



CZECH AIRLINES TECHNICS, A.S.

2018

ANNUAL REPORT



Foreword by the Chairman of the Board of Directors

Dear Readers,

You have just opened the Czech Airlines Technics 2018 Annual Report. Please allow me to briefly summarize the past year's events and outline our plans for the future.

Czech Airlines Technics has been providing aircraft and aircraft equipment repair and maintenance at Václav Havel Airport Prague with tradition of more than 90 years. I am very glad that last year, we, again, continued to implement our strategy and achieved many successes thanks to our teams of specialists. Without them, we would not be where we are today.

Last year, we became the first independent MRO in Europe to successfully pass the certification process and receive the Chinese Civil Aviation Authority Certificate (CAAC), authorising us to perform Line Maintenance for one Chinese air carrier. We also expanded our Line Maintenance certification to include Airbus A320neo and Boeing 737 MAX and are now able to provide full technical support to airlines which use these new types of aircraft to operate their regular scheduled services to/from Prague. All our divisions were awarded new long-term agreements, thus expanding their client portfolios. We also decided to enter a new market segment with a new team dedicated to aircraft consumables sales. The size of our inventory and a proven partnership with suppliers and manufacturers, along with established logistics support, put us ahead of our competitors.

The ceremonial launch of operations of our new Line Maintenance Hangar was another important milestone for Czech Airlines Technics. Dividing line maintenance tasks between two hangars proved to be more efficient with regard to both time and individual processes. Thanks to the move, we were also able to increase the capacity of our Base Maintenance division, which accounts for almost 50% of Czech Airlines Technics revenue. Last year, our employees performed over 120 large-scale inspections for various airlines and worked on a number of specialised projects, for example, the SATCOM (satellite data/internet) installation, in-flight Wi-Fi system installation and Spaceflex cabin modification.

This year, we plan further developments within the aircraft landing gear maintenance division. We plan to purchase a fourth spare landing gear set to fit B737NG type of aircraft to attract even more customers. We would also like to invest in new machines and equipment. Concurrently, we will proceed with the launch of our new e-shop for customers purchasing aircraft consumables from us.

We adhere to our long-term strategy, which is to continue developing all our departments with the main goal of providing high quality services to all our customers.

Thank you for your trust so far and we look forward to working with you again in 2019.

Mgr. Pavel Haleš
Chairman of the Board of Directors
Czech Airlines Technics, a.s.



1. Company Profile

Mission of the Company

Czech Airlines Technics, a.s., (hereinafter referred to as “Czech Airlines Technics” or “the Company”) provides aircraft and aircraft equipment repair and maintenance. Czech Airlines Technics is an independent company providing its services at an international level. Taking pride in its 90 years’ experience, the Company delivers high-quality services and work with an emphasis on strict compliance with safety standards, adherence to deadlines for the provision of aircraft equipment maintenance and a flexible approach to clients.

The Company is ready to offer comprehensive services to a wide range of customers, as evidenced by its long-term experience with providing aircraft and aircraft equipment repair and maintenance to a number of important customers including airlines, the Ministry of Defence of the Czech Republic and the Ministry of Interior of the Slovak Republic. The Company provides its services using its own resources to ensure guaranteed quality, safety and the shortest turnaround times within all its areas of business, namely Base Maintenance, Line Maintenance, Landing Gear Maintenance and Aircraft Component Maintenance. In addition, the Company provides, alongside continuous technical assistance, a highly flexible on-wing team, ready to solve one-off technical issues experienced by its customers at foreign stations and airports. The Company now also provides the service of aircraft consumables sales.

The location of the Company’s facilities in the heart of Europe is a great advantage. Customers from the whole of Europe can reach the Company without having to cover extensive delivery flight costs. With the Czech Airlines Technics hangar located directly at Václav Havel Airport Prague, some Company customers use the option of combining their commercial flights with subsequent aircraft maintenance to eliminate the additional cost of delivery flights.

Legal Status of the Company

Czech Airlines Technics, a subsidiary of Letiště Praha, a. s. (hereinafter referred to as “Prague Airport”), was incorporated by registration in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 9307, on 28 April 2004.

The Company has neither a branch nor other part of a business enterprise abroad.

The Company did not acquire its own shares.

Business Scope

Czech Airlines Technic focuses primarily on aircraft and aircraft equipment repair and maintenance in the following areas:

- Base Maintenance
- Line Maintenance
- Components Maintenance
- CAMO Support
- Landing Gear Maintenance

In 2018, the Company continued providing its services pursuant to several long-term agreements for both the main and the low maintenance seasons. It has been successful in maintaining and gradually expanding mutual co-operation with existing long-term clients. With new clients, a personalised approach, the quality of the work provided and strict adherence to set deadlines form the base for successful long-term co-operation.

In 2018, the Company entered a new market segment, aircraft consumables sales, using both our own extensive stored inventory and procuring bespoke customer requests via an established network of suppliers.

Base Maintenance

In 2018, the Company performed over 120 large-scale inspections on B737, A320 family and ATR aircraft. Currently, Hangar F operations are performed using five standard base maintenance lines, with line six reserved for minor maintenance work.

In 2018, Czech Airlines, Finnair, Transavia Airlines, Germania, Smartwings (former Travel Service) and NEOS were among the main Company clients, with additional work performed for the TUI Group. Alongside large-scale inspections, the Base Maintenance department also carried out various modifications and service bulletins, structural repairs, engine exchanges and the exchanges and repair of landing gear and other aircraft components. In addition, the project of aircraft cabin modification and Wi-Fi installation continued, alongside the SATCOM (satellite data/internet) installation.

Line Maintenance

The Company performs the largest share of Line Maintenance work at Václav Havel Airport Prague, where it is the largest provider within the segment. In 2018, Czech Airlines remained the Company's main Line Maintenance client, with other major clients being Delta Air Lines, El Al, China Eastern Airlines, TAP, KLM, Wizz Air, Sichuan Airlines, Korean Air, Hainan Airlines, China Airlines, Transavia, Aeroflot, easyJet, Turkish Airlines, complemented by new clients, including American Airlines, Air Cairo and Cyprus Airways. In 2018, the Company provided Line Maintenance services to over 85% of the carriers operating flights to/from Prague.

Another important scope of Line Maintenance business included operating a foreign line maintenance station for the Slovak Government Fleet in Bratislava and the option of setting up short-term line maintenance stations abroad, based on requests by airlines.

The Company also launched operations of a new Line Maintenance Hangar S, primarily designed for lower-level aircraft maintenance tasks. The Hangar can house one Boeing 737, one Airbus of the A320 family or one ATR aircraft.

Components Maintenance

In 2018, the main Components Maintenance clients included Czech Airlines, Smartwings (former Travel Service), ABS Jets, Aerotron and others. The Company continually updates and expands its *Capability List* and specialises mainly in workshop repairs of ATR, A320/A330 and B737NG components. The Company entered a new market segment, aircraft wheel and brake repairs, in 2018. The Company also facilitates other areas of maintenance, subject to market demand, via co-operation with third parties.

CAMO Support

As part of the Continuing Airworthiness Management Organisation (CAMO) services, the Company performs activities for aircraft operators vital to ensure the airworthiness of their aircraft, such as the drafting of aircraft and aircraft equipment maintenance programmes and task cards, the performance of periodic inspection work packages and keeping records of maintenance performed and aircraft modifications carried out, the monitoring of aircraft engine statuses, the preparation of aircraft loading and weight balancing documentation and data, and other activities. Czech Airlines and GLOMEX were the main CAMO Support customers of the Company in 2018.

Landing Gear Maintenance

In the Landing Gear Maintenance area, the Company specialises in landing gear overhauls of B737 aircraft of the new generation and performs repair, modifications and surface treatment to individual components. In 2018, the Company successfully performed a number of landing gear maintenance projects, including overhauls, minor repairs and inspections of landing gear and landing gear components, for companies such as KLM, Transavia Airlines, Transavia France, Germania, Smartwings (former Travel Service), Enter Air, ATRAN, TUIfly Airlines, TUI Airlines Belgium, Fly Egypt, Nordstar Airlines and Blue Air.

The Company owns four spare landing gear sets for B737, out of which three sets fit the B737NG (New Generation) aircraft, while the fourth set fits the B737 (Classic Generation) aircraft. The Company leases

spare landing gear sets to its clients to be used during the time of their landing gear set overhaul performance.

Consumables Sales

In 2018, the Company entered a new market segment of aircraft consumables sales. Thanks to the established network of suppliers and direct access to OEM, the size of the inventory, to a value exceeding \$15 million (CZK 311 million) as stored in Company's facility at Václav Havel Airport Prague, and already established logistics support, the company is able to respond to the demanding customer requirements connected with sales of a wide range of aircraft consumables in a flexible manner. Unlike in other industries, a sufficient amount of stored spare parts and aircraft components is crucial, primarily in situations where it is necessary to replace a component as quickly as possible so as to ensure the aircraft's speedy return to operations.

The Company already provides the service to Job Air, Czech Airlines, Smartwings (former Travel Service) and, as of recent, to the Ministry of Defence of the Czech Republic.

2. Board of Directors' Report on the Company's Business Activities and on State of Assets

Czech Airlines Technics that provides aircraft and aircraft equipment repair and maintenance at Václav Havel Airport Prague, generated a net profit of CZK 23 million in 2018.

The total operating revenues of the Company in total amount of CZK 1,770 million, exceeded the budget for the year 2018 by 4%, and growth on year-on-year base by 18%, mainly thanks to the extended client portfolio. The Company recorded higher revenue in the Line Maintenance segment, where the Company has successfully extended its portfolio of Certificates and opened a new Line Maintenance Hangar. The Company generated higher revenues also in the segments of Components Maintenance, Aircraft Landing Gear Maintenance and CAMO Support.

The total operating costs¹ of the Company in total amount of CZK 1,678 million, growth by 8% compared to the budget for the year 2018. This was partially in line with the increase in revenues and partially due to the insolvency of Germania, an important Company's Base Maintenance client. Primera Air's termination of business activities also influenced the Company as it was one of its Aircraft Landing Gear Maintenance segment customers.

The Company's gross operating profit (EBITDA²) reached CZK 93 million in 2018. Despite the negative impact of the termination of business operations of the above mentioned European air carriers, the Company reached a positive business result in 2018, primarily thanks to its continued commitment to developing and improving services, combined with a flexible customer approach. The expansion of services, with strict compliance to safety standards and high quality, led to the conclusion of long-term cooperation agreements with new and also existing customers of the Company in 2018.

In 2018, the total assets of the Company increased by CZK 10 million, from CZK 1,203 million as at 31 December 2017 to CZK 1,213 million as at 31 December 2018.

The Company's fixed assets increased by CZK 7 million in 2018, when the Company purchased fixed assets to the value of CZK 89 million and the depreciation and amortization of fixed assets amounted to CZK 62 million.

The Company's current assets increased by CZK 4 million in 2018. The change in current assets was affected by the ordinary performance of the Company's scope of business and business activities.

¹ Total operating costs – operating costs before depreciation and amortization

² EBITDA – Earnings before interest, taxes, depreciation, and amortization

The Company's equity increased by CZK 19 million in 2018. The main impact on the increase in equity has a profit of 2018 in the amount of CZK 23 million.

Liabilities of the Company increased by CZK 8 million in 2018. The change in liabilities was affected by the ordinary performance of the Company's scope of business and business activities.

The Company's financial position was stable for the entire year; the Company was able to meet its obligations properly and in a timely manner.

The Company's other financial data are disclosed in its annual financial statements for the year 2018, appended to the annual report.

3. Company Management and Governance

General Data

Corporate Name: Czech Airlines Technics, a.s.
Registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 9307
Company Reg. No.: 271 45 573
Company Tax No.: CZ699003361
Date of Incorporation: 28 April 2004
Registered Office: Praha 6, Jana Kašpara 1069/1, Post Code: 160 08, the Czech Republic

Shareholder

Letiště Praha, a. s., Company Registration No.: 282 44 532, is the sole shareholder of Czech Airlines Technics, a.s.

Český Aeroholding, a.s., was the sole shareholder of Czech Airlines Technics, a.s., until 30 September 2018. Effective 1 October 2018, Letiště Praha, a. s., became the sole shareholder of Czech Airlines Technics, a.s., following the national merger by acquisition of Letiště Praha, a. s., as the acquiring company, and the acquired companies of Český Aeroholding, a.s., Realitní developerská, a.s., Sky Venture a.s. and Whitelines Industries a.s., which ceased to exist without liquidation. The decisive day for the merger was set at 1 January 2018.

Administrative Bodies

The General Meeting is the supreme body of the Company. It appoints and dismisses members of the statutory and supervisory bodies of the Company with the exception of one member of the Supervisory Board that is elected by the employees of the Company.

The Board of Directors is the Statutory Body of the Company. It manages the Company affairs and acts on behalf of the Company. There are three members of the Board of Directors. However, the Board of Directors had only two members for a period of time in 2018.

The Supervisory Board is the controlling body of the Company. It supervises the scope of performance of the Board of Directors and the Company's business activities. There are three members of the Supervisory Board.

Contact

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the Czech Republic

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Internet: www.csatechnics.com

Board of Directors of the Company

As at 31 December 2018, the Company was managed by the Board of Directors, which had two members.

Chairman of the Board of Directors

Mgr. Pavel Haleš

Vice Chairman of the Board of Directors

Ing. Igor Zahradníček

Member of the Board of Directors

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Changes to the Czech Airlines Technics Board of Directors

Ivan Píkl – membership terminated on 30 November 2018

Ing. Zdeněk Soukal – membership terminated on 26 March 2018

Ing. Igor Zahradníček – membership commenced on 1 September 2018, Vice Chairman role commenced on 3 September 2018

Ing. Petr Doberský – membership commenced on 21 January 2019

Supervisory Board of the Company

In 2018, the Supervisory Board had three members.

Chairman of the Supervisory Board

Ing. Radek Hovorka

Vice-Chairman of the Supervisory Board

Ing. Václav Řehoř, Ph.D., MBA

Member of the Supervisory Board

JUDr. Petr Pavelec, LL. M.

Changes to the Czech Airlines Technics Supervisory Board

Ing. Václav Řehoř, Ph.D., MBA – membership terminated on 31 December 2018

JUDr. Petr Pavelec, LL. M. – membership terminated on 31 December 2018

Ing. Jan Kment – membership commenced on 1 January 2019

Ing. Jan Brázdil – membership commenced on 1 January 2019

4. Human Resources

As at 31 December 2018, Czech Airlines Technics had a total of 807 employees.

In terms of the average number of employees in full-time equivalent units, the Company had 796 employees in 2018.

The Company's conduct is in compliance with both labour laws and directives in effect and the Collective Agreement concluded for the relevant period.

5. Selected Events of 2018 and Outlook for 2019

Main Events in 2018

January

- McLaren Aviation performs an independent Safety Audit of Czech Airlines Technics with a very positive outcome.

- The Company supports Czech Airlines at its Line Maintenance segment of the Hamburg station.
- The Company, as the first independent MRO in Europe, expands its Line Maintenance authorisation with a CAAC Certificate, issued by the Chinese Aviation Authority.

February

- Czech Airlines Technics wins a public tender to supply the Ministry of Defence of the Czech Republic with aviation consumables (the Government Fleet).

March

- The Company enters into a Line Maintenance Agreement with GO2SKY.
- Company representatives attend the MRO Russia & CIS Moscow Trade Fair and Conference.
- Czech Airlines Technics launches pilot operations of its new line maintenance segment Hangar S at Prague's airport.

April

- The Company enters into a long-term Line Maintenance Agreement with American Airlines.
- The Company enters into a long-term Line Maintenance Agreement with Pobeda Airlines regarding services provided at Karlovy Vary airport.

May

- The Company enters into a long-term Line Maintenance Agreement Cyprus Airways.
- The Company joins the *Režim ostatní státy* (*Other States Scheme*) project with the goal of hiring qualified Filipino employees.
- Company representatives attend The Dublin Aviation Summit Trade Fair.
- The Company signs a Memorandum of Co-operation with the Masaryk Institute of Advanced Studies (MIAS School of Business) of the Czech Technical University in Prague (CTU).

June

- Czech Airlines Technics representatives attend the MRO BEER Conference.

July

- Czech Airlines Technics expands its landing gear set overhaul authorisation with an ECAA Certificate, issued by the Egyptian Civil Aviation Agency.
- Czech Airlines Technics expands its line maintenance authorisation with an MCAA Certificate, issued by the Mongolian Civil Aviation Authority.
- The Company outlines an organisational change with the goal of expanding its portfolio by including the service of consumables sales.
- The Company invests in a new grinding centre to be used by its landing gear set overhaul segment.
- Company representatives attend the 2018 Farnborough International Airshow in Great Britain.

August

- The Company invests in a new ball burnisher to be used by its landing gear set overhaul segment.

September

- Czech Airlines Technics signs an Agreement with B. aircraft regarding technical assistance during a six-aircraft-redelivery task.
- The Company enters a new market segment of aircraft consumables sales.

October

- Effective 1 October 2018, Czech Airlines Technics becomes a subsidiary of Prague Airport following the national merger by acquisition.
- The first EMS supervisory audit is performed in the Company with a very positive result.
- Company representatives attend the MRO EUROPE Conference.
- Czech Airlines Technics addresses an issue related to the proposal for the insolvency of Primera Air Nordic which affects its Landing Gear Set Overhaul segment.

November

- The Company enters into a long-term Landing Gear Set Overhaul Agreement with TUIfly GmbH.
- The Company completes the Hangar S pilot run and ceremonially launches its full-time operations.
- The Company successfully renews its AEO Certificate, maintaining the status of an Authorised Economic Operator with an unlimited period of validity.

December

- The Company supports Transavia Airlines at its Line Maintenance segment of the Innsbruck station.
- Czech Airlines Technics signs a new Collective Agreement with a two-year effect.
- The Company successfully renews its Aviation Insurance Agreement.

Subsequent Events in 2019 until signing of the Annual Report

January

- Effective 1 January 2019, Jan Kment is elected as member of the Supervisory Board by the employees of the Company, and with effect from the same date, the sole shareholder while exercising the powers of the General Meeting elects Jan Brázdil as another member of the Supervisory Board. On 4 February 2019, the Supervisory Board elects Jan Brázdil as Vice-Chairman of the Supervisory Board.
- Czech Airlines Technics implements an organisational change with the goal of establishing its own HR department.
- The Company issues a new Technical Service Price List.
- Effective 21 January 2019, the sole shareholder acting in the capacity of the General Meeting elects Petr Doberský as member of the Board of Directors of the Company.

February

- The Company successfully hires qualified Filipino employees under the *Režim ostatní státy (Other States Scheme)* project.
- Czech Airlines Technics addresses an issue related to the proposal for the insolvency of Germania which affects its Base Maintenance segment.

March

- The Company implements an organisational change with the goal of merging the Safety Management System and the Quality Assurance Departments.
- The sole shareholder while exercising the powers of the General Meeting of the Company appoints the company PricewaterhouseCoopers Audit as an auditor of the Company for the period 2019-2022.

Except for the information mentioned above, there were no other subsequent events with significant impact on the annual report.

Outlook for 2019

In 2019, the Company will continue to focus on its main areas of expertise and job performance pursuant to existing contracts. As before, it will seek to expand external client services and both secure additional

job orders from existing clients and enter into new agreements. Due to the increase in Base Maintenance and Landing Gear Maintenance capacity, Czech Airlines Technics will focus on process optimisation and efficient job performance. In the aircraft component maintenance segment, an increased number of job orders is to be expected together with additions to the Company's client portfolio.

6. Research and Development Activities

The Company does not carry out any research and development activities.

7. Risk Management

The Company faces risks related to the fluctuation of foreign exchange rates. Therefore, the Company seeks to balance these risks, manage the net position with the aim to achieve the optimal effect on net profit and to hedge the open position when necessary.

8. Environmental Protection and Care Activities

In 2018, Czech Airlines Technics continued to pursue its conscious environmental protection scheme with the goal of permanently and sustainably reducing the impact of its activities on the environment.

In autumn 2018, the Company successfully underwent the first Supervisory Audit of the implemented Environmental Management System, conducted by Bureau Veritas, the international specialists. The audit results confirmed that the established system is fully functional and that Czech Airlines Technics is in full compliance with the legal requirements and obligations pursuant to the Czech State Standard of ČSN EN ISO 14001:2015. The company can thus continue to use the internationally-recognised certificate it has held since 2014.

As a result of its main business scope, i.e. aircraft and aircraft equipment repair and maintenance, the Company produces technological waste water and waste from other and hazardous categories and releases emissions into the atmosphere. The Company also handles dangerous chemical substances.

In 2018, the management of waste produced in connection with the performance of Czech Airlines Technics business scope was in full compliance with the applicable laws and regulations. The production of individual types of waste is continuously monitored in order to primarily reduce the amount of hazardous waste or, more precisely, optimise the amount based on the repair tasks performed. The implemented waste-sorting promotes the efficient use of separated materials (paper, glass, plastic, metal, wood). Just as in previous years, great emphasis was placed on increasing the reuse of waste and the take-back of products.

Exceptional demands are placed by Czech Airlines Technics on wastewater treatment and the cleanliness of released wastewater. Disposal of wastewater used for various technological processes is subject to control mechanisms with regular water quality monitoring performed. In 2018, all legal requirements and set limits within the area were met.

Czech Airlines Technics uses a wide range of hazardous chemical substances and mixtures while performing aircraft repair and maintenance work. Some chemicals used are subject to the European REACH regulation in order to prevent environmental pollution or health hazards. The Company's long-term goal is to replace hazardous chemicals and mixtures with less dangerous substances and reduce overall consumption.

In the area of air protection, measures continued to be implemented with the goal of reducing the Volatile Organic Compounds (VOC) emissions. The Company continued its efforts focused on identifying less risky alternatives to the currently used highly hazardous chemicals and flammable substances.

The Company holds Group A classification and has prepared a Safety Programme pursuant to Act No. 224/2015 Coll., as amended, on the prevention of major accidents. In 2018, an inspection by government authorities was performed, which discovered no errors in the area of major accident prevention.

The operations of the Company's electroplating shop and related activities are included in the *Integrated Permit* pursuant to Act No. 76/2002 Coll., as amended, setting precise emission limits and other conditions of the operations of such units. In 2018, an inspection by government authorities was performed, which discovered no errors in the area of integrated prevention.

The Company has continually been pursuing the principle of minimising the consumption of resources (primarily water and energy required for its operations).


9. Responsibility for the Annual Report

The Board of Directors hereby declares that the information included in the 2018 Annual Report corresponds to the real situation and gives a true and fair view of the Company's financial situation, business activities and results of its operations for the previous accounting period and that no fundamental circumstances were omitted that might affect the precise and correct assessment of the performance, activities and economic position of Czech Airlines Technics.

In Prague on 29 March 2019



Mgr. Pavel Haleš
Chairman of the Board of Directors
Czech Airlines Technics



Ing. Igor Zahradníček
Vice-Chairman of the Board of Directors
Czech Airlines Technics

10. Annexes

- Report of the Board of Directors of the Company on Relations
- Report of the Supervisory Board of the Company
- Financial Statements of Czech Airlines Technics according to the Czech Accounting Standards for the Year Ended on 31 December 2018
 - Balance Sheet as at 31 December 2018
 - Profit and Loss Statement for the Year Ended on 31 December 2018
 - Statement on Changes in Equity for the Year Ended on 31 December 2018
 - Cash-Flow Statement for the Year Ended on 31 December 2018
 - Notes to the Financial Statements for the Year Ended on 31 December 2018
- Independent Auditor's Report to the Shareholder of the Company

Company Statutory Body's Report on the Relations between the Controlling Entity and the Controlled Entity and between the Controlled Entity and other Entities Controlled by the Same Controlling Entity

Drafted by Czech Airlines Technics, a.s. Board of Directors pursuant to Section 82, Chapter 1 of Act No. 90/2012 Coll., as amended, on Business Corporations and Cooperatives (the Business Corporations Act) for the reference period from 1 January 2018 to 31 December 2018.

SECTION I. CONTROLLED ENTITY, CONTROLLING ENTITY, AND OTHER ENTITIES CONTROLLED BY THE CONTROLLING ENTITY

1. Controlled Entity

Czech Airlines Technics, a.s.

With its registered seat at: Praha 6 - Ruzyně, Jana Kašpara 1069/1, PSČ 160 08,

Company Identification Number: 271 45 573,

Registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 9307

(Hereinafter referred to as the “Controlled Entity”).

The Controlled Entity is a company focusing primarily on maintenance, repair, modification and design changes of aircraft, aircraft engines, propellers, aircraft parts and equipment and air ground equipment. Its scope of business is outlined in detail in the company's Articles of Association.

2. Controlling Entity

Letiště Praha, a. s.

With its registered seat at: K letišti 1019/6, Ruzyně, 161 00 Prague 6,

Company Identification Number: 282 44 532,

Registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 14003

(Hereinafter referred to as the “Controlling Entity”).

The Controlling Entity is a Business Corporation 100% owned by the Czech Republic through Ministry of Finance and primarily focusing on operating the international civil airport, Václav Havel Airport Prague. Its scope of business is outlined in detail in the company's Articles of Association. The designation of the company Letiště Praha, a. s. as the controlling entity was carried out in accordance with the provisions of Section 75 (1) and (2) of the Business Corporations Act.

Czech Airlines Technics, a.s. became directly controlled by Letiště Praha, a. s. on 1st October 2018, in connection with the merger by acquisition of Český Aeroholding, a.s., Realitní developerská, a.s., Sky Venture a.s. and Whitelines Industries a.s. as companies being acquired and Letiště Praha, a. s. as the acquiring company. Until this date, Český Aeroholding, a.s. was the controlling entity of Czech Airlines Technics, a.s. The decisive date of the merger by acquisition was 1st January 2018.

3. Other Entities Controlled by the Same Controlling Entity

(dále jen „propojené osoby“)

1. Czech Airlines Handling, a.s.

With its registered seat at: Praha 6, Aviatická 1017/2, Post Code: 160 08,

Company Identification Number: 256 74 285,

Registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 17139.

The company focuses primarily on providing handling services at Václav Havel Airport Prague, including technical and operational dispatch of aircraft on aprons, handling of passengers including their baggage, cargo and post. Its scope of business is outlined in detail in the company's Articles of Association.

2. B. aircraft, a.s.

With its registered seat at: Praha 6 - Ruzyně, Jana Kašpara 1069/1, Post Code: 161 00,

Company Identification Number: 242 53 006,

Registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 18408.

The company focuses primarily on providing operating leasing of aircraft. Its scope of business is outlined in detail in the company's Articles of Association.

From the beginning of the reference period to 30th September 2018 company Český Aeroholding, a.s. also controlled these corporations:

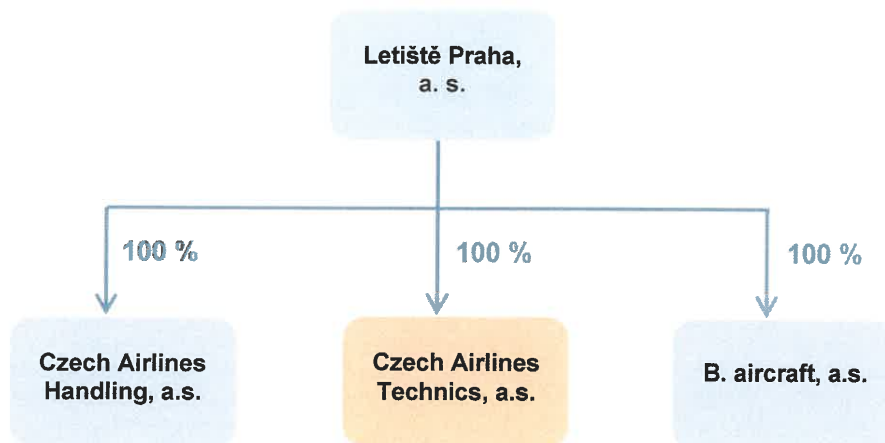
- **Letiště Praha, a. s.**
- **Realitní developerská, a.s.**, with its registered seat at Jana Kašpara 1069/1, Post Code 161 00, Prague 6 – Ruzyně, Company identification number: 242 53 006, registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 9512.

In the consequence of the merger by acquisition becoming effective on 1st October 2018, companies Český Aeroholding, a.s. a Realitní developerská, a.s. were erased from the Commercial Register and Letiště Praha, a. s. entered in legal status of these companies being acquired.

SECTION II.

RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY AND THE RELATED ENTITIES

1. Structure of Relations



2. Methods and Means of Control

The Controlling Entity owns 100% of the shares of the Controlled Entity. Control is mainly performed by voting rights exercised by the Controlling Entity as the sole shareholder exercising the powers of the General Meeting of the Controlled Entity. Control is also performed through representatives of the Controlling Entity in the bodies of the Controlled Entity, where members of the Board of Directors of the Controlling Entity are also members of the Supervisory Board of the Controlled Entity.

At the same time, the Articles of Association of the Controlled Entity entrust to the decision of the sole shareholder the powers of the General Meeting, beyond the framework of the statutory wording, matters referred to in Article IX.(9.2)(k) to (t) of the Articles of the Controlled Entity activity of the Controlled

Entity, transactions leading to the implementing of investments, indebtedness, the provision or acceptance of loans or credits, the provision of sponsorship gifts and the conclusion of contracts outside the ordinary course of trade.

Except for the above powers, the Controlling Entities did not use any other methods or means of control during the reference period.

For the avoidance of doubt, it is stated that the sole shareholder of the Controlling Entity, i.e. the Czech Republic, which exercises its shareholder rights through the Ministry of Finance, has no means by which it could exercise decisive influence in the Controlled Entity, i.e. to control it within the meaning of Section 74 1 (1) of the Business Corporations Act, and does not exercise any actual (albeit indirect) control either. At the same time, the Controlled Entity states that neither the Controlled Entity's sole shareholder, nor any of its representatives, is a member of any Controlled Entity's body nor has it been during the reference period.

SECTION III. REFERENCE PERIOD

This Report was prepared for the period from 01/01/2018 to 31/12/2018.

SECTION IV. AN OVERVIEW OF ANY TRANSACTIONS MADE DURING THE REFERENCE PERIOD THAT WERE MADE AT THE INSTIGATION OR IN THE INTEREST OF THE CONTROLLING ENTITY OR OF THE RELATED ENTITIES, WHERE SUCH TRANSACTION CONCERNED PROPERTY EXCEEDING 10% OF THE EQUITY CAPITAL OF THE CONTROLLED ENTITY IDENTIFIED ACCORDING TO THE LAST FINANCIAL STATEMENTS

During the reference period, the Controlled Entity made no legal transactions at the instigation or in the interest of the Controlling Entity or of the Related Entities that would concern property exceeding 10% of the equity capital of the Controlled Entity (as at 31/12/2017, 10% of the Controlled Entity's equity capital was CZK 97 520 thousand), and the Controlled Entity was not prevented from making any transactions or strategic decisions due to control of the company, stemming from the interests of or instigation by the Controlling Entity.

SECTION V. AN OVERVIEW OF THE MUTUAL CONTRACTS AND AGREEMENTS BETWEEN THE CONTROLLED ENTITY AND THE CONTROLLING ENTITY, OR BETWEEN THE RELATED ENTITIES

In the reference period, the following contracts have been in force between the Controlling Entity and the Controlled Entity:

Reference No.	Contracting Parties	Contract Subject Matter	Date of Signature
216004601	Letiště Praha, a. s.	Contract for the Supply of Heat Energy	14.12.2018
111003052	Letiště Praha, a. s.	Contract for the Lease of Non-Residential Premises and for the Provision of Services Related to their Use	30.11.2018
111003053	Letiště Praha, a. s.	Lease Agreement for Premises "Chemický sklad"	1.10.2018

121003054	Letiště Praha, a. s.	Agreement on Technical Costs Recovery	27.9.2018
111002830	Letiště Praha, a. s.	Change Agreement Concerning Construction Work in Hangar F	31.1.2018
133002880	Letiště Praha, a. s., Czech Airlines Technics, a.s.	Payments Settlement Agreement	2.1.2018
233004007	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services for Investment, Development projects and Real estate.	12.12.2017
133002885	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services for Registry and Archive	12.12.2017
233004006	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services for Corporate and Marketing Communication	12.12.2017
230003695	Letiště Praha, a. s.	Contract for the Provision of Services (Prevention of Major Incidents)	27.11.2017
124002732	Letiště Praha, a. s.	Preliminary Contract on Establishment of Predial Servitude of Public Utilities.	18.9.2017
133002721	Letiště Praha, a. s.	Framework agreement on the Provision of loans for consumption	31.8.2017
111002473	Letiště Praha, a. s.	Contract for the Lease of Non-Residential Premises and for the Provision of Services Related to their Use	31.3.2017
210002967	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Information Security Services	30.6.2016
216002336	Letiště Praha, a. s.	Contract for Employee Catering.	26.11.2015
9000002452	Letiště Praha, a. s.	Contract for the Installation, Lease and Subsequent Maintenance and Service of Electronically Controlled Entries	9.11.2015
216000953	Letiště Praha, a. s.	Contract for the Supply of Heat Energy	30.8.2013
216000812	Letiště Praha, a. s.	Contract for Shared Environmental Protection Services, as amended	28.6.2013
215000505	Letiště Praha, a. s.	Contract for Parking Spaces in front of Hangar F and at the Compass Base	31.12.2012
230000254	Letiště Praha, a. s.	Contract for the Provision of Radio Network Fixed Infrastructure Services, as amended	16.11.2012
216000138	Letiště Praha, a. s.	Contract for the Discharge of Rainwater and Contaminated Water through the Airport Sewer System for Czech Airlines Technics, a.s.	28.8.2012
111000018	Letiště Praha, a. s.	Lease Contract for Space in the Chemicals Storage Room, as amended	29.6.2012

8000026801	Letiště Praha, a. s.	Contract for the Lease of Vehicles	30.4.2012
8000026201	Letiště Praha, a. s.	Framework Purchase Contract – Diesel Oil and Petrol Deliveries	26.4.2012
9000002821	Letiště Praha, a. s.	Contract for the Provision of Real Estate Management Services, as amended	30.3.2012
9100000142	Letiště Praha, a. s.	Contract for the Lease of Areas in Brzda, as amended	29.3.2012
9000002762	Letiště Praha, a. s.	Contract for the Supply of Drinking Water, as amended	7.2.2012
9000002763	Letiště Praha, a. s.	Contract for Combined Services, as amended	7.2.2012
9000002764	Letiště Praha, a. s.	Contract for Energy Supply Connections, as amended	7.2.2012
9000002765	Letiště Praha, a. s.	Contract for the Supply of Heat Energy, as amended	7.2.2012
116000253	Letiště Praha, a. s.	Contract for the Provision of Telecommunications Services Including the Rental of Mobile Phones	1.1.2012
CSAT/2012/25 5	Letiště Praha, a. s.	Agreement on the Terms of Cooperation in the Area of Customs Services	1.1.2012
9000002677	Letiště Praha, a. s.	Agreement on the Use of Parking Spaces for Parking Mobile Mechanised Equipment, as amended	30.12.2011
9000002780	Letiště Praha, a. s.	Contract for the Sublease of Non-Residential Premises and for the Provision of Services Related to their Use – Hangar F	30.12.2011
9000002910	Letiště Praha, a. s.	Contract for Vehicle Fleet Management, as amended	30.12.2011
110000110	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Central Purchasing), as amended	28.12.2011
110000111	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Information and Communications Technology), as amended	28.12.2011
110000112	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Accounting and Taxes), as amended	28.12.2011
110000113	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Finances and Payments), as amended	28.12.2011
110000114	Letiště Praha, a. s., Czech Airlines Technics, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Human Resources Management), as amended	28.12.2011
9000001687	Letiště Praha, a. s.	Contract for the Lease of Non-Residential Premises in Terminal 2, as amended	1.11.2010
9000001445	Letiště Praha, a. s.	Lease Contract – Hangar F, as amended	13.5.2010

9000001040	Letiště Praha, a. s.	Lease Contract – Neutralization Station, as amended	10.12.2009
43604404	Letiště Praha, a. s.	Lease Contract – the Plating Shop, as amended	3.10.2008
43604408	Letiště Praha, a. s.	Lease Contract – Engine Plant I, as amended	3.10.2008
43604409	Letiště Praha, a. s.	Lease Contract – Engine Plant II, as amended	3.10.2008
43693806	Letiště Praha, a. s.	Contract for the Lease of Part of the Land, as amended	8.11.2000

In the reference period, the following contracts have been in force between the Controlling Entity and the Related Entities:

Reference No.	Contracting Parties	Contract Subject Matter	Date of Signature
	B. aircraft, a.s.	Framework Service Agreement	4.10.2018
511001659	Czech Airlines Handling, a.s.	Contract for the Sub-Lease of Non-Residential Premises in Hangar F, as. amended	1.1.2016
530001511	Czech Airlines Handling, a.s.	Contract for Customs Declaration Services	1.2.2014
435001561	Czech Airlines Handling, a.s.	Contract for Performing Cleaning Services, Interior Cleaning in Hangar F	27.5.2014
435001574	Czech Airlines Handling, a.s.	Contract for Washing Aircraft, as amended	17.9.2014

SECTION VI. DAMAGE SETTLEMENT

The Controlled Entity is not aware of any damage incurred by it during the reference period due to the Controlling Entity, or of any measures adopted or performance accepted, mutually and knowingly, by the Related Entities, which would cause damage to them or to the Controlled Entity, that should be the subject matter of a settlement pursuant to Sections 71 and 72 of the Business Corporations Act.

SECTION VII. RELATION CONSEQUENCES ASSESSMENT

The Board of Directors of the Controlled Entity assessed the relations between the Controlling Entity and the Controlled Entity and between the Controlled Entity and the Related Entity and notes that the relations between the Controlling Entity, the Controlled Entity and the Related Entities are varied; given the different functions of each Entity within the group, there are subsets of intragroup relationships characterized by different pricing methods.

Cooperation between the Controlling Entity and the Controlled Entity, resulting from exercising the shareholder rights of the Controlling Entity at the General Meeting of the Controlled Entity and from the interlocking directorship in the bodies of the Controlling Entity, the Controlled Entity and the Related Entities and from the common nature of the business activities, offers the Controlled Entity a considerable advantage thanks to the acquired know-how, better transmission of information and better access to knowledge and experience that are at the Controlling Entity's disposal.

The Board of Directors considered the aforementioned relations and declares that it is not aware of any disadvantages or risks resulting from the relations between the aforementioned entities.

SECTION VIII. CONCLUSION

This Report was discussed and approved by the Board of Directors of the Controlled Entity on 25 March 2019.

The Board of Directors, as the governing body of the Controlled Entity, declares that the information contained in this Report on Relationships is correct and complete, and that, when preparing the Report on Relationships, the Board of Directors proceeded fully within the extent of information and data that were available to the governing body or that the governing body discovered while acting with due diligence.

This Report was submitted for review to the auditor who is auditing the financial statements and verifying information in the annual report of the Controlled Entity within the meaning of a special law.

Prague, 25 March 2019



Mgr. Pavel Haleš
Chairman of the Board of Directors
Czech Airlines Technics, a.s.



Ing. Igor Zahradníček
Vice-Chairman of the Board of Directors
Czech Airlines Technics, a.s.

Supervisory Board Report for 2018

1. Supervisory Board Meetings

In the course of 2018, the Supervisory Board of Czech Airlines Technics, a.s., (hereinafter referred to as "the Company") met at ten meetings.

2. Members of the Supervisory Board

Members of the Supervisory Board of the Company as of 31 December 2018

Supervisory Board	Position
Radek Hovorka	Chairman
Václav Řehoř	Vice-Chairman
Petr Pavelec	Member

Personnel changes of the Supervisory Board of the Company during the Year 2018

Václav Řehoř – membership termination as of 31 December 2018.

Petr Pavelec – membership termination as of 31 December 2018.

Jan Kment – appointed Member as of 1 January 2019.

Jan Brázdil – appointed Member as of 1 January 2019.

3. Work of the Supervisory Board in the Reporting Period

The responsibilities of the Supervisory Board are set out in the Act No. 90/2012 Coll., on Business Corporations. During the reporting period, the Supervisory Board carefully monitored the activities of the Board of Directors within its scope of competence, the implementation of the decisions taken by the sole shareholder acting in the capacity of the General Meeting, and the performance of business activities of Czech Airlines Technics, a.s.

At its meetings, the Supervisory Board regularly discussed the economic activities of the Company and the compliance with the approved financial plan. It verified and oversaw financial management as well as supervised integrity of accounting and financial reporting systems. It also took a position on the financial plan and was given information on the investment plan. The Supervisory Board discussed the issues that are in accordance with the applicable legislation, subject to a decision of the sole shareholder acting in the capacity of the General Meeting of the Company, giving respective recommendations.

The Supervisory Board was informed, on a case by case basis, about the results of audit activities, primarily the main findings and recommendations outlined during the audits performed, and about the implementation of the corrective measures resulting from the audits. In this manner, the Supervisory Board was informed of the identified shortcomings and of the procedure aimed at their correction, especially with respect to the efficiency of the internal control mechanisms. The Supervisory Board was also informed about the annual summary report on risk management, risk profiles and the level of risk management.

With regard to the end of the accounting period, the Supervisory Board is informed on the Report on Relations, it discusses the Independent Auditor's Report and reviews the Financial Statements of the Company that are attached to the Annual Report of the Company, submitted to the Supervisory Board.

Within its meetings, the Supervisory Board had been kept informed about key developments in the Company, about the plans of the Board of Directors and the results of its meetings by the Chairman of the Board of Directors. The Chairman of the Board of Directors regularly participated in the Supervisory Board meetings. When necessary, other executive staff of the Company responsible for the activities under discussion by the Supervisor Board were also invited to attend the meetings.

In Prague, 7 March 2019


Radek Hovorka

Chairman of the Supervisory Board of Czech Airlines Technics, a.s.

Financial Statements

For the year ended 31 December 2018

CZECH AIRLINES TECHNICS, A.S.
BALANCE SHEET
AS AT 31.12.2018 (IN THOUSAND CZK)

		31.12.2018			31.12.2017
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	2 228 010	(1 014 498)	1 213 512	1 203 329
B.	Fixed assets	1 168 992	(753 617)	415 375	408 308
B.I.	Intangible fixed assets	93 309	(82 521)	10 788	20 583
2.	Royalties	93 216	(82 521)	10 695	20 583
2.1.	Software	62 320	(51 625)	10 695	15 932
2.2.	Other royalties	30 896	(30 896)	-	4 651
5.	Advances paid and intangible fixed assets in the course of construction	93	-	93	-
5.2.	Intangible fixed assets in the course of construction	93	-	93	-
B.II.	Tangible fixed assets	1 075 683	(671 096)	404 587	387 725
1.	Land and constructions	91 115	(26 389)	64 726	30 348
1.2.	Constructions	91 115	(26 389)	64 726	30 348
2.	Equipment	954 423	(644 707)	309 716	306 352
5.	Advances paid and tangible fixed assets in the course of construction	30 145	-	30 145	51 025
5.1.	Advances paid for tangible fixed assets	10 994	-	10 994	10 171
5.2.	Tangible fixed assets in the course of construction	19 151	-	19 151	40 854
C.	Current assets	1 057 740	(260 881)	796 859	792 858
C.I.	Inventories	533 065	(230 961)	302 104	345 979
1.	Raw materials	468 580	(204 132)	264 448	240 080
2.	Work in progress and semi-finished products	57 000	(22 622)	34 378	100 137
3.	Finished goods and goods for resale	7 307	(4 207)	3 100	1 516
3.2.	Goods for resale	7 307	(4 207)	3 100	1 516
5.	Advances paid for inventory	178	-	178	4 246
C.II.	Receivables	358 916	(29 920)	328 996	309 807
1.	Long-term receivables	94 473	-	94 473	76 994
1.1.	Trade receivables	1 617	-	1 617	873
1.4.	Deferred tax asset	51 064	-	51 064	44 374
1.5.	Receivables - other	41 792	-	41 792	31 747
1.5.2.	Long-term advances paid	40 308	-	40 308	30 933
1.5.4.	Other receivables	1 484	-	1 484	814
2.	Short-term receivables	264 443	(29 920)	234 523	232 813
2.1.	Trade receivables	152 107	(25 673)	126 434	181 837
2.4.	Receivables - other	112 336	(4 247)	108 089	50 976
2.4.3.	Taxes - receivables from the state	622	-	622	9 980
2.4.4.	Short-term advances paid	3 482	-	3 482	213
2.4.5.	Estimated receivables	105 290	(3 743)	101 547	34 420
2.4.6.	Other receivables	2 942	(504)	2 438	6 363
C.IV.	Cash	165 759	-	165 759	137 072
1.	Cash in hand	265	-	265	491
2.	Cash at bank	165 494	-	165 494	136 581
D.I.	Prepayments and accrued income	1 278	-	1 278	2 163
1.	Prepaid expenses	1 278	-	1 278	2 163

CZECH AIRLINES TECHNICS, A.S.
BALANCE SHEET
AS AT 31.12.2018 (IN THOUSAND CZK)

		31.12.2018	31.12.2017
	TOTAL LIABILITIES AND EQUITY	1 213 512	1 203 329
A.	Equity	993 824	975 200
A.I.	Share capital	814 100	814 100
1.	Share capital	814 100	814 100
A.II.	Share premium and capital contributions	34 255	38 616
1.	Share premium	34 288	34 288
2.	Capital contributions	(33)	4 328
2.2.	<i>Assets and liabilities revaluation</i>	(33)	4 328
A.IV.	Retained earnings / Accumulated losses	122 484	84 579
1.	Retained earnings / Accumulated losses	122 484	84 579
A.V.	Profit / (loss) for the current period	22 985	37 905
B.+C.	Liabilities	214 394	206 613
B.	Provisions	9 243	9 945
2.	Income tax provision	3 037	-
4.	Other provisions	6 206	9 945
C.	Liabilities	205 151	196 668
C.I.	Long-term liabilities	891	370
4.	Trade payables	-	370
9.	Liabilities - other	891	-
9.3.	<i>Other liabilities</i>	891	-
C.II.	Short-term liabilities	204 260	196 298
3.	Short-term advances received	644	330
4.	Trade payables	79 544	98 824
8.	Liabilities - other	124 072	97 144
8.3.	<i>Liabilities to employees</i>	24 763	23 502
8.4.	<i>Liabilities for social security and health insurance</i>	15 117	14 180
8.5.	<i>Taxes and state subsidies payable</i>	4 679	4 361
8.6.	<i>Estimated payables</i>	77 241	54 269
8.7.	<i>Other liabilities</i>	2 272	832
D.	Accruals and deferred income	5 294	21 516
2.	Deferred income	5 294	21 516

CZECH AIRLINES TECHNICS, A.S.
PROFIT AND LOSS ACCOUNT
FOR THE YEAR 2018 (IN THOUSAND CZK)

		2018	2017
I.	Sales of products and services	1 621 878	1 380 514
II.	Sales of goods	46 340	30 649
A.	Cost of sales	925 610	848 409
1.	Cost of goods sold	39 910	27 176
2.	Raw materials and consumables used	387 685	380 860
3.	Services	498 015	440 373
B.	Changes in inventories of finished goods and work in progress	43 137	(69 337)
C.	Own work capitalised	(6 046)	(2 929)
D.	Staff costs	580 625	530 959
1.	Wages and salaries	414 997	383 065
2.	Social security, health insurance and other social costs	165 628	147 894
2.1.	<i>Social security and health insurance costs</i>	141 750	130 097
2.2.	<i>Other costs</i>	23 878	17 797
E.	Value adjustments in operating activities	83 736	41 806
1.	Value adjustments of fixed assets	60 261	71 087
1.1.	<i>Depreciation, amortisation and write off of fixed assets</i>	64 771	69 634
1.2.	<i>Provision for impairment of fixed assets</i>	(4 510)	1 453
2.	Provision for impairment of inventories	20 218	(7 860)
3.	Provision for impairment of receivables	3 257	(21 421)
III.	Operating income - other	102 167	83 325
1.	Sales of fixed assets	47 382	30 539
2.	Sales of raw materials	34 768	45 458
3.	Other operating income	20 017	7 328
F.	Operating expenses - other	110 919	92 141
1.	Net book value of fixed assets sold	22 173	14 104
2.	Material sold	29 114	39 328
3.	Taxes and charges from operating activities	2 335	2 091
4.	Operating provisions and complex prepaid expenses	(3 739)	(13 802)
5.	Other operating expenses	61 036	50 420
*	Operating result	32 404	53 439
VI.	Interest and similar income	204	42
2.	Other interest and similar income	204	42
K.	Other financial expenses	545	5 442
*	Financial result	(341)	(5 400)
**	Net profit / (loss) before taxation	32 063	48 039
L.	Tax on profit or loss	9 078	10 134
1.	Tax on profit or loss - current	14 745	3 466
2.	Tax on profit or loss - deferred	(5 667)	6 668
**	Net profit / (loss) after taxation	22 985	37 905
***	Net profit / (loss) for the financial period	22 985	37 905
*	Net sales for the financial period	1 770 589	1 494 530

CZECH AIRLINES TECHNICS, A.S.
CASH FLOW STATEMENT
FOR THE YEAR 2018 (IN THOUSAND CZK)

		2018	2017
	Cash flows from operating activities		
	Net profit before tax	32 063	48 039
A.1	Adjustments for non-cash movements:	68 038	17 463
A.1.1	Depreciation and amortisation of fixed assets and receivables	79 951	74 258
A.1.2	Change in provisions	15 226	(41 630)
A.1.3	(Profit)/loss from disposal of fixed assets	(25 209)	(16 435)
A.1.5	Net interest expense/(income)	(204)	(42)
A.1.6	Other non-cash movements	(1 726)	1 312
A*	Net cash flow from operating activities before tax and changes in working capital	100 101	65 502
A.2	Working capital changes	(15 986)	(59 728)
A.2.1	Change in receivables and prepayments	(33 209)	36 403
A.2.2	Change in short-term payables and accruals	(6 434)	11 010
A.2.3	Change in inventories	23 657	(107 141)
A**	Net cash flow from operating activities before tax	84 115	5 774
A.4	Interest received	204	42
A.5	Income tax paid	(3 463)	(23 777)
A***	Net cash flow from operating activities	80 856	(17 961)
	Cash flows from investing activities		
B.1	Acquisition of fixed assets	(97 311)	(113 549)
B.2	Proceeds from sale of fixed assets	45 142	32 322
B***	Net cash flow from investing activities	(52 169)	(81 227)
	Net increase/(decrease) in cash and cash equivalents	28 687	(99 188)
	Cash and cash equivalents at the beginning of the year	137 072	236 260
	Cash and cash equivalents at the end of the year	165 759	137 072

CZECH AIRLINES TECHNICS, A.S.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR 2018 (IN THOUSAND CZK)

	Share capital	Share premium and other capital contributions	Gains or losses from the revaluation	Retained earnings and profit or loss for the current period	Total
Balance as at 31 December 2016	814 100	34 288	-	84 579	932 967
Gains or losses from the revaluation to the fair value - hedging derivatives	-	-	4 328	-	4 328
Profit for the current period	-	-	-	37 905	37 905
Balance as at 31 December 2017	814 100	34 288	4 328	122 484	975 200
Gains or losses from the revaluation to the fair value - hedging derivatives	-	-	(4 361)	-	(4 361)
Profit for the current period	-	-	-	22 985	22 985
Balance as at 31 December 2018	814 100	34 288	(33)	145 469	993 824

Notes to the Financial Statements
For the Year Ended 31 December 2018

1. General Information

Czech Airlines Technics, a. s. ("the Company"), corporate ID 27145573, was registered in the Commercial Register by the Municipal Court in Prague, Section B, Insert 9307 on 28 April 2004. The Company's registered office is located in Prague 6 - Ruzyně, Jana Kašpara 1069/1, Postal Code 160 08, Czech Republic.

The Company provides aircraft and aircraft equipment repair and maintenance. The Company is an independent company providing its services at an international level. Taking pride in its 90 years' experience, the Company delivers high-quality services and work with an emphasis on strict compliance with safety standards, adherence to deadlines for the provision of aircraft equipment maintenance and a flexible approach to clients.

The Company is ready to offer comprehensive services to a wide range of customers, as evidenced by its long-term experience with providing aircraft and aircraft equipment repair and maintenance to a number of important customers including airlines, the Ministry of Defence of the Czech Republic and the Ministry of Interior of the Slovak Republic. The Company provides its services using its own resources to ensure guaranteed quality, safety and the shortest turnaround times within all its areas of business, namely Base Maintenance, Line Maintenance, Landing Gear Maintenance and Aircraft Component Maintenance. In addition, the Company provides, alongside continuous technical assistance, a highly flexible on-wing team, ready to solve one-off technical issues experienced by its customers at foreign stations and airports. The Company now also provides the service of aircraft consumables sales.

The Company is part of the consolidation group of Letiště Praha, a. s.

2. Accounting Principles and Policies

a) Basis of Preparation of Financial Statements

The Company's accounting books and records are maintained and the financial statements have been prepared in accordance with the Accounting Act 563/1991 Coll., as amended; the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act 563/1991 Coll. for reporting large entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended; and Czech Accounting Standards for businesses, as amended. The financial statements have been prepared under historical cost conventions, with exception for the areas described below in this chapter.

These financial statements are presented in thousands of Czech crowns ("CZK"), unless stated otherwise.

b) Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 5 thousand. Intangible assets with an acquisition cost of less than CZK 5 thousand on an individual basis are expensed in the period of acquisition.

Purchased intangible fixed assets are stated at acquisition cost less accumulated amortisation and impairment.

Technical improvements exceeding the amount of CZK 40 thousand per an individual asset for the taxation period are capitalised.

Amortisation of intangible fixed assets is recorded on a straight-line basis over their estimated useful lives as follows:

	Number of years
Software	3 - 10
Trademarks	6
Licences	Over the term of contract

2. Accounting Principles and Policies (continued)

b) Intangible Fixed Assets (continued)

If the carrying value of an asset is greater than its estimated recoverable value, the carrying value is reduced through an allowance to the recoverable value. If the impairment of an asset is permanent, the asset is written down.

c) Tangible Fixed Assets

Tangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 5 thousand, respectively CZK 10 thousand for tools. Tangible fixed assets with an acquisition cost from CZK 1 thousand to CZK 5 thousand, respectively CZK 10 thousand for tools, on an individual basis are expensed upon acquisition and further monitored in off-balance sheet records.

Purchased tangible fixed assets are stated at acquisition cost less accumulated depreciation and allowance for diminution in value. The acquisition cost includes the purchase cost and costs attributable to the acquisition. The valuation of the tangible fixed assets is reduced by subsidies from the state budget.

Tangible fixed assets developed internally are valued at direct costs.

Tangible fixed assets newly found and acquired free of charge are recorded at replacement cost as at the date of receipt.

Technical improvements exceeding the amount of CZK 40 thousand per an individual asset for the taxation period are capitalised.

Rotables are depreciated in the accounting records as a set of assets to the expected residual value of 10% of their acquisition cost. The expected useful life is determined on the basis of an expert estimate of the planned use of the individual set of rotatables in respect of a specific type of customers' aircraft. The estimated useful life is in the range of 4 - 20 years.

Tangible fixed assets, other than land and assets in the course of construction, are depreciated using the straight-line method over their estimated useful life as follows:

	Number of years
Machinery and equipment	4, 8 or 15
Vehicles	4, 8 or 15
Rotables	From 4 to 20
Technical improvements of assets held under operating leases	Over the term of the operating lease
Furniture and fixtures	8 or 15
Other tangible fixed assets with an acquisition cost between CZK 5 thousand, respectively CZK 10 thousand for tools, to CZK 40 thousand	2

If the carrying value of an asset is greater than its estimated recoverable value, the carrying value is reduced by an allowance to the recoverable value. If the impairment of an asset is permanent, the asset is written down.

The Company creates impairment to rotables based on an individual assessment of the usability of each group of rotables in the following years and comparing their carrying value with the recoverable amount.

d) Inventories

Purchased inventories are recorded at acquisition cost and decreased by a provision in cases, when there are reasons for its creation. The acquisition cost includes all direct and indirect costs incurred to bring inventory to its present stage and location (such as freight costs). The weighted arithmetic average method is applied for all disposals of purchased inventory.

Internally developed inventory is valued at the cost of producing the inventory.

2. Accounting Principles and Policies (continued)

d) Inventories (continued)

Work in progress and semi-finished goods represent orders for individual customers and are valued at the cost of producing the inventory, which consists of direct costs incurred in production and production overheads.

A provision for slow-moving/obsolete inventory is recognised based upon an analysis of turnover of inventories and for other inventories upon an individual evaluation.

e) Receivables

Upon recognition, receivables are stated at their nominal value and subsequently reduced by appropriate allowances for doubtful and bad debts.

A provision for bad debts is recognised on the basis of an aging analysis of the debts and an individual assessment of the financial health of debtors.

f) Cash Flow Statement

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts. The Company has prepared a cash flow statement using the indirect method.

g) Foreign Currency Translations

Transactions denominated in foreign currencies during the accounting period are translated using a fixed monthly exchange rate of the Czech National Bank.

All monetary assets, receivables and liabilities denominated in a foreign currency are translated using the effective exchange rate stated by the Czech National Bank as at the balance sheet date. Any resulting foreign exchange rate gains and losses are recorded through the current year's financial expenses or revenues as appropriate.

The Company treats advances paid for the acquisition of fixed assets as receivables and therefore these assets are translated as at the balance sheet date.

h) Revenues and Expenses Recognition

Revenues and expenses are recognised in the period to which they relate on an accruals basis.

Sales are recognized as at the date the services are rendered or the goods are delivered and accepted by the customer and reported after discounts and VAT deduction.

Foreign exchange rate gains and losses are reported on a aggregate net basis.

i) Government Grants

The grants are recognised in revenues in the period in which the eligible expenses are recognised on an accrual basis or as an expense if the Company returns the grant recognised as income in previous periods (in accordance with the grant conditions).

j) Provisions

The Company recognises provisions to cover its obligations or expenses, when the nature of the obligations or expenses is clearly defined and it is probable or certain as at the balance sheet date that they will be incurred, however their precise amount or timing is not known. The provision recognised as at the balance sheet date represents the best estimate of expenses that will be probably incurred, or the amount of liability that is required for their settlement.

The Company recognises a provision for its future income tax payable which is presented net of advances paid for income tax. If advances paid are higher than the estimated income tax payable, the difference is recognised in the item Taxes – receivables from the state.

2. Accounting Principles and Policies (continued)

k) Employee Benefits

The Company makes contributions to the government's health retirement benefit and employment schemes at the statutory rates in force during the year based on gross salary payments. To fund the national pension insurance the Company pays the regular contributions to the state budget.

Under the terms defined in the Collective Agreement, the Company provides its employees with contributions to pension schemes administered by commercial funds.

The liability from untaken holidays is recognised as an estimated payable. The liability from other employee benefits is recognised as a provision, bonuses as an estimated payable.

l) Liabilities

Trade payables are stated at their nominal value.

m) Derivative Financial Instruments

The Company concluded currency hedging transactions (currency forward) with aim to ensure it's income in foreign currencies against the foreign currency risk. These financial instruments are classified as hedging instruments (cash flow hedging) and they are recognised at fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. All derivatives are presented in other receivables or in other liabilities when their fair value is positive or negative, respectively. Based on the maturity date they are classified as short-term or long-term receivables or liabilities as appropriate.

Changes in the fair value of hedging financial instruments are recognised in equity as item Assets and liabilities revaluation.

n) Taxation

Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets is calculated using the straight line method for tax purposes.

Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred Taxation

Deferred tax is accounted for using the balance sheet liability method.

Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply in the period when, according to Company's expectation, the tax liability is settled or the asset realised.

The balance sheet liability method focuses on temporary differences, which are differences between the tax base of an asset and/or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

Deferred tax assets are recognised if it is probable that sufficient future profit will be available against which the assets can be utilised.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also included in equity.

Deferred tax assets and liabilities in the balance sheet are offset and reported on an aggregate net basis.

2. Accounting Principles and Policies (continued)

o) Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company believes that the estimates and assumptions used will not significantly differ from the actual results and outcomes in the following reporting periods.

p) Related Parties

The Company's related parties are considered to be the following:

- parties that can directly or indirectly exercise a dominant influence on the Company and companies, where those parties have a dominant or significant influence;
- parties that can directly or indirectly exercise a significant influence on the Company;
- Members of the Company's statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence.

q) Equity

The Company's share capital is reported in the amount recorded in the Commercial Register by the Municipal Court. Any increase or decrease of the share capital on the basis of a decision of the General Meeting or in accordance with law and the Articles of Association at the discretion of the Board of Directors, which was not recorded in the Commercial Register as at the balance sheet date, is reported as Changes in share capital.

r) Subsequent Events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

s) Changes in accounting policies

Since 2018, the limit of acquisition cost for classification of tools into the tangible assets increased from CZK 5 thousand to CZK 10 thousand. The impact on the financial statements is not material.

3. Intangible Fixed Assets

Cost CZK '000	Software	Royalties	Intangible assets under construction	Total
1 January 2017	62,214	30,896	-	93,110
31 December 2017	62,214	30,896	-	93,110
Additions	106	-	93	199
31 December 2018	62,320	30,896	93	93,309

Accumulated amortisation and impairment CZK '000	Software	Royalties	Intangible assets under construction	Total
1 January 2017	(40,948)	(21,004)	-	(61,952)
Amortisation	(5,334)	(5,241)	-	(10,575)
31 December 2017	(46,282)	(26,245)	-	(72,527)
Amortisation	(5,343)	(4,651)	-	(9,994)
31 December 2018	(51,625)	(30,896)	-	(82,521)

Net book value CZK '000	Software	Royalties	Intangible assets under construction	Total
31 December 2017	15,932	4,651	-	20,583
31 December 2018	10,695	-	93	10,788

4. Tangible Fixed Assets

Cost CZK '000	Constructions	Machinery and equipment	Vehicles	Rotables	Other tangible fixed assets	Tangible assets under construction	Advances paid for tangible fixed assets	Total
1 January 2017	20,674	297,025	67,663	480,172	64,617	32,106	31	962,288
Additions	30,911	11,813	2,266	52,991	3,842	8,748	10,140	120,711
Fixed assets count differences	51	1,395	-	35	90	-	-	1,571
Disposals	-	(1,047)	(208)	(36,857)	(482)	-	-	(38,594)
31 December 2017	51,636	309,186	69,721	496,341	68,067	40,854	10,171	1,045,976
Additions	8,396	21,448	363	44,620	3,662	9,473	823	88,785
Transfers	31,176	7,867	(7,867)	-	-	(31,176)	-	-
Fixed assets count differences	-	176	-	314	-	-	-	490
Disposals	(93)	(8,379)	(1,049)	(43,223)	(6,824)	-	-	(59,568)
31 December 2018	91,115	330,298	61,168	498,052	64,905	19,151	10,994	1,075,683

4. Tangible Fixed Assets (continued)

Accumulated depreciation and impairment CZK '000	Constructions	Machinery and equipment	Vehicles	Rotables	Other tangible fixed assets	Tangible assets under construction	Advances paid for tangible fixed assets	Total
1 January 2017	(17,540)	(242,351)	(60,039)	(240,260)	(60,603)	-	-	(620,793)
Depreciation	(3,697)	(9,136)	(798)	(38,163)	(3,083)	-	-	(54,877)
Disposals	-	1,047	208	18,686	468	-	-	20,409
Fixed assets count differences	(51)	(1,395)	-	-	(91)	-	-	(1,537)
Increase of the impairment	-	-	-	(1,787)	-	-	-	(1,787)
Decrease of the impairment	-	-	-	334	-	-	-	334
31 December 2017	(21,288)	(251,835)	(60,629)	(261,190)	(63,309)	-	-	(658,251)
Depreciation	(5,194)	(10,233)	(775)	(32,411)	(3,668)	-	-	(52,281)
Disposals	93	8,289	1,050	19,193	6,477	-	-	35,102
Transfers	-	(6,152)	6,152	-	-	-	-	-
Fixed assets count differences	-	(176)	-	-	-	-	-	(176)
Increase of the impairment	-	-	-	(6,236)	-	-	-	(6,236)
Decrease of the impairment	-	-	-	10,746	-	-	-	10,746
31 December 2018	(26,389)	(260,107)	(54,202)	(269,898)	(60,500)	-	-	(671,096)

Net book value CZK '000	Constructions	Machinery and equipment	Vehicles	Rotables	Other tangible fixed assets	Tangible assets under construction	Advances paid for tangible fixed assets	Total
31 December 2017	30,348	57,351	9,092	235,151	4,758	40,854	10,171	387,725
31 December 2018	64,726	70,191	6,966	228,154	4,405	19,151	10,994	404,587

The Company has no pledged assets as at 31 December 2018 and as at 31 December 2017.

The Company created provision for tangible fixed assets amounted to CZK 29,467 thousand as at 31 December 2018 (as at 31 December 2017: 33,978 thousand).

5. Inventories

The Company has provision for inventories amounted to CZK 230,961 thousand as at 31 December 2018 (as at 31 December 2017: CZK 210,743 thousand).

The gross work in progress as at 31 December 2018 amounted to CZK 56,529 thousand (as at 31 December 2017: CZK 99,653 thousand) represent unfinished orders for individual customers.

6. Receivables

CZK '000		31 December 2018	31 December 2017
Short-term receivables			
Trade receivables	- current	114,745	166,194
	- overdue	37,362	42,301
Trade receivables total		152,107	208,495
Other receivables	- current	112,336	50,982
Short-term receivables total		264,443	259,477
Allowance for doubtful receivables		(29,920)	(26,664)
Net short-term receivables		234,523	232,813
Long-term receivables			
Trade receivables		1,617	873
Deferred tax asset		51,064	44,374
Other receivables		41,792	31,747
Long-term receivables total		94,473	76,994
Net receivables total		328,996	309,807

Receivables have not been covered by guarantees and none of them are due in more than 5 years.

The Company has neither receivables nor contingent claims recorded off the balance sheet.

7. Derivative Financial Instruments

As at 31 December 2018, the Company has concluded hedging derivatives to secure part of its EUR exposure:

CZK '000	Fair value		Nominal value
	Positive	Negative	
Currency forwards	2,532	(2,318)	702,948
Total	2,532	(2,318)	702,948

As at 31 December 2017, the Company has concluded hedging derivatives to secure part of its EUR exposure:

CZK '000	Fair value		Nominal value
	Positive	Negative	
Currency forwards	5,804	-	400,691
Total	5,804	-	400,691

The Company is exposed to the risk of exchange rate fluctuations. For that reason, the Company tries to maximize compensation for these risks, control net position in order to keep optimal effect on net profit and cover open position if necessary.

8. Equity

Authorised and Issued Share Capital

	31 December 2018		31 December 2017	
	Number (pcs)	Book value (CZK '000)	Number (pcs)	Book value (CZK '000)
Ordinary shares in the nominal value of CZK 100 thousand each, fully paid	8,141	814,100	8,141	814,100

The sole shareholder of the Company is Letiště Praha, a. s. based in Prague 6, Ruzyně, K letišti 1019/6, Postal Code 161 00. Letiště Praha, a. s. is consolidating unit preparing consolidated financial statements of the largest group of entities of which the Company belongs. Consolidated financial statements are published in the Collection of Documents of the Commercial Register. The ultimate owner of the Company is the Czech Republic represented by the Ministry of Finance.

As of 1 October 2018 became effective merger by acquisition of Letiště Praha, a. s. as the acquiring company and Český Aeroholding, a.s., Realitní developerská a.s., Sky Venture a.s. and Whitelines Industries a.s. as the merging companies. The companies Český Aeroholding, a.s., Realitní developerská, a.s., Sky Venture a.s. and Whitelines Industries a.s. ceased to exist and all equity (property and debts), including rights and duties from employment relations and rights and duties from contractual relations passed over from these companies being acquired to acquiring company Letiště Praha, a. s. The subsidiaries of Český Aeroholding, a.s., i.e. the companies B. aircraft, a.s., Czech Airlines Handling, a.s., and Czech Airlines Technics, a.s. became the subsidiaries of the company Letiště Praha, a. s. as of the effective date of merger. The decisive date of the merger was 1 January 2018.

Based on the decision of the General Meeting of Shareholder on 5 April 2018, the profit in the amount of CZK 37,905 thousand for 2017 was authorised and transferred to the account of retained earnings.

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit for 2018.

Change in hedging derivatives fair value

CZK '000	2018	2017
Opening balance as at 1 January	4,328	-
Fair value subsequently reclassified to profit and loss account	(5,343)	-
Fair value increase / (decrease)	(41)	5,343
Income tax related to cash flow hedging	1,023	(1,015)
Closing balance as at 31 December	(33)	4,328

9. Provisions

CZK '000	For income tax	For staff costs	Other	Total
Opening balance as at 1 January 2017	12,022	12,647	11,100	35,769
Charge for the year	4,022	3,887	127	8,036
Used in the year	(12,022)	(6,716)	(257)	(18,995)
Income tax prepayment	-	-	(10,843)	(10,843)
Transfer to Taxes-receivables from the state	(4,022)	-	-	(4,022)
Closing balance as at 31 December 2017	-	9,818	127	9,945
Charge for the year	13,594	1,150	-	14,744
Used in the year	(71)	(4,762)	(127)	(4,960)
Income tax prepayment	(10,486)	-	-	(10,486)
Closing balance as at 31 December 2018	3,037	6,206	-	9,243

The Company has recorded a provision for income net of income tax advance if advances are lower than anticipated tax. In case that these advances are higher than anticipated tax, the resulting receivable is presented in the row Taxes – receivables from the state.

Provisions for staff costs primarily relate to the employee benefits provided to the employees by the Company on the basis of the Collective Agreement upon their life and work jubilees or upon their retirement and the mid-term targets of the Company's management.

10. Liabilities

CZK '000	31 December 2018	31 December 2017
Short-term liabilities		
Short-term advances received	644	330
Trade payables - current	72,320	89,299
- overdue	7,224	9,525
- of which payables to consolidated group entities	25,201	23,227
Trade payables total	79,544	98,824
Other liabilities - current	124,072	97,144
- of which payables to consolidated group entities	1,548	272
Short-term liabilities total	204,260	196,298
Long-term liabilities		
Trade payables	-	370
Other liabilities	891	-
Long-term liabilities total	891	370
Liabilities total	205,151	196,668

The above-mentioned liabilities have not been secured against any assets of the Company and are not due after more than 5 years.

10. Liabilities (continued)

The Company has no overdue liabilities related to social security and health insurance or any other overdue liabilities to the tax authorities or other state institutions.

Estimated payables of CZK 77,241 thousand as at 31 December 2018 (as at 31 December 2017: CZK 54,269 thousand) represent services provided by the Company such as repairs, loans and deliveries of rotables, energy, delivery of rotables and material which have not been invoiced as at the balance sheet date and also untaken holidays and unpaid bonuses.

11. Income Tax

The tax on profit or loss expense analysis:

CZK '000	2018	2017
Current income tax expense	13,595	4,022
Adjustment of prior year tax expense based on final income tax return	1,150	(556)
Deferred tax expense	(5,667)	6,668
Tax on profit or loss total	9,078	10,134

The deferred tax asset can be analysed as follows:

CZK '000	31 December 2018	31 December 2017
Deferred tax liability:		
Difference between tax and accounting net book value of fixed assets	(7,066)	(7,464)
Hedging derivatives	-	(1,015)
Deferred tax asset:		
Provisions and estimated payables	5,469	5,911
Allowances for fixed assets, inventories, receivables	52,653	46,942
Hedging derivatives	8	-
Net deferred tax asset	51,064	44,374

12. Revenue from Ordinary Activities

Revenue from ordinary activities has been generated as follows:

CZK '000		2018	2017
Sale of services	- Heavy maintenance	860,377	675,258
	- Line maintenance	184,208	187,540
	- Maintenance of rotables	277,562	278,191
	- Landing Gears maintenance	237,130	189,483
	- CAMO* support	24,418	22,194
	- Other	38,183	27,848
Total sale of services		1,621,878	1,380,514
Total sale of goods		46,340	30,649
Total revenue from ordinary activities		1,668,218	1,411,163

* Continuing Airworthiness Management Organization

The revenues from other services in 2018 and 2017 were generated mainly from contracts for engineering.

Revenues from ordinary activities are realised in the Czech Republic.

13. Employees

Staff costs in 2018:

	Average recalculated number of employees	CZK '000
Salaries of the members of the Board of Directors and Supervisory Board	5	7,682
Wages and salaries of other employees	796	407,315
Social security and health insurance costs		141,750
Other social costs		23,878
Staff costs total	801	580,625

Staff costs in 2017:

	Average recalculated number of employees	CZK '000
Salaries of the members of the Board of Directors and Supervisory Board	6	9,976
Wages and salaries of other employees	768	373,089
Social security and health insurance costs		130,097
Other social costs		17,797
Staff costs total	774	530,959

Members of the Board of Directors and Supervisory Board were not provided with any loans, credits, deposits, advance payments or guarantees.

13. Employees (continued)

The members of the Board of Directors of the Company are provided with company cars for personal usage on the basis of the agreements on the use of motor vehicles.

The members of the Board of Directors are provided with meal allowances, pension, accident insurance and insurance in accordance with the agreements on performance.

In 2018 and 2017, the members of the Supervisory Board and Board of Directors received regular monthly bonuses for performance in accordance with the applicable agreements, which were approved by the General Meeting. The members of the Board of Directors further received a remuneration based on the fulfilment of assigned goals.

The Company also provides the employees with further benefits in accordance with valid Collective Agreement.

Besides the above stated remuneration and benefits, there was no other consideration in monetary or non-monetary form provided to the Company's shareholder, members of the Company's boards and management in 2018 and 2017.

14. Related-Party Transactions

Purchases and sales within the consolidation group entities:

CZK '000	2018		2017	
	Purchases	Sales	Purchases	Sales
Letiště Praha, a. s.	190,846	2,847	68,692	562
Český Aeroholding, a.s.	-	-	106,459	63
Czech Airlines Handling, a.s.	5,228	494	4,501	788
B. aircraft, a.s.	-	47	-	-

Payables to consolidated group entities are stated in Note 10.

Transactions with other related parties are immaterial and were concluded under standard market conditions.

Transactions with the members of the Board of Directors and Supervisory Board are included in Note 13.

15. Fees Paid and Payable to the Audit Company

The information relating to the fees paid and payable for services performed by the audit company PricewaterhouseCoopers Audit, s.r.o. is included in the consolidated financial statements of Letiště Praha, a. s.

16. Commitments

The Company has the following future commitments in respect non-residential premises:

as at 31 December 2018	Non-residential premises CZK '000
Outstanding amounts payable within one year	54,933
Amounts payable from one to five years	239,911
Amounts payable after more than five years	236,919
Total lease payments payable from current agreements	531,763

Non-residential premises – amounts include the rent of real estate with the contractual rental period for a definite or an indefinite period (commitment to agreements for an indefinite period is calculated in accordance with the notice period).

The Company records a commitment from the existing contract where it is committed to purchase services from Czech Aviation Training Centre, s.r.o. The total guaranteed volume of drawn services for the Company during 2019-2022 is CZK 41,968 thousand as at 31 December 2018.

The Company has no other undisclosed significant commitments.

17. Contingent liabilities

The Company records a commitment from the existing contract where it, together with České aerolinie a.s. is committed to purchase services from Czech Aviation Training Centre, s.r.o. The Company's management does not consider it likely that it will have to pay for the uncollected services by České aerolinie a.s.

Management of the Company is not aware of any other contingent liabilities as at 31 December 2018 and 2017.

18. Cash Flow Statement

Cash and cash equivalents in the cash flow statement include:

CZK '000	31 December 2018	31 December 2017
Cash in hand, vouchers and cash in transit	265	491
Cash at bank	165,494	136,581
Total	165,759	137,072

19. Subsequent Events

With effect on 21 January 2019, Ing. Petr Doberský was appointed as a Member of the Board of Directors.

With effect on 1 January 2019, Ing. Jan Brázdil was appointed as a Vice-Chairman of the Supervisory Board and Ing. Jan Kment as a Member of the Supervisory Board.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements for the period from 1 January 2018 to 31 December 2018.

29 March 2019



Mgr. Pavel Haleš
Chairman of the Board of Directors
Czech Airlines Technics, a.s.



Ing. Igor Zahradníček
Vice-Chairman of the Board of Directors
Czech Airlines Technics, a.s.



Independent auditor's report

to the shareholder of Czech Airlines Technics, a.s.

Opinion

We have audited the accompanying financial statements of Czech Airlines Technics, a.s., with its registered office at Jana Kašpara 1069/1, Praha 6 - Ruzyně ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2018 and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, of its financial performance and its cash flows for the year ended 31 December 2018 in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors and Supervisory Board for the Financial Statements

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

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Independent auditor's report

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- 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 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 financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and 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.

29 March 2019

Perennialhouse Cooper Audit, s.r.o.
represented by

Jiří Zouhar

Danuše Polívková
Statutory Auditor, Licence No. 2462

This report is addressed to the shareholder of Czech Airlines Technics, a.s.

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.