



A STAR ALLIANCE MEMBER 

# Croatia Airlines Consolidated and Separate Annual Report for 2023



*This version of the Annual 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 Annual report takes precedence over translation.*

## April 2024



## CONTENT:

<b>Declaration</b>	<b>2</b>
<b>The Management's Business Report for 2023</b>	<b>3 - 46</b>
<b>Representation on the Application of the Corporate Governance Code</b>	<b>47 - 49</b>
<b>Consolidated and Separate Financial Statements for the year ended 31 December 2023 together with Independent auditor's report</b>	<b>50 - 134</b>

Based on the Capital Market Act (NN 65/18, 17/20, 83/21, 151/22), we hereby give the following:

## DECLARATION

That the individual and consolidated Financial Statements of the issuer Croatia Airlines d.d. for the year ending 31<sup>st</sup> December 2023 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 2023 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, 22 April 2024



---

A STAR ALLIANCE MEMBER 

## The Management's Business Report for 2023



April 2024

---

**CONTENTS**

<b>Typical indicators .....</b>	<b>5</b>
<b>Croatia Airlines in 2023 – introduction .....</b>	<b>7</b>
<b>Human resources .....</b>	<b>9</b>
<b>Social responsibility .....</b>	<b>15</b>
<b>Business advancements and projects .....</b>	<b>18</b>
<b>Business environment and operational risks .....</b>	<b>20</b>
<b>Fleet .....</b>	<b>29</b>
<b>Market .....</b>	<b>31</b>
<b>Financial operations .....</b>	<b>34</b>
<b>Investments, assets and financing .....</b>	<b>37</b>
<b>Consolidated business result .....</b>	<b>40</b>
<b>Going concern principle .....</b>	<b>41</b>
<b>Objectives and goals for 2024 .....</b>	<b>45</b>
<b>Current operations – traffic performance in the first quarter of 2024 .....</b>	<b>46</b>

## Typical indicators

### Fleet

Type of aircraft	Number at the end of 2023	Seats	Ø age (years)	Number at the end of 2022
Airbus A320	2	348	21.66	1
Airbus A319	4	576	21.73	5
Q-400	6	456	14.60	6
<b>TOTAL</b>	<b>12</b>	<b>1,380</b>	<b>18.15</b>	<b>12</b>

### Traffic indicators

Description		2023	2022	Index 23/22
Flights (km)	<i>DIST 000</i>	16,728	15,246	110
<b>Departures</b>	<b><i>FLTS</i></b>	<b>25,977</b>	<b>23,348</b>	<b>111</b>
<b>Block hours</b>	<b><i>BH hours</i></b>	<b>36,213</b>	<b>32,700</b>	<b>111</b>
<b>Passengers carried</b>	<b><i>RPAX 000</i></b>	<b>1,734</b>	<b>1,453</b>	<b>119</b>
<b>Freight &amp; mail carried</b>	<b><i>CGO t</i></b>	<b>1,523</b>	<b>1,514</b>	<b>101</b>
Passenger km flown	<i>RPK mil.</i>	1,300	1,104	118
Available seat - km	<i>ASK mil.</i>	1,991	1,781	112
<b>Passenger load factor</b>	<b><i>PLF %</i></b>	<b>65.3</b>	<b>62.0</b>	<b>105</b>
Tonne km flown	<i>RTK mil.</i>	131	112	117
Available tonne-km	<i>ATK mil.</i>	209	187	112
<b>Weight load factor</b>	<b><i>WLF %</i></b>	<b>62.9</b>	<b>59.7</b>	<b>105</b>

## Financial indicators

Indicators		2023	2022	Index 23/22
<b>Operating revenue</b>	<i>mIn EUR</i>	<b>252</b>	<b>210</b>	<b>120</b>
Total Revenue	<i>mIn EUR</i>	262	220	119
<b>Operating expenses</b>	<i>mIn EUR</i>	<b>248</b>	<b>223</b>	<b>111</b>
Total expenses	<i>mIn EUR</i>	260	238	109
Operating profit/loss	<i>mIn EUR</i>	4	-13	-
<b>Net profit/loss</b>	<i>mIn EUR</i>	<b>2</b>	<b>-18</b>	<b>-</b>
<b>EBIT</b>	<i>mIn EUR</i>	<b>5</b>	<b>-15</b>	<b>-</b>
EBITDA	<i>mIn EUR</i>	24	6	393
EBIT margin	%	2.1	-1.0	-
Efficiency ratio		1.0	0.1	-
Current ratio		1.7	1.9	90
Debt ratio		1.0	0.9	101
Investment ratio		12.2	14.7	83
Total asset ratio		1.1	1.0	116
ROA	%	1.0	-8.3	-
ROE	%	15.6	-	-
Unit operating cost	<i>EUR/ATK</i>	1.2	1.2	100
Unit operating revenue	<i>EUR/ATK</i>	1.2	1.1	108
Passenger yield (passenger revenue)	<i>€cent/RPK</i>	16.1	15.2	106

## Productivity indicators

Productivity Indicators	2023	2022	Index 23/22	Index 22/21
Employees (tkm/employee)	142,524	121,140	118	234
Aircraft (BH/day)	8.8	8.3	106	129
Fuel (tkm/tonne)	2,289	2,189	105	83

## Croatia Airlines in 2023 – introduction

As the national flag carrier, Croatia Airlines has a strategic role in Croatia's traffic infrastructure, which proved to be particularly crucial during the coronavirus pandemic, given the Company's contribution to the maintenance of traffic connectivity vital for both the country's economy and citizens in the period when foreign carriers suspended their operations (at the crisis onset). In more than 34 years of existence and provision of transport services, Croatia Airlines has been connecting Croatian cities with major European destinations, 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 2023, its share capital amounted to EUR 92,387,953 and was divided into 92,387,953 ordinary shares with the nominal value of EUR 1.00 each.

The table below provides an overview of the Company's major shareholders as at 31 December 2023:

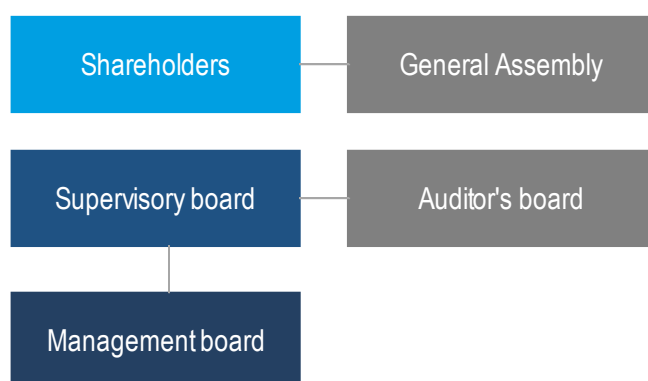
Top 10 Shareholders	No. of shares	Portion in the share capital (in %)
REPUBLIC OF CROATIA	91,610,821	99.159%
AIRPORT ZAGREB D.O.O.	477,121	0.516%
HPB FOR THE REPUBLIC OF CROATIA	173,768	0.188%
JANAF D.D.	22,000	0.024%
CROATIALOTTERY D.O.O.	4,000	0.004%
PRAGUSA ONE LTD	3,682	0.004%
HP D.D.	2,750	0.003%
TURISTHOTEL D.D.	2,090	0.002%
TANKERKOMERC D.D.	2,090	0.002%
OTHERS	89,631	0.097%
TOTAL	92,387,953	100.000%



## Company's management structure and organisation

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

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



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

The third sphere comprises commercial activities, i.e. sales and marketing, user and operational

support, acquisitions, and network and revenue management.

Pursuant to the Company's Articles of Association, the Company's Management Board has at least one and a maximum of three members, while the Supervisory Board has five members, one of whom is the representative of employees. The Management Board is chaired by Jasmin Bajić, and the Supervisory Board by Zlatko Mateša. In 2023, Croatia Airlines' Supervisory Board accounted for four members.

### Foreign branch offices

Croatia Airlines has six foreign branch offices: Brussels – Belgium, Frankfurt – Germany, Paris – France, Sarajevo – Bosnia and Herzegovina, Skopje – North Macedonia, and Zurich – Switzerland.

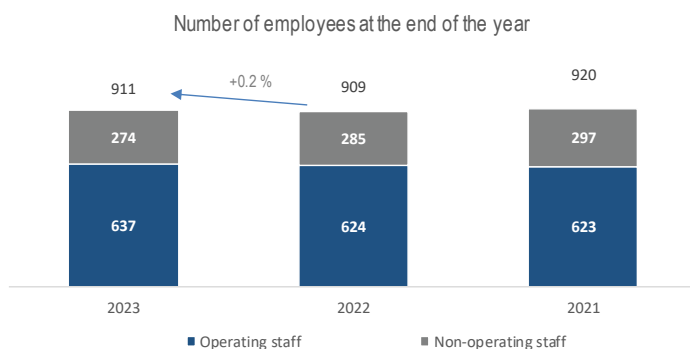
Pariz	France	Frankfurt	Germany	Zürich	Switzerland
<b>Address:</b>	Roissypôle Le Dôme, 1 Rue de la Haye BP 18913 Tremblayen France 95731 Roissy CDG Cedex	<b>Address:</b>	Kaiserstrasse 7 60311 Frankfurt a.M.	<b>Address:</b>	Letzigraben 154, 8047 Zurich

Bruxelles	Belgium	Skopje	North Macedonia	Sarajevo	Bosnia and Herzegovina
<b>Address:</b>	Tribes Brussels Central Station, Koloniënstraat 56 1000 Brussel - België	<b>Address:</b>	Skopje International Airport 1043 Petrovec - Skopje	<b>Address:</b>	Sarajevo Airport Ul. Khurta Schorka 36, 71 210 Sarajevo

## Human resources

On 31 December 2023, the Company had 911 employees, including the locally employed staff at its branch offices, i.e. two (+0.2%) more than at the end of 2022. On 31 December 2023, the Company had 16 posted workers – assistant mechanics in the technical sector, hired for aircraft maintenance purposes.

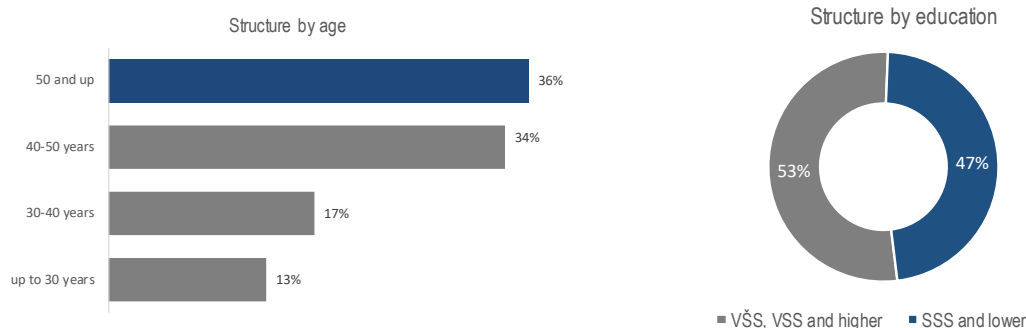


At the end of 2023, the Company had 13 (+2%) **operative staff member** more, and 11 (-4%) **non-operative staff members** fewer compared to the end of 2022. The share of operative staff members<sup>1</sup> within the Company was 70%, while that of non-operative staff was 30%.

In 2023, the Company started preparations for the introduction of the new type of aircraft, A220, into the fleet. In order to match its needs and goals with the current workforce and the timely introduction of new aircraft into the fleet, it recruited additional employees to its operations and technical sectors, adjusted its internal Training Rules and made training arrangements for the type of aircraft, A220. It is forming new organisational units and positions to be filled amidst these changes, and investing a lot of effort into adapting its internal rules and processes to the new aircraft type.

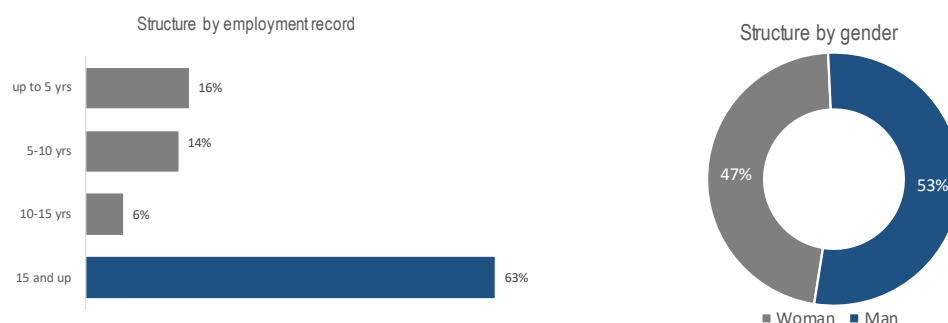
As a pillar for further developing human resources, the Company continued employing younger people, and in 2023 the share of employees up to 30 years of age rose by 1% compared to 2022.

According to the educational structure, 53% of employees held either an associate or a university degree, with the average age of employees being 44 years.



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

In terms of gender structure, men were somewhat more represented (53%).



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

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

#### Training investments and programmes

Croatia Airlines boasts three employee training centres:

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

In 2023, a total of 6,209 hours of internal training were provided to Company employees, which is 17% more compared to 2022. All Company employees received training.

Investment in education (EUR)	2023	2022	Index 23/22
Operative staff	952,021	687,391	138
Non-operative staff	109,622	64,836	169
<b>Total</b>	<b>1,061,643</b>	<b>752,228</b>	<b>141</b>

In 2023, Croatia Airlines' **Technical Training Centre** continued its active cooperation with the Croatian Civil Aviation Agency concerning the issuance and extension of PART-66<sup>2</sup> licences.

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

When it comes to PART-147<sup>3</sup> and PART-145<sup>4</sup> training, all of the planned training courses and preparations for the introduction of the new aircraft type, Airbus A220, were completed.

As for the training prescribed by the PART-145 regulations, with the start of the maintenance works season the Company initiated commercial On-the-Job Training in order to enter the first aircraft type in the AML PART-66 licence, implemented in a PART-145 organisation during the maintenance works season, so the attendees participate in required man-hour aircraft maintenance. The Technical Training Centre's OP-STP-029 Airside Operations Training Manual that defines training in line with the PART ADR regulations came into effect. It was adopted by Zagreb International Airport together with related certificates.

With the epidemiological measures having been lifted in late 2022, the **Operations Training Centre** carried out all of the planned initial training courses, mandatory refreshers, as well as aircraft, simulator and ground check-ups in 2023, enabling the Company to extend all authorisations and licences necessary for its employees to perform their activities. The Operations Training Centre held the envisaged training courses and refreshers throughout 2023, all in a timely manner, with minor adjustments for operative reasons, namely long-term sick leaves and simulator defects.

The Croatian Civil Aviation Agency carried out several audits and inspections for the purpose of implementing on-going supervision of activities performed by the Operations Training Centre at Croatia Airlines' premises, on both the simulators and scheduled flights of Croatia Airlines' aircraft. The results showed an enviable level of compliance with the prescribed standards. A number of inspections of simulators and instructors' work were carried out in accordance with the provisions of the OM-D & Quality Inspection Orders for the purpose of monitoring and raising the quality of their work.

In 2023, the internal training courses for non-operative staff comprised the usual training related to auditor refreshers, dangerous goods handling procedures, initial training courses and refreshers related to passenger reservations, tariffs and ticketing, but also those for specific employee categories, so that they could be empowered with specific knowledge related to fraud and counterfeit prevention, and become competent in basic ALTEA DCS functionalities. The Company also held a series of training courses for employees of Pula, Dubrovnik and Zadar airports, pertaining to international airline ticketing procedures.

As the national flag carrier, Croatia Airlines organises within its Training Centre various training courses needed by travel and commodity agencies for the IATA licence acquisition, training courses for airport employees, freight forwarders and airline companies. In 2023, the Company held courses related to reservations, tariffs and ticketing for external associates, employees of IATA travel agencies and young people looking to better position themselves in the labour market.

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, by nourishing its own know-how the Company reduces dependence on external resources and promotes its corporate culture and business strategy.

---

<sup>3</sup> PART 147 Maintenance Training Organisation

<sup>4</sup> PART 145 - Maintenance Organisation

**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), and in the winter for aircraft maintenance needs (auxiliary technical staff). Temporary substitutes or vacancies in the periods of peak workload are settled through fixed term contracts.

Administrative employees still have the flexibility regarding their workday start and end times: between 7 am and 9 am, and between 3 pm and 5 pm.

Sales representatives and managers, whose activities comprise Internet and telephone sales, customer service employees and ticketing service employees are allowed to work remotely for the most part of their work hours. Furthermore, all employees working on the same schedule in other positions enabling remote work can opt for it two days a week so as to balance their private life and business activities in an adequate manner. In this way, the Company is attracting and hiring younger generations.

In order to mitigate the negative impact of inflation on employees' real income in 2023, the Company paid them out one-off support (on two occasions) at the beginning of the year, and as of 1 April it increased salaries by 10% (with a significant increase of the lowest ones). All these measures were implemented based on the Management's decision, although they were not part of the collective agreement currently in force.

Croatia Airlines pays special attention to employee health, and regularly organises on-site flu vaccination and dermatological examinations.

The Company also grants its employees a day off on their children's first day of school – the First-graders' Day.

**Benefits and supports**

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

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

Furthermore, the Company pays out jubilee rewards to the employees marking 25 years of service. A total of 34 employees received this reward in 2023.

### Occupational safety, fire protection and environmental protection

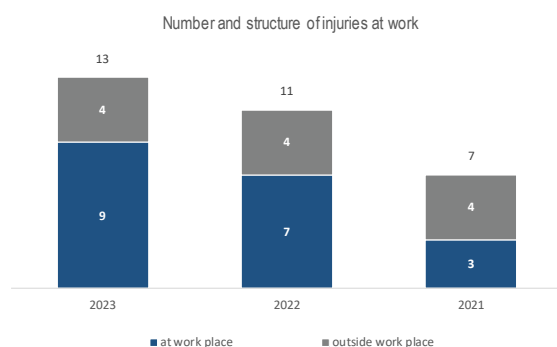
The organisation of occupational safety, fire protection and environmental protection is prescribed by the relevant legal regulations and the Company's internal rules.

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.

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

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

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



In 2023, no inspection control was carried out in the sphere of occupational safety, fire protection and environmental protection.

Altogether 13 injuries at work were reported in 2023 (nine women and four men). Of those, 11 were acknowledged by the Croatian Health Insurance Institute, and two are still pending. Nine injuries were sustained at work, and four while commuting. There were neither cases of death related to injuries at

work nor professional illnesses.

### Protection of employees' dignity

For the purpose of protecting its employees' dignity, the Company prescribed the Complaint Receipt and Settlement Procedure and appointed two persons (one male and one female) to receive and handle complaints related to this issue. There was one such complaint in 2023, which was resolved.

Pursuant to the adopted Action Plan for the Promotion and Establishment of Gender Equality, the Company carries out analyses, on an on-going basis, of the position and number of both its female and male employees. It also regularly adopts a plan for the promotion of gender equality, in line with relevant legal requirements. In 2023, 53% of the Company's workforce was male, while 47% was female.



**Personal data protection**

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

**Employees and Management relations**

There are six labour unions within the Company – Croatian Union of Air Traffic Pilots, Union of Engineers and Technicians in Aviation, Independent Professional Union of Croatian Aeromechanics, Air Cabin Staff Union, the Independent Croatian Union of Airline Employees, and ORCA – Croatia Airlines' Employees Organisation, whose members are pilots, cabin crew staff and aeromechanics, and workers represented by the New Union, which represents them in collective bargaining matter, alongside the Independent Croatian Union of Airline 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. Representatives of the Human Resources department also attend Works Council meetings from time to time, to contribute their reports and advice. When needed, the Chairman of the Board and other sector managers are summoned to participate in such meetings. As face-to-face meetings were avoided during the COVID-19 pandemic years, a workers' gathering was held in May 2023 in order to improve direct communication between the employees and the management. Furthermore, meetings with labour union representatives and employees from individual sectors are held on a regular basis, for the purpose of getting familiarised with the goals of individual organisational units and expected tasks and objectives.

## Social responsibility

### Transport and tourism

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

The significance of connecting domestic airline destinations and maintaining traffic within Croatia has also been recognised by the Government of the Republic of Croatia time and again. Following a public tender, and pursuant to the relevant decision of the Government of the Republic of Croatia, in 2022 the Ministry of the Sea, Transport and Infrastructure and Croatia Airlines entered into a contract on the provision of scheduled air transport services in the period from 4 July 2022 to 28 March 2026 on the following domestic routes: Dubrovnik-Zagreb-Dubrovnik; Split-Zagreb-Split; Zagreb-Zadar-Pula-Zadar-Zagreb; Zagreb-Brač-Zagreb; Osijek-Dubrovnik-Osijek; and Osijek-Split-Osijek, for the purpose of maintaining the traffic connection between the regions and boosting the economic development of the Republic of Croatia.

### Croatian brand

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, on 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. It is important to note that the brand is mostly created in-house, by the Company's very own experts. As a member of Star Alliance, the world's biggest airline association, the Company is obligated to apply both the Croatia Airlines and Star Alliance logos in its promotional materials. 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 efficiency. The Croatian flag makes the basis of the Company's identity, and the 'Croatia' logo on its aircraft is exceptionally important as it promotes the country throughout Europe.

Within the project called Inspired by Croatia, Croatia Airlines offered its passengers quality meals promoting the country's cuisine based on traditional recipes and ingredients. In cooperation with the Zagreb Tourist Board, from 1 December 2022 to 31 March 2023 it offered its passengers meals inspired by Zagreb, titled the Zagreb Snack, and promoted the country's capital through leaflets and films featured on flights. In the period from 1 April to 31 July 2023, in cooperation with the Croatian National Tourist Board, the Tourist Board of Split and the Tourist Board of the Split-Dalmatia County, the Company offered its passengers meals inspired by Dalmatia, titled the Dalmatian Snack. In cooperation with the Croatian National Tourist Board and the Kvarner Region Tourist Board, from 1 August to 30 November 2023 Croatia Airlines promoted The Flavours of Kvarner. Owing to the cooperation with the Zagreb Tourist Board, passengers flying Croatia Airlines in the period from 1 December 2023 to 31 March 2024 could revel in the Zagreb Snack again.



The airline's inflight magazine Croatia<sup>5</sup> has a great role in the Company's visual corporate identity, as well as in promoting the country. It is a recipient of the Marco Polo award for Croatia's best tourism promotion magazine. It places emphasis on the country's stunning nature, historical values and cultural events. In cooperation with the Croatian Tourist Board and local tourist boards, the Company publishes advertisements and articles in the magazine, while films promoting various Croatian regions are shown on Airbus flights. Its summer edition was dedicated to health tourism, whose significant potential can expand the demand to winter months.

Croatia Airlines actively supports sports in Croatia. In 2023, it was again the official airline of the Croatian Olympic Committee, Croatian Paralympic Committee and the national football team, thus contributing to the country's promotion and visibility throughout the world.

#### Support for the community

Croatia Airlines regularly makes donations and sponsors various cultural, scientific, sports and other events. It actively supports institutions in need of humanitarian aid and those organising charity projects. It provides help and direct aid by granting cost-free transport for severely ill patients, children and people in need, and participates in charity actions and educational projects by donating transport services.

#### Business ethics

The Company has an ethics 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. In 2023, it made amendments to the Rules of Conduct for the committee monitoring the application of the Ethics Code with a view to increasing the transparency and speeding up the implementation of the related processes. The committee has three members (employees).

In line with the requirements under the Whistleblower Protection Act, the Company's Management Board appointed a confidential person and a deputy confidential person responsible for receiving complaints about breaches of the law and other serious wrongdoings.

#### Environmental protection

In 2023, the Company recorded a further improvement of performance indicators, including more favourable energy consumption and environmental protection indicators compared to the pandemic years. Although it has not reached the 2019 performance level overall (by all indicators), the trends are positive and 2024 is expected to be the year of full recovery of the airline industry (as stated on a number of occasions by global industry experts).

In 2023, Croatia Airlines' experts participated in activities of many domestic and international working groups in order to adapt the Company's future operations to the new environmental framework, the EU's Fit for 55 package of legislative proposals, implemented in the second half of 2023. For the aviation industry, this marked the beginning of a period of ambitious strive to reduce CO<sub>2</sub> emissions in the EU and reach carbon neutrality by 2050. Just like many global carriers, Croatia Airlines stated its

<sup>5</sup> Published four times a year, at every turn of the season

commitment to achieve net-zero carbon emissions by 2050, by adopting IATA's and Star Alliance's resolutions and policies aimed at meeting this long-term goal.

Aviation fuel suppliers' obligation (at EU airports) to incorporate 2% SAF (Sustainable Aviation Fuels) in 2025, and increase this percentage gradually to reach 70% in 2050 is the most important element of the aforementioned package. Furthermore, as of 2026 aircraft operators will no longer be entitled to free emission allowances, which will increase the purchase costs. New elements intended for measuring and offsetting will be introduced, such as NO<sub>x</sub>, CO, water vapour, and particles, thus moving towards clean technologies and technical solutions. In order to additionally lower the emissions level, as of 2025 the tankering practice (carrying more fuel than required, to cover the return flight) will be reduced to 10% of flights between two EU airports. More detailed parameters concerning the implementation of this measure will be prescribed in 2024. Also pending is a revision of the Energy Taxation Directive, which could bring additional financial burden stemming from the use of energy (of all forms) in air traffic.

Furthermore, a regulatory obligation to prepare infrastructure for the use of hydrogen will be introduced as well, which, along with SAF and electricity, is considered one of the pillars of emissions reduction in air traffic.

Croatia Airlines' firm commitment towards reducing emissions is reflected in its decision on fleet renewal as of 2024.

Croatia Airlines continued participating in the emissions measurement, reporting, verification and trading schemes, and successfully met all obligations related to EU ETS, CH ETS, UK ETS and CORSIA systems, as well as individual obligations in destination countries.

A supervisory audit of compliance with the ISO14001/50001 standards regarding environmental protection and energy consumption was also carried out in 2023. The Company continued using electricity from a renewable, environmentally-friendly source – HEP ZelIN.

In the upcoming period, the Company will intensify implementation of the 'Fit for 55' legislative package, replace the fleet of old Airbus and Q400 aircraft with new Airbus A220, and continue to cooperate with industry organisations and regulatory bodies. The fleet renewal will take place in the period from 2024 to 2027. When making the decision, a special focus was placed on the trends in the highly competitive airline market, fuel prices and CO<sub>2</sub> emissions, EU green policy objectives, and passenger needs. With the new Airbus A220 fleet, Croatia Airlines will become an environmentally friendly carrier, and should significantly reduce fuel consumption and CO<sub>2</sub> emissions (by some 25%), the costs of which, given the latest trends in the oil and oil derivatives market, are becoming a major expenditure item.

Furthermore, the Company plans to replace its vehicles with electric ones at Croatia Airlines' terminals at airports and in the Technical Sector.

More detailed information about the Company's sustainable development and environmental protection is contained in its Non-financial Statement on the Company's website: <https://www.croatiaairlines.com/company/corporate-governance>.

## Business advancements and projects

In 2023, Croatia Airlines continued advancing its business operations and developing customer services.

The project of design, development, integration, migration of entire contents and maintenance of its corporate website and billing system continued in 2023, and its 4<sup>th</sup> and 5<sup>th</sup> phases included implementation of a B2B portal and a user profile for the payment of orders via a stored token and tokenization. The project was completed in September 2023. Furthermore, a new payment method, via the Keks Pay application, was introduced on 1 June 2023.

The Company is actively engaged in developing and implementing **additional services**, and the Time to Think service is in its final implementation phase. It has been implemented offline, and will soon be available online. This functionality will allow our online customers to pay a fee and keep the ticket they have booked for a certain period to get some time to plan their trip. The Company's seat charging offer has been expanded through the implementation of the Chargeable Seat service with the Global Distribution System – Sabre.

In order to offer an even better and more complete service, Croatia Airlines is introducing seat selection at a fee on its partners' flights as well. In April, it implemented iEMD<sup>6</sup>, interline seat charging, with LH Group. It activated Interline Electronic Ticketing with its partners Air Dolomiti (in early June), EW Discover (in early September), and Deutsche Bahn (in the second half of September), thus expanding its service to rail travels to certain destinations in Germany, as well as to Brussels, Amsterdam and Zurich. IET with the partner Flydubai is in the final stage, and should be implemented by the end of January 2024. Upon exchanging documentation and completing the tests on the level of service providers in November 2023, IET is expected to be tested with the partner APG Connect as well. APG Connect is a distribution system for IET, intended for IATA and non-IATA travel agencies as a platform for issuing, changing and refunding airline tickets for more than 100 companies world-wide. Moreover, the Company is testing the STAR Cross Sell of Seats with its partner United Airlines, which will enable it to sell seats within the interline scenario as well.

Croatia Airlines also intensified activities within the project of charging baggage through the Departure Control System (DCS), making it possible to charge excessive carry-on baggage (in terms of number or weight) straight at the gate.

As part of its partner cooperation with Europcar, since June 2023 Croatia Airlines has been offering its passengers a car rental booking service via a link on its website, thus unifying both services in one place. In cooperation with Amadeus, the same service was implemented in November 2023 on the Confirmations page and My bookings page.

During the year, Croatia Airlines carried out preparations for ISO 27001 certification. The project's aim is to bring the safety of the IT system (organisational and technological measures) in compliance with the requirements of ISO 27001 and verify the compliance through the certification process. An information security management system compliant with ISO/IEC 27001 helps organisations manage the security of their resources, such as financial information, intellectual property, employee data or third party information. The

---

<sup>6</sup> EMD (electronic miscellaneous document)

very certification in accordance with the standard will take place in the first quarter of 2024.

The AMOS Airline/MRO Edition project refers to the implementation of a new, comprehensive software solution designed to optimise and streamline the maintenance and engineering operations of airlines. Relying on the advanced features and functionalities of the AMOS software, Croatia Airlines aims to improve its maintenance procedures and overall operational efficiency. AMOS is a globally recognised leading solution in aircraft maintenance, and by implementing it Croatia Airlines would adapt to the best global practices and get to offer the world-class know-how when it comes to aircraft maintenance. Top-notch functionalities will boost the management efficiency of maintenance, engineering and logistics activities of Croatia Airlines' fleet to increase aircraft availability. The AMOS software package will provide Croatia Airlines with full-scale functionality and support the strategic renewal of the fleet into a completely new A220 fleet by offering advanced options for aircraft phase-in and phase-out. The project, which was initiated in June 2023, will have several stages and is expected to last two years.

On 25 September 2023, Zagreb Airport, Havas Ground Handling Services, Croatia Control and the flag carrier Croatia Airlines signed a partnership agreement on the project of setting up A-CDM (Airport Collaborative Decision Making) at Zagreb Airport. A-CDM is a global concept of cooperation of airport stakeholders/partners that involves timely exchange of information and application of adapted procedures and tools. Its application will optimise the use of available resources, ensure better planning and improve the overall operational efficiency of Franjo Tuđman Airport, for the benefit of all stakeholders.

## 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. In 2023, the global economy continued to be confronted with enormous challenges resulting from Russia's invasion of Ukraine and the soaring cost of living caused by ever-growing inflationary pressures. The intertwining crises led to an economic growth slowdown due to the aggravating consequences of the war in Ukraine, supply chain disruptions, energy crisis, and high inflation. An escalation of war in Israel in the final quarter of 2023 and its possible spreading to the surrounding countries is an additional threat.

In its October outlook, the International Monetary Fund (IMF) pointed out mitigated financial risks and a gradual recovery from the pandemic crisis and the consequences of the war in Ukraine. Global economy should see a 3.0% growth in 2023, 0.2 pp up from the IMF's forecast released in April.<sup>7</sup> In 2022, global economy recorded a 3.5% growth. Inflation should gradually let up owing to declining food and energy prices, although at a slower pace than initially expected, from 8.7% in 2022 to 6.9% in 2023.

The resolution of the dispute over the increase of the U.S. debt ceiling and strict governmental measures taken in the first half of the year, which mitigated disruptions in the USA and the Swiss banking sector, reduced the risk of turmoil and slowdown in global economic growth. However, the main risks to the global growth remain high. Inflation could remain high or even rise further if new shocks should occur, including those stemming from intensified war operations in Ukraine and extreme weather, which necessitates more restrictive monetary policies. Achieving sustainable disinflation while ensuring financial stability remains a priority in most economies.

The IMF puts the U.S. economy growth at 2.1% in 2023, and that of China at 5.0%. Growth for the eurozone is estimated at 0.7% only, with the emerging markets and developing economies expected to expand by 2.4%.

### Croatia's economy

According to the IMF's outlook by countries released in October 2023, Croatia's economy should expand 2.7% in 2023.

The country's inflation is seen to reach 8.6% in 2023, unemployment rate is estimated at 6.3%, and the current account balance will record a deficit of 0.2% of GDP.

According to the first estimates of the Croatian Bureau of Statistics, Croatia's real GDP rose by 2.8% in 2023 year-on-year.<sup>8</sup>

The calendar-adjusted data say that Croatia's industrial production in 2023 declined by 0.9% compared to 2022.<sup>9</sup> Its real retail trade increased by 3.7% compared to 2022.<sup>10</sup>

<sup>7</sup> IMF, World Economic Outlook, October 2023

<sup>8</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: First estimate of quarterly gross domestic product for the fourth quarter of 2023, 1 March 2024

<sup>9</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Industrial production volume index and indices of stocks, persons employed and labour productivity in industry, in December 2023, 12 February 2024

<sup>10</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Retail trade in December 2023, 12 February 2024



Consumer price inflation accelerated gradually in 2023, and the inflation rate in Croatia averaged 4.5% in 2023.<sup>11</sup>

According to the Croatian Bureau of Statistics, the number of persons in employment rose by 1.3% compared to 2022, and Croatia's registered unemployment rate was 6.5% in December 2023 (8.6% in December 2022).<sup>12</sup>

The first results published by the Croatian Bureau of Statistics say that the country's foreign trade deficit reached EUR 16.5 billion in 2023, with the total value of exports being EUR 22.8 billion, and of imports EUR 39.4 billion. The import-export ratio was 58%.<sup>13</sup>

Revenues from tourism have an exceptionally high share in Croatia's GDP, and the 2023 tourist season showed that the current geopolitical circumstances did not affect tourist flows. The tourism results almost came close to the pre-pandemic levels and the record year of 2019, with Croatia being recognised as one of the most sought-after destinations in Europe.

Tourism figures say that 19.5 million tourist arrivals and 92.4 million overnight stays were recorded in 2023, which is a 9.7% rise in arrivals and a 2.6% rise in overnight stays compared to 2022.<sup>14</sup> The year of 2023 saw 7.6% more local tourist arrivals and 10% more foreign tourist arrivals. When it comes to overnight stays, a 4.7% growth is contributed to local tourists, and a 2.4% growth to foreign ones. As for the overall tourist arrival structure, there were 86.5% foreign tourists and 13.5% local ones, and as for overnight stays, the ratio was 91.2% to 8.8% in favour of foreign guests.

Most tourists came from Germany, Slovenia, Austria, Poland, Czech Republic, Italy and the United Kingdom.

#### Global airline market

After the record losses suffered by the airline industry over the preceding couple of years as a result of the coronavirus pandemic and related travel restrictions, in 2023 the global airline industry recorded a significant recovery of demand, with passenger figures gradually nearing the 2019 levels.

According to IATA's estimates from December 2023, passenger transport expressed in revenue passenger kilometres (RPK) rose some 36.9% in 2023 year-on-year, reaching about 94% of the 2019 level<sup>15</sup>. Some 4.3 billion passengers were carried, which is 23% more than in 2022 and 5% less than in 2019<sup>16</sup>. Despite the challenges faced, in particular the wars in Ukraine and in the Middle East, air passenger traffic across the regions continues to recover. Globally, the industry is projected to recover fully by the end of 2024, with Asia Pacific likely to see the fastest growth in passenger traffic.

<sup>11</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Consumer price indices in December 2023, 12 February 2024

<sup>12</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Persons in paid employment, by activities, in December 2023, 12 February 2024

<sup>13</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Foreign trade in goods of the Republic of Croatia, temporary data for the period from January to November 2023 and for January to December 2023, 12 February 2024

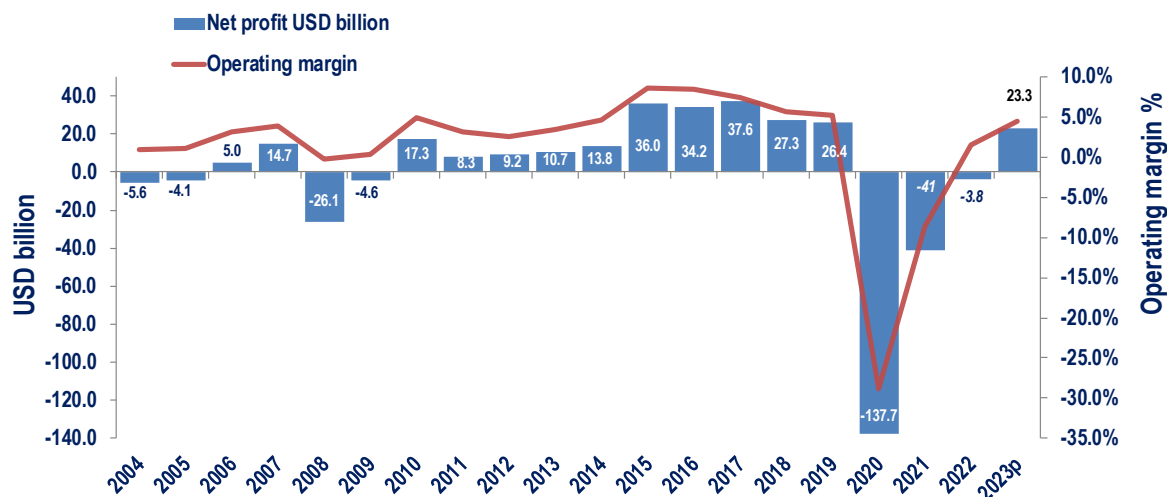
<sup>14</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Tourist arrivals and overnight stays in commercial accommodation in December 2023, 1 March 2024

<sup>15</sup> IATA 2023 saw a stellar industry-wide performance, February 2024

<sup>16</sup> IATA Global Outlook for Air Transport, December 2023

Following the biggest crisis in the history of the airline industry, with its overall net losses totalling \$185.5 billion in the period from 2020 to 2022, IATA's projections from December 2023 say that air carriers should in 2023 post a net profit of \$23.3 billion, with revenues reaching \$896 billion. However, with a net profit margin of 2.6%, a modest net profit per passenger of \$5.44, and ROIC of 4.7% (significantly below the cost of capital) in 2023, the industry is still characterised by exceptionally low profitability.

### Profitability of global airline companies



Source: IATA, December 2023

#### European airline market

Despite the various capacity issues and supply side constraints faced by the European airline market in 2023, IATA expects European carriers to generate a net profit of \$7.7 billion in 2023 (their net profit in 2022 totalled \$ 4.1 billion), with passenger transport expressed in revenue passenger kilometres (RPK) being 7% lower compared to 2019.

The key risks to the European airlines' performance in 2023 were related to the tight labour market, the war in Ukraine and in the Middle East, and ongoing concerns about the economic outlook in some key countries inside and outside of the European region.

#### Croatian airline market

Croatia's airline market is characterised by the pronounced seasonality of demand, with a high level of competition in the summer months. Under normal circumstances, more than half of all passengers on the Croatian airline market are transported in the third quarter, when nearly 100 airlines operate, while the competition in the winter period is significantly lower. Croatia Airlines operates throughout the year, offering air traffic services to Croatian citizens and enabling local airports to be open year-round, which points to its significant influence on operations of other entities within the air traffic system, and synergy effects on the entire economy, especially tourism. It should also be noted that Croatia Airlines, as the national flag carrier, grants airline connection both within the country and with the rest of the world during the winter, when the demand is low.

According to the data of the Croatian Bureau of Statistics, in 2023 Croatian airports recorded 11.27 million passengers, which is 15% more compared to 2022, but still 1% less than in 2019.<sup>17</sup> Croatia Airlines' share in passenger transport in 2023 was 18.4%. With 124,118 aircraft operations in 2023, local airports topped the 2022 result by 4.9%, but still failed to reach the 130,000 recorded in 2019. Cargo transport saw a 5.9% decline, with a total of 9,224 tonnes of cargo being transported.

**Croatia Airlines**

Croatia Airlines kept increasing frequencies and reintroducing certain routes in 2023.

In 2023, Croatia Airlines' aircraft operated a total of 25,977 flights, or 11% more than in 2022, with the block time of 36,213 block hours also topping the preceding year by 11%. Having transported a total of 1,733,529 passengers, or 19% more than in 2022, the Company increased its share in the Croatian market, as the local airports saw a 15% rise in passenger figures in 2023. The realised passenger kilometres rose by 18%, with the passenger load factor (PLF) being 65.3%, i.e. 3.3 pp higher than in 2022. The number of passengers in domestic scheduled traffic rose by 16%, and of those in international scheduled traffic by 20% compared to 2022. Given the traffic results, passenger traffic is evidently getting back on track after the period of crisis caused by the coronavirus pandemic.

With the aim of creating an even better-quality and more competitive air transport offer in the Republic of Croatia, in early October 2022 Croatia Airlines reached a decision to start with a fleet renewal process, i.e. to replace its existing aircraft with a new, uniform fleet, all in line with its Post-COVID Strategy adopted in August 2021. With a single-type aircraft fleet, Croatia Airlines will simplify its processes and improve its operating and financial results. It will become even more environmentally friendly and significantly reduce fuel consumption and CO<sub>2</sub> emissions, the costs of which are a major expenditure item.

In 2023, the Company intensified activities related to the procurement and introduction of the first new A220 aircraft into the fleet as of 2024, in line with Croatia Airlines' Post-COVID Strategy.

In early 2023, it entered into an operating lease contract for six Airbus A220 (four A220-300 and two A220-100) with Air Lease Corporation. On 30 October 2023, it finalised arrangements for an operating lease of three Airbus A220 with lessor Azzora. In the second half of December 2023, it arranged for the financing of six A220 with Griffin Global Asset Management. The six aircraft were ordered directly from Airbus, as part of an annex to the contract dating from 2008. The financing refers to prepayments and operating lease of the six aircraft. By concluding the said lease contracts in 2023, it finalised the activities related to the procurement of 15 aircraft, 12 of which should replace the existing fleet, while three would serve as additional units in Croatia Airlines' fleet, expected to account for fifteen A220 aircraft in 2027, as envisaged by the Post-COVID Strategy.

Furthermore, in 2023 the Company effected the sale and leaseback of its own Airbus aircraft to ensure the flexibility needed for the implementation of the fleet renewal plan, and transferred the risks related to the disposal of non-airworthy aircraft to the lessor. The related funds will be used for the purchase of spare engines for the A220 fleet.

<sup>17</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Traffic at airports in December 2023, 12 February 2024



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

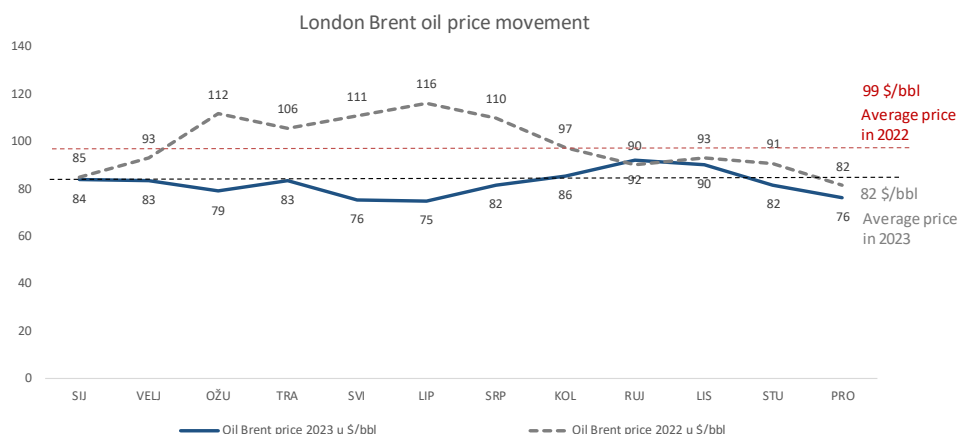
Within the implementation of the risk management process, major risks have been recognised according to their potential influence on Croatia Airlines' business operations, and the monitoring of these risks should help mitigate potential negative consequences and turn risks into opportunities whenever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

Although the air traffic scope has not yet reached the levels recorded in the pre-crisis year of 2019, it is picking up and should return to the pre-pandemic level in 2024. The business operations of air carriers in 2023 were exposed to a number of major risks, and keeping the balance between various factors and responses to individual risks became more complicated. Fuel and emission allowance prices, and inflation, were the main risks that affected Croatia Airlines' operations in 2023, while a strong increase in sales revenue and a stable cash balance level reduced the liquidity risk. Along with mitigating potential negative consequences of these risks, Croatia Airlines was focused on further implementation of its Post-COVID Strategy.

**Fuel**

Croatia Airlines' increased block time by 11% and fuel procurement by 12% in 2023 year-on-year; however, the costs were 12% lower compared to the same period. The stable fuel price during the summer season, when Croatia Airlines accounts for the greatest number of operations due to seasonality, i.e. until September, had a favourable effect on the fuel costs compared to 2022.

The average Brent oil price on IPE London was 82 \$/bbl in 2023, or 17% lower than in 2022. It was relatively stable until July, when it rose sharply to top 92 \$/bbl in September, before dropping below 80 \$/bbl at the end of the year, despite the instabilities in the Middle East.



#### Emission allowance price

In the summer of 2021, the European Commission presented the Fit for 55 package of proposals for making the EU's climate, energy, taxation and other policies fit for reducing greenhouse gas emissions by at least 55% by 2030, from the 1990 levels. The same goes for the air traffic. The implementation of the Fit for 55 package through ReFuelEU represents a new challenge for European airlines, since starting from 1 January 2026 they will no longer be entitled to free emission allowances, and will be obligated to purchase SAF (sustainable aviation fuels) as of 1 January 2025 and start to monitor NOx and So<sub>2</sub> emissions in addition to CO<sub>2</sub>. The aggravating circumstance for the Croatian market is the fact that the Republic of Croatia will not be producing SAF in the country for the time being, as the project will be implemented on the level of MOL Group. There is a scarcity of SAF for import, and a lack thereof on both the European and global markets. What worries is the fact that feedstock for SAF production has to be imported to the EU.

Croatia Airlines continues with relevant preparations and adjustments related to supply and introduction of novelties in cooperation with all market stakeholders, being aware of the fact that emission allowances in both the primary and secondary markets are exceptionally prone to volatility. Croatia Airlines currently gets slightly over 50% of free emission allowances, and purchases the rest in the OTC market. It expects a gradual reduction of free emission allowances in 2024 and 2025, which will affect the growth of related costs in these years, with the risk of their prices rising being already present. In the emissions primary market (EEX), the average price of emission allowances was 83 EUR/t in 2023, and 81 EUR/t in 2022. Since the start of the first purchase in 2013, their price rose from EUR 2.9 to EUR 80-90 per allowance at present.

To mitigate the risk of allowance price volatility, the Company purchased allowances for 2023 in November and December 2023 at a significantly lower price compared to that in April, when it had purchased allowances for 2022.

#### Labour shortage in the aviation industry

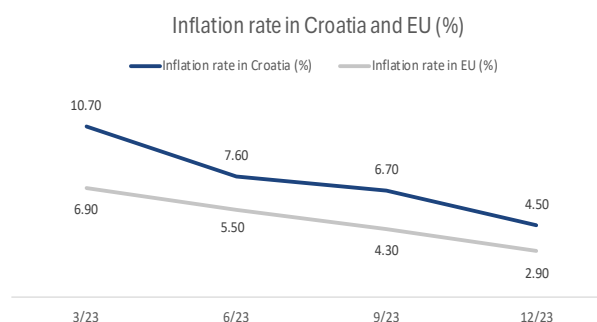
With a traffic scope increase at European airports, labour shortage in air transport during the pre-season and the main summer season is among the biggest short-term risks. This primarily refers to labour shortage at airports (check-in, baggage loading and

unloading, general passenger and aircraft handling), and there is a usual lack of air traffic control workers, which causes take-off and landing delays. When the summer flight schedule was in effect, certain airports introduced limitations on the number of flights and passengers, and many prolonged the passenger handling processes, which could have affected the service quality.

Croatia Airlines had enough operative transport staff in the summer season of 2023, but the big problems at major European airports caused by the shortage of staff, mainly air traffic controllers, represented a risk for the Company and led to traffic disruptions and related costs, especially in the summer season. This risk was reduced in the winter season, as the traffic scope at airports declined.

#### Inflation risk

The inflation rate in the European Union dropped from the initial 9.2% in December 2022 to 2.9% in December 2023. Croatia's inflation rate followed the European Union trends (but on a somewhat higher level) and fell from 13.1% in December 2022 to 4.5% in December 2023. Although it is letting up further, there is still uncertainty as to the further movement of prices of goods and services and their impact on the Company's costs.

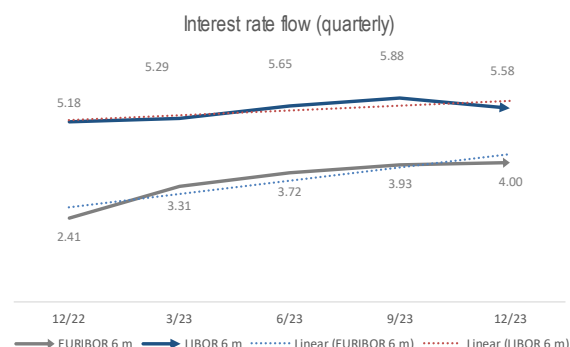


#### Credit rating

In 2023, Croatia's credit rating improved from BBB+ with stable outlook to BBB+ with positive outlook, as affirmed by all three major agencies (Fitch Ratings, Moody's and Standard & Poor's). Besides the country's macroeconomic and fiscal stability, its credit rating was positively affected by its joining the eurozone. Fiscal discipline, implementation of structural reforms and sustainable economic growth are crucial for keeping the current rating. Being the highest ever, it positively affected the Company's operations, enabling it to enter into a long-term lease contract for its new Airbus A220 fleet on favourable terms.

#### Interest rate risk

In the second quarter of 2023, the Company fully repaid its long-term foreign currency syndicated loan taken with PBZ/HPB. As it has no other long-term loans with a variable interest rate, the interest rate risk that might affect its business operations has been reduced to a minimum. In the fourth quarter of 2023, Euribor recorded a mild decline following the period of significant growth that had started in the final quarter of 2022 after a longer period of negative interest rates. Similarly, Libor also recorded a mild fall compared to 2022, before rising slightly in the fourth quarter of 2023.



**Liquidity risk**

Maintaining a stable liquidity level is the most significant internal risk affecting Croatia Airlines' operations. Fuel prices and EOS emission prices currently have the greatest impact on the liquidity risk. A demand for air traffic services is on a steady rise, positively affecting the liquidity. Croatia Airlines actively applies various internal forms of business rationalisation and supervision, optimises its flight schedule and adapts its fleet to the demand and booking trends in order to adapt to the current market conditions. In addition to regularly monitoring its due liabilities, the Company makes cash flow projections for the period of one year to identify on time potential operational risks and risks related to liability settlement.

**Implications of Russia's invasion of Ukraine**

Russia's invasion of Ukraine has brought about a series of far-reaching implications on the global market. When it comes to its effect on the airline industry, we should particularly note rising fuel prices and interest rates, inflation, and a potential increase in insurance premiums as a result of a large number of aircraft being seized in Russia, etc.

Croatia Airlines has never operated scheduled flights to Ukraine and Belarus, while until the outbreak of the coronavirus pandemic it operated only seasonal summer flights to Russia, between Zagreb and Saint Petersburg. The route was cancelled in 2020 due to a drop in demand and difficult border crossing conditions from both the Croatian and Russian sides, and has not been reintroduced.

Croatia Airlines had no established network of sales agents and representatives on the Ukrainian and Belarus markets, and the sale of Croatia Airlines tickets on the Russian market was suspended through the national billing and settlement plan by revoking the license to issue tickets to all agents due to uncertain payment. It also cooperated with the Global Russia marketing agent on the Russian market. On 31 December 2023, the above-mentioned agent owed the Company EUR 28,700. As Croatia Airlines has no real property in Russia, Ukraine or Belarus, there are no potential losses or additional costs in this respect resulting from mutual sanctions between the EU and Russia.

**Conflicts in Israel**

The conflicts in Israel and the overall uncertainty in the Middle East have led to disturbances, and reductions in expected demand for air traffic services. While the demand rose in the first days of the conflict, for repatriation reasons, as the conflict got worse the situation reversed and all unnecessary travels were cancelled. Should the conflict expand, the demand will drop further, especially in the tourism segment, which includes pilgrimage travels. In November and December 2023, Croatia Airlines felt the negative implications arising from the fear of terrorism, i.e. cancellation of travels to the European destinations with the biggest passenger flows, such as Paris, London, Amsterdam, etc.

Due to the exceptional seasonality of the Croatian market and uncertainty about the duration of the conflict, the impact has been estimated on an annual basis. As far as Croatia Airlines' scheduled passenger traffic is concerned, the impact should be relatively low since we are talking about some 5,000 passengers a year, who are flying Croatia Airlines when travelling from Israel to Croatia and vice versa. As Croatia Airlines operates a small European portion of such flights, pertaining revenues per flight are not crucial for its business operations. The overall value of such travels has been estimated at some EUR 380,000 a year.

On the other hand, charter flights operated by Croatia Airlines between Croatia and Israel are much more affected. This market is particularly important since it enables night utilisation of aircraft that would otherwise be left parked. As the traffic was suspended practically at the end of the summer season of 2023, the impact was not that big. Some 60 to 80 aircraft rotations (360 to 480 block hours) a year have been planned, mostly from Zagreb, and to a smaller extent from Dubrovnik to Tel Aviv.

With an unstable security situation in the surroundings, the desired return to the Lebanese market, where the Company had for years operated charter flights to Beirut, is not a likely scenario right now.

## Fleet

In 2023, Croatia Airlines operated a fleet of 13 aircraft: seven Airbus (two A320 and five A319) and six Q400.

A320 – 2 aircraft

The aircraft has 174 seats – altogether 348 seats



A319 – 5 aircraft

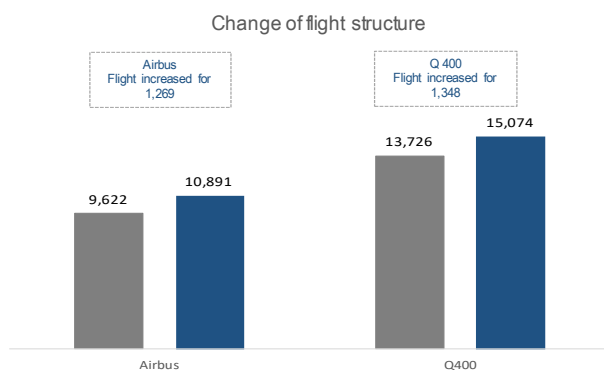
The aircraft has 144 seats/150 seats\* – altogether 726 seats



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

Q400 – 6 aircraft

The aircraft has 76 seats – altogether 456 seats



In 2023, Croatia Airlines' aircraft realised the block time of 36,213 block hours, or 11% more than in 2022.

They operated a total of 25,977 flights, also topping the preceding year by 11%. The block time structure was adapted to the traffic needs, with a greater emphasis on using the Q400 fleet.

Until September 2023, the Company owned five Airbus aircraft nearing the end of their service life. As adequate disposal of the five Company-owned Airbus 319/320 upon expiry of their service life was seen as a major risk, the fleet replacement process included their sale and leaseback in September 2023. The decommissioning of the Airbus fleet requires a solution to be found while the aircraft are still airworthy, so that their engines, parts and components could be monetised. Selling them in bulk and in 'as is' condition, through sale and leaseback, is seen as the most cost-effective option, which implies selling them while they are still airworthy and at the same time keeping a lease on them until they are replaced with new ones. The advantage of this approach is ensuring the flexibility needed when implementing the fleet renewal plan (e.g. extending the lease period in case of

delayed deliveries of new aircraft), while transferring the risks related to the disposal of non-airworthy aircraft to the lessor. The other aircraft (fleet Dash 8-Q400) will be returned to their owners/lessors upon expiry of the lease period. The 9A-CTI Airbus A319 made its final flight with the Company on 28 October 2023 and was returned to the lessor.

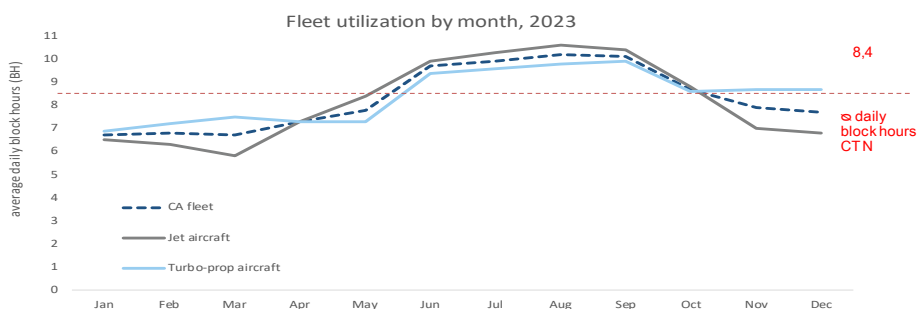
One of the A320 aircraft, which is under an operating lease, served as a spare aircraft: it was used as needed (in the event of traffic disruptions due to technical problems) and charged by applying the power by the hour principle.

## Fleet utilisation

Type of aircraft	Number of aircraft	Ø daily block hours (BH)	Growth 23-22	Utilisation growth 23/22
Airbus A320	2	7.30	-0.60	-7.6%
Airbus A319	5	9.10	0.60	7.1%
Q-400	6	8.90	0.50	6.0%
<b>TOTAL</b>	<b>13</b>	<b>8.80</b>	<b>0.53</b>	<b>6.5%</b>

In 2023, Croatia Airlines' fleet realised on average 3,116 block hours per aircraft, or 1.2% more compared to 2022.

The average number of aircraft on the level of 2023 was 11.62. Available seat-kilometres (ASK) rose by 12%, and revenue passenger kilometres (RPK) rose by 18% compared to 2022.





## Market

After two years of the COVID-19 pandemic, the Company's business operations were in 2022 marked by an increased demand for air traffic services, and this positive trend continued in 2023. Accordingly, Croatia Airlines kept increasing frequencies and reintroducing certain routes.

In 2023, **Croatia Airlines transported a total of 1,733,529 passengers**, or 19% more than in 2022.

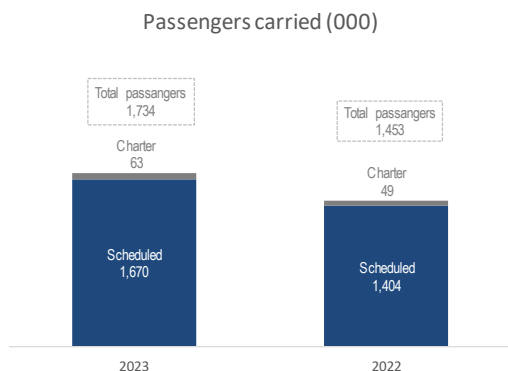
In the summer season of 2023, Croatia Airlines directly connected Croatia to 24 international destinations, i.e. 25 European airports, with its aircraft operating on 44 international routes. Within the summer flight schedule, the Company additionally expanded its network of international destinations by introducing new routes from Split to Oslo and Skopje, from Dubrovnik to Prague, and from Bol on the island of Brač to Munich. Mostar International Airport (Ltd) and Croatia Airlines signed an agreement on the introduction of a scheduled route between Mostar and Zagreb, based on a tender for the provision of scheduled international flights on this route. Accordingly, on 3 May 2023 Croatia Airlines introduced scheduled international flights on the Mostar – Zagreb route, which are operated three times a week.

In the 2023/2024 winter season, Croatia Airlines' aircraft are flying 23 international routes, connecting the seven Croatian airports to 13 international destinations. The Company plans to increase the number of flights by nearly 12% and offer 13.6% more seats compared to the winter season of 2022/2023, thereby boosting the transport infrastructure of the Republic of Croatia in this period. Within the winter flight schedule, it introduced a new international route, Zadar-Munich, and prolonged flight operations on certain seasonal routes (Split-Copenhagen, Split-London Heathrow, Dubrovnik-Frankfurt, Split-Zurich, Rijeka-Munich and Pula-Zurich).

In 2023, Croatia Airlines cooperated with 16 codeshare partners, of which 13 are Star Alliance members (Lufthansa, Austrian Airlines, Swiss, Turkish Airlines, TAP, SAS, Brussels Airlines, United Airlines, Air Canada, LOT, Singapore Airlines, Air India and Asiana Airlines), and three Sky Team Alliance members (Air France, KLM and Alitalia/ITA Airways). The goal of such cooperation agreements is to make the services of an airline available on the markets on which it does not physically operate flights or to increase the capacities on the existing routes.

On 26 March 2023, border controls were abolished for flights between Croatia and the Schengen Area countries, enabling passengers faster and more convenient travels to Croatia, as well as from Croatia to the countries signatories to the Schengen Agreement.





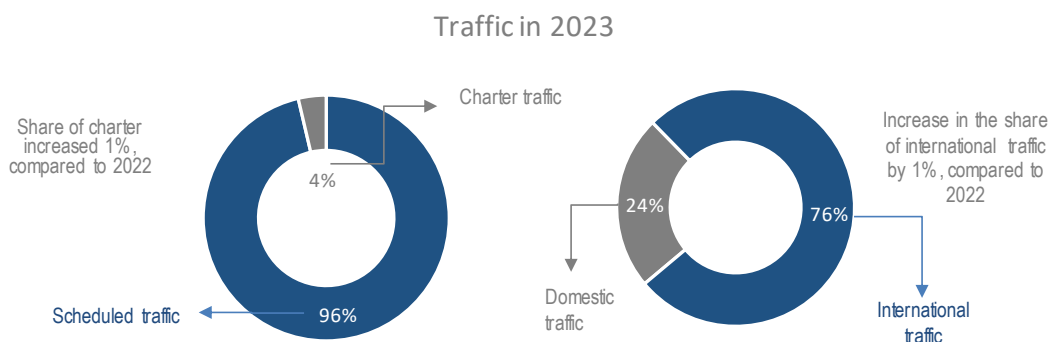
In 2023, Croatia Airlines transported 1.73 million passengers, i.e. 19% more than in 2022. The number of passengers in **domestic scheduled traffic** rose by 16%, and of those in **international scheduled traffic** by 20% compared to 2022.

Altogether 63,000 passengers were transported in **charter traffic**, or 30% more compared to 2022, with charter traffic making up only 4% of the total traffic.

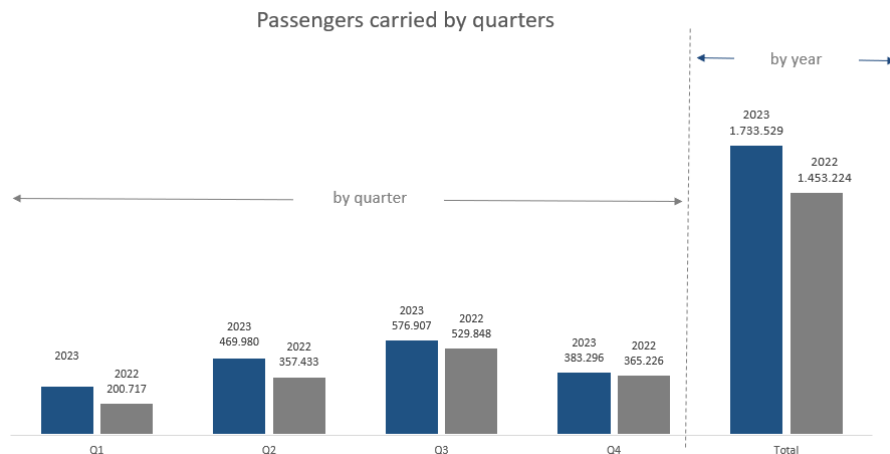
In 2023, a total of 1,523 tonnes of cargo were transported, or 1% more than in 2022.

The **passenger load factor (PLF)** of 65.3% was 3.3 pp higher than in 2022, with the **weight load factor (WLF)** being 62.9%, or 3.2 pp higher.

**A total of 1,733,529 passengers were transported in 2023.** Of this figure, 412,586 were transported in domestic scheduled traffic, 1,257,471 in international scheduled traffic, and 63,472 in charter traffic.



The number of passengers transported in international scheduled traffic was 20% higher, i.e. 209,000 more passengers were transported compared to 2022. Given a 12% rise in the capacities offered, the passenger load factor (PLF) in international scheduled traffic was 65% (+3.1 pp). The number of passengers carried in domestic scheduled traffic rose by 16%, with 56,000 more passengers compared to 2022. The passenger load factor (PLF) in domestic scheduled traffic was 61% (+2.8 pp compared to 2022). Given the results, air traffic is evidently getting back on track.



In 2023, the **Technical Sector** carried out one 12-year check, five 6-year checks, and 12 C checks on third party aircraft. Maintenance works are carried out in three hangars, and on the platform as well, so that the works stipulated by the Parked Aircraft Maintenance Programme could be performed.

On 20 June 2023, Croatia Airlines and Pratt & Whitney, a U.S. company owned by Raytheon Technologies, signed maintenance and after-sales service agreements for new generation engines (GTF, Geared Turbo Fan) for the new fleet of Croatia Airlines. Its single-type fleet should by 2027 consist of 15 new Airbus A220-100 and A220-300 aircraft. Pratt & Whitney will provide engine maintenance for the entire fleet under a long-term Engine Fleet Management Program (EFPM) agreement. The signed agreement represents a financially optimised engine maintenance programme for the entire fleet at Pratt & Whitney workshops: maintenance, visits to Pratt & Whitney workshops, purchase of spare engines, procurement of engine parts, etc. By using GTF engines to power its new fleet, Croatia Airlines will create conditions for reducing not only operating costs per seat and flight compared to the Airbus A320, but also fuel consumption, CO<sub>2</sub> and noise emissions and maintenance costs, while at the same time boosting the operational reliability and passenger transport service.

## Financial operations

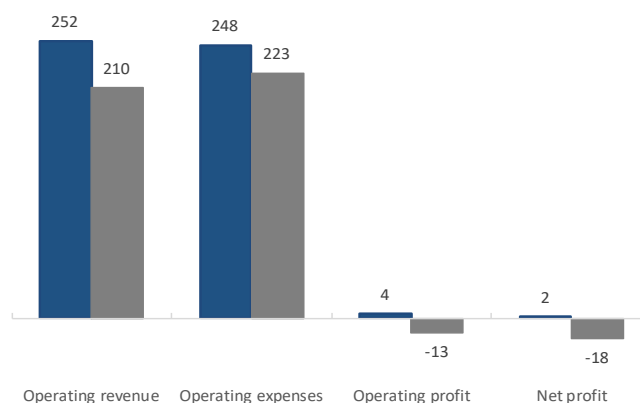
### Profit and loss account

A demand for air traffic services that started in 2022, following the two pandemic years, continued throughout 2023 and Croatia Airlines kept increasing frequencies and introducing new routes, which led to an 11% increase in block time, i.e. number of flights, and a 19% rise in passenger numbers compared to 2022.

(000 EUR)	2023	2022	Index 23/22
Passenger traffic	208,782	167,871	124
Cargo traffic	1,063	1,368	78
Other revenues	42,515	40,736	104
<b>Operating revenues</b>	<b>252,360</b>	<b>209,975</b>	<b>120</b>
Flight operations	76,337	77,873	98
Maintenance	42,834	31,220	137
Passenger services	13,996	10,512	133
Aircraft and traffic services	53,292	46,845	114
Promotion and sales	26,744	22,432	119
General and administrative expenses	11,972	10,932	110
Amortization	18,976	21,365	89
Other expenses	4,126	1,837	225
<b>Operating expenses</b>	<b>248,278</b>	<b>223,015</b>	<b>111</b>
<b>Profit/loss from operations</b>	<b>4,082</b>	<b>-13,039</b>	<b>-</b>
Interest expense	-2,945	-2,988	99
Interest revenue	1,463	76	1,912
Foreign exchange differences, net	-435	-2,248	19
Other financial expenses	-5	-5	103
<b>Net financial expenses</b>	<b>-1,830</b>	<b>-5,164</b>	<b>35</b>
<b>Net profit/loss</b>	<b>2,252</b>	<b>-18,203</b>	<b>-</b>

The implementation of the strategic initiatives defined by the Post-COVID Strategy, positive market trends, income growth and lower fuel prices all contributed to a significantly better financial result in 2023, and Croatia Airlines generated an operating profit of EUR 4.1 million. With the net financing result included, its net profit was EUR 2.3 million, or EUR 20.4 million more than in 2022.

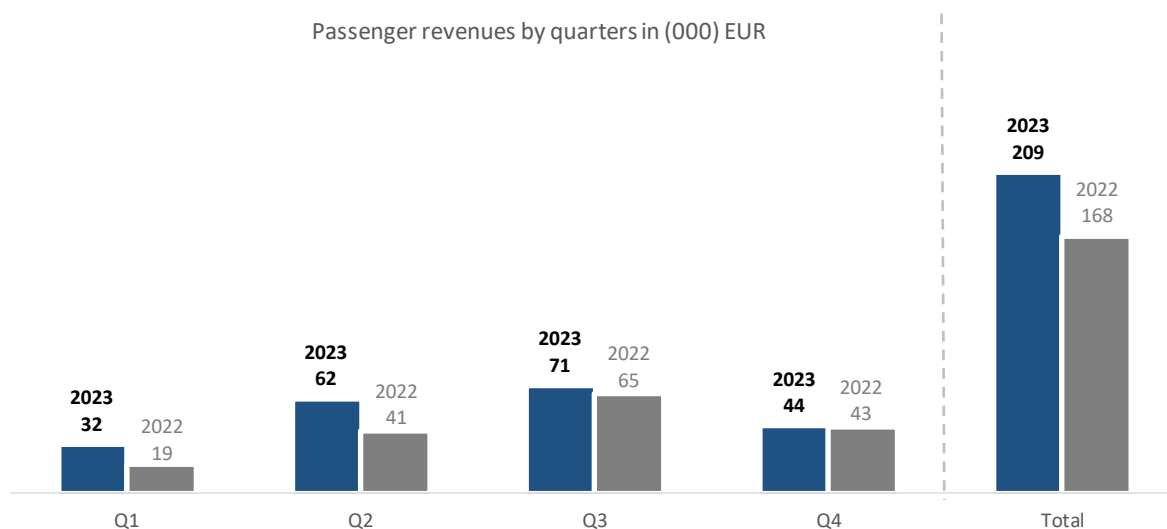
Profit and loss account (in mil. EUR)



Both operating revenues and costs rose significantly compared to 2022, in line with the traffic growth (+11% in flights and block hours).

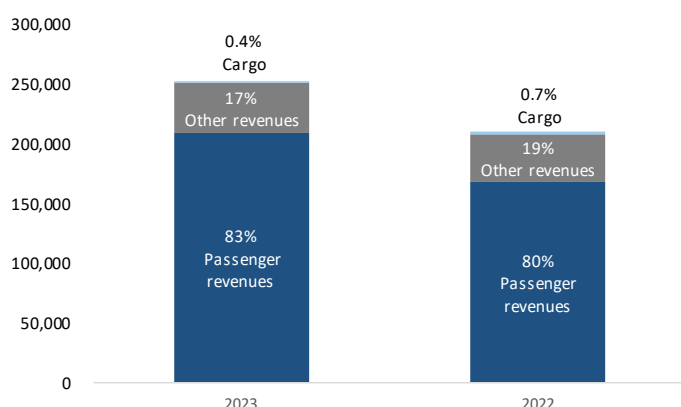
The Company's **operating revenues** rose by 20% (EUR +42.4 million) compared to 2022, as a result of higher revenues from passenger traffic, which went up by 24% year-on-year (EUR +40.9 million), with 19% more passengers carried. Revenues from passenger transport rose in all four quarters compared to 2022.

Passenger revenues by quarters in (000) EUR



In 2023, the Company transported 1,523 tonnes of cargo, or nine tonnes more than in 2022. However, as the cargo structure changed in favour of mail, the revenues from cargo transport were 22% lower than in 2022. Other revenues rose by 4% compared to 2022, as various categories recorded a rise (marketing, subsidies, reservation system, etc.), and account for the effect of the sale and leaseback of the Airbus fleet in September and October 2023.

Structure of operating revenues

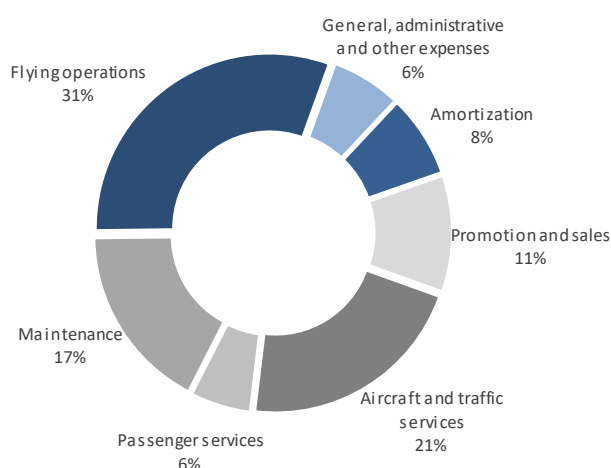


Besides the evident growth of the total revenues compared to 2022, the very revenue structure also noticeably changed: passenger revenues rose, while others declined. Revenues from cargo transport accounted for less than 1% of the overall operating revenues.

Croatia Airlines' **operating costs** were 11% higher (EUR +25.3 million) compared to 2022, primarily as a result of an increased number of flights (+11%) and passengers (+19%), and partly due to inflationary trends. Operating costs of all categories, except for flight and depreciation costs, saw a rise. Maintenance costs recorded the highest growth (+37%), as a result of increased block time and the aging fleet, but also due to the higher prices of services and materials related to aircraft maintenance. Increased block time and unit prices of the services of certain suppliers led to greater costs of air traffic services, i.e. airport and air traffic control services. Promotion and sales costs, and passenger service costs also recorded a rise amidst a greater number of passengers. The Company's general and administrative costs rose primarily as a result of greater current maintenance costs, while other expenditure saw an increase mostly due to greater costs in the preceding years and capital expenditures.

Despite increased block time, flight costs were somewhat lower, due to significantly lower jet fuel prices (-17%) in 2023 compared to 2022. Depreciation costs were lower as a result of regular monthly write-offs and a lower level of investments.

Structure of operating expenses in 2023



In addition to the growth of overall cost levels compared to 2022, the costs structure also noticeably changed – in favour of aircraft maintenance costs, the share of which rose by 3 pp as a result of an increase in block time and unit prices of services. A 4 pp lower share of flight costs stems from a lower fuel price in 2023 compared to 2022, despite the block time increase.

## Investments, assets and financing

## Balance sheet

(000 EUR)	End 2023	End 2022	Index 23/22
<b>ASSETS</b>			
Non-current assets	114,316	112,783	101
Current assets	112,376	106,789	105
<b>Total Assets</b>	<b>226,692</b>	<b>219,572</b>	<b>103</b>
<b>LIABILITIES</b>			
Capital and reserves	14,480	11,695	124
Provisions	39,953	31,784	126
Non-current liabilities	107,509	109,867	98
Current liabilities	64,750	66,226	98
<b>Total Liabilities</b>	<b>226,692</b>	<b>219,572</b>	<b>103</b>

At the end of 2023, the **value of the Company's assets** was 3% greater compared to the same period of 2022.

The value of its **fixed assets** rose by 1% compared to the end of 2022. The change in the structure of this asset category was affected by the sale and leaseback of its current Airbus fleet, and the financial investments – prepayments for the new A220 aircraft and spare engines, and security deposits for aircraft lease.

The value of the Company's **current assets** was 5% higher than at the end of 2022. Accounts receivable and retained deposits for the sold tickets, resulting from greater sales in 2023, recorded a rise and led to a 4% higher level of cash balance compared to 2022.

A rise in the value of total assets was followed by a 3% increase in the value of **liabilities and capital** compared to the end of 2022.

The profit of EUR 2.3 million generated in 2023 increased the level of **capital and reserves** to EUR 14.5 million.

**Higher provisions** resulted from increased maintenance reserves for the leased aircraft.

The Company reduced its **long-term liabilities** by 2% by regularly settling liabilities related to leased assets, while its long-term loans and other liabilities remained the same as at the end of 2022.

Its **short-term liabilities** were also cut down by 2% from the end of 2022, through the repayment of short-term loan instalments.

Croatia Airlines' liabilities related to three shareholder loans totalled EUR 78.8 million at the end of 2023, while the long-term syndicated loan taken with PBZ/HPB was fully repaid in May 2023.

## Investments in 2023

Investments	2023	2022	2021
Investments in aircraft	-	534.521	515.824
Investments in spare parts, tools and equip.	1.423.478	1.574.137	1.010.949
Construction investments	-	15.615	-
Leased aircraft	923.361	1.420.782	331.552
Other intangible assets	688.869	301.881	251.050
Other equipment	709.671	711.612	147.456
<b>Total</b>	<b>3.745.379</b>	<b>4.558.547</b>	<b>2.256.830</b>

The Company's investments in 2023 totalled EUR 3.7 million. Investments into aircraft, together with spare parts, totalled EUR 2.3 million and made up 63% of total investments. A total of EUR 656,000 was invested into a landing gear replacement on the Q400 aircraft (CQE, CQC, CQF), EUR 137,000 into modifications on the Q400 fleet, and EUR 107,000 into modifications on the Airbus fleet. Investments into spare parts, tools and other equipment totalled EUR 1.4 million.

In 2023, the Company carried out four C checks on the Airbus fleet (CTH, CTG, CTN, CTO), and one on an Q400 aircraft (CQA).

Other investments totalled about EUR 1.4 million: EUR 689,000 for software, EUR 557,000 for IT equipment, and EUR 154,000 for other types of equipment and infrastructure.

## Cash flow

(000 EUR)	2023	2022	Index 23/22
<b>Cash at the beginning of the period</b>	<b>76,286</b>	<b>41,311</b>	<b>185</b>
Inflow from activities	260,133	217,525	120
Shareholder loan	-	12,476	-
Recapitalization	-	39,286	-
<b>Total inflow</b>	<b>260,133</b>	<b>269,287</b>	<b>97</b>
Obligations	258,080	227,177	114
Pre-purchased ETS emissions	6,584	-	-
Loans	2,951	1,695	174
<b>Total outflow</b>	<b>267,615</b>	<b>228,872</b>	<b>117</b>
Net investment activities	10,315	-5,440	-
<b>Net change in the period</b>	<b>2,833</b>	<b>34,976</b>	<b>8</b>
<b>Cash at the end of the period</b>	<b>79,120</b>	<b>76,286</b>	<b>104</b>

The Company's **cash balance at the end of 2023 totalled EUR 79.1 million**, with a positive cash flow of EUR 2.8 million.

A demand for air traffic services continued to rise in 2023, and Croatia Airlines' sales were 29% greater in this period, resulting in 20% (EUR +42.6 million) greater inflows from operating activities.

The Company's total outflows were 17% higher. An increased scope of traffic entailed a 14% higher outflow from operating activities. The higher outflow level was also affected by the purchase of CO<sub>2</sub> emission allowances for 2023, which the Company effected in November and December 2023. Ever since the introduction of the EU ETS, it has been usual for airlines to purchase allowances for the preceding year in April, i.e. just before the ultimate deadline. However, given the volatility of allowance prices, the Company seized the opportunity to buy them at a significantly lower price compared to that in April 2023, when it had purchased allowances for 2022. In May 2023, the Company repaid the final, EUR 2.9 million worth, instalment of a long-term foreign currency syndicated loan taken with PBZ/HPB, and there was no fresh borrowing.

The Company's net cash flow from investment activities was positive, totalling EUR 10.3 million. The funds it received in September and October from the sale of its own Airbus aircraft nearing the end of their service life will be allocated for financing the purchase of spare engines and spare parts for the new A220 aircraft. In 2023, the Company made pre-delivery payments worth EUR 4.2 million for the purchase of aircraft and EUR 2.4 million for the purchase of spare engines, and EUR 3.6 million worth security deposits for the lease of new Airbus A220 aircraft. Other investments, worth EUR 2.5 million, were mostly intended for own and leased aircraft and for the purchase of spare parts, tools and equipment.



## Consolidated business result

(000 EUR)	Croatia Airlines		Obzor putovanja		Amadeus Croatia		Croatia Airlines Group*	
	2023	2022	2023	2022	2023	2022	2023	2022
Operating revenues	221,601	178,766	1,337	1,271	754	668	223,656	180,217
Other revenues	30,759	31,209	23	62	1	7	30,783	31,278
Operating expenses	248,278	223,015	1,278	1,198	621	536	250,139	224,258
Operating profit/loss	4,082	(13,039)	82	135	133	139	4,300	(12,763)
Net profit/loss	(1,830)	(5,164)	(7)	(2)	0	(5)	(1,931)	(5,173)
Pre-tax profit	2,252	(18,203)	75	133	134	134	2,369	(17,935)
<b>Net profit</b>	<b>2,252</b>	<b>(18,203)</b>	<b>68</b>	<b>133</b>	<b>134</b>	<b>134</b>	<b>2,362</b>	<b>(17,935)</b>

\* Data for the Croatia Airlines Group do not include mutual transactions (mutual revenues and expenditures have been eliminated)

The Group's consolidated result comprises the result of the Company and its subsidiaries. All transactions within the Group have been eliminated, and the consolidated result for 2023 at the Group level amounts to a profit of EUR 2.4 million. Total revenues and expenditures of the subsidiaries account for about 1% of the consolidated revenues and expenditures, showing that their business activities have only a minor impact on the business activities of Croatia Airlines.

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

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

## Going concern principle

In the period from 2020-2022, Croatia Airlines operated during the worst crisis in the history of civil aviation, resulting from the global COVID-19 pandemic that strongly affected all aspects of economic and social activities on a global scale. The crisis had a particularly devastating effect on tourism and travels, with airline companies and air traffic in general being among the most affected sectors. A gradual recovery of the aviation industry began in 2022 and continued in 2023, but the traffic level of 2019 has not been reached yet.

Following the airline industry recovery and trends, Croatia Airlines kept increasing frequencies and reintroducing certain routes in 2023, which led to an 11% increase in block time, i.e. number of flights, and a 19% rise in passenger numbers compared to 2022. The 2019 results are expected to be reached in 2024.

The business operations of air carriers in 2023 were exposed to a number of major risks, and keeping the balance between various factors and responses to individual risks became more complicated. Fuel and emission allowance prices, and inflation, were the main risks that affected Croatia Airlines' operations in 2023, while a strong increase in sales revenue and a stable cash balance level reduced the liquidity risk. To mitigate the risk of allowance price volatility, the Company purchased allowances for 2023 in November and December 2023 at a significantly lower price compared to that in April, when it had purchased allowances for 2022. In addition to these long-term risks, labour shortage in all segments of air traffic presented a great challenge for the airline industry in 2023. Croatia Airlines had enough operative transport staff in the summer season of 2023, but the big problems at major European airports caused by the shortage of staff, mainly air traffic controllers, represented a risk for the Company and led to traffic disruptions and related costs, especially in the summer season. The risk was decreased in the winter season, given the reduced traffic scope at airports. One of the risks is the escalation of conflicts in Israel and in the Middle East, as it affects charter flights operated by Croatia Airlines between Croatia and Israel. This market is particularly important since it enables night utilisation of aircraft that would otherwise be left parked. The continuation of conflicts would negatively affect the year of 2024, as some 60 to 80 aircraft rotations (360 to 480 block hours) a year have been planned, mostly from Zagreb, and to a smaller extent from Dubrovnik to Tel Aviv.

Despite a whole array of growing risks, significant positive shifts were made compared to 2022, both in terms of traffic growth and financial operations.

Along with mitigating potential negative consequences of these risks, Croatia Airlines will focus on further implementation of its Post-COVID Strategy.

With the aim of creating an even better-quality and more competitive air transport offer in the Republic of Croatia, in early October 2022 Croatia Airlines reached a decision to start with a fleet renewal process, i.e. to replace its existing aircraft with a new, uniform fleet, all in line with its Post-COVID Strategy adopted in August 2021. With a single-type aircraft fleet, Croatia Airlines will simplify its processes and improve its operating and financial results. It will become even more environmentally-friendly and significantly reduce fuel consumption and CO<sub>2</sub> emissions, the costs of which are a major expenditure item. In 2023, the Company intensified activities related to the procurement and introduction of the first new A220 aircraft into the fleet as of 2024, in line with Croatia Airlines' Post-COVID Strategy.

Since 2022, Croatia Airlines' business plans have been based on the Post-COVID Strategy initiatives 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) Implementation of the PSO contract.

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

#### *1) Fleet structure optimisation*

In addition to post-COVID recovery of operations, one of the key goals of the Business Plan is replacement of the existing fleet with newer and more cost-effective aircraft, via operating lease. After a detailed analysis of the airline market and aircraft offer, Croatia Airlines opted for A220 type aircraft, with the capacity of 149 (A220-300) and 127 seats (A220-100), to be delivered in the period from 2024 to 2027.

In early 2023, it entered into an operating lease contract for six Airbus A220 (four A220-300 and two A220-100) with Air Lease Corporation. On 30 October 2023, it finalised arrangements for an operating lease of three Airbus A220 with lessor Azzora. In the second half of December 2023, it arranged for the financing of six A220 with Griffin Global Asset Management. The six aircraft were ordered directly from Airbus, as part of an annex to the contract dating from 2008. The financing refers to prepayments and operating lease of the six aircraft. This way it arranged for the procurement of 15 Airbus A220 aircraft, as envisaged by the Post-COVID Strategy.

A potential delay in delivery of new aircraft and adequate disposal of the five Company-owned Airbus 319/320 upon expiry of their service life are seen as two major risks within the fleet replacement process. The decommissioning of the Airbus fleet requires a solution to be found while the aircraft are still airworthy, so that their engines, parts and components could be monetised. Selling them in bulk and in 'as is' condition, through sale and leaseback, is seen as the most cost-effective option, which implies selling them while they are still airworthy and at the same time keeping a lease on them until they are replaced with new ones. The advantage of this approach is ensuring the flexibility needed when implementing the fleet renewal plan (e.g. extending the lease period in case of delayed deliveries of new aircraft), while transferring the risks related to the disposal of non-airworthy aircraft to the lessor. In September 2023, the Company effected the sale and leaseback of the Airbus 319/320, and related funds will be used for the purchase of spare engines for the A220 fleet. The other aircraft (the Dash 8-Q400 fleet) will be returned to their owners/lessors upon expiry of the lease period.

#### *2) Optimisation and expansion of the destinations network*

In line with the expected recovery of demand for air traffic services upon completion of the pandemic, the Plan envisages a gradual increase in the number of destinations and frequencies, and optimisation of the expanded destinations network. In 2022, the Company introduced five new international routes from Split Airport: to Amsterdam, Bucharest, Dublin, Milan and Stockholm, and increased block time in the winter period by

introducing the Osijek-Munich, Split-Zurich, and Pula-Zurich routes. In 2023, the following new routes were introduced: Split-Oslo, Split-Skopje, Dubrovnik-Prague, Zagreb-Mostar, Zadar-Munich, and Brač-Munich, and the year of 2024 should see the introduction of new routes from Zagreb.

### *3) Increase in passenger revenues*

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

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

The profiling of the technical sector as a profit centre is underway, 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 nine months a year, i.e. on the freeing up and maximum utilisation of capacities for third party maintenance once Croatia Airlines' aged fleet is replaced with new aircraft.

### *5) Implementation of the Public Service Obligation contract for the 2022-2026 period*

Croatia's traffic connectivity remains in the Company's focus. Following a public tender, and pursuant to the relevant decision of the Government of the Republic of Croatia, the Ministry of the Sea, Transport and Infrastructure and Croatia Airlines entered into a contract on the provision of scheduled air transport services in the period from 4 July 2022 to 28 March 2026.

### *6) Cost initiatives to decrease various cost categories*

Some of the planned rationalisation measures include optimisation of airport service costs through negotiations with suppliers, better control of existing contracts and search for a new aircraft handling service provider in monopolistic markets, as well as by negotiating lower airport fees and charges, reducing passenger attendance costs by changing the inflight service model, rationalising the sales network (branch offices), and reducing agency commissions. One of the initiatives is to reduce labour costs by implementing crew scheduling optimisation measures and increasing the productivity of technical, commercial and administrative staff through business process optimisation. Due to growing prices, inflationary pressures and unit price increases announced by suppliers, the effect of these measures were significantly lower than that envisaged by the Post-COVID Strategy, particularly in 2023. In order to further optimise costs by optimising its business processes, the Company started with digitalisation in the commercial segment, in particular aircraft maintenance process. The company-wide DMS (Document Management Systems) project is set to begin in 2024.

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

The negotiations about the termination/amendment to the 2008 contract with Airbus Industrie for the procurement of four A320neo aircraft started in the autumn of 2019. The negotiations on the Termination Agreement the subject-matter of which is cancelling the acquisition of A320neo aircraft were put on hold at the onset of the COVID-19 crisis, and resumed in early 2021. In 2022, within the negotiations with Airbus on the order of six new A220 aircraft, the parties came to an agreement that this order would replace the order of A320neo aircraft, within Croatia Airlines' fleet renewal project and in line with the Post-COVID Strategy stipulations. So, instead of negotiating the termination of the old contract, an annex was added to the purchase contract from April 2008 by way of which the existing obligations related to A320neo aircraft were replaced with a new one, referring to the purchase of six A220 aircraft. The Company also reached an agreement

with Airbus on the utilisation of the already made pre-delivery payments in the amount of \$9 million for the new aircraft, and interest write-off worth \$1.3 million.

The implementation of the defined Post-COVID Strategy, and continuing with the privatisation process once the prerequisites are met, should reduce risks related to the uncertainties and doubts concerning the Company's ability to continue operating under the going concern principle in the upcoming period.

## Objectives and goals for 2024

The International Air Transport Association (IATA<sup>18</sup>) expects the airline industry's profitability to progress further in 2024, but still with an exceptionally low profit margin of 2.7% and return on invested capital (ROIC) of 4.9%, significantly below the cost of capital. According to IATA, airlines should in 2024 transport 4.7 billion passengers and reach a new high that will surpass the pre-pandemic level of 4.5 billion recorded in 2019. Passenger transport expressed in revenue passenger kilometres (RPK) should rise 9.8% compared to 2023, i.e. 4.5% compared to 2019.

Croatia Airlines sees a positive operating result of EUR 1.4 million in 2024. The revenue and cost projections are based on the capacity of 2.3 million available seat-kilometres and 2.2 million passengers.

The Business Plan for 2024 also includes further implementation of the strategic initiatives as part of the Post-COVID Strategy, with the Company focusing its activities on the preparations for the introduction of the first two new Airbus A220 aircraft into the fleet (in June and December 2024) and the expansion of its network of destinations from Zagreb and Split. The Company plans to take a short-term lease on two aircraft for the summer season and for the purpose of expanding the network. It also intends to expand the scope of work for the line maintenance of the new aircraft type – Airbus A220. In 2024, Croatia Airlines plans to implement the PSO scheme on domestic routes in line with the contract entered into for the period from 2022 to 2026, and on the international route Zagreb-Mostar-Zagreb based on the contract concluded with Mostar Airport. One of the goals is entering into a new collective bargaining agreement for a longer period. A part of activities in 2024 will refer to further digitalisation and optimisation of IT support. In 2024, the emphasis still lies on the maximum operations safety ensured by adhering to the legal regulations, and maintaining relevant certificates and approvals. The goal is to retain the technical reliability of the fleet, while performing all regular check-ups, modifications and other works on the fleet aircraft and engines, in accordance with the applicable standards, and maintaining the high level of quality, safety and punctuality. The Company plans to enter into multiannual contracts with the clients who seek base maintenance services (airlines, lessors), and to extend the major works season to the entire year (or to nine months at least), all with the aim of increasing revenues from maintenance services. The envisaged result is based on the projection of traffic performance that serves as a basis for the calculation of operating revenues and expenses:

- 27,921 – block time in flights;
- 38,642 – block time in block hours;
- Annual traffic of 2.23 million passengers (495,000 more compared to 2023);
- PLF on the level of 74.0%.

The main risks affecting the realisation of the envisaged financial and non-financial results in 2024 refer to oil price and emission allowance price trends, supply chain issues related to engine and aircraft parts for certain types of aircraft, demand for air traffic services, regulatory changes that might entail rising compliance costs, and additional costs pertaining to passenger rights regimes, regional environment initiatives and accessibility requirements, which means that vigilance and flexibility will be crucial for the entire airline industry, including Croatia Airlines.

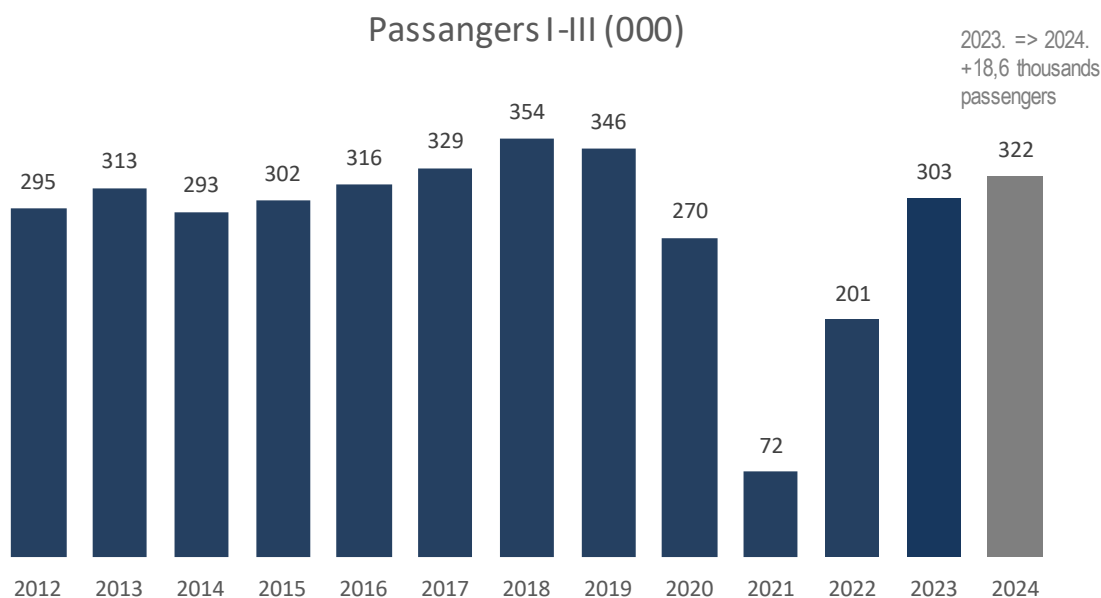
<sup>18</sup> IATA Global Outlook for Air Transport, December 2023



## Current operations – traffic performance in the first quarter of 2024

Description		I-III 2024	I-III 2023	Index 23/22
Flights (km)	<i>DIST 000</i>	3,042	2,954	103
<b>Departures</b>	<b><i>FLTS</i></b>	<b>5,272</b>	<b>5,112</b>	<b>103</b>
<b>Block hours</b>	<b><i>BH hours</i></b>	<b>6,900</b>	<b>6,711</b>	<b>103</b>
<b>Passengers carried</b>	<b><i>RPAX 000</i></b>	<b>321,936</b>	<b>303,347</b>	<b>106</b>
<b>Freight &amp; mail carried</b>	<b><i>CGO t</i></b>	<b>365</b>	<b>350</b>	<b>104</b>
Passenger km flown	<i>RPK mil.</i>	208,441	197,007	106
Available seat - km	<i>ASK mil.</i>	349,095	321,257	109
<b>Passenger load factor</b>	<b><i>PLF %</i></b>	<b>59.7</b>	<b>61.3</b>	<b>97</b>
Tonne km flown	<i>RTK mil.</i>	21,122	20,030	105
Available tonne-km	<i>ATK mil.</i>	36,678	34,096	108
<b>Weight load factor</b>	<b><i>WLF %</i></b>	<b>57.6</b>	<b>58.7</b>	<b>98</b>

The number of passengers carried in the first quarter of 2024 rose by 6% (18,600 passengers) compared to the same period of 2023. Domestic scheduled traffic saw a 9% rise, while international scheduled traffic recorded a 6% rise compared to the same period of 2023. The passenger load factor (PLF) was 59.7%, or 1.6 pp lower than in the same period of 2023.



President and CEO



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](http://www.zse.hr).

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

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

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

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

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

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

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

### **Corporate Governance Structure**

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

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

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

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

The Management Board has made sure that the Company's business records and other business documents comply with the Companies Act, kept bookkeeping records,

assessed assets and liabilities in a realistic manner, and prepared financial statements and other reports in line with accounting regulations and standards, and other applicable regulations.

### **The Supervisory Board**

In 2023 the Supervisory Board consists of:

Zlatko Mateša,  
- chairman of the Supervisory Board  
Janko Mišić,  
- deputy Chairman of the Supervisory Board  
Zoran Barac,  
- member of the Supervisory Board  
Mirko Tatalović,  
- member of the Supervisory Board

In 2023, the Supervisory Board held five regular sessions attended by all of its members and, in accordance with the provisions of the Articles of Association, adopted three decisions on issues within its sphere of competence remotely, by electronic voting. The Supervisory Board carried out an internal control in line with the requirements set out in the Code by controlling the submitted reports on a regular basis. The Supervisory Board members discussed and decided on any and all relevant matters set forth by the Companies Act and the Company's Articles of Association. The Supervisory Board self-assessed the efficiency and composition of its members, as well as those of the Audit Committee. It was carried out by the Chairman of the Supervisory Board together with its members, without the participation of any external associates. The results show that its members function well together and possess the necessary expert knowledge; the same applies to the individual contribution of each member. The Supervisory Board's report on the supervision of business operations makes part of the Annual Report that the Company submits to the General Assembly.

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

In 2023, the Audit Board members were Chairwoman Zoran Barac, Mirko Tatalović member and Rudi Grubišić, external member. The Audit Board held five themed sessions and discussed the Company's financial performance, audit plan, internal control system, risk management and other tasks for which the Supervisory Board needed assistance in order to efficiently fulfil obligations related to the Company's corporate governance, financial reporting and control. All three Audit Board members attended all of the sessions.

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

## General Assembly

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

In 2023, 3 General meetings of the company were held, including the assembly to which the decision was taken to harmonise the share capital and the nominal amount of the company's shares due to the introduction of the euro. The Company did not acquire its own shares during that period.

## SHAREHOLDER STRUCTURE 31 December 2023:

Shareholders	No. of shares	Portion in the share capital (in%)
REPUBLIC OF CROATIA	91.610.821	99,159%
AIRPORT ZAGREB D.O.O.	477.121	0,516%
HPB FOR THE REPUBLIC OF CROATIA	173.768	0,188%
JANAF D.D.	22.000	0,024%
CROATIA LOTTERY D.O.O.	4.000	0,004%
PRAGUSA ONE LTD	3.682	0,004%
HP D.D.	2.750	0,003%
TURISTHOTEL D.D.	2.090	0,002%
TANKERKOMERC D.D.	2.090	0,002%
OTHERS	89.631	0,097%
<b>TOTAL</b>	<b>92.387.953,00</b>	<b>100%</b>

Pursuant to the provisions of Article 272 (p) of the Companies Act, this Representation Letter is attached to the Management's Business Report for 2023 as an integral part thereof.

Zagreb, 9 January 2024

Jasmin Bajić



Chairman of the Management Board

**CROATIA AIRLINES d.d.**

**Consolidated and Separate Financial Statements  
for the year ended 31 December 2023  
together with Independent auditors' report**

	Page
Responsibility for the financial statements	52
Independent auditors' report to the shareholders of Croatia Airlines d.d.	53-60
Croatia Airlines Group consolidated statement of comprehensive income	61
Croatia Airlines d.d. separate statement of comprehensive income	62
Croatia Airlines Group consolidated statement of financial position	63
Croatia Airlines d.d. separate statement of financial position	64
Croatia Airlines Group consolidated statement of changes in equity	65
Croatia Airlines d.d. separate statement of changes in equity	66
Croatia Airlines Group consolidated statement of cash flows	67
Croatia Airlines d.d. separate statement of cash flows	68
Notes to the consolidated and separate financial statements	69-134

## 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 2023 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.

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  
22 April 2024

## INDEPENDENT AUDITOR'S REPORT

To the owner of Croatia Airlines d.d. and its subsidiaries

### Report on the audit of separate and consolidated financial statements

#### Opinion

We have audited the separate and consolidated financial statements of Croatia Airlines d.d. ("the Company") and its subsidiaries ("the Group"), which include consolidated and separate Statement of Financial Position as at 31 December 2023, separate and consolidated Statement of Comprehensive Income, separate and consolidated Statement of Cash Flows and separate and consolidated Statement of Changes in Equity for the year then ended, as well as the accompanying Notes to the separate and consolidated Financial Statements, including information on significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2023, their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under these standards are described in detail in our Independent Auditor's Report in the section on the Auditor's responsibilities for the audit of unconsolidated and consolidated financial statements. We are independent of the Company and Group in accordance with the Code of Ethics for Professional Accountants including the International Standards of Independence issued by the International Ethics Standards Board for Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of the greatest importance for our audit of the separate and consolidated financial statements of the current period. We dealt with these matters in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters.

This version of the Independent Auditor's Report is 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.

*This version of the Independent Auditor's Report is 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 AUDITOR'S REPORT (continued)

### Report on the audit of separate and consolidated financial statements (continued)

#### Key audit matter (continued)

We have determined that the matter below is a key audit matter to be disclosed in our Independent Auditor's Report.

Key audit matter	How we addressed the key audit matter
<p>Recognition of revenue from passenger traffic in scheduled flights</p> <p>In the Statement of Comprehensive Income for the year ended 31 December 2023, the Company reported revenues from passenger traffic in scheduled flights in the amount of EUR 208,782 thousand (31 December 2022: EUR 167,935 thousand).</p> <p>Revenues from passenger traffic are recognized in the Statement of Comprehensive Income at the moment when the passenger coupons are used, i.e., during the period of performance of the transportation service. Until the passenger coupons are used, the value of the sold flight documents is recognized in short-term liabilities from air traffic, which are reduced after the performance of the transportation service or by refunding the appropriate amount to the passenger for returned tickets.</p> <p>Due to the Company's business model, the determination of the amount of revenue recognized in the period, i.e. the precise recognition of revenue in the Statement of Comprehensive Income according to the International Financial Reporting Standard "Revenue from Contracts with Customers" (IFRS 15), is based on complex internal IT systems within which a large number of transactions are processed.</p> <p>Considering the significance of the sales revenue shown in the Statement of Comprehensive Income, along with the complexity of the IT system, we concluded that the stability, accuracy and completeness of the revenue, as well as their recording in the correct reporting period, is a key audit matter.</p> <p>See Notes 2.a) "Revenues" and 4. "Revenues from passenger traffic" in the corresponding annual financial statements.</p>	<p>Our audit procedures in addressing this area included, among other:</p> <p>Gaining an understanding of the sales process by conducting interviews with key people in sales;</p> <p>Gaining an understanding and examination of the design and implementation of key controls related to the recognition of sales revenue and the way of recording revenue from passenger traffic on scheduled flights</p> <p>Testing general IT controls by IT auditors that ensure user access rights management, change management, data processing management and network security management</p> <p>Testing the accuracy and completeness of transaction data recorded in internal IT systems, their compliance with the general ledger, as well as checking the correctness of the schedule to the positions of the financial statement by the IT auditor</p> <p>Implementation of operational efficiency of internal controls and test of details on a representative sample of transactions, revenue from passenger traffic by connecting amounts recognized in financial statements with supporting documentation</p> <p>Assessment of compliance of the policy for recognition of sales revenue with International Financial Reporting Standard 15 - Revenue from Contracts with Customers;</p> <p>Assessment of the adequacy of disclosures related to the recognition of sales revenue in accordance with International Financial Reporting Standard 15 - Revenue from Contracts with Customers.</p>

**INDEPENDENT AUDITOR'S REPORT (continued)****Report on the audit of separate and consolidated financial statements (continued)****Other matters**

We draw attention to page 17 of the Company and the Group Management Report, in which, in accordance with point (b), paragraph 8 of Article 21a of the Accounting Act, there will be the web page indicated, on which a separate non-financial report of the Company and the Group will be published no later than 6 months from the reporting date. Our opinion has not been modified on this matter.

The separate and consolidated financial statements of the Company and the Group for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on these separate and consolidated financial statements on 28 April 2023.

**Other information in the Annual Report and separate non-financial report**

Management is responsible for other information. Other information includes the Management Report and Statement on the Application of the Code of Corporate Governance included in the Annual Report, but not including the separate and consolidated financial statements and our Independent Auditor's Report thereon, which we received prior to the date of this independent auditor's report and a separate non-financial report, for which we expect it to be made available to us after that date.

Our opinion on the separate and consolidated financial statements does not include other information.

In connection with our audit of the separate and consolidated financial statements, it is our responsibility to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated, as well as whether the non-financial information required by the provisions of paragraph 1 or paragraph 2 of Article 21a of the Accounting Act is presented in a separate non-financial report.

When we read the separate non-financial report, if we conclude that it contains a material misstatement, we are required to communicate the matter to those charged with governance of the Company and the Group.

Regarding the Management Report and the Statement on the Application of the Corporate Governance Code, we also carried out the procedures required by the Accounting Act. These procedures include considering whether the Management Report has been prepared in accordance with Article 21 and Article 24 of the Accounting Act and whether the Statement on the Application of the Corporate Governance Code has been prepared in accordance with Articles 22 and 24 of the Accounting Act.

Based on the performed procedures, to the extent that we are able to assess it, we report that:

1. The information in the attached Management Report and Statement on the Application of the Corporate Governance Code is harmonized, in all significant respects, with the attached separate and consolidated financial statements;
2. The attached Management Report is compiled in accordance with Article 21 and Article 24 of the Accounting Act; and
3. The attached Statement on the Application of the Corporate Governance Code includes the information defined in Articles 22 and 24 of the Accounting Act.

Based on the knowledge and understanding of the operations of the Company and the Group and their environment acquired within the audit of separate and consolidated financial statements, we are obliged to report if we have established that there are significant misrepresentations in the attached Management Report and Statement on the Application of the Corporate Governance Code. In this sense, we have nothing to report.

**INDEPENDENT AUDITOR'S REPORT (continued)****Report on the audit of separate and consolidated financial statements (continued)****Responsibilities of the Management Board and those charged with governance for the unconsolidated financial statements**

Management Board is responsible for the preparation of separate and consolidated financial statements that give a true and fair view in accordance with IFRSs, and for those internal controls that the Management Board determines are necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement due to fraud or error.

In preparing the separate and consolidated financial statements, Management Board is responsible for evaluation of the Company's and Group's ability to continue operations assuming going concern principle, disclosure, if applicable, of issues related to going concern, and using accounting based on going concern principle, unless the Management Board intends to liquidate the Company or the Group or discontinue its business or there is no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process established by the Company.

**Auditor's Responsibility for the audit of separate and consolidated financial statements**

Our goals are to obtain reasonable assurance about whether the unconsolidated and consolidated financial statements, as a whole, are free from material misstatement as a result of fraud or error, and to issue an Independent Auditors' Report that includes our opinion. Reasonable assurance is a higher level of assurance, but this is no guarantee that an audit performed in accordance with IAS will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered as important, if it can reasonably be expected that, individually or in aggregate, they affect the economic decisions of users made based on these separate and consolidated financial statements.

As an integral part of the audit report in accordance with ISA, we make professional judgments and maintain professional scepticism throughout the audit process. In addition, we:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non-detecting a material misstatement of fraud is greater than the risk of error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or circumvention of internal controls.
- Acquire an understanding of internal controls 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 Group's internal controls.
- Assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the accounting basis used based on the going concern principle used by the Management Board and, based on the obtained audit evidence, we conclude on whether there is significant uncertainty regarding events or circumstances that may create significant doubts about the ability to continue operating for an indefinite period of time. If we conclude that there is significant uncertainty, in our Independent Auditors' Report we are required to call our attention to related disclosures in the separate and consolidated financial statements or, if these are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Independent Auditors' Report. However, future events or conditions may cause the Company and Group to discontinue their operations on a going concern.

## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Report on the audit of separate and consolidated financial statements (continued)**

#### **Auditor's Responsibility for the audit of separate and consolidated financial statements (continued)**

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including disclosures, as well as whether the separate and consolidated financial statements reflect the transactions and events which they are based on in a way that achieves a fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on these consolidated financial statements. We are responsible for directing, supervising and performing the Group's audit. We are solely responsible for our audit opinion.

We communicate with those charged with governance, among other issues, the intended scope and timing of audit and important audit findings, including any significant deficiencies in internal controls identified during our audit.

We also make a statement to those charged with governance that we have complied with the relevant ethical requirements regarding independence and that we will communicate with them any relationship and other matters that may reasonably be considered to affect our independence as well as, where applicable, on related safeguards.

Among the issues communicated to those charged with governance, we identify those issues that are the most important in auditing the separate and consolidated financial statements of the current period and therefore present the key audit matters.

We describe these matters in our Independent Auditor's Report, unless the law or regulation prevents the matters from being publicly disclosed, or when we decide, in extremely rare circumstances, that the matter should not be reported in our Independent Auditors' Report because the negative consequences of the disclosure could reasonably be expected to outweigh the benefits of public interest from such communication.

#### **Statement on other legal and regulatory requirements**

On 11 June 2023, the Assembly of the Company appointed us based on the proposal of the Supervisory Board to audit the separate and consolidated financial statements for the year 2023.

We have been engaged to perform a legal audit of the separate and consolidated financial statements of the Company and the Group for the first time in 2023, which represents an engagement of one year.

In the audit of the separate financial statements of the Company for the year 2023, we determined the materiality for the separate financial statements as a whole in the amount of EUR 3,263 thousand, which represents approximately 1.5% of the operating income for the year 2023. In the audit of the consolidated financial statements of the Group for the year 2023, we determined the materiality for the consolidated financial statements as a whole in the amount of EUR 3,263 thousand, which represents approximately 1.5% of the operating income for the year 2023.

We have chosen operating income as a measure of materiality because we believe that it is the most appropriate measure of the success of the Company's, or Group's, operations.

Our audit opinion is consistent with the additional report for the Company's Audit Committee drawn up in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.

**INDEPENDENT AUDITOR'S REPORT (continued)****Report on the audit of separate and consolidated financial statements (continued)****Statement on other legal and regulatory requirements (continued)**

Our audit opinion is consistent with the additional report for the Company's Audit Committee drawn up in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.

During the period between the starting date of the audited separate and consolidated financial for 2023 and the date of this Independent Auditor's Report, we did not provide prohibited non-audit services to the Company and its subsidiaries and did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in relation to the Company and the Group.

**Report based on the requirements of Delegated Regulation (EU) 2018/815 amending Directive 2004/109 / EC of the European Parliament and the Council regarding regulatory technical standards for the specification of the European Single Electronic Format**

Auditor's assurance report on the compliance of unconsolidated financial statements (financial statements), prepared pursuant to the provision of Article 462, paragraph 5 of the Capital Market Act (Official Gazette, nos. 65/18, 17/2, 83/21 and 151/22) by applying the Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (the ESEF Regulation).

We conducted the engagement with expressing reasonable assurance as to whether the financial statements prepared for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, which are contained in the electronic file *CTN-31-12-2023-HR*, in all material aspects prepared in accordance with the requirements of the ESEF Regulation

**Responsibilities of Management and those charged with governance**

The Management of the Company is responsible for the preparation and content of the financial statements in accordance with the ESEF Regulation.

In addition, the Management of the Company is responsible for maintaining a system of internal controls that reasonably assures the preparation of financial statements without material non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error.

The Management of the Company and the Group is also responsible for:

- public disclosure of the financial statements contained in the annual report in a valid XBRL format, and
- selection and use of XBRL codes in accordance with the requirements of the ESEF Regulation

Those in charge of governance are responsible for overseeing the preparation of financial statements in the ESEF format as part of the financial reporting process.

## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Report on the audit of separate and consolidated financial statements (continued)**

**Report based on the requirements of Delegated Regulation (EU) 2018/815 amending Directive 2004/109 / EC of the European Parliament and the Council regarding regulatory technical standards for the specification of the European Single Electronic Format (continued)**

#### **Auditor's responsibilities**

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from material non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

#### **Procedures performed**

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance. However, it does not assure that the scope of testing will reveal all significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we have performed the following activities:

- we have read the requirements of the ESEF Regulation,
- we have gained an understanding of the Bank's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or errors; and
- based on that, we have planned and designed procedures for responding to assessed risks and for obtaining reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the financial statements, which are included in the separated and consolidated report, are prepared in the valid XHTML format,
- the information contained in the unconsolidated and consolidated financial statements required by ESEF Regulation, are labelled and all labels meet the following requirements:
- XBRL mark-up language was used,
- the elements of the basic taxonomy listed in the ESEF Regulation with the closest accounting meaning were used, unless an additional element of taxonomy has been created in accordance with Annex IV ESEF Regulations,
- the labels comply with the common labelling rules under the ESEF Regulation.

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

.

**INDEPENDENT AUDITOR'S REPORT (continued)****Report on the audit of separate and consolidated financial statements (continued)**

**Report based on the requirements of Delegated Regulation (EU) 2018/815 amending Directive 2004/109 / EC of the European Parliament and the Council regarding regulatory technical standards for the specification of the European Single Electronic Format (continued)**

**Conclusion**

In our opinion, based on the procedures performed and the evidence obtained, the financial statements presented in ESEF format, contained in the above-mentioned electronic file and based on the provision of Article 462, paragraph 5 of the Capital Market Act prepared for the purposes of public disclosure, in all material respects are in line with the requirements from articles 3, 4 and 6 of the ESEF Regulation for the year ended 31 December 2023.

In addition, as well as the opinion contained in this Independent Auditor's Report for the accompanying separate and consolidated financial statements and the report for the year ended 31 December 2023, we do not express any opinion on the information contained in these statements or other information contained in the file stated above.

The engaged partner involved in the audit of the Company's and Group's separate and consolidated financial statements for 2023 which results in this Independent Auditor's Report, is the certified auditor Vedrana Stipić.

Zagreb, 29 April 2024

BDO Croatia d.o.o.  
Radnička cesta 180  
10000 Zagreb

---

Hrvoje Stipić, President of the  
Management Board

For signatures, please refer to the  
original Croatian auditor's report, which  
prevails.

---

Vedrana Stipić, Certified  
Auditor



# Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2023

	Note	2023 EUR thousand	2022 EUR thousand
<b>Operating revenues</b>			
Passenger traffic	4	208,782	167,935
Cargo traffic		1,063	1,368
Other sales revenue	5	15,192	13,827
<b>Total operating revenues</b>		<b>225,037</b>	<b>183,130</b>
<b>Other income</b>	6	<b>29,402</b>	<b>28,445</b>
<b>Operating expenses</b>			
Flight operations		(76,337)	(77,903)
Maintenance		(42,834)	(31,232)
Passenger service		(13,996)	(10,516)
Aircraft and traffic services		(53,292)	(46,863)
Promotion and sales		(26,744)	(22,440)
General and administrative expenses		(13,827)	(12,120)
Depreciation and amortization	12, 13, 14, 31	(19,016)	(21,415)
Other operating expenses		(4,093)	(1,846)
<b>Total expenses</b>		<b>(250,139)</b>	<b>(224,335)</b>
<b>Profit/(loss) from operations</b>		<b>4,300</b>	<b>(12,760)</b>
Finance income	9	9,369	10,214
Finance costs	10	(11,300)	(15,389)
<b>Net finance costs</b>		<b>(1,931)</b>	<b>(5,175)</b>
<b>Profit/(loss) before tax</b>		<b>2,369</b>	<b>(17,935)</b>
Income tax expense	11	(7)	-
<b>Profit/(loss) for the year</b>		<b>2,362</b>	<b>(17,935)</b>
<b>Other comprehensive income</b>			
Deferred exchange losses		-	88
The fair value of financial assets available for sale		533	20
Foreign exchange translation differences		-	-
<b>Total other comprehensive income</b>		<b>533</b>	<b>107</b>
<b>Total comprehensive income/(loss)</b>		<b>2,895</b>	<b>(17,828)</b>
<b>Profit/(loss) per share</b>	28	<b>0.03</b>	<b>(0.29)</b>

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

# Croatia Airlines d.d. separate statement of comprehensive income

For the year ended 31 December 2023

	Note	2023 EUR thousand	2022 EUR thousand
<b>Operating revenues</b>			
Passenger traffic	4	208,782	167,935
Cargo traffic		1,063	1,368
Other sales revenue	5	13,138	12,372
<b>Total operating revenues</b>		<b>222,983</b>	<b>181,675</b>
<b>Other income</b>	6	<b>29,377</b>	<b>28,380</b>
<b>Operating expenses</b>			
Flight operations		(76,337)	(77,903)
Maintenance		(42,834)	(31,232)
Passenger service		(13,996)	(10,516)
Aircraft and traffic services		(53,292)	(46,863)
Promotion and sales		(26,744)	(22,440)
General and administrative expenses		(12,006)	(10,935)
Depreciation and amortization	12, 13, 14, 31	(18,976)	(21,373)
Other operating expenses		(4,093)	(1,830)
<b>Total expenses</b>		<b>(248,278)</b>	<b>(223,092)</b>
<b>Profit/(loss) from operations</b>		<b>4,082</b>	<b>(13,037)</b>
Finance income	9	9,462	10,211
Finance costs	10	(11,292)	(15,377)
<b>Net finance costs</b>		<b>(1,830)</b>	<b>(5,166)</b>
<b>Profit/(loss) before tax</b>		<b>2,252</b>	<b>(18,203)</b>
Income tax expense	11	-	-
<b>Profit/(loss) for the year</b>		<b>2,252</b>	<b>(18,203)</b>
<b>Other comprehensive income</b>			
Deferred exchange losses		-	88
The fair value of financial assets available for sale		533	20
Foreign exchange translation differences		-	-
<b>Total other comprehensive income</b>		<b>533</b>	<b>107</b>
<b>Total comprehensive income/(loss)</b>		<b>2,785</b>	<b>(18,096)</b>
<b>Profit/(loss) per share</b>	28	<b>0.02</b>	<b>(0.29)</b>

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

# Croatia Airlines Group consolidated statement of financial position

For the year ended 31 December 2023

	Note	31 December 2023	31 December 2022
		EUR thousand	EUR thousand
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	777	418
Property, plant and equipment	13	13,633	29,633
Investment property	14	-	-
Right of use assets	31	41,281	41,065
Prepayments	16	32,571	23,512
Non-current deposits	17	12,384	9,324
Investments in equity instruments	18	25	195
Non-current receivables	19	13,612	8,478
		<b>114,283</b>	<b>112,625</b>
<b>Current assets</b>			
Inventories	20	9,602	8,754
Trade receivables	21	15,374	11,918
Other receivables	22	3,428	3,369
Income tax receivable		19	19
Prepaid expenses and accrued income	23	1,906	5,080
Current deposits	24	3,647	1,986
Cash and cash equivalents	25	79,913	77,022
		<b>113,889</b>	<b>108,148</b>
<b>TOTAL ASSETS</b>		<b>228,172</b>	<b>220,773</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	26	92,388	83,334
Reserves	27	889	39,642
Retained earnings/(accumulated loss)		(80,467)	(92,764)
Net profit/(loss) for the year		2,362	(17,935)
		<b>15,170</b>	<b>12,277</b>
<b>Non-current liabilities</b>			
Provisions	29	39,953	31,784
Non-current loans and borrowings	30	81,654	80,893
Non-current lease liabilities	31	25,848	28,992
Other non-current liabilities		7	7
		<b>147,462</b>	<b>141,676</b>
<b>Current liabilities</b>			
Provisions	29	3,710	3,710
	32	-	-
Current portion of non-current loans and borrowings	30	-	2,950
Current lease liabilities	31	12,663	11,320
Trade payables	33	17,670	12,840
Other current liabilities	34	27,646	27,147
Income tax liability		7	-
Accrued expenses and deferred income	35	3,844	8,853
		<b>65,540</b>	<b>66,820</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>228,172</b>	<b>220,773</b>

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

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

For the year ended 31 December 2023

	Note	31 December 2023 EUR thousand	31 December 2022 EUR thousand
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	777	418
Property, plant and equipment	13	13,585	29,610
Investment property	14	-	-
Right of use assets	31	41,258	41,013
Investments in subsidiaries	15	346	346
Prepayments	16	32,571	23,512
Non-current deposits	17	12,142	9,211
Financial assets available for sale	18	25	195
Non-current receivables	19	13,612	8,478
		<b>114,316</b>	<b>112,783</b>
<b>Current assets</b>			
Inventories	20	9,602	8,754
Trade receivables	21	14,573	11,360
Other receivables	22	3,625	3,339
Prepaid expenses and accrued income	23	1,810	5,065
Current deposits	24	3,646	1,985
Cash and cash equivalents	25	79,120	76,286
		<b>112,376</b>	<b>106,789</b>
<b>TOTAL ASSETS</b>		<b>226,692</b>	<b>219,572</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	26	92,388	83,334
Reserves	27	476	39,229
Retained earnings/(accumulated loss)		(80,636)	(92,665)
Net profit/(loss) for the year		2,252	(18,203)
		<b>14,480</b>	<b>11,695</b>
<b>Non-current liabilities</b>			
Provisions	29	39,953	31,784
Non-current loans and borrowings	30	81,654	80,893
Non-current lease liabilities	31	25,848	28,967
Other non-current liabilities		7	7
		<b>147,462</b>	<b>141,651</b>
<b>Current liabilities</b>			
Provisions	29	3,710	3,710
Current loans and borrowings	32	-	-
Current portion of non-current loans and borrowings	30	-	2,950
Current lease liabilities	31	12,637	11,290
Trade payables	33	17,101	12,551
Other current liabilities	34	27,507	26,955
Accrued expenses and deferred income	35	3,795	8,770
		<b>64,750</b>	<b>66,226</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>226,692</b>	<b>219,572</b>

The accompanying notes are an integral part of these financial statements

## Croatia Airlines Group consolidated statement of changes in equity

For the year ended 31 December 2023

	Share capital	Reserves	Retained earnings/ (accumulated losses)	Profit/(loss) for the year	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>Croatia Airlines Group</b>					
<b>Balance at 31 December 2021</b>	<b>83,334</b>	<b>162</b>	<b>(54,422)</b>	<b>(38,255)</b>	<b>(9,182)</b>
Profit/(loss) for the year	-	-	-	(17,935)	(17,935)
Other comprehensive income	-	107	-	-	107
Total comprehensive income	-	107	-	(17,935)	(17,828)
<b>Transactions with owners</b>					
Transfer of profit from 2021 to other capital reserves	-	87	(38,342)	38,255	-
Share capital increase	-	39,286	-	-	39,286
<b>Balance at 31 December 2022</b>	<b>83,334</b>	<b>39,642</b>	<b>(92,764)</b>	<b>(17,935)</b>	<b>12,277</b>
Profit/(loss) for the year	-	-	-	2,362	2,362
Share capital decrease (euro conversion)	(30,232)	-	30,232	-	-
Share capital increase registration (transfer from reserves)	39,286	(39,286)	-	-	-
Cover of 2022 loss from legal reserves and other capital reserves	-	-	(17,935)	17,935	-
Other comprehensive income	-	533	-	-	533
<b>Balance at 31 December 2023</b>	<b>92,388</b>	<b>889</b>	<b>(80,467)</b>	<b>2,362</b>	<b>15,170</b>

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

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

For the year ended 31 December 2023

	Share capital	Reserves	Retained earnings/ (accumulated losses)	Profit/(loss) for the year	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>Croatia Airlines d.d.</b>					
<b>Balance at 31 December 2021</b>	<b>83,334</b>	<b>(164)</b>	<b>(54,412)</b>	<b>(38,253)</b>	<b>(9,494)</b>
Profit/(loss) for the year	-	-	-	(18,203)	(18,203)
Other comprehensive income	-	107	-	-	107
Total comprehensive income	-	107	-	(18,203)	(18,096)
<b>Transactions with owners</b>					
Transfer of profit from 2021 to other capital reserves	-	-	(38,253)	38,253	-
Share capital increase	-	39,286	-	-	39,286
<b>Balance at 31 December 2022</b>	<b>83,334</b>	<b>39,229</b>	<b>(92,665)</b>	<b>(18,203)</b>	<b>11,695</b>
Profit/(loss) for the year	-	-	-	2,252	2,252
Share capital decrease (euro conversion)	(30,232)	-	30,232	-	-
Share capital increase registration (transfer from reserves)	39,286	(39,286)	-	-	-
Cover of 2022 loss from legal reserves and other capital reserves	-	-	(18,203)	18,203	-
Other comprehensive income	-	533	-	-	533
<b>Balance at 31 December 2023</b>	<b>92,388</b>	<b>476</b>	<b>(80,636)</b>	<b>2,252</b>	<b>14,480</b>

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

## Croatia Airlines Group consolidated cash flow statement

For the year ended 31 December 2023

	Note	2023 EUR thousand	2022 EUR thousand
<b>Cash flows from operating activities</b>			
Loss for the year		2,362	(17,935)
<i>Adjustments for:</i>			
Depreciation and amortization		19,016	21,415
Gain on sale of property, plant and equipment		(9,490)	(52)
Disposals of property, plant and equipment		709	598
Interest liability write-off		-	(1,156)
Impairment loss on trade receivables		53	-
Collection of previously written-off receivables		(2)	(9,342)
Change in provisions		8,169	(199)
Lease cancellation		(1,840)	760
Unrealized foreign exchange differences		(696)	363
Interest costs		2,947	2,991
Interest income		(1,367)	(72)
		<b>19,861</b>	<b>(2,629)</b>
<i>Changes in:</i>			
Inventories		(848)	(786)
Trade and other receivables		486	(926)
Trade and other payables		(1,149)	8,529
<b>Cash generated from operating activities</b>		<b>18,350</b>	<b>4,188</b>
Interest paid		(1,781)	(1,909)
Interest received		1,367	73
Net change of deposits		(4,721)	4,044
Income tax paid		-	(1)
<b>Net cash (used in) / from operating activities</b>		<b>13,215</b>	<b>6,395</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(2,589)	(3,262)
Proceeds from sale of property, plant and equipment		22,992	93
Prepayments for maintenance of aircrafts and engines		(15,071)	(6,666)
<b>Net cash used in investing activities</b>		<b>5,332</b>	<b>(9,835)</b>
<b>Cash flows from financing activities</b>			
Capital contribution	27	-	39,301
Proceeds from loans and borrowings	32	-	12,481
Repayment of loans and borrowings	32	(2,950)	(1,701)
Payment of lease liabilities	31	(12,706)	(11,634)
<b>Net cash from / (used in) financing activities</b>		<b>(15,656)</b>	<b>38,447</b>
<b>Net decrease in cash and cash activities</b>		<b>2,891</b>	<b>35,007</b>
Cash and cash equivalents at beginning of the year		77,022	42,126
Effect of foreign currency translation		-	(111)
<b>Cash and cash equivalents at end of the year</b>	25	<b>79,913</b>	<b>77,022</b>

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



## Croatia Airlines d.d. separate cash flow statement

For the year ended 31 December 2023

	Note	2023 EUR thousand	2022 EUR thousand
<b>Cash flows from operating activities</b>			
Loss for the year		2,252	(18,203)
<i>Adjustments for:</i>			
Depreciation and amortization		18,976	21,373
Gain on sale of property, plant and equipment		(9,481)	(52)
Disposals of property, plant and equipment		709	598
Interest liability write-off		-	(1,156)
Impairment loss on trade receivables		53	-
Collection of previously written-off receivables		(2)	(9,339)
Change in provisions		8,169	(199)
Lease cancellation		(1,852)	760
Unrealized foreign exchange differences		(413)	363
Interest costs		2,945	2,989
Interest income		(1,463)	(76)
Income from shares in profit		(93)	-
		<b>19,800</b>	<b>(2,942)</b>
<i>Changes in:</i>			
Inventories		(848)	(786)
Trade and other receivables		590	(527)
Trade and other payables		(1,349)	8,366
<b>Cash generated from operating activities</b>		<b>18,193</b>	<b>4,111</b>
Interest paid		(1,779)	(1,908)
Interest received		1,206	77
Net change of deposits		(4,592)	4,026
<b>Net cash from operating activities</b>		<b>13,028</b>	<b>6,306</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(2,555)	(3,255)
Proceeds from sale of property, plant and equipment		22,992	93
Loans given		(500)	-
Proceeds from repayment of loans		250	30
Prepayments for maintenance of aircrafts and engines		(15,071)	(6,666)
Dividends received		93	-
<b>Net cash used in investing activities</b>		<b>5,209</b>	<b>(9,798)</b>
<b>Cash flows from financing activities</b>			
Capital contribution	27	-	39,301
Proceeds from loans and borrowings	32	-	12,481
Repayment of loans and borrowings	32	(2,950)	(1,701)
Payment of lease liabilities	31	(12,453)	(11,601)
<b>Net cash from / (used in) financing activities</b>		<b>(15,403)</b>	<b>38,480</b>
<b>Net decrease in cash and cash activities</b>		<b>2,834</b>	<b>34,988</b>
Cash and cash equivalents at beginning of the year		76,286	41,406
Effect of foreign currency translation		-	(108)
<b>Cash and cash equivalents at end of the year</b>	25	<b>79,120</b>	<b>76,286</b>

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

## Notes to the consolidated and separate financial statements

### For the year ended 31 December 2023

---

#### 1. GENERAL

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

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

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

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

#### General Assembly of the Company

The Ministry of State Property	99.16 %
Zagreb International Airport	0.52 %
HPB for The Republic of Croatia	0.19 %
Others	0.13 %
<b>Total</b>	<b>100.00 %</b>

#### Supervisory Board of the Company

Zlatko Mateša	President
Zoran Barac	Member
Mirko Tatalović	Member
Janko Mišić	Member from 2 August 2022; Vice President from 14 October 2022

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

For the year ended 31 December 2023

---

### 1. GENERAL (CONTINUED)

#### Management Board of the Company

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

#### Subsidiaries' Management

Ivana Erceg	General Manager of Amadeus Croatia d.d. from 20 September 2023
Eugen Šunde	General Manager of Amadeus Croatia d.d. to 19 September 2023
Romana Žižak	General Manager of Obzor putovanja d.o.o. from 1 July 2023
Silvana Turčić	General Manager of Obzor putovanja d.o.o. to 30 June 2023

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Compliance statement

The separate and consolidated financial statements have been drawn up in compliance with the International Financial Reporting Standards adopted by the European Union (IFRS EU).

#### Reporting basis and functional currency

The items included in the financial statements of the Company and the Group are reported in the currency of the primary economic environment in which they operate (functional currency). Since, pursuant to the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia, the Republic of Croatia introduced the euro as its official currency as of 1 January 2023, the Company and the Group changed the presentation currency from the Croatian kuna to the euro for the purpose of drawing up financial statements for the year ended 31 December 2023, and this change was for the first time applied in the said statements. As of 1 January 2023, the euro has also been the functional currency of the Company and the Group (replacing the Croatian kuna, which was their functional currency until 1 January 2023). Although the change in the presentation currency in financial statements represents a change in the accounting policy that requires retroactive application, the Company and the Group did not publish a third balance sheet in the financial statements for the year ended 31 December 2023 in line with the International Accounting Standard 8 (IAS 8) Accounting Policies, Changes in Accounting Estimates and Errors, as it was established that the change of the presentation currency had no material impact on the financial statements of the Company and the Group given the stable HRK/EUR currency over the past few years. The financial statements for 2022 were drawn up in the Croatian kuna as the functional and reporting currency valid until 31 December 2022.

In the financial statements for the year ended 31 December 2023, the financial figures for 2022 were reported in the euro and converted at a fixed exchange rate (EUR 1.00 = HRK 7.53450).

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The amounts reported in these financial statements have been rounded to the nearest thousand, unless otherwise stated.

The financial statements have been prepared on the historical cost basis, except for any financial assets and liabilities stated at fair value, and except for aircraft and spare engines recorded as property, plant and equipment at revaluated amounts. The accounting policies have been consistently applied, except where otherwise stated.

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

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Consolidation basis

The enclosed consolidated financial statements comprise the financial statements of the Company and the entities under its control, i.e. its subsidiaries, including the structured entities. Control is achieved when the Company has the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect its returns.

The Company and the Group reassess the control status if there are any changes in the facts and circumstances that affect one or more of the three elements of control described above. In the event that the Company holds less than the majority of voting rights in an entity, it is deemed to have power over that entity if its voting rights are sufficient to enable it to direct the entity's essential activities.

In determining whether its voting rights in the entity are sufficient to exert power, the Company considers all relevant facts and circumstances, including:

- the proportion of its voting rights in relation to the size and distribution of the voting rights of other persons with the right to vote;
- the potential voting rights of investors, other persons with the right to vote or other persons;
- the rights under other contractual relationships; and
- any additional facts and circumstances that indicate whether the Company has the current ability to conduct relevant affairs at the time when such decisions need to be made; this includes details of how votes were cast at previous shareholders' meetings.

A subsidiary is either consolidated or deconsolidated from the moment the Company acquires or relinquishes control over it. The income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date on which the Company acquires control to the date on which it relinquishes control over the subsidiary.

Profit or loss and each component of other comprehensive income are separated into the part that belongs to the owners of the parent company (the Company) and the part that belongs to the owners of non-controlling interests. The total comprehensive income of subsidiaries is attributed to the owners of the company and the owners of non-controlling interests, even if this results in a negative balance of non-controlling interests.

The accounting policies of subsidiaries are aligned with those of the parent company.

A subsidiary is defined as a company in which the parent company exercises control. Control is achieved when the parent company has power over the entity, exposure, or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to affect its returns. The company reassesses its control status if there are any changes to the facts and circumstances that indicate a shift in one or more of the three elements of control mentioned above. A subsidiary is defined as an entity over which the Company has direct or indirect control. This is achieved by acquiring more than 50% of the shares or voting rights, by exercising the right to appoint the majority of members of the management or supervisory board, or the right to make decisions in a subsidiary company in such a way that the controlling company controls the majority of the voting rights in the subsidiary company. In these separate financial statements, investments in subsidiaries are outlined according to the cost method. The cost of investments in subsidiaries is tested for impairment at each reporting date.

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Please find below a description of the basic accounting policies that have been adopted.

#### a) Revenue

Generally, 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. When selling tickets on flights of other carriers, the Company is an agent and recognizes commission income. 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 2023

---

### 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 2023

---

### 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 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### e) Foreign currencies

Transactions in currencies other than EURO 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.

#### f) 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.

#### g) Government grants

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

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

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### h) 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.

#### i) Property, plant and equipment

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

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

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

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

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Included in the cost of aircraft is the residual value for each type of aircraft. Depreciation is charged on a straight-line basis from the first day of the next month after the asset is ready to be used. Equipment and spare parts with useful life span over one year and individual cost value over 464 euro are recorded as property plant and equipment. Power generating and equipment of low value used in operating activities are recorded as property plant and equipment no matter their cost.

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

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

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

The Airbus, and Dash spare parts are stated at cost value and depreciated over the estimated useful life of the aircraft to which they refer (20 years). Ground Service Equipment ("GSE") and tools are stated at cost and depreciated over 16.6 years. During 2023, the Company adjusted the depreciation rates for spare parts purchased for leased aircraft and engines, and they are depreciated over the expected useful life, including the remaining term of the lease contract. Buildings are depreciated over their estimated useful life of 20 years, and other assets over their useful life, which ranges from 4 – 10 years.

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

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### j) 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.

#### k) 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.

#### l) Investments in subsidiaries

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

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

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

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### m) 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.

#### n) Financial instruments

Financial instruments consist of contractual claims and rights. Financial instruments include both primary instruments, such as trade accounts receivable and payable, investments, and financial commitments and derivative financial instruments, which are used to hedge risks arising from changes in foreign exchange rates and interest rates.

Information on fair value and risk management of these financial instruments is set out below.

Financial assets and financial liabilities are recognized on the Group's and the Company's balance sheet when the subsidiary or the Company becomes a party to the contractual provisions of the instrument.

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

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

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

The Company's policy is not to 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.

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

For the purposes of the 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 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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.

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

For the year ended 31 December 2023

---

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### r) Application of new standards, interpretations and amended International Financial Reporting Standards (IFRSs)

Initial application of new amendments to the existing standards and interpretations effective for the current financial period.

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- IFRS 17 “Insurance contracts” and amendments to IFRS 17 “Insurance contracts” -effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 1 “Presentation of financial statements” and IFRS Practice Statement 2 - Disclosure of Accounting Policies, effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 8 “Accounting policies, Changes in Accounting Estimates and Errors” - Definition of Accounting Estimates, effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 12 “Income Taxes” - Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 12 “Income Taxes” - International Tax Reform – Pillar Two Model Rules, effective immediately upon the issue and for annual periods beginning on or after 1 January 2023

The adoption of these amendments to existing standards did not lead to significant changes in the Company's/Group financial statements.

#### Standards, amendments to existing standards and interpretations issued by the IASB and adopted in the European Union, but not yet effective

At the financial statements approval date, the following amendments to existing standards issued by IASB and adopted in the European Union were published, but not yet effective:

- Amendments to IFRS 16 “Leases”- Lease Liability in a Sale and Leaseback, effective for annual periods beginning on or after 1 January 2024
- Amendments to IAS 1 “Presentation of Financial Statements” - Classification of Liabilities as Current or Non-current Date, Classification of Liabilities as Current or Non-current - Deferral and Non-current Liabilities with Covenants, effective for annual periods beginning on or after 1 January 2024

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards and amendments to the existing standards issued by IASB and not yet adopted by the EU

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union has not yet decided on (date of entry into force set out below relate to IFRSs issued by the IASB):

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures Supplier Finance Arrangements, effective for annual periods beginning on or after 1 January 2024
- Amendments IAS 21 The Effects of Changes in Foreign Exchange Rates-Lack of Exchangeability, effective for annual periods beginning on or after 1 January 2025

The company is currently evaluating the impact of new standards and changes to existing standards on its financial statements. The Company expects that the adoption of these new standards and amendments to existing standards will not lead to significant changes in the Company's financial statements in the period of the first application of the standard.

#### 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.

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.

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

For the year ended 31 December 2023

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *(ii) 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 2023

---

### 3. GOING CONCERN

In the period from 2020-2022, Croatia Airlines operated during the worst crisis in the history of civil aviation, resulting from the global COVID-19 pandemic that strongly affected all aspects of economic and social activity on a global scale. The crisis had a particularly devastating effect on tourism and travels, with airlines and air traffic in general being among the most affected sectors.

In 2020, during the most severe period of crisis, Croatia Airlines continued to connect Croatia with the rest of the world, and carried on with its mission in 2021 by gradually reintroducing routes and increasing the number of frequencies in line with the demand and the epidemiological measures of individual countries. Following the airline industry trends, it started to recover gradually in 2022 in 2023 by increasing frequencies and reintroducing certain routes, but it still failed to reach the traffic levels of 2019.

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

Croatia Airlines' business operations in 2023 were exposed to a number of major risks, and maintaining a balance between various factors and responses to individual risks became more complicated. Fuel and emission allowance prices, and inflation, were the main risks affecting Croatia Airlines' operations in 2023, while a strong increase in sales revenue and a stable cash balance level reduced the liquidity risk.

In addition to these long-term risks, labour shortage in all segments of air traffic was a great challenge for the airline industry in 2023. Croatia Airlines had sufficient operational transport staff in the summer season of 2023, but the big problems at major European airports caused by the shortage of staff, mainly air traffic controllers, represented a risk for the Company and led to traffic disruptions and related costs, especially in the summer season. The risk was reduced in the winter season due to lower traffic scope at airports. One of the most significant risks is the escalation of conflicts in the Middle East, as it affects Croatia Airlines' charter flights between Croatia and Israel.

Despite a whole array of growing risks, there were significant positive shifts in 2023 compared to 2022, both in terms of traffic growth and financial operations. The Company continuously monitored its liquidity and made cash flow projections for the coming period in order to timely identify ways to manage potential operational risks related to the settlement of its financial liabilities. In May 2023, it repaid the long-term syndicated loan taken with PBZ/HPB, and there was no fresh borrowing. The Company settled all of its financial liabilities in a timely manner, i.e. within the set deadlines.

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

For the year ended 31 December 2023

---

### 3. GOING CONCERN (continued)

Along with mitigating potential negative impacts of operational risks, Croatia Airlines focused on the further implementation of its Post-COVID Strategy.

A proposal for Croatia Airlines' Post-COVID Strategy, drawn up in mid-2021 together with the Boston Consulting Group (BCG), was adopted in the Company's Supervisory Board session on 31 August 2021, paving the way for further talks with the Republic of Croatia as the Company owner, and other entities crucial to ensuring a successful and sustainable future for the national flag carrier and Star Alliance member.

In addition to increasing its efficiency and competitiveness by transforming its current operating models and methods, the Company faces key operational and structural challenges, including fleet renewal and optimisation of its flight network throughout the year. Taking into account the trends in the highly competitive Croatian airline market, fuel and CO<sub>2</sub> emission prices, as well as the EU green policy objectives, there is no alternative to the defined strategic initiatives, and their implementation will enable the Company to seize every opportunity that presents itself, in line with the expected recovery of air traffic. The Post-COVID Strategy represents a new development cycle for the Company, and the implementation of the key strategic initiatives will ensure sustainable business operations.

The implementation of Croatia Airlines' Post-COVID Strategy started in the final quarter of 2021, following its adoption. In early October 2022, Croatia Airlines reached a decision to start with a fleet renewal process, i.e. to replace its existing aircraft with a new, uniform fleet. With a single-type aircraft fleet, Croatia Airlines will simplify its processes and improve its operational and financial performance. It will become even more environmentally friendly, significantly reducing fuel consumption and CO<sub>2</sub> emissions. In 2023, the Company intensified activities related to the procurement and introduction of the first new A220 aircraft into the fleet as of 2024, in line with Croatia Airlines' Post-COVID Strategy.

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

Key strategic goals:

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

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

For the year ended 31 December 2023

---

### 3. GOING CONCERN (continued)

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

#### 1) Fleet structure optimisation

In addition to post-COVID recovery of operations, one of the key goals of the Business Plan is replacement of the existing fleet with newer and more cost-effective aircraft, via operating lease. After a detailed analysis of the airline market and aircraft offer, Croatia Airlines opted for A220 type aircraft, with the capacity of 149 (A220-300) and 127 seats (A220-100), to be delivered in the period from 2024 to 2027.

In early 2023, it entered into an operating lease contract for six Airbus A220 (four A220-300 and two A220-100) with Air Lease Corporation. On 30 October 2023, it finalised arrangements for an operating lease of three Airbus A220 with lessor Azzora. In the second half of December 2023, it arranged for the financing of six A220 with Griffin Global Asset Management. The six aircraft were ordered directly from Airbus, as part of an annex to the contract dating from 2008. The financing refers to prepayments and operating lease of the six aircraft. This way it arranged for the procurement of 15 Airbus A220 aircraft, as envisaged by the Post-COVID Strategy.

A potential delay in delivery of new aircraft and adequate disposal of the five Company-owned Airbus 319/320 upon expiry of their service life are seen as two major risks within the fleet replacement process. The decommissioning of the Airbus fleet requires a solution to be found while the aircraft are still airworthy, so that their engines, parts and components could be monetised. Selling them in bulk and in 'as is' condition, through sale and leaseback, is seen as the most cost-effective option, which implies selling them while they are still airworthy and at the same time keeping a lease on them until they are replaced with new ones. The advantage of this approach is ensuring the flexibility needed when implementing the fleet renewal plan (e.g. extending the lease period in case of delayed deliveries of new aircraft), while transferring the risks related to the disposal of non-airworthy aircraft to the lessor. In September 2023, the Company effected the sale and leaseback of the Airbus 319/320, and related funds will be used for the purchase of spare engines for the A220 fleet. The other aircraft (the Dash 8-Q400 fleet) will be returned to their owners/lessors upon expiry of the lease period.

#### 2) Optimisation and expansion of the destinations network

In line with the expected recovery of demand for air traffic services upon completion of the pandemic, the Plan envisages a gradual increase in the number of destinations and frequencies, and optimisation of the expanded destinations network. In 2022, the Company introduced five new international routes from Split Airport: to Amsterdam, Bucharest, Dublin, Milan and Stockholm, and increased block time in the winter period by introducing the Osijek-Munich, Split-Zurich, and Pula-Zurich routes. In 2023, the following new routes were introduced: Split-Oslo, Split-Skopje, Dubrovnik-Prague, Zagreb-Mostar, Zadar-Munich, and Brač-Munich, and the year of 2024 should see the introduction of new routes from Zagreb.

#### 3) Increase in passenger revenues

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

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

For the year ended 31 December 2023

---

### 3. GOING CONCERN (continued)

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

The profiling of the technical sector as a profit centre is underway, 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 nine months a year, i.e. on the freeing up and maximum utilisation of capacities for third party maintenance once Croatia Airlines' aged fleet is replaced with new aircraft.

#### 5) Implementation of the Public Service Obligation contract for the 2022-2026 period

Croatia's traffic connectivity remains in the Company's focus. Following a public tender, and pursuant to the relevant decision of the Government of the Republic of Croatia, the Ministry of the Sea, Transport and Infrastructure and Croatia Airlines entered into a contract on the provision of scheduled air transport services in the period from 4 July 2022 to 28 March 2026.

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

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

Due to growing prices, inflationary pressures and unit price increases announced by suppliers, the effect of these measures were significantly lower than that envisaged by the Post-COVID Strategy, particularly in 2023. In order to further optimise costs by optimising its business processes, the Company started with digitalisation in the commercial segment, in particular aircraft maintenance process. The company-wide DMS (Document Management Systems) project is set to begin in 2024.

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

Negotiations on the termination/amendment to the 2008 contract with Airbus Industrie for the procurement of four A320neo aircraft started in the autumn of 2019. The negotiations on the Termination Agreement, the subject-matter of which is the cancellation of the purchase of A320neo aircraft, were put on hold at the onset of the COVID-19 crisis, and resumed in early 2021. In 2022, during the negotiations with Airbus on the order of six new A220 aircraft, the parties agreed that this order would replace the order of A320neo aircraft as part of Croatia Airlines' fleet renewal project and in line with the provisions of the Post-COVID Strategy. Therefore, instead of negotiating the termination of the old contract, an annex was added to the purchase contract from April 2008, replacing the existing obligations related to A320neo aircraft with a new one, referring to the purchase of six A220 aircraft. The Company also reached an agreement with Airbus on the utilisation of the pre-delivery payments already made for the new aircraft in the amount of \$9 million, as well as on a write-off of interest worth \$1.3 million.



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

For the year ended 31 December 2023

---

### 3. GOING CONCERN (continued)

The global economy will continue to face numerous challenges in 2024, and the fragile profitability of the airline industry could be affected (positively or negatively) by many factors. Nevertheless, IATA believes that there are plenty of reasons to be optimistic about 2024, projecting that it will be the year in which the industry makes a full recovery and reaches the 2019 traffic figures, i.e. the pre-pandemic level.

Croatia Airlines' ability to achieve the results projected for 2024 will largely depend on the expected demand for air traffic services. The war in Ukraine, and the Israel-Hamas war, the prices of fuel and other energy products, inflationary pressures and supply chain disruptions will be the main risks affecting its performance. From the regulatory aspect, airlines could face rising compliance costs and additional costs pertaining to passenger rights regimes, regional environment initiatives, and accessibility requirements.

The Company's Business Plan for 2024 includes the strategic initiatives outlined in Croatia Airlines' Post-COVID Strategy and provides for the intensification of all activities related to the introduction of the first new Airbus A220 aircraft into the fleet.

Croatia Airlines envisages a profit of EUR 1.4 million for 2024. This result is based on the projection of traffic performance, which serves as a basis for the calculation of operating revenue and expenses. In 2024, the Company will continue to pay special attention to maintaining liquidity, and its cash and cash equivalents balance at the end of 2024 is seen to total EUR 71 million. The planned funds are sufficient to ensure the timely settlement of liabilities in 2024, i.e. to meet the prerequisites that will enable the Company to continue operating as a going concern.

Taking into account all of the above, the Management has come to the conclusion that the Company will be able to meet its current liabilities as well as its obligations under the lease contracts in a timely manner. It believes that it is appropriate to prepare the financial statements on a going concern basis.

The implementation of the defined Post-COVID Strategy, and the continuation of the privatisation process once the conditions are met, should reduce the risks related to uncertainties and doubts about the Company's ability to continue as a going concern in the period ahead.

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

For the year ended 31 December 2023

### 4. PASSENGER TRAFFIC

	2023 Croatia Airlines d.d. and Group EUR thousand	2022 Croatia Airlines d.d. and Group EUR thousand
Scheduled services	199,126	158,685
Charter services	9,656	9,250
	<b>208,782</b>	<b>167,935</b>

Revenue by geographical area based on sales origin:

	2023 Croatia Airlines d.d. and Group EUR thousand	2022 Croatia Airlines d.d. and Group EUR thousand
Croatia	73,074	56,359
USA	23,384	17,751
Greece	19,834	14,140
Germany	17,329	15,870
France	7,934	7,591
Netherlands	5,846	3,863
Switzerland	5,011	4,350
Other countries	73,699	48,011
	<b>208,782</b>	<b>167,935</b>

### 5. OTHER SALES REVENUE

	2023 Croatia Airlines Group EUR thousand	2022 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand	2022 Croatia Airlines d.d. EUR thousand
Revenue from technical services to others	7,361	8,325	7,361	8,325
Commission income from foreign air companies	1,173	612	1,173	612
Revenue from reservation system services	1,125	928	373	260
Revenue from advertising services	2,560	1,613	2,560	1,613
Revenue from educational services	381	454	381	454
Mileage related revenue	516	431	516	431
Other	2,076	1,464	774	677
	<b>15,192</b>	<b>13,827</b>	<b>13,138</b>	<b>12,372</b>

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

For the year ended 31 December 2023

---

### 6. OTHER INCOME

	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>
	<b>Group</b>	<b>Group</b>	<b>d.d.</b>	<b>d.d.</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Income from PSO	15,558	14,782	15,558	14,782
Gain from sale of property, plant and equipment	9,490	52	9,490	52
Bad debts collected	2	9,335	2	9,332
Income from sale of spare parts	10	19	10	19
Other income	4,342	4,257	4,317	4,195
	<b>29,402</b>	<b>28,445</b>	<b>29,377</b>	<b>28,380</b>

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

The profit from the sale of property, plant and equipment in 2023 included the effect of the implementation of the Sale and Leaseback Agreement and is calculated as the difference between the book value of the aircraft and engines and the discounted value of the assets with the right of use, calculated on the basis of the total contracted fixed obligations until the end of the lease (according to the rules of IFRS-16).

Other income includes income from approved discounts, other income from previous years, income from cancellation of provisions and other miscellaneous income.

The collected value-adjusted receivables from 2022 relate mainly to pre-delivery payments made for the Airbus fleet.

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

For the year ended 31 December 2023

### 7. EXPENSES BY NATURE

	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>
	<b>Group</b>	<b>Group</b>	<b>d.d.</b>	<b>d.d.</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Fuel	50,802	57,591	50,802	57,591
Airport costs	36,105	31,516	36,105	31,516
Staff costs	42,404	36,202	41,667	35,556
Rental and maintenance of engines and parts	26,402	16,958	26,402	16,958
Aircraft lease	817	56	817	56
Air traffic control costs	17,188	15,346	17,187	15,346
Reservation system costs	11,132	9,671	11,132	9,671
Amortisation and depreciation	19,016	21,415	18,976	21,373
Commision costs	7,532	6,046	7,532	6,046
Catering	2,629	2,163	2,629	2,163
Consumables	2,934	3,175	2,934	3,175
Promotion costs	2,255	1,691	2,255	1,691
Other expenses	30,923	22,514	29,840	21,957
	<b>250,139</b>	<b>224,344</b>	<b>248,278</b>	<b>223,099</b>

### 8. STAFF COSTS

	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>
	<b>Group</b>	<b>Group</b>	<b>d.d.</b>	<b>d.d.</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Net wages and salaries	20,331	17,683	19,926	17,326
Taxes and contributions form salaries	9,471	7,855	9,291	7,707
Contributions on salaries	6,637	5,655	6,549	5,580
Other employee related costs	5,965	5,009	5,901	4,943
	<b>42,404</b>	<b>36,202</b>	<b>41,667</b>	<b>35,556</b>

As at 31 December 2023 the Group had 935 employees (Croatia Airlines d.d. 911, Amadeus Croatia d.d. 6 and Obzor putovanja d.o.o. 18) while as at 31 December 2022 the Group had 938 employees (Croatia Airlines d.d. 910, Amadeus Croatia d.d. 7 and Obzor putovanja d.o.o. 21) ; (see Note 36).

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

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

For the year ended 31 December 2023

---

### 9. FINANCE INCOME

	<b>2023</b> <b>Croatia Airlines</b> <b>Group</b> <b>EUR</b> <b>thousand</b>	<b>2022</b> <b>Croatia Airlines</b> <b>Group</b> <b>EUR</b> <b>thousand</b>	<b>2023</b> <b>Croatia Airlines</b> <b>d.d.</b> <b>EUR</b> <b>thousand</b>	<b>2022</b> <b>Croatia Airlines</b> <b>d.d.</b> <b>EUR</b> <b>thousand</b>
Positive foreign exchange differences	7,909	10,142	7,906	10,135
Interest income	1,367	72	1,463	76
	<b>9,369</b>	<b>10,214</b>	<b>9,462</b>	<b>10,211</b>

### 10. FINANCE COSTS

	<b>2023</b> <b>Croatia Airlines</b> <b>Group</b> <b>EUR</b> <b>thousand</b>	<b>2022</b> <b>Croatia Airlines</b> <b>Group</b> <b>EUR</b> <b>thousand</b>	<b>2023</b> <b>Croatia Airlines</b> <b>d.d.</b> <b>EUR</b> <b>thousand</b>	<b>2022</b> <b>Croatia Airlines</b> <b>d.d.</b> <b>EUR</b> <b>thousand</b>
Negative foreign exchange differences	8,347	12,393	8,341	12,383
Interest expense	2,947	2,991	2,945	2,989
Other finance costs	6	5	6	5
	<b>11,300</b>	<b>15,389</b>	<b>11,292</b>	<b>15,377</b>

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

For the year ended 31 December 2023

---

### 11. INCOME TAX EXPENSE

Income tax in Croatia is calculated at the rate of 18% (2022: 18%), which is applied to taxable profit for the current year. Subsidiaries calculate income tax at the rate of 18% (Obzor putovanja d.o.o.) and at the rate of 10% (Amadeus Croatia d.d.).

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

In 2023 there was no income tax expense obligation on Group level given that the related companies used part of the accumulated losses.

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

	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>
	<b>Group</b>	<b>Group</b>	<b>d.d.</b>	<b>d.d.</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Loss before tax	2,369	(17,935)	2,252	(18,203)
Tax at statutory rate	426	(3,230)	405	(3,278)
Non-deductible expenses	245	117	242	115
Non-taxable income	(29)	(10)	(29)	(6)
Tax incentives	(100)	(86)	(100)	(86)
Tax losses for which deferred tax asset is not recognised	-	3,255	-	3,255
Utilised tax losses for which deferred tax asset was not	(541)	(24)	(518)	-
Effect of different tax rates	6	(22)	-	-
<b>Income tax</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

For the year ended 31 December 2023

---

### 11. INCOME TAX EXPENSE (CONTINUED)

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

	<b>2023</b>	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>Tax losses available for utilisation</b>	<b>Tax allowance at tax rate of 18%</b>	<b>Tax losses available for utilisation</b>	<b>Tax allowance at tax rate of 18%</b>
	<b>EUR thousand</b>	<b>EUR thousand</b>	<b>EUR thousand</b>	<b>EUR thousand</b>
Loss from 2019 (expires 2024)	9,024	1,624	9,024	1,624
Loss from 2020 (expires 2025)	60,511	10,892	60,511	10,892
Loss from 2021 (expires 2026)	40,942	7,370	40,942	7,370
Loss from 2022 (expires 2027)	18,077	3,254	-	-
	<b>128,554</b>	<b>23,140</b>	<b>110,477</b>	<b>19,886</b>

Tax loss of the subsidiaries is as follows:

	<b>2023</b>	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>Tax losses available for utilisation</b>	<b>Tax allowance at tax rate of 10%</b>	<b>Tax losses available for utilisation</b>	<b>Tax allowance at tax rate of 10%</b>
	<b>EUR thousand</b>	<b>EUR thousand</b>	<b>EUR thousand</b>	<b>EUR thousand</b>
Loss from 2020 (expires 2025)	111	11	206	21
Loss from 2021 (expires 2026)	23	2	111	11
	<b>134</b>	<b>13</b>	<b>317</b>	<b>32</b>

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 2023

### 12. INTANGIBLE ASSETS

#### Croatia Airlines Group

#### 2023

	Software	Leashold improvements	Intangible assets under construction	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST</b>				
Balance at 1 January 2023	5,333	1,373	112	6,818
Additions	183	15	388	586
Transfer	54	-	(54)	-
Disposals	(554)	(7)	-	(561)
Balance at 31 December 2023	<u>5,016</u>	<u>1,381</u>	<u>446</u>	<u>6,843</u>
<b>ACCUMULATED AMORTIZATION</b>				
Balance at 1 January 2023	5,118	1,282	-	6,400
Charge for the year	168	60	-	228
Disposal	(555)	(7)	-	(562)
Balance at 31 December 2023	<u>4,731</u>	<u>1,335</u>	<u>-</u>	<u>6,066</u>
<b>NET BOOK VALUE</b>				
Balance at 31 December 2023	<u>285</u>	<u>46</u>	<u>446</u>	<u>777</u>
Balance at 1 January 2023	<u>215</u>	<u>91</u>	<u>112</u>	<u>418</u>

	Software	Leashold improvements	Intangible assets under construction	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST</b>				
Balance at 1 January 2022	5,119	1,347	69	6,535
Additions	226	28	43	297
Fx differences	(12)	(2)	-	(14)
Balance at 31 December 2022	<u>5,333</u>	<u>1,373</u>	<u>112</u>	<u>6,818</u>
<b>ACCUMULATED AMORTIZATION</b>				
Balance at 1 January 2022	4,966	1,236	-	6,202
Charge for the year	163	49	-	212
Fx differences	(11)	(3)	-	(14)
Balance at 31 December 2022	<u>5,118</u>	<u>1,282</u>	<u>-</u>	<u>6,400</u>
<b>NET BOOK VALUE</b>				
Balance at 31 December 2022	<u>215</u>	<u>91</u>	<u>112</u>	<u>418</u>
Balance at 1 January 2022	<u>153</u>	<u>111</u>	<u>69</u>	<u>333</u>



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

For the year ended 31 December 2023

### 12. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

	Software	Leashold improvements	Intangible assets under construction	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>2023</b>				
<b>COST</b>				
Balance at 1 January 2023	5,303	1,366	112	6,781
Additions	183	15	388	586
Transfer	54	-	(54)	-
Disposals	(524)	-	-	(524)
Balance at 31 December 2023	<u>5,016</u>	<u>1,381</u>	<u>446</u>	<u>6,843</u>
<b>ACCUMULATED AMORTIZATION</b>				
Balance at 1 January 2023	5,088	1,275	-	6,363
Charge for the year	168	60	-	228
Disposals	(525)	-	-	(525)
Balance at 31 December 2023	<u>4,731</u>	<u>1,335</u>	<u>-</u>	<u>6,066</u>
<b>NET BOOK VALUE</b>				
Balance at 31 December 2023	<u>285</u>	<u>46</u>	<u>446</u>	<u>777</u>
Balance at 1 January 2023	<u>215</u>	<u>91</u>	<u>112</u>	<u>418</u>
<b>2022</b>				
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST</b>				
Balance at 1 January 2022	5,089	1,341	69	6,499
Additions	200	28	69	297
Transfer	26	-	(26)	-
Fx differences	(12)	(3)	-	(15)
Balance at 31 December 2022	<u>5,303</u>	<u>1,366</u>	<u>112</u>	<u>6,781</u>
<b>ACCUMULATED AMORTIZATION</b>				
Balance at 1 January 2022	4,937	1,229	-	6,166
Charge for the year	163	49	-	212
Fx differences	(12)	(3)	-	(15)
Balance at 31 December 2022	<u>5,088</u>	<u>1,275</u>	<u>-</u>	<u>6,363</u>
<b>NET BOOK VALUE</b>				
Balance at 31 December 2022	<u>215</u>	<u>91</u>	<u>112</u>	<u>418</u>
Balance at 1 January 2022	<u>152</u>	<u>112</u>	<u>69</u>	<u>333</u>

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

For the year ended 31 December 2023

### 13. PROPERTY, PLANT AND EQUIPMENT

Croatia Airlines Group	Land and buildings	Equipment and other	Aircraft	Spare parts, GSE and tools	Property, plant and equipment in progress	Total
2023	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
Balance at 1 January 2023	9,619	7,869	160,917	25,378	28	203,811
Additions	-	1,165	-	1,919	2,342	5,426
Transfer to intangible assets	-	-	-	(88)	-	(88)
Disposals	-	(481)	(160,917)	(7,851)	-	(169,249)
Balance at 31 December 2023	<u>9,619</u>	<u>8,553</u>	<u>-</u>	<u>19,358</u>	<u>2,370</u>	<u>39,900</u>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2023	4,885	6,877	143,095	19,321	-	174,178
Charge for the year	278	553	2,753	1,206	-	4,790
Transfer	-	8	-	701	-	709
Transfer to intangible assets	-	-	-	(22)	-	(22)
Disposals	-	(481)	(145,848)	(7,060)	-	(153,389)
Balance at 31 December 2023	<u>5,163</u>	<u>6,957</u>	<u>-</u>	<u>14,147</u>	<u>-</u>	<u>26,267</u>
<b>NET BOOK VALUE</b>						
Balance at 31 December 2023	<u>4,456</u>	<u>1,596</u>	<u>-</u>	<u>5,211</u>	<u>2,370</u>	<u>13,633</u>
Balance at 1 January 2023	<u>4,734</u>	<u>992</u>	<u>17,822</u>	<u>6,057</u>	<u>28</u>	<u>29,633</u>

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

For the year ended 31 December 2023

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

Croatia Airlines Group	Land and buildings	Equipment and other	Aircraft	Spare parts, GSE and tools	Property, plant and equipment in progress	Total
2022	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
Balance at 1 January 2022	9,626	7,437	160,747	26,900	5	204,715
Additions	16	721	540	1,543	28	2,848
Transfer	-	-	-	(477)	-	(477)
Disposals	-	(271)	-	(2,528)	(5)	(2,804)
Fx differences	(23)	(18)	(370)	(60)	-	(471)
<b>Balance at 31 December 2022</b>	<b>9,619</b>	<b>7,869</b>	<b>160,917</b>	<b>25,378</b>	<b>28</b>	<b>203,811</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2022	4,623	6,759	139,202	20,683	-	171,267
Charge for the year	273	403	4,215	657	-	5,548
Transfer	-	-	-	(170)	-	(170)
Disposals	-	(270)	-	(1,802)	-	(2,072)
Fx differences	(11)	(15)	(322)	(47)	-	(395)
<b>Balance at 31 December 2022</b>	<b>4,885</b>	<b>6,877</b>	<b>143,095</b>	<b>19,321</b>	<b>-</b>	<b>174,178</b>
<b>NET BOOK VALUE</b>						
Balance at 31 December 2022	4,734	992	17,822	6,057	28	29,633
Balance at 1 January 2022	5,003	678	21,545	6,217	5	33,448

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

For the year ended 31 December 2023

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

Croatia Airlines d.d.	Land and buildings	Equipment and other	Aircraft	Spare parts, GSE and tools	Property, plant and equipment in progress	Total
2023	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
<b>Balance at 1 January 2023</b>	<b>9,619</b>	<b>7,779</b>	<b>160,917</b>	<b>25,378</b>	<b>28</b>	<b>203,721</b>
Additions	-	1,130	-	1,919	2,342	5,391
Transfer from intangible assets	-	-	-	(88)	-	(88)
Disposals	-	(479)	(160,917)	(7,851)	-	(169,247)
<b>Balance at 31 December 2023</b>	<b>9,619</b>	<b>8,430</b>	<b>-</b>	<b>19,358</b>	<b>2,370</b>	<b>39,778</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance at 1 January 2023</b>	<b>4,885</b>	<b>6,811</b>	<b>143,095</b>	<b>19,321</b>	<b>-</b>	<b>174,112</b>
Charge for the year	278	542	2,753	1,206	-	4,780
Transfer	-	8	-	701	-	710
Transfer from intangible assets	-	-	-	(22)	-	(22)
Disposals	-	(479)	(145,848)	(7,060)	-	(153,386)
<b>Balance at 31 December 2023</b>	<b>5,163</b>	<b>6,882</b>	<b>-</b>	<b>14,147</b>	<b>-</b>	<b>26,193</b>
<b>NET BOOK VALUE</b>						
<b>Balance at 31 December 2023</b>	<b>4,456</b>	<b>1,548</b>	<b>-</b>	<b>5,211</b>	<b>2,370</b>	<b>13,585</b>
<b>Balance at 1 January 2023</b>	<b>4,734</b>	<b>969</b>	<b>17,822</b>	<b>6,058</b>	<b>28</b>	<b>29,610</b>

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

For the year ended 31 December 2023

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

Croatia Airlines d.d.	Land and buildings	Equipment and other	Aircraft	Spare parts, GSE and tools	Property, plant and equipment in progress	Total
2022	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
Balance at 1 January 2022	9,626	7,352	160,747	26,900	5	204,630
Additions	16	714	540	1,543	28	2,841
Transfer	-	-	-	(477)	-	(477)
Disposals	-	(270)	-	(2,528)	(5)	(2,803)
Fx differences	(23)	(17)	(370)	(60)	-	(470)
<b>Balance at 31 December 2022</b>	<b>9,619</b>	<b>7,779</b>	<b>160,917</b>	<b>25,378</b>	<b>28</b>	<b>203,721</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2022	4,623	6,700	139,202	20,683	-	171,208
Charge for the year	273	396	4,215	657	-	5,541
Transfer	-	-	-	(170)	-	(170)
Transfer to investment property	-	-	-	-	-	-
Disposals	-	(269)	-	(1,802)	-	(2,071)
Fx differences	(11)	(17)	(322)	(47)	-	(397)
<b>Balance at 31 December 2022</b>	<b>4,885</b>	<b>6,810</b>	<b>143,095</b>	<b>19,321</b>	<b>-</b>	<b>174,111</b>
<b>NET BOOK VALUE</b>						
Balance at 31 December 2022	4,734	969	17,822	6,057	28	29,610
Balance at 1 January 2022	5,003	652	21,545	6,217	5	33,422

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

For the year ended 31 December 2023

---

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

Until September 2023, the Company owned five Airbus aircraft nearing the end of their service life. As adequate disposal of the five Airbus 319/320 upon expiry of their service life was seen as a major risk, the fleet replacement process included their sale and leaseback in September 2023. The decommissioning of the Airbus fleet requires a solution to be found while the aircraft are still airworthy, so that their engines, parts and components could be monetised. Selling them in bulk and in 'as is' condition, through sale and leaseback, is seen as the most cost-effective option, which implies selling them while they are still airworthy and at the same time keeping a lease on them until they are replaced with new ones. The advantage of this approach is ensuring the flexibility needed when implementing the fleet renewal plan (e.g. extending the lease period in case of delayed deliveries of new aircraft), while transferring the risks related to the disposal of non-airworthy aircraft to the lessor. The other aircraft (fleet Dash 8-Q400) will be returned to their owners/lessors upon expiry of the lease period. The 9A-CTI Airbus A319 made its final flight with the Company on 28 October 2023 and was returned to the lessor.

One of the A320 aircraft, which is under an operating lease, served as a spare aircraft: it was used as needed (in the event of traffic disruptions due to technical problems) and charged by applying the power by the hour principle.

Fleet as at 31.12.2023

Aircraft type	number	ownership
Airbus A320	2	operating lease
Airbus A319	4	operating lease
Dash 8-Q400	6	operating lease
<b>Total</b>	<b>12</b>	

#### Property, plant and equipment under construction

Assets under construction in the amount of EUR 2.370 thousand include advance payments relate to investments into engines (2022: Assets under construction in the amount of EUR 28 thousand relate to investments into aircraft).

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

For the year ended 31 December 2023

### 14. INVESTMENT PROPERTY

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

2023	Investment property EUR thousand
<b>COST</b>	
Balance at 1 January 2023	1,793
Fx differences	-
Balance at 31 December 2023	<u>1,793</u>
<b>ACCUMULATED AMORTIZATION</b>	
Balance at 1 January 2023	1,793
Charge for the year	-
Fx differences	-
Balance at 31 December 2023	<u>1,793</u>
<b>NET BOOK VALUE</b>	
At 31 December 2023	-
At 1 January 2023	-
<b>2022</b>	<b>Investment property EUR thousand</b>
<b>COST</b>	
Balance at 1 January 2022	1,797
Transfer from property, plant and equipment	-
Fx differences	(4)
Balance at 31 December 2022	<u>1,793</u>
<b>ACCUMULATED AMORTIZATION</b>	
Balance at 1 January 2022	1,797
Transfer from property, plant and equipment	-
Charge for the year	-
Fx differences	(4)
Balance at 31 December 2022	<u>1,793</u>
<b>NET BOOK VALUE</b>	
At 31 December 2022	-
At 1 January 2022	-

Revenue generated from investment property in amount of EUR 184 thousand (2022: EUR 172 thousand) is included in the category of Other within notes Other sales revenue.

The fair value of investment property at the reporting date amounted to EUR 1,793 thousand.

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

For the year ended 31 December 2023

### 15. INVESTMENTS IN SUBSIDIARIES

Name	Main activity	Share	2023	2022	2023	2022
			Croatia Airlines Group EUR thousand	Croatia Airlines Group EUR thousand	Croatia Airlines d.d. EUR thousand	Croatia Airlines d.d. EUR thousand
Obzor putovanja d.o.o.	Tourism	100%	-	-	135	135
Amadeus Croatia d.d.	Marketing services	95%	-	-	211	211
			<u>-</u>	<u>-</u>	<u>346</u>	<u>346</u>

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

By way of decision of 3 November 2022, Croatia Airlines d.d. (JSC) contributed its claim against Amadeus Croatia d.d. in the amount of EUR 186 thousand, based on the general-purpose loan agreement of 19 May 2020, to the subsidiary's capital reserve.

### 16. PREPAYMENTS AND ACCRUED REVENUE

	2023	2022	2023	2022
	Croatia Airlines Group EUR thousand	Croatia Airlines Group EUR thousand	Croatia Airlines d.d. EUR thousand	Croatia Airlines d.d. EUR thousand
Prepayments for maintenance of aircrafts and engines	<u>32,571</u>	<u>23,512</u>	<u>32,571</u>	<u>23,512</u>
	<u>32,571</u>	<u>23,512</u>	<u>32,571</u>	<u>23,512</u>

### 17. NON-CURRENT DEPOSITS

	2023	2022	2023	2022
	Croatia Airlines Group EUR thousand	Croatia Airlines Group EUR thousand	Croatia Airlines d.d. EUR thousand	Croatia Airlines d.d. EUR thousand
Deposits given to suppliers	7,877	5,610	7,875	5,609
Deposits at banks for employee loans	131	167	131	167
Deposits for bank guarantees	4,341	3,520	4,101	3,408
Deposits for business premises lease	<u>35</u>	<u>27</u>	<u>35</u>	<u>27</u>
	<u>12,384</u>	<u>9,324</u>	<u>12,142</u>	<u>9,211</u>

Non-current deposits given to suppliers consist of deposits given as guarantees to suppliers in the amount of EUR 7,875 thousand (2022: deposits given as guarantees to suppliers in the amount of EUR 5,609 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 2023

### 18. INVESTMENTS IN EQUITY INSTRUMENTS

		2023	2022	2023	2022
	Share	Croatia Airlines Group	Croatia Airlines Group	Croatia Airlines d.d.	Croatia Airlines d.d.
		EUR thousand	EUR thousand	EUR thousand	EUR thousand
Hrvatska poštanska banka d.d.	0.18%	-	170	-	170
Star Alliance		25	25	25	25
		<u>25</u>	<u>195</u>	<u>25</u>	<u>195</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 2023 gain of EUR 120 thousand is recognized in other comprehensive income (2022: gain of EUR 20 thousand).

On 31 December, investments in shares of “Hrvatska poštanska banka” in the amount of EUR 289,000 were reclassified into current financial assets as they are held for sale.

### 19. NON-CURRENT RECEIVABLES

	2023	2022	2023	2022
	Croatia Airlines Group	Croatia Airlines Group	Croatia Airlines d.d.	Croatia Airlines d.d.
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Receivables for sold flats	13,609	8,473	13,609	8,473
Loans receivable	3	5	3	5
	<u>13,612</u>	<u>8,478</u>	<u>13,612</u>	<u>8,478</u>

In 2022, Croatia Airlines continued its negotiations with Airbus and concluded an annex to the purchase contract of April 2008, replacing the existing commitments related to the A320neo aircraft with a new commitment for the purchase of six Airbus A220 aircraft. An agreement was also reached with Airbus on the use of the pre-delivery payments (PDP) already made for the new aircraft in the amount of \$9 million, as well as on a write-off of interest worth \$1.3 million.

In 2023, a tripartite agreement was signed with the lessor, by way of which the advances of EUR 13,609 thousand (in 2022 the amount was EUR 8,473 thousand) will be used to finance the new fleet.

Long-term receivables for apartments in tenant purchase arrangements refer to claims for seven such apartments. In accordance with the Act on the Sale of Leasehold Apartments (Official Gazette 43/92), the term of the receivables is between 16 and 30 years with an interest rate of 1% per year.

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

For the year ended 31 December 2023

### 20. INVENTORIES

	2023 Croatia Airlines Group EUR thousand	2022 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand	2022 Croatia Airlines d.d. EUR thousand
Consumable spare parts	9,424	8,614	9,424	8,614
Catering, supplies and other inventories	178	140	178	140
	<u>9,602</u>	<u>8,754</u>	<u>9,602</u>	<u>8,754</u>

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

### 21. TRADE RECEIVABLES

	2023 Croatia Airlines Group EUR thousand	2022 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand	2022 Croatia Airlines d.d. EUR thousand
Domestic trade receivables	4,704	3,848	4,049	3,346
Foreign trade receivables	11,424	8,847	11,278	8,791
Allowance for doubtful receivables	(754)	(777)	(754)	(777)
	<u>15,374</u>	<u>11,918</u>	<u>14,573</u>	<u>11,360</u>

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

	2023 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand
<b>Allowance for doubtful receivables</b>		
<b>1 January</b>	777	777
Increase	53	53
Decrease	(2)	(2)
Write-offs	(59)	(59)
Foreign exchange differences	(15)	(15)
<b>31 December</b>	<u>754</u>	<u>754</u>

	2022 Croatia Airlines Group EUR thousand	2022 Croatia Airlines d.d. EUR thousand
<b>Allowance for doubtful receivables</b>		
<b>1 January</b>	767	767
Write-offs	(1)	(1)
Foreign exchange differences	11	11
<b>31 December</b>	<u>777</u>	<u>777</u>

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

For the year ended 31 December 2023

### 22. OTHER RECEIVABLES

	<b>2023</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2022</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2023</b> <b>Croatia Airlines</b> <b>d.d.</b>	<b>2022</b> <b>Croatia Airlines</b> <b>d.d.</b>
	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>
Receivables from employees	12	14	12	14
Receivables from the State	1,590	2,670	1,571	2,670
Receivables for advances	1,371	685	1,349	655
Loans receivable	-	-	250	-
Other receivables	455	-	443	-
	<b>3,428</b>	<b>3,369</b>	<b>3,625</b>	<b>3,339</b>

### 23. PREPAYMENTS AND ACCRUED REVENUE

	<b>2023</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2022</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2023</b> <b>Croatia Airlines</b> <b>d.d.</b>	<b>2022</b> <b>Croatia Airlines</b> <b>d.d.</b>
	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>
Prepayments	1,139	1,783	1,043	1,768
Accrued revenue	767	3,297	767	3,297
	<b>1,906</b>	<b>5,080</b>	<b>1,810</b>	<b>5,065</b>

### 24. CURRENT DEPOSITS

	<b>2023</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2022</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2023</b> <b>Croatia Airlines</b> <b>d.d.</b>	<b>2022</b> <b>Croatia Airlines</b> <b>d.d.</b>
	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>
Deposits	3,647	1,986	3,646	1,985
	<b>3,647</b>	<b>1,986</b>	<b>3,646</b>	<b>1,985</b>

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

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

For the year ended 31 December 2023

### 25. CASH AND CASH EQUIVALENTS

	2023 Croatia Airlines Group EUR thousand	2022 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand	2022 Croatia Airlines d.d. EUR thousand
Gyro account	11,017	56,453	10,234	56,028
Foreign currency accounts	5,316	9,352	5,307	9,042
Petty cash	2	-	-	-
Foreign currency petty cash	1	2	1	1
Short-term deposits	63,577	11,215	63,578	11,215
	<b>79,913</b>	<b>77,022</b>	<b>79,120</b>	<b>76,286</b>

Short-term deposits at 31 December 2023 present term deposits at the banks with maturities up to 90 days with an annual interest rate from 0.80% to 5.16%.

### 26. SHARE CAPITAL

As at 31 December ownership structure was as follows:

2023	Number of shares	EUR thousand	Share %
<b>Shareholders</b>			
Republic of Croatia	91,610,821	91,611	99.16
Zagreb International Airport	477,121	477	0.52
HPB for Republic of Croatia	173,768	174	0.19
Others	126,243	126	0.13
	<b>92,387,953</b>	<b>92,388</b>	<b>100.00</b>
<b>2022</b>	<b>Number of shares</b>	<b>EUR thousand</b>	<b>Share %</b>
<b>Shareholders</b>			
Republic of Croatia	62,010,821	82,303	98.76
Zagreb International Airport	477,121	633	0.76
HPB for Republic of Croatia	173,768	231	0.28
Others	126,243	167	0.20
	<b>62,787,953</b>	<b>83,334</b>	<b>100.00</b>

Share capital of the Company amounts EUR 92,388 thousand (2022: EUR 83,334 thousand) and is divided in 92,387,953 ordinary shares (2022: 62,787,953 ordinary shares) with a nominal value of EUR 1.00 each (2022: EUR 1.33).

Based on the decision rendered by the General Assembly on 22 December 2022, the Company's share capital was increased by cash contribution and issuance of new shares as financial aid from the Republic of Croatia in accordance with the Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak. The decision to increase the Company's share capital by EUR 39,286 thousand, i.e. from EUR 83,334 thousand to EUR 122,620 thousand, was registered with the Commercial Court of Zagreb on 5 January 2023. In order to increase the share capital, a total of 29,600,000 new registered shares with a nominal value of EUR 1.33 each were issued.

Pursuant to the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia, and based on the decision of the General Assembly of 13 April 2023, the Company adjusted the nominal value per share by rounding it to one euro as the nearest integer. As a result, the Company's share capital was adjusted in a way that it was reduced by EUR 30,232 thousand, i.e. from EUR 122,620 thousand to EUR 92,388 thousand.

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

For the year ended 31 December 2023

---

### 27. RESERVES

#### 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 2023 and 31 December 2022 the Company does not have any legal reserves.

#### Other capital reserves

As at 31 December 2022, other capital reserves consisted of EUR 39,271 thousand of funds paid by the Republic of Croatia for the capital increase based on the decision of the General Assembly of 22 December 2022. The capital increase was registered on 5 January 2023.

Other capital reserves at the Group level included reserves of subsidiaries. In 2021, the mandatory and other reserves of Amadeus Croatia d.d. were used to cover losses, so the Company had no reserves as at 31 December 2021 and 31 December 2022. Obzor putovanja d.o.o. (LLC) had other capital reserves of EUR 546 thousand (in 2022 the amount was EUR 431 thousand).

#### Fair value reserve

Fair value reserve resulted from the basis of fair value adjustments of investments in equity instruments and fair value adjustments of non-current assets.

#### Protection reserve

On 31 December the Company has no cash flow protection reserves.

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

For the year ended 31 December 2023

---

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

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

	<b>2023 Croatia Airlines Group</b>	<b>2022 Croatia Airlines Group</b>
Profit/(loss) for the year in EUR thousands	<u>2,362</u>	<u>(17,935)</u>
Number of issued shares	92,387,953	62,787,953
<b>Basic and diluted profit/(loss) per share in EUR</b>	<b><u>0.03</u></b>	<b><u>(0.29)</u></b>

	<b>2023 Croatia Airlines d.d.</b>	<b>2022 Croatia Airlines d.d.</b>
Profit/(loss) for the year in EUR thousands	<u>2,252</u>	<u>(18,203)</u>
Number of issued shares	92,387,953	62,787,953
<b>Basic and diluted profit/(loss) per share in EUR</b>	<b><u>0.02</u></b>	<b><u>(0.29)</u></b>

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 2023

### 29. PROVISIONS

Provisions of the Group and Companies are as follows:

	Provision for court cases	Provision for severance payments and jubilee awards	Provision for maintenance of leased aircrafts and engines	Other provisions	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Non-current provisions	2,299	295	28,624	566	31,784
Current provisions	-	-	3,710	-	3,710
<b>Balance as at 31 December 2022</b>	<b>2,299</b>	<b>295</b>	<b>32,334</b>	<b>566</b>	<b>35,494</b>
<b>Balance as at 31 December 2022</b>	<b>2,299</b>	<b>295</b>	<b>32,334</b>	<b>566</b>	<b>35,494</b>
Provisions made during year	70	-	15,323	250	15,643
Provisions used during year	(32)	-	-	(353)	(385)
Provisions reversed during year	(913)	(16)	(4,882)	(213)	(6,024)
Foreign exchange differences	-	-	(1,065)	-	(1,065)
<b>Balance as at 31 December 2023</b>	<b>1,424</b>	<b>279</b>	<b>41,710</b>	<b>250</b>	<b>43,663</b>
Non-current provisions	1,424	279	38,000	250	39,953
Current provisions	-	-	3,710	-	3,710
<b>Balance as at 31 December 2023</b>	<b>1,424</b>	<b>279</b>	<b>41,710</b>	<b>250</b>	<b>43,663</b>

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

Provisions for severance payments relates to the estimated long-term employee benefits at the time of retirement and achievements of the jubilee award for 25 years of work, 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 work experience.

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 EUR 32,570 thousand (2022: EUR 23,512 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 EUR 9,140 thousand (2022: EUR 8,822 thousand).

With regard to other provisions (in 2023: EUR 250 thousand, in 2022: EUR 566 thousand), the amount of EUR 250 thousand refers to the provisions for passenger obligations. The 2022 provisions referred to provisions for early retirement of part of the employees who fulfilled the requirements for early severance pay, 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 2023

### 30. LONG-TERM LOANS AND BORROWINGS

	2023 Croatia Airlines Group EUR thousand	2022 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand	2022 Croatia Airlines d.d. EUR thousand
Non-current loans	81,654	83,843	81,654	83,843
Current portion of non-current loans	-	(2,950)	-	(2,950)
	<b>81,654</b>	<b>80,893</b>	<b>81,654</b>	<b>80,893</b>

Description of non-current loans is as follows:

Loan purpose	Original currency	Due	2023 EUR thousand	2022 EUR thousand
Loan for maintenance of engines	EUR	June 2023	-	2,950
Loan for maintaining financial stability	HRK	January 2025	35,891	35,227
Loan for maintaining financial stability	HRK	December 2025	33,181	33,181
Loan for maintaining financial stability	HRK	November 2028	12,582	12,485
			<b>81,654</b>	<b>83,843</b>
Current portion			-	(2,950)
<b>Non-current loans</b>			<b>81,654</b>	<b>80,893</b>

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

	2023 Croatia Airlines Group EUR thousand	2022 Croatia Airlines d.d. EUR thousand
2024	-	-
2025	69,072	69,072
2026	12,582	12,582

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

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



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

For the year ended 31 December 2021

### 31. LEASES

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

#### Right of use assets

Croatia Airlines Group	Aircrafts	Engines	Business premises	Vehicles	Leasehold improvements	Total
<b>2023</b>						
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
Balance at 1 January 2023	65,547	12,965	4,620	33	27,261	110,426
Additions	5,910	6,543	674	102	1,610	14,839
Transfer from property, plant and equipment	-	-	-	-	88	88
Termination of the lease agreement	-	-	(43)	-	-	(43)
Expiry of the lease agreement	-	-	(43)	(2)	(656)	(701)
<b>Balance at 31 December 2023</b>	<b>71,457</b>	<b>19,508</b>	<b>5,208</b>	<b>133</b>	<b>28,303</b>	<b>124,609</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2023	32,531	9,427	2,792	15	24,596	69,361
Charge for the year	9,190	2,566	891	25	1,326	13,998
Transfer from property, plant and equipment	-	-	-	-	22	22
Expiry of the lease agreement	-	-	(53)	(2)	2	(53)
<b>Balance at 31 December 2023</b>	<b>41,721</b>	<b>11,993</b>	<b>3,630</b>	<b>38</b>	<b>25,946</b>	<b>83,328</b>
<b>NET BOOK VALUE</b>						
Balance at 31 December 2023	29,736	7,515	1,578	95	2,357	41,281
Balance at 1 January 2023	33,016	3,538	1,828	18	2,665	41,065

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

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

##### Croatia Airlines Group

	Aircrafts	Engines	Business premises	Vehicles	Leasehold improvements	Total
2022	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
Balance at 1 January 2022	69,853	9,643	4,938	16	41,915	126,365
Additions	-	-	282	22	-	304
Leased property investments	-	-	-	-	1,426	1,426
Lease modifications	(821)	3,346	123	-	-	2,648
Transfer to intangible assets	-	-	-	-	477	477
Termination of the lease agreement	(3,326)	-	(574)	-	(15,408)	(19,308)
Expiry of the lease agreement	-	-	(137)	(5)	(1,059)	(1,201)
Fx differences	(159)	(24)	(12)	-	(90)	(285)
<b>Balance at 31 December 2022</b>	<b>65,547</b>	<b>12,965</b>	<b>4,620</b>	<b>33</b>	<b>27,261</b>	<b>110,426</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2022	26,992	7,042	2,341	12	36,692	73,079
Charge for the year	8,763	2,402	801	8	3,681	15,655
One-time approvals	-	-	37	-	-	37
Transfer from property, plant and equipment	-	-	-	-	170	170
Termination of the lease agreement	(3,160)	-	(245)	-	(14,807)	(18,212)
Expiry of the lease agreement	-	-	(137)	(5)	(1,059)	(1,201)
Fx differences	(64)	(17)	(5)	-	(81)	(167)
<b>Balance at 31 December 2022</b>	<b>32,531</b>	<b>9,427</b>	<b>2,792</b>	<b>15</b>	<b>24,596</b>	<b>69,361</b>
<b>NET BOOK VALUE</b>						
Balance at 31 December 2022	33,016	3,538	1,828	18	2,665	41,065
Balance at 1 January 2022	42,861	2,601	2,597	4	5,223	53,286

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

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

Croatia Airlines d.d.	Aircrafts	Engines	Business premises	Vehicles	Leasehold improvements	Total
2023	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
Balance at 1 January 2023	65,547	12,965	4,480	33	27,261	110,286
Additions	5,910	6,543	660	102	1,610	14,825
Transfer from property, plant and equipment	-	-	-	-	88	88
Expiry of the lease agreement	-	-	(43)	(2)	(656)	(701)
<b>Balance at 31 December 2023</b>	<b>71,457</b>	<b>19,508</b>	<b>5,097</b>	<b>133</b>	<b>28,303</b>	<b>124,498</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2023	32,531	9,427	2,703	15	24,597	69,273
Charge for the year	9,190	2,566	860	25	1,326	13,967
Transfer from property, plant and equipment	-	-	-	-	22	22
Expiry of the lease agreement	-	-	(22)	(2)	2	(22)
<b>Balance at 31 December 2023</b>	<b>41,721</b>	<b>11,993</b>	<b>3,541</b>	<b>38</b>	<b>25,947</b>	<b>83,240</b>
<b>NET BOOK VALUE</b>						
Balance at 31 December 2023	29,736	7,515	1,556	95	2,356	41,258
Balance at 1 January 2023	33,016	3,538	1,777	18	2,664	41,013

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

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

##### Croatia Airlines d.d.

	Aircrafts	Engines	Business premises	Vehicles	Leasehold improvements	Total
2022	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>COST OR VALUATION</b>						
Balance at 1 January 2022	69,853	9,643	4,797	16	41,915	126,224
Additions	-	-	282	22	-	304
Leased property investments	-	-	-	-	1,426	1,426
Lease modifications	(821)	3,346	123	-	-	2,648
Transfer from property, plant and equipment	-	-	-	-	477	477
Termination of the lease agreement	(3,326)	-	(574)	-	(15,408)	(19,308)
Expiry of the lease agreement	-	-	(137)	(5)	(1,059)	(1,201)
Fx differences	(159)	(24)	(11)	-	(90)	(284)
Balance at 31 December 2022	<u>65,547</u>	<u>12,965</u>	<u>4,480</u>	<u>33</u>	<u>27,261</u>	<u>110,286</u>
<b>ACCUMULATED DEPRECIATION</b>						
Balance at 1 January 2022	26,992	7,042	2,285	12	36,692	73,023
Charge for the year	8,763	2,402	767	7	3,681	15,620
One-time approvals	-	-	37	-	-	37
Transfer from property, plant and equipment	-	-	-	-	170	170
Termination of the lease agreement	(3,160)	-	(245)	-	(14,807)	(18,212)
Expiry of the lease agreement	-	-	(137)	(5)	(1,059)	(1,201)
Fx differences	(64)	(17)	(4)	1	(80)	(164)
Balance at 31 December 2022	<u>32,531</u>	<u>9,427</u>	<u>2,703</u>	<u>15</u>	<u>24,597</u>	<u>69,273</u>
<b>NET BOOK VALUE</b>						
Balance at 31 December 2022	<u>33,016</u>	<u>3,538</u>	<u>1,777</u>	<u>18</u>	<u>2,664</u>	<u>41,013</u>
Balance at 1 January 2022	<u>42,861</u>	<u>2,601</u>	<u>2,512</u>	<u>4</u>	<u>5,223</u>	<u>53,201</u>

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

For the year ended 31 December 2023

### 31. LEASES (CONTINUED)

#### Lease liabilities

	2023 Croatia Airlines Group EUR thousand	2022 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand	2022 Croatia Airlines d.d. EUR thousand
Non-current lease liabilities	25,848	28,992	25,848	28,967
Current lease liabilities	12,663	11,320	12,637	11,290
	<b>38,511</b>	<b>40,312</b>	<b>38,485</b>	<b>40,257</b>

The repayment schedule for lease liabilities is as follows:

	2023 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand
2024	15,298	15,272
2025	15,766	15,766
2026	11,065	11,065
After 2026	9,601	9,601
	<b>51,730</b>	<b>51,704</b>

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

	2023 Croatia Airlines Group EUR thousand	2023 Croatia Airlines d.d. EUR thousand
<b>Balance at 1 January 2023</b>	<b>40,312</b>	<b>40,257</b>
<b><i>Changes from non-cash transactions</i></b>		
Recognised during the year	15,049	14,825
Lease modification	-	-
Lease cancelation	(2,531)	(2,531)
One-off rebates	-	-
Interest	1,793	1,779
Foreign exchange differences	(1,613)	(1,613)
Effect of FX recalculation	-	-
<b>Total changes from non-cash transactions</b>	<b>12,698</b>	<b>12,460</b>
<b><i>Changes from cash flows</i></b>		
Interest paid	(1,793)	(1,779)
Principal paid	(12,706)	(12,453)
<b>Total changes from cash flows</b>	<b>(14,499)</b>	<b>(14,232)</b>
<b>Balance at 31 December 2023</b>	<b>38,511</b>	<b>38,485</b>

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

For the year ended 31 December 2023

### 31. LEASES (CONTINUED)

	2022 Croatia Airlines Group EUR thousand	2022 Croatia Airlines d.d. EUR thousand
<b>Balance at 1 January 2022</b>	<b>49,212</b>	<b>49,123</b>
<b><i>Changes from non-cash transactions</i></b>		
Recognised during the year	304	304
Lease modification	2,648	2,648
Lease cancelation	(336)	(336)
One-off rebates	(37)	(37)
Interest	1,786	1,784
Foreign exchange differences	264	264
Effect of FX recalculation	(109)	(108)
<b>Total changes from non-cash transactions</b>	<b>4,520</b>	<b>4,519</b>
<b><i>Changes from cash flows</i></b>		
Interest paid	(1,786)	(1,784)
Principal paid	(11,634)	(11,601)
<b>Total changes from cash flows</b>	<b>(13,420)</b>	<b>(13,385)</b>
<b>Balance at 31 December 2022</b>	<b>40,312</b>	<b>40,257</b>

### 32. CURRENT LOANS

During 2023 and 2022 there were no current loans.

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

	Non-current loans EUR thousand	Current loans EUR thousand	Total Loans EUR thousand
<b>Balance as at 1 January 2023</b>	<b>83,843</b>	<b>-</b>	<b>83,843</b>
<b><i>Changes from financing cash flows</i></b>			
Proceeds from loans and borrowings	-	-	-
Repayment of loans and borrowings	(2,950)	-	(2,950)
<b>Total changes from financing cash flows</b>	<b>(2,950)</b>	<b>-</b>	<b>(2,950)</b>
<b><i>Other changes</i></b>			
Interest liability	761	-	761
Foreign exchange differences	-	-	-
Effect of FX recalculation	-	-	-
<b>Total other changes</b>	<b>761</b>	<b>-</b>	<b>761</b>
<b>Balance as at 31 December 2023</b>	<b>81,654</b>	<b>-</b>	<b>81,654</b>

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

For the year ended 31 December 2023

### 32. CURRENT LOANS (CONTINUED)

	Non-current loans	Current loans	Total Loans
	EUR thousand	EUR thousand	EUR thousand
Balance as at 1 January 2022	72,550	-	72,550
<i>Changes from financing cash flows</i>			
Proceeds from loans and borrowings	12,481	-	12,481
Repayment of loans and borrowings	(1,701)	-	(1,701)
<b>Total changes from financing cash flows</b>	<b>10,780</b>	<b>-</b>	<b>10,780</b>
<i>Other changes</i>			
Interest liability	674	-	674
Foreign exchange differences	11	-	11
Effect of FX recalculation	(172)	-	(172)
<b>Total other changes</b>	<b>513</b>	<b>-</b>	<b>513</b>
<b>Balance as at 31 December 2022</b>	<b>83,843</b>	<b>-</b>	<b>83,843</b>

### 33. TRADE PAYABLES

	2023 Croatia Airlines Group	2022 Croatia Airlines Group	2023 Croatia Airlines d.d.	2022 Croatia Airlines d.d.
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Domestic trade payables	8,767	5,792	8,313	5,530
Foreign trade payables	8,903	7,048	8,788	7,021
	<b>17,670</b>	<b>12,840</b>	<b>17,101</b>	<b>12,551</b>

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

For the year ended 31 December 2023

### 34. OTHER CURRENT LIABILITIES

	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>
	<b>Group</b>	<b>d.d.</b>	<b>Group</b>	<b>d.d.</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Air traffic liabilities	22.184	22.541	22.184	22.541
Deposits and advances received	2.016	1.423	2.005	1.420
Liabilities for salaries	2.992	2.597	2.934	2.541
Other current liabilities	454	586	384	453
	<b>27.646</b>	<b>27.147</b>	<b>27.507</b>	<b>26.955</b>

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

With the beginning of the pandemic and increased requests for refunds of purchased tickets, and in order to preserve liquidity, The Company initiated a process of issuing travel vouchers to ticket buyers on flights that were not performed due to the COVID-19 pandemic, thus keeping the total amount paid for unused tickets in the Company and creating an obligation for future travel. The liability for vouchers is reduced by issuing air transport documents in exchange for a voucher or a refund of the amount paid. As of 31 December 2023, this liability amounted to EUR 5,149 thousand (2022: EUR 5,329 thousand).

### 35. ACCRUED EXPENSES AND DEFERRED INCOME

	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>	<b>Croatia Airlines</b>
	<b>Group</b>	<b>Group</b>	<b>d.d.</b>	<b>d.d.</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Deferred income	-	2	-	2
Accrual for unused holiday	494	327	494	327
Accrued expenses	3,350	8,524	3,301	8,441
	<b>3,844</b>	<b>8,853</b>	<b>3,795</b>	<b>8,770</b>



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

For the year ended 31 December 2023

---

### 36. EMPLOYEES

Number of employees as of 31 December is as follows:

	2023	2022
<b>Croatia Airlines d.d.</b>		
Pilots and co-pilots	128	119
Cabin attendants	171	164
Maintenance and overhaul	253	253
Ticket sales and promotion	128	137
Airport handling	91	92
Other staff	140	145
	<u>911</u>	<u>910</u>
<b>Subsidiaries</b>		
Obzor putovanja d.o.o.	18	21
Amadeus Croatia d.d.	6	7
<b>Total</b>	<u>935</u>	<u>938</u>

### 37. CAPITAL COMMITMENTS

The liabilities assumed are provided for in the Business Plan for 2023-2026, which is based on the initiatives set out in the Post-COVID Strategy. As at 31 December 2023, they include liabilities arising from the contract signed with Air Lease Corporation Clover for the purchase of six out of fifteen new aircraft, as shown below:

	2023 EUR thousand
Less than one year	1,213
Between one and five years	54,950
More than five years	142,473
	<u>198,636</u>

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

For the year ended 31 December 2023

---

### 38. RELATED PARTY TRANSACTIONS

#### 38.1 TRANSACTIONS WITH SUBSIDIARIES

Transactions with related parties are as follows:

	2023 EUR thousand	2022 EUR thousand
<b>Revenue</b>		
Obzor putovanja d.o.o.	22	25
Amadeus Croatia d.d.	-	-
<b>Total revenue</b>	<b>22</b>	<b>25</b>
<b>Interest income</b>		
Obzor putovanja d.o.o.	-	-
Amadeus Croatia d.d.	3	5
<b>Total interest income</b>	<b>3</b>	<b>5</b>
<b>Expenses</b>		
Obzor putovanja d.o.o.	10	7
Amadeus Croatia d.d.	-	-
<b>Total expenses</b>	<b>10</b>	<b>7</b>

	2023 EUR thousand	2022 EUR thousand
<b>Trade receivables</b>		
Obzor putovanja d.o.o.	2	5
Amadeus Croatia d.d.	-	-
<b>Total trade receivables</b>	<b>2</b>	<b>5</b>
<b>Loans receivable</b>		
Obzor putovanja d.o.o.	250	-
Amadeus Croatia d.d.	-	-
<b>Total loans receivable</b>	<b>250</b>	<b>-</b>

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

For the year ended 31 December 2023

### 38. RELATED PARTY TRANSACTIONS (CONTINUED)

#### 38.2 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:

	2023 EUR thousand	2022 EUR thousand
<b>Revenue</b>		
Zračna luka Osijek d.o.o., Klisa	33	8
Zračna luka Pula d.o.o., Pula	61	68
Zračna luka Rijeka d.o.o., Omišalj	-	1
Zračna luka Zadar d.o.o., Zadar	27	-
Zračna luka Split d.o.o., Kaštel Štafilić	479	173
Zračna luka Dubrovnik d.o.o., Čilipi	723	333
Zrakoplovno-tehnički centar d.d., Velika Gorica	2	2
HP – Hrvatska pošta d.d., Zagreb	524	551
INA – Industrija nafte d.d., Zagreb	-	1
<b>Total revenue</b>	<b>1,849</b>	<b>1,137</b>
<b>Expenses</b>		
Zračna luka Osijek d.o.o., Klisa	66	56
Zračna luka Pula d.o.o., Pula	274	198
Zračna luka Rijeka d.o.o., Omišalj	15	5
Zračna luka Zadar d.o.o., Zadar	322	286
Zračna luka Split d.o.o., Kaštel Štafilić	3,016	2,659
Zračna luka Dubrovnik d.o.o., Čilipi	1,966	1,683
Zrakoplovno-tehnički centar d.d., Velika Gorica	27	50
HP – Hrvatska pošta d.d., Zagreb	4	3
INA – Industrija nafte d.d., Zagreb	34,157	38,150
<b>Total expenses</b>	<b>39,847</b>	<b>43,090</b>

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

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

For the year ended 31 December 2023

### 38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2023 EUR thousand	2022 EUR thousand
<b>Receivables</b>		
Zračna luka Osijek d.o.o., Klisa	1	-
Zračna luka Pula d.o.o., Pula	7	4
Zračna luka Rijeka d.o.o., Omišalj	-	-
Zračna luka Zadar d.o.o., Zadar	-	-
Zračna luka Split d.o.o., Kaštel Štafilić	67	97
Zračna luka Dubrovnik d.o.o., Čilipi	146	92
Zrakoplovno-tehnički centar d.d., Velika Gorica	-	-
HP – Hrvatska pošta d.d., Zagreb	55	63
INA – Industrija nafte d.d., Zagreb	-	-
<b>Total receivables</b>	<b>276</b>	<b>256</b>
<b>Payables</b>		
Zračna luka Osijek d.o.o., Klisa	14	6
Zračna luka Pula d.o.o., Pula	22	21
Zračna luka Rijeka d.o.o., Omišalj	2	5
Zračna luka Zadar d.o.o., Zadar	24	10
Zračna luka Split d.o.o., Kaštel Štafilić	516	369
Zračna luka Dubrovnik d.o.o., Čilipi	184	-
Zrakoplovno-tehnički centar d.d., Velika Gorica	2	7
HP – Hrvatska pošta d.d., Zagreb	-	-
INA – Industrija nafte d.d., Zagreb	3,167	2,077
<b>Total payables</b>	<b>3,931</b>	<b>2,495</b>

#### PSO benefit

During the year the Company realized revenue in the amount of EUR 15,558 thousand (2022: EUR 14,782 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 EUR 1,526 thousand and is part of receivables from the State in the note 22 (2022: EUR 2,638 thousand).

#### Non-current loans

During the year the Company did not use long-term loans from bank owned by Republic of Croatia (2022: the Company did not use long-term loans).

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

For the year ended 31 December 2023

---

### 38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

Based on the loan from the Ministry of the Sea, Transport and Infrastructure with a total value of EUR 33,181 thousand, of which the Company received EUR 19,909 thousand in 2020, and EUR 13,272 thousand in 2019, on the reporting date the Company's loan liability was EUR 33,181 thousand (in 2022: EUR 33,181 thousand).

Based on the loan from the Ministry of the Sea, Transport and Infrastructure approved in 2020 in the amount of EUR 33,181 thousand, which the Company received in its entirety in 2020, on the reporting date the Company's loan liability was EUR 33,181 thousand (in 2022: EUR 33,181 thousand).

Based on the loan from the Ministry of the Sea, Transport and Infrastructure approved in 2022 in the amount of EUR 12,476 thousand, which the Company received in its entirety in 2022, on the reporting date the Company's loan liability was EUR 12,476 thousand.

The interest expense recognised during the year was EUR 1,165 thousand (in 2022: EUR 1,078 thousand). The interest liability included in long-term loans amounted to EUR 2,816 thousand (in 2022: EUR 2,056 thousand), while the liability for accrued interest expense included in accrued expenses amounted to EUR 1,054 thousand (in 2022: EUR 649 thousand).

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

For the year ended 31 December 2023

---

### 38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	<b>2023</b>	<b>2022</b>
	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>
Gross salaries	803	772
Gross benefit in kind	17	15
	<u><b>820</b></u>	<u><b>787</b></u>

As at 31 December 2023 the number of Management Board members, directors and other key management personnel was 12 (2022: 13 employees).

Compensation to Supervisory Board members during 2023 amounted to EUR 18 thousand (2022: EUR 22 thousand).

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

For the year ended 31 December 2023

---

### 39. 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 2023

### 39. RISK MANAGEMENT (CONTINUED)

#### Debt to equity

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:

	<b>2023</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2022</b> <b>Croatia Airlines</b> <b>Group</b>	<b>2023</b> <b>Croatia Airlines</b> <b>d.d.</b>	<b>2022</b> <b>Croatia Airlines</b> <b>d.d.</b>
	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>	<b>EUR</b> <b>thousand</b>
Debt	120,165	124,155	120,139	124,100
Cash and cash equivalents	(79,913)	(77,022)	(79,120)	(76,286)
Net debt	<u><b>40,252</b></u>	<u><b>47,133</b></u>	<u><b>41,019</b></u>	<u><b>47,814</b></u>
<b>Equity</b>	<u><b>15,170</b></u>	<u><b>12,277</b></u>	<u><b>14,480</b></u>	<u><b>11,695</b></u>
<b>Debt to equity</b>	<b>265%</b>	<b>384%</b>	<b>283%</b>	<b>409%</b>

#### 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 part of long-term debt is variable rate borrowing. The interest rate on bank deposits is disclosed in note 17. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of EUR 3 thousand would debit income statement (2022: EUR 1 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of EUR 1 thousand would credit income statement for the period ended 31 December 2023 (2022: EUR 1 thousand).

#### 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 EUR; and statement of financial position risk – the risk of net monetary assets in foreign currencies acquiring a lower value when translated into EUR as a result of currency movements.

The Group's and the Company's principal foreign exchange risk is the long-term loans as described in Notes 30 and 31, which are largely denominated in Euros and US Dollars. This exposure is offset by the Group's and the Company's revenues from overseas ticket sales, which is sufficient to service the debt payments. Accordingly the Group and the Company have



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

### For the year ended 31 December 2023

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.

### 39. RISK MANAGEMENT (CONTINUED)

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

EUR thousand	Currency impact USD	
	31.12.2023	31.12.2022
Profit/(loss)	<u>121</u>	<u>41</u>

If the USD exchange rate had been 0.5% higher than the current exchange rate, EUR 121 thousand would have had a positive effect on the comprehensive income statement (in 2022: EUR 41 thousand), and conversely, if the USD exchange rate had been 0.5% lower, the said amount would have had a negative effect on the comprehensive income statement (in 2022: EUR 41 thousand).

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

EUR thousand	Currency impact USD	
	31.12.2023	31.12.2022
Profit/(loss)	<u>305</u>	<u>198</u>

If the USD exchange rate had been 0.5% higher than the current exchange rate, EUR 305 thousand would have had a positive effect on the comprehensive income statement (in 2022: EUR 198 thousand), and conversely, if the USD exchange rate had been 0.5% lower, the said amount would have had a negative effect on the comprehensive income statement (in 2022: EUR 198 thousand).

### 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.

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

For the year ended 31 December 2023

---

### 39. RISK MANAGEMENT (CONTINUED)

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 EUR 2,545 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of EUR 2,545 thousand, would credit profit and loss account for the year 2023 (2022: EUR 2,760 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.

#### 39.1 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 2023 and 2022. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

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

For the year ended 31 December 2023

### 39. RISK MANAGEMENT (CONTINUED)

31.12.2023		Less than 6 months	Between 6 months and 1 year	Between 1 year and 2 years	More than 2 years
	Total EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>Assets</b>					
Non-current deposits	12,142	-	-	-	12,142
Investments in equity instruments	25	-	-	-	25
Non-current receivables	13,612	-	-	13,612	-
Trade receivables	14,573	14,573	-	-	-
Other receivables	3,625	3,625	-	-	-
Current deposits	3,646	81	3,565	-	-
Cash and cash equivalents	79,120	79,120	-	-	-
<b>Total assets</b>	<b>126,743</b>	<b>97,399</b>	<b>3,565</b>	<b>13,612</b>	<b>12,167</b>
<b>Liabilities</b>					
Non-current loans and borrowings	78,837	-	-	-	78,837
Interest on loans and borrowings	2,816	-	-	-	2,816
Lease liabilities	51,704	7,730	7,542	15,766	20,666
Trade payables	17,101	17,101	-	-	-
Other payables	27,507	22,358	5,149	-	-
<b>Total liabilities</b>	<b>177,965</b>	<b>47,189</b>	<b>12,691</b>	<b>15,766</b>	<b>102,319</b>
<b>Difference</b>	<b>(51,222)</b>	<b>50,210</b>	<b>(9,126)</b>	<b>(2,154)</b>	<b>(90,152)</b>

31.12.2022		Less than 6 months	Between 6 months and 1 year	Between 1 year and 2 years	More than 2 years
	Total EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>Assets</b>					
Non-current deposits	9,211	-	-	-	9,211
Investments in equity instruments	195	-	-	-	195
Non-current receivables	5	-	-	5	-
Trade receivables	11,360	11,360	-	-	-
Other receivables	6,636	6,636	-	-	-
Current deposits	1,985	99	1,886	-	-
Cash and cash equivalents	76,286	76,286	-	-	-
<b>Total assets</b>	<b>105,678</b>	<b>94,381</b>	<b>1,886</b>	<b>5</b>	<b>9,406</b>
<b>Liabilities</b>					
Non-current loans and borrowings	83,843	2,950	-	-	80,893
Interest on loans and borrowings	4,470	35	-	-	4,435
Lease liabilities	44,229	6,409	6,561	11,567	19,692
Trade payables	12,551	12,551	-	-	-
Other payables	23,858	17,880	5,329	-	649
<b>Total liabilities</b>	<b>168,951</b>	<b>39,825</b>	<b>11,890</b>	<b>11,567</b>	<b>105,669</b>
<b>Difference</b>	<b>(63,273)</b>	<b>54,556</b>	<b>(10,004)</b>	<b>(11,562)</b>	<b>(96,263)</b>

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

For the year ended 31 December 2023

---

### 40. AUDITOR FEES

The agreed audit fee of separate and consolidated financial statements of the Company and Group Croatia Airlines for the year 2023 is EUR 30 thousand plus the amount of value added tax (2022: EUR 26 thousand plus value added tax).

### 41. EVENTS AFTER THE REPORTING DATE

The Company intensified activities related to the introduction of the first new A220 aircraft into the fleet, in line with the initiatives set out in Croatia Airlines' Post-COVID Strategy. The first new A220 is expected to be delivered in mid-2024, marking the start of the fleet renewal with new state-of-the-art aircraft in the 100-150 seat market segment. According to the manufacturer, the Airbus A220 features new-generation engines that reduce noise by 50% per seat, consume 25% less fuel, emit 50% less CO<sub>2</sub> and 40% less NO<sub>x</sub> (nitrogen oxides). Naturally, passengers can expect a more comfortable journey. In addition to flying on new and quieter aircraft, they will get to enjoy other in-flight benefits, such as Internet access, USB A and USB C ports at every seat and a more comfortable cabin.

In the first quarter of 2024, Croatia Airlines flew to 13 international and seven domestic destinations. Having operated 5,272 flights, it recorded a block time of 6,900 block hours, or 3% more in terms of both flights and block hours compared to the same period of 2023. A total of 321,936 passengers were carried, or 6% more compared to the first quarter of 2023. While passenger kilometres rose by 6%, the passenger load factor (PLF) was 59.7%, 1.6 pp lower than in the first three months of 2023. The number of passengers transported in domestic scheduled traffic rose by 9%, and of those carried in international scheduled traffic by 6% over the same period of 2023.

Based on its summer flight schedule, the Company plans to connect Croatia directly to 28 international destinations, i.e. 29 European airports, with its aircraft operating on 50 international routes. It is significantly expanding its network of international flights from Zagreb and Split by introducing new direct routes: Zagreb - Tirana, Zagreb - Berlin, Zagreb - Stockholm and Split - Istanbul.

More than 17,200 flights are planned, offering nearly two million seats, which is about 6% more in peak season. Flights on certain seasonal routes already started in late March 2024, earlier than in 2023, and will continue until October 2024, significantly extending Croatia's tourist season.

Croatia Airlines' network of international and domestic flights for this year's tourist season has been adapted to the market demand for air transport services, and by expanding the network of destinations and increasing the number of flights, the flag carrier intends to make a significant contribution to the development of Croatia's tourism and the advancement of the transport infrastructure of the Republic of Croatia.

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

For the year ended 31 December 2023

---

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

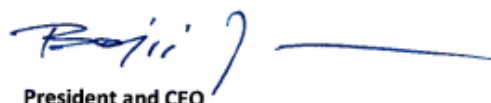
The consolidated and separate financial statements for the year ended 31 December 2023 were approved by the Management Board and authorized for issue on 22 April 2024.

Nataša Ikašović-Dautović



Director of Finance and Accounting

Jasmin Bajić



President and CEO