

 CROATIA AIRLINES

A STAR ALLIANCE MEMBER 

Croatia Airlines
Consolidated and Separate
Annual Report for the year
ended 2020



May 2021



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

DECLARATION

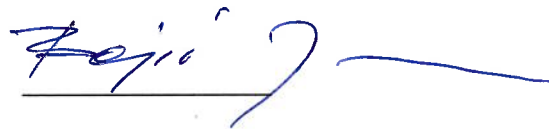
That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31st December 2020 have been prepared by using the appropriate financial reporting standards, and provide complete and truthful presentation of assets and liabilities, losses and gains, the financial position and operations of the issuer and the companies involved in the consolidation as a whole.

That The Management's Business Report for 2020 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, May 31st, 2021



A STAR ALLIANCE MEMBER 

The Management's Business report for 2020



May 2021

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Typical indicators

Fleet

type of aircraft	number at the end of 2020	seats	ownership	lease	Ø age (years)	number at the end of 2019	ownership	lease
Airbus A320	2	348	1	1	21.09	2	1	1
Airbus A319	4	576	4	-	21.94	4	4	-
Q-400	6	456	-	6	11.60	6	-	6
TOTAL	12	1,380	5	7	16.02	12	5	7

Traffic indicators

Description		2020	2019	2018
flights (km)	DIST 000	8,004	18,934	18,793
departures	FLTS	13,052	28,432	28,003
growth rate	%	-54	2	2
block hours	BH	17,570	40,553	40,196
growth rate	%	-57	1	2
passengers carried	RPAX 000	618	2,179	2,169
growth rate	%	-72	0	2
freight&mail carried	CGO T	1,442	2,135	2,264
growth rate	%	-32	-6	0
passenger km flown	RPK mil	432	1,676	1,666
available seat - km	ASK mil	871	2,277	2,266
passenger load factor	PLF %	49.6	73.6	73.5
tonne km flown	RTK mil	44	169	168
available tonne-km	ATK mil	92	240	239
weight load factor	WLF %	48.4	70.3	70.4

Financial indicators

Indicators	Unit	2020	2019	2018
Operating revenue	mln HRK	759	1,728	1,701
% of change	%	-56.1	1.6	-3.7
Total Revenue	mln HRK	809	1,751	1,758
% of change	%	-53.8	-0.4	-4.2
Operating expenses	mln HRK	1,095	1,784	1,778
% of change	%	-38.6	0.3	1.9
Total expenses	mln HRK	1,167	1,831	1,841
% of change	%	-36.2	-0.5	0.8
Operating profit/loss	mln HRK	-335.4	-55.4	-76.5
Net profit/loss	mln HRK	-358.2	-79.4	-82.9
EBIT	mln HRK	-335.7	-59.9	-78.5
EBITDA	mln HRK	-125.7	148.7	22.3
EBIT margin	%	-44.2	-3.5	-4.6
Efficiency ratio		0.7	1.0	1.0
ROA	%	-21.5	-6.3	-8.4
ROE	%	-165.9	-35.3	-27.3
Unit operating cost	HRK/ATK	11.9	7.4	7.4
Unit operating revenue	HRK/ATK	8.3	7.2	7.1
Passenger yield (passenger revenue in EUR/RPKM	€cent/RPK	14.2	12.2	12.2
Current ratio		1.8	0.4	0.4
Debt ratio		0.9	0.8	0.7
Investment ratio		5.8	4.6	1.7
Average number of employees		1,014	1,021	1,002

Productivity indicators

Productivity Indicators	2020	2019	2018
Employees (tkm/employee)	43,849	165,615	167,869
Aircraft (BH/day)	6.4	9.2	9.1
Fuel (tkm/tonne)	1,768	2,567	2,579

Croatia Airlines in 2020 – introduction

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

Ownership structure

Croatia Airlines is a joint-stock company.

On 31 December 2020, its share capital amounted to HRK 277,879,530 and was divided into 27,787,953 ordinary shares with the nominal value of HRK 10.00.

Shareholder	No. of shares	Portion in the share capital (in %)
REPUBLIC OF CROATIA	27,010,821	97.2033
AIRPORT ZAGREB D.O.O.	477,121	1.7170
HPB FOR THE REPUBLIC OF CROATIA	173,768	0.6253
JANAF D.D.	22,000	0.0792
CROATIA INSURANCE D.D.	8,950	0.0322
CROATIA LOTERY D.O.O.	4,000	0.0144
ASTRA INTERNATIONAL D.D.	3,682	0.0133
HP D.D.	2,750	0.0099
TURISTHOTEL D.D.	2,090	0.0075
TANKERKOMERC D.D.	2,090	0.0075

In its session of 14 December 2020, the General Assembly made a decision to increase the Company's capital in cash contribution. The capital of HRK 277,879,530.00 was increased by HRK 350,000,000.00 through the issuance of 35,000,000 new registered shares, each in the nominal value of HRK 10.00.

On 15 January 2021, upon entry into the court register, the capital was increased to HRK 627,879,530.00.

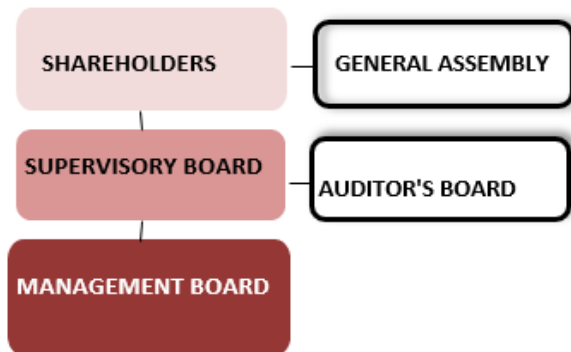
The associated companies owned by Croatia Airlines d.d. in 2020 were Amadeus Croatia d.d. and Obzor putovanja d.o.o., as independent business entities.

Amadeus Croatia d.d. was founded by Croatia Airlines (95% ownership) and Amadeus GDS, a global distribution system seated in Madrid. Its core activity is organisation of all activities and provision of technical support related to the use of Amadeus reservations system on the territory of Croatia and Bosnia and Herzegovina. Amadeus is a global reservations system through which transport and accommodation capacities are distributed and booked via travel agencies and sales locations of the very airline companies.

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

Company's management structure and organisation

The Company's operations 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, traffic 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, 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 2020, Croatia Airlines' Supervisory Board had four members.

Foreign branch offices

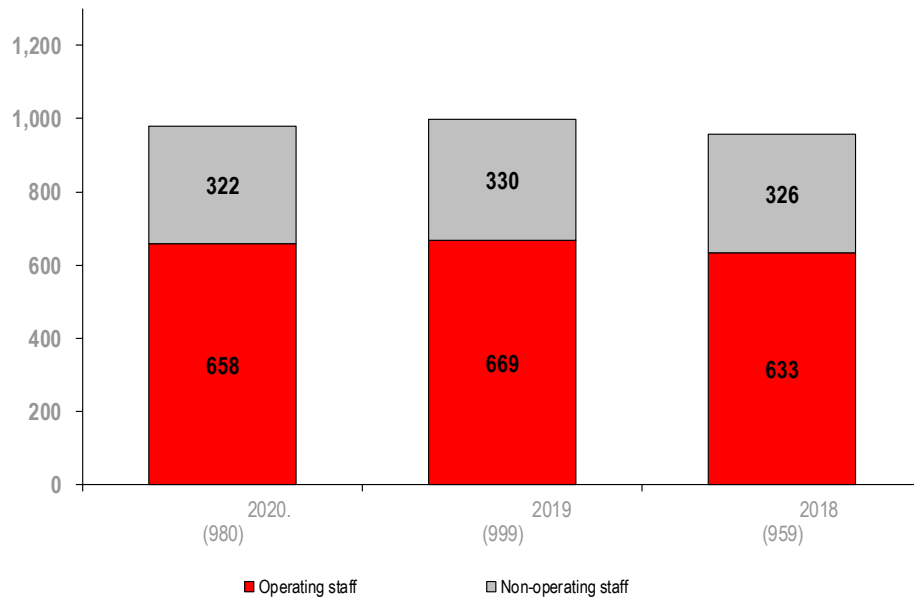
Croatia Airlines has seven foreign branch offices: Brussels branch office - Benelux, Frankfurt branch office - Germany, Paris branch office - France, Rome branch office - Italy, Sarajevo branch office - Bosnia and Herzegovina, Skopje branch office - Macedonia, and Zurich branch office - Switzerland.

Rome	Italy	Paris	France	Sarajevo	Bosnia and Herzegovina
Address:	Aeroporto Leonardo Da Vinci Torre Uffici 2, 5th floor 00054 Fiumicino	Address:	Roissypôle Le Dôme, 1 Rue de la Haye, BP 18913 Tremblay en France 95731 Roissy CDG Cedex	Address:	Zračna luka Sarajevo Ul. Khurta Schorka 36, 71 210 Sarajevo
Bruxelles	Benelux	Frankfurt	Germany	Skopje	Macedonia
Address:	Brussels Airport, Box 31 1930 Zaventem	Address:	FAC 1, Gebäude 234, HBK 49, Hugo-Eckener-Ring 60311 Frankfurt a.M.	Address:	Alexander the Great Airport 1043 Petrovec - Skopje
				Zürich	Switzerland
				Address:	Letzigraben 154; 8047 Zürich

Human resources

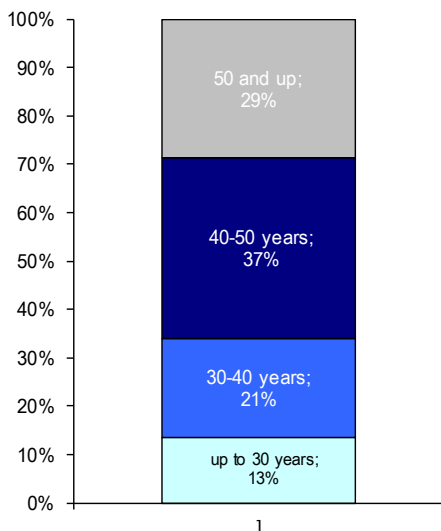
On 31 December 2020, the Company had 980 employees, including 35 foreign branch office employees. Compared to the end of 2019, the number of employees declined by 2%.

Number of employees on 31 12 2020



During 2020, Croatia Airlines also used the services of posted workers, hired primarily as auxiliary aircraft maintenance staff in the aircraft works season. On 31 December 2020, the Company had no posted workers.

Structure by age 2020

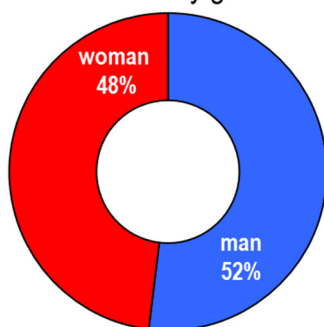


At the end of 2020, the number of both operative and non-operative staff members was 2% lower compared to the end of 2019.

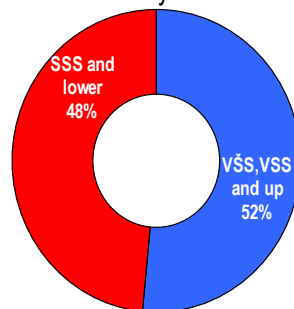
The share of operative staff members¹ within the Company was 67%, while that of non-operative staff members was 33%.

¹ 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

Structure by gender

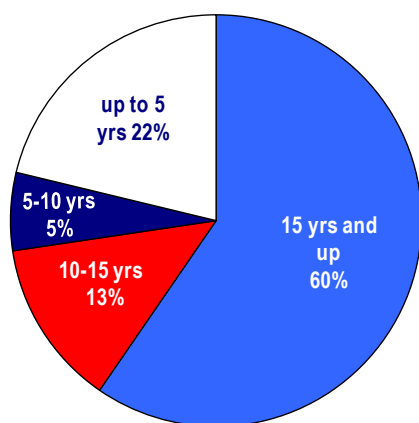


Structure by education



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

Structure by employment record



The average overall employment record of the Company's operative staff was 17 years of service, and that of the non-operative staff was 22 years, while the average employment record on the level of the entire Company was 19 years. The average employment record in the Company was 14 years of service for the operative staff, and 19 years for the non-operative staff, while the average employment record in the Company on the level of the entire Company was 16 years, showing a high level of loyalty on the part of employees, with many of them spending their entire career at Croatia Airlines.

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

Training investments and programmes

The training of Croatia Airlines' employees is carried out in three training centres: *Operations Training Centre*, whose activities are related to the training of flight, cabin and ground personnel, *Technical Training Centre*, which provides training to the technical and aircraft maintenance personnel, and the *Training Centre*, intended for non-operative sectors, whose target group are all other Company employees. In 2020, a total of 4,939 hours of internal training were provided for all three employee categories.

Investment in education (HRK)	2020	2019	2018
Operative staff	6,452,221	8,497,736	7,188,758
Annual change rate	-24%	18%	55%
Non-operative staff	126,741	538,270	598,964
Annual change rate	-76%	-10%	27%
Total	6,578,962	9,036,006	7,787,722
Annual change rate	-27%	16%	52%

In 2020, the **Technical Training Centre** continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance of PART 66² licences.

Due to the COVID-19 pandemic, which affected the Company's entire business operations, somewhat fewer training courses prescribed by the PART145 regulations were held compared to 2019, but all of the planned courses for extending internal authorisations of Croatia Airlines' PART 145 engineers and mechanics³ were held.

Amidst the pandemic and special population protection measures that restricted the work of training centres (limited number of attendees, banned training in the classroom), the Technical Training Centre obtained from the Croatian Civil Aviation Agency an approval for synchronous distance learning (SDL).

The first virtual training organised by Croatia Airlines, i.e. The Technical Training Centre, was the *HC-8-400 Airframe, Power Plant & Avionics type training B1 & B2* (Part 147 training). The course included 148 hours of theory and was held from 6 July to 11 August 2020, with the first week of virtual classes being supervised by the representatives of the Croatian Civil Aviation Agency. The agency's supervision did not result in a report. In order to carry out the training, it was necessary to draw up a completely new training programme in order to train instructors to apply a new teaching method (SDL), and adapt any current courses to remote teaching.

With the outbreak of the COVID-19 epidemic, all planned refresher sessions of the **Operations Training Centre** were stopped, as well as the required aircraft, simulator and ground check-ups allowing employees to renew their professional certificates and authorisations.

In order to ensure the completion of necessary training courses and the smooth flow of traffic, the Company requested from the Croatian Civil Aviation Agency to approve remote refresher sessions based on the EASA guidelines.

Refresher programmes were drawn up and prepared remotely on the basis of the approval obtained, and carried out successfully for all flight and cabin crew members. Gradual easing of measures made it possible to resume with the training on both the flight simulator and aircraft, aimed at getting the operations back to normal.

During 2020, the Croatian Civil Aviation Agency carried out a number of audits and inspections for the purpose of implementing on-going supervision of activities performed by the *Operations Training Centre* staff at Croatia Airlines' premises, on 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^[4] work on them were carried out in accordance with the provisions of the OM-D^[5] & *Quality Inspection Orders* for the purpose of monitoring and improving the quality of the work of TRI/TRE.

In early 2020, the **Non-operative Training Centre** organised a series of training courses for the employees that are in direct contact with the users of Croatia Airlines' services. They are typically organised before the start of the main season in order to fully prepare the employees for more intensive sales activities, detecting irregularities within the business process, and for establishing general business standards required for keeping and improving a high level of passenger satisfaction.

² PART66 – Aircraft Maintenance Licences

³ PART 145 – Maintenance Organisation

^[4] TRI/TRE - Type Rating Instructor and Type Rating Examiner

^[5] OM-D – Operational Manual Part D

Prior to an introduction of ban on classroom training, nearly all target groups of employees attended the necessary training courses prescribed by the Star Alliance's standards, thus refreshing their knowledge required for the treatment of privileged categories of Star Alliance passengers, and standard procedures in extraordinary situations, in order to maintain the high service quality and improve the level of passenger satisfaction in general.

In 2020, the Company employees participated in various virtual themed conferences, symposia and work groups, 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.

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. Due to the tariff training courses technology and the orientation towards the booking system, in 2020 it was not possible to train external users for passenger sales. However, a virtual basic training course on goods transport was organised in November. The attendees were employees of both freight and travel agencies, in the light of poor results in the passenger segment and a strong trend of reorientation to goods transport during the crisis period.

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

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), but it did not occur during 2020 due to a large decline in business activities caused by the COVID 19 pandemic, and in the winter for aircraft maintenance needs (auxiliary technical staff). Furthermore, temporary substitutes or vacancies in the periods of peak workload are settled through a fixed term contract basis.

The 2020 business year 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 and remote work introduced for jobs that allow 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.

The Company's efforts in 2020 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 on the occasion of retirement, support in the event of a close family member's death, support for a continual sick leave longer than 90 days, right to paid leave in the event of child birth, moving home, entering into marriage, schooling, etc. After the two devastating earthquakes in 2020, the Company secured a special solidarity aid for the repair of residential facilities that lost their use value.

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 2020 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 2020.

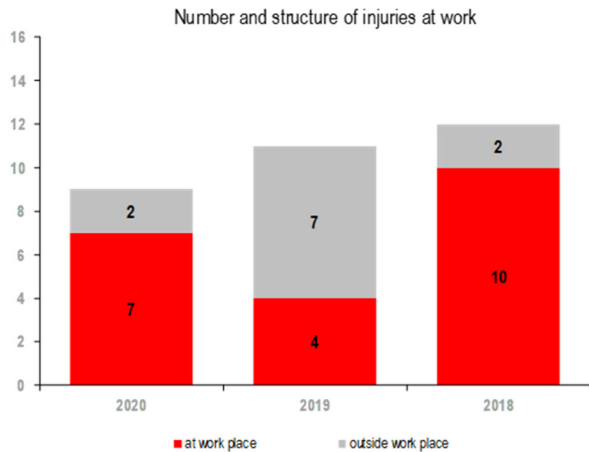
Employee training related to working in a safe manner and basic training in fire protection are regularly organised and implemented for all new employees and those who need to refresh their knowledge. Specialist training for the safe handling of machines and devices posing a greater hazard (hydraulic 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 2020.

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

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

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

In 2020, no inspection control was carried out in the sphere of occupational safety, fire protection and environmental protection.



Altogether 10 injuries at work were reported in 2020 (one woman and nine men). Of those, nine were acknowledged and one is still being processed by the Croatian Health Insurance Institute. Of the nine acknowledged ones, seven were sustained at work, and two while commuting. There were neither deaths related to injuries at work nor professional illnesses.

Protection of employees' dignity

For the purpose of protecting its employees' dignity, the Company prescribed the Complaint Receipt and Settlement Procedure and appointed a person to receive and handle complaints related to this issue. No such procedures took place in 2020, 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.

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 on the 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 2020, the Company adapted to the newly occurred circumstances by implementing a number of measures in various operational segments to mitigate the consequences of the crisis. Some of them included labour cost savings. In agreement with the social partners, gross salaries were reduced by 15% for a period of one year, i.e. until the end of April 2021. In February 2021, the labour unions agreed to the measure being prolonged until the end of 2021.

Social responsibility

Transport and tourism

Unlike other foreign airlines that suspended all their flights to Croatia in mid-March, Croatia Airlines continued with its operations throughout the pandemic. Reaffirming its social corporate responsibility, it enabled many Croatian citizens from all over the world to return home. It also put itself at disposal of the Government of the Republic of Croatia for the transport of humanitarian aid and Croatian soldiers. In April, Croatia Airlines was approved by the Croatian Civil Aviation Agency to transport cargo in the passenger cabin of the Airbus aircraft, primarily humanitarian aid, i.e. protective equipment.

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 to the 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 forms 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. In March 2020, the Company signed with the Ministry of the Sea, Transport and Infrastructure a new Agreement for the Preservation of Continuity of Traffic Connections and Scheduled Air Services in the Republic of Croatia for the period from 29 March to 24 October 2020. An annex to this Agreement was signed in September 2020, prolonging the service performance period until 27 March 2021.

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, but also becomes part of the national identity. Its identity is based on the historical Croatian flag. The shapes and colours of the Croatian flag are embedded in the Company's image and have been redesigned to convey a modern and impressive visual identity. The coat of arms, an integral part of the flag, has been transformed into a dynamic element that aims upwards and is reminiscent of a bird in flight. The CROATIA logo on its aircraft was increased in early 2019, and the checkerboard squares – the distinct symbol of the Croatian national identity, now stretch even further across the aircraft fuselage. Croatia Airlines' aircraft, introducing Croatia for the first time to many passengers, thus became even greater and more prominent promoters of the country, which makes the CROATIA logo all the more important.

Croatia Airlines contributes to the development of Croatia's tourism and economy on an ongoing basis. Within the project Inspired by Croatia, it has been presenting the country's cuisine by offering its passengers quality meals made with local groceries and based on local recipes. In 2019, Croatia Airlines' business class menu was inspired by the Zagreb cuisine. However, this project was suspended due to the coronavirus pandemic and the introduction of the epidemiological measures recommended by the Croatian Public Health Institute.

The in-flight 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 supports sports in Croatia and is the official carrier of the Croatian Olympic Committee, thus promoting the country and contributing to its visibility.

Support for the community

Croatia Airlines provides help and direct humanitarian aid by granting cost-free transport for severely ill patients, children or people in need, and participates in charity actions by donating transport services. Whenever possible, it strives to support institutions that need humanitarian aid or organise humanitarian projects. Croatia Airlines demonstrated its social responsibility in 2020 as well, by putting itself at disposal of the Government of the Republic of Croatia to transport humanitarian aid, return Croatian soldiers from Afghanistan and operate repatriation flights from various parts of Europe, and from China, which was the Company's longest flight ever. In March 2020, it transported more than 11 tonnes of protective equipment and supplies from the UAE to Croatia.

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 2020, two complaints were filed for non-adherence to the Ethics Code, and both were resolved.

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 2020.

Environmental protection

As in other business segments, 2020 was a challenging year in the field of environmental protection and energy efficiency. The plans adopted in the early spring had to be adapted to the new pandemic conditions, meaning that most of the planned activities had to be postponed. Thus the Company focused on fulfilling legal requirements, with a special emphasis on health protection, while development plans related to environmental protection and energy efficiency were set aside.

Even in the 'new normal', the Company successfully recorded and developed indicators that show deviations from the spending plan. Aircraft indicators (CO₂ emissions per passenger kilometre) are less favourable due to a large drop in demand and consequently the number of passengers, while energy and water consumption indicators in the segment of ground operations (including offices) are far more favourable (due to the lockdown and work from home). Since they do not give a clear picture of the Company's performance, the establishing of new baseline values was postponed. Croatia Airlines decided to use electricity from renewable sources - HEP Zelen, in 2020, as well.

In late 2020, it renewed the ISO14001/50001 certificate by transitioning to ISO50001:2018, in line with all global trends, but requiring new obligations and a more dedicated (wider) approach to energy use.

On the first day of 2021, the Company became an obligor of the United Kingdom Emissions Trading Scheme (UK ETS), as a consequence of the Brexit agreement, which means that an emissions trading scheme will be established for Great Britain as a separate market (no longer part of the EU ETS market).

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 airline industry crisis caused by the coronavirus pandemic, in 2020 Croatia Airlines continued advancing its business operations and developing customer services in line with possibilities. In early 2020 it initiated a project of creating a CRM system, enabling its sales and support teams a more efficient way of managing relations with private and corporate clients (B2C and B2B). The system integrates all data and communication channels into a single solution, which enables simpler and more efficient monitoring of customers, detecting their needs and responding in a timely manner, the so-called *360-degree view of the customer*. 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 completed in the second quarter of 2021.

In the second half of 2020, the Company also worked on the development of a new website and billing system. The aim of this project is to design and develop a new corporate website based on modern technology and integrate it with all relevant Company systems. This will improve the functionalities of the current website and develop additional ones in order to get a solution that will keep up with the technological and industry trends, while at the same time facilitating digital channel users to plan their travels. Automatic changes of the prices stated in the offers and a calendar of offer availability are among particularly important functionalities, as they will provide users with the information about the prices in real time and help them choose most favourable options for a desired travel. The new website will be responsive, which will ensure supreme user experience regardless of the type and size of the screen of the access device. The project includes implementation of a new billing system to be used for both online transactions and the work of the Contact Centre and branch offices. The project implementation will continue in 2021.

In 2020, the Company finished with the implementation of *Sabre AirVision Revenue Optimizer*, a leading revenue optimisation solution for the airline industry. Sabre's revenue optimisation solution provides an all-round approach to forecasting, analysing and optimising sources of revenue by reviewing total revenues for each flight, each market, and each real-time travel date. Alongside the start of the Revenue Optimizer system implementation, the Company initiated a project related to the implementation of additional modules for revenue integrity management. The Redundant Segment module was designed to detect unnecessary or additional segments entered in the reservations for the Company flights that cannot be used but are creating a distribution cost and take up a place on a certain flight that could have been offered for sale. The Company also initiated another sub-project in the revenue integrity domain: *Dynamic Ticketing Time Limit* (DTTL), which will functionally replace the existing TTL, with pre-set fixed deadlines.

The activities related to the Cooperation Agreement on European Project in Aviation (KAAT – Knowledge Alliance in Air Transport) continued in 2020, with Croatia Airlines being one of the local partners. For the first time, the leading companies of the airline industry in Croatia are actively cooperating with the academic community on a major European project aimed at enhancing innovation in higher education. The project aims to develop, on the level of partnership with six EU countries, a new curriculum for a joint master degree by applying innovative approaches to teaching and learning, and

to establish close cooperation between the scientific community, industry and the economy. As an airline that is certified for aircraft personnel training, Croatia Airlines contributes its know-how and operational potential to the Croatian consortium, together with the Faculty of Transport and Traffic Sciences as the consortium leader, and Croatia Control.

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 business year of 2020 was marked by the coronavirus (COVID-19) pandemic. In order to prevent its further spread, many countries restricted travels and suspended operations of many economic sectors by introducing limitations and strict quarantines, all in an effort to halt the spread of the highly contagious virus.

The measures introduced in an attempt to stop the spread of the coronavirus greatly affected economic activities, pushing the world into the worst recession since the Great Depression, and resulting in a far more negative outcome than that caused by the global financial crisis in 2008. No crisis since the Second World War has caused such a devastating effect on the global level.

In January 2021, the International Monetary Fund (IMF) published a revised outlook covering only the world's biggest economies and regions, stating that the global economy declined by 3.5% in 2020, significantly milder than announced by the IMF in the autumn of 2020.⁴ Such a forecast reflects a stronger-than-expected recovery of developed economies in the second quarter of 2020, following a gradual lifting of the quarantine measures in May and June and a continuation of this trend in the third quarter.

According to the IMF, in 2020 the U.S. as the world's largest economy recorded a 3.4% fall, eurozone's economy dropped by 7.2%, while the Chinese economy was the only one among major economies to face a growth, by 2.3%.

Vaccination and state incentives are expected to set the global economy on a path to recovery in 2021. Approved vaccines have raised hopes of vanquishing the virus on a global scale, but new strains and waves of coronavirus are raising concerns about the economic outlook.

⁴ International Monetary Fund, World Economic Outlook Update, January 2021

The IMF noted that the pace of recovery will vary greatly from country to country and will depend on access to medical interventions, efficiency of state aid measures, exposure to cross-border spillover effects and structural characteristics before the crisis. It also notes that strong multilateral cooperation is a prerequisite for overcoming the pandemic, including an increased funding of the COVAX instrument in order for all countries to get vaccines as soon as possible and ensure their general distribution, and to facilitate access to affordable treatment.

Croatia's economy

The coronavirus pandemic put a halt to the positive trends in the Croatian economy, causing a record drop of the overall economic activity in 2020. In its regular autumn outlook, the IMF estimated that the Croatian economy would contract by 9% in 2020.⁵

Since the coronavirus crisis does not affect all sectors and activities to a same extent, the Croatian economy is seen to contract somewhat more in 2020 than the majority of European Union members. Tourism, transport and hospitality sectors, which are crucial for Croatia's overall economic activity, have been exceptionally gravely affected by the crisis caused by the coronavirus pandemic.

The released macroeconomic indicators for 2020 are set out in detail in the below paragraphs.

According to the first estimates of the Croatian Bureau of Statistics, Croatia's BDP fell by 8.4% in 2020 on an annual basis.⁶ This is a record fall of economic activities, as a result of the restrictive measures introduced to stop the coronavirus spread. Reduced personal spending, export and tourism revenues contributed most to the GDP fall. Tourism revenues have an exceptionally high share in Croatia's GDP, and although the tourism season was better than expected, it could still not compensate for the great losses.

According to the calendar-adjusted data, Croatia's industrial production in 2020 fell by 3.4% compared to 2019.⁷ It had been under pressure even before the onset of the coronavirus crisis in March 2020, which prompted an even greater fall.

According to the calendar-adjusted data, Croatia's retail trade declined by 5.8% in 2020 compared to the year before, as a result of low personal spending amidst the crisis.⁸

As a result of inflationary pressures at the start of the year, the prices of goods and services intended for personal spending, measured by the consumer price index, rose on average by 0.1% only compared to 2019.⁹

According to the Croatian Bureau of Statistics, the number of persons in employment declined by 2.1% compared to 2019, and Croatia's registered unemployment rate was 9.5% in December 2019 (7.9% in December 2018).¹⁰ In 2020, the Croatian Employment Service extended 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 value of Croatia's exports totalled HRK 112 billion, or 0.8% less than in 2019, while imports fell by 7.3%, reaching HRK 171.7 billion. Owing to a significantly greater fall in imports

⁵ International Monetary Fund, World Economic Outlook, October 2020

⁶ www.dzs.hr/ First estimate of quarterly gross domestic product for the fourth quarter of 2020, 26 February 2021

⁷ www.dzs.hr/ Industrial production volume index and indices of stocks, persons employed and labour productivity in industry, in December 2020, 29 January 2021

⁸ www.dzs.hr/ Retail trade in December 2020, 29 January 2021

⁹ www.dzs.hr/ Consumer price indices in December 2020, 15 January 2021

¹⁰ www.dzs.hr/ Persons in paid employment, by activities, in December 2020, 19 January 2021

compared to exports, the country's foreign trade deficit was HRK 59.8 billion, 17.4% lower than in 2019. A more favourable import-export ratio resulted in a greater import-export coverage than in the preceding years, i.e. 65.2%.¹¹

According to the first data, the public debt totalled HRK 329.7 billion at the end of 2020, or 89.1% of GDP, while this share in late 2019 was 72.8%.¹² The increase is a result of reduced GDP and the response to the crisis caused by the coronavirus pandemic, i.e. increased government expenditure to meet the financing needs.

The coronavirus crisis strongly affected the Croatian tourism in 2020. It took its toll on both the pre-season and the post-season, and to a significant extent on the main tourist season. The European countries, in particular Germany, Slovenia, Italy and Austria that are the key feeder markets for Croatia's tourism, are severely affected by the negative economic trends. Nevertheless, Croatia was among the Mediterranean countries with the best results of the peak summer season. Tourism figures say that 7 million tourist arrivals and 40.8 million overnight stays were recorded in 2020, which is a 64.2% fall in arrivals and a 55.3% fall in overnight stays compared to 2019.¹³ As for the overall tourist arrival structure, there were 79% foreign tourists and 21% local ones. The year of 2020 saw 34.2% less local tourist arrivals and 68% less foreign tourist arrivals, with the number of overnight stays of local tourists facing a 23.7% fall and of foreign tourists a 58% drop. Tourists from Germany were the most numerous ones, followed by Slovenians, Poles, Czechs and Austrians.

After the exceptionally turbulent 2020, the year of 2021 will be as equally uncertain for the Croatian economy, since recovery is based on the presumption of a fast vaccination progress and putting the pandemic under control. However, it is evident that the health crisis is far from being resolved and that the negative trends will continue in the first quarter of 2021, when no economic growth is likely to occur. It is questionable whether Croatia will start recording growth in the second quarter, before the summer, while the expected growth in the second half of 2021 will be followed by many uncertainties and an uneven recovery of various sectors.

Global airline market

The coronavirus pandemic has had a devastating effect on the global airline industry, which is facing the worst crisis ever. It has forced airlines to put their aircraft out of operation, cancel flights and lay off tens of thousands of employees. This is by far the worst blow for the airline industry as a whole, as it has affected airlines, airports, air traffic control, aircraft and engine producers, and tour operators.

The critical situation has prompted IATA to call upon the governments to extend their aid, proposing several options that should be taken into consideration, including direct financial support, loans, loan collaterals, support for corporate bonds markets, and tax reliefs. The financial support from the governments remains crucial, since without being approved urgent aid and reliefs, many airlines will not survive and be able to participate in the economic recovery process once the pandemic subsides.

Airline companies manage to stay afloat owing to the financial support from their governments. According to IATA, they have ensured \$173 billion in various forms of aid in 2020.¹⁴ However, this amount will not be sufficient, and it is fair to expect that

¹¹ www.dzs.hr/ Foreign trade in goods of the Republic of Croatia, temporary data for the period from January to December 2020 and for January 2021, 11 March 2021

¹² <https://www.hnb.hr/-/objava-statistickih-pokazateljica-duga-opce-drzave-za-prosinac-2020>, 31 March 2021

¹³ www.dzs.hr/ Tourist arrivals and overnight stays in December, 11 February 2021

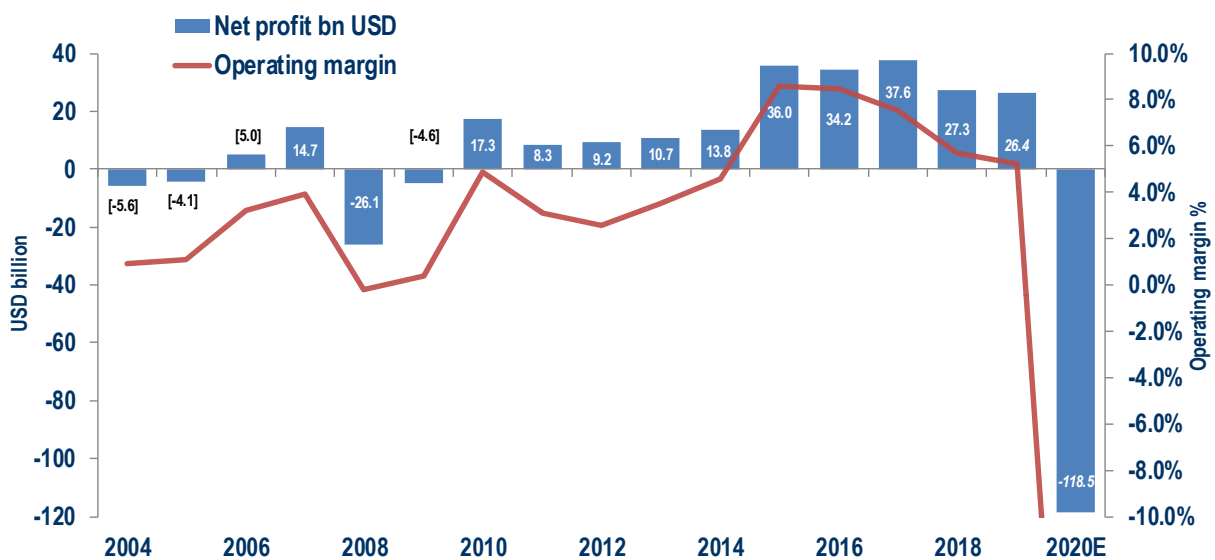
¹⁴ IATA Corporate Communications Press Release: Deep Losses Continue Into 2021, 24 November 2020 No: 95

governments will continue supporting national airlines. The crisis is lasting longer than expected and the critical winter period is characterised by a low demand for air traffic services even in the normal circumstances. Travel booking is still facing a fall, since many countries have introduced stricter guidelines in response to new coronavirus strains, putting further pressure on airlines' liquidity.

In its forecasts from November 2020, IATA announced that airlines would face a record annual loss of \$118.5 billion in 2020, with a negative operating margin of 31.3%, as a result of the coronavirus crisis. The year of 2020 will be remembered as the worst year in the history of the airline industry.¹⁵

A demand for air transport services expressed in revenue passenger kilometres (RPK) fell by 65.9% in 2020 compared to 2019, which is the greatest drop in the history of air travel.¹⁶ International demand was 75.6% lower, and domestic demand recorded a 48.8% fall compared to 2019. IATA estimates that airlines burnt through \$77 billion in cash (\$13 billion a month or \$300,000 per minute) in the second half of 2020.¹⁷

Profitability of global airline companies



Source: IATA, November 2020

Source: <https://www.iata.org/en/iata-repository/publications/economic-reports/airline-industry-economic-performance---november-2020---data-tables/>

¹⁵ <https://www.iata.org/en/iata-repository/publications/economic-reports/airline-industry-economic-performance---november-2020---report/>

¹⁶ IATA Corporate Communications Press Release: 2020 Worst Year in History for Air Travel Demand, 03 February 2021 No: 06

¹⁷ IATA Corporate Communications Press Release: Looming Cash Crisis Threatens Airlines, 06 October 2020 No: 79

**European
airline market**

According to IATA, in 2020 the European air carriers generated a record loss of \$26.9 billion, with an operating margin of -38%. Passenger traffic expressed in revenue passenger kilometres (RPK) declined by 70% compared to

2019.

According to the data released by the Airports Council International Europe, passenger traffic at European airports dropped by 70.4% in 2020.¹⁸ With only 728 million passengers in 2020 compared to 2.4 billion a year before, the European airports returned to the 1995 traffic level.

A gradual opening of the European airspace and the resuming of interregional travels started in June, and most travel restrictions were lifted in early July, except for the citizens of certain countries where the virus was still spreading rapidly. However, the second wave of the pandemic strongly affected Europe in the autumn and winter, leading to new travel restrictions. With a third wave ahead, the prospects for a recovery of European carriers are getting worse from one day to another.

The airlines affected by the crisis are also facing passenger demands related to cancellation refunds, which represents an additional pressure on their already aggravated situation. The European Commission has also addressed the issue of passenger rights by approving the temporary use of vouchers when cancelling a flight, pointing out that the companies are required to comply with Regulation (EC) No 261/2004.

Both the European and global economies have suffered grave consequences of the COVID-19 pandemic. In response, 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. On 28 January 2021 it adopted the fifth amendment to the Temporary Framework, prolonging the state aid support measure until 31 December 2021. 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. Lufthansa, currently the fourth biggest airline in the world, has been granted EUR 9 billion from the German government, the most of all German corporations. The Dutch KLM has received a government support package worth EUR 3.4 billion, while France has granted EUR 7 billion to Air France. Of other European companies, more than a billion euros has been granted to TUI, Swiss Airlines, TAP Portugal and Finnair.

Furthermore, a decision about the airlines retaining the right to coordinated airport slots was adopted, allowing them to make financially sound decisions on whether to fly and thus avoid operating empty flights. Under normal circumstances, operators must use 80% of the slots allocated to preserve slots allocations for the next season.

¹⁸ <https://www.aci-europe.org/media-room/303-europe-s-airport-2020-passenger-traffic-back-to-1995-levels.html>; 12 February 2021

**Croatian
airline market**

Croatia's airline market is characterised by high traffic seasonality, with a high level of competition in the summer months. More than half of all passengers on the Croatian airline market are transported in the third quarter, when nearly 100 airlines operate, while the competition in the winter period is minimal. Croatia Airlines operates throughout the year, enabling local airports to be open the entire year, 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.

A great fall in passenger numbers recorded by domestic airports in 2020, ranging between 73% and 90% compared to 2019, is a direct consequence of the COVID-19 pandemic.

A more pronounced negative effect of the coronavirus pandemic on traffic at Croatian airports was recorded as of March 2020, with the number of passengers and aircraft operations declining by more than 50% compared to the same month of 2019. The month of March is usually characterised by a sharply rising traffic curve compared to February, amidst the start of seasonal flights, i.e. the application of the summer flight schedule in late March. A sharp fall in passenger numbers was recorded in the following months: 99.4% in April and 98.3% in May 2020. Amidst the worsening epidemiological situation and a fast virus spread in the autumn and winter, the traffic recovery that started in June has come to a halt again.

According to the data of the Croatian Bureau of Statistics, altogether 2.1 million passengers were recorded at Croatian airports in 2020, i.e. 81% less than in 2019.¹⁹ Croatia Airlines' market share in the observed period was 36%. The number of aircraft operations at Croatia's airports totalled 54,061 in 2020, down by 58% from 2019. Cargo transport saw a 32% fall, with altogether 7.7 thousand tonnes of cargo being transported.

The smallest drop in the number of passengers carried in 2020 was recorded by Zagreb Airport (73%), followed by Spilt Airport (80%), and Zadar Airport (86%). Dubrovnik, a world-famous airline destination, saw an 89% drop as a result of the coronavirus pandemic, with Pula Airport reaching a record 90% fall.

In October 2020, the Croatian Chamber of Economy prepared a presentation for the Government of the Republic of Croatia, analysing the air traffic entities' operations in 2019 and the airline industry status up to September 2020, and setting out projections for 2021 in relation to the crisis, along with proposals for the measures aimed at preserving the operations and the continuity of public services in air traffic.²⁰ According to the projections of financial results for 2020, the air traffic operators in the Republic of Croatia (airports, air traffic control and Croatia Airlines) will record a total loss of HRK 1.3 billion in 2020, with a revenue loss in the first nine months being estimated at HRK 1.6 billion. A loss of passengers in the period from January to September 2020 has been estimated at about 8.6 million.

¹⁹ www.dzs.hr/ Release: Traffic at airports in December 2020, 11 February 2021

²⁰ Croatian Chamber of Economy, Presentation for the Government of the Republic of Croatia, October 2020

Croatia Airlines

In this crisis period, air traffic in Croatia relies mostly on the national flag carrier as it contributes to the maintenance of traffic connectivity vital for both the country's economy and citizens. Despite the extraordinary circumstances in early March 2020, Croatia Airlines continued with its operations on a reduced scale, adhering to the decisions of both public health and aviation authorities, while the majority of foreign carriers suspended all their flights to Croatia as early as mid-March. From the beginning of the crisis to May 2020, when the epidemiological measures were somewhat eased, Croatia Airlines enabled about 23,000 Croatian citizens from all over the world to return home, putting itself at disposal of the Government of the Republic of Croatia for the transport of humanitarian aid and the return of Croatian soldiers from Afghanistan, and operating several repatriation flights from various parts of Europe.

Given the crisis and its consequences for the tourist season, Croatia Airlines' additional value and contribution to tourism laid in connecting the coastal airports with the European destinations during the season when the operations of foreign carriers were significantly reduced amidst a low demand. As the epidemiological situation got worse in the autumn and winter of 2020, Croatia Airlines' role in connecting Croatia to Europe's main destinations became even more pronounced after the majority of foreign airlines withdrew from the market or significantly reduced the number of flights. As a result, Croatia Airlines' share in passenger transport on the domestic market in 2020 rose by 13% (from 23% to 36%).

It should be noted that the privatisation process was suspended with the onset of the Covid-19 crisis. In March 2020, the Commission in Charge of Implementing the Procedure and Proposing a Strategic Partner for Croatia Airlines d.d. decided to put it on hold amidst the unfavourable situation and force majeure. Considering IATA's projections for the airline industry trends and the uncertainty as to the coronavirus crisis duration, it is unlikely that this process will be resumed before 2023.

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 the selection of a strategic partner for Croatia Airlines. In this context, in order to meet the prerequisites for the Company's recapitalisation, an HRK 250 million worth two-tranche shareholder loan was approved, i.e. HRK 100 million in October 2019 and HRK 150 million in January 2020.

In line with the Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak, European carriers, including Croatia Airlines, are granted substantial state aid to be able to continue with their operations. In its session held on 14 December 2020, the Government of the Republic of Croatia reached a decision on approval of state aid to the company Croatia Airlines d.d. in line with the Temporary Framework²¹ granting it state aid in the form of an HRK 350 million worth share capital increase and an HRK 250 million worth shareholder loan to address its liquidity problems and bring its capital to the pre-crisis level. The statement of reasons argues that Croatia Airlines, as a state-owned carrier, has a strategic role in Croatia's traffic infrastructure, which has proved to be particularly crucial in this crisis period, given the Company's contribution to the maintenance of traffic connectivity vital for both the country's economy and citizens.

²¹ Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak

In cooperation with the BDO Savjetovanje d.o.o. consultancy firm, in early 2021 the Company drew up a document titled "An analysis of special-purpose use of state aid and a verification of savings achieved from the onset of the COVID-19 pandemic", covering all aspects of the rigorous savings measures applied. The document includes a savings scheme for 2021.

Operational risks

In 2020, Croatia Airlines operated in the conditions of the worst crisis in the history of civil aviation, resulting from the global Covid-19 that had a particularly devastating effect on travels and tourism, with airline companies and air traffic in general being among the most affected sectors. Several years of the industry's growth have been irretrievably lost, and estimates say that the traffic scope is not expected to reach the pre-crisis level before 2024.

With the aim of mitigating the crisis, Croatia Airlines introduced rigorous savings measures in all segments as early as March 2020, when the crisis began, and has developed several scenarios for gradually resuming flights, as well as several Crisis Plan versions.

In its regular operations, 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 under normal operating circumstances are: economic surroundings (Croatia and destinations), competition, Star Alliance and partnerships, risks related to price changes (traffic charges and flight permits, suppliers, fuel), movements of currencies, interest rates, etc. The biggest internal risks include human resources, capacity management, operational disturbances, sales, revenue management, and liquidity risk, especially in the winter months.

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

The crisis caused by the coronavirus has drastically reduced demand for air traffic services. Different epidemiological approaches of individual European countries concerning travel restrictions posed an additional risk for the Company's operations in 2020. This entailed a need to continuously adapt the capacity offer by optimising the flight schedule and reducing the block time several weeks in advance.

Liquidity risk

Given a great decline in revenues, liquidity maintenance was the most significant internal risk affecting Croatia Airlines' operations. The coronavirus pandemic resulted in a reduced demand for air traffic services and passenger transport recorded a 72% fall in 2020. In the summer season, when Croatia Airlines normally transports the greatest number of passengers, it recorded a greater than 90% traffic decline in April and May, and a drop of 80% in June, 70% in July, 67% in August and 80% in September. The air traffic recovery that started in June came to a halt in September as the epidemiological situation got worse, and a sharp fall of passenger transport continued in the low (winter) season when the Company usually generates losses even under normal circumstances, and rival carriers reduce their operations to a minimum.

Croatia Airlines introduced rigorous savings measures in all segments as early as March 2020, when the crisis began. It also signed an agreement with the labour unions on reducing the rights granted under the collective bargaining agreement and reached an agreement with a number of suppliers, which resulted in significant savings in 2020. The measures include cancellation of a short-term seasonal lease of a CRJ1000 aircraft, a long-term dry lease of a Q400 aircraft, and an agreement with the lessor about prolonging the start of charging a long-term dry lease of an A319 until the end of 2021, with the application of the PBH (Power by the Hour) calculation. Of the 13 lease agreements for aircraft and engines, an agreement was reached for 11 of them with regard to cutting the costs of monthly lease instalments by applying the PBH calculation or a temporary reduction/postponed payment of lease instalments for certain months. Investments were reduced, the hiring of seasonal staff suspended, promotional campaigns postponed and promotional costs reduced in all markets. Moreover, the budgets for business travels and the training of non-operative staff were reduced. In order to maintain liquidity amidst the crisis caused by the coronavirus pandemic, Croatia Airlines fulfilled its obligation related to the exchange of greenhouse emissions units for 2019 by using its 2020 free emissions.

A reduced outflow is partly related to a decrease in the costs directly related to operations, based on the reduction in the scope of traffic.

Furthermore, in the period from April to June 2020, an agreement was reached with commercial banks to defer the payment of credit liabilities, and measures of the Government of the Republic of Croatia were implemented to defer the payment of taxes and contributions on salaries as well of other various public dues (such as membership fees, annuities, and other fees). During the year, the Company made use of grants offered by the Croatian Employment Service to preserve the jobs.

In January 2020, the Company received an HRK 150 million worth second instalment of the shareholder loan worth HRK 250 million, while the first instalment was paid in September 2019. The loan was intended for the stabilisation of its operations prior to recapitalisation by the strategic partner.

In December 2020, the Company received state aid worth HRK 350 (recapitalisation) and HRK 250 million (shareholder loan) to secure the necessary financial stability and liquidity, as well as capital recovery.

Fuel

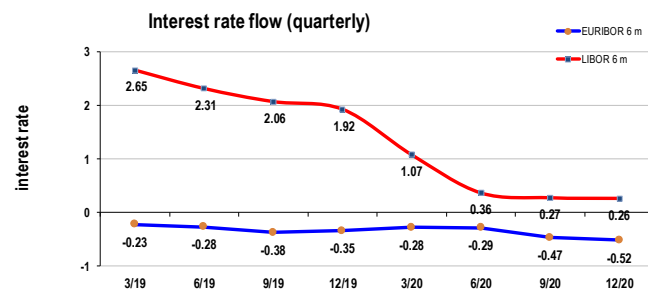
Oil and jet fuel price trends in 2020 were a result of the effects of the pandemic on the global economy. As COVID-19 began spreading, the countries went into a lockdown, movement and travels were restricted and a quarantine introduced, affecting also the demand for oil. The countries gradually opened up as of June, causing the price of oil to rise from almost zero (in the NYMEX market) to 40 \$/barrel.

According to the forecasts released by IATA in November 2020, the average price of Brent crude oil was 43 \$/barrel in 2020, and is seen to reach 45.5 \$/barrel in 2021. The average price of jet fuel was 43.9 \$/barrel in 2020, and is expected to reach about 49.1 \$/barrel in 2021. Fuel costs have been put at \$55 billion in 2020, and \$78 billion in 2021, with their share in the overall operating costs being 12.7% in 2020 and 15.8% in 2021.

Interest 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 loan totals HRK 47.9 million.



In the first two quarters of 2020, Euribor still recorded negative values, with no significant changes compared to the 2019 trends. Libor, on the other hand, recorded a significant drop, which did not affect Croatia Airlines' operations since it had no loan liabilities related to Libor.

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 2020, Croatia Airlines operated a fleet of 12 aircraft: six Airbus aircraft (two A320, of which one was under an operating lease, and four A319), and six Q400 aircraft, all under an operating lease.

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



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



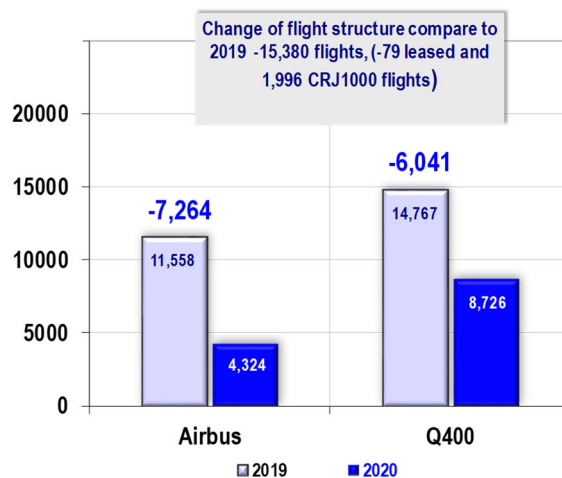
Q 400 – 6 aircraft
The aircraft has 76 seats – altogether 456 seats



A dry-leased A319 was used as needed, by applying the PBH (Power by the Hour) principle.

Contrary to the usual practice, the Company did not take a lease on aircraft for the summer season of 2020, and given the crisis, it postponed the dry-lease of a Q400 that should have served as an additional fleet capacity.

Compared to 2019, the level of operations more than halved as a result of the epidemic. Croatia Airlines' aircraft realised the block time of 17,570 block hours, or 57% less compared to the same period of 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.

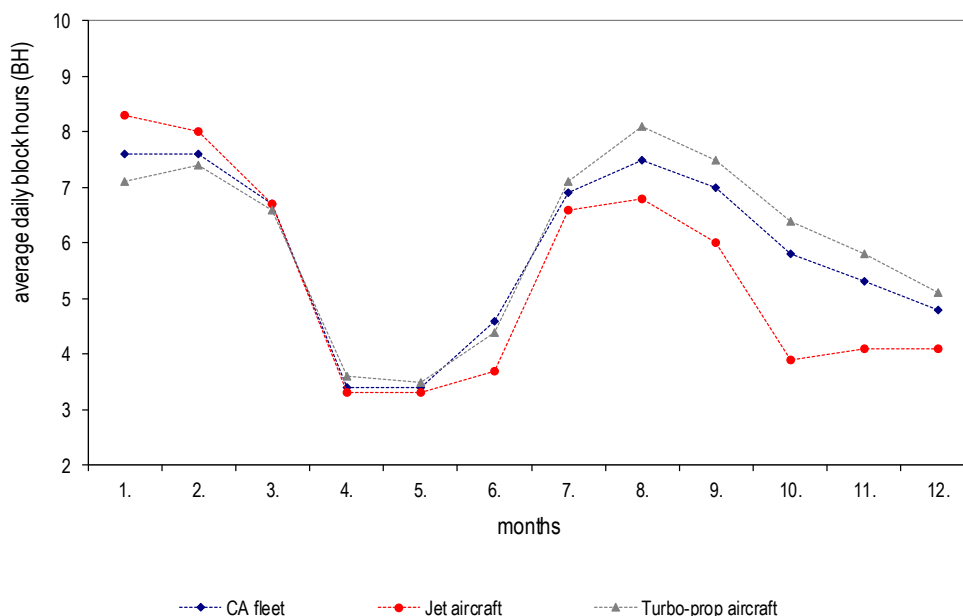
Fleet utilisation

type of aircraft	number of aircraft	Ø daily block hours (BH)	growth 20-19	utilisation growth 20/19
Airbus A320	2	5.6	-3.6	-39.1%
Airbus A319	4	6.4	-3.3	-34.0%
Q-400	6	6.5	-2.2	-25.3%
TOTAL	12	6.4	-2.8	-30.4%

In 2020, Croatia Airlines' fleet realised on average 2,354 block hours per aircraft, or 30% less than in 2019.

The average number of aircraft on the level of 2020 totalled 7.5 aircraft. Available seat-kilometres (ASK) declined by 62%, and revenue passenger kilometres (RPK) by 74% in 2020.

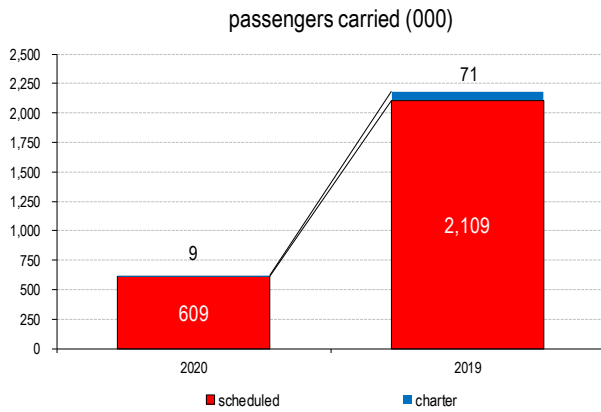
CA fleet utilization by month, 2020



The market

In 2020, Croatia Airlines operated during the worst crisis in the history of civil aviation, recording a 72% fall in the number of transported passengers compared to 2019.

In 2020, Croatia Airlines connected the country to 19 destinations in scheduled international traffic, and seven in domestic traffic.



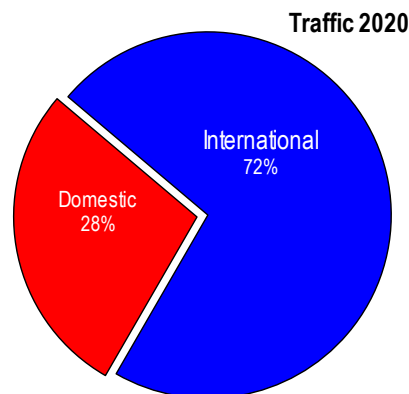
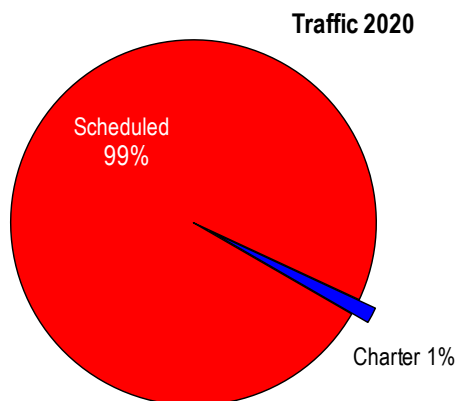
The number of passengers carried in **domestic scheduled traffic** fell by 66%, while of those transported in **international scheduled traffic** declined by 73% compared to 2019.

Altogether 8,700 passengers were transported within charter traffic, or 88% less compared to 2019. Charter traffic made up only 1% of the total traffic.

In 2020, 1,442 tonnes of cargo were transported, or 32% less than in 2019.

The **passenger load factor (PLF)** of 49.6% was 24 pp lower than in the same period of 2019, with the **weight load factor (WLF)** being 48.4%, or 21.9 pp lower compared to 2019.

A total of 618,123 passengers were transported in 2020. Of this figure, 172,077 were transported in domestic scheduled traffic, 437,373 in international scheduled traffic, and 8,673 in charter traffic.



The number of passengers transported in international scheduled traffic was 73% lower, i.e. 1.2 million fewer passengers were transported compared to 2019.

Given a 60.5% decline in the capacities offered, the passenger load factor (PLF) in international scheduled traffic was 50.9% (-23.2 pp). The number of passengers carried in domestic scheduled traffic declined by 66%, with 339,000 fewer passengers compared to 2019. The passenger load factor (PLF) in domestic scheduled traffic was 45.9% (-22.7 pp compared to 2019).

Financial operations

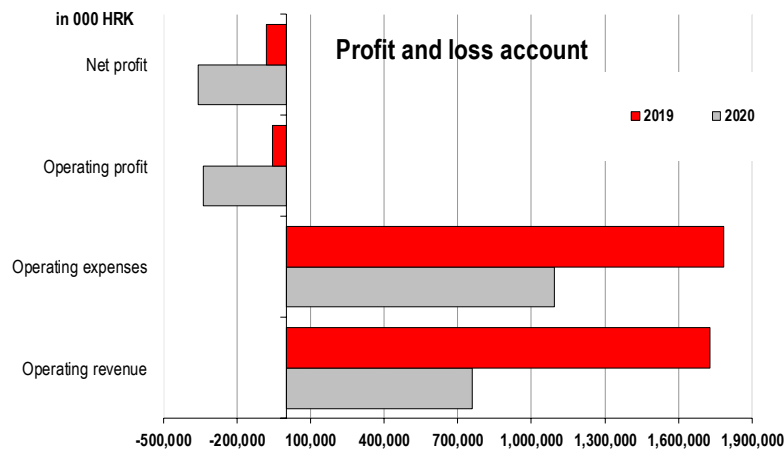
Profit and loss account

The business year of 2020 was marked by the significantly changed business circumstances that greatly impacted the Company's financial operations. The coronavirus crisis significantly reduced the demand for air traffic services, which, together with traffic restrictions, necessitated a reduction in capacities and an optimisation of the flight schedule, i.e. block time reduction. In order to adapt to the circumstances that occurred, from March the Company has been implementing a number of measures to mitigate the consequences of the crisis. In addition to reducing the flight schedule scope, they include significant fleet changes and reflect in both revenue and expenditure side of the balance sheet.

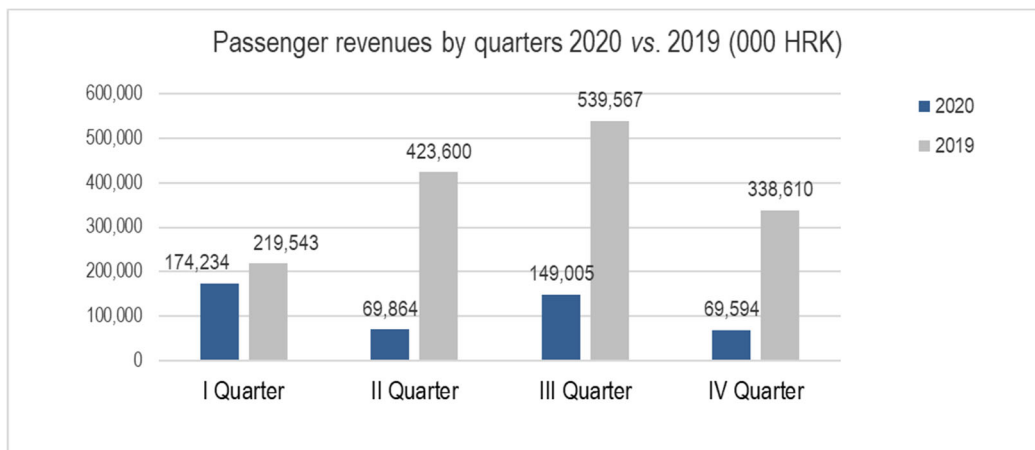
(000 HRK)	2020	2019	Index 20/19
Passenger traffic	462,698	1,521,320	30
Cargo traffic	8,484	11,518	74
Other revenues	288,313	195,451	148
OPERATING REVENUES	759,495	1,728,289	44
Flight operations	196,382	517,780	38
Maintenance	150,801	219,298	69
Passenger services	56,089	110,985	51
Aircraft and traffic services	173,125	395,028	44
Promotion and sales	96,296	228,948	42
General and administrative expenses	71,708	87,010	82
Amortization	210,036	208,647	101
Other expenses	140,432	15,978	879
OPERATING EXPENSES	1,094,869	1,783,673	61
PROFIT/LOSS FROM OPERATIONS	-335,374	-55,384	606
Interest expense	-22,505	-19,410	116
Interest revenue	4,037	167	-
Foreign exchange differences, net	-4,300	-5,039	-
Other financial expenses	-82	-79	104
Other financial revenues	0	386	0
NET FINANCIAL EXPENSES	-22,851	-23,975	95
NET PROFIT/LOSS	-358,225	-79,359	451

Given such market conditions, data show that the Company's operating loss at the end of 2020 totalled HRK 335.4 million, while its total net loss for the year was HRK 358.2 million. A greater net loss compared to 2019 is a direct result of the reduced demand for air traffic services amidst the coronavirus pandemic, which resulted in reduced capacities and traffic performance in both passenger and cargo transport. The overall

block time, expressed in the number of flights, saw a 54% decline (-15,380 flights), while the number of passengers fell by 72% (-1.56 million), directly affecting the operating revenues, primarily passenger revenues.



Compared to 2019, the reduced demand resulted in HRK 1,058.6 million lower passenger revenues (-70%). Altogether HRK 45.3 million less was generated in the first quarter, primarily in March. The Company lost HRK 744.3 million in revenues in the summer season, and HRK 269 million in the final quarter.

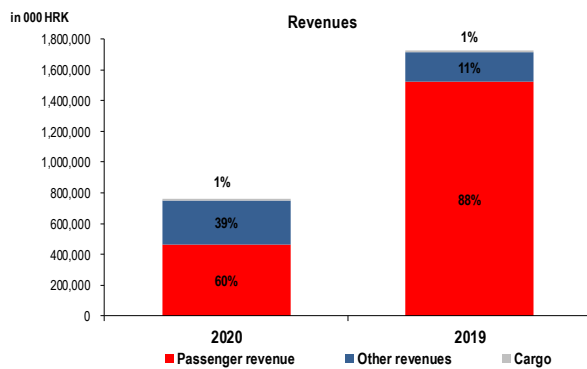


Cargo traffic also recorded a fall, with a total of 693 tonnes of cargo less (-32%) being transported compared to 2019, resulting in HRK 3 million lower cargo transport revenues (-26%).

Other revenues rose by 48%, with the state aid worth HRK 88.5 million for the compensation of damage caused by the COVID-19 pandemic being the biggest item. The support was granted based on the Decision of the Government of the Republic of Croatia of 13 November 2020, in line with the provisions of Article 107 paragraph 2 item (b) of the Treaty on the Functioning of the European Union. In addition, other revenues include revenues from the write-off of public contributions (income tax and salary contributions), employment preservation subsidies in line with the relevant measures of the Government of the Republic of Croatia²² and revenues from doubtful debts due from previous years.

²² Tax payment deferral measure; Tax exemption measure; Job preservation subsidy

In addition to the evident reduction in the total revenues, the very revenue structure changed, with lower passenger revenues and higher other revenues. Cargo revenues made up only 1% of the operating revenues and their share remained unchanged.



Given the circumstances, Croatia Airlines has been undertaking strict measures aimed at mitigating the effect of the crisis on its operations. They are based on the Guidelines for

the Rationalisation of Business Operations of State-owned Legal Entities Amidst the COVID-19 Epidemic, issued by the Government of the Republic of Croatia in relation to financial operations and reviewing the expenditure side. Croatia Airlines introduced rigorous savings measures in all segments as early as March 2020, when the crisis began. It also signed an agreement with the labour unions on reducing the rights granted under the collective bargaining agreement and reached an agreement with a number of suppliers, which resulted in significant savings in 2020.

Compared to the end of 2019, the Company's operating expenses decreased by HRK 688.4 million, i.e. 39%.

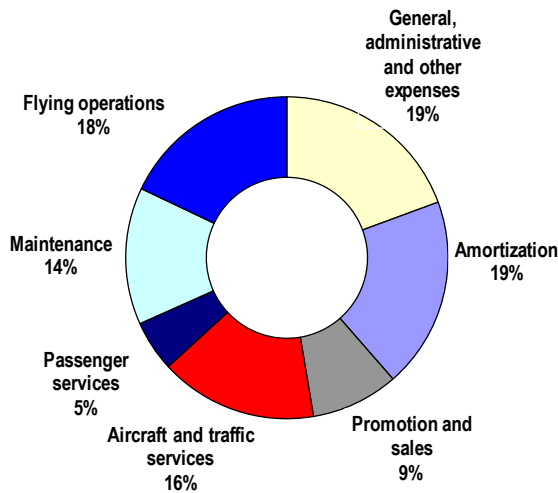
Cost reductions were recorded in most operating cost categories, largely in the costs directly related to block time and the number of passengers.

Flight operation costs recorded a significant fall of HRK 321 million, with fuel costs seeing the greatest drop amidst reduced block time and lower fuel costs (HRK -225 million), and about HRK 64 million lower aircraft lease costs since the envisaged short-term lease of CRJ for the summer season was cancelled amidst the crisis and reduced demand for air transport services. Air traffic service costs, which depend on the number of flights and the type of aircraft, were HRK 222 million lower. Sales costs saw an HRK 132.7 million reduction, primarily as a result of the reduced number of passengers, which reflected in lower reservation system costs. Also, reduced sales in this period resulted in lower sales commission costs. Promotion costs were significantly reduced as part of the business rationalisation measures. Passenger service costs declined by HRK 55 million, with lower staff costs since the flight schedule scope was reduced and no seasonal cabin staff hired for the summer season. Maintenance costs were HRK 68.5 million lower due to reduced costs related to block time. Furthermore, cost reductions were recorded in various general and administrative cost categories. Staff costs were reduced within all cost categories since, in agreement with the social partners and in line with the guidelines of the Government of the Republic of Croatia for mitigating the crisis consequences, gross salaries were reduced by 15%.

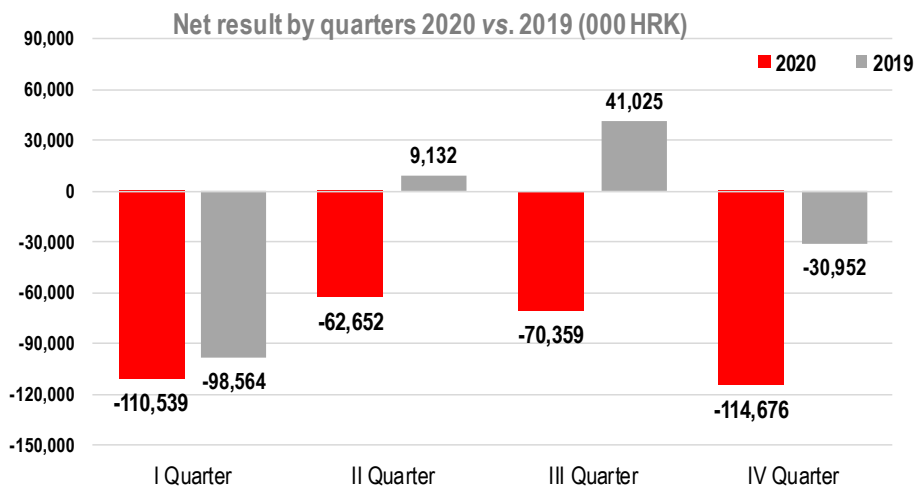
Aircraft depreciation caused by the COVID-19 crisis necessitated adjustments to the market values, which was the biggest non-recurring item in regard to an increase of other expenditures.

Also, long-term receivables related to the advance paid to a supplier were written off. Depreciation costs saw a negligible rise (+1%) due to the investments made into the fleet during the reporting period.

Structure of operating expenses 2020



As traffic results for the first two months of 2020 showed a mild upward trend compared to the same period of 2019, the crisis effect was not evident to a great extent in the first quarter, since March was the most affected month, so the results for the first two months cover up the real negative effect of the crises on the operations. The loss of HRK 110.5 million that was generated in the first quarter of 2020 was HRK 12 million greater compared to the same period of 2019. Although the first quarter also saw a poorer result compared to 2019, the true devastating effect of the crisis was clearly evident in the second quarter, most affected by both the reduced demand and traffic restrictions. In the summer season, when the Company usually generates profit, its loss totalled HRK 133 million, and was HRK 183.2 million greater compared to the same period of 2019. Amidst the worsening epidemiological situation, reduced demand and booking, the loss of the final quarter totalled HRK 114.7 million. The Company's net loss for the year was HRK 278.9 million greater compared to 2019.



Assets, financing and investments

Balance sheet

(000 HRK)	End 2020	End 2019	Index 2020/2019	End 2018	Index 2019/2018
ASSETS					
Non-current assets	931,333	1,209,542	77	783,093	154
Current assets	736,195	197,577	373	201,851	98
TOTAL ASSETS	1,667,528	1,407,119	119	984,944	143
LIABILITIES					
Capital and reserves	215,930	224,890	96	304,118	74
Provisions	203,075	212,716	95	156,089	136
Non-current liabilities	820,800	467,244	176	56,680	824
Current liabilities	427,724	502,269	85	468,056	107
TOTAL LIABILITIES	1,667,528	1,407,119	119	984,944	143

The end-of-year **value of the Company's assets** was 19% higher compared to 2019.

The value of its total fixed assets was 23% lower, as a result of the aircraft value adjustment amidst a reduced market value resulting from the COVID-19 crisis. In 2020, the pre-delivery advances for the purchase of new aircraft were written off and investments decreased as part of the savings measures. Long-term financial assets with receivables decreased due to a lower level of funds intended for future works in the fleet.

The value of the Company's current assets was more than three times greater than at the end of 2019, mostly due to the high level of cash. The value of the financial assets rose due to higher levels of deposits that are retained for up to one year, and released upon operating flights. The Company recorded a decline in accounts receivable as a result of a lower traffic scope, while other receivables rose amidst the expected PSO subsidy and job preservation subsidy during Covid-19 crises from the state. Receivables were collected within seven days, the same as in 2019.

The Company's capital and reserves totalled HRK 215.9 million at the end of 2020. In 2020, the capital was increased through the HRK 350 million worth recapitalisation by the state in line with the European Commission's Temporary Framework. It was aimed at returning the capital to a pre-crisis level, but due to an exceptionally negative result for 2020, the total capital level was lower than at the end of 2019.

Compared to 2019 **provisions** decrease by 5% as result of the used maintenance reserve funds.

The Company's long-term liabilities rose by 76%, as a result of a long-term borrowing from the state, in the form of shareholder loans. In January 2020, the state disbursed the second tranche of the shareholder loan worth HRK 150 million for the stabilisation of the Company's operations prior to privatisation, while the second shareholder loan worth HRK 250 million was paid in December, in line with the European

Commission's Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak. Liabilities related to leased asset and other long-term liabilities reduced compared to 2019.

The Company's short-term liabilities were reduced by 16% through the repayment of short-term loans worth HRK 31.5 million and significantly lower liabilities to suppliers as a result of reduced scope of traffic. In this category, air traffic liabilities recorded a 50% rise.

At the end of 2020, Croatia Airlines' liabilities related to a long-term syndicated loan taken with PBZ/HPB totalled HRK 47.9 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 2020

Investments	2020	2019	2018
Investments in aircraft	11,924,103	13,970,501	85,924,925
Investments in spare parts, tools and equip.	7,938,396	8,398,274	15,281,948
Construction investments	127,789	757,940	1,998,589
Intangible assets - leased aircraft	45,375,091	35,268,758	48,657,942
Other intangible assets	2,564,266	2,044,094	2,195,087
Other equipment	1,493,028	3,715,988	2,242,468
Total	69,422,674	64,155,556	156,300,959

In 2020, the majority of the investments are directly related to flights, aircraft maintenance and operation, and maintenance of the guaranteed level of safety.

Investments into aircraft, together with spare parts, total HRK 65.2 million and make up over 90% of total investments. A 12-year check with ESG modification was carried out on a CTH Airbus, while the same check on the CTG Airbus is underway. The Company performed an overhaul of the leased engine and modification on the leased A320 CTJ. It also carried out works on the landing gear of two Q400 and Airbus aircraft, and ADS-B modifications on the Airbus and Dash Q400 fleet.

Amidst reduced block hours, more periodical aircraft checks were done in 2020. Six C checks were carried out in-house on the Airbus aircraft and two on the Dash aircraft fleet.

Other investments totalled HRK 4.2 million: HRK 2.5 million for software, HRK 1.3 million for IT equipment, and HRK 0.4 million for other various equipment and infrastructure.

Cash flow

Cash flow (000 HRK)	2020	2019	Index
Cash at the beginning of the period	33,749	16,625	203
Inflow from activities	772,571	2,024,051	38
Shareholder loan	400,000	-	-
Recapitalization	350,000	-	-
Covid-19 damage aid	88,500	-	-
Loans	7,450	10,654	70
Sale of property	1,029	-	-
Total inflow	1,619,550	2,034,705	80
Obligations	969,644	1,852,114	52
Investments	60,744	100,868	60
Loans	48,586	64,598	75
Total outflow	1,078,975	2,017,581	53
Net change in the period	540,575	17,124	-
Cash at the end of the period	574,324	33,749	-

At the end of 2020, the Company's cash balance was HRK 574.3 million, with a positive net cash flow.

Total inflow was 20% lower, while inflow from operating activities was 62% lower compared to the end of 2019 as a result of reduced traffic amidst the COVID-19 pandemic, while the level of outflow was 47% lower.

In November 2020, the Company received state aid worth HRK 88.5 million for the compensation of damage caused by the COVID-19 pandemic, for the period from March to June.

Shareholder loans total HRK 400 million and comprise the HRK 150 million second tranche of the shareholder loan approved in 2019 and a second shareholder loan in the amount of HRK 250 million approved in line with the Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak. Pursuant to this document, the recapitalisation funds worth HRK 350 million paid by the state are intended for restoring the Company's capital to a pre-crisis level, i.e. to the value recorded on 31 December 2019.

Outflows related to investments were 40% lower.

In the reporting period, the Company fully repaid two short-term loans taken with Zagrebačka banka and worth HRK 10.5 million, a revolving loan worth HRK 21 million and a short-term borrowing of HRK 7.5 million. It also repaid two syndicated loan instalments worth EUR 1.1 million.

Consolidated business result

000 HRK	Croatia Airlines		Obzor putovanja		Amadeus Croatia		Croatia Airlines Group	
	2020	2019	2020	2019	2020	2019	2020	2019
Operating revenues	509,453	1,599,516	2,898	6,871	2,976	8,297	515,104	1,614,485
Other revenues	250,042	128,773	1,075	97	220	0	251,336	128,870
Operating expenses	1,094,869	1,783,673	4,226	5,356	5,512	8,171	1,104,352	1,797,056
Operating profit/loss	(335,374)	(55,384)	(253)	1,611	(2,316)	126	(337,912)	(53,701)
Net profit/loss	(22,851)	(23,975)	(88)	(51)	43	(7)	(22,867)	(24,409)
Pre-tax profit	(358,225)	(79,359)	(341)	1,560	(2,274)	119	(360,779)	(78,110)
Net profit	(358,225)	(79,359)	(341)	1,273	(2,274)	51	(360,779)	(78,465)

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 2020 at the Group level amounts to a loss of HRK 360.8 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

The year of 2020 was the hardest business year in Croatia Airlines' 30-year-long history, as a consequence of the COVID-19 pandemic that has had a particularly devastating effect on travels and tourism, with airline companies and air traffic in general being among the most affected sectors. Although the Company continued operating, despite the extraordinary circumstances, a reduced demand for air traffic services affected all of its operating segments. Consequently, a great drop in sales jeopardised its business operations, with liquidity maintenance being particularly challenging in such circumstances.

The onset of the COVID-19 crisis affected the privatisation process, and in March 2020 Commission in Charge of Implementing the Procedure and Proposing a Strategic Partner for Croatia Airlines d.d. decided to put it on hold amidst the unfavourable situation and force majeure. In 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 the selection of a strategic partner for Croatia Airlines. The Government of the Republic of Croatia and Croatia Airlines expect the procedure to resume as soon as the market conditions allow for it. Since overcoming the pandemic is a prerequisite for the process to resume, it is difficult to estimate when this will happen.

Given a significantly reduced scope of traffic, which recorded a 72% fall in 2020, and an ongoing decline in booking, the Company put all of its costs under a close scrutiny at the very onset of the crisis, and drew up four crisis plan versions over the year, in accordance with the market trends. The operating activities management system was adopted to the newly arisen circumstances, and the flight schedule underwent optimisation on a weekly basis. These measures significantly affected the Company's financial operations in 2020.

Within the undertaken operating measures, the Company cancelled a wet lease of the CRJ100 for the summer season and a dry lease of a Q400, while applying variable cost calculation for the lease of an A319, based on the hours flown. The block time structure was also adapted to the demand, with an emphasis on using lower-capacity Dash Q400 aircraft. The flight schedule was significantly reduced through a decrease of frequencies on certain routes or by temporary termination of certain routes. The Company cancelled the planned introduction of new routes, and adjusted on an ongoing basis the offer of flights, depending on the market developments and booking.

In order to reduce costs and maintain the liquidity, it implemented rigorous savings measures, including the cancelling of all investments other than those necessary for the fleet. It also cancelled the hiring of seasonal staff, consensually terminated fixed-term employment contracts and agreed upon a 15% gross salary reduction with its social partners, under an annex to the collective bargaining agreement. In agreement with the labour unions, this measure was prolonged until the end of 2021.

To further mitigate the effects of the crisis on the cash flow, it successfully completed negotiations with the majority of aircraft and engine lessors concerning the lease costs, and with various suppliers about postponed payment and introducing payment in instalments. It also entered into standstill agreements with commercial banks, and made use of several forms of state measures, such as deferral and write-off of taxes and contributions, and deferred payment of other various public dues, Croatian Employment Service's state aid for the preservation of jobs in the sectors affected by the coronavirus

(COVID-19), approved to employers that recorded a fall in revenues of more than 60% in the second and third quarter of 2020.

It continually monitored its liquidity and made cash flow projections for the period of one year, to timely identify potential operating risks and settle its liabilities.

The measures have contributed to keeping the business operations running, but not enough to ensure the Company's viability – especially in the light of short-term recovery prospects of the industry. It remains uncertain due to new virus strains and delayed or complex vaccine distribution procedures.

The vast majority of international and European carriers are faced with serious financial difficulties and use state subsidies and other types of financial support, including recapitalisation, state guarantees, shareholder loans, etc. To ensure the continuity of operations and maintain liquidity, which is currently the biggest risk, Croatia Airlines was in 2020 approved:

- state aid worth HRK 88.5 million for the compensation of damage caused by the COVID-19 pandemic,
- two shareholder loans, each worth HRK 250 million, one of which was approved in late 2019 before the corona crisis, with the aim of stabilising the Company's operations prior to the privatisation process, while the other was approved in December 2020 as part of the interim measures for the damages caused by the pandemic,
- recapitalisation worth HRK 350 million approved in December 2020.

These funds helped create the conditions and resources for the Company to settle its liabilities and ensure the continuity of operations in the period to come. In 2021, it will continue with the implementation of savings measures, optimisation of flight schedule and fleet, in line with the demand and booking trends.

In order to find a solution to the current situation, the Business Plan for 2020-2025 elaborates on a new strategic direction 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.

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 the replacement of a part of the existing Airbus fleet with more cost-effective aircraft, between ten and twelve years old, via operating lease.

It also envisages a fleet renewal as of 2023 by introducing one aircraft a year, so that the fleet would comprise 15 aircraft at the end of 2025. Two wet-leased aircraft will be gradually replaced by two dry-leased A319, and an additional Q400 as a reserve.

2) Expansion of the destinations network

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

3) Increase of passenger revenues

An increase in passenger revenues is based on the envisaged rise in the number of transported passengers, while at the same time increasing efficiency through further digitalisation of all commercial activities for the purpose of realising fresh revenue potential.

4) Increase of non-flight revenues

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 10 months a year, i.e. on the utilisation of maximum third party maintenance capacity.

5) Award of a PSO contract for both domestic and international traffic

Croatia's traffic connectivity remains in the Company's focus, and it strives towards an award of the PSO contract for a future period.

6) Cost initiatives (decrease of various cost categories)

Rationalisation in all operational segments, by applying concrete measures and monitoring the results. The savings scheme implementation that started in 2020 continues, with the aim of increasing efficiency and reducing costs. Agreements with social partners in view of reducing labour costs contribute to this measure.

7) Negotiations with Airbus with respect to A320neo order cancellation

Negotiations on the termination / change of the contract with Airbus Industrie for the procurement of four Airbus 320neo aircraft began in autumn 2019. Negotiations of the "Termination Agreement", the subject of which is the cancellation of the procurement 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 the negotiations is the termination of the sales contract therefore, Croatia Airlines has no further obligation towards Airbus regarding the payment of predelivery payments. Considering that the subject of negotiations is the termination of the upper mentioned contract, Croatia Airlines has no obligation for any further payments.

8) Organisational changes and process improvements

In 2021, the Company will start with the process of defining the Post-Covid Strategy for its business operations, with the aim of optimising all processes and increasing efficiency and adaptation to new airline market trends once the pandemic ends.

Developing such a strategy, and continuing with the privatisation process once the preconditions are created, should reduce risks related to significant 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, further need for financial support from the owner cannot be excluded.

Plan objectives and goals for 2021

After the devastating year of 2020, the airline industry is faced with as equally uncertain 2021, since recovery is based on the fast vaccination progress and putting the pandemic under control. However, it is evident that the health care crisis is far from being resolved, and the negative trends continued in the first quarter of 2021.

Croatia Airlines' Business Plan for 2021 is based on the projected gradual recovery of the aviation market starting from the summer season. The Company's operations in 2021 will largely depend on external factors such as new virus strains and the continuation of the pandemic, vaccination coverage, the border situation and travel possibilities, which directly affect the demand for air transport services.

A special focus will be put on liquidity maintenance and further implementation of savings measures, optimisation of flight schedule and fleet, in line with the demand and booking trends.

Croatia Airlines sees a loss of HRK 269 million in 2021. This result is based on the projection of traffic performance indicators that serve as a basis for the calculation of operating revenues and expenses.

The projected result is based on the following presumptions:

- 16,889 - block time in flights;
- 22,611 - block time in block hours;
- Annual traffic of 939,584 passengers (321,461 more compared to 2020), of which 920,496 within scheduled traffic and 19,088 within charter traffic;
- PLF on the level of 54.4%.

The flight schedule for 2020 comprises seven destinations within domestic scheduled traffic and 17 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 checks, 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 to 10 months at least), all with the aim of increasing revenues from maintenance services. It also plans to form a technical profit centre by introducing a systematic production process cost accounting and defining the value of the services performed. In 2021, Croatia Airlines plans to implement the PSO scheme on domestic routes.

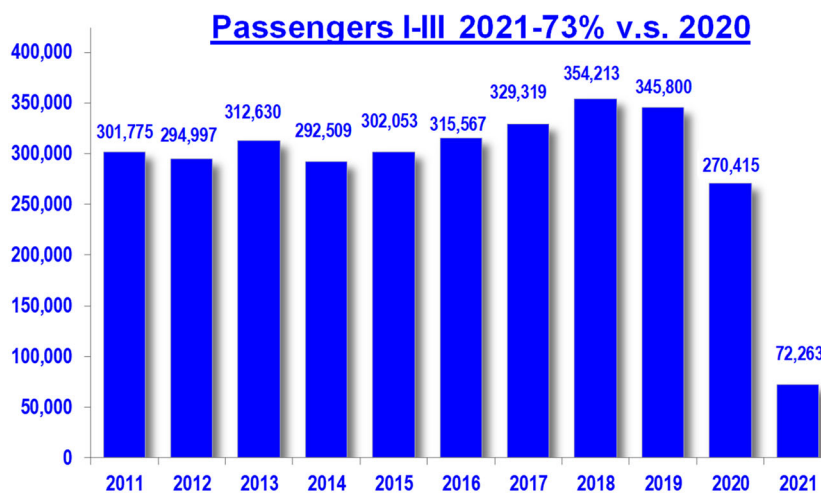
Current operations – traffic performance in the first quarter of 2021

Prolonged epidemic and delays in the vaccine production and distribution all affected the results of the first quarter of 2021, so the indicators are much lower than in the same period of 2020. It should be noted that a more prominent effect of the coronavirus crisis in 2020 started to reflect on business results from mid-March when the traffic scope was

description		I-III 2021	I-III 2020
flights (km)	DIST 000	1,179	2,713
departures	FLTS	1,951	4,528
annual change rate	%	-57	-10
block hours	BH	2,697	6,105
annual change rate	%	-56	-7
passengers carried	RPAX 000	72	270
annual change rate	%	-73	-22
freight&mail carried	CGO T	298	505
annual change rate	%	-41	6
passenger km flown	RPK mln	48	183
available seat - km	ASK mln	107	305
passenger load factor	PLF %	44.8	60.1
tonne km flown	RTK mln	5	19
available tonne-km	ATK mln	44	33
weight load factor	WLF %	44.4	57.2

reduced, all the while adhering to the decisions of public health and aviation authorities, and that the first two months showed a mild growth of traffic performance indicators.

The number of passengers in the first quarter of 2021 was 73% lower than in the same period of 2020. Domestic scheduled traffic saw a 61% decline, while international scheduled traffic recorded a 78% fall. The passenger load factor (PLF) was 44.8%, or 15.3 pp lower than in the same period of 2020.



Chairman of the Management Board
Jasmin Bajić

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.

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

A change in the composition of the five-member Supervisory Board took place in 2020. As of 14 July 2020, it 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;

Zoran Viljac,

- Member of the Supervisory Board – employee representative
- From 7 May 2019;

In 2020, the Supervisory Board held four 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. However, an audit committee was established. Deviations also refer to the publication of data on the remuneration policy and a statement on incentives of the Management Board and the members of the Supervisory Board, as this matter is regulated by the relevant decree of the Government of the Republic of Croatia. The Company presented more detailed information about the failed implementation of the Code or deviations from some of its recommendations in 2020 in the annual questionnaire, which makes an integral part of the Code and which the Company submits to the Zagreb Stock Exchange together with its annual financial statements for public disclosure.

Given that no third member was appointed, the Audit Board members in 2020 were Chairwoman Nataša Munitić and member Zoran Barac.

The Audit Board held four 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. Both 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 2020. 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 35,000,000.00 ordinary registered shares, with a nominal amount of HRK 10 each. As a result, the new share capital amounts to HRK 627,879,530.

SHAREHOLDER STRUCTURE:

Dioničar	Broj dionica	% udjela u temeljnom kapitalu
REPUBLIKA HRVATSKA	62.010.821	98,7623
ZRAČNA LUKA ZAGREB D.O.O.	477.121	0,7599
HPB ZA REPUBLIKU HRVATSKU	173.768	0,2768
JANAF D.D.	22.000	0,0350
CROATIA OSIGURANJE D.D.	7.165	0,0114
HRVATSKA LUTRIJA D.O.O.	4.000	0,0064
ASTRA INTERNATIONAL D.D. U STEČAJU	3.682	0,0059
HP D.D.	2.750	0,0044
TURISTHOTEL D.D.	2.090	0,0033
TANKERKOMERC D.D.	2.090	0,0033
OSTALI	82.466	0,1313

Pursuant to the provisions of Article 272 (p) of the Companies Act, this Representation Letter is attached to the Management's Business Report for 2020 as an integral part thereof.

Zagreb, 31 May 2021



Jasmin Bajić,
Chairman of the Management Board

CROATIA AIRLINES d.d.

**Consolidated and Separate Financial Statements
for the year ended 31 December 2020
together with Independent auditors' report**

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Responsibility for the financial statements

The Management Board of the Company Croatia Airlines d.d., Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the consolidated and separate financial statements for the year ended 31 December 2020 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

31 May 2021



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

Opinion

We have audited the separate financial statements of Croatia Airlines d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2020, and their respective separate and consolidated 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 2020 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 42 Events after the reporting date, which indicate negative impact of COVID-19 outbreak which is expected to have significant impact on the Company's operations. Without financial support from the majority owner the Government of Republic of Croatia, the Company will be unable to settle its liabilities as they fall due. As stated in 3 Going concern, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company'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)

Key Audit Matters (continued)

Recognition of passenger revenue from scheduled services

Passenger revenue from scheduled services recognized in profit or loss in 2020: HRK 441,474 thousand (2019: HRK 1,444,647 thousand); carrying amount of air traffic liabilities as at 31 December 2020: HRK 206,021 thousand (31 December 2019: HRK 121,229 thousand).

Refer to Note 2. a) Significant accounting policies, Note 5 on Passenger traffic and Note 35 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">• assessing the revenue recognition policy for compliance with relevant financial reporting standards;• using our own IT specialists, testing of the design, implementation and operating effectiveness of controls over the passenger revenue, including those controls in the IT systems that support the recording of passenger revenue; our tests of these controls were designed to evaluate whether key systems operate as designed, and are protected from manipulating of data or software logic that would result in inaccurate accounting information relating to passenger revenue;• performing predictive analytical procedures by developing an expectation of passenger revenue for the year based on data from publicly available industry database of passenger traffic and average ticket prices on flights;• on a sample basis, testing air traffic liabilities and passenger revenue by tracing the amounts recognized to underlying evidence and supporting documentation (flight document (ticket) and flown coupon used);• for different revenue categories, tracing selected high-risk journal entries posted by the Group throughout the year to supporting documentation in order to identify unusual and irregular items;• assessing the adequacy and completeness of disclosures within financial statements.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.



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

Key Audit Matters (continued)

Recoverability of own and leased aircraft

Carrying amount of own aircraft at 31 December 2020: HRK 184,111 thousand (31 December 2019: HRK 270,384 thousand). Carrying amount of leased aircraft at 31 December 2020: HRK 318,292 thousand (31 December 2019: HRK 375,662 thousand).

Refer to Note 2 d) h) and s) of Significant accounting policies, Note 14 on Property, plant and equipment and Note 32 Leases of the financial statements.

Key audit matter	How our audit addressed the matter
<p>The Company incurred a net loss of HRK 358,225 thousand for the year ended 31 December 2020. 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 for potential impairment. Any such impairment would be recognized 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">▪ Assessing whether the Company included all relevant assets in the impairment test;▪ Challenging the Company'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">– Comparing fair values of aircrafts determined by management to observable external data on prices; analysing comparable past purchase transactions;– Assessing the historical accuracy of management's budgeting by comparing the prior periods' budgeted figures to actual results;– 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;– 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;• Evaluating the adequacy and completeness of disclosures in respect of impairment of own and leased aircraft.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.



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

Other Information

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

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

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

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

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the 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)

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)

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 10 July 2020 to audit the financial statements of the Company and the Group for the year ended 31 December 2020. Our total uninterrupted period of engagement is five years, covering the periods ending 31 December 2016 to 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 28 May 2021;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

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

31 May 2021

Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	2020		2019	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Operating revenues					
Passenger traffic	5	462,698	61,422	1,521,320	205,195
Cargo traffic		8,484	1,126	11,518	1,554
Other sales revenue	6	76,747	10,188	93,626	12,628
Total operating revenues		547,929	72,736	1,626,464	219,377
Other income	7	218,512	29,007	116,891	15,766
Operating expenses					
Flight operations		(196,382)	(26,069)	(517,780)	(69,838)
Maintenance		(150,801)	(20,018)	(219,298)	(29,579)
Passenger service		(56,089)	(7,446)	(110,985)	(14,970)
Aircraft and traffic services		(173,125)	(22,982)	(395,028)	(53,281)
Promotion and sales		(96,296)	(12,783)	(228,948)	(30,880)
General and administrative expenses		(80,787)	(10,724)	(99,948)	(13,481)
Depreciation and amortization	13, 14, 15, 32	(210,441)	(27,935)	(209,028)	(28,194)
Other operating expenses		(140,431)	(18,642)	(16,040)	(2,163)
Total expenses		(1,104,352)	(146,599)	(1,797,055)	(242,386)
Loss from operations		(337,911)	(44,856)	(53,700)	(7,243)
Finance income	10	49,412	6,559	22,596	3,048
Finance costs	11	(72,280)	(9,595)	(47,006)	(6,340)
Net finance costs		(22,868)	(3,036)	(24,410)	(3,292)
Loss before tax		(360,779)	(47,892)	(78,110)	(10,535)
Income tax expense	12	-	-	(355)	(48)
Loss for the year		(360,779)	(47,892)	(78,465)	(10,583)
Other comprehensive income					
Deferred exchange losses		(538)	(71)	(101)	(14)
The fair value of financial assets available for sale		(201)	(27)	232	31
Foreign exchange translation differences		-	(394)	-	(100)
Total other comprehensive income		(739)	(492)	131	(83)
Total comprehensive income / (loss)		(361,518)	(48,384)	(78,334)	(10,666)
Loss per share HRK / EUR	29	(12.98)	(1.72)	(2.82)	(0.38)

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2020

	Note	2020		2019	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Operating revenues					
Passenger traffic	5	462,698	61,422	1,521,320	205,195
Cargo traffic		8,484	1,126	11,518	1,554
Other sales revenue	6	71,096	9,438	78,657	10,609
Total operating revenues		542,278	71,986	1,611,495	217,358
Other income	7	217,217	28,835	116,794	15,753
Operating expenses					
Flight operations		(196,382)	(26,069)	(517,780)	(69,838)
Maintenance		(150,801)	(20,018)	(219,298)	(29,579)
Passenger service		(56,089)	(7,446)	(110,985)	(14,970)
Aircraft and traffic services		(173,125)	(22,982)	(395,028)	(53,281)
Promotion and sales		(96,296)	(12,783)	(228,948)	(30,880)
General and administrative expenses		(71,708)	(9,519)	(87,010)	(11,736)
Depreciation and amortization	13, 14, 15, 32	(210,036)	(27,882)	(208,647)	(28,142)
Other operating expenses		(140,431)	(18,641)	(15,977)	(2,155)
Total expenses		(1,094,868)	(145,340)	(1,783,673)	(240,581)
Loss from operations		(335,373)	(44,519)	(55,384)	(7,470)
Finance income	10	49,300	6,544	22,925	3,092
Finance costs	11	(72,152)	(9,578)	(46,900)	(6,326)
Net finance costs		(22,852)	(3,034)	(23,975)	(3,234)
Loss before tax		(358,225)	(47,553)	(79,359)	(10,704)
Income tax expense	12	-	-	-	-
Loss for the year		(358,225)	(47,553)	(79,359)	(10,704)
Other comprehensive income					
Deferred exchange losses		(538)	(71)	(101)	(14)
The fair value of financial assets available for sale		(201)	(27)	232	31
Foreign exchange translation differences		-	(388)	-	(93)
Total other comprehensive income		(739)	(486)	131	(76)
Total comprehensive income / (loss)		(358,964)	(48,039)	(79,228)	(10,780)
Loss per share HRK / EUR	29	(12.89)	(1.71)	(2.86)	(0.39)

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2020

	Note	31 December 2020		31 December 2019 restated *		1 January 2019 restated *	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets							
Non-current assets							
Intangible assets	13	2,236	297	2,074	279	2,298	310
Property, plant and equipment	14	289,836	38,456	462,124	62,092	495,639	66,820
Investment property	15	-	-	1	-	316	43
Right of use assets	32	473,721	62,854	570,471	76,649	669,658	90,280
Prepayments	17	134,972	17,908	149,607	20,101	122,810	16,557
Non-current deposits	18	28,508	3,782	23,715	3,186	22,687	3,059
Investments in equity instruments	19	917	122	1,118	150	886	119
Non-current receivables	20	90	12	313	42	369	50
		930,280	123,431	1,209,423	162,499	1,314,663	177,238
Current assets							
Inventories	21	61,797	8,199	61,354	8,244	59,925	8,079
Trade receivables	22	20,282	2,691	71,472	9,603	89,086	12,010
Other receivables	23	23,240	3,083	9,668	1,299	12,373	1,668
Income tax receivable		148	20	-	-	179	24
Prepaid expenses and accrued income	24	9,621	1,277	16,068	2,159	14,073	1,897
Current deposits	25	47,436	6,294	9,499	1,276	9,097	1,226
Cash and cash equivalents	26	579,577	76,899	39,071	5,250	20,638	2,782
		742,101	98,463	207,132	27,831	205,371	27,686
TOTAL ASSETS		1,672,381	221,894	1,416,555	190,330	1,520,034	204,924
EQUITY AND LIABILITIES							
Equity							
Share capital	27	277,880	36,399	277,880	36,399	277,880	36,399
Reserves	28	350,627	46,566	27,658	3,228	110,464	14,397
Retained earnings / (accumulated loss)		(49,424)	(7,150)	2,745	395	1,496	229
Net loss for the year		(360,779)	(47,892)	(78,465)	(10,583)	(81,688)	(11,020)
Translation reserve rate		-	1,044	-	1,438	-	1,538
		218,304	28,967	229,818	30,877	308,152	41,543
Non-current liabilities							
Provisions	30	188,838	25,055	183,382	24,640	191,879	25,869
Non-current loans and borrowings	31	540,466	71,709	142,795	19,186	55,261	7,450
Non-current lease liabilities	32	279,877	37,134	323,798	43,506	391,879	52,820
Other non-current liabilities		838	111	1,287	173	1,419	191
		1,010,019	134,009	651,262	87,505	640,438	86,330
Current liabilities							
Provisions	30	14,236	1,889	29,333	3,941	18,071	2,436
Current loans and borrowings	33	-	-	31,500	4,232	64,553	8,703
Current portion of non-current loans and borrowings	31	12,813	1,700	12,652	1,700	20,769	2,800
Current lease liabilities	32	74,435	9,876	81,360	10,932	82,003	11,067
Trade payables	34	66,607	8,837	187,241	25,158	196,164	26,446
Other current liabilities	35	242,370	32,158	162,096	21,781	154,519	20,832
Income tax liability		-	-	38	5	210	28
Accrued expenses and deferred income	36	33,597	4,458	31,255	4,199	35,155	4,739
		444,058	58,918	535,475	71,948	571,444	77,051
TOTAL EQUITY AND LIABILITIES		1,672,381	221,894	1,416,555	190,330	1,520,034	204,924

*The correction and reclassification are presented in Note 4.

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

Croatia Airlines d.d. separate statement of financial position

As at 31 December 2020

	Note	31 December 2020		31 December 2019 restated *		1 January 2019 restated *	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets							
Non-current assets							
Intangible assets	13	2,229	296	2,065	278	2,285	309
Property, plant and equipment	14	289,610	38,426	461,933	62,066	495,451	66,794
Investment property	15	-	-	1	-	316	43
Right of use assets	32	473,101	62,771	569,605	76,533	668,483	90,121
Investments in subsidiaries	16	1,210	161	1,210	163	1,210	163
Prepayments	17	134,972	17,908	149,607	20,101	122,810	16,557
Non-current deposits	18	28,471	3,778	23,690	3,183	22,640	3,052
Financial assets available for sale	19	917	122	1,118	150	886	119
Non-current receivables	20	823	109	313	42	369	50
		931,333	123,571	1,209,542	162,516	1,314,450	177,208
Current assets							
Inventories	21	61,797	8,199	61,354	8,244	59,925	8,079
Trade receivables	22	19,534	2,592	67,487	9,068	84,893	11,445
Other receivables	23	23,490	3,117	9,442	1,269	12,297	1,658
Prepaid expenses and accrued income	24	9,614	1,276	16,046	2,156	14,046	1,893
Current deposits	25	47,436	6,294	9,499	1,276	9,097	1,226
Cash and cash equivalents	26	574,324	76,202	33,749	4,535	16,625	2,241
		736,195	97,680	197,577	26,548	197,062	26,566
TOTAL ASSETS		1,667,528	221,251	1,407,119	189,064	1,511,512	203,774
EQUITY AND LIABILITIES							
Equity							
Share capital	27	277,880	36,399	277,880	36,399	277,880	36,399
Reserves	28	348,014	46,218	26,369	3,059	109,175	14,228
Retained earnings / (accumulated loss)		(51,739)	(7,487)	-	-	-	-
Net loss for the year		(358,225)	(47,553)	(79,359)	(10,704)	(82,937)	(11,186)
Translation reserve rate		-	1,076	-	1,464	-	1,557
		215,930	28,653	224,890	30,218	304,118	40,998
Non-current liabilities							
Provisions	30	188,838	25,055	183,382	24,640	191,879	25,869
Non-current loans and borrowings	31	540,466	71,709	142,795	19,186	55,261	7,450
Non-current lease liabilities	32	279,496	37,084	323,163	43,421	390,935	52,692
Other non-current liabilities		838	111	1,287	173	1,419	191
		1,009,638	133,959	650,627	87,420	639,494	86,202
Current liabilities							
Provisions	30	14,236	1,889	29,333	3,941	18,071	2,436
Current loans and borrowings	33	-	-	31,500	4,232	64,553	8,703
Current portion of non-current loans and borrowings	31	12,813	1,700	12,652	1,700	20,769	2,800
Current lease liabilities	32	74,178	9,842	81,051	10,890	81,772	11,036
Trade payables	34	66,122	8,773	185,038	24,862	194,555	26,229
Other current liabilities	35	241,876	32,092	161,504	21,700	153,957	20,756
Accrued expenses and deferred income	36	32,735	4,343	30,524	4,101	34,223	4,614
		441,960	58,639	531,602	71,426	567,900	76,574
TOTAL EQUITY AND LIABILITIES		1,667,528	221,251	1,407,119	189,064	1,511,512	203,774

*The correction and reclassification are presented in Note 4.

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 2020

Croatia Airlines Group	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 2019	277,880	36,399	110,464	14,397	1,496	229	(81,688)	(11,020)	1,538	308,152	41,543
Loss for the year	-	-	-	-	-	-	(78,465)	(10,583)	-	(78,465)	(10,583)
Other comprehensive income	-	-	131	17	-	-	-	-	(100)	131	(83)
Total comprehensive income	-	-	131	17	-	-	(78,465)	(10,583)	(100)	(78,334)	(10,666)
Transactions with owners											
Transfer of profit from 2018 to other capital reserves	-	-	(82,937)	(11,186)	1,249	166	81,688	11,020	-	-	-
Total transaction with owners	-	-	(82,937)	(11,186)	1,249	166	81,688	11,020	-	-	-
Balance at 31 December 2019	277,880	36,399	27,658	3,228	2,745	395	(78,465)	(10,583)	1,438	229,818	30,877
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)
Transactions with owners											
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
Balance at 31 December 2020	277,880	36,399	350,627	46,566	(49,424)	(7,150)	(360,779)	(47,892)	1,045	218,304	28,968

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 2020

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 2019	277,880	36,399	109,175	14,228	-	-	(82,937)	(11,186)	1,557	304,118	40,998
Loss for the year	-	-	-	-	-	-	(79,359)	(10,704)	-	(79,359)	(10,704)
Other comprehensive income	-	-	131	17	-	-	-	-	(93)	131	(76)
Total comprehensive income	-	-	131	17	-	-	(79,359)	(10,704)	(93)	(79,228)	(10,780)
Transactions with owners											
Transfer of profit from 2018 to other capital reserves	-	-	(82,937)	(11,186)	-	-	82,937	11,186	-	-	-
Total transaction with owners	-	-	(82,937)	(11,186)	-	-	82,937	11,186	-	-	-
Balance at 31 December 2019	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)
Transactions with owners											
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
Balance at 31 December 2020	277,880	36,399	348,014	46,218	(51,739)	(7,487)	(358,225)	(47,553)	1,076	215,930	28,653

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 2020

	Note	2020		2019 restated *	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Loss for the year		(360,779)	(47,892)	(78,465)	(10,583)
<i>Adjustments for:</i>					
Depreciation and amortization		210,441	27,935	209,028	28,194
Gain on sale of property, plant and equipment		(330)	(44)	(23)	(3)
Disposals of property, plant and equipment		9,498	1,261	7,766	1,047
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	872	118
Collection of previously written-off receivables		(1,488)	(198)	(101)	(14)
Change in provisions		(9,641)	(1,280)	(27,447)	(3,702)
Lease cancellation		-	-	(13)	(2)
Unrealized foreign exchange differences		4,081	542	3,858	520
Interest costs		22,526	2,990	19,434	2,621
Interest income		(4,037)	(536)	(167)	(23)
Income from shares in profit		-	-	(34)	(5)
Tax expense		-	-	355	48
		(2,183)	(291)	135,063	18,216
<i>Changes in:</i>					
Inventories		(443)	(59)	(1,429)	(193)
Trade and other receivables		45,436	6,032	9,924	1,339
Trade and other payables		(9,738)	(1,293)	68,129	9,189
Cash generated from operating activities		33,072	4,389	211,687	28,551
Interest paid		(15,365)	(2,040)	(18,773)	(2,532)
Interest received		4,044	537	163	22
Net change of deposits		(42,730)	(5,672)	(1,430)	(193)
Income tax paid		(186)	(25)	(348)	(47)
Net cash (used in) / from operating activities		(21,165)	(2,811)	191,299	25,801
Cash flows from investing activities					
Acquisition of property, plant and equipment		(60,825)	(8,074)	(97,268)	(13,119)
Proceeds from sale of property, plant and equipment		1,029	137	148	20
Prepayments for maintenance of aircrafts and engines		(23,943)	(3,178)	(47,333)	(6,384)
Dividends received		-	-	34	5
Net cash used in investing activities		(83,739)	(11,115)	(144,419)	(19,478)
Cash flows from financing activities					
Capital contribution	27	350,000	46,462	-	-
Proceeds from loans and borrowings	33	407,450	54,088	110,654	14,925
Repayment of loans and borrowings	33	(47,246)	(6,272)	(57,148)	(7,708)
Payment of lease liabilities	32	(64,794)	(8,601)	(81,953)	(11,054)
Net cash from / (used in) financing activities		645,410	85,677	(28,447)	(3,837)
Net decrease in cash and cash activities		540,506	71,751	18,433	2,486
Cash and cash equivalents at beginning of the year		39,071	5,250	20,638	2,782
Effect of foreign currency translation		-	(102)	-	(18)
Cash and cash equivalents at end of the year	26	579,577	76,899	39,071	5,250

*The correction and reclassification are presented in Note 4.

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 2020

	Note	2020		2019	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand
Cash flows from operating activities					
Loss for the year		(358,225)	(47,553)	(79,359)	(10,704)
<i>Adjustments for:</i>					
Depreciation and amortization		210,036	27,882	208,647	28,142
Gain on sale of property, plant and equipment		(330)	(44)	(23)	(3)
Disposals of property, plant and equipment		9,497	1,261	7,755	1,046
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	821	111
Collection of previously written-off receivables		(1,468)	(195)	(101)	(14)
Change in provisions		(9,641)	(1,280)	(27,447)	(3,702)
Lease cancellation		-	-	(13)	(2)
Unrealized foreign exchange differences		4,130	548	3,858	520
Interest costs		22,505	2,987	19,410	2,618
Interest income		(4,037)	(536)	(167)	(23)
Income from shares in profit		-	-	(386)	(52)
		13	1	132,995	17,937
<i>Changes in:</i>					
Inventories		(443)	(59)	(1,429)	(193)
Trade and other receivables		80,843	10,732	9,912	1,337
Trade and other payables		(46,614)	(6,188)	67,788	9,143
Cash generated from operating activities		33,799	4,486	209,266	28,224
Interest paid		(15,360)	(2,039)	(18,749)	(2,529)
Interest received		4,034	536	163	22
Net change of deposits		(42,718)	(5,671)	(1,452)	(196)
Income tax paid		-	-	179	24
Net cash from operating activities		(20,245)	(2,688)	189,407	25,545
Cash flows from investing activities					
Acquisition of property, plant and equipment		(60,715)	(8,060)	(97,268)	(13,119)
Proceeds from sale of property, plant and equipment		1,029	137	148	20
Loans given		(1,300)	(173)	-	-
Prepayments for maintenance of aircrafts and engines		(23,943)	(3,178)	(47,333)	(6,384)
Dividends received		-	-	386	52
Net cash used in investing activities		(84,929)	(11,274)	(144,067)	(19,431)
Cash flows from financing activities					
Capital contribution	27	350,000	46,462	-	-
Proceeds from loans and borrowings	33	407,450	54,088	110,654	14,925
Repayment of loans and borrowings	33	(47,246)	(6,272)	(57,148)	(7,708)
Payment of lease liabilities	32	(64,455)	(8,556)	(81,722)	(11,023)
Net cash from / (used in) financing activities		645,749	85,722	(28,216)	(3,806)
Net decrease in cash and cash activities		540,575	71,760	17,124	2,308
Cash and cash equivalents at beginning of the year		33,749	4,535	16,625	2,241
Effect of foreign currency translation		-	(93)	-	(14)
Cash and cash equivalents at end of the year	26	574,324	76,202	33,749	4,535

*The correction and reclassification are presented in Note 4.

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 2020

1. GENERAL

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

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

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

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

General Assembly of the Company

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

Supervisory Board of the Company

Zlatko Mateša	President
Nataša Munitić	Vice President
Zoran Barac	Member
Vjekoslav Jelić	Member (from 7 July 2015; resolved on 7 May 2019)
Zoran Viljac	Member (from 7 May 2019)
Mirko Tatalović	Member (from 17 July 2020)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

1. GENERAL (CONTINUED)

Management Board of the Company

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

Eugen Šunde	General Manager of Amadeus Croatia d.d.
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Silvana Turčić	General Manager of Obzor putovanja d.o.o.
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Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

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	2020	2019
On 31 December	7.536898	7.442580
Average	7.533115	7.414035

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 2020

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 2020

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 2020

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 2020

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.

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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

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

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

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Property, plant and equipment (continued)

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

The Airbus, 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.

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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Financial instruments (continued)

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

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

(i) Cash and cash equivalents

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

(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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Provisions (continued)

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 2020 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.

(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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets and liabilities (continued)

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

(ii) Operating segments

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

(iii) Revaluation of property, plant and equipment

Aircraft are recognized in revaluated amounts in compliance with the revaluation accounting model pursuant to IAS 16 applied for the first time as of 31 December 2001. 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.

(iv) 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 2020

3. GOING CONCERN

For the Company, 2020 is the most difficult business year in its thirty-year history, which is a consequence of the global COVID-19 pandemic, which has a particularly negative impact on travel and tourism, and airlines and air transport as a whole are among the most affected economic activities. Although the Company continued to operate despite extraordinary circumstances, the significantly reduced demand for air transport services affected operations in all its segments. Consequently, the large drop in sales significantly jeopardized the Company's operations, and maintaining liquidity in the current conditions was particularly challenging.

The beginning of the COVID-19 crisis affected the process of privatization 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 unfavorable 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. It is difficult to assess when exactly the market conditions will allow the proceedings to be restarted, given that the precondition is the end of the pandemic.

In the conditions of significantly reduced passenger traffic, which decreased by 72 percent in 2020 and a continuous decline in bookings, the Company put all costs under the review from the very beginning of the crisis, and during the year, four versions of the crisis business plan were made. The operational business management system has been adjusted to the new crisis conditions, and the flight schedule has been continuously optimized on a weekly basis in accordance with changing market circumstances. These measures had a significant impact on the Company's financial operations during 2020.

As part of the operational measures taken, the usual lease (wet lease) of CRJ1000 aircraft for the summer season was canceled, the lease (dry lease) of one Q400 aircraft, while the variable lease calculation based on the realized flight hours principle is applied to the lease of one A319 aircraft. The flight structure was also adjusted to demand and more emphasis was placed on hiring a smaller capacity Dash Q400 aircraft. The flight schedule was significantly reduced by reducing the frequencies of certain lines or temporarily canceling certain lines, the introduction of planned new routes was canceled, and constant adjustment of the offered flights was being done, depending on the market situation and booking movements.

In order to reduce costs and preserve liquidity, additional savings measures were implemented. All investments were suspended and canceled except the necessary ones and related primarily to the aircraft fleet. Also, the employment of seasonal staff was canceled, fixed-term employment contracts were terminated by mutual agreement, and through a supplement to the collective agreement with the social partners, a 15 percent reduction in the gross value of income was agreed. According to the agreement with the unions, this measure has been extended until the end of 2021.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

3. GOING CONCERN (continued)

To further mitigate the impact of the emerging crisis on cash flow, negotiations have been successfully conducted with most aircraft and aircraft engine lessors regarding lease costs and with various suppliers regarding deferral and installment payments. Moratoriums on loans with commercial banks were also used, and during the year the Company used several forms of state measures such as deferral and write-off of taxes and contributions and deferral of various public benefits, state aid for preserving jobs of the Croatian Employment Service and support for job preservation in activities affected by coronavirus (COVID - 19) applied to employers who in the second and third quarters of 2020 had more than 60 percent decline in revenue.

The Company's liquidity is continuously monitored and cash flow projections are prepared for a period of one year in order to determine possible risks in operations and settlement of liabilities in a timely manner.

All these measures have contributed to the preservation of business operations, but insufficiently to ensure the survival of the Company, especially given the short-term prospects for recovery of the industry, which are still uncertain due to new virus strains and delays and complications in vaccine distribution.

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. To resolve the liquidity problem, which is currently the biggest risk in business, the Company was granted financial assistance in 2020 by decisions of the Government of the Republic of Croatia, and through:

- support for damages caused by COVID - 19 in the amount of HRK 88,500 thousand,
- shareholder loan in the amount of HRK 250,000 thousand approved and withdrawn in December 2020 as part of temporary measures for damages caused by the COVID-19 pandemic, with a maturity of five years from the withdrawal,
- recapitalization in the amount of HRK 350,000 thousand approved and paid in December 2020.

During 2020, the company received the remaining HRK 150,000 thousand based on a shareholder loan approved at the end of 2019 in the amount of HRK 250,000 thousand, before the COVID-19 crisis with the aim of stabilizing the company's operations before the privatization process with a maturity of two years.

These funds created the conditions and resources by which the Company can adequately respond to liabilities and ensure operations in the coming period. In 2021, the Company will continue with the further implementation of savings measures and further optimization of the flight schedule and fleet in accordance with the demand and trends in booking.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

3. GOING CONCERN (continued)

In order to find a solution to the current situation in the Business Plan 2020 - 2025, a new strategic direction was developed 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 Airbus fleet with ten- to twelve-year-old aircraft that are more cost-effective, through leasing. It is also planned to increase the fleet by 2023 per unit per year, which would mean that the fleet would have 15 aircraft at the end of 2025. The two aircraft in the "wet lease" from 2019 will be gradually replaced by the "dry lease" of two A319 aircraft with the lease of an additional Q400 aircraft as a spare aircraft.

- 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 of the Company is to obtain a PSO contract for the future.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

3. GOING CONCERN (continued)

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

Rationalization in all business segments with the application of specific measures and monitoring of the achieved effects. The continuation of the Program of Savings Measures started in 2020 is underway, with the aim of increasing efficiency and reducing costs. The achieved agreements with the social partners regarding the reduction of labor costs also contribute to this measure.

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

Negotiations to terminate / change the contract with Airbus Industrie 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 procurement 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 obligation of the Company to Airbus in connection with the payment of predelivery payments. Given that the subject of negotiations is the termination of the said contract, the Company is not responsible for any further payments.

8) organizational changes and process improvement

During 2021, the Company will begin the process of defining the "Post Covid strategy" of business with the aim of optimizing all processes and increasing the efficiency of the company and its adaptation to new market conditions in air transport after the end of the pandemic.

The development of a "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 on the principle of indefinite operation in the future. It should be emphasized, however, that given the unpredictability of the pandemic in terms of its scale and duration, control measures as well as the impact it will have on business, the possible additional need for financial support from the owners is not excluded.

After difficulties in 2020, the aviation industry expects an equally uncertain 2021, as the recovery is based on the assumption of a rapid population split and the coronavirus pandemic under control. However, it is already clear that the health crisis is not even close to being resolved, and the negative trends spilled over into the first quarter of 2021.

The business plan for 2021 is based on the projected gradual recovery of the aviation market from the summer season. The Company's operations in 2021 will largely depend on external factors, the emergence of new strains of the virus and the continuation of the epidemic, population fragmentation, border openness and travel opportunities, which directly affect the demand for air transport services.

In 2021, special emphasis will be placed on maintaining the liquidity of the Company and will continue with the further implementation of savings measures and further optimization of the flight schedule and fleet in accordance with the demand and trends in booking.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

3. GOING CONCERN (continued)

The company plans a loss of HRK 269 million for 2021. The planned result is based on a projection of the traffic effects that are the basis for calculating operating income and expenses.

Based on the Company's plans, the funds obtained during the year from the recapitalization and the shareholder loan are sufficient to ensure the timely fulfillment of obligations during 2021. The plan envisages a balance of cash and cash equivalents in the amount of HRK 124 million at the end of 2021.

Repayment of the obligation under the first shareholder loan maturing at the beginning of 2022 is uncertain, and the plan envisages a postponement of the repayment period with the option of transferring it to equity.

The projected plan is further dependent on business performance during the upcoming summer season which is still under great uncertainty.

Given the above, the indefinite duration of the Company's operations depends on the financial assistance of the owner in the form of extending the loan repayment period due in January 2022 or its conversion into equity or possible additional long-term loans that depend on timely decision of the Government of the Republic of Croatia on giving guarantees. Fulfillment of the stated conditions would provide adequate resources for timely fulfillment of obligations, that is, ensure fulfillment of preconditions that will enable the Company to continue to operate according to the principle of indefinite operation.

Taking into account all the aforementioned facts, the Management Board of the Company concludes that the Company will be able to settle current liabilities on time and meet the requirements of the loan and lease agreements. The Management Board of the Company is convinced 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 42. Events after the reporting date indicate that there is significant uncertainty that raises significant doubts 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 2020

4. CORRECTION AND RECLASSIFICATION OF THE PREVIOUS PERIOD

During 2020, management performed an amendment to the financial statements of the Group and the Company for the year ended 31 December 2019, as shown below. In accordance with International Accounting Standard IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, these adjustments are presented as a restatement of comparative information presented in these financial statements.

The amendments had an impact only on the statement of financial position of the Group and the Company, as follows:

- i) The Group and the Company lease engines installed in owned aircraft. The company is obliged to regularly perform major inspections and repairs of the engine in order to continue working. In previous periods, the Company performed such inspections and repairs and capitalized the corresponding costs as investments in other people's assets within intangible assets. Given the nature of the investment, it has been reclassified from intangible assets to rights to use.
- ii) As described in Note 32, the Group and the Company lease aircraft that require regular major inspections and overhauls. In addition, the Group and the Company pay a monthly maintenance reserve to tenants ensuring compliance with the Company's obligation to inspect. The Company has concluded that its inspection obligation during the lease term is covered by IAS 37. Accordingly, the Company calculates a provision and recognizes operating expenses in proportion to the use of the aircraft. Monthly payments by the lessors maintenance reserve Company are initially recognized as prepaid fees and are netted to those reserved for maintenance when an inspection or overhaul is performed. Previously, payments to the lessor's maintenance reserve were recognized as an operating expense, without recording a special maintenance reservation and prepaid fees.
- iii) In addition to the maintenance obligation being fulfilled during the lease term, the lease agreements require the Group and the Company to return the chartered aircraft to a condition with certain conditions. Therefore, the Company recognizes a maintenance provision to be made at the end of the lease term. Previously, this liability was recorded as part of lease liabilities.

The adjustments did not have an impact on the statement of comprehensive income.

The impact of the Group's and the Company's cash flow statements is as follows:

The Company's reserve for aircraft and engine maintenance reserves has been reclassified from operating to investing activities. As a result of the reclassification operating activities (change in trade payables and other liabilities) of the Group and the Company increased by HRK 47,333 thousand, and investment activities (added item for aircraft and engine maintenance expenses) decreased by the same amount.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

4. CORRECTION AND RECLASSIFICATION OF THE PREVIOUS PERIOD (continued)

The impact of the adjustments on the Group's statement of financial position is as follows:

	ref.	31 December 2019 previously published		adjustments		31 December 2019 restated	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets							
Non-current assets							
Intangible assets	i)	125,511	16,864	(123,437)	(16,585)	2,074	279
Property, plant and equipment		462,124	62,092	-	-	462,124	62,092
Investment property		1	-	-	-	1	-
Right of use assets	i)	447,034	60,064	123,437	16,585	570,471	76,649
Prepayments	ii)	-	-	149,607	20,101	149,607	20,101
Non-current deposits		23,715	3,186	-	-	23,715	3,186
Investments in equity instruments		1,118	150	-	-	1,118	150
Non-current receivables		313	42	-	-	313	42
		1,059,816	142,398	149,607	20,101	1,209,423	162,499
Current assets							
Inventories		61,354	8,244	-	-	61,354	8,244
Trade receivables		71,472	9,603	-	-	71,472	9,603
Other receivables		9,668	1,299	-	-	9,668	1,299
Prepaid expenses and accrued income		16,068	2,159	-	-	16,068	2,159
Current deposits		9,499	1,276	-	-	9,499	1,276
Cash and cash equivalents		39,071	5,250	-	-	39,071	5,250
		207,132	27,831	-	-	207,132	27,831
TOTAL ASSETS		1,266,948	170,229	149,607	20,101	1,416,555	190,330
EQUITY AND LIABILITIES							
Equity							
Share capital		277,880	36,399	-	-	277,880	36,399
Reserves		27,658	3,228	-	-	27,658	3,228
Retained earnings / (accumulated loss)		2,745	395	-	-	2,745	395
Net loss for the year		(78,465)	(10,583)	-	-	(78,465)	(10,583)
Translation reserve rate		-	1,438	-	-	-	1,438
		229,818	30,877	-	-	229,818	30,877
Non-current liabilities							
Provisions	ii), iii)	5,832	784	177,550	23,856	183,382	24,640
Non-current loans and borrowings		142,795	19,186	-	-	142,795	19,186
Non-current lease liabilities	iii)	381,074	51,202	(57,276)	(7,696)	323,798	43,506
Other non-current liabilities		1,287	173	-	-	1,287	173
		530,988	71,345	120,274	16,160	651,262	87,505
Current liabilities							
Provisions	ii)	-	-	29,333	3,941	29,333	3,941
Current loans and borrowings		31,500	4,232	-	-	31,500	4,232
Current portion of non-current loans and borrowings		12,652	1,700	-	-	12,652	1,700
Current lease liabilities		81,360	10,932	-	-	81,360	10,932
Trade payables		187,241	25,158	-	-	187,241	25,158
Other current liabilities		162,096	21,781	-	-	162,096	21,781
Income tax liability		38	5	-	-	38	5
Accrued expenses and deferred income		31,255	4,199	-	-	31,255	4,199
		506,142	68,007	29,333	3,941	535,475	71,948
TOTAL EQUITY AND LIABILITIES		1,266,948	170,229	149,607	20,101	1,416,555	190,330

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

4. CORRECTION AND RECLASSIFICATION OF THE PREVIOUS PERIOD (continued)

	ref.	1 January 2019 previously published		restatement		1 January 2019 restated	
		HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets							
Non-current assets							
Intangible assets	i)	139,423	18,796	(137,125)	(18,486)	2,298	310
Property, plant and equipment		495,639	66,820	-	-	495,639	66,820
Investment property		316	43	-	-	316	43
Right of use assets	i)	532,533	71,794	137,125	18,486	669,658	90,280
Prepayments	ii)	-	-	122,810	16,557	122,810	16,557
Non-current deposits		22,687	3,059	-	-	22,687	3,059
Investments in equity instruments		886	119	-	-	886	119
Non-current receivables		369	50	-	-	369	50
		1,191,853	160,681	122,810	16,557	1,314,663	177,238
Current assets							
Inventories		59,925	8,079	-	-	59,925	8,079
Trade receivables		89,086	12,010	-	-	89,086	12,010
Other receivables		12,373	1,668	-	-	12,373	1,668
Income tax receivable		179	24	-	-	179	24
Prepaid expenses and accrued income		14,073	1,897	-	-	14,073	1,897
Current deposits		9,097	1,226	-	-	9,097	1,226
Cash and cash equivalents		20,638	2,782	-	-	20,638	2,782
		205,371	27,686	-	-	205,371	27,686
TOTAL ASSETS		1,397,224	188,367	122,810	16,557	1,520,034	204,924
EQUITY AND LIABILITIES							
Equity							
Share capital		277,880	36,399	-	-	277,880	36,399
Reserves		110,464	14,397	-	-	110,464	14,397
Retained earnings / (accumulated loss)		1,496	229	-	-	1,496	229
Net loss for the year		(81,688)	(11,020)	-	-	(81,688)	(11,020)
Translation reserve rate		-	1,538	-	-	-	1,538
		308,152	41,543	-	-	308,152	41,543
Non-current liabilities							
Provisions	ii), iii)	33,279	4,487	158,600	21,382	191,879	25,869
Non-current loans and borrowings		55,261	7,450	-	-	55,261	7,450
Non-current lease liabilities	iii)	445,740	60,081	(53,861)	(7,261)	391,879	52,820
Other non-current liabilities		1,419	191	-	-	1,419	191
		535,699	72,209	104,739	14,121	640,438	86,330
Current liabilities							
Provisions	ii)	-	-	18,071	2,436	18,071	2,436
Current loans and borrowings		64,553	8,703	-	-	64,553	8,703
Current portion of non-current loans and borrowings		20,769	2,800	-	-	20,769	2,800
Current lease liabilities		82,003	11,067	-	-	82,003	11,067
Trade payables		196,164	26,446	-	-	196,164	26,446
Other current liabilities		154,519	20,832	-	-	154,519	20,832
Income tax liability		210	28	-	-	210	28
Accrued expenses and deferred income		35,155	4,739	-	-	35,155	4,739
		553,373	74,615	18,071	2,436	571,444	77,051
TOTAL EQUITY AND LIABILITIES		1,397,224	188,367	122,810	16,557	1,520,034	204,924

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

4. CORRECTION AND RECLASSIFICATION OF THE PREVIOUS PERIOD (continued)

The impact of the adjustments on the Company's statement of financial position is as follows:

	31 December 2019 previously published		adjustments		31 December 2019 restated		
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	
Assets							
Non-current assets							
Intangible assets	i)	125,502	16,863	(123,437)	(16,585)	2,065	278
Property, plant and equipment		461,933	62,066	-	-	461,933	62,066
Investment property		1	-	-	-	1	-
Right of use assets	i)	446,168	59,948	123,437	16,585	569,605	76,533
Investments in subsidiaries		1,210	163	-	-	1,210	163
Prepayments	ii)	-	-	149,607	20,101	149,607	20,101
Non-current deposits		23,690	3,183	-	-	23,690	3,183
Financial assets available for sale		1,118	150	-	-	1,118	150
Non-current receivables		313	42	-	-	313	42
		1,059,935	142,415	149,607	20,101	1,209,542	162,516
Current assets							
Inventories		61,354	8,244	-	-	61,354	8,244
Trade receivables		67,487	9,068	-	-	67,487	9,068
Other receivables		9,442	1,269	-	-	9,442	1,269
Prepaid expenses and accrued income		16,046	2,156	-	-	16,046	2,156
Current deposits		9,499	1,276	-	-	9,499	1,276
Cash and cash equivalents		33,749	4,535	-	-	33,749	4,535
		197,577	26,548	-	-	197,577	26,548
TOTAL ASSETS		1,257,512	168,963	149,607	20,101	1,407,119	189,064
EQUITY AND LIABILITIES							
Equity							
Share capital		277,880	36,399	-	-	277,880	36,399
Reserves		26,369	3,059	-	-	26,369	3,059
Net loss for the year		(79,359)	(10,704)	-	-	(79,359)	(10,704)
Translation reserve rate		-	1,464	-	-	-	1,464
		224,890	30,218	-	-	224,890	30,218
Non-current liabilities							
Provisions	ii), iii)	5,832	784	177,550	23,856	183,382	24,640
Non-current loans and borrowings		142,795	19,186	-	-	142,795	19,186
Non-current lease liabilities	iii)	380,439	51,117	(57,276)	(7,696)	323,163	43,421
Other non-current liabilities		1,287	173	-	-	1,287	173
		530,353	71,260	120,274	16,160	650,627	87,420
Current liabilities							
Provisions	ii)	-	-	29,333	3,941	29,333	3,941
Current loans and borrowings		31,500	4,232	-	-	31,500	4,232
Current portion of non-current loans and borrowings		12,652	1,700	-	-	12,652	1,700
Current lease liabilities		81,051	10,890	-	-	81,051	10,890
Trade payables		185,038	24,862	-	-	185,038	24,862
Other current liabilities		161,504	21,700	-	-	161,504	21,700
Accrued expenses and deferred income		30,524	4,101	-	-	30,524	4,101
		502,269	67,485	29,333	3,941	531,602	71,426
TOTAL EQUITY AND LIABILITIES		1,257,512	168,963	149,607	20,101	1,407,119	189,064

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

4. CORRECTION AND RECLASSIFICATION OF THE PREVIOUS PERIOD (continued)

	1 January 2019 previously published		restatement		1 January 2019 restated		
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	
Assets							
Non-current assets							
Intangible assets	i)	139,410	18,795	(137,125)	(18,486)	2,285	309
Property, plant and equipment		495,451	66,794	-	-	495,451	66,794
Investment property		316	43	-	-	316	43
Right of use assets	i)	531,358	71,635	137,125	18,486	668,483	90,121
Investments in subsidiaries		1,210	163	-	-	1,210	163
Prepayments	ii)	-	-	122,810	16,557	122,810	16,557
Non-current deposits		22,640	3,052	-	-	22,640	3,052
Financial assets available for sale		886	119	-	-	886	119
Non-current receivables		369	50	-	-	369	50
		1,191,640	160,651	122,810	16,557	1,314,450	177,208
Current assets							
Inventories		59,925	8,079	-	-	59,925	8,079
Trade receivables		84,893	11,445	-	-	84,893	11,445
Other receivables		12,297	1,658	-	-	12,297	1,658
Income tax receivable		179	24	-	-	179	24
Prepaid expenses and accrued income		14,046	1,893	-	-	14,046	1,893
Current deposits		9,097	1,226	-	-	9,097	1,226
Cash and cash equivalents		16,625	2,241	-	-	16,625	2,241
		197,062	26,566	-	-	197,062	26,566
TOTAL ASSETS		1,388,702	187,217	122,810	16,557	1,511,512	203,774
EQUITY AND LIABILITIES							
Equity							
Share capital		277,880	36,399	-	-	277,880	36,399
Reserves		109,175	14,228	-	-	109,175	14,228
Net loss for the year		(82,937)	(11,186)	-	-	(82,937)	(11,186)
Translation reserve rate		-	1,557	-	-	-	1,557
		304,118	40,998	-	-	304,118	40,998
Non-current liabilities							
Provisions	ii), iii)	33,279	4,487	158,600	21,382	191,879	25,869
Non-current loans and borrowings		55,261	7,450	-	-	55,261	7,450
Non-current lease liabilities	iii)	444,796	59,953	(53,861)	(7,261)	390,935	52,692
Other non-current liabilities		1,419	191	-	-	1,419	191
		534,755	72,081	104,739	14,121	639,494	86,202
Current liabilities							
Provisions	ii)	-	-	18,071	2,436	18,071	2,436
Current loans and borrowings		64,553	8,703	-	-	64,553	8,703
Current portion of non-current loans and borrowings		20,769	2,800	-	-	20,769	2,800
Current lease liabilities		81,772	11,036	-	-	81,772	11,036
Trade payables		194,555	26,229	-	-	194,555	26,229
Other current liabilities		153,957	20,756	-	-	153,957	20,756
Accrued expenses and deferred income		34,223	4,614	-	-	34,223	4,614
		549,829	74,138	18,071	2,436	567,900	76,574
TOTAL EQUITY AND LIABILITIES		1,388,702	187,217	122,810	16,557	1,511,512	203,774

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

5. PASSENGER TRAFFIC

	2020		2019	
	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand
Scheduled services	441,474	58,604	1,444,647	194,853
Charter services	21,224	2,818	76,673	10,342
	462,698	61,422	1,521,320	205,195

Revenue by geographical area based on sales origin:

	2020		2019	
	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand	Croatia Airlines d.d. i Grupa HRK thousand	EUR thousand
Croatia	177,861	23,611	507,664	68,473
Germany	45,021	5,976	139,657	18,837
USA	29,104	3,863	160,043	21,586
Great Britain	25,541	3,390	41,836	5,643
France	18,739	2,488	69,676	9,398
Other countries	166,432	22,094	602,444	81,258
	462,698	61,422	1,521,320	205,195

6. OTHER SALES REVENUE

	2020		2019		2020		2019	
	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
Revenue from technical services to others	52,357	6,950	47,038	6,344	52,357	6,950	47,038	6,344
Commission income from foreign air companies	1,703	226	6,722	907	1,703	226	6,722	907
Revenue from reservation system services	3,733	496	10,866	1,466	757	100	2,569	347
Revenue from advertising services	9,197	1,221	12,606	1,700	9,197	1,221	12,606	1,700
Revenue from educational services	491	65	1,068	144	491	65	1,068	144
Mileage related revenue	2,935	390	3,130	422	2,935	390	3,130	422
Other	6,331	840	12,196	1,645	3,656	486	5,524	745
	76,747	10,188	93,626	12,628	71,096	9,438	78,657	10,609

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

7. OTHER INCOME

	2020		2019		2020		2019	
	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
Income from PSO	83,677	11,108	82,788	11,166	83,677	11,108	82,788	11,166
Gain from sale of property, plant and equipment	330	44	59	8	330	44	59	8
Bad debts collected	1,488	198	101	14	1,468	195	101	14
Income from sale of spare parts	328	44	179	24	328	44	179	24
Other income	132,689	17,613	33,764	4,554	131,414	17,444	33,667	4,541
	218,512	29,007	116,891	15,766	217,217	28,835	116,794	15,753

Income from PSO arises from the differences of unrealized income in relation to the costs from maintaining domestic scheduled air transport from the Croatian Government (PSO - Public Service Obligation). The amount of PSO is determined as the difference between revenues from certain domestic flights and related direct flight operations expense, and realized as a part of project of maintaining connectivity of regions in domestic airline traffic. Other part of income from PSO arises based on maintaining international flight Zagreb – Mostar 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, 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 636 thousand, EUR 84 thousand received from the 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 2020

8. EXPENSES BY NATURE

	2020		2019		2020		2019	
	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	79,129	10,504	304,196	41,030	79,129	10,504	304,196	41,030
Airport costs	123,836	16,439	278,518	37,566	123,836	16,439	278,518	37,566
Staff costs	240,508	31,927	289,619	39,063	236,132	31,346	284,582	38,385
Rental and maintenance of engines and parts	75,001	9,956	130,625	17,619	75,001	9,956	130,625	17,619
Aircraft lease	10,034	1,332	74,430	10,039	10,034	1,332	74,430	10,039
Air traffic control costs	49,290	6,543	116,509	15,715	49,290	6,543	116,509	15,715
Reservation system costs	29,066	3,858	100,616	13,571	29,066	3,858	100,616	13,571
Amortisation and depreciation	210,441	27,935	209,028	28,194	210,036	27,882	208,647	28,142
Commission costs	19,916	2,644	60,405	8,147	19,916	2,644	60,405	8,147
Catering	8,996	1,194	33,330	4,496	8,996	1,194	33,330	4,496
Consumables	16,252	2,157	22,996	3,102	16,252	2,157	22,996	3,102
Promotion costs	9,928	1,318	21,746	2,933	9,928	1,318	21,746	2,933
Other expenses	231,955	30,792	155,037	20,911	227,252	30,167	147,073	19,836
	1,104,352	146,599	1,797,055	242,386	1,094,868	145,340	1,783,673	240,581

Other expenses 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 2019 there was no impairment loss).

9. STAFF COSTS

	2020		2019		2020		2019	
	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	121,189	16,088	134,819	18,184	118,599	15,744	132,152	17,825
Taxes and contributions								
form salaries	55,355	7,348	68,001	9,172	54,293	7,207	66,760	9,005
Contributions on salaries	39,186	5,202	45,819	6,180	38,639	5,129	45,205	6,097
Other employee related costs	24,778	3,289	40,980	5,527	24,601	3,266	40,465	5,458
	240,508	31,927	289,619	39,063	236,132	31,346	284,582	38,385

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) while as at 31 December 2019 the Group had 1.026 employees (Croatia Airlines d.d. 999, Amadeus Croatia d.d. 8 and Obzor putovanja d.o.o. 19) ; (see Note 38).

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 2020

10. FINANCE INCOME

	2020		2019		2020		2019	
	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	45,386	6,025	22,395	3,021	45,263	6,008	22,372	3,018
Interest income	4,026	534	167	23	4,037	536	167	23
Income from share on profits and dividends	-	-	34	4	-	-	386	51
	49,412	6,559	22,596	3,048	49,300	6,544	22,925	3,092

11. FINANCE COSTS

	2020		2019		2020		2019	
	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	49,672	6,594	27,493	3,708	49,565	6,580	27,411	3,697
Interest expense	22,526	2,990	19,434	2,621	22,505	2,987	19,410	2,618
Other finance costs	82	11	79	11	82	11	79	11
	72,280	9,595	47,006	6,340	72,152	9,578	46,900	6,326

12. INCOME TAX EXPENSE

Income tax is calculated at the rate of 18% (2019: 18%), which is applied to taxable profit for the current year. Subsidiaries calculate income tax at the rate of 12% (2019: 18%).

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

In 2020 there was no income tax expense on Group level since the both subsidiaries realized losses (2019: income tax expense of the subsidiaries is as follows: Amadeus Croatia d.d. HRK 68 thousand, EUR 9 thousand and Obzor putovanja d.o.o. HRK 287 thousand, EUR 39 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

12. INCOME TAX EXPENSE (CONTINUED)

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

	2020		2019		2020		2019	
	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	(360,779)	(47,892)	(78,110)	(10,535)	(358,225)	(47,553)	(79,359)	(10,704)
Tax at statutory rate	(64,940)	(8,621)	(14,060)	(1,896)	(64,481)	(8,560)	(14,285)	(1,927)
Non-deductible expenses	4,679	622	3,041	410	4,666	620	2,973	401
Non-taxable income	(21,560)	(2,862)	(6)	(1)	(21,428)	(2,845)	(69)	(9)
Tax incentives	(822)	(109)	(859)	(116)	(822)	(109)	(858)	(116)
deferred tax asset is not recognised	82,490	10,950	12,239	1,651	82,065	10,894	12,239	1,651
Effect of diferent tax rates	153	20	-	-	-	-	-	-
Income tax	-	-	355	48	-	-	-	-

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

	2020		2020		2019		2019	
	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	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Loss from 2018 (expires 2023)	85,674	11,367	15,421	2,046	85,674	11,511	15,421	2,072
Loss from 2019 (expires 2024)	67,994	9,021	12,239	1,624	67,994	9,136	12,239	1,644
Loss from 2020 (expires 2025)	455,919	60,492	82,065	10,888	-	-	-	-
	609,587	80,880	109,725	14,558	153,668	20,647	27,660	3,716

Tax loss of the subsidiaries is as follows:

	2020		2020		2019		2019	
	Tax losses available for utilisation		Tax allowance at tax rate of 12%		Tax losses available for utilisation		Tax allowance at tax rate of 12%	
	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Loss from 2020 (expires 2025)	3,537	469	424	56	-	-	-	-
	3,537	469	424	56	-	-	-	-

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 2020

13. INTANGIBLE ASSETS

Croatia Airlines Group

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
COST								
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	37,244	4,942	10,441	1,385	60	8	47,745	6,335
ACCUMULATED AMORTIZATION								
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
Disposal	(403)	(53)	-	-	-	-	(403)	(53)
Fx differences	-	(61)	-	(13)	-	-	-	(74)
Balance at 31 December 2020	36,585	4,854	8,924	1,184	-	-	45,509	6,038
NET BOOK VALUE								
Balance at 31 December 2020	659	88	1,517	201	60	8	2,236	297
Balance at 1 January 2020	1,397	188	677	91	-	-	2,074	279
2019								
2019	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2019	37,782	5,094	7,254	977	56	8	45,092	6,079
Additions	971	131	1,073	145	-	-	2,044	276
Transfer	56	8	-	-	(56)	(8)	-	-
Disposals	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(18)	-	(3)	-	-	-	(21)
Balance at 31 December 2019	37,345	5,018	8,327	1,119	-	-	45,672	6,137
ACCUMULATED AMORTIZATION								
Balance at 1 January 2019	35,581	4,796	7,213	972	-	-	42,794	5,768
Charge for the year	1,831	247	437	59	-	-	2,268	306
Disposals	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(16)	-	(3)	-	-	-	(19)
Balance at 31 December 2019	35,948	4,830	7,650	1,028	-	-	43,598	5,858
NET BOOK VALUE								
Balance at 31 December 2019	1,397	188	677	91	-	-	2,074	279
Balance at 1 January 2019	2,201	298	41	5	56	8	2,298	311

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

13. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

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
COST								
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	36,848	4,889	10,051	1,334	60	8	46,959	6,231
ACCUMULATED AMORTIZATION								
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	36,192	4,802	8,538	1,133	-	-	44,730	5,935
NET BOOK VALUE								
Balance at 31 December 2020	656	87	1,513	201	60	8	2,229	296
Balance at 1 January 2020	1,393	187	672	91	-	-	2,065	278
2019								
2019	Software		Leashold improvements		Intangible assets under construction		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST								
Balance at 1 January 2019	37,291	5,027	6,864	926	56	8	44,211	5,961
Additions	971	131	1,073	145	-	-	2,044	276
Transfer	56	8	-	-	(56)	(8)	-	-
Disposals	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(17)	-	(4)	-	-	-	(21)
Balance at 31 December 2019	36,854	4,952	7,937	1,067	-	-	44,791	6,019
ACCUMULATED AMORTIZATION								
Balance at 1 January 2019	35,098	4,732	6,828	921	-	-	41,926	5,653
Charge for the year	1,827	246	437	59	-	-	2,264	305
Disposals	(1,464)	(197)	-	-	-	-	(1,464)	(197)
Fx differences	-	(16)	-	(4)	-	-	-	(20)
Balance at 31 December 2019	35,461	4,765	7,265	976	-	-	42,726	5,741
NET BOOK VALUE								
Balance at 31 December 2019	1,393	187	672	91	-	-	2,065	278
Balance at 1 January 2019	2,193	295	36	5	56	8	2,285	308

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT

Croatia Airlines Group

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
COST OR VALUATION												
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)
Balance at 31 December 2020	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
ACCUMULATED DEPRECIATION												
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)
Balance at 31 December 2020	32,619	4,328	51,641	6,852	1,014,224	134,568	151,086	20,046	-	-	1,249,570	165,794
NET BOOK VALUE												
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 2020

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines Group

2019	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2019	72,220	9,736	62,451	8,419	1,230,699	165,917	207,383	27,958	69,807	9,411	1,642,560	221,441
Additions	752	101	3,798	512	9,901	1,335	9,334	1,259	11,011	1,485	34,796	4,692
Transfer	-	-	-	-	5,493	741	(188)	(25)	(6,925)	(934)	(1,620)	(218)
Transfer to investment property	(741)	(100)	-	-	-	-	-	-	-	-	(741)	(100)
Disposals	-	-	(4,600)	(620)	-	-	(8,849)	(1,194)	(34)	(5)	(13,483)	(1,819)
Fx differences	-	(32)	-	(28)	-	(565)	-	(94)	1,524	172	1,524	(547)
Balance at 31 December 2019	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
ACCUMULATED DEPRECIATION												
Balance at 1 January 2019	27,964	3,770	48,891	6,591	929,129	125,260	140,937	19,000	-	-	1,146,921	154,621
Charge for the year	2,726	368	4,276	577	46,566	6,281	6,710	905	-	-	60,278	8,131
Transfer	-	-	-	-	14	2	(20)	(3)	-	-	(6)	(1)
Transfer to investment property	(689)	(93)	-	-	-	-	-	-	-	-	(689)	(93)
Disposals	-	-	(4,583)	(618)	-	-	(1,009)	(136)	-	-	(5,592)	(754)
Fx differences	-	(14)	-	(22)	-	(445)	-	(66)	-	-	-	(547)
Balance at 31 December 2019	30,001	4,031	48,584	6,528	975,709	131,098	146,618	19,700	-	-	1,200,912	161,357
NET BOOK VALUE												
Balance at 31 December 2019	42,230	5,674	13,065	1,755	270,384	36,330	61,062	8,204	75,383	10,129	462,124	62,092
Balance at 1 January 2019	44,256	5,966	13,560	1,828	301,570	40,657	66,446	8,958	69,807	9,411	495,639	66,820

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

14. 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
COST OR VALUATION												
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)
Balance at 31 December 2020	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
ACCUMULATED DEPRECIATION												
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)
Balance at 31 December 2020	32,620	4,328	50,844	6,745	1,014,224	134,568	151,086	20,046	-	-	1,248,774	165,687
NET BOOK VALUE												
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 2020

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Croatia Airlines d.d.

2019	Land and buildings		Equipment and other		Aircraft		Spare parts, GSE and tools		Property, plant and equipment in progress		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2019	72,220	9,736	59,777	8,058	1,230,699	165,917	207,383	27,958	69,808	9,411	1,639,887	221,080
Additions	752	101	3,716	501	9,901	1,335	9,334	1,259	11,011	1,485	34,714	4,681
Transfer	-	-	-	-	5,493	741	(188)	(25)	(6,925)	(934)	(1,620)	(218)
Transfer to investment property	(741)	(100)	-	-	-	-	-	-	-	-	(741)	(100)
Disposals	-	-	(2,767)	(373)	-	-	(8,849)	(1,194)	(34)	(5)	(11,650)	(1,572)
Fx differences	-	(32)	-	(28)	-	(565)	-	(94)	1,524	172	1,524	(547)
Balance at 31 December 2019	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
ACCUMULATED DEPRECIATION												
Balance at 1 January 2019	27,965	3,770	46,405	6,256	929,129	125,260	140,937	19,000	-	-	1,144,436	154,286
Charge for the year	2,726	368	4,208	568	46,566	6,281	6,710	905	-	-	60,210	8,122
Transfer	-	-	-	-	14	2	(20)	(3)	-	-	(6)	(1)
Transfer to investment property	(689)	(93)	-	-	-	-	-	-	-	-	(689)	(93)
Disposals	-	-	(2,761)	(372)	-	-	(1,009)	(136)	-	-	(3,770)	(508)
Fx differences	-	(14)	-	(23)	-	(445)	-	(66)	-	-	-	(548)
Balance at 31 December 2019	30,002	4,031	47,852	6,429	975,709	131,098	146,618	19,700	-	-	1,200,181	161,258
NET BOOK VALUE												
Balance at 31 December 2019	42,229	5,674	12,874	1,729	270,384	36,330	61,062	8,204	75,384	10,129	461,933	62,066
Balance at 1 January 2019	44,255	5,966	13,372	1,802	301,570	40,657	66,446	8,958	69,808	9,411	495,451	66,794

Notes to the consolidated and separate financial statements (continued)

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14. 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 year 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 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 2020

14. 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 190,804 thousand, EUR 25,316 thousand (2019.: HRK 142,613 thousand, EUR 19,162 thousand).

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
Dash 8-Q400	6	operating lease	-	-	No
Total	12				

Property, plant and equipment under construction

Assets under construction in the amount of HRK 6,068 thousand, EUR 805 thousand relate to investments into aircraft (2019: assets under construction includes advance payments in the amount of HRK 63,423 thousand, EUR 8,522 thousand paid to supplier for the acquisition of four new aircrafts in accordance with agreement and its annexes and investments in property, plant and equipment in the amount of HRK 11,960 thousand, EUR 1,607 thousand, where the most part relates to investments into aircrafts and new business headquarter of the Company.

During the 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. Contractual liabilities are presented in more detail in Note 37.

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 2020

15. INVESTMENT PROPERTY

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

2020	Investment property	
	HRK thousand	EUR thousand
COST		
Balance at 1 January 2020	13,509	1,815
Fx differences	-	(23)
Balance at 31 December 2020	13,509	1,792
ACCUMULATED AMORTIZATION		
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
NET BOOK VALUE		
At 31 December 2020	-	-
At 1 January 2020	1	-
2019		
COST		
Balance at 1 January 2019	12,768	1,721
Transfer from property, plant and equipment	741	100
Fx differences	-	(6)
Balance at 31 December 2019	13,509	1,815
ACCUMULATED AMORTIZATION		
Balance at 1 January 2019	12,452	1,678
Transfer from property, plant and equipment	689	93
Charge for the year	367	50
Fx differences	-	(6)
Balance at 31 December 2019	13,508	1,815
NET BOOK VALUE		
At 31 December 2019	1	-
At 1 January 2019	316	43

Revenue generated from investment property in amount of HRK 1,130 thousand, EUR 150 thousand (2019: HRK 1,080 thousand and EUR 146 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 12,813 thousand, EUR 1,700 thousand.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

16. INVESTMENTS IN SUBSIDIARIES

Name	Main activity	Share	2020		2019		2020		2019	
			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
Obzor putovanja d.o.o.	Tourism	100%	-	-	-	-	1,020	135	1,020	137
Amadeus Croatia d.d.	Marketing services	95%	-	-	-	-	190	26	190	26
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210</u>	<u>161</u>	<u>1,210</u>	<u>163</u>

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

17. PREPAYMENTS AND ACCRUED REVENUE

	2020		2019		2020		2019	
	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
Prepayments for maintenance of aircrafts and engines	134,972	17,908	149,607	20,101	134,972	17,908	149,607	20,101
	<u>134,972</u>	<u>17,908</u>	<u>149,607</u>	<u>20,101</u>	<u>134,972</u>	<u>17,908</u>	<u>149,607</u>	<u>20,101</u>

18. NON-CURRENT DEPOSITS

	2020		2019		2020		2019	
	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
Deposits given to suppliers	23,788	3,155	19,302	2,593	23,751	3,151	19,277	2,590
Deposits at banks for employee loans	1,733	230	3,335	448	1,733	230	3,335	448
guarantees	2,748	365	895	120	2,748	365	895	120
Deposits for business premises lease	239	32	183	25	239	32	183	25
	<u>28,508</u>	<u>3,782</u>	<u>23,715</u>	<u>3,186</u>	<u>28,471</u>	<u>3,778</u>	<u>23,690</u>	<u>3,183</u>

Non – current deposits given to suppliers consist of deposits given as guarantees to suppliers in the amount of HRK 23,751 thousand, EUR 3,151 thousand (2019: Deposits given as guarantees in the amount of HRK 19,277 thousand, EUR 2,590 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 2020

19. INVESTMENTS IN EQUITY INSTRUMENTS

	Share	2020		2019		2020		2019	
		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%	728	97	929	125	728	97	929	125
Star Alliance		189	25	189	25	189	25	189	25
		<u>917</u>	<u>122</u>	<u>1,118</u>	<u>150</u>	<u>917</u>	<u>122</u>	<u>1,118</u>	<u>150</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 2020 loss of HRK 201 thousand, EUR 27 thousand is recognized in other comprehensive income (2019: gain of HRK 232 thousand, EUR 31 thousand).

20. NON-CURRENT RECEIVABLES

	2020		2019		2020		2019	
	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	90	12	138	18	90	12	138	18
Loans receivable	-	-	-	-	733	97	-	-
Other non-current receivables	-	-	175	24	-	-	175	24
	<u>90</u>	<u>12</u>	<u>313</u>	<u>42</u>	<u>823</u>	<u>109</u>	<u>313</u>	<u>42</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 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, with repayment in 24 monthly installments with the beginning of repayment in May 2021. The current portion of the loan and accrued interest are disclosed in Note 23.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

21. INVENTORIES

	2020		2019		2020		2019	
	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	60,869	8,076	59,755	8,029	60,869	8,076	59,755	8,029
Catering, supplies and other inventories	928	123	1,599	215	928	123	1,599	215
	<u>61,797</u>	<u>8,199</u>	<u>61,354</u>	<u>8,244</u>	<u>61,797</u>	<u>8,199</u>	<u>61,354</u>	<u>8,244</u>

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

22. TRADE RECEIVABLES

	2020		2019		2020		2019	
	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	8,596	1,141	19,514	2,622	8,026	1,065	16,195	2,176
Foreign trade receivables	22,355	2,966	62,320	8,373	22,167	2,941	61,644	8,283
Allowance for doubtful receivables	(10,669)	(1,416)	(10,362)	(1,392)	(10,659)	(1,414)	(10,352)	(1,391)
	<u>20,282</u>	<u>2,691</u>	<u>71,472</u>	<u>9,603</u>	<u>19,534</u>	<u>2,592</u>	<u>67,487</u>	<u>9,068</u>

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

	2020		2020	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Allowance for doubtful receivables				
1 January	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)
31 December	<u>10,669</u>	<u>1,416</u>	<u>10,659</u>	<u>1,414</u>

	2019		2019	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
Allowance for doubtful receivables				
1 January	9,717	1,310	9,707	1,309
Increase	872	118	821	111
Decrease	(101)	(14)	(101)	(14)
Write-offs	(204)	(27)	(153)	(21)
Foreign exchange differences	78	5	78	6
31 December	<u>10,362</u>	<u>1,392</u>	<u>10,352</u>	<u>1,391</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

23. OTHER RECEIVABLES

	2020		2019		2020		2019	
	Croatia Airlines Group		Croatia Airlines Group		Croatia Airlines d.d.		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Receivables from employees	48	6	78	10	41	5	69	9
Receivables from the State	20,220	2,683	5,448	732	20,012	2,655	5,364	721
Receivables for advances	1,755	233	3,444	463	1,643	218	3,304	444
Loans receivable	-	-	-	-	577	77	-	-
Other receivables	1,217	161	698	94	1,217	162	705	95
	23,240	3,083	9,668	1,299	23,490	3,117	9,442	1,269

24. PREPAYMENTS AND ACCRUED REVENUE

	2020		2019		2020		2019	
	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	6,558	871	6,925	931	6,551	870	6,903	928
Accrued revenue	3,063	406	9,143	1,228	3,063	406	9,143	1,228
	9,621	1,277	16,068	2,159	9,614	1,276	16,046	2,156

25. CURRENT DEPOSITS

	2020		2019		2020		2019	
	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	47,436	6,294	9,499	1,276	47,436	6,294	9,499	1,276
	47,436	6,294	9,499	1,276	47,436	6,294	9,499	1,276

Deposits include the amount of HRK 14,236 thousand, EUR 1,889 thousand (2019: HRK 29,333 thousand, EUR 3,941 thousand) relating to deposits paid for aircraft and engine maintenance. Other deposits given mostly relate to guarantee deposits for tickets sold on the US market.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

26. CASH AND CASH EQUIVALENTS

	2020		2019		2020		2019	
	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
Gyro account	170,302	22,596	20,125	2,704	167,501	22,224	17,541	2,357
Foreign currency accounts	9,168	1,216	17,825	2,395	6,737	894	15,114	2,031
Petty cash	24	3	24	3	11	1	7	1
Foreign currency petty cash	75	10	72	10	75	10	71	10
Short-term deposits	400,008	53,074	1,025	138	400,000	53,073	1,016	136
	579,577	76,899	39,071	5,250	574,324	76,202	33,749	4,535

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

27. SHARE CAPITAL

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

As at 31 December ownership structure was as follows:

2020	Number of shares	HRK thousand	Share %
Shareholders			
Republic of Croatia	27,010,821	270,109	97.20
Zagreb International Airport	477,121	4,771	1.72
HPB for Republic of Croatia	173,768	1,738	0.63
Others	126,243	1,262	0.45
	27,787,953	277,880	100.00
2019	Number of shares	HRK thousand	Share %
Shareholders			
Republic of Croatia	27,010,821	270,109	97.20
Zagreb International Airport	477,121	4,771	1.72
HPB for Republic of Croatia	173,768	1,738	0.63
Others	126,243	1,262	0.45
	27,787,953	277,880	100.00

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

28. 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 2019	14,550	1,910	97,292	12,661	(1,006)	(132)	(372)	(42)	110,464	14,397
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Total comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Transactions with owners										
Transfer of profit from 2018 to other capital reserves	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Total transaction with owners	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Balance at 31 December 2019	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)
Transactions with owners										
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
Balance at 31 December 2020	-	-	352,613	46,821	(975)	(128)	(1,011)	(127)	350,627	46,566

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

28. 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 2019	14,550	1,910	96,003	12,492	(1,006)	(132)	(372)	(42)	109,175	14,228
Loss for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Total comprehensive income	-	-	-	-	232	31	(101)	(14)	131	17
Transactions with owners										
Transfer of profit from 2018 to other capital reserves	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Total transaction with owners	-	-	(82,937)	(11,186)	-	-	-	-	(82,937)	(11,186)
Balance at 31 December 2019	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)
Transactions with owners										
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
Balance at 31 December 2020	-	-	350,000	46,473	(975)	(128)	(1,011)	(127)	348,014	46,218

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

28. 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 the Company does not have any legal reserves (2019: to HRK 14,550 thousand, EUR 1,910 thousand).

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 the Company does not have any other capital reserves.

Other capital reserves at the Group level include reserves of subsidiaries. Reserves of the Company Amadeus Croatia d.d. consists of HRK 10 thousand, EUR 1 thousand of legal reserves (2019: HRK 10 thousand, EUR 1 thousand), and HRK 151 thousand, EUR 21 thousand of other reserves (2019: HRK 100 thousand, EUR 14 thousand). The Company Obzor putovanja d.o.o. has other reserves in the amount of HRK 2,452 thousand, EUR 326 thousand (2019: HRK 1,179 thousand, EUR 154 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 975 thousand, EUR 128 thousand (2019: HRK 774 thousand, EUR 101 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 2020

29. 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:

	2020		2019	
	Croatia Airlines Grupa HRK	EUR	Croatia Airlines Grupa HRK	EUR
Loss for the year in thousands	<u>(360,779)</u>	<u>(47,892)</u>	<u>(78,465)</u>	<u>(10,583)</u>
Number of issued shares		27,787,953		27,787,953
Basic and diluted loss per share in HRK/EUR	<u>(12.98)</u>	<u>(1.72)</u>	<u>(2.82)</u>	<u>(0.38)</u>

	2020		2019	
	Croatia Airlines d.d. HRK	EUR	Croatia Airlines d.d. HRK	EUR
Loss for the year in thousands	<u>(358,225)</u>	<u>(47,553)</u>	<u>(79,359)</u>	<u>(10,704)</u>
Number of issued shares		27,787,953		27,787,953
Basic and diluted loss per share in HRK/EUR	<u>(12.89)</u>	<u>(1.71)</u>	<u>(2.86)</u>	<u>(0.39)</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 2020

30. 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	EUR	HRK	EUR	HRK	EUR	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Non-current provisions	3,585	482	2,247	302	177,550	23,856	-	-	183,382	24,640
Current provisions	-	-	-	-	29,333	3,941	-	-	29,333	3,941
Balance as at 31 December 2019	3,585	482	2,247	302	206,883	27,797	-	-	212,715	28,581
Balance as at 31 December 2019	3,585	482	2,247	302	206,883	27,797	-	-	212,715	28,581
Provisions made during year	271	36	855	113	25,948	3,445	7,000	929	34,074	4,523
Provisions used during year	(742)	(98)	(168)	(22)	(38,579)	(5,121)	-	-	(39,489)	(5,241)
Foreign exchange differences	-	(7)	-	(4)	(4,226)	(908)	-	-	(4,226)	(919)
Balance as at 31 December 2020	3,114	413	2,934	389	190,026	25,213	7,000	929	203,074	26,944
Non-current provisions	3,114	413	2,934	389	190,027	25,213	7,000	929	203,075	26,944
Current provisions	-	-	-	-	14,236	1,889	-	-	14,236	1,889
Balance as at 31 December 2020	3,114	413	2,934	389	204,263	27,102	7,000	929	217,311	28,833

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 134,971 thousand, EUR 17,908 thousand (2019: HRK 149,607 thousand, EUR 20,101 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 55,055 thousand, EUR 7,305 thousand (2019: HRK 57,276 thousand, EUR 7,696 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 2020

31. LONG-TERM LOANS AND BORROWINGS

	2020		2019		2020		2019	
	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	553,279	73,409	155,447	20,886	553,279	73,409	155,447	20,886
Current portion of non-current loans	(12,813)	(1,700)	(12,652)	(1,700)	(12,813)	(1,700)	(12,652)	(1,700)
	540,466	71,709	142,795	19,186	540,466	71,709	142,795	19,186

Description of non-current loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2020		2019	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for maintenance of engines	EUR	8,500	3m EURIBOR + 3.07%	December 2022	47,860	6,350	55,447	7,450
Loan for maintaining financial stability	HRK	250,000	2%	January 2022	255,419	33,889	100,000	13,436
Loan for maintaining financial stability	HRK	250,000	0.72% - 2.22%	December 2025	250,000	33,170	-	-
					553,279	73,409	155,447	20,886
Current portion					(12,813)	(1,700)	(12,652)	(1,700)
Non-current loans					540,466	71,709	142,795	19,186

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

	2020		2020	
	Croatia Airlines Group HRK thousand	EUR thousand	Croatia Airlines d.d. HRK thousand	EUR thousand
2021	12,813	1,700	12,813	1,700
2022	268,232	35,589	268,232	35,589
2023	22,234	2,950	22,234	2,950
After 2023	250,000	33,170	250,000	33,170
	553,279	73,409	553,279	73,409

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 33.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

32. LEASES

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

Right of use assets

Croatia Airlines Group

2020	Aircrafts		Engines		Business premises		Vehicles		Vehicles		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 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
Investments in leased property	-	-	-	-	-	-	-	-	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	452,847	60,084	72,486	9,617	26,600	3,530	265	35	311,162	41,285	863,360	114,551
ACCUMULATED DEPRECIATION												
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	134,555	17,853	35,821	4,752	11,287	1,498	183	24	207,793	27,570	389,639	51,697
NET BOOK VALUE												
Balance at 31 December 2020	318,292	42,231	36,665	4,865	15,313	2,032	82	11	103,369	13,715	473,721	62,854
Balance at 1 January 2020	375,662	50,475	50,645	6,805	20,566	2,763	161	21	123,437	16,585	570,471	76,649

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

32. LEASES (CONTINUED)

Croatia Airlines Group

2019	Aircrafts		Engines		Business premises		Vehicles		Vehicles		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2019	443,873	59,841	72,643	9,793	15,761	2,125	256	35	230,216	31,037	762,749	102,831
Additions	-	-	-	-	12,231	1,650	-	-	-	-	12,231	1,650
Investments in leased property	-	-	-	-	-	-	-	-	34,351	4,633	34,351	4,633
Transfer	-	-	-	-	-	-	-	-	1,621	219	1,621	219
Disposals	-	-	-	-	(2,692)	(363)	-	-	-	-	(2,692)	(363)
Fx differences	-	(201)	-	(33)	-	(13)	-	(1)	-	(123)	-	(371)
Balance at 31 December 2019	443,873	59,640	72,643	9,760	25,300	3,399	256	34	266,188	35,766	808,260	108,599
ACCUMULATED DEPRECIATION												
Balance at 1 January 2019	-	-	-	-	-	-	-	-	93,091	12,551	93,091	12,551
Charge for the year	68,211	9,200	21,998	2,967	6,157	830	95	13	49,654	6,697	146,115	19,707
Transfer	-	-	-	-	-	-	-	-	6	1	6	1
Disposals	-	-	-	-	(1,423)	(192)	-	-	-	-	(1,423)	(192)
Fx differences	-	(35)	-	(12)	-	(2)	-	-	-	(68)	-	(117)
Balance at 31 December 2019	68,211	9,165	21,998	2,955	4,734	636	95	13	142,751	19,181	237,789	31,950
NET BOOK VALUE												
Balance at 31 December 2019	375,662	50,475	50,645	6,805	20,566	2,763	161	21	123,437	16,585	570,471	76,649
Balance at 1 January 2019	443,873	59,841	72,643	9,793	15,761	2,125	256	35	137,125	18,486	669,658	90,280

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

32. LEASES (CONTINUED)

Right of use assets (continued)

Croatia Airlines d.d.

2020	Aircrafts		Engines		Business premises		Vehicles		Vehicles		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 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
Investments in leased property	-	-	-	-	-	-	-	-	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	452,847	60,084	72,486	9,617	25,490	3,382	118	16	311,162	41,285	862,103	114,384
ACCUMULATED DEPRECIATION												
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	134,555	17,853	35,821	4,753	10,778	1,430	55	7	207,793	27,570	389,002	51,613
NET BOOK VALUE												
Balance at 31 December 2020	318,292	42,231	36,665	4,864	14,712	1,952	63	9	103,369	13,715	473,101	62,771
Balance at 1 January 2020	375,662	50,475	50,645	6,804	19,783	2,658	78	11	123,437	16,585	569,605	76,533

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

32. LEASES (CONTINUED)

Right of use assets (continued)

Croatia Airlines d.d.

2019	Aircrafts		Engines		Business premises		Vehicles		Vehicles		Total	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
COST OR VALUATION												
Balance at 1 January 2019	443,873	59,841	72,643	9,793	14,733	1,986	109	15	230,216	31,037	761,574	102,672
Additions	-	-	-	-	12,231	1,650	-	-	-	-	12,231	1,650
Investments in leased property	-	-	-	-	-	-	-	-	34,351	4,633	34,351	4,633
Transfer	-	-	-	-	-	-	-	-	1,621	219	1,621	219
Disposals	-	-	-	-	(2,692)	(363)	-	-	-	-	(2,692)	(363)
Fx differences	-	(201)	-	(33)	-	(12)	-	-	-	(123)	-	(369)
Balance at 31 December 2019	443,873	59,640	72,643	9,760	24,272	3,261	109	15	266,188	35,766	807,085	108,442
ACCUMULATED DEPRECIATION												
Balance at 1 January 2019	-	-	-	-	-	-	-	-	93,091	12,551	93,091	12,551
Charge for the year	68,211	9,200	21,998	2,967	5,912	797	31	4	49,654	6,697	145,806	19,665
Transfer	-	-	-	-	-	-	-	-	6	1	6	1
Disposals	-	-	-	-	(1,423)	(192)	-	-	-	-	(1,423)	(192)
Fx differences	-	(35)	-	(11)	-	(2)	-	-	-	(68)	-	(116)
Balance at 31 December 2019	68,211	9,165	21,998	2,956	4,489	603	31	4	142,757	19,182	237,486	31,910
NET BOOK VALUE												
Balance at 31 December 2019	375,662	50,475	50,645	6,804	19,783	2,658	78	11	123,437	16,585	569,605	76,533
Balance at 1 January 2019	443,873	59,841	72,643	9,793	14,733	1,986	109	15	137,125	18,486	668,483	90,121

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

32. LEASES (CONTINUED)

Lease liabilities

	2020		2019		2020		2019	
	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
Non-current lease liabilities	279,877	37,134	323,798	43,506	279,496	37,084	323,163	43,421
Current lease liabilities	74,435	9,876	81,360	10,932	74,178	9,842	81,051	10,890
	354,312	47,010	405,158	54,438	353,674	46,926	404,214	54,311

The repayment schedule for lease liabilities is as follows:

	2020.		2020.	
	Croatia Airlines Group		Croatia Airlines d.d.	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
2021	85,166	11,300	84,897	11,264
2022	78,219	10,378	78,060	10,357
2023	67,344	8,935	67,220	8,919
After 2023	151,463	20,096	151,352	20,082
	382,192	50,709	381,529	50,622

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

	Croatia Airlines Group		Croatia Airlines d.d.	
	2020		2020	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Initial recognition per IFRS 16	405,158	54,438	404,214	54,311
Changes from non-cash transactions				
Recognised during the year	437	58	329	44
Lease modification	15,264	2,026	15,289	2,030
Lease cancelation	(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)
Total changes from non-cash transactions	26,939	2,898	26,885	2,893
Changes from cash flows				
Interest paid	(12,991)	(1,725)	(12,970)	(1,722)
Principal paid	(64,794)	(8,601)	(64,455)	(8,556)
Total changes from cash flows	(77,785)	(10,326)	(77,425)	(10,278)
	354,312	47,010	353,674	46,926

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

32. LEASES (CONTINUED)

	Croatia Airlines Group 2019		Croatia Airlines d.d. 2019	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Changes from non-cash transactions				
Recognised during the year	12,231	1,650	12,231	1,650
Lease cancelation	(1,282)	(173)	(1,282)	(173)
Interest	14,966	2,019	14,942	2,015
Foreign exchange differences	2,280	308	2,280	308
Effect of FX recalculation	-	(179)	-	(179)
Total changes from non-cash transactions	28,195	3,625	28,171	3,621
Changes from cash flows				
Interest paid	(14,966)	(2,019)	(14,942)	(2,015)
Principal paid	(81,953)	(11,054)	(81,722)	(11,023)
Total changes from cash flows	(96,919)	(13,073)	(96,664)	(13,038)
	405,158	54,438	404,214	54,311

33. CURRENT LOANS

	2020		2019		2020		2019	
	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	-	-	31,500	4,232	-	-	31,500	4,232
	-	-	31,500	4,232	-	-	31,500	4,232

Description of Company's current loans is as follows:

Loan purpose	Original currency	Loan amount	Annual interest rate	Due	2020		2019	
					HRK thousand	EUR thousand	HRK thousand	EUR thousand
Loan for current liquidity	HRK	21,000	2.95% fixed	June 2020	-	-	21,000	2,821
Loan for current liquidity	HRK	6,000	3.40% fixed	January 2020	-	-	6,000	806
Loan for current liquidity	HRK	4,500	3.40% fixed	January 2020	-	-	4,500	605
					-	-	31,500	4,232

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

33. CURRENT LOANS (CONTINUED)

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

	Non-current loans		Current loans		Total Loans	
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
Balance as at 1 January 2020	155,447	20,886	31,500	4,232	186,947	25,118
Changes from financing cash flows						
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)
Total changes from financing cash flows	391,704	51,998	(31,500)	(4,182)	360,204	47,816
Other changes						
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)
Total other changes	6,128	525	-	(50)	6,128	475
Balance as at 31 December 2020	553,279	73,409	-	-	553,279	73,409

	Non-current loans		Current loans		Total Loans	
	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand	HRK thousand
Balance as at 1 January 2019	76,030	10,250	64,553	8,703	140,583	18,953
Changes from financing cash flows						
Proceeds from loans and borrowings	100,000	13,488	10,654	1,437	110,654	14,925
Repayment of loans and borrowings	(20,820)	(2,808)	(36,328)	(4,900)	(57,148)	(7,708)
Total changes from financing cash flows	79,180	10,680	(25,674)	(3,463)	53,506	7,217
Other changes						
Compensated with receivables from credit card companies	-	-	(7,450)	(1,005)	(7,450)	(1,005)
Foreign exchange differences	237	32	71	10	308	42
Effect of FX recalculation	-	(76)	-	(13)	-	(89)
Total other changes	237	(44)	(7,379)	(1,008)	(7,142)	(1,052)
Balance as at 31 December 2019	155,447	20,886	31,500	4,232	186,947	25,118

34. TRADE PAYABLES

	2020		2019		2020		2019	
	Croatia Airlines Group HRK thousand	Croatia Airlines Group EUR thousand	Croatia Airlines Group HRK thousand	Croatia Airlines Group EUR thousand	Croatia Airlines d.d. HRK thousand	Croatia Airlines d.d. EUR thousand	Croatia Airlines d.d. HRK thousand	Croatia Airlines d.d. EUR thousand
Domestic trade payables	26,440	3,508	110,932	14,905	26,129	3,467	108,914	14,634
Foreign trade payables	40,167	5,329	76,309	10,253	39,993	5,306	76,124	10,228
	66,607	8,837	187,241	25,158	66,122	8,773	185,038	24,862

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

35. OTHER CURRENT LIABILITIES

	2020		2019		2020		2019	
	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
Air traffic liabilities	206,021	27,335	121,229	16,289	206,021	27,335	121,229	16,289
Deposits and advances received	16,970	2,252	13,670	1,837	16,946	2,248	13,670	1,837
Liabilities for salaries	18,177	2,412	20,959	2,816	17,934	2,379	20,566	2,763
Other current liabilities	1,202	159	6,238	839	975	130	6,039	811
	242,370	32,158	162,096	21,781	241,876	32,092	161,504	21,700

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 76,458 thousand, EUR 10,144 thousand.

36. ACCRUED EXPENSES AND DEFERRED INCOME

	2020		2019		2020		2019	
	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
Deferred income	248	33	1,088	146	248	33	1,088	146
Accrual for unused holiday	776	103	1,668	224	776	103	1,535	206
Accrued expenses	32,573	4,322	28,499	3,829	31,711	4,207	27,901	3,749
	33,597	4,458	31,255	4,199	32,735	4,343	30,524	4,101

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

37. COMMITMENTS

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

	2020 HRK thousand	2020 EUR thousand	2019 HRK thousand	2019 EUR thousand
Less than one year	-	-	114,355	15,424
Between one and five years	-	-	380,812	51,364
More than five years	-	-	-	-
	<u>-</u>	<u>-</u>	<u>495,167</u>	<u>66,788</u>

38. EMPLOYEES

Number of employees as of 31 December is as follows:

	2020	2019
Croatia Airlines d.d.		
Pilots and co-pilots	126	138
Cabin attendants	169	179
Maintenance and overhaul	257	249
Ticket sales and promotion	152	152
Airport handling	117	115
Other staff	159	166
	<u>980</u>	<u>999</u>
Subsidiaries		
Obzor putovanja d.o.o.	18	19
Amadeus Croatia d.d.	8	8
Total	<u>1,006</u>	<u>1,026</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS

39.1 TRANSACTIONS WITH SUBSIDIARIES

Transactions with related parties are as follows:

	2020 HRK thousand	2020 EUR thousand	2019 HRK thousand	2019 EUR thousand
Revenue				
Obzor putovanja d.o.o.	147	20	89	12
Amadeus Croatia d.d.	25	3	30	4
Total revenue	172	23	119	16
Income form share in profits				
Obzor putovanja d.o.o.	-	-	300	40
Amadeus Croatia d.d.	-	-	52	7
Total income from share in profits	-	-	352	47
Interest income				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	11	1	-	-
Total interest income	11	1	-	-
Expenses				
Obzor putovanja d.o.o.	37	5	62	8
Amadeus Croatia d.d.	-	-	-	-
Total expenses	37	5	62	8
Trade receivables				
Obzor putovanja d.o.o.	33	4	28	4
Amadeus Croatia d.d.	3	-	3	-
Total trade receivables	36	4	31	4
Receivables for share in profits				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	-	-	-	-
Total receivables for share in profits	-	-	-	-
Loans receivable				
Obzor putovanja d.o.o.	-	-	-	-
Amadeus Croatia d.d.	1,311	174	-	-
Total loans receivable	1,311	174	-	-
Trade payables				
Obzor putovanja d.o.o.	-	-	26	3
Amadeus Croatia d.d.	-	-	-	-
Total trade payables	-	-	26	3

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.2 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:

	2020 HRK thousand	2020 EUR thousand	2019 HRK thousand	2019 EUR thousand
Revenue				
Zračna luka Osijek d.o.o., Klisa	12	2	28	4
Zračna luka Pula d.o.o., Pula	1	-	13	2
Zračna luka Rijeka d.o.o., Omišalj	11	1	43	6
Zračna luka Zadar d.o.o., Zadar	13	2	27	4
Zračna luka Split d.o.o., Kaštel Štafilić	3,255	432	648	87
Zračna luka Dubrovnik d.o.o., Čilipi	148	20	274	37
Zrakoplovno-tehnički centar d.d., Velika Gorica	5	1	8	1
HP – Hrvatska pošta d.d., Zagreb	1,662	221	1,719	232
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total revenue	5,107	679	2,760	373
Expenses				
Zračna luka Osijek d.o.o., Klisa	78	10	173	23
Zračna luka Pula d.o.o., Pula	1,244	165	2,130	287
Zračna luka Rijeka d.o.o., Omišalj	146	19	133	18
Zračna luka Zadar d.o.o., Zadar	1,461	194	3,100	418
Zračna luka Split d.o.o., Kaštel Štafilić	7,959	1,057	21,281	2,870
Zračna luka Dubrovnik d.o.o., Čilipi	6,043	802	15,929	2,148
Zrakoplovno-tehnički centar d.d., Velika Gorica	205	27	329	44
HP – Hrvatska pošta d.d., Zagreb	36	5	58	8
INA – Industrija nafte d.d., Zagreb	51,463	6,832	175,045	23,610
Total expenses	68,635	9,111	218,178	29,426

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 2020

39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2020 HRK thousand	2020 EUR thousand	2019 HRK thousand	2019 EUR thousand
Receivables				
Zračna luka Osijek d.o.o., Klisa	-	-	-	-
Zračna luka Pula d.o.o., Pula	-	-	-	-
Zračna luka Rijeka d.o.o., Omišalj	-	-	-	-
Zračna luka Zadar d.o.o., Zadar	-	-	-	-
Zračna luka Split d.o.o., Kaštel Štafilić	-	-	-	-
Zračna luka Dubrovnik d.o.o., Čilipi	30	4	30	4
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-	-	-
HP – Hrvatska pošta d.d., Zagreb	446	59	214	29
INA – Industrija nafte d.d., Zagreb	-	-	-	-
Total receivables	476	63	244	33
Payables				
Zračna luka Osijek d.o.o., Klisa	-	-	20	3
Zračna luka Pula d.o.o., Pula	218	29	523	70
Zračna luka Rijeka d.o.o., Omišalj	42	6	45	6
Zračna luka Zadar d.o.o., Zadar	77	10	706	95
Zračna luka Split d.o.o., Kaštel Štafilić	2,392	317	10,693	1,437
Zračna luka Dubrovnik d.o.o., Čilipi	3,608	479	7,827	1,052
Zrakoplovno-tehnički centar d.d., Velika Gorica	6	1	65	9
HP – Hrvatska pošta d.d., Zagreb	2	-	9	1
INA – Industrija nafte d.d., Zagreb	3,492	463	15,772	2,119
Total payables	9,837	1,305	35,660	4,792

PSO benefit

During the year the Company realized revenue in the amount of HRK 82,461 thousand, EUR 10,946 thousand (2019: HRK 78,783 thousand, EUR 10,626 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 9,196 thousand, EUR 1,220 thousand and is part of receivables from the State in the note 23 (2019: HRK 5,029 thousand, EUR 676 thousand).

Non-current loans

During the year the Company did not use long-term loans from bank owned by Republic of Croatia (2019: the Company did not use long-term loans). Loan liability at the reporting date amounted to HRK 23,930 thousand, EUR 3,175 thousand (2019: HRK 27,724 thousand, EUR 3,725 thousand). Interest expense recognized during the year amounted to HRK 739 thousand, EUR 98 thousand (2019: HRK 801 thousand, EUR 108 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.2. 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 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, 33,170 thousand (2019: HRK 100,000 thousand, EUR 13,436 thousand).

Based on the loan approved during the 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, EUR 33,170 thousand.

Interest expense recognized during the year amounted to HRK 4,933 thousand, EUR 655 thousand (2019: HRK 526 thousand, EUR 71 thousand). Liability for the interest presented within long-term loans and borrowings amounts to HRK 5,419 thousand, EUR 719 thousand, while the accrued interest expense, disclosed within accrued expenses within Note 36 amounts to HRK 39 thousand, EUR 5 thousand (2019: the accrued interest expense, disclosed within accrued expenses within Note 36 amounts to HRK 526 thousand, EUR 71 thousand).

Current loans

During the year the Company did not use short-term loans from bank owned by Republic of Croatia (2019: the Company did not use loans and the Company repaid loan taken in 2018. The interest expense recognized in 2019 amounted to HRK 432 thousand, EUR 58 thousand).

COVID-19 pandemic related grants and subsidies

During the year, the Company recognized revenues from state aid for compensation for damage caused by the COVID-19 pandemic, 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, 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.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.3 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:

	2020	2020	2019	2019
	HRK	EUR	HRK	EUR
	thousand	thousand	thousand	thousand
Gross salaries	5,753	764	7,457	1,006
Gross benefit in kind	152	20	134	18
	<u>5,905</u>	<u>784</u>	<u>7,591</u>	<u>1,024</u>

As at 31 December 2020 the number of Management Board members, directors and other key management personnel was 15 (2019: 14 employees).

Compensation to Supervisory Board members during 2020 amounted to HRK 160 thousand, EUR 21 thousand (2019: HRK 158 thousand, EUR 21 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

40. 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 2020

40. 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
2020				
<i>Investments in equity instruments</i>				
Listed entities	728	-	-	728
Unlisted entities	-	-	189	189
Total	728	-	189	917
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2020				
<i>Investments in equity instruments</i>				
Listed entities	97	-	-	97
Unlisted entities	-	-	25	25
Total	97	-	25	122
	Level 1 HRK thousand	Level 2 HRK thousand	Level 3 HRK thousand	Total HRK thousand
2019				
<i>Investments in equity instruments</i>				
Listed entities	929	-	-	929
Unlisted entities	-	-	189	189
Total	929	-	189	1,118
	Level 1 EUR thousand	Level 2 EUR thousand	Level 3 EUR thousand	Total EUR thousand
2019				
<i>Investments in equity instruments</i>				
Listed entities	125	-	-	125
Unlisted entities	-	-	25	25
Total	125	-	25	150

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

40. 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:

	2020		2019		2020		2019	
	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	907,591	120,419	592,105	79,556	906,953	120,335	591,161	79,429
Cash and cash equivalents	(579,577)	(76,899)	(39,071)	(5,250)	(574,324)	(76,202)	(33,749)	(4,535)
Net debt	<u>328,014</u>	<u>43,520</u>	<u>553,034</u>	<u>74,306</u>	<u>332,629</u>	<u>44,133</u>	<u>557,412</u>	<u>74,894</u>
Equity	<u>218,304</u>	<u>28,967</u>	<u>229,818</u>	<u>30,877</u>	<u>215,930</u>	<u>28,653</u>	<u>224,890</u>	<u>30,218</u>
Debt to equity	150%	150%	241%	241%	154%	154%	248%	248%

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 31 and 33. The interest rate on bank deposits is disclosed in note 18. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 7 thousand, EUR 1 thousand would debit income statement (2019: HRK 17 thousand, EUR 2 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 7 thousand, EUR 1 thousand would credit income statement for the period ended 31 December 2020 (2019: HRK 17 thousand, EUR 2 thousand).

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

40. 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 31 and 32, 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	
	2020	2019	2020	2019
Profit / (loss)	<u>(1,691)</u>	<u>(1,932)</u>	<u>(327)</u>	<u>(554)</u>

HRK thousand	Currency impact EUR		Currency impact USD	
	2020	2019	2020	2019
Profit / (loss)	<u>1,153</u>	<u>3,269</u>	<u>383</u>	<u>1,350</u>

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

40. 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 3,602 thousand, EUR 478 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of HRK 3,602 thousand, EUR 478 thousand would credit profit and loss account for the year 2020 (2019: HRK 15,104 thousand, EUR 2,037 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 2020

40. 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 2020

40. RISK MANAGEMENT (CONTINUED)

40.1 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 2019 and 2018. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

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 thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets										
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	-	-	-	-	-	-
Total assets	698,058	92,620	620,550	82,336	47,297	6,275	823	109	29,388	3,900
Liabilities										
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	17,581	56,014	7,432	76,458	10,144	39	5	-	-
Total liabilities	1,157,675	153,600	166,198	22,051	131,223	17,411	344,750	45,741	515,504	68,397
Difference	(459,617)	(60,980)	454,352	60,285	(83,926)	(11,136)	(343,927)	(45,632)	(486,116)	(64,497)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

40. RISK MANAGEMENT (CONTINUED)

40.1 Liquidity risk tables

31.12.2019	Total		Less than 6 months		Between 6 months and 1 year		Between 1 year and 2 years		More than 2 years	
	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand	HRK thousand	EUR thousand
Assets										
Non-current deposits	23,690	3,183	-	-	-	-	-	-	23,690	3,183
Investments in equity instruments	1,118	150	-	-	-	-	-	-	1,118	150
Non-current receivables	313	42	175	24	-	-	-	-	138	18
Trade receivables	67,487	9,068	67,487	9,068	-	-	-	-	-	-
Other receivables	18,585	2,497	18,585	2,497	-	-	-	-	-	-
Current deposits	9,499	1,276	804	108	8,695	1,168	-	-	-	-
Cash and cash equivalents	33,749	4,535	33,749	4,535	-	-	-	-	-	-
Total assets	154,441	20,751	120,800	16,232	8,695	1,168	-	-	24,946	3,351
Liabilities										
Non-current loans and borrowings	155,447	20,886	4,466	600	8,187	1,100	12,652	1,700	130,142	17,486
Current loans and borrowings	31,500	4,232	31,500	4,232	-	-	-	-	-	-
Interest on loans and borrowings	2,629	354	1,091	147	674	91	864	116	-	-
Lease liabilities	448,411	60,251	42,539	5,716	46,612	6,264	92,747	12,462	266,513	35,809
Trade payables	185,038	24,862	185,038	24,862	-	-	-	-	-	-
Other payables	56,041	7,529	55,515	7,458	-	-	-	-	526	71
Total liabilities	879,066	118,114	320,149	43,015	55,473	7,455	106,263	14,278	397,181	53,366
Difference	(724,625)	(97,363)	(199,349)	(26,783)	(46,778)	(6,287)	(106,263)	(14,278)	(372,235)	(50,015)

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

41. AUDITOR FEES

The agreed audit fee of separate and consolidated financial statements of the Company and Group Croatia Airlines for the year 2020 amounts to HRK 192 thousand plus the amount of value added tax (2019: 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 (2019: HRK 10 thousand plus value added tax).

42. EVENTS AFTER THE REPORTING DATE

At the time of the biggest crisis caused by the COVID-19 pandemic 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 line with demand. and epidemiological measures of individual countries.

In the first quarter of 2021, flights were performed at 12 international and 5 domestic destinations. Given the situation, the Company's focus is on markets where demand exists. With the continuous optimization of the flight schedule, the Company is ready to establish or renew individual routes and introduce additional flights on existing routes if in the meantime there is an increase in demand for air transport services.

The beginning of 2021 for the Company is weaker than expected, the demand for air transport services remains low, and the measures applied at the state level dictate the setting of capacities and the structure of the flight schedule. In the first quarter of 2021, the Company flew 2,697 block hours, and 1,951 flights were recorded. The total number of transported passengers was 72,263, which is 73 percent less than in the first quarter of 2020. Realized passenger-kilometers decreased by 74 percent, with a passenger load factor (PLF) of 44.8 percent, which is 15.3 percentage points less than in the first quarter of 2020. The number of passengers in domestic regular traffic is lower by 61 percent, and in international regular traffic by 78 percent compared to the first quarter of 2020.

Travel bookings in the first quarter of 2021 are declining compared to the same period last year. Ticket sales fell by 89 percent in all distribution channels compared to the same period last year. The current number of recorded reservations for the Company's flights is significantly lower on all routes and markets from which the company receives reservations. It should be noted that booking in the same period last year was not yet threatened by the epidemiological crisis, and the positive trend on some lines was then recorded due to the presidency of the Republic of Croatia in the European Union. The dynamics of booking during the pandemic has changed significantly, and in some markets, where tickets were purchased significantly in advance, booking is negligible. In other markets, primarily European, late booking is expected and it will, of course, mostly depend on the epidemiological situation in individual markets, ie the prescribed epidemiological measures and restrictions on the flow of passengers.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

42. EVENTS AFTER THE REPORTING DATE (continued)

Most passengers were offered vouchers for canceled flights during the COVID-19 pandemic, part of which was exchanged for tickets, while a smaller part of the tickets was refunded. As of January 12, 2021, direct ticket refund transactions have been opened for all BSP and ARC agents and through all reservation systems, and refunds are continuously implemented, but there is still a significant value of issued tickets as a future obligation of the company whether it is a possible refund or voucher exchange.

As the Company continues to face reduced demand and ticket sales and a consequent low level of inflows, the issue of maintaining liquidity may be raised again in the coming period, especially when the unpredictability of the crisis is taken into account.

The organization of work is still adjusted to the conditions of the crisis and in accordance with the decisions and recommendations of the Crisis Staff of the Civil Protection of the Republic of Croatia, in order to reduce the spread of viruses and to protect employees, employees are working on multiple locations (work from home, in other branches and working premises of the Company, etc.), and a large part of the employees, primarily crew and other operational staff, use their annual leave due to reduced operating operations.

The flight schedule has been defined for this year's summer season, in which flights are planned from Zagreb, Split, Dubrovnik and Rijeka to a total of 18 European destination. The flight schedule of the Company, as well as all other airlines, is subject to ad hoc changes, depending on the development of the epidemiological situation in Croatia and the world, or restrictions and rules of individual countries regarding passenger traffic, which directly affect the demand for air transport services.

At the beginning of 2021, in cooperation with external advisors BDO Advisory Ltd. a document "Analysis of the intended use of state aid and verification of savings from the beginning of the Covid-19 pandemic" was made, which included all aspects of applied rigorous austerity measures. The document also includes a plan of activities on savings in 2021.

The rationalization of operations continued and the application of previously defined measures which seek to reduce the impact of the crisis on the financial result with the further use of aid to which the company is entitled given the level of turnover reduction. The company takes all measures to actively monitor liquidity and optimize operations. Due to daily changes in the epidemiological situation, the flight schedule is regularly evaluated and adjusted to the current situation and the state of booking. In order to rationalize, the use of the fleet is being optimized, with a greater emphasis on smaller and more economical aircraft.

Notes to the consolidated and separate financial statements (continued)

For the year ended 31 December 2020

42. EVENTS AFTER THE REPORTING DATE (CONTINUED)

Although the Company's expectations regarding the normalization and re-establishment of traffic were significantly higher, given the spillover effects of the crisis in the first quarter of 2021, further turnover will depend on several factors such as instructions, restrictions and prohibitions and other measures that directly affect possibility of traveling in domestic and international regular traffic, vaccination of the population and application of measures that should facilitate or simplify travel (COVID passports), flexible flight network planning with forecast of demand for certain types of travel as well as achieving optimal occupancy and average fares in reduced traffic conditions aircraft capacity caused by social distancing measures.

43. 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 31 May 2021.

Signed for and on behalf of the Company on 31 May 2021:

Nataša Iksović-Dautović



Director of Finance and Accounting

Jasmin Bajić



President and CEO