Rödl & Partner

Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Travel Service, 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 balance sheet as at 31 December 2017, 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 2017 to 31 December 2017, and a summary of significant accounting policies and other explanatory notes ("the consolidated financial statements").The basic disclosures about Travel Service, a.s. are presented in Section 1 of the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Travel Service, a.s. as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the period from 1 January 2017 to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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 Company 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 opinion.

Responsibilities of the Company's 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company'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 Company'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 the Company'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 Company 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.

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 06.08.2018

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

Rödl & Partner Audit, s.r.o.
Oprávnění č. 354
člen Komory auditorů ČR

Andreas Höfinghoff

Ing. Ivan Brož, registered auditor, license number 2077

Travel Service, a.s.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 31 DECEMBER 2017

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

Prepared on August 6, 2018

JUDr. JIŘÍ ŠIMÁNĚ
Chairman of the Board of Directors

Ing. ROMAN VIK
Member of the Board of Directors

Ing. JIŘÍ JURÁN
Member of the Board of Directors

Content

Consolidated Income Statement

	Note	2017	2016
		Period of 12 months ended 31 December	
Operating revenue			
Sales for transportation services	*5*	19 042 606 918	17 018 553 360
Other operating revenue	*6*	401 421 328	119 670 852
Total Operating revenue		**19 444 028 246**	**17 138 224 212**
Operating expenses			
Salaries	*8*	(1 963 858 175)	(1 755 169 252)
Fuel costs		(3 838 066 165)	(2 929 176 277)
Aircraft lease		(4 139 472 893)	(3 916 191 839)
Landing and handling cost		(5 536 878 610)	(4 831 614 427)
Maintenance cost		(2 383 132 429)	(2 398 708 907)
Other operating expenses	*7*	(1 314 053 056)	(1 165 277 987)
Depreciation		(44 645 552)	(40 978 270)
Total Operating expenses		**(19 220 106 880)**	**(17 037 116 958)**
Net operating profit before net financing costs		**223 921 365**	**101 107 254**
Net interest expense	*9*	(34 958 591)	(43 676 012)
Net financial expense/income	*10*	(373 728 945)	159 237 919
Net finance expense		**(408 687 536)**	**115 561 907**
Share on profit of at equity investments		110 024 486	139 142 083
Profit before tax		**(74 741 685)**	**355 811 244**
Income tax	*11*	22 412 709	(41 699 290)
Profit for the period		**(52 328 976)**	**314 111 953**

Consolidated Statement of Comprehensive Income

Profit for the period		**(52 328 976)**	**314 111 953**
Foreign currency translation differences		(6 156 828)	4 607 776
Share on OCI of at equity investments	*20*	8 420 589	50 585 675
Other comprehensive income for the period		**2 263 761**	**55 193 451**
Total comprehensive income for the period		**(50 065 214)**	**369 305 404**

Travel Service, a.s.
CZK - Czech crown

Consolidated Balance Sheet

	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Aircraft, buildings and other operating assets	*15*	349 953 367	431 457 837
Prepayments on F/A acquisitions & F/A under constr.	*15*	1 267 828 815	639 819 348
Security deposits paid	*19*	617 861 133	711 547 864
Investments in subsidiaries		0	675 500
Investments in associates	*17*	718 702 769	505 312 980
Other intangible assets	*14*	52 955 121	66 212 977
Deferred tax assets	*11*	219 174 188	152 267 601
Total Non-current assets		**3 226 475 392**	**2 507 294 106**
Current assets			
Inventories	*18*	254 747 961	145 839 607
Income tax receivable	*11*	59 396 927	19 388 324
Trade and other receivables and deferred expenses	*19*	1 254 270 076	1 276 360 819
Cash and cash equivalents	*13*	151 744 969	487 746 182
Positive fair value of derivatives	*12*	0	90 860 974
Total Current assets		**1 720 159 933**	**2 020 195 905**
Total assets		**4 946 635 325**	**4 527 490 011**

Consolidated Balance Sheet

	Note	31 December 2017	31 December 2016
Equity and liabilities			
Equity	*20*		
Share capital		1 241 236 250	1 241 236 250
Share premium		10 149 214	10 149 214
Translation reserve		(29 000 840)	(19 255 309)
Statutory reserve		55 388 957	42 089 846
Retained earnings		212 973 758	275 013 143
Share on OCI at equity investments		90 984 265	82 563 675
Total equity		**1 581 731 605**	**1 631 796 818**
Non-current liabilities			
Loans and borrowings	*22*	83 333 333	104 166 667
Provisions	*21*	241 327 068	295 355 495
Deferred tax liabilities	*11*	53 608 277	21 053 035
Total Non-current liabilities		**378 268 678**	**420 575 196**
Current liabilities			
Bank overdrafts	*22*	588 114 026	339 574 678
Loans and borrowings	*22*	773 333 333	328 736 009
Trade and other payables	*24*	1 269 490 064	1 290 573 120
Payables to related parties	*25*	73 530 136	275 555 085
Income tax payable	*11*	(31 198)	19 670 013
Deferred income	*24*	96 656 073	63 875 659
Provisions	*21*	155 429 107	157 133 434
Negative fair values of derivatives	*12*	30 113 501	0
Total Current liabilities		**2 986 635 043**	**2 475 117 997**
Total equity and liabilities		**4 946 635 325**	**4 527 490 011**

Consolidated Statement of Cash Flows

	31 December 2017	31 December 2016
Profit/loss for the period	**(52 328 976)**	**314 111 953**
Adjustments for:		
Depreciation and amortisation	44 645 552	40 978 270
Deferred income tax	(34 505 274)	(29 755 473)
Gain on disposal of long-term assets	267 166	(215 180)
Net change in inventories	(108 908 354)	(28 970 289)
Net change in receivables, other asssets and prepaid expenses	22 090 743	82 837 480
Net change in trade accounts payable and other current liabilities	(190 327 591)	137 995 843
Net change in provisions	(55 732 753)	24 887 925
Gains/Losses on revaluation of derivatives at fair value, net	120 974 475	(114 343 900)
Share of profit of equity investments	(213 389 790)	(189 727 633)
Interest income	(265 542)	(119 385)
Interest expenses	35 224 133	43 795 397
Income tax expense	12 092 565	71 836 991
Cash generated from operations	**(420 163 647)**	**353 312 000**
Interest received	265 542	119 385
Interest expenses paid	(37 993 572)	(24 462 757)
Income taxes paid	(74 082 500)	(58 441 399)
Net cash flows from operating activities	**(531 974 177)**	**270 527 228**
Purchases of non-current assets	(438 884 910)	(516 268 737)
Proceeds from sale of non-current assets	115 312	152 066
Cash flows from investing activities	**(438 769 598)**	**(516 116 670)**
Proceeds from the issue of share capital	0	991 236 250
Long term borrowings, change	(20 833 333)	(270 812 386)
Short term borrowings, change	693 136 673	(136 916 775)
Dividends paid	0	(117 688 136)
Cash flows from financing activities	**672 303 339**	**465 818 953**
Net increase in cash and cash equivalents	**(298 440 436)**	**220 229 511**
Cash and cash equivalents on 1 January	487 746 182	266 657 269
Effect of exchange rate fluctuations on cash held	(37 560 777)	859 402
Cash and cash equivalents on 31 December	**151 744 969**	**487 746 182**

Consolidated Statement of Changes in Equity

	Share capital	Share premium and Other capital contributions	Statutory reserve	Retained Earnings	Foreign currency translation reserve	Share on OCI at equity investments	Total Equity
Balance as at 31 December 2015	**250 000 000**	**10 148 658**	**42 089 846**	**153 388 111**	**(23 863 086)**	**31 978 001**	**463 741 530**
Increase of share capital (contribution)	991 236 250	556					**991 236 806**
Result for the period				314 111 953			**314 111 953**
Dividends				-192 486 922			**-192 486 922**
Other comprehensive income					4 607 777	50 585 675	**55 193 451**
Balance as at 31 December 2016	**1 241 236 250**	**10 149 214**	**42 089 846**	**275 013 143**	**(19 255 309)**	**82 563 675**	**1 631 796 818**
Allocation of retained earnings			13 299 111	(13 299 111)			**0**
Result for the period				(52 328 976)			**(52 328 976)**
Other comprehensive income				3 588 703	(9 745 531)	8 420 589	**2 263 761**
Balance as at 31 December 2017	**1 241 236 250**	**10 149 214**	**55 388 957**	**212 973 758**	**(29 000 840)**	**90 984 265**	**1 581 731 605**

1 INTRODUCTION AND GENERAL INFORMATION

1.1. *General information*

The consolidated financial statements of Travel Service, a. s. (the "Company") for the year ended 31st December 2017 comprise Travel Service, a. s., its subsidiaries Travel Service, légiforgálmi és szolgáltató Korlátolt Felelősségű Tarsaság, shortly Travel Service, Kft, Travel Service Polska spólka z Ograniczona Odpowiedzialonšcia, shortly Travel Service Polska Sp. z O. O., Travel Service Slovensko, s. r. o., T. S. Building, s. r. o., Travel Service GmbH and the interest in an associate České aerolinie, a. s. and associate Alpha Flight, a.s. (together referred to as „Travel Service" or the „Group").

Travel Service, 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 Travel Service, 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).

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 Travel Service, 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 – Travel Service Slovensko, s. r. o., Travel Service, Kft. and Travel Service Polska Sp. z O. O., 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.

On 31st March 2015 Travel Service, a.s. acquired 356,015 common registered certificated shares with a nominal value of CZK 5,000.00 each, Nos. 000 001 – 356,015 issued by the České aerolinie. Total nominal value of the shares is CZK 1,750,075,000.00 representing 34% of the registered capital of this company and 34% of voting rights on the General Meeting. Associated company České aerolinie, a. s. operates fleet of commercial aircraft A330-300, A319-100, ATR 72 and ATR 42.

On 11th October 2017 Travel Service a.s. acquired 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. Associated company Alpha Flight a.s. supplies most of the airlines on the Prague Airport with catering services.

According to the Shareholders Agreement in respect of Alpha Flight it is agreed that, the policy of the Company shall be to seek to maximise the distribution of profits to the Shareholders by distributing at least seventy percent (70%) of profits by way of dividends; such dividends are to be declared and paid pro rata in accordance with the shareholdings of the Shareholders in the Company. The shareholders protection is agreed, too. It means that Alpha shall procure that the Company takes no action set out in decisions on changes to the Articles, a decision on an increase or decrease of the capital stock, decision on the sale of assets exceeding CZK 20,000,000 etc. without first obtaining a resolution in favour of such action approved by a Relevant Majority at a general meeting of the Company or, alternatively, a written resolution signed by a Relevant Majority, where "Relevant Majority" means the holders of at least 90% of the voting rights in the Company.

Travel Service, a.s. owns 100% share of the company T. S. 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.

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

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 2017.

Either debt or equity instruments of Travel Service 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 25.540 to the Euro as at December 2017 and CZK 27.020 to the Euro as at 31 December 2016. Other important exchange rates are disclosed in note 13.

2.3. ***Going concern***

The Group is exposed to general business risks like fluctuating currency rates, jet fuel prices, interest rates, financial default of travel agencies and passengers demand. The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group will generate sufficient cash to meet its liabilities to continue as a going concern for the forseeable future.

The five-years outlook by 2022 has been prepared yet.

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 basis 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.

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
- 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 and provisions – note 19
- fair value of aircraft for the classification of lease contracts – note 4.13
- determination of fair value of assets at the date of acquisition – note 17

3 BASIS OF CONSOLIDATION

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

The consolidated financial statements comprise the financial statements of Travel Service, a.s. and entities controlled by Travel Service, a.s. (its subsidiaries) – the subsidiaries included in consolidation are described in note 1. Travel Service 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 České aerolinie, a.s.[1] (hereafter ČSA) and 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.

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[1] See chapter 27 SUBSEQUENT EVENTS

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 (Smart Wings), 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.

The Group does not offer any kind of frequent flyer program.

4.2. ***Deferred income***

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

4.3. ***Segment reporting***

As either debt or equity instruments of Travel Service 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, except for emission allowances described in note 4.8.

4.8. ***CO2 Emissions certificates***

CO_2 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 CO_2 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_2 emissions produced in the given year.

CO_2 emissions allowances that are consumed are recorded as per the emissions actually produced. An estimated payable for the obligation to submit CO_2 emissions allowances to the relevant authorities is recognised for an amount equivalent to the carrying amount of the capitalised CO_2 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 2017 according to Act no. 586/1992 Coll., Section 21, paragraph 1, which is 19% (2016: 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:

	Method	**Years**
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:

	Method	**Years**
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, Cessna 680 Citation Sovereign under operating lease agreements. 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. 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. ***Leases***

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, 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 finance lease obligation.

The assets are depreciated on a straight-line basis over the shorter of the lease term and the asset's useful life, unless it is reasonably certain that the lessee will obtain ownership by the end of the lease term. The related obligation is shown under Interest-bearing liabilities in the amount of discounted minimum lease payments less payments made.

Operating lease payments are recognised as an expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

At lease classification the group also considers the materiality aspect. Immaterial finance leases are classified as operating leases.
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. ***Investments and other financial assets***

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

As at 31 December 2017, financial assets (derivative financial instruments) have been designated as at fair value through profit and loss (2016: at fair value through profit and loss) – further comments are disclosed in note 12.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired.

As at 31 December 2017, the Group had no available-for-sale financial instruments (2016: Nil).

- **Impairment of financial assets**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

- **Assets carried at amortized cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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.

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. The resulting gain or loss is recognized immediately in profit or loss unless the derivative is designated and effective as hedging instrument. 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.

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.

The Group recognises provisions for following items:
- unused vacation
- provision for regular checks and overhauls

4.21. ***Related parties***

Related parties as defined by IAS 24 are persons and entities that Travel Service, a.s. has the ability to control or on which it can exercise significant influence, or persons and entities that have the ability to control or exercise significant influence on Travel Service, a.s. or that are influenced by another related party of Travel Service, 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 usualy 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
- Emission allowances
- Interest rates

The Group uses derivatives to limit foreign exchange rate and jet fuel prices risks, as well as it uses fuel and emission surcharges invoiced directly to B2B clients. A detailed description of the Group's exposure to above stated risks is presented in the note 13.

4.23. ***Changes in Accounting Policies arising from the Adoption of new IFRSs and Amendments to IASs/IFRSs***

- **New and amended standards adopted by the Group in 2017**

The following standards and their amendments are applicable on a mandatory basis to the 2017 financial statements:

- Amendments to IAS 7: Disclosure Initiative (effective for the period beginning January 2017)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective for the period beginning January 2017)
- Annual Improvements to IFRSs 2014-2016 Cycle

These amendments had no significant impact on the Group's financial statements as of December 31, 2017

- **New standards and interpretations not yet adopted, which are expected to potentially have impact on the Group's financial statements in the period of initial application**

Certain new standards, amendments and interpretations to existing standards have been published but have not yet become effective that are mandatory for the Group, which the Group has not opted for their early adoption.

The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2017, in accordance with their effective dates. In 2017, 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 Company are set out below:

- **New standard and amendments to IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)**

The new Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, regarding classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories: held to maturity, available for sale and loans and receivables.

Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value. The amendments to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement mainly in relation to liabilities designated as fair value through profit or loss in case of changes in fair value, attributable to changes in credit risk of that liability. The standard requires changes in fair value to be presented directly in other comprehensive income. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.

New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortised cost or fair value.

Additionally, amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments.

The Group does not expect the standard when initially applied to have significant impact on measurement of financial instruments and on the Group's financial statements.

- **New standard IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018)**

In May 2014, the IASB published the new standard IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). Clarifications to IFRS 15 were issued in April 2016. IFRS 15 will replace IAS 11, "Construction Contracts," IAS 18, "Revenue," IFRIC 13, "Customer Loyalty Programmes," IFRIC 15, "Agreements for the Construction of Real Estate," IFRIC 18, "Transfers of Assets from Customers," and SIC-31, "Revenue—Barter Transactions Involving Advertising Services."

The standard defines when revenues should be recognized and in what amount. According to IFRS 15, revenues should be recognized in the amount that reflects the consideration expected for the performance obligations being undertaken. The standard shall be applied for fiscal years beginning on or after January 1, 2018. Earlier application is permitted.

The Group analyzes the impact of the IFRS 15 application on revenue streams under both (new and old) standards. In general, commissions and booking fees are currently expensed when incurred, whereas under IFRS 15 they might qualify for capitalization, if considered to be incremental costs of obtaining a contract with customer, and be amortised on a systematic basis consistently with the providing the services to the customer.

The Group does not expect the adoption of the new revenue standard to have a material impact on the opening balance at the initial date of application. The new standards might have minor impact on the presentation of the income statement depending on result of analysis whether the Group act as an agent or principal at each particular case.

- **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 lease arrangements and lease 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.

The Group is currently analyzing and evaluating the impact on its financial statements in respect of the lease. The actual impact applying IFRS 16 on the Group's financial statements in the period of initial application will depend on future economic conditions (lease portfolio, borrowing rates etc.) and decision on application recognition exemptions.

The Group does expect the standard when initially applied will have substantial impact on the Group's financial statements given the number of aircraft operated under operating leases.

- **New standards and interpretations not yet adopted, which are not expected to have significant impact on the Group's financial statements in the period of initial application**

- **Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transaction – (effective for annual periods beginning on or after 1 January 2018)**

In June 2016, the IASB issued amendments to IFRS 2 being effective for annual periods beginning on or after 1 January 2018. The amendments clarify treatment for the effects of vesting conditions on a cash-settled share-based payment transaction, the classification of a share-based payment with net settlement features for withholding tax obligations and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

- **Amendments to IAS 40: Transfers of Investment Property – (effective for annual periods beginning on or after 1 January 2018)**

In December 2016, the IASB issued amendments to IAS 40 being effective for annual periods beginning on or after 1 January 2018. The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 and specify that such a transfer should only be made when there has been a change in use of the property.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

- **IFRIC 22: Foreign Currency Transactions and Advance Consideration – (effective for annual periods beginning on or after 1 January 2018)**

In December 2016, the IASB issued IFRIC 22 being effective for annual periods beginning on or after 1 January 2018. The interpretation relates to considerations denominated in a foreign currency received or paid in advance of the recognition of the related asset, expense or income. It clarifies, that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability in such cases. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

- **Annual Improvements to IFRSs 2014-2016 Cycle – (effective for annual periods beginning on or after 1 January 2018)**

In December 2016, the IASB issued a set of amendments to various standards. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

- **IFRIC 23: Uncertainty over Income Tax Treatments – (effective for annual periods beginning on or after 1 January 2019)**

IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures – (effective for annual periods beginning on or after 1 January 2019)**

Amendments to IAS 28 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS

9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

Application of these amendments is not expected to have a significant impact on the Group’s financial statements.

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation – (effective for annual periods beginning on or after 1 January 2019)**

In October 2017, the IASB issued amendments to IFRS 9 being effective for annual periods beginning on or after 1 January 2019. These amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

Application of these amendments is not expected to have a significant impact on the Group’s financial statements.

- **Annual Improvements to IFRSs 2015-2017 Cycle – (effective for annual periods beginning on or after 1 January 2019 and 1 January 2018)**

In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019.

Application of these amendments is not expected to have a significant impact on the Group’s financial statements.

- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement – (effective for annual periods beginning on or after 1 January 2019)**

Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Application of these amendments is not expected to have a significant impact on the Group’s financial statements.

- **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.

The Group is currently evaluating the impact on its financial statements.

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

The Group decided to adjust accounting policy for presenting the Prepayments on F/A acquistions. The Prepayments represent advance payments made on the purchase price of the eight aircraft (purchase contracts of the aircraft described in Note 15). As these Prepayments are done in foreign currency (USD), the revaluation of the Prepayments was performed at the end of each accounting period by the National Bank exchange rate.

As it became highly probable that the Prepayments do not represent a refundable deposit but are a part of final purchase price paid in advance the Group decided not to revaluate these Prepayments by the year end exchange rate and the adjustment was applied also retrospectively.

According to IFRIC 22, for the payment of advance consideration before the entity recognizes the related asset, the date of transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset.

The Group believes that the change and adjustments made provide reliable and more relevant information.

Relevant positions of financial statements retrospectively affected by the above described adjustment are presented below (incl. the impact on the current year):

Financial statement line affected	**Amount of the adjustment**	
	Period ended 31 December 2017	**Period ended 31 December 2016**
Consolidated balance sheet (statement of financial position)		
Prepayments on F/A acquisitions & F/A under constr.	184 424 794	-53 616 937
Deferred tax assets	-35 040 711	10 187 218
Total Non-current assets	149 384 083	-43 429 719
Retained earnings	149 384 083	-43 429 719
Total equity	149 384 083	43 429 719
Consolidated income statement		
Net financial expenses/income	184 424 794	-37 483 761
Profit before tax	184 424 794	-37 483 761
Income tax	-35 040 711	7 121 915
Profit for the period	149 384 083	-30 361 846
Consolidated Statement of Cash Flows		
Profit / Loss for the period	149 384 083	-30 361 846
Deferred income tax	35 040 711	-7 121 915
Net cash from operating activities	184 424 794	-37 483 761
Purchases of non-current assets	-184 424 794	37 483 761
Cash flows from investing activities	-184 424 794	37 483 761

5 REVENUES – SALES FOR TRANSPORTATION SERVICES

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

	2017	2016
Sales for charter services and related income	9 397 858 289	9 212 712 444
Sales for scheduled flights and related income	7 929 827 887	5 509 107 779
ACMI and other leases	1 714 920 742	2 296 733 136
Total Sales for transportation services	**19 042 606 918**	**17 018 553 360**

** Sales for charter services also include sales from Business Jet flights (Business Jets Aero cabs, i. e. Aerotaxi)*
** Sales for scheduled flights also include revenue from the sale of air tickets for code-share flights*

The share of the parent company Travel Service, a. s. in related income from transportation services was 81.51% in 2017, i. e. 15 520 705 206. In 2016 this share was 86.84%, i. e. 14 779 387 573.

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. In accordance with the five years outlook it is expected that total revenue including ČSA will be more then CZK 28 billion. 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. This one is linked with B2B.

The Group generates sales from regular passenger transportation, which it carries out under the Smart Wings trademark. Regular flights are organized particularly between Prague and Western European capital cities and Russia. Other flights are organized for individual tourism to destinations in the Mediterranean. This revenue is on the field B2C.

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. This revenue is on the field B2B.

The Group conducted dry lease arrangements too, which means lease of aircraft without their crews. This revenue is on the field B2B.

The Group's income originates also from operation of air taxis (Cessna model 680 Citation Sovereign jets). This revenue is on the field B2B and B2C.

6 OTHER OPERATING REVENUE

	2017	2016
Other operating revenue	401 421 328	119 670 852

The other operating revenue particularly comprise insurance indemnity, 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.

The significant part of the other operating revenue is the gain from bargain purchase of shares in Alpha Flight (as described in Note 1.2). The fair value of net assets acquired was higher than the purchase price of the shares by the amount of CZK 93 853 737 which is recognized in the current period as gain from bargain purchase.

7 OTHER OPERATING EXPENSES

	2017	2016
Catering	241 119 415	193 271 184
Crew lease	127 859 729	72 753 566
Employee cost	71 707 054	68 093 254
Building and interior expenses	30 889 250	30 733 392
Communication expenses	276 828 351	223 322 825
Advertising cost	51 337 588	53 310 940
Office supplies	21 472 075	21 354 780
Consultancy expenses	88 589 535	164 561 474
Bad debt reserve / cost	27 937 509	27 560 230
Insurance and claims cost	103 045 075	116 974 288
Sundry expenses	273 267 475	193 342 055
Total Other operating expenses	**1 314 053 056**	**1 165 277 987**

8 PERSONNEL EXPENSES AND STAFF NUMBERS

	2017	2016
Salaries	1 188 406 997	1 031 143 479
Remunerations of statutory bodies	80 000	63 000
Statutory health insurance and social contributions	367 526 467	291 998 550
Changes in provision for personnel expenses	-7 639 417	14 454 577
Salary related expenses (incl. "per diem", training etc.)	415 484 128	417 509 645
Total Personnel expenses	**1 963 858 175**	**1 755 169 252**
Average number of employees	**1 580**	**1 477**
Average personnel expenses per employee	**1 242 610**	**1 188 059**

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

	Average 2017	Average 2016
Flight and cabin crew	1 072	1 020
Maintenance department	186	182
Sales, operation and administration	322	275
Total average number of employees	**1 580**	**1 477**

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

	2017 TCZK	2016 TCZK
Basic remuneration	25 163	33 275
Total remuneration of directors and key management	**25 163**	**33 275**

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

	2017	2016
Interests charged	17 226 012	27 840 701
Interests capitalised	-2 769 439	-8 526 487
Interest expense - charge for discount (net of reversal of discount from previous years)	20 767 560	24 481 182
Interests received	-265 542	-119 385
Total Net Interest expense	**34 958 591**	**43 676 012**

10 NET OTHER FINANCIAL EXPENSE

	2017	2016
Currency fluctuation, net (+loss, -gain)	276 442 330	-49 476 887
Gain/loss from derivatives, net (+loss, -gain)	97 286 615	-109 761 032
Total Other financial expense	**373 728 945**	**-159 237 919**

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

11 INCOME TAX EXPENSES AND DEFERRED INCOME TAXES

Income tax expenses and deferred taxes	2017	2016
Current income tax expense	12 092 565	71 836 991
Deferred income tax	-34 505 274	-30 137 701
Total Income tax expense	**-22 412 709**	**41 699 290**

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 2017 period was 19% (2016: 19%).

As at 31 December 2017, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% (2016: 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 (except from Travel Service Slovensko s.r.o. – 2017: 21%, 2016: 22%)

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

Reconciliation of expected to effective income tax expenses	**2017**	**2016**
Result before income taxes	-74 741 685	355 811 244
Expected income tax expense	**-14 200 920**	**67 604 136**
Permanent differences	-11 111 789	-30 435 931
Effect of tax rate changes	0	0
Prior-period current tax expense	2 900 000	4 531 085
Other	0	0
Effective income tax expense	**-22 412 709**	**41 699 290**
Effective income tax rate	**30%**	**12%**

Deferred income 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:

Deferred tax assets and liabilities	**2017**	**2016**
Deferred tax liabilities:		
Difference between tax base and carrying amount of non-current assets	-42 717 534	-19 271 576
Other	-10 890 743	-1 781 458
Deferred tax liabilities, net	**-53 608 277**	**-21 053 035**
Deferred tax assets:		
Tax loss carryforward	94 069 294	3 580 719
Discounted Deposits	23 799 234	25 767 824
Provisions	71 186 837	85 771 815
Depreciation of reclassified spare parts to fixed assets	13 430 870	11 158 543
Elimination of FX revaluation of Prepayments for MAX	0	10 187 218
Other	16 687 952	15 801 482
Deferred tax assets, net	**219 174 187**	**152 267 601**
Deferred tax, net at the end of period	165 565 911	131 214 567
Deferred tax, net at the beginning of period	131 214 567	98 393 791
Adjustment for prior year deferred tax	0	3 065 303
Change in deferred tax position	**34 351 344**	**29 755 473**
Effect of exchange rate fluctuations on taxes	-153 930	-382 228
Deferred income tax expense (benefit)	**34 505 274**	**30 137 701**

12 DERIVATIVES

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

	CZK thousand 2017	CZK thousand 2016
Currency risk:		
Currency Forwards and Options	-38 007	31 293
Commodity risk:		
Commodity Swaps and Options	7 894	59 568
Total Derivatives – Year-end Fair Values	**-30 114**	**90 861**

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:

	CZK thousand 2017	CZK thousand 2016
Currency Forwards and Options	69 300	20 334
Commodity Swaps and Options	27 987	89 427
Total Gains(+)/Losses(-) on derivatives net	**97 287**	**109 761**

13 FINANCIAL RISK MANAGEMENT

- **Credit risk**

The Group is exposed to 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:

	Carrying amounts 2017	**Carrying amounts 2016**
Receivables	1 254 270 076	1 276 360 819
Security deposits	617 861 133	711 547 864
Positive market values of derivatives	0	90 860 974
Cash and cash equivalents	151 744 969	487 746 182
Total financial assets	**2 023 876 178**	**2 566 515 839**

The Group recognised impairment losses only on financial assets included in category of loans and receivables. The impairment losses recognised can be summarised as follows:

	2017	**2016**
Receivables - carrying amount	1 310 387 102	1 355 860 410
Receivables - impairment	-56 117 026	-79 499 591
Receivables, net	**1 254 270 076**	**1 276 360 819**

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 mitigates 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 operating revenue of the parent company in US$ was USD 236.392.339 and operating expenses in US$ was USD 368.845.790. The operating revenue of the parent company in EUR was EUR 309.781.946 and operating expenses in EUR was EUR 176.423.935 in 2017.

The operating revenue of the parent company in US$ was US$ 254,430,537 and operating expenses in US$ was US$ 317,556,937 in 2016. The operating revenue of the parent company in EUR was € 230,588,040 and operating expenses in EUR was € 146,433,827 in 2016.

Operations on the market in the Slovak Republic mitigates the risks linked with EUR.

If the exchange rate CZK/USD for all transactions in 2017 had increased/decreased by 5%, the impact linked with the operating profit would have been 159.715.925 CZK. If the exchange rate CZK/EUR for all transactions in 2017 had increased/decreased by 5% the impact linked with the operating profit would have been 175.308.256 CZK. The calculation involves the impact of realized transactions on profit and loss and does not involve the impact of unrealised exchange rate differences on balance sheet positions.

The following significant exchange rates were applied during the year:

Applied exchange rates	**Average 2017**	**Year-end 2017**
USD	23,382	21,291
EUR	26,33	25,54
PLN	6,185	6,114
HUF	0,0852	0,0823

	Average 2016	**Year-end 2016**
USD	24,432	25,639
EUR	27,033	27,020
PLN	6,198	6,126
HUF	0,0868	0,0872

Interest rate risk

The interests linked with bank loans are on the floating base of PRIBOR respectively 3M 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 foreign currency risk in the periods 2017 and 2016.

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 2017 the Group have concluded commodity SWAPs to secure the fuel price.

2017		Platts used as Price Basis for Month: 2017											
Platts	**Units**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
FOB Rotterdam High	USC/USG	153.35	156.24	158.27	148.64	152.92	145.44	137.34	145.42	155.96	168.02	169.51	185.22
	USD/MT	507.59	517.15	523.86	491.99	506.17	481.39	454.58	481.33	516.22	556.13	561.09	613.09
CIF NWE High	USC/USG	155.15	157.41	159.11	149.27	154.23	146.77	138.42	147.08	156.42	167.90	168.53	183.23
	USD/MT	513.56	521.02	526.66	494.08	510.49	485.82	458.18	486.82	517.76	555.75	557.85	606.50
FOB MED Italy High	USC/USG	149.05	152.41	154.97	143.72	149.08	142.63	134.45	143.30	152.94	163.21	164.15	179.04
	USD/MT	493.35	504.48	512.96	475.72	493.44	472.11	445.05	474.31	506.24	540.24	543.33	592.61
2016		**Platts used as Price Basis for Month: 2016**											
Platts	**Units**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
FOB Rotterdam High	USC/USG	112.96	93.68	98.91	113.05	119.78	133.52	139.97	130.08	130.64	132.94	146.35	136.49
	USD/MT	373.89	310.09	327.40	374.20	396.48	441.96	463.30	430.56	432.42	440.02	484.43	451.77
CIF NWE High	USC/USG	116.42	94.98	100.36	114.35	120.39	134.39	141.20	131.12	131.11	133.90	147.01	137.81
	USD/MT	385.35	314.39	332.19	378.50	398.50	444.84	467.39	434.00	433.97	443.22	486.60	456.16
FOB MED Italy High	USC/USG	109.73	88.74	95.21	109.78	114.41	129.62	136.45	126.74	126.95	130.19	142.91	133.13
	USD/MT	363.20	293.73	315.13	363.38	378.71	429.05	451.65	419.51	420.19	430.92	473.05	440.67

Fuel price risk is linked with charter flights, scheduled fligths 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 basis. The other part of the price is fixed surcharge called differrential. This part is result of tenders and negotitation with the suppliers.

In 2017 total consumption of the fuel was 268,036 tons (2016: 245,124 tons). The main base for the calculation of fuel price is FOB Rotterdam High.

The commodity swaps were concluded with Komerční banka, UniCredit Bank Czech Republic and Slovakia, a. s. and Česká spořitelna, a. s. As of 31st December 2017 the commodity swaps were concluded for 25,000 to 35,000 tons of jet fuel. The exact amount is subject to business secrets.

14 INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
	CZK	CZK	CZK	CZK
Cost or valuation				
Balance at 1 January 2016	**52 163 408**	**8 213 726**	**10 900 101**	**71 277 236**
Additions	9 292 310	32 832 926	7 266 379	49 391 615
Disposals or classified as held for sale	-81 355	-4 456 588	0	-4 537 943
Balance at 31 December 2016	**61 374 363**	**36 590 065**	**18 166 480**	**116 130 908**
Additions	16 687 994	12 885 365	56 297	29 629 656
Disposals or classified as held for sale	-537 060	-24 627 176	-2 274 689	-27 438 925
Transfer	10 971 163	0	-15 891 791	-4 920 628
Balance at 31 December 2017	**88 496 460**	**24 848 254**	**56 297**	**113 401 011**
Accumulated depreciation and impairment	CZK	CZK	CZK	CZK
Balance at 1 January 2016	**38 165 317**	**3 010 732**	**0**	**41 176 049**
Eliminated on disposals of assets	0	0	0	0
Amortisation expense	8 607 800	134 083	0	8 741 883
Balance at 31 December 2016	**46 773 117**	**3 144 815**	**0**	**49 917 932**
Eliminated on disposals of assets	-402 060	-484 639	0	-886 699
Amortisation expense	11 214 034	200 623	0	11 414 657
Balance at 31 December 2017	**57 585 091**	**2 860 799**	**0**	**60 445 890**
Net book value at 31 December 2016	**14 601 247**	**33 445 250**	**18 166 480**	**66 212 977**
Net book value at 31 December 2017	**30 911 369**	**21 987 455**	**56 297**	**52 955 121**

Software includes the licences to Navision system, AIMS planning system, SQL Server etc. Additions to software represent development of accounting information system MS Dynamics NAV and preparation of upgrade to new version of the system and further development of the EFA software offering sales and operational functions.

In the year 2017 the process of the implementation and addition to intangible assets of the information system OASES was finished. This represents the major change of the intangible assets in progress.

Other intangible assets represent the acquisition cost of trade mark SMART WINGS and the relevant domain, licences to new reservation system Amadeus which improves the process of distribution of air tickets and brings considerable possibilities for selling of air tickets. Other intangible assets include also 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	Aircraft and aircraft related and other equipment	Tangible assets in progres	Prepayments on F/A acquisitions	Total
	CZK	CZK	CZK	CZK	CZK
Cost or valuation					
Balance at 1 January 2016	**231 408 237**	**320 387 322**	**19 584 464**	**201 150 550**	**772 530 573**
Additions	310 000	92 720 227	8 968 434	410 459 564	512 458 225
Disposals	0	-24 105 245	-13 395	0	-24 118 640
Effect of foreign currency exchange differences	0	0	0	0	0
Transfer	0	330 269	-330 269	0	0
Balance at 31 December 2016	**231 718 237**	**389 332 573**	**28 209 234**	**611 610 114**	**1 260 870 158**
Additions	0	8 465 233	24 042 025	599 125 285	631 632 543
Disposals	0	-63 438 841	0	0	-63 438 841
Effect of foreign currency exchange differences	0	0	0	0	0
Transfer	0	78 471	5 813 997	-971 840	4 920 628
Balance at 31 December 2017	**231 718 237**	**334 437 436**	**58 065 256**	**1 209 763 559**	**1 833 984 488**

Accumulated depreciation and impairment	Buildings at cost	Aircraft and aircraft related and other equipment	Tangible assets in progress	Prepayments on F/A acquisitions	Total
	CZK	CZK	CZK	CZK	CZK
Balance at 1 January 2016	**69 099 712**	**111 989 272**	**0**	**0**	**181 088 984**
Eliminated on disposals of assets	0	-23 698 571	0	0	-23 698 571
Depreciation expense	9 863 404	22 339 156	0	0	32 202 560
Balance at 31 December 2016	**78 963 117**	**110 629 856**	**0**	**0**	**189 592 973**
Eliminated on disposals of assets	0	-3 574 989	0	0	-3 574 989
Depreciation expense	9 872 450	20 311 872	0	0	30 184 322
Balance at 31 December 2017	**88 835 567**	**127 366 739**	**0**	**0**	**216 202 306**
Net book value at 31 December 2016	**152 755 120**	**278 702 716**	**28 209 234**	**611 610 114**	**1 071 277 185**
Net book value at 31 December 2017	**142 882 670**	**207 070 697**	**58 065 256**	**1 209 763 559**	**1 617 782 182**

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

Borrowing costs capitalised in 2017 and 2016 were CZK 7 434 thousand and CZK 5 148 thousand.

Buildings include administrative building of the Group where Travel Service, 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, modernize its fleet of aircraft that aims mainly at purchases and operating lease of aircraft Boeing 737 – MAX, in December 2016 the Group signed a contract in respect of a supply of 5 aircraft, type Boeing 737 – MAX. In total, together with the previous contract dated 29.7.2013 signed with Boeing Company for delivery of 3 aircraft type Boeing 737 MAX, the Group entered into contracts to purchase eight aircraft of this type that are now recognized as the Group's assets – Prepayments on F/A acquisitions. As of 31 December 2017, advance payments of CZK 1 209 763 559 thousand were made in respect of these supplies.

16 CAPITAL COMMITMENTS

One of the pillars of Travel Service strategy is to renew its fleet consisting on B 737 NG by new model B 737 MAX. Travel Service concluded with Boeing Company two purchase agreements linked with delivery of eight aircraft in total. These aircraft will become Travel Service assets. Part of the concluded purchase contracts is a confidentiality agreement, and therefore, the very indicative figures are given below. The financing of these ones could be split to the three steps – financing of the pre-delivery payments and financing of the first three aircraft and financing of the second five aircraft. Besides the aircraft purchased, other new aircraft will be continuously leased in the following years.

Delivery schedule of the aircraft:

a) 2018 – 6 aircraft (January 18 – 1 (Operational Lease, hereinafter OL), March 18 – 1 (OL), May 18 -2 (OL), June 18 – 1 (OL), September 18 -1 (Purchase));
b) 2019 – 13 aircraft (February 19 – 1 (OL), March 19 – 3 (OL – 2 aircraft, Purchase – 1 Aircraft), April 19 -1 (OL), May 19 – 1(OL), June 19 – 3 (OL – 2 aircraft, Purchase - 1 Aircraft , July 19 – 1(OL), October 19 – 1 (OL), November 19 – 1 (OL), December 19 – 1(OL));
c) 2020 – 8 aircraft (January 20 – 1 (OL), February 20 – 1(OL), March 20 – 1 (OL), April 20 – 1 (OL), May 20 – 1 (OL), November 20 – 1 (OL), December 20 – 2 (OL));
d) 2021 - 5 aircraft (January 21- 1 (OL), , April 21 – 2 (OL), May 21 – 1(OL), June 21 – 1 (OL));
e) 2022 – 5 aircraft (February 22 -1 (Purchase), March 22 – 1 (Purchase), April 22 – 1 (OL), May 22 – 1 (OL), May 22 – 1 (Purchase));
f) 2023 – 2 aircraft (February 23 – 1 (Purchase), March 23 -1 (Purchase)).

Due to Purchase Agreements Travel Service has to remit significantly more than 10 % of Airframe Price, Features, etc. Total amount of pre-delivery payment is significantly more than US$ 100,000 thousand from July 2013 till March 2022. Travel Service has paid signifacantly more than US$ 50,000 thousand. Remaining amount will have been to paid by 1st March 2022.

From Travel Service position new aircraft will be sufficient and good security for the creditors.

Travel Service looks for the optimal solution and sources for the financing of the aircraft acquisition – purchase price. Travel Service expected[2]:

a) Term of the loans – 10 years;
b) Security – purchased aircraft;
c) Usual and competitive interest.

17 INVESTMENTS IN ASSOCIATES

Details of material associates

Investment in associates represent the Group's interest in an associate České aerolinie a.s. (34% share) – supplementary information is disclosed in note 3.2. and the Group's interest in an associate Alpha Flight a.s.

Investment in ČSA

Korean Air Lines Co., Ltd., as the seller and Travel Service, a.s. as the purchaser concluded the Agreement on the Sale and Purchase of Shares on 3rd April 2014.

Travel Service acquired on March 31st, 2015 the following shares in České aerolinie a.s ("the ČSA"):

356,015 common registered certificated shares with a nominal value of CZK 5,000 each, Nos. 000 001 – 356,015, issued by the ČSA, replaced by the global share certificate no. 1 with a total nominal value of CZK 1,780,075,000 issued by the ČSA and representing 34% of the registered capital of the ČSA and 34% of voting rights on the General Meeting of the ČSA.

The registered capital of České aerolinie a. s. amounts to CZK 5,235,510,000 and is divided into 1,047,102 shares. The list of the shareholders is following:

1. Travel Service, a. s., corporate ID No. 25663135, stake 34 %;
2. Korean Air Lines, Co. Ltd, corporate ID No. 110111-0108484, stake 44%;
3. PRISKO a. s., corporate ID No. 46355901, stake 19,74%;
4. Česká pojišťovna, a. s., corporate ID No. 45272956, stake 2,26%.

The ČSA is the Czech national carrier with its hub at Prague Airport, it is one of the oldest airlines in Europe (it has been operating since 1923). The core business of the company is air transport of passengers and cargo. The ČSA is member of the SkyTeam alliance. Over the last few years, the company has undergone a massive restructuring in the context of the Restructuring Plan approved by the Commission by means of its State aid decision No. SA.30908 (2011/C, ex N176/2010). At the beginning of its restructuring process, the ČSA's

[2] See Chapter 27 SUBSEQUENT EVENTS

fleet included 44 aircraft operated on scheduled flights, with 5 additional aircraft assigned to charter service. During the restructuring, the ČSA's fleet has been down-sized to the current 18 aircraft and simplified to include only Airbus (1x Airbus A330-300, 9x Airbus A319-100) and ATR aircraft (5 x ATR72 and 3x ATR42). Moreover, the ČSA has reduced its charter business, and since 2013 the company primarily operates scheduled flights and charter flights on an ad hoc basis only. As a part of the restructuring, ČSA has also undergone major network adjustments consisting of the reduction of routes and frequencies with the strategy of connecting the growing markets of Russia/CIS to Western Europe. ČSA operates also long-hole flights for example to Soul in South Korea.

As of 31st December 2017 ČSA used the following aircraft:

No.	Reg. Mark	MSN	Type	Lessor	Redelivery
1.	OK-MEK	3043	A319	B. aircraft, a.s.	March 2019
2.	OK-MEL	3094	A319	B. aircraft, a.s.	April 2019
3.	OK-NEM	3406	A319	B. aircraft, a.s.	February 2020
4.	OK-NEN	3436	A319	B. aircraft, a.s.	March 2020
5.	OK-NEO	3452	A319	B. aircraft, a.s.	April 2020
6.	OK-NEP	3660	A319	B. aircraft, a.s.	September 2020
7.	OK-REQ	4713	A319	ČSA Asset	ČSA Asset
8.	OK-OER	3892	A319	Shenton A. L. (I.) Ltd.	May 2018
9.	OK-PET	4258	A319	BOC Av. (I) Ltd.	March 2019
10.	OK-YBA	A330-323	A330	Korean Air Lines Co., Ltd.	October 2020
11.	OK-GFR	681	AT72	Safair L. F. 72 Ltd.	September 2020
12.	OK-GFQ	674	AT72	Safair L. F. 72 Ltd.	October 2020
13.	OK-GFS	679	AT72	Safair L. F. 72 Ltd.	December 2020
14.	OK-MFT	761	AT72	NAC Av. 8 Ltd.	October 2019
15.	OK-NFU	789	AT72	NAC Av. 8 Ltd.	March 2021
16.	OK-KFN	637	AT42	Elix Ass. 7 Ltd.	March 2019
17.	OK-KFO	633	AT42	Elix Ass. 7 Ltd.	October 2018
18.	OK-KFP	639	AT42	Elix Ass. 7 Ltd.	October 2018

Travel Service and the ČSA both operate in the markets for: (i) scheduled transport of passengers, (ii) charter air transport; and (iii) air transport of cargo. Activities of ČSA and Travel Service horizontally overlap primarily in the segment of scheduled air transport of passengers.

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

ČSA	**2017 TCZK**	**2016 TCZK**
Current assets	2 450 954	1 864 562
Non-current assets	1 579 931	1 724 960
Current liabilities	-2 340 488	-2 072 555
Non-current liabilities	-179 654	-358 120
Total Net Assets	**1 510 743**	**1 158 847**

	2017 TCZK	2016 TCZK
Revenue	9 154 912	7 260 964
Profit or loss from continuing operations	327 130	431 857
Post-tax profit (loss) from discontinued operations	0	0
Profit (loss) for the year	327 130	431 857
Other comprehensive income for the year	24 766	148 782
Total comprehensive income for the year	**351 896**	**580 639**
Dividends received from the associate during the year	0	0

	2017 TCZK	2016 TCZK
Carrying amount of the Group´s interest in ČSA (excl. goodwill) at the beginning of the period	**505 313**	**260 619**
Net assets of the associate	1 510 743	1 158 847
Adjustments in respect with revaluation of net assets to fair value	-1 554	-22 616
Change of net assets for the period	351 896	558 023
Proportion of the Group´s ownership interest in ČSA	34%	34%
Addition to post acquisition share on profit and OCI of ČSA for the period	119 116	189 729
Goodwill at the date of acquisition (31 March 2015)	54 966	54 966
Carrying amount of the Group´s interest in ČSA incl. goodwill at the end of the period	**624 430**	**505 313**

Investment in Alpha Flight, a.s.

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

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. Travel Service, 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.

Alpha Flight	**2017 TCZK**
Current assets	141 559
Non-current assets	415 235
Current liabilities	-88 897
Non-current liabilities	0
Total Net Assets	**467 897**

	2017 TCZK
Revenue	464 541
Profit or loss from continuing operations	34 093
Post-tax profit (loss) from discontinued operations	0
Profit (loss) for the year	34 093
Other comprehensive income for the year	0
Total comprehensive income for the year	**34 093**
Dividends received from the associate during the year	0

	2017 TCZK
Carrying amount of the Group´s interest in Alpha Flight (excl. goodwill) at the beginning of the period	**0**
Net assets of the associate	467 897
Change of net assets for the period	-3 357
Proportion of the Group´s ownership interest in Alpha Flight	20%
Post acquisition share on profit and OCI of Alpha Flight	-671
Goodwill/Badwill at the date of acquisition (30st September 2017)	-93 854
Carrying amount of the Group´s interest in Alpha Flight at the end of the period	**93 579**

As the purchase price of the share in Alpha Flight was significantly lower than fair value of the net assets acquired, the Group recognized in the current period a gain from bargain purchase in the amount of CZK 93 853 737 (also described in note 6).

18 INVENTORIES

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

Inventories	**2017**	**2016**
Spare parts	254 323 510	145 465 085
Other material	420 651	246 461
Goods	3 800	128 061
Total Inventories	**254 747 961**	**145 839 607**

Inventories are measured at the lower of cost and net realisable value. In 2017 the impairment of inventories was CZK 6 665 185 (2016: CZK 4 716 550). 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.

An increase of balance of spare parts for aircraft reflects strategy of the Group to minimize any stand-by of aircraft and delay of operating flights due to lack of spare parts.

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:

	2017	**2016**
Trade receivables	1 315 864 660	1 463 618 774
Other receivables	330 581 552	369 981 971
Offset*	-392 176 136	-557 239 926
Total Trade and Other Receivables	**1 254 270 076**	**1 276 360 819**

	2017	**2016**
Advanced payments and deposits	218 511 968	309 914 904
Receivables from employees	9 037 144	85 649 091
Prepaid leasing payments	72 993 006	96 644 137
Prepaid expenses other	53 989 919	35 784 387
VAT receivable	9 480 869	6 259 006
Other receivables	12 537	1 785 998
Total Other Receivables	**364 025 442**	**536 037 524**

* The Group classified transactions with its business partners under different asset and liability entries, 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 entries, the estimated set-off is also disclosed in the annual financial statements.

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 other expenses consist primarily of insurance and training costs and preliminary invoiced expenses of unfinished overhauls.

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:

	2017	**2016**
Trade and other receivables - gross	1 702 563 238	1 913 100 336
Offset	-392 176 136	-557 239 926
Impairment (Provision for bad debts)	-56 117 026	-79 499 591
Total Net trade and other receivables	**1 254 270 076**	**1 276 360 819**

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

Non-current Receivables	**2017**	**2016**
Nominal values of operating lease related deposits	743 120 260	847 167 992
Discount on operating lease related deposits	-125 259 127	-135 620 128
Total Non-current Receivables	**617 861 133**	**711 547 864**

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 SHARE CAPITAL AND RESERVES

	2017	**2016**
Share capital	1 241 236 250	1 241 236 250
Share premium	10 149 214	10 149 214
Statutory reserve	55 388 957	42 089 846
Foreign currency translation reserve	-29 000 840	-19 255 309
Retained earnings	265 302 734	-39 098 811
Result for the period	-52 328 976	314 111 954
Share on OCI at equity investments	90 984 265	82 563 675
Total Equity	**1 581 731 605**	**1 631 796 818**

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

The shareholdings and voting rights of the shareholders as at 31 December 2017 and 2016 are as follows:

2017	**Share in %**	**TCZK**
	2017	**2017**
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
Total	**100,00%**	**1 241 236**

2016	**Share in %**	**TCZK**
	2016	**2016**
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
Total	**100,00%**	**1 241 236**

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.

As at 31 December 2016, 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 (further information is disclosed in note 22).

21 PROVISIONS

	2017	2016
Untaken vacation	41 804 547	49 443 964
Repair and maintenance	352 863 019	401 986 642
Other	2 088 609	1 058 323
Total Provisions	**396 756 175**	**452 488 929**

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 bodies of the Company adopted decisions according to this one the renewal of the fleet will have been taken place from January 2018 by December 2024.

The repair and maintanance 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 averge, the provision is discounted accordingly. The discount rate is set at 2.5 %.

The repair and maintanance 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.

The bodies of the Company adopted decisions on the renewal of the fleet in the period from January 2018 to December 2024. It is expected that maintenance costs will be reduced.

22 INTEREST-BEARING LIABILITIES

The Group has entered into following interest-bearing liabilities:

Long-term interest bearing liabilities	**2017**	**2016**
Bank overdrafts	0	0
Loans	83 333 333	104 166 667
Total Long-term interest bearing loans	**83 333 333**	**104 166 667**

Short-term interest bearing liabilities	**2017**	**2016**
Bank overdrafts	588 114 026	339 574 678
Loans	773 333 333	328 736 009
Total Short-term interest bearing loans	**1 361 447 360**	**668 310 687**

Payments of the interest-bearing liabilities are due as follows:

Payments for interest-bearing liabilities	**2017**	**2016**
Less than one year	1 361 447 360	668 310 687
Between one and five years	83 333 333	104 166 667
Total interest bearing liabilities	**1 444 780 693**	**772 477 354**

Overview of loans according to loan providers:

31 December 2017 **Loan provider**	**Total amount of loan /credit limit TCZK** **Unpaid part TCZK**	**of which due less than 1 year** **TCZK**	**of which due in 1 and more years** **TCZK**
Komerční banka, a.s.	80 000		
Overdraft	18 830	18 830	0
Komerční banka, a.s.	470 000		
Revolving credit	340 000	340 000	0
Raiffeisenbank a.s.	300 000		
Short-term credit	300 000	300 000	0
Raiffeisenbank a.s.	125 000		
Medium-term credit	62 500	41 667	20 833
UniCredit Bank Czech Republic and Slovakia, a.s.	550 000		
Overdraft	486 290	486 290	0
UniCredit Bank Czech Republic and Slovakia, a.s.	125 000		
Medium-term credit	41 667	41 667	0
Česká spořitelna, a. s.	150 000		
Medium-term credit	112 500	50 000	62 500
Česká spořitelna, a. s.	100 000		
Overdraft	82 994	82 994	0
Credit Limit in total	**1 900 000**		
Unpaid part in total	**1 444 781**	**1 361 448**	**83 333**

31 December 2016 **Loan provider**	**Total amount of loan /credit limit TCZK** **Unpaid part TCZK**	**of which due less than 1 year** **TCZK**	**of which due in 1 and more years** **TCZK**
Komerční banka, a.s.	80 000		
Overdraft	0	0	0
Komerční banka, a.s.	370 000		
Revolving credit	38 641	38 641	0
Raiffeisenbank a.s.	200 000		
Short-term credit	200 000	200 000	0
Raiffeisenbank a.s.	125 000		
Medium-term credit	110 928	48 428	62 500
UniCredit Bank Czech Republic and Slovakia, a.s.	500 000		
Overdraft	339 568	339 568	0
UniCredit Bank Czech Republic and Slovakia, a.s.	125 000		
Medium-term credit	83 333	41 666	41 666
Česká spořitelna, a. s.	100 000		
Overdraft	8	8	0
Credit Limit in total	**1 500 000**		
Unpaid part in total	**772 477**	**668 311**	**104 166**

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.

UniCredit Bank Czech Republic and Slovakia, a. s. and Travel Service, a.s. entered into a loan agreement on 29 September 2004, as amended. The Group may use a revolving multipurpose line in the maximum amount of CZK 550,000 thousand in the period from 1 November to 30 June or CZK 250,000 thousand in the period from 1 July to 31 October to finance its operations, to issue bank guarantees or documentary letters of credit or to pursue treasury transactions. On 30th April 2018 the parties entered into amendment 28 which sets the multipurpose line in the maximum amount of CZK 600,000 thousand. The loan is due on 31 December 2018.

Shares issued by Travel Service a.s., namely a total of 1,250 ordinary shares in the nominal value of CZK 125,000 thousand were put in pledge for the benefit of UniCredit Bank Czech Republic and Slovakia, a. s., by the following pledgers:

1. UNIMEX GROUP, a. s. - 44 ordinary shares in the nominal value CZK 4,400 thousand;
2. Ing. Roman Vik - 184 ordinary shares in the nominal value of CZK 18,400 thousand;
3. CANARIA TRAVEL, spol. s r. o. - 152 ordinary shares in the nominal value of CZK 15,200 thousand.

On 29 December 2015, Travel Service, a.s. entered into LOAN AGREEMENT reg. no. 1327/15-120 with UniCredit Bank Czech Republic and Slovakia, for a loan due by 31 December 2018, a. s. Under the agreement, the Group received a credit to finance advance payments to buy fixed tangible assets – the airplane Boeing 737 – MAX. The loan shall be repaid quarterly in regular installments starting from 31 March 2016. The payments at 31 March 2016, 30 June 2016, 30 September 2016 and 31 December 2016 in the amount of CZK 10,416,666.67 were settled by due dates specified by the agreement. In 2016, the Group paid a principal in the amount of CZK 41,667 thousand.

On 18 December 2014, Travel Service, a.s. made with Komerční banka, a. s. a General Agreement for Provision of Financial Services (General Agreement). On 30 November 2015, the parties entered into Amendment 3 to the General Agremeent, which set the global credit line at CZK 500,000 thousand for the period from 1 December 2015 to 31 May 2016 and for CZK 370,000 thousand for the period from 1 June 2016 to 30 November 2016. A total of CZK 80,000 thousand may be used in the form of an overdraft, and CZK 370,000 thousand in the form of a revolving credit. Under the Agreement, the Group may use other products also so long as it does not exceed the sum of the foregoing limits. These include customs guarantees (CZK 50,000 thousand), performance bond (CZK 150,000 thousand), payment guarantees (CZK 200,000 thousand), documentary letters of credit (CZK 200,000 thousand) and standby letters of credit (CZK 200,000 thousand).

On 6th March 2017, the parties entered into Amendment 4, which set the global credit line at CZK 600,000 thousand (including customs guarantees), for the period from 1st June 2017 credit line CZK 470 000 thousand and for the period from 1st December credit line CZK 600 000 thousand.

The General Agreement and the products ensuing from it are secured by a pledged created for the benefit of Komerční banka, a. s. as follows:

1. A letter of comfort issued by UNIMEX GROUP, a. s., Reg.No. 41693540;

2. A mortage over real property – an office buiding number 1068, Ruzyně, owned by the subsidiary T. S. Building, s. r. o., registered office Praha 1, Václavské nám. 53/815, Reg.No. 645 83 970;

3. Securities – 694 shares serial number 359 -409, 668-707, 951-1036, 5308 – 5824 in the nominal value CZK 100,000 per each, issued by Travel Service, a. s. owned by UNIMEX GROUP, a.s., Reg.No. 41693540. The nominal value of secured shares is CZK 69,400 thousand;

4. Securities – 554 shares serial number 631-667, 4791-5307 in the nominal value CZK 100,000 per each, issued by Travel Service, a. s. owned by Ing. Roman Vik. The nominal value of secured shares is CZK 55,400 thousand;

5. Securities – 1,670 shares serial number 0410-0434, 0772-0784, 5825-7456 in the nominal value CKZ 100,000 per each, issued by Travel Service, a. s. owned by CANARIA TRAVEL, spol. s r.o., Reg.No. 49689428. The nominal value of secured shares is CZK 167,000 thousand;

6. Securities – 53,846 shares serial number 12.412-66257 in the nominal value CZK 1 per each, issued by Travel Service, a. s. owned by CANARIA TRAVEL, spol. s r.o., Reg.No 49689428. The nominal vlaue of secured shares is CZK 54 thousand;

7. Securities – 3,288 shares serial number 1-242, 628-630, 1037-1057, 1101-1207, 1251-1530, 1626-1823, 1938-2084, 2501 – 4790, in the nominal value CZK 100,000 per each, issued by Travel Service, a. s. owned by China International Group Corporation limited, registration number 1580628. The nominal value of secured shares is CZK 328,800 thousand;

The nominal value of shares issued by Travel Service, a. s. and given in pledge to Komerční banky, a.s. Praha is CZK 620,654 thousand, i.e. 50% of the Company's registered capital.

The Group cooperates with Raiffeisenbank a.s., which also assist in the arrangement of day-to-day payment transaction and in financing the Group's operations and investments. In the area of operations financing, the bank granted the Group an overdraft credit in the amount of CZK 300,000 thousand under a loan contract No. 980466/2013/2. On 30 November 2016, the parties entered into amendment No. 5 to the foregoing loan agreement which set the term for drawing the credit at 30 June 2017 or 30 November 2017 respectively, subject to the prior consent of the bank's department in charge of the loan agreement. The final due date is set at 30 June2018.

On 27 May 2016, Raiffeisenbank a.s. and Travel Service, a.s. entered into an investment credit contract which granted the Group a mid-term investment credit in the amount of CZK 125,000 thousand to finance the advance payment for the purchase of the new airplane Boeing 737-8 MAX. The credit is redeemed in quarterly payments in the amount of CZK 10,417 thousand since 30 September 2016. The final due date of the credit is set at 31 May 2019.

The Group also cooperates with Česká spořitelna, a. s., which granted the Group an overdraft for the amount of CZK 100,000 thousand under a contract for a credit line due by 28 February 2018. The Group did not make use of the ovedraft at the balance sheet date.

The Group received a mid-term credit in the amount of CZK 150 000 thousand to refinance the purchase of the new airplane Boeing 737-8 MAX. The credit was drawn on 22 February 2017. The credit is secured by a blank bill of exchange plus the Contract About the Right to Complete a Blank Bill of Exchange. The credit is settled in monthly installments in the amount of CZK 4,167 thousand. The last installement in the amount of the outstanding part of the principle is scheduled on the 3rd anniversary of the execution date of the contract, i.e. on 22 February 2020.

Interest rates charged on the credit are flexible; they are based on Pribor/Libor/EURIBOR rates, depending on the currency of the loan, and a fixed mark-up in the range from 1.0% p. a. to 2.5% p. a. (the exact figure is protected by trade secret).

The Group has current accounts in Komerční banka, a. s., in UniCredit Bank Czech Republic and Slovakia, a.s., in Česká spořitelna, a.s., in Raiffeisenbank a.s., in Citibank Europe plc, organizační složka and in Československá obchodní banka, a.s. For payment transactions in Slovakia, the Group also cooperates with Tatra Banka, a. s. and a foreign bank branch – Komerční banka Bratislava, in Poland with PEKAO Bank, in Istrael with Citi Bank and in Ireland with Citi Bank.

23 LEASES

The Group leases number of aircraft under leasing agreements which qualify as operating lease agreements. The leases typically run for the period of 9 - 15 years and terminate automatically upon expiry of the lease term. Lease payments are denominated in USD and vary depending upon the change in market rate of interests.

Further comments to leases are disclosed in note 4.13.
Future minimum lease payments from operating lease agreements can be analysed as follows:

Future lease payments	**Amounts at CZK/USD year-end rate**
due in 2018	2 281 769
due in 2019	2 154 923
due in 2020	1 951 613
due in 2021	1 606 872
due in 2022	1 005 246
due in 2023 and later	1 342 414
Total Future minimum lease payments	**10 342 837**

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 one aircraft with capacity of 212 passengers. In 2015, the Group's fleet of aircraft also included two aircraft Airbus A320 with capacity of 180 passengers. However, their lease was terminated in February 2016. For a long time, the Group also offers services of an aero taxi and, for these purposes, it uses Cessna Citation 680 with capacity of 9 passengers.

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

No.	Aircraft leased in 2017	Mfg Year	Lease Period (in months)	Expire date	Lessor
1	BOEING 737-8CX, MSN 32362, HA LKG (OK TVB)	2002	266	31.3.2024	MASL IRELAND (13) LIMITED
2	BOEING 737-8FH, MSN 29669, OK TVF (C-GTVF)	2005	183	19.4.2020	ALC BLARNEY AIRCRAFT Limited
3	BOEING 737-8Q8, MSN 30719, OK TVG (C-GTVG)	2007	169	31.3.2021	Macquarie AirFinance Acquisitions (Ireland) Limited
4	BOEING 737-8Q8, MSN 35275, OK TVH (C-GVVH)	2008	170	11.5.2022	ILFC AIRCRAFT 73B-35275 LIMITED
5	BOEING 737-86Q, MSN 30294, OK TVE (C-GRKB)	2004	170	19.3.2018	Wells Fargo Bank Northwest, National Association
6	BOEING 737-8Q8, MSN 29351, OK TVJ (C-FTAH)	2004	188	17.5.2024	ILFC Ireland Limited
7	BOEING 737-86N, MSN 32740, OK TVK (C-FGVK)	2004	97	22.5.2017	Celestial Aviation Trading 17 Limited
8	BOEING 737-8FN, MSN 37076, OK TVL	2010	191	9.10.2025	MALACHITE AIRCRAFT LEASING LIMITED
9	BOEING 737-8FN, MSN 37077, OK TVM	2010	187	3.6.2025	Fly Aircraft Holding Twenty Limited
10	BOEING 737-8CX, MSN 32360, OK TVO	2002	119	31.3.2020	MASL IRELAND (13) Limited n
11	BOEING 737-8K5, MSN 32907, OK TVP (C-GKVP)	2002	139	30.10.2021	DCAL 5 LEASING LIMITED
12	BOEING 737-86N, MSN 38018, OK TVR	2011	122	27.4.2021	Celestial Aviation Trading 12 Limited
13	BOEING 737-86N, MSN 39404, OK TVS	2011	122	4.5.2021	Celestial Aviation Trading 12 Limited
14	BOEING 737-86N, MSN 39394, OK TVT	2012	122	30.1.2022	Celestial Aviation Trading 12 Limited
15	BOEING 737-86N, MSN 38025, OK TVU (C-GKVU)	2012	122	19.3.2022	Celestial Aviation Trading 17 Limited
16	BOEING 737-86N, MSN 38027, OK TVV (C-GKVV)	2012	122	8.5.2022	Celestial Aviation Trading 26 Limited
17	BOEING 737-86Q, MSN 30295, OK TVW	2004	110	28.6.2021	SASOF III (A20) AVIATION IRELAND DAC
18	BOEING 737-8Z9, MSN 33833, OK TVX	2005	73	28.4.2019	Macquarie Aviation Capital Finance Limited
19	BOEING 737-8Q8, MSN 30724, OK TVY (C-GTQY)	2007	122	21.5.2023	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
20	BOEING 737-8S3, MSN 29250, OK TSA	2001	61	3.4.2018	SASOF III (A10) AVIATION IRELAND DAC (3)
21	BOEING 737-8Q8, MSN 41795, OK TSD	2014	122	4.5.2024	ILFC Aircraft 73B-41795 Limited
22	BOEING 737-81D, MSN 39437, OK TSE	2014	97	2.2.2022	Macquarie Aerospace Finance 39437 Limited

No.	Aircraft leased in 2017	Mfg Year	Lease Period (in months)	Expire date	Lessor
23	BOEING 737-8GJ, MSN 37360, OK TSF	2009	97	23.3.2023	Halodell Limited
24	BOEING 737-804, MSN 28231, OK TSH	2000	59	5.2.2020	Constitution Aircraft Leasing (Ireland) 9 Limited
25	BOEING 737-9GJER, MSN 37363, OK TSI	2012	121	30.4.2025	CIT Aerospace International
26	BOEING 737-8FH, MSN 35093, OK TSC (C-GTQX)	2007	71	7.3.2019	CONSTITUTION AIRCRAFT LEASING (IRELAND) 9 LIMITED
27	BOEING 737-7Q8, MSN 29346, OK SWT	2003	163	21.11.2025	Klaatu Aircraft Leasing (Ireland) Limited
28	BOEING 737-7Q8, MSN 28254, OK SWW	2003	164	30.11.2025	ILFC IRELAND LIMITED
29	BOEING 737-900ER, MSN 34952, OK TSM	2007	75	31.3.2022	SASOF III (A8) Aviation Ireland DAC
30	BOEING 737-800-8GQ, MSN 35793,OK TSO	2007	73	5.5.2022	AWAS 35793
31	BOEING 737-800, MSN 40875, OK TSR	2010	60	11.6.2022	ALC BLARNEY AIRCRAFT Limited
32	Citation 680, MSN 680-0139, OK UNI	2007	122	25.6.2017	UG Jet s.r.o.
33	Citation 680, MSN 680-0279, OK EMA	2009	97	21.5.2017	UG Jet s.r.o.
34	Citation 680, MSN 680-0324, OK UGJ	2012	97	12.3.2020	UG Jet s.r.o.
35	Citation 680, MSN 680-0558, OK JRT	2016	61	30.3.2021	UG Jet s.r.o.
36	BOEING 737-8BK, MSN 29643, SP TVZ	2007	183	14.2.2025	Wilmington Trust SP Services (Dublin) Limited
37	BOEING 737-82R, MSN 30666, OM TSG	2004	122	8.5.2024	ILFC Ireland Limited

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

In 2017, costs of lease of such aircraft amounted to CZK 1,285,768 thousand in total (2016: CZK 998,086 thousand). In 2017, the biggest lessors were České aerolinie (Czech Republic, Airbus A 320, A319), SUNWING AIRLINES (Canada, Boeing 737- 800), SMARTLYNX AIRLINES (Latvia, Airbus A 320), MIAT Mongolian Airlines (Mongolia, Boeing 737-800), GO2SKY (Slovakia, Boeing 737-800), AirExplore (Slovakia, Boeing 737-800), NOUVELAIR TUNISIE (Tunisia, Airbus A320) and CORENDON AIRLINES (Turkey, Boeing 737-800). During the year, the aircraft were allocated to the Group on an individual basis, such as in France, Canada, Oman and Maldives.

In addition the Group leases warehouses under operating lease.

24 CURRENT TRADE AND OTHER PAYABLES, DEFERRED INCOME

	2017	2016
Trade payables	762 321 563	843 051 578
Other payables	996 000 710	1 068 637 127
Offset*	-392 176 136	-557 239 926
Total Trade and Other Payables	**1 366 146 137**	**1 354 448 779**

	2017	2016
Payables to employees	77 411 664	74 361 215
Payables to institutions	62 207 442	54 521 511
Deposits received	202 875 579	226 961 174
Deferred income	96 656 073	63 875 659
Other payables	5 916 539	24 767 306
Total Other Payables	**445 067 297**	**444 486 865**

* The Group classified transactions with its business partners under different asset and liability entries, 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 entries, the estimated set-off is also disclosed in the annual financial statements.

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

25 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.

During the years ending 31 December 2017 and 31 December 2016, the Group had relations with following related parties:

	Company	Address	Statutory body	Owners
1.	**CANARIA TRAVEL, spol. s r. o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik Lenka Viková Ludvík Macháček	TO SERVIS spol. s r. o. (51,22%) EH Group s. r. o. (24,39%) Unimex Group, a. s. (24,39%)
2.	**TO - SERVIS spol. s r. o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik	Roman Vik (100%)
3.	**EH Group s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik	Roman Vik (100%)
4.	**EHQ Energy s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Veronika Viková Lenka Loštická	Roman Vik (50%) Marek Loštický (50%)
5.	**UG Jet, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Unimex Group, a. s. (50%) EH Group s. r. o. (50%)
6.	**UNIMEX GROUP, a.s.**	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%)
7.	**UNIMEX GROUP, uzavřený investiční fond, a.s.**	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%)
8.	**Fly Sport Investments s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně
9.	**UG SHOPS, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
10.	**UG-D,a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, uzavřený investiční fond, a.s. (100%)

	Company	Address	Statutory body	Owners
11.	**BT Golf, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Vladimír Klepal	UNIMEX GROUP, A. S. (100%)
12.	**Global Wines & Spirits s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Tomáš Otta	UNIMEX GROUP, A. S. (47.5%) Tomáš Otta (5%) Global Eastern Wine Holding GmbH (47,5%)
13.	**UNI HOBBY, a.s.**	Vinohradská 365/10, Praha 2 - Vinohrady	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	Jiří Šimáně (51%) Jaromír Šmejkal (34%) Petr Pavlát (15%)
14.	**Václavské, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
15.	**Janáčkovo, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
16.	**Příkopy, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
17.	**Global Stores, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
18.	**TRAVEL FREE, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Pavel Monhart	UNIMEX GROUP, A. S. (50%) Gebr. Heinemann SE & Co. KG (50%)
19.	**Vinohradská BLDG, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
20.	**UNISTAV International, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	UNIMEX GROUP, A. S. (100%)
21.	**Fly Investments s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
22.	**EHQ s.r.o.**	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%)

	Company	Address	Statutory body	Owners
23.	**China International Group Corporation Limited**	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	China United Association International Fudging Centre Ltd. (70 %) Zhong Ye Equity Investment Fund Ltd. (30 %)
23.	**Canaria Travel CZ s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Lenka Viková	CANARIA TRAVEL, spol. s r. o. (90 %) Lenka Viková (10 %)

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

- **Balances transaction with related parties**

1. CANARIA TRAVEL, spol. s r. o.

	2017 **TCZK**	**2016** **TCZK**
Revenue	**226 416**	**237 560**
Expenses	**1 941**	**3 261**
Receivable		
Trade receivables	2 786	0
Other receivables	0	0
Total receivables	2 786	0
Payables		
Trade payables	0	1 637
Loans received	0	0
Other liabilities	0	121
Total payables	0	1 758

2. UG Jet, s.r.o.

	2017 **TCZK**	**2016** **TCZK**
Revenue	**0**	**0**
Expenses	**162 240**	**150 527**
Receivable		
Trade receivables	1 000	0
Other receivables	0	25 639
Total receivables	1 000	25 639
Payables		
Trade payables	59 850	0
Loans received	0	0
Other liabilities	0	
Total payables	59 850	0

3. UNIMEX GROUP, a.s.

	2017	**2016**
	TCZK	**TCZK**
Revenue	**1 490**	**0**
Expenses	**0**	**1 313**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	0
Loans received	0	0
Other liabilities	60 602	59 979
Total payables	60 602	59 979

4. BT Golf, s. r. o.

	2017	**2016**
	TCZK	**TCZK**
Revenue	**0**	**0**
Expenses	**3 000**	**3 000**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	0
Loans received	0	0
Other liabilities	0	0
Total payables	**0**	0

5. Global Wines & Spirits s.r.o.

	2017	**2016**
	TCZK	**TCZK**
Revenue	**0**	**0**
Expenses	**0**	**64**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	0
Loans received	0	0
Other liabilities	0	0
Total payables	0	0

6. Jiří Šimáně

	2017	2016
	TCZK	**TCZK**
Revenue	**0**	**0**
Expenses	**0**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables		
Loans received	0	200 000
Other liabilities	0	0
Total payables	0	200 000

7. China International Group Corporation Limited

	2017	2016
	TCZK	**TCZK**
Revenue	**0**	**0**
Expenses	**0**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables		
Loans received	0	0
Other liabilities	12 895	14 820
Total payables	12 895	14 820

8. Jiří Jurán

	2017	2016
	TCZK	**TCZK**
Revenue	**0**	**0**
Expenses	**0**	**0**
Receivable		
Trade receivables	0	0
Other receivables	107	0
Total receivables	107	0
Payables		
Trade payables	0	0
Loans received	656	756
Other liabilities	0	0
Total payables	0	0

9. Canaria Travel CZ s.r.o.

	2017	**2016**
	TCZK	**TCZK**
Revenue	**0**	**0**
Expenses	**1 300**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	1300	0
Loans received	0	0
Other liabilities	139	0
Total payables	1 439	0

26 AUDITOR'S FEE

	2017	2016
Audit of Annual accounts	1 578 516	1 647 042
Consultancy and Other services	0	0
Total Auditor's fee	**1 578 516**	**1 647 042**

27 SUBSEQUENT EVENTS

On January 31, 2018 the Loan Agreement in total amount of CZK 500 000 000 between Travel Service, a. s. and significant shareholder was concluded. On January 29, 2018 the Supervisory Board of the Company adopted decision according to which the Board of Directors was granted and authorized to execute the Loan Agrement mentioned above.

On July 17, 2018 the principal of the Loan in total amount of CZK 500 000 000 was remitted in full.

In April 2018 Česká spořitelna, a. s. granted the company an investment loan in the amount of USD 6 300 000 for advance payments for the delivery of new airplanes (Boeing 737 – MAX) under the corresponding purchase contracts.

In February 2018 Travel Service acquired another share in ČSA, after this step Travel Service owns 97,74% of the shares of ČSA.

With effect from February 27, 2018, TVS acquired the right to:

A) 460 725 (in words four hundred sixty thousand seven hundred twenty-five) common registered certificated shares with a nominal value of CZK 5 000 (in words five thousand Czech crowns) each, Nos. 356016 to 460725, replaced by the global deed no. 2 with a total nominal value of CZK 523 550 000 issued by ČSA and 460726 to 816740, replaced by the global deed no. 3 with a total nominal value of CZK 1 780 075 000 issued by the Company, all representing ca. 44% of the registered capital of ČSA and ca. 44% on voting rights on the General Meeting of ČSA.

B) 206 654 (in words two hundred six thousand six hundred fifty-four) common registered certificated shares with a nominal value of CZK 5,000 (in words five thousand Czech crowns) each, Nos. 816741 – 1023394, issued by ČSA, replaced by the global deed no. 4 with a total nominal value of CZK 1 033 270 000 issued by the Company and representing ca. 19.74% of the registered capital of ČSA and ca. 19.74% on voting rights on the General Meeting of ČSA.

On May 28, 2018 the General Meeting of ČSA adopted inter alia following decisions:

a) General meeting approved Annual Report of the Board of Directors on Business Activities and Assets for the Year 2017;
b) General Meeting approved the Board of Directors' proposal for the distribution of profit for the year 2017 of CZK 267 892 067.58 determined in accordance with accounting

regulations valid in the Czech Republic, so that the profit will be transferred to the account of the Unsettled Loss of the Past Years;

c) General Meeting approved the agreement between Travel Service, a.s . and ČSA – Group Declaration;
d) The General Meeting elected the members of the Supervisory Board – Ludvík Macháček and Jiří Jurán;

On July 30, 2018 the General Meeting of Alpha Flight, a. s. approved inter alia financial statements for the accunting period from April 1, 2017 to March 30, 2018 and distribution of the profit for the accounting period from April 1, 2017 to March 30, 2018 in the amount of 80% of CZK 25 893 393.48 and retained profit from previous years in the amount of 100% CZK 285 343 64 will be distributed and paid to the shareholders of Alpha Flight, a. s. in proportion to their shares and part of Alpha Flight, a. s. Profit for the accounting period from April 1, 2017 to March 30, 2018 in the amount of 20% of CZK 25 893 393.48 will remain as retained profit.

In accordance with the terms of the purchase contracts and the airplane fleet revitalisation strategy, the Company pays advance payments to the Boeing Company for its airplane-related deliveries. The first Boeing 737 - 8 MAX has been delivered in January 2018 and 4 further have been delivered so far. These 5 aircraft are operated in the form of operating lease.

In connection with and for the purpose of the financing of the delivery of three aircraft according to the purchase agreement concluded between the Company and the Boeing company the Company received an offer for options to support of financing from the Aircraft Finance Insurance Consortium (AFIC), i. e. Marsh USA Inc., a Marsh & McLennan Company – support of financing of three B737 MAX-8 aircraft delivery to Travel Service in September 2018, March 2019, and June 2019. The first option is denominated in USD for 10-year period, the second one is denominated in USD for 12-year period and the third option contemplating in EUR denominated for 10-year period. It means that AFIC is ready to support financing of the purchase of three aircraft.

The total amount of aid significantly exceeds $ 100 000 000 and is subject to business secrecy.

In July 2018 CEFC Europe sold its share in Canaria Travel, s. r. o. to the previous Czech shareholders and process linked with replacing China International Group Corporation by CITIC represented by its affiliate Rainbow was started.