



CZECH AIRLINES TECHNICS, A.S.

2017

ANNUAL REPORT



1. Company Profile

Mission of the Company

Czech Airlines Technics, a.s., (hereinafter referred to as "Czech Airlines Technics" or "the Company") provides repair and maintenance of aircraft and aircraft technology. Czech Airlines Technics, a.s. is an independent company that provides services at an international level. Taking pride in its 90 years of 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 technology maintenance and a flexible approach to its clients.

The Company is prepared to offer comprehensive services to a wide range of customers, as evidenced by its long-term experience with providing technical support to the aircraft fleet of the Ministry of Defence of the Czech Republic with a global scope of operations and to the fleet of the Ministry of Interior of the Slovak Republic, based at Bratislava Airport. The Company provides 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.

The location of the Company's facilities in the heart of Europe is a great advantage. Customers from all across 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 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.s, a subsidiary of Český Aeroholding, a.s., was established on 28 April 2004 through registration in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 9307.

The Company has no branches abroad.

Scope of Business

Czech Airlines Technic, a.s. specialises mainly in the repair and maintenance of aircraft and aviation technology in the following areas:

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

In 2017, the Company enters into several long-term contracts for both the main and the low maintenance seasons. It is successful in maintaining and gradually expanding mutual co-operation with its 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 potential successful long-term co-operation.

Base Maintenance

In 2017, the Company performed over 100 large-scale inspections on B737, A320 Family and ATR aircraft, and succeeded in further expanding its services for external customers. In 2017, the main clients included Czech Airlines, Finnair, Transavia Airlines, Germania, Travel Service, and NEOS, with additional work performed for Luxair, Aeroflot, Primera Air Nordic, GECAS and Transavia France. Alongside large-scale inspections, the Base Maintenance department also carried out various modifications and service bulletins, structural repairs, and replacement of engines, landing gears and

other aircraft components. In addition, the project of aircraft cabin modification and Wi-Fi installation was launched.

For the main 2017/2018 maintenance season, the Company launched the operations of the fifth base maintenance line, representing a year-on-year growth in capacity of 25%.

Line Maintenance

The Company implements the largest share of Line Maintenance at Václav Havel Airport Prague, where it is also the largest provider within the segment. In 2017, Czech Airlines remained the Company's main Line Maintenance client with other major clients being Wizz Air, easyJet, Korean Air, Aeroflot, KLM, Air France, Delta Air Lines, El Al, Sichuan Airlines, Hainan Airlines, China Eastern Airlines and China Airlines. Another important Line Maintenance scope of business included operating foreign line maintenance stations for customers in Jeddah and Bratislava.

In 2017, the Company had contracts with approximately 85% of all the carriers that fly to/from Prague.

Components Maintenance

In 2017, the main clients in the area of Components Maintenance included Czech Airlines, Travel Service, ABS Jets, Bel-Air Express, Aerotron and others. The Company continually updates and expands its *Capability List* and mainly specializes in workshop repairs of components with the promise of a rapid return on investment. The Company also provides services in other areas of maintenance subject to market demand through 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. These mainly include drafting maintenance rules, preparation of data for the planning and monitoring of aircraft and aircraft component maintenance, drafting documents for and monitoring of aircraft modifications, monitoring aircraft engine parameters, 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 2017.

Landing Gear Maintenance

In the Landing Gear Maintenance area, the Company specialises in landing gear overhauls on B737 aircraft of the new and older generations. In 2017, the Company successfully completed a number of landing gear maintenance projects, including overhauls, minor repairs and inspections of landing gear and landing gear components, for companies such as Transavia Airlines, Transavia France, KLM, Germania, Travel Service, Enter Air, ATRAN, Primera Air Nordic and Air Madagascar.

The Company owns four spare landing gear sets for B737s, 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 while their landing gear is being overhauled.

2. 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
Registration No.: 271 45 573
VAT No.: CZ699003361
Date of Incorporation: 28 April 2004
Registered Office: Jana Kašpara 1069/1, 160 08, Praha 6 – Ruzyně

Shareholder

Czech Aeroholding, a.s., Company Registration No.: 248 21 993, is the sole shareholder of Czech Airlines Technics, a.s.

Administrative Bodies

The General Meeting is the supreme body of the Company. It appoints and dismisses members of the statutory and supervisory bodies.

The Board of Directors is the statutory body of the Company. It manages the Company's activities and acts on behalf of the Company. The Board of Directors has three members.

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. The Supervisory Board has three members.

Contact

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Board of Directors of the Company

In 2017, the Company was managed the Board of Directors which had three members.

Chairman of the Board of Directors

Mgr. Pavel Haleš

Vice-chairman of the Board of Directors

Ing. Zdeněk Soukal

Member of the Board of Directors

Ivan Píkl

Changes in the membership of the Czech Airlines Technics Board of Directors in 2017

Ing. Andrea Techmanová – membership terminated on 30 April 2017

Ing. Zdeněk Soukal – membership commenced on 1 July 2017 and the role of Vice-chairman commenced on 3 July 2017

Supervisory Board of the Company

In 2017, 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.

In 2017, there were no changes in the membership of the Supervisory Board.

3. Human Resources

As at 31 December 2017, Czech Airlines Technics had a total of 783 employees.

In terms of the average number of employees in full-time equivalent units, the Company had 768 employees in 2017.

The Company conducts itself in compliance with valid labour legislation along with the valid Collective Agreement approved for the given period.

4. Selected Events of 2017 and Outlook for 2018

Main Events in 2017

January

- The Company starts an exclusive co-operation programme with the Secondary School of Civil Aviation in Prague/Ruzyně regarding scholarships for students with specialisations in Aviation Mechanics.

February

- Czech Airlines Technics, a.s. purchases its third Boeing B737NG landing gear set.

March

- Company representatives attend the MRO Russia & CIS Moscow Trade Fair and Conference.
- Czech Airlines Technics, a.s. enters into a long-term B737NG Landing Gear Maintenance Agreement with Primera Air Nordic.
- The process of gradually implementing the Safety Management System starts.
- The sole shareholder in the capacity of the General Meeting approves the termination of Ms Andrea Techmanová's role of Member of the Board of Directors with effect on 30 April 2017, per Ms Techmanová's request.

April

- Czech Airlines Technics, a.s. launches projects focused on HR management, primarily the adaptation programme, succession, followed by other projects, in line with the development of the Company's key employee base.

May

- Czech Airlines Technics representatives attend the MRO BEER Conferences in Sophia – on 10 and 11 May 2017 – and in Dublin – on 16 and 17 May 2017.
- The Board of Directors of the Company approves the investments in a grinding shop and a ball burnishing machine to support the landing gear maintenance segment.
- Czech Airlines Technics, a.s. enters into a Base Maintenance Agreement with GECAS and Landing Gear Maintenance Agreement with Air Madagascar.
- Czech Airlines Technics, a.s. starts to provide services pursuant to its nine-year Landing Gear Maintenance Agreement with the Air France Group.

June

- The Company enters into an agreement with FINNAIR regarding cabin modification and Wi-Fi installation for the carrier's entire fleet.
- The Company launches co-operation with SATAIR on the efficient procurement of spare parts and the optimisation of review procedures.

- The sole shareholder in the capacity of the General Meeting appoints Mr. Zdeněk Soukal Member of the Company's Board of Directors effective 1 July 2017.

July

- On 3 July 2017, Zdeněk Soukal becomes Vice-chairman of the Company's Board of Directors.
- Within the CAMO segment, an agreement is entered into with the Glomex company to secure its services for the Ministry of Defence of the Czech Republic.
- The Company enters into an agreement on construction of a new temporary hangar.
- The Company enters into a Line Maintenance Agreement with Georgian Airways.

August

- The Company enters into a long-term Base Maintenance Agreement with Transavia Airlines.
- A project with the goal to increase productivity and ensure the efficient use of set processes within the Base Maintenance segment is launched.
- The Company enters into a Line Maintenance Agreement with Air Cargo Global.

September

- The Company enters into a Line Maintenance Agreement with Air Cairo.
- Czech Airlines Technics, a.s. launches operations of its fifth base maintenance line, thus increasing the segment's capacity by 25%.

October

- Czech Airlines Technics representatives attend the MRO EUROPE Conference in London from 3 to 5 October 2017.
- The Company signs a Letter of Intent with the GA Telesis company regarding a long-term strategic co-operation within the RLC segment for ATR aircraft.
- EMS recertification audit is performed in the Company with a very positive result.
- The Company enters into Landing Gear Maintenance Agreements with Corendon Airlines and Air Manas.
- The Company expands its Line Maintenance portfolio by including Boeing 737 MAX and Airbus A320 NEO.

November

- The Company introduces the new Czech Airlines Technics website and actively joins the world of social media networks to enhance its marketing campaigns.
- Czech Airlines Technics representatives attend the MRO Asia-Pacific Conference.
- The Company's Board of Directors approves the purchase of a hydraulic test bench to support the RLC segment.

December

- Czech Airlines Technics, a.s. enters into a Lease Agreement with COMAIR regarding the lease of a spare B737CG landing gear set for the period from March to May 2018.
- An external Safety Audit is performed in the Company focused on evaluating the compliance of the SMS procedures set within the Company with the ICAO Doc. 9859 Safety Management Manual requirements.
- The Company signs a Memorandum of Co-operation in the field of aviation with the Faculty of Transportation Sciences of the Czech Technical University in Prague.

Subsequent Events in 2018 until the signing of the Annual Report

January

- McLaren Aviation performs an independent Safety Audit of Czech Airlines Technics, a.s.
- The Company supports Czech Airlines within its Line Maintenance segment at the Hamburg station.
- The Company expands its Line Maintenance authorisation with a CAAC Certificate, issued by the Chinese Aviation Authority.

February

- Czech Airlines Technics, a.s. wins a public tender to supply aviation consumables to the Ministry of Defence of the Czech Republic (the Government aircraft fleet).
- The Company enters into an agreement with the Ministry of Interior of the Slovak Republic (the Government aircraft fleet) on comprehensive technical support within Base Maintenance, Line Maintenance, CAMO Support and additional services segments.
- Czech Airlines Technics, a.s. launches operations of its new temporary hangar at Václav Havel Airport Prague.

March

- The sole shareholder acting in the capacity of the General Meeting of the Company dismisses Zdeněk Soukal, Vice-chairman of the Board of Directors, with effect on 26 March 2018.

An outlook for 2018

In 2018, the Company will continue to focus on its core activities and on implementing orders under existing contracts. As before, it will seek to expand its services for external clients and gain both additional contracts from existing clients as well as new contracts. Due to the increase in Base Maintenance and Landing Gear Maintenance capacity, Czech Airlines Technics, a.s. 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.

5. Research and Development Activities

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

6. Environmental Protection Activities

Environmental protection issues are a key priority of the Company. Its goal is to continuously and sustainably decrease the impact of its activities on the environment.

In the autumn of 2017, Czech Airlines Technics successfully underwent a recertification audit of the ISO 14001 Environmental Management System according to the updated ČSN EN ISO 14001:2016 standard, conducted by the international specialist Bureau Veritas. The aforementioned update of the ISO14001 standard introduced stricter requirements and obligations applied to companies with implemented environmental management systems. All requirements of the updated standard were met, and the recertification audit thus confirmed that the established Environmental Management System is functional and that it effectively contributes to the protection of the environment. The company can thus continue to use the internationally recognised certificate it has held since 2014.

As a result of its main scope of business, i.e. aircraft repair and maintenance, the Company produces technological waste water and waste falling under the Other and Hazardous categories, and releases emissions into the atmosphere. Also, hazardous chemicals are handled within the Company.

With the launch of operations of the fifth Base Maintenance line and the growing volume of jobs performed, greater demands are placed on the technological wastewater pre-treatment facility. In 2017, all legal requirements and set limits were met.

In 2017, the Company continued to employ measures to improve the efficiency of the waste management system. Due to the range of hazardous waste produced, attention is paid primarily to minimising waste production at the source. The Company places great emphasis on waste sorting and on the reuse of waste and the take-back of products.

In 2017, measures continued to be implemented with the goal of reducing the Volatile Organic Compounds (VOC) emissions. As before, close attention is still paid to activities that produce air emissions such as painting and degreasing with the goal of identifying less risky alternatives to the currently used VOCs.

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 and is subject to regular inspections by government authorities.

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.

The Company has been applying the principle of minimising the consumption of resources (especially water and energy for its operations).

7. Responsibility for the Annual Report

The Board of Directors declares that the information included in the Annual Report for 2017 corresponds to the real situation and gives a true and fair view of the Company's financial position, 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, a.s.

In Prague on 29 March 2018



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



Ivan Píkl
Member of the Board of Directors
Czech Airlines Technics, a.s.

8. Annexes

- The Financial Statements of Czech Airlines Technics, a.s. according to the Czech Accounting Standards as at 31 December 2017
 - The Balance Sheet as at 31 December 2017
 - The Profit and Loss Statement for the period ended on 31 December 2017
 - The Statement of Changes in Equity for the period ended on 31 December 2017
 - The Cash-Flow Statement for the period ended on 31 December 2017
 - Notes to the Financial Statements for the period ended on 31 December 2017
- Report of the Supervisory Board of Czech Airlines Technics, a.s. for 2017
- Report of the Statutory Body of the Company on Relations for 2017
- Independent Auditor's Report to the Shareholder of the Company

Financial Statements

For the year ended 31 December 2017

CZECH AIRLINES TECHNICS, A.S.
BALANCE SHEET IN FULL VERSION
AS AT 31.12.2017 (IN THOUSAND CZK)

		31.12.2017			31.12.2016
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	2,171,514	(968,185)	1,203,329	1,169,280
B.	Fixed assets	1,139,086	(730,778)	408,308	372,653
B.I.	Intangible fixed assets	93,110	(72,527)	20,583	31,158
2.	Royalties	93,110	(72,527)	20,583	31,158
2.1.	Software	62,214	(46,282)	15,932	21,266
2.2.	Other royalties	30,896	(26,245)	4,651	9,892
B.II.	Tangible fixed assets	1,045,976	(658,251)	387,725	341,495
1.	Land and constructions	51,636	(21,288)	30,348	3,134
1.2.	Constructions	51,636	(21,288)	30,348	3,134
2.	Equipment	943,315	(636,963)	306,352	306,224
5.	Advances paid and tangible fixed assets in the course of construction	51,025	-	51,025	32,137
5.1.	Advances paid for tangible fixed assets	10,171	-	10,171	31
5.2.	Tangible fixed assets in the course of construction	40,854	-	40,854	32,106
C.	Current assets	1,030,265	(237,407)	792,858	788,844
C.I.	Inventories	556,722	(210,743)	345,979	230,978
1.	Raw materials	447,104	(207,024)	240,080	195,214
2.	Work in progress and semi-finished products	100,137	-	100,137	30,800
3.	Finished goods and goods for resale	5,235	(3,719)	1,516	704
3.2.	Goods for resale	5,235	(3,719)	1,516	704
5.	Advances paid for inventory	4,246	-	4,246	4,260
C.II.	Receivables	336,471	(26,664)	309,807	321,606
1.	Long-term receivables	76,994	-	76,994	73,615
1.1.	Trade receivables	873	-	873	5,451
1.4.	Deferred tax asset	44,374	-	44,374	52,057
1.5.	Receivables - other	31,747	-	31,747	16,107
1.5.2.	Long-term advances paid	30,933	-	30,933	16,107
1.5.4.	Other receivables	814	-	814	-
2.	Short-term receivables	259,477	(26,664)	232,813	247,991
2.1.	Trade receivables	208,495	(26,658)	181,837	195,050
2.4.	Receivables - other	50,982	(6)	50,976	52,941
2.4.3.	Taxes - receivables from the state	9,980	-	9,980	1,845
2.4.4.	Short-term advances paid	213	-	213	425
2.4.5.	Estimated receivables	34,420	-	34,420	49,633
2.4.6.	Other receivables	6,369	(6)	6,363	1,038
C.IV.	Cash	137,072	-	137,072	236,260
1.	Cash in hand	491	-	491	440
2.	Cash at bank	136,581	-	136,581	235,820
D.I.	Prepayments and accrued income	2,163	-	2,163	7,783
1.	Prepaid expenses	2,163	-	2,163	7,783

CZECH AIRLINES TECHNICS, A.S.
BALANCE SHEET IN FULL VERSION
AS AT 31.12.2017 (IN THOUSAND CZK)

		31.12.2017	31.12.2016
	TOTAL LIABILITIES AND EQUITY	1,203,329	1,169,280
A.	Equity	975,200	932,967
A.I.	Share capital	814,100	814,100
1.	Share capital	814,100	814,100
A.II.	Share premium and capital contributions	38,616	34,288
1.	Share premium	34,288	34,288
2.	Capital contributions	4,328	-
2.2.	<i>Assets and liabilities revaluation</i>	4,328	-
A.IV.	Retained earnings / Accumulated losses	84,579	30,279
1.	Retained earnings	84,579	30,279
A.V.	Profit / (loss) for the current period	37,905	54,300
B.+C.	Liabilities	206,613	235,607
B.	Provisions	9,945	35,769
2.	Income tax provision	-	12,022
4.	Other provisions	9,945	23,747
C.	Liabilities	196,668	199,838
C.I.	Long-term liabilities	370	-
4.	Trade payables	370	-
C.II.	Short-term liabilities	196,298	199,838
3.	Short-term advances received	330	-
4.	Trade payables	98,824	106,504
8.	Liabilities - other	97,144	93,334
8.3.	<i>Liabilities to employees</i>	23,502	23,391
8.4.	<i>Liabilities for social security and health insurance</i>	14,180	13,653
8.5.	<i>Taxes and state subsidies payable</i>	4,361	7,013
8.6.	<i>Estimated payables</i>	54,269	48,309
8.7.	<i>Other liabilities</i>	832	968
D.	Accruals and deferred income	21,516	706
2.	Deferred income	21,516	706

CZECH AIRLINES TECHNICS, A.S.

**PROFIT AND LOSS ACCOUNT STRUCTURED BY NATURE OF EXPENSE METHOD
FOR THE PERIOD FROM 1.1.2017 TO 31.12.2017 (IN THOUSAND CZK)**

		2017	2016
I.	Sales of products and services	1,380,514	1,383,012
II.	Sales of goods	30,649	30,551
A.	Cost of sales	848,409	805,486
1.	Cost of goods sold	27,176	27,095
2.	Raw materials and consumables used	380,860	362,639
3.	Services	440,373	415,752
B.	Changes in inventories of finished goods and work in progress	69,337	(190)
C.	Own work capitalised	2,929	3,948
D.	Staff costs	530,959	488,633
1.	Wages and salaries	383,065	352,063
2.	Social security, health insurance and other social costs	147,894	136,570
2.1.	<i>Social security and health insurance costs</i>	130,097	119,950
2.2.	<i>Other social costs</i>	17,797	16,620
E.	Value adjustments in operating activities	41,806	74,824
1.	Value adjustments of fixed assets	71,087	58,489
1.1.	<i>Depreciation, amortisation and write off of fixed assets</i>	69,634	55,014
1.2.	<i>Provision for impairment of fixed assets</i>	1,453	3,475
2.	Provision for impairment of inventories	(7,860)	(421)
3.	Provision for impairment of receivables	(21,421)	16,756
III.	Operating income - other	83,325	91,344
1.	Sales of fixed assets	30,539	34,167
2.	Sales of raw materials	45,458	42,730
3.	Other operating income	7,328	14,447
F.	Operating expenses - other	92,141	71,709
1.	Net book value of fixed assets sold	14,104	11,692
2.	Net book value of raw materials sold	39,328	32,143
3.	Taxes and charges from operating activities	2,091	1,239
4.	Operating provisions and complex prepaid expenses	(13,802)	(2,839)
5.	Other operating expenses	50,420	29,474
*	Operating result	53,439	68,013
VI.	Interest and similar income	42	295
1.	Interest and similar income - subsidiaries or controlling party	-	4
2.	Other interest and similar income	42	291
K.	Other financial expenses	5,442	1,339
*	Financial result	(5,400)	(1,044)
**	Net profit / (loss) before taxation	48,039	66,969
L.	Tax on profit or loss	10,134	12,669
1.	Tax on profit or loss - current	3,466	15,036
2.	Tax on profit or loss - deferred	6,668	(2,367)
**	Net profit / (loss) after taxation	37,905	54,300
***	Net profit / (loss) for the financial period	37,905	54,300
*	Net sales for the financial period	1,494,530	1,505,202

CZECH AIRLINES TECHNICS, A.S.
CASH FLOW STATEMENT
FOR THE PERIOD FROM 1.1.2017 TO 31.12.2017 (IN THOUSAND CZK)

		2017	2016
	Cash flows from operating activities		
	Net profit on ordinary activities before tax	48,039	66,969
A.1	Adjustments for non-cash movements:	17,463	43,182
A.1.1	Depreciation and amortisation of fixed assets and receivables	74,258	55,079
A.1.2	Change in provisions	(41,630)	16,971
A.1.3	(Profit)/loss from disposal of fixed assets	(16,435)	(22,475)
A.1.5	Net interest expense/(income)	(42)	(295)
A.1.6	Other non-cash movements	1,312	(6,098)
A*	Net cash flow from operating activities before tax and changes in working capital and extraordinary items	65,502	110,151
A.2	Working capital changes	(59,728)	(28,769)
A.2.1	Change in receivables and prepayments	36,403	(52,803)
A.2.2	Change in short-term payables and accruals	11,010	44,690
A.2.3	Change in inventories	(107,141)	(20,656)
A**	Net cash flow from operating activities before tax and extraordinary items	5,774	81,382
A.4	Interest received	42	295
A.5	Income tax paid	(23,777)	(14,559)
A***	Net cash flow from operating activities	(17,961)	67,118
	Cash flows from investing activities		
B.1	Acquisition of fixed assets	(113,549)	(69,621)
B.2	Proceeds from sale of fixed assets	32,322	33,283
B***	Net cash flow from investing activities	(81,227)	(36,338)
	Net increase/(decrease) in cash and cash equivalents	(99,188)	30,780
	Cash and cash equivalents at the beginning of the year	236,260	205,480
	Cash and cash equivalents at the end of the year	137,072	236,260

CZECH AIRLINES TECHNICS, A.S.

STATEMENT OF CHANGES OF EQUITY

FOR THE PERIOD FROM 1.1.2017 TO 31.12.2017 (IN THOUSAND CZK)

	Share capital	Share premium and other capital contributions	Gains or losses from the revaluation	Other profit or loss from prior years	Retained earnings and profit or loss for the current period	Total
Balance as at 31 December 2015	814,100	34,288	-	56,375	(26,096)	878,667
Transfer of the other profit from prior years				(56,375)	56,375	-
Profit for the current period					54,300	54,300
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

Notes to the Financial Statements

For the Year Ended 31 December 2017

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 repair and maintenance of aircraft and aircraft technology. The Company is an independent company that provides services at an international level. With 90 years of experience, the Company delivers high-quality services and work with an emphasis of strict compliance with safety standards, meets all deadlines in providing maintenance on aircraft technology in a timely manner, and offers a flexible approach to its clients.

The Company is prepared to offer comprehensive services to a wide range of customers, as proven by its long-term experience in providing technical support to aircraft of the Ministry of Defense of the Czech Republic, with a global scope of operations, as well as aircraft of the Ministry of Interior of the Slovak Republic, which is based at Bratislava Airport. Importantly, all services are provided using the Company's own resources, which allows the Company to guarantee quality, safety and the shortest time possible, whether in base maintenance, line maintenance, landing gear maintenance and aircraft component maintenance. In addition, the Company provides not only continuous technical assistance outside the Czech Republic, but also a highly flexible on-wing team that is ready to tackle the one-off technical problems of its customers at foreign stations.

One of the Company's advantages is the location of its facilities in the very heart of Europe. The Company is thus very easily accessible to customers throughout Europe with no additional costs for long flights. Given that the Company's hangar is located at Václav Havel Airport Prague, some customers use the possibility of combining a commercial flight with subsequent aircraft maintenance to eliminate the additional cost of flights.

The Company is part of the consolidation group of Český Aeroholding, 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 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.

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.

2. Accounting Principles and Policies (continued)

b) Intangible Fixed Assets (continued)

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

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. Tangible assets with an acquisition cost of less than CZK 5 thousand on an individual basis are expensed upon acquisition.

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 under 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 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.

2. Accounting Principles and Policies (continued)

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.

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

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.

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 and Cash Equivalents

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.

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 at the exchange rate published by the Czech National Bank as at the balance sheet date.

h) Revenue and Expense 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.

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).

2. Accounting Principles and Policies (continued)

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 as a short-term receivable.

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 and bonuses is either recognised as a provision or as an estimated payable.

l) Liabilities

Trade payables are stated at their nominal value.

m) Derivative Financial Instruments

The Company concluded FX hedging transactions (FX forward) with aim to ensure it's income in foreign currencies against the foreign currency risk. These financial instruments are classified as hedging instruments 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 payables 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 payables 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.

2. Accounting Principles and Policies (continued)

n) Taxation (continued)

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 dealt with in equity.

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

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) Other profit or loss from prior years

The item "Other profit or loss from prior years" represents differences arising from a change in accounting policy. It further includes corrections resulting from incorrect accounting or not accounting for expenses and revenues in the previous accounting periods, if material.

s) 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.

2. Accounting Principles and Policies (continued)

t) Changes in accounting policies

In 2017, the Company made the change in reporting method of foreign currency losses and gains. The costs and revenues from exchange rate differences are newly reported as one item in total. The comparative period 2016 is adjusted in accordance with this method.

3. Intangible Fixed Assets

Cost CZK '000	Software	Royalties	Intangible assets under construction	Total
1 January 2016	62,090	30,706	190	92,986
Additions	124	-	-	124
Transfers	-	190	(190)	-
31 December 2016	62,214	30,896	-	93,110
31 December 2017	62,214	30,896	-	93,110

Accumulated Amortisation and Impairment CZK '000	Software	Royalties	Intangible assets under construction	Total
1 January 2016	(35,622)	(15,909)	-	(51,531)
Amortisation	(5,326)	(5,095)	-	(10,421)
31 December 2016	(40,948)	(21,004)	-	(61,952)
Amortisation	(5,334)	(5,241)	-	(10,575)
31 December 2017	(46,282)	(26,245)	-	(72,527)

Net book value CZK '000	Software	Royalties	Intangible assets under construction	Total
31 December 2016	21,266	9,892	-	31,158
31 December 2017	15,932	4,651	-	20,583

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 2016	20,674	273,017	67,663	426,421	61,341	37,431	-	886,547
Additions	-	18,758	-	81,721	3,915	261	31	104,686
Fixed assets count differences	-	122	-	88	-	-	-	210
Transfers	-	5,348	-	-	43	(5,391)	-	-
Disposals	-	(220)	-	(28,058)	(682)	(195)	-	(29,155)
31 December 2016	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

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 2016	(17,238)	(234,356)	(59,131)	(191,877)	(58,984)	-	-	(561,586)
Depreciation	(302)	(8,074)	(908)	(62,268)	(2,301)	-	-	(73,853)
Disposals	-	201	-	17,360	682	-	-	18,243
Fixed assets count differences	-	(122)	-	-	-	-	-	(122)
Increase of the impairment	-	-	-	(5,433)	-	-	-	(5,433)
Decrease of the impairment	-	-	-	1,958	-	-	-	1,958
31 December 2016	(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)

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 2016	3,134	54,674	7,624	239,912	4,014	32,106	31	341,495
31 December 2017	30,348	57,351	9,092	235,151	4,758	40,854	10,171	387,725

The Company has no pledged assets as at 31 December 2017 and as at 31 December 2016.

5. Inventories

The Company has provision for inventories amounted to CZK 210,743 thousand as at 31 December 2017 (as at 31 December 2016: CZK 218,603 thousand).

Work in progress and semi-finished goods as at 31 December 2017 amounted to CZK 99,653 thousand (as at 31 December 2016: CZK 30,311 thousand) represent unfinished orders for individual customers.

6. Receivables

CZK '000		31 December 2017	31 December 2016
Short-term receivables			
Trade receivables	- current	166,194	192,581
	- overdue	42,301	50,554
Trade receivables total		208,495	243,135
Other receivables	- current	50,982	52,941
Short-term receivables total		259,477	296,076
Allowance for doubtful receivables		(26,664)	(48,085)
Net short-term receivables		232,813	247,991
Long-term receivables			
Trade receivables		873	5,451
Deferred tax asset		44,374	52,057
Other receivables		31,747	16,107
Long-term receivables total		76,994	73,615
Net receivables total		309,807	321,606

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

The Company had no derivative financial instruments as at 31 December 2016.

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 2017		31 December 2016	
	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 Český Aeroholding, a.s. based in Prague 6, Jana Kašpara 1069/1, Postal Code 160 08. Český Aeroholding, 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.

Based on the decision of the General Meeting of Shareholder on 4 May 2017, the profit in the amount of CZK 54,300 thousand for 2016 was authorised and transferred to the account of accumulated profits.

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit for 2017.

9. Provisions

CZK '000	For income tax	For staff costs	Other	Total
Opening balance as at 1 January 2016	11,500	10,580	16,006	38,086
Charge for the year	16,374	6,317	1,247	23,938
Used in the year	(11,500)	(4,250)	(6,153)	(21,903)
Income tax prepayment	(4,352)	-	-	(4,352)
Closing balance as at 31 December 2016	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)
Released in the year	-	-	(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

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.

Other provisions are created for repairs of property.

10. Liabilities

CZK '000	31 December 2017	31 December 2016
Short-term payables		
Short-term advances received	330	-
Trade payables - current	89,299	103,987
- overdue	9,525	2,517
- of which payables to consolidated group entities	23,227	18,402
Trade payables total	98,824	106,504
Other payables - current	97,144	93,334
- of which payables to consolidated group entities	272	4,176
Short-term payables total	196,298	199,838
Long-term payables		
Trade payables	370	-
Long-term payables total	370	-
Payables total	196,668	199,838

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

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 54,269 thousand as at 31 December 2017 (as at 31 December 2016: CZK 48,309 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 income tax expense analysis:

CZK '000	2017	2016
Current income tax expense	4,022	16,374
Adjustment of prior year tax expense based on final income tax return	(556)	(1,338)
Deferred tax expense	6,668	(2,367)
Tax expense total	10,134	12,669

11. Income Tax (continued)

The deferred tax asset can be analysed as follows:

CZK '000	31 December 2017	31 December 2016
Deferred tax liability:		
Difference between tax and accounting net book value of fixed assets	(7,464)	(8,670)
Hedging derivatives	(1,015)	-
Deferred tax asset:		
Provisions and estimated payables	5,911	7,977
Allowances for fixed assets, inventories, receivables	46,942	52,750
Net deferred tax asset	44,374	52,057

12. Revenue from Ordinary Activities

Revenue from ordinary activities has been generated as follows:

CZK '000	2017	2016
Sale of services		
- Heavy maintenance	675,258	725,871
- Line maintenance	187,540	165,015
- Maintenance of rotables	278,191	295,751
- Landing Gears maintenance	189,483	124,867
- Other	50,042	71,508
Total sale of services	1,380,514	1,383,012
Total sale of goods	30,649	30,551
Total revenue from ordinary activities	1,411,163	1,413,563

The revenues from other services in 2017 and 2016 were generated mainly from contracts for engineering.

Revenues from ordinary activities are realised in the Czech Republic.

13. Employees

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

13. Employees (continued)

Staff costs in 2016:

	Average recalculated number of employees	CZK '000
Salaries of the members of the Board of Directors and Supervisory Board	6	7,927
Wages and salaries of other employees	738	344,136
Social security and health insurance costs		119,950
Other social costs		16,620
Staff costs total	744	488,633

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

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 2017 and 2016, 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 2017 and 2016.

14. Related-Party Transactions

Purchases and sales within the consolidation group entities:

CZK '000	2017		2016	
	Purchases	Sales	Purchases	Sales
Letiště Praha, a. s.	68,692	562	66,459	509
Český Aeroholding, a.s.	106,459	63	105,086	66
Czech Airlines Handling, a.s.	4,501	788	5,686	1,597
B. aircraft, a.s.	-	-	-	(76)

The company České aerolinie a.s. was included in the consolidation group from January to October 2016. Purchases from České aerolinie a.s. from January to October 2016 equaled CZK 8,615 thousand, sales to České aerolinie a.s. from January to October 2016 equaled CZK 423,615 thousand.

Payables to consolidated group entities are stated in Note 10.

14. Related-Party Transactions (continued)

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 Český Aeroholding a.s. group.

16. Commitments

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

as at 31 December 2017	Non-residential premises CZK '000
Outstanding amounts payable within one year	48,652
Amounts payable from one to five years	206,373
Amounts payable after more than five years	264,628
Total lease payments payable from current agreements	519,653

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 2018-2022 is CZK 50,534 thousand as at 31 December 2017.

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 2017 and 2016.

18. Cash Flow Statement

Cash and cash equivalents in the cash flow statement include:

CZK '000	31 December 2017	31 December 2016
Cash on hand, vouchers and cash in transit	491	440
Cash at bank	136,581	235,820
Total	137,072	236,260

19. Subsequent Events

Based on the decision of the General Meeting of sole Shareholder dated 26 March 2018, Ing. Zdeněk Soukal was removed from the position of Vice-Chairman of the Board of Directors.

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 2017 to 31 December 2017.

29 March 2018



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



Ivan Píkl
Member of the Board of Directors
Czech Airlines Technics, a.s.

Supervisory Board Report for 2017

1. Supervisory Board Meetings

In the course of 2017, the Supervisory Board of Czech Airlines Technics, a.s., (hereinafter referred to as "the Company") met at twelve meetings, one of which was convened as extraordinary.

In 2018, the Supervisory Board convened twice before the signing of this Report.

2. Members of the Supervisory Board

Members of the Supervisory Board as of 31 December 2017

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

There was no change in the membership of the Supervisory Board in 2017.

3. Work of the Supervisory Board in the Reporting Period

The responsibilities of the Supervisory Board are laid down by 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 plan. It verified and oversaw financial management. It also took a position on the financial plan and was given information on the investment plan. The Supervisory Board deliberated on the issues that are, in accordance with the applicable legislation, subject to a decision by 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 of 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 on 28 February 2018



Radek Hovorka

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

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 2017 to 31 December 2017.

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, Post Code: 16008

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 mainly engaged in 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

Český Aeroholding, a.s.

With its registered seat at: Praha 6, Jana Kašpara 1069/1, Post Code 160 08,

Company Identification Number: 248 21 993,

Registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 17005

(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 coordination, financial and strategic management, implementation of synergies and provision of shared services within the Czech Aeroholding Group. Its scope of business is outlined in detail in the company's Articles of Association.

3. Other Entities Controlled by the Same Controlling Entity

(Hereinafter referred to as “Related Entities”)

1. Letiště Praha, a. s.

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

Company Identification Number: 282 44 532

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

The company focuses primarily on operating the public international Václav Havel Airport Prague. Its scope of business is outlined in detail in the company's Articles of Association.

2. Czech Airlines Handling, a.s.

With its registered seat at: Praha 6, Aviatická 1017/2, Post Code: 16008

Company Identification Number: 256 74 285

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

The company provides 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.

3. 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 aircrafts. Its scope of business is outlined in detail in the company's Articles of Association.

4. Realitní developerská, a.s.

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

Company Identification Number: 271 74 166

Registered in the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 9512.

The company focuses on management of real estate intended for the construction of a parallel runway at Václav Havel Airport Prague. Its scope of business is outlined in detail in the company's Articles of Association.

SECTION II

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

1. Personal Union

As of the date of drafting this report, the Controlled Entity, acting with due diligence, is aware of the following:

Ing. Václav Řehoř, Ph.D., MBA, residing at Chuderov, No. 121, postal code 400 02, has been a member of the Board of Directors of the Controlling Entity since 27/06/2014 (holding the office of the Chairman of the Board of Directors since 24/07/2014), the Vice-Chairman of the Supervisory Board of the Controlled Entity since 01/10/2015, the Chairman of the Board of Directors of the Related Entity Letiště Praha, a. s. since 01/02/2017 and the Vice-Chairman of the Supervisory Board of the Related Entity Czech Airlines Handling, a.s. since 01/06/2016.

Ing. Radek Hovorka, residing at Boloňská 603/21, 109 00 Praha 10, has been the Vice-Chairman of the Board of Directors of the Controlling Entity, and the Chairman of the Supervisory Boards of the Controlled Entity and of the Related Entities Czech Airlines Handling, a.s., B. aircraft, a.s. and Realitní developerská, a.s. since 01/04/2016.

JUDr. Petr Pavelec, LL. M., residing at Na Vyhlídce 294, Vyšší Brod, postal code 382 73, has been a member of the Board of Directors of the Controlling Entity since 27/06/2014, and a member of the Supervisory Board of the Controlled Entity since 01/08/2014. He has been a member of the Supervisory Board of the Related Entity B. aircraft, a.s. since 01/08/2014 (holding the office of Vice-Chairman of the Supervisory Board since 13/08/2014), a member of the Supervisory Board of the Related Entity Czech Airlines Handling, a.s. since 01/06/2016, and a member of the Supervisory Board of the Related Entity Realitní developerská, a.s. since 01/08/2014.

Mgr. Jaroslav Petržela, residing at Oradourská 79, Lidice, postal code 273 54, has been the Chairman of the Board of Directors of the Related Entity B. aircraft, a.s. since 01/12/2014, and a member of the Board of Directors of the Related Entity Realitní developerská, a.s. since 01/11/2016.

Ing. Petr Doberský, residing at Za Fořtem 871/29, Slivenec, Praha 5, postal code 154 00, has been a member of the Board of Directors of the Related Entity B. aircraft, a.s. since 01/06/2013, and a member of the Supervisory Board of the Related Entity Realitní developerská, a.s. since 01/03/2015.

2. Structure of Relations

- The Controlling Entity has the following percentage share in the Controlled Entity:

The Controlled Entity	Percentage share	Note
Czech Airlines Technics, a.s.	100%	

- The Controlling Entity has the following percentage share in the Related Entities:

Related Entities	Percentage share	Note
Letiště Praha, a. s.	100%	
Czech Airlines Handling, a.s.	100%	
B. aircraft, a.s.	100%	
Realitní developerská, a.s.	100%	

3. 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.

SECTION III REFERENCE PERIOD

This Report was prepared for the period from 01/01/2017 until 31/12/2017.

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 of 31/12/2017, 10% of the Controlled Entity's equity capital was CZK 97 520 thous.), 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. The aggregate volume of transactions between the Controlling Entity, the Controlled Entity and the Related Entities based on the contracts and agreements stated below are further specified in Section V hereof.

SECTION V

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

1. The following contracts or agreements were concluded or amended by and between the Controlling Entity and the Controlled Entity during the reference period, on the basis of which the Controlled Entity provided or accepted performance:

Contract/ Amendment	Contract No.	Contracting party	Subject matter of the contract	Date of contract
Contract	111002473	Český Aeroholding, a.s.	Contract for the Lease of Non-Residential Premises and for the Provision of Services Related to their Use	31/03/2017
Contract	124002732	Český Aeroholding, a.s.	Preliminary Contract on Establishment of Predial Servitude of Public Utilities.	18/09/2017
Contract	133002721	Český Aeroholding, a.s.	Framework agreement on the Provision of loans for consumption	31/08/2017
Amendment	0110000115/99	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Agreement on the Termination of a Contract for the Provision of Services No. 0110000115 (Administrative Agenda)	12/12/2017
Amendment	0110000116/99	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Agreement on the Termination of a Contract for the Provision of Services No. 0110000116 (Communications and Marketing)	12/12/2017
Contract	0233004007	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services for Investment, Development projects and Real estate.	12/12/2017
Contract	0133002885	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services for Registry and Archive	12/12/2017
Contract	0233004006	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services for Corporate and Marketing Communication	12/12/2017

2. The following contracts or agreements, concluded prior to the reference period, were valid between the Controlling Entity and the Controlled Entity, on the basis of which the Controlled Entity provided or accepted performance during the reference period:

Contract/ Amendment	Contract No.	Contracting party	Subject matter of the contract	Date of contract
Contract	111000018	Český Aeroholding, a.s.	Lease Contract for Space in the Chemicals Storage Room, as amended	29/06/2012
Contract	111000121	Český Aeroholding, a.s.	Agreement on Changes Concerning Building Adaptations on the Ground Floor of Hangar F	13/12/2012
Contract	111001985	Český Aeroholding, a.s.	Agreement on Changes – Hangar F	31/08/2015
Contract	0111002175	Český Aeroholding, a.s.	Agreement on Changes (Adaptations in Hangar F)	30/01/2016
Contract	0111002494	Český Aeroholding, a.s.	Agreement on Changes to the Agreement on the Implementation of Building Adaptations by the Lessee, Czech Airlines Technics, a.s. (CSAT), in Hangar F	30/12/2016
Contract	116000253	Český Aeroholding, a.s.	Contract for the Provision of Telecommunications Services Including the Rental of Mobile Phones	01/01/2012
Contract	130002070	Český Aeroholding, a.s.	Contract for the Provision of loans for consumption	19/08/2015
Contract	43604404	Český Aeroholding, a.s.	Lease Contract – the Plating Shop, as amended	03/10/2008
Contract	43604408	Český Aeroholding, a.s.	Lease Contract – Engine Plant I, as amended	03/10/2008
Contract	43604409	Český Aeroholding, a.s.	Lease Contract – Engine Plant II, as amended	03/10/2008
Contract	9000001040	Český Aeroholding, a.s.	Lease Contract – Neutralization Station, as amended	10/12/2009
Contract	9000001445	Český Aeroholding, a.s.	Lease Contract – Hangar F, as amended	13/05/2010
Contract	9100000092	Český Aeroholding, a.s.	Contract for the Lease of Non-Residential Premises – Room No. 533 in the Administrative Operating Centre (AOC) Building	30/03/2012
Contract	9100000142	Český Aeroholding, a.s.	Contract for the Lease of Areas in Brzda, as amended	29/03/2012
Contract	210002967	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s.	Contract for the Provision of Information Security Services	30/06/2016
Contract	110000110	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Central Purchasing), as amended	28/12/2011
Contract	110000111	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Information and Communications Technology), as amended	28/12/2011
Contract	110000112	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Accounting and Taxes), as amended	28/12/2011

Contract/ Amendment	Contract No.	Contracting party	Subject matter of the contract	Date of contract
Contract	110000113	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Finances and Payments), as amended	28/12/2011
Contract	110000114	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Human Resources Management), as amended	28/12/2011
Contract	110000115	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Administrative Agenda and Insurance), as amended	28/12/2011
Contract	110000116	Český Aeroholding, a.s., Letiště Praha, a. s., Czech Airlines Handling, a.s., B. aircraft, a.s.	Contract for the Provision of Services (Communications), as amended	28/12/2011
Contract	9000001687	Český Aeroholding, a.s.	Contract for the Lease of Non-Residential Premises in Terminal 2, as amended	01/11/2010

3. The following contracts or agreements were concluded or amended between the Controlled Entity and the Related Entities during the reference period, on the basis of which the Controlled Entity provided or accepted performance:

Contract/ Amendment	Contract No.	Contracting party	Subject matter of the contract	Date of contract
Contract	0230003695	Letiště Praha, a. s.	Contract for the Provision of Services (Prevention of Major Incidents)	27/11/2017
Amendment	0230002346/1	Letiště Praha, a. s.	Amendment No. 1 to the Contract for the Installation, Lease and Subsequent Maintenance and Service of Electronically Controlled Entries	16/06/2017
Amendment	0216002336/1	Letiště Praha, a. s.	Amendment No. 1 to the Contract for Employee Catering.	25/04/2017
Amendment	0215000505/2	Letiště Praha, a. s.	Amendment No. 2 to the Contract for Parking Spaces in front of Hangar F and at the Compass Base	07/04/2017
Amendment	511001659/1	Czech Airlines Handling, a.s.	Amendment No. 1 to the Contract for the Sub-Lease of Non-Residential Premises in Hangar F	31/01/2017

4. The following contracts or agreements, concluded prior to the reference period, were valid between the Controlled Entity and the Related Entities, on the basis of which the Controlled Entity provided or accepted performance during the reference period:

Contract/ Amendment	Contract No.	Contracting party	Subject matter of the contract	Date of contract
Contract	511001659	Czech Airlines a.s. Handling,	Contract for the Sub-Lease of Non-Residential Premises in Hangar F	01/01/2016
Contract	530001511	Czech Airlines a.s. Handling,	Contract for Customs Declaration Services	01/02/2014
Contract	435001561	Czech Airlines a.s. Handling,	Contract for Performing Cleaning Services, Interior Cleaning in Hangar F	27/05/2014

Contract/ Amendment	Contract No.	Contracting party	Subject matter of the contract	Date of contract
Contract	435001574	Czech Airlines Handling, a.s.	Contract for Washing Aircraft	17/09/2014
Contract	0216002336	Letiště Praha, a. s.	Contract for Employee Catering.	26/11/2015
Contract	9000002452	Letiště Praha, a. s.	Contract for the Installation, Lease and Subsequent Maintenance and Service of Electronically Controlled Entries	09/11/2015
Contract	216000953	Letiště Praha, a. s.	Contract for the Supply of Heat Energy	30/08/2013
Contract	216000812	Letiště Praha, a. s.	Contract for Shared Environmental Protection Services, as amended	28/06/2013
Contract	215000505	Letiště Praha, a. s.	Contract for Parking Spaces in front of Hangar F and at the Compass Base	31/12/2012
Contract	230000254	Letiště Praha, a. s.	Contract for the Provision of Radio Network Fixed Infrastructure Services, as amended	16/11/2012
Contract	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.	28/08/2012
Contract	8000026801	Letiště Praha, a. s.	Contract for the Lease of Vehicles	30/04/2012
Contract	8000026201	Letiště Praha, a. s.	Framework Purchase Contract – Diesel Oil and Petrol Deliveries	26/04/2012
Contract	9000002821	Letiště Praha, a. s.	Contract for the Provision of Real Estate Management Services, as amended	30/03/2012
Contract	9000002762	Letiště Praha, a. s.	Contract for the Supply of Drinking Water, as amended	07/02/2012
Contract	9000002763	Letiště Praha, a. s.	Contract for Combined Services, as amended	07/02/2012
Contract	9000002764	Letiště Praha, a. s.	Contract for Energy Supply Connections, as amended	07/02/2012
Contract	9000002765	Letiště Praha, a. s.	Contract for the Supply of Heat Energy, as amended	07/02/2012
Contract	CSAT/2012/25 5	Letiště Praha, a. s.	Agreement on the Terms of Cooperation in the Area of Customs Services	01/01/2012
Contract	9000002677	Letiště Praha, a. s.	Agreement on the Use of Parking Spaces for Parking Mobile Mechanised Equipment, as amended	30/12/2011
Contract	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
Contract	9000002910	Letiště Praha, a. s.	Contract for Vehicle Fleet Management, as amended	30/12/2011
Contract	9000002075	Letiště Praha, a. s.	Agreement on Changes to the Contract for the Lease of Hangar F (Contract No. 9000001445)	25/03/2011
Contract	9000001687	Letiště Praha, a. s.	Contract for the Lease of Non-Residential Premises and for the Provision of Services Related to their Use	01/11/2010

Contract/ Amendment	Contract No.	Contracting party	Subject matter of the contract	Date of contract
Contract	43693806	Letiště Praha, a. s.	Contract for the Lease of Part of the Land, as amended	08/11/2000

The volume of performance among the Controlling Entity, the Controlled Entity and the Related Entities during the reference period (in thousands of CZK)

Contracting Party	Purchases	Sales
Český Aeroholding, a.s.	106 459	63
Letiště Praha, a. s.	68 692	562
Czech Airlines Handling, a.s.	4 501	788
B. aircraft, a.s.	0	0
Realitní developerská, a.s.	0	0

Assessment in respect of the contracts specified below:

Contracts for the provision of shared services

Based on the aforementioned contracts, the Controlling Entity provides the Controlled Entity and the Related Entities with shared services in the following areas:

- ▶ central purchasing (Contract for the Provision of Services No. 110000110)
- ▶ IT (Contract for the Provision of Services No. 110000111)
- ▶ accounting and taxes (Contract for the Provision of Services No. 110000112)
- ▶ finances and payments (Contract for the Provision of Services No. 110000113)
- ▶ human resources management (Contract for the Provision of Services No. 110000114)
- ▶ administrative agenda and insurance (Contract for the Provision of Services No. 110000115)*
- ▶ communications (Contract for the Provision of Services No. 110000116)*

In 2017, revenues of the Controlling Entity from contracts for provision of shared services within the framework of performance for the Controlled Entity reached the amount of CZK 37 million.

These are routine services that are typically outsourced. The first group of shared services are IT services whose failure (implementation of operative risk) could lead to crisis situations from the perspective of control within the framework of the group. The verification of compliance of intragroup pricing with the arm's length principle when providing shared services is based on the transactional net margin method. From this perspective, shared IT services are being provided in compliance with the arm's length principle.

In case of the second group of shared services (services in the category of human resources management, central purchasing, finances and payments, accounting and taxes, administrative agenda, information security and communication), the calculated profit margin on total operating costs associated with the provision of catalogue services in the amount of 5% was derived from the pricing rules. From this perspective, the other shared services are also being provided in compliance with the arm's length principle.

* With respect to the transfer of part of the Controlling Entity's activities to the Related Entity Letiště Praha, a. s. on 1 January 2018, these contracts were replaced with contracts No. 0233004006, 0233004006 and 0133002885 of 12.12.2017 which became effective on 1 January 2018.

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 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 23 March 2018.

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 the annual report of the Controlled Entity within the meaning of a special law. Subsequently, the Report will be attached to these documents and will be filed, as their part, in the Collection of Documents administered by the Companies Register of the Municipal Court in Prague.

Prague, 23 March 2018



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



Ivan Píkl
Member 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 2017, the income statement, statement of changes in equity and statement of cash flows for the year then ended 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 2017, of its financial performance and its cash flows for the year then ended 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.



**Shareholder of Czech Airlines Technics, a.s.
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 2018

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Jiří Zouhar

Hana Valešová

Hana Valešová
Statutory Auditor, Evidence No. 2004

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.