;</li> <li>– testing the integrity of the impairment model, including its mathematical accuracy, and evaluating the key assumptions applied (such as expected passenger revenue, other operating revenue and operating costs, discount rate and growth rate) for reasonableness by reference to both observable industry data and historical financial performance of the Company and the Group;</li> <li>– analysing the sensitivity of the impairment tests' results in respect of changes in the key assumptions and considering whether the level of key assumptions indicates management's bias;</li> </ul> </li> <li>• Evaluating the adequacy and completeness of disclosures in respect of impairment of own and leased aircraft.</li> </ul>



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

### **Report on the Audit of the Financial Statements *(continued)***

#### ***Other Information***

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

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

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

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

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information required by Article 22 of the Accounting Act.

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

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information required by Article 22 of the Accounting Act.

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

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

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



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

### **Report on the Audit of the Financial Statements (continued)**

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

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

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

#### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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



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

### **Report on the Audit of the Financial Statements *(continued)***

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

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

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

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

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

### **Report on Other Legal and Regulatory Requirements**

We were appointed by those charged with governance on 2 July 2021 to audit the financial statements of the Company and the Group for the year ended 31 December 2021. Our total uninterrupted period of engagement is six years, covering the periods ending 31 December 2016 to 31 December 2021.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 13 April 2022;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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



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

### **Report on Compliance with the ESEF Regulation**

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express an opinion on compliance of the separate and consolidated financial statements, as included in the annual report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation of the separate and consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the separate and consolidated financial statements in the applicable XHTML format and their publication;
- the selection and application of appropriate iXBRL tags, using judgment where necessary;
- ensuring consistency between digitised information and the separate and consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the Company's and the Group's ESEF reporting, as a part of the financial reporting process.

### **Auditors' Responsibilities**

Our responsibility is to express an opinion on whether the separate and consolidated financial statements included in the annual report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation and testing the operating effectiveness of relevant controls over the tagging process;
- tracing the tagged data to the separate and consolidated financial statements of the Company and the Group presented in human-readable format;
- evaluating the completeness of the Company's and the Group's tagging of the separate and consolidated financial statements;





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

### Report on Compliance with the ESEF Regulation *(continued)*

#### *Auditors' Responsibilities (continued)*

- evaluating the appropriateness of the separate and consolidated use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the separate and consolidated financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Opinion*

In our opinion, the separate and consolidated financial statements of the Company and the Group as at and for the year ended 31 December 2021 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

*KPMG Croatia d.o.o.*  
**KPMG Croatia d.o.o. za reviziju**  
Croatian Certified Auditors  
Eurotower, 17th floor  
Ivana Lučića 2a  
10000 Zagreb, Croatia

**27 April 2022**

**KPMG Croatia**  
d.o.o. za reviziju  
Eurotower, 17. kat  
Ivana Lučića 2a, 10000 Zagreb  
5



# Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	2021		2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>Operating revenues</b>					
Passenger traffic	4	602,813	80,118	462,698	61,422
Cargo traffic		8,053	1,070	8,484	1,126
Other sales revenue	5	102,649	13,643	76,747	10,188
<b>Total operating revenues</b>		<b>713,515</b>	<b>94,831</b>	<b>547,929</b>	<b>72,736</b>
<b>Other income</b>	6	<b>143,342</b>	<b>19,051</b>	<b>218,512</b>	<b>29,007</b>
<b>Operating expenses</b>					
Flight operations		(261,117)	(34,704)	(196,382)	(26,069)
Maintenance		(158,688)	(21,091)	(150,801)	(20,018)
Passenger service		(53,880)	(7,161)	(56,089)	(7,446)
Aircraft and traffic services		(222,431)	(29,563)	(173,125)	(22,982)
Promotion and sales		(102,146)	(13,576)	(96,296)	(12,783)
General and administrative expenses		(91,557)	(12,169)	(80,787)	(10,724)
Depreciation and amortization	12, 13, 14, 31	(203,553)	(27,054)	(210,441)	(27,935)
Other operating expenses		(13,033)	(1,732)	(140,431)	(18,642)
<b>Total expenses</b>		<b>(1,106,405)</b>	<b>(147,050)</b>	<b>(1,104,352)</b>	<b>(146,599)</b>
<b>Loss from operations</b>		<b>(249,548)</b>	<b>(33,168)</b>	<b>(337,911)</b>	<b>(44,856)</b>
Finance income	9	42,938	5,707	49,412	6,559
Finance costs	10	(81,625)	(10,848)	(72,280)	(9,595)
<b>Net finance costs</b>		<b>(38,687)</b>	<b>(5,141)</b>	<b>(22,868)</b>	<b>(3,036)</b>
<b>Loss before tax</b>		<b>(288,235)</b>	<b>(38,309)</b>	<b>(360,779)</b>	<b>(47,892)</b>
Income tax expense	11	-	-	-	-
<b>Loss for the year</b>		<b>(288,235)</b>	<b>(38,309)</b>	<b>(360,779)</b>	<b>(47,892)</b>
<b>Other comprehensive income</b>					
Deferred exchange losses		349	46	(538)	(71)
The fair value of financial assets available for sale		402	53	(201)	(27)
Foreign exchange translation differences		-	40	-	(394)
<b>Total other comprehensive income</b>		<b>751</b>	<b>139</b>	<b>(739)</b>	<b>(492)</b>
<b>Total comprehensive income / (loss)</b>		<b>(287,484)</b>	<b>(38,170)</b>	<b>(361,518)</b>	<b>(48,384)</b>
<b>Loss per share HRK / EUR</b>	28	<b>(4.59)</b>	<b>(0.61)</b>	<b>(12.98)</b>	<b>(1.72)</b>

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 2021

	Note	2021		2020	
		HRK	EUR	HRK	EUR
		thousand	thousand	thousand	thousand
<b>Operating revenues</b>					
Passenger traffic	4	602,813	80,118	462,698	61,422
Cargo traffic		8,053	1,070	8,484	1,126
Other sales revenue	5	95,124	12,643	71,096	9,438
<b>Total operating revenues</b>		<b>705,990</b>	<b>93,831</b>	<b>542,278</b>	<b>71,986</b>
<b>Other income</b>	6	<b>142,182</b>	<b>18,897</b>	<b>217,217</b>	<b>28,835</b>
<b>Operating expenses</b>					
Flight operations		(261,117)	(34,704)	(196,382)	(26,069)
Maintenance		(158,688)	(21,091)	(150,801)	(20,018)
Passenger service		(53,880)	(7,161)	(56,089)	(7,446)
Aircraft and traffic services		(222,431)	(29,563)	(173,125)	(22,982)
Promotion and sales		(102,146)	(13,576)	(96,296)	(12,783)
General and administrative expenses		(83,591)	(11,110)	(71,708)	(9,519)
Depreciation and amortization	12, 13, 14, 31	(203,192)	(27,006)	(210,036)	(27,882)
Other operating expenses		(12,807)	(1,701)	(140,431)	(18,641)
<b>Total expenses</b>		<b>(1,097,852)</b>	<b>(145,912)</b>	<b>(1,094,868)</b>	<b>(145,340)</b>
<b>Loss from operations</b>		<b>(249,680)</b>	<b>(33,184)</b>	<b>(335,373)</b>	<b>(44,519)</b>
Finance income	9	42,941	5,707	49,300	6,544
Finance costs	10	(81,478)	(10,829)	(72,152)	(9,578)
<b>Net finance costs</b>		<b>(38,537)</b>	<b>(5,122)</b>	<b>(22,852)</b>	<b>(3,034)</b>
<b>Loss before tax</b>		<b>(288,217)</b>	<b>(38,306)</b>	<b>(358,225)</b>	<b>(47,553)</b>
Income tax expense	11	-	-	-	-
<b>Loss for the year</b>		<b>(288,217)</b>	<b>(38,306)</b>	<b>(358,225)</b>	<b>(47,553)</b>
<b>Other comprehensive income</b>					
Deferred exchange losses		349	46	(538)	(71)
The fair value of financial assets available for sale		402	53	(201)	(27)
Foreign exchange translation differences		-	37	-	(388)
<b>Total other comprehensive income</b>		<b>751</b>	<b>136</b>	<b>(739)</b>	<b>(486)</b>
<b>Total comprehensive income / (loss)</b>		<b>(287,466)</b>	<b>(38,170)</b>	<b>(358,964)</b>	<b>(48,039)</b>
<b>Loss per share HRK / EUR</b>	28	<b>(4.59)</b>	<b>(0.61)</b>	<b>(12.89)</b>	<b>(1.71)</b>

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

## Croatia Airlines Group consolidated statement of financial position

For the year ended 31 December 2021

	Note	31 December 2021		31 December 2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	12	2,505	333	2,236	297
Property, plant and equipment	13	251,434	33,448	289,836	38,456
Investment property	14	-	-	-	-
Right of use assets	31	400,559	53,286	473,721	62,854
Prepayments	16	182,397	24,264	134,972	17,908
Non-current deposits	17	53,015	7,053	28,508	3,782
Investments in equity instruments	18	1,319	175	917	122
Non-current receivables	19	61	8	90	12
		<b>891,290</b>	<b>118,567</b>	<b>930,280</b>	<b>123,431</b>
<b>Current assets</b>					
Inventories	20	60,040	7,987	61,797	8,199
Trade receivables	21	49,797	6,624	20,282	2,691
Other receivables	22	17,785	2,366	23,240	3,083
Income tax receivable		143	19	148	20
Prepaid expenses and accrued income	23	16,954	2,255	9,621	1,277
Current deposits	24	62,663	8,336	47,436	6,294
Cash and cash equivalents	25	316,667	42,126	579,577	76,899
		<b>524,049</b>	<b>69,713</b>	<b>742,101</b>	<b>98,463</b>
<b>TOTAL ASSETS</b>		<b>1,415,339</b>	<b>188,280</b>	<b>1,672,381</b>	<b>221,894</b>

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

# Croatia Airlines Group consolidated statement of financial position (continued)

For the year ended 31 December 2021

	Note	31 December 2021		31 December 2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	26	627,880	82,872	277,880	36,399
Reserves	27	1,217	170	350,627	46,566
Retained earnings / (accumulated loss)		(410,042)	(55,020)	(49,424)	(7,150)
Net loss for the year		(288,235)	(38,309)	(360,779)	(47,892)
Translation reserve rate		-	1,084	-	1,044
		<b>(69,180)</b>	<b>(9,203)</b>	<b>218,304</b>	<b>28,967</b>
<b>Non-current liabilities</b>					
Provisions	29	245,846	32,705	188,838	25,055
Non-current loans and borrowings	30	532,595	70,850	540,466	71,709
Non-current lease liabilities	31	286,587	38,124	279,877	37,134
Other non-current liabilities		55	7	838	111
		<b>1,065,083</b>	<b>141,686</b>	<b>1,010,019</b>	<b>134,009</b>
<b>Current liabilities</b>					
Provisions	29	23,083	3,071	14,236	1,889
Current loans and borrowings	32	-	-	-	-
Current portion of non-current loans and borrowings	30	12,779	1,700	12,813	1,700
Current lease liabilities	31	83,350	11,088	74,435	9,876
Trade payables	33	83,121	11,057	66,607	8,837
Other current liabilities	34	183,856	24,458	242,370	32,158
Income tax liability		4	1	-	-
Accrued expenses and deferred income	35	33,243	4,422	33,597	4,458
		<b>419,436</b>	<b>55,797</b>	<b>444,058</b>	<b>58,918</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,415,339</b>	<b>188,280</b>	<b>1,672,381</b>	<b>221,894</b>

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

# Croatia Airlines d.d. separate statement of financial position

For the year ended 31 December 2021

	Note	31 December 2021		31 December 2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	12	2,505	333	2,229	296
Property, plant and equipment	13	251,241	33,422	289,610	38,426
Investment property	14	-	-	-	-
Right of use assets	31	399,919	53,201	473,101	62,771
Investments in subsidiaries	15	1,210	161	1,210	161
Prepayments	16	182,397	24,264	134,972	17,908
Non-current deposits	17	52,062	6,926	28,471	3,778
Financial assets available for sale	18	1,319	175	917	122
Non-current receivables	19	1,144	152	823	109
		<b>891,797</b>	<b>118,634</b>	<b>931,333</b>	<b>123,571</b>
<b>Current assets</b>					
Inventories	20	60,040	7,987	61,797	8,199
Trade receivables	21	48,465	6,447	19,534	2,592
Other receivables	22	18,239	2,426	23,490	3,117
Prepaid expenses and accrued income	23	16,869	2,244	9,614	1,276
Current deposits	24	62,617	8,330	47,436	6,294
Cash and cash equivalents	25	311,256	41,406	574,324	76,202
		<b>517,486</b>	<b>68,840</b>	<b>736,195</b>	<b>97,680</b>
<b>TOTAL ASSETS</b>		<b>1,409,283</b>	<b>187,474</b>	<b>1,667,528</b>	<b>221,251</b>

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

# Croatia Airlines d.d. separate statement of financial position (continued)

For the year ended 31 December 2021

	Note	31 December 2021		31 December 2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	26	627,880	82,872	277,880	36,399
Reserves	27	(1,235)	(156)	348,014	46,218
Retained earnings / (accumulated loss)		(409,964)	(55,040)	(51,739)	(7,487)
Net loss for the year		(288,217)	(38,306)	(358,225)	(47,553)
Translation reserve rate		-	1,113	-	1,076
		<b>(71,536)</b>	<b>(9,517)</b>	<b>215,930</b>	<b>28,653</b>
<b>Non-current liabilities</b>					
Provisions	29	245,846	32,705	188,838	25,055
Non-current loans and borrowings	30	532,595	70,850	540,466	71,709
Non-current lease liabilities	31	286,172	38,069	279,496	37,084
Other non-current liabilities		55	7	838	111
		<b>1,064,668</b>	<b>141,631</b>	<b>1,009,638</b>	<b>133,959</b>
<b>Current liabilities</b>					
Provisions	29	23,083	3,071	14,236	1,889
Current loans and borrowings	32	-	-	-	-
Current portion of non-current loans and borrowings	30	12,779	1,700	12,813	1,700
Current lease liabilities	31	83,097	11,054	74,178	9,842
Trade payables	33	82,094	10,921	66,122	8,773
Other current liabilities	34	183,114	24,359	241,876	32,092
Accrued expenses and deferred income	35	31,984	4,255	32,735	4,343
		<b>416,151</b>	<b>55,360</b>	<b>441,960</b>	<b>58,639</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,409,283</b>	<b>187,474</b>	<b>1,667,528</b>	<b>221,251</b>

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

## Croatia Airlines Group consolidated statement of changes in equity

For the year ended 31 December 2021

Croatia Airlines Group	Share capital		Reserves		Retained earnings / (accumulated losses)		Profit / (loss) for the year		Translation reserve	Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2020	277,880	36,399	27,658	3,228	2,745	395	(78,465)	(10,583)	1,437	229,818	30,876
Loss for the year	-	-	-	-	-	-	(360,779)	(47,892)	-	(360,779)	(47,892)
Other comprehensive income	-	-	(739)	(98)	-	-	-	-	(393)	(739)	(491)
Total comprehensive income	-	-	(739)	(98)	-	-	(360,779)	(47,892)	(393)	(361,518)	(48,383)
<b>Transactions with owners</b>											
Cover of 2019 loss from legal reserves and other capital reserves	-	-	(26,296)	(3,038)	(52,169)	(7,545)	78,465	10,583	-	-	-
Write off	-	-	4	1	-	-	-	-	-	4	1
Capital contribution	-	-	350,000	46,473	-	-	-	-	-	350,000	46,473
Total transaction with owners	-	-	323,708	43,436	(52,169)	(7,545)	78,465	10,583	-	350,004	46,474
<b>Balance at 31 December 2020</b>	<b>277,880</b>	<b>36,399</b>	<b>350,627</b>	<b>46,566</b>	<b>(49,424)</b>	<b>(7,150)</b>	<b>(360,779)</b>	<b>(47,892)</b>	<b>1,044</b>	<b>218,304</b>	<b>28,967</b>
Loss for the year	-	-	-	-	-	-	(288,235)	(38,309)	-	(288,235)	(38,309)
Other comprehensive income	-	-	751	99	-	-	-	-	40	751	139
Total comprehensive income	-	-	751	99	-	-	(288,235)	(38,309)	40	(287,484)	(38,170)
<b>Transactions with owners</b>											
Cover of 2020 loss from other capital reserves	-	-	(161)	(22)	161	22	-	-	-	-	-
Registration of share capital increase	350,000	46,473	(350,000)	(46,473)	-	-	-	-	-	-	-
Total transaction with owners	350,000	46,473	(350,161)	(46,495)	(360,618)	(47,870)	360,779	47,892	-	-	-
<b>Balance at 31 December 2021</b>	<b>627,880</b>	<b>82,872</b>	<b>1,217</b>	<b>170</b>	<b>(410,042)</b>	<b>(55,020)</b>	<b>(288,235)</b>	<b>(38,309)</b>	<b>1,084</b>	<b>(69,180)</b>	<b>(9,203)</b>

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 2021

Croatia Airlines d.d.	Share capital		Reserves		Retained earnings / (accumulated losses)		Profit / (loss) for the year		Translation reserve	Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Balance at 1 January 2020	277,880	36,399	26,369	3,059	-	-	(79,359)	(10,704)	1,464	224,890	30,218
Loss for the year	-	-	-	-	-	-	(358,225)	(47,553)	-	(358,225)	(47,553)
Other comprehensive income	-	-	(739)	(98)	-	-	-	-	(388)	(739)	(486)
Total comprehensive income	-	-	(739)	(98)	-	-	(358,225)	(47,553)	(388)	(358,964)	(48,039)
<b>Transactions with owners</b>											
Cover of 2019 loss from legal reserves and other capital reserves	-	-	(27,620)	(3,217)	(51,739)	(7,487)	79,359	10,704	-	-	-
Write off	-	-	4	1	-	-	-	-	-	4	1
Capital contribution	-	-	350,000	46,473	-	-	-	-	-	350,000	46,473
Total transaction with owners	-	-	322,384	43,257	(51,739)	(7,487)	79,359	10,704	-	350,004	46,474
<b>Balance at 31 December 2020</b>	<b>277,880</b>	<b>36,399</b>	<b>348,014</b>	<b>46,218</b>	<b>(51,739)</b>	<b>(7,487)</b>	<b>(358,225)</b>	<b>(47,553)</b>	<b>1,076</b>	<b>215,930</b>	<b>28,653</b>
Loss for the year	-	-	-	-	-	-	(288,217)	(38,306)	-	(288,217)	(38,306)
Other comprehensive income	-	-	751	99	-	-	-	-	37	751	136
Total comprehensive income	-	-	751	99	-	-	(288,217)	(38,306)	37	(287,466)	(38,170)
<b>Transactions with owners</b>											
Transfer of losses in 2020	-	-	-	-	(358,225)	(47,553)	358,225	47,553	-	-	-
Registration of share capital increase	350,000	46,473	(350,000)	(46,473)	-	-	-	-	-	-	-
Total transaction with owners	350,000	46,473	(350,000)	(46,473)	(358,225)	(47,553)	358,225	47,553	-	-	-
<b>Balance at 31 December 2021</b>	<b>627,880</b>	<b>82,872</b>	<b>(1,235)</b>	<b>(156)</b>	<b>(409,964)</b>	<b>(55,040)</b>	<b>(288,217)</b>	<b>(38,306)</b>	<b>1,113</b>	<b>(71,536)</b>	<b>(9,517)</b>

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

## Croatia Airlines Group consolidated statement of cash flows

For the year ended 31 December 2021

	Note	2021		2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>Cash flows from operating activities</b>					
Loss for the year		(288,235)	(38,308)	(360,779)	(47,892)
<i>Adjustments for:</i>					
Depreciation and amortization		203,553	27,054	210,441	27,935
Gain on sale of property, plant and equipment		(141)	(19)	(330)	(44)
Disposals of intangible assets		7	1	-	-
Disposals of property, plant and equipment		3,114	414	9,498	1,261
Impairment of aircraft and engine		-	-	60,339	8,010
Impairment of investment in new building		-	-	9,390	1,246
Impairment of advances paid for new aircraft		-	-	57,484	7,631
Impairment loss on trade receivables		-	-	333	44
Collection of previously written-off receivables		(134)	(18)	(1,488)	(198)
Change in provisions		65,855	8,753	(9,641)	(1,280)
Unrealized foreign exchange differences		9,349	1,243	4,081	542
Interest costs		26,881	3,573	22,526	2,990
Interest income		(137)	(18)	(4,037)	(536)
		<b>20,112</b>	<b>2,675</b>	<b>(2,183)</b>	<b>(291)</b>
<i>Changes in:</i>					
Inventories		1,757	234	(443)	(59)
Trade and other receivables		(31,237)	(4,152)	45,436	6,032
Trade and other payables		(46,361)	(6,162)	(9,738)	(1,293)
<b>Cash generated from operating activities</b>		<b>(55,729)</b>	<b>(7,405)</b>	<b>33,072</b>	<b>4,389</b>
Interest paid		(20,139)	(2,677)	(15,365)	(2,040)
Interest received		144	19	4,044	537
Net change of deposits		(39,734)	(5,281)	(42,730)	(5,672)
Income tax paid		9	1	(186)	(25)
<b>Net cash (used in) / from operating activities</b>		<b>(115,449)</b>	<b>(15,343)</b>	<b>(21,165)</b>	<b>(2,811)</b>

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

## Croatia Airlines Group consolidated statement of cash flows (continued)

For the year ended 31 December 2021

	Note	2021		2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(17,297)	(2,299)	(60,825)	(8,074)
Proceeds from grants related to the purchase of real estate, plant and equipment		2,768	368	-	-
Proceeds from sale of property, plant and equipment		1,029	137	1,029	137
Aircraft and engine maintenance expenses		(45,343)	(6,026)	(23,943)	(3,178)
<b>Net cash used in investing activities</b>		<b>(58,843)</b>	<b>(7,820)</b>	<b>(83,739)</b>	<b>(11,115)</b>
<b>Cash flows from financing activities</b>					
Capital contribution	26	-	-	350,000	46,462
Proceeds from loans and borrowings	32	-	-	407,450	54,088
Repayment of loans and borrowings	32	(12,770)	(1,697)	(47,246)	(6,272)
Payment of lease liabilities	31	(75,848)	(10,081)	(64,794)	(8,601)
<b>Net cash from / (used in) financing activities</b>		<b>(88,618)</b>	<b>(11,778)</b>	<b>645,410</b>	<b>85,677</b>
<b>Net decrease in cash and cash activities</b>		<b>(262,910)</b>	<b>(34,941)</b>	<b>540,506</b>	<b>71,751</b>
Cash and cash equivalents at beginning of the year		579,577	76,899	39,071	5,250
Effect of foreign currency translation		-	168	-	(102)
<b>Cash and cash equivalents at end of the year</b>	25	<b>316,667</b>	<b>42,126</b>	<b>579,577</b>	<b>76,899</b>

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 2021

Note	2021		2020	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>Cash flows from operating activities</b>				
Loss for the year	(288.217)	(38.306)	(358.225)	(47.553)
<i>Adjustments for:</i>				
Depreciation and amortization	203.192	27.006	210.036	27.882
Gain on sale of property, plant and equipment	(141)	(19)	(330)	(44)
Disposals of property, plant and equipment	3.121	415	9.497	1.261
Impairment of aircraft and engine	-	-	60.339	8.010
Impairment of investment in new building	-	-	9.390	1.246
Impairment of advances paid for new aircraft	-	-	57.484	7.631
Impairment loss on trade receivables	-	-	333	44
Collection of previously written-off receivables	(24)	(3)	(1.468)	(195)
Change in provisions	65.855	8.753	(9.641)	(1.280)
Unrealized foreign exchange differences	9.352	1.243	4.130	548
Interest costs	26.866	3.571	22.505	2.987
Interest income	(137)	(18)	(4.037)	(536)
	<b>19.867</b>	<b>2.642</b>	<b>13</b>	<b>1</b>
<i>Changes in:</i>				
Inventories	1.757	234	(443)	(59)
Trade and other receivables	(32.999)	(4.386)	80.843	10.732
Trade and other payables	(50.229)	(6.676)	(46.614)	(6.188)
<b>Cash generated from operating activities</b>	<b>(61.604)</b>	<b>(8.186)</b>	<b>33.799</b>	<b>4.486</b>
Interest paid	(15.362)	(2.042)	(15.360)	(2.039)
Interest received	147	20	4.034	536
Net change of deposits	(38.772)	(5.153)	(42.718)	(5.671)
<b>Net cash from operating activities</b>	<b>(115.591)</b>	<b>(15.361)</b>	<b>(20.245)</b>	<b>(2.688)</b>

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

## Croatia Airlines d.d. separate statement of cash flows (continued)

For the year ended 31 December 2021

	Note	2021		2020	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(17,267)	(2,295)	(60,715)	(8,060)
Proceeds from grants related to the purchase of real estate, plant and equipment		2,768	368	-	-
Proceeds from sale of property, plant and equipment		1,029	137	1,029	137
Loans given		(400)	(53)	(1,300)	(173)
Proceeds from repayment of loans		75	10	-	-
Prepayments for maintenance of aircrafts and engines		(45,343)	(6,026)	(23,943)	(3,178)
<b>Net cash used in investing activities</b>		<b>(59,138)</b>	<b>(7,859)</b>	<b>(84,929)</b>	<b>(11,274)</b>
<b>Cash flows from financing activities</b>					
Capital contribution	26	-	-	350,000	46,462
Proceeds from loans and borrowings	32	-	-	407,450	54,088
Repayment of loans and borrowings	32	(12,770)	(1,697)	(47,246)	(6,272)
Payment of lease liabilities	31	(75,569)	(10,044)	(64,455)	(8,556)
<b>Net cash from / (used in) financing activities</b>		<b>(88,339)</b>	<b>(11,741)</b>	<b>645,749</b>	<b>85,722</b>
<b>Net decrease in cash and cash activities</b>		<b>(263,068)</b>	<b>(34,961)</b>	<b>540,575</b>	<b>71,760</b>
Cash and cash equivalents at beginning of the year		574,324	76,202	33,749	4,535
Effect of foreign currency translation		-	165	-	(93)
<b>Cash and cash equivalents at end of the year</b>	25	<b>311,256</b>	<b>41,406</b>	<b>574,324</b>	<b>76,202</b>

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

## Notes to the consolidated and separate financial statements

For the year ended 31 December 2021

---

### 1. GENERAL

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

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

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

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

#### General Assembly of the Company

The Ministry of State Property	98.76 %
Zagreb International Airport	0.76 %
HPB for The Republic of Croatia	0.28 %
Others	0.20 %
<b>Total</b>	<b>100.00 %</b>

#### Supervisory Board of the Company

Zlatko Mateša	President
Nataša Munitić	Vice President
Zoran Barac	Member
Zoran Viljac	Member
Mirko Tatalović	Member

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 1. GENERAL (CONTINUED)

#### Management Board of the Company

Jasmin Bajić	President of the Management Board and CEO (from 4 November 2017)
--------------	--

#### Subsidiaries' Management

Eugen Šunde	General Manager of Amadeus Croatia d.d.
-------------	---

Silvana Turčić	General Manager of Obzor putovanja d.o.o.
----------------	---

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

EUR / HRK	2021	2020
On 31 December	7.517174	7.536898
Average	7.524090	7.533115

Unless stated differently, values in the financial statements are rounded to the nearest thousand.

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

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

The principal accounting policies adopted are as follows.



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Revenue

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

Revenue recognition under IFRS 15 for the following sources of revenue is as follows:

##### - Passenger revenue

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

##### - Revenue from charter and cargo transport services

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

##### - Other sales revenue

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

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) Interest income

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

#### c) Dividend income and income from share in profit

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

#### d) Leases

At inception of a contract, the Group and the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Company use the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group and the Company allocate the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group and the Company have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group and the Company recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's and the Company's incremental borrowing rate. Generally, the Group and the Company use its incremental borrowing rate as the discount rate.

The Group and the Company determine their incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group / the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Group / the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group / the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Groups and the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and the Company change their assessment of whether they will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group and the Company present right-of-use assets and lease liabilities separately in the statement of financial position.

#### Short-term leases and leases of low-value assets

The Group and the Company have elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group and the Company recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) 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.

#### e) Borrowing costs

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

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

#### f) 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.

Government grants are recognized in profit or loss on a systematic basis over the period in which the costs are recognized for which the cover aid is intended. Grants related to property, plant and equipment are recognized in profit or loss in the periods and ratios at which the depreciation expense of that asset is recognized. In the statement of financial position the aid is deducted from the cost of acquisition of the asset when calculating cost and is recognized in profit or loss over the useful life of the depreciable asset as a reduction in depreciation expense.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### g) Taxation

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

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

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

#### h) Property, plant and equipment

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

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

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

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### h) Property, plant and equipment (continued)

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

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

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

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

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

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

Investments in leasehold improvements refer to investments or maintenance that increase the value of assets (aircraft, engines and buildings) and regular major inspections that the Company has on the property it uses under the rental contract. Investments are recognized at cost and depreciated over the remaining term of the rental contract of assets being upgraded or the expected next regular inspection, whichever is shorter. Leasehold improvements are shown within the property with the right of use.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### i) Investment property

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

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

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

#### j) Intangible assets

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

#### k) Investments in subsidiaries

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

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

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### l) Inventories

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

#### m) 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.



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### m) Financial instruments (continued)

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

##### *(i) Cash and cash equivalents*

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

##### *(ii) Investments in equity instruments*

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

##### *(iii) Loans and receivables*

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

##### *(iv) Financial liabilities*

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

#### n) Hedging reserves

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

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### n) Hedging reserves (continued)

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

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

#### o) Provisions

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### o) Provisions (continued)

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

Provisions for the maintenance of leased aircraft and engines that depend on the use of the asset in question are recognized during the period in proportion to the use of aircraft and engines. The Company's monthly payments to the lessors maintenance reserve are initially recognized as prepayments and are netted to the maintenance provisions when an inspection or overhaul is performed. Maintenance provisions that the Company must make at the end of the lease immediately before returning the subject property to the lessor, regardless of its use, are recognized on initial recognition of the lease.

#### p) Dividend distributions

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

#### q) Earnings per share

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

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

Certain standards, amendments and interpretations of existing standards that are applicable but not mandatory for the period ending 31 December 2021 have been published and as such have not been applied in the preparation of these financial statements. These standards are not expected to have a significant impact on the financial statements of the Company and the Group.

#### s) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, adopted by the European Union, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### s) Use of estimates in the preparation of financial statements (continued)

##### *(i) Financial assets and liabilities*

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

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

##### *(i) Operating segments*

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

##### *(ii) Revaluation of property, plant and equipment*

Aircraft are recognized in revaluated amounts in compliance with the revaluation accounting model pursuant to IAS 16 applied for the first time as of 31 December 2001. The Company periodically evaluates fair value, and in the case of identifying indicators that may significantly affect the value on an annual basis. Due to the significant impact of the COVID-19 pandemic, as at 31 December 2020, the Company determined the need for revaluation. The revaluation of the aircraft was performed by a certified appraiser using the static market value estimation method.

##### *(iii) Impairment losses on cash-generating units*

Determining indicators for potential impairment requires management to make estimates regarding external and internal factors that affect the recoverability of these assets. If there is any indication of impairment, the Company provides an estimate of the recoverable amount. An impairment loss is the amount by which the carrying amount of a cash-generating unit exceeds its recoverable amount.

The calculation of the recoverable amount requires estimates of future cash flows associated with the asset or cash-generating unit, the operating plan and the plan of operating income and operating expenses, as well as profitability, discount rate and growth rates.

The Company's management estimates that the Company's assets form a single cash-generating unit as aircraft, both owned and leased, are not dedicated to individual flights and a flight plan is developed to optimize costs at the Company level.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 3. GOING CONCERN

The business year 2021 for the Company was the second year of facing the consequences of the global COVID-19 pandemic, which caused the biggest crisis in the history of the air transport industry. The pandemic has a particularly negative impact on travel and tourism, and airlines and air transport as a whole are among the most vulnerable economic activities.

At the time of the biggest crisis in 2020, the Company did not stop flying but continued to connect Croatia with the world, and continued its mission in 2021 by gradually returning lines to traffic and increasing the number of frequencies in accordance with demand and epidemiological measures.

Reduced demand for air transport services caused by the COVID-19 pandemic and travel restrictions has affected business in all its segments and continues to pose the most significant business risk. Maintaining liquidity in such conditions was particularly challenging.

The beginning of the COVID-19 crisis affected the privatization process of the Company and in March 2020 the Commission for the implementation of the procedure and proposing the selection of a strategic partner decided to put the process on hold due to unfavourable situation and force majeure. Namely, in February 2019, the Government of the Republic of Croatia passed the Decision on initiating the procedure of searching for a strategic partner and establishing the Commission for the implementation of the procedure and proposing the selection of a strategic partner of Croatia Airlines. The Government of the Republic of Croatia and the Company expect to resume the process of finding a strategic partner as soon as market conditions allow. It is difficult to estimate exactly when market conditions will allow the procedure to be restarted, given that the precondition is an end to the pandemic.

Although expectations related to the resumption of traffic were much more optimistic, the continuation of the crisis caused by the COVID-19 pandemic and its impact on business, required the Company to continue in 2021 to implement measures to streamline operations.

In 2021, the Company continued to implement a crisis management system adapted to crisis conditions. The offer of flights was continuously adjusted on the basis of daily monitoring of the epidemiological situation and specific demand in individual markets, in accordance with which the optimization of the flight schedule was carried out on a weekly basis in terms of frequencies and aircraft capacity. The structure of the crash was also adjusted to demand, and greater emphasis was placed on the engagement of Dash Q400 aircraft with a smaller capacity. In the period July - September 2021, one aircraft was leased in a wet-lease arrangement.

Comprehensive austerity measures have been pursued to reduce costs and preserve liquidity. Only the necessary investments were made, primarily related to the aircraft fleet. Based on the supplement to the collective agreement from 2020, the gross salaries in 2021 were reduced by 15 percent.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 3. GOING CONCERN (continued)

To further mitigate the impact of the new crisis on cash flow, the Company used horizontal measures of the Government of the Republic of Croatia during the year to preserve jobs in activities that are severely affected by the pandemic. The Company's liquidity was continuously monitored and cash flow projections for the future period were prepared in order to determine in a timely manner the ways to overcome business risks when it comes to the regular settlement of all financial obligations of the company. In 2021, four instalments of the long-term club loan PBZ / HPB were repaid, and there were no new loans. All financial liabilities of the Company were duly settled in accordance with the set deadlines.

The vast majority of global and European airlines have been facing serious financial difficulties since the beginning of the pandemic due to the crisis and are beneficiaries of state aid as well as other types of financial aid including recapitalization, state loan guarantees, shareholder loans, etc. During 2021 the Company did not receive state aids from the Government of the Republic of Croatia.

A wide range of rationalization measures taken at all levels of the Company during the crisis caused by the coronavirus pandemic has contributed to improving the efficiency of business processes, which will continue in order to better adapt to future market conditions when this crisis passes. In this context, the development of the "Post-Covid strategy of Croatia Airlines" was started.

At the meeting of the Company's Supervisory Board held on 31 August 2021, the proposal of the "Post-Covid Strategy of Croatia Airlines" was accepted, which was made in mid-2021 together with selected consultants - Boston Consulting Group (BCG). This paved the way for further talks with the owner of the Company, the Republic of Croatia, but also other participants important for the implementation and ensuring a successful and quality future of the Croatian national airline and a member of the Star Alliance.

The implementation of defined strategic initiatives that will last for the next three years will enable sustainable business of the company in the future, and at the same time the Post-Covid strategy represents a new development cycle of the Company.

In addition to increasing efficiency and competitiveness, transforming existing models and modes of operation, in the coming period the Company faces key operational and structural challenges that include the renewal of the aircraft fleet and optimization of the flight network throughout the year. Taking into account the trends in the highly competitive Croatian aviation market, fuel prices and CO2 emissions, as well as the goals of "green" EU policies, defined strategic initiatives have no alternative, and their implementation uses the opportunities offered by the next two years during which air traffic recovery is expected.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 3. GOING CONCERN (continued)

The business plan for 2022-2025 is also based on the proposal of the Post-Covid strategy that would enable long-term sustainability of business while defining strategic goals and measures that would meet these goals.

Key strategic goals:

- 1) ensuring profitability
- 2) liability to shareholders
- 3) capital increase
- 4) fleet renewal and optimization
- 5) concluding a PSO contract.

In order to meet the mentioned strategic goals, the Company will implement or is already implementing the following measures:

#### *1) optimizing the structure of the aircraft fleet*

One of the main goals of the business plan, in addition to recovering from the COVID-19 pandemic, is to replace part of the existing fleet with newer, more cost-effective aircrafts, through leasing. It is also planned to increase the fleet by 2024 per unit per year, which would mean that the fleet would have 15 aircraft at the end of 2025.

#### *2) expansion of the destination network*

In line with the expected recovery in demand for air transport services after the end of the pandemic, the plan envisages a gradual increase in the number of destinations and frequencies.

#### *3) increase in passenger revenues*

The planned increase in passenger revenues is based on the planned increase in the number of transported passengers with increased efficiency through further digitalization of all commercial activities in order to realize revenue potential.

#### *4) increase in non-flying income*

Profiling the technical business sector as an autonomous profit center with an increase in revenues from the provision of maintenance services to other companies. The planned increase in revenues from aircraft maintenance services of other companies is based on the projected extension of the aircraft maintenance season to 10 months per year, i.e. on the use of maximum maintenance capacities for other companies.

#### *5) obtaining PSO contracts for domestic and international traffic*

The traffic connection of Croatia is still in the focus of the Company and the intention is to obtain a PSO contract for the future. The tender for the PSO contract to which the Company applied, i.e. the contract for the provision of scheduled air transport services within the Republic of Croatia in the period from 2022 to 2026, is in progress.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 3. GOING CONCERN (continued)

#### *6) cost initiatives in the form of reducing different cost categories*

Some of the planned streamlining measures are optimizing the cost of airport services through the process of negotiating with suppliers, stronger control of existing contracts and search for potential new providers of aircraft reception and departure in monopolistic markets and through negotiating lower prices of airport charges, reducing passenger costs by changing service models. during the flight, rationalization of the sales network or branches, reduction of agency fees. One of the cost initiatives is to reduce labour costs through measures to optimize crew planning and increase the productivity of technical staff, commercial and administrative staff by optimizing business processes.

#### *7) negotiations with Airbus regarding the cancellation of the order for the A320neo aircraft*

Negotiations to terminate / change the contract with Airbus Industries for the purchase of four Airbus 320neo aircraft began in autumn 2019. Negotiations of the "Termination Agreement", the subject of which is the cancellation of the purchase of A320neo aircraft, were put on hold at the beginning of the crisis caused by COVID-19, and continued in early 2021. The subject of negotiations is the termination of the sales contract, which terminates any further obligations of the Company to Airbus in connection with the payment of "predelivery payment". Since the subject of negotiations is the termination of the said contract, the Company is not responsible for any further payments.

The implementation of the defined "Post-Covid strategy", but also the continuation of the privatization process when the conditions are met should reduce the risks of significant uncertainty and doubts related to the Company's ability to continue operating in the foreseeable future. It should be emphasized, however, that given the unpredictability of the pandemic in terms of its scale and duration, control measures and the impact it will have on business, the need for additional financial support from the owner is not excluded.

Based on the document of the European Commission defining the "Temporary Framework for State Aid Measures to Support the Economy in the Current COVID Pandemic 19", a new package of state aid in 2022 is planned. This would return the company's capital and reserves to the pre-crisis level caused by the Covid-19 pandemic, as it was on 31 December 2019.

Business year 2022 should be a year of gradual growth in traffic, while according to IATA forecasts, pre-pandemic levels should be realized only from 2024. The pace of recovery will be determined by the lifting of border restrictions and geopolitical developments and the growing uncertainty surrounding this. As soon as the pandemic subsides, the world is facing war in Ukraine and inflation, which could have far-reaching consequences. This is certainly bad news for the aviation industry, which is already struggling to make up for losses due to the coronavirus pandemic.



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 3. GOING CONCERN (continued)

The business plan for 2022 also includes strategic initiatives that are part of the proposal of the Post-Covid strategy, the implementation of which began in the last quarter of 2021. Achieving the planned results for 2022 will strongly depend on the expected projected demand for air transport services, and the main risks that will affect demand are related to the war in Ukraine, fuel and other energy prices and inflationary pressures.

The Company plans a loss of HRK 278 million for 2022. The planned result is based on a projection of the traffic effects that are the basis for calculating operating income and expenses. In 2022, special emphasis will be placed on maintaining the Company's liquidity. The plan envisages a balance of cash and cash equivalents in the amount of HRK 356 million at the end of 2022, which includes a new package of state aid. The planned financial resources are sufficient to ensure the timely fulfilment of obligations during 2022.

Given the above, the going concern of the Company's operations depends on the timely adoption of the decision of the Government of the Republic of Croatia regarding the new financial support of the owner. Fulfilment of the stated conditions would provide adequate resources for timely fulfilment of obligations, i.e. ensure fulfilment of preconditions that will enable the Company to continue to operate according to the going concern principle.

Taking into account all the aforementioned facts, the Management Board of the Company expects the Company to have adequate resources be able to settle current liabilities on time and meet the requirements of the loan and lease agreements. The Management Board of the Company concluded that it is appropriate to prepare the financial statements on the going concern basis.

However, the aforementioned events or conditions, including the events described in Note 40. Events after the reporting date indicate that material uncertainty exists that may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 4. PASSENGER TRAFFIC

	2021		2020	
	Croatia Airlines d.d. i Grupa		Croatia Airlines d.d. i Grupa	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Scheduled services	565,793	75,198	441,474	58,604
Charter services	37,020	4,920	21,224	2,818
	<b>602,813</b>	<b>80,118</b>	<b>462,698</b>	<b>61,422</b>

Revenue by geographical area based on sales origin:

	2021		2020	
	Croatia Airlines d.d. i Grupa		Croatia Airlines d.d. i Grupa	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Croatia	211,226	28,073	177,861	23,611
Germany	63,958	8,500	45,021	5,976
USA	58,533	7,779	29,104	3,863
Great Britain	49,913	6,634	25,541	3,390
France	34,481	4,583	18,739	2,488
Other countries	184,702	24,549	166,432	22,094
	<b>602,813</b>	<b>80,118</b>	<b>462,698</b>	<b>61,422</b>

### 5. OTHER SALES REVENUE

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Revenue from technical services to others	66,517	8,841	52,357	6,950	66,517	8,841	52,357	6,950
Commission income from foreign air companies	2,100	279	1,703	226	2,100	279	1,703	226
Revenue from reservation system services	3,415	454	3,733	496	961	128	757	100
Revenue from advertising services	6,278	834	9,197	1,221	6,328	841	9,197	1,221
Revenue from educational services	1,634	217	491	65	1,634	217	491	65
Mileage related revenue	2,668	355	2,935	390	2,668	355	2,935	390
Other	20,037	2,663	6,331	840	14,916	1,982	3,656	486
	<b>102,649</b>	<b>13,643</b>	<b>76,747</b>	<b>10,188</b>	<b>95,124</b>	<b>12,643</b>	<b>71,096</b>	<b>9,438</b>

Included in the category Other are revenues from the lease of aircraft in the wet-lease arrangement in the amount of 11,281 thousand HRK, ie EUR 1,499 thousand (2020: there was no income from aircraft rental).

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 6. OTHER INCOME

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Income from PSO	88,876	11,812	83,677	11,108	88,876	11,812	83,677	11,108
Gain from sale of property, plant and equipment	141	19	330	44	141	19	330	44
Bad debts collected	134	18	1,488	198	24	3	1,468	195
Income from sale of spare parts	87	12	328	44	87	12	328	44
Other income	54,104	7,190	132,689	17,613	53,054	7,051	131,414	17,444
	<b>143,342</b>	<b>19,051</b>	<b>218,512</b>	<b>29,007</b>	<b>142,182</b>	<b>18,897</b>	<b>217,217</b>	<b>28,835</b>

Income from PSO arises from the differences of unrealized income in relation to the costs from maintaining domestic scheduled air transport from the Croatian Government (PSO - Public Service Obligation). The amount of PSO is determined as the difference between revenues from certain domestic flights and related direct flight operations expense, and realized as a part of project of maintaining connectivity of regions in domestic airline traffic. In 2020 other part of income from PSO arises based on maintaining international flight Zagreb – Mostar that was supported by the Government of Federation of Bosnia and Herzegovina.

During the year the Company recognized income on the basis of state aid for compensation for damage caused by the COVID-19 pandemic, employment support in the amount of HRK 26,304 thousand, EUR 3,496 thousand in the accordance with measures of the Government of the Republic of Croatia, employment support of HRK 1,467 thousand, EUR 195 thousand for employed in foreign countries (France, Germany, Switzerland and the United Kingdom), HRK 13,525 thousand, EUR 1,798 based on the application of the measure exemption from tax settlement proportionally to the percentage of revenue decline in the period April – September 2021. and the support received from the Danish Ministry of Transport in the amount of HRK 84 thousand or EUR 11 thousand. In 2020 other income include namely aid received for compensation for damage caused by COVID-19 based on the decision of the Government of the Republic of Croatia of 13 November 2020 in the amount of HRK 88,500 thousand, EUR 11,748 thousand, support received from the Ministry of Transport of Denmark in the amount of HRK 317 thousand, EUR 42 thousand, employment support in the amount of HRK 10,858 thousand, EUR 1,441 thousand in accordance with the measures of the Government of the Republic of Croatia, employment support in the amount of HRK 1,368 thousand, EUR 182 thousand for employees in foreign representative offices (France, Germany, Switzerland and the United Kingdom) and HRK 17,545 thousand, EUR 2,329 thousand based on the application of the Tax Exemption measure in proportion to the percentage of revenue decline in the period March - June 2020.

Furthermore, other revenues at the Group level include revenues recognized on the basis of state aid for compensation for damage caused by the COVID-19 pandemic, namely employment support in the amount of HRK 904 thousand, EUR 120 thousand received from the HZZ (2020: other income include employment support in the amount of HRK 636 thousand or EUR 84 thousand received from HZZ and employment support in the form of exemption from settlement of tax liabilities in the amount of HRK 408 thousand, EUR 54 thousand in accordance with the measures of the Government of the Republic of Croatia).

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 7. EXPENSES BY NATURE

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Fuel	141,633	18,824	79,129	10,504	141,633	18,824	79,129	10,504
Airport costs	158,555	21,073	123,836	16,439	158,555	21,073	123,836	16,439
Staff costs	223,083	29,650	240,508	31,927	219,130	29,123	236,132	31,346
Rental and maintenance of engines and parts	78,100	10,380	75,001	9,956	78,100	10,380	75,001	9,956
Aircraft lease	12,270	1,631	10,034	1,332	12,270	1,631	10,034	1,332
Air traffic control costs	63,878	8,490	49,290	6,543	63,877	8,490	49,290	6,543
Reservation system costs	39,901	5,303	29,066	3,858	39,901	5,303	29,066	3,858
Amortisation and depreciation	203,553	27,054	210,441	27,935	203,192	27,006	210,036	27,882
Commission costs	22,088	2,936	19,916	2,644	22,088	2,936	19,916	2,644
Catering	10,217	1,358	8,996	1,194	10,217	1,358	8,996	1,194
Consumables	22,232	2,955	16,252	2,157	22,232	2,955	16,252	2,157
Promotion costs	7,093	943	9,928	1,318	7,093	943	9,928	1,318
Other expenses	123,802	16,453	231,955	30,792	119,564	15,890	227,252	30,167
	<b>1,106,405</b>	<b>147,050</b>	<b>1,104,352</b>	<b>146,599</b>	<b>1,097,852</b>	<b>145,912</b>	<b>1,094,868</b>	<b>145,340</b>

Other expenses for 2020 include the impairment of aircraft and engines in the amount of HRK 60,339 thousand, EUR 9,125 thousand, impairment of advances paid for the purchase of new aircraft in the amount of HRK 57,483 thousand, EUR 7,626 thousand and impairment of investments in new office building in the amount of HRK 9,390 thousand, EUR 1,246 thousand (in 2021 there was no impairment loss).

### 8. STAFF COSTS

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Net wages and salaries	114,666	15,240	121,189	16,088	112,358	14,933	118,599	15,744
Taxes and contributions form salaries	47,320	6,289	55,355	7,348	46,419	6,169	54,293	7,207
Contributions on salaries	36,000	4,785	39,186	5,202	35,506	4,719	38,639	5,129
Other employee related costs	25,097	3,336	24,778	3,289	24,847	3,302	24,601	3,266
	<b>223,083</b>	<b>29,650</b>	<b>240,508</b>	<b>31,927</b>	<b>219,130</b>	<b>29,123</b>	<b>236,132</b>	<b>31,346</b>

As at 31 December 2021 the Group had 945 employees (Croatia Airlines d.d. 920, Amadeus Croatia d.d. 7 and Obzor putovanja d.o.o. 18) while as at 31 December 2020 the Group had 1.006 employees (Croatia Airlines d.d. 980, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 18) ; (see Note 36).

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 9. FINANCE INCOME

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Positive foreign exchange differences	42,849	5,695	45,386	6,025	42,804	5,689	45,263	6,008
Interest income	89	12	4,026	534	137	18	4,037	536
	<b>42,938</b>	<b>5,707</b>	<b>49,412</b>	<b>6,559</b>	<b>42,941</b>	<b>5,707</b>	<b>49,300</b>	<b>6,544</b>

### 10. FINANCE COSTS

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Negative foreign exchange differences	54,706	7,270	49,672	6,594	54,574	7,253	49,565	6,580
Interest expense	26,881	3,573	22,526	2,990	26,866	3,571	22,505	2,987
Other finance costs	38	5	82	11	38	5	82	11
	<b>81,625</b>	<b>10,848</b>	<b>72,280</b>	<b>9,595</b>	<b>81,478</b>	<b>10,829</b>	<b>72,152</b>	<b>9,578</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 11. INCOME TAX EXPENSE

Income tax is calculated at the rate of 18% (2020: 18%), which is applied to taxable profit for the current year. Subsidiaries calculate income tax at the rate of 10% (2020: 12%).

The Company does not have income tax liability for current year due to accumulated losses from previous years.

In 2021 there was no income tax expense on Group level as subsidiary Amadeus Croatia d.o.o realized a loss, subsidiary Obzor putovanja d.o.o carried over part of the realized losses from previous year (2020: there was no income tax expense on Group level since the both subsidiaries realized losses).

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

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Loss before tax	(288,235)	(38,309)	(360,779)	(47,892)	(288,217)	(38,306)	(358,225)	(47,553)
Tax at statutory rate	(51,882)	(6,896)	(64,940)	(8,621)	(51,879)	(6,895)	(64,481)	(8,560)
Non-deductible expenses	4,481	597	4,679	622	4,475	595	4,666	620
Non-taxable income	(7,522)	(1,000)	(21,560)	(2,862)	(7,453)	(991)	(21,428)	(2,845)
Tax incentives	(669)	(89)	(822)	(109)	(669)	(89)	(822)	(109)
deferred tax asset is not recognised	55,610	7,391	82,490	10,950	55,526	7,380	82,065	10,894
Utilised tax losses for which deferred tax asset was not recognised	(19)	(3)	-	-	-	-	-	-
Effect of diferent tax rates	1	-	153	20	-	-	-	-
<b>Income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 11. INCOME TAX EXPENSE (CONTINUED)

Overview of tax losses at the level of the Company available for utilization against future taxable profits is as follows:

	2021		2021		2020		2020	
	Tax losses available for utilisation		Tax allowance at tax rate of 18%		Tax losses available for utilisation		Tax allowance at tax rate of 18%	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loss from 2018 (expires 2023)	85,674	11,397	15,421	2,051	85,674	11,367	15,421	2,046
Loss from 2019 (expires 2024)	67,994	9,045	12,239	1,628	67,994	9,021	12,239	1,624
Loss from 2020 (expires 2025)	455,919	60,650	82,065	10,917	455,919	60,492	82,065	10,888
Loss from 2021 (expires 2026)	308,477	41,036	55,526	7,387	-	-	-	-
	<u>918,064</u>	<u>122,128</u>	<u>165,251</u>	<u>21,983</u>	<u>609,587</u>	<u>80,880</u>	<u>109,725</u>	<u>14,558</u>

Tax loss of the subsidiaries is as follows:

	2021		2021		2020		2020	
	Tax losses available for utilisation		Tax allowance at tax rate of 10%		Tax losses available for utilisation		Tax allowance at tax rate of 12%	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loss from 2020 (expires 2025)	3,349	446	335	45	3,537	469	424	56
Loss from 2021 (expires 2026)	840	112	84	11	-	-	-	-
	<u>4,189</u>	<u>558</u>	<u>419</u>	<u>56</u>	<u>3,537</u>	<u>469</u>	<u>424</u>	<u>56</u>

Deferred tax asset has not been recognized due to uncertainty as to whether sufficient future taxable income will be available against which the tax losses could be utilized. The non-recognized tax asset has been calculated using the tax rate enacted at the reporting date.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 12. INTANGIBLE ASSETS

#### Croatia Airlines Group

2021	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST</b>								
Balance at 1 January 2021	37,244	4,942	10,441	1,385	60	8	47,745	6,335
Additions	1,407	187	30	4	455	60	1,892	251
Disposals	(171)	(22)	(335)	(45)	-	-	(506)	(67)
Fx differences	-	12	-	3	-	1	-	16
Balance at 31 December 2021	<u>38,480</u>	<u>5,119</u>	<u>10,136</u>	<u>1,347</u>	<u>515</u>	<u>69</u>	<u>49,131</u>	<u>6,535</u>
<b>ACCUMULATED AMORTIZATION</b>								
Balance at 1 January 2021	36,585	4,854	8,924	1,184	-	-	45,509	6,038
Charge for the year	917	122	699	93	-	-	1,616	215
Disposal	(168)	(22)	(331)	(44)	-	-	(499)	(66)
Fx differences	-	12	-	3	-	-	-	15
Balance at 31 December 2021	<u>37,334</u>	<u>4,966</u>	<u>9,292</u>	<u>1,236</u>	<u>-</u>	<u>-</u>	<u>46,626</u>	<u>6,202</u>
<b>NET BOOK VALUE</b>								
Balance at 31 December 2021	<u>1,146</u>	<u>153</u>	<u>844</u>	<u>111</u>	<u>515</u>	<u>69</u>	<u>2,505</u>	<u>333</u>
Balance at 1 January 2021	<u>659</u>	<u>88</u>	<u>1,517</u>	<u>201</u>	<u>60</u>	<u>8</u>	<u>2,236</u>	<u>297</u>

2020	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST</b>								
Balance at 1 January 2020	37,345	5,018	8,327	1,119	-	-	45,672	6,137
Additions	302	40	2,114	281	60	8	2,476	329
Disposals	(403)	(53)	-	-	-	-	(403)	(53)
Fx differences	-	(63)	-	(15)	-	-	-	(78)
Balance at 31 December 2020	<u>37,244</u>	<u>4,942</u>	<u>10,441</u>	<u>1,385</u>	<u>60</u>	<u>8</u>	<u>47,745</u>	<u>6,335</u>
<b>ACCUMULATED AMORTIZATION</b>								
Balance at 1 January 2020	35,948	4,830	7,650	1,028	-	-	43,598	5,858
Charge for the year	1,040	138	1,274	169	-	-	2,314	307
Disposals	(403)	(53)	-	-	-	-	(403)	(53)
Fx differences	-	(61)	-	(13)	-	-	-	(74)
Balance at 31 December 2020	<u>36,585</u>	<u>4,854</u>	<u>8,924</u>	<u>1,184</u>	<u>-</u>	<u>-</u>	<u>45,509</u>	<u>6,038</u>
<b>NET BOOK VALUE</b>								
Balance at 31 December 2020	<u>659</u>	<u>88</u>	<u>1,517</u>	<u>201</u>	<u>60</u>	<u>8</u>	<u>2,236</u>	<u>297</u>
Balance at 1 January 2020	<u>1,397</u>	<u>188</u>	<u>677</u>	<u>91</u>	<u>-</u>	<u>-</u>	<u>2,074</u>	<u>279</u>



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 12. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

2021	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST</b>								
Balance at 1 January 2021	36,848	4,889	10,051	1,334	60	8	46,959	6,231
Additions	1,407	187	30	4	455	60	1,892	251
Disposals	-	-	-	-	-	-	-	-
Fx differences	-	13	-	3	-	1	-	17
Balance at 31 December 2021	<u>38,255</u>	<u>5,089</u>	<u>10,081</u>	<u>1,341</u>	<u>515</u>	<u>69</u>	<u>48,851</u>	<u>6,499</u>
<b>ACCUMULATED AMORTIZATION</b>								
Balance at 1 January 2021	36,192	4,802	8,538	1,133	-	-	44,730	5,935
Charge for the year	917	122	699	93	-	-	1,616	215
Disposals	-	-	-	-	-	-	-	-
Fx differences	-	13	-	3	-	-	-	16
Balance at 31 December 2021	<u>37,109</u>	<u>4,937</u>	<u>9,237</u>	<u>1,229</u>	<u>-</u>	<u>-</u>	<u>46,346</u>	<u>6,166</u>
<b>NET BOOK VALUE</b>								
Balance at 31 December 2021	<u>1,146</u>	<u>152</u>	<u>844</u>	<u>112</u>	<u>515</u>	<u>69</u>	<u>2,505</u>	<u>333</u>
Balance at 1 January 2021	<u>656</u>	<u>87</u>	<u>1,513</u>	<u>201</u>	<u>60</u>	<u>8</u>	<u>2,229</u>	<u>296</u>

2020	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST</b>								
Balance at 1 January 2020	36,854	4,952	7,937	1,067	-	-	44,791	6,019
Additions	302	40	2,114	281	60	8	2,476	329
Disposals	(308)	(41)	-	-	-	-	(308)	(41)
Fx differences	-	(62)	-	(14)	-	-	-	(76)
Balance at 31 December 2020	<u>36,848</u>	<u>4,889</u>	<u>10,051</u>	<u>1,334</u>	<u>60</u>	<u>8</u>	<u>46,959</u>	<u>6,231</u>
<b>ACCUMULATED AMORTIZATION</b>								
Balance at 1 January 2020	35,461	4,765	7,265	976	-	-	42,726	5,741
Charge for the year	1,039	138	1,273	169	-	-	2,312	307
Disposals	(308)	(41)	-	-	-	-	(308)	(41)
Fx differences	-	(60)	-	(12)	-	-	-	(72)
Balance at 31 December 2020	<u>36,192</u>	<u>4,802</u>	<u>8,538</u>	<u>1,133</u>	<u>-</u>	<u>-</u>	<u>44,730</u>	<u>5,935</u>
<b>NET BOOK VALUE</b>								
Balance at 31 December 2020	<u>656</u>	<u>87</u>	<u>1,513</u>	<u>201</u>	<u>60</u>	<u>8</u>	<u>2,229</u>	<u>296</u>
Balance at 1 January 2020	<u>1,393</u>	<u>187</u>	<u>672</u>	<u>91</u>	<u>-</u>	<u>-</u>	<u>2,065</u>	<u>278</u>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 13. PROPERTY, PLANT AND EQUIPMENT

#### Croatia Airlines Group

2021	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2021	72,359	9,601	58,682	7,786	1,198,335	158,996	203,962	27,062	6,068	805	1,539,406	204,250
Additions	-	-	1,125	150	3,812	507	7,445	989	-	-	12,382	1,646
Transfer	-	-	-	-	6,215	826	(1,688)	(224)	(6,032)	(802)	(1,505)	(200)
Disposals	(2)	-	(3,908)	(519)	-	-	(7,506)	(998)	-	-	(11,416)	(1,517)
Fx differences	-	25	-	20	-	418	-	71	-	2	-	536
Balance at 31 December 2021	<u>72,357</u>	<u>9,626</u>	<u>55,899</u>	<u>7,437</u>	<u>1,208,362</u>	<u>160,747</u>	<u>202,213</u>	<u>26,900</u>	<u>36</u>	<u>5</u>	<u>1,538,867</u>	<u>204,715</u>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2021	32,619	4,328	51,641	6,852	1,014,224	134,568	151,086	20,046	-	-	1,249,570	165,794
Charge for the year	2,130	283	3,005	399	32,153	4,273	5,822	774	-	-	43,110	5,729
Transfer	-	-	-	-	25	3	(626)	(83)	-	-	(601)	(80)
Disposals	-	-	(3,840)	(510)	-	-	(806)	(107)	-	-	(4,646)	(617)
Fx differences	-	12	-	18	-	358	-	53	-	-	-	441
Balance at 31 December 2021	<u>34,749</u>	<u>4,623</u>	<u>50,806</u>	<u>6,759</u>	<u>1,046,402</u>	<u>139,202</u>	<u>155,476</u>	<u>20,683</u>	<u>-</u>	<u>-</u>	<u>1,287,433</u>	<u>171,267</u>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2021	<u>37,608</u>	<u>5,003</u>	<u>5,093</u>	<u>678</u>	<u>161,960</u>	<u>21,545</u>	<u>46,737</u>	<u>6,217</u>	<u>36</u>	<u>5</u>	<u>251,434</u>	<u>33,448</u>
Balance at 1 January 2021	<u>39,740</u>	<u>5,273</u>	<u>7,041</u>	<u>934</u>	<u>184,111</u>	<u>24,428</u>	<u>52,876</u>	<u>7,016</u>	<u>6,068</u>	<u>805</u>	<u>289,836</u>	<u>38,456</u>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Croatia Airlines Group

2020	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2020	72,231	9,705	61,649	8,283	1,246,093	167,428	207,680	27,904	75,383	10,129	1,663,036	223,449
Additions	128	17	1,603	213	7,511	997	8,404	1,116	3,347	444	20,993	2,787
Transfer	-	-	-	-	1,773	235	(279)	(37)	(1,005)	(133)	489	65
Disposals	-	-	(1,273)	(169)	-	-	(11,843)	(1,572)	-	-	(13,116)	(1,741)
Impairment of aircraft and engines	-	-	(3,297)	(438)	(57,042)	(7,572)	-	-	-	-	(60,339)	(8,010)
Impairment of investment in new building	-	-	-	-	-	-	-	-	(9,390)	(1,246)	(9,390)	(1,246)
Impairment of advances for new aircraft	-	-	-	-	-	-	-	-	(57,484)	(7,631)	(57,484)	(7,631)
Fx differences	-	(121)	-	(103)	-	(2,092)	-	(349)	(4,783)	(758)	(4,783)	(3,423)
<b>Balance at 31 December 2020</b>	<b>72,359</b>	<b>9,601</b>	<b>58,682</b>	<b>7,786</b>	<b>1,198,335</b>	<b>158,996</b>	<b>203,962</b>	<b>27,062</b>	<b>6,068</b>	<b>805</b>	<b>1,539,406</b>	<b>204,250</b>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2020	30,001	4,031	48,584	6,528	975,709	131,098	146,618	19,700	-	-	1,200,912	161,357
Charge for the year	2,618	348	4,270	567	38,374	5,094	6,256	830	-	-	51,518	6,839
Transfer	-	-	-	-	141	19	(82)	(11)	-	-	59	8
Disposals	-	-	(1,213)	(161)	-	-	(1,706)	(226)	-	-	(2,919)	(387)
Fx differences	-	(51)	-	(82)	-	(1,643)	-	(247)	-	-	-	(2,023)
<b>Balance at 31 December 2020</b>	<b>32,619</b>	<b>4,328</b>	<b>51,641</b>	<b>6,852</b>	<b>1,014,224</b>	<b>134,568</b>	<b>151,086</b>	<b>20,046</b>	<b>-</b>	<b>-</b>	<b>1,249,570</b>	<b>165,794</b>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2020	39,740	5,273	7,041	934	184,111	24,428	52,876	7,016	6,068	805	289,836	38,456
Balance at 1 January 2020	42,230	5,674	13,065	1,755	270,384	36,330	61,062	8,204	75,383	10,129	462,124	62,092

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2021	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2021	72,359	9,601	57,659	7,650	1,198,335	158,996	203,962	27,062	6,069	804	1,538,384	204,113
Additions	-	-	1,096	146	3,812	507	7,445	989	-	-	12,353	1,642
Transfer	-	-	-	-	6,215	826	(1,687)	(224)	(6,033)	(802)	(1,505)	(200)
Disposals	(2)	-	(3,484)	(463)	-	-	(7,506)	(998)	-	-	(10,992)	(1,461)
Fx differences	-	25	-	19	-	418	-	71	-	3	-	536
Balance at 31 December 2021	<u>72,357</u>	<u>9,626</u>	<u>55,271</u>	<u>7,352</u>	<u>1,208,362</u>	<u>160,747</u>	<u>202,214</u>	<u>26,900</u>	<u>36</u>	<u>5</u>	<u>1,538,240</u>	<u>204,630</u>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2021	32,620	4,328	50,844	6,745	1,014,224	134,568	151,086	20,046	-	-	1,248,774	165,687
Charge for the year	2,130	283	2,936	391	32,153	4,273	5,822	774	-	-	43,041	5,721
Transfer	-	-	-	-	25	3	(626)	(83)	-	-	(601)	(80)
Disposals	-	-	(3,409)	(453)	-	-	(806)	(107)	-	-	(4,215)	(560)
Fx differences	-	12	-	17	-	358	-	53	-	-	-	440
Balance at 31 December 2021	<u>34,750</u>	<u>4,623</u>	<u>50,371</u>	<u>6,700</u>	<u>1,046,402</u>	<u>139,202</u>	<u>155,476</u>	<u>20,683</u>	<u>-</u>	<u>-</u>	<u>1,286,999</u>	<u>171,208</u>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2021	<u>37,607</u>	<u>5,003</u>	<u>4,900</u>	<u>652</u>	<u>161,960</u>	<u>21,545</u>	<u>46,738</u>	<u>6,217</u>	<u>36</u>	<u>5</u>	<u>251,241</u>	<u>33,422</u>
Balance at 1 January 2021	<u>39,739</u>	<u>5,273</u>	<u>6,815</u>	<u>905</u>	<u>184,111</u>	<u>24,428</u>	<u>52,876</u>	<u>7,016</u>	<u>6,069</u>	<u>804</u>	<u>289,610</u>	<u>38,426</u>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2020	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2020	72,231	9,705	60,726	8,158	1,246,093	167,428	207,680	27,904	75,384	10,129	1,662,114	223,324
Additions	128	17	1,492	198	7,511	997	8,404	1,116	3,347	444	20,882	2,772
Transfer	-	-	-	-	1,773	235	(279)	(37)	(1,005)	(133)	489	65
Disposals	-	-	(1,262)	(168)	-	-	(11,843)	(1,572)	-	-	(13,105)	(1,740)
Impairment of aircraft and engines	-	-	(3,297)	(438)	(57,042)	(7,572)	-	-	-	-	(60,339)	(8,010)
Impairment of investment in new building	-	-	-	-	-	-	-	-	(9,390)	(1,246)	(9,390)	(1,246)
Impairment of advances for new aircraft	-	-	-	-	-	-	-	-	(57,484)	(7,631)	(57,484)	(7,631)
Fx differences	-	(121)	-	(100)	-	(2,092)	-	(349)	(4,783)	(759)	(4,783)	(3,421)
<b>Balance at 31 December 2020</b>	<b>72,359</b>	<b>9,601</b>	<b>57,659</b>	<b>7,650</b>	<b>1,198,335</b>	<b>158,996</b>	<b>203,962</b>	<b>27,062</b>	<b>6,069</b>	<b>804</b>	<b>1,538,384</b>	<b>204,113</b>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2020	30,002	4,031	47,852	6,429	975,709	131,098	146,618	19,700	-	-	1,200,181	161,258
Charge for the year	2,618	348	4,195	557	38,374	5,094	6,256	830	-	-	51,443	6,829
Transfer	-	-	-	-	141	19	(82)	(11)	-	-	59	8
Disposals	-	-	(1,203)	(160)	-	-	(1,706)	(226)	-	-	(2,909)	(386)
Fx differences	-	(51)	-	(81)	-	(1,643)	-	(247)	-	-	-	(2,022)
<b>Balance at 31 December 2020</b>	<b>32,620</b>	<b>4,328</b>	<b>50,844</b>	<b>6,745</b>	<b>1,014,224</b>	<b>134,568</b>	<b>151,086</b>	<b>20,046</b>	<b>-</b>	<b>-</b>	<b>1,248,774</b>	<b>165,687</b>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2020	39,739	5,273	6,815	905	184,111	24,428	52,876	7,016	6,069	804	289,610	38,426
Balance at 1 January 2020	42,229	5,674	12,874	1,729	270,384	36,330	61,062	8,204	75,384	10,129	461,933	62,066

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Owned aircraft are stated using the revaluation method. The Company regularly reviews the value of owned aircraft and, if necessary, performs value adjustments. In December 2017, an assessment was made of the value of the aircraft and spare engine owned by the Company, based on which a loss in the amount of HRK 56,923 thousand, EUR 7,629 thousand was recognized.

Given the significant decline in business caused by the COVID-19 pandemic and the existence of indicators of impairment, at the end of the 2020 an assessment of the value of aircraft and spare engine owned by the Company was conducted and a loss of HRK 60,339 thousand, EUR 9,125 thousand was recognized.

Furthermore, the Company performed an impairment test based on the calculation of the value in need of the cash-generating unit, which in addition to the fleet owned includes the leased fleet in accordance with the assessment explained in Note 2.s).

In accordance with IAS 36 Impairment of Assets, the Company calculated the value in use of a cash-generating unit by discounting the estimated cash flows using a discount rate of 6.54% and risks specific to the type of assets and the Company's business. The estimated cash flows are based on a five-year business plan, which assumes a gradual market recovery and reaching pre-crisis business levels only from 2024, which is in line with IATA forecasts and a growth rate of 2.50% in the period after the fifth year.

Based on the analysis, it was determined that the book value of the cash-generating unit, after the value adjustment based on the revaluation model in 2020. Based on the fair value of the aircraft owned, is lower than the value in use, so there is no need for additional value adjustment.

The sensitivity analysis of the assumptions shows that in the event of an increase in the discount rate (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged discount rate) by 50 basis points, there would be no need to depreciate the fleet.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Carrying value of the property plant and equipment pledged as security for repayment of loans at the reporting date amounts to HRK 170,694 thousand, EUR 22,707 thousand (2020.: HRK 190,804 thousand, EUR 25,316 thousand).

Fleet as at 31.12.2021

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	Yes
Airbus A320	1	operating lease	-	-	No
Airbus A319	1	operating lease	-	-	No
Dash 8-Q400	6	operating lease	-	-	No
<b>Total</b>	<b>13</b>				

#### Property, plant and equipment under construction

Assets under construction in the amount of HRK 36 thousand, EUR 5 thousand relate to investments into aircraft (2020: Assets under construction in the amount of HRK 6,068 thousand, EUR 805 thousand relate to investments into aircraft)

During the 2020 year, a decision was made to abandon the procurement of contracted aircraft. Negotiations with the supplier are still ongoing and their outcome is difficult to predict. Based on the above, the impairment of paid advances in the amount of HRK 62,266 thousand, EUR 8,266 thousand was performed and recognized as an expense in the income statement within other operating expenses.

Due to the crisis caused by the COVID-19 virus pandemic, the Company abandoned the project of building a new office building and the entire amount of assets in preparation related to the said investment in the amount of HRK 9,390 thousand or EUR 1,246 thousand was recognized as an expense in profit or loss within other operating expenses.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 14. INVESTMENT PROPERTY

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

2021	Investment property	
	HRK thousand	EUR thousand
<b>COST</b>		
Balance at 1 January 2021	13,509	1,792
Fx differences	-	5
Balance at 31 December 2021	13,509	1,797
<b>ACCUMULATED AMORTIZATION</b>		
Balance at 1 January 2021	13,509	1,792
Fx differences	-	5
Balance at 31 December 2021	13,509	1,797
<b>NET BOOK VALUE</b>		
At 31 December 2021	-	-
At 1 January 2021	-	-
<b>2020</b>		
	Investment property	
	HRK	EUR
	thousand	thousand
<b>COST</b>		
Balance at 1 January 2020	13,509	1,815
Fx differences	-	(23)
Balance at 31 December 2020	13,509	1,792
<b>ACCUMULATED AMORTIZATION</b>		
Balance at 1 January 2020	13,508	1,815
Charge for the year	1	-
Fx differences	-	(23)
Balance at 31 December 2020	13,509	1,792
<b>NET BOOK VALUE</b>		
At 31 December 2020	-	-
At 1 January 2020	1	-

Revenue generated from investment property in amount of HRK 1,234 thousand, EUR 164 thousand (2020: HRK 1,130 thousand, EUR 150 thousand) is included in the category of Other within Other sales revenue.

The fair value of investment property at the reporting date amounted to HRK 12,780 thousand, EUR 1,700 thousand.



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 15. INVESTMENTS IN SUBSIDIARIES

Name	Main activity	Share	2021		2020		2021		2020	
			Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
			HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Obzor putovanja d.o.o.	Tourism	100%	-	-	-	-	1,020	136	1,020	135
Amadeus Croatia d.d.	Marketing services	95%	-	-	-	-	190	25	190	26
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210</u>	<u>161</u>	<u>1,210</u>	<u>161</u>

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

### 16. PREPAYMENTS AND ACCRUED REVENUE

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Prepayments for maintenance of aircrafts and engines	182,397	24,264	134,972	17,908	182,397	24,264	134,972	17,908
	<u>182,397</u>	<u>24,264</u>	<u>134,972</u>	<u>17,908</u>	<u>182,397</u>	<u>24,264</u>	<u>134,972</u>	<u>17,908</u>

### 17. NON-CURRENT DEPOSITS

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Deposits given to suppliers	24,823	3,303	23,788	3,155	24,810	3,301	23,751	3,151
Deposits at banks for employee loans	1,601	213	1,733	230	1,601	213	1,733	230
Deposits for bank guarantees	26,334	3,503	2,748	365	25,394	3,378	2,748	365
Deposits for business premises lease	257	34	239	32	257	34	239	32
	<u>53,015</u>	<u>7,053</u>	<u>28,508</u>	<u>3,782</u>	<u>52,062</u>	<u>6,926</u>	<u>28,471</u>	<u>3,778</u>

Non – current deposits given to suppliers consist of deposits given as guarantees to suppliers in the amount of HRK 24,810 thousand, EUR 3,301 thousand (2020: deposits given as guarantees to suppliers in the amount of HRK 23,751 thousand, EUR 3,151 thousand).

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 18. INVESTMENTS IN EQUITY INSTRUMENTS

	Share	2021		2020		2021		2020	
		Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Hrvatska poštanska banka d.d.	0.18%	1,130	150	728	97	1,130	150	728	97
Star Alliance		189	25	189	25	189	25	189	25
		<u>1,319</u>	<u>175</u>	<u>917</u>	<u>122</u>	<u>1,319</u>	<u>175</u>	<u>917</u>	<u>122</u>

Investments in equity instruments are classified as financial assets at fair value through other comprehensive income. Based on the fair value adjustments in the 2021 gain of HRK 402 thousand, EUR 53 thousand is recognized in other comprehensive income (2020: loss of HRK 201 thousand, EUR 27 thousand).

### 19. NON-CURRENT RECEIVABLES

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Receivables for sold flats	61	8	90	12	61	8	90	12
Loans receivable	-	-	-	-	1,083	144	733	97
	<u>61</u>	<u>8</u>	<u>90</u>	<u>12</u>	<u>1,144</u>	<u>152</u>	<u>823</u>	<u>109</u>

Long-term receivables for housing relate to 32 flats sold to the employees of the Company. The due dates range from 16 to 30 years with an annual interest of 1% according to the Law on Sale of Publicly Owned Flats with Tenancy Rights (NN 43/92).

Loans receivable relate to a loan given to a subsidiary in the total approved amount of HRK 1,700 thousand, EUR 226 thousand, of which HRK 400 thousand, EUR 53 thousand, while during the 2020 HRK 1,300 thousand, EUR 173 thousand were given during the year at an interest rate in accordance with the decision of the Ministry of Finance on the applicable interest rate on loans between related companies for the purpose of calculating income tax. During the year HRK 75 thousand, EUR 10 thousand were repaid and the remaining amount will be repaid in 24 monthly installments with the beginning of repayment in May 2022. The current portion of the loan and accrued interest are disclosed in Note 22.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 20. INVENTORIES

	2021		2020		2021		2020	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Consumable spare parts	59,162	7,870	60,869	8,076	59,162	7,870	60,869	8,076
Catering, supplies and other inventories	878	117	928	123	878	117	928	123
	<b>60,040</b>	<b>7,987</b>	<b>61,797</b>	<b>8,199</b>	<b>60,040</b>	<b>7,987</b>	<b>61,797</b>	<b>8,199</b>

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

### 21. TRADE RECEIVABLES

	2021		2020		2021		2020	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Domestic trade receivables	14,531	1,932	8,596	1,141	13,393	1,781	8,026	1,065
Foreign trade receivables	41,034	5,459	22,355	2,966	40,840	5,433	22,167	2,941
Allowance for doubtful receivables	(5,768)	(767)	(10,669)	(1,416)	(5,768)	(767)	(10,659)	(1,414)
	<b>49,797</b>	<b>6,624</b>	<b>20,282</b>	<b>2,691</b>	<b>48,465</b>	<b>6,447</b>	<b>19,534</b>	<b>2,592</b>

The following tables show changes in allowance for expected credit losses:

	2021		2021	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
<b>Allowance for doubtful receivables</b>				
<b>1 January</b>	10,669	1,416	10,659	1,414
Increase	-	-	-	-
Decrease	(24)	(3)	(24)	(3)
Write-offs	(4,800)	(638)	(4,790)	(636)
Foreign exchange differences	(77)	(8)	(77)	(8)
<b>31 December</b>	<b>5,768</b>	<b>767</b>	<b>5,768</b>	<b>767</b>

	2020		2020	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
<b>Allowance for doubtful receivables</b>				
<b>1 January</b>	10,362	1,392	10,352	1,391
Increase	333	44	333	44
Decrease	(43)	(6)	(43)	(6)
Write-offs	(81)	(11)	(81)	(11)
Foreign exchange differences	98	(3)	98	(4)
<b>31 December</b>	<b>10,669</b>	<b>1,416</b>	<b>10,659</b>	<b>1,414</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 22. OTHER RECEIVABLES

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Receivables from employees	139	18	48	6	134	18	41	5
Receivables from the State	16,141	2,147	20,220	2,683	16,133	2,146	20,012	2,655
Receivables for advances	1,505	201	1,755	233	1,430	190	1,643	218
Loans receivable	-	-	-	-	542	72	577	77
Other receivables	-	-	1,217	161	-	-	1,217	162
	<u>17,785</u>	<u>2,366</u>	<u>23,240</u>	<u>3,083</u>	<u>18,239</u>	<u>2,426</u>	<u>23,490</u>	<u>3,117</u>

### 23. PREPAYMENTS AND ACCRUED REVENUE

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Prepayments	6,309	839	6,558	871	6,224	828	6,551	870
Accrued revenue	10,645	1,416	3,063	406	10,645	1,416	3,063	406
	<u>16,954</u>	<u>2,255</u>	<u>9,621</u>	<u>1,277</u>	<u>16,869</u>	<u>2,244</u>	<u>9,614</u>	<u>1,276</u>

### 24. CURRENT DEPOSITS

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Deposits	62,663	8,336	47,436	6,294	62,617	8,330	47,436	6,294
	<u>62,663</u>	<u>8,336</u>	<u>47,436</u>	<u>6,294</u>	<u>62,617</u>	<u>8,330</u>	<u>47,436</u>	<u>6,294</u>

Deposits are mostly related to guarantee deposits for tickets sold on the American and European markets.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 25. CASH AND CASH EQUIVALENTS

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Gyro account	293,990	39,110	170,302	22,596	291,617	38,793	167,501	22,224
Foreign currency accounts	22,575	3,003	9,168	1,216	19,555	2,601	6,737	894
Petty cash	24	3	24	3	12	2	11	1
Foreign currency petty cash	78	10	75	10	72	10	75	10
Short-term deposits	-	-	400,008	53,074	-	-	400,000	53,073
	<b>316,667</b>	<b>42,126</b>	<b>579,577</b>	<b>76,899</b>	<b>311,256</b>	<b>41,406</b>	<b>574,324</b>	<b>76,202</b>

Short-term deposits at 31 December 2020 present term deposits at the banks with maturities up to 90 days with a fixed annual interest rate 0,02%.

### 26. SHARE CAPITAL

Share capital of the Company amounts HRK 627,880 thousand (2020: HRK 277,880 thousand) and is divided in 62,787,953 ordinary shares (2020: 27,787,953 ordinary shares) with a nominal value of HRK 10.00 each.

As at 31 December ownership structure was as follows:

2021	Number of shares	HRK thousand	Share %
<b>Shareholders</b>			
Republic of Croatia	62,010,821	620,109	98.76
Zagreb International Airport	477,121	4,771	0.76
HPB for Republic of Croatia	173,768	1,738	0.28
Others	126,243	1,262	0.20
	<b>62,787,953</b>	<b>627,880</b>	<b>100.00</b>
<b>2020</b>	<b>Number of shares</b>	<b>HRK thousand</b>	<b>Share %</b>
<b>Shareholders</b>			
Republic of Croatia	27,010,821	270,109	97.20
Zagreb International Airport	477,121	4,771	1.72
HPB for Republic of Croatia	173,768	1,738	0.63
Others	126,243	1,262	0.45
	<b>27,787,953</b>	<b>277,880</b>	<b>100.00</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 27. RESERVES

Croatia Airlines Group	Legal reserves		Other capital reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2020	14,550	1,910	14,355	1,475	(774)	(101)	(473)	(56)	27,658	3,228
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(201)	(27)	(538)	(71)	(739)	(98)
Total comprehensive income	-	-	-	-	(201)	(27)	(538)	(71)	(739)	(98)
<b>Transactions with owners</b>										
Cover of 2019 loss from legal reserves and other capital reserves	(14,550)	(1,910)	(11,746)	(1,128)	-	-	-	-	(26,296)	(3,038)
Write off	-	-	4	1	-	-	-	-	4	1
Capital contribution	-	-	350,000	46,473	-	-	-	-	350,000	46,473
Total transaction with owners	(14,550)	(1,910)	338,258	45,346	-	-	-	-	323,708	43,436
<b>Balance at 31 December 2020</b>	-	-	<b>352,613</b>	<b>46,821</b>	<b>(975)</b>	<b>(128)</b>	<b>(1,011)</b>	<b>(127)</b>	<b>350,627</b>	<b>46,566</b>
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	402	53	349	46	751	99
Total comprehensive income	-	-	-	-	402	53	349	46	751	99
<b>Transactions with owners</b>										
Cover of 2020 loss from other capital reserves	-	-	(161)	(22)	-	-	-	-	(161)	(22)
Registration of share capital increase	-	-	(350,000)	(46,473)	-	-	-	-	(350,000)	(46,473)
Total transaction with owners	-	-	(350,161)	(46,495)	-	-	-	-	(350,161)	(46,495)
<b>Balance at 31 December 2021</b>	-	-	<b>2,452</b>	<b>326</b>	<b>(573)</b>	<b>(75)</b>	<b>(662)</b>	<b>(81)</b>	<b>1,217</b>	<b>170</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 27. RESERVES (CONTINUED)

Croatia Airlines d.d.	Legal reserves		Other capital reserves		Fair value reserve		Protection reserve		Reserves	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2020	14,550	1,910	13,066	1,306	(774)	(101)	(473)	(56)	26,369	3,059
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(201)	(27)	(538)	(71)	(739)	(98)
Total comprehensive income	-	-	-	-	(201)	(27)	(538)	(71)	(739)	(98)
<b>Transactions with owners</b>										
Cover of 2019 loss from legal reserves and other capital reserves	(14,550)	(1,910)	(13,070)	(1,307)	-	-	-	-	(27,620)	(3,217)
Write off	-	-	4	1	-	-	-	-	4	1
Capital contribution	-	-	350,000	46,473	-	-	-	-	350,000	46,473
Total transaction with owners	(14,550)	(1,910)	336,934	45,167	-	-	-	-	322,384	43,257
<b>Balance at 31 December 2020</b>	-	-	<b>350,000</b>	<b>46,473</b>	<b>(975)</b>	<b>(128)</b>	<b>(1,011)</b>	<b>(127)</b>	<b>348,014</b>	<b>46,218</b>
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	402	53	349	46	751	99
Total comprehensive income	-	-	-	-	402	53	349	46	751	99
<b>Transactions with owners</b>										
Transfer of losses in 2020	-	-	-	-	-	-	-	-	-	-
Registration of share capital increase	-	-	(350,000)	(46,473)	-	-	-	-	(350,000)	(46,473)
Total transaction with owners	-	-	(350,000)	(46,473)	-	-	-	-	(350,000)	(46,473)
<b>Balance at 31 December 2021</b>	-	-	-	-	<b>(573)</b>	<b>(75)</b>	<b>(662)</b>	<b>(81)</b>	<b>(1,235)</b>	<b>(156)</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 27. RESERVES (CONTINUED)

#### Legal reserves

In accordance with the law, the legal reserve is formed as at least 5% of the profit for the year until the total legal reserve reaches 5% of the share capital of the Company. Based on the decision of the Assembly of 10 July 2020, legal reserves are used for covering losses so as of 31 December 2020 and 31 December 2021 the Company does not have any legal reserves.

#### Other capital reserves

Other capital reserves resulted from the simplified reduction of share capital in 2013 as the difference between the amount by which share capital was decreased and losses carried forward that were covered from the decrease of capital. Based on the decision of the Assembly of 13 July 2015 the other capital reserves in the amount of HRK 662 thousand, EUR 97 thousand were used to cover losses carried forward. Based on the decision of the General Assembly of 17 July 2017, profit realized in 2016 in the amount of HRK 8,042 thousand, EUR 1,068 thousand was transferred to other capital reserves. Based on the decision of the Assembly of 2 July 2018, the profit realized in 2017 in the amount of HRK 7,377 thousand, EUR 983 thousand was allocated in other capital reserves. Based on the decision of the Assembly of 9 July 2019 other capital reserves in the amount HRK 82,937 thousand, EUR 11,186 thousand were used for covering loss realized in 2018. Based on the decision of the Assembly of 10 July 2020, other capital reserves are used for covering losses so as of 31 December 2020 and 31 December 2021 the Company does not have any other capital reserves.

Other capital reserves at the Group level include reserves of subsidiaries. During the 2021 legal reserves and other reserves of the Company Amadeus Croatia d.d. were used to cover losses so that as at 31 December 2021 the company has no reserves (2020: Reserves of the Company Amadeus Croatia d.d. consists of HRK 10 thousand, EUR 1 thousand of legal and HRK 151 thousand, EUR 21 thousand of other reserves). The Company Obzor putovanja d.o.o. has other reserves in the amount of HRK 2,452 thousand, EUR 326 thousand (2020: HRK 2,452 thousand, EUR 326 thousand).

#### Fair value reserve

Fair value reserve resulted from the basis of fair value adjustments on investments in equity instruments. Since the fair value of the investments in equity instruments on the reporting date is lower than the acquisition cost, fair value reserve is negative and amounts to HRK 573 thousand, EUR 75 thousand (2020: HRK 975 thousand, EUR 128 thousand).

#### Protection reserve

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



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 28. BASIC AND DELUTED (LOSS)/EARNINGS PER SHARE

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

	2021		2020	
	Croatia Airlines Grupa HRK	EUR	Croatia Airlines Grupa HRK	EUR
Loss for the year in thousands	<u>(288,235)</u>	<u>(38,309)</u>	<u>(360,779)</u>	<u>(47,892)</u>
Number of issued shares		62,787,953		27,787,953
Basic and diluted loss per share in HRK/EUR	<u>(4.59)</u>	<u>(0.61)</u>	<u>(12.98)</u>	<u>(1.72)</u>

	2021		2020	
	Croatia Airlines d.d. HRK	EUR	Croatia Airlines d.d. HRK	EUR
Loss for the year in thousands	<u>(288,217)</u>	<u>(38,306)</u>	<u>(358,225)</u>	<u>(47,553)</u>
Number of issued shares		62,787,953		27,787,953
Basic and diluted loss per share in HRK/EUR	<u>(4.59)</u>	<u>(0.61)</u>	<u>(12.89)</u>	<u>(1.71)</u>

Diluted earnings per share is equal to basic earnings per share as the Company did not have convertible instruments nor share options.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 29. PROVISIONS

Provisions of the Group and Companies are as follows:

	Provision for court cases		Provision for severance payments and jubilee awards		Provision for maintenance of leased aircrafts and engines		Other provisions		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Non-current provisions	3,114	413	2,934	389	175,790	23,324	7,000	929	188,838	25,055
Current provisions	-	-	-	-	14,236	1,889	-	-	14,236	1,889
<b>Balance as at 31 December 2020</b>	<b>3,114</b>	<b>413</b>	<b>2,934</b>	<b>389</b>	<b>190,026</b>	<b>25,213</b>	<b>7,000</b>	<b>929</b>	<b>203,074</b>	<b>26,944</b>
<b>Balance as at 31 December 2021</b>	<b>3,114</b>	<b>413</b>	<b>2,934</b>	<b>389</b>	<b>190,026</b>	<b>25,213</b>	<b>7,000</b>	<b>929</b>	<b>203,074</b>	<b>26,944</b>
Provisions made during year	13,601	1,808	-	-	48,421	6,435	-	-	62,022	8,243
Provisions used during year	(99)	(13)	(255)	(34)	(10,552)	(1,402)	(625)	(83)	(11,531)	(1,532)
Released during year	-	-	(378)	(50)	-	-	-	-	(378)	(50)
Foreign exchange differences	-	2	-	1	15,742	2,166	-	2	15,742	2,171
<b>Balance as at 31 December 2021</b>	<b>16,616</b>	<b>2,210</b>	<b>2,301</b>	<b>306</b>	<b>243,637</b>	<b>32,412</b>	<b>6,375</b>	<b>848</b>	<b>268,929</b>	<b>35,776</b>
Non-current provisions	16,616	2,210	2,301	306	220,554	29,341	6,375	848	245,846	32,705
Current provisions	-	-	-	-	23,083	3,071	-	-	23,083	3,071
<b>Balance as at 31 December 2021</b>	<b>16,616</b>	<b>2,210</b>	<b>2,301</b>	<b>306</b>	<b>243,637</b>	<b>32,412</b>	<b>6,375</b>	<b>848</b>	<b>268,929</b>	<b>35,776</b>

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

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

Provisions for the maintenance of leased aircraft and engines consist of provisions for the maintenance of leased aircraft and engines based on their use in the amount of HRK 182,397 thousand, EUR 24,265 thousand (2020: HRK 134,971 thousand, EUR 17,908 thousand) and maintenance provisions that must be made at the end of the lease immediately before the return of the subject property to the lessor, regardless of its use, in the amount of HRK 61,240 thousand, EUR 8,147 thousand (2020: HRK 55,055 thousand, EUR 7,305 thousand).

Other provisions refer to provisions for early severance pay of a part of employees who meet the conditions for early severance pay, in order to optimize the number of employees in accordance with the plan agreed with the Supervisory Board.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 30. LONG-TERM LOANS AND BORROWINGS

	2021		2020		2021		2020	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Non-current loans	545,374	72,550	553,279	73,409	545,374	72,550	553,279	73,409
Current portion of non-current loans	(12,779)	(1,700)	(12,813)	(1,700)	(12,779)	(1,700)	(12,813)	(1,700)
	<b>532,595</b>	<b>70,850</b>	<b>540,466</b>	<b>71,709</b>	<b>532,595</b>	<b>70,850</b>	<b>540,466</b>	<b>71,709</b>

Description of non-current loans is as follows:

Loan purpose	Original currency	Loan amount	interest rate	Due	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for maintenance of engines	EUR	8,500	3m EURIBOR + 3.07%	June 2023	34,955	4,650	47,860	6,350
Loan for maintaining financial stability	HRK	250,000	2%	January 2025	260,419	34,643	255,419	33,889
Loan for maintaining financial stability	HRK	250,000	0.72% - 2.22%	December 2025	250,000	33,257	250,000	33,170
					<b>545,374</b>	<b>72,550</b>	<b>553,279</b>	<b>73,409</b>
Current portion					(12,779)	(1,700)	(12,813)	(1,700)
<b>Non-current loans</b>					<b>532,595</b>	<b>70,850</b>	<b>540,466</b>	<b>71,709</b>

The repayment schedule for non-current loans is as follows:

	2021		2021	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
2022	12,779	1,700	12,779	1,700
2023	22,176	2,950	22,176	2,950
2024	-	-	-	-
After 2024	510,419	67,900	510,419	67,900
	<b>545,374</b>	<b>72,550</b>	<b>545,374</b>	<b>72,550</b>

Non-current loans are secured by collateral over three Airbus airplanes and real estate.

The carrying amount of non-current loans corresponds to their fair value

Adjustment of long-term borrowings with cash flows from financial activities has been reported in Note 32.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 31. LEASES

The Group and the Company lease aircrafts and engines, business premises and vehicles.

#### Right of use assets

##### Croatia Airlines Group

2021	Aircrafts		Engines		Business premises		Vehicles		Leasehold improvements		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2021	452,847	60,084	72,486	9,617	26,600	3,530	265	35	311,162	41,285	863,360	114,551
Additions	73,142	9,721	-	-	312	41	-	-	-	-	73,454	9,762
Leased property investments	-	-	-	-	-	-	-	-	2,423	322	2,423	322
Lease modifications	(891)	(118)	-	-	10,569	1,405	-	-	-	-	9,678	1,287
Transfer from property, plant and equipment	-	-	-	-	-	-	-	-	1,505	200	1,505	200
Disposals	-	-	-	-	(363)	(48)	(148)	(20)	-	-	(511)	(68)
Fx differences	-	166	-	26	-	10	-	1	-	108	-	311
<b>Balance at 31 December 2021</b>	<b>525,098</b>	<b>69,853</b>	<b>72,486</b>	<b>9,643</b>	<b>37,118</b>	<b>4,938</b>	<b>117</b>	<b>16</b>	<b>315,090</b>	<b>41,915</b>	<b>949,909</b>	<b>126,365</b>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2021	134,555	17,853	35,821	4,752	11,287	1,498	183	24	207,793	27,570	389,639	51,697
Charge for the year	68,348	9,084	17,116	2,275	5,881	782	57	8	67,425	8,961	158,827	21,110
One-off rebates	-	-	-	-	794	106	-	-	-	-	794	106
Transfer from property, plant and equipment	-	-	-	-	-	-	-	-	601	80	601	80
Disposals	-	-	-	-	(363)	(48)	(148)	(20)	-	-	(511)	(68)
Fx differences	-	55	-	15	-	3	-	-	-	81	-	154
<b>Balance at 31 December 2021</b>	<b>202,903</b>	<b>26,992</b>	<b>52,937</b>	<b>7,042</b>	<b>17,599</b>	<b>2,341</b>	<b>92</b>	<b>12</b>	<b>275,819</b>	<b>36,692</b>	<b>549,350</b>	<b>73,079</b>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2021	322,195	42,861	19,549	2,601	19,519	2,597	25	4	39,271	5,223	400,559	53,286
Balance at 1 January 2021	318,292	42,231	36,665	4,865	15,313	2,032	82	11	103,369	13,715	473,721	62,854

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### Croatia Airlines Group

2020	Aircrafts		Engines		Business premises		Vehicles		Leasehold improvements		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2020	443,873	59,640	72,643	9,760	25,300	3,399	256	34	266,188	35,766	808,260	108,599
Additions	-	-	-	-	359	48	78	10	-	-	437	58
Leased property investments	-	-	-	-	-	-	-	-	45,463	6,035	45,463	6,035
Lease modifications	8,974	1,191	5,245	696	1,044	139	-	-	-	-	15,263	2,026
Transfer to property, plant and equipment	-	-	-	-	-	-	-	-	(489)	(65)	(489)	(65)
Disposals	-	-	(5,402)	(717)	(103)	(14)	(69)	(9)	-	-	(5,574)	(740)
Fx differences	-	(747)	-	(122)	-	(42)	-	-	-	(451)	-	(1,362)
Balance at 31 December 2020	<u>452,847</u>	<u>60,084</u>	<u>72,486</u>	<u>9,617</u>	<u>26,600</u>	<u>3,530</u>	<u>265</u>	<u>35</u>	<u>311,162</u>	<u>41,285</u>	<u>863,360</u>	<u>114,551</u>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2020	68,211	9,165	21,998	2,955	4,734	636	95	13	142,751	19,181	237,789	31,950
Charge for the year	66,344	8,807	19,225	2,552	5,825	773	113	15	65,101	8,642	156,608	20,789
One-off rebates	-	-	-	-	831	110	-	-	-	-	831	110
Transfer to property, plant and equipment	-	-	-	-	-	-	-	-	(59)	(8)	(59)	(8)
Disposals	-	-	(5,402)	(717)	(103)	(14)	(25)	(3)	-	-	(5,530)	(734)
Fx differences	-	(119)	-	(38)	-	(7)	-	(1)	-	(245)	-	(410)
Balance at 31 December 2020	<u>134,555</u>	<u>17,853</u>	<u>35,821</u>	<u>4,752</u>	<u>11,287</u>	<u>1,498</u>	<u>183</u>	<u>24</u>	<u>207,793</u>	<u>27,570</u>	<u>389,639</u>	<u>51,697</u>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2020	<u>318,292</u>	<u>42,231</u>	<u>36,665</u>	<u>4,865</u>	<u>15,313</u>	<u>2,032</u>	<u>82</u>	<u>11</u>	<u>103,369</u>	<u>13,715</u>	<u>473,721</u>	<u>62,854</u>
Balance at 1 January 2020	<u>375,662</u>	<u>50,475</u>	<u>50,645</u>	<u>6,805</u>	<u>20,566</u>	<u>2,763</u>	<u>161</u>	<u>21</u>	<u>123,437</u>	<u>16,585</u>	<u>570,471</u>	<u>76,649</u>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

Croatia Airlines d.d.

2021	Aircrafts		Engines		Business premises		Vehicles		Leasehold improvements		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2021	452,847	60,084	72,486	9,617	25,490	3,382	118	16	311,162	41,285	862,103	114,384
Additions	73,142	9,721	-	-	-	-	-	-	-	-	73,142	9,721
Leased property investments	-	-	-	-	-	-	-	-	2,423	322	2,423	322
Lease modifications	(891)	(118)	-	-	10,569	1,405	-	-	-	-	9,678	1,287
Transfer from property, plant and equipment	-	-	-	-	-	-	-	-	1,505	200	1,505	200
Fx differences	-	166	-	26	-	10	-	-	-	108	-	310
<b>Balance at 31 December 2021</b>	<b>525,098</b>	<b>69,853</b>	<b>72,486</b>	<b>9,643</b>	<b>36,059</b>	<b>4,797</b>	<b>118</b>	<b>16</b>	<b>315,090</b>	<b>41,915</b>	<b>948,851</b>	<b>126,224</b>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2021	134,555	17,853	35,821	4,753	10,778	1,430	55	7	207,793	27,570	389,002	51,613
Charge for the year	68,348	9,084	17,116	2,275	5,608	745	37	5	67,426	8,961	158,535	21,070
One-off rebates	-	-	-	-	794	106	-	-	-	-	794	106
Transfer from property, plant and equipment	-	-	-	-	-	-	-	-	601	80	601	80
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
Fx differences	-	55	-	14	-	4	-	-	-	81	-	154
<b>Balance at 31 December 2021</b>	<b>202,903</b>	<b>26,992</b>	<b>52,937</b>	<b>7,042</b>	<b>17,180</b>	<b>2,285</b>	<b>92</b>	<b>12</b>	<b>275,820</b>	<b>36,692</b>	<b>548,932</b>	<b>73,023</b>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2021	322,195	42,861	19,549	2,601	18,879	2,512	26	4	39,270	5,223	399,919	53,201
Balance at 1 January 2021	318,292	42,231	36,665	4,864	14,712	1,952	63	9	103,369	13,715	473,101	62,771

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

Croatia Airlines d.d.

2020	Aircrafts		Engines		Business premises		Vehicles		Leasehold improvements		Total	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
<b>COST OR VALUATION</b>												
Balance at 1 January 2020	443,873	59,640	72,643	9,760	24,272	3,261	109	15	266,188	35,766	807,085	108,442
Additions	-	-	-	-	251	33	78	10	-	-	329	43
Leased property investments	-	-	-	-	-	-	-	-	45,463	6,035	45,463	6,035
Lease modifications	8,974	1,191	5,245	696	1,070	142	-	-	-	-	15,289	2,029
Transfer to property, plant and equipment	-	-	-	-	-	-	-	-	(489)	(65)	(489)	(65)
Disposals	-	-	(5,402)	(717)	(103)	(14)	(69)	(9)	-	-	(5,574)	(740)
Fx differences	-	(747)	-	(122)	-	(40)	-	-	-	(451)	-	(1,360)
Balance at 31 December 2020	<u>452,847</u>	<u>60,084</u>	<u>72,486</u>	<u>9,617</u>	<u>25,490</u>	<u>3,382</u>	<u>118</u>	<u>16</u>	<u>311,162</u>	<u>41,285</u>	<u>862,103</u>	<u>114,384</u>
<b>ACCUMULATED DEPRECIATION</b>												
Balance at 1 January 2020	68,211	9,165	21,998	2,956	4,489	603	31	4	142,751	19,181	237,480	31,909
Charge for the year	66,344	8,807	19,225	2,552	5,561	738	49	7	65,101	8,642	156,280	20,746
One-off rebates	-	-	-	-	831	110	-	-	-	-	831	110
Transfer to property, plant and equipment	-	-	-	-	-	-	-	-	(59)	(8)	(59)	(8)
Disposals	-	-	(5,402)	(717)	(103)	(14)	(25)	(3)	-	-	(5,530)	(734)
Fx differences	-	(119)	-	(38)	-	(7)	-	(1)	-	(245)	-	(410)
Balance at 31 December 2020	<u>134,555</u>	<u>17,853</u>	<u>35,821</u>	<u>4,753</u>	<u>10,778</u>	<u>1,430</u>	<u>55</u>	<u>7</u>	<u>207,793</u>	<u>27,570</u>	<u>389,002</u>	<u>51,613</u>
<b>NET BOOK VALUE</b>												
Balance at 31 December 2020	<u>318,292</u>	<u>42,231</u>	<u>36,665</u>	<u>4,864</u>	<u>14,712</u>	<u>1,952</u>	<u>63</u>	<u>9</u>	<u>103,369</u>	<u>13,715</u>	<u>473,101</u>	<u>62,771</u>
Balance at 1 January 2020	<u>375,662</u>	<u>50,475</u>	<u>50,645</u>	<u>6,804</u>	<u>19,783</u>	<u>2,658</u>	<u>78</u>	<u>11</u>	<u>123,437</u>	<u>16,585</u>	<u>569,605</u>	<u>76,533</u>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### Lease liabilities

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Non-current lease liabilities	286,587	38,124	279,877	37,134	286,172	38,069	279,496	37,084
Current lease liabilities	83,350	11,088	74,435	9,876	83,097	11,054	74,178	9,842
	<b>369,937</b>	<b>49,212</b>	<b>354,312</b>	<b>47,010</b>	<b>369,269</b>	<b>49,123</b>	<b>353,674</b>	<b>46,926</b>

The repayment schedule for lease liabilities is as follows:

	2021.		2021.	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
2022	97,377	12,954	97,110	12,918
2023	93,375	12,422	93,143	12,391
2024	77,431	10,301	77,239	10,275
After 2024	141,989	18,889	141,989	18,890
	<b>410,172</b>	<b>54,566</b>	<b>409,481</b>	<b>54,474</b>

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

	Croatia Airlines Group		Croatia Airlines d.d.	
	2021		2021	
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
<b>Balance at 1 January 2021</b>	<b>354,312</b>	<b>47,010</b>	<b>353,674</b>	<b>46,926</b>
<b>Changes from non-cash transactions</b>				
Recognised during the year	73,454	9,763	73,142	9,721
Lease modification	9,678	1,286	9,678	1,286
One-off rebates	(794)	(106)	(794)	(106)
Interest	12,667	1,684	12,652	1,682
Foreign exchange differences	9,135	1,214	9,138	1,214
Effect of FX recalculation	-	126	-	126
<b>Total changes from non-cash transactions</b>	<b>104,140</b>	<b>13,967</b>	<b>103,816</b>	<b>13,923</b>
<b>Changes from cash flows</b>				
Interest paid	(12,667)	(1,684)	(12,652)	(1,682)
Principal paid	(75,848)	(10,081)	(75,569)	(10,044)
<b>Total changes from cash flows</b>	<b>(88,515)</b>	<b>(11,765)</b>	<b>(88,221)</b>	<b>(11,726)</b>
<b>Balance at 31 December 2021</b>	<b>369,937</b>	<b>49,212</b>	<b>369,269</b>	<b>49,123</b>



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

	Croatia Airlines Group 2020		Croatia Airlines d.d. 2020	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Balance at 1 January 2021	405,158	54,438	404,214	54,311
<b>Changes from non-cash transactions</b>				
Recognised during the year	437	58	329	44
Lease modification	15,264	2,026	15,289	2,030
Lease cancellation	(44)	(6)	(44)	(6)
One-off rebates	(831)	(110)	(831)	(110)
Interest	12,991	1,725	12,970	1,722
Foreign exchange differences	(878)	(117)	(828)	(110)
Effect of FX recalculation	-	(678)	-	(677)
<b>Total changes from non-cash transactions</b>	<b>26,939</b>	<b>2,898</b>	<b>26,885</b>	<b>2,893</b>
<b>Changes from cash flows</b>				
Interest paid	(12,991)	(1,725)	(12,970)	(1,722)
Principal paid	(64,794)	(8,601)	(64,455)	(8,556)
<b>Total changes from cash flows</b>	<b>(77,785)</b>	<b>(10,326)</b>	<b>(77,425)</b>	<b>(10,278)</b>
	<b>354,312</b>	<b>47,010</b>	<b>353,674</b>	<b>46,926</b>

### 32. CURRENT LOANS

During 2021 there were no current loans (2020: repaid current loans and no liabilities on loans at the end years).

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

	Non-current loans		Current loans		Total Loans	
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
Balance as at 1 January 2021	553,279	73,409	-	-	553,279	73,409
<b>Changes from financing cash flows</b>						
Repayment of loans and borrowings	(12,770)	(1,697)	-	-	(12,770)	(1,697)
<b>Total changes from financing cash flows</b>	<b>(12,770)</b>	<b>(1,697)</b>	<b>-</b>	<b>-</b>	<b>(12,770)</b>	<b>(1,697)</b>
<b>Other changes</b>						
Interest liability	5,000	665	-	-	5,000	665
Foreign exchange differences	(135)	(18)	-	-	(135)	(18)
Effect of FX recalculation	-	191	-	-	-	191
<b>Total other changes</b>	<b>4,865</b>	<b>838</b>	<b>-</b>	<b>-</b>	<b>4,865</b>	<b>838</b>
Balance as at 31 December 2021	<b>545,374</b>	<b>72,550</b>	<b>-</b>	<b>-</b>	<b>545,374</b>	<b>72,550</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 32. CURRENT LOANS (CONTINUED)

	Non-current loans		Current loans		Total Loans	
	HRK	HRK	HRK	HRK	HRK	HRK
	thousand	thousand	thousand	thousand	thousand	thousand
Balance as at 1 January 2020	155,447	20,886	31,500	4,232	186,947	25,118
<i>Changes from financing cash flows</i>						
Proceeds from loans and borrowings	400,000	53,099	7,450	989	407,450	54,088
Repayment of loans and borrowings	(8,296)	(1,101)	(38,950)	(5,171)	(47,246)	(6,272)
<b>Total changes from financing cash flows</b>	<b>391,704</b>	<b>51,998</b>	<b>(31,500)</b>	<b>(4,182)</b>	<b>360,204</b>	<b>47,816</b>
<i>Other changes</i>						
Compensated with receivables from credit card companies	-	-	-	-	-	-
Interest liability	5,419	719	-	-	5,419	719
Foreign exchange differences	709	94	-	-	709	94
Effect of FX recalculation	-	(288)	-	(50)	-	(338)
<b>Total other changes</b>	<b>6,128</b>	<b>525</b>	<b>-</b>	<b>(50)</b>	<b>6,128</b>	<b>475</b>
<b>Balance as at 31 December 2020</b>	<b>553,279</b>	<b>73,409</b>	<b>-</b>	<b>-</b>	<b>553,279</b>	<b>73,409</b>

### 33. TRADE PAYABLES

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Domestic trade payables	40,907	5,441	26,440	3,508	40,129	5,338	26,129	3,467
Foreign trade payables	42,214	5,616	40,167	5,329	41,965	5,583	39,993	5,306
	<b>83,121</b>	<b>11,057</b>	<b>66,607</b>	<b>8,837</b>	<b>82,094</b>	<b>10,921</b>	<b>66,122</b>	<b>8,773</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 34. OTHER CURRENT LIABILITIES

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Air traffic liabilities	155,122	20,636	206,021	27,335	155,122	20,636	206,021	27,335
Deposits and advances received	10,625	1,413	16,970	2,252	10,906	1,451	16,946	2,248
Liabilities for salaries	17,096	2,274	18,177	2,412	16,625	2,212	17,934	2,379
Other current liabilities	1,013	135	1,202	159	461	60	975	130
	<b>183,856</b>	<b>24,458</b>	<b>242,370</b>	<b>32,158</b>	<b>183,114</b>	<b>24,359</b>	<b>241,876</b>	<b>32,092</b>

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

With the beginning of the pandemic and increased requests for refunds of purchased tickets, and in order to preserve liquidity, The Company initiated a process of issuing travel vouchers to ticket buyers on flights that were not performed due to the COVID-19 pandemic, thus keeping the total amount paid for unused tickets in the Company and creating an obligation for future travel. The liability for vouchers is reduced by issuing air transport documents in exchange for a voucher or a refund of the amount paid. As of 31 December, this liability amounted to HRK 51,964 thousand, EUR 6,913 thousand (2020: HRK 76,458 thousand, EUR 10,144 thousand).

### 35. ACCRUED EXPENSES AND DEFERRED INCOME

	2021		2020		2021		2020	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Deferred income	248	33	248	33	248	33	248	33
Accrual for unused holiday	1,486	198	776	103	1,486	198	776	103
Accrued expenses	31,509	4,191	32,573	4,322	30,250	4,024	31,711	4,207
	<b>33,243</b>	<b>4,422</b>	<b>33,597</b>	<b>4,458</b>	<b>31,984</b>	<b>4,255</b>	<b>32,735</b>	<b>4,343</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 36. EMPLOYEES

Number of employees as of 31 December is as follows:

	2021	2020
<b>Croatia Airlines d.d.</b>		
Pilots and co-pilots	118	126
Cabin attendants	151	169
Maintenance and overhaul	254	257
Ticket sales and promotion	136	152
Airport handling	93	117
Other staff	168	159
	<b>920</b>	<b>980</b>
<b>Subsidiaries</b>		
Obzor putovanja d.o.o.	18	18
Amadeus Croatia d.d.	7	8
<b>Total</b>	<b>945</b>	<b>1,006</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 37. RELATED PARTY TRANSACTIONS

#### 37.1 TRANSACTIONS WITH SUBSIDIARIES

Transactions with related parties are as follows:

	2021 HRK thousand	2021 EUR thousand	2020 HRK thousand	2020 EUR thousand
<b>Revenue</b>				
Obzor putovanja d.o.o.	190	25	147	20
Amadeus Croatia d.d.	25	3	25	3
<b>Total revenue</b>	<b>215</b>	<b>28</b>	<b>172</b>	<b>23</b>
<b>Interest income</b>				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	50	7	11	1
<b>Total interest income</b>	<b>50</b>	<b>7</b>	<b>11</b>	<b>1</b>
<b>Expenses</b>				
Obzor putovanja d.o.o.	16	2	37	5
Amadeus Croatia d.d.	-	-	-	-
<b>Total expenses</b>	<b>16</b>	<b>2</b>	<b>37</b>	<b>5</b>
	2021 HRK thousand	2021 EUR thousand	2020 HRK thousand	2020 EUR thousand
<b>Trade receivables</b>				
Obzor putovanja d.o.o.	28	4	33	4
Amadeus Croatia d.d.	-	-	3	-
<b>Total trade receivables</b>	<b>28</b>	<b>4</b>	<b>36</b>	<b>4</b>
<b>Loans receivable</b>				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	1,625	216	1,311	174
<b>Total loans receivable</b>	<b>1,625</b>	<b>216</b>	<b>1,311</b>	<b>174</b>
<b>Deposits and advances received</b>				
Obzor putovanja d.o.o.	288	38	-	-
Amadeus Croatia d.d.	-	-	-	-
<b>Total deposits and advances received</b>	<b>288</b>	<b>38</b>	<b>-</b>	<b>-</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

#### 37.2 RELATED PARTY TRANSACTIONS OWNED BY REPUBLIC OF CROATIA

The Company is the majority owned by the Republic of Croatia which has a significant influence on the Company's business with its shareholding and voting rights. Given the significant influence of the State in the ownership, the Company is also in a related party relationship with state institutions and other companies in which the State is a majority owner or has a significant influence.

For the purposes of related party disclosures, the Company does not consider routine transactions (such as taxes, levies etc.) with various communal entities (directly or indirectly owned by the State) or with other State bodies to be related party transactions.

Significant transactions that the Company has with State-owned companies relate to airport and fuel costs and revenue from ticket sales and from cargo (mail).

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

	2021 HRK thousand	2021 EUR thousand	2020 HRK thousand	2020 EUR thousand
<b>Revenue</b>				
Zračna luka Osijek d.o.o., Klisa	31	4	12	2
Zračna luka Pula d.o.o., Pula	4	1	1	-
Zračna luka Rijeka d.o.o., Omišalj	15	2	11	1
Zračna luka Zadar d.o.o., Zadar	-	-	13	2
Zračna luka Split d.o.o., Kaštel Štafilić	1,096	146	3,255	432
Zračna luka Dubrovnik d.o.o., Čilipi	96	13	148	20
Zrakoplovno-tehnički centar d.d., Velika Gorica	8	1	5	1
HP – Hrvatska pošta d.d., Zagreb	2,791	371	1,662	221
INA – Industrija nafte d.d., Zagreb	-	-	-	-
<b>Total revenue</b>	<b>4,041</b>	<b>538</b>	<b>5,107</b>	<b>679</b>
<b>Expenses</b>				
Zračna luka Osijek d.o.o., Klisa	186	25	78	10
Zračna luka Pula d.o.o., Pula	1,082	144	1,244	165
Zračna luka Rijeka d.o.o., Omišalj	115	15	146	19
Zračna luka Zadar d.o.o., Zadar	1,502	200	1,461	194
Zračna luka Split d.o.o., Kaštel Štafilić	13,920	1,850	7,959	1,057
Zračna luka Dubrovnik d.o.o., Čilipi	6,924	920	6,043	802
Zrakoplovno-tehnički centar d.d., Velika Gorica	328	44	205	27
HP – Hrvatska pošta d.d., Zagreb	25	3	36	5
INA – Industrija nafte d.d., Zagreb	93,146	12,380	51,463	6,832
<b>Total expenses</b>	<b>117,228</b>	<b>15,581</b>	<b>68,635</b>	<b>9,111</b>

Transactions with other entities owned by the State and state institutions are not significant.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2021 HRK thousand	2021 EUR thousand	2020 HRK thousand	2020 EUR thousand
<b>Receivables</b>				
Zračna luka Osijek d.o.o., Klisa	-	-	-	-
Zračna luka Pula d.o.o., Pula	-	-	-	-
Zračna luka Rijeka d.o.o., Omišalj	-	-	-	-
Zračna luka Zadar d.o.o., Zadar	-	-	-	-
Zračna luka Split d.o.o., Kaštel Štafilić	-	-	-	-
Zračna luka Dubrovnik d.o.o., Čilipi	36	5	30	4
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-	-	-
HP – Hrvatska pošta d.d., Zagreb	389	52	446	59
INA – Industrija nafte d.d., Zagreb	-	-	-	-
<b>Total receivables</b>	<b>425</b>	<b>57</b>	<b>476</b>	<b>63</b>
<b>Payables</b>				
Zračna luka Osijek d.o.o., Klisa	51	7	-	-
Zračna luka Pula d.o.o., Pula	148	20	218	29
Zračna luka Rijeka d.o.o., Omišalj	-	-	42	6
Zračna luka Zadar d.o.o., Zadar	127	17	77	10
Zračna luka Split d.o.o., Kaštel Štafilić	2,580	343	2,392	317
Zračna luka Dubrovnik d.o.o., Čilipi	1,000	133	3,608	479
Zrakoplovno-tehnički centar d.d., Velika Gorica	15	2	6	1
HP – Hrvatska pošta d.d., Zagreb	3	-	2	-
INA – Industrija nafte d.d., Zagreb	14,199	1,889	3,492	463
<b>Total payables</b>	<b>18,123</b>	<b>2,411</b>	<b>9,837</b>	<b>1,305</b>

#### PSO benefit

During the year the Company realized revenue in the amount of HRK 88,876 thousand, EUR 11,812 thousand (2020: HRK 82,461 thousand, EUR 10,946 thousand), on the basis of PSO benefit, benefit from the Ministry of the Sea, Transport and Infrastructure for the preservation of region transport connections in domestic air transport. Receivables based on PSO benefits at the reporting date amounts HRK 12,345 thousand, EUR 1,642 thousand and is part of receivables from the State in the note 22 (2020: HRK 9,196 thousand, EUR 1,220 thousand).

#### Non-current loans

During the year the Company did not use long-term loans from bank owned by Republic of Croatia (2020: the Company did not use long-term loans). Loan liability at the reporting date amounted to HRK 17,477 thousand, EUR 2,325 thousand (2020: HRK 23,930 thousand, EUR 3,175 thousand). Interest expense recognized during the year amounted to HRK 556 thousand, EUR 74 thousand (2020: HRK 739 thousand, EUR 98 thousand).

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

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

##### **Non-current loans (continued)**

During the year based on loan totaling to HRK 250,000 thousand, the Company in 2020 received HRK 150,000 thousand, EUR 19,912 thousand (2019: HRK 100,000 thousand, EUR 13,488 thousand) from the Ministry of the Sea, Transport and Infrastructure. The loan liability at the reporting date amounts to HRK 250,000 thousand, 33,257 thousand (2020: HRK 250,000 thousand, 33,170 thousand).

Based on the loan approved during the 2020 year, the Company received HRK 250,000 thousand, EUR 33,187 thousand from the Ministry of the Sea, Transport and Infrastructure. The loan liability at the reporting date amounts to HRK 250,000 thousand, 33,257 thousand (2020: HRK 250,000 thousand, 33,170 thousand).

Interest expense recognized during the year amounted to HRK 6,800 thousand, EUR 904 thousand (2020: HRK 4,933 thousand, EUR 655 thousand). Liability for the interest presented within long-term loans and borrowings amounts to HRK 10,419 thousand, EUR 1,386 thousand (2020: 5,419 thousand, EUR 719 thousand) , while the accrued interest expense, disclosed within accrued expenses within Note 35 amounts to HRK 1,839 thousand, EUR 245 thousand (2020: HRK 39 thousand, EUR 5 thousand).

##### **Current loans**

During the year the Company did not use short-term loans from bank owned by Republic of Croatia (2020: Company did not use short-term loans)

##### ***COVID-19 pandemic related grants and subsidies***

During the year, the Company as part of other income recognized revenues from state aid for compensation for damage caused by the COVID-19 pandemic, namely aid received for support for the employment support in the amount of HRK 26,304 thousand, EUR 3,496 thousand in accordance with the measures of the Government of the Republic of Croatia and HRK 13,525 thousand pr EUR 1,798 thousand on the basis of application of the measure exemption from payment of tax liabilities in proportion to the percentage of revenue decline in the period April – September 2021. In 2020 other income include compensation for damage caused by COVID-19 based on the decision of the Government of the Republic of Croatia of 13 November 2020 in the amount of HRK 88,500 thousand, EUR 11,748 thousand, employment support in the amount of HRK 10,858 thousand, EUR 1,441 thousand in accordance with the measures of the Government of the Republic of Croatia and HRK 17,545 thousand, EUR 2,329 thousand based on the application of the Tax Exemption measure in proportion to the percentage of revenue decline in March – June 2020. Claim for employment support at the reporting date amounts to HRK 3,590 thousand or EUR 478 thousand and is stated within receivables from the state and state institutions in Note 22 (2020: HRK 10,468 thousand or EUR 1,389 thousand)



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 37. RELATED PARTY TRANSACTIONS (CONTINUED)

#### 37.3 TRANSACTIONS WITH KEY MANAGEMENT AND SUPERVISORY BOARD MEMBERS

The total amount of remuneration paid to Management Board members, directors and other key management personnel was as follows:

	<b>2021</b>	<b>2021</b>	<b>2020</b>	<b>2020</b>
	<b>HRK</b>	<b>EUR</b>	<b>HRK</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Gross salaries	4,965	660	5,753	764
Gross benefit in kind	149	20	152	20
	<b>5,114</b>	<b>680</b>	<b>5,905</b>	<b>784</b>

As at 31 December 2021 the number of Management Board members, directors and other key management personnel was 13 (2020: 15 employees).

Compensation to Supervisory Board members during 2020 amounted to HRK 172 thousand, EUR 23 thousand (2020: HRK 160 thousand, EUR 21 thousand).

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 38. RISK MANAGEMENT

#### Financial instruments and financial risk management

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

#### Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is based on quoted market prices, if available. If market prices are not available, fair value is estimated using discounted cash flow models or other appropriate pricing techniques. Changes in the assumptions underlying the estimates, including discount rates and estimated future cash flows, significantly affect the estimates. For this reason, the estimated fair value cannot be obtained from the sale of a financial instrument at this point.

#### Valuation techniques and assumptions in determining the fair value

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

Financial instruments that are measured at fair value are categorized into three levels of the IFRS fair value hierarchy, as follows:

1. First level indicators - fair value measurements indicators are those derived from the (unadjusted) prices in active markets for identical assets and liabilities
2. Second level indicators - fair value measurements indicators are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability (their prices), either indirectly derived from prices) and
3. Third level indicators - indicators are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 38. RISK MANAGEMENT (CONTINUED)

The table below shows the Group's assets and the Company's fair value at the reporting date:

	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
<b>2021</b>				
<i>Investments in equity instruments</i>				
Listed entities	1,130	-	-	1,130
Unlisted entities	-	-	189	189
<b>Total</b>	<b>1,130</b>	<b>-</b>	<b>189</b>	<b>1,319</b>
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
<b>2021</b>				
<i>Investments in equity instruments</i>				
Listed entities	150	-	-	150
Unlisted entities	-	-	25	25
<b>Total</b>	<b>150</b>	<b>-</b>	<b>25</b>	<b>175</b>
	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
<b>2020</b>				
<i>Investments in equity instruments</i>				
Listed entities	728	-	-	728
Unlisted entities	-	-	189	189
<b>Total</b>	<b>728</b>	<b>-</b>	<b>189</b>	<b>917</b>
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
<b>2020</b>				
<i>Investments in equity instruments</i>				
Listed entities	97	-	-	97
Unlisted entities	-	-	25	25
<b>Total</b>	<b>97</b>	<b>-</b>	<b>25</b>	<b>122</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 38. RISK MANAGEMENT (CONTINUED)

#### Risk management

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

Debt to equity ratio at year end was as follows:

	2021		2020		2021		2020	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Debt	915,311	121,762	907,591	120,419	914,643	121,673	906,953	120,335
Cash and cash equivalents	(316,667)	(42,126)	(579,577)	(76,899)	(311,256)	(41,406)	(574,324)	(76,202)
Net debt	<u>598,644</u>	<u>79,636</u>	<u>328,014</u>	<u>43,520</u>	<u>603,387</u>	<u>80,267</u>	<u>332,629</u>	<u>44,133</u>
Equity	<u>(69,180)</u>	<u>(9,203)</u>	<u>218,304</u>	<u>28,967</u>	<u>(71,536)</u>	<u>(9,517)</u>	<u>215,930</u>	<u>28,653</u>
Debt to equity	-	-	150%	150%	-	-	154%	154%

#### Interest rate risk

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

The Group and the Company are exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in Notes 30 and 32. The interest rate on bank deposits is disclosed in note 17. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 5 thousand, EUR 1 thousand would debit income statement (2020: HRK 7 thousand, EUR 1 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 5 thousand, EUR 1 thousand would credit income statement for the period ended 31 December 2021 (2020: HRK 7 thousand, EUR 1 thousand).

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 38. RISK MANAGEMENT (CONTINUED)

#### Foreign exchange risk

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

The Group's and the Company's principal foreign exchange risk is the long-term loans as described in Notes 30 and 31, which are largely denominated in Euros and US Dollars. This exposure is offset by the Group's and the Company's revenues from overseas ticket sales, which is sufficient to service the debt payments. Accordingly the Group and the Company have accounted for gains and losses on the foreign currency debts as a statement of cash flows hedge within equity as further described in the accounting policies.

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

HRK thousand	Currency impact EUR		Currency impact USD	
	2021	2020	2021	2020
Profit / (loss)	<u>(1.184)</u>	<u>(1.691)</u>	<u>(262)</u>	<u>(327)</u>

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

HRK thousand	Currency impact EUR		Currency impact USD	
	2021	2020	2021	2020
Profit / (loss)	<u>1.697</u>	<u>1.153</u>	<u>472</u>	<u>383</u>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 38. RISK MANAGEMENT (CONTINUED)

#### Credit risk

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

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

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

#### Price risk

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

In case that the fuel price was higher by 5% in relation to current market price, the effect of HRK 6,757 thousand, EUR 898 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of HRK 6,757 thousand, EUR 898 thousand would credit profit and loss account for the year 2021 (2020: HRK 3,602 thousand, EUR 478 thousand).

#### Liquidity risk

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 38. RISK MANAGEMENT (CONTINUED)

#### Hedging implemented at the Company

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

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

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

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

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

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 38. RISK MANAGEMENT (CONTINUED)

#### 38.1 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 2021 and 2020. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

#### 31.12.2021

	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
<b>Assets</b>										
Non-current deposits	64,755	8,614	-	-	-	-	-	-	64,755	8,614
Investments in equity instruments	1,319	175	-	-	-	-	-	-	1,319	175
Non-current receivables	1,144	152	-	-	-	-	873	116	271	36
Trade receivables	48,465	6,447	48,465	6,447	-	-	-	-	-	-
Other receivables	28,884	3,842	28,884	3,842	-	-	-	-	-	-
Current deposits	62,617	8,330	1,341	178	61,276	8,152	-	-	-	-
Cash and cash equivalents	311,256	41,406	311,256	41,406	-	-	-	-	-	-
<b>Total assets</b>	<b>518,440</b>	<b>68,966</b>	<b>389,946</b>	<b>51,873</b>	<b>61,276</b>	<b>8,152</b>	<b>873</b>	<b>116</b>	<b>66,345</b>	<b>8,825</b>
<b>Liabilities</b>										
Non-current loans and borrowings	545,374	72,550	4,510	600	8,269	1,100	22,176	2,950	510,419	67,900
Interest on loans and borrowings	33,294	4,430	425	57	350	47	264	35	32,255	4,291
Lease liabilities	409,481	54,474	47,914	6,374	49,196	6,545	93,143	12,391	219,228	29,164
Trade payables	82,094	10,921	82,094	10,921	-	-	-	-	-	-
Other payables	130,347	17,341	76,544	10,183	51,964	6,913	-	-	1,839	245
<b>Total liabilities</b>	<b>1,200,590</b>	<b>159,716</b>	<b>211,487</b>	<b>28,135</b>	<b>109,779</b>	<b>14,605</b>	<b>115,583</b>	<b>15,376</b>	<b>763,741</b>	<b>101,600</b>
<b>Difference</b>	<b>(682,150)</b>	<b>(90,750)</b>	<b>178,459</b>	<b>23,738</b>	<b>(48,503)</b>	<b>(6,453)</b>	<b>(114,710)</b>	<b>(15,260)</b>	<b>(697,396)</b>	<b>(92,775)</b>



## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

### 38. RISK MANAGEMENT (CONTINUED)

#### 38.1 Liquidity risk tables (continued)

31.12.2020

	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
<b>Assets</b>										
Non-current deposits	28,471	3,778	-	-	-	-	-	-	28,471	3,778
Investments in equity instruments	917	122	-	-	-	-	-	-	917	122
Non-current receivables	823	109	-	-	-	-	823	109	-	-
Trade receivables	19,534	2,592	19,534	2,592	-	-	-	-	-	-
Other receivables	26,553	3,523	26,128	3,467	425	56	-	-	-	-
Current deposits	47,436	6,294	564	75	46,872	6,219	-	-	-	-
Cash and cash equivalents	574,324	76,202	574,324	76,202	-	-	-	-	-	-
<b>Total assets</b>	<b>698,058</b>	<b>92,620</b>	<b>620,550</b>	<b>82,336</b>	<b>47,297</b>	<b>6,275</b>	<b>823</b>	<b>109</b>	<b>29,388</b>	<b>3,900</b>
<b>Liabilities</b>										
Non-current loans and borrowings	553,279	73,409	4,522	600	8,291	1,100	262,813	34,870	277,653	36,839
Interest on loans and borrowings	24,234	3,215	595	79	522	69	3,838	509	19,279	2,558
Lease liabilities	381,529	50,622	38,945	5,167	45,952	6,098	78,060	10,357	218,572	29,000
Trade payables	66,122	8,773	66,122	8,773	-	-	-	-	-	-
Other payables	132,511	17,580	56,014	7,431	76,458	10,144	39	5	-	-
<b>Total liabilities</b>	<b>1,157,675</b>	<b>153,599</b>	<b>166,198</b>	<b>22,050</b>	<b>131,223</b>	<b>17,411</b>	<b>344,750</b>	<b>45,741</b>	<b>515,504</b>	<b>68,397</b>
<b>Difference</b>	<b>(459,617)</b>	<b>(60,979)</b>	<b>454,352</b>	<b>60,286</b>	<b>(83,926)</b>	<b>(11,136)</b>	<b>(343,927)</b>	<b>(45,632)</b>	<b>(486,116)</b>	<b>(64,497)</b>

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 39. AUDITOR FEES

The agreed audit fee of separate and consolidated financial statements of the Company and Group Croatia Airlines for the year 2021 amounts to HRK 196 thousand plus the amount of value added tax (2020: HRK 192 thousand plus value added tax).

The auditor also provided a service of preparing a transfer pricing study, and the fee for the service amounted to HRK 10 thousand increased for value added tax (2020: HRK 10 thousand plus value added tax).

### 40. EVENTS AFTER THE REPORTING DATE

Activities on the implementation of defined strategic initiatives "Post Covid strategy of Croatia Airlines" continued intensively.

In the first quarter of 2022, flying was gradually intensified by increasing frequencies and renewing certain routes. The service network in the first quarter of 2022 included 13 international and five domestic destinations.

The beginning of 2022 is better than expected for the Company, and the demand for air transport services is gradually growing. In the first quarter of 2022, the Company had a flight of 5,641 block hours, and 4,149 flights were recorded, which represents an increase in flight by 113 percent in flights and 109 percent in block hours compared to the same period in 2021. The total number of transported passengers was 200,721, which is 178 percent more than in the first quarter of 2021, but still 42 percent less than the realized 345,800 passengers in the same period in 2019. Realized passenger kilometers are 188 percent higher, with a passenger occupancy factor (PLF) of 51.4 percent, which is 6.6 percentage points more than in the first quarter of 2021. The number of passengers in domestic regular traffic increased by 122 percent, and in international regular traffic by 214 percent compared to the first quarter of 2021.

Total sales for the first quarter of 2022 are three times higher than sales for the same period in 2021. Current booking for the next six months from May to October shows a significant recovery compared to last year and is 2.3 times higher, but still lower by 54 percent compared to the booking of the same period for the summer of 2019. The behavior of passengers when buying and booking tickets has changed significantly compared to the pre-pandemic years, during the crisis the dynamics of late booking prevails, and such a trend of booking continues during 2022. Also with the start of the war in Ukraine, the inflow of bookings has slowed down further, which poses an additional risk when it comes to expected demand for the summer season of 2022, and especially sales in the US and Asian markets.

## Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2021

---

### 40. EVENTS AFTER THE REPORTING DATE

During the summer season of 2022, the Company plans to directly connect Croatia and 21 international destinations, ie 22 European airports, and the Company's aircraft will fly on 41 international routes. During the summer flight schedule, the Company will further expand its network of international destinations, introducing five new international routes from Split Airport to Amsterdam, Bucharest, Dublin, Milan and Stockholm. It is also planned to intensify flights on existing routes in international and domestic traffic.

Fuel price movements have historically shown marked instability and are one of the Company's main business risks. The war in Ukraine further disrupted the market for petroleum products and encouraged strong growth and instability in the price

of fuel on the market. Before the outbreak of the war in Ukraine, IATA estimates for the average price of Brent jet fuel in 2022 were \$ 77.8 / barrel, while the last IATA estimate of the average fuel price for 2022 (as of April 1, 2022) is 121.9 \$ / barrel. Given the above, fuel prices will have the greatest impact on the planned financial results of operations and maintaining liquidity in the coming period.

Pursuant to the lease agreement, the A320 aircraft under registration CTJ was returned to the lessor, and the handover took place on 8 March 2022.

### 41. APPROVAL OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The consolidated and separate financial statements were approved by the Management Board and authorized for issue on 25 April 2022.

Signed for and on behalf of the Company on 27 April 2022:

**Nataša Ikašović-Dautović**



**Director of Finance and Accounting**

**Jasmin Bajić**



**President and CEO**