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**Adria Airways d.d.** | **Annual Report 2013**

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## Letter from the President of the Management Board



2013 was a successful year for global aviation as air carriers recorded an overall 5.4% increase in revenues in the year. Following the difficulties that characterised the previous year, the industry recorded an increase in revenues of 3.8% in 2013, while the number of passengers carried within Europe rose by 2.8%, the capacities increased by 2.8%, and the load factor reached 81%. Air carriers in Europe transported a total of 380 million passengers. Global profitability of airlines rose to USD 12.8 billion, whereby Europe accounted for USD 1.7 billion of the said amount. The chief reasons for such significant growth in revenues, the number of passengers and profitability were the higher growth in GDP, expanded offers of ancillary services and the associated generation of additional revenue, cost cutting on all levels, and finally the favourable price of fuel. The costly and non-flexible obstacles imposed by European regulators (environmental fees, non-uniform airspace control) remain the main challenges plaguing airlines in Europe. There are also such internal factors as high labour costs that are still preventing greater competitiveness of European air carriers in the international arena.

In 2013, Adria Airways was still facing a drop in economic activity on the domestic, Slovenian market and the consequent drop in the value of sales of the entire ticket sale market in Slovenia, whereby the drop was an additional 4% YOY.

In 2013, our sales efforts focused on foreign markets where we recorded growth especially on the Russian, US, Albanian and French markets. We thus compensated for decreasing sales in Slovenia, which nevertheless remained the biggest individual market for us in 2013.

2013 was a year characterised primarily by cost optimisation at Adria Airways. We thus began changing our business model that includes a lower frequency of flights per route using larger aircraft. The basis for such a decision was preliminary research into passenger behaviour, their price elasticity and other parameters that are important for a passenger when selecting an air carrier. Preliminary tests on certain routes also confirmed that the course we had set for ourselves was correct, which allowed us to lower the risk inherent in changing the business model. The result of said measures was the decrease in the number of flights by 5% and consequently the decrease in operating costs by EUR 3.5 million alongside an increase in the number of passengers by 4%. The load factor came in at 73% and was 6% higher YOY.

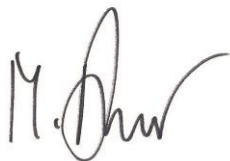
Despite the higher number of passengers carried, operating revenue decreased by 2%, which was primarily due to the lower revenues from charter transport (–16%), while revenues from scheduled transport increased by 0.7%. The trend of falling revenue per passenger is continuing (primarily because of decreasing fuel prices that are used by the competition to lower their prices), which; however, has been taken into account and is being successfully offset by the company by lowering its cost structure.

Operations in 2013 were characterised by isolated events that had a distinctly negative impact on our financial statements. The sale of one CRJ200 aircraft below the carrying amount, provisioning for student work-related and other employment relationship-related lawsuits and compensation upon the termination of the lease for an aircraft engine caused negative financial effects worth more than EUR 3 million and consequently took the company's operations into the red in 2013; and this was despite the fact that the company generated a positive result from operations of EUR 1.2 million, which was EUR 8.6 million higher YOY. The company's EBITDA was positive and came in at EUR 10.4 million, which is 9.5 million more than in 2012, and the company deleveraged by EUR 8.9 million.

In 2013, the company actively responded to the changes in the business environment in the Republic of Slovenia that resulted from the commitments made by the Government of the Republic of Slovenia, whereby operating costs would decrease by more than EUR 2 million per annum merely through the approximation to the average costs in the EU. However, no progress was unfortunately made in this area in 2013 despite the prior commitments of the Republic of Slovenia. In line with the restructuring programme, the company continued the sales of assets not required for operations. We thus completed the sale of one hangar with associated workshops in 2013 as well as the sale of certain holiday capacities.

In the autumn of 2013, the company formulated its most important development document, Vision 2-220-2020, which projects profitable growth in the number of passengers by 2020 of EUR 2 million and growth in revenues of EUR 220 million. The strategy outlines all of the essential elements for ensuring long-term competitiveness of the company.

Through its operating results in 2013 and especially the operating trends, Adria Airways is demonstrating that it is able to operate successfully even in the demanding and competitive business environment such as the one that can presently be seen in Slovenia. This kind of a business environment will also lead to the long-term growth of the company being based on the transformation of the company into a European airline that generates most of its revenues on the markets of the entire EU and the broader environment.



Mark Anžur, President of the Management Board

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# 1. Key Achievements in the Financial Year

## 1.1 Key Achievements in the Financial Year in Figures

Table 1: Data on operations in the 2011–2013 period

| Item                               | Unit     | 2013        | 2012         | 2011         | 2013 / 2012 | 2013 / 2011 |
|------------------------------------|----------|-------------|--------------|--------------|-------------|-------------|
| <b>Revenues and the result</b>     |          |             |              |              |             |             |
| Total revenues                     | in EUR   | 146,700,752 | 150,330,980  | 159,874,902  | -2.4%       | -8.2%       |
| Passenger transport revenues       | in EUR   | 134,969,561 | 138,987,254  | 141,271,319  | -2.9%       | -4.5%       |
| Operating profit                   | in EUR   | 1,147,237   | - 8,101,498  | - 15,264,828 | 706.2%      | < -100%     |
| Net profit or loss                 | in EUR   | - 2,874,102 | - 10,800,947 | - 12,030,937 | 375.8%      | -76.1%      |
| <b>Balance sheet and cash flow</b> |          |             |              |              |             |             |
| Assets                             | in EUR   | 68,702,058  | 80,164,458   | 95,847,781   | -14.3%      | -28.3%      |
| Equity                             | in EUR   | 10,061,904  | 12,487,785   | 22,350,626   | -19.4%      | -55.0%      |
| Equity/assets                      | in %     | 14.6%       | 15.6%        | 23%          | -6.0%       | -37.2%      |
| EBITDA                             | in EUR   | 10,423,923  | 882,606      | - 6,509,647  | 1081.0%     | < -100%     |
| <b>Physical data</b>               |          |             |              |              |             |             |
| Number of passengers carried       |          | 1,026,802   | 988,381      | 1,163,016    | 3.9%        | -11.7%      |
| Load factor – scheduled transport  | in %     | 73.16%      | 68.97%       | 63.05%       | 6.1%        | 16.0%       |
| Number of flights                  |          | 19,509      | 20,873       | 24,480       | -6.5%       | -20.3%      |
| Seat capacity offered              |          | 922         | 1,016        | 1,025        | -9.2%       | -10.0%      |
| Seat kilometres offered            | 000      | 14,783,166  | 15,654,377   | 1,933,378    | -5.6%       | > +100%     |
| Passenger kilometres               | 000      | 10,614,724  | 10,586,874   | 1,219,024    | 0.3%        | > +100%     |
| Average distance                   | in km    | 833         | 824          | 903          | 1.2%        | -7.7%       |
| Fuel consumption                   | in tons  | 43,306      | 45,377       | 53,907       | -4.6%       | -19.7%      |
| Aircraft utilization rate          | in h/day | 7.44        | 7.10         | 8.53         | 4.9%        | -12.7%      |
| <b>Employees</b>                   |          |             |              |              |             |             |
| Employees as at 31 December        |          | 375         | 405          | 450          | -7.4%       | -16.7%      |

Source: Internal data

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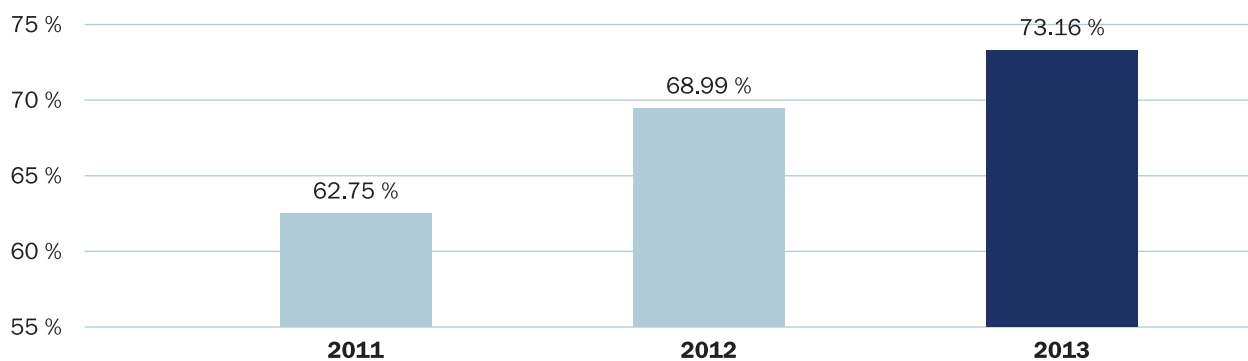
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## Development Indicators for Adria Airways d.d. in the 2011–2013 Period

- The load factor is improving – our assets are better utilised

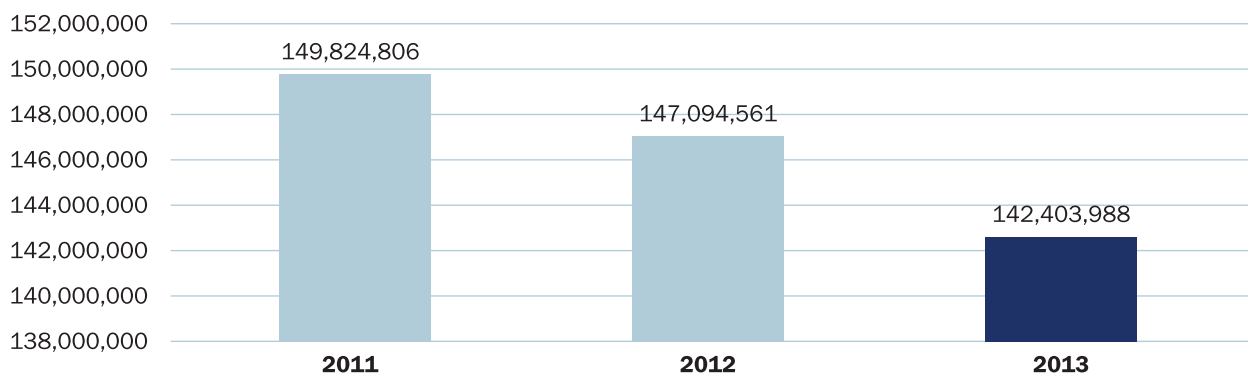
Chart 1: **Load factor on scheduled flights in the 2011–2013 period**



Source: Internal data

- Net sales revenues decreased primarily on account of the smaller scope of chartered flights.

Chart 2: **Net sales revenues in the 2011–2013 period**



Source: Internal data

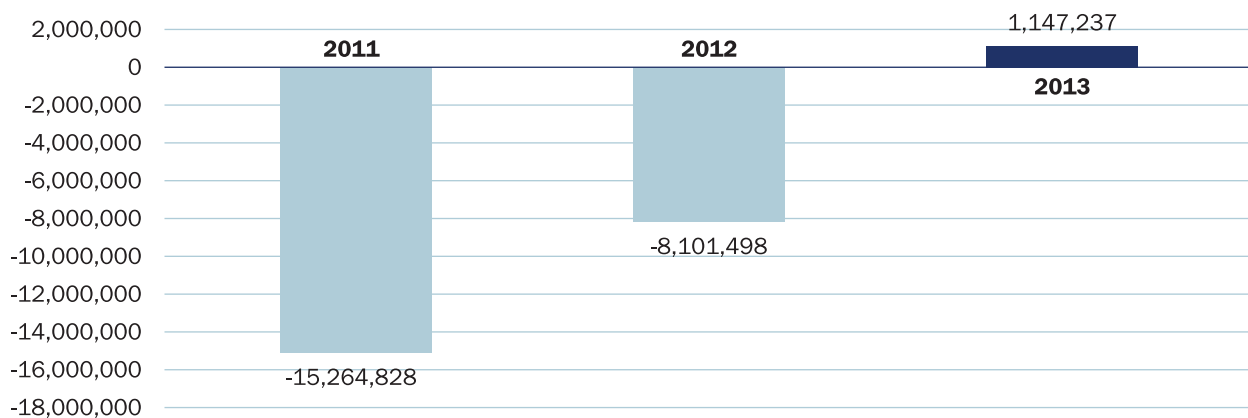
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- After an extended period, the company again generated operating profit.

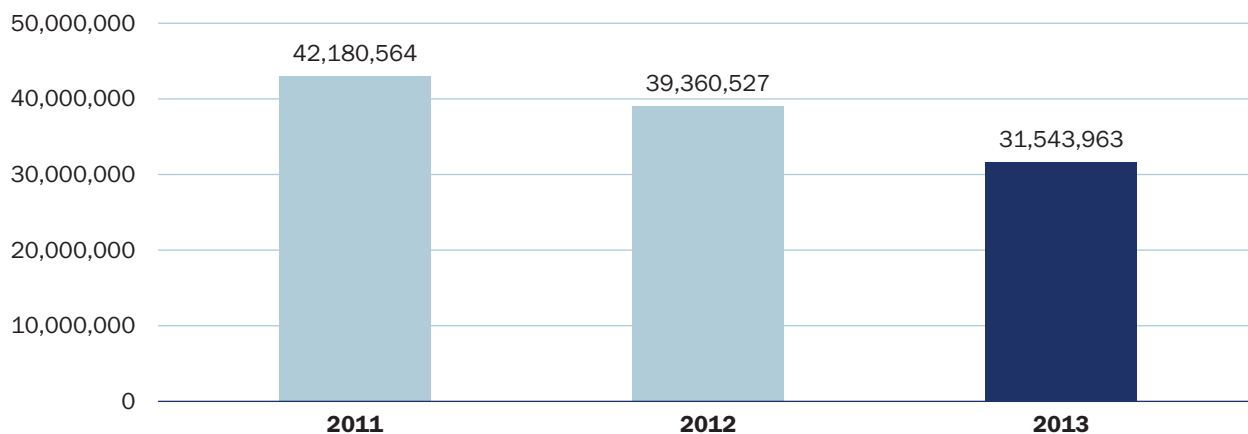
Chart 3: **Operating result in the 2011–2013 period**



Source: Internal data

- Financial liabilities continue to decrease and are thus increasing the financial fitness of the company.

Chart 4: **Amount of financial liabilities owed to banks in the 2011–2013 period**



Source: Internal data

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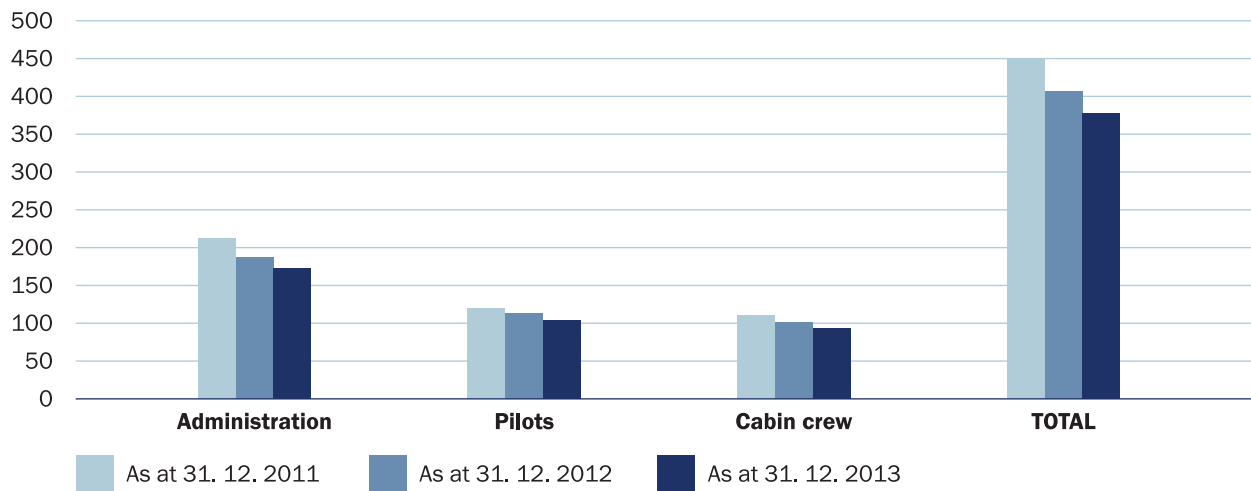
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- The company is optimising its processes and is managing human resources efficiently.

Chart 5: **Number of employees**



Source: Internal data

## 1.2 Important Events In 2013

### Q1

- The FIRST Minute campaign representing a new product of Adria began in January. The advantage of the campaign lies in attracting passengers in advance, which allows us to more easily plan capacities and the acquisition of passengers who are currently choosing to take other airports.
- Finalisation of the sale of the grounded A320-AAA aircraft.
- At the end of March, Adria Airways transitioned to the summer flight schedule that was in effect until 26 October 2013. The company provided for good connections between Slovenia and the world by daily flights from Ljubljana to eighteen destinations across Europe. As part of its summer schedule, Adria Airways made 176 scheduled weekly flights to 18 destinations from Ljubljana and 3 from Pristina.

### Q2

- At its 33<sup>rd</sup> session held on 26 April 2013, the General Meeting was briefed on the Annual Report for the 2012 financial year, the auditor's opinion, the written report of the Supervisory Board on the review of the 2012 Annual Report and the information on the remuneration of the members of Management and Supervisory Boards, and it granted a discharge to the Management and Supervisory Boards for their work in 2012. The General Meeting adopted a resolution on the simplified reduction of share capital for the purpose of covering the loss brought forward by way of merging shares. It appointed Constantia Plus d.o.o., Dunajska cesta 160,

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1000 Ljubljana for the audit of the financial statements for the 2013 financial year. The General Meeting confirmed the policy of remuneration to Management Board members for 2013 and adopted the decision on the determination of remuneration for the discharge of the function and the attendance fee of Supervisory Board members and the members of the committees of the Supervisory Board. It also confirmed the proposals of the Supervisory Board regarding the status change and was briefed on the report of the Management Board on the lawsuits filed based on the special audit.

- At its session held on 13 June 2013, the company's Supervisory Board appointed Mr. Marko Anžur as President of the Management Board and Accountable Manager for a 4-year term of office.

## Q3

- On 22 July 2013, Adria Airways launched its updated website featuring a modern format and richer content. With its fresh and attractive graphic design, the portal is now simpler to use and more user-friendly. The website is distinctly sales-oriented and its transparency allows simplicity of use to our customers and faster access to the desired information.
- In August, following an extended process, the company sold the CRJ200 – AAJ aircraft that had been grounded since March 2013. It thus at least partially implemented the measure involving the sale of assets, which was part of the restructuring programme, while as regards its remaining assets not required for operations, it published an invitation to tender for the sale of assets not required for operations.
- In September, the project entitled Systematic Human Resources Management and Development was begun at Adria Airways. The key purpose of the project is to systematically enhance knowledge and competencies of our managers and key employees with the aim of developing stronger competitiveness of our company in the future.

## Q4

- In November, the company sold hangar 2, associated workshops and apron in line with the financial and operational restructuring plan. It thus implemented the measure for the sale of this part of assets that was envisaged in the restructuring programme.
- In the last quarter, the company generated the best physical figures and, after an extended period, also significantly exceeded last year's and planned physical figures. In Q4 of 2013, i.e. from October to December, Adria Airways performed 5.5% fewer flights and carried 200,199 passengers, which is 17.5% more YOY. The load factor in the mentioned period was 72.2% and was 9.6% higher YOY.

## 1.3 Report of the Supervisory Board

### Composition of the Supervisory Board

Operations of Adria Airways d.d. in the 2013 financial year were overseen by the Supervisory Board in accordance with the regulations and the company's Articles of Association, whereby the Board's composition did not change

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over the course of 2013. The Supervisory Board discharged its duties in the composition of Tone Pekolj (Chairman of the Supervisory Board), Sergej Goriup (Deputy Chairman of the Supervisory Board), Andrej Bošnjak, Tadej Pojbič, Silva Rogelj and Darja Mataj.

## Method and Scope of the Review of the Company's Management

In 2013, the Supervisory Board regularly monitored and supervised the work of the company's Management Board. It was briefed concurrently on the implementation of the business plan for 2013 and on the strategic orientations of the company. In 2013, the Supervisory Board held nine regular and nine correspondence sessions. The correspondence sessions of the Supervisory Board proceeded in accordance with the Rules of Procedure of the Supervisory Board and with the consent of all Supervisory Board members. Over the course of the year, the Supervisory Board considered all necessary contents of operations and performance of the company pursuant to the legislative authorisations and powers conferred on it by the Articles of Association. When contents were considered at Supervisory Board sessions, these were attended by the Chairman of the Supervisory Board and the company's expert associates.

In general, Supervisory Board sessions were attended by all members. The members acted independently in their decision-making within the Supervisory Board and were suitably prepared for the issues considered at individual sessions; they put forth constructive proposals and comments, and adopted decision in line with their powers. They acted in accordance with the rules on the safeguarding of business secrets and the rules on action in case of conflicts of interest. The supervision of the company's operations was performed in line with the authorisations and powers laid down in the Companies Act (ZGD-1) as well as the company's Articles of Association and the Rules of Procedure of the Supervisory Board. In discharging their duties, Supervisory Board members primarily observed the provisions of the Code on the Management of State Holding Companies and the Recommendations of the Manager of Indirect and Direct Capital Investments of the Republic of Slovenia, thus introducing and implementing good supervisory function practices in the company.

Within the scope of its powers, the Supervisory Board carried out its tasks in the following most important areas in the period in question:

- On 14 June 2013, it appointed Marko Anžur as President of the Management Board for a 4-year term of office and as the Accountable Manager of Adria Airways.
- It worked actively in the preparations for the company's General Meeting.
- Pursuant to the resolution adopted at the 33rd session of the General Meeting held on 26 April 2013, the Board amended the company's Articles of Association so that they are now harmonised with the General Meeting's resolution on the simplified reduction of share capital.
- It monitored the company's operations and the realisation of the objectives set for 2013 on an ongoing basis. It devoted special attention to liquidity, solvency, capital adequacy, control of operating expenses, operations of representative offices, measures for the improvement of operations, realisation of the objectives from the programme for the company's financial and operational restructuring, and finally the measures for the change of the business environment. It was briefed on the operations of the subsidiaries of Adria Airways.
- It was regularly briefed on the course of the proceedings of the European Commission versus the Republic of Slovenia involving the review of the potentially illegal state aid to Adria Airways.
- It was briefed on the report on relationships and the key supplier and buyer relationships management.
- It cooperated with the Board of Investors and in communications with the other stakeholders of the company.
- It was regularly briefed on the reports of the Management Board on the status of the fleet and the activities of the Management Board aimed at fleet optimisation.

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- Based on section 7.11 of the company's Articles of Association, it granted consent to the Management Board for the sale of a fixed asset – the CRJ200 aircraft.
- It was briefed regularly on the reports of the Management Board on procedures for the sale of real estate not required for operations in line with the Programme for the Company's Financial and Operational Restructuring.
- Based on section 7.11 of the company's Articles of Association, it granted consent to the Management Board for a sale – sale of real estate not required for operations (apartments and business premises).
- Based on section 7.11 of the company's Articles of Association, it granted consent to the Management Board for the sale of real estate and fixed assets (hangar 2, workshops that are part of hangar 1 and the apron) to the buyer, Aerodrom Ljubljana, d.d.
- It determined the quantitative and qualitative criteria that were confirmed by the company's General Meeting and based on which they will assess the work of the company's Management Board and approve the payout of variable remuneration in the event the criteria are met.
- It cooperated in the arrangement of mutual relationships with the recalled President of the Management Board.
- It established the Accreditation Committee of the Supervisory Board and dissolved it after the it completed its work.
- In accordance with the Articles of Association, it decided on the consent for the voting of the Management Board at general meetings of the subsidiaries of Adria Airways.
- In accordance with the Articles of Association, it decided on the recall and appointment of a new manager at the subsidiary of Adria Airways, Amadeus Slovenija d.o.o.
- It was regularly briefed on the course of the proceedings and, as appropriate, participated in proceedings conducted by regulators.
- It adopted the Instructions to Management Board and Supervisory Board Members On Due Process and Measures In the Event of Established Violations in the Company's Operations.
- It was briefed on the request of the National Assembly and the Commission for Public Finance Control for the communication of data. Representatives of the Supervisory Board attended the meetings of the Commission for Public Finance Control provided their duties allowed this and provided they were invited to attend the said meetings.
- It was regularly briefed on the report of the Supervisory Board's Audit Committee.
- It was briefed on the report of the Supervisory Board's Accreditation Committee.
- It tasked the Internal Audit Service with performing an internal audit of the issue of plane tickets.
- It was briefed on the Strategic Plan for the 2013–2016 Period drafted by the Internal Audit Service and granted its consent to the 2013 Annual Plan drafted by the Internal Audit Service.
- It was regularly briefed on the reports and recommendations of the Internal Audit Service.
- It was briefed on the explanation of deviations from the restructuring plan and the set of measures for the assurance of the fulfilment of the said plan; it also agreed with the calls to the owners/ministries and the Prime Minister of the Republic of Slovenia for the arrangement of the business environment.
- It was briefed on the draft Business Plan for 2014.
- It was briefed on the Operating Strategy of Adria Airways d.d. by 2020.

The work of the Supervisory Board focuses on ensuring comprehensive monitoring and supervision of the company. Supervisory Board members recognise that the performance of supervision of the company that still operates in difficult economic conditions and difficult circumstances is especially demanding and requires Supervisory Board members to possess competences in various fields. The Supervisory Board carried out a self-assessment of the work of the Supervisory Board in 2013 and found that the self-assessment results were positive in 2013 as well, and that they were in line with the expectations as well as that they affect the work of the Supervisory Board beneficially and provide an incentive. They also found that the results have confirmed the suitability of the Su-

pervisory Board's activities. The Supervisory Board is currently composed of experts with suitable competences for the appropriate supervision over the company's operations, which allows them to ensure effective discharge of supervisory duties.

## Report of the Management Board

Communication between the Management Board and the Supervisory Board was appropriate. Within the scope of its powers, the Supervisory Board worked actively with the Management Board throughout.

The Supervisory Board finds that the reports prepared by the Management Board for the purpose of the work of the Supervisory Board and the Supervisory Board's Audit Committee were sufficient and suitable for the quality assessment of information and the fulfilment of the obligations of Supervisory Board members that are prescribed by the law and the Articles of Association. The materials for Supervisory Board sessions were generally received on time by Supervisory Board members, and they had the requested reports, information and data available at the sessions. As appropriate, they also received additional explanations from the Management Board and the invited reporters, which allowed them to responsibly monitor and supervise the company's operations and take decisions.

In its reports, the Management Board disclosed and explained the most important categories affecting especially the assets and liabilities as well as sales and expenses. In doing so, it devoted special attention to liquidity, solvency, capital adequacy, control of operating expenses, measures for the improvement of operations and measures for the change of the business environment. Comparative statements for the previous year were added to the financial statements as were the planned statements for the comparative period. In this way, the Supervisory Board could continuously follow the operating performance trends as compared to the previous period and as compared to the planned operations – it was thus able to discharge the supervisory function appropriately.

## Audit Committee of the Supervisory Board

The Audit Committee of the Supervisory Board of Adria Airways has the following composition: Sergej Goriup (President), Nadja Knez (Vice-President – external member) and Darja Mataj (member).

The Audit Committee of the Supervisory Board met in 4 regular and 1 correspondence session in 2013 and considered matters falling within its area of competence in accordance with the Companies Act, the company's Articles of Association, Rules of Procedure of the Audit Committee of the Supervisory Board, recommendations for the work of audit committees and other acts or regulations defining the work of audit committees.

The most important matters dealt with by the Audit Committee of the Supervisory Board in the period under consideration are:

- assessment of the suitability and soundness of annual reports and other financial and accounting information, including the formulation of the proposal for the Supervisory Board,
- proposals to the Supervisory Board for the appointment of an external auditor of the company's annual report,
- monitoring of the independence of the annual report auditor and cooperation in the drafting of the agreement concluded between the auditor and the company,
- consideration of each annual plan of the Internal Audit Service,
- consideration and acceptance of quarterly reports of the Internal Audit Service,

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- monitoring and review of the company's procedures for the detection of fraud,
- review of reports of the management and the internal auditor relating to the effectiveness of internal controls, financial reporting and risk management.

The Audit Committee of the Supervisory Board provided expert support to the Supervisory Board of Adria Airways in the supervision of the company and enabled it to act with greater reliability and efficiency when realising the company's vision and its strategic objectives.

It informed the Supervisory Board of all of its activities and work regularly and ensured correct cooperation between the Audit Committee of the Supervisory Board and the management, and between the Audit Committee of the Supervisory Board and the internal and external auditors.

### Accreditation Committee of the Supervisory Board

Pursuant to the ZGD-1, section 9.8 of the Articles of Association and Articles 17–19 of the Rules of Procedure of the Supervisory Board of Adria Airways, the Supervisory Board of Adria Airways d.d. appointed the Accreditation Committee of the Supervisory Board on 6 May 2013 in the following composition: Tone Pekolj (President), Tadej Pojbič (Vice-President), Darja Mataj (member) and Andreja Kert (external member).

The members of the Accreditation Committee of the Supervisory Board of Adria Airways signed the Independence Statement, whereby they confirmed their independence and undertook to ensure their own adequate availability in terms of time and diligent performance of their obligations.

The principal aim of the Accreditation Committee of the Supervisory Board was expert support to the Supervisory Board in designing professional criteria and procedures for the selection of candidates for the company's Management Board members. Pursuant to the Rules of Procedure of the Accreditation Committee of the Supervisory Board, the Accreditation Committee of the Supervisory Board was tasked with proposing criteria and procedures for determining the suitability of candidates for Management Board members, for the implementation of accreditation procedures and the consideration of other professional issues in the area of accreditation of the candidates for the position of Management Board members.

The Accreditation Committee of the Supervisory Board held three regular sessions in 2013. It regularly informed the Supervisory Board of its findings and proposals. On 20 August 2013, the Supervisory Board dissolved the Accreditation Committee of the Supervisory Board as its objective of appointing the Management Board had been achieved.

### Components of the Annual Report

The Supervisory Board of the public limited company Adria Airways verified the formal aspects relating to the annual report of the Management Board for 2013; it found that the annual report for the 2013 financial year was prepared clearly and transparently, that it was compiled within the legal deadline and that it contains all of the components prescribed by the Companies Act (ZGD-1).

The annual report comprises: the financial report comprising the balance sheet, P&L, statement of comprehensive income, attachments with notes to all statements, cash flow statement and statement of changes in equity as well as the business report. All components prescribed for the compilation of individual statements and re-

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ports by legislation are comprised in the annual report. Notes to financial statements comprise all information prescribed by the ZGD-1 in points 1 through 22 of the first paragraph of Article 69. The business report also comprises significant business events occurring after the end of the financial year. It further comprises an analysis of material risks and uncertainties, to which the company is exposed, as well as the going concern assumptions. The Supervisory Board assesses the presented business report as representing a fair presentation of the development and operating performance of the company and of its financial position.

Pursuant to the resolution from the 33rd General Meeting held on 26 April 2013, the annual report was submitted for auditing to the chosen auditor, Constantia Plus d.o.o., which compiled the auditor's report on 30 May 2014.

The third paragraph of Article 272 of the Companies Act stipulates that a management board must immediately submit to the supervisory board a compiled annual report including an auditor's report. The Management Board of Adria Airways d.d. did this on 30 May 2014. We thus find that the quoted legislative provision had been observed as was the provision of the fifth paragraph of Article 57 of the ZGD-1, which sets an 8-day period for the submission of an audited annual report.

### Confirmation of the Annual Report and Position On the Auditor's Report

At its session held on 4 June 2014, the Supervisory Board considered the compiled annual report for the 2013 financial years that was submitted by the Management Board and which was audited by the Constantia Plus d.o.o. auditing company. At its session, the Supervisory Board was briefed on the report of the Audit Committee of the Supervisory Board, which reviewed and verified the annual report prior to this at its session on 2 June 2014 in the presence of the certified auditor who provided all of the requested explanations to the Audit Committee of the Supervisory Board. The Supervisory Board finds that the external certified auditor has issued an opinion in their report, i.e. that the financial statements – in all respects – provide a true and fair presentation of the financial position of Adria Airways d.d. as at 31 December 2013 and of its profit and cash flow for the financial year then ended in accordance with the Slovenian Accounting Standards. In their report, the external certified auditor specifically highlighted the “emphasised issues” that highlight the important findings of the certified auditor.

The Supervisory Board had no comments to the certified auditor's report and neither did it have any comments following the completed review of the annual report for the 2013 financial year submitted by the Management Board; the Supervisory Board approved the report at its session held on 4 June 2014.

Based on the review of the annual report for the 2013 financial year, the opinion of the certified auditor and the opinion of the Audit Committee of the Supervisory Board, the Supervisory Board assesses the annual report for the 2013 financial year to present a true and fair view of the assets, liabilities, financial position, P&L and cash flows of Adria Airways d.d.

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## Conclusion

The Supervisory Board finds that the operations of Adria Airways d.d. have improved significantly in 2013 as well. The key indicator of the mentioned improvement is the achieved positive operating result (EBIT) that was positive for the first time since 2008. It was the one-off events disclosed in the annual report that gave rise to the fact that the company did not end 2013 with a net profit.

In the future, the Supervisory Board will in addition to the ongoing tasks devote special attention to monitoring the fulfilment of the set strategic objectives and will provide maximum support to the Management Board as far as its options and competencies allow. In order to establish conditions for the privatisation of the company and its subsequent long-term stabilisation, the Supervisory Board estimates that a change of the business environment has to be achieved in the Republic of Slovenia that will positively affect the development of the aviation industry and allow for improved competitiveness and subsequently faster development.

This report is compiled pursuant to Article 282 of the ZGD-1 and is intended for the General Meeting of Shareholders.



Tone Pekolj, MSc  
Chairman of the Supervisory Board

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## 2. General Information

### 2.1 About the Company



Company name: **Adria Airways Slovenski letalski prevoznik, d.d.**

Short company name: **Adria Airways d.d.**

Registered office: **Zgornji Brnik 130 h, 4210 Brnik - Aerodrom, Slovenia**

Legal form: **PLC**

Telephone: **+386 4 255 9000**

Fax number: **+386 4 259 4572**

Url: **www.adria.si**

No. of employees as at 31 December 2013: **375**

Established: **1961**

Registration ID number: **5156505000**

Tax ID No.: **SI51049406**

Registration number in the register of companies: **200208417**

File number: **061/10135200**

Company's share capital: **EUR 3,542,445.00**

The issue amount of one no-par value share: **EUR 1**

### 2.2 Ownership Structure in 2013

It is evident from the share registered kept by the Central Securities Clearing Corporation that Adria Airways d.d. had 3,542,445 ordinary registered no par value freely transferrable shares with voting rights issued, which were valued at EUR 1.

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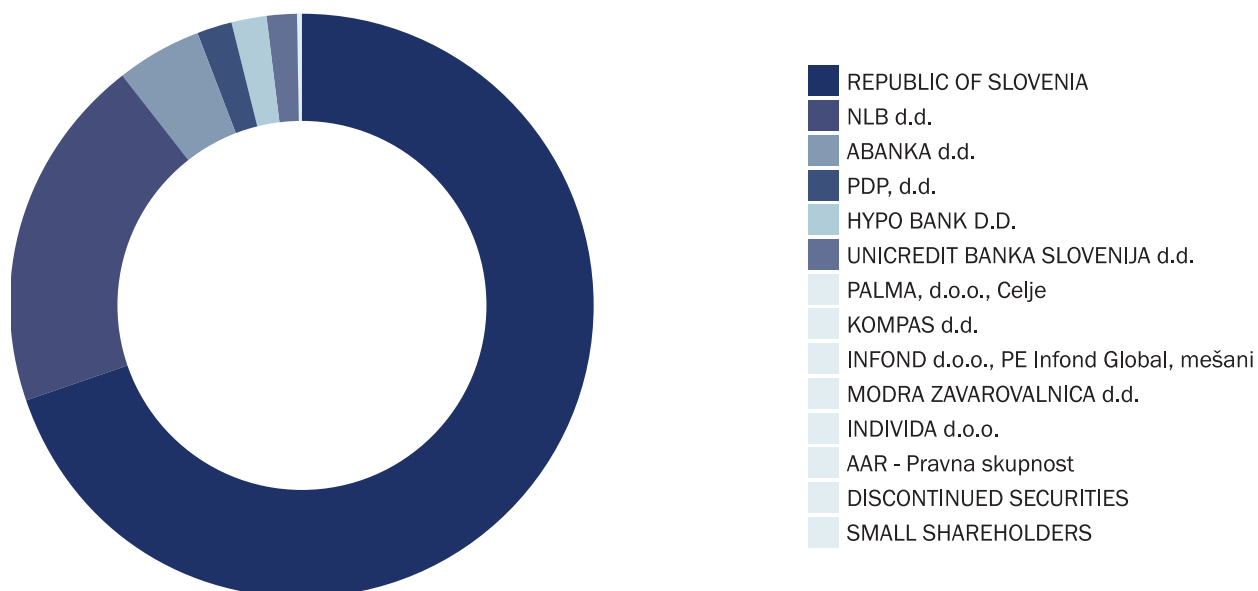
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Table 2: **Ownership structure as at 31 December 2013**

| Ownership structure as at 31 December 2013 in % |        |                |                  |
|-------------------------------------------------|--------|----------------|------------------|
| REPUBLIC OF SLOVENIA                            | S.1311 | 69.87%         | 2,475,000        |
| NLB d.d.                                        | S.122  | 19.63%         | 695,233          |
| ABANKA d.d.                                     | S.122  | 4.74%          | 167,750          |
| PDP, d.d.                                       | S.11   | 2.08%          | 73,510           |
| HYPO BANK D.D.                                  | S.122  | 1.81%          | 64,050           |
| UNICREDIT BANKA SLOVENIJA d.d.                  | S.122  | 1.76%          | 62,447           |
| PALMA, d.o.o., Celje                            | S.11   | 0.03%          | 1,041            |
| KOMPAS d.d.                                     | S.11   | 0.03%          | 1,041            |
| INFOND d.o.o., PE Infond Global, mixed          | S.123  | 0.03%          | 991              |
| MODRA ZAVAROVALNICA d.d.                        | S.125  | 0.00%          | 163              |
| INDIVIDA d.o.o.                                 | S.11   | 0.00%          | 153              |
| AAR - Pravna skupnost                           | S.1311 | 0.01%          | 288              |
| DISCONTINUED SECURITIES                         |        | 0.00%          | 61               |
| SMALL SHAREHOLDERS                              | S.14   | 0.02%          | 717              |
| <b>TOTAL</b>                                    |        | <b>100.00%</b> | <b>3,542,445</b> |

Chart 6: **Ownership structure of Adria Airways as at 31 December 2013**



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## 2.3 Fleet

In the times of crisis of air transport, fleet optimisation is one of the key elements of the adjustment of Adria Airways to competition conditions on the liberalised European air carrier market. Aircraft and aircraft engine manufacturers are updating their technologies at an ever increasing rate so as to maintain competitiveness. Air carriers are facing drops in prices, ever greater restrictions in air traffic, rising costs and ever greater customer demands, which is why fleet composition will continue to be one of the key success factors for airlines.

Owing to the plan for the restructuring of the company and the subsequent reduction in the scope of flying, we sold the grounded airplane A320 (S5-AAA) in January of 2013, and the CRJ200 airplane in August, which is in line with the company's plans for the reduction of the number of aircraft and the gradual replacement of CRJ200 type aircraft that have become uneconomical over the years.

We devoted our efforts in 2013 to the search for suitable flying with Airbus type aircraft during the winter season when our capacities are booked the most as well as to the search for the possibilities of long-term leasing of A319 aircraft. We signed several letters of intent, but did not conclude agreements for various reasons. In the winter season, we managed to lease only the crews for Airbus aircraft and thus better utilise our human resources in the winter season.

Because our A319 aircraft have 135 seats and are, therefore, uncompetitive on the leasing market, we agreed with the owner, AerCap, on boosting the number of seats from 135 to 144, which will be performed in 2014. Both planes will thus be more competitive for regular charter flying and leasing during the low season.

For the purpose of the future plans envisaging the gradual discontinuation of operations involving CRJ200 aircraft, we prepared comparisons of the calculations for all similar aircraft including turboprop aircraft; however, we adopted the decision to switch CRJ200 for CRJ900 aircraft because of our flight schedule.

Instead of CRJ200 aircraft, we are looking for the best provider of 2 CRJ900 airplanes. Talks were underway in 2013, whereby the signing of lease agreements for two CRJ900 aircraft is scheduled in 2014.

Table 3: **Fleet in 2013**

| Number of planes | Aircraft type   | Ownership                                                  | Note                              |
|------------------|-----------------|------------------------------------------------------------|-----------------------------------|
| 1                | Airbus A320     | own plane                                                  | sold in the beginning of 2013     |
| 1                | Airbus A320/180 | leased plane                                               | from April 2011 to October 2014   |
| 2                | Airbus A319     | leased planes                                              | leased from April or May 2014     |
| 6                | Canadair CRJ200 | 5 own planes                                               | one sold in August 2013           |
| 4                | Canadair CRJ900 | 2 own and 2 leased planes<br>(December 2008, January 2009) | 2 leased until 2018, 2 until 2019 |

Source: Internal data

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## Airbus A320

|                 |          |
|-----------------|----------|
| Length          | 37.57 m  |
| Height          | 11.75 m  |
| Wingspan        | 34.1 m   |
| Speed           | 900 km/h |
| Flight altitude | 11,700 m |
| Range           | 3,890 km |
| Seat capacity   | 162      |



## Airbus A319

|                 |          |
|-----------------|----------|
| Length          | 33.84 m  |
| Height          | 7.57 m   |
| Wingspan        | 23.20 m  |
| Speed           | 882 km/h |
| Flight altitude | 12,496 m |
| Range           | 3,600 km |
| Seat capacity   | 135      |



## Canadair Regional Jet CRJ200 LR

|                 |          |
|-----------------|----------|
| Length          | 26.77 m  |
| Height          | 6.22 m   |
| Wingspan        | 21.21 m  |
| Speed           | 860 km/h |
| Flight altitude | 12,496 m |
| Range           | 3,285 km |
| Seat capacity   | 48/50    |



## Canadair Regional Jet CRJ900

|                       |          |
|-----------------------|----------|
| Length                | 36.40 m  |
| Height                | 7.51 m   |
| Wingspan              | 24.90 m  |
| Speed                 | 882 km/h |
| Flight altitude       | 12,496 m |
| Range                 | 3,660 km |
| Seat capacity         | 86       |
| Spacing between seats | 78.74 cm |



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## 2.4 Company's History

- **1961** – Establishment of the charter airline Adria Aviopromet, operating DC6 aircraft, end of the sixties purchase of DC-9 aircraft.
- **1970 – 1980** – Adria is one of the most reliable charter airlines in Europe.
- **1980 – 1990** – Domestic scheduled flights within Yugoslavia, start of international scheduled services. Adria becomes a member of the IATA. Fleet: DC 9, MD 80, Dash 7 aircraft.
- **1989** – Purchase of first Airbus A320 aircraft.
- **1991 (25 June)** – the Republic of Slovenia declares independence; for political reasons Adria is grounded for three months.
- **1992** – At the end of January operations are restarted in a significantly reduced market. The structure of operations is significantly changed from a primarily charter airline to a mainly scheduled service carrier.
- **1995** – Start of cooperation with Lufthansa, inclusion into the European integration processes.
- **1996** – Financial consolidation of the company.
- **1998** – Purchase of three new Canadair Regional Jet 200 aircraft.
- **2000 – 2004** – Focus on operating regional scheduled flights primarily across Europe, continuous addition of new destinations and frequencies on the existing services. Intensive cooperation with European airlines, especially Lufthansa.
- **2000** – Purchase of the fourth CRJ200.
- **2001 (November)** – The first scheduled flight in the EU, from Vienna to Frankfurt.
- **2002** – Adria was selected to be the first European authorized Bombardier maintenance centre for CRJ aircraft.
- **2004 (December)** – Adria joins the global association of airlines, Star Alliance, as a regional member.
- **2005 (January)** – Purchase of the fifth new Canadair Regional Jet 200 aircraft.
- **2005 (June)** – Opening of a new hangar.
- **2006 (November)** – Adria starts introducing e-ticketing.
- **2006 (December)** – Adria carries more than one million passengers for the first time in independent Slovenia.
- **2007 (June)** – A successful introduction of two new 86-seat CRJ900 aircraft into the Adria Airways fleet, which helped to increase and optimize our capacities mainly on the routes to Brussels, Moscow, Paris, London, Skopje, Vienna, Munich and Frankfurt.
- **2007 (September)** – Purchase of a new simulator which enabled the training of pilots for operating multi-engine and multi-crew aircraft.
- **2007 (December)** – We became the official carrier of the Government of the Republic of Slovenia during the EU presidency.
- **2008 (April-June)** – Adria extends its network of flights. Introduction of new regular routes to Athens, Bucharest, Stockholm and Oslo.
- **2008 (December)** – A third CRJ900 aircraft is added to Adria's fleet.
- **2009 (January)** – Adria gets the fourth CRJ900 aircraft.
- **2009 (April)** – The new route to Madrid was established.
- **2009 (May)** – For the second time Adria was presented a recognition award for the most reliable air carrier in the category Canadair Regional Jet CRJ100/200 (for 2008) by the representatives of the Bombardier Management.
- **2009 (November)** – Moving into the new office building – centralization of the company at one location.
- **2010 (June)** – Introduction of a single-tier management system.
- **2010 (June)** – Transfer of the aircraft maintenance activity to the newly founded subsidiary Adria Airways Tehnika and Adria Airways Letalska šola.
- **2011 (March)** – 14 March 2011: Adria Airways celebrates 50 years of operations.

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- **2011 (April)** – The fleet of Adria Airways receives a 180-seat Airbus A320 which is leased by Adria under an operating lease for a period of 42 months. The aircraft is registered in the Slovenian register of aircraft and carries the designation S5-AAS.
- **2011 (May)** – The fleet of Adria Airways receives a 162-seat Airbus A320 which is leased by Adria under an operating lease for a period of 17 months. The aircraft is registered in the Slovenian register of aircraft and carries the designation S5-AAT.
- **2011 (September)** – An agreement is reached between Adria, creditor banks and owners on the financial and operational restructuring of the company resulting in a successful capital increase in the company. This represents the foundation for the continuation of operational and HR reorganisation.
- **2011 (November)** – Reintroduction of a two-tier management system at the company.
- **2012 (January)** In line with the restructuring plan, Adria Airways leases out one Airbus A320 ahead of time.
- **2012 (March)** – Adria expands its network of flights and introduces a scheduled route between Pristina and Verona.
- **2012 (May)** – 15<sup>th</sup> anniversary of membership in the Star Alliance.
- **2012 (November)** – Upon the expiry of the lease agreement, the CRJ200 aircraft is returned.
- **2013 (January)** – The grounded A320-AAA aircraft is sold.
- **2013 (August)** – The CRJ200 aircraft is sold.
- **2013 (November)** – Hangar 2 with associated workshops and apron is sold.

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## 3. Company Management

### 3.1 Corporate Governance Statement

The company observes the Management of Assets Owned by the Republic of Slovenia Code adopted by the Supervisory Board and Management Board of Slovenska odškodninska družba, d.d. (hereinafter: SOD) on 15 May 2013. Among other things, the Code prescribes what is expected of companies, whereby efforts for the inclusion of a corporate governance statement into the business report of the company according to the “observe or explain” principle is of special importance. The Code is published on the website of SOD: <http://www.so-druzba.si>.

The company's Management Board declares that the company observes the Management of Assets Owned by the Republic of Slovenia Code in its work and operations, whereby the Code enhances – in an arranged and transparent manner – the functioning of public limited companies in which the Republic of Slovenia holds an interest. Within the scope of regular reporting, the company issues a corporate governance statement, in which it accepts the Code and discloses, which recommendation in the Code it did not observe and why.

The company accepts competitive conditions on the market in all areas. It undertakes not to abuse or use to its advantage eventual additional rights. In accordance with the Code, the company is managed efficiently and in a transparent manner. Supervisory Board members act with the due, skill, care and diligence of fair and conscientious managers and exclusively to the benefit of the company. The Management Board and the Supervisory Board treat all shareholders equally and provide them with the opportunity to take decisions in an informed and unobstructed manner, i.e. not only in matters, for which this is provided by the law, but also in all other matters that could materially affect their interests. Vis-à-vis the stakeholders, the company exercises its rights responsibly and fulfils the assumed obligations in a manner that complies with the company's objectives providing it with long-term benefits. For the duration of the relationship with the representatives of individual stakeholders, the company ensures mutual safeguarding of business secrets and maintenance of good business customs. In taking concrete decisions, the company studies and observes the legitimate interests of all stakeholders. The company's external reporting on its operations and the realisation of set objectives is transparent and consistent as well as in accordance with the reporting guidelines formulated by the SOD. In its 2013 annual report, the company presents a real picture of the development of its operating activities and the current state-of-affairs as well as the achievements in accordance with the legislation and the established practices. In addition to the financial and non-financial disclosures prescribed by the law, it also includes disclosures on risks and the risk management system, reporting on the corporate governance of the company (corporate governance statement) and the reporting on the sustainable development of the company.

The company's Supervisory Board possesses the required authorisations and competences and is objective and independent in discharging the function of supervision over the management and the company's operations. Members perform their tasks fairly and responsibly. The Supervisory Board performs its functions of supervision over the operations and management of the company in accordance with the laws and the company's instruments of incorporation. The Board has appointed the Audit Committee, which holds the powers in accordance with the ZGD-1.

The company did not establish nomination boards as special committees of the Supervisory Board because the Supervisory Board does not intend to prepare a proposal for the composition of the Supervisory Board in the near future. The eventual list of suitable candidates and the proposal to the General Meeting for their appointment

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will be formulated by the Supervisory in cooperation with the shareholders and in line with the provisions of the Code and the criteria of the Accreditation Committee. For the 2013 financial year, the Supervisory Board carried out an evaluation of the efficiency of its work.

The Supervisory Board decides on the remuneration of the Management Board in a prudent, responsible and transparent manner and with the aim of ensuring effectiveness and fair rewards for the work performed.

### **3.2 Statement On the Observation of the Recommendations of the Manager of Indirect and Direct Capital Investments of the Republic of Slovenia**

The company observes the Recommendations of the Manager of Indirect and Direct Capital Investments of the Republic of Slovenia. Derogations from the Recommendations are provided and explained below.

#### **Recommendation No. 1: Remuneration of the members of supervisory bodies**

The recommendation is observed. The amounts of attendance fees and compensations received by Supervisory Board members remain below the maximum amounts stipulated by the recommendation.

#### **Recommendation No. 2: Remuneration to external members of the committees of the supervisory body and other external experts for the performance of the tasks of the supervisory body**

The recommendation is observed. Up to now, the company's Supervisory Board appointed one external member of the Audit Committee. The company reports the amounts of rewards to external members at the Annual General Meeting.

#### **Recommendation No. 3: Valuation of the efficiency of the supervisory body and reporting to supervisory bodies**

The recommendation is observed.

#### **Recommendation No. 4: Work of an audit committee**

The recommendation is observed. In 2012, the Supervisory Board appointed an Audit Committee and adopted the Rules of Procedure of the Audit Committee which summarise the provisions of the recommendations and manuals that were adopted and published by the Slovenian Directors' Association. The mentioned provisions are applied in the operations by the management and supervisory bodies.

The principal aim of the Audit Committee is to assist the Supervisory Board in the latter's performance of supervisory tasks. The Audit Committee functions in accordance with the recommendations for the work of audit committees, the Rules of Procedure of the Audit Committee and other acts or regulations defining the tasks of audit committees. As part of their work, they evaluate the suitability and integrity of the company's annual re-

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ports and other financial and accounting information, management's measures relating to financial statements, monitor the integrity of internal controls and fraud detection procedures, propose the external auditor to the Supervisory Board, review and monitor the independence of the auditor's report on the company annual report, assess the annual report and formulate proposals for the Supervisory Board, and most of all provide expert assistance to the Supervisory Board in the supervision of the company's operations in all areas. The Audit Committee acts completely independently in all aspects vis-à-vis the company's management and at the same time reports to the Supervisory Board on all of its activities.

In 2013, the Audit Committee held five sessions where it participated in the review of the annual report and the letters to the management as well as in the communication with the certified auditing company. The Committee was also briefed on the strategic and annual plan of the work of the Internal Audit Service and several auditing reports of the Internal Audit Service. It regularly informed the Supervisory Board of its findings and proposals.

#### Recommendation No. 5: Three-year business planning of the company/group

The recommendation is observed. The company has adopted a strategy until 2020 with indicated guidelines for operations. The business plan was drafted only for 2014.

#### Recommendation No. 6: Quarterly reporting on the operations of the company/group

The recommendation is observed. The company reports regularly on its operations in the manner requested by the shareholders.

#### Recommendation No. 7: Transparency of procedures for the conclusion of transactions that affect the company's expenses (ordering of goods and services, donations and sponsorships)

The recommendation is partially observed. The company does not publish all of the concluded transactions as they involve business relations between private companies and such publication would undoubtedly affect the competitive position of the company and violate the provisions on business secrets.

#### Recommendation No. 8: Optimisation of labour costs in 2013 and 2014

The recommendation is observed. Cost optimisation and changes in salaries and bonuses for employees are all part of the company's policy. Holiday pay was paid in the amount of the minimum wage.

#### Recommendation No. 9: Risk management, internal controls and internal auditing

The recommendation is observed. In 2012, the Supervisory Board appointed the Audit Committee. The company also implements the recommendation associated with internal auditing, which is why it established the Internal Audit Service in 2012 as part of its internal services. The company introduced the risk management system that is regularly upgraded.

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### Recommendation No. 10:

The recommendation is observed. The company has adopted a code of ethics.

### Recommendation No. 11: Achievement of quality and excellence in the operations of companies/groups

The recommendation is observed. The company works actively in the area of assurance of operating quality and excellence; the company holds the ISO 9001 certificate and has several EFQM elements introduced. The company uses an effective model of operations and is introducing an annual self-assessment in accordance with the tried and tested European excellence model, the EFQM.

### Recommendation No. 12: General meetings of companies

The recommendation is observed. The company convenes the General Meeting in accordance with the legally prescribed deadlines and facts that affect the preparation of the company's annual report.

## 3.3 Bodies of the Company

The company has a two-tier management system in place and is managed by the Management Board and the Supervisory Board.

### Management Body

#### Management Board

The company's Management Board is composed of a maximum of two persons, whereby each is appointed for a particular business area. The number of Management Board members is decided by the Supervisory Board by way of a special act or resolution. A Management Board member's term of office is 4 years with the option of re-appointment. The Supervisory Board appoints one president from among Management Board members who manages and coordinates the work of the Management Board. The President of the Management Board represents the company independently. The Supervisory Board appoints one person as Accountable Manager of Adria Airways. The Accountable Manager holds the highest powers at the company ensuring that all operational and maintenance activities are financed and implemented in accordance with the standard required by the authority competent for aviation safety supervision. The Management Board performs its tasks pursuant to the laws, the company's Articles of Association, resolutions of the Supervisory Board and the Rules of Procedure of the Management Board, which regulate the method and organisation of the activities of the Management Board. Among other things, the Management Board decides on all matters involving the organisation and management of the company, and especially manages and represents the company, adopts the company's annual operations plan based on a prior consent of the Supervisory Board and compiles the annual report and submits it to the Supervisory Board for consideration, whereby it attaches to the annual report the audit reports and proposal for appropriation of distributable profit.

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The Management Board must ensure that the company and all legal entities, in which the company holds a controlling interest, operate in accordance with the rules on risk management, and must in this regard determine precisely defined, transparent and consistent internal relationships in terms of responsibilities that ensure a clear delimitation of powers and tasks and prevent the occurrence of conflict of interests. It must approve and regularly verify the strategies and policies for the determination, measurement or assessment, management and monitoring of risks as well as formulate a plan of measures and procedures for risk management. It is obliged to observe the Code on the Management of State Holding Companies and the Reporting Guidelines for Companies with State Capital Investments as long as the Republic of Slovenia is a shareholder of the company.

Management Board member in 2013:

Mark Anžur, President of the Management Board

## Supervisory Body

### Supervisory Board

The Supervisory Board has 6 members, 4 of whom are representatives of the owners and 2 are representatives of the workers. Supervisory Board members are elected for a period of up to 4 (four) years and may be re-elected after the expiry of the term of office. Among other things, the Supervisory Board appoints and discharges Management Board members, supervises the management of the company's operations, verifies the annual report submitted by the Management Board, confirms it and considers it, and decides on all other matters falling within its competence pursuant to the law and other acts.

Supervisory Board members in 2013:

- Tone Pekolj, Chairman of the Supervisory Board – simultaneously the managing director of Analožbe, upravljanje z naložbami d.o.o.;
- Sergej Goriup, Deputy-Chairman of the Supervisory Board – simultaneously the Chairman of the Supervisory Board of Zatvoreni Investicioni Fond sa javnom ponudom »FORTUNA FOND«, d.d., Bihać, Bosnia and Herzegovina, Chairman of the Supervisory Board of STH Ventures, DTK (Družba tveganega kapitala), d.o.o., Ljubljana;
- Silva Rogelj, Supervisory Board member;
- Darja Mataj, Supervisory Board member – simultaneously the managing director of ARFIDAS d.o.o.;
- Andrej Bošnjak, Supervisory Board member – simultaneously the President of the Management Board of Thermana d.d. and managing director of ZEP d.o.o. and ANOR d.o.o.;
- Tadej Pojbič, Supervisory Board member – simultaneously the procurator of Optilog d.o.o.

### General Meeting

Shareholders exercise their rights relating to the company at the General Meeting. The General Meeting decides with a majority of the votes cast unless provided otherwise by the law or the Articles of Association.

In 2013, the General Meeting held one session.

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At its session on 26 April 2013, the General Meeting was briefed on the annual report for the 2012 financial year, the auditor's opinion, written report of the Supervisory Board on the verification of the 2012 annual report and the information on remuneration of the members of management and supervisory bodies. The General Meeting granted a discharge to the Management Board and the Supervisory Board for their work in the 2012 financial year.

The General Meeting adopted a resolution on the simplified reduction of share capital. Pursuant to the above resolution, the company's share capital was reduced from EUR 17,712,227.00 at the time by EUR 14,169,782.00 so that it amounted to EUR 3,542,445.00 after the reduction. The reduction of share capital was performed as a simplified reduction of share capital. The purpose of the share capital reduction was to cover the losses brought forward in the amount of EUR 10,266,037.11 and to transfer of the amount of EUR 3,903,744.89 to the company's capital surplus. The share capital was reduced based on the company's balance sheet as at 31 December 2012. Because the issue amount of a share following the share capital reduction did not attain the value stipulated in the third paragraph of Article 172 of the ZGD-1, the share capital reduction was performed with the merging of shares, i.e. at a ratio of 0.2 new shares for each existing share. The General Meeting authorised the Supervisory Board to amend the Articles of Association so that they are harmonised with the said resolution and its implementation.

The General Meeting appointed Constantia Plus d.o.o., Dunajska cesta 160, 1000 Ljubljana for the audit of the financial statements for the 2013 financial year and confirmed the Management Board remuneration policy for 2013.

The General Meeting adopted a resolution on the amendment of the company's Articles of Association; it was briefed on the lawsuits filed based on the report on the special audit and determined the amount of remuneration for the discharge of the function and for attendance fees of Supervisory Board members and members of Supervisory Board committees for the period of the following twelve months.

### 3.4 Management of Subsidiaries

**Adria Airways d.d.**, Ljubljana – parent company,

Amadeus Slovenija Podjetje za marketing, d.o.o., Ljubljana – subsidiary (95% shareholding),

Adria Airways Kosovo d.o.o. – subsidiary (100% shareholding),

Adria Airways Letalska šola d.o.o. – subsidiary (100% shareholding),

The parent company is the controlling company and holds a majority interest and the majority of voting rights in all subsidiaries.

**Amadeus Slovenija – Podjetje za marketing, d.o.o.**, Ljubljana

Managing Director: Luka Šetina

Number of employees: 10

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The company was established for an indefinite period by way of articles of association that are its fundamental act and lay down the conditions and method of operation, the powers of the bodies as well as other relationships relating to the incorporation and operation.

The company's management body is the General Meeting comprising one representative of each company member. General Meeting members are elected for a period of 4 (four) years and may be re-elected after the expiry of the term of office. The General Meeting decides on the company's business policy and appoints and recalls the managing director; the President of the General Meeting, i.e. the representative of Adria Airways d.d. implements operational measures for the review and supervision of the work of the company's managing director.

Amadeus Slovenija d.o.o. is a regional distributor of the products of Amadeus IT Group SA (with registered office in Madrid) and the most important provider of such systems applications – technological platform for the system of booking and flight ticket sales on the Slovenian market. The company operates according to the so-called "ACO concept" (Amadeus Commercial Organizations) – operations on the global market are divided among individual independent companies based on concessions obtained by Amadeus IT Group SA. Amadeus Slovenija covers the Albanian market and partly the Macedonian market in addition to the Slovenian market.

Its clients are tourist agencies, airlines and other tourist organisations in Slovenia, Macedonia and Albania. It performs operations through an online application.

It provides users with access to information or sale of "travel and tourism products" offered by local users of the Amadeus system across the globe. They are a technology partner that allows flexibility in the merging of elements of the travel industry on a single platform.

The company's mission is to maintain and expand the Amadeus system application and elevate quality in terms of the pursuit of values and principles of Amadeus in relation to direct users. The role of Amadeus is one of support to the travel and tourism industries through IT solutions that enable partners to achieve success. Innovations are the key advantage of Amadeus with their main task being to ensure superior functionality (technical and functional support to users).

#### **Adria Airways Letalska šola d.o.o. (flight school)**

Managing Director: Sandi Knez (until 13 February 2014)  
Miha Gašperin (until 14 February 2014)

Number of employees: 2

The flight school that was originally part of the Adria Airways crew training division was founded in 2010 with the aim of ensuring transparent and independent operations of the company.

The company's management body is the managing director who is responsible for the company's operations, while the Head of Training is responsible for professional training, which is the company's principal activity. The Head of Training and his/her employees (head of instructors, head of lecturers, and instructors) provide professional training for candidates in accordance with international and domestic provisions stipulated by the law in the area of aviation training.

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The origins of the Adria Airways flight school go back to 1980 when the school was founded in cooperation with the Faculty of Mechanical Engineering in Ljubljana. Its initial aim was educating and training pilots on smaller aircraft for the acquisition of a professional pilot licence. This was the condition for employing a professional or transport pilot on commercial aircraft. Over the years, the Adria Airways flight school has made a name for itself and thus acquired the nickname “cradle of Adria pilots”.

With the disintegration of the former Yugoslavia in the 1990s, the flight school faced a difficult economic situation; however, it managed to survive thanks to the help of individual enthusiasts. Today, it is one of the most recognisable schools in Slovenia and Central Europe. The majority of candidates that complete their training at Adria Airways Letalska šola d.o.o. are foreigners because the school offers an attractive price to “know-how” ratio as compared to other similar schools in the region, which is primarily due to the long-standing experience in international air transport.

The flight school’s fleet comprises 6 aircraft and one flight simulator; Adria Airways Letalska šola d.o.o. can thus boast of being the biggest flight school in Slovenia. The school provides training programmes for both private pilots of sport aircraft and professional pilots with the highest authorisations for flying. Most of the candidates who trained at Adria Airways’ flight school (Letalska šola d.o.o.) for the acquisition of the “professional pilot” licence either fly with Adria Airways today or with other recognisable airlines around the world.

#### **Adria Airways Kosovo (AAK)**

Managing Director: Besnik Dalipi (until 18 March 2014)

Davorin Nožić (until 19 March 2014)

Number of employees: 15

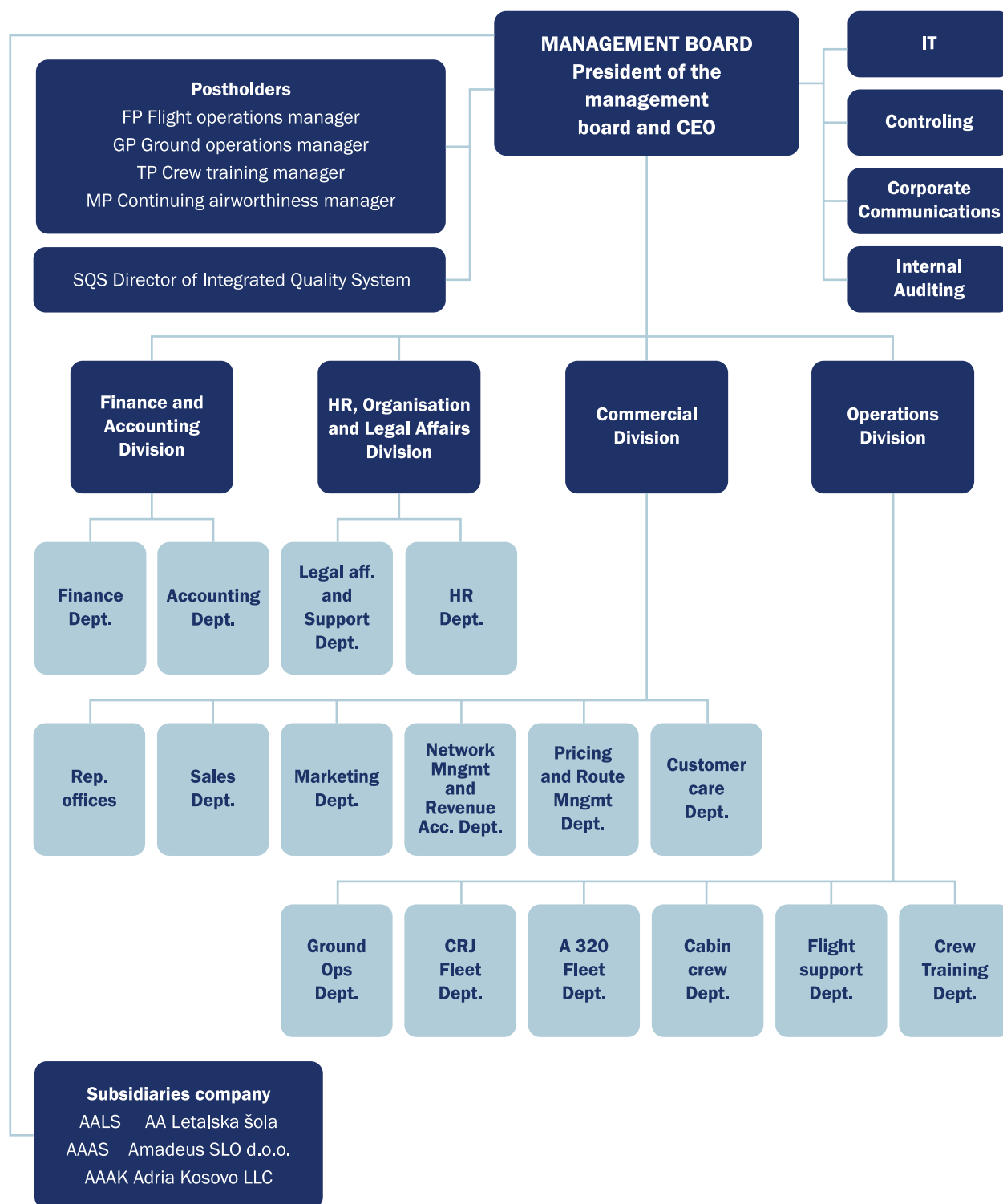
AAK was founded in 2004 whereby the majority shareholding was held by AAM from Macedonia. At the end of 2006, Adria Airways took over 100% of the shareholding in the company; however, the company suspended its operations. In Q4 of 2010, it was activated for the sale of plane tickets in Kosovo. In addition to the organisation and promotion of flight ticket sales, the company performs airport control for our flights. AAK began playing an increasingly important role in times when Adria began establishing its base in Pristina, from where the company performs an increasing number of flights. AAK provides us with all of the required support and employs local cabin crews that are then hired by the parent company from its subsidiary.

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### 3.5 Organisational Structure as at 31 December 2013



The Company's internal organisation did not change in 2013.

### 3.6 Additional Disclosures In Accordance with the ZGD-1 and the Takeovers Act

Adria Airways d.d. is a company liable to observing the act regulating takeovers and to provide data on the balance as at the last day of the financial year as well as all of the required explanations in accordance with the sixth paragraph of Article 70 of the ZGD-1.

The company's share capital is divided into ordinary registered freely transferable no par value shares. The qualifying holding (more than 50%) was attained on 31 December 2013 by two shareholders of the company, i.e.:

- Republic of Slovenia which holds 2,475,000 no par value shares representing a 69.87% share in the issuer's capital,
- NLB d.d. which holds 695,233 no par value shares representing a 19.63% share in the issuer's capital.

Each no par value share carries the same stake and issue amount in the company's share capital. Ordinary shares provide their holder with participation in the company's management, share in the profits and a corresponding amount of the remaining assets following the liquidation or bankruptcy of the company. The company has no securities that would provide it with special control rights. The transfer of registered shares is validly performed by way of registration of the transfer in the share register unless provided otherwise by a statutory provision or implementing regulation. There is no limitation on the transfer of shares or voting rights, while a legal community was established on certain shares following the merger of shares. There is no employee share scheme in place at the company.

The company's rules on the appointment and replacement of the members of management or supervisory bodies and on the amendment of the Articles of Association are defined in the company's Articles of Association and presented in section 3.2 hereof.

The company cannot itself acquire treasury shares and neither can it do so with the help of third parties, except in cases and under the conditions stipulated by the law. Acquisitions, sale and price of treasury shares are decided on by the Management Board pursuant to a resolution of the General Meeting and based on criteria or rules set by the Supervisory Board. The company's Management Board is authorised to increase the company's share capital by EUR 122,326.36 within five years of the registration of the amendment of Articles of Association in the register of companies. The deadline expires in June of 2015. The content of the rights and conditions for the issue of shares are decided on by the Management Board that must obtain consent from the Supervisory Board for its decision. The Supervisory Board is authorised to amend and harmonise the Articles of Association by way of a valid decision of the Management Board on the increase in share capital and the issue of new shares from the authorised capital.

The company is familiar with the agreement between shareholders that could limit the transfer of securities or voting rights. Because the agreement is designated as a "business secret" in accordance with the ZGD-1, the company will not disclose it as such disclosure could cause damage or loss.

The company is party to the agreement that would expire based on a change of control of the company resulting from a bid stipulated by the law regulating takeovers as certain shareholders are also signatories to this agreement in addition to the company. This is the same agreement mentioned in the previous paragraph and is not disclosed by the company for the same reasons as those mentioned above. The company is also party to several agreements with the so-called "Change of Control" clause where a change of control can cause the winding up of the company.

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There are no agreements concluded between the company and the members of its supervisory body or employees that envisage compensation if the latter two resign or are laid off in the event of a bid stipulated by the law or if their employment relationship terminates for the same reason. The agreement between the company and a management body member stipulates that, in the event the majority shareholding in the company is taken over by a new holder of shares (new majority owner), the President of the Management Board is obliged to tender their resignation to the Supervisory Board and simultaneously waive any civil claim against the company or its bodies. In the event of such an expiry of the term of office, the President of the Management Board is entitled to severance pay in the amount of two average gross basic salaries in the previous year.

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## 4. Company's Mission, Vision and Strategy

### Mission

Adria Airways is a modern European airline that links people and their stories within its network of flights. It provides its passengers with safe, affordable, comfortable and easy travel. All employees strive to achieve satisfaction of our passengers.

### Foundations, on which we build our mission:

- Modern airline: we have a modern fleet of aircraft and IT technology, we foster environmental awareness and care for the development of the environment, in which we work and live.
- European company: our roots are in Europe and we observe European quality standards.
- Flight network: we connect our flights with partner companies (globally).
- Safety: we strictly observe all flight safety standards both on the ground and in the air.
- Affordability: We differentiate prices by segments and thus ensure the best price to quality ratios for all types of passengers.
- Comfort: we possess comfortable aircraft, and care for passengers prior to, during and after the flight.
- Simplicity: we fly to major airports; our flight schedule enables the best use of time.
- Sincere effort: we are first and foremost individuals with a name and a face, we are a team of individuals working and cooperating with other individuals, both passengers and other partners. Adria is its people.
- Satisfied passengers: through our top-level know-how we strive for the satisfaction of our passengers.

### Vision

**2 million passengers, EUR 220 million in revenues by 2020**

### Chosen strategy

**Growth:** By 2020, we will have increased the number of passengers carried to 2 million and generated EUR 220 million in revenue, which we aim to achieve through growth in three segments:

- **growth in scheduled transport:**
  - increase in the number of departure points and destinations, including the development of secondary airports for direct flights to new destinations,
  - increase in the number of passengers through the provision of more attractive prices,
  - increase in the share of additional revenue;
- in **charter transport**, increased capacities will provide an opportunity for growth in arriving and ad hoc charter flights;
- **cargo transport** will increase together with the increase in cargo capacities and the improvement of the existing business model.

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### **Cost management/cost-cutting:**

- reduction in operations with less frequent flights and larger aircraft with higher seat density,
- reduction in unnecessary services and service levels not recognised by passengers,
- lower prices of the booking system,
- lower prices for aircraft supply

**HR management:** business-oriented culture, management style and knowledge

**Adria's market orientation will be based on four pillars:**

- **solution for everyone:**
  - tailoring products and prices for each passenger segment,
  - low-price flights for early booking,
  - additional products/services to grow additional revenue;
- **excellent connections:**
  - offer of direct flights or connect flights through Ljubljana to the Alps-Adriatic region and from there, to destinations in the Balkans, Eastern Europe and elsewhere and back from these destination,
  - extensive network of connections linking European capitals and large global airports;
- **direct contact:**
  - excellent call centre with an emphasis on tailor-made services,
  - promotion of the sale of ancillary services;
- **adaptability:**
  - "pioneers" in the development of new destinations and partnerships,
  - adaptability of charter flights – especially in ad hoc charters.

**Our common values stem from market orientation:**

- **Creativity** (Solutions for everyone)

We are modern and innovative and we keep in step with new trends. Search for simple solutions for complex problems is a challenge for us. We do not let problems go unsolved and we do not leave them to others. We dare go where others will not. We go one step further. Through our vision and objective-orientedness, we encourage our endless creative potential.

- **Connectedness** (Excellent connections)

We work as a team to do the work as best as possible to the satisfaction of our passengers and to the benefit of the company. We connect and bring people closer together through our work and effort. We get actively involved in the broader society and care for the good of the society.

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- **Sincerity** (Direct contact)

We are genuine. We deliver on our promises. We trust one another and are able to place ourselves in another's shoes. We are most of all straightforward. We say what we mean and we do what we say. We listen to what others have to say and take that into account in our actions. It is the actions that count, not words. We act as we would like others to treat us.

- **Respect** (Adaptability)

We are responsible and continuously check whether we are meeting the objectives we have set for ourselves. We respect deadlines and the promises we have made. We perform our work professionally and we do everything that is possible in any given situation. We ensure safety in all respects. We are respectful towards ourselves and others. We are proud of our 50-year history.



## 5. We Care for Our Passengers

At Adria Airways, we strive to tailor our services as close as possible to the needs and expectations of all of our passengers. Through planned promotional activities, we promote awareness of our network of flights and services, strengthen the brand and foster the loyalty of our customers.

### Flight network

We fly numerous direct routes and thus provide passengers with the flexibility in planning their itineraries and ensure travel time savings. As an airline with more than 50 years of experience in charter and scheduled transport, we successfully cooperate in European integration flows and build partnerships with other airlines. Since December of 2004, when Adria joined the biggest global association of airlines, the Star Alliance, with connections to the large European hubs, we have been increasing the accessibility to the network of flights of the other 25 carriers in the association that perform 18,043 flights daily and cover 1,269 destinations in 193 countries around the world.

### Advantages of the Star Alliance association of airlines

In addition to the access to the largest network of flights, travelling with Adria Airways and other airlines in the Star Alliance brings numerous advantages. Carriers work together to offer their passengers special benefits. Members of the frequent flyer clubs of any carrier have the option of collecting and using frequent flyer miles on all flights flown by carriers in the Star Alliance, which is an important marketing tool. Through its uniform standards and procedures, the association provides passengers with straightforward and comfortable travel. Those who travel a lot and have thus attained the gold or silver frequent flyer status enjoy additional special benefits from all carriers in the association, such as free access to business lounges around the globe, priority in booking confirmation, free transport of large quantities of baggage, personal treatment during the trip, etc. Star Alliance also offers its passengers special products – attractive prices for trips in certain regions of the world or for Round the World Trips.

Adria Airways and the members of the association care for the improvement of services for passengers on connecting flights – from the up-to-date exchange of information on passengers and baggage in transit to the provision of mutual assistance in case of delays, flight cancellations and other inconveniences that may arise along the way.

### Call Centre

A genuine personal attitude, rapid responsiveness to enquiries and flexibility in the resolution of complications are of key importance for our customers, all of which we take into account in our work. The Call Centre provides passengers with information in Slovenian and English languages, Mondays through Fridays between 8 am and 6 pm. The Call Centre is divided into four areas, i.e.:

- booking and plane ticket sales,
- online booking assistance,
- information relating to delayed, damaged or lost baggage,
- Passenger Relations Centre.

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Corporate client relations are handled by key account managers in sales, whereby we treat everyone enquiring about group bookings separately.

## Passenger Relations Centre

At the Passenger Relations Centre, we care for the base of corporate clients that have entered into cooperation agreements with us within the scope of the Adria Corporate Card reward programme, as well as with the base of Slovenian members of the Miles & More programme. In cooperation with the entire Marketing and Sales Department, we concurrently notify passengers of new features, current price offers, new services and benefits for regular passengers through our own regular and extraordinary newsletters. All members of the ACC programme receive regular periodic notifications with contents on the benefits provided by the programme and other current news. We actively include regular notifications in the current content about Adria Airways, which the Miles & More programme sends monthly to all of its members across Europe – the database has more than 300,000 addressees – we thus ensure the presence of our brand and the advertising of our services across Europe. The Passenger Relations Centre regularly responds to complaints and resolves damage claims related to delays or flight cancellations, lost, delayed or damaged baggage in accordance with Regulation (EC) No 261/2004. Rapid responsiveness, correctness and individual treatment of complaints help us build mutual trust and loyalty of passengers.

[www.adria.si](http://www.adria.si)

The purpose of Adria's web portal is to maintain and elevate the company's reputation. It is also an excellent additional sales channel that provides customers with a safe, straightforward and comfortable method for purchasing tickets. When it comes to online marketing, we also observe EU legislation, in accordance with which prices must be indicated in their entirety, i.e. they must include all airport charges, other fees and booking costs, whereby charges are additionally specified during the purchase process.

We want to make every user to return to our website, which is why we set up the overhauled website [www.adria.si](http://www.adria.si) in July of 2013 that features modern and richer content. With its fresh and attractive graphic design, the portal is now simpler to use and more attractive for users. The new feature in terms of content is the presentation of destinations, to which Adria Airways flies. Users can thus learn everything about the destination of their choice, the flight schedule and price in a single place. On the homepage of Adria Airways, we provide users with basic information about the company and its operations, press releases regarding aviation safety and the care of Adria Airways for passengers and the environment. One of the new features is the website in the Russian language.

One of the major innovations on the website is that users can – from September onwards – create their own user profile, with the help of which they can themselves decide about what they wish to communicate with Adria Airways. The MyAdria profile provides users with numerous advantages and benefits. Account holders will have priority in notifications about the Top Offer of the Week; once a month they will have the exclusive opportunity to purchase plane tickets at a special price; and will have the opportunity to participate in prize contests.

We recorded 1,656,411 visits on the [www.adria.si](http://www.adria.si) website in 2013, which is 18% more than in the previous year, while growth in turnover jumped primarily in the last quarter as we overhauled Internet sales processes thoroughly.

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## In-flight passenger care

In addition to the regular service, we devote special attention in our care for passengers to ad hoc charter flights where we design the service according to the customer's wishes and also design the aircraft cabin in terms of the customer's branding as appropriate. There were on average 42 such flights with a "tailor-made service" in 2013.

Because of the requirements outlined in the restructuring plan, we pursued the objective of cost-cutting, whereby we reduced the services partially on scheduled flights in this respect with the exception of flights to Moscow, Brussels and Istanbul, and offered flights without snacks on other scheduled routes, while we kept the service on business class and charter flights unchanged. We began actively preparing for the introduction of the "Buy-OnBoard" service that will allow passengers to purchase quality snacks and cold and warm beverages in 2014.

## More for our loyal passengers

### Miles & More

We reward the loyalty of our frequent flyers with our Miles & More programme, which is the leading programme on the global scale in terms of members, partner airlines and other partners. The number of members registered in Slovenia grew by 5.4% in 2013 bringing the current total to 52,248. At the Passenger Relations Centre, we ensure regular recording of reward miles acquired on our flights and transfer the said data to the Miles & More club and all other clubs of the Star Alliance members.

### Adria Corporate Card – ACC

Loyalty of corporate clients is rewarded within the scope of the Adria Corporate Card programme. The ACC programme has 382 companies and public institutions as members, 286 of which were active in 2013, meaning that they flew with us at least once over the course of that year. In 2013, 16 new legal entities joined the programme. Holders of the ACC loyalty card flew on 16,448 flights in 2013, which is 526 flights more than the year before.

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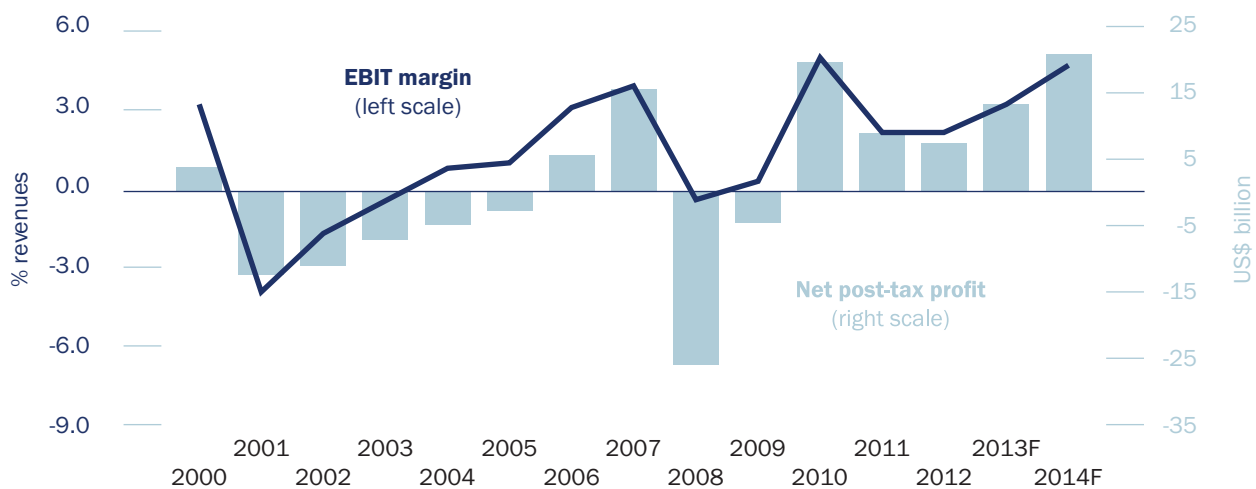
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## 6. Operating Conditions in 2013

IATA expects the global airline industry to attain after-tax profit of USD 12.9 billion in 2013, while it projects profits worth USD 18.7 billion in 2014, which is going to represent 2.6% of revenue. This was a correction of its forecast of USD 1.2 billion in 2013. The improved forecast is the result of lower fuel prices throughout the period and improvements in the structure of the industry as well as improved efficiency that was demonstrated already in the quarterly results in 2013.

Chart 7: **Profitability of the global airline industry**



Source: ICAO, IATA

The forecast of revenues remains unchanged, while their composition is different: the stronger market of passenger transport and the weaker cargo transport market. Despite the high fuel prices and weak economic growth, it was the robustness of air transport that resulted in the positive development last year. IATA expects the weakness in cargo transport to continue for some time. It projects the load factor to exceed 81% for the first time in 2014.

The operations of airlines in 2014 will be affected by the pattern of economic growth with stronger growth in developed economies and relatively weak growth in BRIC countries. Stronger growth in the US economy is the result of the consolidated airline industry. There are, of course, differences between individual air carriers. Asia-Pacific carriers will generate the second largest net profit; however, the weakness of the cargo transport segment of the market will slow the growth of the market as a whole. Growth of European carriers is still obstructed by the weakness of markets in certain countries in the Euroarea. Carriers in the Middle East and Latin America will come in second and third respectively in terms of the profit growth rate, while African carriers will come in slightly above the break-even point.

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Table 4: Results of airlines by region

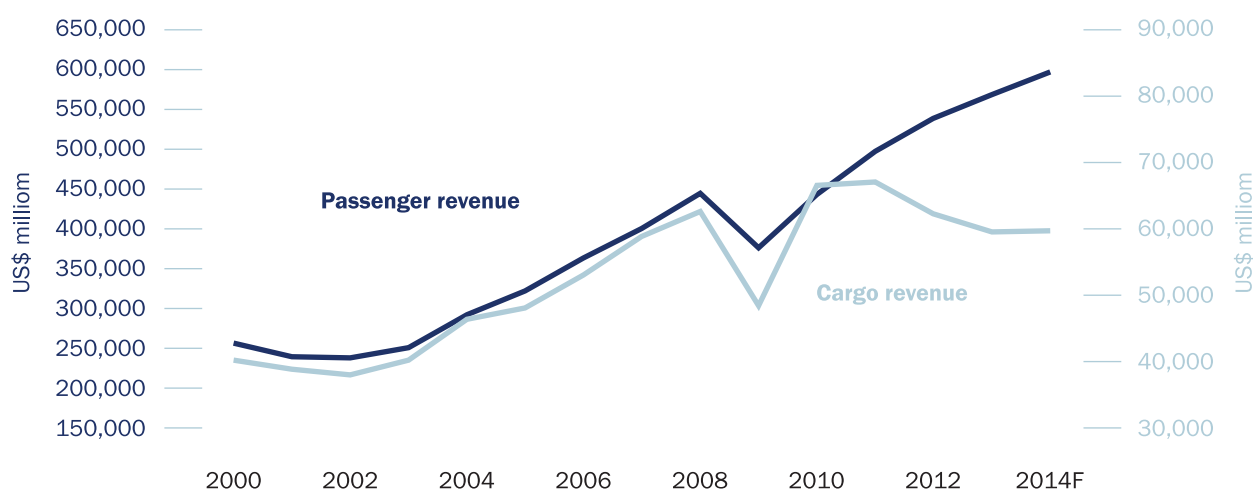
| System-wide global commercial airlines | EBIT margin, % revenues |      |       |       |       | Net profits, \$ billion |      |      |       |       |
|----------------------------------------|-------------------------|------|-------|-------|-------|-------------------------|------|------|-------|-------|
|                                        | 2010                    | 2011 | 2012  | 2013F | 2014F | 2010                    | 2011 | 2012 | 2013F | 2014F |
| Global                                 | 5.0%                    | 2.2% | 2.2%  | 3.3%  | 4.7%  | 19.2                    | 8.4  | 7.4  | 12.9  | 19.7  |
| Regions                                |                         |      |       |       |       |                         |      |      |       |       |
| North America                          | 5.7%                    | 3.0% | 3.4%  | 4.8%  | 6.4%  | 4.2                     | 1.7  | 2.3  | 5.8   | 8.3   |
| Europe                                 | 2.4%                    | 0.8% | 0.7%  | 1.3%  | 2.0%  | 1.9                     | 0.3  | 0.4  | 1.7   | 3.2   |
| Asia Pacific                           | 8.0%                    | 3.5% | 3.3%  | 4.1%  | 4.4%  | 11.1                    | 5.1  | 4.0  | 3.2   | 4.1   |
| Middle East                            | 3.7%                    | 3.1% | 3.0%  | 3.8%  | 4.7%  | 0.9                     | 1.0  | 1.0  | 1.6   | 2.4   |
| Latin America                          | 5.1%                    | 2.0% | 1.5%  | 3.1%  | 5.1%  | 1.0                     | 0.2  | -0.2 | 0.7   | 1.5   |
| Africa                                 | 1.7%                    | 0.6% | -0.4% | -0.5% | 0.7%  | 0.1                     | 0.0  | -0.1 | -0.1  | 0.1   |

Source: ICAO, IATA

The performance of airlines is directly related to the growth of the global economy. Following the post-recession leap in 2010, economic activity slowed down in 2011 and 2012, and profits decreased in both years. An improvement observed in financial operations in 2013 is the result of the turnaround in economic growth that was first demonstrated in the growing business confidence in the final quarter of 2012, which was followed by slow yet important growth of the production industry and global trade.

The growth of the air transport and cargo transport markets is related much more to the growth of international trade than the growth of global GDP. If the high growth of international trade were to stop, this would cause significantly slower growth of air transport in the future.

Chart 8: Revenues of passenger and cargo transport



Source: ICAO, IATA

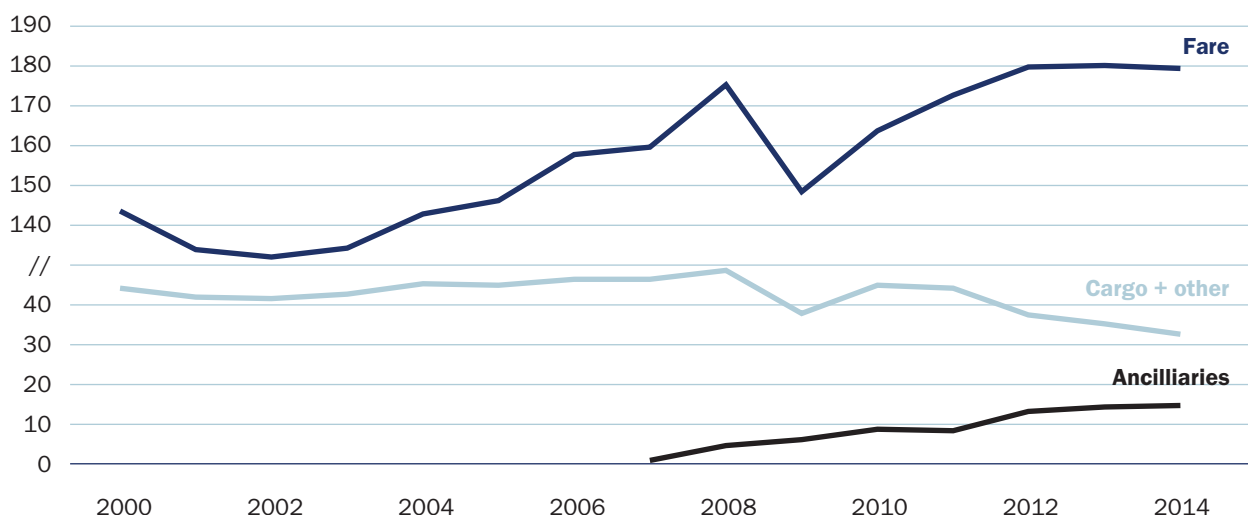
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Improved structure and efficiency of the industry will importantly improve profitability in 2014. Carriers in North America expect the highest profits to be generated next year. Despite the weak market in the Euroarea, European carriers will prosper on account of the US market. An important generator of additional revenue will be ancillary services sold by the carriers. A passenger is expected to spend USD 13 on average for ancillary services. The share in the revenues will increase further. Despite the industry's profits of USD 19.7 billion, this is still only USD 5.94 per passenger.

Chart 9: **Revenue per passenger flown**



Source: IATA

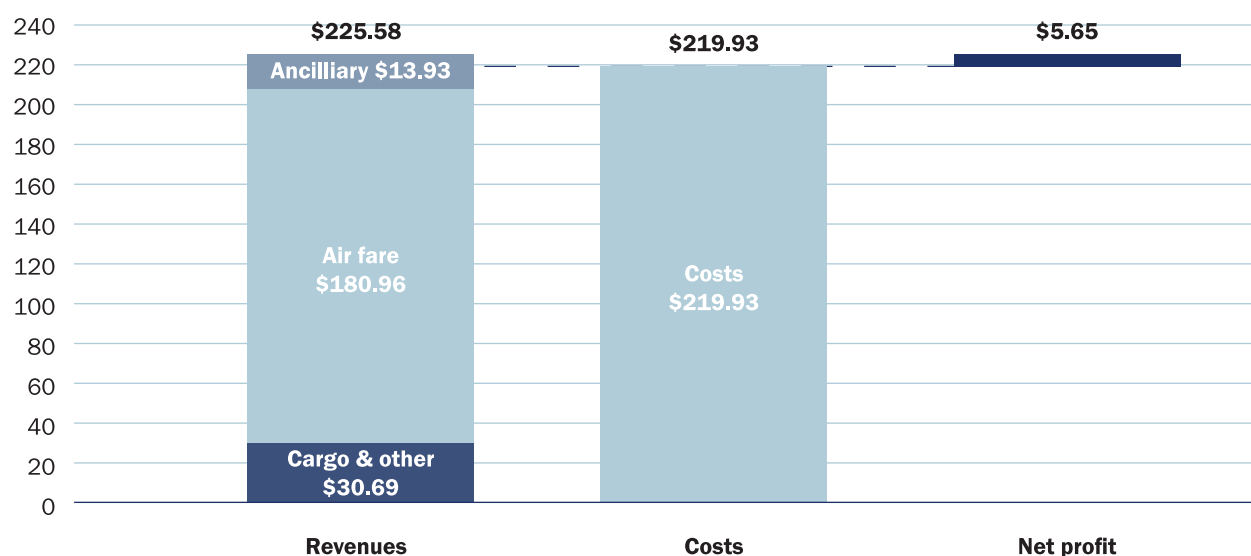
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Chart 10: **Forecast of the results of air carriers for 2014**



Source: IATA

### Operating conditions – general

The European Commission reports of upward corrections of economic growth forecasts of the global GDP in 2014 by 3.6%. Countries with developing economies are indeed recording rapid growth, while the US projects growth of 2.9% in 2014, and the economies in the Euroarea are expected to grow at a rate of 1.2%. The Commission forecasts a GDP growth of 2.3% for Russia.

Table 5: **GDP 2013, GDP forecast for 2014**

|                                               | 2013        | Forecast for 2014 |
|-----------------------------------------------|-------------|-------------------|
| <b>Economic growth (GDP) around the world</b> | <b>3.3</b>  | <b>3.6</b>        |
| USA                                           | 1.9         | 2.9               |
| Turkey                                        | 3.1         | 2.5               |
| China                                         | 7.8         | 7.4               |
| Russia                                        | 2.3         | 2.3               |
| <b>Euroarea</b>                               | <b>-0.4</b> | <b>1.2</b>        |
| Germany                                       | 0.4         | 1.8               |
| France                                        | 0.2         | 1.0               |
| Italy                                         | -1.9        | 0.6               |

Source: Eurostat (for 2013), IMF, UMAR, EK

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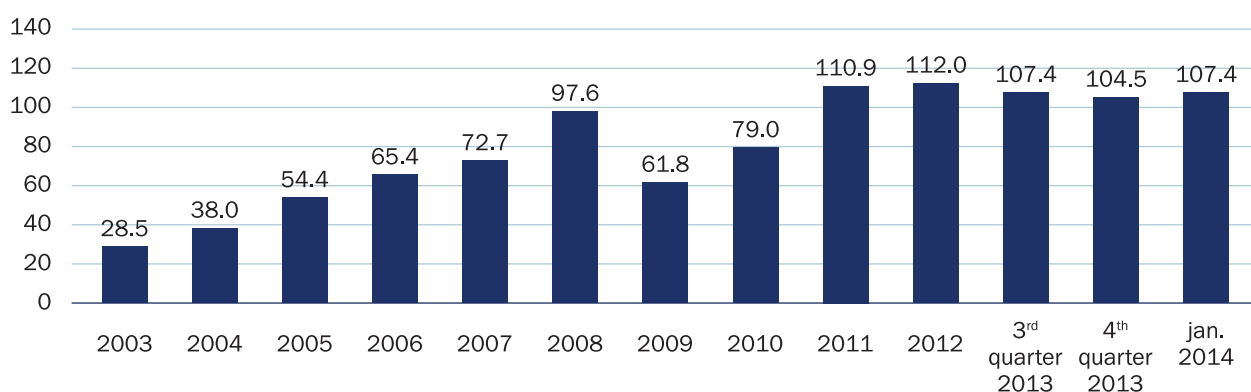
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## Prices of Brent crude

The USD price of Brent crude increased gradually from March under the influence of political unrest in Syria and Egypt. It decreased significantly only in April, which was in line with the price trends of other commodities. From June onwards, it rose under the influence of geopolitical factors and somewhat better economic data coming from the Euroarea and the US. In September, a barrel of Brent crude was worth USD 111.6, which was 1.6% less YOY. In euros, the price of Brent crude was lower by 5.2% YOY because of the appreciation of the euro.

The price of Brent crude in the final quarter of 2013 decreased from USD 107.4 to USD 104.5 a barrel, which was a decrease of 2.7%.

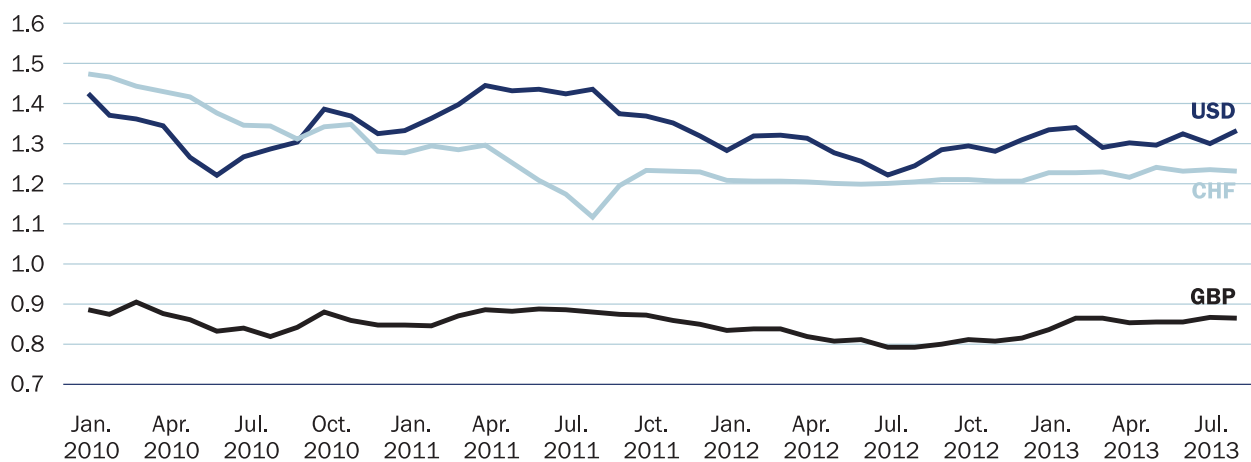
Table 7: **Brent crude in USD per bbl**



## Tečaj USD / EUR

Moč evra ne popušča. Zaradi nekoliko slabših ameriških podatkov o zdravju gospodarstva, močnejši rasti držav EA-18 in prilivov svežega denarja na evroobmočje, dolar še vedno izgublja vrednost, medtem ko se evro krepi proti košarici valut držav v razvoju.

Chart 11: **Changes in the euro exchange rate against the USD, CHF, and GBP**



Source: Bank of Slovenia

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## 7. Restructuring of the Company

Based on the Programme for the Financial and Operational Restructuring of Adria Airways d.d. confirmed on 26 September 2011, the company continued the implementation of restructuring measures throughout the 2013 financial year. The envisaged measures that were not implemented were successfully substituted by additionally newly identified measures that are based both on cost-cutting and increasing of revenues.

Over the entire restructuring period since 2011 until today, the company has successfully implemented many measures for operational restructuring that contributed to the outstandingly positive trends in its operations over the last three years and which demonstrate its long-term survival and successful growth.

From 2010 to 2013, the company improved its EBIT by EUR 23.1 million. Its financial obligations over the three years (from 2010 to 2013) have decreased by EUR 57.1 million. In 2013 alone, the company deleveraged by EUR 8.9 million. Since 2011, the company has improved its operating results significantly. The operating result improved by EUR 20.1 million, while EBT improved by EUR 15 million (from 2011 until the 2014 Plan).

Key performance indicators show that the restructuring measures were correctly identified and successfully implemented as the EBIT margin increased from 2011 to 2013 by 10 percentage points (from – 10% to 0%) and is still growing, while the EBT margin improved by 6 percentage points (from – 8% to – 2.1%) and is also still growing.

As compared to 2012, the key positive effects in addition to the restructuring measures include the following operational measures:

- decrease in the number of frequencies on the same routes and flying on larger aircraft (with the same fleet), which improved the result by EUR 2.2 million,
- improvement of the load factor by 6.5% based on an increase in the number of passengers on scheduled flights by 5.5% (which is the result of active lowering of ticket prices and more efficient market segmentation).

In 2013, the company continued the sales of assets not required for operations and successfully completed the sale of certain real estate and aircraft, while sales processes continue in 2014 as well.

By implementing the measures aimed at HR restructuring, the target number of employees was successfully reached as envisaged in the Restructuring Programme.

In addition to the measures aimed at company accountability, the Restructuring Programme features measures for the regulation and arrangement of the business environment, which fall within the responsibility of the Republic of Slovenia. The company has successfully implemented all envisaged measures, over which it had a direct influence. It has also identified and implemented additional measures, whereas there are still certain measures that have not been implemented as they fall within the competence of the state.

Considering the operating result in 2013 and the positive effects on operations of the active identification and implementation of measures, the company will implement relevant operational measures in 2014 as well, whereby the emphasis will be on fleet and flight operations optimisation, which has been confirmed as representing lower operational costs per seat and subsequently the possibility of reducing ticket prices and increasing the number of passengers, which would in the final stage result in higher revenues. The above will ensure stable and long-term growth of the company.

## 8. Business Segments

### 8.1 Scheduled Transport

#### Marketing strategy

In accordance with the business orientation and the development of the company, flying on scheduled routes is the central and key business activity that is complemented by charter transport and cargo transport. An analysis during the compilation of the restructuring plan has shown that the network of flights of Adria Airways is generating loss in several segments, which is partly due to excessive capacity of aircraft in the fleet as well as in aviation and other staff (who are hired in line with the high season requirements), which is why the company devotes its undivided attention to decreasing the scope of flights that will include the reduction of the fleet, the number of employees and other indirect costs.

The key objective is cost reduction per passenger seat, which we aim to achieve by reducing the number of flights (frequencies) on certain routes and by increasing the number of seats, which is going to bring us at least the same volume of passengers and lower costs per passenger seat. As a result, we will be able to offer our passengers more affordable transport.

We have differentiated flying for charter transport purposes, i.e. in the tourist segment, and have therefore devoted a 180-seat A320 exclusively to the charter transport. By the end of the year, we thus flew approximately 2,300 hours of tourist charter flights only, which was mainly for Slovenian tour operators. We also offer the aircraft for ad-hoc sales and sub-charters as well as to Austrian tour operators in the pre-season.

One of the key strategic advantages of the company is its membership of the Star Alliance association of airlines. With flights to major European hubs, we provide our passengers with connections to 1,329 airports in 194 countries around the world through the network of airlines in the Star Alliance. We also offer our loyal passengers the option of collecting and using frequent flyer miles on all flights of the carriers in the Star Alliance.

Some of our key abilities and comparative advantages that we try to maintain and improve are fast and comfortable connections on direct flights, the flight schedule adapted to passenger needs, and price competitiveness as well as the quality of our services. Adria is a company characterised by an individual approach, responsiveness and adaptability. It is developing into an airline that is recognisable for the hospitality of its staff and exceptional attention to passengers.

#### Scheduled transport realisation

In 2013, we realised 17,219 scheduled flights, which is 4% less than planned, and carried 856,875 passengers, which is 2% more than planned. As compared to 2012, we had 5% fewer flights, but carried 5% more passengers.

The increase in the number of passengers was recorded both on the European and some Balkans routes.

We increased the number of flights on some routes; however, the number of passengers increased more than the number of flights. The biggest increase in the number of passengers was recorded on the Tirana route where it increased by 52%, while the number of flights increased by 32%. On the Pristina–Frankfurt route, the number of

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passengers increased by 12%, while the number of flights increased by 7%; on the Podgorica route, the number of passengers is higher by 18%, while the number of flights is higher by 3%; and finally on the Brussels route, the number of passengers is higher by 6% and the number of flights by 1%.

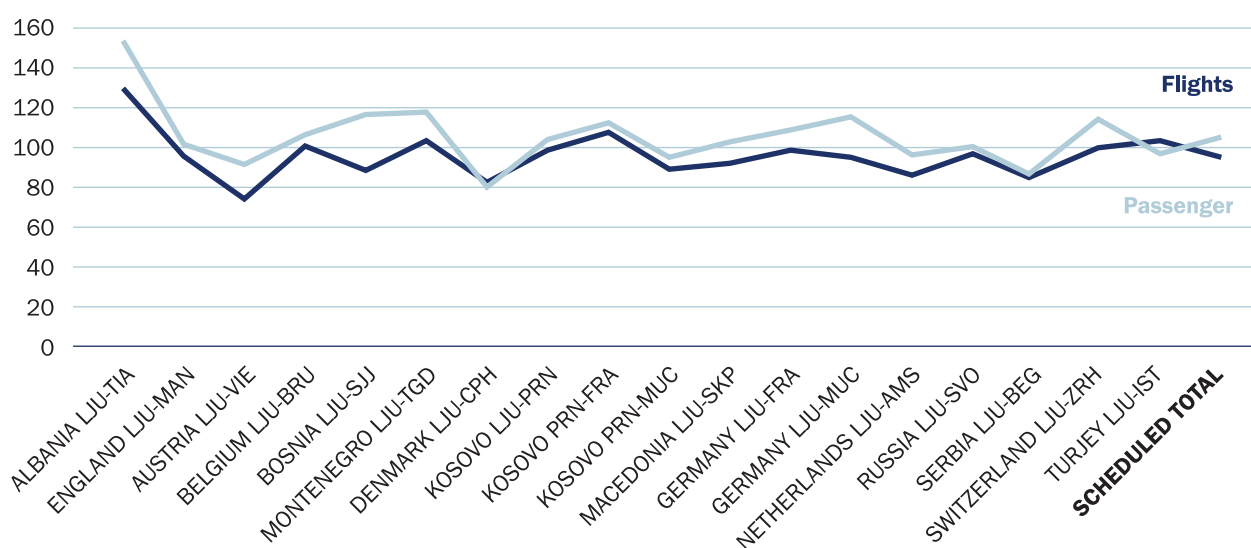
The routes, on which we reduced the number of flights and increased the number of passengers are: on the Sarajevo route, the number of passengers increased by 16% despite a decrease in the number of flights by 12%. The decrease in the number of flights and an increase in the number of passengers was achieved on the routes of Skopje, Munich, Manchester, Frankfurt and Pristina.

On the Zürich route, we increased the number of passengers by 14% with the same number of flights as in 2012. On the Moscow route, we reduced the number of flights by 4% YOY but kept the number of passengers flown the same.

The routes, on which we reduced the number of flights and the number of passengers are: Vienna, Copenhagen, Belgrade, Amsterdam and Pristina–Munich. In November, our competitor Air Serbia started flying on the Ljubljana–Belgrade–Ljubljana, which is why we started talks with the carrier on code sharing, whereby our efforts “took flight” in the beginning of 2014.

On the Istanbul route, the number of passengers decreased by 3% despite an increase in the number of flights by 2%. Flights have been leased and do not depend on the number of passengers.

Chart 18: **Passenger and flight number index by routes in scheduled transport 2013/2012**



Source: Internal Netline data

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## 8.2 Charter Transport

In 2013, we performed 2,290 flights, carried 169,964 passengers and realised EUR 24.6 million in revenue.

Sales activities in the charter segment were linked to two groups of products, i.e.:

- ad hoc charter flights on foreign markets,
- charter flight series that we fly for Slovenian and foreign tour operators that market their services on the Slovenian market, weekly charter flights on an aircraft stationed in Pristina, and incoming charter flights.

### Ad hoc charter flights

In 2013, we maintained our position of a reliable and quality carrier in the segment of the most demanding customers for ad hoc charter flights that demand thorough preparations as early as in the planning stage for the flight and a quality passenger service prior to, during and after the flight. We successfully continued the sales of ad hoc charter flights for end users from business, arts and sports.

### Series of charter flights

When it comes to series of charter flights, we followed the set objectives envisaging the maintenance of the position of the leading provider in the charter segment on the Slovenian market and optimisation of profitability in the times of the economic crisis and strained market conditions. The series of “outgoing” charter flights are linked to tourist flows in the Mediterranean and North Africa areas.

Despite the stiff competition of charter and low-cost airlines in the segment, we flew one weekly flight on the Pristina–Verona–Pristina and Pristina–Mulhause–Pristina routes with the aircraft stationed in Pristina as well as a few additional flights associated with the demand in the high season.

With our so-called “incoming” flights, we incorporate the products of Slovenian providers for foreign tourists. We added an additional weekly flight on the Ljubljana–London–Ljubljana route to the traditional destinations of Ljubljana–Tel Aviv–Ljubljana, and in August also a short series of flights on the Ljubljana–Kuwait–Ljubljana route.

The objective of activities was to design an optimum combination of various types of charter flights or “tourist flights” with the aim of ensuring the scope of flying and ad hoc charter flights that yield higher added value and enable us to achieve a better financial result so as to be able to respond more quickly to all market opportunities and significantly reduce exposure to unfavourable economic conditions and price pressures.

## 8.3 Media Space Marketing

### Communication through our own media

On account of their exclusivity, the media of airlines represent an attractive advertising environment as passengers are exposed to the advertising message not only during the major portion of the trip but also prior to the journey itself and after it.

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We take advantage of this fact as we use a broad range of various media, both printed and ambiental, to offer our clients various communication channels and individualised solutions. We select the means of communication with respect to the requirements of the client that uses the recognisable Adria Airways brand for effective communication and strengthening of their own brand. This is why the media of Adria Airways are an excellent tool for the promotion of prestigious brands and services of both domestic and foreign providers. Owing to the direct and constant contact with passengers, the media of Adria Airways are an excellent advertising environment. When marketing our own media, we carefully consider the value of the Adria Airways brand. We adjust the media for both the passengers in the business class and those in economy and charter flights. We select advertisers for our media primarily depending on how they complement our basic activity. The responses from our permanent advertisers are good as they report of good visibility and direct effectiveness of their advertising in our media.

### Realisation of media space marketing

In 2013, we sold advertising space in the following media of Adria Airways: in 6 issues of the In-flight Magazine, on the hull of an S5-AAJ, in distributed catalogues and flyers, on cups for warm beverages, LCD monitors and refreshment towels in business class. In addition to classic advertising, we carried out promotional campaigns on aircraft. Advertisers came from different fields and activities over the period in question. We intensively marketed our space with “First” and “Last Minute” offers as well as various packages and the linking of editorial contents in the In-Flight Magazine with advertisers. We attracted several new advertisers, especially in the fields of culture and tourism as well as one new client from abroad.

The causes for the drop in advertising revenue are: expressed drop in demand for advertising in media, especially by the automotive industry, reduced number of annual contracts with advertisers and partial discontinuation of the passenger service in the economy class. Because of the decrease in the scope of cooperation with vendors, we saw a time lag in the advertising of vendors that are contractually bound to advertise.

The objectives of the marketing of our own media are:

- strengthening our own brand together with advertisers who buy our advertising space,
- intensive marketing of media space on leased charter flights,
- maintaining revenues from the advertising of our own media,
- cooperating intensively with suppliers,
- cooperating intensively with advertising agencies,
- attracting new advertisers on the domestic market,
- attracting advertisers from foreign markets,
- improving the offer for passengers in cooperation with partners in the hotel and rent-a-car industries.

## 8.4 Cargo Transport

### Marketing strategy

Our priority is to maintain and strengthen the market position of the cargo transport provider in Slovenia and the countries of former Yugoslavia.

When it comes to offers, we will continue strengthening and searching for synergy-yielding solutions offered by the air and land/road transport services. By employing complementary services, we strive

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to attain growth and development of all products as well as to comprehensively manage the users of our services.

### Key factors in the business environment

Reduction in the scope of flying and the number of destinations in previous years has caused quite a few problems as did the planning of smaller capacities for destinations such as: Frankfurt, Istanbul, Skopje, Pristina and Tirana.

One of the big problems was the prohibition on the transport of lithium batteries in any form that entered into force on 1 January 2013 because of an amendment of international regulations governing dangerous goods as all such batteries are now classified as dangerous goods, for which Adria Airways does not have a transport licence.

We geared our market activities primarily towards the development and establishment of new partnerships in Italy and Turkey and towards the conclusion of new pro-rata shares with UA, KU, SQ and the overhaul of certain existing arrangements.

### Results

As compared to 2012, we recorded a drop in the amount of cargo carried in kg by 7.6% and an increase in revenues by somewhat over 1 percent. Despite the decrease in the scope of cargo carried in kg, we managed to increase revenues through an improved offer of services and thus gained the opportunity to increase the prices of services.

Table 8: **Comparison of cargo transport in kg**

| CARGO TRANSPORT in kg | Realisation 2012 | Realisation 2013 | 2013 / 2012  |
|-----------------------|------------------|------------------|--------------|
| Cargo                 | 1,172,634        | 989,405          | -15.6%       |
| Mail                  | 561,377          | 612,064          | 9.0%         |
| <b>Total</b>          | <b>1,734,011</b> | <b>1,601,469</b> | <b>-7.6%</b> |

Causes for smaller transport of cargo in kg:

- lower number of flights with smaller capacities,
- increase in passengers' personal baggage, which additionally decreases the space available for cargo,
- strong competition from foreign carriers,
- shortfall of cargo containing lithium/metal batteries (prohibition as of 1 January 2013) that are classified as dangerous goods and for which Adria Airways does not have a transport licence.

In order to achieve better results in the area of cargo transport by air, we must:

- increase capacities and competitiveness of our services using leased truck transports,
- promote direct routes from Pristina and Tirana to EU countries in cooperation with our agents abroad,

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- promote new routes to Warsaw and Prague,
- work actively on markets and acquire new business.

## 8.5 Education and Training

Adria's sales staff training centre is the only such school in Slovenia that currently educates our own sales staff, the agent network (in Slovenia and Macedonia) and the students of the Faculty of Tourism Studies at the University of Primorska (Turistica) that is based in Portorož (agreement on education).

The aim of such education is the training of the sales staff for the sale of transport documents of Adria Airways as well as those of other air carriers, primarily on the Slovenian and Macedonian markets. With the help of its TC, Adria is establishing a sales infrastructure, entering the company's general marketing and performing the function of a national air carrier on the Slovenian market. By way of its educational programmes, it enables agents to conclude and retain sales agreements with IATA and thereby their inclusion in the BSP (billing and settlement system).

As a member of Star Alliance (SA), we are obliged to educate our sales staff upon employment, i.e. about the alliance, its members, advantages for regular passengers, products and agreed procedures. The knowledge needs to be refreshed and upgraded from time to time. Education is intended for the broadest circle of staff that come into direct contact with passengers in the passenger air transports: booking and ticket sales, the agent network, check-in-staff, cabin crew, sales and passenger service and lost and found baggage. Education is provided in the form of e-learning that is organised via direct access to the Star Alliance programme.

Lecturers are instructors from Adria Airways with the lectures taking place at the Adria / Amadeus education centre in Ljubljana which also applies to the international IATA-UFTAA examination.

In 2013, we did not conduct the abovementioned education and training in Slovenia as only the international IATA-UFTAA examinations were carried out. They conducted three education programmes for the Macedonian marketplace in 2013 that were intended primarily for external associates – sales agents on the Macedonian market. In 2013, we began a comprehensive reorganisation of the training centre in terms of HR, organisation and contents.

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## 9. Investments

At Adria Airways, we devote a lot of attention to the investment policy. In addition to investments into aircraft, roto parts and aircraft maintenance equipment, the investment strategy is also based on investments into latest computer-assisted technology and suitable work premises.

### Investments in aircraft, roto parts, real estate and miscellaneous items

Major aircraft maintenance work in 2013 was worth EUR 3.85 million and involved:

- the repair of two engines for the CRJ200 fleet and one engine for the CRJ900 fleet (replacement of components),
- three C checks on an A320 and both A319s as well as 1 partial C check on an A319,
- replacement of landing gears on an A320,
- installation of an anti-collision system on A319 aircraft,
- three C checks and 1 partial C check on CRJ900 aircraft,
- two C checks and 1 partial C check on the CRJ200 fleet.

We invested EUR 199,000 in the purchase of roto parts.

We invested EUR 329,000 for the acquisition of other assets, i.e. IT equipment, software, licences and construction work on the air operations facility.

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## 10. Flight Network

The concept behind Adria's flight network that uses the Ljubljana airport as a hub provides good connections between Western and SE Europe. We divide scheduled flights into three daily and one night rotation, whereby flights to W Europe are scheduled in the first and thirds rotations, while flights to SE Europe destination are scheduled in the second and night rotations. Flights to European hubs (Frankfurt, Munich, Vienna, Zürich, and Brussels) allow passengers to continue their journeys across the globe with other carriers in the Star Alliance network. From December 2010, we provide direct flights between Pristina and Frankfurt and Munich as well as good connections through the said hubs, and from April 2014, we have also been providing direct flights between Tirana and Frankfurt, Pristina and Malmö and also Munich and Lodz.



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In the 2012/13 winter season, we had a total of 169 weekly frequencies. As compared to the previous winter season, we reduced the number of weekly frequencies to Amsterdam from 5 to 4, and from 8 to 5 for Belgrade, from 8 to 7 for Moscow, from 12 to 11 for Skopje, from 7 to 5 on the Pristina–Munich route, while we increased the number

of frequencies from 2 to 3 per week on the route to Copenhagen. We also increased the number of weekly frequencies on the Pristina-Frankfurt route from 4 to 6. The number of weekly frequencies remained the same on the Brussels (13), Frankfurt (24), Istanbul (7), Munich (21), Podgorica (3), Pristina (7), Vienna (21), Sarajevo (6), Tirana (7) and Zürich (17) routes. We discontinued the Marseille route as early as in December of 2011, while we continue flying on the Pristina–Verona route twice a week.

As part of the summer flying schedule, we had a total of 179 weekly frequencies. In comparison with the previous summer season, we increased the number of weekly frequencies on the route to Tirana from 7 to 10. The number of weekly frequencies was decreased on the Amsterdam (from 7 to 6), Belgrade (from 6 to 5), Copenhagen (from 6 to 5), Pristina (from 8 to 7), Sarajevo (from 6 to 5), Skopje (from 11 to 10) and Vienna (from 21 to 14) routes. The number of weekly frequencies remained the same on the Brussels (13), Frankfurt (24), Istanbul (7), Manchester (2), Moscow (8), Split (1), Zürich (20), Pristina–Frankfurt (6) and Pristina–Munich (5) routes. During the summer season, we discontinued scheduled flights on the routes to Barcelona, London and Pristina–Verona, and re-established flights on the route to Paris with a seven times a week frequency.

In the 2012/13 winter season, we had a total of 147 weekly frequencies. In comparison with the previous winter season, we decreased the number of weekly frequencies on the Amsterdam (from 4 to 3), Brussels (from 13 to 12), Copenhagen (from 3 to 2), Frankfurt (from 24 to 21), Munich (from 21 to 14), Sarajevo (from 6 to 5), Skopje (from 11 to 10), Vienna (from 21 to 12), Zürich (from 17 to 15), Pristina–Frankfurt (from 6 to 5) and Pristina–Munich (from 5 to 4) routes. The number of weekly frequencies remained the same on the Belgrade (5, but we discontinued the route in the beginning of 2014), Istanbul (7), Moscow (7) and Podgorica (3) routes. We discontinued scheduled flights on the Pristina–Verona route. The number of weekly frequencies was increased on the Tirana route (from 7 to 10), while we introduced a new route to Paris (4 weekly frequencies).

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## 11. International Relations and Relations with Other Air Carriers

Adria Airways has been a member of the AEA (Association of European Airlines) for many years. The reason for us joining the ERA (European Regional Airlines Association) in 2013 were the active involvement and exchange of opinions on issues that relate specifically to the regional European airlines in the fields of the environment, safety and competition.

### 11.1 Membership of Adria Airways in Star Alliance

In the globalised world, association is inevitable as it enables the presence of a company in global air transport. It is because of this that Adria Airways, under the sponsorship of Lufthansa, became a regional member of the leading global airlines association, the Star Alliance, in 2004 and its fully-fledged member in January of 2010. Today, 26 airlines within the Star Alliance offer the most efficient, fast and friendly connections to 1,328 destinations in 195 countries around the world. Through the Ljubljana airport, Adria Airways connects the Star Alliance network with other airports in SE Europe.

Membership provides Adria Airways with enhanced global recognisability as its logo appears on an equal footing with those of other carriers in various communications channels of the Star Alliance association. Membership also enables our cooperation in global sales products as well as access to common technical solutions that improve the quality of services for our passengers. Last year, we offered an improved offer of Asia Airpass tickets to our passengers for travel across the Asian continent and provided faster access to a lot of useful information on products and benefits of the Star Alliance to mobile phone users.

### 11.2 Cooperation of Adria Airways with Foreign Air Carriers

Based on bilateral agreements on cooperation in the area of recognition of plane tickets and the design of an offer on connecting flights, Adria Airways works with more than 120 foreign airlines. Such agreements provide it with greater reach of its sales which is highly important because of the limitations of the domestic market and the costs of building its own sales network abroad. Cooperation in the form of an agreement on code sharing that provides for improved marketing of flight connections and greater flexibility in designing market offers is especially intensive.

In 2013, Adria Airways deepened its cooperation with Turkish Airlines by signing a code share agreement on the Ljubljana–Istanbul route and expanded the agreement with SAS Scandinavian Airlines System for the Ljubljana–Helsinki route.

In 2013, Adria Airways performed flights under a code share agreement with ten partner airlines on 18 scheduled flights:

Ljubljana–Belgrade with Air Serbia,  
Ljubljana–Brussels with Brussels Airlines,  
Ljubljana–Vienna with Austrian Airlines,  
Ljubljana–Frankfurt with Lufthansa,  
Ljubljana–Geneva (connection via Zürich) with Swiss International Airlines,

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Ljubljana–Göteborg (connection via Copenhagen) with SAS,  
Ljubljana–Helsinki (connection via Copenhagen) with SAS,  
Ljubljana–Istanbul with Turkish Airlines,  
Ljubljana–Copenhagen with SAS,  
Ljubljana–Moscow with Aeroflot – Russian Airlines,  
Ljubljana–Munich with Lufthansa,  
Ljubljana–Oslo (connection via Amsterdam and Copenhagen) with SAS,  
Ljubljana–Podgorica with Montenegro Airlines,  
Ljubljana–Stockholm (connection via Copenhagen) with SAS,  
Ljubljana–Zürich with Swiss International Airlines,  
Ljubljana–Warsaw (connection via Vienna and Munich) with LOT Polish Airlines,  
Pristina–Frankfurt with Lufthansa,  
Pristina–Munich with Lufthansa.

The share of Adria Airways passengers who travelled on connecting flights with foreign air carriers in 2013 reached 30% and increased by 3% YOY.

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## 12. Quality

In 2013, we marked the 10<sup>th</sup> anniversary of the acquisition of the ISO 9001:2000 certificate for passenger and cargo transport, aircraft maintenance and aviation training that was awarded to us by the Slovenian Institute of Quality and Metrology, member of IQNET. By obtaining the said certificate, Adria Airways completed the introduction of a comprehensive quality system. In 2013, we continued the maintenance and development of the quality system. In June of 2013, we passed the regular annual external audit without non-compliances.

The Quality Management System in accordance with ISO 9001:2008 also includes the Operator's Quality System.

The Operator's Quality System, for which we acquired the JAR-OPS 1 certificate in 2001, allowed us to start introducing routes within the EU at the end of 2001. The acquisition of the EU-OPS certificate allowed us in the middle of 2008 to implement the transition to EU-OPS legislation that replaced the JAR-OPS 1 standard that applied until then. By obtaining the new AOC, we will have completed the transition to the new EU aviation regulation (Air Operations Regulation (EC) 965/2012)) no later than by 28 October 2014. Within the scope of the Operator's Quality System, we provide for membership in the IOSA (IATA Organizational Safety Audit) airline register, which needs to be renewed every two years based on a successfully passed IOSA audit. As the sixth airline in the world to receive its first IOSA certificate as early as in 2004, we successfully passed the sixth IOSA audit in November of 2013 and thus extended the validity of our IOSA certificate until 26 March 2016. In accordance with the new IOSA requirements, the so-called E-IOSA, we began implementing internal audits based on the E-IOSA standard in December of 2013. With its mechanisms, the Operator's Quality System ensures compliance with all legislative requirements and the observation of good practices in the fields of aviation's safety and security.

In 2013, we continued the setup of an integrated quality system that includes the existing Operator's Quality System and the ISO 9001 quality management system in accordance with the guidelines of ICAO, IATA and the EU Air Operations legislation within the scope of SMS (= Safety Management System) that was adopted in October of 2012. In organisational terms, this was implemented in the form of an SQS (= Safety, Quality & Security) organisational unit, which comprises experts in flight safety, security and emergencies, the Operator's Quality System manager and the director of the integrated quality system who is simultaneously the representative of the management in accordance with ISO 9001. Such an organisation enables the achievement of synergy effects and rationalisation of expert associates in the field of aviation safety, quality and security, while providing the operator's responsible manager with competent and comprehensive expert support in the management of the airline – through formalised forms of management and as appropriate.

In line with the plan, we completed the setup of the SMS in 2013, including the introduction of the Safety & Compliance Management System (S&CMS), the required IT tool (GALIOT SMS and SQM) and continued with the planned promotion of safety (Safety Promotion 2013). In the plan for 2014, we envisage the complete adaptation of our S&CMS to the EU aviation regulation that enters into force on 28 October 2014 and the associated adaptation of the IT tool for the purposes of our SMS & CMS. In the last quarter of 2014, we envisage the start of preparations for the harmonisation with the changes brought about by ISO 9001:2015.

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## 13. IT Solutions

In the IT arena in 2013, we continued the planned development geared primarily towards improved utilisation of IT aimed at increasing sales, lowering operating costs and improving operational processes.

In accordance with the ICT development plan, a lot of attention was devoted to the website and the improvement of the passenger experience. The results of improvements made were already evident in the last quarter of the year when we recorded a growth in Internet sales of 15%, and the trend is continuing in 2014 as well as we achieved growth in Internet sales of as much as 50% in Q1 as compared to Q1 of 2013. We will continue implementing improvements of online passenger services in 2014 as well. In addition to the improvements of the website, we modernised the Call Centre as part of the cooperation and communication with passengers.

Within the scope of business process optimisation, we overhauled IT support for cost planning and monitoring and the charter process (Atennea). We have set up IT support for SQS processes (introduction of the SQS system, the Galiot) and carried out measures for increasing the usability of the Netline system for flight operation management. We began implementing the project for the overhaul of the documentary system and the intranet portal of Adria Airways that will be completed in 2014. We have finally harmonised the concept for the introduction of tablets into flight operations (EFB) that will be implemented in 2014. The project is set to be completed in 2015 upon the completion of certification processes.

In the area of IT infrastructure, we focused primarily on reducing costs of the transfer of data in air transport. Based on a comprehensive analysis of transport, we have defined and implemented measures for reducing the costs of data transfer. We already managed to lower the costs of transport in 2013 and will continue our efforts in this arena in 2014 as there are still opportunities for improvements. We have completed the overhaul of the IT network at all representative office of Adria Airways abroad and at the Ljubljana airport. In line with the plan, we carried out regular investments into IT equipment that provide for better reliability of operation of Adria Airways' IT system.

## 14. Risk Management

Risk assessment – assessment of the probability of the occurrence of critical circumstances and consequences and their resolution is performed systemically once a year, namely at the start of the year. Custody over the performance of assessments is divided between management staff and expert associates, while the reporting on the assessments is part of the annual management review where relevant preventative and corrective measures for the mitigation of risks or their potential consequences are confirmed. The most attention is devoted to critical risks, i.e. risks that can materially affect the change of profit or loss.

Concurrent management of risk or changes in the probability and the potential consequences during the financial year is defined in part at sector level where the responsibility for management is held by the director of an individual division, and partly at the level of the company's Management Board (risks relating to the company as a whole). In line with the above, resolutions as to the measures for the resolution of critical risks relating to a particular division are adopted at the respective division level (reporting at the company's college), while resolutions regarding the measures for the resolution of critical risks that exceed the level of an individual division or relate to the company as a whole are adopted at weekly colleges of the company.

### Operational risks

#### Market risk/possibility of a recession

For 2013, we planned to perform 2% fewer scheduled flights but carry 3% more passengers alongside a 3% increase in revenue per passenger. Despite the continuation of the recession in Europe, the carriers of the AEA transported 2.6% more passengers on average in 2013 or realised 4.4% more passenger kilometres on 2.4% more flights – on routes within Europe. In 2013, Adria performed 5% fewer flights and carried 5% more passengers. Through the improvement of the capacity management process, we increased the load factor to 73.1% (by 6%).

One of the continuous measures for risk mitigation is the adjustment of capacities both in terms of decreasing the number of frequencies and in terms of flying smaller aircraft in case of reduced demand or flying larger aircraft on fewer frequencies, which allows us to reduce the cost per passenger seat. In the coming winter season, we thus reduced the number of weekly frequencies on the routes to Amsterdam, Copenhagen, Frankfurt, Munich, Sarajevo, Vienna, Zürich and Pristina–Munich. We also took into account the changes in demand and limited the number of individual unprofitable flights on individual routes.

The second measure is the lowering of prices or the continuous offer of affordable ticket prices, whereby we strive to attract the segment of passenger that has a level of price elasticity. To this end, we introduced the “First Minute” sale concept in 2013 that allows the price-sensitive passenger segment to purchase tickets at low prices in case of an early purchase. The same applies to special offers of ticket prices that we regularly publish on the website and the “Top of the Week” offer, within the scope of which we alternate between offering attractive prices for individual scheduled routes.

Aiming to increase sales, we additionally strengthened our activities in the area of special offers and sales incentives for the sales network in the last quarter.

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## Competition/possibility of an increase in competition

Wizzair flew on the London route in 2013. They fly to the Charleroi airport, which represents direct competition to Adria's flights between Ljubljana and Brussels. The number of competitive flights to Paris decreased as Air France only flies one flight a day on the route (they had two flights in the previous year), and Easyjet no longer flies on that route. Despite competition from Wizzair, we increased the number of passengers on the Brussels route by 6% with the same number of flights.

In 2013, Adria Airways carried 774,173 passengers from LJU (7% more YOY) and held a 71% market share (4% less than in 2012). Together, the other carriers transported 316,768 passengers (23% more than in the previous year) and achieved a 29% market share (11% more YOY).

Additional competition represents greater pressure on prices and a decrease in profitability of certain routes; however, we try to adjust the price structure and revenue management processes as well as maintain proactive contacts with agents and key customers in order to maintain the market share and simultaneously ensure the economy of routes.

## Limited airport capacity/inability to increase capacities

In the summer season, we decreased the scope of flying by one daily frequency on the Vienna route and one weekly frequency on the Copenhagen, Belgrade, Sarajevo, Pristina, Skopje and Amsterdam routes. We additionally reduced the number of frequencies in the winter season (Amsterdam, Copenhagen, Frankfurt, Munich, Sarajevo, Vienna, Zürich and Pristina–Munich). We consequently lost our historic slots for the mentioned frequencies for the following summer and winter seasons. On the other hand, we added flights to Paris in the summer flight schedule and managed to obtain available slots on this primary international hub despite the limited availability of flight slots. The slots we obtained allow connections between Paris and the existing network of flights towards the Balkans through Ljubljana; we needed to adapt the departures for Balkans routes to later flying times, whereby we extended transfer times in Ljubljana for passengers who travel from Western Europe to the Balkans. In the winter season, we also managed to ensure suitable slots on the Paris route without our historic rights.

## Delays in European air transport/possibility of an increase in delays (number and duration)

In 2013, we took 4<sup>th</sup> place out of the 24 AEA carriers in terms of timeliness; we had 88.1% of flights that were delayed less than 15 minutes.

Because of the relatively low growth in capacities in Europe in 2013, there were on average fewer delays than in 2012 – AEA carriers had only 16% of the flights delayed by more than 15 minutes (16.5% in 2012).

## Legislation and EU regulations/possibility of a negative effect of legislation on operations

The international airline industry is subject to international, European and national regulations that intervene in most of the activities of air carriers. This framework applies both on the level of commercial activities (competitive market environment, licences for commercial flying, rights to enter flight routes and flight slots, liberalised price regime) and the level of operational standards relating to the areas such as safety, security, noise and passenger rights. The opening of the market between the EU and other countries provides an ever decreasing

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influence of legislation on the ability to perform flights between two countries.

The inclusion of the EU airline industry into the greenhouse gas emission trading scheme has been temporarily suspended as a global solution is being sought for carriers with registered office outside the EU. Despite this, the legislation applies to flights within the EU, which causes higher costs to European airlines. We mitigate the risk or try to neutralise it by charging surcharges for emissions upon the purchase of plane tickets.

**In terms of the labour force** there are currently quite a few long- and short-term risks that the company is facing. Some of these risks are:

- The provisions of collective agreements for pilots and cabin crew regarding the prescribed rest periods and other limitations on planning that obstruct or prevent the actually performed maximum work obligations of individual crew members. Provisions on the amount of annual leave and the method of availing said leave (use of annual leave during the season) prevent optimisation of the number of cabin crew members.
- Reduction of the number of employees without the simultaneous restructuring and optimisation of work processes both substantively and in terms of IT support for processes increase the risk of workers becoming burned out thus becoming demotivated, which could in turn lead to a drop in the quality of the work performed.
- Potential new labour disputes between employees and the employer represent a risk not only to the company as a result of potential financial obligations, but also as a result of friction between employees which the company recognises as an operational risk.

### Operational risks (airport services)

We manage the costs of airport services by:

- selecting the most favourable provider on the market – applies only to the bigger airports with more than 2 million passengers on scheduled flights,
- purchasing services that we actually require at the airport – applies only to airports with several ground supply providers,
- planning a suitable aircraft type with respect to the number of passengers, the airport cost and length of the flight.

### Business environment

The Operational and Financial Restructuring Programme (hereinafter: “Restructuring Programme”) that the company adopted in the fall of 2011 with the prior consent of the Government of the Republic of Slovenia features measures that are mostly the responsibility of the company, but also measures that the Republic of Slovenia is responsible for. Considering that, during the restructuring, the company actively called on the Republic of Slovenia to implement the envisaged measures because the mentioned unsuccessful regulation of the business environment negatively affects the achievement of the set business objectives. Taking into account the fact that the Government of the Republic of Slovenia has confirmed the Restructuring Programme, which already envisaged the effect of: (i) the cancellation of the insurance period with a bonus for flight personnel, (ii) regulation of the terminal navigation cost policy at the Ljubljana airport, (iii) regulation of the effects on fuel prices at the Ljubljana airport and (iv) changes of landing procedures for certain flights, the company is justified in expecting that the RS will regulate the business environment suitably and provide the air carriers with a competitive environment for operations.

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## Legal risks

Legal risks are risks of losses occurring because of violations or incorrect application of laws, implementing regulations, instructions, recommendations, concluded contracts, good practices or ethical norms. The company is exposed to the risk of losses on account of unintentional violation of laws and other legal acts as well as concluded contracts on a daily basis.

The setup, operation and verification of the internal controls system and risk management are activities that the company improves and upgrades intensively. The company regularly audits and adopts internal acts, whereby it strives to reduce the likelihood of damaging consequences occurring or prevents actions that could cause such consequences.

The company operates in international markets so it must adapt to broad legislative requirements and foreign legislation. Certain business activities are subject to legislation that changes constantly and is becoming increasingly restrictive and associated with the assurance of civil aviation safety, environmental protection and passenger protection. Nearly every legislative amendment usually implies higher operating costs and the possibility of lower demand, which is why the company studies the impact of legislative amendments, which are under preparation, even prior to an amendment entering into force. As an interested public, it tries to influence legislative solutions within the legislative process with proposals.

The company is currently involved in several proceedings before courts of law. The simultaneous negative result of most of the proceedings could negatively affect the cash flow and the entire operations or even threaten the existence of the company. The highest claim is represented by a claim for damages in a commercial dispute. It is followed by numerous labour disputes that currently represent the highest risk for the company because of the current case law. The risk of negative results is mitigated with the help of external legal representatives. The company has also recognised the existence of the potential filing of several new labour lawsuits that could follow the court's decision in a concluded dispute (or in the interim judgement) from 2013 and is linked to the method of decreasing salaries and accounting salaries at the company in the 2009–2012 period.

### Labour disputes arising from student work

Several students who performed occasional student work at the company based on referrals from the student service have filed lawsuits with the Labour and Social Court in Ljubljana, specifically the External Department in Kranj. All lawsuits were filed so as to prove the illegality of the termination of the employment relationship after the workers were not needed by the company according to the plan. The lawsuits also relate to the recognition of the existence of the employment relationship, the payment of the difference in the salary and transport expenses, the payment of social security contributions, payment of per diems and the holiday pay as well as the payment of salaries and salary compensations – all with default interest. All plaintiffs claim that elements of an employment relationship existed from the very beginning of their work and that their work did not differ in terms of scope or substance from the work performed by employees who have concluded written employment contracts with the company for the same positions of employment. They request the court to find that they were in an actual full-time employment relationship over the entire period of performing student work, that the company had terminated their employment relationships unlawfully and that it is obliged to invite them back to work and recognise all of their rights arising from the employment relationship for the entire period as well as pay them the associated pecuniary obligations arising from such a relationship with statutory default interest.

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The position of the court and case law are currently in favour of the plaintiffs. The court last granted the claims of two plaintiffs for the recognition of the existence of an employment relationship and found: that the student work of both plaintiffs represents an employment relationship for an indefinite period and on a full-time basis, that the company is obliged to hand them a written employment contract for an indefinite period on a full-time basis for a set basic salary, that the plaintiffs' employment relationship with the company did not terminate and that it still lasts, that the company must invite them back to work and recognise all of their rights from the employment relationship from the time of the unlawful termination of the employment relationship up to their return to work, register them for compulsory social insurance, account and pay their salary compensation and other receipts relating to work as if they had worked, and retroactively account and pay the difference between the salary they received and the salary they should have received after taxes and contributions (as the one to which employees are entitled pursuant to the collective agreement), as well as account and pay the difference in the reimbursement of holiday pay, all with statutory default interest.

The positions taken by the Supreme Court in the lawsuit are also in favour of certain other plaintiffs in similar labour disputes that are conducted against the company. There is a likelihood that all of the claims will be resolved similarly in the meantime, which represents a high risk for the company as the financial effects are extremely high.

The company has grounds not to expect new lawsuits in the future nor any subsequent risk arising from such lawsuits. Students who performed cabin crew work based on a student referral until 2013 and demonstrated willingness for further cooperation have been or will be employed in 2014. Notwithstanding the above, the company will only use student work in the future as a form of occasional work in cases of temporarily increased scope of work.

## European Commission

On 20 November 2012, the European Commission instituted a formal investigation procedure pursuant to Article 108(2) of the Treaty on the Functioning of the European Union because of the alleged illegal and incompatible state aid that the Republic of Slovenia or the entities under the control of the Republic of Slovenia awarded to the company between 2007 and 2011. The resolution on the institution of the formal procedure was published in the Official Journal of the European Communities on 8 March 2013.

The following are subject to the formal investigation: capital increase in 2007 by EUR 10.9 million; funds, of which 99.6% were paid by KAD; capital increase in 2009 by EUR 2.36 million, whereby 99.5% were paid in by KAD; capital increase in 2010 by EUR 2.5 million, whereby 80% were paid in by PDP; capital increase in 2011 by EUR 50 million by the Republic of Slovenia and the PDP and transformation of the debt into an equity holding by NLB (EUR 13.83 million) and the purchase of Adria Airways Tehnika d.d. (AAT) in 2010–2011 (approximately EUR 14 million) by PDP and Aerodrom Ljubljana.

On 21 January 2013, the Republic of Slovenia sent the requested information and filed comments against the resolution of the European Commission for the institution of a formal procedure, and later sent additional information and documents based on a request to do so from the European Commission.

The procedure is not formally conducted against the company but rather against the Republic of Slovenia. Within the scope of the said procedure, a decision will be issued that will, if unfavourable for the Republic of Slovenia, bind the Republic of Slovenia to recover from Adria Airways the amount that the European Commission defines as illegal state aid. The prospects of the outcome of the formal investigation procedure are difficult to assess with any certainty considering the currently known facts. We could expect the funds of the capital increases in 2007, 2009 and 2010 not to represent state aid to the benefit of Adria Airways. It is estimated; however, that the



capital increase in 2011 could be seen as state aid. But even if this were the case, it would not necessarily mean that the aid would be assessed as illegal. According to the currently available information, the possibility of the state proving that it was legal aid is at least the same as the European Commission assessing the state aid as not complying with EU regulations.

## High value commercial disputes

1. A former subsidiary filed a lawsuit against the company in 2012 because the company was supposed to have handed to the subsidiary an in-kind contribution upon the capital increase, the estimated value of which was supposedly too high. We assess the claim of the plaintiff as being unfounded because at least the fact of the component parts (individual assets (inventories) of the facility)) not being handed over is at issue as are the valuation of the damage incurred and its very existence because the plaintiff did not correctly calculate the economic value of the in-kind contribution or has calculated it in a way that is not in line with the rules of the financial profession and the enterprise valuation profession.
2. The State Attorney's Office of the Republic of Slovenia RS filed a lawsuit against the company and a creditor bank in the beginning of 2013 to find the loan agreement secured with a government guarantee void. The State Attorney's Office alleges that there a violation of the Republic of Slovenia Guarantee Scheme Act (ZJShemRS) and the Decree on the implementation of the Republic of Slovenia Guarantee Scheme Act has occurred in the conclusion of the loan agreement, i.e. in terms of the provisions on the rescheduling of short-term loans into medium and long-term loans, which is grounds for the loan agreement being void pursuant to the provisions of the Republic of Slovenia Guarantee Scheme Act (ZJShemRS). We assess the claim as being unfounded as the conclusion of the loan agreement does not represent a violation of the ZJShemRS and we further believe that all rescheduling operations were in compliance with the provisions of the applicable legislation in force and observed the said legislation, which means that there is no basis for claiming the loan agreement being void. In addition to the above, the rescheduling pursued and achieved the aim of the legislator that the latter pursued when formulating the provisions of the ZJShemRS.
3. A lawsuit was filed against the company in 2013 because of an alleged violation of contractual obligations by the company. The plaintiff is suing for the compensation of damages. Because the plaintiff's claim does not present the actual state-of-affairs and is entirely unsupported by evidence, the company assesses it as being unfounded.

## Financial risks

### Foreign exchange risk

Owing to its geographic diversification of business activities, the Company is exposed to foreign exchange risks, which means that the company's economic benefits can decrease in the event of an unfavourable change in the exchange rate of a particular currency. The key currency pair is still the EUR/USD, while we also monitor the following currency pairs, whereby our open positions of these currency pairs are relatively small: EUR/CHF, EUR/GBP, and to a lesser extent other currencies as well. Because of extensive cooperation with Swiss partners in the field of charter flights, we held a long CHF position during the summer season of the year under consideration.

The company's operations are most affected by the USD exchange rate movements, which is why we have been taking short positions in this currency throughout as the following is tied to USD: aircraft fuel, aircraft leases,

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provisions for aircraft maintenance, certain other maintenance costs, aircraft insurance, etc. In 2013, this exposure was lower as increased sales on the US market caused inflows in USD which represented a partial natural hedge.

We try to decrease exposure over the long-term by natural hedging, i.e. matching inflows and outflows, while we hedge a part of our short position by purchasing derivatives and leave a part of it unhedged in line with the adopted strategy. In 2011, all banks at which we bought derivatives, closed our lines of credit so that our strategies can no longer be realised in the way they were until now. We have slowly begun re-establishing lines of credit for FX products, which is going to allow us in the near future to start implementing the hedging strategy on the derivatives market as well. One line of credit with one bank has partly been released.

In 2011, the company disclosed a short USD position of approximately USD 50 million, which is less than in the past as sales on the US market have strengthened which in turn increased inflows in USD. The EUR/USD exchange rate affected our operations positively as the average exchange rate in the period was 1.33, while we planned for a rate of 1.26, which meant that we recorded an improved result, i.e. of EUR 2.1 million more.

### Credit risk

Credit risk is primarily the risk of non-payment of trade receivables by domestic and foreign buyers, whereby the risk is managed successfully by the Company as follows:

- buyer diversification;
- analysis of the financial operations of the buyer and risk assessment prior to the conclusion of an agreement for a deferred payment deadline;
- through IATA (International Air Transport Association), in which all air carriers with which we cooperate are members; most of the tourist agencies, our partners have a permit for the sale of IATA tickets; IATA members are subject to supervision and are penalised in case of non-observation of payment terms and conditions;
- by advanced payment for ad-hoc charter series;
- additional security for riskier receivables in the form of bank guarantees, bills of exchange and letters of credit;
- through a systematic and active process for receivables collection.

We did not record any significant lack of payment discipline in 2013, and revalued receivables for the said period in the amount of EUR 111,000.

### Interest rate risk

The risk of changes in interest rates is defined as uncertainty associated with future values of reference (variable) interest rates; LIBOR for USD and EURIBOR.

Nearly all long-term loans as at 31 December 2013 (with the exception of the loan from Gorenjska banka) are denominated in EUR and remunerated at the 3-month EURIBOR. In the past, we hedged a part of the loans by acquiring derivatives, but did not purchase new derivatives in 2013 and our long-term liabilities have also decreased. In April, we successfully rescheduled two largest IRSs, extending them until 2020. We also adjusted the amortisation plan for the largest loan and lowered the interest rate as the current key interest rates are significantly lower than upon the conclusion of the two IRS.

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## Liquidity risk

The monitoring and matching of the company's liquidity is the basic mission in the area of finance. Liquidity risk is the risk or threat of mismatched liquidity or a mismatch between matured assets and liabilities at the company, which can cause liquidity problems (shortage of cash for the settling of matured liabilities) or even the company going under.

In Q1 of 2013, the company faced an extensive challenge in ensuring liquidity. On 31 December 2012, the company drew the first part of the approved half of the revolving credit from NLB, and drew a total of EUR 4.15 million by the beginning of February. The company agreed with NLB for the second part of the funds to be secured through the sale of a CRJ200 aircraft, the proceeds from which we used for paying loan instalments in that and the following winter season when liquidity is poorest.

Q2 was very good in terms of liquidity because of sales, which is why the company created some reserves for the following months in addition to settling most of its old liabilities. The company sold tickets in advance and collected much of the proceeds from foreign carriers, which increased the outflows of other airlines in Q3.

In line with the Restructuring Programme, the company sold assets not required for operations throughout the year (the proceeds from the sale were worth EUR 7.3 million), which at least partly provided it with financing for the 2013/2014 winter season, while the company used a part of the proceeds for deleveraging (EUR 5.1 million).

For the first time after an extended period, the company balanced liquidity for the 2013/2014 winter season without additional revolving loans or reserves in the form of the company's deposits, which is why it partly managed liquidity through agreements with suppliers.

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## 15. Analysis of Operating Achievements

In 2013, we optimised costs and changed the business model envisaging a smaller number of frequencies on the same day on certain routes using larger aircraft. This measure reduced the number of flights which had a positive impact on cost reduction, especially of the costs of fuel, maintenance and airport services.

Throughout the year, we performed downsizing based on process optimisation, i.e. both in general services and the aviation part of the operations. We expect the bigger impact from this to occur in 2014, as we incurred severance pay costs in 2013.

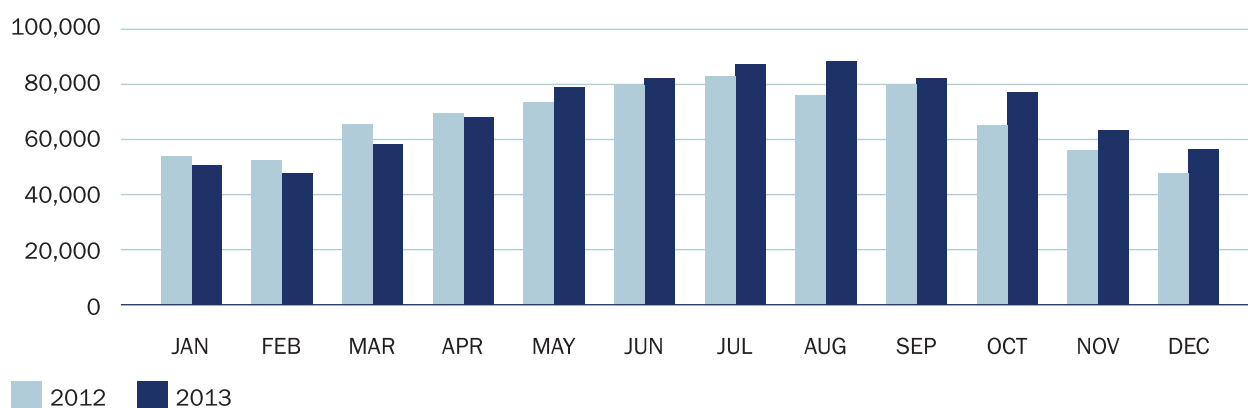
In the restructuring plan, the company set several objectives in 2013 in the business and HR portions of the restructuring as it carried out most of the financial portion already in 2011. The following objectives under the restructuring plan were achieved:

- number of planes: 11 – implemented; ✓
- number of employees: 397 including foreign labour force; implemented; as at 31 December 2013, the company had 390 employees, which is less than the objective set out in the restructuring plan; ✓
- we reduced the planned number of executed flights by 3.4%; ✓
- we exceeded the number of passengers planned under the restructuring by 3.7%; ✓
- we exceeded operating income by as much as 7.5% primarily on account of the increase in revenues per unit in scheduled and extraordinary transport; ✓
- we reduced financial liabilities to banks by as much as 21% as envisaged in the restructuring plan; ✓
- sale of assets not required for operations:
  - hangar 2 – implemented; ✓
  - A320 (S5-AAA) – implemented, sale completed in the beginning of 2013; ✓
  - CRJ200 – sale of the AAJ aircraft – implemented; ✓
  - facility C – not implemented, planned for; ✗
  - vacation capacities – partly implemented through the sale of five apartments, the process continues in 2014 – partly implemented; ✗ ✓

### Comments on the achieved physical operating performance indicators

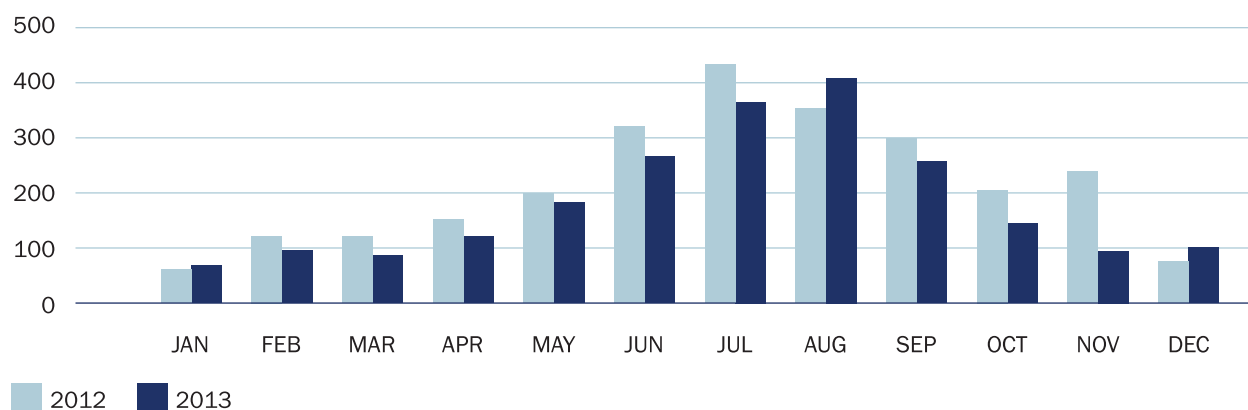
There were a total of 18,509 flights in 2013, which we reduced by 7% YOY. Despite the reduction in the number of flights, we carried 1,026,802 passengers, which is 4% more than in 2012.

Chart 13: **Comparison of the number of passengers in scheduled transport (monthly) for 2012 and 2013**



Source: Internal data

Chart 14: **Comparison of the number of charter flights (monthly) for 2012 and 2013**



Source: Internal data

In 2013, we flew 17,219 scheduled flights, which is 5% less than in 2012, and carried 856,838 passengers, which is 5% more than in 2012. In charter transport, we flew 2,290 flights, which is as much as 16% less than in 2012, and carried 169,964 passengers, which is the same as in 2012.

- The share of passengers on scheduled flights in the number of all passengers carried in 2013 was 83%, whereby the share of charter passengers was 17%, which is the same as in 2012.
- The load factor in scheduled transport was 73.15% and rose by 6% as compared to 2012. The number of available seats decreased by 3% as a result of fleet downsizing by one plane.
- The average daily aircraft utilisation rate was 7.44 hours and rose by 5% as compared to 2012.
- The average fuel consumption per flight hour was 1.50 tons and rose by 4% as compared to 2012.

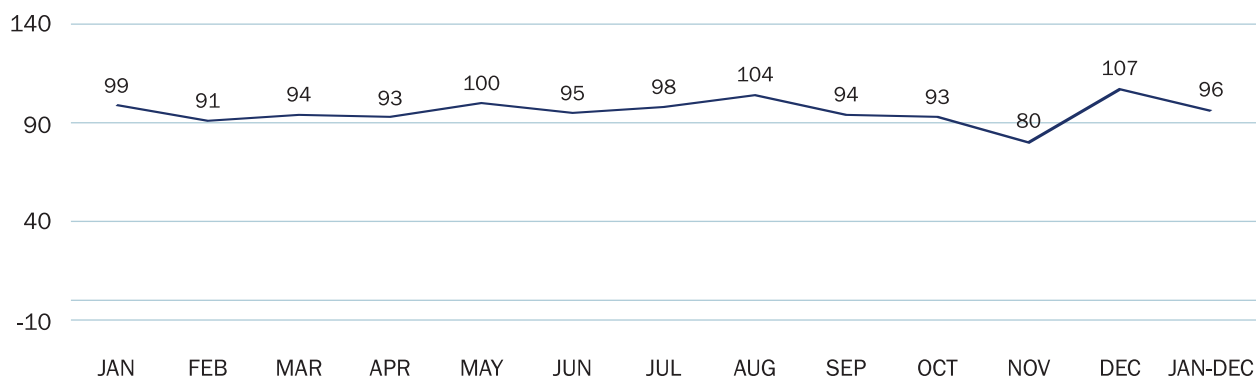
Total fuel consumption in 2013 was 43,420 tons and was 4% lower than in 2012, which is the result of the decrease in flight hours by 8% and an increase in average fuel consumption per flight hour by 4%.

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Chart 15: **Fuel consumption increase index (tones) 2013/2012**

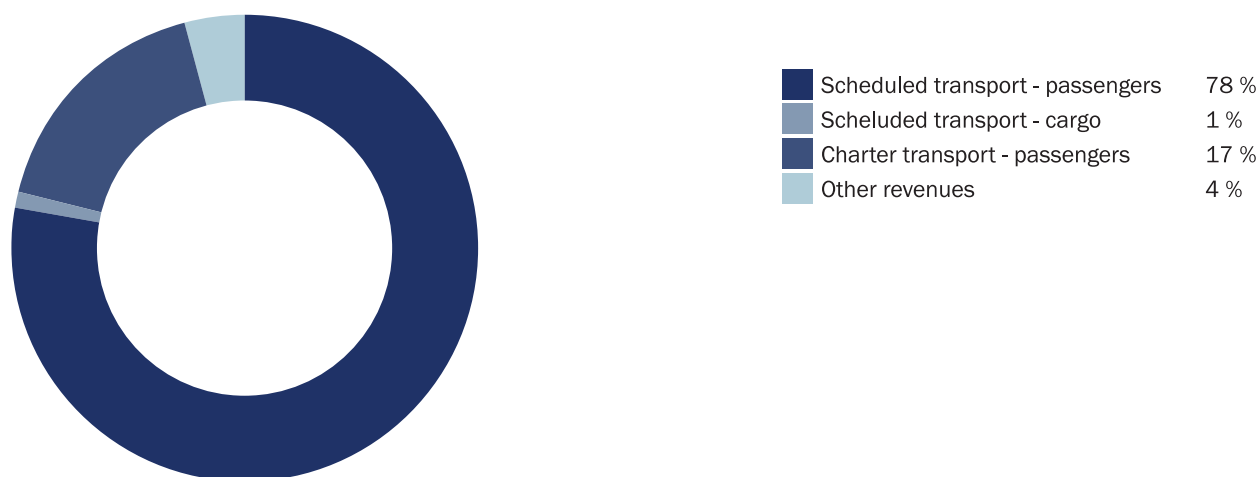


Source: Internal data of AA

## Structure of revenues

- Total sales revenues in 2013 decreased by 3% YOY.
- Their composition as compared to 2012 changed with an increase in the share of scheduled transport by 2 percentage points and by 1 percentage point from other activities or a decrease in the share of extraordinary transport by 3 percentage points.

Chart 16: **Composition of net sales revenues in 2013**



Source: Internal data of AA

- Revenues from the transport of passengers in scheduled transport in 2013 represented 78% of all operating revenues and increased by 2 percentage points YOY.
- Revenues from charter flights decreased by 3 percentage points primarily on account of fleet reduction and subsequently of ad hoc flights. Services were rendered primarily for demanding customers (automotive and pharmaceutical industries) and flying for sports clubs, etc. This is where our quality and reliability of the individual flight series come into effect.

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- Revenues from cargo transport remained the same as in 2012. Considering the intense competitiveness in truck transport in Europe, primarily in the Balkans, to which most of the transport offer is geared, our market niche has been and remains the transport of shipments of up to several hundred kilograms in weight.
- Other revenues arise from the other activities pursued by Adria Airways – revenues from education and advertising, revenues from booking charges and from commissions, revenues from rents for hangars, etc.

## Structure of expenses

**Production costs, selling costs and costs of general activities** decreased by 7.8% YOY, which is more than the decrease in the scope of flying that fell by 6.5%. The biggest contribution to the said decrease was made by lower fuel prices on the market and the measures we adopted in 2013, i.e. in the field of education and training and passenger supply. Maintenance costs were influenced strongly by the reduced scope of operations as compared to 2012.

**Costs of material and services** decreased by 10.5% in comparison with 2012, whereby the costs of services decreased by 10% and the costs of material by 11.5%, which was primarily due to the lower kerosene prices.

**Costs of material** decreased by 11.5% in comparison with 2012, primarily owing to the lower fuel consumption that decreased by 4% and the favourable USD exchange rate and the lower kerosene price.

**Fuel costs** are still one of the most decisive elements of our operations. The company has taken several measures for the mitigation of negative effect, i.e.:

- intensive implementation of the programme aimed at the reduction of fuel consumption,
- change of departure procedures and the beginning of the process of changes in arrival procedures at the Ljubljana airport.

**Airport costs** decreased by 3.7% as compared to 2012 and followed the reduced scope of flying. On external airports, the total savings in 2013 were lower than in previous years primarily owing to the fact that we already lowered the prices in previous years so much that further extensive reductions are no longer possible. Terminal navigation costs form a part of the airport costs. The costs of terminal charges in Slovenia are among the highest, which represents a cost of approximately EUR 1.7 million per annum for the company. Prior to 2006, we did not pay this cost. The prices of terminal navigation services in Slovenia remain unchanged despite our efforts aimed at lowering the prices of services to a level of the average in other European countries. In 2013, we managed to reach a business agreement with the Ljubljana airport and thus lower costs approximately as much as we did in 2012.

### Maintenance costs that decreased by 13.3% as compared to 2012 include

- regular aircraft maintenance costs – “maintenance reserves” that we pay to the aircraft lessors per hour flown – and all payments under agreements for the maintenance of aircraft and components,
- costs of services rendered for us by Adria Airways Tehnika.

Taking into account the scope of flying, the costs are lower YOY, which includes the fixed costs portion where we managed to achieve a reduction in 2013.

**Costs of leasing aircraft** are lower than in 2012 by 21% primarily owing to the agreement with the lessor on a reduced rent in 2013, one less CRJ200 plane and the weaker USD exchange rate.

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Both the number of employees (7% lower) and **labour costs** (5% lower) decreased in 2013 as compared to 2012 which was due to the following:

- entry into force of new collective agreements,
- lowering or termination of individual performance-based allowances and the variable part of pay,
- lower reimbursements for meals and transport of employees,
- downsizing for the purpose of process optimisation.

Key savings in the area of salaries arise from the agreement with the unions at the company concluded in December 2010 for the decrease in employee salaries and the included reduction of the starting salary according to the new collective agreement.

**Other operating expenses** were higher by 4% as compared to 2012 primarily because of the increase in commissions stemming from higher sales and the bigger scope of card sales and the associated commissions.

**Interest on loans** of EUR 1.5 million were 19% lower than in 2012 primarily because of the decrease in indebtedness and the lowering of key interest rates.

## Results

Adria ended 2013 with net loss that was 73% lower than in 2012.

The operating result was positive (EUR 1.15 million) and much better than in 2012 (EUR – 8.1 million). The result was not as good as planned and was EUR 2.35 million lower primarily on account of one-off events in 2013, i.e. the sale of an aircraft below the carrying amount and provisioning for court disputes and potential risks of new lawsuits.

The company recorded a negative income from financing activities of EUR 3.0 million, which is better than in 2012. In 2013, the company incurred EUR 1.2 million in other costs that resulted mainly from one-off events, i.e. the payout of compensations, penalties and costs associated with 2012. All of this caused a negative profit and loss of EUR 2.9 million.

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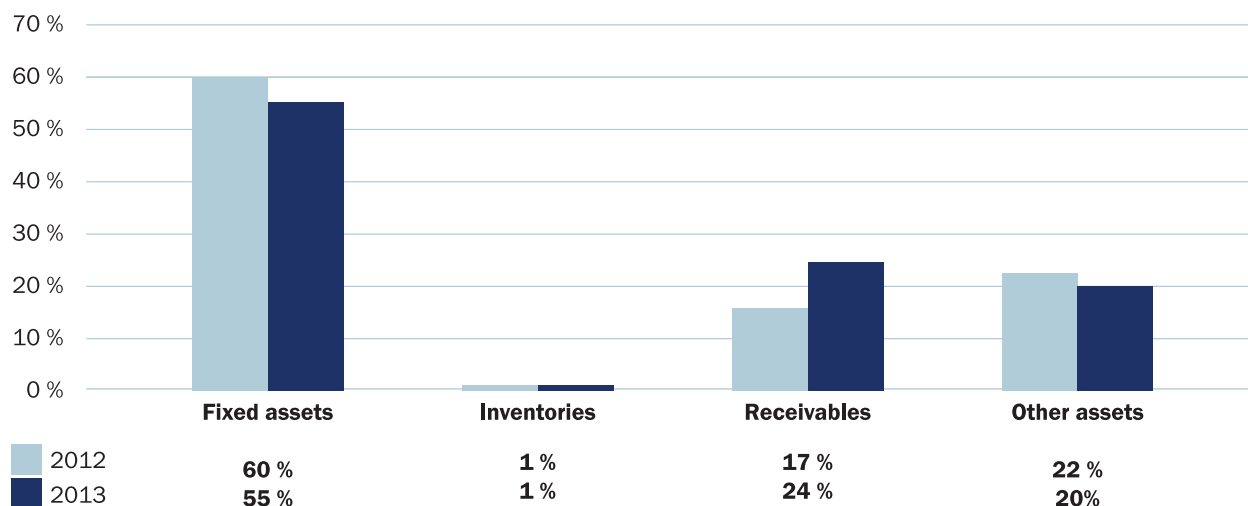
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## Structure of assets

- The balance sheet total as at 31 December 2013 was lower than in 2012 by EUR 11.5 million, whereby the structure of assets also changed:

Chart 17: **Structure of assets as at 31 December 2013 in %**



Source: Internal data

- 55% of all company's assets were fixed assets, 24% were receivables, there were almost no inventories, investment property decreased (these fall under other assets).
- The biggest portion of property, plant and equipment is represented by CRJ200-LR (4) and CRJ900-LR (2) regional aircraft. The increase in the value of aircraft relates to investment maintenance of CRJ aircraft, while the reduction relates to the accounted depreciation and write-downs.
- Long-term financial assets are represented by shares and participating interests in the group, i.e.: controlled company Amadeus Slovenija d.o.o., Adria Airways Kosovo L.L.C. and Adria Airways Letalska šola d.o.o.
- Long-term security deposits and receivables are mostly represented by security deposits given for aircraft and spare engines held under a long-term operating lease and receivables owed by GOAL for aircraft maintenance that we pay in line with contracts to the MTU maintenance organisation. They increased also because of the transfer of investments into a C check of leased aircraft from long-term prepaid expenses and accrued income. Long-term receivables increased also by the advance payment to EMS, card operations intermediary that required the advance because of the increased exposure as card sales increased the most. At the end of 2013, we also changed the purpose of the MTU engine maintenance contract and increased long-term receivables by the advance payment held by MTU for the repair of our engines.
- Short-term available-for-sale assets now include the CRJ200-AAE that has been grounded since the middle of January 2014 (its sale is planned for 2014) and vacation apartments that are in the process of being sold.
- Short-term financial assets are represented by deposits held with domestic banks that were given as collateral for bank guarantees.

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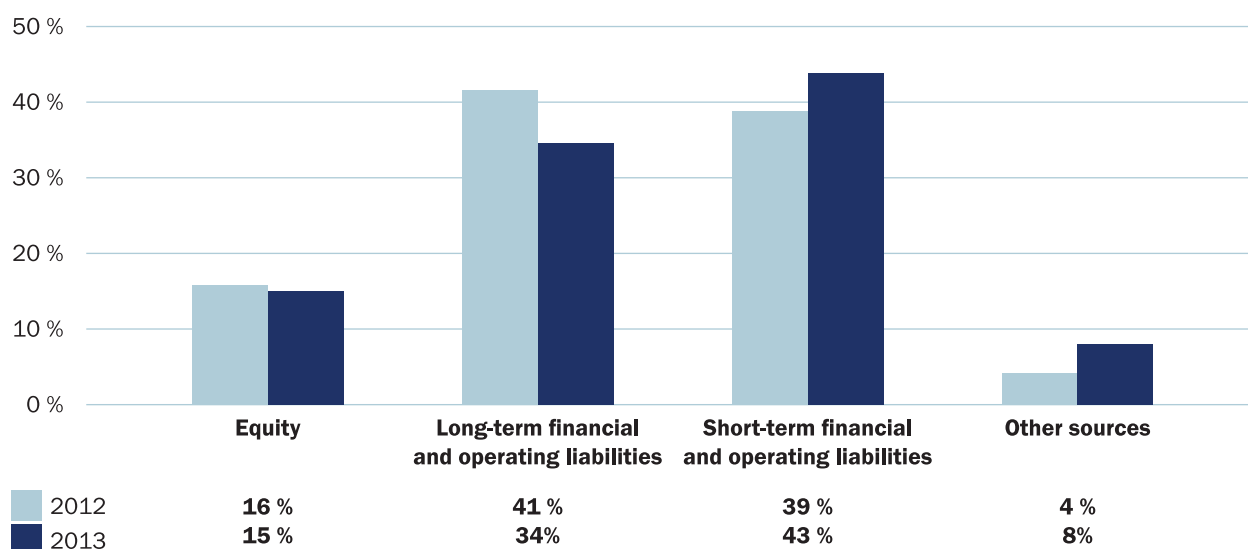
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## Structure of the sources of funds

Chart 18: **Structure of the sources of funds as at 31 December 2013 in %**



Source: Internal data

- The structure of the sources of funds in 2013 changed significantly primarily in the form of a significant decrease in the share of long-term financial and operating liabilities to sources and as an increase in short-term financial and operating liabilities to sources.
- The company's equity decreased because of the loss for the financial year so that it was EUR 10 million at the end of the year, representing 15% of the company's total assets.
- The company has no treasury shares and did not have any during the year either.
- The book value per share as at 31 December 2013 was EUR 2.84, while it was EUR 0.7 in 2012.
- Total provisions of EUR 0.6 million are represented entirely by provisions for pensions, jubilee bonuses and severance pay upon retirement. Other provisions of EUR 1.8 million were originated by the company as a result of the assessment of the ability to win in labour disputes, whereby the company recorded the established surplus during the inventorying of spare parts.
- Long-term financial liabilities that are represented by long-term loans from domestic banks decreased by 29%, as compared to 2012, while regular and extraordinary loan repayments were much higher than the additional revolving loan. In 2013, the company repaid EUR 10.9 million worth of loans.
- There are no more long-term operating liabilities because of the repayment of the loan that represented liabilities from a loan agreement with Petrol.
- Short-term liabilities to banks increased by 25% because of the increase in the short-term part of long-term loans.
- Short-term trade payables also decreased by 4% as compared to 2012.

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- Accruals and income collected in advance worth EUR 3.4 million relate to short-term accrued costs or expenses (interest on loans) and primarily to deferred revenues (charter flights, sold but unused coupons).

## Cash flow from operating activities

Cash flow from operating activities is positive at EUR 6.3 million and is EUR 7 million higher than in 2012. Cash flow from investing activities is also positive at EUR 4.4 million mainly because of higher receipts from the sale of assets not required for operations. Cash flow from financing is negative at EUR 10.8 million; we paid EUR 1.3 million in interest and repaid EUR 9.5 million worth of loans. A detailed calculation of cash flow is shown in the accounting portion of the annual report.

## Operating ratios

The basic financing ratios are geared towards the analysis of the company's financing and are important for long-term decisions on the Company's financing policy as well as to external users. In comparison with 2012, ratios have deteriorated mainly owing to the decrease in the company's equity resulting from the loss for the financial year.

Table 10: **Basic financing ratios**

| BASIC FINANCING RATIOS           | 2013   | 2012   | 2013 / 2012 |
|----------------------------------|--------|--------|-------------|
| Equity financing rate            | 14.65  | 15.58  | -6.0%       |
| Long-term financing rate         | 51.96  | 58.99  | -11.9%      |
| Equity to operating fixed assets | 0.2640 | 0.2593 | 1.8%        |

Source: Internal data

Solvency ratios are the most basic condition for the Company's good operating performance. It is important for the Company to have a suitable composition of current assets as an appropriate dynamic of converting such assets into cash enables it to settle its liabilities in a timely manner.

Table 11: **Solvency ratios**

| SOLVENCY RATIOS          | 2013 | 2012 | 2013 / 2012 |
|--------------------------|------|------|-------------|
| Immediate solvency ratio | 0.09 | 0.08 | 7.2%        |
| Quick ratio              | 0.52 | 0.50 | 4.1%        |
| Current ratio            | 0.54 | 0.52 | 4.0%        |

Source: Internal data

The values of solvency ratios are better than in 2012 because the company has higher-value liquid assets and lower short-term financial and operating liabilities.

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## 16. Going Concern Assumption

During the compilation of financial statements, the Management Board assessed the company's ability to continue operations as a going concern. Financial statements were prepared based on the assumption of a going concern as the Management Board does not intend to close down the company or suspend operations. When assessing whether the going concern assumption is suitable, the Management Board took into account all of the available information on the foreseeable future of no less than twelve months after the balance sheet date. In recent years, the company did not operate profitably, which is why it does not have immediate access to sources of financing and it is; therefore, impossible to conclude without a detailed study whether the going concern assumption is suitable.

According to the balance as at 31 December 2013, the company disclosed total equity of EUR 10.1 million, net loss for the financial year of EUR 2.9 million and a surplus of short-term liabilities over short-term assets of EUR 15.1 million. In line with the operating plan for 2014 (which is also confirmed by the operations in Q1 of 2014), the company did not require additional sources of financing in Q1. In 2014, the company managed to partially restructure its financial obligations and is still in talks for further restructuring, which will – according to the plan – reduce short-term financial liabilities by EUR 3 million. It also plans on securing sources of financing from the sale of the remaining assets not required for operations and thus create some reserve for the months with lower liquidity. Past due trade payables as at 31 December 2013 worth EUR 6.2 million have decreased over the first four months. We reached an agreement with one of the bigger suppliers on the repayment of liabilities by the end of September 2014, while the company has agreed on a financial limit with another supplier that allows for the payment of invoices after maturity up to a particular date.

The balance of long-term loans with financial commitments as at 31 December 2013 was EUR 24.4 million. At the end of 2013, some of the financial commitments under loan agreements were not honoured, which is why two larger creditor banks froze the enforcement of their rights arising from the violation of financial commitments under long-term loan agreements until 31 December 2014, whereby the company avoided the risk of cancellation of a part of long-term loans.

As at 31 December 2013, the company met all of the criteria prescribed by the legislation with regard to capital adequacy. Even after the balance sheet date, the Management Board regularly verifies whether all criteria are suitably met, but most of all whether the loss of the current year including losses brought forward exceeds half of the share capital. For cases when it does, the law envisages the assumption of insolvency, which does not mean that the company is actually insolvent, i.e. that it is insolvent in the long-term, because a different state-of-affairs may be proven. Based on the operating plan for the 2014 financial year, the realisation of operations in Q1 and the envisaged result for the following period, which is season-dependent and additional improvement of the mentioned parameters is demonstrated, the Management Board finds that the conditions for the institution of the insolvency procedure for the company have not and will not be met.

Based on the above, the Management Board has taken into account several different factors that affect the current and expected operations and profitability, loan repayment deadlines and possible swaps in financing, based on which it concludes that the going concern assumption is suitable despite the risks and uncertainties of the realisation of all measures.

The assessment of the Management Board regarding the going concern of the company was made under the assumption that the European Commission will not decide in the procedure involving the investigation of the

granting of alleged state aid to the company by finding that the company was the recipient of illegal state aid and that the Republic of Slovenia will consequently not require the company to refund said aid. The assessment is also based on the assumption that potential liabilities from incorrectly accounted salaries will not be higher than the created provisions as presented in detail in this annual report.

## 17. Events After the End of the Financial Year

- In 2014, the company continues its fleet optimisation efforts; in January 2014 when resources were depleted, one CRJ200 plane was grounded and we began activities for it to be sold. The second CRJ200 plane will be grounded in June as may be foreseen. Smaller aircraft will be replaced by the company with CRJ900 aircraft; a long-term operating lease for the first new CRJ900 aircraft began in the beginning of April 2014, while we expect the second aircraft at the end of May 2014.
- As set out in the 2014 plan and as a contribution to our own participation in the Restructuring Programme, the company is actively selling its subsidiaries, the C facility and two CRJ200 aircraft.
- In 2014 as well, the Tax Administration of the Republic of Slovenia continues its tax inspection of the corporate income tax for the 2009–2012 period that began in 2013.
- As of 22 April 2014, Adria Airways introduced the Sky Shop service on its flights. The service is available on most scheduled flights of Adria Airways in the economy class, whereby we intend to offer a part of the offer or a broader offer on scheduled charter flights. On the one hand, the introduction of services represents an enhanced offer and quality meals against payment, while on the other, it represents lower supply costs that will in the first phase be reflected in the savings of material that was previously part of the free-of-charge offer (food and beverages on certain flights). In the subsequent phases, when conditions for possible self-supply on the apron are known, they will also be reflected in the part of handling.
- With its summer flight schedule at the end of March 2014, the company introduced a new route to Prague and Warsaw and the Tirana–Frankfurt route.

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## 18. Plans for the Future

2014 will be of key importance for the company as it is set to complete the restructuring and build foundations for long-term stable operations. For the first after an extended period, the company plans on a positive P&L.

With forecasts of poor economic conditions in Slovenia, the company will focus more on foreign markets and try to achieve growth there. In total, we expect a sound 8.6% growth in revenues in scheduled transport and somewhat higher revenues in charter flights mainly on account of the increase in capacities.

In 2014, we plan to better utilise our assets and human resources. Because of the cost-ineffectiveness and the required extensive investment, we plan to replace two CRJ200 aircraft with two CRJ900 aircraft in 2014.

### Most important operational objectives of the company for 2014

#### Commercial area:

- increase in sales on the domestic and surrounding markets (decrease in the outflow of passengers, increase in sales in online segments (being better than the competition)), increase in sales on off-line markets;
- setting sales objectives for each BSP market, setting concrete activities;
- final implementation of the CRM system (system capture of analytical data that will be available to sales personnel, improved mutual communication, systemic information exchange, traceability of activities);
- increasing the number of commercial agreements with other airlines with the aim of diversifying the sales network and increasing the number of passengers;
- appearance on foreign markets in cooperation with the Slovenian tourist board, SPIRIT Slovenia;
- by continuing the implementation of the “First Minute” concept, we will change the purchasing habits of passengers, which will consequently allow us to improve the planning of aircraft capacities and revenues;
- selection of a sales representative and the setup of an agent network on the markets in Japan, India and Australia;
- determination of charter capacities, overhaul of sales price lists, introduction of an online portal for ad-hoc flights;
- increase in the transport of cargo in online segments and increase in profitability from cargo transport (targeted focus on high-end cargo transport);
- direct communication with sales staff – route managers, improvement of communications;
- introduction of a surcharge for additional services for passenger who buy tickets from agents and the passengers with foreign flight documents;
- increase in the efficiency of direct sales, merging of the Call Centre, Corporate Sales and the Passenger Service at the airport in Brnik.

#### Fleet composition for 2014:

- 1 A320 (S5-AAS) aircraft intended for passenger charter flights,
- 2 A319 aircraft (1 aircraft for scheduled passenger transport from the base in Pristina, and 1 aircraft for scheduled transport of passengers from Ljubljana),

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- 6 CRJ900 aircraft,
- 2 CRJ200 aircraft.

#### Costs of flying:

- An agreement was reached with the home airport, whereby we agreed on a certain amount of support for departing passengers.
- The measure for reducing costs at airports is a continuous activity.
- The fuel consumption reduction programme is continuing which in turn means lower costs of fuel.

#### Maintenance:

- lowering/maintaining the costs of base maintenance at the industry level for a given type of aircraft,
- reducing all fixed items of maintenance costs in line with the reduction in the scope of flying and the number of aircraft,
- maintenance of CRJ200 engines at the component level or replacement of engines that require major interventions, i.e. using engines from the global market.

#### Planned physical operating performance indicators for 2014:

- In 2014, we plan to have a total of 19,426 flights, which is 0.4% less than in 2013, and 29,943 flight hours, which is 3.6% more than in 2013.
- On scheduled routes, we will carry a total of 970,555 passengers, which is 13.3% more than in 2013, and attain a load factor of 73.5%, which is 0.5 percentage points more than in 2013.
- In charter transport, we plan on 2,279 flights, which is 0.5% less than in 2013. The planned number of passengers carried in charter transport is 167,615, which is 1.4% less than in 2013.

#### Planned financial performance indicators for 2014:

- Net sales revenues will rise by 6.7%. The biggest planned increase in revenues from scheduled transport (+8.6%) will come from an increase in the number of passengers carried (+13.3%).
- We plan on the revenue from the transport of passengers in scheduled transport in 2014 increasing by 8.6%.
- Owing to operations with larger aircraft, we plan on 2.3% higher costs of materials and 10.2% higher costs of services. The biggest risk is the fluctuation of oil prices and consequently of kerosene prices.
- We plan on ending 2014 with profits in the amount of EUR 2.7 million.

19. Employees

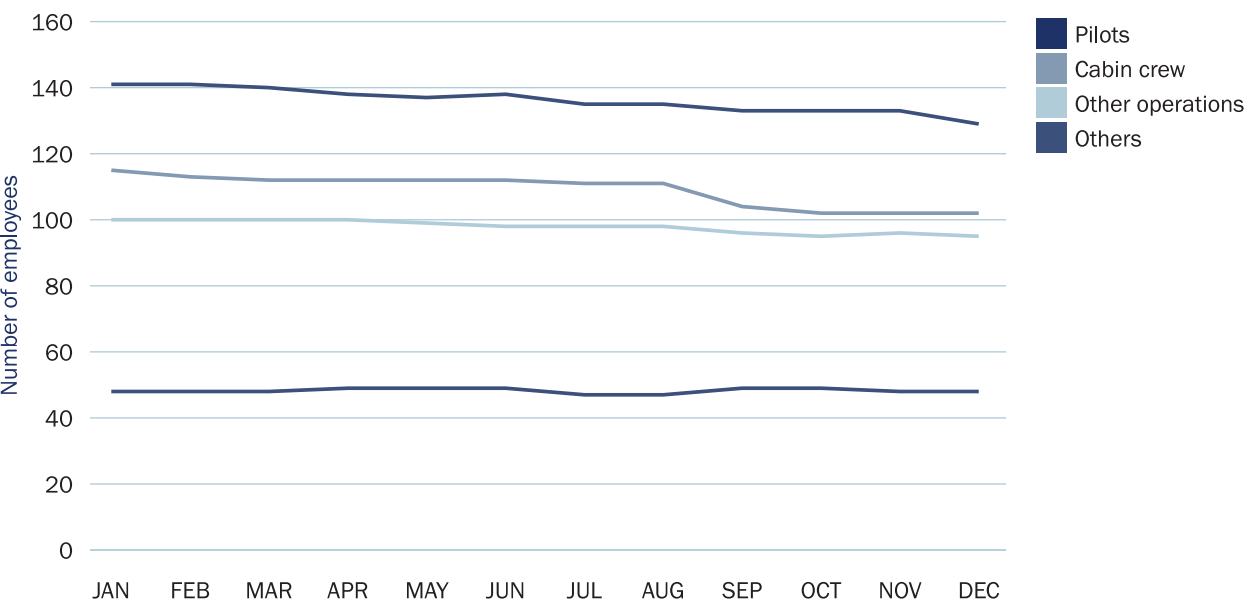
Presentation of the structure and changes in the number of employees

Chart 19: Employee structure in the January–December 2013 period



Source: Internal data of ADR

Chart 20: Changes in the number of employees in the January–December 2013 period



Source: Internal data of ADR

At the end of December 2013, there were 30 less employees at the company than at the end of December 2012, which still indicates a trend of decreasing numbers of employees in accordance with the Restructuring Programme. We implemented the mentioned decrease within the scope of the optimisation of the number of employees through the rationalisation of work processes. In the January–December 2013 period, 32 employment contracts expired, i.e. contracts of 14 pilots, 3 cabin crew employees, 10 expert associates and 5 managerial employees.

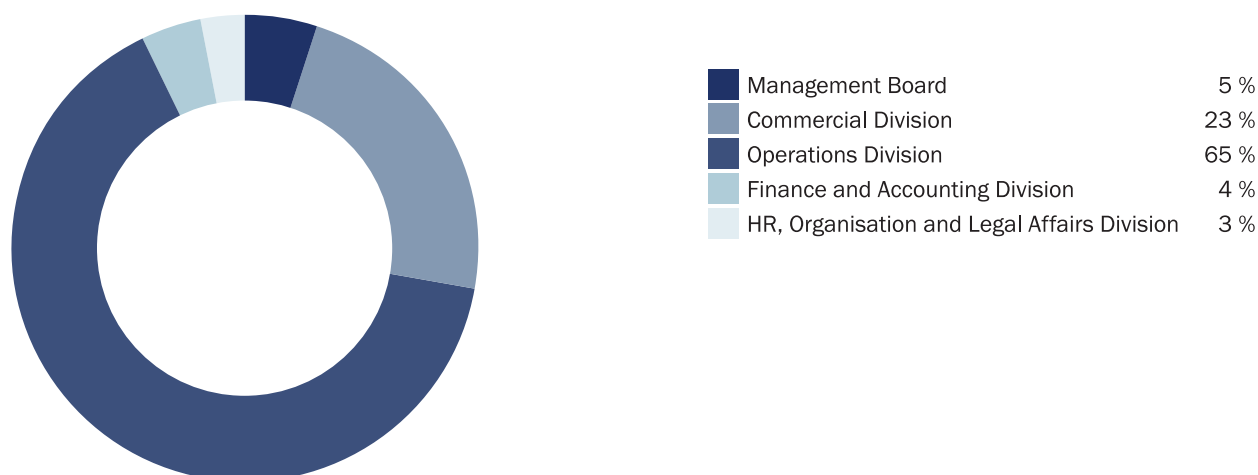
Chart 21: **Employee departures in the January–December 2013 period (a total of 32 persons)**



Source: Internal data of ADR

In 2013, we employed 2 management employees and 1 pilot. On the other hand, the bigger portion of employment relationship terminations were accounted for by employees in support services (12), while the employment relationship was also terminated for 14 pilot, 3 cabin crew members and 3 persons from other operations, which brought the total to 32.

Chart 22: **Balance of employees by organisational units at the end of December 2013**



Source: Internal data of ADR

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The balance of employees by divisions at the end of December 2013 is shown by the above chart. By far the biggest share (65%) of employees works in the Operations Division, which includes pilots, cabin crew, support operations and expert services and ground operations personnel, while the second largest share is the Commercial Division (23%), which is followed by management (5%), Finance and Accounting Division and HR, Organisation and Legal Affairs Division.

## Employees

- The number of employees as at 31 December 2013 was 375, and 405 as at 31 December 2012.
- Average number of employees in 2013 by groups in terms of educational structure:

| Level of education | I. | II. | III. | IV. | V.  | VI. | VII. | VIII. | IX. | Total |
|--------------------|----|-----|------|-----|-----|-----|------|-------|-----|-------|
| 2013               | -  | -   | -    | 1   | 118 | 100 | 168  | 4     | -   | 391   |

In line with the restructuring plan, the company is implementing the project for the optimisation of the number of employees on account of process rationalisation, which is why we saw reductions in the number of employees in 2013 as well.

## Hiring of local labour force

In 2013, we continued hiring local labour force in Kosovo. Crew members perform work only on flights from Pristina. By hiring local labour force, we have additionally strengthened our position on the Kosovo market because passengers appreciate the services on the plane being provided by local residents who speak the local language. We have also achieved an important psychological effect and identification of local passengers with other passengers.

## Human resources development

In the first two quarters of 2013, the financial crisis meant that there were no opportunities for larger investment into HR development. All efforts were again geared towards cost rationalisation on all levels, which is why the most energy was invested into communication with employees aiming to reduce the number of employees and consequently labour costs. In addition to organisational changes and process rationalisation, we used IT solutions in 2013 to continue the soft forms of downsizing primarily for positions in support services.

In Q3 of 2013, we began the project entitled Comprehensive HR Management and Development at the Company, which was aimed at developing a target organisational culture that will play a key role in achieving a development-oriented strategy. In Q4 of 2013 and in 2014, we will thus perform activities that will support the following objectives:

- business-orientedness and higher level of employee ambition;
- a team-based and learning culture;
- customer-oriented culture;
- culture of internal users (process culture of the company).

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HR planning is performed on an annual level, i.e. within the scope of individual organisational units (divisions/ departments) in the context of the formulation of the company's annual plans of operations. Within the context of the new organisation and process optimisation, we have carried out harmonisations of the currently valid job descriptions that will in the future comply with the contents of new processes, and we also upgraded these with competence models. The HR Service will work with other services on the system for the development and building of relations with employees and the external interested public.

## Safety and health at work

In accordance with Article 17 of the Occupational Health and Safety Act (Official Gazette of the Republic of Slovenia, No. 43/2011), the employer is obliged to assess in writing the risks, to which employees are exposed or could be exposed in their work, i.e. in accordance with the procedure that, among other things, involves a risk assessment that takes into account the probability of the occurrence of accidents at work, occupational diseases or diseases related to work and the gravity of their consequences, and adopt a decision on whether the risk is acceptable and a decision on the introduction of measures for mitigating unacceptable risk.

Preventative medical examinations of employees are performed for the purpose of protecting the life, health and work capacity of the employee, preventing accidents and injuries at work, occupational diseases, work-related diseases and the prevention of disability.

The types, scope and contents of preventative medical examinations are determined by the occupational medicine provider in their risk assessment based on the Rules concerning preventive medical examinations of workers (Official Gazette of the Republic of Slovenia, Nos. 87/02, 29/03).

Based on the safety statement with risk assessment that has been accepted in writing and the types, scope and contents of preventative medical examinations, the employer sent the following employees to the following examinations in 2013:

- prior preventative medical examinations – one (1) employee,
- targeted periodic medical examinations – 160 employees,
- other targeted preventative medical examinations – one (1) employee.

In accordance with the Occupational Health and Safety Act, the employer is obliged to adopt measures for the prevention, elimination and management of cases of violence, mobbing, harassment and other forms of psychological risk in the workplace as well as plan and implement the promotion of health in the workplace. We, therefore, conducted 2 workshops dealing with the subject of stress management and 4 workshops dealing with the subject of conflict prevention and resolution. Within the scope of the programme for the promotion of health, numerous employees of Adria Airways took part in the DM run for women and the traditional Ljubljana Marathon.

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## Sick leave

Sick leave (SL) or temporary absence from work due to disease, injuries at work or outside work or the care or accompaniment of a sick family member or isolation is an important indicator of the health status of employees. It is described with indicators such as:

- sick leave percentage (% SL): percentage of lost calendar days per employee,
- incapacity index (II): number of lost calendar days per employee,
- frequency index: number of cases of absence from work because of sick leave per 100 employees per year,
- gravity: average duration of one absence from work because of disease, injury or any other medical reason.

### Statistical data:

- In the January–December 2013 period, Adria Airways had a sick leave percentage of 4.38%, while in the same period of last year, i.e. January–December 2012, this percentage was 3.94%, and 4.23% in the same period of 2011. Sick leave on the state level in the January–December 2013 period was 4.08%. The most frequent cause of sick leave in 2013 were injuries and poisoning outside of work.
- **The ratio of sick leave** causes in 2013 was as follows: 54% of sick leave was due to disease – up to 30 days, 1% was due to accidents at work – up to 30 days, 21% was due to disease – more than 30 days, 0% was due to accidents at work – more than 30 days, 10% was due to care for a family member, 9% was due to injuries outside of work – up to 30 days, and 5% was due to injuries outside of work – more than 30 days. One (1) percent of the causes for sick leave was due to accidents at work, which means 7 accidents at work.

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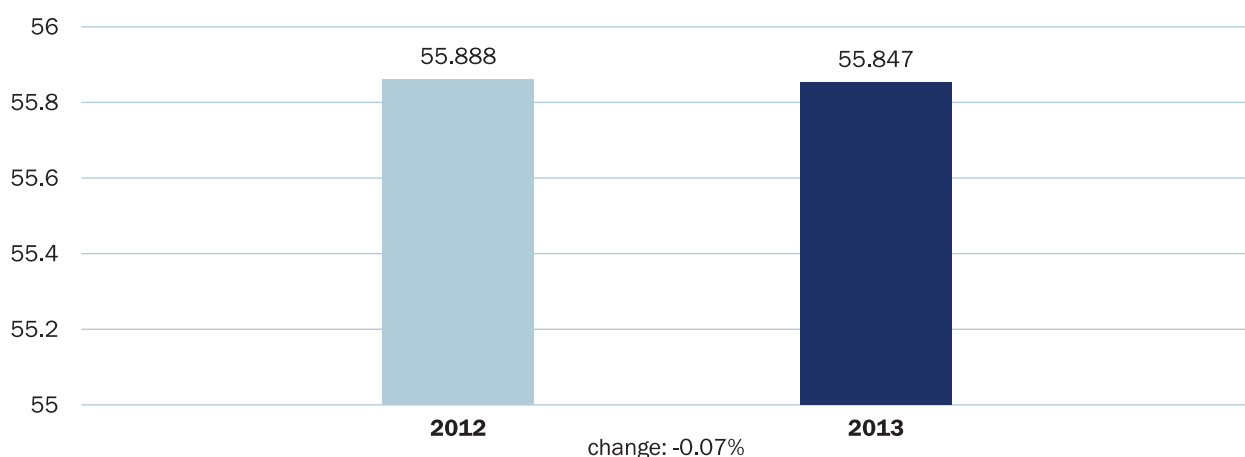
## 20. Environment

Adria Airways is an ecologically responsible airline that is aware of its role in environmental pollution. All planes in our fleet comply with the requirements of ICAO and environmental and other requirements. Both engine types used by Adria's fleet are within 70% of the permitted values stipulated by ICAO in terms of gas and smoke emissions.

The main source of pollution in our work process is the release of greenhouse gasses caused by combustion of aircraft fuel. The company strives to ensure deliberate and economical aircraft fuel consumption. Current fuel prices are causing high costs for us and an additional challenge for us to implement various projects in order to reduce fuel consumption while at the same not violating strict rules or threaten flight safety. A team works in the area of flight operations that is involved in projects in the area of efficient fuel consumption (Fuel Efficiency Team).

In 2013, we had 19,825 flights and used 44,240 tons of aircraft fuel. The average specific consumption of fuel in 2013 was 55.847 kg/h/t, which is 0.07% less than in 2012.

Chart 23: **Comparison of the specific fuel consumption (kg/h/t) in 2012 and 2013**



Specific fuel consumption: consumed fuel (kg) / flight time (h) / aircraft weight at takeoff (t)

Source: ETS Aviation FuelSaver

Adria Airways has been included in the EU ETS emission trading system since 2012. In accordance with the system, the company must compile a report each year for the Slovenian Environment Agency on the quantity of CO<sub>2</sub> emissions and submit a suitable amount of emissions coupons depending on the report. We receive some of the said coupons free-of-charge, while we must buy the difference in the coupons on the organised market. All reports must be verified by an external certified reviewer. Adria Airways has a contract signed for the review of emission with the Bureau Veritas d.d. Ljubljana company.

The balance of emission s coupons as at 31 December 2013:

EUAA: 25,739

ERU: 9,521

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In 2013, we generated a total of 139,360 tons of greenhouse gasses. The reporting of greenhouse gas emissions and the handover of coupons for 2013 have not yet been completed as the amendments to the European Commission directive have pushed the reporting deadline ahead by one year (to March 2015).

The company observes regulations on the handling of waste and collects waste separately. We have set up eco points in several locations that are fitted with marked collection containers and instructions for disposal. The Logistics Service provides for the manipulation of waste to the relevant collection points and for the handover of waste to certified waste collecting and processing companies. We thus collect approximately 1,500 kg of waste paper per year that was disposed of in 2013 by the EKO-PIS Branko Ogorevc s.p. company. The hangar is fitted with a modern waste process water treatment plant.

In 2013, we consumed 890,000 kWh of electricity which is low considering the used surface area of business premises, which is due to the fact that the building is heated and cooled using a heat pump.

Continuous care for a healthy and safe working and living environment and investment into modern, environmentally-friendly technologies are fundamental conditions for a stable and safe future, which is why we will continue to pursue our environmental protection policy aiming to achieve a lasting balance through preventative measures and the incorporation of environmental protection into individual processes.

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## 21. Relations with the Broader Social Environment

At Adria Airways, we have since our very establishment been intensively involved in the entire social environment, in which we operate. We are aware of our responsibility to the broader social environment, which is why we work on various projects at the local and national levels. We regularly participate in various projects at the local and national levels through donations and sponsorships. Our contribution is most often in the form of help with travel costs. As an official airline, we have supported various international events and congresses in Slovenia, mostly in the areas of business, medicine, culture, education and sports.

Most of the funds are allocated to umbrella organisations of national importance, while we implement most of the individual campaigns with not-for-profit organisations. As a company that connects the domestic environment with the foreign environment with its principal activity, we are especially happy to respond to invitations or requests for support for the presentations of our artists abroad. Below, we mentioned a few projects, organisations and societies with which we cooperated successfully in 2013.

### Sports

In the area of sports, our activity comprises cooperation at the national and local levels and has been nearly unchanged over the years. We work successfully with the Football Association of Slovenia and the Hockey and Ice Skating Society Tilia Olimpija, and have again become the partner of the Udinese football club. As always, we supported a few local competitions and events.

### Culture

In the area of culture, we have allocated funds for recognised organisers of cultural events in Slovenia as well as smaller organisers who strive to spread culture among youth. We have supported the Ljubljana Festival for many years, and have offered support to the Metaldays Festival and the Children of the World literary contest in 2013.

### Humanitarian aid

The company feels responsible for the broader social activities, which is why we respond to requests for assistance in various projects that are not of an economic nature, i.e. as far as our circumstances allow. In 2013, we helped disabled divers by transporting them for a dive at the Hidor-lab in Moscow. We have also always cared for the health of our passengers as we were among the first to introduce a smoking ban on airplanes. By participating in the “Ex Smokers Are Winners” campaign, we informed passengers of the positive sides of quitting smoking.

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## 22. Corporate Communications

At the Corporate Communications Service, we strive for effective communications with various sectors of the public that are associated with our company. These are: internal and external public – media, passengers, business public, decision-makers, financial public, etc. Parts of our public are intertwined as they/we are all our potential passengers.

Our goal is for our activities to contribute as much as possible to the realisation of business objectives and enhance the reputation of the company and consequently its performance. We devoted attention to current issues in aviation. Our communications principles are openness, incisive cooperation, transparency, two-way communication, rapid response and sustainability.

Corporate communications in 2013 proceeded intensively and proactively in accordance with the management's guidelines. Throughout 2013, we approached the internal and external public with numerous communications tools and carried out a number of activities and events.

In the spring of 2013, we attended the annual meeting of communicators of the Star Alliance in London. At these meetings, we are briefed on the annual communications plan and innovations in the field of crisis and internal communications. Upon the joining of a new member, EVA AIR, in June 2013, the representatives of Adria Airways and three members of the media (Delo, Finance, STA) attended the celebration in Taiwan. In December, we attended the annual meeting of the presidents of member airlines in Vienna and invited a journalist from the Delo newspaper.

We communicated about the topics that are common to the aviation industry, European airlines and members of IATA, AEA, ERA and the Star Alliance. Upon the initiative of the media, we participated in the preparation of numerous articles and contributions about our company. We sent 43 press releases to the media. At the press conference in the spring, we presented the summer schedule.

We responded to invitations from the parliament and took part in debates about the company.

As we do each year, we placed wreaths and lit candles at the monument at the Žale cemetery to commemorate the plane crash victims in Corsica on 1 November and 1 December. We responded to the initiative of Czech representatives to participate in the erection of the Prague–Suchdol memorial where a DC-9 of Inex Adria Aviopromet crashed in 1975.

Adria's intranet pages have become a daily venue for employees; it is there that they obtain information they require for work, events at the company and about the latest issues in aviation. Since 2008, we have been publishing the News for Employees weekly newsletter (Novičke za zaposlene). We provided additional information about current issues to employees via e-mail.

In 2013, 175 media reported about Adria Airways, 68 of which were printed media, 39 were electronic and 68 were online media. In the period between 1 January and 31 December 2013, Adria Airways appeared in 3,035 media contributions. As compared to 2012, we recorded a rise in the number of publications of 22%. The media image of Adria Airways is mainly neutral. As compared to 2012, the average grade in terms of reporting has diminished, which is the result of a larger number of publications disinclined to the company that were mostly unplanned and of a secondary nature. On the other hand, the share of publications inclined to the company has increased

which could be attributed to the reporting by the media on encouraging business results of Adria Airways and active communications about the offer that is more accessible to consumers in terms of price.

The media wrote the most about business results, plans for the future and the search for a strategic partner. We should also mention publications relating to the privatisation of companies, which also include Adria Airways. One of the bigger disinclined/unfavourable topics is the allegedly disputable provision of tickets to politicians, managers and their family members.

The average grade for the inclination to report favourably about the company is – 0.1, which means that the media reported neutrally on average. Over the analysed period, the media reported about Adria Airways neutrally in 74% of the cases, they reported unfavourably in 17% of the cases and favourably in 9% of the cases.

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## 23. Research and Development

In 2013, we began developing the new product for passengers termed “Buy on Board” that we later dubbed Sky Shop. We introduced the product on our flights in April 2014 and the initial results are encouraging. We are continuing to develop services as we are set to enhance them with new payment methods (card transactions).

We will continue to develop the EFB (Electronic Flight Bag) where we will select tablets to conduct the EFB, develop an application for straightforward switching between applications used as part of the EFB, and select a provider for the performance calculator for the CRJ fleet aircraft. We have begun activities for the installation of mounts for tablets in the cockpit for the entire fleet of Adria Airways, which will allow pilots to use EFB during all stages of the flight.

Aircraft fuel is a significant cost within the company’s operations. Owing to the high fuel costs over the recent years, the company began a programme in 2011 aimed at efficient fuel consumption. The programme is conducted according to the recommendations of IATA. Projects are being implemented in various fields; from air operations and ground operations to aircraft maintenance.

Fuel management during air operations is a complex field. It is especially important in aviation to plan fuel for each individual flight and to observe all legislative and safety aspects in doing so. Using various techniques and operational solutions, it is possible to reduce fuel consumption. Successful preparation and implementation of the project depends on the availability and quality of relevant data, because of which we decided in 2013 on cooperating with ETS Aviation in producing a comprehensive analysis of the possible measures in the area of efficient fuel consumption. Cooperation is based on the collection and processing of information, analysis of potential savings, project monitoring and consultation.

The analysis has shown several potential areas for fuel consumption improvement that are currently either in the implementation or preparation phases. The development of a system for efficient fuel consumption has contributed to improved communication, transfer of knowledge and information, and last but not least to the reduction in specific fuel consumption.

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## 24. Who's Who, Contacts

### Company's Management Board:

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### Division directors:

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Silvestra Stopar, Director of the Finance and Accounting Division / silva.stopar@adria.si

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## 25. Representative Offices and Points of Sale

### **LJUBLJANA, Slovenia**

Information and booking:

Adria Airways

Zgornji Brnik 130 h

4210 Brnik-Aerodrom

Call Centre

Tel.: 386 (0)1 36 91 010

Fax: 386 (0)4 25 94 573

SITA: LJURMJP

E-mail: booking@adria.si

Toll-free number: 080 13 00

Letališče Jožeta Pučnika, LJUBLJANA

Point of sale: Adria Airways

Airport Ljubljana

Toll-free number: 080 13 00

Tel.: 386 (0)4 25 94 245

Fax: 386 (0)4 23 63 461

SITA: LJUKKJP

E-mail: adr.prodaja@adria.si

Point of sale: Adria Airways

Zaventem airport / Brussels

Tel.: 32 2 720 7955

### **COPENHAGEN, Denmark**

Adria Airways,

Representative office and information centre:

A CVITAN AB, Tingsgatan 2

256 56 Helsingborg, SWEDEN

Tel.: 46 (0)42 28 47 78

Fax: 46 (0)42 14 47 78

Mob.: 46 708 28 47 78

a.cvitan@adria-airways.se,

Point of sale: Adria Airways,

Copenhagen airport

Terminal 2, 2<sup>nd</sup> floor, office 230

2770 Kastrup, Denmark

Tel./Fax: 45 (0)32 51 59 59

Mob.: 46 708 28 47 78

### **BELGRADE, Serbia**

Adria Airways, General Sales Agent

OKI AIR INTERNATIONAL

Airport "Nikola Tesla"

11180 Belgrade 59

Tel/Fax: +381 11 2286457,

2286458, 2097457

E-mail: okiairbeg@oki.me,

adr.belgrade@adria.si

### **FRANKFURT and MUNICH, Germany**

Adria Airways

Frankfurt airport, Terminal 1, building 201,

Office: 201 4043/4044,

P. O. BOX: 039, 60549 Frankfurt am Main

Tel.: 49 (0)69 269 56 720, 269 56 721

Fax: 49 (0)69 269 56 730

E-mail: adr.frankfurt@adria.si

Point of sale: Adria Airways

Frankfurt airport

terminal 1, Hall B, point of sale 307,

P.O. Box 039

60549 Frankfurt am Main

Tel.: 49 (0)69 269 56 722

### **BRUSSELS, Belgium**

Adria Airways

Brussels Airport – Box 4

1930 Zaventem

Tel.: 32 2 720 7955

Fax: 32 (0)2 75 32 337

SITA: BRUTOJP

E-mail: adr.brussels@adria.si

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**ISTANBUL, Turkey**

Adria Airways, General Sales Agent  
ACM

Florya Beşyol Mah. Akasya Sok.

No: 27 Kat: 2

34290 Sefaköy-Küçükçekmece/

Istanbul

Tel.: +90 212 411 04 44

Fax: +90 212 411 04 45

Mobi: +90 532 287 86 51

Email: turkey@acm-gsa.com

Adria Airways Airport Ticket Desk

Atatürk International Airport,

Departure Level, IDL 38129 Yesilkoy

– Istanbul / TURKEY

Tel: +90 212 465 55 15

Fax: +90 212 465 55 16

Mob: +90 0530 938 43 20

E-mail: adr.istanbul@adria.si

**MOSCOW, Russia**

Adria Airways

Derbenevskaja 4

115 114 Moscow

Tel.: 7 495 727 0887 – representative

Tel.: 7 495 72 70 885 – point of sale,

Fax: 7 495 72 70 888

E-mail: adr.moscow@adria.si

Point of sale:

Sheremetyevo airport,

AVIACOM, Terminal F, departure hall

tel: +7 916 267 23 95

e-mail:aviacom.svo@gmail.com

**PODGORICA, Montenegro**

Adria Airways,

Authorised agency:

OKI AIR MONTENEGRO d.o.o.

Ivana Vujoševića 46

81000 Podgorica, Montenegro

Tel./fax: +382 (0)20 201 201, 201 202, 241 154

Mobil. tel.: +382 (0)67 241 154

E-mail: okiair@oki.me

adr.podgorica@adria.si

**OKI AIR MONTENEGRO**

Airport Podgorica – ticket issue

Tel. & Fax: 382 (0)20 653 074

Mob.: +382 (0)67 241 154

E-mail: adr.podgorica@adria.si

**PRAGUE, Czech Republic**

Adria Airways

Authorised agency:

Globair s.r.o.

Krakovská 7, 110 00 Praga 1

Česka Republika

Tel.: + 420 234 723 295

Fax: + 420 234 723 204

Mob.: + 420 606 643 393

E-mail: adria@globair.cz

www.globair.cz

**PRISTINA, Republic of Kosovo**

Adria Airways,

Authorised agency:

Adria Airways Kosovo L. L. C,

Qamil Hoxha Nr. 12, 38000 Priština

Tel.: 381 (0)38 246 746

Tel./Fax: 381 (0)38 246 747

Mob: 00 377 44 16 50 84

E-mail: adr.pristina@adria.si

Point of sale:

Pristina airport

Tel. & fax: 381 (0)38 548 437

Mob.: 00 377 44 501 241

**SARAJEVO, Bosnia and Herzegovina**

Adria Airways,

General Sales Agent

Ferhadija 23

71000 Sarajevo

Tel.: +387 (0)33 23 21 25, 23 21 26

Fax: +387 (0)33 23 36 92

E-mail: adr.sarajevo@adria.si

Adria Airways Airport Ticket Desk

Sarajevo International Airport

Tel. & Fax: +387 33 464 331

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**SKOPJE, Macedonia**

Adria Airways

Authorised agency:

AAM dooel,

Dame Gruev, Gradski Zid, blok 4/8,

1000 Skopje

Tel.: 389 (0)2 31 17 009, 32 29 975

Fax: 389 (0)2 31 65 531

E-mail: adr.skopje@adria.si

Point of sale:

Adria Airways,

Skopje airport

Tel. & Fax: 389 (0)2 25 50 133

**TIRANA, Albania**

Authorised agency:

Adria Airways Albanija

Street Mine Peza 102 , Tirana

Tel./Fax: 355 (0)4 2274666

E-mail: adr.tirana@adria.si

reservation@adriaalbania.com

Airport Tirana

Tel.: 355 (0)4 2381911

**VIENNA, Austria**

Adria Airways

Authorised agency:

Flight Directors

Lufttransportvermittlung

Hörnesgasse 2/1, A-1030 Wien

Tel.: +43 (1) 879 8705

Fax: +43 (1) 876 0453 11

E-mail: barbara.lintner@adria.si

blintner@flightdirectors.at

**WARSAW, Poland**

Adria Airways

Authorised agency:

Globair s.r.o.

ul. Flory 9 lok. 5, 00-586 Varšava

Tel.: + 48 22 696 85 23

Fax: + 48 22 696 85 24

Mob.: + 48 696 49 14 77

E-mail: office@globair.pl

www.globairgroup.com/pl

**ZÜRICH, Switzerland**

Adria Airways

Loewenstrasse 54/II. 8001 Zürich

Tel.: 41 (0)44 21 26 393, 21 26 394

Fax: 41 (0)44 21 25 266

E-mail: adr.zurich@adria.si

Point of sale:

Adria Airways

Zürich airport

Terminal B-2-521

Tel.: 41 (0)43 81 64 437

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## 1. Introductory Explanations

### Basic Company Data

ADRIA AIRWAYS d.d.  
Zgornji Brnik 130 h  
4210 Brnik Aerodrom  
Slovenia

### Nature of Business and Primary Activities

- The two most significant lines of business of Adria Airways d.d. are scheduled air transport and chartered air transport. In addition, the Company is involved in the transport of cargo.

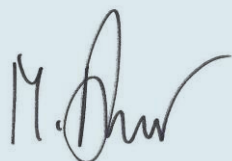
## 2. Statement of the Management's Responsibility

The management confirms the business report and the financial statements for the year ended on 31 December 2013 on pages 101 to 107 and 157 to 161 and the applied accounting policies and notes to the financial statements on pages 108 to 156 of the financial section of the Annual Report.

The management is responsible for the preparation of the Annual Report in such a way that it gives a true and fair view of the Company's assets and operating results for the year 2013.

The management confirms to have consistently applied the appropriate accounting policies and made the accounting estimates according to the principles of prudence and due diligence. The management further confirms that the financial statements, together with the notes, have been prepared on the basis of the assumptions of going concern and in line with the applicable legislation as well as the Slovenian Accounting Standards.

The management is also responsible for adequately managed accounting, the adoption of appropriate measures for protecting property and preventing and discovering fraud and other irregularities or illegalities.



Brnik, 30 May 2014

President of the Management Board  
Mark Anžur

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### 3. Independent Auditor's Report

Skupščini družbe  
Adria Airways d.d.  
Zgornji Brnik

**Constantia**<sup>plus</sup>  
svetovanje d.o.o.

Dunajska cesta 160  
1000 Ljubljana  
tel.: +386 1 509 48 80  
fax: +386 1 568 55 66  
e-mail: info@constantiaplus.si

#### POROČILO NEODVISNEGA REVIZORJA

Revidirali smo priložene računovodske izkaze gospodarske družbe **Adria Airways d.d.**, ki vključujejo bilanco stanja na dan 31. decembra 2013, izkaz poslovnega izida, izkaz drugega vseobsegajočega donosa, izkaz gibanja kapitala in izkaz denarnih tokov za tedaj končano leto ter povzetek bistvenih računovodskih usmeritev in druge pojasnjevalne informacije. Pregledali smo tudi poslovno poročilo.

#### *Odgovornost posloводства za računovodske izkaze*

Posloводство je odgovorno za pripravo in pošteno predstavitev teh računovodskih izkazov v skladu s Slovenskimi računovodskimi standardi in za tako notranje kontroliranje, kot je v skladu z odločitvijo posloводства potrebno, da omogoči pripravo računovodskih izkazov, ki ne vsebujejo pomembno napačne navedbe zaradi prevare ali napake.

#### *Revizorjeva odgovornost*

Naša odgovornost je izraziti mnenje o teh računovodskih izkazih na podlagi naše revizije. Revizijo smo opravili v skladu z Mednarodnimi standardi revidiranja. Ti standardi zahtevajo od nas izpolnjevanje etičnih zahtev ter načrtovanje in izvedbo revizije za pridobitev sprejemljivega zagotovila, da računovodski izkazi ne vsebujejo pomembno napačne navedbe.

Revizija vključuje izvajanje postopkov za pridobitev revizijskih dokazov o zneskih in razkritjih v računovodskih izkazih. Izbrani postopki so odvisni od revizorjeve presoje in vključujejo tudi ocenjevanje tveganj pomembno napačne navedbe v računovodskih izkazih zaradi prevare ali napake. Pri ocenjevanju teh tveganj prouči revizor notranje kontroliranje, povezano s pripravljanjem in poštenim predstavljanjem računovodskih izkazov družbe, da bi določil okoliščinam ustrezne revizijske postopke, ne pa, da bi izrazil mnenje o uspešnosti notranjega kontroliranja družbe. Revizija vključuje tudi ovrednotenje ustreznosti uporabljenih računovodskih usmeritev in utemeljenosti računovodskih ocen posloводства kot tudi ovrednotenje celotne predstavitve računovodskih izkazov.

Verjamemo, da so pridobljeni revizijski dokazi zadostna in ustrezna podlaga za naše revizijsko mnenje.

#### *Mnenje*

Po našem mnenju so računovodski izkazi v vseh pomembnih pogledih resnični in pošteni prikaz finančnega položaja družbe **Adria Airways d.d.**, na dan 31. decembra 2013 ter njenega poslovnega izida in denarnih tokov za tedaj končano leto v skladu s Slovenskimi računovodskimi standardi.

#### *Poudarjanje zadeve*

Opozarjamo na razkritje 16 Predpostavka delujočega podjetja v poslovnem poročilu iz katerega je razvidno, da je imela družba v letu, ki se je končalo 31. decembra 2013, čisto izgubo v višini 2,9 mio EUR, presežek kratkoročnih obveznosti nad kratkoročnimi sredstvi v višini 15,1 mio EUR ter da kapital družbe na ta dan znaša 10,0 mio EUR, pri čemer se je osnovni kapital družbe tekom leta znižal iz 17,7 mio EUR na 3,5 mio EUR zaradi pokrivanja preteklih izgub. Družba ima na dan 31. decembra 2013 za 6,2 mio EUR zapadlih, neplačanih obveznosti do dobaviteljev.

Opozarjamo tudi na razkritje 14 Upravljanje s tveganji v poslovnem poročilu družbe iz katerega je razvidno, da Evropska komisija vodi postopek zoper Republiko Slovenijo zaradi domnevno nezakonite in nezdružljive državne pomoči, ki jo je Republika Slovenija oz. subjekti pod nadzorom Republike Slovenije dodelila v korist družbe med leti 2007 in 2011 v skupni vrednosti 79,6 mio EUR. V primeru neugodne odločitve za Republiko Slovenijo bo ta zavezana od družbe izterjati znesek nedovoljene državne pomoči.

Predstavljene okoliščine lahko ob neuresničitvi ukrepov posloводства za zagotavljanje likvidnosti in doseganja planiranih rezultatov poslovanja za leto 2014 oz. ob neugodnem izidu postopka pred Evropsko komisijo povzročijo pomembno negotovost, ki lahko vzbudi bistven dvom v sposobnost družbe, da nadaljuje kot delujoče podjetje. Naše mnenje v zvezi s poudarjeno zadevo ni prilagojeno.

#### *Odstavek o drugi zadevi*

Poslovno poročilo je skladno z revidiranimi računovodskimi izkazi.

Ljubljana, 30. maj 2014

CONSTANTIA PLUS d.o.o.

Barbara Nose  
pooblaščenka revizorka



**Constantia** plus  
svetovanje d.o.o.

**Constantia** plus  
svetovanje d.o.o.

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Adria Airways d.d.  
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Constantia plus  
svetovanje d.o.o.  
Dunajska cesta 160  
1000 Ljubljana  
tel.: +386 1 589 48 80  
fax: +386 1 568 55 66

To the General Meeting of Shareholders  
of Adria Airways d.d.  
Zgornji Brnik

## INDEPENDENT AUDITOR'S REPORT

We have audited the enclosed financial statements of the company **Adria Airways d.d.** that include the balance sheet as at 31 December 2013, the income statement, the statement of other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of the major accounting policies and other explanatory notes. We have further reviewed the Business Report.

### *The Management's Responsibility for the Financial Statements*

The management is responsible for the preparation and fair presentation of these financial statements according to the Slovenian Accounting Standards and for the internal control needed, in the opinion of the management, to ensure that the financial statements are free from material misstatement, whether due to fraud or error.

### *The Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted the audit in accordance with the **International Standards on Auditing**. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain a reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence of the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgement and include an assessment of the risks of material misstatements in the financial statements due to fraud or error. When assessing these risks the auditor examines internal controls related to compiling and fair presentation of the Company's financial statements in order to determine the audit procedures appropriate under the circumstances and not to give an opinion on success of internal controls in the Company. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

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

In our opinion, the financial statements in all material respects give a true and fair view of the financial position of the company **Adria Airways d.d.** as at 31 December 2013 and of its income statement and cash flow statement for the period then ended, in accordance with the Slovenian Accounting Standards.

#### *Emphasis of Matter*

We draw attention to Disclosure 16 – Assumption of Going Concern in the Business Report, indicating that in the year ending on 31 December 2013 the Company posted a net loss of EUR 2.9 million, a surplus of short-term liabilities over short-term assets of EUR 15.1 million and capital in the amount of EUR 10.0 million, while the Company's equity decreased during the year from EUR 17.7 million to EUR 3.5 million due to covering of loss from previous periods. As at 31 December 2013, the Company had EUR 6.2 million of past due liabilities to suppliers.

We also point to Disclosure 14 – Risk Management in the Business Report, showing that the European Commission is conducting a procedure against the Republic of Slovenia owing to the alleged unlawful and incompatible state aid, which the Republic of Slovenia and entities controlled by it allocated to the Company in 2007–2011 in the total amount of EUR 79.6 million. If the decision is unfavourable to the Republic of Slovenia, the latter will be obligated to collect the amount of prohibited state aid.

If the management's measures aimed at ensuring liquidity are not implemented, if the operating results planned for 2014 are not achieved and if the procedure before the European Commission is unfavourable, the circumstances presented above could cause significant uncertainty which might give rise to considerable doubt as to the Company's ability to continue as a going concern. Our opinion is not modified with respect to the emphasised matter.

#### *Other Matter Paragraph*

The Business Report corresponds to the audited financial statements.

Ljubljana, 30 May 2014

CONSTANTIA PLUS d.o.o.

Barbara Nose

Certified Auditor

Constantia plus svetovanje d.o.o.

## 4. Financial statements

### 4.1 Balance sheet<sup>1</sup>

| BALANCE SHEET (in EUR)                                                 | Note           | 31. 12. 2013      | 31. 12. 2012      |
|------------------------------------------------------------------------|----------------|-------------------|-------------------|
| <b>Assets</b>                                                          |                | <b>68,702,059</b> | <b>80,164,458</b> |
| <b>A/ Long-term assets</b>                                             |                | <b>52,435,043</b> | <b>63,194,969</b> |
| I. Intangible assets and long-term deferred costs and accrued revenues | 6.1.1.         | 811,607           | 2,432,302         |
| II. Property, plant and equipment                                      | 6.1.2.         | 37,304,780        | 45,729,665        |
| III. Investment property                                               | 6.1.3.         | 6,458,022         | 10,967,984        |
| IV. Long-term financial assets                                         | 6.1.4.         | 2,539,739         | 1,111,409         |
| V. Long-term operating receivables                                     | 6.1.5.         | 5,320,895         | 2,953,609         |
| VI. Deferred tax assets                                                |                | -                 | -                 |
| <b>B/ Short-term assets</b>                                            |                | <b>14,508,543</b> | <b>15,390,395</b> |
| I. Assets (disposal groups) available for sale                         | 6.1.6.         | 1,295,720         | 1,661,193         |
| II. Inventories                                                        | 6.1.7.         | 438,433           | 435,882           |
| III. Short-term financial assets                                       | 6.1.8.         | 815,901           | 1,870,435         |
| IV. Short-term operating receivables                                   | 6.1.9.         | 11,311,663        | 10,584,506        |
| V. Cash                                                                | 6.1.10.        | 646,826           | 838,379           |
| <b>C/ Short-term deferred costs and accrued revenues</b>               | <b>6.1.11.</b> | <b>1,758,473</b>  | <b>1,579,094</b>  |
| <b>Off-balance-sheet assets</b>                                        | <b>6.1.18.</b> | <b>35,097,886</b> | <b>46,456,583</b> |
|                                                                        |                |                   |                   |
| <b>Capital and liabilities</b>                                         |                | <b>68,702,059</b> | <b>80,164,458</b> |
| <b>A/ Capital</b>                                                      | <b>6.1.12.</b> | <b>10,061,904</b> | <b>12,487,786</b> |
| I. Called up capital                                                   |                | 3,542,445         | 17,712,227        |
| II. Capital surplus                                                    |                | 1,860,150         | -                 |
| III. Revenue reserves                                                  |                | -                 | -                 |
| IV. Revaluation surplus                                                |                | 4,659,309         | 5,041,595         |
| V. Net profit or loss brought forward                                  |                | -                 | -                 |
| VI. Net profit or loss for the year                                    |                | -                 | -10,266,037       |
| <b>B/ Provisions and long-term accrued costs and deferred revenues</b> | <b>6.1.13.</b> | <b>2,376,982</b>  | <b>1,620,764</b>  |
| <b>C/ Long-term liabilities</b>                                        |                | <b>23,253,326</b> | <b>33,183,234</b> |
| I. Long-term financial liabilities                                     | 6.1.14.        | 23,253,326        | 32,726,091        |
| II. Long-term operating liabilities                                    | 6.1.15         | -                 | 457,143           |
| III. Deferred tax liabilities                                          |                | -                 | -                 |

<sup>1</sup> Expanded version of the balance sheet is available in attachment 10.1.

|                                                          |                |                   |                   |
|----------------------------------------------------------|----------------|-------------------|-------------------|
| <b>D/ Short-term liabilities</b>                         |                | <b>29,643,249</b> | <b>31,419,466</b> |
| I. Liabilities included in disposal groups               |                | -                 | -                 |
| II. Short-term financial liabilities                     | 6.1.14.        | 8,988,252         | 8,800,766         |
| III. Short-term operating liabilities                    | 6.1.16.        | 20,654,997        | 22,618,700        |
| <b>E/ Short-term accrued costs and deferred revenues</b> | <b>6.1.17.</b> | <b>3,366,598</b>  | <b>1,453,209</b>  |
| <b>Off-balance-sheet liabilities</b>                     | <b>6.1.18.</b> | <b>35,097,886</b> | <b>46,456,583</b> |

The notes are an integral part of the financial statements.

## 4.2 Income statement and statement of other comprehensive income<sup>2</sup>

### 4.2.1. Income statement

| <b>Income statement</b> (in EUR)                                                       | <b>Note</b> | <b>2013</b>       | <b>2012</b>       |
|----------------------------------------------------------------------------------------|-------------|-------------------|-------------------|
| 1. Net sales revenues                                                                  | 6.2.1.      | 142,403,988       | 147,094,560       |
| 2. Manufacturing costs of products sold or cost of goods sold (including depreciation) | 6.2.        | 121,030,063       | 134,251,793       |
| <b>3. Gross profit or loss from sales</b>                                              |             | <b>21,373,925</b> | <b>12,842,767</b> |
| 4. Selling costs (including depreciation and amortisation)                             | 6.2.        | 17,691,580        | 16,754,466        |
| 5. General and administrative costs (including depreciation and amortisation)          | 6.2.        | 5,177,747         | 4,984,124         |
| 6. Other operating revenue (including revaluation operating revenue)                   | 6.2.2.      | 2,642,639         | 794,324           |
| 7. Finance income from participation                                                   | 6.2.8.      | 6,419             | 210,113           |
| 8. Finance income from loans granted                                                   |             | -                 | -                 |
| 9. Finance income from operating receivables                                           | 6.2.8.      | 1,380,164         | 511,789           |
| 10. Finance expenses from impairments and write-offs of financial assets               | 6.2.9.      | 1,404             | -                 |
| 11. Finance expenses from financial liabilities                                        | 6.2.9.      | 1,461,048         | 1,805,864         |
| 12. Finance expenses from operating liabilities                                        | 6.2.9.      | 2,974,535         | 2,750,950         |
| 13. Other revenues                                                                     | 6.2.10.     | 267,542           | 1,720,194         |
| 14. Other expenses                                                                     | 6.2.11.     | 1,238,476         | 584,730           |

<sup>2</sup> The expanded version of the income statement is available in attachment 10.2.



|                                              |                |                   |                    |
|----------------------------------------------|----------------|-------------------|--------------------|
| 15. Income tax                               | 6.2.12.        | -                 | -                  |
| <b>16. Net profit or loss for the period</b> | <b>6.2.13.</b> | <b>-2,874,101</b> | <b>-10,800,947</b> |

#### Statement of other comprehensive income

| (in EUR)                                                                                 | 2013              | 2012              |
|------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Net profit or loss for the period</b>                                                 | -2,874,101        | -10,800,947       |
| Change in the revaluation surplus of intangible assets and property, plant and equipment | -511,436          | -                 |
| Change in the revaluation surplus of financial assets available for sale                 | 959,656           | 938,106           |
| <b>Total comprehensive income for the accounting period</b>                              | <b>-2,425,881</b> | <b>-9,862,841</b> |

Statement of other comprehensive income

### 4.3 Cash flow statement for 2013 in EUR

| No.      | Item                                                                                                                                                       | 2013              | 2012              |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>A</b> | <b>Cash flows from operating activities</b>                                                                                                                |                   |                   |
| a)       | Items of income statement                                                                                                                                  | <b>8,988,571</b>  | <b>-694,046</b>   |
| 1.       | Operating revenues (except for revaluation) and finance income from operating receivables                                                                  | 146,688,690       | 149,912,268       |
| 2.       | Operating expenses (except for revaluation) and finance expenses from operating liabilities                                                                | -137,700,119      | -150,606,314      |
| b)       | <b>Changes in net current assets (and deferred and accrued items, provisions and deferred tax assets and liabilities) of balance sheet operating items</b> | <b>-2,708,731</b> | <b>-3,550</b>     |
| 1.       | Opening less closing operating receivables                                                                                                                 | -3,092,226        | 684,887           |
| 2.       | Opening less closing deferred costs and accrued revenues                                                                                                   | -179,379          | 1,041,690         |
| 4.       | Opening less closing assets (disposal groups) available for sale                                                                                           | 365,473           | -20               |
| 5.       | Opening less closing inventories                                                                                                                           | -2,551            | 88,151            |
| 6.       | Closing less opening operating liabilities                                                                                                                 | -2,469,655        | -1,187,421        |
| 7.       | Closing less opening accrued costs and deferred revenues and provisions                                                                                    | 2,669,607         | -630,837          |
| c)       | <b>Net receipts/disbursements from operating activities (a+b)</b>                                                                                          | <b>6,279,840</b>  | <b>-697,596</b>   |
| <b>B</b> | <b>Cash flows from investing activities</b>                                                                                                                |                   |                   |
| a)       | Receipts from investing activities                                                                                                                         | <b>8,496,394</b>  | <b>35,946,117</b> |

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|                                               |                                                                    |                    |                    |
|-----------------------------------------------|--------------------------------------------------------------------|--------------------|--------------------|
| 1.                                            | Interest and dividends received from investing activities          | -160,564           | 110,938            |
| 2.                                            | Receipts from the disposal of intangible assets                    | 61,641             | 897,629            |
| 3.                                            | Receipts from the disposal of property, plant and equipment        | 4,562,343          | 346,558            |
| 4.                                            | Receipts from the disposal of investment property                  | 3,984,643          | 57,156             |
| 5.                                            | Receipts from the disposal of long-term financial assets           | 48,331             | 62,447             |
| 6.                                            | Receipts from the disposal of short-term financial assets          | -                  | 34,471,389         |
| b)                                            | Disbursements from investing activities                            | <b>-4,140,280</b>  | <b>-29,957,535</b> |
| 1.                                            | Disbursements for the acquisition of intangible assets             | -197,462           | -1,768,197         |
| 2.                                            | Disbursements for the acquisition of property, plant and equipment | -3,525,706         | -3,387,045         |
| 3.                                            | Disbursements for the acquisition of investment property           | -                  | -110,624           |
| 4.                                            | Disbursements for the acquisition of long-term financial assets    | -5,416             | -24,691,669        |
| 5.                                            | Disbursements for the acquisition of short-term financial assets   | -411,696           | -                  |
| c)                                            | Net receipts/disbursements from investing activities (a+b)         | <b>4,356,114</b>   | <b>5,988,582</b>   |
| <b>C Cash flows from financing activities</b> |                                                                    |                    |                    |
| a)                                            | Receipts from financing activities                                 | <b>3,182,541</b>   | <b>1,387,317</b>   |
| 1.                                            | Receipts from the increase in long-term financial liabilities      | 3,182,541          | 1,387,317          |
| b)                                            | Disbursements from financing activities                            | -14,010,048        | -6,415,167         |
| 1.                                            | Interest paid on financing activities                              | -1,289,910         | -2,156,985         |
| 3.                                            | Disbursements for long-term financial liabilities                  | -2,049,501         | -4,183,918         |
| 4.                                            | Disbursements for short-term financial liabilities                 | -10,670,637        | -74,264            |
| c)                                            | Net receipts/disbursements from financing activities (a+b)         | <b>-10,827,507</b> | <b>-5,027,850</b>  |
| d)                                            | Closing balance of cash                                            | <b>646,826</b>     | <b>838,379</b>     |
| 1.                                            | Net cash for the period (sum of Ac, Bc and Cc)                     | -191,553           | 263,136            |
| 2.                                            | Opening balance of cash                                            | <b>838,379</b>     | <b>575,243</b>     |

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#### 4.4 Statement of changes in equity for 2013 in EUR

|                                                                                                                         | CALLED-UP<br>CAPITAL | CAPITAL<br>SURPLUS | REVALUATION<br>ON SURPLUS | NET PROFIT OR<br>LOSS FROM<br>PREVIOUS<br>PERIODS | NET PROFIT OR<br>LOSS FOR THE<br>PERIOD | TOTAL<br>CAPITAL  |
|-------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------|---------------------------|---------------------------------------------------|-----------------------------------------|-------------------|
|                                                                                                                         | EQUITY<br>CAPITAL    |                    |                           | NET PROFIT OR<br>LOSS FROM<br>PREVIOUS<br>PERIODS | NET PROFIT<br>OR LOSS                   |                   |
| <b>A/1. As at 31 December 2012</b>                                                                                      | <b>17,712,227</b>    | -                  | <b>5,041,595</b>          | -                                                 | <b>-10,266,037</b>                      | <b>12,487,785</b> |
| <b>A/2. As at 1 January 2013</b>                                                                                        | <b>17,712,227</b>    | -                  | <b>5,041,595</b>          | -                                                 | <b>-10,266,037</b>                      | <b>12,487,785</b> |
| <b>B/1. Changes in equity – transactions with shareholders</b>                                                          | -                    | -                  | -                         | -                                                 | -                                       | -                 |
| <b>B/2. Total comprehensive income for the reporting period</b>                                                         | -                    | -                  | <b>-382,286</b>           | <b>830,506</b>                                    | <b>-2,874,101</b>                       | <b>-2,425,881</b> |
| a) Entry of net profit or loss for the reporting period                                                                 | -                    | -                  | -                         | -                                                 | -2,874,101                              | -2,874,101        |
| c) Change in revaluation surplus of property, plant and equipment                                                       | -                    | -                  | -1,321,969                | 810,533                                           | -                                       | -511,436          |
| d) Transfer of revaluation surplus of property, plant and equipment to net profit brought forward (reval. depreciation) | -                    | -                  | -19,973                   | 19,973                                            | -                                       | -                 |
| f) Change in revaluation surplus of long-term financial assets                                                          | -                    | -                  | 959,656                   | -                                                 | -                                       | 959,656           |
| <b>B/3. Changes in equity</b>                                                                                           | <b>-14,169,782</b>   | <b>1,860,150</b>   | -                         | <b>-830,506</b>                                   | <b>13,140,138</b>                       | -                 |
| a) Allocation of remaining net profit for the comparative reporting period to other components of equity                | -                    | -                  | -                         | -10,266,037                                       | 10,266,037                              | -                 |
| d) Settlement of loss as a deduction item of capital                                                                    | -                    | -2,043,595         | -                         | -830,506                                          | 2,874,101                               | -                 |
| h) Decrease in equity due to settlement of loss brought forward                                                         | -14,169,782          | 3,903,745          | -                         | 10,266,037                                        | -                                       | -                 |
| <b>C/ As at 31 December 2013</b>                                                                                        | <b>3,542,445</b>     | <b>1,860,150</b>   | <b>4,659,309</b>          | -                                                 | -                                       | <b>10,061,904</b> |

Item c) Settlement of loss is disclosed in note 6.1.12.

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## 4.5 Statement of changes in equity for 2012 in EUR

|                                                                                                                         | CALLED-UP<br>CAPITAL | CAPITAL<br>SURPLUS | REVALUATION<br>ON SURPLUS | NET PROFIT OR<br>LOSS FROM<br>PREVIOUS<br>PERIODS | NET PROFIT OR<br>LOSS FOR THE<br>PERIOD | TOTAL<br>CAPITAL  |
|-------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------|---------------------------|---------------------------------------------------|-----------------------------------------|-------------------|
|                                                                                                                         | EQUITY<br>CAPITAL    |                    |                           | NET PROFIT OR<br>LOSS FROM<br>PREVIOUS<br>PERIODS | NET PROFIT<br>OR LOSS                   |                   |
| <b>A/1. As at 31 December 2011</b>                                                                                      | <b>70,848,907</b>    | -                  | <b>4,286,797</b>          | <b>-40,754,141</b>                                | <b>-12,030,937</b>                      | <b>22,350,626</b> |
| <b>A/2. As at 1 January 2012</b>                                                                                        | <b>70,848,907</b>    | -                  | <b>4,286,797</b>          | <b>-40,754,141</b>                                | <b>-12,030,937</b>                      | <b>22,350,626</b> |
| <b>B/1. Changes in equity – transactions with shareholders</b>                                                          | -                    | -                  | -                         | -                                                 | -                                       | -                 |
| <b>B/2. Total comprehensive income for the reporting period</b>                                                         | -                    | -                  | <b>754,798</b>            | <b>183,308</b>                                    | <b>-10,800,947</b>                      | <b>-9,862,841</b> |
| b) Entry of net profit or loss for the reporting period                                                                 | -                    | -                  | -                         | -                                                 | -10,800,947                             | -10,800,947       |
| c) Change in revaluation surplus of property, plant and equipment                                                       | -                    | -                  | -51,619                   | 51,619                                            | -                                       | -                 |
| d) Transfer of revaluation surplus of property, plant and equipment to net profit brought forward (reval. depreciation) | -                    | -                  | -131,689                  | 131,689                                           | -                                       | -                 |
| f) Change in revaluation surplus of long-term financial assets                                                          | -                    | -                  | 938,106                   | -                                                 | -                                       | 938,106           |
| <b>B/3. Changes in equity</b>                                                                                           | <b>-53,136,680</b>   | -                  | -                         | <b>40,570,833</b>                                 | <b>12,565,847</b>                       | -                 |
| b) Allocation of remaining net profit for the comparative reporting period to other components of equity                | -                    | -                  | -                         | -12,030,937                                       | 12,030,937                              | -                 |
| d) Settlement of loss as a deduction item of capital                                                                    | -                    | -14,248,033        | -                         | 13,713,123                                        | 534,910                                 | -                 |
| h) Decrease in equity due to settlement of loss brought forward                                                         | -53,136,680          | 14,248,033         | -                         | 38,888,647                                        | -                                       | -                 |
| <b>C/ As at 31 December 2012</b>                                                                                        | <b>17,712,227</b>    | -                  | <b>5,041,595</b>          | -                                                 | <b>-10,266,037</b>                      | <b>12,487,785</b> |

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## 4.6 Distributable profit

| <b>Distributable profit</b> (in EUR)    | <b>2013</b> | <b>2012</b>        |
|-----------------------------------------|-------------|--------------------|
| Net profit or loss for the period       | -2,874,101  | -10,800,947        |
| Net profit/(loss) from previous periods | -9,435,531  | -52,601,770        |
| Decrease in equity                      | 14,169,782  | 53,136,680         |
| Increase in capital surplus             | -1,860,150  | -                  |
| <b>Distributable profit or loss</b>     | <b>-</b>    | <b>-10,266,037</b> |

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## 5. Major Accounting Policies

### 5.1 Basis for Compiling the Financial Statements

- The financial statements and notes thereto have been compiled on the basis of the Slovenian Accounting Standards issued by the Slovenian Institute of Auditors as well as the requirements of the Companies Act and the internal rules of the Company.
- The financial statements include those assets and liabilities that are related to the Company's activity. In preparing the financial statements, the general rules on the structure of statements have been considered: balance sheet, income statement and valuation of items in the financial statements, the contents of attachments to the financial statements and the requirements related to the business report that allow for a true and fair view of the Company's operations in the Annual Report. The following fundamental accounting assumptions have been considered: accrual basis, going concern and true and fair presentation under the conditions of the fluctuating value of the euro and the individual prices.
- In 2013, the Company incurred a loss of EUR 2,874 thousand. As at 31 December 2013, net liabilities amounted to EUR 10,062 thousand and net short-term liabilities to EUR 15,289 thousand.
- The qualitative characteristics of the financial statements and thus the entire accounting are above all: understandability, relevance, reliability and comparability.
- Adria Airways d.d. also keeps its subsidiary records in line with the recommendations of the ICAO (International Civil Aviation Organisation), of which the Republic of Slovenia is a member.
- The presented financial statements and the notes thereto have been compiled on the historical cost basis, supplemented by revaluation of individual categories of assets and liabilities to their fair value, pursuant to the Slovenian Accounting Standards and the applicable legislation.
- The applied accounting policies are the same as in previous years, with the exception of the accounting policy on the valuation of investment property and buildings, which was modified in 2009.
- The monetary unit used in the financial statements and the corresponding notes is the euro.

### 5.2 Exchange Rate and Method of Translation into Domestic Currency

- Adria Airways d.d. translates purchase and sale transactions, investments, long-term and short-term liabilities as well as long-term and short-term receivables in foreign currencies into euros at the ECB reference exchange rate effective on the transaction date. The balance as at 31 December resulting from these transactions was calculated at the latest reference exchange rate of the ECB (31 December 2013).

### 5.3 Reporting by Business and Geographical Segments

- The business segments are the following: scheduled passenger services, cargo services, charter passenger services and other.

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- In terms of business segment reporting, the Company reports net sales revenue that can be directly attributed to individual segments, while other data are not disclosed.
- The Company does not report about geographical segments.

## 5.4 Accounting Policies

### Intangible assets

- Intangible assets are recognised at cost and are amortised over their useful life, which is a maximum of seven years. The Company holds no assets with indefinite useful life.
- Intangible assets are not restated to account for value gains.

### Property, plant and equipment

- Property, plant and equipment (tangible fixed assets) represent land, buildings, replacement parts and other equipment. Property, plant and equipment ready for use also comprise small tools with a useful life of more than one year and individual value not exceeding EUR 500. Property, plant and equipment under construction or development also include the pertaining replacement parts. Equipment acquired under finance lease and depreciated under depreciation rates applicable to equipment of the same or similar class is also recognised as property, plant and equipment. At the end of the finance lease, the title to the assets is transferred to the lessee.
- After the initial recognition, the buildings are revaluated according to the fair value model, meaning that they are stated at the revaluated amount that is their fair value on the revaluation day reduced by any subsequent accumulated depreciation and subsequently incurred loss due to impairment. The fair value is determined by an independent appraiser if the management deems that significant changes occurred in the operating conditions and the related assumptions applied at the latest appraisal and the change in fair value.
- On the day of the revaluation of buildings, their cost or revaluated cost and the accumulated depreciation are revaluated in such a way that the accumulated depreciation is charged against the cost or revalued value of the building and the net amount is restated to the revalued amount. The amount of the restatement forms a part of the increase or decrease in the carrying amount. If an asset's carrying amount is increased as a result of revaluation, the increase is recognised directly in equity under revaluation surplus. If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised in profit or loss. The decrease is debited directly against equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in regard to that asset. The surplus from revaluation of buildings is transferred to the profit or loss brought forward when the asset is derecognised and also when the asset is used. In such a case, the amount of the surplus transferred is the difference between the depreciation based on the revaluated cost of the building and the depreciation based on the asset's historical cost.
- The Company applies the cost model to aircraft, replacement parts and other equipment, except buildings, and states these items according to the cost, reduced by accumulated depreciation. Property, plant and equipment are depreciated over their useful lives. Value adjustments are charged against the relevant operating costs.

- The cost of an item of property, plant and equipment comprises its purchase price and all directly attributable costs of bringing the asset to the condition necessary for the intended use. Subsequently incurred costs that ensure greater benefits than those evaluated earlier increase the cost. The costs of regular inspections and servicing of aircraft are treated as aircraft parts.
- Land is valued at historical cost (or, if that is not known, at appraised value).
- Property, plant and equipment are derecognised in the books of account on their disposal or retirement, as no future economic benefits can be expected from them. The difference between the net disposal proceeds and the carrying amount of an item of property, plant and equipment disposed of is recognised as revaluation operating revenue if the net disposal proceeds exceed the carrying amount or as operating expenses if the carrying amount exceeds the net disposal proceeds.
- Advances for property, plant and equipment are recognised at nominal value.

## Depreciation and amortisation

- The carrying amount of an item of property, plant and equipment or an intangible asset is decreased through amortisation/depreciation. Depreciation or amortisation of an asset starts on the first day of the following month after this asset is available for use. Land, advances for fixed assets and assets under construction or development are not depreciated.
- Amortisation and depreciation are accounted for individually under the straight-line depreciation method applied over the estimated useful life of an individual asset.
- In 2013, the Company applied the following amortisation and depreciation rates:

| Amortisation and depreciation rates in 2013 | Minimum % | Maximum % |
|---------------------------------------------|-----------|-----------|
| <b>(In)tangible asset</b>                   |           |           |
| <b>Intangible long-term assets</b>          |           |           |
| Software                                    | 25.00     | 50.00     |
| <b>Property, plant and equipment</b>        |           |           |
| Real estate:                                |           |           |
| - buildings                                 | 1.50      | 10.00     |
| - other structures                          | 2.00      | 12.50     |
| Equipment:                                  |           |           |
| - production equipment – aircraft           | 4.38      | 10.00     |
| - production equipment – roto spare parts   | 10.00     | 10.00     |
| - other equipment                           | 8.30      | 20.00     |
| Computer equipment:                         |           |           |
| - hardware                                  | 25.00     | 25.00     |

|                                                   |       |       |
|---------------------------------------------------|-------|-------|
| Motor vehicles:                                   |       |       |
| - transport vehicles – vans                       | 12.50 | 14.30 |
| - cars                                            | 12.50 | 15.50 |
| Other property, plant and equipment – small tools | 25.00 | 33.00 |

## Investment property

- Investment property is initially measured at cost comprising its purchase price and any attributable costs of acquisition. After initial recognition, it is measured according to the fair value model, where the fair value is measured on the basis of the market value on the balance sheet date, which is determined by a certified appraiser in a manner established under the International Valuation Standards. A gain or loss arising from a change in the fair value of investment property is recognised in the income statement for the period in which it arises. The fair value is determined by an independent appraiser if the management deems that significant changes occurred in the operating conditions and the related assumptions applied at the latest appraisal and the fair value.

## Financial assets

### Investments

- Investments of Adria Airways d.d. are classified into the following categories:
  - financial assets recognised at fair value through profit or loss;
  - held-to-maturity investments;
  - available-for-sale investments;
  - loans and receivables.
- The classification depends on the purpose for which an asset was acquired.
- Long-term and short-term financial assets are disclosed separately.

### Recognition of financial assets

- Adria Airways d.d. initially recognises at fair value all investments other than those classified in the group at fair value through profit or loss, including the directly related costs of acquisition. Investments classified in the group at fair value through profit or loss are recognised at fair value (direct costs of acquisition are not included in the purchase value).

## Financial assets recognised at fair value through profit or loss

- Financial assets classified as financial assets at fair value through profit or loss are measured at fair value. Gains and losses on investments classified into the group at fair value through profit or loss are recognised directly in the income statement. The fair value of investments actively traded on regulated markets is specified in the amount of the quoted stock bid price at the close of trading as at the balance sheet date. The fair value of investments whose market price is not quoted on financial markets is determined on the basis of a similar instrument or as the net present value of future cash flows that Adria Airways d.d. can expect from a certain financial investment. Purchases and sales of individual financial assets classified into the group of “financial assets at fair value through profit or loss” are recognised on the trading day; this is the day when the Company undertakes to acquire or dispose of an asset.

## Held-to-maturity investments

- Adria Airways d.d. recognises financial assets with fixed or determinable payments and maturity, other than derivative financial instruments, as held-to-maturity investments if it has a positive intention and the ability to hold the investment to maturity. Investments held for an indefinite period of time are not classified in this group. Investments recognised as held-to-maturity investments are measured at amortised cost by using the effective interest rate method. The amortised cost is calculated by the allocation of the premium or discount upon the acquisition over the period until the maturity of the investment. Any gains and losses on investments carried at amortised cost are recognised in the income statement (disposal, impairment or effects of discount/premium amortisation). Investments classified into the group until maturity are recognised on the settlement date.

## Available-for-sale investments

- After initial recognition, all investments made by Adria Airways d.d. are defined as available-for-sale investments measured at fair value or cost if the fair value cannot be reliably determined. Any gains or losses on available-for-sale investments are recognised in capital as net unrealised capital gains on available-for-sale financial investments until the investment is sold or disposed of in some other manner. In the event of impairment, the impairment loss is recognised in the income statement. Purchases and sales of individual financial investments classified into the group of available-for-sale investments are recognised on the trading day; this is the day when the Company undertakes to acquire or dispose of an asset.
- Among long-term financial investments in the equity of other companies, classified as financial assets held for sale, the Company discloses such investments that could not have been evaluated at fair value. The shares of these companies are not listed on the stock exchange. The Company estimates that there is no other unbiased and impartial evidence that the cost of the financial investments could not be compensated for, and consequently they were not impaired in accordance with SAS 3.

## Investments in subsidiaries and associated companies

- Investments in subsidiaries are recognised by Adria Airways d.d. at cost less any impairment loss.
- Investments in associated companies are recognised by Adria Airways d.d. at cost less any impairment loss.



## Loans and receivables

- Loans and receivables are financial assets with fixed or determinable payments that are not traded on the regulated market. This group includes both loans and receivables acquired by the Company as well as loans and receivables arising from the Company. Loans and receivables are measured at amortised cost using the effective interest rate method and are recognised on the settlement date.
- The part of long-term financial investments in loans falling due within one year following the balance sheet date is disclosed as a short-term financial asset.

## Receivables

- Operating receivables may be long-term or short-term, comprising: trade receivables, other receivables associated with operating revenues, receivables associated with finance income, receivables associated with capital formation and other receivables associated with the transformation of assets.
- Initially, receivables of all categories are reported at amounts recorded in the relevant documents under the assumption that they will be collected.
- Receivables that are not assumed to be recovered or are not settled by the due date and are the subject of dispute are treated as doubtful or disputable. Allowances of the total amount of such receivables are made. The collectability is determined monthly and at the end of the year for individual buyers.
- Receivables due from foreign legal or natural persons are translated into the domestic currency on the accrual date. Exchange rate differences arising by the settlement date or the balance sheet date are recognised under finance income or expenses.

## Assets held for sale

- Non-current assets held for sale are non-current assets whose carrying amount is justifiably assumed to be settled mainly by the sale in the next twelve months and are not for further use.
- Non-current assets held for sale are stated at the lower of carrying amount and fair value less cost to sell.

## Taxes

### Current taxes

- A current tax liability or asset for present and past periods is measured in the amount that Adria Airways d.d. expects to pay to or receive from the tax administration. Current tax liabilities and assets are measured at tax rates applicable as at the balance sheet date.

## Deferred taxes

- Deferred corporate income tax assets and liabilities are calculated according to the balance sheet liability method. Only deferred liabilities and assets arising from temporary differences are recognised. At the balance sheet date, the Company recognised no deferred taxes.

## Inventories

- Inventories are carried at cost.
- The use of materials is accounted for under the FIFO method.
- At year-end, inventories are checked and 100% value adjustments are made for any slow-moving inventories.
- Value adjustments of inventory are made to account for inventory value reduction to the recoverable amount and are part of operating expenses.

## Cash

- Cash consists of: cash on hand, deposit money and cash in transit. Cash on hand is cash in the form of bank notes, coins and cheques received. Deposit money comprises funds held in accounts with a bank or other financial institution that may be used for payment. Cash in transit is cash transferred from a cash register to an adequate account in a bank or other financial institution that is credited to the account on that same day.
- An item of cash is initially recognised at an amount arising from the relevant documents, upon verification of its nature.
- Cash denominated in foreign currency is translated into the domestic currency at the middle exchange rate of the Bank of Slovenia on the balance sheet date.

## Capital

- Equity reflects the Company's equity finance and is the entity's liability to owners from the Company's point of view. It is defined by the amounts invested by the owners and the amounts generated in the course of the Company's operations.
- Total equity consists of: called-up capital, capital surplus, revenue reserves, revaluation surplus, retained net profit or loss from previous years and undistributed net profit for the financial year.
- Share capital is recorded in the domestic currency.

## Liabilities

- Liabilities include: long-term and short-term financial and operating liabilities.

- Initially, short- and long-term liabilities of all categories are posted at amounts recorded in the underlying documents, assuming that the creditors demand their payment.
- Long-term liabilities are decreased by paid amounts and any other settlements in agreement with the creditor. They are also reduced by the part due in less than one year, which is posted under short-term liabilities.
- Operating receivables in foreign currencies are converted into the domestic currency on the accrual date. Any exchange rate difference arising up to the balance sheet date is recognised under finance income or finance expenses.
- Prior to the compilation of the annual financial statements, the Company reviews the fair value of the short-term operating liabilities on the basis of the contracts, account balance reconciliation and other financial tools.

### Provisions and long-term accrued costs and deferred revenues

- Provisions are made for liabilities expected to arise from obligating past events in a period exceeding one year and whose amounts can be reliably estimated. The amount of long-term provisions at the end of the accounting period equals the present value of expenses expected to be required to settle liabilities. The long-term accrued and deferred items are recognised as long-term deferred revenues if in a period exceeding one year they will cover projected expenses.
- In compliance with the law, the collective agreement and the internal rules, the Company is obligated to pay jubilee benefits and retirement severance to employees, for which it forms long-term provisions. Other pension liabilities do not exist. Provisions are made in the amount equalling the expected amount of future jubilee benefits and severance payments, discounted as at 31 December 2013. A calculation was made for every employee, taking into account the costs of severance payment upon retirement and the cost of all projected jubilee benefits until retirement. The calculation based on a projected unit has been prepared by a certified actuary. The value of long-term provisions represents the current value of expenses necessary for settling long-term liabilities, established as at the balance sheet date, taking into account the risks and uncertainties.
- Provisions for long-term benefits were calculated also based on the Pension and Disability Insurance Act (ZPIZ-2). The provisions under the law were recognised in the calculation implicitly through the remaining future working lives of the employees.
- Actuarial financial assumptions considered in the calculation of provisions:
  - 3% expected inflation,
  - the discount rate obtained from the interest rate curve of the ECB Euro area (AAA), which covers the yield on euro and government bonds with AAA rating as at 31 December 2013; real curve values are calculated from the interest rate curve increased by 5.00% (country risk) and decreased by expected inflation.
- Long-term provisions for accrued costs or expenses are decreased directly by the amount of the costs or expenses for which they were established.

## Short-term accrued and deferred items

- Accruals and prepayments include short-term deferred costs (expenses) and short-term accrued revenues. Short-term deferred costs comprise the amounts that are initially not charged against the activity the Company is engaged in. Short-term accrued revenues arise when there is a grounded reason to post revenues upon determining of profit or loss, although the Company has not yet received payment or issued the relevant invoices.
- Accruals and deferrals include accrued costs (expenses) and short-term deferred revenues. Accrued costs consist of costs that are expected but have not yet occurred and are related to the accounting period. Short-term deferred revenues arise if the Company's services have already been charged and the Company has not yet provided them. Revenues may also be deferred on a short-term basis when the eligibility for recognition of revenue is doubtful at the sale date.

## Finance and operating lease

- Adria Airways d.d. recognises finance lease when substantially all the risks and benefits of the leased item are transferred to the Company. Finance lease is recognised as an asset and liability in the balance sheet at amounts equal, at the inception of the lease, to the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce an effective rate of interest on the remaining balance of the liability for each period. Finance expense is recognised directly in the income statement. Assets under finance lease are depreciated over the estimated useful life or over the term of the finance lease, whichever is shorter.
- Operating lease represents the lease where the lessor retains the majority of risks and benefits related to the ownership of the leased item. Rent is recognised by Adria Airways d.d. in the income statement as an expense on a straight-line basis throughout the lease period.

## Derecognition of financial instruments

- A financial asset is written off the books when the risks and benefits and control over contractual rights related to it have been transferred. A financial liability is derecognised when discharged, cancelled or expired.

## Derivative financial instruments

- Adria Airways d.d. uses financial instruments, for instance forward contracts and interest swaps, as hedging against its risks related to interest rates and the fluctuations in foreign currencies and fuel prices. Derivative financial instruments are recognised at fair value.
- The fair value of a forward contract is determined on the basis of the current price for contracts with a similar maturity. The fair value of interest swaps is determined on the basis of the market value of similar instruments or discounted expected cash flows. Hedge accounting is divided into the hedge of fair value that involves hedging against exposure to changes in the fair value of recognised assets and liabilities and cash flow hedge that entails hedging against the volatility of cash flows arising from individual risks related to the

recognised asset or liability or expected transaction. All gains and losses related to remeasurement of hedging instruments used as a fair value hedge are immediately recognised in the income statement. Gains and losses arising from remeasurement of the hedged item and referring to hedged risk arising from the hedged item are debited from/credited to such item and recognised in the income statement. When the hedged item is an interest bearing asset or liability, the cumulative gain or loss is amortised over the period to maturity. In cash flow hedges, gains and losses on a hedging instrument that is determined to be an effective hedge are recognised in equity. The ineffective portion is recognised in the income statement. When a hedged firm commitment subsequently results in the recognition of a non-financial asset, the associated gains or losses that were recognised in equity are included in the asset. In other cases, gains or losses on a hedging instrument are in future years transferred to the income statement, and the effect of changes in the value of the hedged item is offset in the income statement. The effects of remeasurement of derivative financial instruments that no longer qualify for hedge accounting are recognised directly in the income statement. Hedge accounting is discontinued when the hedging instrument expires, is sold or no longer meets the requirements for hedge accounting. The cumulative gain or loss on the derivative financial instrument recognised by Adria Airways d.d. in equity remains in equity until the forecast transaction occurs. If the forecast transaction is no longer expected, the accumulated gains and losses recognised in equity are transferred to profit or loss for the current year.

## The recognition of revenue

- Revenue is recognised if increases in economic benefits during the accounting period are associated with increases of assets or decreases of liabilities and the increases can be measured reliably.
- Sales revenues include the sales value of services rendered as well as sold merchandise and material in the accounting period, if it is realistic to expect that they will be paid and if they are specified in invoices and other documents, less any discounts granted upon sale and later by the value of returned goods and subsequent discounts.
- Revaluation operating revenue arises on the disposal of items of property, plant and equipment and of intangible assets as the excess of their sales value over their carrying amount, reduced by the capital revaluation surplus resulting from a previous upward revaluation of the assets.
- Finance income is income generated by investing activities. It arises in relation to long- and short-term investments and receivables. It is recognised when accounted for, regardless of cash receipts associated with it, unless there is reasonable doubt associated with its amount, maturity date and collectability. Interest is recognised on a time proportion basis, taking into account the principle outstanding and the interest rate applicable.
- Other revenue comprises unusual items. They are disclosed in the actual amounts.

## Recognition of expenses

- Expenses are recognised if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities and such decreases can be measured reliably.
- Revaluation operating expenses are recognised when the relevant revaluation has been carried out, irrespective of their impact on profit or loss. Revaluation operating expenses arise in association with intangible fixed assets, items of property, plant and equipment and current assets due to their impairment.

- Finance expenses include financing expenses and investment expenses. Finance expenses from revaluation arise in relation to long- and short-term investments due to their impairment and in connection with upward revaluation of long- and short-term liabilities.
- Other expenses comprise unusual items that are expressed in the actual amounts incurred.

## Cash flow statement

- The cash flow statement is compiled under the indirect method on the basis of the balance sheet data as at 31 December 2013 and 31 December 2012, the income statement data for the year 2013 as well as additional data necessary to adjust the receipts and disbursements and for the adequate breakdown of significant items.

## Disclosures

- The above stated accounting policies were applied during the entire reporting period.
- In the 2013 Annual Report, the Company disclosed all important business events, receivables, liabilities, expenses, revenue and risks and all important business events after the balance sheet date.
- The cost and sales value of aircraft are not disclosed by the Company.
- The Company has not disclosed any information that is designated as its trade secret, any personal data or any other confidential information that could be detrimental to the Company or an individual.

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## 6. Notes to the Financial Statements

### 6.1 Notes to the Balance Sheet

#### 6.1.1 Intangible assets and long-term deferred costs and accrued revenues

Intangible assets and long-term deferred costs and accrued revenues include:

- Property rights:
  - pilot licences in the amount of EUR 42,688, amortised at the rates of 50%, 33.33%, 25% and 14.28% annually;
- Other intangible assets: software applications (software, Navision, Atennea software, website, online ticket, information system for operational flight support, payroll accounting application), which are amortised under the straight-line basis at an annual rate of 25%;
- Long-term deferred costs and accrued revenues:
  - emission coupons in the amount of EUR 128,378, acquired and purchased to fulfil the obligation to the state based on the Environmental Protection Act.

#### Changes in intangible assets in 2013

| (in EUR)                              | Property rights  | Software applications | Intangible assets in acquisition | Other deferred costs and accrued revenues | TOTAL            |
|---------------------------------------|------------------|-----------------------|----------------------------------|-------------------------------------------|------------------|
| <b>Cost</b>                           |                  |                       |                                  |                                           |                  |
| <b>As at 31 December 2012</b>         | <b>1,032,600</b> | <b>4,364,226</b>      | <b>-</b>                         | <b>1,309,965</b>                          | <b>6,706,791</b> |
| Direct increases – investments        | -                | -                     | 197,462                          | -                                         | 197,462          |
| Transfer from investments in progress | -                | 119,816               | -119,816                         | -                                         | -                |
| Decrease during the year              | 386,105          | 772,726               | -                                | -26,566                                   | 1,132,265        |
| Revaluation                           | -                | -                     | -                                | -140,796                                  | -140,796         |
| Other changes – transfer to other FA  | -                | -                     | -                                | -1,067,357                                | -1,067,357       |
| <b>As at 31 December 2013</b>         | <b>646,495</b>   | <b>3,711,316</b>      | <b>77,646</b>                    | <b>128,378</b>                            | <b>4,563,835</b> |
| <b>Value adjustment</b>               |                  |                       |                                  |                                           |                  |
| <b>As at 31 December 2012</b>         | <b>838,075</b>   | <b>3,436,414</b>      | <b>-</b>                         | <b>-</b>                                  | <b>4,274,489</b> |
| Depreciation for the year             | 55,502           | 449,113               | -                                | -                                         | 504,615          |
| Decrease during the year              | 289,770          | 737,106               | -                                | -                                         | 1,026,876        |
| Increase during the year              | -                | -                     | -                                | -                                         | -                |
| Other changes                         | -                | -                     | -                                | -                                         | -                |

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|                                              |                |                  |               |                  |                  |
|----------------------------------------------|----------------|------------------|---------------|------------------|------------------|
| <b>As at 31 December 2013</b>                | <b>603,807</b> | <b>3,148,421</b> | <b>-</b>      | <b>-</b>         | <b>3,752,228</b> |
| <b>Residual value as at 31 December 2013</b> | <b>42,688</b>  | <b>562,895</b>   | <b>77,646</b> | <b>128,378</b>   | <b>811,607</b>   |
| <b>Residual value as at 31 December 2012</b> | <b>194,525</b> | <b>927,812</b>   | <b>-</b>      | <b>1,309,965</b> | <b>2,432,302</b> |

- On the basis of the decision issued by the Ministry of the Environment and Spatial Planning and in line with the approved greenhouse gas emission monitoring plan, Adria Airways submitted 37,978 free emission coupons in the amount of EUR 37,978. Coupons (AEUA and ERU) in the amount of EUR 140,796 were debited against operating expenses from revaluation.
- Intangible assets mostly decreased by the value of the excluded charge for using real estate and building right charge in the amount of EUR 88,208 and the transferred costs of investments in third-party aircraft arising from maintenance totalling EUR 1,067,357, as follows: EUR 187,269 to other property, plant and equipment, and EUR 880,088 of accumulated value of leased aircraft repairs for the first C check to long-term operating receivables.

## Changes in intangible assets in 2012

| (in EUR)                                     | Property rights  | Software applications | Intangible assets in acquisition | Other deferred costs and accrued revenues | TOTAL            |
|----------------------------------------------|------------------|-----------------------|----------------------------------|-------------------------------------------|------------------|
| <b>Cost</b>                                  |                  |                       |                                  |                                           |                  |
| <b>As at 31 December 2011</b>                | <b>1,110,758</b> | <b>3,926,283</b>      | <b>9,730</b>                     | <b>1,016,250</b>                          | <b>6,063,021</b> |
| Direct increases – investments               | -                | -                     | 659,387                          | 1,191,344                                 | 1,850,731        |
| Transfer from investments in progress        | 88,979           | 580,138               | -669,117                         | -                                         | -                |
| Decrease during the year                     | 167,137          | 142,195               | -                                | 897,629                                   | 1,206,961        |
| Other changes – transfer to other FA         | -                | -                     | -                                | -                                         | -                |
| <b>As at 31 December 2012</b>                | <b>1,032,600</b> | <b>4,364,226</b>      | <b>-</b>                         | <b>1,309,965</b>                          | <b>6,706,791</b> |
| <b>Value adjustment</b>                      |                  |                       |                                  |                                           |                  |
| <b>As at 31 December 2011</b>                | <b>937,569</b>   | <b>2,987,291</b>      | <b>-</b>                         | <b>-</b>                                  | <b>3,924,860</b> |
| Depreciation for the year                    | 64,896           | 578,108               | -                                | -                                         | 643,004          |
| Decrease during the year                     | 164,390          | 128,985               | -                                | -                                         | 293,375          |
| Increase during the year                     | -                | -                     | -                                | -                                         | -                |
| Other changes                                | -                | -                     | -                                | -                                         | -                |
| <b>As at 31 December 2012</b>                | <b>838,075</b>   | <b>3,436,414</b>      | <b>-</b>                         | <b>-</b>                                  | <b>4,274,489</b> |
| <b>Residual value as at 31 December 2012</b> | <b>194,525</b>   | <b>927,812</b>        | <b>-</b>                         | <b>1,309,965</b>                          | <b>2,432,302</b> |
| <b>Residual value as at 31 December 2011</b> | <b>173,189</b>   | <b>938,992</b>        | <b>9,730</b>                     | <b>1,016,250</b>                          | <b>2,138,161</b> |

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## 6.1.2 Real estate, equipment and other property, plant and equipment

| Property, plant and equipment (in EUR)    | 31. 12. 2013      | 31. 12. 2012      |
|-------------------------------------------|-------------------|-------------------|
| <b>Land</b>                               | <b>487,183</b>    | <b>487,183</b>    |
| <b>Buildings</b>                          | <b>6,898,419</b>  | <b>7,252,287</b>  |
| <b>Equipment, of which:</b>               | <b>29,330,589</b> | <b>37,432,670</b> |
| * production plants and machinery         | 27,417,932        | 36,761,568        |
| - aircraft                                | 25,446,364        | 33,166,731        |
| - roto spare parts                        | 1,971,568         | 3,594,837         |
| * other plant and equipment               | 1,912,657         | 671,102           |
| - investments in third-party fixed assets | 1,303,473         | -                 |
| - other equipment                         | 607,724           | 670,532           |
| - small tools                             | 1,460             | 570               |
| <b>Assets in acquisition, of which:</b>   | <b>588,589</b>    | <b>557,525</b>    |
| * advances for fixed assets               | 253,936           | 265,493           |
| * assets under development                | 334,653           | 292,032           |
| <b>Total</b>                              | <b>37,304,780</b> | <b>45,729,665</b> |

- Buildings worth EUR 6,429,522 are on land owned by the Republic of Slovenia, with which the Company has concluded a 30-year Contract on the creation of building title no. 2411-08-900004 dated 1 April 2008 and a Contract on the creation of building title no. 2430-12-900065 dated 14 June 2013, which replaced the Contract on mutual relations as regards the use of certain land in the territory of the Ljubljana Airport dated 22 October 2002.
- In the 2013 financial year, EUR 3,525,706 was invested in property, plant and equipment. The greatest portion in terms of value is accounted for by the increase in the value of aircraft due to repairs and maintenance of aircraft fuselage and engines, investments in third-party aircraft that the Company has under operating lease due to maintenance, and the acquisition of new spare parts.
- By analysing the factors that influence real estate market value as at 31 December 2013, the certified real estate appraiser determined that with regards to certain real estate significant changes occurred in the operating circumstances and the related assumptions applied in the most recent appraisal as at 31 December 2012, which is why the Company revalued real estate at 2013 year-end according to the Accounting Rules.
- As at 31 December 2013, the Company had a finance lease on restaurant equipment and a company vehicle for the representative office in Zurich with a book value of EUR 61,306.
- The major share of property, plant and equipment is represented by the CRJ200-LR (3) and CRJ900-LR (2) regional aircraft. The increase in the value of aircraft relates to repairs and maintenance of aircraft in the amount of EUR 2,285,972 and the transfer of the spare engine for a CRJ200 from spare parts with a residual value of EUR 1,016,839. In 2013, the value of aircraft decreased due to the sale of the aircraft CRJ200 – AAJ, the transfer of the aircraft CRJ200 – AAE to assets held for sale and the depreciation charge of EUR 6,055,897. After aircraft impairment in 2010 and the reduced depreciation period, the Company charges depreciation at calculated depreciation rates as follows:

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|                     |       |
|---------------------|-------|
| aircraft CRJ200 AAD | 1.97% |
| aircraft CRJ200 AAF | 1.83% |
| aircraft CRJ200 AAG | 0.54% |
| aircraft CRJ900 AAK | 5.13% |
| aircraft CRJ900 AAL | 5.22% |

and at rates from 10% to 66.67% for additional investments in aircraft.

- Long-term bank loans are secured by pledged aircraft and spare engines owned by the Company (four regional aircraft CRJ200-LR S5-AAD, AAE, S5-AAF and S5-AAG and two CRJ900 S5-AAK, S5-AAL) in the amount of EUR 25,446,363 as well as by land and buildings totalling EUR 6,458,022.
- In 2013, the Company had an operating lease on 5 aircraft, namely: two CRJ900, two Airbus A319 and one A320.
- The costs of investments arising from maintenance of third-party aircraft totalled EUR 1,303,473 as at 31 December 2013 and are transferred to the costs of fixed asset maintenance until the next check, which is set according to intervals (Half C-check, C-check) or the projected number of hours of flight (engine, APU).
- As at 31 December 2013, the financial liabilities arising from the acquisition of property, plant and equipment totalled EUR 24,248,657.
- As at 31 December 2013, the Company had concluded agreements on the purchase of fixed assets (aircraft). Advances for fixed assets were made for these contractual obligations in the amount of EUR 253,936.

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## Changes in property, plant and equipment in 2013

| (in EUR)                                         | Land           | Buildings        | Production equipment<br>- of aircraft | Roto<br>spare<br>parts | Other<br>equipment | Small<br>tools | Invest-<br>ments<br>in third-<br>party FA | Fixed<br>assets<br>under de-<br>velopment | Advances<br>for fixed<br>assets | TOTAL              |
|--------------------------------------------------|----------------|------------------|---------------------------------------|------------------------|--------------------|----------------|-------------------------------------------|-------------------------------------------|---------------------------------|--------------------|
| <b>Cost</b>                                      |                |                  |                                       |                        |                    |                |                                           |                                           |                                 |                    |
| <b>As at 31 December 2012</b>                    | <b>487,183</b> | <b>9,037,207</b> | <b>140,873,331</b>                    | <b>10,421,610</b>      | <b>2,457,214</b>   | <b>30,835</b>  | <b>-</b>                                  | <b>292,032</b>                            | <b>265,493</b>                  | <b>163,864,905</b> |
| Direct increases – investments                   | -              | -                | -                                     | -                      | -                  | -              | 864,559                                   | 2,661,147                                 | -                               | <b>3,525,706</b>   |
| Transfer from investments in progress            | -              | -                | 2,285,972                             | 196,313                | 134,812            | 1,429          | -                                         | -2,616,526                                | -                               | -                  |
| Decrease during the year                         | -              | 483,606          | 36,102,324                            | 785,635                | 266,960            | 9,664          | 628,443                                   | -                                         | -                               | <b>38,276,632</b>  |
| Revaluation                                      | -              | -175,343         | -                                     | -                      | -                  | -              | -                                         | -                                         | -                               | <b>-175,343</b>    |
| Other changes (transfers)                        | -              | -                | 1,016,839                             | -1,016,839             | -                  | -              | 1,067,357                                 | -                                         | -11,557                         | <b>1,055,800</b>   |
| <b>As at 31 December 2013</b>                    | <b>487,183</b> | <b>8,378,258</b> | <b>108,073,818</b>                    | <b>8,815,449</b>       | <b>2,325,066</b>   | <b>22,600</b>  | <b>1,303,473</b>                          | <b>334,653</b>                            | <b>253,936</b>                  | <b>129,994,436</b> |
| <b>Value adjustment</b>                          |                |                  |                                       |                        |                    |                |                                           |                                           |                                 |                    |
| <b>As at 31 December 2012</b>                    | <b>-</b>       | <b>1,784,920</b> | <b>107,706,600</b>                    | <b>6,826,773</b>       | <b>1,786,682</b>   | <b>30,265</b>  | <b>-</b>                                  | <b>-</b>                                  | <b>-</b>                        | <b>118,135,240</b> |
| Depreciation for the year                        | -              | 178,525          | 6,055,897                             | 549,094                | 176,407            | 538            | -                                         | -                                         | -                               | <b>6,960,461</b>   |
| Decrease during the year                         | -              | 483,606          | 31,202,832                            | 464,197                | 245,747            | 9,663          | -                                         | -                                         | -                               | <b>32,406,045</b>  |
| Other changes (transfers)                        | -              | -                | 67,789                                | -67,789                | -                  | -              | -                                         | -                                         | -                               | -                  |
| <b>As at 31 December 2013</b>                    | <b>-</b>       | <b>1,479,839</b> | <b>82,627,454</b>                     | <b>6,843,881</b>       | <b>1,717,342</b>   | <b>21,140</b>  | <b>-</b>                                  | <b>-</b>                                  | <b>-</b>                        | <b>92,689,656</b>  |
| <b>Residual value as at<br/>31 December 2013</b> | <b>487,183</b> | <b>6,898,419</b> | <b>25,446,364</b>                     | <b>1,971,568</b>       | <b>607,724</b>     | <b>1,460</b>   | <b>1,303,473</b>                          | <b>334,653</b>                            | <b>253,936</b>                  | <b>37,304,780</b>  |
| <b>Residual value as at<br/>31 December 2012</b> | <b>487,183</b> | <b>7,252,287</b> | <b>33,166,731</b>                     | <b>3,594,837</b>       | <b>670,532</b>     | <b>570</b>     |                                           | <b>292,032</b>                            | <b>265,493</b>                  | <b>45,729,665</b>  |

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Gibanje opredmetenih osnovnih sredstev v letu 2012

| (in EUR)                                     | Land           | Buildings        | Production<br>equipment<br>- of aircraft | Roto<br>spare<br>parts | Other<br>equipment | Small<br>tools | Fixed<br>assets<br>under de-<br>velopment | Advances<br>for fixed<br>assets | TOTAL              |
|----------------------------------------------|----------------|------------------|------------------------------------------|------------------------|--------------------|----------------|-------------------------------------------|---------------------------------|--------------------|
| <b>Cost</b>                                  |                |                  |                                          |                        |                    |                |                                           |                                 |                    |
| <b>As at 31 December 2011</b>                | <b>487,183</b> | <b>9,045,187</b> | <b>137,236,435</b>                       | <b>13,636,954</b>      | <b>2,478,289</b>   | <b>34,504</b>  | <b>327,266</b>                            | <b>281,156</b>                  | <b>163,526,974</b> |
| Direct increases – investments               | -              | -                | -                                        | -                      | -                  | -              | 3,387,045                                 | -                               | <b>3,387,045</b>   |
| Transfer from investments in progress        | -              | 42,020           | 1,954,487                                | 1,313,826              | 111,806            | 140            | -3,422,279                                | -                               | -                  |
| Increase during the year – inventory surplus | -              | -                | -                                        | 285,304                | -                  | -              | -                                         | -                               | <b>285,304</b>     |
| Decrease during the year                     | -              | 50,000           | 2,305,776                                | 826,289                | 132,881            | 3,809          | -                                         | 10,656                          | <b>3,329,411</b>   |
| Revaluation                                  | -              | -                | -                                        | -                      | -                  | -              | -                                         | -                               | -                  |
| Other changes (transfers)                    | -              | -                | 3,988,185                                | -3,988,185             | -                  | -              | -                                         | -5,007                          | <b>-5,007</b>      |
| <b>As at 31 December 2012</b>                | <b>487,183</b> | <b>9,037,207</b> | <b>140,873,331</b>                       | <b>10,421,610</b>      | <b>2,457,214</b>   | <b>30,835</b>  | <b>292,032</b>                            | <b>265,493</b>                  | <b>163,864,905</b> |
| <b>Value adjustment</b>                      |                |                  |                                          |                        |                    |                |                                           |                                 |                    |
| <b>As at 31 December 2011</b>                | <b>-</b>       | <b>1,616,634</b> | <b>100,421,132</b>                       | <b>9,869,541</b>       | <b>1,738,435</b>   | <b>33,075</b>  | <b>-</b>                                  | <b>-</b>                        | <b>113,678,817</b> |
| Depreciation for the year                    | -              | 183,286          | 6,114,093                                | 579,785                | 176,866            | 908            | -                                         | -                               | <b>7,054,938</b>   |
| Decrease during the year                     | -              | 15,000           | 2,077,445                                | 373,733                | 128,619            | 3,718          | -                                         | -                               | <b>2,598,515</b>   |
| Increase – revaluation                       | -              | -                | -                                        | -                      | -                  | -              | -                                         | -                               | -                  |
| Other changes (transfers)                    | -              | -                | 3,248,820                                | -3,248,820             | -                  | -              | -                                         | -                               | -                  |
| <b>As at 31 December 2012</b>                | <b>-</b>       | <b>1,784,920</b> | <b>107,706,600</b>                       | <b>6,826,773</b>       | <b>1,786,682</b>   | <b>30,265</b>  | <b>-</b>                                  | <b>-</b>                        | <b>118,135,240</b> |
| <b>Residual value as at 31 December 2012</b> | <b>487,183</b> | <b>7,252,287</b> | <b>33,166,731</b>                        | <b>3,594,837</b>       | <b>670,532</b>     | <b>570</b>     | <b>292,032</b>                            | <b>265,493</b>                  | <b>45,729,665</b>  |
| <b>Residual value as at 31 December 2011</b> | <b>487,183</b> | <b>7,428,553</b> | <b>36,815,303</b>                        | <b>3,767,413</b>       | <b>739,854</b>     | <b>1,429</b>   | <b>327,266</b>                            | <b>281,156</b>                  | <b>49,848,157</b>  |

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### 6.1.3 Investment property

- Investment property comprises of an apartment and part of an office building that are planned to be leased and a hangar with additional office premises under an operating lease.

| (in EUR)     | 31. 12. 2013     | 31. 12. 2012      |
|--------------|------------------|-------------------|
| Buildings    | 6,458,022        | 10,967,984        |
| <b>Total</b> | <b>6,458,022</b> | <b>10,967,984</b> |

- Buildings worth EUR 6,429,522 are on the land owned by the Republic of Slovenia with which the Company has concluded the Contract on the creation of a building title and a Contract on mutual relations as regards the use of certain land in the territory of the Ljubljana Airport.
- By analysing the factors that influence real estate market value as at 31 December 2013, the certified real estate appraiser determined that significant changes occurred in the operating circumstances and the related assumptions applied in the most recent appraisal as at 31 December 2012, which is why the Company revalued real estate at 2013 year-end according to the Accounting Rules by debiting operating expenses from revaluation in the amount of EUR 87,672 and the surplus from the revaluation of buildings in the amount of EUR 336,093.
- The decrease in the value of investment property in the amount of EUR 4,086,197 arises from the already realised sale of hangar 2 and repair shops.
- Long-term bank loans received and long-term commodity loans received are collateralised by a mortgage on investment property in the amount of EUR 6,429,522.
- In the 2013 income statement, the Company disclosed revenue of EUR 1,105,057 and costs of EUR 128,361 related to investment property.

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## Changes in investment property in 2013

| (in EUR)                              | Buildings        | Total            |
|---------------------------------------|------------------|------------------|
| <b>Cost</b>                           |                  |                  |
| As at 31 December 2012                | 10,967,984       | 10,967,984       |
| Direct increases of investments       | -                | -                |
| Transfer from investments in progress | -                | -                |
| Decrease                              | 4,086,197        | 4,086,197        |
| Revaluation                           | -423,765         | -423,765         |
| Other changes                         | -                | -                |
| <b>As at 31 December 2013</b>         | <b>6,458,022</b> | <b>6,458,022</b> |
| <b>Value adjustment</b>               |                  |                  |
| As at 31 December 2012                | -                | -                |
| Depreciation for the year             | -                | -                |
| Decrease during the year              | -                | -                |
| Increase during the year              | -                | -                |
| Revaluation                           | -                | -                |
| Other changes                         | -                | -                |
| <b>As at 31 December 2013</b>         | <b>-</b>         | <b>-</b>         |
| Residual value as at 31 December 2013 | 6,458,022        | 6,458,022        |
| Residual value as at 31 December 2012 | 10,967,984       | 10,967,984       |

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## Changes in investment property in 2012

| (in EUR)                                    | Buildings         | Total             |
|---------------------------------------------|-------------------|-------------------|
| <b>Cost</b>                                 |                   |                   |
| As at 31 December 2011                      | 11,548,524        | 11,548,524        |
| Direct increases of investments             | -                 | -                 |
| Transfer from investments in progress       | -                 | -                 |
| Decrease                                    | 57,176            | 57,176            |
| Revaluation                                 | -                 | -                 |
| Other changes – transfer to assets for sale | 523,364           | 523,364           |
| <b>As at 31 December 2012</b>               | <b>10,967,984</b> | <b>10,967,984</b> |
| <b>Value adjustment</b>                     |                   |                   |
| As at 31 December 2011                      | -                 | -                 |
| Depreciation for the year                   | -                 | -                 |
| Decrease during the year                    | -                 | -                 |
| Increase during the year                    | -                 | -                 |
| Revaluation                                 | -                 | -                 |
| Other changes                               | -                 | -                 |
| <b>As at 31 December 2012</b>               | <b>-</b>          | <b>-</b>          |
| Residual value as at 31 December 2012       | 10,967,984        | 10,967,984        |
| Residual value as at 31 December 2011       | 11,548,524        | 11,548,524        |

### 6.1.4 Long-term financial assets

| (in EUR)                                                 | 31. 12. 2013     | 31. 12. 2012     |
|----------------------------------------------------------|------------------|------------------|
| Investments in shares and stakes in Group members        | 1,045,640        | 1,045,640        |
| Investments in shares and stakes in associated companies | 400              | 400              |
| Other shares and stakes                                  | 32,790           | 36,623           |
| Long-term loans to others                                | 1,460,909        | 28,746           |
| <b>Total</b>                                             | <b>2,539,739</b> | <b>1,111,409</b> |

- The Company did not compile consolidated financial statements for 2013, since the inclusion of the subsidiaries' financial statements in the consolidated financial statements is not significant for a true and fair presentation of the financial statements of the Adria Airways Group as a whole.
- Long-term loans to others comprise deposits with domestic banks that are pledged as collateral for issued guarantees and the terms of which expire in January, February and March 2015.

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| Subsidiary               | Registered office of the company    | Beneficial ownership stake | Legal ownership stake<br>31. 12. 2012 | Capital of the company<br>31. 12. 2013<br>in EUR | Profit/Loss for the year 2013<br>in EUR |
|--------------------------|-------------------------------------|----------------------------|---------------------------------------|--------------------------------------------------|-----------------------------------------|
| Amadeus Slovenija d.o.o. | Dunajska 122, Ljubljana             | 95%                        | 95%                                   | 658,013                                          | 2,569                                   |
| AA Kosovo L.L.C.         | Eqrenz Qabey 119 Priština           | 100%                       | 100%                                  | -17,370                                          | -17,106                                 |
| AA Letalska šola d.o.o.  | Zgornji Brnik 130 h, Brnik Aerodrom | 100%                       | 100%                                  | 254,466                                          | 29,287                                  |

- Investments in shares and stakes of associated companies include a 25% holding in NMC d.o.o. Tirana and a 5% interest in NMC Skopje d.o.o.

#### Changes in long-term financial assets in 2013

| (in EUR)                                | Companies of the group | Associated companies | Other companies | Loans to others | TOTAL            |
|-----------------------------------------|------------------------|----------------------|-----------------|-----------------|------------------|
| <b>As at 31 December 2012</b>           | <b>1,045,640</b>       | <b>400</b>           | <b>36,628</b>   | <b>28,746</b>   | <b>1,111,414</b> |
| Increase                                | -                      | -                    | 5,416           | -               | 5,416            |
| Decrease                                | -                      | -                    | 7,719           | 21,490          | 29,209           |
| Revaluation                             | -                      | -                    | -1,530          | -73             | -1,603           |
| <b>As at 31 December 2013</b>           | <b>1,045,640</b>       | <b>400</b>           | <b>32,795</b>   | <b>7,183</b>    | <b>1,086,018</b> |
| <b>Value adjustment</b>                 | -                      | -                    | -               | -               | -                |
| <b>As at 31 December 2012</b>           | -                      | -                    | <b>5</b>        | -               | <b>5</b>         |
| Increase                                | -                      | -                    | -               | -               | -                |
| Decrease                                | -                      | -                    | -               | -               | -                |
| Revaluation                             | -                      | -                    | -               | -               | -                |
| <b>As at 31 December 2013</b>           | -                      | -                    | <b>5</b>        | -               | <b>5</b>         |
| <b>Net value as at 31 December 2012</b> | <b>1,045,640</b>       | <b>400</b>           | <b>36,623</b>   | <b>28,746</b>   | <b>1,111,409</b> |
| <b>Net value as at 31 December 2013</b> | <b>1,045,640</b>       | <b>400</b>           | <b>32,790</b>   | <b>7,183</b>    | <b>1,086,013</b> |

- The investment in the shares and stakes of Group companies refers to the subsidiary Amadeus Slovenija d.o.o. in the amount of EUR 790,831, the company Adria Airways Kosovo L.L.C. in the amount of EUR 2,500 and the company Adria Airways Letalska šola d.o.o. in the amount of EUR 252,309.
- The revaluation of long-term financial assets involves the calculation of exchange rate differences.

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### 6.1.5 Long-term operating receivables

| Long-term operating receivables (in EUR)       | 31. 12. 2013     | 31. 12. 2012     |
|------------------------------------------------|------------------|------------------|
| Long-term securities and operating receivables | 5,466,340        | 3,099,054        |
| Value adjustment                               | -145,445         | -145,445         |
| <b>Total</b>                                   | <b>5,320,895</b> | <b>2,953,609</b> |

- Long-term operating receivables for the most part comprise securities given for aircraft and a spare engine under a long-term operating lease and receivables due from the aircraft lessor GOAL arising from engine maintenance that are, under a contract, also paid to the foreign maintenance provider. Securities are higher due to the transfer of investments in the first C checks of foreign aircraft from long-term deferred costs and accrued revenues in the amount of EUR 880,088. As a result of greater exposure of the EMS service provider of card operations, the advance payment was EUR 130,000 higher in 2013. Contractual provisions related to engine maintenance for own aircraft also changed at the end of 2013 and thus the advances rose, totalling EUR 1,123,793.
- The value adjustment of the long-term security in the amount of EUR 145,445 was made on the basis of initiated court proceedings.

### 6.1.6 Assets held for sale

- Assets held for sale comprise an Airbus CRJ200 – AAE, accounting for EUR 1,064,136, regarding which all sales activities are being carried out and holiday facilities in the amount of EUR 231,584. The latter were transferred from investment property on the basis of a public tender regarding their sale in 2012, but they have not been completely sold. Assets available for sale are pledged to the benefit of banks for a long-term loan received (note 6.1.14).

### 6.1.7 Inventories

| Inventories (in EUR)             | 31. 12. 2013   | 31. 12. 2012   |
|----------------------------------|----------------|----------------|
| Material                         | 384,232        | 374,194        |
| Small tools                      | 181,576        | 178,127        |
| Value adjustments of small tools | -181,576       | -178,127       |
| Products and merchandise         | 54,201         | 61,688         |
| <b>Total</b>                     | <b>438,433</b> | <b>435,882</b> |

- Inventories mainly represent spare parts and material used in aircraft servicing.
- The Company is also selling advertising products, toys and souvenirs.
- The inspection of inventories at the end of 2013 revealed slow-moving inventories of securities in the amount of EUR 22,967.
- No inventories were pledged as at 31 December 2013.

- During the technical material inventory count as at 31 December 2013, the Company established and wrote off unserviceable consumable technical material for Airbus aircraft in the amount of EUR 2,604 and CRJ aircraft in the amount of EUR 24,765.

#### 6.1.8 Short-term financial assets

| Short-term financial assets (in EUR) | 31. 12. 2013   | 31. 12. 2012     |
|--------------------------------------|----------------|------------------|
| Short-term loans                     | -              | -                |
| - due from others                    | 815,901        | 1,870,435        |
| <b>Total</b>                         | <b>815,901</b> | <b>1,870,435</b> |

- Short-term loans to others mainly comprise deposits with domestic banks in the amount of EUR 812,124 and the short-term part of long-term loans to employees totalling EUR 3,777.

#### 6.1.9 Short-term operating receivables

| Short-term operating receivables (in EUR)                                | 31. 12. 2013      | 31. 12. 2012      |
|--------------------------------------------------------------------------|-------------------|-------------------|
| Short-term operating receivables due from subsidiaries                   | 135,582           | 98,427            |
| Short-term operating receivables from customers                          | 7,926,565         | 7,337,790         |
| Short-term operating receivables from interest                           | 19,183            | 14,293            |
| Other short-term operating receivables                                   | 4,028,325         | 3,994,292         |
| Value adjustments of short-term operating receivables due from customers | -797,992          | -860,296          |
| <b>Total</b>                                                             | <b>11,311,663</b> | <b>10,584,506</b> |

- Compared to the year before, short-term operating receivables from customers rose by 8%, primarily because sales agents extended payment deadlines for credit card sales on foreign markets, as card sales drastically increased in 2013, especially on the US market. Other short-term operating receivables grew by only 1%.
- Short-term operating receivables from customers (gross amounts) comprise receivables from domestic and foreign customers (EUR 5,813,927 and EUR 2,112,638 from foreign and domestic customers respectively). The Company regularly monitors its customers, as a result of which the receivables are realistic and recoverable.
- Regular aircraft operators, members of the IATA (International Air Transport Association), account for their weekly receivables and liabilities through the Clearing House registered in Montreal, which provides weekly offsetting. Those receivables are in some manner secured, as non-compliance with the agreed contractual terms represents a severe breach against the airline and subsequently leads to exclusion from the association. At 31 December 2013, the balance of receivables to IATA was EUR 499,924 and had been partially offset. The remaining balance was offset and payment made in January 2014.
- Adria Airways d.d. sells air tickets through its representatives in Slovenia and abroad. A similar monthly account and payment discipline applicable to the airlines also apply to the representatives whose receivables are offset through the Bank Settlement Plan (BSP) set up at the locations where the air tickets are sold. BSP

regularly verifies the credit rating of all its business partners. If certain financial ratios are not met (these are unique for each individual country), a collateral is required that is, in the event of payment default, shared among the airlines in proportion to the outstanding amount of the receivables. As at 31 December 2013, receivables due from various BSPs amounted to EUR 2,353,901 (29% of the total).

- No receivables are due from the management, the members of the Management Board, employees with special authorisations or internal owners.
- Value adjustments of receivables are made in accordance with the criteria stated under the Accounting Policies section. In 2013, additional value adjustment was made for short-term operating receivables from customers (EUR 107,997). Previously written-off receivables in the amount of EUR 6,684 were recovered.

Breakdown of operating receivables due from customers by maturity (in EUR):

| 31. 12. 2013 | Outstanding | Overdue up to 30 days | Overdue from 31 to 60 days | Overdue from 61 to 90 days | Overdue from 91 to 180 days | Overdue from 181 to 365 days | Overdue over 366 days |
|--------------|-------------|-----------------------|----------------------------|----------------------------|-----------------------------|------------------------------|-----------------------|
| 7,128,573    | 4,569,374   | 864,567               | 236,620                    | 112,798                    | 641,925                     | 473,458                      | 229,831               |
| %            | 64.10       | 12.13                 | 3.32                       | 1.58                       | 9.01                        | 6.64                         | 3.22                  |

- The value of collateralised receivables as at 31 December 2013 was EUR 331,558.
- The book value of the pledged receivables as at 31 December 2013 was EUR 1,983,336.
- Other short-term operating receivables (EUR 3,868,310) represent paid short-term advances and securities (EUR 2,702,842), VAT receivables (EUR 203,864 domestically and EUR 143,829 abroad), receivables due from sale outlets in regard to air ticket sales (EUR 147,569), receivables from suppliers for credit notes recognised but not yet issued (EUR 252,975), receivables from unissued invoices arising from sales corrections and control (EUR 360,000) and other receivables (EUR 217,246).

#### 6.1.10 Cash

| Cash (in EUR)                             | 31. 12. 2013   | 31. 12. 2012   |
|-------------------------------------------|----------------|----------------|
| Cash on hand and cheques received         | 57,550         | 84,207         |
| Balances with banks                       | 589,276        | 754,172        |
| <b>Total balances with banks and cash</b> | <b>646,826</b> | <b>838,379</b> |

#### 6.1.11 Short-term deferred costs and accrued revenues

- Deferred costs and accrued revenues totalling EUR 1,758,473 as at 31 December 2013 (as at 31 December 2012: EUR 1,579,094) refer in their entirety to short-term deferred costs or expenses, primarily in relation to invoices received for lease of aircraft, deferred agency fees for scheduled transport, booking system services and insurance of aircraft and passengers for 2014.

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### 6.1.12 Capital

| Capital (in EUR)                            | 31. 12. 2013      | 31. 12. 2012      |
|---------------------------------------------|-------------------|-------------------|
| I. Called up capital                        | 3,542,445         | 17,712,227        |
| 1. Equity                                   | 3,542,445         | 17,712,227        |
| II. Capital surplus                         | 1,860,150         | -                 |
| III. Revenue reserves                       | -                 | -                 |
| IV. Revaluation surplus                     | 4,659,309         | 5,041,595         |
| V. Net profit or loss from previous periods | -                 | -                 |
| VI. Net profit or loss for the period       | -                 | -10,266,037       |
| <b>Total</b>                                | <b>10,061,904</b> | <b>12,487,785</b> |

- Called-up capital represents the share capital defined in the Company's Articles of Association, registered at the court and subscribed by the shareholders.
- The share capital increase of Adria Airways d.d. is divided into 3,542,445 ordinary, registered, freely transferable no-par value shares with voting rights.
- On 26/04/2013, the General Meeting of Shareholders adopted a resolution on decrease in share capital by EUR 14,169,782, i.e. from EUR 17,712,227 to EUR 3,542,445, in order to cover the loss brought forward in the amount of EUR 10,266,037; the difference of EUR 3,903,745 was transferred to capital surplus. Since the pertaining amount of the shares after the decrease in the share capital did not reach the amount referred to in the third paragraph of Article 172 of the Companies Act (ZGD-1), such decrease was carried out by means of merging shares, namely 1 (one) old share was merged into 0.2 (two tenths) of new share. The decrease in share capital was entered in the Companies Register on 30/07/2013.
- The loss brought forward in the amount of EUR 10,266,037 was covered by a decrease in share capital using the simplified procedure.
- Net loss for 2013 in the amount of EUR 2,874,101 was covered by the Company's Management Board upon the compilation of financial statements as follows:
  - by transferring net profit in the amount of EUR 830,506 (which arose from the reversal of the surplus from revaluation of property, plant and equipment totalling EUR 810,533 and from the transfer of surplus depreciation of the revalued property, plant and equipment in the amount of EUR 19,973 from revaluation surplus);
  - by capital surplus totalling EUR 2,043,595.
  - The Company has no treasury shares and had none during the business year.
- Share book value as at 31 December 2013 was EUR 2.84, whereas in 2012 it was EUR 0.70.
- Revaluation surplus as at 31 December 2013 amounting to EUR 4,659,309 represents the positive revaluation surplus from the revaluation of property, plant and equipment in the amount of EUR 4,860,569 and the negative revaluation surplus from the valuation of hedging derivative financial instruments totalling EUR -201,260. In 2013, the revaluation surplus reduced by EUR 1,341,942 as a result of reversal (EUR 810,533) and transfer of surplus depreciation (EUR 19,973) to retained earnings as well as due to impairment of real estate

in the amount of EUR 511,436. The negative part arising from the revaluation of the derivatives designated as cash flow hedge decreased in 2013 by EUR 959,657 according to cash flows and due to derecognition of a part of derivatives.

- The Company has no contingent shares (exercise of convertible bond holders' right to exchange the bonds for shares or exercise of the pre-emptive right to buy new shares).

#### 6.1.13 Provisions and long-term accrued costs and deferred revenues

| in EUR                                                           | 31. 12. 2013     | 31. 12. 2012     |
|------------------------------------------------------------------|------------------|------------------|
| Provisions for pensions, severance and jubilee benefits          | 620,548          | 669,557          |
| Other provisions                                                 | 1,605,833        | 627,925          |
| Received national emission coupons                               | -                | 37,978           |
| Other long-term accrued costs and deferred revenues – surplus FA | 150,601          | 285,304          |
| <b>Total long-term provisions</b>                                | <b>2,376,982</b> | <b>1,620,764</b> |

- As at 31 December 2013, the Company disclosed provisions in the amount of EUR 2,376,982.
- Long-term provisions for jubilee benefits and severance upon retirement established based on a calculation by a certified actuary total EUR 620,548.
- The Company has also made provisions based on the projected estimate of amounts recoverable in labour law disputes in the amount of EUR 1,605,833.

#### Changes in provisions in 2013

| in EUR                                                                        | Balance<br>1. 1. 2013 | Provisions<br>established | Use of<br>provisions | Reversal of<br>provisions | Balance<br>31. 12. 2013 |
|-------------------------------------------------------------------------------|-----------------------|---------------------------|----------------------|---------------------------|-------------------------|
| Long-term provisions for jubilee benefits                                     | 152,799               | 4,441                     | 19,300               | -                         | 137,940                 |
| Long-term provisions for severance upon retirement                            | 516,758               | -                         | 14,216               | 19,934                    | 482,608                 |
| <b>Total long-term provisions for jubilee benefits and severance payments</b> | <b>669,557</b>        | <b>4,441</b>              | <b>33,516</b>        | <b>19,934</b>             | <b>620,548</b>          |
| <b>Other provisions</b>                                                       | <b>627,925</b>        | <b>1,162,793</b>          | <b>184,885</b>       | <b>-</b>                  | <b>1,605,833</b>        |
| <b>Received national emission coupons</b>                                     | <b>37,978</b>         | <b>-</b>                  | <b>37,978</b>        | <b>-</b>                  | <b>-</b>                |
| <b>Other long-term accrued costs and deferred revenues – surplus FA</b>       | <b>285,304</b>        | <b>-</b>                  | <b>134,703</b>       | <b>-</b>                  | <b>150,601</b>          |
| <b>Total long-term provisions</b>                                             | <b>1,620,764</b>      | <b>1,167,234</b>          | <b>391,082</b>       | <b>19,934</b>             | <b>2,376,982</b>        |

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## Changes in provisions in 2012

| in EUR                                                                        | Balance<br>1. 1. 2012 | Provisions<br>established | Use of<br>provisions | Reversal of<br>provisions | Balance<br>31. 12. 2013 |
|-------------------------------------------------------------------------------|-----------------------|---------------------------|----------------------|---------------------------|-------------------------|
| Long-term provisions for jubilee benefits                                     | 168,638               | -                         | 5,973                | 9,866                     | 152,799                 |
| Long-term provisions for severance upon retirement                            | 690,262               | -                         | 74,890               | 98,614                    | 516,758                 |
| <b>Total long-term provisions for jubilee benefits and severance payments</b> | <b>858,900</b>        | <b>-</b>                  | <b>80,863</b>        | <b>108,480</b>            | <b>669,557</b>          |
| <b>Other provisions</b>                                                       | <b>623,425</b>        | <b>4,500</b>              | <b>-</b>             | <b>-</b>                  | <b>627,925</b>          |
| <b>Received national emission coupons</b>                                     | <b>-</b>              | <b>82,534</b>             | <b>-</b>             | <b>44,556</b>             | <b>37,978</b>           |
| <b>Other long-term accrued costs and deferred revenues – surplus FA</b>       | <b>-</b>              | <b>285,304</b>            | <b>-</b>             | <b>-</b>                  | <b>285,304</b>          |
| <b>Total long-term provisions</b>                                             | <b>1,482,325</b>      | <b>372,338</b>            | <b>80,862</b>        | <b>163,651</b>            | <b>1,620,764</b>        |

### 6.1.14 Financial liabilities

| (in EUR)                       | Long-term         |                   | Short-term       |                  | TOTAL             |                   |
|--------------------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
|                                | 31. 12. 2013      | 31. 12. 2012      | 31. 12. 2013     | 31. 12. 2012     | 31. 12. 2013      | 31. 12. 2012      |
| Financial liabilities to banks | 23,214,490        | 32,711,430        | 8,285,076        | 6,649,097        | <b>31,499,566</b> | <b>39,360,527</b> |
| Other financial liabilities    | 38,836            | 14,661            | 703,176          | 2,151,669        | <b>742,012</b>    | <b>2,166,330</b>  |
| <b>TOTAL</b>                   | <b>23,253,326</b> | <b>32,726,091</b> | <b>8,988,252</b> | <b>8,800,766</b> | <b>32,241,578</b> | <b>41,526,857</b> |

| AVERAGE WEIGHTED INTEREST RATES - EUR (%) | 31. 12. 2013 | 31. 12. 2012 |
|-------------------------------------------|--------------|--------------|
| Financial liabilities to banks            | 3.79%        | 4.19%        |

- Long-term financial liabilities representing long-term loans from domestic banks rose due to a disbursed revolving loan in the amount of EUR 3,137,683 and dropped because of a transfer to short-term financial liabilities in the amount of EUR 10,566,334 and a change in the exchange rate applying to a received USD-denominated loan equalling EUR 41,423 as well as early repayments of loans by the proceeds from the sale of pledged assets in the amount of EUR 2,026,866. Received loans are subject to interest rates linked to 3-month and 6-month EURIBOR and 3-month LIBOR.
- The part of long-term loans that falls due in the 2014 business year and is disclosed under short-term financial liabilities totals EUR 8,285,076. In 2013, short-term financial liabilities grew due to the transfer from long-term liabilities in the amount of EUR 10,566,334 and decreased by repayments equalling EUR 8,930,355 and the USD-denominated loan exchange rate change by EUR 5,616.

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- All long-term financial liabilities to banks are collateralised by a pledge on aircraft, real estate and receivables.

| <b>Maturity of long-term financial liabilities to banks</b> | <b>(in EUR)</b>   |
|-------------------------------------------------------------|-------------------|
| From 1 to 2 years                                           | 4,315,303         |
| From 2 to 5 years                                           | 11,537,177        |
| Over 5 years                                                | 7,362,010         |
| <b>TOTAL</b>                                                | <b>23,214,490</b> |

- Other financial liabilities in the amount of EUR 742,012 include:
  - fair value of derivatives totalling EUR 688,615 (interest swaps of EUR 681,119, interest options in the amount of EUR 7,496, note 06/01/2019);
  - long-term liabilities arising from finance lease related to the finance lease of a car for the representative office in Zurich in the amount of EUR 38,836 (the part of long-term liabilities arising from finance lease that falls due in the 2013 business year is disclosed under short-term financial liabilities in the amount of EUR 14,561).

#### Short-term financial liabilities to banks

| <b>(in EUR)</b>                           | <b>31. 12. 2013</b> | <b>31. 12. 2012</b> |
|-------------------------------------------|---------------------|---------------------|
| Short-term part of long-term bank loans   | 8,285,076           | 6,649,097           |
| Short-term financial liabilities to banks | -                   | -                   |
| <b>Total</b>                              | <b>8,285,076</b>    | <b>6,649,097</b>    |

- The short-term part of loans from domestic banks includes only the liabilities arising from long-term loans that mature within a period of one year.
- At the end of 2013, short-term financial liabilities to banks were 25% higher than in 2012 owing to greater short-term part of long-term liabilities that fall due in 2014. The Company is already negotiating restructuring with the aim of reducing a part of these liabilities in 2014.
- The Company's short-term part of long-term loans is collateralised through encumbrance of aircraft, real estate, spare aircraft engine and receivables.

#### 6.1.15 Long-term operating liabilities

| <b>Long-term operating liabilities (in EUR)</b> | <b>31. 12. 2013</b> | <b>31. 12. 2012</b> |
|-------------------------------------------------|---------------------|---------------------|
| Long-term operating liabilities to suppliers    | -                   | 457,143             |
| <b>Total</b>                                    | <b>-</b>            | <b>457,143</b>      |

- Liabilities arising from a long-term loan from Petrol d.d. in the amount of EUR 457,143, secured by a mortgage on investment property, are disclosed under short-term operating liabilities as at 31 December 2013.

### 6.1.16 Short-term operating liabilities

| Short-term operating liabilities (in EUR)           | 31. 12. 2013      | 31. 12. 2012      |
|-----------------------------------------------------|-------------------|-------------------|
| Short-term operating liabilities to Group companies | 96,759            | 101,897           |
| Short-term operating liabilities to suppliers       | 17,342,707        | 18,059,892        |
| Short-term operating liabilities from advances      | 557,962           | 1,113,268         |
| Other short-term operating liabilities              | 2,657,569         | 3,343,643         |
| <b>Total</b>                                        | <b>20,654,997</b> | <b>22,618,700</b> |

#### Short-term operating liabilities to suppliers

| Short-term operating liabilities to suppliers (in EUR)                | 31. 12. 2013      | 31. 12. 2012      |
|-----------------------------------------------------------------------|-------------------|-------------------|
| Short-term operating liabilities to domestic suppliers                | 5,028,867         | 6,028,766         |
| Short-term operating liabilities to foreign suppliers                 | 9,050,884         | 8,399,955         |
| Short-term operating liabilities from uncharged services and material | 3,262,956         | 3,631,171         |
| <b>Total</b>                                                          | <b>17,342,707</b> | <b>18,059,892</b> |

- Short-term operating liabilities to suppliers arise from liabilities for merchandise received and services rendered in Slovenia and abroad.
- Compared to 2012, liabilities to suppliers decreased by 4%, chiefly owing to a decrease in liabilities arising from a commodity loan and lower liabilities to the home airport.
- As at 31 December 2013, overdue liabilities to suppliers totalled EUR 6,222,794.

#### Other short-term operating liabilities

| Other short-term operating liabilities (in EUR)    | 31. 12. 2013     | 31. 12. 2012     |
|----------------------------------------------------|------------------|------------------|
| Short-term operating liabilities to the government | 6,647            | 308,596          |
| Short-term operating liabilities to employees      | 1,563,762        | 1,478,892        |
| Other short-term operating liabilities             | 1,087,160        | 1,556,155        |
| <b>Total</b>                                       | <b>2,657,569</b> | <b>3,343,643</b> |

- As at 31 December 2013, no operating liabilities were due to the management, the members of the Management Board or employees, except for liabilities related to accounted salaries and reimbursement of travel and meal costs for December 2013.
- The liabilities arising from salary contributions for December 2013 are disclosed under short-term liabilities to employees.



- Other short-term operating liabilities for the most part include liabilities arising from a court decision that are due to JAT Airways Belgrade in the amount of EUR 777,613.

#### 6.1.17 Short-term accrued costs and deferred revenues

| in EUR                                         | 31. 12. 2013 | 31. 12. 2012 |
|------------------------------------------------|--------------|--------------|
| Short-term accrued costs and deferred revenues | 3,366,598    | 1,453,209    |

- Accrued costs and deferred revenues totalling EUR 3,366,598 relate to:
  - short-term accrued interest on loans in the amount of EUR 130,349;
  - short-term accrued interest on interest options EUR 69,755;
  - short-term deferred revenues from charged but not yet paid default interest in the amount of EUR 16,565;
  - short-term deferred revenues from sold but not yet rendered flights in the amount of EUR 377,872;
  - short-term deferred revenues from sold air tickets referring to flights in the following year (coupons for future flights) in the amount of EUR 2,703,897;
  - short-term deferred revenues from a liquidated bank bond from GPG d.d. in the amount of EUR 68,000 for remedy of defects in the construction of an office building at Brnik that were established in 2011 (provision of electrical installations, elimination of damage resulting from rainwater flooding); the defects are the consequence of poor performance of works;
  - accrued value added tax on advance payments made EUR 160.

#### 6.1.18 Off-balance sheet assets / liabilities

| Off-balance sheet assets / liabilities (in EUR) | 31. 12. 2013      | 31. 12. 2012      |
|-------------------------------------------------|-------------------|-------------------|
| Mortgages                                       | 31,956,709        | 40,731,955        |
| Approved undrawn loans                          | -                 | 3,137,683         |
| Guarantees                                      | 3,057,003         | 2,502,770         |
| Other                                           | 84,174            | 84,174            |
| <b>Total</b>                                    | <b>35,097,886</b> | <b>46,456,582</b> |

- Decrease in mortgages arises from repayment of long-term loans.
- Mortgages with a maturity longer than five years amount to a total of EUR 7,362,010. For other items, the period of obligations is no longer than five years.
- The off-balance sheet records represent mortgages (pledges) entered to the benefit of the local banks against long-term loans for the purchase of aircraft and for current and fixed assets as well as mortgages (pledges) entered to the benefit of a supplier. The value of mortgages and pledges is disclosed in the amount of secured liabilities as at 31 December 2013.
- The amount of loans collateralised by mortgages as at 31 December 2013 equalled EUR 31,956,709.
- Guarantees include payment guarantees for the purchase of services and goods in Slovenia and abroad of

which the suppliers are the beneficiaries and performance guarantees (EUR 2,720,588) as well as guarantees received for collateralisation of receivables (EUR 336,415).

- Payment guarantees given are secured by pledged deposits with a book value of EUR 1,908,542.

#### 6.1.19 Financial instruments

##### Fair value

- Most investments disclosed in the group through profit or loss and held for sale are carried at fair value, while receivables and loans are stated at amortised cost. Since most receivables, liabilities and loans are of a short-term nature, their fair values do not differ significantly from the carrying amount.

##### Derivative financial instruments

- At 31 December 2013, the Company reported the following outstanding financial instruments:

##### Interest rate hedge instruments

| Type of instrument (in EUR) | Nominal value |              | Fair value   |              |
|-----------------------------|---------------|--------------|--------------|--------------|
|                             | 31. 12. 2013  | 31. 12. 2012 | 31. 12. 2013 | 31. 12. 2012 |
| Interest rate swap          | 41,041,212    | 42,363,636   | -681,119     | -2,105,390   |
| Interest rate collar        | 555,556       | 1,111,111    | -7,495       | -29,555      |

| Type of instrument (in EUR) | Nominal value |              | Fair value   |              |
|-----------------------------|---------------|--------------|--------------|--------------|
|                             | 31. 12. 2013  | 31. 12. 2012 | 31. 12. 2013 | 31. 12. 2012 |
| Dynamic hedging             | -             | -            | -            | -            |

- Interest rate swaps, interest options and dynamic interest rate hedging are accounted for as future cash flow hedges, since on 31 October 2011 the hedging became ineffective due to the debt to equity swap and restructuring of most loans. In 2013, the Company restructured two interest rate swaps, replacing them with one, and thus decreased the interest rate, extended the deadline and adjusted the instrument to the repayment plan of a long-term loan but still did not recognise efficient hedging. The fair value of interest rate swaps and options that was as at 31 December 2013 disclosed in the revaluation surplus totalling EUR 201,260 was, according to cash flows and due to the derecognition of two derivatives until 31 December 2013, transferred from revaluation surplus to finance expenses in the amount of EUR 959,657.

## Forward exchange contracts

| (in EUR)                       | Nominal value |              | Fair value   |              |
|--------------------------------|---------------|--------------|--------------|--------------|
|                                | 31. 12. 2013  | 31. 12. 2012 | 31. 12. 2013 | 31. 12. 2012 |
| Purchase of foreign currencies | -             | -            | -            | -            |
| Sale of foreign currencies     | -             | -            | -            | -            |

- As at 31 December 2013, the Company's records disclose no forward exchange contracts, since all contracts have been liquidated and the Company made no new ones.

## Interest rate risk

- The interest rate risk that the Company is exposed to arises primarily from financing as disclosed under item 6.1.14 – financial liabilities.
- Exposure to the risk of a change in interest rate as at 31 December 2013 was the following (in EUR):

| Financial instruments with a fixed interest rate    |  | Carrying amount |
|-----------------------------------------------------|--|-----------------|
| Financial assets                                    |  | 2,269,627       |
| Financial liabilities                               |  | -               |
| Financial instruments with a variable interest rate |  |                 |
| Financial assets                                    |  | -               |
| Financial liabilities                               |  | 32,241,578      |

## Cash flow sensitivity analysis for variable interest rate instruments

- An increase in interest rates on the reporting date by 100 basis points (1%) would reduce net operating result by EUR 322,416. The analysis assumes that all the other variables stay constant.

## Credit risk

- The Company does not have any significant credit risk concentrations. As at 31 December 2013, the exposure to credit risk was as follows (in EUR):

| Item                                            | Carrying amount |
|-------------------------------------------------|-----------------|
| Long-term loans to others                       | 7,183           |
| Long-term operating receivables due from others | 5,320,895       |
| Short-term deposits with banks                  | 2,265,850       |
| Short-term loans to others                      | 3,777           |

|                                                       |                   |
|-------------------------------------------------------|-------------------|
| Short-term operating receivables from Group companies | 135,582           |
| Short-term operating receivables from customers       | 7,128,573         |
| Short-term operating receivables from others          | 4,047,508         |
| <b>Total</b>                                          | <b>18,909,368</b> |

#### Forward contracts on fuel purchase

- As at 31 December 2013, the Company had no forward contracts on fuel purchase.

#### Liquidity risk

- The table below presents the maturity of liabilities (in EUR).

| Balance sheet item                                  | Carrying amount   | Contractual cash flows | Maturity up to 1 year | Maturity from 1 to 5 years | Maturity of more than 5 years |
|-----------------------------------------------------|-------------------|------------------------|-----------------------|----------------------------|-------------------------------|
| Financial liabilities to banks                      | 31,499,566        | 31,499,566             | 8,285,076             | 15,852,480                 | 7,362,010                     |
| Liabilities from finance lease                      | 53,397            | 53,397                 | 14,561                | 38,836                     | -                             |
| Other financial liabilities (DFI)                   | 688,615           | 688,615                | 76,535                | 354,783                    | 257,297                       |
| Long-term operating liabilities to suppliers        | -                 | -                      | -                     | -                          | -                             |
| Short-term operating liabilities to Group companies | 96,759            | 96,759                 | 96,759                | -                          | -                             |
| Short-term operating liabilities to suppliers       | 17,342,707        | 17,342,707             | 17,342,707            | -                          | -                             |
| Short-term operating liabilities from advances      | 557,962           | 557,962                | 557,962               | -                          | -                             |
| Other short-term operating liabilities              | 2,657,569         | 2,657,569              | 2,657,569             | -                          | -                             |
| <b>Total</b>                                        | <b>52,896,575</b> | <b>52,896,575</b>      | <b>29,031,169</b>     | <b>16,246,099</b>          | <b>7,619,307</b>              |

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## Currency risk

- The Company's exposure to currency risks was based on the nominal amounts:

| Balance sheet item                                   | in EUR     | USD<br>TO EUR | CHF<br>TO EUR | GBP<br>TO EUR | HRK<br>TO EUR | MKD<br>TO EUR | OTHER<br>CUR-<br>RENCIES<br>TO EUR | TOTAL             |
|------------------------------------------------------|------------|---------------|---------------|---------------|---------------|---------------|------------------------------------|-------------------|
| Long-term operating receivables                      | 1,267,846  | 4,027,294     | 25,755        | -             | -             | -             | -                                  | <b>5,320,895</b>  |
| Long-term loans granted                              | 52,252     | 1,401,727     | -             | -             | 6,930         | -             | -                                  | <b>1,460,909</b>  |
| Short-term loans granted and deposits                | 435,763    | 379,815       | -             | -             | 323           | -             | -                                  | <b>815,901</b>    |
| Cash                                                 | 390,312    | 25,553        | 31,433        | 17,419        | 26,461        | 27,332        | 128,316                            | <b>646,826</b>    |
| Short-term operating receivables in the Group        | 135,582    | -             | -             | -             | -             | -             | -                                  | <b>135,582</b>    |
| Short-term operating receivables from customers      | 4,537,580  | 1,216,023     | 627,625       | 84,797        | 23,778        | 62,599        | 576,171                            | <b>7,128,573</b>  |
| Short-term operating receivables from others         | 1,746,945  | 209,360       | 3,520         | -             | -             | -             | 160,438                            | <b>2,120,263</b>  |
| Receivables from advances made and security deposits | 886,729    | 964,761       | 160           | 70,167        | 101           | -             | 5,327                              | <b>1,927,245</b>  |
| Liabilities to suppliers                             | 14,838,076 | 2,282,509     | 145,082       | 16,430        | 685           | 18,891        | 41,034                             | <b>17,342,707</b> |
| Liabilities arising from advances received           | 385,980    | 148,154       | 1,058         | -             | -             | -             | 22,770                             | <b>557,962</b>    |
| Other operating liabilities                          | 1,734,850  | 919,248       | -             | -             | -             | -             | 3,471                              | <b>2,657,569</b>  |
| Liabilities arising from commodity loans             | -          | -             | -             | -             | -             | -             | -                                  | <b>-</b>          |

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|                             |             |           |         |         |        |        |         |                    |
|-----------------------------|-------------|-----------|---------|---------|--------|--------|---------|--------------------|
| Loans received              | 30,378,610  | 1,120,956 | -       | -       | -      | -      | -       | <b>31,499,566</b>  |
| Other financial liabilities | 736,451     | -         | 5,561   | -       | -      | -      | -       | <b>742,012</b>     |
| Net exposure                | -38,620,958 | 3,753,666 | 536,792 | 155,953 | 56,908 | 71,040 | 802,977 | <b>-33,243,622</b> |

## 6.2 Notes to the income statement

- Costs by functional group

| <b>Costs by functional group</b> (in EUR) | <b>2013</b>        | <b>2012</b>        |
|-------------------------------------------|--------------------|--------------------|
| Production costs                          | 121,030,063        | 134,251,793        |
| Selling costs                             | 17,891,580         | 16,754,466         |
| General and administrative costs          | 5,177,747          | 4,984,124          |
| <b>Total</b>                              | <b>143,899,390</b> | <b>155,990,383</b> |

- Production costs of goods sold comprise direct costs of the airport services, navigation, purchase of fuel, aircraft maintenance and lease, passenger handling and other services, costs of material, costs of labour of the crew and supporting flight functions, the depreciation of aircraft and roto spare parts and production overheads.
- Selling expenses represent marketing costs, costs of sales in Slovenia and abroad and costs of agency sales in Slovenia and abroad (commission and other selling costs).
- General and administrative costs represent costs of administrative services for the entire Company.
- Costs by functional group:

| <b>Costs by functional group</b> (in EUR)                | <b>2013</b>        | <b>2012</b>        |
|----------------------------------------------------------|--------------------|--------------------|
| <b>1. Costs of goods, material and services</b>          | <b>107,180,472</b> | <b>119,814,220</b> |
| a) Cost of goods and material sold                       | 7,397              | 13,546             |
| b) Costs of material                                     | 40,221,913         | 45,463,586         |
| c) Costs of services                                     | 66,951,162         | 74,337,088         |
| <b>2. Labour costs</b>                                   | <b>20,685,936</b>  | <b>21,808,404</b>  |
| a) Payroll costs                                         | 14,256,400         | 15,325,917         |
| b) Social security and pension insurance costs           | 3,482,597          | 3,688,325          |
| c) Other labour cost                                     | 2,946,939          | 2,794,162          |
| <b>3. Write downs</b>                                    | <b>9,276,685</b>   | <b>8,984,104</b>   |
| a) Depreciation and amortisation                         | 7,465,076          | 7,697,942          |
| b) Operating expenses from revaluation of fixed assets   | 1,611,542          | 1,021,806          |
| c) Operating expenses from revaluation of current assets | 200,067            | 264,356            |

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|                                                                   |                    |                    |
|-------------------------------------------------------------------|--------------------|--------------------|
| <b>4. Provisions</b>                                              | <b>1,162,794</b>   | <b>4,500</b>       |
| <b>5. Other operating expenses</b>                                | <b>5,593,503</b>   | <b>5,379,155</b>   |
| <b>6. Changes in inventories of products and work-in-progress</b> | <b>-</b>           | <b>-</b>           |
| <b>Total</b>                                                      | <b>143,899,390</b> | <b>155,990,383</b> |

### 6.2.1 Net sales revenues

- Net sales revenues by business segment

| <b>Net sales revenues by business segment (in EUR)</b> | <b>2013</b>        | <b>2012</b>        |
|--------------------------------------------------------|--------------------|--------------------|
| Scheduled passenger transport services                 | 110,426,705        | 109,607,043        |
| Scheduled cargo transport services                     | 1,961,544          | 1,943,205          |
| Chartered passenger transport services                 | 24,542,856         | 29,380,211         |
| Revenue from training services                         | 723,403            | 1,341,858          |
| Revenue from the lease of real estate and equipment    | 1,275,309          | 1,319,381          |
| Other                                                  | 3,474,171          | 3,502,862          |
| <b>Total</b>                                           | <b>142,403,988</b> | <b>147,094,560</b> |

- The activity of the Company is classed as an international air passenger transport service and accounts for 95% of total sales revenues.
- Cargo transport as an additional service on scheduled flights accounts for only slightly more than a percentage of the total sales revenues.
- Adria Airways d.d. provides training services for cockpit personnel and agents selling airline tickets.
- In 2013, the Company did not lease aircraft. It only performed subcharter flights in the amount of EUR 374,639. The bulk of lease revenue arises from the letting of business premises and hangars to Adria Airways Tehnika d.d.

### Net sales revenues – classification: Slovenia and abroad

| <b>Net sales revenues – classification: Slovenia, abroad</b> | <b>2013</b>        | <b>2012</b>        |
|--------------------------------------------------------------|--------------------|--------------------|
| Revenue from sales in Slovenia                               | 2,428,929          | 2,793,249          |
| Revenue from sales abroad                                    | 139,975,059        | 144,301,311        |
| <b>Total</b>                                                 | <b>142,403,988</b> | <b>147,094,560</b> |

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## 6.2.2 Other operating revenue

- Other operating revenue totalling EUR 2,642,639 comprises:
  - revenue from the reversal of provisions for jubilee benefits and severance in the amount of EUR 19,934;
  - gains on the disposal of fixed assets equalling EUR 14,718;
  - revenue from write-off of liabilities in the amount of EUR 704,007;
  - write off of liabilities to DSU d.o.o. resulting from the reimbursement of proceeds for unprivatised property in the republics of the former Yugoslavia totalling EUR 569,738 with the pertaining default interest equaling EUR 11,964.
  - other operating revenue of EUR 1,722,991, of which:
    - EUR 61,875 from refunded IATA membership due to entry of new members;
    - EUR 1,452,319 of reduced costs of engine maintenance from previous years due to the change of contract with engine maintenance provider.
  - operating revenue from revaluation in the amount of EUR 180,989.

## 6.2.3 Costs of goods, material and services

| Costs of goods, material and services (in EUR) | 2013               | 2012               |
|------------------------------------------------|--------------------|--------------------|
| Cost of merchandise sold                       | 7,397              | 13,546             |
| Costs of material                              | 40,221,913         | 45,463,586         |
| Costs of services                              | 66,951,162         | 74,337,088         |
| <b>Total</b>                                   | <b>107,180,472</b> | <b>119,814,220</b> |

- The costs of goods, material and services decreased by 10% compared to the year before.

### Costs of material

| Costs of material (in EUR)                          | 2013              | 2012              |
|-----------------------------------------------------|-------------------|-------------------|
| Aviation fuel                                       | 36,033,342        | 40,118,699        |
| Merchandise and material used in passenger handling | 2,564,332         | 3,645,939         |
| Replacement parts used in aircraft maintenance      | 987,628           | 963,333           |
| Other costs of material                             | 636,611           | 735,615           |
| <b>Total</b>                                        | <b>40,221,913</b> | <b>45,463,586</b> |

- In comparison to the year before, fuel costs decreased by 10%. In 2013, the number of flights was 7% fewer than in 2012. Moderate fuel costs, favourable USD exchange rate and changes in departure procedures had a significant impact on reduced aircraft fuel costs.
- Owing to optimisation and change of services related to passenger handling, the costs of goods and material for passenger handling also dropped by 30%.
- Other costs of material include: office supplies, professional literature, water charge, electricity and heating

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costs, navigational flight support, work wear and footwear costs, aircraft and office cleaning, fuel for road vehicles, etc.

## Costs of services

| <b>Costs of services</b> (in EUR)                                     | <b>2013</b>       | <b>2012</b>       |
|-----------------------------------------------------------------------|-------------------|-------------------|
| Airport costs                                                         | 21,155,469        | 21,965,604        |
| Navigation costs                                                      | 7,797,581         | 8,157,388         |
| Maintenance costs                                                     | 13,377,131        | 15,431,464        |
| Lease costs                                                           | 10,633,095        | 13,437,820        |
| Booking system costs                                                  | 4,828,846         | 4,184,056         |
| Reimbursement of work-related costs to employees                      | 1,069,122         | 1,357,079         |
| Costs of payment transactions, banking services and insurance premium | 1,045,152         | 1,527,156         |
| Costs of transport and telecommunication services                     | 636,424           | 639,193           |
| Costs of intellectual and personal services, consulting costs         | 917,797           | 1,608,425         |
| Costs of fairs, advertising and entertainment                         | 975,489           | 1,141,887         |
| Other costs of services                                               | 4,515,056         | 4,887,016         |
| <b>Total</b>                                                          | <b>66,951,162</b> | <b>74,337,088</b> |

- Airport costs include the costs of terminal navigation and ticketing at airports. In 2013, they decreased by nearly 4% because of fewer flights.
- In 2013, Adria Airways d.d. changed the contractual provisions regarding maintenance of engines for CRJ900, which is why a part of maintenance costs was transferred to long-term security. The Company also succeeded in decreasing monthly lump sum payments. Maintenance costs include the costs of investment inspection of foreign aircraft leased, which totalled EUR 628,443.
- Lease costs in 2013 dropped by 21% compared to the year before and they predominantly comprise the lease of Airbus 319 and 320 aircraft in the amount of EUR 5,592,312 and CRJ900 aircraft in the amount of EUR 3,429,856.
- The decrease in costs was mainly influenced by: favourable USD exchange rate, changed posting of deferred investment inspections of leased aircraft, terminated lease of CRJ200 in November 2012.
- Terminated lease of the spare engine for Airbus type and above all the reduction in lease costs for aircraft as a restructuring measure.
- Other costs of services include the costs of training, cargo, student employment costs, passenger tax, membership fees, insurance, etc.
- The costs of the audit in 2013 totalled EUR 29,000, of which:
  - EUR 27,200 for auditing of the annual report;
  - EUR 1,800 for other assurance services.

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## 6.2.4 Labour costs

| Labour costs (in EUR)   | 2013              | 2012              |
|-------------------------|-------------------|-------------------|
| Payroll costs           | 14,256,400        | 15,325,917        |
| Social insurance costs  | 1,024,160         | 1,156,516         |
| Pension insurance costs | 2,458,437         | 2,531,809         |
| Other labour costs      | 2,946,939         | 2,794,162         |
| <b>Total</b>            | <b>20,685,936</b> | <b>21,808,404</b> |

- Other labour costs for 2013 comprise: holiday allowance, travel allowance, severance pay, meal allowance, solidarity aid and salaries of employees in representative offices abroad.
- In 2013, labour costs decreased by 5% as a result of reassignment and the retirement of employees. Only severance costs are higher, totalling EUR 976,650. Compared to 2012, they grew by 68%.

## 6.2.5 Write downs

| Write downs (in EUR)                                                                               | 2013             | 2012             |
|----------------------------------------------------------------------------------------------------|------------------|------------------|
| Depreciation and amortisation of property, plant and equipment and intangible assets               | 7,465,076        | 7,697,942        |
| Revaluation operating expenses associated with intangible assets and property, plant and equipment | 1,611,542        | 1,021,806        |
| Revaluation operating expenses associated with current assets                                      | 200,067          | 264,356          |
| <b>Total</b>                                                                                       | <b>9,276,685</b> | <b>8,984,104</b> |

- Revaluation operating expenses from intangible assets and property, plant and equipment arose in 2013 as a result of the loss from the sale of fixed assets in the amount of EUR 1,228,106, the write-off of unserviceable, worn-out spare parts and equipment totalling EUR 242,640 and the revaluation of emission coupons equalling EUR 140,796.
- Revaluation operating expenses from fixed assets refer to:
  - the sale of CRJ200 (AAJ), with the difference between the lower agreed selling price and the book value disclosed under revaluation operating expenses in the amount of EUR 1,126,552;
  - the sale of two holiday facilities and a hangar, with the loss from sale disclosed in the amount of EUR 101,554;
  - revaluation operating expenses in the amount of EUR 198,893 arising from the exclusion of unserviceable, worn-out spare parts and other equipment; the write-off of unserviceable, worn-out spare parts identified upon year-end count as at 31 December 2013 in the amount of EUR 38,708 and the write-off of other equipment totalling EUR 4,648 upon year-end count;
  - licences (training costs) were excluded due to the termination of pilots' employment in the amount of EUR 9,116;
  - revaluation operating expenses in the amount of EUR 34,631 that the Company posted owing to the transition to new information systems and exclusion of old software.

- Revaluation operating expenses from current assets totalling EUR 200,067 relate to value adjustment of receivables and direct write-off of receivables.

#### 6.2.6 Costs of provisions

| Provisions (in EUR)                                  | 2013             | 2012         |
|------------------------------------------------------|------------------|--------------|
| Other provisions (for liabilities from civil claims) | <b>1,162,794</b> | <b>4,500</b> |

- In 2013, the Company established long-term provisions referring to labour law disputes in the amount of EUR 1,162,794. According to accounting standards and due diligence principle, the Company disclosed a contingent liability based on past events and estimated expected lawsuits. The additional provisions made in 2013 are due to contingent liabilities arising from labour law disputes.

#### 6.2.7 Other operating expenses

| Other operating expenses (in EUR)                 | 2013             | 2012             |
|---------------------------------------------------|------------------|------------------|
| Agency fees – scheduled transport                 | 2,644,497        | 2,377,983        |
| Agency fee – pro-rata                             | 824,368          | 895,203          |
| Agency fees – charter transport                   | 156,752          | 473,739          |
| Commission – credit agencies                      | 1,556,616        | 1,140,307        |
| Agency fees – cockpit personnel training          | 97,424           | 177,491          |
| Administrative, court fees                        | 180,940          | 56,135           |
| Environmental protection costs – emission coupons | -                | 208,336          |
| Other                                             | 132,906          | 49,961           |
| <b>Total</b>                                      | <b>5,593,503</b> | <b>5,379,155</b> |

- Agency fees for scheduled transport grew by 11% over the year before. Owing to higher sales through coupons, mainly in the US market, the charges of credit firms increased.
- In 2012, an agreement was concluded with Adria Airways Letalska šola on professional cockpit personnel training services, based on which this company is entitled to a fee for marketing, training organisation and document drafting.

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## 6.2.8 Finance income

| Finance income (in EUR)                          | 2013             | 2012           |
|--------------------------------------------------|------------------|----------------|
| <b>Finance income from participation</b>         | <b>6,419</b>     | <b>210,113</b> |
| - in Group companies                             | -                | 26,040         |
| - in other companies                             | 6,419            | 8,357          |
| - from other investments                         | -                | 175,716        |
| <b>Finance income from operating receivables</b> | <b>1,380,164</b> | <b>511,789</b> |
| - due from others                                | 1,380,164        | 511,789        |
| <b>Total</b>                                     | <b>1,386,583</b> | <b>721,902</b> |

- Finance income from participation in other companies is related to dividends from NMC Skopje.
- Finance income from operating receivables due from others arises from interest income from deposits in the amount of EUR 52,794 and the change in the fair value of interest rate swaps and options as at 31 December 2013 when compared to 31 December 2012 in the amount of EUR 1,325,190.

## 6.2.9 Finance expenses

| Finance expenses (in EUR)                                                 | 2013             | 2012             |
|---------------------------------------------------------------------------|------------------|------------------|
| <b>Finance expenses from impairment and write-off of financial assets</b> | <b>1,404</b>     | -                |
| <b>Finance expenses from financial liabilities</b>                        | <b>1,461,048</b> | <b>1,805,864</b> |
| - loans from Group companies                                              | -                | -                |
| - loans from banks                                                        | 1,461,048        | 1,805,694        |
| - other financial liabilities                                             | -                | 170              |
| <b>Finance expenses from operating liabilities</b>                        | <b>2,974,535</b> | <b>2,750,950</b> |
| - to suppliers                                                            | 220,011          | 160,479          |
| - other operating liabilities                                             | 2,754,524        | 2,590,471        |
| <b>Total</b>                                                              | <b>4,436,987</b> | <b>4,556,814</b> |

- Finance expenses in the amount of EUR 1,461,048 comprise entirely of interest expenses from raised long-term loans.
- Finance expenses from operating liabilities to suppliers include default interest in the amount of EUR 216,168, of which EUR 76,418 refers to default interest from labour law disputes.
- Finance expenses from other operating liabilities in the amount of EUR 2,166,586 are related to expenses from interest instruments, and EUR 40,370 refers to interest on a commodity loan of Petrol.
- Finance expenses from exchange rate losses totalling EUR 546,286 are disclosed under finance expenses from other operating liabilities.

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### 6.2.10 Other revenues

| Other revenues (in EUR)              | 2013           | 2012             |
|--------------------------------------|----------------|------------------|
| Received compensations and penalties | 36,936         | 1,335            |
| Other revenues                       | 230,606        | 1,718,859        |
| <b>Total</b>                         | <b>267,542</b> | <b>1,720,194</b> |

- Receivables collected that had been previously written off amounted to EUR 6,684.

### 6.2.11 Other expenses

| Other expenses (in EUR)                                                | 2013             | 2012           |
|------------------------------------------------------------------------|------------------|----------------|
| Finance expenses from revaluation of investment property at fair value | 87,671           | -              |
| Penalties and compensations for damages                                | 814,017          | 430,582        |
| Other expenses                                                         | 336,788          | 154,148        |
| <b>Total</b>                                                           | <b>1,238,476</b> | <b>584,730</b> |

- Upon the return of the leased aircraft, Adria Airways had to pay the owner, the company Willis, compensation of EUR 588,933, as it did not fulfil the contractual provisions on return.
- Besides drawing long-term provisions, the Company recorded EUR 100,901 of compensation paid in 2013 to repay the liabilities to employees arising from labour law disputes.
- Other expenses include a part of the fee for airline ticket sales on the US market referring to 2012 in the amount of EUR 265,315.

### 6.2.12 Income tax

- In the corporate income tax account for 2013, the Company disclosed a tax loss of EUR 1,535,580. The income tax payable by the Company is therefore EUR 0.
- The Company did not activate deferred tax assets, because no significant positive tax basis is planned in the foreseeable future.

| (in EUR)                                         | 2013       | 2012        |
|--------------------------------------------------|------------|-------------|
| Profit/Loss for the accounting period before tax | -2,874,101 | -10,800,947 |
| Expenses not recognised for tax purposes         | 367,782    | 331,663     |
| Value adjustments of inventories and receivables | 200,067    | 262,525     |
| Provisions established                           | -          | -           |
| Non-taxable income                               | -26,318    | -147,462    |

|                                |                  |                   |
|--------------------------------|------------------|-------------------|
| Tax benefits                   | -                | -                 |
| Tax losses                     | -                | -                 |
| Other                          | 796,990          | -189,342          |
| <b>TOTAL TAX LOSS</b>          | <b>1,535,580</b> | <b>10,543,563</b> |
| Corporate income tax (17%/18%) | -                | -                 |

- As at 31 December 2013, the Company disclosed unused tax loss totalling EUR 116,448,645.

### 6.2.13 Net profit or loss

| Net profit or loss (in EUR)                | 2013       | 2012        |
|--------------------------------------------|------------|-------------|
| Net profit or loss for the period          | -2,874,101 | -10,800,947 |
| Weighted average number of ordinary shares | 11,694,922 | 26,568,340  |
| Net earnings / loss per share              | -0.25      | -0.41       |

- In 2013, the Company generated income of EUR 1,147,237.
- The Company discloses a loss from financing operations in the amount of EUR 3,050,405 primarily owing to expenses for interest instruments used as a cash flow hedge and interest expenses from raised long- and short-term loans.
- Net result for the period stood at EUR -2,874,101. It was partly covered by capital surplus totalling EUR 2,053,595, while the difference of EUR 830,506 was covered by profit brought forward transferred from revaluation surplus.

| (in EUR)                                                                                       | Consumer price index in 2013 | Consumer price index in 2012 |
|------------------------------------------------------------------------------------------------|------------------------------|------------------------------|
| Change in %                                                                                    | 0.70%                        | 2.70%                        |
| General revaluation adjustment                                                                 | -70,433                      | -602,322                     |
| Profit or loss for the period after the revaluation to preserve the purchasing power of equity | -2,944,534                   | -11,403,268                  |

- If equity was restated according to the consumer price index, the net loss of Adria Airways d.d. for 2013 would be EUR 70,433 higher.

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## 6.3 Notes to the Cash Flow Statement

- The cash flow statement is compiled under the indirect method (version II) on the basis of the balance sheet items as at 31 December 2013 and 31 December 2012, the income statement items for the year 2013 as well as additional data necessary to adjust the receipts and disbursements. Net profit or loss before taxes is adjusted by the amounts of accounting revenue and expense items other than cash flow (amortisation/depreciation, revaluation, establishment and reversal of provisions).
- Significant increases or decreases in individual items that influenced the Company's cash flow are stated in the income statement, balance sheet and statement of changes in equity.
- Cash assets of the Company comprise of cash on hand and balances in transactions accounts in Slovenia and abroad.

## 7. Other Notes

### 7.1 Data about Related Persons

Transactions with related persons in 2013

| Name of the related person                                                     | Transactions<br>in the year                              | As at<br>31 Dec. 2013                     | Type of transaction                                                                                                                                               |
|--------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>PDP – Posebna družba za podjetniško svetovanje, d.d.</b>                    | -                                                        | -                                         |                                                                                                                                                                   |
| <b>Republic of Slovenia</b>                                                    | -                                                        | -                                         |                                                                                                                                                                   |
| <b>KAD – Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d.</b> | -                                                        | -                                         |                                                                                                                                                                   |
| <b>Kompas – turistično podjetje d.d.</b>                                       | 84,170<br>7,697,099                                      | 6,364<br>185,174                          | liabilities/fees, advertising<br>charter and scheduled passenger transport                                                                                        |
| <b>Palma, mednarodno turistično podjetje, d.o.o.</b>                           | 236,151<br>5,967,016                                     | 3,984<br>38,363                           | liabilities/fees, compensation<br>charter and scheduled passenger transport                                                                                       |
| <b>Hypo Alpe Adria Bank d.d.</b>                                               | 10,157<br>462,331<br>24,615                              | -<br>3,380,669<br>3,641                   | liabilities/bank fees<br>debt repayment/debt balance<br>interest payment/unpaid interest balance                                                                  |
| <b>UniCredit Banka Slovenija d.d.</b>                                          | 5,563<br>7,808<br>1,107,096                              | 1,153<br>-<br>758,026                     | liabilities/bank fees<br>scheduled passenger transport<br>debt repayment/debt balance                                                                             |
| <b>Abanka Vipava d.d.</b>                                                      | 1,684<br>11,155                                          | 71<br>-                                   | liabilities/bank fees<br>scheduled passenger transport                                                                                                            |
| <b>NLB, d.d.</b>                                                               | 11,905<br>1,406,729<br>375,000<br>5,445,160<br>1,411,424 | 573<br>4,833<br>-<br>26,239,915<br>62,032 | liabilities/bank fees<br>credit card payments/for flight tickets<br>debt lease in 2013<br>debt repayment/debt balance<br>interest payment/unpaid interest balance |
| <b>Amadeus Slovenija d.o.o.</b>                                                | 1,231<br>38,659                                          | -<br>1,835                                | liabilities/equipment lease<br>receivables/lease, flight tickets                                                                                                  |
| <b>Adria Airways Letalska šola d.o.o.</b>                                      | 101,763<br>77,668                                        | -<br>23,867                               | liabilities/fee for the provision of training<br>receivables/lease, fee, flight tickets                                                                           |
| <b>Adria Airways Kosovo L.L.C.</b>                                             | 137,582<br>1,620,523                                     | 63,256<br>109,881                         | liabilities – hiring staff, overnight accommodation, re-invoiced services<br>receivables arising from scheduled passenger transport                               |



## Transactions with related persons in 2012

| Name of the related person                                                           | Transactions<br>in the year                                | As at<br>31 Dec. 2012           | Type of transaction                                                                                                                                              |
|--------------------------------------------------------------------------------------|------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>PDP – Posebna družba za<br/>podjetniško svetovanje, d.d.</b>                      | 1,459                                                      | -                               | receivables – revenue from sold tickets                                                                                                                          |
| <b>Republic of Slovenia</b>                                                          | 1,624,724                                                  | 134,692                         | receivables – revenue from sold airline tickets                                                                                                                  |
| <b>KAD – Kapitalska družba pokojninske-<br/>ga in invalidskega zavarovanja, d.d.</b> | 833                                                        | -                               | receivables – revenue from sold airline tickets                                                                                                                  |
| <b>Kompas – turistično podjetje d.d.</b>                                             | 195,631<br>8,145,326                                       | 255<br>226,843                  | liabilities – fee, advertising costs<br>receivables – sold airline tickets                                                                                       |
| <b>Palma, mednarodno turistično podjetje,<br/>d.o.o.</b>                             | 129,889<br>6,276,800                                       | -<br>136,570                    | liabilities – fee, advertising, other costs<br>receivables – revenue from sold airline tickets                                                                   |
| <b>Hypo Alpe Adria Bank d.d.</b>                                                     | 574<br>14,476<br>469,859<br>128,724                        | -<br>945<br>6,159,892<br>-      | receivables – revenue from sold airline tickets<br>liabilities – bank fee<br>debt repayment<br>interest on loans raised                                          |
| <b>UniCredit Banka Slovenija d.d.</b>                                                | 2,730<br>13,165<br>961,872<br>94,717                       | -<br>5,974<br>1,490,121<br>-    | receivables – revenue from sold airline tickets<br>liabilities – bank fee<br>debt repayment<br>interest on loans raised                                          |
| <b>Abanka Vipava d.d.</b>                                                            | 9,765<br>9,726                                             | -<br>86                         | receivables – revenue from sold airline tickets<br>liabilities – bank fee                                                                                        |
| <b>NLB, d.d.</b>                                                                     | 1,507,063<br>96,042<br>1,407,722<br>1,387,317<br>2,690,000 | -<br>50<br>-<br>30,250,422<br>- | receivables – revenue from sold airline tickets<br>liabilities – bank fee<br>interest on loans raised<br>loans received<br>principal repayment<br>bonds received |
| <b>Amadeus Slovenija d.o.o.</b>                                                      | 85,102<br>34,957                                           | -<br>4,741                      | receivables – lease of premises, sold airline<br>tickets<br>liabilities – sale and lease of comp. equipment                                                      |
| <b>Adria Airways Letalska šola d.o.o.</b>                                            | 81,367<br>179,968                                          | 46,670<br>-                     | receivables – lease of premises and<br>equipment<br>liabilities – fee for training prov.                                                                         |
| <b>Adria Airways Kosovo L.L.C.</b>                                                   | 1,703,470<br>248,908                                       | 51,757<br>97,157                | receivables – revenue from sold airline tickets<br>liabilities – hiring staff, overnight<br>accommodation, re-invoiced services                                  |

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## 7.2 Receipts of the Members of the Supervisory Board, the Audit Committee, the Management and Employees Employed under Management Contracts

Receipts of the Members of the Supervisory Board and the Audit Committee of Adria Airways d.d.

| (in EUR)                                        | Attendance fees | Fixed part of receipts | Receipts from employment relationship | Reimbursement of costs | Other receipts and bonuses | Total          |
|-------------------------------------------------|-----------------|------------------------|---------------------------------------|------------------------|----------------------------|----------------|
| Sergej Goriup (SB)<br>(from 19. Dec. 2011) (AC) | 4,000           | 11,000                 | -                                     | 252                    | -                          | <b>15,252</b>  |
| Tone Pekolj (SB)<br>(from 19. Dec. 2011)        | 4,275           | 12,000                 | -                                     | 60                     | -                          | <b>16,335</b>  |
| Silva Rogelj (SB)<br>(from 19. Dec. 2011)       | 6,010           | 8,000                  | 19,386                                | 2,079                  | 816                        | <b>36,291</b>  |
| Darja Mataj (SB)<br>(from 19. Dec. 2011) (AC)   | 5,152           | 10,167                 | 30,616                                | 4,929                  | 906                        | <b>51,770</b>  |
| Andrej Bošnjak (SB)<br>(from 24. Apr. 2012)     | 3,685           | 8,000                  | -                                     | 206                    | -                          | <b>11,891</b>  |
| Tadej Pojbič (SB)<br>(from 18. May 2012)        | 4,275           | 8,000                  | -                                     | 240                    | -                          | <b>12,515</b>  |
| Nadja Knez (AC)<br>(from 24. Apr. 2012)         | 1,056           | 2,000                  | -                                     | 186                    | -                          | <b>3,242</b>   |
| <b>Total:</b>                                   | <b>28,453</b>   | <b>59,167</b>          | <b>50,002</b>                         | <b>7,952</b>           | <b>1,722</b>               | <b>147,296</b> |

- Receipts of two Supervisory Board members also include the receipts arising from employment relationship.

### Receipts of the management members

| (in EUR)                                                 | Fixed part of receipts | Reimbursement of costs | Other receipts and bonuses | Total          |
|----------------------------------------------------------|------------------------|------------------------|----------------------------|----------------|
| Klemen Boštjančič<br>(from 11 March 2011 to 15 May 2013) | 71,405                 | 184                    | 24,413                     | <b>96,003</b>  |
| Mark Anžur<br>(from 21 December 2012)                    | 117,405                | 3,744                  | 5,696                      | <b>126,845</b> |
| <b>Total:</b>                                            | <b>188,810</b>         | <b>3,928</b>           | <b>34,165</b>              | <b>222,847</b> |

- Other remuneration and bonuses include the holiday allowance and bonuses for insurance premiums as well as the use of company vehicles and severance upon employment termination.
- The total receipts paid in 2013 to employees under managerial contracts to whom the tariff section of the general collective agreement does not apply (excluding members of the management) amounted to EUR 872,039.

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- As at 31 December 2013, the Company had no receivables due from the members of the Supervisory Board and the Audit Committee but did have liabilities arising from attendance fees in the amount of EUR 3,810.
- The Company had no receivables from or liabilities to the management members as at 31 December 2013, except for liabilities arising from December salaries that were paid in January 2014.

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## 8. Events after the Balance Sheet Date

- No events that could have an impact on the true and fair presentation of the financial statements for 2013 arose from the drawing up date of the financial statements to the preparation date of this Report.

## 9. Contingent Liabilities

- On the basis of the interim judgment op. no. Pd 56/2011 of the District Court of Ljubljana dated 19 October 2012, sustained by the judgment of the Higher Labour and Social Court op. no. Pdp 1248/2012 dated 6 June 2013, the Company identified potential financial risk arising from possible claims due to miscalculated base salary for the period between 2009 and 2012. According to the accounting standards and due diligence the Management Board posted contingent liability on the basis of a past event and on the basis of an expected event.
- In view of the calculated potential claims, the Management Board actively undertook to reduce the financial risk and assesses the result of the activities as successful. Contingent liabilities have thus been decreased but are still estimated at maximum EUR 2.11 million, of which EUR 1.87 million is accounted for by claims and EUR 240 thousand by default interest. The expectation-based assessment was used to evaluate the outcome and financial effect, relying on information, experience and opinions. In order to cover contingent future liabilities that the Management Board estimated to be probable in the future and for which provisions should be established to cover them, the Management Board, after assessing the actual status, statements and other explanations provided by the employees, in the 2013 financial statements established provisions in the amount of EUR 420 thousand. As regards the difference of EUR 1.69 million, the Management Board estimated it was not sufficiently probable that the liability would arise in the future, so it did not establish provisions for this amount.
- Owing to the above, the Company discloses the potential financial liabilities, which had not arisen by 31 December 2013, and the Management Board believes that these contingent financial liabilities are not such as to jeopardise the Company's operations.

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## 10. Financial Statements – Expanded Version

### 10.1 Balance Sheet – Expanded Version According to the SAS

| (in EUR)                                                                      | 31. 12. 2013      | 31. 12. 2012      |
|-------------------------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                                                 | <b>68,702,059</b> | <b>80,164,458</b> |
| <b>A/ LONG-TERM ASSETS</b>                                                    | <b>50,435,043</b> | <b>63,194,969</b> |
| <b>I. Intangible assets and long-term deferred costs and accrued revenues</b> | <b>811,607</b>    | <b>2,432,302</b>  |
| 1. Long-term property rights                                                  | 42,688            | 194,525           |
| 5. Other long-term deferred costs and accrued revenues                        | 768,919           | 2,237,777         |
| <b>II. Property, plant and equipment</b>                                      | <b>37,304,780</b> | <b>45,729,665</b> |
| 1. Land and buildings:                                                        | 7,385,602         | 7,739,470         |
| a) land                                                                       | 487,183           | 487,183           |
| b) buildings                                                                  | 6,898,419         | 7,252,287         |
| 2. Production plant and machinery                                             | 27,417,932        | 36,761,568        |
| 3. Other plant and equipment                                                  | 1,912,657         | 671,102           |
| 4. Property, plant and equipment in acquisition:                              | 588,589           | 557,525           |
| a) property, plant and equipment under construction or development            | 334,653           | 292,032           |
| b) advances for acquisition of property, plant and equipment                  | 253,936           | 265,493           |
| <b>III. Investment property</b>                                               | <b>6,458,022</b>  | <b>10,967,984</b> |
| <b>IV. Long-term financial assets</b>                                         | <b>2,539,739</b>  | <b>1,111,409</b>  |
| 1. Long-term financial assets, except loans:                                  | 1,078,830         | 1,082,663         |
| a) shares and stakes in Group companies                                       | 1,045,640         | 1,045,640         |
| b) shares and stakes in associated companies                                  | 400               | 400               |
| c) other shares and stakes                                                    | 32,790            | 36,623            |
| 2. Long-term loans:                                                           | 1,460,909         | 28,746            |
| b) long-term loans to others                                                  | 1,460,909         | 28,746            |
| <b>V. Long-term operating receivables</b>                                     | <b>5,320,895</b>  | <b>2,953,609</b>  |
| 3. Long-term operating receivables due from others                            | 5,320,895         | 2,953,609         |
| <b>VI. Deferred tax assets</b>                                                | <b>-</b>          | <b>-</b>          |
| <b>B/ SHORT-TERM ASSETS</b>                                                   | <b>14,508,543</b> | <b>15,390,395</b> |
| <b>I. Assets (disposal groups) available for sale</b>                         | <b>1,295,720</b>  | <b>1,661,193</b>  |
| <b>II. Inventories</b>                                                        | <b>438,433</b>    | <b>435,882</b>    |

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|                                                          |                   |                   |
|----------------------------------------------------------|-------------------|-------------------|
| 1. Material                                              | 384,232           | 374,194           |
| Products and merchandise                                 | 54,201            | 61,688            |
| <b>III. Short-term financial assets</b>                  | <b>815,901</b>    | <b>1,870,435</b>  |
| 2. Short-term loans:                                     | 815,901           | 1,870,435         |
| b) short-term loans to others                            | 815,901           | 1,870,435         |
| <b>IV. Short-term operating receivables</b>              | <b>11,311,663</b> | <b>10,584,506</b> |
| 1. Short-term operating receivables from Group companies | 135,582           | 98,427            |
| 2. Short-term operating receivables from customers       | 7,128,573         | 6,477,494         |
| 3. Short-term operating receivables from others          | 4,047,508         | 4,008,585         |
| <b>V. Cash</b>                                           | <b>646,826</b>    | <b>838,379</b>    |
| <b>C/ SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES</b> | <b>1,758,473</b>  | <b>1,579,094</b>  |
| <b>Off-balance-sheet assets</b>                          | <b>35,097,886</b> | <b>46,456,583</b> |

| (in EUR)                                                               | 31.12.2013        | 31.12.2012        |
|------------------------------------------------------------------------|-------------------|-------------------|
| <b>CAPITAL AND LIABILITIES</b>                                         | <b>68,702,059</b> | <b>80,164,458</b> |
| <b>A/ CAPITAL</b>                                                      | <b>10,061,904</b> | <b>12,487,785</b> |
| <b>I. Called up capital</b>                                            | <b>3,542,445</b>  | <b>17,712,227</b> |
| 1. Equity                                                              | 3,542,445         | 17,712,227        |
| <b>II. Capital surplus</b>                                             | 1,860,150         | -                 |
| <b>III. Revenue reserves</b>                                           | -                 | -                 |
| <b>IV. Revaluation surplus</b>                                         | 4,659,309         | 5,041,595         |
| <b>V. Net profit or loss from previous periods</b>                     | -                 | -                 |
| <b>VI. Net profit or loss for the period</b>                           | -                 | -10,266,037       |
| <b>B/ PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES</b> | <b>2,376,982</b>  | <b>1,620,764</b>  |
| 1. Provisions for pensions and jubilee benefits                        | 620,548           | 669,558           |
| Other provisions                                                       | 1,756,434         | 951,206           |
| <b>C/ LONG-TERM LIABILITIES</b>                                        | <b>23,253,326</b> | <b>33,183,234</b> |
| <b>I. Long-term financial liabilities</b>                              | <b>23,253,326</b> | <b>32,726,091</b> |
| 2. Long-term financial liabilities to banks                            | 23,214,490        | 32,711,430        |
| 4. Other long-term financial liabilities                               | 38,836            | 14,661            |
| <b>II. Long-term operating liabilities</b>                             | -                 | <b>457,143</b>    |
| 2. Long-term operating liabilities to suppliers                        | -                 | 457,143           |
| <b>D/ SHORT-TERM LIABILITIES</b>                                       | <b>29,643,249</b> | <b>31,419,466</b> |
| <b>II. Short-term financial liabilities</b>                            | <b>8,988,252</b>  | <b>8,800,766</b>  |
| 2. Short-term financial liabilities to banks                           | 8,285,076         | 6,649,097         |

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|                                                          |                   |                   |
|----------------------------------------------------------|-------------------|-------------------|
| 4. Other short-term financial liabilities                | 703,176           | 2,151,669         |
| <b>III. Short-term operating liabilities</b>             | <b>20,654,997</b> | <b>22,618,700</b> |
| 1. Short-term operating liabilities to Group companies   | 96,759            | 101,897           |
| 2. Short-term operating liabilities to suppliers         | 17,342,707        | 18,059,892        |
| 4. Short-term operating liabilities from advances        | 557,962           | 1,113,268         |
| 5. Other short-term operating liabilities                | 2,657,569         | 3,343,643         |
| <b>D/ SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES</b> | <b>3,366,598</b>  | <b>1,453,209</b>  |
| <b>Off-balance-sheet liabilities</b>                     | <b>35,097,886</b> | <b>46,456,583</b> |

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## 10.2 Income Statement – Expanded Version According to the SAS

| (in EUR)                                                                                              | 2013               | 2012               |
|-------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>1. Net sales revenues:</b>                                                                         | <b>142,403,988</b> | <b>147,094,560</b> |
| a) net revenues on the domestic market – Group companies                                              | 95,867             | 102,139            |
| b) net revenues on the domestic market – others                                                       | 2,333,062          | 2,691,110          |
| c) net revenues on the foreign market – Group companies                                               | 921,607            | 995,286            |
| d) net revenues on the foreign market – others                                                        | 139,053,452        | 143,306,025        |
| <b>2. Manufacturing costs of products sold (incl. deprec.)/cost of goods sold</b>                     | <b>121,030,063</b> | <b>134,251,793</b> |
| <b>3. GROSS SALES PROFIT OR LOSS</b>                                                                  | <b>21,373,925</b>  | <b>12,842,767</b>  |
| <b>4. Selling costs (including depreciation and amortisation)</b>                                     | <b>17,691,580</b>  | <b>16,754,466</b>  |
| <b>5. General and administrative expenses (including depreciation and amortisation):</b>              | <b>5,177,747</b>   | <b>4,984,124</b>   |
| a) general and administrative costs                                                                   | 4,492,690          | 4,334,179          |
| b) revaluation operating expenses associated with intangible assets and property, plant and equipment | 484,990            | 385,589            |
| c) revaluation operating expenses associated with current assets                                      | 200,067            | 264,356            |
| <b>6. Other operating revenue (including revaluation operating revenue)</b>                           | <b>2,642,639</b>   | <b>794,324</b>     |
| <b>7. Finance income from participation:</b>                                                          | <b>6,419</b>       | <b>210,113</b>     |
| a) finance income from stakes in Group companies                                                      | -                  | 26,040             |
| b) finance income from stakes in associated companies                                                 | 6,419              | 8,357              |
| c) finance income from stakes in other companies                                                      | -                  | -                  |
| d) finance income from other investments                                                              | -                  | 175,716            |
| <b>9. Finance income from operating receivables:</b>                                                  | <b>1,380,164</b>   | <b>511,789</b>     |
| b) finance income from operating receivables due from others                                          | 1,380,164          | 511,789            |
| <b>10. Finance expenses from impairment and write-off of financial assets</b>                         | <b>1,404</b>       | <b>-</b>           |
| <b>11. Finance expenses from financial liabilities:</b>                                               | <b>1,461,048</b>   | <b>1,805,864</b>   |
| b) finance expenses for loans received from banks                                                     | 1,461,048          | 1,805,694          |
| d) finance expenses from other financial liabilities                                                  | -                  | 170                |
| <b>12. Finance expenses from operating liabilities</b>                                                | <b>2,974,535</b>   | <b>2,750,950</b>   |
| b) finance expenses from liabilities to suppliers and bills payable                                   | 220,011            | 160,479            |
| c) finance expenses from other operating liabilities                                                  | 2,754,524          | 2,590,471          |
| <b>13. Other revenues</b>                                                                             | <b>267,542</b>     | <b>1,720,194</b>   |
| <b>14. Other expenses</b>                                                                             | <b>1,238,476</b>   | <b>584,730</b>     |
| <b>15. Income tax</b>                                                                                 | <b>-</b>           | <b>-</b>           |
| <b>17. NET PROFIT OR LOSS FOR THE PERIOD</b>                                                          | <b>-2,874,101</b>  | <b>-10,800,947</b> |

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### 10.3 Statement of Other Comprehensive Income

| (in EUR)                                                                                           | 2013              | 2012               |
|----------------------------------------------------------------------------------------------------|-------------------|--------------------|
| <b>Net profit or loss for the period</b>                                                           | <b>-2,874,101</b> | <b>-10,800,947</b> |
| Changes in revaluation surplus of written-down intangible assets and property, plant and equipment | -511,436          | -                  |
| Change in revaluation surplus of financial assets available for sale                               | 959,656           | 938,106            |
| <b>Total comprehensive income for the accounting period</b>                                        | <b>-2,425,881</b> | <b>-9,862,841</b>  |

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