

**Smartwings, a.s.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE PERIOD ENDED 31 DECEMBER 2019**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION**

**Prepared on February 12, 2021**



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**Consolidated Statement of Income**

	Note	Period of 12 months ended 31 December	
		2019 tCZK	2018 tCZK
<b>Operating revenue</b>			
Sales for transportation services	5	28 088 888	28 617 866
Other operating revenue	6	1 834 388	1 247 110
<b>Total Operating revenue</b>		<b>29 923 276</b>	<b>29 864 976</b>
<b>Operating expenses</b>			
Staff costs	8	(3 237 634)	(3 060 007)
Fuel costs		(6 243 250)	(6 880 834)
Aircraft lease	24	(2 256 623)	(5 222 065)
Landing and handling cost		(7 355 839)	(7 915 032)
Maintenance cost		(4 124 695)	(3 876 117)
Other operating expenses	7	(2 707 958)	(2 465 827)
Depreciation		(3 636 989)	(141 867)
<b>Total Operating expenses</b>		<b>(29 562 988)</b>	<b>(29 561 749)</b>
<b>Net operating profit</b>		<b>360 288</b>	<b>303 227</b>
Net interest expense	9	(478 652)	(35 795)
Net financial expenses/income	10	239 402	117 023
<b>Net financial result</b>		<b>(239 250)</b>	<b>81 228</b>
Share on profit of at equity investments	17	8 960	4 226
<b>Profit before tax</b>		<b>129 998</b>	<b>388 681</b>
Income tax	11	(112 294)	78 812
<b>Profit for the period</b>		<b>17 704</b>	<b>467 493</b>
<i>Profit attributable to owners of the parent</i>		<i>16 065 146</i>	<i>457 431</i>
<i>Profit attributable to non-controlling interests</i>		<i>1 638 539</i>	<i>10 062</i>

**Consolidated Statement of Comprehensive Income**

	Note	Period of 12 months ended 31 December	
		2019 tCZK	2018 tCZK
<b>Profit for the period</b>		<b>17 704</b>	<b>467 493</b>
Foreign currency translation differences		1 240	(18 542)
Fair value of hedging derivatives (net of tax)	12	78 901	(93 864)
Share on OCI of at equity investments	17	0	0
<b>Other comprehensive income for the period</b>		<b>80 141</b>	<b>(112 406)</b>
<i>Other comprehensive income attributable to owners of the parent</i>		78 330	(110 503)
<i>Other comprehensive income attributable to non-controlling interests</i>		1 811	(1 903)
<b>Total comprehensive income for the period</b>		<b>97 845</b>	<b>355 087</b>
<i>Total comprehensive income attributable to owners of the parent</i>		95 634	346 928
<i>Total comprehensive income attributable to non-controlling interests</i>		2 211	8 159

**Consolidated Statement of Financial Position**

	<b>Note</b>	<b>31 December 2019 tCZK</b>	<b>31 December 2018 tCZK</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Aircraft, buildings and other operating assets	15	765 401	2 208 371
Right-of-use assets	23	16 228 410	0
Prepayments on F/A acquisitions & F/A under constr.	15	2 143 217	1 861 681
Security deposits paid	19	831 515	836 760
Other long-term receivables		30 112	0
Investments in associates	17	90 876	93 606
Other investments		17 098	17 986
Other intangible assets and intangible assets under constr.	14	270 718	240 773
Deferred tax assets	11	208 700	295 490
<b>Total Non-current assets</b>		<b>20 586 047</b>	<b>5 554 667</b>
<b>Current assets</b>			
Inventories	18	332 608	333 633
Trade and other receivables and deferred expenses	19	3 462 139	2 785 090
Cash and cash equivalents		405 111	964 464
Short term security deposits		71 376	0
Positive fair value of derivatives	12	10 202	0
<b>Total Current assets</b>		<b>4 285 713</b>	<b>4 083 187</b>
<b>Total assets</b>		<b>24 871 761</b>	<b>9 637 854</b>

tCZK - thousands Czech  
crowns**Consolidated Statement of Financial Position**

	<b>Note</b>	<b>31 December 2019 tCZK</b>	<b>31 December 2018 tCZK</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	20	1 241 236	1 241 236
Share premium		10 149	10 149
Translation reserve		(28 603)	(33 423)
Hedging reserve	12	(14 962)	(93 864)
Statutory reserve		55 389	55 389
Retained earnings		199 103	188 094
Share on OCI at equity investments			0
<b>Non controlling interests</b>	20	22 526	19 411
<b>Total equity</b>		<b>1 484 838</b>	<b>1 386 993</b>
<b>Non-current liabilities</b>			
Loans and borrowings	22	15 835	59 859
Security deposits received		32 056	32 448
Provisions	21	526 238	495 733
Lease liabilities long term (IFRS 16)	23	12 836 007	0
Finance Lease liabilities (IAS 17)	22	0	878 269
Deferred tax liabilities	11	41 855	31 781
<b>Total Non-current liabilities</b>		<b>13 451 991</b>	<b>1 498 090</b>

tCZK - thousands Czech  
crowns**Consolidated Statement of Financial Position**

	<b>Note</b>	<b>31 December 2019 tCZK</b>	<b>31 December 2018 tCZK</b>
<b>Current liabilities</b>			
Bank overdrafts	22	750 971	655 595
Loans and borrowings	22	538 950	967 513
Lease liabilities current portion (IFRS 16)	23	3 148 561	0
Current portion of long term finance lease liabilities	22	0	97 585
Trade and other payables	25	3 702 202	2 784 778
Payables to related parties	26	638 302	773 555
Income tax payable		0	295
Deferred income	23	602 452	908 910
Provisions	21	553 493	477 740
Negative fair values of derivatives	12	0	86 800
<b>Total Current liabilities</b>		<b>9 934 931</b>	<b>6 752 771</b>
<b>Total equity and liabilities</b>		<b>24 871 761</b>	<b>9 637 854</b>



December 31, 2019

Smartwings Group

tCZK - thousands Czech  
crowns

### Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedging reserve	Share on OCI at equity investments	Non-controlling interests	Total equity
<b>Balance as at 31 December 2017</b>	<b>1 241 236</b>	<b>10 149</b>	<b>55 389</b>	<b>212 974</b>	<b>(29 001)</b>	<b>0</b>	<b>90 984</b>	<b>0</b>	<b>1 581 732</b>
CSA acquisition - derecognition of previously held equity interest				(470 093)			(90 984)	11 252	(549 826)
Result for the period				457 431				10 062	467 493
Other changes				(12 217)	(4 422)	(93 864)		(1 903)	(112 406)
<b>Balance as at 31 December 2018</b>	<b>1 241 236</b>	<b>10 149</b>	<b>55 389</b>	<b>188 094</b>	<b>(33 423)</b>	<b>(93 864)</b>	<b>0</b>	<b>19 411</b>	<b>1 386 993</b>
Result for the period				16 065				1 639	17 704
Other changes				(5 056)	4 820	78 902		1 476	80 141
<b>Balance as at 31 December 2019</b>	<b>1 241 236</b>	<b>10 149</b>	<b>55 389</b>	<b>199 103</b>	<b>(28 603)</b>	<b>(14 962)</b>	<b>0</b>	<b>22 526</b>	<b>1 484 838</b>

December 31, 2019

## Consolidated Statement of Cash Flows

	31 December 2019	31 December 2018
<b>Profit / Loss for the period</b>	<b>17 704</b>	<b>467 493</b>
<u>Adjustments for:</u>		
Depreciation	3 636 989	141 867
Deferred income tax	95 712	(100 167)
Gain/Loss on disposal of long-term assets	48 156	26 683
Net change in inventories	1 025	(78 885)
Net change in receivables, other assets and prepaid expenses	(778 539)	(354 329)
Net change in trade accounts payable and other current liabilities	485 396	469 632
Net change in provisions	106 257	(436 418)
Gains/Losses on revaluation of derivatives at fair value, net	42 765	31 918
Share of profit of equity investments	(8 960)	4 226
Interest income	(6 175)	(12 345)
Interest expenses	484 826	48 140
Income tax expense	16 582	19 845
<b>Cash generated from operations</b>	<b>4 141 738</b>	<b>227 660</b>
Interest received	6 175	12 345
Interest expenses paid	(53 156)	(138 034)
Income taxes paid	(35 783)	(35 067)
<b>Net cash from operating activities</b>	<b>4 058 974</b>	<b>66 904</b>

December 31, 2019

tCZK - thousands Czech  
crowns**Consolidated Statement of Cash Flows**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Purchases of non-current assets (including Right-of-use assets)	(19 259 435)	(2 007 016)
Finance lease liabilities, change	15 008 714	975 855
Decrease of investments in associates	2 730	0
Proceeds from sales of non-current assets	6 872	0
<b>Cash flows from investing activities</b>	<b>(4 241 119)</b>	<b>(1 031 161)</b>
Long term borrowings, change	(44 024)	(23 474)
Short term borrowings, change	(333 186)	261 660
Dividends paid	0	0
Cash and cash equivalents from ĀSA acquisition	0	1 534 339
<b>Cash flows from financing activities</b>	<b>377 210</b>	<b>1 772 525</b>
<b>Net increase in cash and cash equivalents</b>	<b>(559 355)</b>	<b>808 268</b>
Cash and cash equivalents on 1 January	964 464	151 745
Effect of exchange rate fluctuations on cash held	0	4 451
<b>Cash and cash equivalents on 31 December</b>	<b>405 109</b>	<b>964 464</b>

## **1 INTRODUCTION AND GENERAL INFORMATION**

### **1.1. General information**

The consolidated financial statements of Smartwings, a. s. (the "Company" or the "Smartwings") for the year ended 31st December 2019 comprise Smartwings, a. s., its subsidiaries Smartwings Hungary Kft., Smartwings Poland Sp z o.o., Smartwings Slovakia s. r. o., Smartwings Building, s. r. o., Smartwings Germany GmbH, České aerolinie, a. s. (the "České aerolinie" or the "CSA") and the interest in the associate Alpha Flight, a.s. (together referred to as „Smartwings Group" or the „Group").

Smartwings, a. s. is a joined stock company with its registered office in the Czech Republic, Prague 6, K Letišti 1068/30 bearing its registration number 256 63 135. The seat and the place of a real management is located at the address – K Letišti 1068/30, 160 08 Prague 6, Czech Republic. The registered capital of Smartwings, a. s. is CZK 1,241,236,250.

The Group's ordinary shares are not publicly traded.

### **1.2. Introduction**

The principal Group's activity is air transport of passengers operated from its hubs in Prague (CZ), Brno (CZ), Ostrava (CZ), Pardubice (CZ), Karlovy Vary (CZ), Bratislava (SK), Kosice (SK), Budapest (HU), Paris (FR), Lille (FR), Lyon (FR) Canary Islands (SP), Warsaw (PL), Krakow (PL) and Gdansk (PL). The group is also interested in wet and dry leases and in private services (Business Jets Aero cabs).

Smartwings, a. s., formerly known as Travel Service, a. s., was established according to Law of the Czech Republic and it is registered in the Commercial Register maintained by the Municipal Court in Prague, Part B, Insert 5332. The Company was incorporated by the Memorandum of Association done on 23 January 1998 in form of a notarial record No. NZ/12/1998 (N21/1998).

The Group began its activity in 1998 and Smartwings, a. s. is one of the oldest, and in the same time, the biggest private air companies/groups in the central European countries, both in terms of the carriage capacity and the size of its fleet of aircraft and the number of carried passengers, the generated revenues or the amount of its assets.

A significant position in the market of carriage of persons by air was retained by the Company or its subsidiaries – Smartwings Slovakia, s. r. o., Smartwings Hungary, Kft. and Smartwings Poland, in Slovakia, Hungary and Poland respectively.

The Company, together with its subsidiaries in Slovakia, Hungary and Poland, exploits the fleet of commercial aircraft Boeing 737 – 900, Boeing 737 – 800, Boeing 737 – 700, Cessna 680 Citation Sovereign registered by Aviation Authorities in the Czech Republic, Hungary, Poland and Canada. Furthermore, it also exploits the short-term lease of aircraft rendered by other aviation companies.

The board of directors of Smartwings, a.s. has approved the document "Smartwings Group (Smartwings Group) Strategy of the Single Holding Policy" dated 24 October 2018 within

the framework of the legislation of the Czech Republic in accordance with the Business Companies and Cooperatives Act No. 90/2012 of 25 January 2012 (Business Corporations Act). According to the document stated above, Smartwings, a.s. is the controlling company heading the holding, the members of which are the following companies (controlled entities):

- 1) České aerolinie, a.s.;
- 2) Smartwings Building s.r.o. (former T.S. Building s.r.o.);
- 3) Smartwings Slovakia, s.r.o. (former Travel Service Slovensko s.r.o.);
- 4) Smartwings Poland Sp. z o.o. (former Travel Service Polska Sp. z o.o.);
- 5) Smartwings Hungary Kft. (former Travel Service Kft.);
- 6) Smartwings Germany GmbH.

The board of directors of Smartwings, a.s. is of the opinion that the business group of the companies stated above constitutes a holding in accordance with Section 79 of the Business Companies and Cooperatives Act No. 90/2012 Sb. (Collection of Laws of the Czech Republic). The holding members, i.e. the controlling company and the controlled companies, have published information about the establishment of the holding on their websites. The company is a part of the consolidated group of the entities stated above.

Due to the fact that as of 31 March 2015 the Company owned a stake of 34% in the registered capital of České aerolinie, and due to the fact that on 27 February 2018 the Company acquired a total of 667,379 shares, which represented a stake of approximately 63.74% in the registered capital of České aerolinie, the Company **became the majority shareholder in České aerolinie, with a stake of 97.74 % in the registered capital of such company**. Out of the total of 1,047,102 issued shares with an aggregate nominal value of CZK 5,235,510,000, the Company owns 1,023,394 shares with an aggregate nominal value of CZK 5,116,970,000. There are no restrictions on the shareholders' rights in respect of such shares. Česká pojišťovna, a. s. owns 23,708 shares, representing a stake of **2.26%** in the registered capital of České aerolinie.

From the date **27 February 2018 (date of acquisition)**, České aerolinie is consolidated by full method with non-controlling interest **2,26%**.

As at the date of acquisition the fair value of the acquired net assets of České aerolinie was compared to the purchase price of the acquired shares. It resulted into **badwill** in the amount TCZK 80.241 recognised into revenues of 2018.

The subsidiary České aerolinie, a. s. operates fleet of commercial aircraft A330-300, A319-100, ATR 72 and ATR 42.

On 11<sup>th</sup> October 2017 Smartwings a.s. acquired 20 unlisted ordinary book-entry shares with a nominal value of CZK 500,000 each, issued by Alpha Flight a.s. Total nominal value of the shares is 10,000,000 CZK representing 20% of the registered capital of this company and 20% on voting rights on the General Meeting. Associated company Alpha Flight a.s. supplies most of the airlines on the Prague Airport with catering services.

Smartwings, a.s. owns 100% share of the company Smartwings Building, s. r. o., ID No. 645 83 970, with its registered seat Prague 1, Václavské nám. 53/815, Postal Code 110 00. This company does not undertake business of carriage of persons by air and it focuses mainly on the administration and lease of the non-residential premises.

Smartwings Germany GmbH was established to further support and develop the Group's business in Germany. Smartwings Germany GmbH in 2017 started to perform activity to obtain the operating licence (Air Operator Certificate) from the Civil Aviation Authority of Germany. In 2019 no commercial activity was performed.

The key goals set for 2019 were to make the structure of the Smartwings Group more effective, to strengthen its position in the air transport industry, to find a solution for the situation caused by the grounding of B 737 MAX aircraft.

## **2 BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS**

### **2.1. Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the IASB and endorsed for use in the European Union, that are applicable for the activity of the Group and effective for the accounting periods beginning 1 January 2019.

Either debt or equity instruments of Smartwings are not publicly traded. The Group has prepared the IFRS financial statements voluntarily. The management of the Group spent maximum effort to prepare the IFRS financial statements in reasonable time and to ensure that the financial statements and the Notes include all disclosures required under IFRS. All information is disclosed in the best detail available at this time with reasonable effort, in the manner and having the information value such as provided by the Group's existing information systems with a view to the time value and cost to benefit ratio of the information disclosed (its added value).

These consolidated financial statements have been audited by the auditors. Report on audit is attached to them.

### **2.2. Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies set out below have been, in all material aspects, applied consistently to all periods presented in the consolidated financial statements. The accounting policies have been applied consistently by all Group companies. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The consolidated financial statements have been prepared in Czech Crowns ("CZK), unless stated otherwise. The Czech National Bank exchange rate was CZK 25.410 to the Euro as at December 2019 and CZK 25.725 to the Euro as at 31 December 2018. Other important exchange rates are disclosed in note 13.

### **2.3. Going concern**

As at the date of preparation of these financial statements, the situation in the Company and in the entire Smartwings Group is largely affected by the global crisis in the air transport industry. This crisis has been caused by the spread of the corona virus infection by the SARS-CoV-2 and by the measures adopted in order to combat its spread and to mitigate its impact (please see also Section 28).

The COVID-19 pandemic had an immediate unprecedented impact on air travel as majority of European countries shut down their borders after the COVID-19 outbreak in the middle of March 2020 (the Czech Republic was the first country in Europe to enforce border lockdowns effective since 16<sup>th</sup> March 2020). March data indicated approximately 50% year-over-year decrease in revenue per kilometer as well as 40% year-over-year decrease in available seat per kilometer.

In April 2020, the whole of Europe was locked down and almost no air travel took place – passenger kilometer dropped by 98% year-over-year. The load factor decreased to 32% compared to 67% in March, indicating that only necessary repatriate flights were operating.

The number of COVID-19 cases began to decrease towards the summer season and many countries opened their borders to welcome the tourists to support the economy. The demand recovered slightly during the summer months, but increasing number of COVID-19 cases during the end of August and at the beginning of September resulted in new wave of travel restrictions and arrival duties (such as negative COVID-19 test or quarantine) imposed by the governments. This again led to flights cancellation and grounding of aircraft fleets with unprecedented impacts on the international air traffic translating to almost zero revenues for all airline operators. Despite all costs savings measures introduced by the individual airlines, the negative impact of the crises outweighed the benefits of these measures and more complex solution including state support proved to be required.

Due to heavy reliance of Smartwings, a.s. on summer season and leisure travel, the impact is even more severe. Air traffic was significantly restricted and also demand for flying dropped due to uncertainty related to the pandemic with over 80% lower numbers of transported passengers compared to last year figures during the high season of 2020. In addition, this crisis has been deepened for the Group by the situation when all Boeing 737-8 MAX airplanes were grounded.

Most of the costs of the Group are variable, thus are not incurred when no flights are being operated, however, significant part of costs are fixed costs mostly attributable to operational leases (most of the fleet is contracted via an operating lease agreements) and personnel expenses. Consequently, the Group has been facing liquidity issues due to its obligation to pay these operating costs and financial obligations of fixed nature.

The Board of Directors have introduced a large number of measures to particularly minimize the costs and expenses. Among others, the Group conducted negotiations with the aircraft lessors to reduce the costs of lease and to postpone the lease instalments. In addition, the Group reduced the costs of wages and other staff costs, it availed of the partial unemployment and reduced the working hours of the pilots. It was also engaged in negotiations with the financing banks and discussed the potential alternatives of debt restructuring – e.g. conclusion of the so-called standstill agreement.

The Group remains also being actively and intensively engaged in negotiations with the Boeing company and demands proper compensation and indemnification of the damages caused by the grounding of all Boeing 737-8 MAX aircrafts since March 2019. In response to this situation, the Company recognised an asset under estimated receivables (refer to Notes 6 and 19), the amount of which, however, is still subject to further negotiations and so is the manner and the period when they are to be cleared. So far, the Group has not received a reasonable offer of compensation that would be both economically and legally acceptable. Therefore, on 3 August 2020 the complaint against the Boeing Company was filed in Illinois state court.

In order to flexibly and consistently manage the liquidity and collect data for negotiations regarding measures with all involved business and financing partners, the Group management prepared a comprehensive consolidated financial plan for the period ending at the end of 2021 at the level of the consolidated entities comprising the entities of the Smartwings Group that provide the air transport services and share the aircraft fleet and human, financial and other resources. The financial plan has been prepared to account for the higher rate of uncertainty about the development of the passenger air transport industry and to reflect the current state of knowledge about the economic situation. It assumed that the flights would be resumed again and the demand for air transport services would gradually rise (industry consensus expects that the full recovery would take place at the earliest in 2023).

The financial plan used updated estimates anticipating that an agreement will be reached with the financing banks to maintain the level of credit financing similar to the current situation and to keep valid the currently existing contracts made with the aircraft lessors implementing postponements and other modifications of the payments of lease instalments over the sufficient period of time that will allow the Group to generate the funds required to settle any and all payments that have been put on hold and would become due in the meantime.

A number of versions of the financial plan have been prepared and discussed with the inter-departmental experts' committee that was appointed at the decision made by the vice-chairman of the Government of the Czech Republic. The financial model has been approved by all the members of this committee and by all the Company's shareholders at that time.

As per the financial plan prepared at the consolidated level, the Group is facing the risk of not having the sufficient amount of funds in the near future unless the Group manages to generate and obtain the sufficient amount of funds from the shareholders, the Government of the Czech Republic or any other funds that are necessary to overcome the current crisis situation.

Throughout the process the Group management have been cooperating closely with finance providers and other stakeholders. In this context, the Group also mandated an international advisor EY, which has extensive experience in the field of restructuring and finance raising as well as the necessary aviation industry expertise. As a result, an independent business review document ("IBR") was completed and confidentially presented to the relevant involved parties as a basic tool for further complex negotiations and finding potential alternatives of solution.

Due to different business models of Smartwings and CSA, different recovery paths have been identified for each company:



- As Smartwings operates primarily B2B charter flights, the recovery is expected to be faster compared to CSA as customers are expected to start to go for the vacation as soon as the situation allows for it;
- Further, as Smartwings serves majority of Czech tour operators, it managed to sign contracts for 2021 season;
- CSA is expected to recover slower mainly due to decrease of business passengers;
- Further, CSA operates scheduled flights where higher competition is expected (e.g. flights to most popular European cities).

Due to the nature of CSA's clients, the COVID-19 pandemic has a major impact on the business and will be harder to recover in comparison to B2B business operated by Smartwings.

The financial plan and the IBR concluded that both Smartwings and CSA do not have sufficient cash generation capacity to cover all payables and financial obligations unless they receive additional external financing or the payables are being adjusted and/or deferred. Certain restructuring measures should be adopted to solve this situation and additional new financing is also required to enable Smartwings to assure going concern and operate and survive until the COVID-19 pandemic situation improves.

Given the current air traffic industry problems, Smartwings and CSA low performance and inability to generate sufficient cash flow to cover all its cash outflows and underlying uncertainty about the future development of COVID-19 pandemic, it is highly unlikely that Smartwings and CSA would be able to secure new additional debt financing - both bank lenders or the debt capital markets would not be prepared to provide additional liquidity under standard conditions and without third party support in a form of the guarantee, collateral or similar.

On 26th August 2020 the members of Smartwings Group including Smartwings and CSA filed a request to the Municipal Court in Prague to declare an extraordinary moratorium under the so-called Lex COVID legislation in order to provide protection to both Smartwings and CSA at a time when their revenues have reduced significantly.

The Municipal Court in Prague declared an extraordinary moratorium in respect of Smartwings and CSA and its assets on 27th August 2020 and, subsequently, extended its term by another 3 months on 26th November 2020 (the "Extraordinary Moratorium"). Smartwings and CSA have been using the Extraordinary Moratorium to prepare and implement out-of-court restructuring and negotiate with its creditors, shareholders and other stakeholders terms and conditions of the out-of-court restructuring.

As a result of the negotiations, an Indicative Term Sheet („ITS“) has been compiled. The ITS is discussed and prepared in order to provide financial resources to specifically defined group of entities consisting of Smartwings, a.s. and any entities over which Smartwings, a.s. has direct or indirect control excluding CSA. As at the date of preparation of these financial statements, the ITS represents the document for discussion purposes only and does not constitute a commitment or an offer to commit to any transaction, financing or investment or to arrange the same. The issuance of any final commitment by any involved party is subject to, inter alia, agreement of the final structure by all parties, internal credit approvals, satisfactory completion of due diligence, execution and delivery of acceptable legal documentation and receipt of acceptable legal opinions from legal counsels. The ITS is further subject to, in the sole opinion of lenders, no material adverse change in the international / local capital or loan markets, the political or economic situation or in the legal

and financial condition of the Smartwings Group or any of their shareholders, affiliates or associates prior to signing of a financing contract.

The most crucial required and defined conditions to allow for Smartwings to continue to operate as a going concern are as follows:

- Utilization of the existing support schemes available to companies impacted by COVID-19, specifically COVID Plus scheme under EGAP - the COVID Plus financing scheme requires that the financing is provided by the financial institutions, which have the contract with the guarantee providing agency ;
- Banks providing new debt financing, when utilizing the COVID Plus guarantee and additional collateral as available and required;
- Cooperation of the majority of lessors (including MAX aircraft lessors) in respect of the lease payment restructuring for the period until the financial recovery. The financial restructuring assumes extension of the lease term and decrease of fixed rent payments across the lessor group;
- Agreement with the Theodore (and with AFIC and its insurers) on the adjustment of financing parameters by the extensions of the loan financing maturity and decrease of the loan amortization for the period until Smartwings financial recovery;
- Current shareholders' equity injections/subordinated loan provided to Smartwings, adjustment of the subordinated loan from shareholders terms (to assure its juniority nature is being kept under the new terms agreed with other financing parties);
- Continued cooperation with the existing main maintenance, repair and operating supply provider Luthansa Technics and agreement on the settlement schedule related to the overdue payables;
- The cooperation of other stakeholders including Smartwings workforce, air traffic regulatory bodies, business and other partners.

Considering current circumstances and state of negotiations regarding the ITS, the management of the Smartwings Group still believe, that all the required and defined conditions precedent can be met so that Smartwings will be provided with the discussed financial resources , which together with the fulfillment of other agreements on support by other key creditors and suppliers (especially lessors and aircraft maintenance and service providers) will enable Smartwings to continue to operate as a going concern.

This assessment is regardless of potential insolvency of CSA. As mentioned above, CSA was expressively excluded from the ITS. Further additional financial resources with additional government support are needed to ensure the going concern of CSA which became the subject of separate negotiations for the above mentioned reasons of its different financial position and business model. CSA has significant overdue liabilities, the enforceability of which has been suspended over the period of duration of the extraordinary moratorium. COVID Plus scheme cannot be used because CSA has no bank financing and entry of a newly so far uninvolved bank is highly unlikely. According to the current state of affairs and negotiations, there is no document on the basis of which it would be possible to specifically identify the promise of additional financing made available for CSA after the end of the moratorium. As a result, the Group management considers the risk of insolvency of CSA very high once moratorium is lifted. Even so, the Group management continues in its efforts to find a way to finance CSA's ongoing activities.

#### **2.4. Use of estimates - critical judgements, key sources of estimation uncertainty**

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the presented amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Management of the Group believes that the estimates and assumptions used will not significantly differ from the actual results and outcomes in the following reporting periods.

The estimates are examined on an ongoing bases and are settled as soon as all the relevant information and documents are available, whereas the differences are accounted for in a current accounting period.

##### **► Compensation and indemnification from the Boeing company of the damages caused by the grounding of all Boeing 737-8 MAX aircrafts since March 2019**

In December 2010, Airbus surprised the industry when it announced the A320neo, which offered significantly greater fuel efficiency than the previous generation of A320 aircraft or the 737NG.<sup>1</sup> The A320neo did this by incorporating a new generation of engines that were larger, more powerful, and more fuel efficient. In February 2011, Boeing announced that it would probably replace the 45-year-old 737 design with an entirely new narrow-body twinjet aircraft to compete with the A320neo<sup>2</sup>. Boeing's 737 replacement was likely planned to be a "fly-by-wire" aircraft that replaced older-style manual and conventional flight controls—such as those in the 737—with a modern computer-controlled system<sup>3</sup>. This would make the 737 replacement more competitive with the A320, a much newer design that already had fly-by-wire controls. Boeing's CEO estimated that the new aircraft would probably not be available until approximately 2020.<sup>4</sup>

After American Airlines' announcement, Boeing announced that it would scrap its project to replace the 737, and instead would do one more upgrade to the venerable 737 that would incorporate the new generation of efficient engines, but would make few other changes. Boeing decided to call this aircraft the "737 MAX".<sup>5</sup> Boeing also made the decision to certify the MAX via an amendment to the original 737 Type Certificate from the 1960s rather than

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<sup>1</sup> Airbus Press Release, Dec. 1, 2010, "Airbus offers new fuel saving engine options for A320 Family." (available at <https://www.airbus.com/newsroom/press-releases/en/2010/12/airbus-offers-new-fuel-saving-engine-options-for-a320-family.html>) (accessed Feb. 11, 2020).

<sup>2</sup> See Flight Global, "Boeing boss green-lights all-new next generation narrowbody," February 10, 2011 (available at <https://www.flightglobal.com/news/articles/boeing-boss-green-lights-all-new-next-generation-nar-353056/>) (accessed Feb. 11, 2020).

<sup>3</sup> See Flight Global, "Boeing firms up 737 replacement studies by appointing team," March 3, 2006 (available at <https://www.flightglobal.com/news/articles/boeing-firms-up-737-replacement-studies-by-appointing-205223/>) (accessed Feb. 11, 2020).

<sup>4</sup> Flight Global, "Boeing boss green-lights all-new next generation narrowbody," February 10, 2011 (available at <https://www.flightglobal.com/news/articles/boeing-boss-green-lights-all-new-next-generation-nar-353056/>) (accessed Feb. 11, 2020).

<sup>5</sup> Boeing Press Release, Aug. 30, 2011 "Boeing Launches 737 New Engine Family with Commitments for 496 Airplanes from Five Airlines" (available at <https://boeing.mediaroom.com/2011-08-30-Boeing-Launches-737-New-Engine-Family-with-Commitments-for-496-Airplanes-from-Five-Airlines>) (accessed Feb. 11, 2020).

a new Type Certificate. This would allow Boeing to start selling and delivering MAX aircraft more quickly, thereby maintaining the higher profits associated with a mature aircraft design. This decision also made it easier for Boeing to avoid complying with the newest safety regulations.

Boeing failed to follow its own procedures and industry accepted safety standards by failing to conduct a full safety evaluation of MCAS failure modes. This allowed MCAS to slip through the certification process without any regulatory challenge to its built-in fatal flaw. Boeing also made material nondisclosures to MAX pilots and customers, including Plaintiffs, related to MCAS. In order to avoid a requirement to provide supplementary training to pilots on how to properly use MCAS, Boeing concealed MCAS's very existence from customers. It justified this nondisclosure to regulators by representing that an existing emergency procedure designed to deal with an unrelated failure addressed any issues related to the introduction of the MCAS.

The Group is actively and intensively engaged in negotiations with the Boeing company and demands proper compensation and indemnification of the damages caused by the grounding of all Boeing 737-8 MAX aircrafts since March 2019. In response to this situation, the Group recognised an asset under estimated receivables (see also Notes 6 and 19);

So far, the Group has not received a reasonable offer of compensation that would be both economically and legally acceptable. Therefore, on 3 August 2020 the Complaint against the Boeing Company was filed in Illinois state court.

➤ **Further, the following are the key assumptions and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:**

- provisions for repair/overhaul and maintenance – note 4.20 and 21
- provision for vacation – note 21
- useful life and residual values of non-current assets (aircraft, rotables) – note 4.11
- determination of an appropriate discount rate to calculate the present value of long-term financial assets and liabilities, provisions and right-of-use assets and lease liabilities – note 19 and 24

### **3 BASIS OF CONSOLIDATION**

#### **3.1. Controlled companies (subsidiaries)**

The consolidated financial statements comprise the financial statements of Smartwings, a.s. and entities controlled by Smartwings, a.s. (its subsidiaries) – the subsidiaries included in consolidation are described in note 1. Smartwings controls an entity when the group is exposed to, or has right to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Several of the subsidiaries prepare their financial statements in a currency other than Czech crown. The assets and liabilities of these subsidiaries are translated to CZK at the balance-sheet date exchange rate. The income and expenses of these subsidiaries are translated to CZK at the average exchange rate for the period. Foreign currency differences resulting are recognised directly in equity in the foreign currency translation reserve.

#### **3.2. Associated companies (At equity investments)**

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of another entity.

The consolidated financial statements include the group's share of the profit or loss and other comprehensive income of at equity investments using the equity method and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases.

When the group's share of losses exceeds its interest in an at equity investment, the group's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee.

The Group has the interest in an associated company Alpha Flight, a.s.

#### **3.3. Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with at equity investments are eliminated only to the extent of the group's interest in that entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 4 SIGNIFICANT ACCOUNTING POLICIES

### **4.1. Recognition of revenues and expenses**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar deductions.

Revenue relates primarily to transportation services provided. Flight revenue is recognized in the period to which they relate, i.e. the period in which the corresponding flight has been flown or service has been provided (e.g. ACMI rental). Expenses are recognised in the period in which they are incurred, which generally corresponds to the time at which the income is recognised.

Revenues from sales of services include revenues related to sales of charter flights (irregular air transport), revenues from ticket sales for regular flights (scheduled flights), revenues from leases of aircraft with a crew incl. maintenance and insurance (wet leasing, ACMI), revenues from sale of business jet flights and other revenues.

One subsidiary of the Group offers a frequent flyer program (České aerolinie).

### **4.2. Deferred income**

The Group records amounts collected from the sale of air tickets or from prepayments for charter flights, which have not been provided at the balance sheet date, as deferred income.

### **4.3. Segment reporting**

As either debt or equity instruments of Smartwings are not publicly traded, the Group does not apply IFRS 8.

### **4.4. Foreign currencies**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Transactions in currencies other than the currency of the primary economic environment of the entity (foreign currencies) are recognised at the rates of exchange at the dates of the transactions or at the fixed rate valid for a monthly period. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates at that date.

Exchange differences are recognised in profit or loss in the period in which they arise. All exchange rate differences are classified as part of financial cost and/or financial income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Czech crowns using exchange rates at the

end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity in the foreign currency translation reserve.

#### **4.5. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

#### **4.6. Retirement benefit costs**

Contributions are made to the government's health and retirement benefit and unemployment schemes at the statutory rates based on gross salary payments. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

Furthermore, the Group realises for its employees defined contribution schemes administered by commercial pension funds. The contributions to these schemes are charged to costs in the period in which they are incurred.

#### **4.7. Government grants**

The Group is not the recipient of any subsidies or any support from public sources.

#### **4.8. CO2 Emissions certificates**

CO2 Emissions allowances are recognised as intangible assets. Allowances, both those purchased and allocated free of charge, are measured at cost and not amortised.

Any changes are given by the purchase of emission allowances, by free allocation of CO2 emissions allowances and their disposal. The Group is required to have these intangible assets under Directive 2008/101 EC of the European Parliament and of the Council of 19 November 2008 under which, on 1 January 2012, the civil aviation sector was brought within the existing EU ETS. Act No. 383/2012 transposed this Directive into the Czech legislation.

The EU ETS also applies to all operators of aircraft parked at or from airports in any Members States of the European Union (plus Iceland, Lichtenstein and Norway). The Group and its subsidiaries offering services in the area of air transport are also deemed to be the aircraft operator.

Every year, each operator must determine and report the volume of its CO<sub>2</sub> emissions produced in the given year.

CO<sub>2</sub> emissions allowances that are consumed are recorded as per the emissions actually produced. An estimated payable for the obligation to submit CO<sub>2</sub> emissions allowances to the relevant authorities is recognised for an amount equivalent to the carrying amount of the capitalised CO<sub>2</sub> allowances. If the obligation is not fully covered by available allowances, the out-standing amount of the estimated payable is measured using the market price of the emissions allowances as of the reporting date.

#### **4.9. Taxation**

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

##### **➤ Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current income tax due includes tax calculated from a tax base using the tax rate valid for the year 2019 according to Act no. 586/1992 Coll., Section 21, paragraph 1, which is 19% (2018: 19%).

##### **➤ Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.



➤ **Current and deferred tax for the period**

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (in equity), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

**4.10. Intangible assets**

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets include assets with an estimated useful life longer than one year and an acquisition cost exceeding CZK 2 thousand on an individual basis. Intangible assets in an acquisition cost of up to CZK 2 thousand are expensed upon acquisition.

The Group does not recognise any internally produced intangible fixed assets or any intangible assets acquired in a business combination.

Amortisation of intangible assets is recorded according the straight-line basis over their estimated useful lives as follows:

	<u>Method</u>	<u>Years</u>
Software	Straight line	3 years
Other intangible assets at cost TCZK 2 to 60	Straight line	3 years

**4.11. Property, plant and equipment („PP&E“)**

Acquired PP&E are stated at acquisition cost less accumulated depreciation and any recognised impairment losses. The acquisition cost includes the asset's purchase price and costs attributable to its acquisition. The Group does not record any internally produced PP&E.

Assets held under finance leases, are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation of PP&E is recorded on a straight-line basis over their estimated useful lives as follows:

	<b>Method</b>	<b>Years</b>
Machines, tools, computer and other equipments	Straight line	4 – 8 years
Aircraft	Straight line	20 – 22 years
Rotable parts	Straight line	20 years
Cars	Straight line	4 years
Furniture and fixtures	Straight line	6 years
Other tangible assets at cost TCZK 2 to 40	Straight line	3 years

The Group operates aircraft, particularly Boeing 737-900, Boeing 737-800 and Boeing 737-700, Boeing 737-8MAX, Cessna 680 Citation Sovereign, Airbus A319, Airbus A330, ATR 72 and ATR 42 under operating lease agreements. One Airbus A319 in the ownership of the Group and one Boeing 737-8 MAX is under finance lease agreement. In the connection, the Group owns aircraft parts and equipment, which is classified as PP&E. Judgement is required in estimating their residual values and useful lives. Uncertainty exists in both the useful lives and the residual values.

The cost of major inspections and overhauls performed on leased aircraft are not capitalised and depreciated but accrued through the provision for checks further described in note 21.

#### **4.12. Impairment**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The Group does not recognise any intangible assets with indefinite useful lives or goodwill. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

As the most significant asset of the Group generating cash inflows is the fleet, the Group is considered to be one cash generating unit.

Judgement is required in determining the cash generating unit, as well as in calculating value in use. All estimations are made based on planned business and operational development.

#### **4.13. Right-of-use/Leases**

The Group leases a number of aircraft under operating leases which require the Group to maintain the leased aircraft.

The Group decided to apply the standard IFRS 16 from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard.

Leases of aircraft are classified as right-of-use assets as per IFRS 16. Right-of-use assets are initially recognised as assets of the Group at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a lease liability.

The right-of-use assets are depreciated on a straight-line basis over the lease term. The related lease liability is shown under Interest-bearing liabilities in the amount of discounted minimum lease payments less payments made. At lease classification the group also considered the materiality aspect and decided not to account for short-term leases and leases in which the leased assets are of low value. The Group uses practical expedient in accordance with IFRS 16 and recognizes these leases in profit or loss at the payment date in line with this option.

The overhaul of aircraft under operating lease is recognised as an expense in the period in which it is incurred. The periodicity of overhauls of aircrafts is considered in the form of provision for repair/overhaul and maintenance (refer to Note 21).

Repair and overhaul costs are not included in the lease rentals and the Group makes regular payments (so called supplement rents) for future maintenance expenses to the lessor. These are based on the estimated costs and are calculated on agreed pattern (e.g. flight hours or cycles). When the maintenance is made, the Group is reimbursed for the payments already provided.

#### **4.14. Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost, calculated applying an arithmetic average method, includes any direct and indirect costs attributable to acquisition of inventories (particularly customs fees, transportation costs and packaging expenses). Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories of materials in the Group can be divided as follows:

- spares, materials and operating supplies (such as chemicals, cleaning products etc),
- packaging materials, such as crates, boxes, bags, and racks, only if they do not represent fixed assets,
- movable items with a useful life up to 1 year regardless of the amount of the purchase cost, such as carpets and upholstery.

Less important inventory item is merchandise, which include aircraft models mainly.

The Group also stores materials that it does not own (mainly spare parts). This material is stored separately from the material owned by the Group.

#### **4.15. Cash and cash equivalents**

Cash and cash equivalents are valued at nominal value at the balance sheet. Cash and cash equivalents for the purpose of cash flow reporting include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### **4.16. Financial instruments**

Financial assets are classified in accordance with IFRS 9 as at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.

The category at amortised cost consists of financial assets that are debt instruments and are intended to be held to maturity on the basis of the company's business model. These instruments have fixed payment terms and meet the criteria for cash flow characteristics, i.e. contractual payments of principal and interest. This item particularly includes loans and receivables, cash in hand and bank balances. They are classified as non-current or current assets according to their remaining maturity.

The category at fair value through profit or loss comprises debt instruments for which the business model is neither to hold nor to sell them, or which do not pass the cash flow characteristics test. This is generally not the case for the Smartwings Group.

Derivatives are classified as at fair value through profit or loss if they do not meet the criteria for hedge accounting. Derivative financial instruments being an effective part of a hedging relationship are classified as at fair value through other comprehensive income.

Debt instruments are classified as at fair value through other comprehensive income when the business model is to both hold and sell these instruments and they pass the cash flow characteristics test. However, this is not the case for the Smartwings Group.

Financial instruments are recognised on the settlement date, i.e. on the date that they are created or transferred. Financial assets are capitalised at fair value plus transaction costs. Long-term low or noninterest-bearing loans are recognised at net present value using the effective interest method. Subsequent measurement of the financial instrument depends on the classification, either at amortised cost using the effective interest method, or at fair value, through profit or loss or in equity without effect on profit and loss.

Receivables denominated in foreign currencies are measured at the balance sheet date rate. If there are doubts as to the recoverability of receivables, then impairment losses are recognised and these receivables are recognised at the lower recoverable amount. Subsequent reversals (write-backs) are recognised in profit or loss. IFRS 9 requires that when a receivable is recognised for the first time, an expected loss is provided for that reflects the credit risk of the receivable before a default event occurs. An external credit risk exists for the Smartwings Group, especially in its portfolio of trade receivables, for which an expected credit loss is recognised.

Further, in relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Debt and equity instruments are classified as either financial liabilities or as equity based on the content of the contractual arrangements and the definitions of the financial liability and an equity instrument. All financial liabilities are subsequently measured at amortized cost using the effective interest rate method, being generally the case of the Smartwings Group, or at fair value through profit or loss.

#### **4.17. Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to oil market price development risk and foreign exchange rate risk, including various types of foreign exchange forward and swap contracts and commodity derivatives. Further details of derivative financial instruments are disclosed in note 12.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period, on the basis of published market prices. If there is no quoted price on an active market, other appropriate valuation methods are applied. Appropriate valuation methods take all factors into account that independent, knowledgeable market participants would consider in arriving at a price and that constitute recognised, established economic models for calculating the price of financial instruments. The resulting gain or loss is recognized immediately in profit or loss unless the derivative is designated and effective as hedging instrument.

In accordance with its internal guidelines, the Smartwings Group uses some derivative financial instruments to hedge exchange rate risks and to hedge fuel price risks. This is based on the hedging policy defined by the Executive Board and monitored by a committee. Generally, the Group decides not to apply hedge accounting for these derivatives, although they are designed to cover business risks and presents the changes in the fair value of derivatives as a part of financial income and/or expense.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Gains and losses arising from fair value changes of financial assets at fair value through profit or loss are recognised in the profit for the period and are presented as financial expense/revenue.

In the 2018 period the Group used the possibility to apply hedge accounting for derivatives for those hedging the fuel prices risk on fuel market. Gains and losses arising from fair value changes are recognized in the equity. All the new derivatives the Group entered in 2019 were classified as financial instruments at fair value through profit or loss.

#### **4.18. Bank borrowings**

Interest-bearing bank loans and overdrafts are recognised initially at fair value, net of transaction costs at initial recognition. Subsequent measurement is at amortised cost by applying the effective interest rate method.

The short-term portion of bank loans is classified as current liabilities.

#### **4.19. Trade and other payables**

As all trade payables are short term, they are stated at their nominal value, being an approximation of amortised cost.

#### **4.20. Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The provision for repairs/overhauls and maintenance is recognised to express the status of the Group's obligation to perform regular checks and overhauls (refer to note 21). The provision is valued at management's best estimation based on the historical experience.

Judgement is required in determining the amount of provision. All estimations are made based on planned extent of overhaul, expected prices and the historical experience.

In addition, the Group recognises provisions for following items:

- unused vacation
- provision for regular checks and overhauls
- customer loyalty program

#### **4.21. Related parties**

Related parties as defined by IAS 24 are natural persons and entities that Smartwings, a.s. has the ability to control or on which it can exercise significant influence, or natural persons and entities that have the ability to control or exercise significant influence on Smartwings, a.s. or that are influenced by another related party of Smartwings, a.s.

All transactions with unconsolidated subsidiaries, joint ventures, associates and other related parties are conducted on an arm's length basis.

#### **4.22. Financial risk management**

The group is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and monitoring of the Group's risk management system and procedures. Risk management includes the review, assessment of new and existing risk on an ongoing basis.

##### **➤ Credit risk**

Credit risk relating to either single-seat tickets sales or group-seat tickets sales (e.g. sales to tour operators) is low as pre-payments or other kinds of security are required before flight is started.

For some payment relationships, depending upon the type and level of the particular payment, historical data or experience from the business relationship may be used to manage particular credit risk. Known risks are recognised through bad debt provisions.

Part of ticket sales is handled via agencies and the internet within the guidelines of IATA (International Air Transport Association). Claims and liabilities between the airlines mutually or between airlines and agencies are usually settled on a bilateral basis or via a clearing house of the IATA on a monthly basis.

Cash in banks, as well as derivative financial instruments, are held only at (with) banks with the highest credit ratings.

➤ **Liquidity**

Appropriate department monitors the development of available and projected cash inflows and outflows to ensure sufficient resources to meet its liabilities when due. The Group implemented its treasury management tool and follows the situation on a daily basis. Financing alternatives are continuously reviewed in order to arrange adequate and sufficient financial resources in time.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

➤ **Market risk**

Market risk is the risk of changes in market prices. The most significant resources of market risk for the Group are:

- Foreign exchange rates
- Jet fuel (commodity) prices
- Interest rates

The Group uses derivatives to limit foreign exchange rate and jet fuel prices risks. A detailed description of the Group's exposure to above stated risk is presented in the note 13.

**4.23. Overview of new IFRSs, their amendments and new IFRIC interpretations to IFRSs**

**New and amended standards adopted by the Group in 2019**

➤ IFRS 16 Leases – (effective for annual periods beginning on or after 1 January 2019)  
In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side on the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

Further the following standards and their amendments have become mandatory for financial year 2019:

- IFRIC 23: Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement



- Annual Improvements to IFRSs 2015-2017 Cycle (The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

The previous financial statements included a description of all the effective amendments. Application of the above mentioned amendments (except for IFRS 16) did not have a significant impact on Financial Statements of the Group.

### **New standards and interpretations not yet adopted**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group but which the Group has not early adopted. The earlier adoption of these standards and interpretations would not have a material impact on the financial statements of the Group as at 31 December 2019.

The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2019, in accordance with their effective dates. In 2019, the Group did not take the decision for early adoption on a voluntarily basis of amendments and interpretations to the standards.

Those new standards and amendments which may be relevant to the Group are set out below:

- *Conceptual Framework for Financial Reporting – (effective for annual periods beginning on or after 1 January 2020)*

In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework), replacing the previous version of the Conceptual Framework issued in 2010. The revised Conceptual Framework is effective immediately for the Board and the IFRS Interpretations Committee.

The revised Conceptual Framework has an effective date of 1 January 2020—with earlier application permitted—for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction. To assist companies with the transition, the Board issued a separate accompanying document Amendments to References to the Conceptual Framework in IFRS Standards. This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements.

Application of the Conceptual Framework is not expected to have a significant impact on Financial Statements of the Group.

- *Amendments to IFRS 3: Definition of a Business – (effective for annual periods beginning on or after 1 January 2020)*

Amendments to IFRS 3 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify the three elements, i.e. inputs, process and outputs in the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also, the amendments include an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is an asset acquisition rather than a

business combination. The test is met if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

Application of these amendments is not expected to have a significant impact on Financial Statements of the Group.

- *Amendments to IAS 1 and IAS 8: Definition Material – (effective for annual periods beginning on or after 1 January 2020)*

Amendments to IAS 1 and IAS 8 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Application of these amendments is not expected to have a significant impact on Financial Statements of the Group.

- *Amendments to IFRS 9, IAS 39 and IFRS 7 – (effective for annual periods beginning on or after 1 January 2020)*

Amendments to IFRS 9, IAS 39 and IFRS 7 were issued in September 2019 and are effective for annual periods beginning on or after 1 January 2020. Interest rate benchmarks such as interbank offer rates (IBORs) play an important role in global financial markets. Market developments have undermined the reliability of some existing benchmarks. In this context, the Financial Stability Board has published a report setting out recommendations to reform such benchmarks. Some jurisdictions have already made clear progress towards replacing existing benchmarks with alternative, nearly risk-free rates (RFR). This work has, in turn, led to uncertainty about the future of existing interest rate benchmarks, which may affect companies' financial reporting. The amendments address the pre-replacement issues – issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative RFR.

Application of these amendments is not expected to have a significant impact on Financial Statements of the Group.

#### **4.24. Significant changes in accounting policies compared to prior period**

Except for the impacts of new and amended standards described in the Note 4.23 (particularly of the IFRS 16 Leases), the accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

## 5 REVENUES – SALES FOR TRANSPORTATION SERVICES

An analysis of the group's revenue is as follows:

	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
Sales for charter services and related income <sup>6</sup>	10 089 126	11 605 900
Sales for scheduled flights and related income <sup>7</sup>	15 825 096	15 387 603
ACMI and other leases	2 174 666	1 624 363
<b>Total Sales for transportation services</b>	<b>28 088 888</b>	<b>28 617 866</b>

The share of the parent company Smartwings, a. s. in related income from transportation services was 63,13% in 2019, i. e. 17 733 144 tCZK. In 2018 this share was 62,55%, i. e. 17 899 980 tCZK.

The Group has a dominant position on the market of charter transportation of passengers in Central Europe. In the history of the Group so far, its share in the market has basically continued to grow. Its clients include multinational travel agencies, the most important travel agencies in the Czech Republic, Hungary, Poland and Slovakia etc. Charter flights generate a substantial portion of the Group 's revenues.

The Group generates sales from regular passenger transportation, which it carries out under the Smartwings and ČSA trademark. Regular flights are organized particularly between Prague and Western European capital cities. Other flights are organized for individual tourism to destinations in the Mediterranean.

The Group also generates a substantial portion of income from aircraft lease. The lease arrangements are provided as a comprehensive package of services, which includes aircraft, flight crews, i.e. pilots and flight attendants, as well as aircraft maintenance and insurance. These services represent ACMI lease – wet lease. Lease arrangements are short-term or mid-term. The Group has participated in lease arrangements on most of continents.

The Group conducted dry lease arrangements too, which means lease of aircraft without their crews.

The Group's income originates also from operation of air taxis (Cessna model 680 Citation Sovereign jets).

<sup>6</sup> Sales for charter services also include sales from Business Jet flights (Business Jets Aero cabs, i. e. Aerotaxi)

<sup>7</sup> Sales for scheduled flights also include revenue from the sale of air tickets for code-share flights

## 6 OTHER OPERATING REVENUE

	<b>2019</b> <b>tCZK</b>	<b>2018</b> <b>tCZK</b>
Other operating revenue	1 834 388	1 247 110

These revenues include, in particular, the estimated receivables of CZK 1,270,503 thousand arising from the compensation and indemnification on the grounding of Boeing-MAX aircrafts (for further detail please see Note 2.4).

The other operating revenue particularly comprise insurance indemnity, free of charge allocated emission allowances and revenue from the sale of emission allowances, revenue from contractual penalties and late-payment interest, inventory differences and various income from other activities, such as commission, advertising, maintenance of aircraft for third parties, sales of goods etc.

## 7 OTHER OPERATING EXPENSES

	<b>2019</b> <b>tCZK</b>	<b>2018</b> <b>tCZK</b>
Catering	331 557	366 448
Crew lease	136 480	82 019
Employee cost	107 680	111 833
Building and interior expenses	58 291	55 450
Communication expenses	649 636	546 254
Advertising cost	92 385	85 408
Office supplies	18 382	20 068
Consultancy expenses	357 742	309 596
Bad debt reserve / cost	23 909	69 322
Insurance and claims cost	193 078	178 788
Emission allowances expenses	95 454	86 619
Sundry expenses	643 364	554 022
<b>Total Other operating expenses</b>	<b>2 707 958</b>	<b>2 465 827</b>

Sundry expenses particularly include compensation of delayed or cancelled flights, IT costs, storage costs and others.

## 8 PERSONNEL EXPENSES AND STAFF NUMBERS

	<b>2019</b> <b>tCZK</b>	<b>2018</b> <b>tCZK</b>
Salaries	2 013 183	1 891 982
Remunerations of statutory bodies	10 227	11 523
Statutory health insurance and social contributions	693 749	616 280
Changes in provision for personnel expenses	-27 784	12 979
Salary related expenses (incl. "per diem", training etc.)	548 259	527 243
<b>Total Personnel expenses</b>	<b>3 237 634</b>	<b>3 060 007</b>
Average number of employees	2 625	2 438
Average personnel expenses per employee	<b>1 233</b>	<b>1 255</b>

The average number of employees during the year can be summarized as follows:

	<b>Average</b> <b>2019</b>	<b>Average</b> <b>2018</b>
Flight and cabin crew	1 538	1 619
Maintenance department	303	228
Sales, operation and administration	784	591
<b>Total average number of employees</b>	<b>2 625</b>	<b>2 438</b>

Remuneration of directors and other members of key management personnel during the year was as follows:

	<b>2019</b> <b>tCZK</b>	<b>2018</b> <b>tCZK</b>
Basic remuneration	82 768	70 451
<b>Total remuneration of directors and key management</b>	<b>82 768</b>	<b>70 451</b>

Remuneration of directors and other members of key management personnel include the remuneration for the management (Director General, Assistant Director, Executive Director, Operations Director, HR Manager, spokesperson, Compliance Monitoring Manager, Financial Manager, Smartwings (scheduled flight) Manager, IT Manager, managers in charge of subsidiaries).

## 9 NET INTEREST EXPENSE

	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
Interests charged	90 388	59 158
Interests capitalised	-27 695	-23 824
Interest expense - charge for discount (net of reversal of discount from previous years)	16 579	12 806
Interest charged IFRS 16	405 555	0
Interests received	-6 175	-12 345
<b>Total Net Interest expense</b>	<b>478 652</b>	<b>35 795</b>

## 10 NET OTHER FINANCIAL EXPENSE

	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
Currency fluctuation, net (+loss, -gain)	-195 066	-85 105
Gain/loss from derivatives, net (+loss, -gain)	-42 765	-31 918
Other	-1 572	0
<b>Total Other financial expense</b>	<b>-239 403</b>	<b>-117 023</b>

Further detail on the Group's gains/losses from derivatives is disclosed in note 12.

## 11 INCOME TAX EXPENSES AND DEFERRED INCOME TAXES

<b>Income tax expenses and deferred taxes</b>	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
Current income tax expense	16 582	21 356
Deferred income tax	95 712	-100 168
<b>Total Income tax expense</b>	<b>112 294</b>	<b>-78 812</b>

The income tax expense includes taxes from Group's operations in the Czech Republic, Slovak Republic, Poland and Hungary.

Statutory income tax rate in the Czech Republic for the 2019 period was 19% (2018: 19%).

As at 31 December 2019, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% (2018: 19 %), that corresponds with the statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected. All subsidiaries of the Group apply the same tax rate = 19% on their tax base.

Reconciliation of expected to effective income tax expense is as follows:

<b>Reconciliation of expected to effective income tax expenses</b>	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
Result before income taxes	129 998	388 681
<b>Expected income tax expense</b>	<b>24 700</b>	<b>73 849</b>
Tax losses utilised		
Tax losses expired	62 818	0
Deferred tax of České aerolinie - first year posting	0	-105 483
Permanent differences	24 776	-47 178
Effect of tax rate changes	0	0
Prior-period current tax expense	0	0
Other	0	0
<b>Effective income tax expense</b>	<b>112 294</b>	<b>-78 812</b>
<b>Effective income tax rate</b>	<b>86%</b>	<b>-20%</b>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.

The deferred tax asset and liabilities are attributable to the following assets and liabilities:

<b>Deferred tax assets and liabilities</b>	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
<b>Deferred tax liabilities:</b>		
Assets under finance lease	0	-2 754
Elimination of FX revaluation of Prepayments for MAX	-12 426	-13 901
Other	-29 429	-15 125
<b>Total Deferred tax liabilities</b>	<b>-41 855</b>	<b>-31 781</b>

**Deferred tax assets:**

Difference between tax base and carrying amount of non-current assets	49 788	33 983
Tax loss carryforward	2 578	131 997
Rights of use	39 108	0
Discounted Deposits	31 153	27 546
Provisions	49 785	30 272
Depreciation of reclassified spare parts to fixed assets	17 909	15 741
FFP	0	32 182
ČSA acquisition - def. tax from revaluation	2 461	4 275
Other	15 918	19 495
<b>Deferred tax assets</b>	<b>208 700</b>	<b>295 490</b>
Deferred tax, net at the end of period	166 845	263 709
Deferred tax, net at the beginning of period	263 710	165 565
Adjustment of prior year deferred tax	-1 143	-1 944
<i>Change in deferred tax position</i>	<b>-95 722</b>	<b>100 088</b>
Effect of exchange rate fluctuations on taxes	10	80
<b>Deferred income tax expense (benefit)</b>	<b>-95 712</b>	<b>100 168</b>

## 12 DERIVATIVES

Fair values of derivatives at year-end are as follows:

	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
<b>Currency risk:</b>		
Currency Forwards and Options	5 266	63 121
<b>Commodity risk:</b>		
Commodity Swaps and Options	4 936	-149 921
<b>Total Derivatives - Period-end Fair Values</b>	<b>10 202</b>	<b>-86 800</b>

All derivatives recognised in the Group's financial statements are current and classified as held for trading.



The net gains and losses on derivatives during the period are as follows:

	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
<b>- thereof recognized in P&amp;L</b>		
Currency Forwards and Options	-47 399	81 655
Commodity Swaps and Options	90 164	-49 737
	<b>42 765</b>	<b>31 918</b>
<b>- thereof recognized equity (hedge)</b>		
Currency Forwards and Options	43 526	-21 525
Commodity Swaps and Options	3 072	-106 236
	<b>46 598</b>	<b>-127 761</b>

**Net impact of realized/settled derivatives within the period:  
(recognized under the position fuel cost)**

	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
Commodity Swaps and Options	-8 506	139 803
	<b>-8 506</b>	<b>139 803</b>

## 13 FINANCIAL RISK MANAGEMENT

### ➤ Credit risk

The Group is facing risks relating to a potential insolvency of Group's customers. These risks are secured by acquiring advance payments or deposits prior to the provision of transport service or by receipt of bank guarantees.

The Group is also facing risks relating to a potential insolvency of Group's suppliers. The Group is forced to pay advance payments linked with fuel, operating leases, wet leases, etc. These risks are reduced by issuing of bank guarantees, stand by letter of credit issued by Group's banks.

The carrying amount of financial assets represents the maximum credit risk exposure:

	<b>Carrying amounts 2019 tCZK</b>	<b>Carrying amounts 2018 tCZK</b>
Receivables and other financial assets	3 462 139	2 785 090
Security deposits	902 891	836 760
Positive market values of derivatives	10 202	0
Cash and cash equivalents	405 111	964 464
<b>Total financial assets</b>	<b>4 780 343</b>	<b>4 586 314</b>

The Group recognised impairment losses on receivables and other financial assets which can be summarised as follows:

	<b>2019 tCZK</b>	<b>2018 tCZK</b>
Receivables and other financial assets- carrying amount	3 521 570	2 863 571
Impairment	-59 431	-78 482
<b>Receivables and other financial assets, net</b>	<b>3 462 139</b>	<b>2 785 089</b>

The impairment is recognized predominantly for trade receivables.

### ➤ Currency risk

The Group has significant transactions in USD as well as smaller exposure in EUR. Risk relating to other currencies is assessed as insignificant. The Group enters into USD currency forwards and options in order to manage foreign currency risk that arises on operating transactions denominated in USD. The Groups minimizes the currency risks by natural hedging, too, i. e. a big portion of contracts is concluded in USD currency as the Group cooperates with clients seated in North America, Israel, and Poland.

From 2016 onward, charter flights are subject to an exchange rate clause.

The following significant exchange rates were applied during the year:

<b>Applied exchange rates</b>	<b>Average 2019</b>	<b>Period-end 2019</b>
USD	22,934	22,621
EUR	25,672	25,41
PLN	5,973	5,97
HUF	0,07895	0,07688

<b>Applied exchange rates</b>	<b>Average 2018</b>	<b>Year-end 2018</b>
USD	21,735	22,466
EUR	25,643	25,725
PLN	6,02	5,98
HUF	0,08045	0,0802

➤ **Interest rate risk**

**The interests linked with bank loans are on the floating base of PRIBOR respectively 3 LIBOR. Some of the lease payments are linked with LIBOR, but majority of the lease payments are agreed on the base of fixed interest rates.**

The interest rate risk exposure can be analysed via carrying amounts of interest-bearing instruments.

The Group's obligation to make regular lease payments, which are generally in USD and linked to variable interest rates, expose the Group to variability in interest payments as well as to foreign currency risk. The Group did not enter into any financial instruments that would hedge this interest rate and related foreign currency risk in the periods 2019 and 2018.

### ➤ Fuel price risk

For the sake of unforeseeable increase of fuel price, the Group agrees on fuel surcharges with its business partners to mitigate the risk. By the end of 2019 the Group have concluded commodity SWAPs to secure the fuel price in the volume of a bottom half of ten thousands tons of fuel.

Fuel price risk is linked with charter flights, scheduled flights and Business Jets Aero Cabs flights. The construction of the fuel prices is linked with development of the market prices, i.e. FOB Rotterdam High or CIF NEW High or FOB MED Italy High on the monthly bases. The other part of the price is fixed surcharges called differential. This part is result of the tenders and negotiation with the suppliers.

Vývoj PLATTS		Platts used as Price Basis for Month: (*)											
2019		2019											
Platts	Units	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FOB Rotterdam High	USC/USG USD/MT	177,66 588,04	180,19 596,44	190,26 629,75	193,44 640,30	199,48 660,29	200,72 664,39	184,35 610,21	191,99 635,48	182,84 605,21	193,30 639,82	189,16 626,13	187,55 620,77
CIF NWE High	USC/USG USD/MT	179,40 593,81	182,04 602,56	190,93 631,99	194,51 643,82	200,42 663,39	200,57 663,88	184,25 609,88	193,03 638,94	183,33 606,82	193,72 641,21	189,17 626,14	187,61 620,99
FOB MED Italy High	USC/USG USD/MT	172,44 570,79	175,50 580,89	184,95 612,20	188,42 623,67	193,90 641,81	194,96 645,32	178,96 592,36	187,27 619,87	179,22 593,23	189,64 627,71	183,31 606,76	179,42 593,89

In 2019 total consumption of the fuel of the group was 379.933 tons (2018: 412.522 tons). The main base for the calculation of fuel price is FOB Rotterdam High. The commodity swaps were concluded in Komerční banka, UniCredit Bank Czech Republic and Slovakia, a. s. and Československá obchodní banka, a. s. Deal rates of commodity swaps were in interval from 530 US\$ per ton to 760 US\$ per ton. As of 31 December 2019 the commodity swaps were concluded for 100.635 tons of jet fuel. For 11.500 tons of fuel the so called Zero cost collars were concluded (Buy & Sell Option).

## 14 INTANGIBLE ASSETS

<i>Cost or valuation</i>	Software		Other intangible assets		Intangible assets in progress		Total	
	tCZK	tCZK	tCZK	tCZK	tCZK	tCZK	tCZK	tCZK
<b>Balance at 1 January 2018</b>	<b>88 496</b>	<b>24 848</b>	<b>56</b>	<b>113 401</b>				
Additions	27 952	207 840	4 009	239 801				
Disposals or classified as held for sale	0	-102 297	0	-102 297				
Additions from CSA acquisition	43 329	43 220	767	87 317				
Transfer	699	0	-699	0				
<b>Balance at 31 December 2018</b>	<b>160 476</b>	<b>173 611</b>	<b>4 133</b>	<b>338 221</b>				
Additions	31 272	199 280	10 677	241 229				
Disposals	-649	-162 022	-16	-162 687				
Transfer	4 308	0	-3 967	341				
Effect of foreign currency exchange differences	0	-3	0	-3				
<b>Balance at 31 December 2019</b>	<b>195 408</b>	<b>210 866</b>	<b>10 827</b>	<b>417 101</b>				

**Accumulated depreciation and impairment**

	Software	Other intangible assets	Intangible assets in progress	Total
<b>Balance at 1 January 2018</b>	<b>57 585</b>	<b>2 861</b>	<b>0</b>	<b>60 446</b>
Eliminated on disposals of assets	0	4	0	4
Amortisation expense	35 827	1 171	0	36 999
<b>Balance at 31 December 2018</b>	<b>93 412</b>	<b>4 036</b>	<b>0</b>	<b>97 448</b>
Eliminated on disposals of assets	-768	88	0	-680
Amortisation expense	48 258	1 360	0	49 618
Effect of foreign currency exchange differences	0	-3	0	-3
<b>Balance at 31 December 2019</b>	<b>140 902</b>	<b>5 481</b>	<b>0</b>	<b>146 383</b>
<b>Net book value at 31 December 2018</b>	<b>67 064</b>	<b>169 575</b>	<b>4 133</b>	<b>240 773</b>
<b>Net book value at 31 December 2019</b>	<b>54 506</b>	<b>205 385</b>	<b>10 827</b>	<b>270 718</b>

Software includes the licences to Navision system, AIMS planning system, SQL Server, SW for 500 (Honeywell), Salsys store system, DMS system, Oracle and other operation and economic systems.

In 2019, the Company launched the new payment module in the financials software MS Dynamics NAV. This module was developed in 2018 and then it was launched in the first half of 2019. At the same time, in 2019, the MS Dynamics NAV system was analysed, developed and prepared for the implementation in all other entities in the Smartwings Group.

Other intangible assets represent the acquisition cost of trade mark SMARTWINGS and the relevant domain and the CO2 emission allowances EUA and EUAA. Any changes of the emission allowances are given by the purchase of emission allowances, by free allocation of emission allowances and their disposal. Further comments to CO2 emissions allowances are disclosed in note 4.8.

## 15 PROPERTY PLANT AND EQUIPMENT

	Buildings at cost		Aircrafts and other equipment		Tangible assets in progress		Prepayments on F/A acquisitions		Total
	TCZK		TCZK		TCZK		TCZK		
<b>Cost or valuation</b>									
<b>Balance at 1 January 2018</b>	<b>231 718</b>		<b>334 437</b>		<b>58 065</b>		<b>1 209 764</b>		<b>1 833 984</b>
Additions	52		986 447		28 645		542 926		1 558 070
Disposals	0		-54 143		-3 148		0		-57 292
Additions from CSA acquisition	18		558 692		32 332		485 133		1 076 175
Effect of foreign currency exchange differences	0		-11		0		-57 642		-57 653
<b>Balance at 31 December 2018</b>	<b>231 788</b>		<b>2 259 815</b>		<b>99 574</b>		<b>1 762 107</b>		<b>4 353 284</b>
Additions	959		19 650		76 601		167 059		264 269
Disposals	-9 126		-102 434		-19 749		0		-131 309
Effect of foreign currency exchange differences	-2		-195		0		57 947		57 750
Transfer	0		-1 362 299		-322		0		-1 362 621
<b>Balance at 31 December 2019</b>	<b>223 619</b>		<b>814 537</b>		<b>156 104</b>		<b>1 987 113</b>		<b>3 181 373</b>

	Buildings at cost	Aircrafts and aircraft related other equipment	Tangible assets in progress	Prepayments on F/A acquisitions	Total
	TCZK	TCZK	TCZK	TCZK	TCZK
<b><u>Accumulated depreciation and impairment</u></b>					
<b>Balance at 1 January 2018</b>	<b>88 836</b>	<b>127 367</b>	<b>0</b>	<b>0</b>	<b>216 202</b>
Eliminated on disposals of assets	0	-37 744	0	0	-37 744
Depreciation expense	9 887	94 894	0	0	104 781
Effect of foreign currency exchange differences	0	-8	0	0	-8
<b>Balance at 31 December 2018</b>	<b>98 722</b>	<b>184 509</b>	<b>0</b>	<b>0</b>	<b>283 232</b>
Eliminated on disposals of assets	-9 120	-94 583	0	0	-103 703
Depreciation expense	9 710	89 293	0	0	99 003
Effect of foreign currency exchange differences	0	-98	0	0	-98
Transfer	0	-5 678	0	0	-5 678
<b>Balance at 31 December 2019</b>	<b>98 312</b>	<b>173 443</b>	<b>0</b>	<b>0</b>	<b>283 756</b>
<b>Net book value at 31 December 2018</b>	<b>133 066</b>	<b>2 075 306</b>	<b>99 574</b>	<b>1 762 107</b>	<b>4 070 053</b>
<b>Net book value at 31 December 2019</b>	<b>125 307</b>	<b>641 094</b>	<b>156 104</b>	<b>1 987 113</b>	<b>2 908 618</b>



Aircraft and aircraft related and other equipment consist particularly of equipment of aircraft, rotatable parts, computer equipment, handling equipment, vehicles, etc.

Borrowing costs capitalised amounted to TCZK 64.426 as at 31.12.2019 and TCZK 36.731 as at 31.12.2018.

Buildings include administrative building of the Group where Smartwings, a.s. has its registered seat and construction works which have been made in the hangars leased from the Letiště Praha, a.s. (Prague airport).

In line with the Group's strategy to, inter alia, modernise its fleet of aircraft that aims mainly at purchases and operating lease of aircraft Boeing 737 – MAX, in December 2016 Smartwings signed a contract in respect of a supply of 5 aircraft, type Boeing 737 – MAX. In total, the Company has entered into contracts to purchase eight aircraft of this type; one of the airplanes was delivered in September 2018 – please refer below. As of 31 December 2019, advance payments of CZK 1,198,577 thousand were made in respect of these supplies.

The Group also paid advance payments for contract signed between České aerolinie and Airbus for delivery of 7 aircraft type Airbus A320 NEO to be delivered in 2020 to 2022. These advance payments amounted to TCZK 788,536 as at 31.12.2019. The contract is under review as at the date of issue of the financial statements because of coronavirus epidemic situation.

The lease contracts the Group entered into have been classified as Right-of-assets and are presented separately at the Statement of financial position (further disclosure in note 23).

In 2018, the Company acquired through a financial lease an aircraft type B737-8 MAX registration code OK-SWF. The aircraft was originally acquired as an asset, but the management decided to change the financial approach and acquire the aircraft instead through a financial lease with a lease-end option. The company paid the initial instalment of the lease, and posted the amount to the deferred expenses. The total financial lease liability at 31 December 2018 amounted to TCZK 975.855. The lease instalments will be settled on a quarterly basis over the period of 10 years. As at 31.12.2019 the aircraft is classified and presented under IFRS 16, transfer of the aircraft out of PP&E can be seen at the position Transfer.

Through the CSA acquisition (27.2.2018) the group acquired one aircraft as fixed asset presented under Aircraft and aircraft related and other equipment - aircraft type Airbus A320 registration mark OK-REQ with fair value TCZK 315.339 as at the date of acquisition.

## **16 CAPITAL COMMITMENTS**

One of the pillars of Smartwings strategy was to renew its fleet consisting of B 737 NG by new model B 737 MAX. Smartwings concluded with Boeing Company two purchase agreements linked with delivery of eight aircraft in total.

This strategy has been reconsidered. Due to the grounding of the B 737, model MAX, the deliveries of the next MAX airplanes are not expected.

In the light of Covid 19 pandemic the number of the aircraft will be stabilized and no expansion is considered. Except of two Airbuses (A 319 and A 320) and two ATR 76 operated by CSA the fleet of the Smartwings Group will consist on:

	MSN	Registratio Mark	Aircraft	Model	Lessor	# of a/c	Lessee
1	28254	OK-SWW	737-700	NG	AerCap	3	Smartwings
2	30724	OK-TVY	737-800	NG	AerCap		Smartwings
3	41795	OK-TSD	737-800	NG	AerCap		Smartwings
4	29346	OK-SWT	737-700	NG	AirCastle	1	Smartwings
5	29669	OK-TVF	737-800	NG	ALC	2	Smartwings
6	40875	OK-TSR	737-800	NG	ALC		Smartwings
7	29351	OK-TVJ	737-800	NG	Aviator	3	Smartwings
8	30666	OM-TSG	737-800	NG	Aviator		Smartwings Slovakia
9	35275	OK-TVH	737-800	NG	Aviator		Smartwings
10	29643	SP-TVZ	737-800	NG	Avolon	2	Smartwings Poland
11	37363	OK-TSI	737-900ER	NG	Avolon		Smartwings
12	31717	OK-TSU	737-800	NG	BBAM	5	Smartwings
13	37076	OK-TVL	737-800	NG	BBAM		Smartwings
14	37077	OK-TVM	737-800	NG	BBAM		Smartwings
15	37360	OK-TSF	737-800	NG	BBAM		Smartwings
16	37884	OK-TST	737-800	NG	BBAM		Smartwings
17	30295	OK-TVW	737-800	NG	Carlyle	2	Smartwings
18	34952	OK-TSM	737-900ER	NG	Carlyle		Smartwings
19	35793	OK-TSO	737-800	NG	DAE	1	Smartwings
20	32907	OK-TVP	737-800	NG	DVB Bank	1	Smartwings
21	38018	OK-TVRR	737-800	NG	Gecas	5	Smartwings
22	38025	OK-TVU	737-800	NG	Gecas		Smartwings
23	38027	OK-TVV	737-800	NG	Gecas		Smartwings
24	39394	OK-TVTT	737-800	NG	Gecas		Smartwings
25	39404	OK-TVSS	737-800	NG	Gecas		Smartwings
26	30719	OK-TVGG	737-800	NG	Macquarie	6	Smartwings
27	32360	OK-TVVO	737-800	NG	Macquarie		Smartwings
28	32362	HA-LKGG	737-800	NG	Macquarie		Smartwings
29	33833	OK-TVXX	737-800	NG	Macquarie		Smartwings
30	35272	OK-TVSS	737-800	NG	Macquarie		Smartwings
31	39437	OK-TVSE	737-800	NG	Macquarie		Smartwings
32	43296	OK-SWCC	B737-MAX	MAX	ALC	1	Smartwings
33	64937	OK-SWEE	B737-MAX	MAX	BOCA	1	Smartwings
34	43557	OK-SWDD	B737-MAX	MAX	Gecas	4	Smartwings
35	43555	OK-SWAA	B737-MAX	MAX	Gecas		Smartwings
36	43556	OK-SWBB	B737-MAX	MAX	Gecas		Smartwings
37	43562	OK-SWMM	B737-MAX	MAX	Gecas		Smartwings
38	60133	OK-SWFF	B737-MAX	MAX	Financial lease	1	Smartwings

Due to Purchase Agreements Smartwings had to remit significantly more than 10 % of Airframe Price, Features, etc. Given reconsidered strategy as mentioned above, pre-delivery payments have been repaid partially and the remaining amount is expected to be repaid by the Boeing company at the beginning of 2021.

CSA commenced negotiations concerning the pre-delivery payments linked with the delivery of aircraft by the Airbus Company.

Due to present market situation Smartwings nor CSA are planning investments into any fixed assets until 2025 year. On the other hands extensions of some operational leases as a part of restructuring are considered.

## **17 INVESTMENTS IN ASSOCIATES**

### **Details of material associates**

#### **Investment in Alpha Flight, a.s.**

Smartwings acquired the following shares in Alpha Flight a.s ("the Alpha Flight") on October 11th, 2017:

20 common registered shares with a nominal value of CZK 500,000 each, issued by Alpha Flight a.s. Total nominal value of the shares is 10 000 000 CZK representing 20% of the registered capital of this company and 20% of voting rights on the General Meeting.

The registered capital of the Alpha Flight amounts to CZK 50 000 000 and is divided into 100 shares.

The list of shareholders is following:

1. Smartwings, a. s., corporate ID No. 25663135, stake 20 %;
2. Alpha Flight Group Limited, corporate ID no. 2997941, stake 80%.

The shareholders' agreement is concluded including clauses securing SHAREHOLDER PROTECTIONS and RESTRICTIONS ON TRANSFER OF SHARES and RIGHT OF FIRST REFUSAL and DIVIDENDS.

The Alpha Flight's registered office is at K Letišti 1018/55, Ruzyně, 161 00 Prague 6.

Alpha Flight is providing services in the check-in process at the Prague-Ruzyně Airport, Leoš Janáček Airport in Ostrava, Pardubice Airport, Karlovy Vary Airport, including inflight catering services.

Summarised financial information for the Alpha Flight is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

<b>Alpha Flight</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Current assets	315 335	172 281
Non-current assets	381 456	402 389
Current liabilities	-242 409	-106 642
Non-current liabilities	0	0
	<b>Period ended</b>	<b>Year ended</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>
Revenue	732 211	611 041
Profit or loss from continuing operations	52 636	21 131
Profit (loss) for the year	52 636	21 131
Total comprehensive income for the year	52 636	21 131
	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Net assets of the associate	454 382	468 028
Change of net assets for the period (or after acquisition 30.9.2017)	-13 646	131
- dividend payment	-66 282	-21 000
- result for the year	52 636	21 131
Proportion of the Group's ownership interest in Alpha Flight	20%	20%
Post acquisition share on profit and OCI of Alpha Flight	-2 729	26
Carrying amount of the Group's interest in Alpha Flight	90 876	93 605

## 18 INVENTORIES

Inventories consist mainly of spare parts and can be analysed as follows:

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Spare parts	332 570	333 562
Other material	0	0
Goods	38	71
<b>Total Inventories</b>	<b>332 608</b>	<b>333 633</b>

Inventories are measured at the lower of cost and net realisable value. In 2019 the impairment of inventories was TCZK 12,628 (2018: TCZK 5,661). The management of the Group believes that inventory will be utilized for repairs and overhauls and that the value in use or net realisable value of inventories is not lower than their cost.

## 19 TRADE AND OTHER RECEIVABLES, CURRENT AND NON-CURRENT, PREPAID EXPENSES

Current trade and other receivables and prepaid expenses at year-end are as follows:

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Trade receivables	1 690 439	2 373 853
Other receivables	1 914 465	902 431
Offset*	-142 765	-491 195
<b>Total Trade and Other Receivables</b>	<b>3 462 139</b>	<b>2 785 090</b>
	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Advanced payments and deposits	282 945	518 728
Receivables from employees	30 941	24 024
Prepaid leasing payments	936	190 385
Prepaid expenses other	287 873	128 894
VAT receivable	23 258	23 204
Other receivables	1 271 661	11 461
<b>Total Other Receivables</b>	<b>1 897 614</b>	<b>896 695</b>

\* The Group classified transactions with its business partners under various asset and liabilities items, such as advance payments, accounts receivable, accounts payable, deposits, estimates. It is customary in trade transactions to communicate with business

partners and settle net balances of mutual open / outstanding items, the estimated set-off is also disclosed in the annual financial statements.

In the position Other receivables is included the estimated receivables of CZK 1,270,503 thousand arising from the compensation and indemnification on the grounding of Boeing-MAX aircrafts (for further detail please see Note 2.4).

Advanced payments and deposits consist primarily of amounts which are held until all obligations to suppliers are fulfilled and security deposits. The amounts are carried at amortised costs using the effective interest rate method.

Receivables from employees largely entail advance payments for travel expenses for which the employees failed to present statement of expenses by the balance-sheet date.

Prepaid leasing payments include the part of the lease as of 31 December 2018. It is determined from the invoices received and any payments made on the lease of aircraft that relate to the period up to 1 January 2019 (2017: 1 January 2018). It includes also first increased payment for finance lease of the aircraft OK-SWF. In 2019 are these prepaid leasing payments recognized according to IFRS 16 under the position Lease liabilities.

Prepaid other expenses consist primarily of insurance and maintenance costs.

The Group's assessment of credit risks and impairment losses related to trade receivables and other financial assets is disclosed in note 13.

The impairment losses recognised can be summarised as follows:

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Trade and other receivables - gross	3 664 336	3 354 766
Offset	-142 765	-491 195
Impairment (Provision for bad debts)	-59 431	-78 482
<b>Total Net trade and other receivables</b>	<b>3 462 139</b>	<b>2 785 090</b>

Non-current receivables at year-end are as follows:

<b>Non-current Receivables</b>	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Nominal values of operating lease related deposits	1 066 855	981 738
Discount on operating lease related deposits	-163 964	-144 978
Other long-term receivables	30 113	0
<b>Total Non-current Receivables</b>	<b>933 004</b>	<b>836 760</b>

The non-current deposits paid represent only deposits relating to lease of aircraft and their maturity derives from the date of termination of agreements and return of the leased aircraft. The deposits with maturity within one year are reported as current maturities of long-term deposits.

The deposits include the capitalized interest which is calculated using interest rate of 2,5 %.

## 20 EQUITY

The share capital amounts to CZK 1,241,236,250 and consists of 148,661 shares.

The Equity is divided into Equity attributable to owners of the parent and Equity attributable to non-controlling interests (2,26%).

The shareholdings and voting rights of the shareholders as at 31 December 2019 and 2018 are as follows:

<b>2019</b>	<b>Share in %</b>	<b>TCZK</b>
	<b>2019</b>	<b>2019</b>
UG JET 2, s.r.o.	13,84%	171 800
EH Group s.r.o.	25,04%	310 792
UNIMEX GROUP, a.s.	11,20%	139 018
Rainbow Wisdom Investments Limited	49,92%	619 625
<b>Total</b>	<b>100,00%</b>	<b>1 241 236</b>

<b>2018</b>	<b>Share in %</b>	<b>TCZK</b>
	<b>2018</b>	<b>2018</b>
UNIMEX GROUP, a.s.	11,20%	139 018
Ing. Roman Vik	11,20%	139 018
CANARIA TRAVEL, spol. s r.o.	27,68%	343 574
China International Group Corporation Limited	49,92%	619 625
<b>Total</b>	<b>100,00%</b>	<b>1 241 236</b>

The general meeting of the Company held on 4 May 2016 passed a resolution that the Company's registered capital of CZK 250,000,000 will be increased by CZK 991,236,250 to the amount of CZK 1,241,236,250.

The registered capital has been increased by way of subscribing 9,911 pieces of registered shares at their nominal value of CZK 100,000 and 136,250 pieces of registered shares at their nominal value of CZK 1.

The registered capital was paid in full.

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their currencies to the Group's functional/presentation currency (i.e. CZK) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

The shares are pledged in favour of Komerční banka and UniCredit Bank of the Czech Republic.

## 21 PROVISIONS

<b>Provisions</b>	<b>2019</b>	<b>2018</b>
Untaken vacation	70 947	76 192
Repair and maintenance	958 391	812 679
Other	50 393	84 602
<b>Total provisions</b>	<b>1 079 731</b>	<b>973 473</b>
<b>Long-term provisions</b>	<b>2019</b>	<b>2018</b>
Repair and maintenance	526 238	495 733
<b>Total Long-term provisions</b>	<b>526 238</b>	<b>495 733</b>
<b>Short-term provisions</b>	<b>2019</b>	<b>2018</b>
Untaken vacation	70 947	55 856
Repair and maintenance	432 153	316 946
Other	50 393	104 938
<b>Total Short-term provisions</b>	<b>553 493</b>	<b>477 740</b>

The provision for repairs/overhauls and maintenance is recognised to express the status of the Group's obligation to perform regular checks and overhauls.

The repair and maintenance provisions comprises costs expended to restore the airplane to a condition, in which the airplane may be returned to the lessor at the lease-end (so-called redelivery checks). The scope of the checks is defined in the appropriate lease contract. The provision is carried from the time of the delivery of the airplane by the lessor to the end of the term of lease. Since lease contract are made for a period of 9 years on average, the provision is discounted accordingly. The discount rate is set at 2.5 %.

The repair and maintenance provision also comprises the costs of regular airplane maintenance as required by the manufacturer for each particular type of airplane. The provision is recognized with a view to the estimated costs of the checks required net of the estimated balance of the lessor's contribution from the maintenance annuity.

The provision is valued at management's best estimation based on the historical experience.



## 22 INTEREST-BEARING LIABILITIES

The Group has entered into following interest-bearing liabilities:

<b>Long-term interest bearing liabilities</b>	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Loans	15 835	59 859
Finance Lease liabilities	0	878 269
Lease liabilities	12 836 007	0
<b>Total Long-term interest bearing loans</b>	<b>12 851 842</b>	<b>938 128</b>

<b>Short-term interest bearing liabilities</b>	<b>TCZK</b>	<b>TCZK</b>
Bank overdrafts	750 971	655 595
Loans	538 950	967 513
Current portion of Finance lease liabilities	0	97 585
Current portion of Lease liabilities	3 148 561	0
<b>Total Long-term interest bearing loans</b>	<b>4 438 482</b>	<b>1 720 693</b>

Overview of loans according to loan providers:

<b>31 December 2019</b>	<b>Total amount of loan / credit limit TCZK</b>	<b>of which due less than 1 year</b>	<b>of which due in 1 and more years</b>
<b>Loan provider</b>	<b>Unpaid part TCZK</b>	<b>TCZK</b>	<b>TCZK</b>
Komerční banka, a.s.	80 000		
Overdraft	70 521	70 521	0
Komerční banka, a.s.	290 000		
Revolving credit	288 950	288 950	0
Raiffeisenbank a.s.	150 000		
Short-term credit	150 000	150 000	0
UniCredit Bank Czech Republic and Slovakia, a.s.	550 000		
Overdraft	496 175	496 175	0
Československá obchodní banka, a.s.	50 000		
Overdraft	49 054	49 054	0
Československá obchodní banka, a.s.	100 000		
Short-term credit	100 000	100 000	0
Česká spořitelna, a. s.	142 512		
Medium-term credit	63 339	47 504	15 835
Česká spořitelna, a. s.	150 000		
Medium-term credit	8 333	8 333	0
Česká spořitelna, a. s.	100 000		
Overdraft	79 335	79 335	0
Other overdraft facilities	49	49	0
<b>Credit Limit in total</b>	<b>1 612 512</b>		
<b>Unpaid part in total</b>	<b>1 305 756</b>	<b>1 289 921</b>	<b>15 835</b>

31 December 2018	Total amount of loan /credit limit TCZK	of which due less than 1 year	of which due in 1 and more years
Loan provider	Unpaid part TCZK	TCZK	TCZK
Komerční banka, a.s.	80 000		
Overdraft	54 445	54 445	0
Komerční banka, a.s.	470 000		
Revolving credit	449 500	449 500	0
Raiffeisenbank a.s.	300 000		
Short-term credit	300 000	300 000	
Raiffeisenbank a.s.	125 000		
Medium-term credit	20 833	20 833	0
UniCredit Bank Czech Republic and Slovakia, a.s.	550 000		
Overdraft	500 794	500 794	0
Československá obchodní banka, a.s.	50 000		
Overdraft	31 767	31 767	0
Československá obchodní banka, a.s.	100 000		
Short-term credit	100 000	100 000	0
Česká spořitelna, a. s.	141 536		
Medium-term credit	98 705	47 179	51 526
Česká spořitelna, a. s.	150 000		
Medium-term credit	58 333	50 000	8 333
Česká spořitelna, a. s.	100 000		
Overdraft	68 511	68 511	0
Other overdraft facilities	78	78	0
<b>Credit Limit in total</b>	<b>2 066 536</b>		
<b>Unpaid part in total</b>	<b>1 682 966</b>	<b>1 623 107</b>	<b>59 859</b>

To finance its operation and investment needs, the Group uses the business loans provided by UniCredit Bank Czech Republic and Slovakia, a. s., Komerční banka, a. s., Raiffeisenbank a.s. and Česká spořitelna, a. s. The loans to finance the operations are repaid in summer season or partly drawn due to a surplus of funds in EUR and non-suitability of their conversion into CZK. Mid-term loans granted by UniCredit Bank Czech Republic and Raiffeisenbank, a. s. were used to finance the advance payments for the acquisition of tangible fixed assets – purchase of new airplanes Boeing 737 – 8 Max.

The loans of the Company are collateralised by the below instruments:

- Shares of the Company
- "Letter of comfort" issued by UNIMEX GROUP, a. s., corporate ID 41693540
- Pledge to real estate – administrative building with no. 1068, Ruzyně, owned by the subsidiary Smartwings Building, s. r. o., with its registered office at Václavské nám. 53/815, Prague 1, corporate ID 645 83 970

In 2018, the Company acquired through a financial lease an aircraft type B737-8 MAX registration code OK-SWF. The aircraft was originally acquired as an asset, but the management decided to change the financial approach and acquire the aircraft instead through a financial lease with a lease-end option. The company paid the initial instalment of the lease, and posted the amount to the deferred expenses. The total financial lease liability at 31 December 2018 amounted to TCZK 975.855. The lease instalments will be settled on a quarterly basis over the period of 10 years. As at 31.12.2019 this aircraft was classified under IFRS 16 as Right-of-use asset.

## **23 DEFERRED INCOME**

Deferred income represents amounts of sold flight tickets which were not realized as at the balance sheet date, they were sold in advance to final customers. The flights will be operated in the next periods. The amount as at 31.12.2018 in total TCZK 908.910 jumped up due to acquisition of České aerolinie having a lot of flights sold in advance.

## **24 Right-of-use assets and lease liabilities**

The Group's fleet comprises, in particular, aircraft that are used by the Group under the lease contracts. Most of the aircraft used by the Group are Boeing, type B 737-800 with capacity of 189 passengers and 6 members of the crew. In addition, the Group operates two aircraft Boeing with capacity of 148 passengers and two aircraft with capacity of 212 passengers. The Group also leases Boeing type 737-8 MAX (7 airplanes). The aircraft type Boeing 737-8 MAX were grounded in March 2019, see Note 2.2 Going concern for details.

Through the acquisition of the Czech Airlines in 2018 the Group also uses aircraft type Airbus A319, ATR 72 and ATR 42 and one Airbus A330, see the below table for details.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of use asset and a corresponding lease liability.

<b>Cost</b>	<b>Aircraft tCZK</b>	<b>Buildings tCZK</b>	<b>Total tCZK</b>
Opening balance 1.1.2019	17 603 114	177 672	17 780 786
Additions	751 376	0	751 376
Disposals	-37 758	0	-37 758
Transfers	1 362 621	0	1 362 621
Closing balance 31.12.2019	19 679 353	177 672	19 857 025

**Accumulated depreciation**

Opening balance 1.1.2019	0	0	0
Depreciation charge	3 639 664	21 031	3 660 695
Disposals	-37 758	0	-37 758
Transfers	5 678	0	5 678
Closing balance 31.12.2019	3 607 584	21 031	3 628 615

Check

<b>Carrying amount as of 1.1.2019</b>	<b>17 603 114</b>	<b>177 672</b>	<b>17 780 786</b>
<b>Carrying amount as of 31.12.2019</b>	<b>16 071 769</b>	<b>156 641</b>	<b>16 228 410</b>

**Right-of-use assets by class**

**2019**

Aircraft	19 673 675
Buildings	177 672

Less:

**Accumulated depreciation of right-of-use assets by class**

**3 622 937**

Aircraft	3 601 906
Buildings	21 031

**Right-of-use assets carrying amount 31.12.2019** **16 228 410**

Lease liabilities long term	12 836 007
Lease liabilities current portion	3 148 561
<b>Total lease liabilities</b>	<b>15 984 568</b>

These aircraft are used in accordance with the following lease contracts:

No.	Aircraft leased in 2019	Mfg Year	Lease Period (in months)	Start of lease	Estimated end of lease	Lessor
1.	BOEING 737-8CX, MSN 32362, HA LKG (OK TVB)	2002	274	3.5.2002	31.3.2025	MASL IRELAND (13) LIMITED
2.	BOEING 737-8FH, MSN 29669, OK TVF (C-GTVF)	2005	179	20.4.2005	19.4.2020	Wilmington Trust SP Services (Dublin) Limited
3.	BOEING 737-8Q8, MSN 30719, OK TVG (C-GTVG)	2007	166	4.5.2007	31.3.2021	Macquarie AirFinance Acquisitions (Ireland) Limited
4.	BOEING 737-8Q8, MSN 35275, OK TVH (C-GVVH)	2008	167	12.5.2008	11.5.2022	AVIATOR IV 35275 Limited
5.	BOEING 737-8Q8, MSN 29351, OK TVJ (C-FTAH)	2004	185	18.11.2008	17.5.2024	AVIATOR EOL 29351 Limited
6.	BOEING 737-8FN, MSN 37076, OK TVL	2010	188	25.1.2010	9.10.2025	Horizon Aviation 3 Limited
7.	BOEING 737-8FN, MSN 37077, OK TVM	2010	184	3.2.2010	3.6.2025	Horizon II Aviation 2 Limited
8.	BOEING 737-8CX, MSN 32360, OK TVO	2002	177	21.6.2010	31.3.2020	MASL IRELAND (13) LIMITED
9.	BOEING 737-8K5, MSN 32907, OK TVP (C-GKVP)	2002	136	8.6.2010	30.10.2021	DCAL 5 LEASING LIMITED
10.	BOEING 737-86N, MSN 38018, OK TVR	2011	120	28.4.2011	27.4.2021	Celestial Aviation Trading 12 Limited
11.	BOEING 737-86N, MSN 39404, OK TVS	2011	120	5.5.2011	4.5.2021	Celestial Aviation Trading 12 Limited
12.	BOEING 737-86N, MSN 39394, OK TVT	2012	120	31.1.2012	30.1.2022	Celestial Aviation Trading 12 Limited
13.	BOEING 737-86N, MSN 38025, OK TVU (C-GKVU)	2012	120	20.3.2012	19.3.2022	Start Ireland Leasing 7 Limited
14.	BOEING 737-86N, MSN 38027, OK TVV (C-GKVV)	2012	120	9.5.2012	8.5.2022	Start Ireland Leasing 7 Limited
15.	BOEING 737-86Q, MSN 30295, OK TVW	2004	172	29.6.2012	1.11.2026	SASOF III (A20) AVIATION IRELAND DAC
16.	BOEING 737-8Z9, MSN 33833, OK TVX	2005	103	29.4.2013	30.11.2021	Macquarie Acquisitions (Ireland) Limited
17.	BOEING 737-8Q8, MSN 30724, OK TVY (C-GTQY)	2007	108	22.5.2013	21.5.2023	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
18.	BOEING 737-8Q8, MSN 41795, OK TSD	2014	120	5.5.2014	4.5.2024	ILFC Aircraft 73B-41795 Limited

19.	BOEING 737-81D, MSN 39437, OK TSE	2014	96	3.2.2014	2.2.2022	Macquarie Aerospace Finance 39437 Limited
20.	BOEING 737-8GJ, MSN 37360, OK TSF	2009	96	24.3.2015	23.3.2023	Halodell Limited
21.	BOEING 737-804, MSN 28231, OK TSH	2000	57	14.4.2015	5.2.2020	ACS Aero 1 Beta Limited
22.	BOEING 737-9GJER, MSN 37363, OK TSI	2012	119	13.5.2015	30.4.2025	CIT Aerospace International Klaatu Aircraft Leasing (Ireland) Limited
23.	BOEING 737-7Q8, MSN 29346, OK SWT	2003	112	22.6.2012	21.11.2021	ILFC IRELAND LIMITED
24.	BOEING 737-7Q8, MSN 28254, OK SWW	2003	113	1.6.2012	30.11.2021	SASOF III (A8) Aviation Ireland DAC
25.	BOEING 737-900ER, MSN 34952, OK TSM	2007	74	27.1.2016	31.3.2022	AWAS 35793
26.	BOEING 737-800-8GQ, MSN 35793, OK TSO	2007	72	6.5.2016	5.5.2022	Wilmington Trust SP Services (Dublin) Limited
27.	BOEING 737-800, MSN 40875, OK-TSR	2010	64	12.6.2017	11.11.2022	Macquarie Aerospace Ireland Limited
28.	BOEING 737-81M, MSN 35272, OK-TSS	2008	70	11.5.2018	5.3.2024	Horizon Aviation 3 Limited
29.	BOEING 737-86N, MSN 37 884, OK TST – k 31.12.2019 provozováno České aerolinie a.s.	2010	91	24.4.2018	23.4.2026	Horizon Aviation 2 Limited
30.	BOEING 737-8FZ, MSN 31 717, OK TSU	2010	84	2.5.2018	1.5.2025	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
31.	BOEING 737-809, MSN 30664, OK TSV	2001	8	4.7.2019	26.2.2020	Celestial Aviation Trading 46 Limited
32.	BOEING 737-8 MAX, MSN 43555, OK-SWA	2018	144	30.1.2018	29.1.2030	Celestial Aviation Trading 46 Limited
33.	BOEING 737-8 MAX, MSN 43556, OK-SWB	2018	144	30.3.2018	29.3.2030	Celestial Aviation Trading 46 Limited
34.	BOEING 737-8 MAX, MSN 43296, OK-SWC	2018	156	16.5.2018	15.5.2031	ALC Blarney Aircraft Limited
35.	BOEING 737-8 MAX, MSN 43557, OK-SWD	2018	144	25.5.2018	24.5.2030	Celestial Aviation Trading 11 Limited
36.	BOEING 737-8 MAX, MSN 64937, OK-SWE	2018	144	20.6.2018	19.6.2030	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
37.	BOEING 737-8 MAX, MSN 60133, OK-SWF	2018	120	21.12.2018	21.12.2028	THEODOR J.E.C. WILSON AIRCRAFT LEASING COMPANY LIMITED
38.	BOEING 737-8 MAX, MSN 43562, OK-SWM	2019	132	1.2.2019	31.1.2031	Celestial Aviation Trading 5 Limited
39.	Citation 680, MSN 680-0139, OK UNI	2007	156	13.6.2007	12.6.2020	UG Jet s.r.o.
40.	Citation 680, MSN 680-0279, OK EMA	2009	142	21.5.2009	31.3.2021	UG Jet s.r.o.
41.	Citation 680, MSN 680-0558, OK JRT	2016	60	30.3.2016	30.3.2021	UG Jet s.r.o.

42.	Citation 680, OK SEM		15	13.4.2018	13.6.2019	UG Jet s.r.o.
43.	Citation 680, OK-UGJ	2012	12	13.3.2012	12.3.2020	UG Jet s.r.o.
44.	Citation 680, OK-JRS	2019	48	20.6.2020	30.6.2024	UG Jet s.r.o.
45.	BOEING 737-8BK, MSN 29643, SP TVZ – operated by Travel Service Polska, Sp. z o. o.	2007	180	15.2.2010	14.2.2025	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
47.	BOEING 737-82R, MSN 30666, OM TSG – operated by Travel Service Slovensko, s.r.o.	2004	120	9.5.2014	8.5.2024	AVIATOR IV 30666 Limited
50.	Airbus A330, MSN 425, OK-YBA operated by České aerolinie a.s.	2001	90	13.5.2013	12.10.2020	Korean Air Lines Co., Ltd.
51.	Airbus A319, MSN 3094, OK-MEL, operated by České aerolinie	2007	20	14.5.2019	31.12.2020	ACS Aero 1 Beta Limited
52.	Airbus A319, MSN 3406, OK-NEM, operated by České aerolinie	2008	145	21.2.2008	1.2.2020	B.aircraft a.s.
53.	Airbus A319, MSN 3436, OK-NEN, operated by České aerolinie	2008	146	17.3.2008	1.3.2020	B.aircraft a.s.
54.	Airbus A319, MSN 3452, OK-NEO, operated by České aerolinie	2008	146	3.4.2008	3.4.2020	B.aircraft a.s.
56.	Airbus A319, MSN 3660, OK-NEP, operated by České aerolinie	2008	146	30.9.2008	30.9.2020	B.aircraft a.s.
57.	ATR 72-500, MSN 674, OK-GFQ, operated by České aerolinie	2001	97	5.10.2012	4.10.2020	Safair Lease Finance 72 Limited
58.	ATR 72-500, MSN 681, OK-GFR, operated by České aerolinie	2001	97	5.9.2012	4.9.2020	Safair Lease Finance 72 Limited
60.	ATR 72-500, MSN 679, OK-GFS, operated by České aerolinie	2001	97	12.12.2012	11.12.2020	Safair Lease Finance 72 Limited
61.	ATR 72-500, MSN 789, OK-NFU, operated by České aerolinie	2008	49	20.3.2017	19.3.2021	NAC Aviation 8 Limited
62.	ATR 72-500, MSN 785, OK-NFV, operated by České aerolinie	2010	38	16.7.2018	15.8.2021	NAC Aviation 3 Limited

Due to the insufficient number of operated aircraft, especially in summer, the Group enters into so-called A.C.M.I. contracts (Wet Lease Agreements). Under these contracts, the Group leases aircraft with a crew, maintenance and insurance included.

In addition, the Group leases warehouses under operating lease.

## 25 CURRENT TRADE AND OTHER PAYABLES, DEFERRED INCOME

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Trade payables	3 304 784	2 067 718
Other payables	1 142 635	2 117 165
Offset*	-142 765	-491 195
<b>Total Trade and Other Payables and deferred income</b>	<b>4 304 654</b>	<b>3 693 688</b>
	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
Payables to employees	126 060	142 891
Payables to institutions	85 746	93 291
Deposits received	193 199	300 508
Deferred income	602 453	908 910
Other payables	4 096	13 795
<b>Total Other Payables</b>	<b>1 011 553</b>	<b>1 459 395</b>

\* The Group classified transactions with its business partners under various asset and liabilities items, such as advance payments, accounts receivable, accounts payable, deposits, estimates. It is customary in trade transactions to communicate with business partners and settle net balances of mutual open / outstanding items, the estimated set-off is also disclosed in the annual financial statements.

The carrying amount of trade and other payables approximates their fair value.



## 26 RELATED PARTY TRANSACTIONS

The Group has related party relationship with its Directors and key management personnel as well as with its shareholders and all companies in which these entities or individuals hold direct or indirect control, including common control, joint control and significant influence.

Transactions with non-consolidated subsidiaries, joint ventures, associates and post-employment benefit plans are carried out on an arm's-length basis.

During the years ending 31 December 2019 and 31 December 2018, the Group had relations with following related parties:

Number	Company	Address	Statutory body	Owners
1.	<b>CANARIA TRAVEL, spol. s r.o.</b>	Horňátecká 481/5, Kobylisy, Praha 8	Lenka Víková Ludvík Macháček	TO SERVIS spol. s r. o. (50%) Unimex Group, a. s. (50%)
2.	<b>TO - SERVIS spol. s r. o.</b>	Horňátecká 481/5, Kobylisy, Praha 8	Lenka Víková	Roman Vík (2,5%) EH Group s. r. o. (2,5%) Lenka Víková (95 %)
3.	<b>EH Group s.r.o.</b>	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vík	Roman Vík (100%)
4.	<b>EHQ Energy s.r.o.</b>	Horňátecká 481/5, Kobylisy, Praha 8	Veronika Víková Lenka Loštická	Roman Vík (50%) Marek Loštický (50%)
5.	<b>UG Jet, s.r.o.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Roman Vík	Unimex Group, a. s. (50%) EH Group s. r. o. (50%)
6.	<b>UG Jet 2, s.r.o.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	Unimex Group, a. s. (100%)
7.	<b>Calvia Investments, s.r.o.</b>	Pařížská 131/28 Josefov Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
8.	<b>REAL PROPERTY INVESTMENTS, s.r.o.</b>	Ječná 529/29 Nové Město Praha 2	Jaromír Šmejkal	Jaromír Šmejkal (100%)
9.	<b>UNIMEX, spol. s .r.o.</b>	Ječná 529/29 Nové Město Praha 2	Jaromír Šmejkal	Fred Leker and Sohn Import - Export GmbH (50%) Jaromír Šmejkal (50%)

10.	<b>Pelicana, s.r.o.</b>	Ječná 529/29 Nové Město Praha 2	Jaromír Šmejkal Adéla Rostová	JADA Investments, B.V. (95%) Jaromír Šmejkal (5%)
11.	<b>Fly Investments II, s.r.o.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
12.	<b>UNIMEX GROUP, a.s.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	Jiří Šimáně (30%) Jaromír Šmejkal (20%) NEVILLE Investments B. V. (30%) JADA Investments B.V. (20%)
13.	<b>UNIMEX GROUP, uzavřený investiční fond, a.s.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	Jiří Šimáně (47.17%) Jaromír Šmejkal (31.34%) UNIMEX GROUP, a. s. (20.83%) Others (0.56%)
14.	<b>Fly Sport Investments s.r.o.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně
15.	<b>UG-D, a.s.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, uzavřený investiční fond, a.s. (100%)
16.	<b>BT Golf, s.r.o.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Vladimír Klepal	UNIMEX GROUP, A. S. (10%) Jiří Šimáně (90%)
17.	<b>Global Wines &amp; Spirits s.r.o.</b>	Václavské nám. 815/53, Praha 1	Jiří Šimáně Tomáš Otta	UNIMEX GROUP, A. S. (47.5%) Tomáš Otta (5%) Global Eastern Wine Holding GmbH (47,5%)
18.	<b>UNI HOBBY, a.s.</b>	Vinohradská 365/10, Praha 2 - Vinohrady	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	Jiří Šimáně (51%) Jaromír Šmejkal (34%) Petr Pavlát (15%)
19.	<b>Václavské, a.s.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
20.	<b>Janáčkovo, a.s.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)

21.	<b>Příkopy, a.s.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
22.	<b>TRAVEL FREE, s.r.o.</b>	Nové Město Praha 1	Jaromír Šmejkal Pavel Monhart	Gebr. Heinemann SE & Co. KG (50%) UNIMEX GROUP, A. S. (50%)
23.	<b>Vinohradská BLDG, a.s.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
24.	<b>Fly Investments s.r.o.</b>	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
25.	<b>EHQ s.r.o.</b>	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik Jiří Berger Marek Loštický	EH GROUP s. r. o. (50%) Jiří Berger (25%) IMMORENT AND TRADE, a.s. (25%)
26.	<b>China International Group Corporation Limited</b>	Room 2302-2304, 23/F, Convention Plaza Office Tower, 1 Harbour Road, Wan Chai, Hong Kong, People 's Republic of China	Liefen Du Zhongqiu Liu	Ye Jianming (90 %) Zang Jianjun (10 %)
27.	<b>Canaria Travel CZ s.r.o.</b>	Horňátecká 481/5, Kobylisy, Praha 8	Lenka Viková	CANARIA TRAVEL, spol. s r. o. (90 %) Lenka Viková (10 %)

**Amounts representing transactions with related parties in the years 2018 and 2019 were as follows:**

**1. UG Jet, s.r.o.**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>0</b>
<b>Expenses</b>	<b>177 152</b>	<b>175 363</b>
<b>Receivable</b>		
Trade receivables	0	0
Other receivables	34 621	22 466
<b>Total receivables</b>	<b>34 621</b>	<b>22 466</b>
<b>Payables</b>		
Trade payables	84 450	2 883
Loans received	0	0
Other liabilities	0	0
<b>Total payables</b>	<b>0</b>	<b>2 883</b>

**2. UNIMEX GROUP, a.s.**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>27</b>
<b>Expenses</b>	<b>24 725</b>	<b>3 788</b>
<b>Receivable</b>		
Trade receivables	0	12
Other receivables	0	0
<b>Total receivables</b>	<b>0</b>	<b>12</b>
<b>Payables</b>		
Trade payables	0	0
Loans received	600 000	0
Other liabilities	24 725	59 979
<b>Total payables</b>	<b>624 725</b>	<b>59 979</b>

**3. BT Golf, s. r. o.**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>0</b>
<b>Expenses</b>	<b>3000</b>	<b>3 000</b>
<b>Receivable</b>		
Trade receivables	0	0
Other receivables	0	0
<b>Total receivables</b>	<b>0</b>	<b>0</b>
<b>Payables</b>		
Trade payables	0	0
Loans received	0	0
Other liabilities	0	0
<b>Total payables</b>	<b>0</b>	<b>0</b>

**4. Global Wines & Spirits s.r.o.**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>0</b>
<b>Expenses</b>	<b>65</b>	<b>69</b>
<b>Receivable</b>		
Trade receivables	0	0
Other receivables	0	0
<b>Total receivables</b>	<b>0</b>	<b>0</b>
<b>Payables</b>		
Trade payables	50	0
Loans received	0	0
Other liabilities	0	0
<b>Total payables</b>	<b>50</b>	<b>0</b>

**5. UNI HOBBY, a.s.**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>0</b>
<b>Expenses</b>	<b>3</b>	<b>0</b>
<b>Receivable</b>		
Trade receivables	0	0
Other receivables	0	0
<b>Total receivables</b>	<b>0</b>	<b>0</b>
<b>Payables</b>		
Trade payables		
Loans received	0	0
Other liabilities	0	0
<b>Total payables</b>	<b>0</b>	<b>0</b>

**6. China International Group Corporation Limited**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>0</b>
<b>Expenses</b>	<b>0</b>	<b>0</b>
<b>Receivable</b>		
Trade receivables	0	0
Other receivables	0	0
<b>Total receivables</b>	<b>0</b>	<b>0</b>
<b>Payables</b>		
Trade payables		
Loans received	0	0
Other liabilities	12 895	12 895
<b>Total payables</b>	<b>12 895</b>	<b>12 895</b>

**7. Jiří Jurán**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>0</b>
<b>Expenses</b>	<b>0</b>	<b>0</b>
<b>Receivable</b>		
Trade receivables	0	0
Other receivables	8	9
<b>Total receivables</b>	<b>8</b>	<b>9</b>
<b>Payables</b>		
Trade payables	0	0
Loans received	681	681
Other liabilities	0	0
<b>Total payables</b>	<b>681</b>	<b>681</b>

**8. Jiří Šimáně**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>0</b>	<b>0</b>
<b>Expenses</b>	<b>0</b>	<b>267</b>
<b>Receivable</b>		
Trade receivables	0	0
Other receivables	0	0
<b>Total receivables</b>	<b>0</b>	<b>0</b>
<b>Payables</b>		
Trade payables	0	0
Loans received	0	700 000
Other liabilities	0	0
<b>Total payables</b>	<b>0</b>	<b>700 000</b>

**9. Canaria Travel CZ s.r.o.**

	<b>2019</b>	<b>2018</b>
	<b>TCZK</b>	<b>TCZK</b>
<b>Revenue</b>	<b>215 442</b>	<b>242 808</b>
<b>Expenses</b>	<b>3 501</b>	<b>3406</b>
<b>Receivable</b>		
Trade receivables	390	2 914
Other receivables	0	0
<b>Total receivables</b>	<b>390</b>	<b>2 914</b>
<b>Payables</b>		
Trade payables	0	3
Loans received	0	0
Other liabilities	0	0
<b>Total payables</b>	<b>0</b>	<b>3</b>

**27 AUDITOR'S FEE**

	<b>2019</b>	<b>2018</b>
	<b>tCZK</b>	<b>tCZK</b>
Audit of Annual accounts	2 466	2 435
Consultancy and Other services	0	0
<b>Total Auditor's fee</b>	<b>2 466</b>	<b>2 435</b>

## 28 SUBSEQUENT EVENTS

At the beginning of 2020, Smartwings, a.s. successfully completed the IATA Operational Safety Audit conducted by the International Air Transport Association (IATA).

In March 2020, many countries around the entire world have been facing the crises caused by the spread of COVID 19 infection. These countries include not only the Czech Republic and other countries of the European Community, but also other countries in Europe, incl. Russian Federation, Norway, Great Britain, Asia, incl. South Korea, North and South America and Canada.

The measures adopted by the government of the Czech Republic combating the spread of COVID 19 infection by the SARS-CoV-2 had a major impact on the financial position and business activities of the Company and other subsidiaries of the Smartwings Group.

Resolution No. 194 adopted by the Government of the Czech Republic on 12 March 2020 in accordance with Article 5 and 6 of the Constitutional Act No. 110/1998 Sb. on the Safety of the Czech Republic appears to be the most critical. Under this Resolution, the Government of the Czech Republic declared the state of emergency for the territory of the Czech Republic on the grounds of danger to health arising from the confirmed pandemic caused by the spread of coronavirus referred to the SARS CoV-2 on the territory of the Czech Republic. This state of emergency was declared for the period of 30 days starting on 12 March 2020, at 2 pm.

All the measures taken and adopted by the Ministry of Health remained unaffected by the declaration of state of emergency. Such measures included the ban on all direct flights from all regions in Italy and the Republic of Korea (Protective Measures adapted by the Ministry of Health on 2 March 2020), the duty to identify all the persons returning from Italy and the compulsory quarantine for all these persons (Extraordinary Measure adapted by the Ministry of Health on 7 March 2020), the compulsory quarantine for all the persons that were in direct contact with anybody infected by the coronavirus (Extraordinary Measure adapted by the Ministry of Health on 8 March 2020), etc.

For the business activities of the Company, Resolution No. 203 adopted by the Government of the Czech Republic on 13 March 2020 appeared to be the most critical. Under this Resolution, the Government imposed a ban on entry to the territory of the Czech Republic for all foreign nationals, except for the foreign nationals residing in the Czech Republic and except for the foreign nationals whose entry to the territory of the Czech Republic is in the interest of the Czech Republic. In addition, the Government imposed a ban on leaving the territory of the Czech Republic for all the citizens of the Czech Republic and the foreign nationals having their permanent residence in the Czech Republic for more than 90 days. As a result, the Company and its subsidiary – České aerolinie, a.s. were prevented from conducting their business activities. This Resolution to ban the entry to and leaving the territory of the Czech Republic took effect on 13 March 2020, at midnight.

Under Resolution No. 200 adopted by the Government of the Czech Republic on 12 March 2020, the Government banned all aircraft operators from using any airports other than the Prague Vaclav Havel International Airport.

To see the summary of all impacts on the Company and the Smartwings Group as a whole, please see Section 2.3 Going-Concern Principle.

## **Independent Auditor's Report**

to the shareholders of  
Smartwings, a.s.  
K Letišti 1068/30, 168 08 Praha 6  
Reg.No.: 256 63 135

### *Our Qualified Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Smartwings, a.s. and its subsidiaries (hereinafter also "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes ("the consolidated financial statements"). The basic disclosures about Smartwings, a.s. are presented in Note 1 of the Notes to the financial statements.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of Smartwings, a.s. as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the period from 1 January 2019 to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union.

### *Basis for Qualified Opinion*

As discussed in the Note 2.3. Going Concern in the Notes to the consolidated financial statements, České aerolinie, a.s., a component of Smartwings Group, is explicitly excluded from the ongoing negotiations with financing institutions and the Czech government to obtain additional financing for the Smartwings Group. As of the date of this report, České aerolinie, a.s. has been unable to conclude re-negotiations or obtain replacement financing on a stand-alone basis. It is therefore highly likely that České aerolinie, a.s. will become insolvent once the Extraordinary Moratorium will be lifted on 27 February 2021. In the consolidated financial statements České aerolinie, a.s. continues to be accounted for on the basis of it being able to continue as a going concern. Under IFRS the application of the going concern assumption is not appropriate. Had České aerolinie, a. s. been accounted for not applying the going concern assumption, many elements in the accompanying consolidated financial statements would have been materially affected. The effects of the deviation from the going concern assumption on the consolidated financial statements have not been determined.

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



## *Material Uncertainty Related to Going Concern*

We draw attention to Note 2.3 Going Concern in the Notes to the consolidated financial statements, which indicates that the Group is currently in the process of securing sufficient financial funding for it to be able to continue as a going concern. As of the date of this report, these negotiations are ongoing and no binding agreements have been reached. Group management remains confident to raise sufficient financing for the Group to be able to continue as a going concern. These events and circumstances described in this Note may cast significant doubt on the ability of the Group to continue as a going concern. Our opinion is not further modified in respect of this matter.

## *Responsibilities of the Board of Directors and Supervisory Board for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on

# Rödl & Partner

the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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


We communicate with the Board of Directors and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Prague, on 12 February 2021

Rödl & Partner Audit, s.r.o.  
Platněřská 2, 110 00 Praha 1  
Licence Number 354  
represented by the managing director



Andreas Höfinghoff



Ing. Ivan Brož, registered auditor, license number 2077

