

 CROATIA AIRLINES

A STAR ALLIANCE MEMBER 

## Croatia Airlines Consolidated and Separate Annual Report for 2022



April 2023



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Based on the Capital Market Act (NN 65/18, 17/20, 83/21), 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 2022 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 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 subsidiaries 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



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**Jasmin Bajić**

Zagreb, April 28<sup>th</sup>, 2023

# The Management's Business Report for 2022



April 2023

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## Typical indicators

### Fleet

| Type of aircraft | Number at the end of 2022 | Seats        | Ownership | Lease    | Ø age (years) | Number at the end of 2021 | Ownership | Lease    |
|------------------|---------------------------|--------------|-----------|----------|---------------|---------------------------|-----------|----------|
| Airbus A320      | 1                         | 174          | 1         | 1        | 22.58         | 2                         | 1         | 1        |
| Airbus A319      | 5                         | 720          | 4         | 1        | 21.30         | 5                         | 4         | 1        |
| Q-400            | 6                         | 456          | -         | 6        | 13.60         | 6                         | -         | 6        |
| <b>TOTAL</b>     | <b>12</b>                 | <b>1,350</b> | <b>5</b>  | <b>8</b> | <b>17.56</b>  | <b>13</b>                 | <b>5</b>  | <b>8</b> |

### Traffic indicators

| Description                       |                        | 2022          | 2021          | 2019*         | Index 22/21 | Index 22/19 |
|-----------------------------------|------------------------|---------------|---------------|---------------|-------------|-------------|
| Flights (km)                      | <i>DIST 000</i>        | 15,246        | 10,279        | 18,934        | 148         | 81          |
| <b>Departures</b>                 | <b><i>FLTS</i></b>     | <b>23,348</b> | <b>16,507</b> | <b>28,432</b> | <b>141</b>  | <b>82</b>   |
| <b>Block hours</b>                | <b><i>BH hours</i></b> | <b>32,700</b> | <b>22,395</b> | <b>40,553</b> | <b>146</b>  | <b>81</b>   |
| <b>Passengers carried</b>         | <b><i>RPAX 000</i></b> | <b>1,453</b>  | <b>788</b>    | <b>2,179</b>  | <b>184</b>  | <b>67</b>   |
| <b>Freight &amp; mail carried</b> | <b><i>CGO t</i></b>    | <b>1,514</b>  | <b>1,320</b>  | <b>2,135</b>  | <b>115</b>  | <b>71</b>   |
| Passenger km flown                | <i>RPK mil.</i>        | 1,104         | 562           | 1,676         | 196         | 66          |
| Available seat - km               | <i>ASK mil.</i>        | 1,781         | 1,128         | 2,277         | 158         | 78          |
| <b>Passenger load factor</b>      | <b><i>PLF %</i></b>    | <b>62.0</b>   | <b>49.9</b>   | <b>73.6</b>   | <b>124</b>  | <b>84</b>   |
| Tonne km flown                    | <i>RTK mil.</i>        | 112           | 57            | 169           | 196         | 66          |
| Available tonne-km                | <i>ATK mil.</i>        | 187           | 118           | 240           | 158         | 78          |
| <b>Weight load factor</b>         | <b><i>WLF %</i></b>    | <b>59.7</b>   | <b>48.5</b>   | <b>70.3</b>   | <b>123</b>  | <b>85</b>   |

\* 2019 – pre-COVID-19 pandemic year

## Financial indicators

| Indicators                          |                  | 2022         | 2021         | 2019*        | Index<br>22/21 | Index<br>22/19 |
|-------------------------------------|------------------|--------------|--------------|--------------|----------------|----------------|
| <b>Operating revenue</b>            | <i>mln HRK</i>   | <b>1,582</b> | <b>848</b>   | <b>1,728</b> | <b>187</b>     | <b>92</b>      |
| Total Revenue                       | <i>mln HRK</i>   | 1,659        | 891          | 1,751        | 186            | 95             |
| <b>Operating expenses</b>           | <i>mln HRK</i>   | <b>1,680</b> | <b>1,098</b> | <b>1,784</b> | <b>153</b>     | <b>94</b>      |
| Total expenses                      | <i>mln HRK</i>   | 1,796        | 1,179        | 1,831        | 152            | 98             |
| Operating profit/loss               | <i>mln HRK</i>   | -98.2        | -249.7       | -55.4        | 39             | 177            |
| <b>Net profit/loss</b>              | <i>mln HRK</i>   | <b>-137</b>  | <b>-288</b>  | <b>-79</b>   | <b>48</b>      | <b>173</b>     |
| <b>EBIT</b>                         | <i>mln HRK</i>   | <b>-115</b>  | <b>-261</b>  | <b>-60</b>   | <b>44</b>      | <b>191</b>     |
| EBITDA                              | <i>mln HRK</i>   | 46.3         | -58.2        | 148.7        | -80            | 31             |
| EBIT margin                         | %                | -7.2         | -30.8        | -3.5         | 24             | 209            |
| Efficiency ratio                    |                  | 0.9          | 0.8          | 1.0          | 122            | 97             |
| ROA                                 | %                | -8.3         | -20.5        | -6.3         | 41             | 131            |
| ROE                                 | %                | -155.6       | -            | -35.3        | -              | 441            |
| Unit operating cost                 | <i>HRK/ATK</i>   | 9.0          | 9.3          | 7.4          | 97             | 121            |
| Unit operating revenue              | <i>HRK/ATK</i>   | 8.5          | 7.2          | 7.2          | 118            | 118            |
| Passenger yield (passenger revenue) | <i>€cent/RPK</i> | 15.2         | 14.2         | 12.2         | 107            | 124            |
| Current ratio                       |                  | 1.9          | 1.4          | 0.4          | 137            | 492            |
| Debt ratio                          |                  | 0.9          | 1.1          | 0.8          | 90             | 115            |
| Investment ratio                    |                  | 14.7         | -            | 4.6          | -              | 323            |
| Average number of employees         |                  | 922          | 942          | 1,021        | 98             | 90             |

\* 2019 – pre-COVID-19 pandemic year

## Productivity indicators

| Productivity Indicators  | 2022    | 2021   | 2019*   | Index<br>21/20 | Index<br>20/19 |
|--------------------------|---------|--------|---------|----------------|----------------|
| Employees (tkm/employee) | 121,140 | 60,906 | 165,615 | 139            | 26             |
| Aircraft (BH/day)        | 8.3     | 6.8    | 9.2     | 106            | 70             |
| Fuel (tkm/tonne)         | 2,189   | 2,750  | 2,567   | 156            | 69             |

\* 2019 – pre-COVID-19 pandemic year

## Croatia Airlines in 2022 – 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 crisis, given the Company's contribution to the maintenance of traffic connectivity vital for both the country's economy and citizens. In more than thirty years of existence and provision of transport services, Croatia Airlines has been connecting Croatian cities with major European metropolises, and in cooperation with its airline partners – with the entire world. As a member of the world's largest airline association Star Alliance, it provides its passengers access to the global network of flights, with numerous benefits.

### Ownership structure

Croatia Airlines is a joint-stock company. On 31 December 2022, its share capital amounted to HRK 627,879,530 and was divided into 62,787,953 ordinary shares with the nominal value of HRK 10.00 each.

In the extraordinary general meeting held on 22 December 2022, the shareholders of Croatia Airlines d.d. (JSC) made a decision to increase the Company's share capital through cash contribution by HRK 296,000,000 and issuance of 29,600,000 registered shares, each with the nominal value of HRK 10.00.

On 5 January 2023, upon entry into the court register the Company's capital was increased by HRK 296,000,000, i.e. from HRK 627,879,530 to HRK 923,897,530.

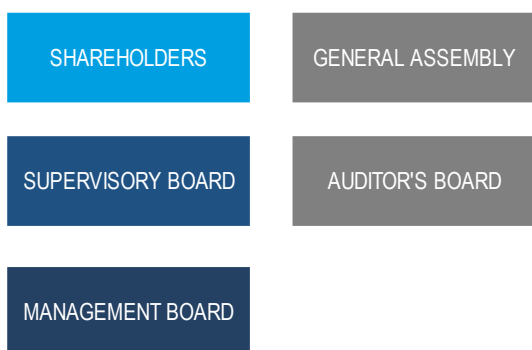
The table below provides an overview of the Company's major shareholders on 31 December 2022:

| Shareholders                           | No. of shares | Portion in the share capital (in %) |
|----------------------------------------|---------------|-------------------------------------|
| REPUBLIC OF CROATIA                    | 62,010,821    | 98.762%                             |
| AIRPORT ZAGREB D.O.O.                  | 477,121       | 0.760%                              |
| HPB FOR THE REPUBLIC OF CROATIA        | 173,768       | 0.277%                              |
| JANAF D.D.                             | 22,000        | 0.035%                              |
| CROATIA INSURANCE D.D.                 | 7,165         | 0.011%                              |
| CROATIALOTERY D.O.O.                   | 4,000         | 0.006%                              |
| ASTRA INTERNATIONAL D.D. in bankruptcy | 3,682         | 0.006%                              |
| HP D.D.                                | 2,750         | 0.004%                              |
| TURISTHOTEL D.D.                       | 2,090         | 0.003%                              |
| TANKERKOMERC D.D.                      | 2,090         | 0.003%                              |
| OTHERS                                 | 82,466        | 0.131%                              |
| TOTAL                                  | 62,787,953    | 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, LLB. Croatia Airlines' Supervisory Board accounted for five members until 14 October 2022, and one member fewer thereafter.

### Foreign branch offices

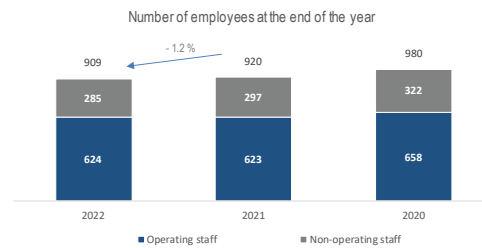
Croatia Airlines has six foreign branch offices: Brussels – Belgium, Frankfurt – Germany, Paris – France, Sarajevo – Bosnia and Herzegovina, Skopje – North Macedonia, and Zurich – Switzerland.

|                  |                                                                                                 |                  |                                                        |                 |                                                               |
|------------------|-------------------------------------------------------------------------------------------------|------------------|--------------------------------------------------------|-----------------|---------------------------------------------------------------|
| <b>Pariz</b>     | <b>France</b>                                                                                   | <b>Frankfurt</b> | <b>Germany</b>                                         | <b>Zürich</b>   | <b>Switzerland</b>                                            |
| <b>Address:</b>  | Roissypôle Le Dôme,<br>1 Rue de la Haye<br>BP 18913 Tremblayen France<br>95731 Roissy CDG Cedex | <b>Address:</b>  | Kaiserstrasse 7<br>60311 Frankfurt a.M.                | <b>Address:</b> | Letzigraben 154,<br>8047 Zurich                               |
| <b>Bruxelles</b> | <b>Belgium</b>                                                                                  | <b>Skopje</b>    | <b>North Macedonia</b>                                 | <b>Sarajevo</b> | <b>Bosnia and Herzegovina</b>                                 |
| <b>Address:</b>  | Tribes Brussels Central Station,<br>Koloniënstraat 56<br>1000 Brussel - België                  | <b>Address:</b>  | Skopje International Airport<br>1043 Petrovec - Skopje | <b>Address:</b> | Sarajevo Airport<br>Ul. Khurta Schorka 36,<br>71 210 Sarajevo |

## Human resources

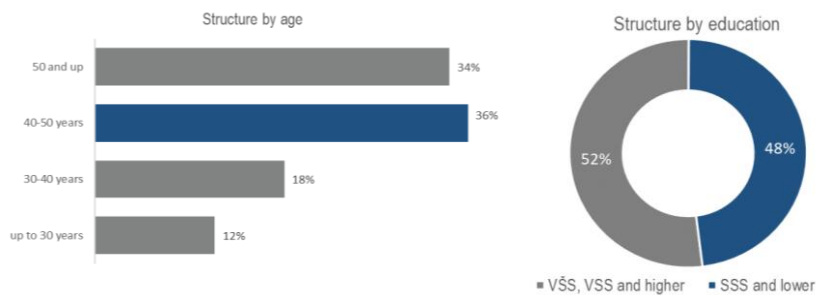
On 31 December 2022, the Company had 909 employees, including the locally employed staff at its branch offices, i.e. 11 (1.2%) fewer than at the end of 2021. On 31 December 2022, the Company had 11 posted workers – assistant mechanics in the technical sector, hired for aircraft maintenance purposes.

The further reduction of non-operative staff members compared to 2021 stemmed from the rationalisation of business activities, cancellation of duplicating jobs, and efficient management of employees' administrative activities, by optimising the way tasks are completed and setting the optimum number of employees to ensure high-quality regular business operations.

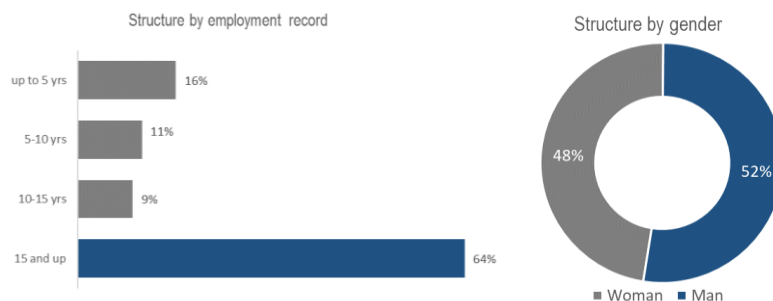


At the end of 2022, the Company had 1 (+0.2%) **operative staff member** more, and 12 (-4%) **non-operative staff members** fewer compared to the end of 2021. The share of operative staff members<sup>1</sup> within the Company was 69%, while that of non-operative staff was 31%.

According to the educational structure, 52% of employees held either an associate or a university degree, with the average age of employees being 44 years.



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



<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

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 2022, a total of 5,321 hours of internal training were provided to Company employees.

| Investment in education (HRK) | 2022             | 2021             | Index 22/21 |
|-------------------------------|------------------|------------------|-------------|
| Operative staff               | 5,179,150        | 4,109,328        | 126         |
| Non-operative staff           | 488,510          | 109,839          | 445         |
| <b>Total</b>                  | <b>5,667,660</b> | <b>4,219,167</b> | <b>134</b>  |

In 2022, 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.

Since the situation regarding the pandemic and special population protection measures significantly changed, in 2022 the Company resumed classroom training, and revoked a limit as to the number of attendees. Nevertheless, the Technical Training Centre kept and extended the approval for synchronous distance learning (SDL) obtained from the Croatian Civil Aviation Agency.

When it comes to PART-147<sup>3</sup> training, the Company held 15 Type Training courses, which is a single-year record since the Technical Training Centre started with its operations (five being the average number of this type of training per year). Correspondingly, a total of 153 EASA PART-147 certificates were issued in 2022, for aircraft type entries or additions to AML PART-66 licence. Among the PART-147 training participants was a certain share of commercial attendees.

The Company held all of the training courses prescribed by the PART-145<sup>4</sup> regulations and needed for the unobstructed work of the Technical Sector, i.e. its engineers, mechanics and other staff, as well as for extending internal authorisations of Croatia Airlines' PART-145 engineers, mechanics and subcontractors.

<sup>2</sup> PART-66 – Aircraft Maintenance Licences

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

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

As for the training prescribed by the PART-145 regulations, the Company held three commercial training courses for 19 Turkish customs officers, and commercial Ramp & Hangar Safety training. It also started with On-the-Job Training for A320f in order to enter the first aircraft type in the AML PART-66 licence for commercial attendees, several of whom completed the course in 2022. Since On-the-Job Training is implemented in a PART-145 organisation, the attendees participate in required man-hour (MH) aircraft maintenance.

As for the part of the Operations Manual covering aircraft towing, the Company continued giving towing courses to relevant airport personnel, with the aim of maintaining and extending their tow permits. The Aerodrome Section within the Croatian Civil Aviation Agency reported no issues regarding the supervision it carried out.

The Company successfully continued with the Airside Drive course, which is now held for all Croatia Airlines' employees required to acquire or extend licence for airside driving at Zagreb International Airport. The supervision carried out by the Airport resulted in no negative findings, so the Technical Training Centre kept the approval to continue running the said course.

In 2022, the **Operations Training Centre** organised and carried out all of the planned mandatory refreshers, as well as aircraft, simulator and ground check-ups that enabled the Company to extend all authorisations and licences necessary for its employees to perform their activities. The training and tests continued to be held in line with the prescribed epidemiological measures until they were lifted. All were carried out on time, with minor adjustments in line with the epidemiological measures at the beginning of the year. Once the measures were revoked, the Operations Training Centre resumed with its activities as usual. Given a relatively small number of initial training courses, commercial courses intended for external users intensified in 2022, in particular Flight Training for A320.

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 improvements in the quality of their work.

The year of 2022 was marked by gradual normalisation of business activities, which included going back to conventional training models, and participating in various themed conferences, symposia and work groups organised by external professional institutions, with the aim of becoming more familiar with the industry's operational and commercial innovations.

The internal training courses for non-operative staff referring to crisis responses, auditor refreshers, dangerous goods handling procedures, passenger reservations, tariffs and ticketing continued to be organised and held in the classroom, the same as in the previous years.

The Company also held a series of internal Station Emergency Response Plan (SERP) courses with the aim of offering its employees at external stations, but also other stakeholders involved, the knowledge and skills needed to cope with extraordinary

situations. Croatian airports also expressed a stronger interest in their employees attending ticketing courses for international flights.

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 2022, 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.

**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.

The first part of 2022 was still marked by the COVID-19 pandemic and epidemiological restrictions, which was why Croatia Airlines continued implementing enhanced occupational safety measures. In order to balance private life and business activities with anti-epidemic measures, it introduced shift team work and remote work for jobs that allowed for such an arrangement, which were in place until the epidemiological restrictions were lifted. Employees who were required by competent institutions to go into self-isolation as well as those whose minor children had to be quarantined were allowed to work remotely in order to safeguard everyday business processes and family life.

In order to protect its employees and help them cope with the pandemic, the Company organised the usual on-site flu vaccination as well as COVID-19 vaccination.

**Benefits and supports**

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

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

**Occupational safety, fire protection and environmental protection**

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

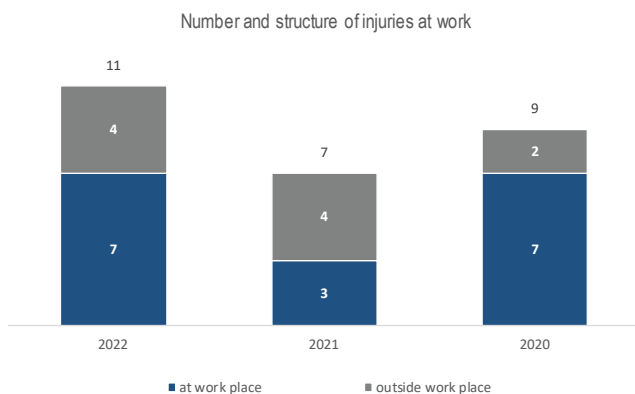
Although most of the decisions of the Civil Protection Headquarters of the Republic of Croatia related to the measures aimed at preventing the spread of the coronavirus were revoked in April 2022, the Company kept implementing all of their crisis management recommendations throughout 2022 to protect its employees to the greatest extent possible. It also kept a record of its employees in isolation.

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 2022, no inspection control was carried out in the sphere of occupational safety, fire protection and environmental protection.

Altogether eleven injuries at work were reported in 2022 (six women and five men), and all were acknowledged by the Croatian Health Insurance Institute. Seven 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 a person to receive and handle complaints related to this issue. There was one such complaint in 2022, 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 2022, 52% of the Company's workforce was male, while 48% was female.

**Personal data protection**

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

**Employees and Management relations**

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

There is also a Works Council within the Company, composed of nine members. Through the Works Council, in a way and under the conditions prescribed by the Labour Act, the Company's employees participate in making decisions related to their economic and social rights and interests. Also, the Works Council receives employment notifications on a quarterly basis and provides counselling in line with the obligations prescribed by the Labour Act.

In 2021, the Company adapted to the then circumstances by implementing a number of measures in various operational segments to mitigate the consequences of the coronavirus crisis. Some of them included labour cost savings. In agreement with the social partners, gross salaries were reduced by 15% until the end of 2021, and in 2022 employees' income returned to the level agreed upon under the collective bargaining agreement.

## 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: DBV-ZAG-DBV, SPU-ZAG-SPU, ZAG-ZAD-PUY-ZAD-ZAG, ZAG-BWK-ZAG, OSI-DBV-OSI, and OSI-SPU-OSI, 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, almost 34 years ago, with the development of its corporate visual identity being one of the most important components of the process. Croatia Airlines' visual identity undeniably contributes to its being recognised as a Croatian brand. Its corporate design aims to project its image of a highly reputable airline not only in Croatia but throughout the world, while at the same time demonstrating its safety, reliability and technical precision. The image of Croatia Airlines is not only a visual expression of the Company's culture; it has become a part of the national identity. The 'Croatia' logo on its aircraft is exceptionally important, as it promotes the country throughout Europe.

In cooperation with the Zagreb Tourist Board, from 1 December 2021 to 30 April 2022 Croatia Airlines offered its passengers meals inspired by Zagreb, titled the Zagreb Snack, and promoted the country's capital through leaflets and films featured on flights. Also, in cooperation with the Tourist Board of Osijek-Baranja County and the Croatian Tourist Board, in the period from 1 August to 30 November 2022 Croatia Airlines promoted Slavonia by treating its passengers to the Slavonian Snack. Owing to the cooperation with the Zagreb Tourist Board, passengers flying Croatia Airlines in the period from 1 December to 31 March 2023 could revel in the Zagreb Snack again.

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



Croatia Airlines actively supports sports in Croatia. In 2022, it was again the official airline of the Croatian Olympic Committee and the Croatian Football Federation, thus contributing to the country's promotion and visibility throughout the world. By extending the agreement with the Croatian Football Federation until the end of August 2024, it reaffirmed its successful cooperation and bond with the national team, which it flew to the FIFA World Cup in Qatar, and back to Croatia.

**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 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. The committee has seven members (employees).

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

**Environmental protection**

In 2022, the Company recorded a certain improvement of performance indicators, including more favourable energy consumption and environmental protection indicators compared to the preceding two pandemic years. However, it has not yet reached the 2019 indicators.

In 2022, 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, expected to be implemented in 2023. On the global level, the trends (including regulatory obligations) are dictating a gradual introduction of SAF (Sustainable Aviation Fuel), with electrical energy and hydrogen-powered aircraft being considered as well. Croatia Airlines also deliberates on these topics through activities of the Supervisory Board of the Credible HYbrid eLectric Aircraft (EU-funded project within the Horizon 2020 programme), in cooperation with the Delft University of Technology in the Netherlands.

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 recertification audit of compliance with the ISO14001/50001 standards regarding environmental protection and energy consumption was also carried out in 2022. The

Company continued using electricity from a renewable, environmentally-friendly source – HEP ZelEN.

The implementation of the 'Fit for 55' legislative package should be intensified in the upcoming period, and will likely include non-CO<sub>2</sub> elements into measurement, reporting and verification systems. The contract on the purchase of new-generation aircraft will result in significant improvements to the Company's energy and environmental indicators.

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

In October 2022, Croatia Airlines reached a decision to start a process of replacing its existing fleet with new A220 aircraft. The renewal will take place in the period from 2024 to 2026. When making the decision, a special focus was put 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 even more environmentally friendly, 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.

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

## Advancement of business activities and projects

In 2022, Croatia Airlines continued advancing its business operations and developing customer services in line with the possibilities.

It implemented the **C4C system** (Customer Relationship Management system, CRM), i.e. the functionalities needed for the work of the sales personnel (SAP Sales Cloud) and the Customer Service (SAP Cloud for Customer). C4C is a system that enables sales and support teams a more efficient way of managing relations with individual and corporate customers (B2C and B2B). The project implementation will also enable a more efficient use of human resources and ensure the mobility of sales representatives, who will be able to respond to customer needs in real time, since the system functionalities will be available on a mobile application.

Since 16 September 2021, Croatia Airlines passengers can access our **new, redesigned website** ([www.croatiaairlines.com](http://www.croatiaairlines.com)) that enables a user-friendly experience of browsing the national flag carrier's current offer. The project's third phase, completed in 2022, involved the development and implementation of an availability calendar, automated retrieval of prices from the booking system and price modification on the offer pages, as well as the development of a Customer Service form integrated into the SAP C4C CRM. The project continues in 2023, and its 4<sup>th</sup> and 5<sup>th</sup> phases will include implementation of a B2B portal and a user profile for the payment of orders via a stored token and tokenization.

After opening a joint travel centre at Pula Airport in December 2021, Croatia Airlines, Dubrovnik Airport and the Obzor putovanja travel agency set up on 31 May 2022 a **joint travel centre at Dubrovnik Airport** as well. Owing to the synergy of all participants and complementary activities, this is now a place where passengers can easily book and buy Croatia Airlines' tickets for both domestic and international scheduled flights, and where travel arrangements are offered, which is an additional service upgrade for the passengers from the Dubrovnik-Neretva County.

The Company is actively engaged in developing and implementing **additional services**, and a lot of effort has been invested into the Time to Think service, whose final implementation phase continues in 2023. 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.

## Business environment and operational risks

### Global economy

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

The global economy was in 2022 confronted with enormous challenges resulting from Russia's invasion of Ukraine and the soaring cost of living caused by ever-growing and persistent inflationary pressures. With a number of crises intertwining, all the trends are pointing to an economic growth slowdown due to the aggravating consequences of the war in Ukraine, supply chain disruptions, energy crisis, high inflation and the lingering COVID-19 pandemic. All of the above factors pose a risk of long-term slowdown in economic growth and possible recession.

In its regular autumn outlook, the International Monetary Fund (IMF) warns that a third of the global economy will most likely contract in 2022 or 2023, as a result of decreasing real income and growing prices. It puts the global economy growth at 3.2% in 2022.<sup>5</sup>

The IMF points out that economic activity in the U.S., China and the eurozone will almost stagnate, while the energy crisis caused by the war will hit Europe with full force and continue to take a heavy toll. Overall, the shocks that occurred in 2022 caused the old economic issues that had been only partially resolved after the pandemic to resurface. According to the IMF, there is now a chance of approximately 25% that the global economy growth will fall below the historically low level of 2% in the upcoming year.

Among the risks for the economy, the IMF highlights escalation of the war in Ukraine, which would further worsen the energy crisis. In addition to food and energy, price growth affects many other product categories, so governments should devise a fiscal policy to protect the most vulnerable groups through targeted time-limited transfers.

The IMF also stresses out a possible worsening of financial conditions on a global scale and a further strengthening of the dollar in the event of a sudden turmoil in the financial markets, which would further intensify inflationary pressures and financial vulnerability in the rest of the world, especially in emerging and developing economies.

### Croatia's economy

In its World Economic Outlook released last autumn, the IMF stated that, amidst slowing activity in major economies as a consequence of the energy crisis and rising borrowing costs, Croatia's economic growth should more than double in 2022, to 5.9%.

Croatia's inflation is seen to reach 9.8% in 2022. The country's unemployment rate is estimated at 6.9%, and the current account balance will record a surplus of 2.2% of GDP.

<sup>5</sup> IMF World Economic Outlook, October 2022

According to the first estimates of the Croatian Bureau of Statistics, Croatia's real GDP rose by 6.3% in 2022 year-on-year, which is a record growth.<sup>6</sup>

The calendar-adjusted data say that Croatia's industrial production in 2022 rose by 1.6% compared to 2021.<sup>7</sup> Its real retail trade increased by 2.1% compared to 2021.<sup>8</sup> Consumer price inflation accelerated gradually in 2022, and the inflation rate in Croatia averaged 10.8% in 2022.<sup>9</sup>

According to the Croatian Bureau of Statistics, the number of persons in employment rose by 1.4% compared to 2021, and Croatia's registered unemployment rate was 6.8% in December 2022 (7.4% in December 2021).<sup>10</sup>

The first results published by the Croatian Bureau of Statistics say that the country's foreign trade deficit reached HRK 132.8 billion in 2022, with the total value of exports being HRK 180.3 billion, and of imports HRK 313.1 billion. The import-export ratio was 57.6%.<sup>11</sup>

Revenues from tourism have an exceptionally high share in Croatia's GDP, and the 2022 tourist season has shown that the current geopolitical circumstances have not affected tourist flows. The tourism results have almost come 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 17.8 million tourist arrivals and 90 million overnight stays were recorded in 2022, which is a 39.1% rise in arrivals and a 28.3% rise in overnight stays compared to 2021.<sup>12</sup> The year of 2022 saw 14.8% more local tourist arrivals and 44% more foreign tourist arrivals. When it comes to overnight stays, a 5.4% growth is contributed to local tourists, and a 30.9% growth to foreign ones. As for the overall tourist arrival structure, there were 86% foreign tourists and 14% local ones, and as for overnight stays, the ratio was 91% to 9% in favour of foreign guests.

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

### Global airline market

In 2020 and 2021, the airline industry faced the worst crisis ever, resulting from the COVID-19 pandemic.

In order to return the employment rates and economic activities supported by the airline industry to the pre-crisis levels as soon as possible, governments throughout the world reached decisions to grant financial aid and support to airlines, with packages including recapitalisation, state guarantees for loans, shareholder loans, etc. Such an approach helps reduce the negative effects of the COVID-19 crisis so that the benefits from aviation could be reaped again once the pandemic gets under control.

<sup>6</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: First estimate of quarterly gross domestic product for the fourth quarter of 2022, 28 February 2022

<sup>7</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 2022, 31 January 2023

<sup>8</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Retail trade in December 2022, 30 January 2023

<sup>9</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Consumer price indices in December 2022, 17 January 2023

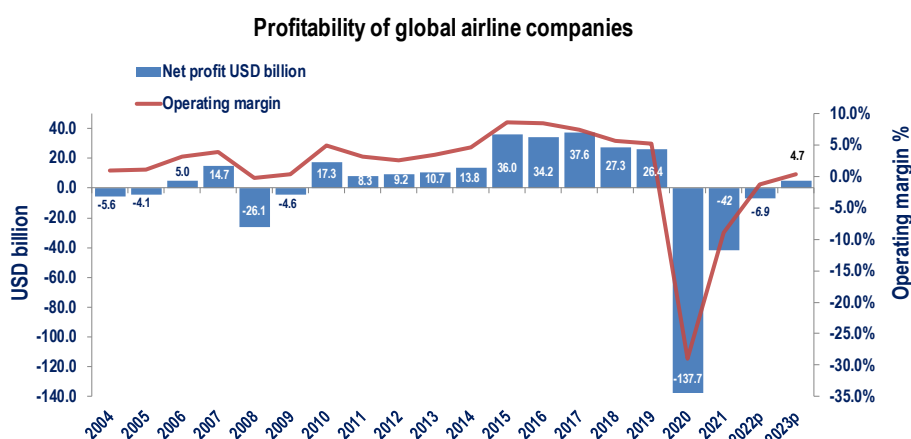
<sup>10</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Persons in paid employment, by activities, in December 2022, 20 January 2023

<sup>11</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 2022 and for January to December 2022, 8 February 2023

<sup>12</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Tourist arrivals and overnight stays in commercial accommodation in December 2022, 7 February 2023

In October 2021, the International Airline Association (IATA) announced that airlines received a total of \$243 billion worth of state aid since the start of the pandemic until the end of September 2021.<sup>13</sup> Although the level of losses is expected to decrease significantly, owing to a recovery from the crisis caused by the COVID-19 pandemic, it will still be high enough to require further state support.

Airlines generated a loss of \$180 billion in 2020 and 2021 due to the pandemic<sup>14</sup>. As air traffic partly recovered in 2022, in December 2022 the International Air Transport Association (IATA) revised its forecast for the industry's losses for 2022 from \$9.7 billion to \$6.9 billion, which is a significant step forward considering the scale of the financial and economic damage resulting from pandemic-related restrictions.



Source: <https://www.iata.org/en/iata-repository/publications/economic-reports/global-outlook-for-air-transport---december-2022---presentation/>

The year of 2022 witnessed the airline industry's resilience. After facing the greatest shock ever, its recovery is underway and is seen to continue in 2023, as traffic operations are returning to normal following the loosening of pandemic-related restrictions. As of mid-2022, travel restrictions were gradually lifted throughout the world, and more and more routes were reintroduced. Despite growing costs, a shortage of labour force, strikes, operational disruptions in many key hubs, and growing economic uncertainties, airlines managed to reduce their losses in 2022 compared to the preceding year.

Since some of the major markets, such as China, kept restrictions in force longer than expected, the number of passengers was somewhat lower than anticipated. According to IATA's estimates, with some 3.4 billion passengers being transported in 2022 passenger transport expressed in revenue passenger kilometres (RPK) reached 70% of the 2019 level, and should return to the pre-pandemic level in 2024.

In the light of the above, financial recovery will still be lagging behind the traffic figures. IATA's estimates say that although carriers from all regions will record better financial results, North America will be the only one to return to profitability as early as 2022.

<sup>13</sup> IATA Economic Performance of the Airlines Industry, October 2021

<sup>14</sup> IATA Global Outlook for Air Transport, December 2022

**European  
airline market**

According to IATA's projections from December 2022, the European air carriers generated a loss of \$3.1 billion in 2022. Passenger traffic expressed in revenue passenger kilometres (RPK) declined by 18.6% compared to 2019.

The European Commission adopted on 19 March 2020 a Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak. It was amended six times, with the last amendment prolonging the state aid support measure until 30 June 2022. Based on this document, European airlines were granted substantial state aid, with packages including recapitalisation, state guarantees for loans, shareholder loans, etc.

**Croatian  
airline  
market**

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

According to the data of the Croatian Bureau of Statistics, altogether 9.8 million passengers were recorded at Croatian airports in 2022, i.e. twice more than in 2021.<sup>15</sup> Croatia Airlines' market share at Croatian airports in 2022 was 18%. The number of aircraft operations at Croatia's airports totalled 118,272 in 2022, which is 38.3% more compared to 2021, but still less than the 130,000 realised in 2019. Cargo transport saw a 10.9% rise, with altogether 9,807 tonnes of cargo being transported.

**Croatia Airlines**

After being severely affected by the COVID-19 pandemic for two years, in 2022 Croatia Airlines gradually intensified flight operations by increasing frequencies on the existing routes and introducing new ones, based on the growing demand for air traffic services. Despite the traffic growth, its scope was still lower than in the pre-crisis year of 2019.

In 2022, Croatia Airlines' aircraft operated a total of 23,348 flights, or 41% more compared to 2021, with the block time of 32,700 block hours topping the preceding year by 46%. Compared to 2019, 18% less flights and 19% less block hours were recorded. A total of 1,453,224 passengers were transported in 2022, or 84% more compared to 2021, but 33% less than in 2019. The realised passenger kilometres rose by 96%, with the passenger load factor (PLF) being 62%, i.e. 12.2 pp higher than in 2021. The number of passengers transported in domestic scheduled traffic rose by 53%, while of those carried in international scheduled traffic increased by 96% compared to 2021.

<sup>15</sup> [www.dzs.hr/](http://www.dzs.hr/) Release: Traffic at airports in December 2022, 13 February 2023

A proposal for Croatia Airlines' Post-COVID Strategy, drawn up in mid-2021 jointly with the Boston Consulting Group (BCG), was adopted in the Company's Supervisory Board session held on 31 August 2021. In 2022, the Company was dedicated to implementing the defined strategic initiatives, and these activities should last for three years and ensure long-term sustainable operations. Along with increasing its efficiency and competitiveness by transforming the current operating models and methods, ahead of the Company are key operational and structural challenges, including fleet renewal and optimisation of its flights network throughout the year. The fleet renewal by 2024 represents a new development cycle for the Company, as it aims to operate one type of aircraft only, that is, Airbus A220.

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.

The business years of 2020 and 2021 were marked by the coronavirus (COVID-19) pandemic. Airlines' business operations in 2022 were exposed to a number of major risks, and keeping the balance between various factors and responses to individual risks became more complicated. Air traffic is still among the sectors most affected by the crisis caused by the coronavirus pandemic. Prospects for the industry that is faced with the worst crisis ever are slightly improving, although there is still a great uncertainty regarding the pandemic scope and duration, and the traffic scope is not expected to reach the pre-crisis level before 2024.

Fuel prices, emission allowance prices, a risk posed by the war in Ukraine, a potential fall in demand for air traffic services, and consequently liquidity risks, were the main risks affecting airlines' business operations in 2022. In addition to these long-term risks, a shortage of labour force in all air traffic segments was a significant short-term risk faced by the airline industry.

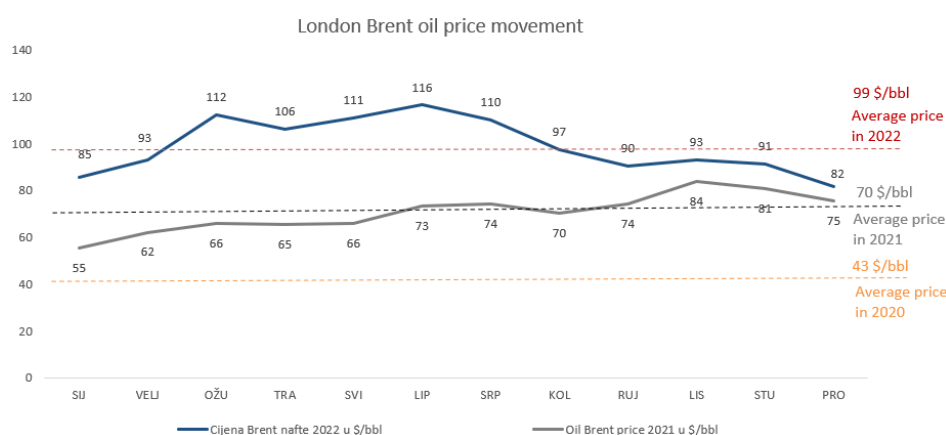
Aside from mitigating the negative consequences of all these risks, airlines should in the upcoming period focus on the rationalisation of costs and development of post-COVID business strategies.



**Fuel**

When it comes to fuel procurement costs, including emission allowances, the year of 2022 was the most challenging year ever for Croatia Airlines. The prices of oil, oil derivatives and emission units, and the U.S. dollar movements and changes in relation to the EUR exchange rate, were exceptionally volatile and unpredictable in 2022, resulting in a significant increase in fuel procurement costs.

The average Brent oil price exceeded the 2021 figure by as much as 41% (99 \$/bbl vs 70 \$/bbl), being high above 100 \$/bbl in the period from March to late July. It had started rising as early as the second half of 2021, primarily as a result of Russia's aggression against Ukraine, speculations in the secondary financial market, sanctions imposed on Russia, OPEC's decision not to increase production quotas, etc. It was not until August that the oil prices fell below 100 \$/bbl, but still ranged between 80 and 93 \$/bbl until the end of 2022.



**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. It is expected that the Fit for 55 package will be finally defined through ReFuelEU in the upcoming period, which will obligate the European aircraft operators to purchase sustainable aviation fuels (SAF), reduce free emission allowances and ultimately phase them out.

Croatia Airlines has also started initial talks with potential SAF suppliers, in line with the Star Alliance's goals and primarily with the aim of attaining self-sustainability. The phasing out of free emission allowances and the obligation to use SAF, which is much costlier, will be an additional blow to airlines' operations, with operating costs expected to rise in millions.

Croatia Airlines currently gets slightly over 50% of free emission allowances, and purchases the rest on the OTC market, which has no allowance oversight mechanism in place. The OTC market was exceptionally volatile in 2022, with the average price of 80 EUR/t per allowance. Since the start of the first purchase in 2013, their price rose from EUR 2.9 to about EUR 80 per allowance at present, thus additionally affecting airlines' operating costs.

In the upcoming period, Croatia Airlines will have to address the new requirements and risks related to the market volatility, reduction of emission units and procurement of sustainable fuels, expected to be mandatory as of 2025.

**Risk of fall in demand for air traffic services**

A reduced demand for air traffic services still posed a significant additional risk for the Company's operations, prompting it to continuously adapt its offer of capacities and optimise its flight schedule. The lingering COVID-19 pandemic continues to present a risk for the booking figures, primarily in the 2022/2023 winter season.

**Labour shortage in the aviation industry**

Labour shortage in air transport began to be felt in the pre-season already, i.e. with a traffic scope increase at European airports. This was evident in all segments of air traffic: airlines lacked flight and cabin crew staff, airport staff (check-in, baggage loading and unloading, general passenger and aircraft handling) and also had to deal with the recurrent lack of air traffic control workers, which is why aircraft rarely took off and landed according to the planned flight schedule in the summer months. The shortage culminated in the summer, so certain airports introduced limitations on the number of flights and passengers, and many prolonged the passenger handling processes, which affected the service quality.

The main cause lay in the pandemic, which had two years before led to a large drop in traffic, and consequently to dismissal of a large part of air traffic workers. Croatia Airlines had enough operative transport staff for the summer season of 2022, but the problems at major European airports caused by the labour shortage represented a risk for the Company and led to significant traffic disruptions, especially in the summer season. The risk decreased in the winter season, but was not completely eliminated.

**Liquidity risk**

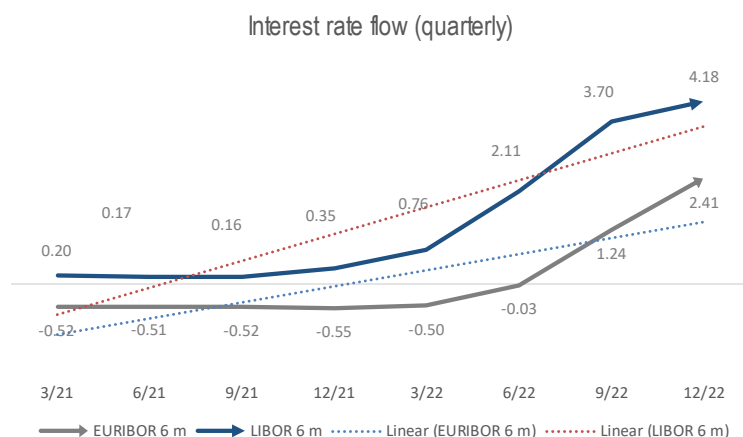
Given a great decline in revenues, liquidity maintenance is the most significant risk affecting Croatia Airlines' operations. Fuel and emission prices plus a still considerably reduced demand for air traffic services compared to the pre-pandemic year of 2019 had the greatest impact on the liquidity risk in 2022. Many companies, among them Croatia Airlines, became beneficiaries of state aid and other various forms of financial support from the state, while at the same time actively applying various internal forms of business rationalisation and supervision, optimising flight schedules and adapting the fleet to the demand and booking trends in order to adapt to the current market conditions.

In addition to regularly monitoring its due liabilities, the Company made cash flow projections for the period of one year to identify on time potential operational risks and risks related to liability settlement.

**Interest rate risk**

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

owed by the Company under the long-term foreign-currency loans totals HRK 22.6 million.



In 2022, Euribor recorded a growth compared to the 2021 trends marked by a longer period of negative interest rates.

Libor continued to rise, which did not affect Croatia Airlines' operations since it had no loan liabilities related to it.

**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.

The closing of Ukraine's airspace, as well as the introduction of sanctions against Russia by EU countries, the UK and the U.S., which closed their airspace to Russian airlines, and Russia's reciprocal measure, have had a significant impact on the market, with many flights being re-routed or cancelled. Europe-Asia and Asia-North America are the most affected markets.

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. Given that Croatia Airlines' existing flight network does not cover destinations in the Middle East and Asia, there was no need for re-routing or cancelling, which would result in a potential cost increase and revenue losses.

At the very start of the aggression against Ukraine, all scheduled flights between Russia and Croatia were stopped, which slightly affected the booking of domestic flights on which passengers from the Aeroflot's Moscow-Zagreb route were transferred.

Croatia Airlines did not have an 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 2022, the above-mentioned agent owed the Company HRK 170,000.

As Croatia Airlines has no real property in Russia, Ukraine or Belarus, there are no potential losses and additional costs in this respect resulting from mutual sanctions between the EU and Russia.

## Fleet and capacities

In 2022, Croatia Airlines operated a fleet of 12 aircraft: six Airbus – one A320 and five A319 (one under an operating lease), and six Q400, all under an operating lease.

**A320 – 1 aircraft**

The aircraft has 174 seats – altogether 174 seats



**A319 – 5 aircraft**

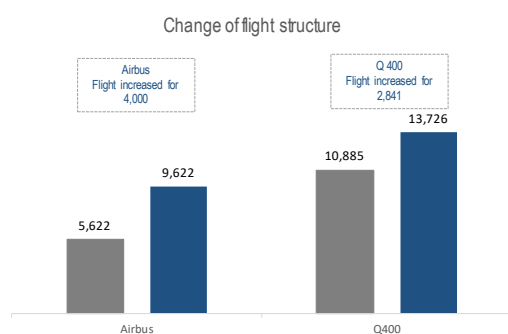
The aircraft has 144 seats/150 seats\* – altogether 726 seats



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

**Q400 – 6 aircraft**

The aircraft has 76 seats – altogether 456 seats



In 2022, Croatia Airlines' aircraft realised the block time of 32,700 block hours, or 46% more compared to 2021.

They operated a total of 23,348 flights, or 41% more than in 2021.

The block time structure was adapted to the traffic needs, with a greater emphasis on using the Q400 fleet (smaller aircraft capacity compared to the Airbus fleet), given the gradual recovery of traffic after the coronavirus pandemic.

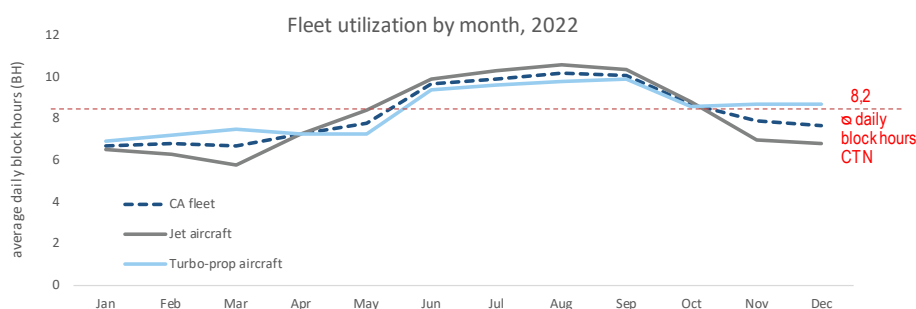
In the final quarter of 2022, the Company agreed upon a dry lease of an Airbus A320, as a spare aircraft that would be used as needed (in the event of traffic disruptions, due to technical problems arising from the aged fleet) and charged by applying the power by the hour principle.

**Fleet utilisation**

| Type of aircraft | Number of aircraft | Ø daily block hours (BH) | Growth 20-19 | Utilisation growth 21/20 |
|------------------|--------------------|--------------------------|--------------|--------------------------|
| Airbus A320      | 1                  | 7.90                     | 2.40         | 43.6%                    |
| Airbus A319      | 5                  | 8.50                     | 1.90         | 28.8%                    |
| Q-400            | 6                  | 8.40                     | 1.20         | 16.7%                    |
| <b>TOTAL</b>     | <b>12</b>          | <b>8.27</b>              | <b>1.83</b>  | <b>28.5%</b>             |

In 2022, Croatia Airlines' fleet realised on average 3,079 block hours per aircraft, or 25.2% more compared to 2021.

The average number of aircraft on the level of 2022 was 10.6. Available seat-kilometres (ASK) rose by 58%, and revenue passenger kilometres (RPK) rose by 96% compared to 2021.

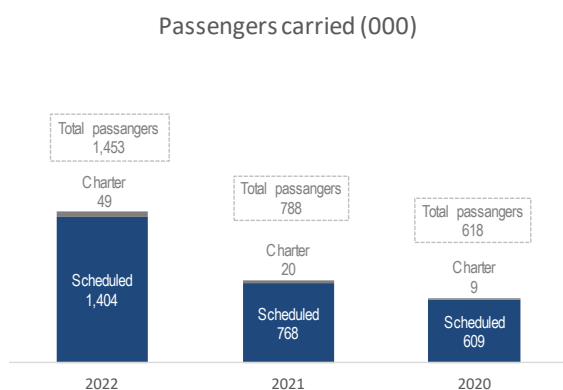


**Market**

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. In 2022, **Croatia Airlines transported a total of 1,453,224 passengers**, or 84% more than in 2021, but 33% less than the 2,179,355 passengers carried in 2019.

In the summer season of 2022, Croatia Airlines directly connected Croatia to 22 international destinations, i.e. 23 European airports, with its aircraft operating on 41 international routes. Within the summer flight schedule, the Company additionally expanded its network of international destinations by introducing five new routes from Split Airport – Amsterdam, Bucharest, Dublin, Milan and Stockholm, and reintroducing flights on its seasonal route Split – Prague. The route from Osijek to Munich now offers year-round flights, ensuring passengers from the Osijek-Baranja County a direct connection with Europe throughout the year. The Company also intensified flights on its existing routes in both national and international traffic.

In the 2022/2023 winter season, Croatia Airlines is connecting Croatia to 13 European destinations. It has introduced new international routes (Split - Zurich, Pula - Zurich), prolonged flight operations on certain seasonal routes (Rijeka - Munich, Zagreb - Dublin), and increased the total number of flights and available seats compared to the 2021/2022 winter season. It plans to operate more than 8,500 scheduled flights and offer some 869,000 seats, which is 28% more (both in terms of flights and seats) compared to the 2021/2022 winter flight schedule. It will thus strongly contribute to the development of Croatia's tourism and to the country's infrastructure in the winter months.



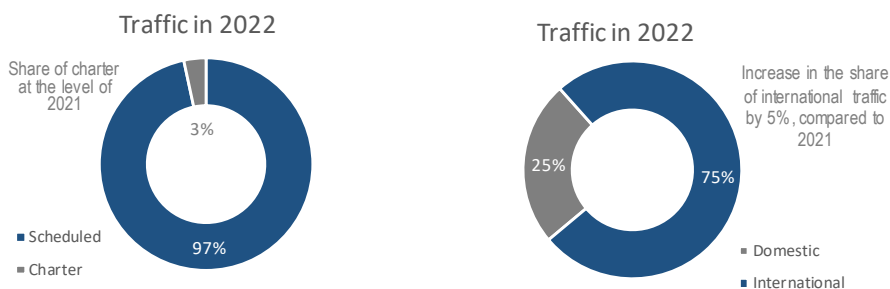
In 2022, Croatia Airlines transported 1.45 million passengers, or 84% more than in 2021. The number of passengers carried in **domestic scheduled traffic** rose by 53%, while of those transported in **international scheduled traffic** rose by 96% compared to 2021.

Altogether 49,000 passengers were transported within **charter traffic**, or 1.4 times more compared to 2021. Charter traffic made up only 3% of the total traffic.

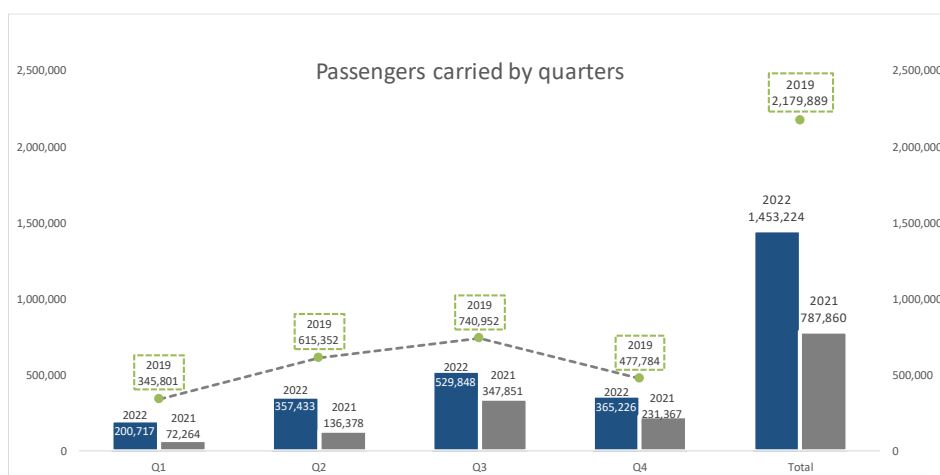
In 2022, a total of 1,514 tonnes of cargo were transported, or 15% more than in 2021.

The **passenger load factor (PLF)** of 62% was 12.2 pp higher than in 2021, with the **weight load factor (WLF)** being 59.7%, or 11.1 pp higher.

**A total of 1,453,224 passengers were transported in 2022.** Of this figure, 356,152 were transported in domestic scheduled traffic, 1,048,234 in international scheduled traffic, and 48,838 in charter traffic.



The number of passengers transported in international scheduled traffic was 96% higher, i.e. 514,000 more passengers were transported compared to 2021. Given a 62% rise in the capacities offered, the passenger load factor (PLF) in international scheduled traffic was 61.9% (+10.6 pp). The number of passengers carried in domestic scheduled traffic rose by 53%, with 356,000 more passengers compared to 2021. The passenger load factor (PLF) in domestic scheduled traffic was 58.2% (+13.2 pp compared to 2021).



Given the traffic results, business operations are evidently picking up. However, the figures have not yet reached the levels of the pre-pandemic year of 2019.

Of major works, the **Technical Sector** carried out three 12-year and six 6-year checks, and eight C-checks on third party aircraft in 2022. Maintenance works are carried out in three hangars, and as of 2021 on the platform as well, so that the works stipulated by the Parked Aircraft Maintenance Programme could be performed.

In May 2022, Croatia Airlines and Lufthansa Technik, the world's leading provider of aircraft, aircraft engine and parts maintenance services, marked the 30<sup>th</sup> anniversary of their successful business cooperation in the field of maintenance and flight safety. Lufthansa Technik has long been maintaining parts and engines for Croatia Airlines' fleet, while experts from Croatia Airlines' Technical Sector have performed more than 210 major technical inspections on Lufthansa aircraft.

## Financial operations

### Profit and loss account

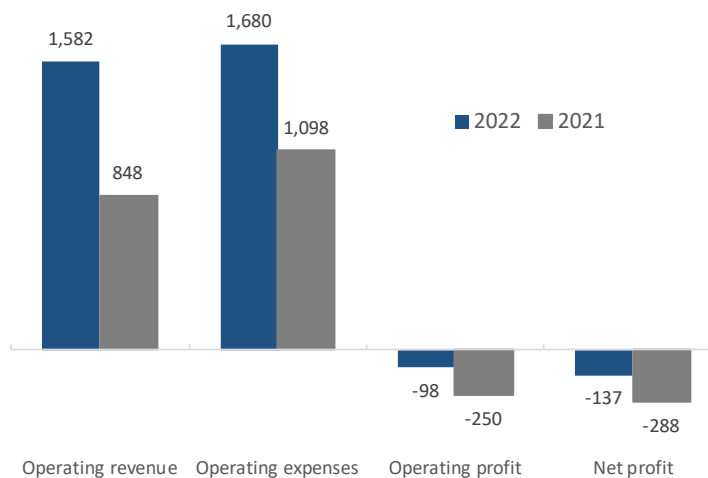
After two years of the COVID-19 pandemic, the Company's business operations were in 2022 marked by an increased demand for air traffic services. However, the traffic figures were still lower than in the pre-crisis year of 2019. In 2022, Croatia Airlines gradually intensified flight operations by increasing frequencies on the existing routes and introducing new ones. This led to a 48% rise in block time compared to 2021, but the persisting COVID-19 pandemic, especially in the first part of the year, still affected its traffic and financial performance.

| (000 HRK)                           | 2022             | 2021             | Index<br>22/21 |
|-------------------------------------|------------------|------------------|----------------|
| Passenger traffic                   | 1,264,825        | 602,813          | 210            |
| Cargo traffic                       | 10,305           | 8,053            | 128            |
| Other revenues                      | 306,929          | 237,306          | 129            |
| <b>Operating revenues</b>           | <b>1,582,058</b> | <b>848,172</b>   | <b>187</b>     |
| Flight operations                   | 586,735          | 261,117          | 225            |
| Maintenance                         | 235,226          | 158,688          | 148            |
| Passenger services                  | 79,202           | 53,880           | 147            |
| Aircraft and traffic services       | 352,952          | 222,431          | 159            |
| Promotion and sales                 | 169,012          | 102,146          | 165            |
| General and administrative expenses | 82,364           | 83,591           | 99             |
| Amortization                        | 160,972          | 203,192          | 79             |
| Other expenses                      | 13,840           | 12,807           | 108            |
| <b>Operating expenses</b>           | <b>1,680,303</b> | <b>1,097,853</b> | <b>153</b>     |
| <b>Profit/loss from operations</b>  | <b>-98,245</b>   | <b>-249,681</b>  | <b>39</b>      |
| Interest expense                    | -22,513          | -26,866          | 84             |
| Interest revenue                    | 576              | 137              | 421            |
| Foreign exchange differences, net   | -16,935          | -11,770          | 144            |
| Other financial expenses            | -38              | -38              | 100            |
| <b>Net financial expenses</b>       | <b>-38,909</b>   | <b>-38,536</b>   | <b>101</b>     |
| <b>Net profit/loss</b>              | <b>-137,154</b>  | <b>-288,217</b>  | <b>48</b>      |

In such market conditions, the Company's operating loss at the end of 2022 totalled HRK 98.2 million. With the net financing result included, its net loss for the business year was HRK 137.2 million. The 2022 result was affected by rising fuel prices the most, with the overall negative effect stemming from the increased jet fuel price being HRK 207 million.

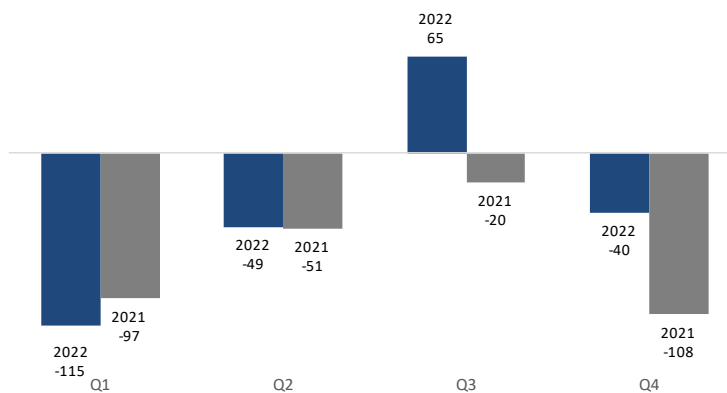


Profit and loss account (in mil. HRK)



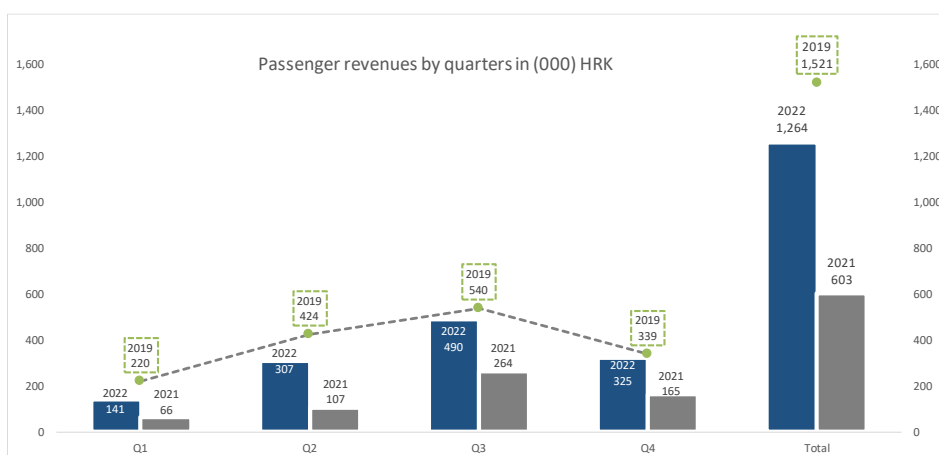
If the Company's net result is observed by quarters, it is evident that the financial recovery compared to 2021 started in the third quarter, which was the first three-month period recording a positive financial result since the beginning of the crisis caused by the COVID-19 pandemic.

Net result by quarters in (000) HRK



Both operating revenues and costs rose significantly compared to 2021, parallel with the traffic growth.

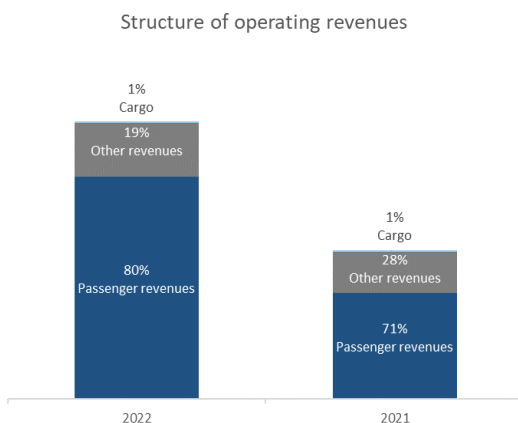
The Company's operating revenues were 87% higher compared to 2021, as a result of a growth in passenger revenues. The latter more than doubled, with 84% more passengers being transported compared to 2021.



Croatia Airlines recorded a significant growth in passenger revenues in all four quarters compared to 2021, but the figures still did not reach the levels of the pre-crisis year of 2019. Compared to the 2019 result, passenger revenues were 17% lower (HRK -257 million), testifying to a slow recovery of the airline market and Croatia Airlines' performance given the crisis caused by the COVID-19 pandemic.

Cargo traffic in tonnes recorded a 15% rise compared to 2021, resulting in 28% higher cargo transport revenues.

Other revenues generated in 2022 were 29% higher year-on-year, mainly as a result of crediting prepayments made to suppliers, the value of which had been adjusted in the preceding period, related to the contract on the procurement of new aircraft.

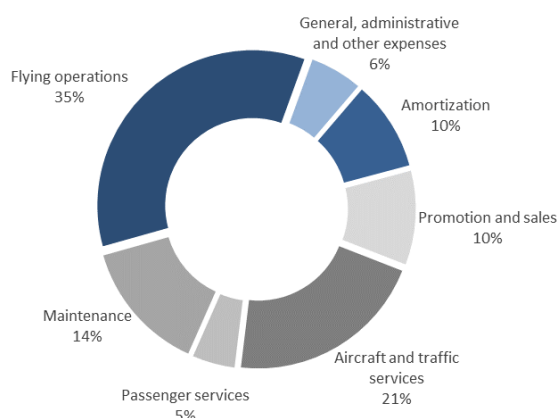


Besides the evident growth of overall revenues compared to 2021, the very revenue structure also noticeably changed: the share of passenger revenues rose, while the share of others declined. Cargo transport revenues made up only 1% of the operating revenues, the same as in 2021.

Croatia Airlines' **operating costs** rose by 53% (HRK +582 million) compared to 2021, primarily as a result of an increased number of flights (+41%) and passengers (+84%), and significantly higher fuel prices<sup>16</sup>. Operating costs of all categories, except for depreciation costs and general and administrative costs, saw a rise, partly as a result of inflationary trends.

Flight costs recorded the highest growth (+125%), mostly as a result of soaring fuel prices, and greater fuel consumption amidst increased block time, i.e. aircraft operations. The latter entailed a rise in the costs of air traffic services, i.e. airport and air traffic control services (+59%), and maintenance costs (+48%). Promotion and sales costs, and passenger service costs rose in line with the growing number of passengers. Other expenditure rose as it comprised a one-off cost of HRK 5.7 million for returning an Airbus 320 CTJ to the lessor (in early March), in line with the lease agreement. At the start of the pandemic, the Company had agreed with its social partners a 15% reduction of gross salaries until the end of 2021, so the year of 2022 saw a rise in salary-related costs.

Structure of operating expenses in 2022



In addition to the evident growth of overall cost levels compared to 2021, the costs structure also noticeably changed. While the block time costs rose, primarily flight costs (+11 pp) which currently make up 35% of the overall operating costs, the share of fixed costs declined, primarily of depreciation costs (-9 pp).

<sup>16</sup> The price of Brent oil was 41% higher on average in 2022 compared to 2021 (99 \$/bbl vs 70 \$/bbl)

## Assets, financing and investments

### Balance sheet

| (000 HRK)                | End 2022         | End 2021         | Index<br>22/21 |
|--------------------------|------------------|------------------|----------------|
| <b>ASSETS</b>            |                  |                  |                |
| Non-current assets       | 849,763          | 891,797          | 95             |
| Current assets           | 804,607          | 517,485          | 155            |
| <b>Total Assets</b>      | <b>1,654,370</b> | <b>1,409,283</b> | <b>117</b>     |
| <b>LIABILITIES</b>       |                  |                  |                |
| Capital and reserves     | 88,119           | -71,536          | -              |
| Provisions               | 239,476          | 245,846          | 97             |
| Non-current liabilities  | 827,795          | 818,822          | 101            |
| Current liabilities      | 498,980          | 416,151          | 120            |
| <b>Total Liabilities</b> | <b>1,654,370</b> | <b>1,409,283</b> | <b>117</b>     |

At the end of 2022, the **value of the Company's assets** was 17% higher compared to 2021.

The value of its fixed assets reduced by 5% compared to the end of 2021, with that of tangible assets declining through regular write-offs and somewhat lower investments, and that of intangible assets rising by 26% compared to the end of 2021. The value of its long-term financial assets and accounts receivable rose by 32% amidst deposit payments following the signing of a contract with Airbus for the purchase of six new Airbus A220 aircraft and a lease contract for another six Airbus A220 within the fleet renewal process. This item recorded a growth also as a result of the recognition of prepayments made in line with the agreement with the supplier for the new contractual obligations related to the procurement of new aircraft.

The value of the Company's current assets was 55% higher compared to the end of 2021. This is mostly due to an 85% increase in the cash balance level and greater accounts receivable resulting from the greater sales. As the negative effects of the COVID-19 crisis on its operations subsided, in July and August a significant part of deposits for the sold tickets was returned, resulting in a lower level of deposits retained.

A rise in the value of total assets was followed by a 17% **increase in the value of liabilities and capital** compared to the end of 2021.

In December 2022, the Company received recapitalisation funds from its owner, the Republic of Croatia, in line with the Programme for the Granting of State Aid to the Maritime, Transport, Transport Infrastructure and Related Activities Sector in the Current COVID-19 Pandemic, and on 31 December 2022 the Company's capital totalled HRK 88.1 million.

Croatia Airlines' long-term liabilities rose by 1% compared to the end of 2021. Within this category, its liabilities related to leased assets reduced by 24%, while its loan liabilities rose as the Republic of Croatia approved the Company another shareholder loan, worth HRK 94 million, also in line with the above-mentioned Programme.

Its short-term liabilities rose by 20%, with air traffic liabilities and liabilities to suppliers seeing the greatest rise – owing to an increase in the scope of traffic, while the liabilities related to leased assets and loan liabilities were reduced through regular repayments of due loan instalments.

**At the end of 2022, Croatia Airlines' liabilities** related to a long-term syndicated loan taken with PBZ/HPB totalled HRK 22.6 million, while its liabilities related to three shareholder loans totalled HRK 594 million.

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

## Investments in 2022

| Investments                                  | 2022              | 2021              |
|----------------------------------------------|-------------------|-------------------|
| Investments in aircraft                      | 4,027,352         | 3,886,473         |
| Investments in spare parts, tools and equip. | 11,860,334        | 7,616,995         |
| Construction investments                     | 117,648           | -                 |
| Leased aircraft                              | 10,704,881        | 2,498,081         |
| Other intangible assets                      | 2,274,523         | 1,891,534         |
| Other equipment                              | 5,361,638         | 1,111,005         |
| <b>Total</b>                                 | <b>34,346,375</b> | <b>17,004,088</b> |

The Company's investments in 2022 totalled HRK 34.3 million. Investments into aircraft, together with spare parts, totalled HRK 26.6 million and made up 77% of total investments. Investments into own fleet amounted to HRK 4 million and referred to an ESG modification on an Airbus CTH and a 12-year check-up on an Airbus CTI, while HRK 10.7 million was invested into a landing gear replacement on a CQD Q400 and an Airbus CTN, and into modifications on the Q400 fleet and the newly-leased aircraft to be introduced into the fleet. Investments into spare parts, tools and other equipment totalled HRK 11.8 million.

In 2022, the Company carried out two 6-year checks on the Q400 fleet (CQD and CQF), four C checks on the Airbus fleet (CTK, CTL, CTN and CTO), and three C checks on the Q400 fleet (CQA, CQB and CQF).

Other investments totalled about HRK 7.8 million: HRK 2.3 million for software, HRK 4.4 million for IT equipment, and HRK 1.1 million for other types of equipment and infrastructure.

## Cash flow

| (000 HRK)                                  | 2022             | 2021             | Index<br>22/ 21 |
|--------------------------------------------|------------------|------------------|-----------------|
| <b>Cash at the beginning of the period</b> | <b>311,256</b>   | <b>574,324</b>   | <b>54</b>       |
| Inflow from activities                     | 1,637,936        | 800,196          | 205             |
| Shareholder loan                           | 94,000           | -                | -               |
| Recapitalization                           | 296,000          | -                | -               |
| Sale of property                           | 1,006            | 1,071            | 94              |
| <b>Total inflow</b>                        | <b>2,028,942</b> | <b>801,267</b>   | <b>253</b>      |
| Obligations                                | 1,727,939        | 1,033,897        | 167             |
| Investments                                | 24,710           | 17,267           | 143             |
| Loans                                      | 12,770           | 13,171           | 97              |
| <b>Total outflow</b>                       | <b>1,765,419</b> | <b>1,064,335</b> | <b>166</b>      |
| <b>Net change in the period</b>            | <b>263,523</b>   | <b>-263,067</b>  | <b>-</b>        |
| <b>Cash at the end of the period</b>       | <b>574,780</b>   | <b>311,256</b>   | <b>185</b>      |

**At the end of 2022, the Company's cash balance was HRK 574.8 million.**

In 2022, the Company recorded a significant increase in inflows, with those from operating activities being two times greater than in 2021, as a result of an increased scope of traffic. Furthermore, in November 2022 the Government of the Republic of Croatia granted the Company funds worth HRK 94 million in the form of a shareholder loan, and a capital injection of HRK 296 million in December, in line with the Programme for the Granting of State Aid to the Maritime, Transport, Transport Infrastructure and Related Activities Sector in the Current COVID-19 Pandemic.

The Company's total cash outflows were 66% greater than in 2021. As it gradually intensified flight operations by increasing frequencies on the existing routes and introducing new ones to match the demand for air traffic services, it recorded 67% greater outflows from operating activities. In addition to an increased scope of traffic, the outflow level was also affected by the significantly higher fuel price in 2022. Furthermore, cash outflows intended for investments rose by 43% compared to 2021.

In 2022, the Company repaid four instalments of the long-term syndicated loan.

## Consolidated business result

| (000 HRK)             | Croatia Airlines |                  | Obzor putovanja |            | Amadeus Croatia |              | Croatia Airlines Group* |                  |
|-----------------------|------------------|------------------|-----------------|------------|-----------------|--------------|-------------------------|------------------|
|                       | 2022             | 2021             | 2022            | 2021       | 2022            | 2021         | 2022                    | 2021             |
| Operating revenues    | 1,346,910        | 691,494          | 6,167           | 5,317      | 5,032           | 2,454        | 1,357,844               | 699,020          |
| Other revenues        | 235,148          | 156,677          | 466             | 816        | 51              | 344          | 235,665                 | 157,837          |
| Operating expenses    | 1,680,303        | 1,097,853        | 5,617           | 5,392      | 4,037           | 3,404        | 1,689,672               | 1,106,406        |
| Operating profit/loss | (98,245)         | (249,681)        | 1,017           | 741        | 1,046           | (606)        | (96,163)                | (249,549)        |
| Net profit/loss       | (38,909)         | (38,536)         | (11)            | (87)       | (38)            | (55)         | (38,972)                | (38,686)         |
| Pre-tax profit        | (137,154)        | (288,217)        | 1,006           | 654        | 1,008           | (661)        | (135,135)               | (288,235)        |
| <b>Net profit</b>     | <b>(137,154)</b> | <b>(288,217)</b> | <b>1,006</b>    | <b>654</b> | <b>1,008</b>    | <b>(661)</b> | <b>(135,135)</b>        | <b>(288,235)</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 2022 at the Group level amounts to a loss of HRK 135.1 million. Total revenues and expenditures of the subsidiaries account for less than 1% of the consolidated revenues and expenditures, showing that their business activities have only a minor impact on the business activities of Croatia Airlines.

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

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

## Going concern principle

A gradual recovery of Croatia Airlines' traffic after two years of the COVID-19 pandemic reflected in an increased scope of flights and block time. With the introduction of the summer flight schedule, Croatia Airlines additionally intensified flight operations by increasing frequencies and introducing new routes.

The business operations of air carriers, including Croatia Airlines, were in 2022 exposed to a number of major risks, and keeping the balance between various factors and responses to individual risks became more complicated. A demand for air traffic services was still lower compared to the period prior to the COVID-19 pandemic, posing a significant risk for operations and prompting the Company to adjust its offer of capacities and optimise its flight schedule throughout the year, in the circumstances of growing fuel prices in the market. In addition to these long-term risks, a shortage of labour force in all air traffic segments was also a significant challenge in 2022. Croatia Airlines had enough operative transport staff in the summer season of 2022, but the large operational problems at major European airports caused by the staff shortage led to traffic disruptions, especially in the summer season. Despite this, significant positive shifts were made compared to 2021, both in terms of traffic growth and financial operations. The Company monitored its liquidity on an ongoing basis and made cash flow projections for the upcoming period, so as to timely identify ways to overcome potential operating risks and settle its financial liabilities.

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 the monitoring of 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, given the latest trends in the oil and oil derivatives market, are becoming a major expenditure item.

In 2022, Croatia Airlines utilised state aid measures in line with the Programme for the Granting of State Aid to the Maritime, Transport, Transport Infrastructure and Related Activities Sector in the Current COVID-19 Pandemic. The measures comprised a loan agreement worth HRK 94 million, entered into by and between the Ministry of the Sea, Transport and Infrastructure and Croatia Airlines on 30 June 2022 on the basis of the Decision of the Government of the Republic of Croatia on adopting Amendments to the Programme for the Granting of State Aid to the Maritime, Transport, Transport Infrastructure and Related Activities Sector in the Current COVID-19 Pandemic. The very loan was disbursed to Croatia Airlines on 21 November 2022. A capital injection of HRK 296 million by the Republic of Croatia was also one of the measures. Pursuant to Croatia Airlines' General Assembly decision of 22 December 2022, the Company was approved a share capital increase by monetary contribution and issuance of new shares. The recapitalisation was carried out in January 2023, based on the Investment Contract signed by the Republic of Croatia and Croatia Airlines d.d., through cash contribution and issuance of 29,600,000 new registered shares, each with the nominal amount of HRK 10.00.



Given the turbulent economic environment, these measures should ensure sustainable operations and liquidity for Croatia Airlines in the transitional period of fleet renewal, and enable it to focus on adjustments of its business processes to the new aircraft type.

The Business Plan for 2022-2026 is also 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 2026. The decision about starting the fleet renewal process was made in early October 2022, by accepting Airbus' offer for six new A220 aircraft. On 16 January 2023, Croatia Airlines entered into long-term operating lease contracts for the first six Airbus A220 type aircraft (four A220-300 and two A220-100) with Air Lease Corporation Clover (based in the Republic of Ireland). For now, it intends to replace 12 aircraft, with the possibility to introduce another three in 2027, as envisaged by the Post-COVID Strategy.

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

In line with the expected recovery of demand for air traffic services once the pandemic comes to an end, the Plan envisages a gradual increase in the number of destinations and frequencies, and optimisation of the expanded destinations network. Flights from Split and Dubrovnik were intensified as early as the summer season of 2022, and with the support of tourist boards, the scope of traffic operations increased in the winter period as well (OSI-MUC, SPU-ZRH, PUY-ZRH).

#### *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 will be significantly lower than that envisaged by the Post-COVID Strategy, particularly in 2023.

*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 2023

Both the International Air Transport Association (IATA) and the International Civil Aviation Organization (ICAO) forecast that it will take air traffic much longer to recover from the coronavirus pandemic compared to the previous crises. IATA does not see it reaching the pre-crisis level before 2024. According to IATA<sup>17</sup>, passenger numbers in domestic air traffic are expected to surpass the four billion mark in 2023 for the first time since 2019, with 4.2 billion travellers expected to fly, which is 15% less than in the pre-pandemic year of 2019.

Croatia Airlines sees a negative operating result of EUR 15.9 million in 2023. The revenue and cost projections are based on the capacity of 2 million available seat-kilometres and 1.8 million passengers.

The projected flight schedule covers seven destinations within domestic scheduled traffic and 24 destinations within international Euro-Mediterranean scheduled traffic. Within charter traffic – series of charter flights to the Austrian, Israeli and Swedish markets have been envisaged.

The Business Plan for 2023 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 new A220 aircraft into its fleet as of 2024. Furthermore, in 2023 the Company plans to agree on and effectuate a sale and lease-back of its own Airbus aircraft to ensure the flexibility needed for the implementation of the fleet renewal plan, while eliminating the risks of disposal of non-airworthy aircraft 'wreckages'.

In 2023, 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. In 2023, Croatia Airlines plans to implement the PSO scheme on domestic routes, in line with the contract for the 2022-2026 period.

The envisaged result is based on the projection of traffic performance that serves as a basis for the calculation of operating revenues and expenses:

- 26,160 – block time in flights;
- 35,897 – block time in block hours;
- Annual traffic of 1,824,171 passengers (371,000 more compared to 2022), of which 1,768,694 within scheduled traffic and 55,477 within charter traffic;
- PLF on the level of 68.4%.

The main risks affecting the realisation of the envisaged financial and non-financial results in 2023 refer to oil price trends, inflation, i.e. price hikes on the part of suppliers of services related to air traffic, and demand for air traffic services, which means that vigilance and flexibility will be crucial for the entire airline industry, including Croatia Airlines.

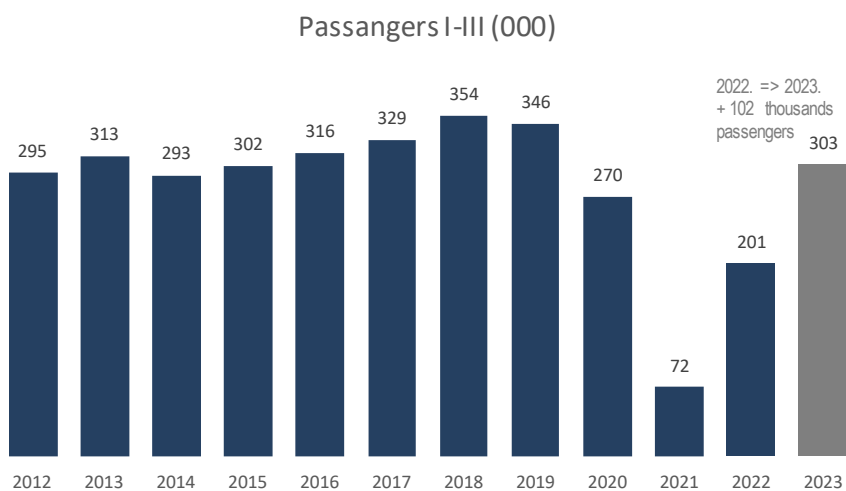
<sup>17</sup> IATA Global Outlook for Air Transport, December 2022

**Current operations – traffic performance in the first quarter of 2023**

| Description            |          | I- III 2023 | I- III 2022 | Index |
|------------------------|----------|-------------|-------------|-------|
| Flights (km)           | DIST 000 | 2,954       | 2,558       | 115   |
| Departures             | FLTS     | 5,112       | 4,149       | 123   |
| Block hours            | BH hours | 6,711       | 5,641       | 119   |
| Passengers carried     | RPAX 000 | 303,347     | 200,721     | 151   |
| Freight & mail carried | CGO t    | 394         | 349         | 113   |
| Passenger km flown     | RPK mil  | 197,007     | 137,722     | 143   |
| Available seat - km    | ASK mil  | 321,257     | 268,073     | 120   |
| Passenger load factor  | PLF %    | 61.3        | 51.4        | 119   |
| Tonne km flown         | RTK mil  | 20,030      | 14,074      | 142   |
| Available tonne - km   | ATK mil  | 34,096      | 28,616      | 119   |
| Weight load factor     | WLF %    | 58.7        | 49.2        | 119   |

The number of passengers in the first quarter of 2023 rose by 51% (+102,000 passengers) compared to the same period of 2022. Domestic scheduled traffic saw a 39% rise, while international scheduled traffic recorded a 56% rise compared to the same period of 2022.

The passenger load factor (PLF) was 61.3%, or 9.9 pp higher than in the same period of 2022.



President of the Management Board

Jasmin Bajić

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

## REPRESENTATION

### on the Application of the Corporate Governance Code

Being a joint-stock company with shares listed on the regulated market of the Zagreb Stock Exchange, Croatia Airlines applies the Corporate Governance Code (hereinafter: the Code). Drawn up jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange, it is available at the Zagreb Stock Exchange official website [www.zse.hr](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 2022 the Supervisory Board consists of:

Zlatko Mateša,  
- Chairman of the Supervisory Board

Nataša Munitić,  
- deputy Chairman of the Supervisory Board  
until 14 October 2022

Zoran Barac,  
- member of the Supervisory Board

Mirko Tatalović,  
- member of the Supervisory Board

Zoran Viljac,  
- member of the Supervisory Board – employee representative  
until 2 August 2022

Janko Mišić,  
- member of the Supervisory Board– employee representative  
from 2 August 2022  
- deputy Chairman of the Supervisory Board  
from 14 October 2022

In 2022, the Supervisory Board held seven 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 2022, the Audit Board members were Chairwoman Nataša Munitić until 14 October 2022, Zoran Barac, member and Rudi Grubišić, external member. From 14 October 2022 the Audit Board members were Zoran Barac, Chairman Mirko Tatalovic, member and Rudi Grubišić, external member.

The Audit Board held four themed sessions and discussed the Company's financial performance, audit plan, internal control system, risk management and other tasks for which the Supervisory Board needed assistance in order to efficiently fulfil obligations related to the Company's corporate governance, financial reporting and control. 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.

Five General Assembly meetings were held in 2022. The Company did not acquire its own shares during that period. The General Assembly in its session held on 22 December 2022 decided on the increase of the share capital by payment in money made by the Republic of Croatia of HRK 296,000,000.00 and the issuance of new 29,600,000 ordinary registered shares, with a nominal amount of HRK 10 each.

***This increase in share capital had been registered on 5th May 2023 in the Court Register of the Commercial Court in Zagreb.***

### SHAREHOLDER STRUCTURE 31 December 2022:

| Shareholders                           | No. of shares     | Portion in the share capital (in %) |
|----------------------------------------|-------------------|-------------------------------------|
| REPUBLIC OF CROATIA                    | 62,010,821        | 98.762%                             |
| AIRPORT ZAGREB D.O.O.                  | 477,121           | 0.760%                              |
| HPB FOR THE REPUBLIC OF CROATIA        | 173,768           | 0.277%                              |
| JANAF D.D.                             | 22,000            | 0.035%                              |
| CROATIA INSURANCE D.D.                 | 7,165             | 0.011%                              |
| CROATIA LOTERY D.O.O.                  | 4,000             | 0.006%                              |
| ASTRA INTERNATIONAL D.D. in bankruptcy | 3,682             | 0.006%                              |
| HP D.D.                                | 2,750             | 0.004%                              |
| TURISTHOTEL D.D.                       | 2,090             | 0.003%                              |
| TANKERKOMERC D.D.                      | 2,090             | 0.003%                              |
| OTHERS                                 | 82,466            | 0.131%                              |
| <b>TOTAL</b>                           | <b>62,787,953</b> | <b>100.000%</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 2022 as an integral part thereof.

Zagreb, 28 April 2023



Jasmin Bajić  
President of the Management Board



**CROATIA AIRLINES d.d.**

**Consolidated and Separate Financial Statements  
for the year ended 31 December 2022  
together with Independent auditors' report**

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## Responsibility for the financial statements

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The Management Board of the Company Croatia Airlines d.d., Buzin, Bani 75/b (hereinafter "the Company") is responsible for ensuring that the consolidated and separate financial statements for the year ended 31 December 2022 are prepared in accordance with the Accounting Act and the International financial reporting standards ("IFRS") effective in European Union and in accordance with the Regulation on the structure and content of the annual financial statements, to give a true and fair view of the financial position, the results of business operations, the changes in equity and the cash flows of the Company for that period.

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

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

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

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

Signed on behalf of the Management Board:



Jasmin Bajić

President and CEO

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

28 April 2023



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

### ***Report on the Audit of the Financial Statements***

#### ***Opinion***

We have audited the separate financial statements of Croatia Airlines d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2022, and their respective separate and consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and consolidated financial position of the Group as at 31 December 2022 and of their respective unconsolidated and consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

#### ***Basis for Opinion***

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

#### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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

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

#### Key Audit Matters (continued)

##### Recognition of passenger revenue from scheduled services

Passenger revenue from scheduled services recognized in profit or loss in 2022: HRK 1,195,158 thousand (2021: HRK 565,793 thousand); carrying amount of air traffic liabilities as at 31 December 2022: HRK 169,833 thousand (31 December 2021: HRK 155,122 thousand).

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

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



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

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

#### Key Audit Matters (continued)

##### Going concern basis of accounting

Refer to Note 3 *Going concern*, Note 37 *Capital commitments* and Note 39 *Risk Management*

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | How our audit addressed the matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The financial statements are prepared on a going concern basis. At the reporting date, the Company and the Group realised losses and are still operating in the challenging economic environment. Although the Company and the Group have net current assets at the reporting date, there are significant non-current liabilities whose settlement is dependent on the development in the air traffic market. In addition to the liabilities recognized in the statement of financial position at the reporting date, the Company and the Group have significant capital commitments and contractual obligations arising from fleet renewal and regular maintenance of the existing fleet.</p> <p>The going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Company and the Group will have sufficient resources to continue for a period of at least 12 months from the reporting date. The preparation of these forecasts incorporated a number of assumptions and significant judgment. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to a material uncertainty related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. Note 3 to the financial statements further explains how the judgment was formed by the management.</p> <p>The Company's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Company's plans for future actions and their financial impact.</p> | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"><li>• reading minutes of the meetings of the Management Board and Directors and Supervisory Boards with an aim to identify measures that the management intends to implement in order to secure adequate funding for its ongoing activities;</li><li>• discussing with management their plans for future actions in relation to the going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances;</li><li>• analyzing the Company's and the Group's net working capital position as at 31 December 2022 to assess the availability of liquid funds to settle short-term financial obligations;</li><li>• evaluating the reliability of the cash flow forecasts used by the Company and the Group in its going concern assessment by, among others, comparing the forecast cash operating costs with those incurred historically, inspecting the terms of contracts and agreements with customers and suppliers, and challenging the key assumptions (such as cash flows from operating activities, capex requirements and sources of financing) and related judgements;</li><li>• considering whether any additional facts or information have become available since the date on which the Company and the Group made their assessment;</li><li>• evaluating whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about the events or conditions that had been identified that may cast significant doubt on the Company's and the Group's ability to continue as a going concern.</li></ul> |



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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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





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

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

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

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

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

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

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

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

We were appointed by those charged with governance on 15 July 2022 to audit the financial statements of the Company and the Group for the year ended 31 December 2022. Our total uninterrupted period of engagement is seven years, covering the periods ending 31 December 2016 to 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 24 April 2023;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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



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

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

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express a conclusion on compliance of the separate and consolidated financial statements of the Company as at and for the year ended 31 December 2022, as included in the attached electronic file CTN-31-12-2022-HR, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

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

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

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

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

### **Auditors' Responsibilities**

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

### **Work performed**

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Reasonable assurance is a high degree of assurance. However, it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with the RTS on ESEF.

In respect of the subject matter, we have performed the following procedures:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the separate and consolidated financial statements of the Group presented in human-readable format;
- evaluating the completeness of the Company's tagging of the separate and consolidated financial statements;
- evaluating the appropriateness of the use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;



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

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

#### *Work performed (continued)*

- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the separate and consolidated financial statements.

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

#### *Conclusion*

In our opinion, based on the procedures performed and evidence obtained, the separate and consolidated financial statements of the Company as at and for the year ended 31 December 2022 presented in ESEF format and contained in the aforementioned attached electronic file, have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Our conclusion does not represent an opinion on the true and fair view of the financial statements as this is included in our Report on the Audit of the Financial Statements.

*KPMG Croatia d.o.o.*

**KPMG Croatia d.o.o. za reviziju**

Croatian Certified Auditors

Eurotower, 17th floor

Ivana Lučića 2a

10000 Zagreb, Croatia

**28 April 2023**

## Croatia Airlines Group consolidated statement of comprehensive income

For the year ended 31 December 2022

|                                                       | Note           | 2022               |                  | 2021               |                  |
|-------------------------------------------------------|----------------|--------------------|------------------|--------------------|------------------|
|                                                       |                | HRK<br>thousand    | EUR<br>thousand  | HRK<br>thousand    | EUR<br>thousand  |
| <b>Operating revenues</b>                             |                |                    |                  |                    |                  |
| Passenger traffic                                     | 4              | 1,264,825          | 167,935          | 602,813            | 80,118           |
| Cargo traffic                                         |                | 10,305             | 1,368            | 8,053              | 1,070            |
| Other sales revenue                                   | 5              | 104,143            | 13,827           | 102,649            | 13,643           |
| <b>Total operating revenues</b>                       |                | <b>1,379,273</b>   | <b>183,130</b>   | <b>713,515</b>     | <b>94,831</b>    |
| <b>Other income</b>                                   | 6              | <b>214,235</b>     | <b>28,445</b>    | <b>143,342</b>     | <b>19,051</b>    |
| <b>Operating expenses</b>                             |                |                    |                  |                    |                  |
| Flight operations                                     |                | (586,735)          | (77,903)         | (261,117)          | (34,704)         |
| Maintenance                                           |                | (235,226)          | (31,232)         | (158,688)          | (21,091)         |
| Passenger service                                     |                | (79,202)           | (10,516)         | (53,880)           | (7,161)          |
| Aircraft and traffic services                         |                | (352,952)          | (46,863)         | (222,431)          | (29,563)         |
| Promotion and sales                                   |                | (169,012)          | (22,440)         | (102,146)          | (13,576)         |
| General and administrative expenses                   |                | (91,287)           | (12,120)         | (91,557)           | (12,169)         |
| Depreciation and amortization                         | 12, 13, 14, 31 | (161,287)          | (21,415)         | (203,553)          | (27,054)         |
| Other operating expenses                              |                | (13,970)           | (1,855)          | (13,033)           | (1,732)          |
| <b>Total expenses</b>                                 |                | <b>(1,689,671)</b> | <b>(224,344)</b> | <b>(1,106,405)</b> | <b>(147,050)</b> |
| <b>Loss from operations</b>                           |                | <b>(96,163)</b>    | <b>(12,769)</b>  | <b>(249,548)</b>   | <b>(33,168)</b>  |
| Finance income                                        | 9              | 76,930             | 10,214           | 42,938             | 5,707            |
| Finance costs                                         | 10             | (115,902)          | (15,389)         | (81,625)           | (10,848)         |
| <b>Net finance costs</b>                              |                | <b>(38,972)</b>    | <b>(5,175)</b>   | <b>(38,687)</b>    | <b>(5,141)</b>   |
| <b>Loss before tax</b>                                |                | <b>(135,135)</b>   | <b>(17,944)</b>  | <b>(288,235)</b>   | <b>(38,309)</b>  |
| Income tax expense                                    | 11             | -                  | -                | -                  | -                |
| <b>Loss for the year</b>                              |                | <b>(135,135)</b>   | <b>(17,944)</b>  | <b>(288,235)</b>   | <b>(38,309)</b>  |
| <b>Other comprehensive income</b>                     |                |                    |                  |                    |                  |
| Deferred exchange losses                              |                | 662                | 81               | 349                | 46               |
| The fair value of financial assets available for sale |                | 147                | 20               | 402                | 53               |
| Foreign exchange translation differences              |                | -                  | 52               | -                  | 40               |
| <b>Total other comprehensive income</b>               |                | <b>809</b>         | <b>153</b>       | <b>751</b>         | <b>139</b>       |
| <b>Total comprehensive income / (loss)</b>            |                | <b>(134,326)</b>   | <b>(17,791)</b>  | <b>(287,484)</b>   | <b>(38,170)</b>  |
| <b>Loss per share HRK / EUR</b>                       | 28             | <b>(2.15)</b>      | <b>(0.29)</b>    | <b>(4.59)</b>      | <b>(0.61)</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 2022

|                                                       | Note           | 2022               |                  | 2021               |                  |
|-------------------------------------------------------|----------------|--------------------|------------------|--------------------|------------------|
|                                                       |                | HRK<br>thousand    | EUR<br>thousand  | HRK<br>thousand    | EUR<br>thousand  |
| <b>Operating revenues</b>                             |                |                    |                  |                    |                  |
| Passenger traffic                                     | 4              | 1,264,825          | 167,935          | 602,813            | 80,118           |
| Cargo traffic                                         |                | 10,305             | 1,368            | 8,053              | 1,070            |
| Other sales revenue                                   | 5              | 93,183             | 12,372           | 95,124             | 12,643           |
| <b>Total operating revenues</b>                       |                | <b>1,368,313</b>   | <b>181,675</b>   | <b>705,990</b>     | <b>93,831</b>    |
| <b>Other income</b>                                   | 6              | <b>213,745</b>     | <b>28,380</b>    | <b>142,182</b>     | <b>18,897</b>    |
| <b>Operating expenses</b>                             |                |                    |                  |                    |                  |
| Flight operations                                     |                | (586,735)          | (77,903)         | (261,117)          | (34,704)         |
| Maintenance                                           |                | (235,226)          | (31,232)         | (158,688)          | (21,091)         |
| Passenger service                                     |                | (79,202)           | (10,516)         | (53,880)           | (7,161)          |
| Aircraft and traffic services                         |                | (352,952)          | (46,863)         | (222,431)          | (29,563)         |
| Promotion and sales                                   |                | (169,012)          | (22,440)         | (102,146)          | (13,576)         |
| General and administrative expenses                   |                | (82,364)           | (10,935)         | (83,591)           | (11,110)         |
| Depreciation and amortization                         | 12, 13, 14, 31 | (160,972)          | (21,373)         | (203,192)          | (27,006)         |
| Other operating expenses                              |                | (13,840)           | (1,837)          | (12,807)           | (1,701)          |
| <b>Total expenses</b>                                 |                | <b>(1,680,303)</b> | <b>(223,099)</b> | <b>(1,097,852)</b> | <b>(145,912)</b> |
| <b>Loss from operations</b>                           |                | <b>(98,245)</b>    | <b>(13,044)</b>  | <b>(249,680)</b>   | <b>(33,184)</b>  |
| Finance income                                        | 9              | 76,905             | 10,211           | 42,941             | 5,707            |
| Finance costs                                         | 10             | (115,814)          | (15,377)         | (81,478)           | (10,829)         |
| <b>Net finance costs</b>                              |                | <b>(38,909)</b>    | <b>(5,166)</b>   | <b>(38,537)</b>    | <b>(5,122)</b>   |
| <b>Loss before tax</b>                                |                | <b>(137,154)</b>   | <b>(18,210)</b>  | <b>(288,217)</b>   | <b>(38,306)</b>  |
| Income tax expense                                    | 11             | -                  | -                | -                  | -                |
| <b>Loss for the year</b>                              |                | <b>(137,154)</b>   | <b>(18,210)</b>  | <b>(288,217)</b>   | <b>(38,306)</b>  |
| <b>Other comprehensive income</b>                     |                |                    |                  |                    |                  |
| Deferred exchange losses                              |                | 662                | 81               | 349                | 46               |
| The fair value of financial assets available for sale |                | 147                | 20               | 402                | 53               |
| Foreign exchange translation differences              |                | -                  | 50               | -                  | 37               |
| <b>Total other comprehensive income</b>               |                | <b>809</b>         | <b>151</b>       | <b>751</b>         | <b>136</b>       |
| <b>Total comprehensive income / (loss)</b>            |                | <b>(136,345)</b>   | <b>(18,059)</b>  | <b>(287,466)</b>   | <b>(38,170)</b>  |
| <b>Loss per share HRK / EUR</b>                       | 28             | <b>(2.18)</b>      | <b>(0.29)</b>    | <b>(4.59)</b>      | <b>(0.61)</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 2022

|                                     | Note | 31 December 2022 |                 | 31 December 2021 |                 |
|-------------------------------------|------|------------------|-----------------|------------------|-----------------|
|                                     |      | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>Assets</b>                       |      |                  |                 |                  |                 |
| <b>Non-current assets</b>           |      |                  |                 |                  |                 |
| Intangible assets                   | 12   | 3,150            | 418             | 2,505            | 333             |
| Property, plant and equipment       | 13   | 223,271          | 29,633          | 251,434          | 33,448          |
| Investment property                 | 14   | -                | -               | -                | -               |
| Right of use assets                 | 31   | 309,407          | 41,065          | 400,559          | 53,286          |
| Prepayments                         | 16   | 177,150          | 23,512          | 182,397          | 24,264          |
| Non-current deposits                | 17   | 70,253           | 9,324           | 53,015           | 7,053           |
| Investments in equity instruments   | 18   | 1,466            | 195             | 1,319            | 175             |
| Non-current receivables             | 19   | 63,880           | 8,478           | 61               | 8               |
|                                     |      | <b>848,577</b>   | <b>112,625</b>  | <b>891,290</b>   | <b>118,567</b>  |
| <b>Current assets</b>               |      |                  |                 |                  |                 |
| Inventories                         | 20   | 65,958           | 8,754           | 60,040           | 7,987           |
| Trade receivables                   | 21   | 89,794           | 11,918          | 49,797           | 6,624           |
| Other receivables                   | 22   | 25,382           | 3,369           | 17,785           | 2,366           |
| Income tax receivable               |      | 143              | 19              | 143              | 19              |
| Prepaid expenses and accrued income | 23   | 38,274           | 5,080           | 16,954           | 2,255           |
| Current deposits                    | 24   | 14,966           | 1,986           | 62,663           | 8,336           |
| Cash and cash equivalents           | 25   | 580,321          | 77,022          | 316,667          | 42,126          |
|                                     |      | <b>814,838</b>   | <b>108,148</b>  | <b>524,049</b>   | <b>69,713</b>   |
| <b>TOTAL ASSETS</b>                 |      | <b>1,663,415</b> | <b>220,773</b>  | <b>1,415,339</b> | <b>188,280</b>  |

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

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

For the year ended 31 December 2022

|                                                     | Note | 31 December 2022 |                 | 31 December 2021 |                 |
|-----------------------------------------------------|------|------------------|-----------------|------------------|-----------------|
|                                                     |      | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>EQUITY AND LIABILITIES</b>                       |      |                  |                 |                  |                 |
| <b>Equity</b>                                       |      |                  |                 |                  |                 |
| Share capital                                       | 26   | 627,880          | 82,872          | 627,880          | 82,872          |
| Reserves                                            | 27   | 298,680          | 39,629          | 1,217            | 170             |
| Retained earnings / (accumulated loss)              |      | (698,931)        | (93,416)        | (410,042)        | (55,020)        |
| Net loss for the year                               |      | (135,135)        | (17,944)        | (288,235)        | (38,309)        |
| Translation reserve rate                            |      | -                | 1,136           | -                | 1,084           |
|                                                     |      | <u>92,494</u>    | <u>12,277</u>   | <u>(69,180)</u>  | <u>(9,203)</u>  |
| <b>Non-current liabilities</b>                      |      |                  |                 |                  |                 |
| Provisions                                          | 29   | 239,476          | 31,784          | 245,846          | 32,705          |
| Non-current loans and borrowings                    | 30   | 609,492          | 80,893          | 532,595          | 70,850          |
| Non-current lease liabilities                       | 31   | 218,439          | 28,992          | 286,587          | 38,124          |
| Other non-current liabilities                       |      | 55               | 7               | 55               | 7               |
|                                                     |      | <u>1,067,462</u> | <u>141,676</u>  | <u>1,065,083</u> | <u>141,686</u>  |
| <b>Current liabilities</b>                          |      |                  |                 |                  |                 |
| Provisions                                          | 29   | 27,952           | 3,710           | 23,083           | 3,071           |
| Current loans and borrowings                        | 32   | -                | -               | -                | -               |
| Current portion of non-current loans and borrowings | 30   | 22,227           | 2,950           | 12,779           | 1,700           |
| Current lease liabilities                           | 31   | 85,289           | 11,320          | 83,350           | 11,088          |
| Trade payables                                      | 33   | 96,745           | 12,840          | 83,121           | 11,057          |
| Other current liabilities                           | 34   | 204,541          | 27,147          | 183,856          | 24,458          |
| Income tax liability                                |      | -                | -               | 4                | 1               |
| Accrued expenses and deferred income                | 35   | 66,705           | 8,853           | 33,243           | 4,422           |
|                                                     |      | <u>503,459</u>   | <u>66,820</u>   | <u>419,436</u>   | <u>55,797</u>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                 |      | <u>1,663,415</u> | <u>220,773</u>  | <u>1,415,339</u> | <u>188,280</u>  |

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 2022

|                                     | Note | 31 December 2022 |                 | 31 December 2021 |                 |
|-------------------------------------|------|------------------|-----------------|------------------|-----------------|
|                                     |      | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>Assets</b>                       |      |                  |                 |                  |                 |
| <b>Non-current assets</b>           |      |                  |                 |                  |                 |
| Intangible assets                   | 12   | 3,150            | 418             | 2,505            | 333             |
| Property, plant and equipment       | 13   | 223,095          | 29,610          | 251,241          | 33,422          |
| Investment property                 | 14   | -                | -               | -                | -               |
| Right of use assets                 | 31   | 309,015          | 41,013          | 399,919          | 53,201          |
| Investments in subsidiaries         | 15   | 2,610            | 346             | 1,210            | 161             |
| Prepayments                         | 16   | 177,150          | 23,512          | 182,397          | 24,264          |
| Non-current deposits                | 17   | 69,397           | 9,211           | 52,062           | 6,926           |
| Financial assets available for sale | 18   | 1,466            | 195             | 1,319            | 175             |
| Non-current receivables             | 19   | 63,880           | 8,478           | 1,144            | 152             |
|                                     |      | <b>849,763</b>   | <b>112,783</b>  | <b>891,797</b>   | <b>118,634</b>  |
| <b>Current assets</b>               |      |                  |                 |                  |                 |
| Inventories                         | 20   | 65,958           | 8,754           | 60,040           | 7,987           |
| Trade receivables                   | 21   | 85,592           | 11,360          | 48,465           | 6,447           |
| Other receivables                   | 22   | 25,159           | 3,339           | 18,239           | 2,426           |
| Prepaid expenses and accrued income | 23   | 38,162           | 5,065           | 16,869           | 2,244           |
| Current deposits                    | 24   | 14,956           | 1,985           | 62,617           | 8,330           |
| Cash and cash equivalents           | 25   | 574,780          | 76,286          | 311,256          | 41,406          |
|                                     |      | <b>804,607</b>   | <b>106,789</b>  | <b>517,486</b>   | <b>68,840</b>   |
| <b>TOTAL ASSETS</b>                 |      | <b>1,654,370</b> | <b>219,572</b>  | <b>1,409,283</b> | <b>187,474</b>  |

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



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

For the year ended 31 December 2022

|                                                     | Note | 31 December 2022 |                 | 31 December 2021 |                 |
|-----------------------------------------------------|------|------------------|-----------------|------------------|-----------------|
|                                                     |      | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>EQUITY AND LIABILITIES</b>                       |      |                  |                 |                  |                 |
| <b>Equity</b>                                       |      |                  |                 |                  |                 |
| Share capital                                       | 26   | 627,880          | 82,872          | 627,880          | 82,872          |
| Reserves                                            | 27   | 295,574          | 39,216          | (1,235)          | (156)           |
| Retained earnings / (accumulated loss)              |      | (698,181)        | (93,346)        | (409,964)        | (55,040)        |
| Net loss for the year                               |      | (137,154)        | (18,210)        | (288,217)        | (38,306)        |
| Translation reserve rate                            |      | -                | 1,163           | -                | 1,113           |
|                                                     |      | <b>88,119</b>    | <b>11,695</b>   | <b>(71,536)</b>  | <b>(9,517)</b>  |
| <b>Non-current liabilities</b>                      |      |                  |                 |                  |                 |
| Provisions                                          | 29   | 239,476          | 31,784          | 245,846          | 32,705          |
| Non-current loans and borrowings                    | 30   | 609,492          | 80,893          | 532,595          | 70,850          |
| Non-current lease liabilities                       | 31   | 218,249          | 28,967          | 286,172          | 38,069          |
| Other non-current liabilities                       |      | 55               | 7               | 55               | 7               |
|                                                     |      | <b>1,067,272</b> | <b>141,651</b>  | <b>1,064,668</b> | <b>141,631</b>  |
| <b>Current liabilities</b>                          |      |                  |                 |                  |                 |
| Provisions                                          | 29   | 27,952           | 3,710           | 23,083           | 3,071           |
| Current loans and borrowings                        | 32   | -                | -               | -                | -               |
| Current portion of non-current loans and borrowings | 30   | 22,227           | 2,950           | 12,779           | 1,700           |
| Current lease liabilities                           | 31   | 85,064           | 11,290          | 83,097           | 11,054          |
| Trade payables                                      | 33   | 94,569           | 12,551          | 82,094           | 10,921          |
| Other current liabilities                           | 34   | 203,092          | 26,955          | 183,114          | 24,359          |
| Accrued expenses and deferred income                | 35   | 66,075           | 8,770           | 31,984           | 4,255           |
|                                                     |      | <b>498,979</b>   | <b>66,226</b>   | <b>416,151</b>   | <b>55,360</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                 |      | <b>1,654,370</b> | <b>219,572</b>  | <b>1,409,283</b> | <b>187,474</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 2022

| Croatia Airlines Group              | Share capital  |               | Reserves       |               | Retained earnings /<br>(accumulated losses) |                 | Profit / (loss) for the year |                 | Translation<br>reserve | Total           |                |
|-------------------------------------|----------------|---------------|----------------|---------------|---------------------------------------------|-----------------|------------------------------|-----------------|------------------------|-----------------|----------------|
|                                     | HRK            | EUR           | HRK            | EUR           | HRK                                         | EUR             | HRK                          | EUR             | EUR                    | HRK             | EUR            |
|                                     | thousand       | thousand      | thousand       | thousand      | thousand                                    | thousand        | thousand                     | thousand        | thousand               | thousand        | thousand       |
| Balance at 1 January 2021           | 277,880        | 36,399        | 350,627        | 46,566        | (49,424)                                    | (7,150)         | (360,779)                    | (47,892)        | 1,044                  | 218,304         | 28,967         |
| Loss for the year                   | -              | -             | -              | -             | -                                           | -               | (288,235)                    | (38,309)        | -                      | (288,235)       | (38,309)       |
| Other comprehensive income          | -              | -             | 751            | 99            | -                                           | -               | -                            | -               | 40                     | 751             | 139            |
| Total comprehensive income          | -              | -             | 751            | 99            | -                                           | -               | (288,235)                    | (38,309)        | 40                     | (287,484)       | (38,170)       |
| <b>Transactions with owners</b>     |                |               |                |               |                                             |                 |                              |                 |                        |                 |                |
| Covering 2020 loss from reserves    | -              | -             | (161)          | (22)          | 161                                         | 22              | -                            | -               | -                      | -               | -              |
| Transfer of 2020 result             | -              | -             | -              | -             | (360,779)                                   | (47,892)        | 360,779                      | 47,892          | -                      | -               | -              |
| Share capital increase registration | 350,000        | 46,473        | (350,000)      | (46,473)      | -                                           | -               | -                            | -               | -                      | -               | -              |
| Total transaction with owners       | 350,000        | 46,473        | (350,161)      | (46,495)      | (360,618)                                   | (47,870)        | 360,779                      | 47,892          | -                      | -               | -              |
| <b>Balance at 31 December 2021</b>  | <b>627,880</b> | <b>82,872</b> | <b>1,217</b>   | <b>170</b>    | <b>(410,042)</b>                            | <b>(55,020)</b> | <b>(288,235)</b>             | <b>(38,309)</b> | <b>1,084</b>           | <b>(69,180)</b> | <b>(9,203)</b> |
| Loss for the year                   | -              | -             | -              | -             | -                                           | -               | (135,135)                    | (17,944)        | -                      | (135,135)       | (17,944)       |
| Other comprehensive income          | -              | -             | 809            | 101           | -                                           | -               | -                            | -               | 52                     | 809             | 153            |
| Total comprehensive income          | -              | -             | 809            | 101           | -                                           | -               | (135,135)                    | (17,944)        | 52                     | (134,326)       | (17,791)       |
| <b>Transactions with owners</b>     |                |               |                |               |                                             |                 |                              |                 |                        |                 |                |
| Transfer of 2021 result             | -              | -             | 654            | 87            | (288,889)                                   | (38,396)        | 288,235                      | 38,309          | -                      | -               | -              |
| Capital contribution                | -              | -             | 296,000        | 39,271        | -                                           | -               | -                            | -               | -                      | 296,000         | 39,271         |
| Total transaction with owners       | -              | -             | 296,654        | 39,358        | (288,889)                                   | (38,396)        | 288,235                      | 38,309          | -                      | 296,000         | 39,271         |
| <b>Balance at 31 December 2022</b>  | <b>627,880</b> | <b>82,872</b> | <b>298,680</b> | <b>39,629</b> | <b>(698,931)</b>                            | <b>(93,416)</b> | <b>(135,135)</b>             | <b>(17,944)</b> | <b>1,136</b>           | <b>92,494</b>   | <b>12,277</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 2022

| Croatia Airlines d.d.               | Share capital  |               | Reserves       |               | Retained earnings /<br>(accumulated losses) |                 | Profit / (loss) for the year |                 | Translation<br>reserve | Total           |                |
|-------------------------------------|----------------|---------------|----------------|---------------|---------------------------------------------|-----------------|------------------------------|-----------------|------------------------|-----------------|----------------|
|                                     | HRK            | EUR           | HRK            | EUR           | HRK                                         | EUR             | HRK                          | EUR             | EUR                    | HRK             | EUR            |
|                                     | thousand       | thousand      | thousand       | thousand      | thousand                                    | thousand        | thousand                     | thousand        | thousand               | thousand        | thousand       |
| Balance at 1 January 2021           | 277,880        | 36,399        | 348,014        | 46,218        | (51,739)                                    | (7,487)         | (358,225)                    | (47,553)        | 1,076                  | 215,930         | 28,653         |
| Loss for the year                   | -              | -             | -              | -             | -                                           | -               | (288,217)                    | (38,306)        | -                      | (288,217)       | (38,306)       |
| Other comprehensive income          | -              | -             | 751            | 99            | -                                           | -               | -                            | -               | 37                     | 751             | 136            |
| Total comprehensive income          | -              | -             | 751            | 99            | -                                           | -               | (288,217)                    | (38,306)        | 37                     | (287,466)       | (38,170)       |
| <b>Transactions with owners</b>     |                |               |                |               |                                             |                 |                              |                 |                        |                 |                |
| Transfer of 2020 result             | -              | -             | -              | -             | (358,225)                                   | (47,553)        | 358,225                      | 47,553          | -                      | -               | -              |
| Share capital increase registration | 350,000        | 46,473        | (350,000)      | (46,473)      | -                                           | -               | -                            | -               | -                      | -               | -              |
| Total transaction with owners       | 350,000        | 46,473        | (350,000)      | (46,473)      | (358,225)                                   | (47,553)        | 358,225                      | 47,553          | -                      | -               | -              |
| <b>Balance at 31 December 2021</b>  | <b>627,880</b> | <b>82,872</b> | <b>(1,235)</b> | <b>(156)</b>  | <b>(409,964)</b>                            | <b>(55,040)</b> | <b>(288,217)</b>             | <b>(38,306)</b> | <b>1,113</b>           | <b>(71,536)</b> | <b>(9,517)</b> |
| Loss for the year                   | -              | -             | -              | -             | -                                           | -               | (137,154)                    | (18,210)        | -                      | (137,154)       | (18,210)       |
| Other comprehensive income          | -              | -             | 809            | 101           | -                                           | -               | -                            | -               | 50                     | 809             | 151            |
| Total comprehensive income          | -              | -             | 809            | 101           | -                                           | -               | (137,154)                    | (18,210)        | 50                     | (136,345)       | (18,059)       |
| <b>Transactions with owners</b>     |                |               |                |               |                                             |                 |                              |                 |                        |                 |                |
| Transfer of 2020 result             | -              | -             | -              | -             | (288,217)                                   | (38,306)        | 288,217                      | 38,306          | -                      | -               | -              |
| Capital contribution                | -              | -             | 296,000        | 39,271        | -                                           | -               | -                            | -               | -                      | 296,000         | 39,271         |
| Total transaction with owners       | -              | -             | 296,000        | 39,271        | (288,217)                                   | (38,306)        | 288,217                      | 38,306          | -                      | 296,000         | 39,271         |
| <b>Balance at 31 December 2022</b>  | <b>627,880</b> | <b>82,872</b> | <b>295,574</b> | <b>39,216</b> | <b>(698,181)</b>                            | <b>(93,346)</b> | <b>(137,154)</b>             | <b>(18,210)</b> | <b>1,163</b>           | <b>88,119</b>   | <b>11,695</b>  |

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

## Croatia Airlines Group consolidated statement of cash flows

For the year ended 31 December 2022

|                                                       | Note | 2022            |                 | 2021             |                 |
|-------------------------------------------------------|------|-----------------|-----------------|------------------|-----------------|
|                                                       |      | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>Cash flows from operating activities</b>           |      |                 |                 |                  |                 |
| Loss for the year                                     |      | (135,135)       | (17,942)        | (288,235)        | (38,308)        |
| <i>Adjustments for:</i>                               |      |                 |                 |                  |                 |
| Depreciation and amortization                         |      | 161,287         | 21,415          | 203,553          | 27,054          |
| Gain on sale of property, plant and equipment         |      | (395)           | (52)            | (141)            | (19)            |
| Disposals of intangible assets                        |      | -               | -               | 7                | 1               |
| Disposals of property, plant and equipment            |      | 4,506           | 598             | 3,114            | 414             |
| Interest liability write-off                          |      | (8,706)         | (1,156)         | -                | -               |
| Collection of previously written-off receivables      |      | (70,311)        | (9,335)         | (134)            | (18)            |
| Change in provisions                                  |      | (1,501)         | (199)           | 65,855           | 8,753           |
| Lease cancellation                                    |      | 5,727           | 760             | -                | -               |
| Unrealized foreign exchange differences               |      | 2,737           | 363             | 9,349            | 1,243           |
| Interest costs                                        |      | 22,527          | 2,991           | 26,881           | 3,573           |
| Interest income                                       |      | (546)           | (72)            | (89)             | (12)            |
|                                                       |      | <b>(19,810)</b> | <b>(2,629)</b>  | <b>20,160</b>    | <b>2,681</b>    |
| <i>Changes in:</i>                                    |      |                 |                 |                  |                 |
| Inventories                                           |      | (5,918)         | (786)           | 1,757            | 234             |
| Trade and other receivables                           |      | (6,973)         | (926)           | (31,237)         | (4,152)         |
| Trade and other payables                              |      | 64,238          | 8,529           | (46,361)         | (6,162)         |
| <b>Cash generated from operating activities</b>       |      | <b>31,537</b>   | <b>4,188</b>    | <b>(55,681)</b>  | <b>(7,399)</b>  |
| Interest paid                                         |      | (14,381)        | (1,909)         | (20,139)         | (2,677)         |
| Interest received                                     |      | 547             | 73              | 96               | 13              |
| Net change of deposits                                |      | 30,459          | 4,044           | (39,734)         | (5,281)         |
| Income tax paid                                       |      | (4)             | (1)             | 9                | 1               |
| <b>Net cash (used in) / from operating activities</b> |      | <b>48,158</b>   | <b>6,395</b>    | <b>(115,449)</b> | <b>(15,343)</b> |

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

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

For the year ended 31 December 2022

|                                                                               | Note | 2022            |                 | 2021             |                 |
|-------------------------------------------------------------------------------|------|-----------------|-----------------|------------------|-----------------|
|                                                                               |      | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>Cash flows from investing activities</b>                                   |      |                 |                 |                  |                 |
| Acquisition of property, plant and equipment                                  |      | (24,565)        | (3,262)         | (17,297)         | (2,299)         |
| Proceeds from grants related to the purchase of property, plant and equipment |      | -               | -               | 2,768            | 368             |
| Proceeds from sale of property, plant and equipment                           |      | 703             | 93              | 1,029            | 137             |
| Prepayments for maintenance of aircrafts and engines                          |      | (50,203)        | (6,666)         | (45,343)         | (6,026)         |
| <b>Net cash used in investing activities</b>                                  |      | <b>(74,065)</b> | <b>(9,835)</b>  | <b>(58,843)</b>  | <b>(7,820)</b>  |
| <b>Cash flows from financing activities</b>                                   |      |                 |                 |                  |                 |
| Capital contribution                                                          | 27   | 296,000         | 39,301          | -                | -               |
| Proceeds from loans and borrowings                                            | 32   | 94,000          | 12,481          | -                | -               |
| Repayment of loans and borrowings                                             | 32   | (12,813)        | (1,701)         | (12,770)         | (1,697)         |
| Payment of lease liabilities                                                  | 31   | (87,626)        | (11,634)        | (75,848)         | (10,081)        |
| <b>Net cash from / (used in) financing activities</b>                         |      | <b>289,561</b>  | <b>38,447</b>   | <b>(88,618)</b>  | <b>(11,778)</b> |
| <b>Net decrease in cash and cash activities</b>                               |      | <b>263,654</b>  | <b>35,007</b>   | <b>(262,910)</b> | <b>(34,941)</b> |
| Cash and cash equivalents at beginning of the year                            |      | 316,667         | 42,126          | 579,577          | 76,899          |
| Effect of foreign currency translation                                        |      | -               | (111)           | -                | 168             |
| <b>Cash and cash equivalents at end of the year</b>                           | 25   | <b>580,321</b>  | <b>77,022</b>   | <b>316,667</b>   | <b>42,126</b>   |

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

## Croatia Airlines d.d. separate statement of cash flows

For the year ended 31 December 2022

|                                                  | Note | 2022                 |                     | 2021                    |                        |
|--------------------------------------------------|------|----------------------|---------------------|-------------------------|------------------------|
|                                                  |      | HRK<br>thousand      | EUR<br>thousand     | HRK<br>thousand         | EUR<br>thousand        |
| <b>Cash flows from operating activities</b>      |      |                      |                     |                         |                        |
| Loss for the year                                |      | (137,154)            | (18,210)            | (288,217)               | (38,306)               |
| <i>Adjustments for:</i>                          |      |                      |                     |                         |                        |
| Depreciation and amortization                    |      | 160,972              | 21,373              | 203,192                 | 27,006                 |
| Gain on sale of property, plant and equipment    |      | (395)                | (52)                | (141)                   | (19)                   |
| Disposals of property, plant and equipment       |      | 4,506                | 598                 | 3,121                   | 415                    |
| Interest liability write-off                     |      | (8,706)              | (1,156)             | -                       | -                      |
| Collection of previously written-off receivables |      | (70,285)             | (9,332)             | (24)                    | (3)                    |
| Change in provisions                             |      | (1,501)              | (199)               | 65,855                  | 8,753                  |
| Lease cancellation                               |      | 5,727                | 760                 | -                       | -                      |
| Unrealized foreign exchange differences          |      | 2,737                | 363                 | 9,352                   | 1,243                  |
| Interest costs                                   |      | 22,513               | 2,989               | 26,866                  | 3,571                  |
| Interest income                                  |      | (576)                | (76)                | (137)                   | (18)                   |
|                                                  |      | <u>(22,162)</u>      | <u>(2,942)</u>      | <u>19,867</u>           | <u>2,642</u>           |
| <i>Changes in:</i>                               |      |                      |                     |                         |                        |
| Inventories                                      |      | (5,918)              | (786)               | 1,757                   | 234                    |
| Trade and other receivables                      |      | (3,967)              | (527)               | (32,999)                | (4,386)                |
| Trade and other payables                         |      | 63,011               | 8,366               | (50,229)                | (6,676)                |
| <b>Cash generated from operating activities</b>  |      | <u><b>30,964</b></u> | <u><b>4,111</b></u> | <u><b>(61,604)</b></u>  | <u><b>(8,186)</b></u>  |
| Interest paid                                    |      | (14,367)             | (1,908)             | (15,362)                | (2,042)                |
| Interest received                                |      | 577                  | 77                  | 147                     | 20                     |
| Net change of deposits                           |      | 30,326               | 4,026               | (38,772)                | (5,153)                |
| <b>Net cash from operating activities</b>        |      | <u><b>47,500</b></u> | <u><b>6,306</b></u> | <u><b>(115,591)</b></u> | <u><b>(15,361)</b></u> |

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

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

For the year ended 31 December 2022

|                                                                               | Note | 2022            |                 | 2021             |                 |
|-------------------------------------------------------------------------------|------|-----------------|-----------------|------------------|-----------------|
|                                                                               |      | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>Cash flows from investing activities</b>                                   |      |                 |                 |                  |                 |
| Acquisition of property, plant and equipment                                  |      | (24,515)        | (3,255)         | (17,267)         | (2,295)         |
| Proceeds from grants related to the purchase of property, plant and equipment |      | -               | -               | 2,768            | 368             |
| Proceeds from sale of property, plant and equipment                           |      | 703             | 93              | 1,029            | 137             |
| Loans given                                                                   |      | -               | -               | (400)            | (53)            |
| Proceeds from repayment of loans                                              |      | 225             | 30              | 75               | 10              |
| Prepayments for maintenance of aircrafts and engines                          |      | (50,203)        | (6,666)         | (45,343)         | (6,026)         |
| <b>Net cash used in investing activities</b>                                  |      | <b>(73,790)</b> | <b>(9,798)</b>  | <b>(59,138)</b>  | <b>(7,859)</b>  |
| <b>Cash flows from financing activities</b>                                   |      |                 |                 |                  |                 |
| Capital contribution                                                          | 27   | 296,000         | 39,301          | -                | -               |
| Proceeds from loans and borrowings                                            | 32   | 94,000          | 12,481          | -                | -               |
| Repayment of loans and borrowings                                             | 32   | (12,813)        | (1,701)         | (12,770)         | (1,697)         |
| Payment of lease liabilities                                                  | 31   | (87,373)        | (11,601)        | (75,569)         | (10,044)        |
| <b>Net cash from / (used in) financing activities</b>                         |      | <b>289,814</b>  | <b>38,480</b>   | <b>(88,339)</b>  | <b>(11,741)</b> |
| <b>Net decrease in cash and cash activities</b>                               |      |                 |                 |                  |                 |
|                                                                               |      | <b>263,524</b>  | <b>34,988</b>   | <b>(263,068)</b> | <b>(34,961)</b> |
| Cash and cash equivalents at beginning of the year                            |      | 311,256         | 41,406          | 574,324          | 76,202          |
| Effect of foreign currency translation                                        |      | -               | (108)           | -                | 165             |
| <b>Cash and cash equivalents at end of the year</b>                           | 25   | <b>574,780</b>  | <b>76,286</b>   | <b>311,256</b>   | <b>41,406</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 2022

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### 1. GENERAL

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

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

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

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

#### General Assembly of the Company

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

#### Supervisory Board of the Company

|                 |                                                                             |
|-----------------|-----------------------------------------------------------------------------|
| Zlatko Mateša   | <i>President</i>                                                            |
| Nataša Munitić  | <i>Vice President; until 14 October 2022</i>                                |
| Zoran Barac     | <i>Member</i>                                                               |
| Mirko Tatalović | <i>Member</i>                                                               |
| Zoran Viljac    | <i>Member; resolved 2 August 2022</i>                                       |
| Janko Mišić     | <i>Member; appointed 2 August 2022; Vice President from 14 October 2022</i> |



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

For the year ended 31 December 2022

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### 1. GENERAL (CONTINUED)

#### Management Board of the Company

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

#### Subsidiaries' Management

Eugen Šunde General Manager of Amadeus Croatia d.d.

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

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

| EUR / HRK      | 2022     | 2021     |
|----------------|----------|----------|
| On 31 December | 7.534500 | 7.517174 |
| Average        | 7.531624 | 7.524090 |

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

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

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

The principal accounting policies adopted are as follows.

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Revenue

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

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

##### - Passenger revenue

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

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

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

##### - Other sales revenue

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

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

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

For the year ended 31 December 2022

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### 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 2022

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### 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 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Foreign currencies

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

#### e) Borrowing costs

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

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

#### f) Government grants

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

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

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### g) Taxation

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

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

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

#### h) Property, plant and equipment

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

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

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

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

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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



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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### i) Investment property

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

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

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

#### j) Intangible assets

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

#### k) Investments in subsidiaries

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

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

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

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### l) Inventories

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

#### m) Financial instruments

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

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

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

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

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

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

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### m) Financial instruments (continued)

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

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

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

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

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

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

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

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

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

#### n) Hedging reserves

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

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### n) Hedging reserves

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

At the beginning of a transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Loans and finance leases for the purchase of aircraft are denominated in foreign currencies and as such the Company and the Group are exposed to the risk of fluctuations in exchange rates. The Company and the Group have evaluated their foreign currency revenues and determined that foreign currency revenues form a highly effective cash flows hedge against their principal and interest payments in foreign currency. Accordingly, the Company and the Group account for unrealised gains and losses on translation of the designated foreign currency debts as a separate component of equity. The effectiveness of the hedge is monitored by the Management Board on a regular basis throughout the period.

#### o) Provisions

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

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

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.

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

For the year ended 31 December 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### p) Dividend distributions

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

#### q) Earnings per share

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

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

Certain standards, amendments and interpretations of existing standards that are applicable but not mandatory for the period ending 31 December 2022 have been published and as such have not been applied in the preparation of these financial statements. These standards are not expected to have a significant impact on the financial statements of the Company and the Group.

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

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

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

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

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

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 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *(ii) Operating segments*

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

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

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

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

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

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

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

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

For the year ended 31 December 2022

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### 3. GOING CONCERN

The business year 2022 for the Company was a year of gradual recovery of traffic after two years characterized by the global COVID-19 pandemic, which caused the biggest crisis in the history of the air transport industry. The pandemic has a particularly negative impact on travel and tourism, and airlines and air transport as a whole are among the most vulnerable economic activities.

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

In 2022, Croatia Airlines operated in conditions of growth in demand for air transport services, which is reflected in an increased scope of flights and block time. At the beginning of the summer flight schedule of 2022, the Company additionally intensified flight operations by increasing frequencies and introducing new routes.

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

In 2022, the operations of Croatia Airlines were faced with several main risks, and maintaining a balance among different factors and responses to individual risks has become more complex. A significant risk for business was still reduced demand for air transport services compared to the period before the pandemic caused by the COVID-19 virus, which is why the Company carries out continuous adjustments to the capacity offer and optimization of the flight schedule throughout the year in conditions of a large increase in the price of fuel on the market.

In addition to the mentioned long-term risks, a significant challenge in 2022 was the lack of manpower in all segments of aviation traffic. In the summer season of 2022, Croatia Airlines did not have a shortage of operational transport staff, but a large operational problems at Europe's most important airports due to staff shortages have affected disruptions in traffic, especially in the summer season. Despite this, significant positive developments were achieved compared to 2021, as in traffic growth as well as in financial operations.

Also, the Company's liquidity was continuously monitored and cash flow projections were made for the future period in order to timely determine ways to overcome risks in business when it comes to the settlement of all financial liabilities of the Company. In 2022, four instalments of the long-term loan PBZ/HPB were repaid, and there were no new bank loans. The Company duly settled all financial liabilities in accordance with the agreed deadlines.

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

For the year ended 31 December 2022

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### 3. GOING CONCERN (continued)

The vast majority of global and European airlines have been facing serious financial difficulties since the beginning of the pandemic due to the crisis and are beneficiaries of state aid as well as other types of financial aid including recapitalization, state loan guarantees, shareholder loans, etc.

In 2022, Croatia Airlines used the measures of financial assistance of the Republic of Croatia in accordance with the "Program for granting state aid to the maritime sector, transport, transport infrastructure and related activities in the current COVID-19 pandemic".

The measures included the conclusion of a loan agreement in the amount of HRK 94 million, which is based on the Decision of the Government of the Republic of Croatia on the adoption of Amendments and Supplements to the Program for granting state aid to the marine sector, transport, transport infrastructure and related activities in the current COVID-19 pandemic, between the Ministry of the Sea, transport and infrastructure and Croatia Airlines signed on June 30, 2022, and the loan itself was realized or paid to Croatia Airlines on November 21, 2022.

Also, one of the measures is the capital contribution in cash by the Republic of Croatia in the amount of HRK 296 million. On the basis of the Decision of the General Assembly of Croatia Airlines held on December 22, 2022, the share capital was increased by cash payment and the issuance of new shares. The increase of the Company's share capital was carried out on the basis of the Investment Agreement concluded between the Republic of Croatia and Croatia Airlines d.d., with a cash contribution and the issuance of new 29,600,000 registered ordinary shares, nominally HRK 10 each.

These measures should also enable Croatia Airlines business sustainability and liquidity in the upcoming transitional period of fleet renewal in the currently very turbulent economic environment, as well as focus on adapting business processes to the new type of aircraft.

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

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



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

For the year ended 31 December 2022

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### 3. GOING CONCERN (continued)

In addition to increasing efficiency and competitiveness, transforming existing models and modes of operation, in the coming period the Company faces key operational and structural challenges that include the renewal of the aircraft fleet and optimization of the flight network throughout the year. Taking into account the trends in the highly competitive Croatian aviation market, fuel prices and CO<sub>2</sub> emissions, as well as the goals of "green" EU policies, defined strategic initiatives have no alternative, and their implementation uses the opportunities offered by the next two years during which air traffic recovery is expected.

The implementation of the defined "Post-Covid strategy" started in last quarter of 2021. In early October 2022 the Company 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 the monitoring of its operating and financial results. It will become even more environmentally-friendly and significantly reduce fuel consumption and CO<sub>2</sub> emissions. The post-Covid strategy represents a new development cycle for Croatia Airlines, and the implementation of the most important strategic initiatives will enable sustainable operations of the Company in the future

The Business Plan for 2022-2026 is also 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) ensuring profitability
- 2) liability to shareholders
- 3) capital increase
- 4) fleet renewal and optimization
- 5) concluding a PSO contract.

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

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

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 2026. The decision about starting the fleet renewal process was made in early October 2022, by accepting Airbus' offer for six new A220 aircraft. On 16 January 2023, Croatia Airlines entered into long-term operating lease contracts for the first six Airbus A220 type aircraft (four A220-300 and two A220-100) with Air Lease Corporation Clover (based in the Republic of Ireland). For now, it intends to replace 12 aircraft, with the possibility to introduce another three in 2027, as envisaged by the Post-COVID Strategy.

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

For the year ended 31 December 2022

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### 3. GOING CONCERN (continued)

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

In line with the expected recovery of demand for air traffic services once the pandemic comes to an end, the Plan envisages a gradual increase in the number of destinations and frequencies, and optimisation of the expanded destinations network. Flights from Split and Dubrovnik were intensified as early as the summer season of 2022, and with the support of tourist boards, the scope of traffic operations increased in the winter period as well (OSI-MUC, SPU-ZRH, PUY-ZRH).

#### *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-flying income*

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) obtaining PSO contracts for domestic and international traffic*

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 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 will be significantly lower than that envisaged by the Post-COVID Strategy, particularly in 2023.

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

For the year ended 31 December 2022

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### 3. GOING CONCERN (continued)

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

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.

In 2023, the world economy will continue to face enormous challenges caused by the invasion of Ukraine and the crisis of the cost of living and stubborn and ever-expanding inflationary pressures and the ubiquitous risks associated with that.

Despite the economic uncertainties, IATA believes that there are many reasons for optimism in 2023 in the direction of continuation growth in demand for air transport services, while according to IATA forecasts pre-pandemic levels should be realized only from 2024.

The realization of the planned results of Croatia Airlines for the year 2023 will largely depend on the expected projected demand for air transport services, and the main risks that will affect demand are related to the war in Ukraine, fuel prices and others energy sources and inflationary pressures

The business plan for 2023 also includes strategic initiatives that are part of the proposed Post-Covid strategy, whose implementation started in the last quarter of 2021. The focus of business activities will be on preparations for the introduction of new A220 aircraft into the fleet by 2024. Also, in 2023, it is planned to contract and implement "sale and lease back" of its own Airbus aircraft to ensure the necessary flexibility in the implementation of the fleet replacement plan along with the elimination risks of disposing of "wrecks" of aircraft that will not be in airworthy condition.

The Company plans a loss of 15.9 million euros for 2023. The planned result is based on the traffic projection effects that are the basis for calculating revenue and expenses from operations. As in previous years, in 2023, special emphasis will be placed on maintaining liquidity of the Company. The plan envisages a balance of cash and cash equivalents in the amount of 52.8 million euros at the end in 2023. The planned financial resources are sufficient to ensure the timely fulfilment of obligations during 2023, that is, ensure the fulfilment of assumptions that will allow the Company to continue operating according to the going concern principle.

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

For the year ended 31 December 2022

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### 3. GOING CONCERN (continued)

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

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.

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

For the year ended 31 December 2022

### 4. PASSENGER TRAFFIC

|                    | 2022                          |                 | 2021                          |                 |
|--------------------|-------------------------------|-----------------|-------------------------------|-----------------|
|                    | Croatia Airlines d.d. i Grupa |                 | Croatia Airlines d.d. i Grupa |                 |
|                    | HRK<br>thousand               | EUR<br>thousand | HRK<br>thousand               | EUR<br>thousand |
| Scheduled services | 1,195,158                     | 158,685         | 565,793                       | 75,198          |
| Charter services   | 69,667                        | 9,250           | 37,020                        | 4,920           |
|                    | <u>1,264,825</u>              | <u>167,935</u>  | <u>602,813</u>                | <u>80,118</u>   |

Revenue by geographical area based on sales origin:

|                 | 2022                          |                 | 2021                          |                 |
|-----------------|-------------------------------|-----------------|-------------------------------|-----------------|
|                 | Croatia Airlines d.d. i Grupa |                 | Croatia Airlines d.d. i Grupa |                 |
|                 | HRK<br>thousand               | EUR<br>thousand | HRK<br>thousand               | EUR<br>thousand |
| Croatia         | 424,475                       | 56,359          | 211,226                       | 28,073          |
| USA             | 133,692                       | 17,751          | 58,533                        | 7,779           |
| Germany         | 119,526                       | 15,870          | 63,958                        | 8,500           |
| Greece          | 106,498                       | 14,140          | 49,913                        | 6,634           |
| France          | 57,170                        | 7,591           | 34,481                        | 4,583           |
| Great Britain   | 41,233                        | 5,475           | 17,602                        | 2,339           |
| Switzerland     | 32,759                        | 4,350           | 21,038                        | 2,796           |
| Other countries | 349,472                       | 46,399          | 146,062                       | 19,414          |
|                 | <u>1,264,825</u>              | <u>167,935</u>  | <u>602,813</u>                | <u>80,118</u>   |

### 5. OTHER SALES REVENUE

|                                              | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|----------------------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                              | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                              | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Revenue from technical services to others    | 62,703                 | 8,325           | 66,517                 | 8,841           | 62,703                | 8,325           | 66,517                | 8,841           |
| Commission income from foreign air companies | 4,609                  | 612             | 2,100                  | 279             | 4,609                 | 612             | 2,100                 | 279             |
| Revenue from reservation system services     | 6,990                  | 928             | 3,415                  | 454             | 1,958                 | 260             | 961                   | 128             |
| Revenue from advertising services            | 12,148                 | 1,613           | 6,278                  | 834             | 12,148                | 1,613           | 6,328                 | 841             |
| Revenue from educational services            | 3,417                  | 454             | 1,634                  | 217             | 3,417                 | 454             | 1,634                 | 217             |
| Mileage related revenue                      | 3,247                  | 431             | 2,668                  | 355             | 3,247                 | 431             | 2,668                 | 355             |
| Other                                        | 11,029                 | 1,464           | 20,037                 | 2,663           | 5,101                 | 677             | 14,916                | 1,982           |
|                                              | <u>104,143</u>         | <u>13,827</u>   | <u>102,649</u>         | <u>13,643</u>   | <u>93,183</u>         | <u>12,372</u>   | <u>95,124</u>         | <u>12,643</u>   |

Included in the category Other are revenues from the lease of aircraft in the wet-lease arrangement in the amount of HRK 451 thousand, EUR 60 thousand (2021: HRK 11,281 thousand, EUR 1,499 thousand).

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

For the year ended 31 December 2022

### 6. OTHER INCOME

|                                                    | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|----------------------------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                                    | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                                    | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Income from PSO                                    | 111,331                | 14,782          | 88,876                 | 11,812          | 111,331               | 14,782          | 88,876                | 11,812          |
| Gain from sale of property,<br>plant and equipment | 395                    | 52              | 141                    | 19              | 395                   | 52              | 141                   | 19              |
| Bad debts collected                                | 70,311                 | 9,335           | 134                    | 18              | 70,285                | 9,332           | 24                    | 3               |
| Income from sale of spare<br>parts                 | 142                    | 19              | 87                     | 12              | 142                   | 19              | 87                    | 12              |
| Other income                                       | 32,056                 | 4,257           | 54,104                 | 7,190           | 31,592                | 4,195           | 53,054                | 7,051           |
|                                                    | <b>214,235</b>         | <b>28,445</b>   | <b>143,342</b>         | <b>19,051</b>   | <b>213,745</b>        | <b>28,380</b>   | <b>142,182</b>        | <b>18,897</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.

Bad debts collected mostly relate to advances paid for Airbus fleet that are explained in Note 19.

During the year the Company recognized income on the basis of state aid for compensation for damage caused by the COVID-19 pandemic, employment support in the amount of HRK 262 thousand, EUR 35 thousand in the accordance with measures of the Government of the Republic of Croatia (2021: the Company recognized income on the basis of state aid for compensation for damage caused by the COVID-19 pandemic, employment support in the amount of HRK 26,304 thousand, EUR 3,496 thousand in the accordance with measures of the Government of the Republic of Croatia, employment support of HRK 1,467 thousand, EUR 195 thousand for employed in foreign countries (France, Germany, Switzerland and the United Kingdom), HRK 13,525 thousand, EUR 1,798 thousand based on the application of the measure exemption from tax settlement proportionally to the percentage of revenue decline in the period April – September 2021. and the support received from the Danish Ministry of Transport in the amount of HRK 84 thousand or EUR 11 thousand).

Furthermore, other revenues at the Group level include revenues recognized on the basis of state aid for compensation for damage caused by the COVID-19 pandemic, namely employment support in the amount of HRK 285 thousand, EUR 38 thousand received from the HZZ (2021: other income include employment support in the amount of HRK 904 thousand or EUR 120 thousand received from HZZ).

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

For the year ended 31 December 2022

### 7. EXPENSES BY NATURE

|                                             | 2022                   |                | 2021                   |                | 2022                  |                | 2021                  |                |
|---------------------------------------------|------------------------|----------------|------------------------|----------------|-----------------------|----------------|-----------------------|----------------|
|                                             | Croatia Airlines Group |                | Croatia Airlines Group |                | Croatia Airlines d.d. |                | Croatia Airlines d.d. |                |
|                                             | HRK                    | EUR            | HRK                    | EUR            | HRK                   | EUR            | HRK                   | EUR            |
|                                             | thousand               | thousand       | thousand               | thousand       | thousand              | thousand       | thousand              | thousand       |
| Fuel                                        | 433,757                | 57,591         | 141,633                | 18,824         | 433,757               | 57,591         | 141,633               | 18,824         |
| Airport costs                               | 237,370                | 31,516         | 158,555                | 21,073         | 237,370               | 31,516         | 158,555               | 21,073         |
| Staff costs                                 | 272,656                | 36,202         | 223,083                | 29,650         | 267,792               | 35,556         | 219,130               | 29,123         |
| Rental and maintenance of engines and parts | 127,724                | 16,958         | 78,100                 | 10,380         | 127,724               | 16,958         | 78,100                | 10,380         |
| Aircraft lease                              | 425                    | 56             | 12,270                 | 1,631          | 425                   | 56             | 12,270                | 1,631          |
| Air traffic control costs                   | 115,583                | 15,346         | 63,878                 | 8,490          | 115,582               | 15,346         | 63,878                | 8,490          |
| Reservation system costs                    | 72,842                 | 9,671          | 39,901                 | 5,303          | 72,842                | 9,671          | 39,901                | 5,303          |
| Amortisation and depreciation               | 161,287                | 21,415         | 203,553                | 27,054         | 160,972               | 21,373         | 203,192               | 27,006         |
| Commission costs                            | 45,537                 | 6,046          | 22,088                 | 2,936          | 45,537                | 6,046          | 22,088                | 2,936          |
| Catering                                    | 16,290                 | 2,163          | 10,217                 | 1,358          | 16,290                | 2,163          | 10,217                | 1,358          |
| Consumables                                 | 23,915                 | 3,175          | 22,232                 | 2,955          | 23,915                | 3,175          | 22,232                | 2,955          |
| Promotion costs                             | 12,736                 | 1,691          | 7,093                  | 943            | 12,736                | 1,691          | 7,093                 | 943            |
| Other expenses                              | 169,549                | 22,514         | 123,802                | 16,453         | 165,361               | 21,957         | 119,563               | 15,890         |
|                                             | <b>1,689,671</b>       | <b>224,344</b> | <b>1,106,405</b>       | <b>147,050</b> | <b>1,680,303</b>      | <b>223,099</b> | <b>1,097,852</b>      | <b>145,912</b> |

During 2022 and 2021 there was no impairment loss of the fleet.

### 8. STAFF COSTS

|                                       | 2022                   |               | 2021                   |               | 2022                  |               | 2021                  |               |
|---------------------------------------|------------------------|---------------|------------------------|---------------|-----------------------|---------------|-----------------------|---------------|
|                                       | Croatia Airlines Group |               | Croatia Airlines Group |               | Croatia Airlines d.d. |               | Croatia Airlines d.d. |               |
|                                       | HRK                    | EUR           | HRK                    | EUR           | HRK                   | EUR           | HRK                   | EUR           |
|                                       | thousand               | thousand      | thousand               | thousand      | thousand              | thousand      | thousand              | thousand      |
| Net wages and salaries                | 133,178                | 17,683        | 114,666                | 15,240        | 130,493               | 17,326        | 112,358               | 14,933        |
| Taxes and contributions form salaries | 59,160                 | 7,855         | 47,320                 | 6,289         | 58,045                | 7,707         | 46,419                | 6,169         |
| Contributions on salaries             | 42,595                 | 5,655         | 36,000                 | 4,785         | 42,028                | 5,580         | 35,506                | 4,719         |
| Other employee related costs          | 37,723                 | 5,009         | 25,097                 | 3,336         | 37,226                | 4,943         | 24,847                | 3,302         |
|                                       | <b>272,656</b>         | <b>36,202</b> | <b>223,083</b>         | <b>29,650</b> | <b>267,792</b>        | <b>35,556</b> | <b>219,130</b>        | <b>29,123</b> |

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) while as at 31 December 2021 the Group had 945 employees (Croatia Airlines d.d. 920, Amadeus Croatia d.d. 7 and Obzor putovanja d.o.o. 18) ; (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 2022

### 9. FINANCE INCOME

|                                       | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|---------------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                       | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                       | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Positive foreign exchange differences | 76,384                 | 10,142          | 42,849                 | 5,695           | 76,329                | 10,135          | 42,804                | 5,689           |
| Interest income                       | 546                    | 72              | 89                     | 12              | 576                   | 76              | 137                   | 18              |
|                                       | <b>76,930</b>          | <b>10,214</b>   | <b>42,938</b>          | <b>5,707</b>    | <b>76,905</b>         | <b>10,211</b>   | <b>42,941</b>         | <b>5,707</b>    |

### 10. FINANCE COSTS

|                                       | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|---------------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                       | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                       | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Negative foreign exchange differences | 93,337                 | 12,393          | 54,706                 | 7,270           | 93,263                | 12,383          | 54,574                | 7,253           |
| Interest expense                      | 22,527                 | 2,991           | 26,881                 | 3,573           | 22,513                | 2,989           | 26,866                | 3,571           |
| Other finance costs                   | 38                     | 5               | 38                     | 5               | 38                    | 5               | 38                    | 5               |
|                                       | <b>115,902</b>         | <b>15,389</b>   | <b>81,625</b>          | <b>10,848</b>   | <b>115,814</b>        | <b>15,377</b>   | <b>81,478</b>         | <b>10,829</b>   |



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

For the year ended 31 December 2022

### 11. INCOME TAX EXPENSE

Income tax is calculated at the rate of 18% (2021: 18%), which is applied to taxable profit for the current year. Subsidiaries calculate income tax at the rate of 10% (2021: 10%).

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

In 2022 there was no income tax expense on Group level as both subsidiaries utilized portion of tax losses from previous years (2021: there was no income tax expense as subsidiary Amadeus Croatia d.o.o realized a loss, while subsidiary Obzor putovanja d.o.o utilized portion of losses from previous years).

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

|                                                                     | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|---------------------------------------------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                                                     | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                                                     | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Loss before tax                                                     | (135,135)              | (17,944)        | (288,235)              | (38,309)        | (137,154)             | (18,210)        | (288,217)             | (38,306)        |
| Tax at statutory rate                                               | (24,324)               | (3,230)         | (51,882)               | (6,896)         | (24,688)              | (3,278)         | (51,879)              | (6,895)         |
| Non-deductible expenses                                             | 870                    | 117             | 4,481                  | 597             | 862                   | 115             | 4,475                 | 595             |
| Non-taxable income                                                  | (77)                   | (10)            | (7,522)                | (1,000)         | (47)                  | (6)             | (7,453)               | (991)           |
| Tax incentives                                                      | (644)                  | (86)            | (669)                  | (89)            | (644)                 | (86)            | (669)                 | (89)            |
| Tax losses for which deferred tax asset is not recognised           | 24,517                 | 3,255           | 55,610                 | 7,391           | 24,517                | 3,255           | 55,526                | 7,380           |
| Utilised tax losses for which deferred tax asset was not recognised | (180)                  | (24)            | (19)                   | (3)             | -                     | -               | -                     | -               |
| Effect of diferent tax rates                                        | (162)                  | (22)            | 1                      | -               | -                     | -               | -                     | -               |
| <b>Income tax</b>                                                   | <b>-</b>               | <b>-</b>        | <b>-</b>               | <b>-</b>        | <b>-</b>              | <b>-</b>        | <b>-</b>              | <b>-</b>        |

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

For the year ended 31 December 2022

### 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:

|                               | 2022                                 |                | 2022                             |               | 2021                                 |                | 2021                             |               |
|-------------------------------|--------------------------------------|----------------|----------------------------------|---------------|--------------------------------------|----------------|----------------------------------|---------------|
|                               | Tax losses available for utilisation |                | Tax allowance at tax rate of 18% |               | Tax losses available for utilisation |                | Tax allowance at tax rate of 18% |               |
|                               | HRK thousand                         | EUR thousand   | HRK thousand                     | EUR thousand  | HRK thousand                         | EUR thousand   | HRK thousand                     | EUR thousand  |
| Loss from 2018 (expires 2023) | 85,674                               | 11,371         | 15,421                           | 2,047         | 85,674                               | 11,397         | 15,421                           | 2,051         |
| Loss from 2019 (expires 2024) | 67,994                               | 9,024          | 12,239                           | 1,624         | 67,994                               | 9,045          | 12,239                           | 1,628         |
| Loss from 2020 (expires 2025) | 455,919                              | 60,511         | 82,065                           | 10,892        | 455,919                              | 60,650         | 82,065                           | 10,917        |
| Loss from 2021 (expires 2026) | 308,477                              | 40,942         | 55,526                           | 7,370         | 308,477                              | 41,036         | 55,526                           | 7,387         |
| Loss from 2022 (expires 2027) | 136,203                              | 18,077         | 24,517                           | 3,254         | -                                    | -              | -                                | -             |
|                               | <u>1,054,267</u>                     | <u>139,925</u> | <u>189,768</u>                   | <u>25,187</u> | <u>918,064</u>                       | <u>122,128</u> | <u>165,251</u>                   | <u>21,983</u> |

Tax loss of the subsidiaries is as follows:

|                               | 2022                                 |              | 2022                             |              | 2021                                 |              | 2021                             |              |
|-------------------------------|--------------------------------------|--------------|----------------------------------|--------------|--------------------------------------|--------------|----------------------------------|--------------|
|                               | Tax losses available for utilisation |              | Tax allowance at tax rate of 10% |              | Tax losses available for utilisation |              | Tax allowance at tax rate of 10% |              |
|                               | HRK thousand                         | EUR thousand | HRK thousand                     | EUR thousand | HRK thousand                         | EUR thousand | HRK thousand                     | EUR thousand |
| Loss from 2020 (expires 2025) | 1,550                                | 206          | 155                              | 21           | 3,349                                | 446          | 335                              | 45           |
| Loss from 2021 (expires 2026) | 840                                  | 111          | 84                               | 11           | 840                                  | 112          | 84                               | 11           |
|                               | <u>2,390</u>                         | <u>317</u>   | <u>239</u>                       | <u>32</u>    | <u>4,189</u>                         | <u>558</u>   | <u>419</u>                       | <u>56</u>    |

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

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

For the year ended 31 December 2022

### 12. INTANGIBLE ASSETS

Croatia Airlines Group

| 2022                               | Software        |                 | Leashold improvements |                 | Intangible assets under construction |                 | Total           |                 |
|------------------------------------|-----------------|-----------------|-----------------------|-----------------|--------------------------------------|-----------------|-----------------|-----------------|
|                                    | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand                      | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| <b>COST</b>                        |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2022          | 38,483          | 5,119           | 10,133                | 1,347           | 515                                  | 69              | 49,131          | 6,535           |
| Additions                          | 1,507           | 200             | 209                   | 28              | 521                                  | 69              | 2,237           | 297             |
| Fx differences                     | -               | (12)            | -                     | (2)             | -                                    | -               | -               | (14)            |
| <b>Balance at 31 December 2022</b> | <b>40,184</b>   | <b>5,333</b>    | <b>10,342</b>         | <b>1,373</b>    | <b>842</b>                           | <b>112</b>      | <b>51,368</b>   | <b>6,818</b>    |
| <b>ACCUMULATED AMORTIZATION</b>    |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2022          | 37,334          | 4,966           | 9,292                 | 1,236           | -                                    | -               | 46,626          | 6,202           |
| Charge for the year                | 1,224           | 163             | 368                   | 49              | -                                    | -               | 1,592           | 212             |
| Fx differences                     | -               | (11)            | -                     | (3)             | -                                    | -               | -               | (14)            |
| <b>Balance at 31 December 2022</b> | <b>38,558</b>   | <b>5,118</b>    | <b>9,660</b>          | <b>1,282</b>    | <b>-</b>                             | <b>-</b>        | <b>48,218</b>   | <b>6,400</b>    |
| <b>NET BOOK VALUE</b>              |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 31 December 2022        | 1,626           | 215             | 682                   | 91              | 842                                  | 112             | 3,150           | 418             |
| Balance at 1 January 2022          | 1,149           | 153             | 841                   | 111             | 515                                  | 69              | 2,505           | 333             |
| <br>                               |                 |                 |                       |                 |                                      |                 |                 |                 |
| 2021                               | Software        |                 | Leashold improvements |                 | Intangible assets under construction |                 | Total           |                 |
|                                    | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand                      | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| <b>COST</b>                        |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2021          | 37,244          | 4,942           | 10,441                | 1,385           | 60                                   | 8               | 47,745          | 6,335           |
| Additions                          | 1,407           | 187             | 30                    | 4               | 455                                  | 60              | 1,892           | 251             |
| Disposals                          | (168)           | (22)            | (338)                 | (45)            | -                                    | -               | (506)           | (67)            |
| Fx differences                     | -               | 12              | -                     | 3               | -                                    | 1               | -               | 16              |
| <b>Balance at 31 December 2021</b> | <b>38,483</b>   | <b>5,119</b>    | <b>10,133</b>         | <b>1,347</b>    | <b>515</b>                           | <b>69</b>       | <b>49,131</b>   | <b>6,535</b>    |
| <b>ACCUMULATED AMORTIZATION</b>    |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2021          | 36,585          | 4,854           | 8,924                 | 1,184           | -                                    | -               | 45,509          | 6,038           |
| Charge for the year                | 917             | 122             | 699                   | 93              | -                                    | -               | 1,616           | 215             |
| Disposals                          | (168)           | (22)            | (331)                 | (44)            | -                                    | -               | (499)           | (66)            |
| Fx differences                     | -               | 12              | -                     | 3               | -                                    | -               | -               | 15              |
| <b>Balance at 31 December 2021</b> | <b>37,334</b>   | <b>4,966</b>    | <b>9,292</b>          | <b>1,236</b>    | <b>-</b>                             | <b>-</b>        | <b>46,626</b>   | <b>6,202</b>    |
| <b>NET BOOK VALUE</b>              |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 31 December 2021        | 1,149           | 153             | 841                   | 111             | 515                                  | 69              | 2,505           | 333             |
| Balance at 1 January 2021          | 659             | 88              | 1,517                 | 201             | 60                                   | 8               | 2,236           | 297             |

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

For the year ended 31 December 2022

### 12. INTANGIBLE ASSETS (CONTINUED)

Croatia Airlines d.d.

| 2022                               | Software        |                 | Leashold improvements |                 | Intangible assets under construction |                 | Total           |                 |
|------------------------------------|-----------------|-----------------|-----------------------|-----------------|--------------------------------------|-----------------|-----------------|-----------------|
|                                    | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand                      | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| <b>COST</b>                        |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2022          | 38,255          | 5,089           | 10,081                | 1,341           | 515                                  | 69              | 48,851          | 6,499           |
| Additions                          | 1,507           | 200             | 209                   | 28              | 521                                  | 69              | 2,237           | 297             |
| Fx differences                     | -               | (12)            | -                     | (3)             | -                                    | -               | -               | (15)            |
| <b>Balance at 31 December 2022</b> | <b>39,956</b>   | <b>5,303</b>    | <b>10,290</b>         | <b>1,366</b>    | <b>842</b>                           | <b>112</b>      | <b>51,088</b>   | <b>6,781</b>    |
| <b>ACCUMULATED AMORTIZATION</b>    |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2022          | 37,109          | 4,937           | 9,237                 | 1,229           | -                                    | -               | 46,346          | 6,166           |
| Charge for the year                | 1,224           | 163             | 368                   | 49              | -                                    | -               | 1,592           | 212             |
| Fx differences                     | -               | (12)            | -                     | (3)             | -                                    | -               | -               | (15)            |
| <b>Balance at 31 December 2022</b> | <b>38,333</b>   | <b>5,088</b>    | <b>9,605</b>          | <b>1,275</b>    | <b>-</b>                             | <b>-</b>        | <b>47,938</b>   | <b>6,363</b>    |
| <b>NET BOOK VALUE</b>              |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 31 December 2022        | 1,623           | 215             | 685                   | 91              | 842                                  | 112             | 3,150           | 418             |
| Balance at 1 January 2022          | 1,146           | 152             | 844                   | 112             | 515                                  | 69              | 2,505           | 333             |
| <b>2021</b>                        |                 |                 |                       |                 |                                      |                 |                 |                 |
| 2021                               | Software        |                 | Leashold improvements |                 | Intangible assets under construction |                 | Total           |                 |
|                                    | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand                      | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| <b>COST</b>                        |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2021          | 36,848          | 4,889           | 10,052                | 1,335           | 60                                   | 8               | 46,960          | 6,232           |
| Additions                          | 1,407           | 187             | 29                    | 4               | 455                                  | 60              | 1,891           | 251             |
| Fx differences                     | -               | 13              | -                     | 2               | -                                    | 1               | -               | 16              |
| <b>Balance at 31 December 2021</b> | <b>38,255</b>   | <b>5,089</b>    | <b>10,081</b>         | <b>1,341</b>    | <b>515</b>                           | <b>69</b>       | <b>48,851</b>   | <b>6,499</b>    |
| <b>ACCUMULATED AMORTIZATION</b>    |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 1 January 2021          | 36,192          | 4,802           | 8,538                 | 1,133           | -                                    | -               | 44,730          | 5,935           |
| Charge for the year                | 917             | 122             | 699                   | 93              | -                                    | -               | 1,616           | 215             |
| Fx differences                     | -               | 13              | -                     | 3               | -                                    | -               | -               | 16              |
| <b>Balance at 31 December 2021</b> | <b>37,109</b>   | <b>4,937</b>    | <b>9,237</b>          | <b>1,229</b>    | <b>-</b>                             | <b>-</b>        | <b>46,346</b>   | <b>6,166</b>    |
| <b>NET BOOK VALUE</b>              |                 |                 |                       |                 |                                      |                 |                 |                 |
| Balance at 31 December 2021        | 1,146           | 152             | 844                   | 112             | 515                                  | 69              | 2,505           | 333             |
| Balance at 1 January 2021          | 656             | 87              | 1,514                 | 202             | 60                                   | 8               | 2,230           | 297             |

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

For the year ended 31 December 2022

### 13. PROPERTY, PLANT AND EQUIPMENT

#### Croatia Airlines Group

| 2022                               | Land and buildings |                 | Equipment and other |                 | Aircraft         |                 | Spare parts, GSE and tools |                 | Property, plant and equipment in progress |                 | Total            |                 |
|------------------------------------|--------------------|-----------------|---------------------|-----------------|------------------|-----------------|----------------------------|-----------------|-------------------------------------------|-----------------|------------------|-----------------|
|                                    | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand     | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand            | EUR<br>thousand | HRK<br>thousand                           | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>COST OR VALUATION</b>           |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 1 January 2022          | 72,357             | 9,626           | 55,899              | 7,437           | 1,208,362        | 160,747         | 202,213                    | 26,900          | 36                                        | 5               | 1,538,867        | 204,715         |
| Additions                          | 118                | 16              | 5,428               | 721             | 4,066            | 540             | 11,621                     | 1,543           | 212                                       | 28              | 21,445           | 2,848           |
| Transfer to intangible assets      | -                  | -               | -                   | -               | -                | -               | (3,590)                    | (477)           | -                                         | -               | (3,590)          | (477)           |
| Disposals                          | -                  | -               | (2,038)             | (271)           | -                | -               | (19,037)                   | (2,528)         | (36)                                      | (5)             | (21,111)         | (2,804)         |
| Fx differences                     | -                  | (23)            | -                   | (18)            | -                | (370)           | -                          | (60)            | -                                         | -               | -                | (471)           |
| <b>Balance at 31 December 2022</b> | <b>72,475</b>      | <b>9,619</b>    | <b>59,289</b>       | <b>7,869</b>    | <b>1,212,428</b> | <b>160,917</b>  | <b>191,207</b>             | <b>25,378</b>   | <b>212</b>                                | <b>28</b>       | <b>1,535,611</b> | <b>203,811</b>  |
| <b>ACCUMULATED DEPRECIATION</b>    |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 1 January 2022          | 34,749             | 4,623           | 50,805              | 6,759           | 1,046,402        | 139,202         | 155,477                    | 20,683          | -                                         | -               | 1,287,433        | 171,267         |
| Charge for the year                | 2,058              | 273             | 3,039               | 403             | 31,747           | 4,215           | 4,946                      | 657             | -                                         | -               | 41,790           | 5,548           |
| Transfer to intangible assets      | -                  | -               | -                   | -               | -                | -               | (1,278)                    | (170)           | -                                         | -               | (1,278)          | (170)           |
| Disposals                          | -                  | -               | (2,033)             | (270)           | -                | -               | (13,572)                   | (1,802)         | -                                         | -               | (15,605)         | (2,072)         |
| Fx differences                     | -                  | (11)            | -                   | (15)            | -                | (322)           | -                          | (47)            | -                                         | -               | -                | (395)           |
| <b>Balance at 31 December 2022</b> | <b>36,807</b>      | <b>4,885</b>    | <b>51,811</b>       | <b>6,877</b>    | <b>1,078,149</b> | <b>143,095</b>  | <b>145,573</b>             | <b>19,321</b>   | <b>-</b>                                  | <b>-</b>        | <b>1,312,340</b> | <b>174,178</b>  |
| <b>NET BOOK VALUE</b>              |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 31 December 2022        | 35,668             | 4,734           | 7,478               | 992             | 134,279          | 17,822          | 45,634                     | 6,057           | 212                                       | 28              | 223,271          | 29,633          |
| Balance at 1 January 2022          | 37,608             | 5,003           | 5,094               | 678             | 161,960          | 21,545          | 46,736                     | 6,217           | 36                                        | 5               | 251,434          | 33,448          |

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

For the year ended 31 December 2022

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

#### Croatia Airlines Group

| 2021                               | Land and buildings |                 | Equipment and other |                 | Aircraft         |                 | Spare parts, GSE and tools |                 | Property, plant and equipment in progress |                 | Total            |                 |
|------------------------------------|--------------------|-----------------|---------------------|-----------------|------------------|-----------------|----------------------------|-----------------|-------------------------------------------|-----------------|------------------|-----------------|
|                                    | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand     | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand            | EUR<br>thousand | HRK<br>thousand                           | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>COST OR VALUATION</b>           |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 1 January 2021          | 72,359             | 9,601           | 58,682              | 7,786           | 1,198,335        | 158,996         | 203,962                    | 27,062          | 6,068                                     | 805             | 1,539,406        | 204,250         |
| Additions                          | -                  | -               | 1,125               | 150             | 3,812            | 507             | 7,445                      | 989             | -                                         | -               | 12,382           | 1,646           |
| Transfer                           | -                  | -               | -                   | -               | 6,215            | 826             | (1,688)                    | (224)           | (6,032)                                   | (802)           | (1,505)          | (200)           |
| Disposals                          | (2)                | -               | (3,908)             | (519)           | -                | -               | (7,506)                    | (998)           | -                                         | -               | (11,416)         | (1,517)         |
| Fx differences                     | -                  | 25              | -                   | 20              | -                | 418             | -                          | 71              | -                                         | 2               | -                | 536             |
| <b>Balance at 31 December 2021</b> | <b>72,357</b>      | <b>9,626</b>    | <b>55,899</b>       | <b>7,437</b>    | <b>1,208,362</b> | <b>160,747</b>  | <b>202,213</b>             | <b>26,900</b>   | <b>36</b>                                 | <b>5</b>        | <b>1,538,867</b> | <b>204,715</b>  |
| <b>ACCUMULATED DEPRECIATION</b>    |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 1 January 2021          | 32,619             | 4,328           | 51,640              | 6,852           | 1,014,224        | 134,568         | 151,087                    | 20,046          | -                                         | -               | 1,249,570        | 165,794         |
| Charge for the year                | 2,130              | 283             | 3,005               | 399             | 32,153           | 4,273           | 5,822                      | 774             | -                                         | -               | 43,110           | 5,729           |
| Transfer                           | -                  | -               | -                   | -               | 25               | 3               | (626)                      | (83)            | -                                         | -               | (601)            | (80)            |
| Disposals                          | -                  | -               | (3,840)             | (510)           | -                | -               | (806)                      | (107)           | -                                         | -               | (4,646)          | (617)           |
| Fx differences                     | -                  | 12              | -                   | 18              | -                | 358             | -                          | 53              | -                                         | -               | -                | 441             |
| <b>Balance at 31 December 2021</b> | <b>34,749</b>      | <b>4,623</b>    | <b>50,805</b>       | <b>6,759</b>    | <b>1,046,402</b> | <b>139,202</b>  | <b>155,477</b>             | <b>20,683</b>   | <b>-</b>                                  | <b>-</b>        | <b>1,287,433</b> | <b>171,267</b>  |
| <b>NET BOOK VALUE</b>              |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 31 December 2021        | 37,608             | 5,003           | 5,094               | 678             | 161,960          | 21,545          | 46,736                     | 6,217           | 36                                        | 5               | 251,434          | 33,448          |
| Balance at 1 January 2021          | 39,740             | 5,273           | 7,042               | 934             | 184,111          | 24,428          | 52,875                     | 7,016           | 6,068                                     | 805             | 289,836          | 38,456          |

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

For the year ended 31 December 2022

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

Croatia Airlines d.d.

| 2022                               | Land and buildings |                 | Equipment and other |                 | Aircraft         |                 | Spare parts, GSE and tools |                 | Property, plant and equipment in progress |                 | Total            |                 |
|------------------------------------|--------------------|-----------------|---------------------|-----------------|------------------|-----------------|----------------------------|-----------------|-------------------------------------------|-----------------|------------------|-----------------|
|                                    | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand     | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand            | EUR<br>thousand | HRK<br>thousand                           | EUR<br>thousand | HRK<br>thousand  | EUR<br>thousand |
| <b>COST OR VALUATION</b>           |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 1 January 2022          | 72,357             | 9,626           | 55,271              | 7,352           | 1,208,362        | 160,747         | 202,214                    | 26,900          | 36                                        | 5               | 1,538,240        | 204,630         |
| Additions                          | 118                | 16              | 5,378               | 714             | 4,066            | 540             | 11,621                     | 1,543           | 212                                       | 28              | 21,395           | 2,841           |
| Transfer to intangible assets      | -                  | -               | -                   | -               | -                | -               | (3,590)                    | (477)           | -                                         | -               | (3,590)          | (477)           |
| Disposals                          | -                  | -               | (2,031)             | (270)           | -                | -               | (19,037)                   | (2,528)         | (36)                                      | (5)             | (21,104)         | (2,803)         |
| Fx differences                     | -                  | (23)            | -                   | (17)            | -                | (370)           | -                          | (60)            | -                                         | -               | -                | (470)           |
| <b>Balance at 31 December 2022</b> | <b>72,475</b>      | <b>9,619</b>    | <b>58,618</b>       | <b>7,779</b>    | <b>1,212,428</b> | <b>160,917</b>  | <b>191,208</b>             | <b>25,378</b>   | <b>212</b>                                | <b>28</b>       | <b>1,534,941</b> | <b>203,721</b>  |
| <b>ACCUMULATED DEPRECIATION</b>    |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 1 January 2022          | 34,750             | 4,623           | 50,371              | 6,700           | 1,046,402        | 139,202         | 155,476                    | 20,683          | -                                         | -               | 1,286,999        | 171,208         |
| Charge for the year                | 2,058              | 273             | 2,972               | 396             | 31,747           | 4,215           | 4,946                      | 657             | -                                         | -               | 41,723           | 5,541           |
| Transfer to intangible assets      | -                  | -               | -                   | -               | -                | -               | (1,278)                    | (170)           | -                                         | -               | (1,278)          | (170)           |
| Disposals                          | -                  | -               | (2,026)             | (269)           | -                | -               | (13,572)                   | (1,802)         | -                                         | -               | (15,598)         | (2,071)         |
| Fx differences                     | -                  | (11)            | -                   | (17)            | -                | (322)           | -                          | (47)            | -                                         | -               | -                | (397)           |
| <b>Balance at 31 December 2022</b> | <b>36,808</b>      | <b>4,885</b>    | <b>51,317</b>       | <b>6,810</b>    | <b>1,078,149</b> | <b>143,095</b>  | <b>145,572</b>             | <b>19,321</b>   | <b>-</b>                                  | <b>-</b>        | <b>1,311,846</b> | <b>174,111</b>  |
| <b>NET BOOK VALUE</b>              |                    |                 |                     |                 |                  |                 |                            |                 |                                           |                 |                  |                 |
| Balance at 31 December 2022        | 35,667             | 4,734           | 7,301               | 969             | 134,279          | 17,822          | 45,636                     | 6,057           | 212                                       | 28              | 223,095          | 29,610          |
| Balance at 1 January 2022          | 37,607             | 5,003           | 4,900               | 652             | 161,960          | 21,545          | 46,738                     | 6,217           | 36                                        | 5               | 251,241          | 33,422          |

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

For the year ended 31 December 2022

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

Croatia Airlines d.d.

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



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

For the year ended 31 December 2022

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

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

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

Carrying value of the property plant and equipment pledged as security for repayment of loans at the reporting date amounts to HRK 144,111 thousand, EUR 19,127 thousand (2021.: HRK 170,694 thousand, EUR 22,707 thousand).

#### Fleet as at 31.12.2022

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

#### Property, plant and equipment under construction

Assets under construction in the amount of HRK 212 thousand, EUR 28 thousand relate to investments into aircraft (2021: Assets under construction in the amount of HRK 36 thousand, EUR 5 thousand relate to investments into aircraft)

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

For the year ended 31 December 2022

### 14. INVESTMENT PROPERTY

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

| 2022                            | Investment property |                 |
|---------------------------------|---------------------|-----------------|
|                                 | HRK<br>thousand     | EUR<br>thousand |
| <b>COST</b>                     |                     |                 |
| Balance at 1 January 2022       | 13,509              | 1,797           |
| Fx differences                  | -                   | (4)             |
| Balance at 31 December 2022     | <u>13,509</u>       | <u>1,793</u>    |
| <b>ACCUMULATED AMORTIZATION</b> |                     |                 |
| Balance at 1 January 2022       | 13,509              | 1,797           |
| Fx differences                  | -                   | (4)             |
| Balance at 31 December 2022     | <u>13,509</u>       | <u>1,793</u>    |
| <b>NET BOOK VALUE</b>           |                     |                 |
| Balance at 31 December 2022     | <u>-</u>            | <u>-</u>        |
| Balance at 1 January 2022       | <u>-</u>            | <u>-</u>        |
| <b>2021</b>                     |                     |                 |
|                                 |                     |                 |
| <b>COST</b>                     |                     |                 |
| Balance at 1 January 2021       | 13,509              | 1,792           |
| Fx differences                  | -                   | 5               |
| Balance at 31 December 2021     | <u>13,509</u>       | <u>1,797</u>    |
| <b>ACCUMULATED AMORTIZATION</b> |                     |                 |
| Balance at 1 January 2021       | 13,509              | 1,792           |
| Fx differences                  | -                   | 5               |
| Balance at 31 December 2021     | <u>13,509</u>       | <u>1,797</u>    |
| <b>NET BOOK VALUE</b>           |                     |                 |
| Balance at 31 December 2021     | <u>-</u>            | <u>-</u>        |
| Balance at 1 January 2021       | <u>-</u>            | <u>-</u>        |

Revenue generated from investment property in amount of HRK 1,295 thousand, EUR 172 thousand (2021: HRK 1,234 thousand, EUR 164 thousand) is included in the category of Other within Other sales revenue.

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

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

For the year ended 31 December 2022

### 15. INVESTMENTS IN SUBSIDIARIES

| Name                      | Main activity         | Share | 2022                                      |                 | 2021                                      |                 | 2022                                     |                 | 2021                                     |                 |
|---------------------------|-----------------------|-------|-------------------------------------------|-----------------|-------------------------------------------|-----------------|------------------------------------------|-----------------|------------------------------------------|-----------------|
|                           |                       |       | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand |
| Obzor putovanja<br>d.o.o. | Tourism               | 100%  | -                                         | -               | -                                         | -               | 1,020                                    | 135             | 1,020                                    | 136             |
| Amadeus Croatia<br>d.d.   | Marketing<br>services | 95%   | -                                         | -               | -                                         | -               | 1,590                                    | 211             | 190                                      | 25              |
|                           |                       |       | <u>-</u>                                  | <u>-</u>        | <u>-</u>                                  | <u>-</u>        | <u>2,610</u>                             | <u>346</u>      | <u>1,210</u>                             | <u>161</u>      |

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

During 2022 share in subsidiary Amadeus has been increased by transferring portion of the loan given in the amount of HRK 1,400 thousand, EUR 186 thousand into capital reserves of the subsidiary.

### 16. PREPAYMENTS AND ACCRUED REVENUE

|                                                            | 2022                                      |                 | 2021                                      |                 | 2022                                     |                 | 2021                                     |                 |
|------------------------------------------------------------|-------------------------------------------|-----------------|-------------------------------------------|-----------------|------------------------------------------|-----------------|------------------------------------------|-----------------|
|                                                            | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand |
| Prepayments for<br>maintenance of aircrafts and<br>engines | 177,150                                   | 23,512          | 182,397                                   | 24,264          | 177,150                                  | 23,512          | 182,397                                  | 24,264          |
|                                                            | <u>177,150</u>                            | <u>23,512</u>   | <u>182,397</u>                            | <u>24,264</u>   | <u>177,150</u>                           | <u>23,512</u>   | <u>182,397</u>                           | <u>24,264</u>   |

### 17. NON-CURRENT DEPOSITS

|                                         | 2022                                      |                 | 2021                                      |                 | 2022                                     |                 | 2021                                     |                 |
|-----------------------------------------|-------------------------------------------|-----------------|-------------------------------------------|-----------------|------------------------------------------|-----------------|------------------------------------------|-----------------|
|                                         | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand |
| Deposits given to suppliers             | 42,266                                    | 5,610           | 24,823                                    | 3,303           | 42,253                                   | 5,609           | 24,810                                   | 3,301           |
| Deposits at banks for<br>employee loans | 1,256                                     | 167             | 1,601                                     | 213             | 1,256                                    | 167             | 1,601                                    | 213             |
| Deposits for bank guarantees            | 26,524                                    | 3,520           | 26,334                                    | 3,503           | 25,681                                   | 3,408           | 25,394                                   | 3,378           |
| Deposits for business<br>premises lease | 207                                       | 27              | 257                                       | 34              | 207                                      | 27              | 257                                      | 34              |
|                                         | <u>70,253</u>                             | <u>9,324</u>    | <u>53,015</u>                             | <u>7,053</u>    | <u>69,397</u>                            | <u>9,211</u>    | <u>52,062</u>                            | <u>6,926</u>    |

Non – current deposits given to suppliers consist of deposits given as guarantees to suppliers in the amount of HRK 42,253 thousand, EUR 5,609 thousand (2021: deposits given as guarantees to suppliers in the amount of HRK 24,810 thousand, EUR 3,301 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 2022

### 18. INVESTMENTS IN EQUITY INSTRUMENTS

|                                  | Share | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|----------------------------------|-------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                  |       | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                  |       | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Hrvatska poštanska<br>banka d.d. | 0.18% | 1,277                  | 170             | 1,130                  | 150             | 1,277                 | 170             | 1,130                 | 150             |
| Star Alliance                    |       | 189                    | 25              | 189                    | 25              | 189                   | 25              | 189                   | 25              |
|                                  |       | <u>1,466</u>           | <u>195</u>      | <u>1,319</u>           | <u>175</u>      | <u>1,466</u>          | <u>195</u>      | <u>1,319</u>          | <u>175</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 2022 gain of HRK 147 thousand , EUR 20 thousand is recognized in other comprehensive income (2021: loss of HRK 402 thousand , EUR 53 thousand).

### 19. NON-CURRENT RECEIVABLES

|                            | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|----------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                            | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                            | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Advances given             | 63,843                 | 8,473           | -                      | -               | 63,843                | 8,473           | -                     | -               |
| Receivables for sold flats | 37                     | 5               | 61                     | 8               | 37                    | 5               | 61                    | 8               |
| Loans receivable           | -                      | -               | -                      | -               | -                     | -               | 1,083                 | 144             |
|                            | <u>63,880</u>          | <u>8,478</u>    | <u>61</u>              | <u>8</u>        | <u>63,880</u>         | <u>8,478</u>    | <u>1,144</u>          | <u>152</u>      |

During 2020 impairment loss of prepayments for Airbus fleet was recognised. Since the contract with Airbus has been signed again during 2022, prepayments paid to Airbus in the amount of HRK 63,843 thousand, EUR 8,473 thousand will be utilized for financing new fleet.

Long-term receivables for housing relate to 7 flats sold to the individuals. The due dates range from 16 to 30 years with an annual interest of 1% according to the Law on Sale of Publicly Owned Flats with Tenancy Rights (NN 43/92).

Loans receivable relate to a loan given to a subsidiary in the total approved amount of HRK 1,700 thousand, EUR 226 thousand, of which HRK 400 thousand, EUR 53 thousand was given in 2021, and HRK 1,300 thousand, EUR 173 thousand during the 2020 at an interest rate in accordance with the decision of the Ministry of Finance on the applicable interest rate on loans between related companies for the purpose of calculating income tax. During the year 2022 HRK 225 thousand, EUR 30 thousand were repaid (2021: HRK 75 thousand, EUR 10 thousand were repaid) and the remaining amount of HRK 1,400 thousand, EUR 186 thousand has been transferred to reserves of the subsidiary and as result of the transaction investment in subsidiary was increased (Note 15). The current portion of the loan and accrued interest are disclosed in Note 22.

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

For the year ended 31 December 2022

### 20. INVENTORIES

|                                          | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|------------------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                          | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                          | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Consumable spare parts                   | 64,906                 | 8,614           | 59,162                 | 7,870           | 64,906                | 8,614           | 59,162                | 7,870           |
| Catering, supplies and other inventories | 1,052                  | 140             | 878                    | 117             | 1,052                 | 140             | 878                   | 117             |
|                                          | <u>65,958</u>          | <u>8,754</u>    | <u>60,040</u>          | <u>7,987</u>    | <u>65,958</u>         | <u>8,754</u>    | <u>60,040</u>         | <u>7,987</u>    |

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

### 21. TRADE RECEIVABLES

|                                    | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|------------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                    | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                    | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Domestic trade receivables         | 28,990                 | 3,848           | 14,531                 | 1,932           | 25,206                | 3,346           | 13,393                | 1,781           |
| Foreign trade receivables          | 66,655                 | 8,847           | 41,034                 | 5,459           | 66,237                | 8,791           | 40,840                | 5,433           |
| Allowance for doubtful receivables | (5,851)                | (777)           | (5,768)                | (767)           | (5,851)               | (777)           | (5,768)               | (767)           |
|                                    | <u>89,794</u>          | <u>11,918</u>   | <u>49,797</u>          | <u>6,624</u>    | <u>85,592</u>         | <u>11,360</u>   | <u>48,465</u>         | <u>6,447</u>    |

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

|                                           | 2022                   |                 | 2022                  |                 |
|-------------------------------------------|------------------------|-----------------|-----------------------|-----------------|
|                                           | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 |
|                                           | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| <b>Allowance for doubtful receivables</b> |                        |                 |                       |                 |
| <b>1 January</b>                          | 5,768                  | 767             | 5,768                 | 767             |
| Write-offs                                | (4)                    | (1)             | (4)                   | (1)             |
| Foreign exchange differences              | 87                     | 11              | 87                    | 11              |
| <b>31 December</b>                        | <u>5,851</u>           | <u>777</u>      | <u>5,851</u>          | <u>777</u>      |

|                                           | 2021                   |                 | 2021                  |                 |
|-------------------------------------------|------------------------|-----------------|-----------------------|-----------------|
|                                           | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 |
|                                           | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| <b>Allowance for doubtful receivables</b> |                        |                 |                       |                 |
| <b>1 January</b>                          | 10,669                 | 1,416           | 10,659                | 1,414           |
| Decrease                                  | (24)                   | (3)             | (24)                  | (3)             |
| Write-offs                                | (4,800)                | (638)           | (4,790)               | (637)           |
| Foreign exchange differences              | (77)                   | (8)             | (77)                  | (7)             |
| <b>31 December</b>                        | <u>5,768</u>           | <u>767</u>      | <u>5,768</u>          | <u>767</u>      |

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

For the year ended 31 December 2022

### 22. OTHER RECEIVABLES

|                            | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|----------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                            | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                            | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Receivables from employees | 108                    | 14              | 139                    | 18              | 108                   | 14              | 134                   | 18              |
| Receivables from the State | 20,117                 | 2,670           | 16,141                 | 2,147           | 20,114                | 2,670           | 16,133                | 2,146           |
| Receivables for advances   | 5,157                  | 685             | 1,505                  | 201             | 4,937                 | 655             | 1,430                 | 190             |
| Loans receivable           | -                      | -               | -                      | -               | -                     | -               | 542                   | 72              |
|                            | <u>25,382</u>          | <u>3,369</u>    | <u>17,785</u>          | <u>2,366</u>    | <u>25,159</u>         | <u>3,339</u>    | <u>18,239</u>         | <u>2,426</u>    |

### 23. PREPAYMENTS AND ACCRUED REVENUE

|                 | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|-----------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                 | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                 | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Prepayments     | 13,436                 | 1,783           | 6,311                  | 839             | 13,324                | 1,768           | 6,226                 | 828             |
| Accrued revenue | 24,838                 | 3,297           | 10,643                 | 1,416           | 24,838                | 3,297           | 10,643                | 1,416           |
|                 | <u>38,274</u>          | <u>5,080</u>    | <u>16,954</u>          | <u>2,255</u>    | <u>38,162</u>         | <u>5,065</u>    | <u>16,869</u>         | <u>2,244</u>    |

### 24. CURRENT DEPOSITS

|          | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|----------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|          | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|          | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Deposits | 14,966                 | 1,986           | 62,663                 | 8,336           | 14,956                | 1,985           | 62,617                | 8,330           |
|          | <u>14,966</u>          | <u>1,986</u>    | <u>62,663</u>          | <u>8,336</u>    | <u>14,956</u>         | <u>1,985</u>    | <u>62,617</u>         | <u>8,330</u>    |

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

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

For the year ended 31 December 2022

### 25. CASH AND CASH EQUIVALENTS

|                             | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|-----------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                             | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                             | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Gyro account                | 425,341                | 56,453          | 293,990                | 39,110          | 422,147               | 56,028          | 291,617               | 38,793          |
| Foreign currency accounts   | 70,464                 | 9,352           | 22,575                 | 3,003           | 68,127                | 9,042           | 19,555                | 2,601           |
| Petty cash                  | 3                      | -               | 24                     | 3               | -                     | -               | 12                    | 2               |
| Foreign currency petty cash | 13                     | 2               | 78                     | 10              | 9                     | 1               | 72                    | 10              |
| Short-term deposits         | 84,500                 | 11,215          | -                      | -               | 84,497                | 11,215          | -                     | -               |
|                             | <b>580,321</b>         | <b>77,022</b>   | <b>316,667</b>         | <b>42,126</b>   | <b>574,780</b>        | <b>76,286</b>   | <b>311,256</b>        | <b>41,406</b>   |

Short-term deposits present term deposits at the banks with maturities up to 90 days with a fixed annual interest rate from 1.00% to 2.50%.

### 26. SHARE CAPITAL

Share capital of the Company amounts HRK 627,880 thousand (2021: HRK 627,880 thousand) and is divided in 62,787,953 ordinary shares (2021: 62,787,953 ordinary shares) with a nominal value of HRK 10.00 each.

As at 31 December ownership structure was as follows:

| 2022                         | Number<br>of shares         | HRK<br>thousand         | Share<br>%         |
|------------------------------|-----------------------------|-------------------------|--------------------|
| <b>Shareholders</b>          |                             |                         |                    |
| Republic of Croatia          | 62,010,821                  | 620,109                 | 98.76              |
| Zagreb International Airport | 477,121                     | 4,771                   | 0.76               |
| HPB for Republic of Croatia  | 173,768                     | 1,738                   | 0.28               |
| Others                       | 126,243                     | 1,262                   | 0.20               |
|                              | <b>62,787,953</b>           | <b>627,880</b>          | <b>100.00</b>      |
| <b>2021</b>                  | <b>Number<br/>of shares</b> | <b>HRK<br/>thousand</b> | <b>Share<br/>%</b> |
| <b>Shareholders</b>          |                             |                         |                    |
| Republic of Croatia          | 62,010,821                  | 620,109                 | 98.76              |
| Zagreb International Airport | 477,121                     | 4,771                   | 0.76               |
| HPB for Republic of Croatia  | 173,768                     | 1,738                   | 0.28               |
| Others                       | 126,243                     | 1,262                   | 0.20               |
|                              | <b>62,787,953</b>           | <b>627,880</b>          | <b>100.00</b>      |

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

For the year ended 31 December 2022

### 27. RESERVES

| Croatia Airlines Group              | Other capital reserves |                 | Fair value reserve |                 | Protection reserve |                 | Reserves        |                 |
|-------------------------------------|------------------------|-----------------|--------------------|-----------------|--------------------|-----------------|-----------------|-----------------|
|                                     | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| Balance at 1 January 2021           | 352,613                | 46,821          | (975)              | (128)           | (1,011)            | (127)           | 350,627         | 46,566          |
| Loss for the year                   | -                      | -               | -                  | -               | -                  | -               | -               | -               |
| Other comprehensive income          | -                      | -               | 402                | 53              | 349                | 46              | 751             | 99              |
| Total comprehensive income          | -                      | -               | 402                | 53              | 349                | 46              | 751             | 99              |
| <b>Transactions with owners</b>     |                        |                 |                    |                 |                    |                 |                 |                 |
| Covering 2020 loss from reserves    | (161)                  | (22)            | -                  | -               | -                  | -               | (161)           | (22)            |
| Share capital increase registration | (350,000)              | (46,473)        | -                  | -               | -                  | -               | (350,000)       | (46,473)        |
| Total transaction with owners       | (350,161)              | (46,495)        | -                  | -               | -                  | -               | (350,161)       | (46,495)        |
| <b>Balance at 31 December 2021</b>  | <b>2,452</b>           | <b>326</b>      | <b>(573)</b>       | <b>(75)</b>     | <b>(662)</b>       | <b>(81)</b>     | <b>1,217</b>    | <b>170</b>      |
| Loss for the year                   | -                      | -               | -                  | -               | -                  | -               | -               | -               |
| Other comprehensive income          | -                      | -               | 147                | 20              | 662                | 81              | 809             | 101             |
| Total comprehensive income          | -                      | -               | 147                | 20              | 662                | 81              | 809             | 101             |
| <b>Transactions with owners</b>     |                        |                 |                    |                 |                    |                 |                 |                 |
| Transfer of 2021 result             | 654                    | 87              | -                  | -               | -                  | -               | 654             | 87              |
| Capital contribution                | 296,000                | 39,271          | -                  | -               | -                  | -               | 296,000         | 39,271          |
| Total transaction with owners       | 296,654                | 39,358          | -                  | -               | -                  | -               | 296,654         | 39,358          |
| <b>Balance at 31 December 2022</b>  | <b>299,106</b>         | <b>39,684</b>   | <b>(426)</b>       | <b>(55)</b>     | <b>-</b>           | <b>-</b>        | <b>298,680</b>  | <b>39,629</b>   |



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

For the year ended 31 December 2022

### 27. RESERVES (CONTINUED)

| Croatia Airlines d.d.               | Other capital reserves |                 | Fair value reserve |                 | Protection reserve |                 | Reserves        |                 |
|-------------------------------------|------------------------|-----------------|--------------------|-----------------|--------------------|-----------------|-----------------|-----------------|
|                                     | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| Balance at 1 January 2021           | 350,000                | 46,473          | (975)              | (128)           | (1,011)            | (127)           | 348,014         | 46,218          |
| Loss for the year                   | -                      | -               | -                  | -               | -                  | -               | -               | -               |
| Other comprehensive income          | -                      | -               | 402                | 53              | 349                | 46              | 751             | 99              |
| Total comprehensive income          | -                      | -               | 402                | 53              | 349                | 46              | 751             | 99              |
| <b>Transactions with owners</b>     |                        |                 |                    |                 |                    |                 |                 |                 |
| Share capital increase registration | (350,000)              | (46,473)        | -                  | -               | -                  | -               | (350,000)       | (46,473)        |
| Total transaction with owners       | (350,000)              | (46,473)        | -                  | -               | -                  | -               | (350,000)       | (46,473)        |
| <b>Balance at 31 December 2021</b>  | -                      | -               | <b>(573)</b>       | <b>(75)</b>     | <b>(662)</b>       | <b>(81)</b>     | <b>(1,235)</b>  | <b>(156)</b>    |
| Loss for the year                   | -                      | -               | -                  | -               | -                  | -               | -               | -               |
| Other comprehensive income          | -                      | -               | 147                | 20              | 662                | 81              | 809             | 101             |
| Total comprehensive income          | -                      | -               | 147                | 20              | 662                | 81              | 809             | 101             |
| <b>Transactions with owners</b>     |                        |                 |                    |                 |                    |                 |                 |                 |
| Capital contribution                | 296,000                | 39,271          | -                  | -               | -                  | -               | 296,000         | 39,271          |
| Total transaction with owners       | 296,000                | 39,271          | -                  | -               | -                  | -               | 296,000         | 39,271          |
| <b>Balance at 31 December 2022</b>  | <b>296,000</b>         | <b>39,271</b>   | <b>(426)</b>       | <b>(55)</b>     | <b>-</b>           | <b>-</b>        | <b>295,574</b>  | <b>39,216</b>   |

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

For the year ended 31 December 2022

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### 27. RESERVES (CONTINUED)

#### Legal reserves

In accordance with the law, the legal reserve is formed as at least 5% of the profit for the year until the total legal reserve reaches 5% of the share capital of the Company. Based on the decision of the Assembly of 10 July 2020, legal reserves are used for covering losses so as of 31 December 2022 and 31 December 2021 the Company does not have any legal reserves.

#### Other capital reserves

Other capital reserves consist of HRK 296,000 thousand, EUR 39,271 thousand funds paid by Republic of Croatia for increase in share capital based on the decision of the Assembly of 22 December 2022. Increase in share capital was registered on 5 January 2023.

Other capital reserves at the Group level include reserves of subsidiaries. During the 2021 legal reserves and other reserves of the Company Amadeus Croatia d.d. were used to cover losses so that as at 31 December 2021 and 31 December 2022 the company has no reserves. The Company Obzor putovanja d.o.o. has other reserves in the amount of HRK 3,106 thousand, EUR 431 thousand (2021: HRK 2,452 thousand, EUR 326 thousand).

#### Fair value reserve

Fair value reserve resulted from the basis of fair value adjustments on investments in equity instruments. Since the fair value of the investments in equity instruments on the reporting date is lower than the acquisition cost, fair value reserve is negative and amounts to HRK 426 thousand, EUR 55 thousand (2021: HRK 573 thousand, EUR 75 thousand).

#### Protection reserve

Changes in fair values of effective derivative instruments indicated and classified as cash flow hedges are recognized in protective reserve. As of 31 December 2022 there are no hedging instruments.

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

For the year ended 31 December 2022

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### 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:

|                                                    | 2022                   |                      | 2021                   |                      |
|----------------------------------------------------|------------------------|----------------------|------------------------|----------------------|
|                                                    | Croatia Airlines Grupa |                      | Croatia Airlines Grupa |                      |
|                                                    | HRK                    | EUR                  | HRK                    | EUR                  |
| Loss for the year in thousands                     | <u>(135,135)</u>       | <u>(17,944)</u>      | <u>(288,235)</u>       | <u>(38,309)</u>      |
| Number of issued shares                            |                        | 62,787,953           |                        | 62,787,953           |
| <b>Basic and diluted loss per share in HRK/EUR</b> | <b><u>(2.15)</u></b>   | <b><u>(0.29)</u></b> | <b><u>(4.59)</u></b>   | <b><u>(0.61)</u></b> |

|                                                    | 2022                  |                      | 2021                  |                      |
|----------------------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
|                                                    | Croatia Airlines d.d. |                      | Croatia Airlines d.d. |                      |
|                                                    | HRK                   | EUR                  | HRK                   | EUR                  |
| Loss for the year in thousands                     | <u>(137,154)</u>      | <u>(18,210)</u>      | <u>(288,217)</u>      | <u>(38,306)</u>      |
| Number of issued shares                            |                       | 62,787,953           |                       | 62,787,953           |
| <b>Basic and diluted loss per share in HRK/EUR</b> | <b><u>(2.18)</u></b>  | <b><u>(0.29)</u></b> | <b><u>(4.59)</u></b>  | <b><u>(0.61)</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 2022

### 29. PROVISIONS

Provisions of the Group and Companies are as follows:

|                                       | Provision for court cases |              | Provision for severance payments and jubilee awards |            | Provision for maintenance of leased aircrafts and engines |               | Other provisions |            | Total          |               |
|---------------------------------------|---------------------------|--------------|-----------------------------------------------------|------------|-----------------------------------------------------------|---------------|------------------|------------|----------------|---------------|
|                                       | HRK                       | EUR          | HRK                                                 | EUR        | HRK                                                       | EUR           | HRK              | EUR        | HRK            | EUR           |
|                                       | thousand                  | thousand     | thousand                                            | thousand   | thousand                                                  | thousand      | thousand         | thousand   | thousand       | thousand      |
| Non-current provisions                | 16,616                    | 2,210        | 2,301                                               | 306        | 220,554                                                   | 29,341        | 6,375            | 848        | 245,846        | 32,705        |
| Current provisions                    | -                         | -            | -                                                   | -          | 23,083                                                    | 3,071         | -                | -          | 23,083         | 3,071         |
| <b>Balance as at 31 December 2021</b> | <b>16,616</b>             | <b>2,210</b> | <b>2,301</b>                                        | <b>306</b> | <b>243,637</b>                                            | <b>32,412</b> | <b>6,375</b>     | <b>848</b> | <b>268,929</b> | <b>35,776</b> |
| <b>Balance as at 31 December 2021</b> | <b>16,616</b>             | <b>2,210</b> | <b>2,301</b>                                        | <b>306</b> | <b>243,637</b>                                            | <b>32,412</b> | <b>6,375</b>     | <b>848</b> | <b>268,929</b> | <b>35,776</b> |
| Provisions made during year           | 704                       | 93           | 155                                                 | 21         | 51,255                                                    | 6,805         | 4,000            | 531        | 56,114         | 7,450         |
| Provisions used during year           | -                         | -            | (236)                                               | (31)       | (68,008)                                                  | (9,030)       | (6,107)          | (811)      | (74,351)       | (9,872)       |
| Provisions reversed during year       | -                         | -            | -                                                   | -          | (6)                                                       | (1)           | -                | -          | (6)            | (1)           |
| Foreign exchange differences          | -                         | (4)          | -                                                   | (1)        | 16,742                                                    | 2,148         | -                | (2)        | 16,742         | 2,141         |
| <b>Balance as at 31 December 2022</b> | <b>17,320</b>             | <b>2,299</b> | <b>2,220</b>                                        | <b>295</b> | <b>243,620</b>                                            | <b>32,334</b> | <b>4,268</b>     | <b>566</b> | <b>267,428</b> | <b>35,494</b> |
| Non-current provisions                | 17,320                    | 2,299        | 2,220                                               | 295        | 215,668                                                   | 28,624        | 4,268            | 566        | 239,476        | 31,784        |
| Current provisions                    | -                         | -            | -                                                   | -          | 27,952                                                    | 3,710         | -                | -          | 27,952         | 3,710         |
| <b>Balance as at 31 December 2022</b> | <b>17,320</b>             | <b>2,299</b> | <b>2,220</b>                                        | <b>295</b> | <b>243,620</b>                                            | <b>32,334</b> | <b>4,268</b>     | <b>566</b> | <b>267,428</b> | <b>35,494</b> |

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

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

Provisions for the maintenance of leased aircraft and engines consist of provisions for the maintenance of leased aircraft and engines based on their use in the amount of HRK 177,150 thousand, EUR 23,512 thousand (2021: HRK 182,397 thousand, EUR 24,265 thousand) and maintenance provisions that must be made at the end of the lease immediately before the return of the subject property to the lessor, regardless of its use, in the amount of HRK 66,470 thousand, EUR 8,822 thousand (2021: HRK 61,240 thousand, EUR 8,147 thousand).

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

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

For the year ended 31 December 2022

### 30. LONG-TERM LOANS AND BORROWINGS

|                                      | 2022                                      |                 | 2021                                      |                 | 2022                                     |                 | 2021                                     |                 |
|--------------------------------------|-------------------------------------------|-----------------|-------------------------------------------|-----------------|------------------------------------------|-----------------|------------------------------------------|-----------------|
|                                      | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand |
| Non-current loans                    | 631,719                                   | 83,843          | 545,374                                   | 72,550          | 631,719                                  | 83,843          | 545,374                                  | 72,550          |
| Current portion of non-current loans | (22,227)                                  | (2,950)         | (12,779)                                  | (1,700)         | (22,227)                                 | (2,950)         | (12,779)                                 | (1,700)         |
|                                      | <u>609,492</u>                            | <u>80,893</u>   | <u>532,595</u>                            | <u>70,850</u>   | <u>609,492</u>                           | <u>80,893</u>   | <u>532,595</u>                           | <u>70,850</u>   |

Description of non-current loans is as follows:

| Loan purpose                             | Original<br>currency | Loan<br>amount | Annual<br>interest<br>rate | Due              | 2022            |                 | 2021            |                 |
|------------------------------------------|----------------------|----------------|----------------------------|------------------|-----------------|-----------------|-----------------|-----------------|
|                                          |                      |                |                            |                  | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| Loan for maintenance of engines          | EUR                  | 8,500          | 3m<br>EURIBOR +<br>3.07%   | December<br>2022 | 22,227          | 2,950           | 34,955          | 4,650           |
| Loan for maintaining financial stability | HRK                  | 250,000        | 2%                         | January<br>2022  | 265,419         | 35,227          | 260,419         | 34,643          |
| Loan for maintaining financial stability | HRK                  | 250,000        | 0.72% -<br>2.22%           | December<br>2025 | 250,000         | 33,181          | 250,000         | 33,257          |
| Loan for maintaining financial stability | HRK                  | 94,000         | 0.72% -<br>2.22%           | November<br>2028 | 94,073          | 12,485          | -               | -               |
|                                          |                      |                |                            |                  | <u>631,719</u>  | <u>83,843</u>   | <u>545,374</u>  | <u>72,550</u>   |
| Current portion                          |                      |                |                            |                  | (22,227)        | (2,950)         | (12,779)        | (1,700)         |
| <b>Non-current loans</b>                 |                      |                |                            |                  | <u>609,492</u>  | <u>80,893</u>   | <u>532,595</u>  | <u>70,850</u>   |

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

|            | 2022                                      |                 | 2022                                     |                 |
|------------|-------------------------------------------|-----------------|------------------------------------------|-----------------|
|            | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand |
| 2023       | 22,227                                    | 2,950           | 22,227                                   | 2,950           |
| 2024       | -                                         | -               | -                                        | -               |
| 2025       | 515,419                                   | 68,408          | 515,419                                  | 68,408          |
| After 2025 | 94,073                                    | 12,485          | 94,073                                   | 12,485          |
|            | <u>631,719</u>                            | <u>83,843</u>   | <u>631,719</u>                           | <u>83,843</u>   |

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

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

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

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

For the year ended 31 December 2022

### 31. LEASES

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

#### Right of use assets

##### Croatia Airlines Group

| 2022                                        | Aircrafts       |                 | Engines         |                 | Business premises |                 | Vehicles        |                 | Leasehold improvements |                 | Total           |                 |
|---------------------------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|------------------------|-----------------|-----------------|-----------------|
|                                             | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand   | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| <b>COST OR VALUATION</b>                    |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 1 January 2022                   | 525,098         | 69,853          | 72,486          | 9,643           | 37,118            | 4,938           | 117             | 16              | 315,090                | 41,915          | 949,909         | 126,365         |
| Additions                                   | -               | -               | -               | -               | 2,123             | 282             | 168             | 22              | -                      | -               | 2,291           | 304             |
| Investments in leasehold improvements       | -               | -               | -               | -               | -                 | -               | -               | -               | 10,741                 | 1,426           | 10,741          | 1,426           |
| Lease modifications                         | (6,181)         | (821)           | 25,201          | 3,346           | 926               | 123             | -               | -               | -                      | -               | 19,946          | 2,648           |
| Transfer from property, plant and equipment | -               | -               | -               | -               | -                 | -               | -               | -               | 3,590                  | 477             | 3,590           | 477             |
| Lease cancellation                          | (25,051)        | (3,326)         | -               | -               | (4,323)           | (574)           | -               | -               | (116,051)              | (15,408)        | (145,425)       | (19,308)        |
| Lease expiry                                | -               | -               | -               | -               | (1,029)           | (137)           | (39)            | (5)             | (7,974)                | (1,059)         | (9,042)         | (1,201)         |
| Fx differences                              | -               | (159)           | -               | (24)            | -                 | (12)            | -               | -               | -                      | (90)            | -               | (285)           |
| <b>Balance at 31 December 2022</b>          | <b>493,866</b>  | <b>65,547</b>   | <b>97,687</b>   | <b>12,965</b>   | <b>34,815</b>     | <b>4,620</b>    | <b>246</b>      | <b>33</b>       | <b>205,396</b>         | <b>27,261</b>   | <b>832,010</b>  | <b>110,426</b>  |
| <b>ACCUMULATED DEPRECIATION</b>             |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 1 January 2022                   | 202,903         | 26,992          | 52,937          | 7,042           | 17,599            | 2,341           | 92              | 12              | 275,819                | 36,692          | 549,350         | 73,079          |
| Charge for the year                         | 66,001          | 8,763           | 18,090          | 2,402           | 6,032             | 801             | 60              | 8               | 27,722                 | 3,681           | 117,905         | 15,655          |
| One-off rebates                             | -               | -               | -               | -               | 279               | 37              | -               | -               | -                      | -               | 279             | 37              |
| Transfer from property, plant and equipment | -               | -               | -               | -               | -                 | -               | -               | -               | 1,278                  | 170             | 1,278           | 170             |
| Lease cancellation                          | (23,797)        | (3,160)         | -               | -               | (1,847)           | (245)           | -               | -               | (111,523)              | (14,807)        | (137,167)       | (18,212)        |
| Lease expiry                                | -               | -               | -               | -               | (1,029)           | (137)           | (39)            | (5)             | (7,974)                | (1,059)         | (9,042)         | (1,201)         |
| Fx differences                              | -               | (64)            | -               | (17)            | -                 | (5)             | -               | -               | -                      | (81)            | -               | (167)           |
| <b>Balance at 31 December 2022</b>          | <b>245,107</b>  | <b>32,531</b>   | <b>71,027</b>   | <b>9,427</b>    | <b>21,034</b>     | <b>2,792</b>    | <b>113</b>      | <b>15</b>       | <b>185,322</b>         | <b>24,596</b>   | <b>522,603</b>  | <b>69,361</b>   |
| <b>NET BOOK VALUE</b>                       |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 31 December 2022                 | 248,759         | 33,016          | 26,660          | 3,538           | 13,781            | 1,828           | 133             | 18              | 20,074                 | 2,665           | 309,407         | 41,065          |
| Balance at 1 January 2022                   | 322,195         | 42,861          | 19,549          | 2,601           | 19,519            | 2,597           | 25              | 4               | 39,271                 | 5,223           | 400,559         | 53,286          |

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

For the year ended 31 December 2022

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

##### Croatia Airlines Group

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

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

For the year ended 31 December 2022

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

Croatia Airlines d.d.

| 2022                                        | Aircrafts       |                 | Engines         |                 | Business premises |                 | Vehicles        |                 | Leasehold improvements |                 | Total           |                 |
|---------------------------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|------------------------|-----------------|-----------------|-----------------|
|                                             | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand   | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| <b>COST OR VALUATION</b>                    |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 1 January 2022                   | 525,098         | 69,853          | 72,486          | 9,643           | 36,059            | 4,797           | 118             | 16              | 315,090                | 41,915          | 948,851         | 126,224         |
| Additions                                   | -               | -               | -               | -               | 2,123             | 282             | 168             | 22              | -                      | -               | 2,291           | 304             |
| Investments in leasehold improvements       | -               | -               | -               | -               | -                 | -               | -               | -               | 10,741                 | 1,426           | 10,741          | 1,426           |
| Lease modifications                         | (6,181)         | (821)           | 25,201          | 3,346           | 926               | 123             | -               | -               | -                      | -               | 19,946          | 2,648           |
| Transfer from property, plant and equipment | -               | -               | -               | -               | -                 | -               | -               | -               | 3,590                  | 477             | 3,590           | 477             |
| Lease cancellation                          | (25,051)        | (3,326)         | -               | -               | (4,323)           | (574)           | -               | -               | (116,051)              | (15,408)        | (145,425)       | (19,308)        |
| Lease expiry                                | -               | -               | -               | -               | (1,029)           | (137)           | (39)            | (5)             | (7,974)                | (1,059)         | (9,042)         | (1,201)         |
| Fx differences                              | -               | (159)           | -               | (24)            | -                 | (11)            | -               | -               | -                      | (90)            | -               | (284)           |
| <b>Balance at 31 December 2022</b>          | <b>493,866</b>  | <b>65,547</b>   | <b>97,687</b>   | <b>12,965</b>   | <b>33,756</b>     | <b>4,480</b>    | <b>247</b>      | <b>33</b>       | <b>205,396</b>         | <b>27,261</b>   | <b>830,952</b>  | <b>110,286</b>  |
| <b>ACCUMULATED DEPRECIATION</b>             |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 1 January 2022                   | 202,903         | 26,992          | 52,937          | 7,042           | 17,180            | 2,285           | 92              | 12              | 275,820                | 36,692          | 548,932         | 73,023          |
| Charge for the year                         | 66,001          | 8,763           | 18,090          | 2,402           | 5,784             | 767             | 60              | 7               | 27,722                 | 3,681           | 117,657         | 15,620          |
| One-off rebates                             | -               | -               | -               | -               | 279               | 37              | -               | -               | -                      | -               | 279             | 37              |
| Transfer from property, plant and equipment | -               | -               | -               | -               | -                 | -               | -               | -               | 1,278                  | 170             | 1,278           | 170             |
| Lease cancellation                          | (23,797)        | (3,160)         | -               | -               | (1,847)           | (245)           | -               | -               | (111,523)              | (14,807)        | (137,167)       | (18,212)        |
| Lease expiry                                | -               | -               | -               | -               | (1,029)           | (137)           | (39)            | (5)             | (7,974)                | (1,059)         | (9,042)         | (1,201)         |
| Fx differences                              | -               | (64)            | -               | (17)            | -                 | (4)             | -               | 1               | -                      | (80)            | -               | (164)           |
| <b>Balance at 31 December 2022</b>          | <b>245,107</b>  | <b>32,531</b>   | <b>71,027</b>   | <b>9,427</b>    | <b>20,367</b>     | <b>2,703</b>    | <b>113</b>      | <b>15</b>       | <b>185,323</b>         | <b>24,597</b>   | <b>521,937</b>  | <b>69,273</b>   |
| <b>NET BOOK VALUE</b>                       |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 31 December 2022                 | 248,759         | 33,016          | 26,660          | 3,538           | 13,389            | 1,777           | 134             | 18              | 20,073                 | 2,664           | 309,015         | 41,013          |
| Balance at 1 January 2022                   | 322,195         | 42,861          | 19,549          | 2,601           | 18,879            | 2,512           | 26              | 4               | 39,270                 | 5,223           | 399,919         | 53,201          |



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

For the year ended 31 December 2022

### 31. LEASES (CONTINUED)

#### Right of use assets (continued)

Croatia Airlines d.d.

| 2021                                        | Aircrafts       |                 | Engines         |                 | Business premises |                 | Vehicles        |                 | Leasehold improvements |                 | Total           |                 |
|---------------------------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|------------------------|-----------------|-----------------|-----------------|
|                                             | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand   | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand | EUR<br>thousand |
| <b>COST OR VALUATION</b>                    |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 1 January 2021                   | 452,847         | 60,084          | 72,486          | 9,617           | 25,488            | 3,382           | 118             | 16              | 311,162                | 41,285          | 862,101         | 114,384         |
| Additions                                   | 73,142          | 9,721           | -               | -               | -                 | -               | -               | -               | -                      | -               | 73,142          | 9,721           |
| Investments in leasehold improvements       | -               | -               | -               | -               | -                 | -               | -               | -               | 2,423                  | 322             | 2,423           | 322             |
| Lease modifications                         | (891)           | (118)           | -               | -               | 10,571            | 1,405           | -               | -               | -                      | -               | 9,680           | 1,287           |
| Transfer from property, plant and equipment | -               | -               | -               | -               | -                 | -               | -               | -               | 1,505                  | 200             | 1,505           | 200             |
| Fx differences                              | -               | 166             | -               | 26              | -                 | 10              | -               | -               | -                      | 108             | -               | 310             |
| <b>Balance at 31 December 2021</b>          | <b>525,098</b>  | <b>69,853</b>   | <b>72,486</b>   | <b>9,643</b>    | <b>36,059</b>     | <b>4,797</b>    | <b>118</b>      | <b>16</b>       | <b>315,090</b>         | <b>41,915</b>   | <b>948,851</b>  | <b>126,224</b>  |
| <b>ACCUMULATED DEPRECIATION</b>             |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 1 January 2021                   | 134,555         | 17,853          | 35,821          | 4,753           | 10,778            | 1,430           | 55              | 7               | 207,793                | 27,570          | 389,002         | 51,613          |
| Charge for the year                         | 68,348          | 9,084           | 17,116          | 2,275           | 5,608             | 745             | 37              | 5               | 67,426                 | 8,961           | 158,535         | 21,070          |
| One-off rebates                             | -               | -               | -               | -               | 794               | 106             | -               | -               | -                      | -               | 794             | 106             |
| Transfer from property, plant and equipment | -               | -               | -               | -               | -                 | -               | -               | -               | 601                    | 80              | 601             | 80              |
| Fx differences                              | -               | 55              | -               | 14              | -                 | 4               | -               | -               | -                      | 81              | -               | 154             |
| <b>Balance at 31 December 2021</b>          | <b>202,903</b>  | <b>26,992</b>   | <b>52,937</b>   | <b>7,042</b>    | <b>17,180</b>     | <b>2,285</b>    | <b>92</b>       | <b>12</b>       | <b>275,820</b>         | <b>36,692</b>   | <b>548,932</b>  | <b>73,023</b>   |
| <b>NET BOOK VALUE</b>                       |                 |                 |                 |                 |                   |                 |                 |                 |                        |                 |                 |                 |
| Balance at 31 December 2021                 | 322,195         | 42,861          | 19,549          | 2,601           | 18,879            | 2,512           | 26              | 4               | 39,270                 | 5,223           | 399,919         | 53,201          |
| Balance at 1 January 2021                   | 318,292         | 42,231          | 36,665          | 4,864           | 14,710            | 1,952           | 63              | 9               | 103,369                | 13,715          | 473,099         | 62,771          |

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

For the year ended 31 December 2022

### 31. LEASES (CONTINUED)

#### Lease liabilities

|                               | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|-------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                               | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                               | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Non-current lease liabilities | 218,439                | 28,992          | 286,587                | 38,124          | 218,249               | 28,967          | 286,172               | 38,069          |
| Current lease liabilities     | 85,289                 | 11,320          | 83,350                 | 11,088          | 85,064                | 11,290          | 83,097                | 11,054          |
|                               | <u>303,728</u>         | <u>40,312</u>   | <u>369,937</u>         | <u>49,212</u>   | <u>303,313</u>        | <u>40,257</u>   | <u>369,269</u>        | <u>49,123</u>   |

The repayment schedule for lease liabilities is as follows:

|            | 2022.                  |                 | 2022.                 |                 |
|------------|------------------------|-----------------|-----------------------|-----------------|
|            | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 |
|            | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| 2023       | 97,948                 | 13,000          | 97,716                | 12,969          |
| 2024       | 87,347                 | 11,593          | 87,155                | 11,567          |
| 2025       | 62,368                 | 8,278           | 62,368                | 8,278           |
| After 2025 | 86,004                 | 11,415          | 86,004                | 11,415          |
|            | <u>333,667</u>         | <u>44,286</u>   | <u>333,243</u>        | <u>44,229</u>   |

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

|                                                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 |
|-------------------------------------------------|------------------------|-----------------|-----------------------|-----------------|
|                                                 | 2022                   |                 | 2022                  |                 |
|                                                 | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| <b>Balance as at 1 January 2022</b>             | <b>369,937</b>         | <b>49,212</b>   | <b>369,269</b>        | <b>49,123</b>   |
| <b>Changes from non-cash transactions</b>       |                        |                 |                       |                 |
| Recognised during the year                      | 2,291                  | 304             | 2,291                 | 304             |
| Lease modification                              | 19,946                 | 2,648           | 19,946                | 2,648           |
| Lease cancelation                               | (2,531)                | (336)           | (2,531)               | (336)           |
| One-off rebates                                 | (279)                  | (37)            | (279)                 | (37)            |
| Interest                                        | 13,452                 | 1,786           | 13,438                | 1,784           |
| Foreign exchange differences                    | 1,990                  | 264             | 1,990                 | 264             |
| Effect of FX recalculation                      | -                      | (109)           | -                     | (108)           |
| <b>Total changes from non-cash transactions</b> | <b>34,869</b>          | <b>4,520</b>    | <b>34,855</b>         | <b>4,519</b>    |
| <b>Changes from cash flows</b>                  |                        |                 |                       |                 |
| Interest paid                                   | (13,452)               | (1,786)         | (13,438)              | (1,784)         |
| Principal paid                                  | (87,626)               | (11,634)        | (87,373)              | (11,601)        |
| <b>Total changes from cash flows</b>            | <b>(101,078)</b>       | <b>(13,420)</b> | <b>(100,811)</b>      | <b>(13,385)</b> |
| <b>Balance as at 31 December 2022</b>           | <b>303,728</b>         | <b>40,312</b>   | <b>303,313</b>        | <b>40,257</b>   |

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

For the year ended 31 December 2022

### 31. LEASES (CONTINUED)

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

### 32. CURRENT LOANS

During 2022 and 2021 there were no current loans.

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

|                                                | Non-current loans |                 | Current loans   |                 | Total Loans     |                 |
|------------------------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                                | HRK<br>thousand   | HRK<br>thousand | HRK<br>thousand | HRK<br>thousand | HRK<br>thousand | HRK<br>thousand |
| <b>Balance as at 1 January 2022</b>            | <b>545,374</b>    | <b>72,550</b>   | -               | -               | <b>545,374</b>  | <b>72,550</b>   |
| <b>Changes from financing cash flows</b>       |                   |                 |                 |                 |                 |                 |
| Proceeds from loans and borrowings             | 94,000            | 12,481          | -               | -               | 94,000          | 12,481          |
| Repayment of loans and borrowings              | (12,813)          | (1,701)         | -               | -               | (12,813)        | (1,701)         |
| <b>Total changes from financing cash flows</b> | <b>81,187</b>     | <b>10,780</b>   | -               | -               | <b>81,187</b>   | <b>10,780</b>   |
| <b>Other changes</b>                           |                   |                 |                 |                 |                 |                 |
| Interest liability                             | 5,073             | 674             | -               | -               | 5,073           | 674             |
| Foreign exchange differences                   | 85                | 11              | -               | -               | 85              | 11              |
| Effect of FX recalculation                     | -                 | (172)           | -               | -               | -               | (172)           |
| <b>Total other changes</b>                     | <b>5,158</b>      | <b>513</b>      | -               | -               | <b>5,158</b>    | <b>513</b>      |
| <b>Balance as at 31 December 2022</b>          | <b>631,719</b>    | <b>83,843</b>   | -               | -               | <b>631,719</b>  | <b>83,843</b>   |

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

For the year ended 31 December 2022

### 32. CURRENT LOANS (CONTINUED)

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

### 33. TRADE PAYABLES

|                         | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|-------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                         | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                         | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Domestic trade payables | 43,642                 | 5,792           | 40,907                 | 5,441           | 41,669                | 5,530           | 40,129                | 5,338           |
| Foreign trade payables  | 53,103                 | 7,048           | 42,214                 | 5,616           | 52,900                | 7,021           | 41,965                | 5,583           |
|                         | <u>96,745</u>          | <u>12,840</u>   | <u>83,121</u>          | <u>11,057</u>   | <u>94,569</u>         | <u>12,551</u>   | <u>82,094</u>         | <u>10,921</u>   |

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

For the year ended 31 December 2022

### 34. OTHER CURRENT LIABILITIES

|                                | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|--------------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                                | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                                | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Air traffic liabilities        | 169,833                | 22,541          | 155,122                | 20,636          | 169,833               | 22,541          | 155,122               | 20,636          |
| Deposits and advances received | 10,723                 | 1,423           | 10,625                 | 1,413           | 10,701                | 1,420           | 10,906                | 1,451           |
| Liabilities for salaries       | 19,566                 | 2,597           | 17,096                 | 2,274           | 19,144                | 2,541           | 16,625                | 2,212           |
| Other current liabilities      | 4,419                  | 586             | 1,013                  | 135             | 3,414                 | 453             | 461                   | 60              |
|                                | <b>204,541</b>         | <b>27,147</b>   | <b>183,856</b>         | <b>24,458</b>   | <b>203,092</b>        | <b>26,955</b>   | <b>183,114</b>        | <b>24,359</b>   |

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

With the beginning of the pandemic and increased requests for refunds of purchased tickets, and in order to preserve liquidity, The Company initiated a process of issuing travel vouchers to ticket buyers on flights that were not performed due to the COVID-19 pandemic, thus keeping the total amount paid for unused tickets in the Company and creating an obligation for future travel. The liability for vouchers is reduced by issuing air transport documents in exchange for a voucher or a refund of the amount paid. As of 31 December, this liability amounted to HRK 40,149 thousand, EUR 5,329 thousand (2021: HRK 51,964 thousand, EUR 6,913 thousand).

### 35. ACCRUED EXPENSES AND DEFERRED INCOME

|                            | 2022                   |                 | 2021                   |                 | 2022                  |                 | 2021                  |                 |
|----------------------------|------------------------|-----------------|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|                            | Croatia Airlines Group |                 | Croatia Airlines Group |                 | Croatia Airlines d.d. |                 | Croatia Airlines d.d. |                 |
|                            | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand        | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand | HRK<br>thousand       | EUR<br>thousand |
| Deferred income            | 15                     | 2               | 248                    | 33              | 15                    | 2               | 248                   | 33              |
| Accrual for unused holiday | 2,464                  | 327             | 1,486                  | 198             | 2,464                 | 327             | 1,486                 | 198             |
| Accrued expenses           | 64,226                 | 8,524           | 31,509                 | 4,191           | 63,596                | 8,441           | 30,250                | 4,024           |
|                            | <b>66,705</b>          | <b>8,853</b>    | <b>33,243</b>          | <b>4,422</b>    | <b>66,075</b>         | <b>8,770</b>    | <b>31,984</b>         | <b>4,255</b>    |

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

For the year ended 31 December 2022

### 36. EMPLOYEES

Number of employees as of 31 December is as follows:

|                              | 2022       | 2021       |
|------------------------------|------------|------------|
| <b>Croatia Airlines d.d.</b> |            |            |
| Pilots and co-pilots         | 119        | 118        |
| Cabin attendants             | 164        | 151        |
| Maintenance and overhaul     | 253        | 254        |
| Ticket sales and promotion   | 137        | 136        |
| Airport handling             | 92         | 93         |
| Other staff                  | 145        | 168        |
|                              | <u>910</u> | <u>920</u> |
| <b>Subsidiaries</b>          |            |            |
| Obzor putovanja d.o.o.       | 21         | 18         |
| Amadeus Croatia d.d.         | 7          | 7          |
| <b>Total</b>                 | <u>938</u> | <u>945</u> |

### 37. CAPITAL COMMITMENTS

The commitments are planned by the Business Plan 2023-2026, which is based on Post-Covid strategy initiatives, and as of 31.12.2022. include contracted obligations for the acquisition of a new fleet (advance payments – PDP and obligations on the basis of lease) on the basis of contracts concluded with Airbus and Air Lease Corporation Clover, and the amounts as follows:

|                            | 2022<br>HRK<br>thousand | 2022<br>EUR<br>thousand | 2021<br>HRK<br>thousand | 2021<br>EUR<br>thousand |
|----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Less than one year         | 71,908                  | 9,547                   | -                       | -                       |
| Between one and five years | 733,062                 | 97,331                  | -                       | -                       |
| More than five years       | 1,210,766               | 160,758                 | -                       | -                       |
|                            | <u>2,015,736</u>        | <u>267,636</u>          | <u>-</u>                | <u>-</u>                |

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

For the year ended 31 December 2022

### 38. RELATED PARTY TRANSACTIONS

#### 38.1 TRANSACTIONS WITH SUBSIDIARIES

Transactions with related parties are as follows:

|                                             | 2022<br>HRK<br>thousand | 2022<br>EUR<br>thousand | 2021<br>HRK<br>thousand | 2021<br>EUR<br>thousand |
|---------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Revenue</b>                              |                         |                         |                         |                         |
| Obzor putovanja d.o.o.                      | 188                     | 25                      | 190                     | 25                      |
| Amadeus Croatia d.d.                        | -                       | -                       | 25                      | 3                       |
| <b>Total revenue</b>                        | <b>188</b>              | <b>25</b>               | <b>215</b>              | <b>28</b>               |
| <b>Interest income</b>                      |                         |                         |                         |                         |
| Obzor putovanja d.o.o.                      | -                       | -                       | -                       | -                       |
| Amadeus Croatia d.d.                        | 34                      | 5                       | 50                      | 7                       |
| <b>Total interest income</b>                | <b>34</b>               | <b>5</b>                | <b>50</b>               | <b>7</b>                |
| <b>Expenses</b>                             |                         |                         |                         |                         |
| Obzor putovanja d.o.o.                      | 51                      | 7                       | 16                      | 2                       |
| Amadeus Croatia d.d.                        | -                       | -                       | -                       | -                       |
| <b>Total expenses</b>                       | <b>51</b>               | <b>7</b>                | <b>16</b>               | <b>2</b>                |
| <b>Trade receivables</b>                    |                         |                         |                         |                         |
| Obzor putovanja d.o.o.                      | 34                      | 5                       | 28                      | 4                       |
| Amadeus Croatia d.d.                        | -                       | -                       | -                       | -                       |
| <b>Total trade receivables</b>              | <b>34</b>               | <b>5</b>                | <b>28</b>               | <b>4</b>                |
| <b>Loans receivable</b>                     |                         |                         |                         |                         |
| Obzor putovanja d.o.o.                      | -                       | -                       | -                       | -                       |
| Amadeus Croatia d.d.                        | -                       | -                       | 1,625                   | 216                     |
| <b>Total loans receivable</b>               | <b>-</b>                | <b>-</b>                | <b>1,625</b>            | <b>216</b>              |
| <b>Deposits and advances received</b>       |                         |                         |                         |                         |
| Obzor putovanja d.o.o.                      | -                       | -                       | 288                     | 38                      |
| Amadeus Croatia d.d.                        | -                       | -                       | -                       | -                       |
| <b>Total deposits and advances received</b> | <b>-</b>                | <b>-</b>                | <b>288</b>              | <b>38</b>               |

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

For the year ended 31 December 2022

### 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:

|                                                 | 2022<br>HRK<br>thousand | 2022<br>EUR<br>thousand | 2021<br>HRK<br>thousand | 2021<br>EUR<br>thousand |
|-------------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Revenue</b>                                  |                         |                         |                         |                         |
| Zračna luka Osijek d.o.o., Klisa                | 63                      | 8                       | 31                      | 4                       |
| Zračna luka Pula d.o.o., Pula                   | 514                     | 68                      | 4                       | 1                       |
| Zračna luka Rijeka d.o.o., Omišalj              | 7                       | 1                       | 15                      | 2                       |
| Zračna luka Zadar d.o.o., Zadar                 | 2                       | -                       | -                       | -                       |
| Zračna luka Split d.o.o., Kaštel Štafilić       | 1,300                   | 173                     | 1,096                   | 146                     |
| Zračna luka Dubrovnik d.o.o., Čilipi            | 2,507                   | 333                     | 96                      | 13                      |
| Zrakoplovno-tehnički centar d.d., Velika Gorica | 17                      | 2                       | 8                       | 1                       |
| HP – Hrvatska pošta d.d., Zagreb                | 4,149                   | 551                     | 2,791                   | 371                     |
| INA – Industrija nafte d.d., Zagreb             | 6                       | 1                       | -                       | -                       |
| <b>Total revenue</b>                            | <b>8,565</b>            | <b>1,137</b>            | <b>4,041</b>            | <b>538</b>              |
| <b>Expenses</b>                                 |                         |                         |                         |                         |
| Zračna luka Osijek d.o.o., Klisa                | 423                     | 56                      | 186                     | 25                      |
| Zračna luka Pula d.o.o., Pula                   | 1,489                   | 198                     | 1,082                   | 144                     |
| Zračna luka Rijeka d.o.o., Omišalj              | 36                      | 5                       | 115                     | 15                      |
| Zračna luka Zadar d.o.o., Zadar                 | 2,152                   | 286                     | 1,502                   | 200                     |
| Zračna luka Split d.o.o., Kaštel Štafilić       | 20,024                  | 2,659                   | 13,920                  | 1,850                   |
| Zračna luka Dubrovnik d.o.o., Čilipi            | 12,674                  | 1,683                   | 6,924                   | 920                     |
| Zrakoplovno-tehnički centar d.d., Velika Gorica | 377                     | 50                      | 328                     | 44                      |
| HP – Hrvatska pošta d.d., Zagreb                | 23                      | 3                       | 25                      | 3                       |
| INA – Industrija nafte d.d., Zagreb             | 287,330                 | 38,150                  | 93,146                  | 12,380                  |
| <b>Total expenses</b>                           | <b>324,528</b>          | <b>43,090</b>           | <b>117,228</b>          | <b>15,581</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 2022

### 38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

|                                                 | 2022          | 2022         | 2021          | 2021         |
|-------------------------------------------------|---------------|--------------|---------------|--------------|
|                                                 | HRK           | EUR          | HRK           | EUR          |
|                                                 | thousand      | thousand     | thousand      | thousand     |
| <b>Receivables</b>                              |               |              |               |              |
| Zračna luka Osijek d.o.o., Klisa                | -             | -            | -             | -            |
| Zračna luka Pula d.o.o., Pula                   | 28            | 4            | -             | -            |
| Zračna luka Rijeka d.o.o., Omišalj              | -             | -            | -             | -            |
| Zračna luka Zadar d.o.o., Zadar                 | 3             | -            | -             | -            |
| Zračna luka Split d.o.o., Kaštel Štafilić       | 733           | 97           | -             | -            |
| Zračna luka Dubrovnik d.o.o., Čilipi            | 692           | 92           | 36            | 5            |
| Zrakoplovno-tehnički centar d.d., Velika Gorica | -             | -            | -             | -            |
| HP – Hrvatska pošta d.d., Zagreb                | 475           | 63           | 389           | 52           |
| INA – Industrija nafte d.d., Zagreb             | -             | -            | -             | -            |
| <b>Total receivables</b>                        | <b>1,931</b>  | <b>256</b>   | <b>425</b>    | <b>57</b>    |
| <b>Payables</b>                                 |               |              |               |              |
| Zračna luka Osijek d.o.o., Klisa                | 47            | 6            | 51            | 7            |
| Zračna luka Pula d.o.o., Pula                   | 156           | 21           | 148           | 20           |
| Zračna luka Rijeka d.o.o., Omišalj              | 37            | 5            | -             | -            |
| Zračna luka Zadar d.o.o., Zadar                 | 74            | 10           | 127           | 17           |
| Zračna luka Split d.o.o., Kaštel Štafilić       | 2,783         | 369          | 2,580         | 343          |
| Zračna luka Dubrovnik d.o.o., Čilipi            | -             | -            | 1,000         | 133          |
| Zrakoplovno-tehnički centar d.d., Velika Gorica | 50            | 7            | 15            | 2            |
| HP – Hrvatska pošta d.d., Zagreb                | 2             | -            | 3             | -            |
| INA – Industrija nafte d.d., Zagreb             | 15,648        | 2,077        | 14,199        | 1,889        |
| <b>Total payables</b>                           | <b>18,797</b> | <b>2,495</b> | <b>18,123</b> | <b>2,411</b> |

#### PSO benefit

During the year the Company realized revenue in the amount of HRK 111,331 thousand, EUR 14,782 thousand (2021: HRK 88,876 thousand, EUR 11,812), on the basis of PSO benefit, benefit from the Ministry of the Sea, Transport and Infrastructure for the preservation of region transport connections in domestic air transport. Receivables based on PSO benefits at the reporting date amounts HRK 19,876 thousand, EUR 2,638 thousand and is part of receivables from the State in the Note 22 (2021: HRK 12,345 thousand, EUR 1,642 thousand).

#### Non-current loans

During the year the Company did not use long-term loans from bank owned by Republic of Croatia (2021: the Company did not use long-term loans). Loan liability at the reporting date amounted to HRK 11,113 thousand, EUR 1,475 thousand (2021: HRK 17,477 thousand, EUR 2,325 thousand). Interest expense recognized during the year amounted to HRK 462 thousand, EUR 41 thousand (2021: HRK 556 thousand, EUR 74 thousand).

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

For the year ended 31 December 2022

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### 38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

Based on loan totaling to HRK 250,000 thousand, out of which HRK 150,000 thousand, EUR 19,912 thousand was received in 2020 and HRK 100,000 thousand, EUR 13,488 thousand in 2019 from the Ministry of the Sea, Transport and Infrastructure, the Company has loan liability at the reporting date in the amount of HRK 250,000 thousand, EUR 33,181 thousand (2021: HRK 250,000 thousand, EUR 33,257 thousand).

Based on the loan approved during 2020, the Company received HRK 250,000 thousand, EUR 33,187 thousand from the Ministry of the Sea, Transport and Infrastructure. The loan liability at the reporting date amounted to HRK 250,000 thousand, EUR 33,181 thousand (2021: HRK 250,000 thousand, EUR 33,257 thousand).

Based on the loan approved during 2022, the Company received HRK 94,000 thousand, EUR 12,476 thousand from the Ministry of the Sea, Transport and Infrastructure. The loan liability at the reporting date amounted to HRK 94,000 thousand, EUR 12,476 thousand.

Interest expense recognized during the year amounted to HRK 8,122 thousand, EUR 1,078 thousand (2021: HRK 6,800 thousand, EUR 904 thousand). Liability for the interest presented within long-term loans and borrowings amounts to HRK 15,492 thousand, EUR 2,056 thousand (2021: 10,419 thousand, EUR 1,386 thousand), while the accrued interest expense, disclosed within accrued expenses within Note 35 amounts to HRK 4,889 thousand, EUR 649 thousand (2021: HRK 1,839 thousand, EUR 245 thousand).

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

During the year, the Company as part of other income recognized revenues from state aid for compensation for damage caused by the COVID-19 pandemic, namely aid received for support for the employment support in the amount of HRK 262 thousand, EUR 35 thousand in accordance with the measures of the Government of the Republic of Croatia (2021: aid received for support for the employment support in the amount of HRK 26,304 thousand, EUR 3,496 thousand in accordance with the measures of the Government of the Republic of Croatia and HRK 13,525 thousand, EUR 1,798 thousand on the basis of application of the measure exemption from payment of tax liabilities in proportion to the percentage of revenue decline in the period April – September 2021).

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

For the year ended 31 December 2022

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### 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:

|                       | 2022<br>HRK<br>thousand | 2022<br>EUR<br>thousand | 2021<br>HRK<br>thousand | 2021<br>EUR<br>thousand |
|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Gross salaries        | 5,817                   | 772                     | 4,965                   | 660                     |
| Gross benefit in kind | 114                     | 15                      | 149                     | 20                      |
|                       | <u>5,931</u>            | <u>787</u>              | <u>5,114</u>            | <u>680</u>              |

As at 31 December 2022 the number of Management Board members, directors and other key management personnel was 13 (2021: 13 employees).

Compensation to Supervisory Board members during the year amounted to HRK 166 thousand, EUR 22 thousand (2021: HRK 172 thousand, EUR 23 thousand).

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

For the year ended 31 December 2022

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### 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 2022

### 39. RISK MANAGEMENT (CONTINUED)

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

|                                          | Level 1<br>HRK<br>thousand | Level 2<br>HRK<br>thousand | Level 3<br>HRK<br>thousand | Total<br>HRK<br>thousand |
|------------------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| <b>2022</b>                              |                            |                            |                            |                          |
| <i>Investments in equity instruments</i> |                            |                            |                            |                          |
| Listed entities                          | 1,277                      | -                          | -                          | 1,277                    |
| Unlisted entities                        | -                          | -                          | 189                        | 189                      |
| <b>Total</b>                             | <b>1,277</b>               | <b>-</b>                   | <b>189</b>                 | <b>1,466</b>             |
|                                          | Level 1<br>EUR<br>thousand | Level 2<br>EUR<br>thousand | Level 3<br>EUR<br>thousand | Total<br>EUR<br>thousand |
| <b>2022</b>                              |                            |                            |                            |                          |
| <i>Investments in equity instruments</i> |                            |                            |                            |                          |
| Listed entities                          | 169                        | -                          | -                          | 169                      |
| Unlisted entities                        | -                          | -                          | 25                         | 25                       |
| <b>Total</b>                             | <b>169</b>                 | <b>-</b>                   | <b>25</b>                  | <b>194</b>               |
|                                          | Level 1<br>HRK<br>thousand | Level 2<br>HRK<br>thousand | Level 3<br>HRK<br>thousand | Total<br>HRK<br>thousand |
| <b>2021</b>                              |                            |                            |                            |                          |
| <i>Investments in equity instruments</i> |                            |                            |                            |                          |
| Listed entities                          | 1,130                      | -                          | -                          | 1,130                    |
| Unlisted entities                        | -                          | -                          | 189                        | 189                      |
| <b>Total</b>                             | <b>1,130</b>               | <b>-</b>                   | <b>189</b>                 | <b>1,319</b>             |
|                                          | Level 1<br>EUR<br>thousand | Level 2<br>EUR<br>thousand | Level 3<br>EUR<br>thousand | Total<br>EUR<br>thousand |
| <b>2021</b>                              |                            |                            |                            |                          |
| <i>Investments in equity instruments</i> |                            |                            |                            |                          |
| Listed entities                          | 150                        | -                          | -                          | 150                      |
| Unlisted entities                        | -                          | -                          | 25                         | 25                       |
| <b>Total</b>                             | <b>150</b>                 | <b>-</b>                   | <b>25</b>                  | <b>175</b>               |

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

For the year ended 31 December 2022

### 39. RISK MANAGEMENT (CONTINUED)

#### Risk management

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

Debt to equity ratio at year end was as follows:

|                           | 2022                                      |                 | 2021                                      |                 | 2022                                     |                 | 2021                                     |                 |
|---------------------------|-------------------------------------------|-----------------|-------------------------------------------|-----------------|------------------------------------------|-----------------|------------------------------------------|-----------------|
|                           | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines Group<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand | Croatia Airlines d.d.<br>HRK<br>thousand | EUR<br>thousand |
| Debt                      | 935,447                                   | 124,155         | 915,311                                   | 121,762         | 935,032                                  | 124,100         | 914,643                                  | 121,673         |
| Cash and cash equivalents | (580,321)                                 | (77,022)        | (316,667)                                 | (42,126)        | (574,780)                                | (76,286)        | (311,256)                                | (41,406)        |
| Net debt                  | <u>355,126</u>                            | <u>47,133</u>   | <u>598,644</u>                            | <u>79,636</u>   | <u>360,252</u>                           | <u>47,814</u>   | <u>603,387</u>                           | <u>80,267</u>   |
| Equity                    | <u>92,494</u>                             | <u>12,277</u>   | <u>(69,180)</u>                           | <u>(9,203)</u>  | <u>88,119</u>                            | <u>11,695</u>   | <u>(71,536)</u>                          | <u>(9,517)</u>  |
| Debt to equity            | 384%                                      | 384%            | -                                         | -               | 409%                                     | 409%            | -                                        | -               |

#### Interest rate risk

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

The Group and the Company are exposed to interest rate risk since the majority of long-term debt is variable rate borrowing and the rates are disclosed in Notes 30 and 32. The interest rate on bank deposits is disclosed in Note 17. In case that the interest rate was higher by 0.5%, in relation to current market interest rate, the effect of HRK 4 thousand, EUR 1 thousand would debit income statement (2021: HRK 5 thousand, EUR 1 thousand) and, contrary, in case that the interest rate was lower by 0.5% the effect of HRK 4 thousand, EUR 1 thousand would credit income statement for the period ended 31 December 2022 (2021: HRK 5 thousand, EUR 1 thousand).

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

For the year ended 31 December 2022

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### 39. RISK MANAGEMENT (CONTINUED)

#### Foreign exchange risk

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

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

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

| HRK thousand    | Currency impact EUR |                | Currency impact USD |              |
|-----------------|---------------------|----------------|---------------------|--------------|
|                 | 2022                | 2021           | 2022                | 2021         |
| Profit / (loss) | <u>(640)</u>        | <u>(1,184)</u> | <u>309</u>          | <u>(262)</u> |

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

| HRK thousand    | Currency impact EUR |              | Currency impact USD |            |
|-----------------|---------------------|--------------|---------------------|------------|
|                 | 2022                | 2021         | 2022                | 2021       |
| Profit / (loss) | <u>3,037</u>        | <u>1,697</u> | <u>1,492</u>        | <u>472</u> |

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

For the year ended 31 December 2022

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### 39. RISK MANAGEMENT (CONTINUED)

#### Credit risk

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

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

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

#### Price risk

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

In case that the fuel price was higher by 5% in relation to current market price, the effect of HRK 20,785 thousand, EUR 2,760 thousand would debit profit and loss account and, contrary, in case that the fuel price was lower by 5% the effect of HRK 20,785 thousand, EUR 2,760 thousand would credit profit and loss account for the year 2022 (2021: HRK 6,757 thousand, EUR 898 thousand).

#### Liquidity risk

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



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

For the year ended 31 December 2022

### 39. RISK MANAGEMENT (CONTINUED)

#### 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 2022 and 2021. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

|                                   | 31.12.2022       |                 | Less than 6 months |               | Between 6 months and 1 year |                 | Between 1 year and 2 years |                 | More than 2 years |                 |
|-----------------------------------|------------------|-----------------|--------------------|---------------|-----------------------------|-----------------|----------------------------|-----------------|-------------------|-----------------|
|                                   | HRK              | EUR             | HRK                | EUR           | HRK                         | EUR             | HRK                        | EUR             | HRK               | EUR             |
|                                   | thousand         | thousand        | thousand           | thousand      | thousand                    | thousand        | thousand                   | thousand        | thousand          | thousand        |
| <b>Assets</b>                     |                  |                 |                    |               |                             |                 |                            |                 |                   |                 |
| Non-current deposits              | 69,397           | 9,211           | -                  | -             | -                           | -               | -                          | -               | 69,397            | 9,211           |
| Investments in equity instruments | 1,466            | 195             | -                  | -             | -                           | -               | -                          | -               | 1,466             | 195             |
| Non-current receivables           | 37               | 5               | -                  | -             | -                           | -               | 37                         | 5               | -                 | -               |
| Trade receivables                 | 85,592           | 11,360          | 85,592             | 11,360        | -                           | -               | -                          | -               | -                 | -               |
| Other receivables                 | 49,997           | 6,636           | 49,997             | 6,636         | -                           | -               | -                          | -               | -                 | -               |
| Current deposits                  | 14,956           | 1,985           | 746                | 99            | 14,210                      | 1,886           | -                          | -               | -                 | -               |
| Cash and cash equivalents         | 574,780          | 76,286          | 574,780            | 76,286        | -                           | -               | -                          | -               | -                 | -               |
| <b>Total assets</b>               | <b>796,225</b>   | <b>105,678</b>  | <b>711,115</b>     | <b>94,381</b> | <b>14,210</b>               | <b>1,886</b>    | <b>37</b>                  | <b>5</b>        | <b>70,863</b>     | <b>9,406</b>    |
| <b>Liabilities</b>                |                  |                 |                    |               |                             |                 |                            |                 |                   |                 |
| Non-current loans and borrowings  | 631,719          | 83,843          | 22,227             | 2,950         | -                           | -               | -                          | -               | 609,492           | 80,893          |
| Interest on loans and borrowings  | 33,681           | 4,470           | 265                | 35            | -                           | -               | -                          | -               | 33,416            | 4,435           |
| Lease liabilities                 | 333,243          | 44,229          | 48,287             | 6,409         | 49,429                      | 6,561           | 87,155                     | 11,567          | 148,372           | 19,692          |
| Trade payables                    | 94,569           | 12,551          | 94,569             | 12,551        | -                           | -               | -                          | -               | -                 | -               |
| Other payables                    | 179,752          | 23,858          | 134,714            | 17,880        | 40,149                      | 5,329           | -                          | -               | 4,889             | 649             |
| <b>Total liabilities</b>          | <b>1,272,964</b> | <b>168,951</b>  | <b>300,062</b>     | <b>39,825</b> | <b>89,578</b>               | <b>11,890</b>   | <b>87,155</b>              | <b>11,567</b>   | <b>796,169</b>    | <b>105,669</b>  |
| <b>Difference</b>                 | <b>(476,739)</b> | <b>(63,273)</b> | <b>411,053</b>     | <b>54,556</b> | <b>(75,368)</b>             | <b>(10,004)</b> | <b>(87,118)</b>            | <b>(11,562)</b> | <b>(725,306)</b>  | <b>(96,263)</b> |

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

For the year ended 31 December 2022

### 39. RISK MANAGEMENT (CONTINUED)

#### 39.1 Liquidity risk tables (continued)

| 31.12.2021                        | Total            |                 | Less than 6 months |                 | Between 6 months and 1 year |                 | Between 1 year and 2 years |                 | More than 2 years |                 |
|-----------------------------------|------------------|-----------------|--------------------|-----------------|-----------------------------|-----------------|----------------------------|-----------------|-------------------|-----------------|
|                                   | HRK<br>thousand  | EUR<br>thousand | HRK<br>thousand    | EUR<br>thousand | HRK<br>thousand             | EUR<br>thousand | HRK<br>thousand            | EUR<br>thousand | HRK<br>thousand   | EUR<br>thousand |
| <b>Assets</b>                     |                  |                 |                    |                 |                             |                 |                            |                 |                   |                 |
| Non-current deposits              | 52,062           | 6,926           | -                  | -               | -                           | -               | -                          | -               | 52,062            | 6,926           |
| Investments in equity instruments | 1,319            | 175             | -                  | -               | -                           | -               | -                          | -               | 1,319             | 175             |
| Non-current receivables           | 1,144            | 152             | -                  | -               | -                           | -               | 873                        | 116             | 271               | 36              |
| Trade receivables                 | 48,465           | 6,447           | 48,465             | 6,447           | -                           | -               | -                          | -               | -                 | -               |
| Other receivables                 | 28,882           | 3,842           | 28,882             | 3,842           | -                           | -               | -                          | -               | -                 | -               |
| Current deposits                  | 62,617           | 8,330           | 1,341              | 178             | 61,276                      | 8,152           | -                          | -               | -                 | -               |
| Cash and cash equivalents         | 311,256          | 41,406          | 311,256            | 41,406          | -                           | -               | -                          | -               | -                 | -               |
| <b>Total assets</b>               | <b>505,745</b>   | <b>67,278</b>   | <b>389,944</b>     | <b>51,873</b>   | <b>61,276</b>               | <b>8,152</b>    | <b>873</b>                 | <b>116</b>      | <b>53,652</b>     | <b>7,137</b>    |
| <b>Liabilities</b>                |                  |                 |                    |                 |                             |                 |                            |                 |                   |                 |
| Non-current loans and borrowings  | 545,374          | 72,550          | 4,510              | 600             | 8,269                       | 1,100           | 22,176                     | 2,950           | 510,419           | 67,900          |
| Interest on loans and borrowings  | 33,294           | 4,430           | 425                | 57              | 350                         | 47              | 264                        | 35              | 32,255            | 4,291           |
| Lease liabilities                 | 409,481          | 54,474          | 47,914             | 6,374           | 49,196                      | 6,545           | 93,143                     | 12,391          | 219,228           | 29,164          |
| Trade payables                    | 82,094           | 10,921          | 82,094             | 10,921          | -                           | -               | -                          | -               | -                 | -               |
| Other payables                    | 130,347          | 17,340          | 76,544             | 10,182          | 51,964                      | 6,913           | -                          | -               | 1,839             | 245             |
| <b>Total liabilities</b>          | <b>1,200,590</b> | <b>159,715</b>  | <b>211,487</b>     | <b>28,134</b>   | <b>109,779</b>              | <b>14,605</b>   | <b>115,583</b>             | <b>15,376</b>   | <b>763,741</b>    | <b>101,600</b>  |
| <b>Difference</b>                 | <b>(694,845)</b> | <b>(92,437)</b> | <b>178,457</b>     | <b>23,739</b>   | <b>(48,503)</b>             | <b>(6,453)</b>  | <b>(114,710)</b>           | <b>(15,260)</b> | <b>(710,089)</b>  | <b>(94,463)</b> |

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

For the year ended 31 December 2022

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### 40. AUDITOR FEES

The agreed audit fee of separate and consolidated financial statements of the Company and Group Croatia Airlines for the year 2022 amounts to HRK 198 thousand plus the amount of value added tax (2021: HRK 196 thousand plus value added tax).

The auditor also provided a service of preparing a transfer pricing study, and the fee for the service amounted to HRK 13 thousand increased for value added tax (2021: HRK 10 thousand plus value added tax).

### 41. EVENTS AFTER THE REPORTING DATE

Activities related to the acquisition and preparation of the introduction of new A220 Aircrafts in the Croatia Airlines fleet from 2024. continued intensively, in accordance defined strategic initiatives of "Post Covid strategy of Croatia Airlines".

The service network in the first quarter of 2023 included 13 international and seven domestic destinations. The beginning of 2023 for the Company is better than expected, and the demand for air transport services continues to grow. In the first in the quarter of 2023, the Company achieved a flight of 6,711 block hours, and 5,112 flights were realised, which represents growth of 23 percent in number of flights and 19 percent in block hours compared to the same period in 2022. Total number transported passengers amounted to 303,347, which is 51 percent more compared to the first quarter of 2022, but still 12 percent less from the 345,800 passengers realized in the same period of 2019. The realized passenger kilometers are higher by 43 percent, with passenger load factor (PLF) of 61.3 percent, which is 9.9 percentage points higher than in the first quarter of 2022. The number of passengers in domestic regular traffic increased by 39 percent, and in international regular traffic by 56 percent compared to the first quarter of 2022.

During the summer season of 2023, the Company plans to directly connect Croatia with 22 international destinations, i.e. 23 European airports, while the Company's aircraft will fly on 47 international routes. In total, more than 17,000 flights, and more than 1,820,000 seats will be offered. In the summer flight schedule, the Company will further expand the network international destinations, by introducing new international lines from Split to Oslo and Skopje, from Dubrovnik to Prague and from Bol on the island of Brač for Munich.

Through the network of direct international flights as part of the summer flight schedule for 2023, and as a strategically important part of the Croatian transport and tourist infrastructure, the Company's intention is to provide strong support for the development of Croatian tourism and economy and contribute daily to the maintenance of traffic connections to the Croatian economy, citizens and to its passengers.

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

For the year ended 31 December 2022

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### 41. EVENTS AFTER THE REPORTING DATE

The Government of the Republic of Croatia adopted the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia (published in "Official Gazette" No. 85/22). With the aforementioned decision, the euro becomes the official monetary unit and legal currency in the Republic of Croatia on 1 January 2023. The fixed conversion rate is set at HRK 7.53450 for one euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent an adjusting subsequent event.

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

The consolidated and separate financial statements were approved by the Management Board and authorized for issue on 28 April 2023.

Signed for and on behalf of the Company on 28 April 2023:

**Nataša Ikašević-Dautović**



**Director of Finance and Accounting**

**Jasmin Bajić**



**President and CEO**