

CZECH AIRLINES  
ANNUAL REPORT 2010



# CONTENTS

**04**  
The Company  
and the Group

**32**  
Subsidiary  
Companies

**17**  
Business

**37**  
Financial Part



## 4 THE COMPANY AND THE GROUP

- 5 Foreword by the Chairman of the Board and Company President
- 6 Company Profile
- 7 Important Developments during 2010 and 2011, as of the Date the Annual Report Went to Press
- 10 Selected Economic Indicators
- 11 Corporate Governance and Management
  - ▶ Shareholders
  - ▶ Administrative Bodies
  - ▶ Supervisory Board
  - ▶ Board of Directors
  - ▶ Top Management
  - ▶ Corporate Governance Code of the Company, Based on OECD Principles

## 16 Czech Airlines Group Structure – Organizational Chart

## 17 BUSINESS

- 18 Areas of Business Activity
  - ▶ Regular Transport
  - ▶ Cargo
- 19 Sales and Marketing
- 21 SkyTeam Alliance
- 22 Aircraft Fleet
  - ▶ Aircraft Park
- 24 Czech Airlines Security
- 25 Flight Safety
- 26 Punctuality of Operations
- 27 Environmental Care
- 29 Human Resources
  - ▶ Employee Numbers Development
  - ▶ Education and Development of Human Resources
  - ▶ Occupational Health and Safety
  - ▶ Wage Policy

## 31 Air Crew Personnel and their Training

## 32 SUBSIDIARY COMPANIES

- 33 CSA Services
- 34 Czech Airlines Handling
- 35 Czech Airlines Technics
- 36 HOLIDAYS Czech Airlines



**37 FINANCIAL PART OF THE ANNUAL REPORT – REPORT ON THE BUSINESS ACTIVITIES OF THE COMPANY AND ITS ASSETS**

**38 Supervisory Board Report**

**40 Independent Auditor's Report**

**43 Financial Statement According to Czech Accounting Regulations (CAS) as of 31st December 2010**

- ▶ Balance Sheet
- ▶ Profit and Loss Statement
- ▶ Statement of Changes in Equity
- ▶ Cash Flow Statement

**49 Notes to the Financial Statements for the Year Ended 31 December 2010**

**93 Consolidated Financial Statement of the Czech Airlines Group According to Czech Accounting Regulations (CAS) as of 31st December 2010**

- ▶ Consolidated Balance Sheet
- ▶ Consolidated Profit and Loss Statement
- ▶ Consolidated Statement of Changes in Equity
- ▶ Consolidated Cash Flow Statement

**98 Notes to the Consolidated Financial Statements**

**139 Czech Airlines Aircraft Fleet – Overall Operational Indicators**

**140 Czech Airlines Commercial Transportation Performance in 2010**

**141 Report of the Statutory Body of the Company Relations between Interconnected Persons**

**150 Annex no.1 to the Report on Relations between Interconnected Persons**

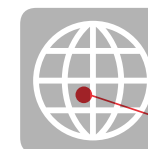
**151 Annex no. 2 to the Report on Relations between Interconnected Persons – Concern ČEZ**

**158 Equity Holdings of Czech Airlines in which the Company Had Significant or Decisive Influence in the Year 2010**

**159 Responsibility for the Annual Report**

**160 Glossary and Abbreviations**

**161 Contacts**



Note: Consolidated Annual Report was prepared on 13 May 2011



# THE COMPANY AND THE GROUP





Last year was a difficult period for Czech Airlines in all respects. The Company had to begin a complete overhaul of its functioning and had to deal with a number of events that had a fundamental influence on its operations. However, I can state with a clear conscience that we approached all the challenges – and they were numerous – responsibly and with a clear objective of stabilizing the Company and launching its transformation into a truly stable commercial entity that genuinely deserves its place on the air transport market.

For Czech Airlines, the year 2010 brought major changes connected to the implementation of the Restructuring Plan approved by the Government of the Czech Republic at the beginning of May. This extensive set of measures, which among other things included the completion of the

capitalization of a loan from OSINEK, is an outcome of our firm commitment to put the Company back on its own feet. The plan secures Czech Airlines' long-term existence and is based on several key steps. Besides optimizing revenues and cutting costs, it reckons with a bold change in the concept of transportation network model. With the advent of the winter flight timetable for the 2010/2011 season, the number of unprofitable routes was greatly reduced while the aircraft fleet was adjusted to meet the real needs of the market and to reflect the new transportation network model.

A fundamental role in the Restructuring Plan, however, is played by the change in structure of the Company and the move towards the holding arrangement of the Company. The passenger check-in and aircraft handling services, charter transportation and technical maintenance were, throughout the year and in accordance with the plan, hived off to detached subsidiary companies. Czech Airlines could therefore focus more on its main line of business, i.e. scheduled air carriage. It has become clear that the holding arrangement was the right choice. It allows for a much more flexible, transparent and effective functioning of the individual companies within the framework of the Group as a whole, with particular regard to the Management of overall costs.

In many areas we managed to reverse the negative economic trend, but some essential decisions still await us, along with a great number of changes. Probably the most visible change is the gradual integration of Czech Airlines, its subsidiaries and Prague Airport into the joint-stock Company Český Aeroholding. This is certainly not a merger intended to create one centralized Company. This step is an important piece in the jigsaw of Czech Airlines' plans and requirements. We view Aeroholding as an advancement to the next level of the holding structure, i.e. a grouping of commercially independent companies that benefit from synergies and mutual support; crucially, this will bring major cost savings. At the same time, it increases the value of assets held by the principal shareholder, the Czech state. Even with individual entities being hived off into the Aeroholding, Czech Airlines will continue with its Restructuring Plan, scheduled for completion at the end of 2012.

The year 2010 was not solely about the holding. Throughout the year we experienced a number of diverse events that taxed us on both operational and economic levels. One of them was the Icelandic volcano. Its activity paralyzed air traffic over Europe and ultimately throughout the aviation world. Czech Airlines' flights were significantly

impacted by strikes in certain European countries as well. There were also frequent occasions of bad weather afflicting us in the winter months. Although some of these events represented difficult ordeals, I think it is fair to say that Czech Airlines successfully dealt with them thanks to the professionalism and tremendous commitment of its employees.

Towards the end of the year we also faced negotiations about new collective agreements. I am glad that I can again accentuate the constructive and responsible attitude adopted by all the participants. I am delighted that our employees proved once more that they are not indifferent to the future of the Company.

The air carriage market is experiencing a modest recovery which fills me with optimism. I believe that all the changes the Company is undertaking – many of them painful – will bring rewards. I am convinced that Czech Airlines is returning to the sunny side of the aviation world, where, with its high standards and quality, it most definitely belongs.

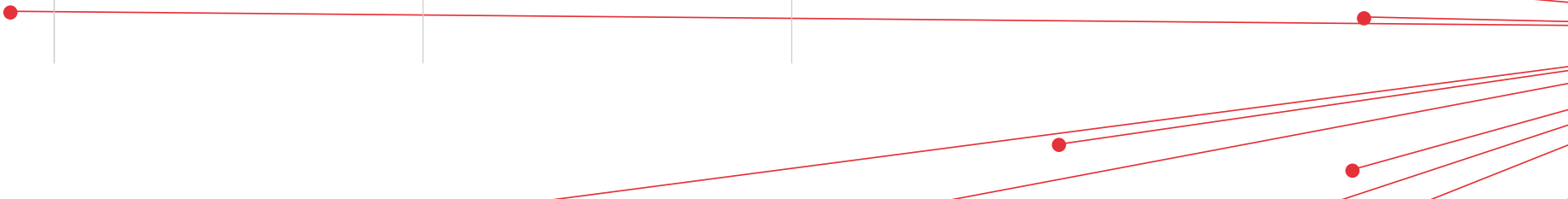
**Miroslav Dvořák**  
President of Czech Airlines



The Czech Airlines group provides a wide portfolio of services in the field of air transport. Thanks to its holding structure, it also offers other associated and highly specialized operations. The parent Company Czech Airlines a.s. (hereinafter referred to as “Czech Airlines” or “the Company”), is focused mainly on scheduled air transportation. Through its subsidiary companies and organizational units, it also provides additional professional services, e.g. passenger check-in and aircraft handling, charter transport, technical maintenance of aircraft, crew training, transport of goods and mail, operation of the Contact Centre, travel agency services and employment agency services, and many more.

Czech Airlines' core business is the transportation of passengers on regular, scheduled flights. Czech Airlines is the Czech Republic's flagship air carrier and has been active in the field of regular air transport for more than 87 years. It ranks among the five oldest airline companies in the world.

In 2010 Czech Airlines provided air connections from the Czech capital city Prague to most European capitals, to important locations in the Middle East and North Africa, and to the republics of the Caucasus and Central Asia. At the end of the year, the Company offered connections to 100 destinations in 44 countries of the world, of which connections to 56 cities in 37 countries were provided within the Company's own network. It therefore enables its customers to reach all major business and political centres comfortably, safely and swiftly.



# IMPORTANT DEVELOPMENTS DURING 2010 AND 2011, AS OF THE DATE THE ANNUAL REPORT WENT TO PRESS

## 2010

### JANUARY

- ▶ All activities connected to aircraft handling and passenger check-in were transferred to the subsidiary Company ČSA Support, s.r.o.
- ▶ Czech Airlines won the Rhodos Award for Company image for the second year in a row.
- ▶ A tender for the purchase of Czech Airlines' independent business unit, Duty Free, was won by a member of the international group Lagardère Services, Aelia Czech Republic.

### FEBRUARY

- ▶ An extraordinary General Meeting of Czech Airlines discussed an offer by a party seriously interested in cooperation in the field of charter transport and gave the Management of the Company a mandate to continue negotiations.
- ▶ A subsidiary Company of Czech Airlines, ČSA Support, s.r.o., was renamed Czech Airlines Handling, s.r.o., after it took over all operations connected to aircraft handling and passenger check-in.
- ▶ The European Commission launched a formal investigation to review all stabilization and restructuring steps undertaken in Czech Airlines, including the audit of a loan provided to Czech Airlines by OSINEK, a.s.
- ▶ The transfer of an independent sales unit SOJ Duty Free to Aelia Czech Republic was completed. 79 employees of Czech Airlines were transferred to the new employer.
- ▶ Czech Airlines won the Best Airline Company category in the TTG Travel Awards competition for the tenth time.

### MARCH

- ▶ Czech Airlines decided not to accept an offer by Travel Service relating to strategic cooperation in the field of charter transport. The Company preferred to hive off the non-scheduled transport services to a subsidiary Company.
- ▶ The summer flight timetable came into effect at the end of March. In the summer season of 2010, Czech Airlines offered regular flights to 110 destinations in 45 countries of the world, of which 68 destinations in 38 countries were operated within its own flight network.

### APRIL

- ▶ The Supervisory Board agreed to the proposal of the Board of Directors to present the newly prepared Restructuring Plan to the Ministry of Finance of the Czech Republic in order to fulfil the relevant Government Resolution.
- ▶ The eruption of an Icelandic volcano stopped air traffic over Europe for almost seven days. Czech Airlines was unable to dispatch more than 900 flights; an estimated 75,000 Czech Airlines passengers were affected.
- ▶ The state visit by US president Barack Obama and the Russian president Dmitry Medvedev was one of the most important events of the year. The employees of the non-contractual handling firm Czech Airlines Handling were in charge of the handling of the Russian side's aircraft.

### MAY

- ▶ The Czech Government approved the Czech Airlines Restructuring Plan intended to transform the Company into a stable enterprise. The Plan confirms that the Company is heading in the direction of a holding structure.
- ▶ Czech Airlines launched an innovated version of its website.
- ▶ An extraordinary General Meeting of Czech Airlines decided to increase the Company's registered capital, and to go ahead with the capitalization of a loan from OSINEK, a.s.
- ▶ The transfer of Hangar F to Prague Airport was completed. The new owner guarantees Czech Airlines long-term usage rights.

### JUNE

- ▶ Since 1 June 2010, the charter services of Czech Airlines have been handled by the airline's subsidiary HOLIDAYS Czech Airlines, a.s.
- ▶ The inevitability of restructuring the Company and the correctness of its direction was confirmed by the Czech Airline Pilots Association CZALPA on the basis of an independent analysis it had commissioned by agreement with the Management of the Company.
- ▶ The Czech Airlines General Meeting of shareholders approved steps transforming the Technical Department into an independent subsidiary.



# IMPORTANT DEVELOPMENTS DURING 2010 AND 2011, AS OF THE DATE THE ANNUAL REPORT WENT TO PRESS

## 2010

### JULY

- ▶ The international flight route of Czech Airlines to the Croatian capital Zagreb celebrated its 80th anniversary.
- ▶ Czech Airlines Handling gained another important customer for its portfolio – Azerbaijan Airlines (AZAL)

### AUGUST

- ▶ The first commercially branded aircraft of Czech Airlines was presented to the public. The A320 with registration code OK-GEB bore a visualization of the Citi Czech Airlines credit card.
- ▶ Technical services connected to the maintenance of aircraft and aircraft components were transferred to the subsidiary Company Czech Airlines Technics. Ondřej Konývka became the new Executive Director and Chairman of the Board of Directors.
- ▶ Czech Airlines welcomed the 500,000th member of the OK Plus Loyalty Programme.

### SEPTEMBER

- ▶ Martin Štolba won a recruitment competition for the position of Executive Director of Czech Airlines Handling.
- ▶ The Czech Airlines General Meeting of shareholders decided on personnel changes in the Supervisory Board. Radek Šmerda and Miroslav Bernášek were elected as new members.

### OCTOBER

- ▶ HOLIDAYS Czech Airlines received the Air Operator's Certificate (AOC). The Company thus became a fully-fledged air carrier, operating on the charter market under the code HCC.
- ▶ Czech Airlines celebrated the 87th anniversary of its founding.
- ▶ The first major changes to the traffic network model were reflected in the winter flight timetable.

### NOVEMBER

- ▶ The Czech Government approved the creation of the joint-stock Company Český Aeroholding, composed of Czech Airlines and its subsidiary companies and Airport Prague.
- ▶ Check-in for passengers on regular routes was overhauled, for example, with regard to the transport of cabin luggage. Economy class passengers now check in only at CUSS kiosks at Prague Airport.
- ▶ HOLIDAYS Czech Airlines signed an exclusive agreement with the travel agency Blue Style.

### DECEMBER

- ▶ Czech Airlines unified the rules for transport of registered luggage on regular routes according to the "piece concept".
- ▶ Czech Airlines air traffic was severely affected by weather over Europe. The calamitous situation limited operations at a number of European airports, including Prague Airport.



# IMPORTANT DEVELOPMENTS DURING 2010 AND 2011, AS OF THE DATE THE ANNUAL REPORT WENT TO PRESS

## 2011

### JANUARY

- ▶ Jan Čejka became the Chairman of the Board of Directors and Executive Director for Economy and Operations of the subsidiary HOLIDAYS Czech Airlines.
- ▶ Most activities of the Czech Airlines Information and Communication Technologies Department were transferred to Prague Airport.
- ▶ The administration and operation of the Crystal Lounges in Terminals 1 and 2 were transferred from Czech Airlines Handling to Airport Prague.
- ▶ The children's loyalty programme JETSTERS was incorporated into the Czech Airlines OK Plus loyalty programme

### FEBRUARY

- ▶ The Minister of Finance signed the founding charter of the joint-stock Company Český Aeroholding.
- ▶ The Supervisory Board of Český Aeroholding met for the first time in a composition nominated by the Czech Government. The Supervisory Board elected Michal Mejstřík to the position of Chairman, while Zdeněk Zajíček and Pavel Kohout became Vice-Chairmen. The Supervisory Board of Český Aeroholding also elected members of the Board of Directors. Miroslav Dvořák became the Chairman and Petr Vlasák and Philippe Moreels became Vice-Chairmen.
- ▶ Jiří Marek was appointed Vice-President for Czech Airlines Sales and Marketing.

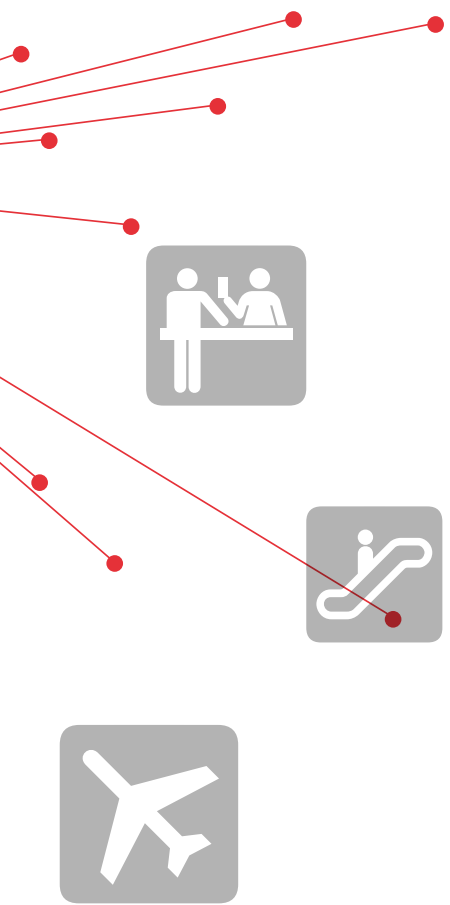
### MARCH

- ▶ The joint-stock Company Český Aeroholding was entered in the Commercial Register. In this context, Miroslav Dvořák resigned from his statutory position as Chairman of the Board of Directors of Czech Airlines. The number of members of the Board of Directors was reduced from five to three.
- ▶ Czech Airlines signed collective agreements with all nine trade union organizations valid until the end of 2012.
- ▶ The Company announced its plans to operate several new regular routes in the summer season, for example, to destinations in Ukraine, France and the Middle East.

### APRIL

- ▶ Petr Matoušek and Josef Maurer joined the Supervisory Board of Czech Airlines as new members. It was agreed that the number of members of the Czech Airlines Supervisory Board would be reduced from six to three.
- ▶ In relation to the change of the legal form of Czech Airlines Handling from a limited Company to joint-stock Company, Czech Airlines Handling, s.r.o., was renamed Czech Airlines Handling, a.s.





	31 December 2010	31 December 2009
Total output (in CZK thousands)	16,547,753	19,789,620
Operating profit/loss (in CZK thousands)	(351,452)	(3,539,760)
Profit/loss before tax (in CZK thousands)	76,159	(3,688,239)
Equity (in CZK thousands)	376,367	(2,352,045)
Registered capital (in CZK thousands)	5,235,510	2,735,510

Number of transported passengers	5,061,756*	5,464,643
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Note: \*Includes the outputs of regular transport for the year 2010 and charter transport for the period from January to September 2010.



## SHAREHOLDERS

Shareholder	Share (%)
Ministry of Finance of the Czech Republic	95.6898
Česká pojišťovna a.s.	2.2642
City of Prague	1.5345
City of Bratislava	0.5115

## ADMINISTRATIVE BODIES

### General Meeting

The General Meeting is the supreme body of the Company and is composed of the Company's shareholders. The General Meeting makes decisions on fundamental economic, organizational and operating issues, as well as determining the strategic focus of the Company. Its competence and powers are defined by the Commercial Code and the Company's Articles of Association.

### Supervisory Board

A controlling body with enhanced powers. In 2010, it was composed of six members. The Supervisory Board oversees the implementation of the Company's business activities, elects and dismisses the members of the Board of Directors, and reviews the Board's work. Four members of the Supervisory Board are elected by shareholders and two by the Company employees. As of April 2011, the number of members dropped to three, one of whom is elected by the employees. The composition, competence, and powers of the Supervisory Board are defined in the Commercial Code and in the Company's Articles of Association. The Supervisory Board usually meets once a calendar month and at least eight times a calendar year. The Supervisory Board has assumed the obligations of the Audit Committee.

### Board of Directors

It is a statutory body managing the activities of the Company and acting in the Company's name and obligating the Company in accordance with the rules defined in the Company's Articles of Association. The Board of Directors was comprised of five members in 2010. The statutory body is elected by the Supervisory Board; its members are usually holders of senior executive Management positions in the Company. The Board of Directors makes decisions on all Company matters which are not regulated by legislation or by the Articles of Association and which are not within the competence

of the General Meeting or Supervisory Board of the Company. The Board of Directors meets at least once a month.

## WORKING COMMISSIONS, TEAMS AND COMMITTEES OF THE SUPERVISORY BOARD AND BOARD OF DIRECTORS

### In 2010, the following bodies were part of the Czech Airlines corporate governance:

- ▶ Audit Committee (of the Supervisory Board)
- ▶ Holding Committee (of the Board of Directors)
- ▶ Risk Management Committee (of the Board of Directors)

## SUPERVISORY BOARD

### Prof. Ing. Michal Mejstřík, CSc.

Chairman of the Supervisory Board since 18 November 2009, member of the Supervisory Board since 14 September 2009

A graduate of the Prague University of Economics in the field of econometrics. Acquired the Candidate of Economic Sciences title (CSc.) for his academic research in the area of project evaluation. Completed his studies at the London School of Economics (1990–91). During the past 18 years, he has repeatedly served as an external consultant to international organizations (e.g. USAID, the World Bank, the European Commission in Central and Eastern Europe and Asia), the Czech Government and a number of corporations. In 2002–2008, he served as a Vice-Chairman or member of the supervisory boards of Východočeská Plynárenská, Západočeská Plynárenská and Severomoravská Plynárenská. He has published over 150 articles both domestically and abroad.

Since 1997, he has been a professor of Banking and Corporate Finances at Charles University in Prague. He is active in the prestigious Institute of Economic Studies at the Faculty of Social Sciences of Charles University in Prague (IES), which he built up in the years 1993–2010 and headed as its director. He is also a member of the National Economic Advisory Council (NERV) to the Czech Government and, since November 2009, the Chairman of the Supervisory Board of Czech Airlines. He also holds the position of the Chairman of the Czech branch of the International Chamber of Commerce (ICC CR). In 1991 he founded the firm EEEIP, a.s., which provides consulting services in



the field of mergers and acquisitions, restructuring and corporate finance. He is also its Director and Chairman of the Board of Directors. On 14 February 2011, he became the Chairman of the Supervisory Board of the joint-stock Company Český Aeroholding.

**JUDr. Petr Matoušek**

Vice-Chairman of the Supervisory Board since 30 March 2011, member of the Supervisory Board since 9 March 2011

Graduated from the Faculty of Law of Charles University in Prague, where in 2005 he passed the state doctoral exam in the field of International Private and Business Law. At present, he is active as a lawyer at the Ministry of Finance of the Czech Republic. From 2007 to 2011, he worked at the consular Department of the Embassy of the Czech Republic in London. In 2002–2007, he was employed as a lawyer at the Ministry of Foreign Affairs of the Czech Republic, first in the Office for the Preparation of the NATO Summit, then in the International Legal Department.

**Bc. Josef Maurer**

Member of the Supervisory Board since 1 April 2011, elected by the Company employees

Gained a bachelor's degree in the field of International Relations and European Studies at the Metropolitan University in Prague. He has worked for Czech Airlines since 1998 in the positions of a cabin crew member and cabin crew supervisor. He currently works as a cabin crew supervisor – OCCE examiner. Since 2002, he has been the Chairman of the Aircraft Cabin Crews Trade Union, which takes care of interests of flight attendants.

**LIST OF MEMBERS OF THE SUPERVISORY BOARD WHO TERMINATED THEIR MEMBERSHIP IN 2010 OR 2011, UP TO THE DATE THE ANNUAL REPORT WENT TO PRESS**

**Ing. Tomáš Uvíra**

Vice-Chairman and member of the Supervisory Board from 10 April 2007 to 31 January 2011

**Ing. Miroslav Bernášek**

Member of the Supervisory Board from 30 September 2010 to 1 April 2011

**Mgr. Roman Boček, MBA**

Member of the Supervisory Board from 24 June 2009 to 30 September 2010

**Ing. Josef Doruška, CSc.**

Member of the Supervisory Board from 18 November 2009 to 30 September 2010

**JUDr. Radek Šmerda, Ph.D.**

Member of the Supervisory Board from 30 September 2010 to 1 April 2011

**Tomáš Brabec**

Member of the Supervisory Board elected by the employees from 12 December 2007 to 1 April 2011

**Ing. Radomil Kratochvíl**

Member of the Supervisory Board elected by the employees from 9 April 2008 to 1 April 2011

**BOARD OF DIRECTORS**

**Philippe Moreels**

Chairman of the Board since 11 April 2011, Vice-Chairman of the Board of Directors since 1 December 2009, and member of the Board of Directors since 18 November 2009

A graduate of Vrije Universiteit in Brussels, where he majored in computer science and sociology, and of Solvay Business School. After finishing his studies, he worked as an analyst and later internal auditor in the Unilever Group in Brussels (1982–1986). For seven years, he worked in various positions, including Deputy Director of Operations in Standard Chartered Bank/Westdeutsche Landesbank Group. From 1993, he worked in the Bratislava headquarters of Tatra Bank; first as Director of Operations and, starting in 1998, also as a member of the Board of Directors. From 1 March 2002, he held the position of a member of the Board of Directors and Chief Executive of ČSOB. Since November 2009, he has worked for Czech Airlines as the Vice-President for Marketing, Sales and Economics. In addition, from 1 December 2009, he was Vice-Chairman of the Board of Directors of Czech Airlines. On 14 February 2011, he became Vice-Chairman of the Board of Directors of the joint-stock Company Český Aeroholding.



**Ing. Marek Týbl**

Vice-Chairman of the Board of Directors since 11 April 2011, member of the Board of Directors since 18 November 2009

Graduate of the Faculty of Transport at the Czech Technical University in Prague. Since 2000, he has actively taught at the faculty. In 2000, he completed his aviation exams and joined Czech Airlines, first as a second officer on B737 aircraft, then as a second officer on the long-haul A310 aircraft. Since 2004, he has flown on ATR aircraft as a captain, at the same time commanding the squadron and becoming the ATR chief pilot. He became Vice-President for Flight Operations of Czech Airlines in December 2009.

**Mgr. Jiří Marek**

Member of the Board of Directors since 15 December 2010

Graduate of the Faculty of Pedagogy of the University of West Bohemia in Pilsen. Studied Japanese and geography at universities in Japan. To Czech Airlines he brought experience from the field of business, marketing, business analysis and change Management, acquired in the previous eight years when he worked in various Management positions in the airline Company Malév. There he focused mostly on the area of business with the Czech Republic and Slovakia. In his last year working for the Company, he served as Business Director at the Budapest HQ. He joined Czech Airlines in the position of Executive Sales Director. Since February 2011, he has held the position of Vice-President for Sales and Marketing.

#### LIST OF MEMBERS OF THE BOARD OF DIRECTORS WHO TERMINATED THEIR MEMBERSHIP IN 2010 OR 2011, UP TO THE DATE THE ANNUAL REPORT WENT TO PRESS

**Ing. Miroslav Dvořák**

Chairman of the Board of Directors from 19 October 2009 to 1 April 2011

**Mgr. Josef Adam, LL.M.**

Member of the Board of Directors from 19 October 2009 to 1 April 2011

**Ing. Peter Jusko, MBA**

Member of the Board of Directors from 3 September 2003 to 28 June 2010

**Miloš Kvapil**

Member of the Board of Directors from 28 June 2010 to 15 December 2010

## EXECUTIVE MANAGEMENT

**Ing. Miroslav Dvořák**

President of the Company since 1 November 2009

Graduate of the Operational Economics faculty of the Czech Agricultural University in Prague, specializing in business, finance and business law. He started his professional career in 1992 as Deputy Director of the Assets Administration Division of Československá obchodní banka, a.s., a position he held till 1997. In the years 1997-2001 he held the post of Director and Chairman of the Board of Directors of Patria Asset Management. In 2002 he became Senior Director of the Private Banking Division of Československá obchodní banka, a.s. In June 2007 he became Senior Executive Director and Chairman of the Board of Directors of the state firm Prague Airport Management Company, which was transformed into the joint stock Company Prague Airport in 2008. Since 1 November 2009 he has worked for Czech Airlines in the position of President of the Company and, from 1 November 2009 till 1 April 2011, he worked for Czech Airlines in the position of Chairman of the Board of Directors. On 14 February 2011, Miroslav Dvořák was elected by the Supervisory Board of the joint-stock Company Český Aeroholding to become the Chairman of the Board of Directors. Following that appointment he resigned from his position of the Chairman of the Board of Directors of Czech Airlines and Prague Airport.

**Philippe Moreels**

Vice-President for Marketing, Sales and Economics from 16 November 2009 to 31 January 2011, Vice-President for Economics since 1 February 2011\*

**Mgr. Josef Adam**

Vice-President for ICT, Human Resources and Legal Affairs since 16 January 2010

**Mgr. Jiří Marek**

Vice-President for Sales and Marketing since 1 February 2011\*

\*The organizational unit of Marketing, Sales and Economics was divided into two parts as of 1 February 2011.



**Ing. Marek Týbl**

Vice-President for Flight Operations since 1 December 2009

### LIST OF MEMBERS OF SENIOR EXECUTIVE MANAGEMENT WHO LEFT OFFICE IN 2010 OR 2011, UP TO THE DATE THE ANNUAL REPORT WENT TO PRESS

**Ing. Peter Jusko, MBA**

Vice-President for Ground Operations from 1 July 2006, then for Operational Services from 1 November 2009 to 31 July 2010

### CORPORATE GOVERNANCE AND MANAGEMENT CODE BASED ON OECD PRINCIPLES

#### **Czech Airlines a.s. statement on the level of compliance of its corporate governance and Management with the Corporate Governance Code Based on OECD Principles**

Since 2004, Czech Airlines has followed the Corporate Governance and Management Code Based on OECD Principles. The administrative bodies of the Company thus declared their willingness to respect the principles of proper corporate governance.

The ongoing implementation of the corporate governance model at Czech Airlines was initiated in 2005. The Company Secretary's Office was set up, and the position of Company Bodies Secretary was established.

Throughout 2010 and up to the date the Annual Report went to press, nineteen regular and twelve extraordinary sessions of the Board of Directors were convened. The Supervisory Board met altogether seventeen times, out of which two meetings were extraordinary. In 2010, the Audit Committee of the Supervisory Board, the Holding Committee and the Risk Management Committee carried out their duties. The activities of the commission, individual committees and Company Secretary all complied with the relevant statutes or rules of procedure.

Throughout 2010 and up to the date the Annual Report went to press, five extraordinary General Meetings and one regular General Meeting of the Company were held.

#### **Extraordinary General Meeting of the Company, held on 8 February 2010:**

- ▶ Approved the conclusion of an agreement regarding the transfer of a part of the Company, an independent organizational unit called "SOJ Chartery", where the parties to the agreement are Czech Airlines as the seller and Travel Service as the purchaser.
- ▶ Approved the transfer of 100% of the business shares held by Czech Airlines in Slovak Air Services, s.r.o., under the conditions of a standard tender.
- ▶ Approved changes to the Articles of Association of the Company.

#### **Extraordinary General Meeting of the Company, held on 20 May 2010:**

- ▶ Approved the Czech Airlines Restructuring Plan that was endorsed by the Government of the Czech Republic on 3 May 2010.
- ▶ Decided on increasing the registered capital of Czech Airlines.
- ▶ Approved the conclusion of an agreement regarding the transfer of a part of the Company, an independent organizational unit called "SOJ Charters", into the registered capital of HOLIDAYS Czech Airlines, a.s.

#### **Regular General Meeting of the Company, held on 28 June 2010:**

- ▶ Besides discussing the matters required by law, it decided on changes to the Articles of Association.
- ▶ Approved the conclusion of an agreement regarding the transfer of a part of the Company, an independent organizational unit called "Technical Operations", into the registered capital of Czech Airlines Technics, a.s.

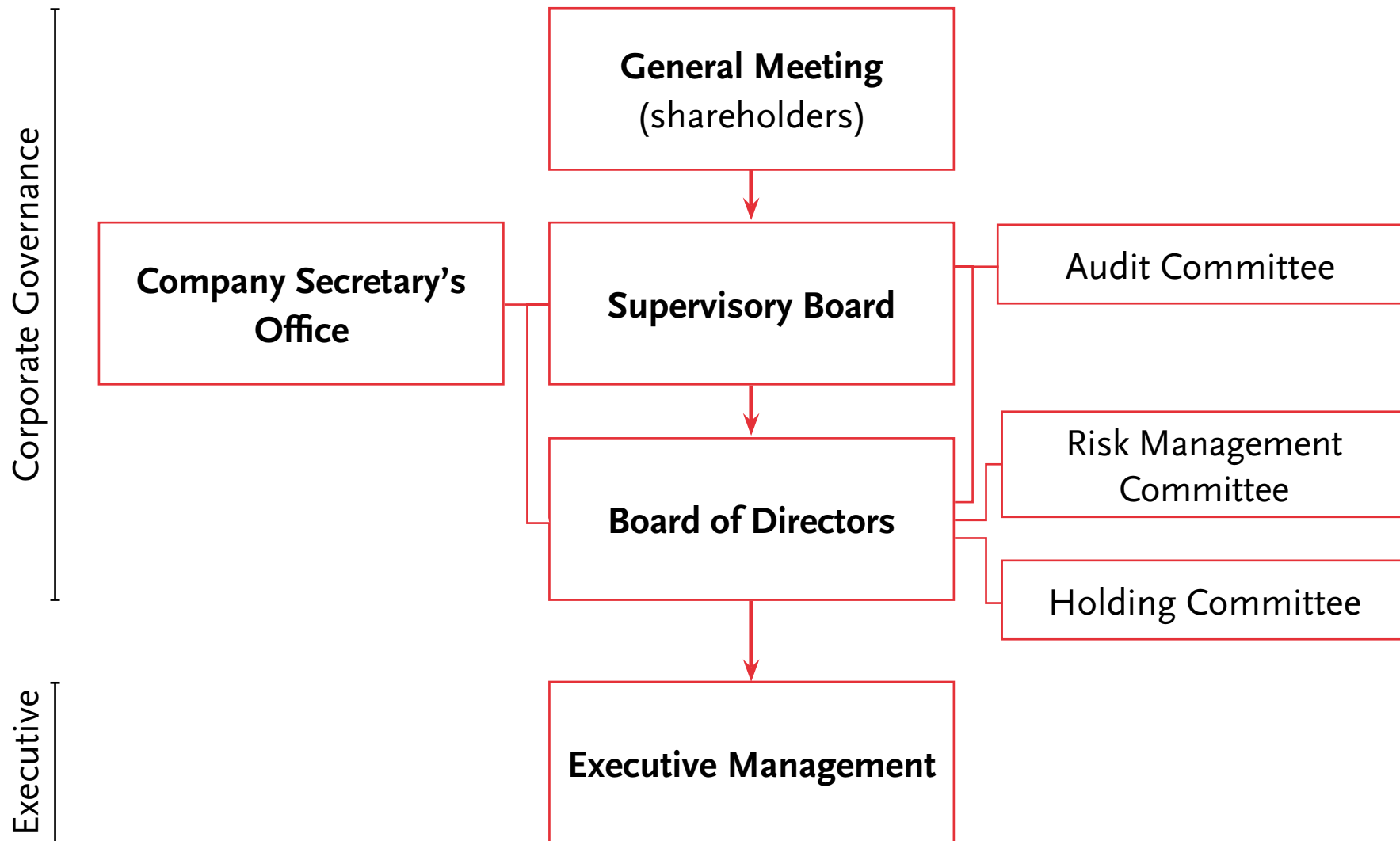
#### **Extraordinary General Meeting of the Company, held on 30 September 2010:**

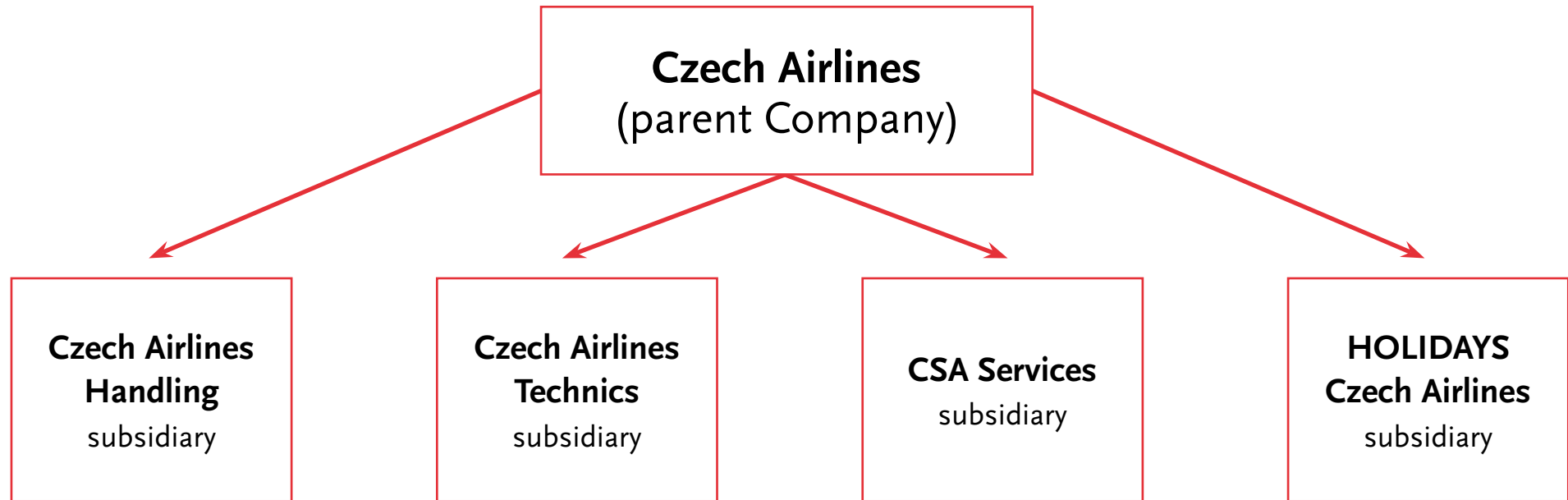
- ▶ Appointed KPMG Česká republika Audit, s.r.o., as the auditor of the regular and consolidated financial statements of Czech Airlines for 2010.
- ▶ Approved changes of the Articles of Association.
- ▶ Made personnel changes to the Supervisory Board as of 30 September 2010.

#### **Extraordinary General Meeting of the Company, held on 9 March 2011:**

- ▶ Approved the transfer of 100% of the business shares held by Czech Airlines in Czech Airlines Handling.
- ▶ Approved agreements regarding the exercise of office of members of the Supervisory Board.







**NOTE:** The ownership interests of Czech Airlines include Amadeus Marketing CSA, s.r.o. in which Czech Airlines holds a 65% interest



BUSINESS



## REGULAR TRANSPORT – NETWORK OF ROUTES

The routes network model changed considerably in 2010, mainly as a result of the Restructuring Plan of the Company. The new scheme is a move away from the previous strategy of operating routes all-year-round to as many destinations in Europe as possible: it is now more focused on creating a regular air bridge between east and west. In line with this concept and with the advent of the summer flight timetable, major adjustments were made to the Czech Airlines route network. The Company increased the frequency of flights to the most sought-after destinations and, conversely, reduced the flight frequency, for example, on routes to Ostrava, Oslo, Venice, Riga and Stuttgart.

The winter flight schedule and network of operated routes also underwent considerable changes. In line with the Company's Restructuring Plan, the main pillar of which is adjustment of the transport network to match market needs and developments, Czech Airlines discontinued flights to some unprofitable destinations. The winter schedule therefore no longer contained unprofitable connections to Brno, Munich and Cologne/Bonn and also did not reckon with flights to Great Britain. On the other hand the Company strengthened the most popular routes, adjusted the number of connections in little-used times and changed some selected flights, for example, to Marseille or Venice, into seasonal routes. Czech Airlines offered connections to 104 destinations in 44 countries of the world, out of which connections to 56 cities in 37 countries were provided within the Company's own network. Throughout the year, Czech Airlines' presence on the long-haul market was secured on the basis of code-sharing with partner airlines such as Delta Airlines, Korean Air etc.

Czech Airlines plans to make further changes to its flight timetable, both in the summer and throughout the following seasons. Flights will adapt to customer demand, developments on the market and business opportunities, and will no longer dogmatically reflect the formal thresholds of seasons. New routes will open or close as soon as it makes sense financially, regardless of whether the summer or winter flight schedule is in effect.

## CARGO

The main task of the Cargo Organizational Unit is the transport of air shipments and mail. To this end, it uses mainly the cargo capacity available onboard the aircraft of Czech Airlines. Czech Airlines Cargo is a member of SkyTeam Cargo, thanks to which it also represents its Alliance partners Korean Air Cargo and Delta Cargo as the General Sales Agent for the Czech Republic responsible for the sales of their aircraft capacity from Prague Airport. 2010 was marked by a moderate recovery on most markets, thanks to which Cargo again experienced growth in the volume of transport. In the context of covering the increased demand to eastern Europe, Czech Airlines Cargo introduced regular cargo flights to Minsk, Zagreb, Skopje and Beograd, which are carried out with the help of leased ATR-72F and AN26 cargo aircraft. Czech Airlines Cargo also succeeded in widening its network of alternative transport service – Road Feeder Service – where cargo is transported by land on shorter distances.

In 2010, Czech Airlines joined the IATA E-freight project. Its goal is to substitute the transfer of paper shipments with a cheaper and more reliable means of delivery, through electronic shipments. Within the framework of this project, Czech Airlines Cargo dispatched its first trial shipments with electronic documents at the end of last year.

In 2010, the total amount of transported cargo and mail was 23,404 tonnes.



## SALES

Czech Airlines mainly uses the following distribution channels to distribute and sell its products:

- ▶ Company offices
- ▶ Agencies
- ▶ Internet
- ▶ Contact Centre

### Company Offices

As of 31 December 2010, the Czech Airlines office network consisted of 28 branches in the Czech Republic and abroad. These branches primarily handle business activities targeting agencies and Company customers. One aspect of their work is the sale of air travel to end customers. In selected markets, the business activities of Czech Airlines are handled by GSAs (General Sales Agents). The Company currently cooperates with GSAs on 30 markets.

### Agencies

Despite the growing share of sales via the Internet and the Contact Centre, agencies remain the most important distribution channel for Czech Airlines' products. This sales channel to various markets is managed by domestic and foreign branches, in collaboration with specialist units at the Company's headquarters. Czech Airlines also reaches out to most of its corporate customers through agencies. To sustain motivation, incentive-based commission agreements have been concluded with the most important agencies, both in the Czech Republic and abroad. In regions where local legislation allows for it, Czech Airlines applies the Frequent Seller incentive programme for direct agency sellers.

### Internet

The strategy of the E-commerce organizational unit stands on two pillars. The first is increasing profitability by increasing sales and concurrently reducing expenses; the second is transforming the online interface czechairlines.com into a leading travel services portal in line with the recently defined business strategy. At the end of 2010, Czech Airlines launched several online campaigns advertising favourably prized air tickets. These sales campaigns are designed to achieve a further

strengthening of Czech Airlines' market position. The first sales results confirmed that a positive response to initiatives in this area. The online sales share achieved year-on-year growth of 8% on the domestic market and 3% on all other markets.

### Contact Centre

Contact Centre services are provided through the subsidiary Company CSA Services. The Contact Centre handles the sale of air tickets, cares for loyalty programme subscribers, and provides information and further services, primarily in the areas of ticketing and processes linked to customer reservations.

Contact Centre staff provide services to customers all year round, 24 hours a day, in eight languages (English, German, Spanish, French, Italian, Russian, Czech and Slovak). The Customer services are provided by phone, e-mail, online forms and, where appropriate, in the form of SMS messages. In 2010, the Contact Centre participated in the active contacting of customers via 8% of its contacts, mostly members of the Czech Airlines loyalty programme OK Plus.

Contact Centre availability stands at a very high level: over the long term, it has consistently processed more than three quarters of all incoming calls within 20 seconds.



## MARKETING

In 2010, the field of product Management worked on the basis of data from surveys of actual customer preferences and their importance when selecting an airline Company. Czech Airlines made full use of the detailed description of the process for communication between the customer and the airline, from the initial contact when booking and paying for tickets, to contact at the airport and the actual in-flight and the post-flight service. In its marketing communication, Czech Airlines concentrated on the key factors that change passenger preferences in the Company's favour.

### Loyalty Programmes

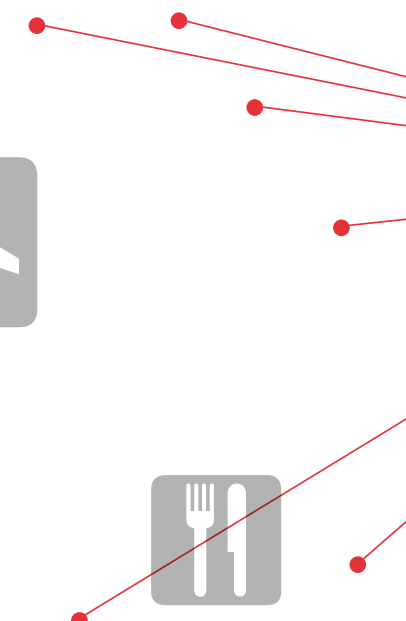
The membership of the OK Plus loyalty programme that brings advantages and rewards to Czech Airlines' frequent flyers has crossed the boundary of half a million members for the first time in the Company's history. At the end of the year, the figure stood at 528,961, an increase of 16.5% compared to the year 2009.

The OK Plus Corporate Programme, designed for companies that use the services of Czech Airlines, expanded to several new markets in 2010 – Belarus, Cyprus, Syria and Georgia. OK Plus Corporate is thus currently offered on 39 markets, with a total of 7,646 registered firms. In comparison with the previous year, this is an increase of 14%.

The OK Plus Partner Programme, aimed at managers and sales staff of travel bureaux and agencies, reached 3,397 members, which is 25.5% more than in 2009.

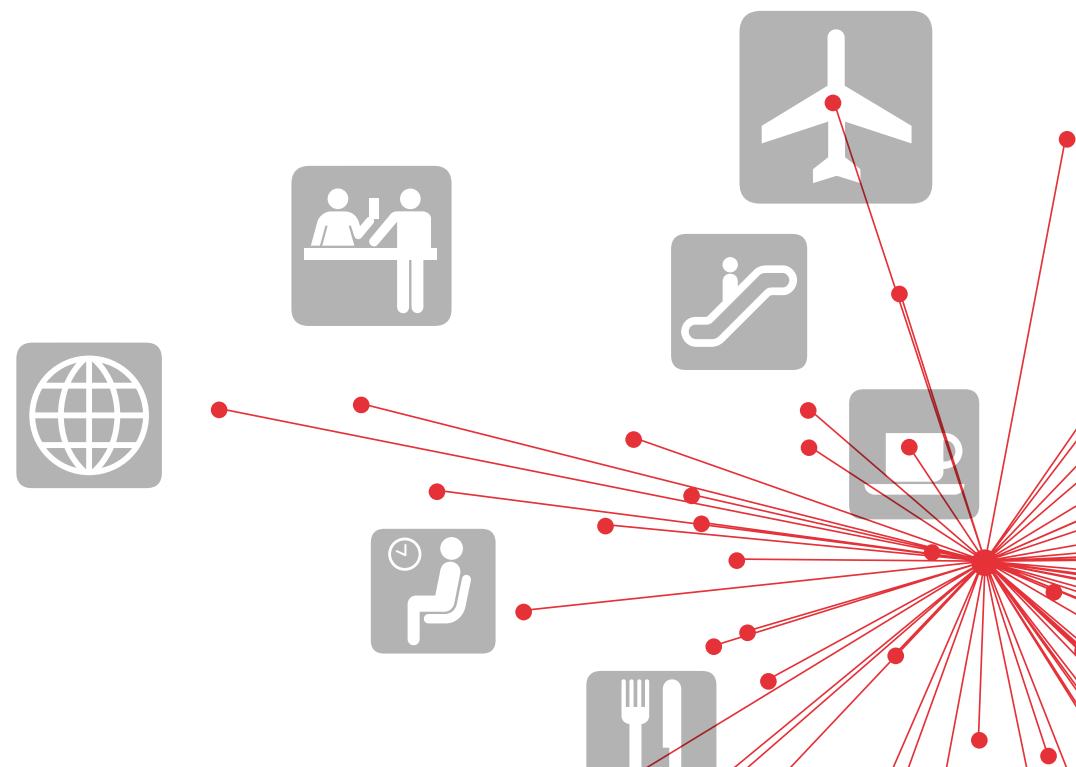
### Increase in the Number of OK Plus Members

Year	Number
2006	204,036
2007	275,517
2008	360,228
2009	453,904
2010	528,961



As of 31 December 2010, thirteen airlines were members of the SkyTeam Alliance: Aeroflot, Aeroméxico, Air Europa, Air France, Alitalia, China Southern Airlines, Czech Airlines, Delta Air Lines, Kenya Airways, KLM Royal Dutch Airlines, Korean Air, Tarom and Vietnam Airlines. Through one of the world's most extensive network hubs of member airlines, the SkyTeam Alliance offered, in the past year alone, 384 million passengers a system of more than 13,000 flights per day to 898 destinations in 169 countries.

The year 2010 was marked by a significant enlargement of the alliance. The accession process has begun with China Eastern Airlines, China Airlines, Garuda Indonesia and Aerolineas Argentinas. The actual entry of China Eastern Airlines and China Airlines into the alliance should take place throughout 2011. In the first quarter of 2011, Saudi Arabian Airlines and Middle East Airlines also signed agreements on accession to the SkyTeam Alliance.



At the beginning of 2010, the Czech Airlines fleet consisted of 49 aircraft. In response to the change in the traffic network model, the fleet was proportionately modified and made more effective throughout the year; at the end of the year, it numbered 39 aircraft.

One aircraft, an A319, joined the fleet in the spring of 2010, and two B737-400s were transferred to the subsidiary Company HOLIDAYS Czech Airlines in October. During the year, three aircraft were returned by Czech Airlines to their rental companies, and six were sold to external airlines.

The fleet will be further developed in line with the Restructuring Plan, according to which the Company will switch to just one type of narrow-body Airbus. The fleet will also be modernized, with eight previously ordered new Airbuses replacing older machines. The financing of these aircraft has been planned so as to be as small a burden as possible on the Company.



## CZECH AIRLINES FLEET AS OF 31 DECEMBER 2010

Type	Registration code	Year of manufacture	Acquired on
A321-211	OK-CEC	1997	30 May 2005
A321-211	OK-CED	1997	20 May 2005
A320-214	OK-GEA	2001	17 March 2005
A320-214	OK-GEB	2001	29 April 2005
A320-214	OK-LEE	2006	30 March 2006
A320-214	OK-LEF	2006	27 April 2006
A320-214	OK-LEG	2006	24 May 2006
A320-214	OK-MEH	2007	15 February 2007
A320-214	OK-MEI	2007	15 March 2007
A320-214	OK-MEJ	2007	13 April 2007
A319-112	OK-MEK	2007	8 March 2007
A319-112	OK-MEL	2007	19 April 2007
A319-112	OK-NEM	2008	21 February 2008
A319-112	OK-NEN	2008	17 March 2008
A319-112	OK-NEO	2008	3 April 2008
A319-112	OK-NEP	2008	30 September 2008
A319-112	OK-OER	2009	7 May 2009
A319-112	OK-PET	2010	31 March 2010
B737-500	OK-XGA	1992	3 July 1992
B737-500	OK-XGB	1992	6 July 1992
B737-500	OK-XGC	1992	10 July 1992
B737-500	OK-XGD	1992	29 July 1992
B737-500	OK-XGE	1992	7 August 1992
B737-500	OK-CGH	1997	12 March 1997
B737-500	OK-CGK	1997	23 May 1997
B737-500	OK-DGL	1998	18 March 1998
B737-500	OK-EGO	1999	17 February 1999
ATR72-202	OK-XFA	1992	10 April 1992
ATR72-202	OK-XFB	1992	14 April 1992
ATR72-202	OK-XFC	1992	27 April 1992
ATR72-202	OK-XFD	1992	21 May 1992
ATR42-500	OK-JFJ	2004	19 May 2004
ATR42-500	OK-JFK	2004	19 May 2004
ATR42-500	OK-JFL	2004	30 July 2004
ATR42-500	OK-KFM	2005	3 May 2005
ATR42-500	OK-KFN	2005	3 May 2005
ATR42-500	OK-KFO	2005	7 October 2005
ATR42-500	OK-KFP	2005	20 October 2005
ATR42-320	OK-VFI	1990	15 May 2000



Security in civil aviation is highly influenced by international and primarily European legislation. Czech Airlines incorporated all the changes in security procedures in civil aviation made in 2010 into its internal documents and its new Security Programme approved by the Ministry of Transport of the Czech Republic. Among other things, these changes allowed for the streamlining of the pre-flight and aircraft security checks, both from the procedural and economic standpoint.

Czech Airlines regularly checks the application of safety and emergency procedures in all destinations operated by Czech Airlines, as well as consulting security procedures with SkyTeam's expert team. The number of emergency assistants in the workforce was increased in 2010. Furthermore, a coordination drill code-named "May 2010" was conducted in all the involved units in order to test Czech Airlines' procedures during an air accident. Coordination drills were also staged in cooperation with the Czech police. These were aimed at handling non-standard situations on board aircraft, mainly to counter illegal actions. Regular training of employees, as required by the Civil Aviation Act, was also carried out.

Having a long-term concept and strategy of checking and examining passengers' travel documents both in the Czech Republic and abroad is gradually bringing benefits. In 2010, the number of passengers with incomplete, forged or altered documents decreased. In relation to the changing trends in the area of illegal immigration, Czech Airlines concluded agreements reducing the costs these passengers entail. The system of quality Management of security regulations for the protection of civil air transport against illegal actions incorporated approximately 100 monitoring activities in 2010, which were carried out in the prescribed form of safety audits, inspections and safety tests. The monitoring activities verified that the standard of the functioning and general setup of security measures is excellent.

Throughout 2010, Czech Airlines continued to improve its digital surveillance camera system, above all by consolidating its servers and disc space for the effective protection of the Company in the field of physical security. In the past year, the Company also revitalized control mechanisms in the access system. Based on the feedback obtained, IT security training for ground staff was adjusted and later expanded to the flight division as well.

Fire prevention in 2010 centred on regular fire inspections of all buildings where Czech Airlines staff are employed. Internal and external audits of fire safety found no defects.



Flight safety and the activities linked to it are a very complex process that includes a great number of different external factors and variables over time. However, there is a simple equation that applies for each Company involved in operating aircraft and air transport: a high level of security = first-rate personnel, technologies and Company procedures = satisfied customers. Through the everyday activities of both its employees and the Company's senior Management, Czech Airlines strives to meet all the flight safety requirements, whether these are requirements of internal regulations or the Company's customers.

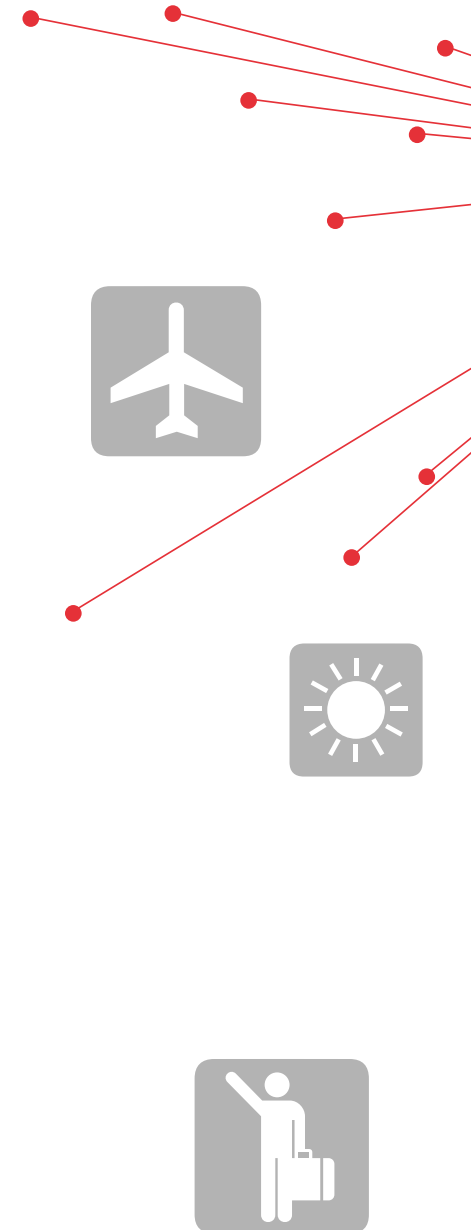
The goal of the flight safety Management is to minimize negative events and their impact on the day-to-day operations of the airline. At Czech Airlines, the Air Accident Prevention and Security Programme is the cornerstone of this process.

At Czech Airlines, the Flight Safety unit and specifically its Director (Safety Manager) are in charge of drawing up and managing the Air Accident Prevention and Security Programme in accordance with the requirements of both national and international regulations (EU-OPS).

**Among the main programme tools are:**

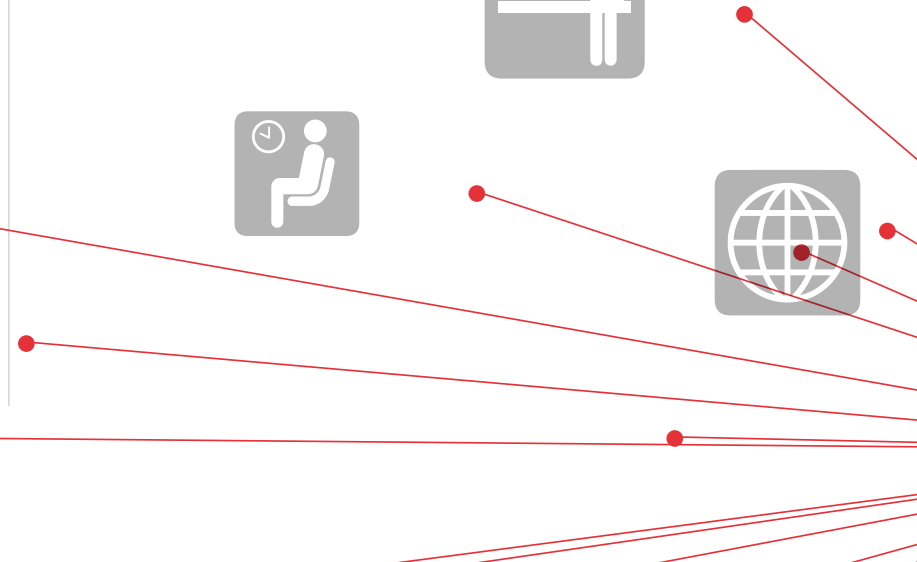
- ▶ flight risk Management process
- ▶ continuous monitoring of data from operating recorders
- ▶ analysis of selected in-flight messages from aircraft crews and operational staff received in the form of either the compulsory or confidential reporting systems
- ▶ investigation of air traffic incidents and formulation of security recommendations
- ▶ provision of information and feedback to the relevant units of Company Management and operational staff

The elements of the human factor and fatigue risk Management are currently being incorporated into the programme. Simultaneously, a complex Safety Management System is being introduced as a part of the newly created State Safety Programme.



Air traffic punctuality is one of the key operational indicators in evaluating a carrier's quality. In 2010, most European carriers experienced a broad trend of an increase in irregularity of air traffic. This trend was to a great extent influenced by the inclement weather in the winter season of 2009 and 2010. The Association of European Airlines (AEA) noted that in the category most closely followed, i.e. departures delayed for more than 15 minutes throughout 2010, the year-to-year punctuality worsened by 4.7% (from 83.3% to 78.6%).

The traffic punctuality of Czech Airlines basically followed the AEA trend, but the evolution of delays resembled the course during the year 2009. Between January and December 2010, the punctuality of Czech Airlines flights hovered at 3,5% above the AEA average, namely 82,1% of the flights in the evaluated category were delayed by more than 15 minutes.



In 2010, Czech Airlines continued in its focused effort to care for the environment and keep decreasing the impact its operations have on it. In 2008, a system of environmental Management was introduced in the Company to ensure a systematic approach to the protection of the environment. Throughout 2010, the Company underwent several organizational and operational changes, but protection of the environment nonetheless remains a priority.

In the autumn of 2010, the international organization Det Norske Veritas carried out an audit that evaluated the Environmental Management System (EMS) and its compliance with Czech standard ISO 14001. The result of the audit confirmed that Czech Airlines fully acts within the legislative rules and praised the proactive approach the Company has towards care for the environment.

## **Air Protection**

In 2010, the legislative process of incorporating aviation into the current system of emissions trading was completed. As of January 2012, the system will cover all flights landing at or taking off from airports in the European Union. Like other carriers, Czech Airlines has to secure a corresponding number of allowances for each such flight, in order to offset the CO<sub>2</sub> emissions produced by that flight.

In 2010, the Ministry of the Environment of the Czech Republic approved plans for the collection of data about tonnes per kilometre and CO<sub>2</sub> emissions from flights operated by Czech Airlines, which are included in the system of emissions trading and which were collected throughout 2010. Based on this data and data collected by other air transport operators, the Ministry of the Environment will request the allocation of emission allowances to the Czech Republic for the next trading season.

## **Noise**

In recent years, air traffic has been among the fastest-growing modes of transport. With increased demand and greater density of air traffic, the noise pollution from aircraft grows as well. At Prague Airport, rigorous noise monitoring and close cooperation with airline operators is standard practice. Czech Airlines continued its cooperation with Airport Prague throughout 2010 in order to further develop projects and measures to reduce noise levels at Prague Airport and its surroundings.

## **Wastewater Treatment**

Wastewater discharged during various technological processes is treated in the central industrial sewage treatment plant, which was put into operation in 2010. By using special pre-cleaning technologies, after which the wastewater is subsequently subjected to secondary treatment in the wastewater treatment plan at Prague Airport, another important qualitative advancement was achieved in all respects, including major financial savings and reduced production of hazardous waste. Czech Airlines continues to pay extraordinary attention to treating wastewater from the galvanization line. This wastewater undergoes several stages of treatment in the neutralization station. The quality of water discharged into the sewage system of Prague Airport is also regularly monitored in order to meet the strict limits set by the integrated permit.

## **Waste**

Throughout the Group, waste disposal complies with stringent legislative regulations. Czech Airlines endeavours to reduce the amount of waste generated, particularly hazardous waste that is produced either by its own activities or those of external contractual partners.



## PRODUCTION OF WASTE BY CZECH AIRLINES (TONNES/YEAR)

Type of waste	2004	2005	2006	2007	2008	2009	2010
Mixed waste	1,772.00	2,216.00	2,290.00	1,224.98	1,277.62	1,123.72	624.56
Hazardous waste	290.00	242.00	498.00	1,647.33	1,840.77	1,650.64	1,433.87
Miscellaneous waste	202.00	277.00	331.00	254.93	140.98	213.85	60.62
Reusable waste	667.00	498.00	470.00	252.56	453.91	176.29	84.63
Recycling	7.53	9.33	10.10	13.11	18.66	19.74	8.82

### Prevention of Serious Accidents

In the spring of 2010, the responsible bodies of the state administration carried out an integrated inspection in Czech Airlines. The inspection confirmed that the activity of the Company is fully in accordance with legal requirements.

In 2010, an accident preparedness drill was conducted with the participation of the Fire Department of Prague Airport to test the established procedures in the event of an accident and to test the cooperation of all responsible bodies. The result of the drill confirmed that the established procedures and measures in the event of accidents are fully adequate and cover all potential risk areas.



## DEVELOPMENTS IN THE NUMBERS OF EMPLOYEES

Employee category	31 December 2009	31 December 2010	31 March 2011
Blue-collar	1,105	67	56
White-collar	1,718	788	643
Cabin-collar	879	752	700
Flight-collar	470	415	384
<b>Total</b>	<b>4,172</b>	<b>2,022*</b>	<b>1,783*</b>

\* data for the parent Company Czech Airlines

The average number of employees in 2010 was 2,649. Compared to the year 2009, this represents a fall of 40%. The main reason for the decrease in the number of employees is the Restructuring Plan, on the basis of which employees have been transferred to subsidiary companies.

One of the pillars of the restructuring measures was a reduction in the total number of employees. In this context, the Company decided in 2010 to reduce the number of employees in the Group as a whole to 3,700 employees, including those transferred to subsidiary companies. The optimization of the workforce was implemented in the second half of 2010, and its completion was planned for the end of April 2011. At the end of April 2011, the number of employees in the whole Czech Airlines Group was supposed to reach the intended target of 3,700 employees.

Employee category	New recruits	Employment terminated	Employment terminated without transfer to subsidiary companies
Blue-collar	27	681	59
White-collar	107	613	300
Cabin-collar		39	39
Flight-collar		111	111
<b>Total</b>	<b>134</b>	<b>1,444</b>	<b>509</b>

In 2010, Czech Airlines hired a total of 134 employees, while 509 terminated their employment. If the termination of employment on the grounds of transfer to another Company within the holding is included, the total number of employees leaving stood at 1,444.

## HUMAN RESOURCES TRAINING AND DEVELOPMENT

The Human Resources Training and Development unit consists of staff training organization EASA PART 147, type training organization according to EASA PART 147 for A310, A319, A320, A321, B737CL-300/400/500, B737NG-600/700/800, ATR-42/72 aircraft. Among other things, it is the holder of IATA/UFTAA and IATA/FIATA certificates for training in hazardous goods; furthermore, it is authorized to certify the language proficiency of pilots according to ICAO.

In the past year, the Human Resources Training and Development unit arranged 1,506 individual training sessions comprising 22,407 hours of instruction. Altogether, 14,206 employees and 2,467 external participants underwent its training and drills. It verified the language skills of 326 flight personnel employees.

Since July 2010, Czech Airlines has made greater use of the e-learning portal EDO-CEO. By the end of last year, 5,417 employees in 19 courses had been trained with its assistance. The highest share of teaching hours falls to the field of security and entry and type training and training of ground crew. Employees are also very often retrained in the SITA system. Throughout 2010, Czech Airlines also greatly reduced training that does not have a direct impact on operational security or is not required by the regulations. At the end of the year, financial and economic training was introduced for managers in the context of the holding arrangement.

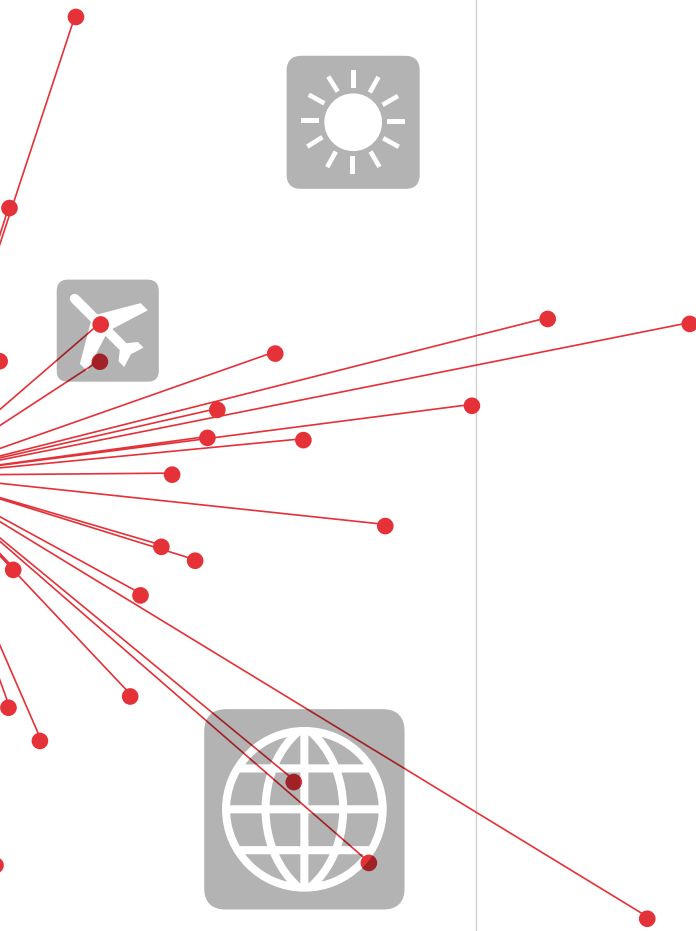
## OCCUPATIONAL HEALTH AND SAFETY

Reducing the number of occupational injuries is one of the priorities Czech Airlines set back in 2006. The Company has consistently maintained an annual 50% average reduction in occupational injuries compared to 2006

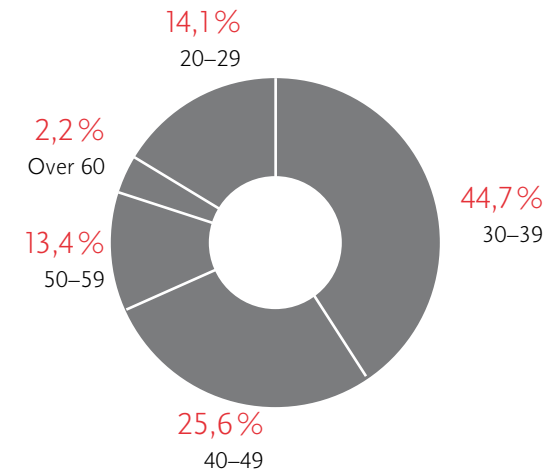


## WAGE POLICY

The wage policy in 2010 was based on the Company stabilization strategy. In this context, personnel costs were significantly reduced while respecting all obligations stemming from the collective agreements.



## EMPLOYEE STRUCTURE BY AGE



The Czech Airlines Air Crew Training Centre is fully comparable with the leading world organizations of air training – both in its equipment including sophisticated training facilities, flight simulators and modern classrooms, and in its overall standards. All forms of training are carried out in accordance with a certificate issued by the Civil Aviation Authority of the Czech Republic under the applicable European regulations JAR-FCL1, EU-OPS, and in accordance with internal Czech Airlines training handbooks.

In 2010, 28 pilots were retrained to operate Airbus A320 aircraft. All passed the so-called Zero Flight Time Training (ZFFT) on a certified flight simulator according to a curriculum approved by the Civil Aviation Authority of the Czech Republic. This type of training is qualitatively and financially more effective and takes place without the need for flying actual aircraft. After passing the ZFFT training, the pilot continues in route training on commercial flights with a crew that includes an instructor.

Overall during 2010, 3,765 hours were flown on the Boeing 737 simulator in all forms of model, refresher and repeated training. The share of hours sold to external customers thus increased to 2,533. One pilot was retrained for Boeing B737s. Due to Czech Airlines' transition to a fleet comprised primarily of Airbus-type aircraft, the number of B737 pilots is declining in the airline.

4,863 hours were flown on the Airbus A320 flight simulator, out of which 1,792 hours were used by external customers. Among the most significant external customers were Ural Airlines and the Military Air Force of the Czech Republic. 1,573 hours were flown on the ATR 42 synthetic flight simulator, with 734 hours taken by external customers.

Throughout the year, regular annual repetition training for pilots and cabin crew was also conducted. 216 members of cabin crews took retraining or conversion training courses to ATR, Airbus A320 and Boeing B737 types of aircraft.

The Air Crew Training Centre's capacity is predominantly intended for training the crews of Czech Airlines' aircraft, but spare capacity was successfully sold to external parties, despite the waning economic crisis in civil aviation. The "Fearless Flying" courses organized for the general public by the Training Centre went ahead in 2010 as well. Altogether, 56 people participated in this course and evaluated it in very

positive terms. The Air Crew Training Centre also offers tours for schools, business partners and various agencies, with the chance of trying out flight simulators under the supervision of experienced pilots. During these tours, 163 flight simulator hours were flown, and the number of participants increased from last year to 1,766.

## CZECH AIRLINES PILOT ON-LAND TRAINING IN 2010

Aircraft type	Number of persons	Number of courses	Number of hours	Number of hours of CBT (Computer Based Training)
B737	539	94	680	1,242
ATR	540	72	336	708
A320	1,128	186	1,179	748
External customers	515	82	517	590



SUBSIDIARY  
COMPANIES



## CSA SERVICES

### A Word from the Executive Director

2010 was a year when our Company – within the framework of services provided to our parent Company – exerted the utmost effort to support restructuring projects. Despite the considerable impact the volcano eruption had on our work, our Contact Centre managed to maintain stable results. The Contact Centre continues to provide the best possible support and services for the sales and marketing of our parent Company, Czech Airlines.

An important part of CSA Services consists of the services of an employment agency, which we continued to expand on the external market. At the same time, we initiated several steps leading to greater cooperation with the parent Company in the field of recruitment.

The goals we set ourselves in 2010 were far from easy to meet. Thanks should be addressed particularly to our employees, who play an active role in the growth of the Company, in its day-to-day operations and in the provision of high-quality services.

### Lenka Bartizalová

Executive director of CSA Services, s.r.o

## PROFILE OF THE COMPANY

Since 2005, CSA Services, s.r.o. has provided, through its own employment agency, services of employment brokering, temporary employment, what is known as temporary assignment and human resources consulting. Since 2006, it has also operated the Contact Centre with round-the-clock operation.

CSA Services continues to develop its activities linked to organizing specialized courses, training and other educational activities.

## EMPLOYMENT AGENCY

The services of the employment agency in the field of “temporary assignment” and employment mediation were developed further throughout 2010. Czech Airlines

was the Company's main customer, followed by companies from the Czech Airlines Group, such as HOLIDAYS Czech Airlines. Among the external clients of the agency are companies such as Menzies Aviation (Czech), G4S, Credium, etc.

The services provided to the Czech Airlines Group companies continue to be focused mainly on securing employees of specific professions the companies usually need for a limited period of time, or in providing help in operational peak times. The Company has also recently begun providing services in the field of recruitment to the core workforce and outplacement.

## CONTACT CENTRE

The Centre managed to keep accessibility of the Contact Centre throughout all of 2010 in the required range of 75 to 80% of all incoming calls processed within 20 seconds. This is a testimony to the stabilized operational results the Company provides.

The percentage of calls lost stood in 2010 at 5.67%. These are parameters fully comparable to other similar contact centres not only in the Czech Republic, but abroad as well. These parameters have a direct impact on the Czech Airlines customers' satisfaction and on the perception of the quality of services provided by the mother Company. The operational and organizational changes that have been carried out form a good basis for keeping operational effectiveness and quality of provided services in 2011 as well.



## CZECH AIRLINES HANDLING

### A Word from the Executive Director

The year 2010 was the first year in which passenger check-in and aircraft handling were handled by an independent subsidiary Company of Czech Airlines, Czech Airlines Handling. The beginnings of the Company (under the name ČSA Support, s.r.o.) go all the way back to 1998. Originally, however, the Company only provided cleaning services for aircraft and buildings and transport. Handling was the first Czech Airlines activity that was hived off to a subsidiary in line with the new strategy. The results from 2010 indicate that Czech Airlines Handling operations are an area of business with great potential.

The year 2010 was marked by two events demanding an urgent response. In April 2010, the Company was paralyzed by the closure of Prague Airport in connection with the volcanic dust cloud over Europe. Later, in July 2010, we had to launch the reorganization of the Company due to the changes in the concept of the Czech Airlines transport network. These became more prominent in the winter flight timetable 2010/2011. In this regard, it was necessary to optimize the number of employees of the individual operating units and completely overhaul the organizational structure.

In the course of last year, the Company had to defend its position as the supplier of handling services to six airline companies. I am pleased to say that we managed to retain our market position and, on top of that, we acquired five important new customers. In the medium-term horizon, we will face the combination of handling activities with Prague Airport. We want to develop our activities not only in the field of passenger check-in and aircraft handling, but in transport as well. Czech Airlines has a good name in the handling services industry and can boast a high standard of services. In the future we want to maintain our good image and do our best for our customers' satisfaction.

### Martin Štolba

Executive of Czech Airlines Handling, s.r.o.

## PROFILE OF THE COMPANY – MAIN ACTIVITIES

Czech Airlines Handling, s.r.o. is in charge of the handling of passengers, aircraft, cargo and mail – not just for Czech Airlines, but on the routes of other airlines as well. Thanks

to its state-of-the-art facilities and experienced personnel, every year it handles more than half the aircraft and passengers at Prague Airport.

The Company also provides non-contractual handling and cleaning services for aircraft and buildings; it operates passenger and cargo transport and carries out maintenance work on vehicles and mechanical equipment, again not just within the Czech Airlines Group but for external customers as well.

Besides Prague, Czech Airlines Handling has sold air tickets and has been involved in operational ticketing at airports in Ostrava and Karlovy Vary since 2010.

## HANDLING OF PASSENGERS, AIRCRAFT, CARGO AND MAIL

In the field of handling of passengers and aircraft on Czech Airlines routes, as well as routes of other airline carriers, Czech Airlines Handling maintained its high standards in 2010, as demonstrated by the results of audits of airlines. In all, the Company handled 6,935,057 departing and arriving passengers at Prague Airport. Czech Airlines Handling managed to retain its share of the overall output of Prague Airport, i.e. 60% of handled passengers and 63.65% of the number of handled departures and arrivals of aircraft.

In 2010, Czech Airlines Handling renewed handling contracts with Aerosvit Airlines, Austrian Airlines, China Airlines, Lufthansa, Malev – Hungarian Airlines, SAS Scandinavian Airlines and Swiss International Air Lines. Despite the fiercely competitive environment in the field of handling services at Prague Airport, Czech Airlines Handling won tenders, e.g. with Azerbaijan Airlines, Cypruss Airways, HOLIDAYS Czech Airlines, Central Connect Airlines Job Air and Yangtze River Express.

In 2010, the new Collaborative Decision Making Project (CDM) was tested. The rationale behind the project is a modern and effective concept for airport operation, based on the exchange and sharing of data among the main partners at Prague Airport (Prague Airport, Air Navigation Services, Czech Airlines, Czech Airlines Handling and Menzies Aviation Group). Its full deployment is planned for the summer of 2011.

Czech Airlines Handling also provides specific activities like de-icing and prevention of ice build-up, not only for the Czech Airlines and HOLIDAYS Czech Airlines fleets, but also for aircraft of external carriers. In 2010, 3,553 aircraft were de-iced in total, 2,578 of which belonged to the parent Company.



## CZECH AIRLINES TECHNICS

### A Word from the Chairman of the Board of Directors

On 1 August last year, Czech Airlines' technical maintenance underwent a fundamental change. The Technical Department and related activities of technical maintenance were hived off into an independent commercial unit named Czech Airlines Technics. In the past twenty years, Czech Airlines' technical maintenance has built a reputation as a first-rate and professional specialist supplier of services in the field of aircraft maintenance. We continue to focus on providing services of high quality while doing our utmost to provide them as efficiently as possible.

The global economic recession had a decisive impact on the world of air transport, which was of course also reflected in the technical maintenance field. A number of clients our Company had served started to use "in-house" technical maintenance services as a cost-cutting measure, or even placed economic considerations ahead of quality. In the next two to three years, we therefore need to focus on acquiring new clients and expanding our customer portfolio and the overall offer of services. We will attempt to acquire a share of the market of "route" maintenance, particularly by opening of technical maintenance stations in destinations that so far lack them, or offering AOG support for our customers. We will also have to continue lowering our costs.

To be a successful Company on the technical maintenance market, we have to be able to make the most of our potential and not to be afraid of the changes being undertaken.

### Ondřej Konývka

Chairman of the Board of Directors and Executive Director  
of Czech Airlines Technics, a.s.

## PROFILE OF THE COMPANY

In the modern environment of Prague Airport, Czech Airlines Technics, a.s., offers its clients highly professional and certified services in the field of technical maintenance of passenger aircraft, based on our longstanding tradition and experience. Czech Airlines Technics specializes in the regular review of aircraft, carrying out repairs of operational damage and year-round support for aircraft, particularly Airbus, Boeing and ATR.

Czech Airlines Technics keeps in daily contact with aircraft manufacturers, obtaining valuable information on recommended modifications of its customers' aircraft. The Company's own development centre makes its proposals for non-standard repairs that are approved by the aircraft manufacturers and are then applied in practice. Testing of individual aircraft parts is also part of the core business activities of the Company. Among other things, Czech Airlines Technics mediates loans of tools and machinery and dispatches its own technicians from its headquarters to destinations where repairs, testing or certification of aircraft to be released for operation are needed.

## TECHNICAL MAINTENANCE

In 2010, Czech Airlines Technics successfully continued to perform maintenance of Boeing B737 and Airbus A320F aircraft, both for its parent Company Czech Airlines and the newly created subsidiary HOLIDAYS Czech Airlines, and for foreign companies as well, mainly Air Berlin, Finnair, Enter Air, as well as the Army of the Czech Republic. This year, Czech Airlines Technics performed the first two "C-check" inspections of the Airbus A319 aircraft of Germania Airlines and six "C-checks" for TUIFLY, thus enlarging its portfolio of customers. The Company also performed inspections of Czech Airlines aircraft that were being returned to leasing companies or were being transferred to new air carriers UTair and Mauretania Airlines.

## MAINTENANCE WORKSHOP SERVICES

In order to reduce the costs of servicing entire aircraft, a large number of activities were outsourced. Conversely, projects focusing on "in-house" maintenance of selected aircraft that could be offered to customers were improved and expanded.



## HOLIDAYS CZECH AIRLINES

### A Word from the Chairman of the Board of Directors

Last year HOLIDAYS Czech Airlines, a subsidiary of Czech Airlines, underwent key changes in its functioning. The Company in its current form came into existence on 1 June 2010, when the independent commercial unit Czech Airlines Charters was hived off to the subsidiary Company HOLIDAYS Czech Airlines – a travel agency active on the Czech market since 1995. HOLIDAYS Czech Airlines obtained the key licence, an Air Operator's Certificate (AOC), from the Civil Aviation Authority of the Czech Republic on 8 October 2010. The Company thus became a fully-fledged airline, operating on the charter market under the code HCC.

2010 was a year of rebirth for HOLIDAYS Czech Airlines, a year of searching for its "place under the sun". At the end of April, all the necessary project activities needed to fulfil the ambitious goals began. Within five months, a completely new independent airline carrier had to be set up and made as effective as possible in all regards. It was necessary to prepare a business model for the new Company; acquire a sufficient number of suitable aircraft; satisfy all the flight, ground and technical requirements and to conclude all the necessary business and servicing agreements, prepare all the necessary documentation and secure the necessary flight personnel. We met the set deadline almost to the day. A few weeks later we scored our first personnel big success when an exclusive three-year contract was signed with one of the foremost Czech travel agencies – CK Blue Style.

I should not forget the activities of the original travel agency, which is a fully-fledged part of the Company. The travel agency will continue to focus on traditional products as well as on some special products that are not offered by other airlines.

Good aircraft, excellent personnel in all positions, motivation and a craving to reach the set targets and to show that HOLIDAYS Czech Airlines is a trustworthy and dependable Company on the highly competitive charter market, that it represents the right choice for travel agencies and that it is a popular and safe airline for customers – these are our goals for the coming months and years.

### Jan Čejka

Chairman of the Board of Directors and Executive Director for Operations and Economics of HOLIDAYS Czech Airlines, a.s.

## PROFILE OF THE COMPANY – MAIN ACTIVITIES

HOLIDAYS Czech Airlines provides non-scheduled (charter) flights to attractive tourist destinations for travel agencies and contractual partners. The destinations the Company flies to reflect the demands of its customers. All year round, HOLIDAYS Czech Airlines carries hundreds of thousands of passengers seeking relaxation and entertainment, sports teams, music groups, pilgrims, and many other special and esteemed clients.

Among the main partners of HOLIDAYS Czech Airlines are prominent Czech travel agencies, such as Blue Style, and also foreign agencies. The airline also operates, among other things, flights for the clients of health insurance companies in the context of convalescent stays and special stays for children with health problems. Travel agency activities are another integral part of the Company's business.

## TRANSPORT OUTPUT

The organizational changes and hiving off of services of charter transport within the holding structure had an impact on the total capacity of charters offered, which was also reflected in the Company's output. However, other factors also influenced the market for non-scheduled and scheduled air carriage. One of these was the slowly receding economic crisis. There were also other, often unforeseen events that significantly reduced the number of customers travelling abroad for their holidays. Two examples were the eruption of the Icelandic volcano in mid-April and frequent strikes in holiday destinations. As a result, 2,322 charter flights were carried out in 2010.

## TRAVEL AGENCY

HOLIDAYS Czech Airlines also offers standard travel agency services with a long-term focus on specific products like Euro-weekends, cruises and spa or convalescent stays. HOLIDAYS Czech Airlines travel agency is a member of IATA and the Association of Travel Agencies of the Czech Republic.



FINANCIAL PART





## MEETINGS OF THE SUPERVISORY BOARD IN 2010

During 2010, the Supervisory Board of Czech Airlines met 14 times at the Company headquarters; two of the meetings were convened on an extraordinary basis.

In the year 2011, up to the date when the Annual Report of Czech Airlines for the year 2010 went to press, the Supervisory Board convened three regular meetings.

## ACTIVITIES OF THE SUPERVISORY BOARD IN THE GIVEN PERIOD

During the period in question, the Supervisory Board was involved in supervisory activities and performed tasks stemming from the enhanced powers granted to it by the Company's Articles of Association.

There was regular scrutiny of reports

on the Company's financial results for a given month and of the performance of tasks stemming from the Czech Airlines Restructuring Plan approved by the General Meeting. Remuneration provided to the members of the statutory bodies of the Czech Airlines Group was also followed closely. The Supervisory Board was kept informed about the audit conducted by the European Commission. At its meetings, the Supervisory Board was always updated by the Board of Directors on the main events that had transpired in the Company, about the intentions of the Board of Directors and the results of its actions. The Chairman of the Supervisory Board regularly attended the meetings of the Board of Directors. The Chairman of the Board of Directors was a regular guest at the meetings of the Supervisory Board.

## SUPERVISORY BOARD'S STATEMENT ON THE FINANCIAL RESULTS FOR 2010

The Supervisory Board, in accordance with the Company's Articles of Association, reviewed the results of the implementation of the Czech Airlines business plan on a regular basis, as those results were submitted in the form of reports by the Board of Directors. The Supervisory Board consequently became acquainted with the report of the independent auditor for the shareholders of

Czech Airlines from 13 May 2011. Auditing is done by KPMG Česká republika Audit, s.r.o. (licence No. 71), represented by Ing. Monika Vítová (licence No. 2079), approved by the extraordinary Czech Airlines General Meeting on 30 September 2010 as an independent auditor of Czech Airlines. The auditor's opinion on the unconsolidated financial statements of Czech Airlines (issued on 15 April 2011) and consolidated financial statements of Czech Airlines and its subsidiary companies – the "Group" – (issued on 6 May 2011), compiled in accordance with the accounting regulations of the Czech Republic, was issued after the following financial statements had been verified, i.e. (unconsolidated and consolidated) balance sheet as of 31 December 2010, profit and loss statement, overview of changes of equity, and cash flow statement for the year 2010 and the annexes to those financial statements, including a description of significant accounting methods used and other additional details.

The audit was carried out in accordance with the act on auditors, the International Auditing Standards and the related application clauses of the Chamber of Auditors of the Czech Republic. The Company's statutory body is responsible for the compilation and a fair and true view of the financial statements and for ensuring an internal supervisory system it considers

necessary for the compilation of the financial statements so that they do not contain significant inaccuracies. The independent auditor in this regard also declares that the evidence acquired gives a sufficient and suitable base for the Auditor's Opinion.

The Auditor's Opinion includes the following statement: In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities of the Group as of 31 December 2010, and of its expenses, revenues and net result and its cash flows for the year then ended in accordance with Czech accounting legislation.

At its meeting of 30 March 2011, the Supervisory Board adopted a resolution (No. DR03-11/6.7) whereby, in accordance with §66a (10) of the Commercial Code, it reviewed the submitted report of the statutory body of the Company on relations among interconnected entities for the year 2010, drafted and consequently approved by the Board of Directors on 25 March 2011. The Supervisory Board expressed its agreement with the report's conclusions. The report on relations among interconnected entities of Czech Airlines as of 31 December 2010 forms part of the Annual Report. The independent auditor found no significant inaccuracies.



Furthermore, the Auditor, in accordance with the International Auditing Standards and related application clauses of the Chamber of Auditors of the Czech Republic, checked that the consolidated Annual Report is congruent with the consolidated and unconsolidated financial statements that were compiled in accordance with the accounting regulations of the Czech Republic and form part of this Annual Report. The information given in the consolidated Annual Report is, according to the Auditor's Opinion, in all significant respects congruent with the aforementioned financial statements.

The Supervisory Board of Czech Airlines reviews the audited unconsolidated and consolidated financial statements for 2010, compiled in accordance with the accounting regulations of the Czech Republic, and recommends that the General Meeting of Czech Airlines approve them.

The Supervisory Board of Czech Airlines also reviewed the proposal of the Board of Directors of Czech Airlines on the distribution of the Company's profits and recommends that the General Meeting of Czech Airlines approve it. The Company's profits for 2010, determined according to Czech law, came to CZK 76,159,400.43. 5% of the profits, i.e. CZK 3,807,970.02, will be allocated to the Reserve Fund, and the remaining part,

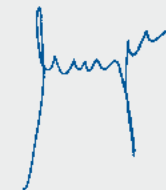
equalling to CZK 72,351,430.41, will be transferred to the account "Uncovered Losses of Previous Years" to cover those losses.

The Supervisory Board of Czech Airlines acquainted itself with the scrutiny of the consolidated Annual Report for 2010. The Report contains information on important matters that characterize, materially and financially, the economic results achieved in 2010. The Supervisory Board states that the Board of Directors of the Company is responsible for the accuracy of data contained in the Annual Report. At the same time the Supervisory Board takes note of the Opinion of the Auditor in this regard, i.e. that the information contained in the Annual Report describe facts that are also represented in the financial statements, and that it is in all significant respects in conformity with the relevant financial statement. On the basis of these facts, the Supervisory Board recommends that the General Meeting approve this consolidated Annual Report.

In the past period, the Supervisory Board repeatedly and systematically supervised the implementation of the individual pillars of the Czech Airlines Restructuring Plan, approved by the extraordinary General Meeting on 18 November 2009. At its meetings, it asked for presentations by responsible employees, as well

as comments and studies from the Company's Board of Directors on the different streams of the Restructuring Plan. Among the issues were the reduction in the size of the Czech Airlines network and the related simplification of the fleet, as well as the reduction of fixed costs, the reduction of the costs base in a number of categories, an increase in profits through greater effectiveness of the revenue Management process, the strengthening of price differentiation, more effective coordination with code-share partners and an increase in secondary income through own sales and revenue arising from cooperation with third parties.

At its meeting of 27 April 2011, the Supervisory Board decided – over and above the scope of its regular scrutiny – to have the fulfilment of the goals set by the Restructuring Plan audited by an external Company, so that Czech Airlines shareholders can be provided with concrete and independent results of the implementation of the Restructuring Plan for the past period.



Prague, 13 May 2011

**Prof. Ing. Michal Mejstřík, CSc.**

Chairman of the Supervisory Board of Czech Airlines



## NON-CONSOLIDATED FINANCIAL STATEMENTS

On the basis of our audit, on 15 April 2011 we issued an auditor's report on the Company's non-consolidated statutory financial statements, which are included in this Annual Report and our report was as follows: "We have audited the accompanying financial statements of České aerolinie a.s., which comprise the balance sheet as of 31 December 2010, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to these financial statements.

## STATUTORY BODY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The statutory body of České aerolinie a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the

overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements give a true and fair view of the assets and liabilities of České aerolinie a.s. as of 31 December 2010, and of its expenses, revenues and net result and its cash flows for the year then ended, in accordance with Czech accounting legislation.

## EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3 to the financial statements. The going concern assumption applied by the Company's Management is conditional upon the successful implementation of the Restructuring Plan and the fulfilment of the cash flow plan for 2011. In 2010, the Company reported a negative operating cash flow, which indicates a potential impairment of fixed assets. The Company's Management prepared an analysis of the potential impairment of fixed assets, which is based on future discounted operating cash flows. The assumption is that the implementation of measures included in the Restructuring Plan will be successfully completed and the Company will

generate positive operating cash flows. Based on these long-term projections, the Company's Management concluded that fixed assets had not been impaired. Since the Restructuring Plan had not been fully implemented as at the date of this report, there is uncertainty as to the outcome of its implementation that may have a significant effect on the Company's ability to continue as a going concern, and on the valuation of fixed assets."

## CONSOLIDATED FINANCIAL STATEMENTS

On the basis of our audit, on 6 May 2011 we issued an auditor's report on the Group's consolidated statutory financial statements, which are included in this Annual Report and our report was as follows: "We have audited the accompanying consolidated financial statements of České aerolinie a.s. and its subsidiaries ("Group"), which comprise the consolidated balance sheet as of 31 December 2010, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to these consolidated financial statements.



## STATUTORY BODY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The statutory body of České aerolinie a.s. is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities of the Group as of 31 December 2010, and of its expenses, revenues and net result and its cash flows for the year then ended, in accordance with Czech accounting legislation.

## EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3 to the consolidated financial statements. The going concern

assumption applied by the Group's Management is conditional upon the successful implementation of the Restructuring Plan and the fulfilment of the cash flow plan for 2011. In 2010, the Group reported a negative operating cash flow, which indicates a potential impairment of fixed assets. The Group's Management prepared an analysis of the potential impairment of fixed assets, which is based on future discounted operating cash flows. The assumption is that the implementation of measures included in the Restructuring Plan will be successfully completed and the Group will generate positive operating cash flows. Based on these long-term projections, the Group's Management concluded that fixed assets had not been impaired. Since the Restructuring Plan had not been fully implemented as at the date of this report, there is uncertainty as to the outcome of its implementation that may have a significant effect on the Group's ability to continue as a going concern, and on the valuation of fixed assets."

## REPORT ON RELATIONS BETWEEN RELATED PARTIES

We have reviewed the factual accuracy of the information disclosed in the report on relations between related parties of České aerolinie a.s. for the year ended 31 December 2010. The responsibility for the preparation and factual accuracy

of this report rests with the Company's statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between related parties of České aerolinie a.s. for the year ended 31 December 2010 contains material factual misstatements.

## CONSOLIDATED ANNUAL REPORT

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of the Company's statutory body. Our responsibility is to express our opinion on the consistency of the Annual Report with the audited financial



# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ČESKÉ AEROLINIE A.S.

statements based on our audit.

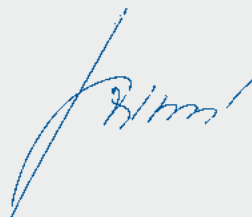
We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the Annual Report describing matters that are also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

In our opinion, the information disclosed in the Annual Report is, in all material respects, consistent with the audited financial statements.

Prague  
13 May 2011

KPMG Česká republika Audit, s.r.o.  
Licence number 71

Monika Vítová  
Partner  
Licence number 2079



## BALANCE SHEET FULL VERSION – AS OF 31 DECEMBER 2010 (IN CZK THOUSANDS)

		31 December 2010			31 December 2009
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>8,900,867</b>	<b>2,268,031</b>	<b>6,632,836</b>	<b>7,948,571</b>
<b>B.</b>	<b>Fixed assets</b>	<b>5,161,919</b>	<b>2,249,019</b>	<b>2,912,900</b>	<b>3,929,839</b>
<b>B.I.</b>	<b>Intangible fixed assets</b>	<b>798,319</b>	<b>511,114</b>	<b>287,205</b>	<b>396,607</b>
B.I.3.	Software	771,989	511,114	260,875	294,950
B.I.7.	Intangible fixed assets under construction	26,330		26,330	101,657
<b>B.II.</b>	<b>Tangible fixed assets</b>	<b>3,423,103</b>	<b>1,737,905</b>	<b>1,685,198</b>	<b>3,508,980</b>
B.II.1.	Land				192,436
B.II.2.	Structures	83,508	55,576	27,932	163,808
B.II.3.	Individual movable assets and sets of movable assets	2,689,467	1,623,923	1,065,544	1,665,526
B.II.6.	Other tangible fixed assets	33,279	22,662	10,617	33,781
B.II.7.	Tangible fixed assets under construction	113,666	35,744	77,922	295,272
B.II.8.	Prepayments for tangible fixed assets	503,183		503,183	1,158,157
<b>B.III.</b>	<b>Non-current financial assets</b>	<b>940,497</b>		<b>940,497</b>	<b>24,252</b>
B.III.1.	Equity investments in subsidiaries	924,559		924,559	8,907
B.III.3.	Other securities and investments	8,079		8,079	7,915
B.III.5.	Other non-current financial assets	7,859		7,859	7,430
<b>C.</b>	<b>Current assets</b>	<b>2,903,823</b>	<b>19,012</b>	<b>2,884,811</b>	<b>3,222,144</b>
<b>C.I.</b>	<b>Inventories</b>	<b>17,233</b>	<b>1,231</b>	<b>16,002</b>	<b>379,334</b>
C.I.1.	Material	17,167	1,231	15,936	319,180
C.I.2.	Work in progress and semifinished goods				1,952
C.I.5.	Goods				56,268
C.I.6.	Prepayments for inventory	66		66	1,934
<b>C.II.</b>	<b>Long-term receivables</b>	<b>136,539</b>		<b>136,539</b>	<b>255,926</b>
C.II.5.	Long-term prepayments made	136,539		136,539	140,429
C.II.8.	Deferred tax asset				115,497
<b>C.III.</b>	<b>Short-term receivables</b>	<b>1,591,716</b>	<b>17,781</b>	<b>1,573,935</b>	<b>2,027,366</b>
C.III.1.	Trade receivables	1,283,059	17,781	1,265,278	1,579,639
C.III.2.	Receivables - controlling entity	33,266		33,266	
C.III.6.	State – tax receivables	30,813		30,813	54,450
C.III.7.	Short-term prepayments made	35,614		35,614	109,046
C.III.8.	Estimated receivables	121,418		121,418	94,871
C.III.9.	Other receivables	87,546		87,546	189,360
<b>C.IV.</b>	<b>Current financial assets</b>	<b>1,158,335</b>		<b>1,158,335</b>	<b>559,518</b>
C.IV.1.	Cash on hand	26,760		26,760	25,582
C.IV.2.	Cash at bank	756,327		756,327	533,936
C.IV.3.	Short-term securities and investments	375,248		375,248	
<b>D. I.</b>	<b>Other assets</b>	<b>835,125</b>		<b>835,125</b>	<b>796,588</b>
D.I.1.	Deferred expenses	781,149		781,149	715,771
D.I.3.	Accrued income	53,976		53,976	80,817



		31 December 2010	31 December 2009
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,632,836</b>	<b>7,948,571</b>
<b>A.</b>	<b>Equity</b>	<b>376,367</b>	<b>(2 352,045)</b>
<b>A.I.</b>	<b>Share capital</b>	<b>5,235,510</b>	<b>2,735,510</b>
A.I.1.	Share capital	5,235,510	2,735,510
<b>A.II.</b>	<b>Capital funds</b>	<b>(340,226)</b>	<b>(492,479)</b>
A.II.2.	Other capital funds	(99)	(99)
A.II.3.	Gains or losses from the revaluation of assets and liabilities	(340,127)	(492,380)
<b>A.III.</b>	<b>Statutory funds</b>	<b>100,931</b>	<b>100,931</b>
A.III.1.	Statutory reserve fund / Indivisible fund	100,931	100,931
<b>A.IV.</b>	<b>Retained earnings</b>	<b>(4,696,007)</b>	<b>(939,882)</b>
A.IV.2.	Accumulated losses brought forward	(4,696,007)	(939,882)
<b>A.V.</b>	<b>Profit or loss for the current period (+/-)</b>	<b>76,159</b>	<b>(3,756,125)</b>
<b>B.</b>	<b>Liabilities</b>	<b>4,596,241</b>	<b>8,655,885</b>
<b>B.I.</b>	<b>Provisions</b>	<b>1,776,326</b>	<b>2,074,560</b>
B.I.1.	Tax-deductible provisions	127,326	198,792
B.I.4.	Other provisions	1,649,000	1,875,768
<b>B.II.</b>	<b>Long-term liabilities</b>	<b>55,468</b>	<b>59,443</b>
B.II.5.	Long-term prepayments received	1,139	1,319
B.II.9.	Other payables	54,329	58,124
<b>B.III.</b>	<b>Short-term liabilities</b>	<b>2,696,362</b>	<b>6,267,745</b>
B.III.1.	Trade payables	1,230,417	1,385,377
B.III.5.	Payables to employees	130,420	231,464
B.III.6.	Social security and health insurance payables	41,838	63,317
B.III.7.	State – tax payables and subsidies	24,846	42,949
B.III.8.	Short-term prepayments received	25,208	29,427
B.III.10.	Estimated payables	1,144,384	1,789,840
B.III.11.	Other payables	99,249	2,725,371
<b>B.IV.</b>	<b>Bank loans and borrowings</b>	<b>68,085</b>	<b>254,137</b>
B.IV.1.	Long-term bank loans	27,234	68,085
B.IV.2.	Short-term bank loans	40,851	186,052
<b>C. I.</b>	<b>Other liabilities</b>	<b>1,660,228</b>	<b>1,644,731</b>
C.I.1.	Accrued expenses	7,071	97,688
C.I.2.	Deferred income	1,653,157	1,547,043



PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD  
– YEAR ENDED 31 DECEMBER 2010 (IN CZK THOUSANDS)

		Period to 31 December 2010	Period to 31 December 2009
I.	Sales of goods	46,622	573,430
A.	Costs of goods sold	25,824	338,995
<b>+</b>	<b>Gross margin</b>	<b>20,798</b>	<b>234,435</b>
II.	Production	16,547,753	19,789,620
II.1.	Sales of own products and services	16,540,446	19,755,107
II.2.	Change in internally produced inventory	(1,636)	(1,590)
II.3.	Own work capitalized	8,943	36,103
<b>B.</b>	<b>Purchased consumables and services</b>	<b>15,026,280</b>	<b>17,797,518</b>
B.1.	Consumed material and energy	3,997,896	5,835,976
B.2.	Services	11,028,384	11,961,542
<b>+</b>	<b>Added value</b>	<b>1,542,271</b>	<b>2,226,537</b>
C.	Staff costs	3,013,970	4,877,486
C.1.	Payroll costs	2,148,455	3,634,957
C.2.	Remuneration to members of statutory bodies	2,055	5,817
C.3.	Social security and health insurance costs	625,897	874,344
C.4.	Social costs	54,797	131,489
C.5.	Staff costs in abroad	182,766	230,879
D.	Taxes and charges	59,722	9,626
E.	Depreciation of intangible and tangible fixed assets	469,651	456,738
III.	Sales of fixed assets and material	2,694,502	907,129
III.1.	Sales of fixed assets	2,669,633	888,401
III.2.	Sales of material	24,869	18,728
<b>F.</b>	<b>Net book value of fixed assets and material sold</b>	<b>1,905,842</b>	<b>507,774</b>
F.1.	Net book value of sold fixed assets	1,887,885	506,357
F.2.	Book value of sold material	17,957	1,417
G.	Change in allowances and provisions relating to operating activities and complex deferred expenses	(502,234)	611,629
IV.	Other operating income	654,544	158,148
H.	Other operating expenses	295,818	368,321
<b>*</b>	<b>Operating profit or loss</b>	<b>(351,452)</b>	<b>(3,539,760)</b>
VI.	Proceeds from the sale of securities and investments	17,874	
J.	Cost of securities and investments sold	1,959	
VII.	Income from non-current financial assets	4,238	3,900
VII.1.	Income from subsidiaries and associates	4,238	3,900



		Period to 31 December 2010	Period to 31 December 2009
M.	Change in allowances and provisions relating to financial activities	(10,000)	
X.	Interest income	9,500	6,214
N.	Interest expenses	69,878	79,092
XI.	Other financial income	776,079	2,102,672
O.	Other financial expenses	1,026,261	2,182,173
*	<b>Financial profit or loss</b>	<b>(280,407)</b>	<b>(148,479)</b>
Q.	Income tax on ordinary activities		67,886
Q 1.	– due		(27,889)
Q 2.	– deferred		95,775
**	<b>Profit or loss from ordinary activities</b>	<b>(631,859)</b>	<b>(3,756,125)</b>
XIII.	Extraordinary income	767,195	
R.	Extraordinary expenses	59,177	
*	<b>Extraordinary profit or loss</b>	<b>708,018</b>	
***	<b>Profit or loss for the current period (+/-)</b>	<b>76,159</b>	<b>(3,756,125)</b>
****	<b>Profit or loss before tax</b>	<b>76,159</b>	<b>(3,688,239)</b>



## STATEMENT OF CHANGES IN EQUITY – YEAR ENDED 31 DECEMBER 2010 (IN CZK THOUSANDS)

	Share capital	Capital funds	Statutory funds	Valuation differences	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2008	2,735,510	(99)	77,428	(1,794,774)	(1,386,436)	470,057	101,686
Distribution of profit or loss			23,503		446,554	(470,057)	
Change in the valuation of securities and derivatives				1,506,473			1,506,473
Change in the deferred tax				(204,079)			(204,079)
Profit or loss for the current period						(3,756,125)	(3,756,125)
Balance at 31 December 2009	2,735,510	(99)	100,931	(492,380)	(939,882)	(3,756,125)	(2,352,045)
Distribution of profit or loss					(3,756,125)	3,756,125	
Change in share capital	2,500,000						2,500,000
Change in the valuation of securities and derivatives				267,750			267,750
Change in the deferred tax				(115,497)			(115,497)
Profit or loss for the current period						76,159	76,159
Balance at 31 December 2010	5,235,510	(99)	100,931	(340,127)	(4,696,007)	76,159	376,367



## CASH FLOW STATEMENT – YEAR ENDED 31 DECEMBER 2010 (IN CZK THOUSANDS)

	Period to 31 December 2010	Period to 31 December 2009
P.	559,518	542,672
	<i>Cash flows from ordinary activities</i>	
Z.	76,159	(3,688,239)
A.1.	(1,614,063)	6,843
A.1.1.	469,651	456,738
A.1.2.	(502,234)	611,629
A.1.3.	(797,663)	(382,044)
A.1.4.	(4,238)	(3,900)
A.1.5.	60,378	72,878
A.1.6.	(366,813)	(549,112)
A.1.7.	234,874	(199,346)
A.1.8.	(708,018)	
A.*	(1,537,904)	(3,681,396)
A.2.	(379,469)	743,523
A.2.1.	(17,591)	738,163
A.2.2.	(397,866)	(70,026)
A.2.3.	35,988	74,881
A.2.4.		505
A.**	(1,917,373)	(2,937,873)
A.3.	(69,102)	(80,160)
A.4.	9,500	6,214
A.5.		2,889
A.6.	767,195	
A.7.	4,238	3,900
A.8.		(61,664)
A.***	(1,205,542)	(3,066,694)
	<i>Cash flows from investing activities</i>	
B.1.	(413,966)	(481,063)
B.2.	2,414,081	1,476,385
B.3.		1,000
B.***	2,000,115	996,322
	<i>Cash flow from financial activities</i>	
C.1.	(195,756)	2,087,218
C.2.		
C.***	(195,756)	2,087,218
F.	598,817	16,846
R.	1,158,335	559,518



## 1. GENERAL INFORMATION

**České aerolinie a.s. ("the Company"), corporate ID 45795908, was registered in the Commercial Register by the Municipal Court in Prague, Section B, File 1662, on 1 August 1992. The Company's registered office is located at Prague 6, Ruzyně Airport, Postal Code 160 08.**

The Company's principal business activities are providing commercial air transport and aircraft maintenance.

The share capital of the Company is CZK 5,235,510 thousand.

The financial statements of the Company have been prepared as at and for the year ended 31 December 2010.

The members of the Board of Directors as at 31 December 2010 were as follows:

	<b>Position</b>
Ing. Miroslav Dvořák	Chairman
Philippe M. Moreels	Vice-Chairman
Mgr. Josef Adam	Member
Mgr. Jiří Marek	Member
Ing. Marek Týbl	Member

The members of the Supervisory Board as at 31 December 2010 were as follows:

	<b>Position</b>
Prof. Ing. Michal Mejstřík, CSc.	Chairman
Ing. Tomáš Uvíra	Vice-Chairman
JUDr. Radek Šmerda, Ph.D.	Member
Tomáš Brabec	Member
Ing. Radomil Kratochvíl	Member
Ing. Miroslav Bernášek	Member

The changes made in the Commercial Register ("CR") during the year ended 31 December 2010 relating to personnel changes in the Board of Directors and the Supervisory Board were as follows:

<b>Board of Directors</b>	<b>Position</b>	<b>Office taken on</b>	<b>Resignation</b>	<b>Recorded in the CR</b>
Peter Jusko	Member	3 September 2008	28 June 2010	12 August 2010
Miloš Kvapil	Member	28 June 2010	15 December 2010	14 January 2011
Jiří Marek	Member	15 December 2010		14 January 2011

<b>Supervisory Board</b>	<b>Position</b>	<b>Office taken on</b>	<b>Resignation</b>	<b>Recorded in the CR</b>
Roman Boček	Member	24 June 2009	30 September 2010	19 October 2010
Radek Šmerda	Member	30 September 2010		19 October 2010
Josef Doruška	Member	18 November 2009	30 September 2010	19 October 2010
Miroslav Bernášek	Member	30 September 2010		19 October 2010

The Company is organized as at 31 December 2010

### **President**

#### **Organizational units reporting to the President:**

<b>Organizational units reporting to the President:</b>	<b>Divisions:</b>
President's Office	Marketing, Sales and Financial Division
Security	Flight Operations Division
Communications	IT, Human Resources and Legal Services Division
Quality Management and Internal Audit	
Flight Safety	
Supplier Service Management	
Ground Operations Management	
Technical Operations Management	
Landing Gears	

The Company has organizational units abroad.



## 2. ACCOUNTING PRINCIPLES AND POLICIES

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.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost basis with certain exceptions (as further described in this note), the accruals principle, the prudence concept and the going concern assumption.

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

The Company also prepares consolidated financial statements.

### 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 on an individual basis.

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

### Acquisition Cost

Purchased tangible fixed assets are stated at acquisition cost less accumulated depreciation and allowances for diminution in value. The acquisition cost includes the purchase cost and costs attributable to the acquisition.

Tangible fixed assets developed internally are valued at direct costs, which include direct material and payroll costs and incidental costs directly attributable to the internal production of assets (production overheads).

The following tangible fixed assets are stated at replacement cost: tangible fixed

assets acquired without consideration on the basis of a contract to purchase a leased asset (finance lease) and tangible fixed assets recently identified and recognized (accounted for by a corresponding entry in the relevant accumulated depreciation account). The replacement cost of tangible fixed assets is determined by reference to the normal market price effective at the time that these assets are acquired / identified.

The cost of a fixed asset technical improvement exceeding CZK 40 thousand per asset for the taxation period increases the acquisition cost of the related tangible fixed asset.

### Depreciation

Depreciation is charged with respect to tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

	<b>Number of years</b>
Buildings	30–50
Computer equipment with an acquisition cost above CZK 40 thousand	4
Computer equipment with an acquisition cost between CZK 5 thousand to CZK 40 thousand	3
Radio and communication equipment and systems	4
Vehicles – other than aircraft	4
Vehicles – newly purchased aircraft	
Airbus A320/A319/A310, Boeing B737	20
ATR	18
Rotables	Over the expected useful life of the relevant aircraft
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

Rotables are depreciated to the expected residual value of 10% of cost.

Assets held under finance leases are depreciated by the lessor. Following the expiration of finance leases, aircraft acquired under finance leases are depreciated over their remaining estimated useful lives.

### Retirement of Assets

The gain or loss arising from the disposal or retirement of an asset is determined as



the difference between the sales proceeds and the net book value of the asset at the sale date and is recognized in the profit and loss account.

#### Allowances

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 other than temporary, the asset is written off.

#### **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 on an individual basis.

Intangible assets with an acquisition cost of less than CZK 5 thousand on an individual basis are expensed in the period of acquisition.

#### Acquisition Cost

Purchased intangible fixed assets are stated at acquisition cost less accumulated amortization and allowance for diminution in value.

With respect to long term projects that relate to software acquisition and bringing the software into use, the Company capitalizes internally incurred costs linked to the software development and bringing the software into use.

The cost of technical improvements exceeding CZK 40 thousand per asset for the taxation period increases the acquisition cost of the related intangible fixed asset.

#### Amortization

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

	<b>Number of years</b>
Software	3–10
Licences	Over the contract term
Patents	Over the useful life

#### Allowance

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 other than temporary, the asset is written off.

#### **Non-Current Financial Assets**

Non-current financial assets principally consist of provided loans with maturity exceeding one year, equity investments, securities and equity investments available for sale.

Upon acquisition, securities and equity investments are carried at cost. The cost of securities or equity investments includes the direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

The investments in newly-established subsidiaries are carried at cost that includes the net book value of the non-monetary investment.

At the date of acquisition of the securities and equity investments, the Company categorizes these non-current financial assets based on their underlying characteristics as:

- ▶ equity investments in subsidiaries;
- ▶ equity investments in associates; or
- ▶ securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as “Equity investment in subsidiaries”.

Securities and equity investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in market conditions (for example, interest rates), are classified as available for sale. These securities and investments are included in non-current assets unless the Management has the express intention of holding the investment for less than 12 months from the balance sheet date. The Management determines the appropriate classification of securities and investments at the time of purchase.



## Valuation

At the balance sheet date, the Company records:

- ▶ equity investments in subsidiaries and associates at cost less an allowance for diminution in value; and
- ▶ securities and equity investments available for sale are carried at fair value if determinable. Changes in fair values of securities and equity investments available for sale are charged against “Gains or losses from the revaluation of assets and liabilities” within equity in the case of a permanent decrease in the fair value to the profit and loss account.

In determining the fair value, the Company refers to the market value of securities at the balance sheet date. Securities and equity investments that are not traded on public markets are stated at cost when their fair value is not readily obtainable and the cost of obtaining the fair value measure is unreasonably high considering its materiality and impact on the Company’s financial statements.

If the carrying value of securities and equity investments that have not been measured at fair value is greater than their estimated recoverable value, the securities and equity investments are provided for.

If equity investments in subsidiaries and associates are material in comparison to the Company’s financial statements, the Company prepares consolidated financial statements.

## **Current Financial Assets**

Current financial assets consist of cash equivalents, cash on hand and cash at bank.

## **Derivative Financial Instruments**

Derivative financial instruments including currency forwards, currency, commodity and interest rate swaps, currency and commodity options, and other derivative financial instruments are initially recognized on the balance sheet at cost and subsequently are remeasured to their 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 long-term or short-term receivables or payables, as appropriate.

The Company designates derivative financial instruments as either trading or hedging.

While the Company designates all derivatives for economic hedge purposes, a portion of short-term contracts (up to one month) are recognized as trading derivatives and hedge accounting is not applied due to administrative costs. Hedge accounting is applied to all other derivatives.

## Trading Derivatives

Changes in the fair value of derivatives held for trading are included in the profit and loss account as part of financial profit or loss.

## Hedging Derivatives

The Company prospectively designates certain derivatives as a hedge of a future cash flow attributable to a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided all of the following criteria are met:

- ▶ formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- ▶ the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period; and
- ▶ the hedge is effective on an ongoing basis (that is, within a range of 80% to 125%).

If derivative instruments do not meet the criteria for hedge accounting referred to above, they are treated as trading derivatives.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the “Gains or losses from the revaluation of assets and liabilities” within equity. Where a hedged forecasted transaction results in the recognition of



a financial asset or of a financial liability, the gains and losses previously deferred in the “Gains or losses from the revaluation of assets and liabilities” are transferred to the profit and loss account and classified as income or expense in the periods during which the hedged item affects the profit and loss account.

## **Inventory**

Purchased inventory is carried at acquisition costs net of allowances. Acquisition cost includes all direct and indirect overheads incurred to bring inventory to its present stage and location, e.g., customs fees, freight costs and commissions.

Internally developed inventory is valued at the cost of producing the inventory which consists of direct material and payroll costs incurred in production and the portion of indirect costs relating to production.

Inventory material is issued out of stock at costs determined using the weighted arithmetic average method.

### Allowances

An allowance for slow-moving/obsolete inventory is recognized in circumstances where the impairment of the inventory is not deemed permanent. The amount of the allowance is based on an analysis of turnover and utilizability of inventory and based on an individual assessment of specifically those inventories that have been idle for more than three years.

## **Receivables**

Upon origination, receivables are stated at their nominal value and subsequently reduced by an appropriate allowance for doubtful and bad amounts.

### Allowances

Allowances for receivables are recognized on the basis of an aging analysis of the debts. Allowances are additionally recorded based on an individual assessment of the financial health of debtors whose balances would not have been provided for according to the aging analysis.

## **Trade Payables**

Trade payables are stated at their nominal value.

## **Bank and Non-Banking Loans**

Loans are stated at their nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans.

Interest is accrued and included in the profit or loss for the period.

## **Provisions**

Provisions are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred, but which are uncertain as to the amount or the date on which they will arise; however, their reliable estimate can be made.

The Company recognizes provisions for repairs of tangible fixed assets. These provisions are either non-tax deductible (i.e. accounting provisions) or tax deductible as defined by the Act on Provisions 593/1992 Coll. The level of the recognized provision for repairs is based on the anticipated costs of repairs and the time to lapse before the repair commences. The provision is recognized as equal to the ratio of the current cost of repairs net of the charge already recognized and the number of years to elapse before the repair commences. As a result of the amendment to the Act on Provisions 593/1992 Coll., effective 1 January 2009, the Company has recorded only non-tax deductible charges with respect to the provisioning commenced in 2009.

As the Company prepares the financial statements ahead of the income tax return for the current period and the current tax expense is not exactly determined, the Company recognizes an income tax provision. The provision is released in the next accounting period and the Company records actual tax liability.

In addition, the Company recognizes other provisions for known risks, which are anticipated to give rise to a future probable liability. This specifically involves a provision for outstanding vacation days, the Frequent Flyer Programme and not yet paid out remunerations related to the current accounting period.

### Frequent Flyer Programme

Members of the Frequent Flyer Programme can exchange earned points for free air



tickets and selected goods and services. The Company recognizes provisions for these future costs. The provisions include incremental fuel, catering servicing costs and the cost of free travel provided by other partners.

### **Foreign Currency Translation**

Transactions denominated in foreign currencies during the accounting period are translated using the fixed monthly exchange rate.

All monetary assets and liabilities denominated in a foreign currency are translated using the effective exchange rate stated by the Czech National Bank as of 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.

Foreign exchange rate gains or losses arising from the year-end translation of securities and equity investments are treated as a component of the fair value. If the security or equity investment is not recognized at fair value, then the foreign exchange rate gains or losses are recorded through equity accounts on the balance sheet.

### **Finance Leases**

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, the asset's ownership title transfers from the lessor to the lessee; pending the transfer of title, the lessee makes lease payments to the lessor for the asset that are charged to expenses.

During the leasing period, the acquisition cost of assets acquired under finance leases is not capitalized as part of fixed assets. Aggregated amounts related to finance leases (leasing instalments) are accrued and regularly expensed over the lease period.

Amounts payable in future periods, but not due at the balance sheet date, are disclosed in the notes but are not recognized in the balance sheet.

Advances paid for finance lease that are not re-financed and fees and other expenses related to the conclusion of an agreement on the finance lease are recognized as advances or acquired fixed assets, are not depreciated and form part of the aircraft acquisition cost when finance lease terminates.

### **Taxation**

#### Depreciation of Fixed Assets for Tax Purposes

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

#### Current Tax Payable

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

#### Deferred Taxation

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

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

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 recognized if it is probable that sufficient future taxable profit will be available against which the assets can be utilized.

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 are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.



## Retirement Benefit Costs

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

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

## Government Grants

In accordance with the agreement on public service delegation, the Company is additionally a recipient of funds to operate the air connection between Strasbourg and Prague. The parties to the agreement include the Company, the Ministry of Foreign and European Affairs in France, the Trade and Industrial Chamber in Strasbourg and the Department Bas-Rhin.

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

## Borrowing Costs

All borrowing costs are recognized in expenses in the period in which they are incurred.

## Revenue and Expense Recognition

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

The Company charges to expenses provisions and allowances carried to cover all risks, losses and impairment that are known at the balance sheet date.

The recognition of the Company's revenues from airline transportation services comprises of two basic components:

- ▶ revenues from the Company's own traffic documents; and

- ▶ revenues from the traffic documents of other airline carriers used on the Company's flights.

In recognizing revenue, the Company refers to the principles provided in the MPA (Multilateral Prorate Agreement) and RAM (Revenue Accounting Manual), issued by the International Air Transport Association ("IATA"), bilateral agreements between airlines and other regulations. The use of these principles is based on the Company's membership in IATA and a mutual application of those principles by other airlines.

The Company recognizes fare receipts as deferred income when a traffic document is issued. The collected fare is allocated among individual air coupons on the basis of a number of criteria, which include the established guidance of IATA or a contractual arrangement between individual airlines.

This allocated fare is recognized in the Company's income when the transportation is provided by the Company. In instances where the flight was realized by a partner Company, the allocated fare with respect to the relevant coupon is reversed from deferred income to payables.

With regard to companies with which the Company applies the "sampling" accounting approach, the Company allocates the fare among individual coupons on the basis of an extrapolation of a representative sample in accordance with the IATA guidance. This extrapolation is subsequently reviewed and adjusted by the partner airline.

The mutual settlement of receivables and payables between airline companies is made weekly via the IATA Clearing House.

The Company records as deferred income amounts collected from the sale of traffic documents, which have not been realized at the balance sheet date, i.e. have not been flown on or used otherwise. The Company recognizes unused traffic documents in revenues after a certain period of time from the sale of the traffic document on the basis of historical analyses and statistical trends considering the accruals basis of revenues and expenses together with the prudence principle.



When traffic documents are sold, the Company also recognizes fees related to the sold traffic documents, the so-called “airport taxes”. The Company collects part of these taxes for other entities (for example, airport authorities, taxation authorities). The Company differentiates between taxes delivered at the moment of sale and taxes delivered at the moment when the flight is realized. Both taxes are accounted for on the balance sheet as payables and estimated items, respectively. Taxes not further delivered are recorded as the Company's income and are recognized in the period in which the sale or the flight of the given traffic document is realized in accordance with the conditions defined for the tax.

Revenues from the sale of goods and services are recognized on the supply date or on a contractual basis. Gains arising from long-term production contracts are recognized when the contract is completed and billed on the basis set out in the underlying contract.

The Company further recognizes the so-called maintenance provisions in revenues and expenses. The maintenance provisions represent amounts paid to the lessor providing aircraft operating leases. These amounts are used by the lessor to cover future overhauls of the aircraft. The Company recognizes these payments in the profit and loss account in the period of payment as they are repeated on a regular basis. The “Maintenance Provision Release” item represents the amount that was repaid by the lessor to the Company in respect of the overhaul made by the Company or paid for by the Company to the third party.

### **Estimates**

The presentation of financial statements requires the 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.

### **Extraordinary Expenses and Income**

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company, as well as income or expenses from events or transactions that are not expected to recur

frequently or regularly and income or expenses arising from a change of accounting method.

### **Related Parties**

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

- ▶ shareholders of which the Company is a subsidiary or an associate, directly or indirectly, and subsidiaries and associates of these shareholders;
- ▶ members of the Company's statutory and supervisory bodies, the Management and parties close to such members, including entities in which they have a controlling or significant influence; and
- ▶ companies with the same member of the Management.

Related party transactions and balances are disclosed in Note 26.

### **Subsequent Events**

The effects of events which occurred between the balance sheet date and the date of preparation of the financial statements are recognized 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 recognized in the financial statements.



### 3. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the going concern assumption.

The Government of the Czech Republic decided to stabilize the situation in the Company in 2009 and requested the preparation of a Restructuring Plan. The plan was approved in May 2010 for year 2010 through 2013. The Restructuring Plan was presented on 12 May 2010 to the European Commission, which is currently undertaking a review relating to the loan provided by OSINEK, a.s. "in liquidation". The Restructuring Plan was approved at the Company's extraordinary General Meeting held on 20 May 2010. The going concern assumption applied by the Company's Management is conditional upon the successful implementation of the Restructuring Plan.

As of 24 November 2010, the Government of the Czech Republic approved the proposal to create the holding of selected companies in the area of air transport and ground services owned by the state including Letiště Prague, a.s. and České aerolinie a.s. The Government also approved the establishment of the joint stock Company Český Aeroholding, a.s. and charged the Ministry of Finance with the preparation of a draft decision to increase the share capital by contributing the state share in the companies Letiště Prague, a.s. and České aerolinie a.s., so that the holding creates an effective structure that will provide airport operations, air transport services and related services. After restructuring the Company České aerolinie a.s., within three years, a draft proposal of entry a strategic investor to the Company Český Aeroholding a.s. should be introduced.

As of 19 January 2011, the Government Resolution decided to privatize the part of assets of the Company Správa Letiště Prague, s.p. by its contribution to Český Aeroholding, a.s. The Company was established as of 11 March 2011.

The holding structure and strong group base should support the Company České aerolinie a.s. in the successful fulfilling of the Restructuring Plan.

In 2010, the Company had negative cash flow from the operating activities, which indicates possible impairment of the fixed assets. The Company's Management prepared the analysis of possible impairment of the fixed assets, which is based

on future discounted cash flow from operating activities. The assumption is that in future years it will be possible to complete the implementation of the measures contained in the Restructuring Plan and the Company will achieve positive operating cash flow. Based on those long term projections, the Company's Management has concluded that the fixed assets are not impaired.



## 4. INTANGIBLE FIXED ASSETS

### At 31 December 2010:

#### Cost

	1 January 2010 CZK'000	Additions CZK'000	Contribution CZK'000	Disposals CZK'000	Transfers CZK'000	31 December 2010 CZK'000
Software	777,278	20,514	(75,744)	(46,709)	96,650	771,989
Intangible assets under construction	101,657	21,738	(117)	(298)	(96,650)	26,330
	<b>878,935</b>	<b>42,252</b>	<b>(75,861)</b>	<b>(47,007)</b>		<b>798,319</b>

#### Accumulated Amortization

	1 January 2010 CZK'000	Charge for the year CZK'000	Contribution CZK'000	Disposals CZK'000	Transfers CZK'000	31 December 2010 CZK'000
Software	(482,328)	(94,347)	18,852	46,709		(511,114)
<b>Net book value</b>	<b>396,607</b>					<b>287,205</b>

### At 31 December 2009:

#### Cost

	1 January 2009 CZK'000	Additions / transfers CZK'000	Disposals / transfers CZK'000	31 December 2009 CZK'000
Software	643,098	134,237	(57)	777,278
Intangible assets under construction	160,721	75,173	(134,237)	101,657
	<b>803,819</b>	<b>209,410</b>	<b>(134,294)</b>	<b>878,935</b>

#### Accumulated Amortization

	1 January 2009 CZK'000	Charge for the year CZK'000	Disposals CZK'000	31 December 2009 CZK'000
Software	(388,102)	(94,283)	57	(482,328)
Allowance for diminution in value of intangible assets under construction		(21,194)	21,194	
<b>Net book value</b>		<b>394,523</b>		<b>396,607</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Company did not acquire any intangible fixed assets without consideration in either 2010 or 2009.

Intangible assets under construction at 31 December 2010 represent information technology projects in progress (for example, the Airlines system, Cargo SPOT software, the AVES system development).

The net book value of intangible fixed assets transferred to the subsidiaries as non-monetary contributions during 2010 is mentioned in Note 28.

In 2009, the Company wrote off the intangible fixed assets under construction related to an information technology project and the allowance in the amount of CZK 21,194 thousand was released. The impact to profit or loss was CZK 0 thousand.

The Company anticipates that costs incurred in relation to projects in progress will bring future economic benefits.



## 5. TANGIBLE FIXED ASSETS

At 31 December 2010:

Cost

	1 January 2010 CZK'000	Additions CZK'000	Contribution / transfer CZK'000	Disposals CZK'000	Transfers CZK'000	31 December 2010 CZK'000
Land	192,436			(192,436)		
Buildings, halls and structures	290,028	18,029	(11,449)	(215,029)	1,929	83,508
Machinery and equipment	2,696,460	40,757	(281,874)	(1,290,807)	5,705	1,170,241
Aircraft	1,130,418	904		(1,088,051)	1,221,967	1,265,238
Vehicles	456,895	3,672	(426,666)	(6,871)		27,030
Furniture and fixtures	345,958	2,872	(89,971)	(33,197)	1,296	226,958
Other tangible fixed assets	59,826		(18,426)	(8,104)	(17)	33,279
Tangible assets under construction	358,129	8,164	(114)	(11,949)	(240,564)	113,666
Advances paid for fixed assets – aircraft Airbus	132,376	370,769				503,145
Advances paid for fixed assets – aircraft Boeing	990,316				(990,316)	
Advances paid for fixed assets – other	35,465	38		(35,465)		38
	<b>6,688,307</b>	<b>445,205</b>	<b>(828,500)</b>	<b>(2,881,909)</b>		<b>3,423,103</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Accumulated Depreciation

	1 January 2010 CZK'000	Charge for the year CZK'000	Contribution / transfer CZK'000	Disposals CZK'000	31 December 2010 CZK'000
Buildings, halls and structures	(126,220)	(10,909)	3,589	77,964	(55,576)
Machinery and equipment	(1,489,178)	(242,240)	200,432	721,326	(809,660)
Aircraft	(543,527)	(98,700)		82,721	(559,506)
Vehicles	(354,617)	(4,230)	330,799	5,832	(22,216)
Furniture and fixtures	(331,335)	(10,846)	89,443	29,850	(222,888)
Other tangible fixed assets	(26,045)	(8,379)	3,254	8,508	(22,662)
	(2,870,922)	(375,304)	627,517	926,201	(1,692,508)
Allowance for diminution in value	(308,405)				(45,397)
<b>Net book value</b>	<b>3,508,980</b>				<b>1,685,198</b>

## Allowance for Diminution in Value

	1 January 2010 CZK'000	Charge for the year CZK'000	Release during the year CZK'000	31 December 2010 CZK'000
Buildings, halls and structures		(245,548)	235,895	(9,653)
Tangible assets under construction		(62,857)	33,079	(35,744)
		<b>(308,405)</b>	<b>268,974</b>	<b>(45,397)</b>

The allowance to rotables in the amount of CZK 140,464 thousand was released during 2010 due to the sale of rotables to the subsidiary Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.). The selling price was determined by an independent valuer in the amount of CZK 402,142 thousand. The net book value of sold property before allowance was in the amount of CZK 557,093 thousand.

The allowance to disposed rotables in the amount of CZK 84,187 thousand was released. The rotables were not identified during the physical inventory count and were written off to expenses. The impact to profit or loss was CZK 0 thousand.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## At 31 December 2009

### Cost

	1 January 2009 CZK'000	Additions / transfers CZK'000	Disposals / transfers CZK'000	31 December 2009 CZK'000
Land	26,822	171,279	(5,665)	192,436
Buildings, halls and structures	732,783	134,204	(576,959)	290,028
Machinery and equipment	2,801,015	118,107	(222,662)	2,696,460
Aircraft	772,632	387,813	(30,027)	1,130,418
Vehicles	493,760	824	(37,689)	456,895
Furniture and fixtures	354,831	18,257	(27,130)	345,958
Other tangible fixed assets	58,335	6,601	(5,110)	59,826
Tangible assets under construction	441,075	747,101	(830,047)	358,129
Advances paid for fixed assets – aircraft Airbus	111,165	21,211		132,376
Advances paid for fixed assets – aircraft Boeing	1,277,411		(287,095)	990,316
Advances paid for fixed assets – other	35,465			35,465
	<b>7,105,294</b>	<b>1,605,397</b>	<b>(2,022,384)</b>	<b>6,688,307</b>

### Accumulated Depreciation

	1 January 2009 CZK'000	Charge for the year CZK'000	Sale, contribution, damages CZK'000	Disposals CZK'000	31 December 2009 CZK'000
Buildings, halls and structures	(196,362)	(26,047)	(480,770)	576,959	(126,220)
Machinery and equipment	(1,435,802)	(228,455)	(28,882)	203,961	(1,489,178)
Aircraft	(527,388)	(44,279)	(1,886)	30,026	(543,527)
Vehicles	(356,720)	(33,529)	(2,057)	37,689	(354,617)
Furniture and fixtures	(326,879)	(31,509)	(48)	27,101	(331,335)
Other tangible fixed assets	(23,718)	(7,437)		5,110	(26,045)
	(2,866,869)	(371,256)	(513,643)	880,846	(2,870,922)
Allowance for diminution in value	(100,548)				(308,405)
<b>Net book value</b>	<b>4,137,877</b>				<b>3,508,980</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Allowance for Diminution in Value

	1 January 2009 CZK'000	Charge for the year CZK'000	Release during the year CZK'000	31 December 2009 CZK'000
Buildings, halls and structures	(15,798)		15,798	
Machinery and equipment	(24,037)	(244,091)	22,580	(245,548)
Tangible assets under construction	(60,713)	(2,553)	409	(62,857)
	<b>(100,548)</b>	<b>(246,644)</b>	<b>38,787</b>	<b>(308,405)</b>

In 2009, the Company mainly created the allowance for rotables in the amount of CZK 243,395 thousand as it is expected that their value will be covered by sale rather than by use.

In 2010, the financial leasing of three Boeing B737 was expired, and the aircraft were added to the assets at the acquisition costs of CZK 484,996 thousand. Furthermore, the financial leasing of other four B737 aircraft was prematurely expired, and the aircraft were added to the assets at the acquisition costs of CZK 736,954 thousand.

The finance lease of three Boeing B737-500 expired in 2009, and the aircraft were added to the assets of the Company at the acquisition cost of CZK 383,518 thousand.

In 2009, the Company acquired land in the "North" area at the airport Prague – Ruzyně. The purchase price of the land was calculated by an independent valuer in the amount of CZK 171,279 thousand.



## Significant Fixed Assets Disposals in 2010

	Revenue from the sale CZK'000	Net book value CZK'000
Hangar F including land	815,886	129,648
Rotables	402,142	557,093*
6 aircraft Boeing B737	1,186,039	1,005,313
Land around the APC building	68,894	53,325
Land around Hangar F	34,089	34,089
Land under Hangar G	89,025	89,025

\*before allowance for diminution in value

The net book value of tangible fixed assets transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28. The net book value of tangible fixed assets transferred as part of the Company during 2010 is mentioned in Note 28.

## Significant Fixed Assets Disposals in 2009

	Revenue from the sale CZK'000	Net book value CZK'000
Aircraft Airbus A310	247,125	1,886
APC building including land	606,710	437,910

## Advances

The advances paid in the amount of CZK 503,145 thousand as of 31 December 2010 (as of 31 December 2009: CZK 132,376 thousand) represent advances for 8 Airbus A319 aircraft, which will be delivered in 2011–2014. The Company has an option for the purchase of these aircraft. The prepayments are classified as unrefundable and they are recalculated using a historical foreign exchange rate.

The advances in the amount of CZK 0 thousand as of 31 December 2010 (as of 31 December 2009: CZK 990,316 thousand) related to Boeing B737 aircraft are not refinanced by a finance lease and became part of the acquisition costs of the respective aircraft at the expiry of the finance lease, when the aircraft became the property of the Company. The decrease of the advances of CZK 990,316 thousand in 2010 relates to the expiry of financial leasing of seven Boeing B737 and its addition to the assets of the Company. The decrease in the advances in 2009 in the amount of CZK 287,095

thousand relates to the expiry of the finance leasing of three Boeing B737 aircraft and their addition to the assets of the Company.

## Allowance for Diminution in Value

The Company creates an allowance for assets under construction – technical improvement of aircraft under finance lease, when the lessor did not approve the depreciation thereof. The Company further creates an allowance if the carrying value of an asset is greater than its estimated recoverable value; the carrying value is then reduced by an allowance to the recoverable value.

The fair value of aircraft purchased by the Company after the expiry of the finance leases is significantly higher than their carrying amount.

## Pledged Fixed Assets

The Company has pledged fixed assets as follows:

### At 31 December 2010:

	Net book value CZK'000	Value of secured liability CZK'000	Creditor**
Full Flight Simulator B737		48,012	Middle-term operational loan from UniCredit Bank
Flight Simulator MFTD 320	20,073	20,073	Middle-term operational loan from UniCredit Bank

\*\*The pledges to secure the loan liability are activated only in case the Company is in default.



## At 31 December 2009:

	Net book value CZK'000	Value of secured liability CZK'000	Creditor*
Full Flight Simulator B737		87,621	Middle-term operational loan from UniCredit Bank
Flight Simulator MFTD 320	21,315	21,315	Middle-term operational loan from UniCredit Bank
Aircraft ATR	2,078	132,325	Komerční banka, a.s.
Aircraft ATR	4,458		Commerzbank AG
Rotables to Airbus A310, B737, ATR	700,637	700,637	Ministry of Trade and Industry of the Czech Republic
Trade-mark		150,561	Ministry of Trade and Industry of the Czech Republic
IT Technologies	88,716	82,542	Ministry of Trade and Industry of the Czech Republic
Aircraft Boeing 737	369,136	461,000	Ministry of Trade and Industry of the Czech Republic
Hangar F	247,633	930,000	Ministry of Trade and Industry of the Czech Republic
Land	53,325	62,430	Ministry of Trade and Industry of the Czech Republic
Simulator A320	221,574	160,000	Ministry of Trade and Industry of the Czech Republic

\* The pledges to secure the loan liability are activated only in case the Company is in default.

## Finance Leases

The Company uses assets under finance lease contracts that are not recorded as tangible fixed assets in the financial statements until the expiration of the lease.

Twelve aircraft are held under finance lease contracts as at 31 December 2010 (as at 31 December 2009: 19 aircraft):

Aircraft	Currency	Expire date	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	USD '000	2010	248,551	218,727	248,551		
Airbus A319/A320	EUR '000	2018–2020	387,714	116,030	150,168	34,307	203,239
Total *	CZK '000		14,376,692	7,009,062	8,423,790	859,733	5,093,169

\*The conversion from USD and EUR to CZK was carried out using the rate of the Czech National Bank as at 31 December 2010.

In 2010, the prematurely expired four B737 aircraft financial leases and the instalments in the amount of CZK 316,568 thousand were paid as lump sum.



## Vehicles under Finance Lease:

	31 December 2009 CZK'000
Amounts paid	32,203
Outstanding amounts payable within one year	17,100
Amounts payable after more than one year	2,828
<b>Total lease payments paid on current finance lease contracts</b>	<b>52,131</b>

The financial leasing of vehicles was transferred as non-monetary contribution to the subsidiary Czech Airlines Handling, s.r.o. (formerly ČSA Support, s.r.o.) as of 1 January 2010 (as mentioned in Note 28).

## The Airbus A320 flight simulator held under a finance lease contract:

	Expire date	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
in EUR thousands	2013	2,142	803	1,160	357	625
in CZK thousands *		53,679	20,123	29,070	8,946	15,663

\*The conversion from EUR to CZK was carried out using the rate of the Czech National Bank as at 31 December 2010.

The Company further operates 18 aircraft under operating lease (2009: 22 aircraft). The information on operating lease commitments is disclosed in Note 27.



## 6. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiary undertakings comprise of shares as follows:

**At 31 December 2010:**

	Number of shares	Nominal value CZK'000	Acquisition cost CZK'000	% of share capital	2010 profit / (loss) CZK'000	Equity CZK'000	Dividend income 2010 CZK'000
<b>Czech entities</b>							
HOLIDAYS Czech Airlines, a.s. (Prague)	17,200	172,000	41,295	100	(28,124)	152,299	
Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.) (Prague)	3,820	784,100	750,514	100	(44,358)	739,171	
Czech Airlines Handling, s.r.o. (formerly ČSA Support, s.r.o.) (Prague)	N/A	574,390	132,100	100	(79,711)	594,566	
CSA Services, s.r.o. (Prague)	N/A	270	270	100	3,075	8,328	
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	380	380	65	9,241*	14,059*	4,238
			<b>924,559</b>				<b>4,238</b>
<b>Net book value</b>			<b>924,559</b>				

\*Preliminary, non-audited data



**At 31 December 2009:**

	Number of shares	Nominal value	Acquisition cost CZK'000	% of share capital	2009 profit / (loss) CZK'000	Equity CZK'000	Dividend income 2009 CZK'000
<b>Foreign entities</b>							
SLOVAK AIR SERVICES, s.r.o. (Bratislava, SR)	N/A	EUR 217,000	1,963	100	1,747*	12,253*	3,900
<b>Czech entities</b>							
HOLIDAYS Czech Airlines, a.s. (Prague)	1,000	CZK 10,000,000	10,000	100	329	(1,322)	
ClickforSky, a.s. (Prague)	20	CZK 2,000,000	2,243	100	17	1,387	
ČSA Support s.r.o. (Prague)	N/A	CZK 4,390,000	4,051	100	3,033	589,446	
CSA Services, s.r.o. (Prague)	N/A	CZK 270,000	270	100	2,224	5,253	
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	CZK 380,000	380	65	7,509	12,328	
			18,907				<b>3,900</b>
Allowance for diminution in value			(10,000)				
<b>Net book value</b>			<b>8,907</b>				

\* The conversion from EUR to CZK was carried out using the rate of the Czech National Bank as at 31 December 2009 and the average rate for 2009.

There are no differences between the percentage of ownership and the percentage of voting rights in any subsidiary undertaking.

As of 16 December 2009, the Company's Board of Directors decided to increase the share capital by CZK 570,000 thousand and the share premium of CZK 84,831 thousand in the Company Czech Airlines Handling, s.r.o. (formerly ČSA Support s.r.o.). The increase was made by the non-monetary contribution valued by an independent valuer appointed by a court. The accounting value of the transferred net assets was CZK 128,049 thousand as at 1 January 2010 (Note 28).

As of 20 May 2010, the Company's Board of Directors decided to increase the share capital by CZK 162,000 thousand and the share premium of CZK 19,745 thousand in the Company HOLIDAYS Czech Airlines, a.s. The increase was made by the non-monetary contribution valued by an independent valuer appointed by a court. The accounting value of the transferred net assets was CZK (19,353) thousand as at 1 June 2010 (Notes 25 and 28). At the same time, the Company released an

allowance to the investment in HOLIDAYS Czech Airlines, a.s. in the amount of CZK 10,000 thousand. As of 30 December 2010, the Company concluded a settlement agreement with HOLIDAYS Czech Airlines, a.s. for additional transfer of cash related to customers' prepayments in the amount of CZK 50,648 thousand (Note 13).

As of 28 June 2010, the Company's Board of Directors decided to increase the share capital by CZK 380,000 thousand in Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.). The increase was made by the non-monetary contribution valued by an independent valuer appointed by a court. The accounting value of the transferred net assets was CZK 341,477 thousand as at 1 August 2010 (Note 28).



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

As of 16 December 2010, the Company's Board of Directors further decided to increase the share capital by CZK 402,100 thousand and share premium by CZK 42 thousand in Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.). The increase was done by the subscription of 4,021 pieces of ordinary shares with a nominal value of CZK 100 thousand per share. At the same time, the offsetting agreement was signed with respect to the loan provided by the Company to Czech Airlines Technics, a.s. (Note 26) and the receivable of Czech Airlines Technics, a.s. for subscribed shares in the amount of CZK 402,142 thousand. The increase of the share capital was recorded in the Commercial Register on 23 February 2011.

In September 2010, the Company sold its 100% share in SLOVAK AIR SERVICES, s.r.o. The revenues from the sale were in the amount of CZK 17,874 thousand and the carrying amount of CZK 1,959 thousand.

Related party transactions are disclosed in Note 26.



## 7. OTHER SECURITIES AND INVESTMENTS

### Other Long-Term Investments (Available for Sale)

At 31 December 2010:

	Number of securities	Nominal value	Cost CZK'000
<b>Foreign</b>			
SITA Inc. shares	46	EUR 230	6
SITA Inc. certificates			8,073
			<b>8,079</b>

At 31 December 2009:

	Number of securities	Nominal value	Cost CZK'000
<b>Foreign</b>			
SITA Inc. shares	51	EUR 255	7
SITA Inc. certificates			7,908
			<b>7,915</b>

Other investments available for sale are carried at cost at 31 December 2010 and 2009 because their fair value is not readily obtainable and the cost of obtaining the fair value measure is unreasonably high considering its impact on the Company's financial statements.

In 2010 and 2009, the Company obtained no dividends from other long-term investments available for sales.

### Other Long-Term Investments

	31 December 2010 CZK'000	Income 2010 CZK'000	31 December 2009 CZK'000	Income 2009 CZK'000
<b>Foreign</b>				
SITA Inc. loan	7,859	159	7,098	344
Other			332	
	<b>7,859</b>		<b>7,430</b>	

### Short-Term Financial Assets

The structure of short-term financial assets:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Cash	26,760	25,582
Current accounts	109,741	167,408
Term deposits	646,586	366,528
Promissory notes	375,248	
	<b>1,158,335</b>	<b>559,518</b>

Term deposits – short-term:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Term deposits in CZK	222,000	294,400
Term deposits in EUR	83,951	31,758
Term deposits in GBP	34,056	23,839
Term deposits in USD	306,579	16,531
	<b>646,586</b>	<b>366,528</b>



## 8. INVENTORIES

### At 31 December 2010

	Cost CZK'000	Allowance for diminution in value CZK'000	Net book value CZK'000
<b>Material</b>			
Spare parts – landing gears	17,167	(1,231)	15,936
Total material	17,167	(1,231)	15,936
Advances paid for inventory	66		66
<b>Total</b>	<b>17,233</b>	<b>(1,231)</b>	<b>16,002</b>

The net book value of inventory transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28. The net book value of inventory transferred as part of the Company during 2010 is mentioned in Note 28.

### At 31 December 2009

	Cost CZK'000	Allowance for diminution in value CZK'000	Net book value CZK'000
<b>Material</b>			
Spare parts – aircraft	454,887	(151,580)	303,307
Other	15,873		15,873
Total material	470,760	(151,580)	319,180
Goods	57,114	(846)	56,268
Work in progress	1,952		1,952
Advances paid for inventory	1,934		1,934
<b>Total</b>	<b>531,760</b>	<b>(152,426)</b>	<b>379,334</b>

### The change in the allowance for diminution in value is analysed as follows:

	2010 CZK'000	2009 CZK'000
Opening balance as at 1 January	152,426	81,371
Increase in the year	5,407	83,524
Contribution to the subsidiaries	(155,756)	
Released during the year	(846)	(12,469)
Closing balance as at 31 December	<b>1,231</b>	<b>152,426</b>



## 9. RECEIVABLES

### Long-Term Receivables

	31 December 2010 CZK'000	31 December 2009 CZK'000
Long-term receivables	136 539	255 926

Long-term receivables represent mainly prepayments, of which CZK 113,669 thousand as at 31 December 2010 (as at 31 December 2009: CZK 109,226 thousand) represents prepayments for operating leases of aircraft. Long-term prepayments maturing in more than five years represent the amount of CZK 32,993 thousand as at 31 December 2010 (as at 31 December 2009: CZK 25,956 thousand). These prepayments will be repaid to the Company if the Company fulfils the conditions defined by the contract at the expiration of the operating leases. The long-term prepayments further relate to the prepayments provided by the Company's representations and also to the Customs Office as at 31 December 2009.

The long-term receivables further include a deferred tax asset of CZK 115,497 thousand as at 31 December 2009. As at 31 December 2010 the deferred tax asset was not recognized (Note 17).

The net book value of long-term receivables transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28.

### Short-Term Receivables

	31 December 2010 CZK'000	31 December 2009 CZK'000
Trade receivables – current	1,042,998	1,461,183
– overdue	240,061	383,837
	1,283,059	1,845,020
Allowance for doubtful receivables	(17,781)	(265,381)
<b>Net trade receivables</b>	<b>1,265,278</b>	<b>1,579,639</b>
Other receivables – current	87,546	189,360
<b>Net other receivables</b>	<b>87,546</b>	<b>189,360</b>

The Company's receivables principally include receivables from other airlines for provided services, passengers and goods transport, and receivables from sold traffic documents.

Overdue trade receivables primarily include amounts due from companies suspended from the IATA Clearing House or companies in bankruptcy.

Trade receivables overdue more than 180 days amounted to CZK 13,282 thousand as at 31 December 2010 (as at 31 December 2009: CZK 42,785 thousand).

Outstanding trade receivables are not secured. The payment of receivables settled through the IATA Clearing House is secured.

The receivables controlling entity in the amount of CZK 33,266 thousand represents mainly receivables to Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.) as at 31 December 2010. The receivable arose from the financial settlement agreement related to the non-monetary contribution.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Other short-term receivables mainly comprise the fair value of derivatives as follows (Note 15):

	31 December 2010 CZK'000	31 December 2009 CZK'000
Currency swaps		436
Commodity collars		119,997
Commodity swaps	73,572	41,445
Currency forwards	2,368	10,818
	<b>75,940</b>	<b>172,696</b>

The short-term prepayments principally include prepayments for telecommunication, reservation and check-in systems, refreshment and brokerage.

The estimated receivables relate to provided services, not yet invoiced as at balance sheet date. It mainly includes provided overhauls of landing gears and estimations related to accounting of maintenance provision due to overhauls of leased aircraft and engines, which the Company paid to a third party.

The net book value of short-term receivables transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28. The net book value of short-term receivables transferred as part of the Company during 2010 is mentioned in Note 28.

The change in the allowance for doubtful receivables may be analysed as follows:

	2010 CZK'000	2009 CZK'000
Opening balance as at 1 January	265,381	31,414
Increase of allowance	56,735	248,083
Contribution to subsidiaries	(277,201)	
Decrease of allowance	(9,160)	(3,793)
Decrease of allowance – written-off receivables	(17,974)	(10,323)
<b>Closing balance as at 31 December</b>	<b>17,781</b>	<b>265,381</b>

The creation of the allowance relating to receivables in 2009 primarily relates to the lease of aircraft with the crew for a customer who did not fulfil the contracted obligations.

The Company revalued the allowance to receivables denominated in foreign currencies at the balance sheet date. The revaluation is recognized in the profit and loss account as a change in allowances and provisions relating to operating activities.

Receivables from related parties are disclosed in Note 26.



## 10. OTHER ASSETS

As at the balance sheet date, deferred expenses primarily represent finance lease payments for Airbus A319/A320 aircraft, aircraft and other property operating lease payments.

As at the balance sheet date, accrued income largely includes air coupons of other airlines when the flights were realized by the Company, for which the income will occur in the following period.

The net book value of other assets transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28. The net book value of other assets transferred as part of the Company during 2010 is mentioned in Note 28.

## 11. EQUITY

### Authorized and Issued Share Capital

	No.	31 December 2010 CZK'000	No.	31 December 2009 CZK'000
Ordinary shares in nominal value CZK 5 thousand each, fully paid	1,047,102	5,235,510	547,102	2,735,510

As of 3 May 2010, the Government of the Czech Republic approved the capitalization of the state receivable related to the loan provided by OSINEK, a.s. "in liquidation" (Note 13).

Based on the decision of the extraordinary general meeting held on 20 May 2010, the share capital of the Company was increased by the monetary contribution with subscription of 500 thousand pieces of new ordinary shares with a nominal value of CZK 5 thousand per share by the Ministry of Finance of the Czech Republic. At the same time, the offsetting agreement was signed to offset the receivable from the Ministry of Finance of the Czech Republic relating to the loan provided by OSINEK, a.s. "in liquidation" and receivable of the Company for payment of the new shares' issue price. By this agreement, CZK 2,500,000 thousand was transferred from liabilities to equity. The change was recorded in the Commercial Register on 19 July 2010.

### The principal shareholders exceeding 20% of the share capital are as follows:

	31 December 2010 – %	31 December 2009 – %
Ministry of Finance of the Czech Republic	95,69	91,75
Other shareholders	4,31	8,25
	<b>100</b>	<b>100</b>

The statutory reserve fund may not be distributed to shareholders, but may be used to offset accumulated losses. The Company is required by its Statute and the Commercial Code to transfer 5% of its annual net profits to the statutory reserve fund until the balance of this reserve reaches 20% of the issued share capital.

Based on the decisions of the general meeting held on 28 June 2010, the loss in the amount of CZK 3,756,125 thousand for 2009 was transferred to Accumulated losses brought forward.

### Revaluation of Assets and Liabilities

The Company records the fair value remeasurement of assets in equity as follows:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Commodity derivatives – swaps	73,572	(9,676)
Currency derivatives – forwards	1,003	(135,576)
Currency derivatives – forwards (hedging aircraft)	(414,702)	(462,629)
Deferred tax asset / (liability)		115,497
Other		4
	<b>(340,127)</b>	<b>(492,380)</b>

Revaluation of assets and liabilities includes:

- ▶ replaced commodity derivatives with a negative impact on revaluation in the amount of CZK 0 thousand as at 31 December 2010 (as at 31 December 2009: CZK 13,738 thousand); the derivatives will be recognized in the profit and loss account as an expense in the periods during which the hedged item affects the profit and loss account (fuel expenses); and
- ▶ currency derivatives with a negative impact on revaluation in the amount of CZK 414,702 thousand as at 31 December 2010 (as at 31 December 2009: CZK 462,629 thousand), which were already settled and the loss is accrued to finance lease expenses over the duration of the finance lease of aircraft.



## 12. PROVISIONS

	Fixed assets repairs CZK'000	Personal costs CZK'000	Frequent Flyer Programme CZK'000	Provision for income tax CZK'000	Other CZK'000	Total CZK'000
Closing balance as at 1 January 2009	1,598,102	261,914	94,696	25,000		1,979,712
Charge for the year	347,442	422,852	320,085		51,064	1,141,443
Released in the year	(120,446)	(260,740)	(15,236)	(25,000)		(421,422)
Used in the year	(528,047)	(79,664)	(17,462)			(625,173)
Closing balance as at 31 December 2009	<b>1,297,051</b>	<b>344,362</b>	<b>382,083</b>		<b>51,064</b>	<b>2,074,560</b>
Charge for the year	233,410	109,760	27,643		26,114	396,927
Contribution to subsidiaries		(24,846)				(24,846)
Released in the year	(121,508)	(120,975)				(242,483)
Used in the year	(192,932)	(206,701)	(28,199)			(427,832)
Closing balance as at 31 December 2010	<b>1,216,021</b>	<b>101,600</b>	<b>381,527</b>		<b>77,178</b>	<b>1,776,326</b>

For an analysis of the current and deferred income tax, see Note 17.

The provision for repairs of tangible fixed assets includes provisions relating to planned checks of aircraft and engines and overhauls of engines and landing gears. Part of these provisions is recognized as tax-deductible in accordance with the Act on Provisions 593/1992 Coll. in the amount of CZK 127,326 thousand as at 31 December 2010 (as at 31 December 2009: CZK 198,792 thousand).

In accordance with the Act on Provisions 593/1992 Coll., the Company creates tax-deductible provisions only for repairs of tangible assets owned by the Company. According to the amendment of this Act, the Company does not create any new tax-deductible provisions for repairs of tangible assets.

The accounting value of provisions transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28.

Remuneration of the Management team, which resigned in October 2009, also included the "OK Bonus". A provision was recognized for the estimated amount

of the OK Bonus in the relevant reporting period. Following the finalization of the financial statements under International Financial Reporting Standards, as adopted by the EU for the year ended 31 December 2009, the final amount of the OK Bonus was determined by an independent advisory firm for the entire 2006–2009 period. Based on the calculation, the provision was released in the amount of CZK 112,282 thousand during 2010. As of 31 December 2009, the provision recognized in accounting records remained the same as at 31 December 2008 (i.e. in the amount of CZK 120 million). The amount of the OK Bonus was not possible to estimate with reasonable certainty as of the date of 2009 financial statements completion due to an uncertainty related to the interpretation of the mechanism of the calculation, which is prepared by an independent advisory firm, although the Company's Management performed a detailed analysis of the OK Bonus amount calculation.

The other provisions represent a provision for prematurely terminated lease and other contracts, a provision for the loss from the sale of the aircraft B737 and a provision for legal disputes.



## 13. LIABILITIES

### Long-Term Payables

	31 December 2010 CZK'000	31 December 2009 CZK'000
Long term prepayments received	1,139	1,319
Interest rate swaps	53,996	58,051
Other payables	333	73
	<b>55,468</b>	<b>59,443</b>

### Short-Term Payables

	31 December 2010 CZK'000	31 December 2009 CZK'000
Trade payables – current	1,230,417	1,385,374
– overdue		3
	<b>1,230,417</b>	<b>1,385,377</b>
Other payables – current	99,249	2,725,371
Estimated payables	1,144,384	1,789,840

Trade and other payables have not been secured by the Company's assets.

Short-term trade payables overdue comprise of liabilities under complaint procedures. Payables overdue more than 180 days amounted to CZK 0 as at 31 December 2010 and 2009.

As at 31 December 2010, the Company records liabilities for social security and health insurance amounting to CZK 41,838 thousand (as at 31 December 2009: CZK 63,317 thousand). The recorded payables are not overdue.

The Company has no tax arrears to the relevant tax authority.

The other payables contain an amount of CZK 50,648 thousand as at 31 December 2010, which represents the Company's liability resulting from the settlement agreement with the subsidiary HOLIDAYS Czech Airlines, a.s. (Note 6).

As of 31 December 2009, the other liabilities also contain a non-banking loan in the amount of CZK 2,500,000 thousand provided by the Ministry of Trade and Industry of the Czech Republic. The loan was provided by OSINEK, a.s. "in liquidation" during 2009 and was due for repayment in November 2010. According to the agreement dated 29 September 2009, the loan was transferred from OSINEK, a.s. "in liquidation" to the Ministry of Trade and Industry of the Czech Republic. As at 14 May 2010, the right to manage the receivable transferred to the Ministry of Finance of the Czech Republic (Note 11). The loan carried a variable interest rate based on PRIBOR. In 2010, the interest rate fluctuated between 4.43% and 4.54% p.a. (in 2009: 4.90% and 5.52% p.a.).

The Government instructed the Ministry of Finance, in cooperation with the Chairman of the Office for Protection and Competition, to ensure the notification of the Restructuring Plan to the European Commission, which is undertaking a review relating to the loan provided by OSINEK, a.s. "in liquidation".

Other short-term payables also comprise of the fair value of derivatives as follows (Note 15):

	31 December 2010 CZK'000	31 December 2009 CZK'000
Currency swaps		1,166
Currency forwards	1,364	146,395
Commodity swaps		37,383
	<b>1,364</b>	<b>184,944</b>

Estimated payables represent the volume of services provided to the Company in terms of aircraft operation (e.g. aviation fuel, handling, landing, navigation), not yet invoiced as at the balance sheet date.

Short-term liabilities transferred to the subsidiaries as non-monetary contribution during 2010 are mentioned in Note 28. Short term liabilities transferred as part of the Company during 2010 are mentioned in Note 28.

Payables to related parties are disclosed in Note 26.



## 14. LOANS AND OTHER BORROWINGS

	31 December 2010 CZK'000	31 December 2009 CZK'000
Short-term bank loans due within 1 year		132,352
Part of long-term loans due within 1 year	40,851	53,700
<b>Total loans due within 1 year</b>	<b>40,851</b>	<b>186,052</b>
Part of long-term loans due between 1–5 years	27,234	68,085
<b>Total bank loans and overdrafts</b>	<b>68,085</b>	<b>254,137</b>

### Short-Term Bank Loans

Purpose	Currency	Balance at 31 December 2010 in currencies '000	Balance at 31 December 2010 CZK'000	Balance at 31 December 2009 in currencies '000	Balance at 31 December 2009 CZK'000
Operating loan	EUR			5,001	132,352
<b>Total</b>					<b>132,352</b>

Interest rates relating to bank loans are variable on the basis of PRIBOR. The level of interest rates relating to short-term bank loans fluctuated between 3.12% and 4.15% p.a. in 2010 (2009: between 0.90% and 5.54% p.a.).

### Long-Term Bank Loans

Purpose	Currency	Balance at 31 December 2010 in currencies '000	Balance at 31 December 2010 CZK'000	Balance at 31 December 2009 in currencies '000	Balance at 31 December 2009 CZK'000
Financing of B737 aircraft	USD			700	12,849
Medium-term operating loan	CZK	68,085	68,085	108,936	108,936
<b>Total</b>			<b>68,085</b>		<b>121,785</b>

Interest rates relating to bank loans are variable on the basis of PRIBOR or LIBOR. The level of interest rates fluctuated between 4.25% and 4.56% p.a. in 2010 (2009: between 3.46% and 5.11% p.a.).



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Schedule of Repayments of Bank Loans (CZK thousand):

Purpose	Currency	2011	2012	Total
Medium-term operating loan	CZK	40,851	27,234	68,085

## Security of Long-term Bank Loans:

Purpose	Form of collateral
Financing of B737 aircraft	promissory notes
Medium-term operating loan	Full Flight Simulator Boeing B737 and MFTD A320 Simulator (Note 5)



## 15. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of commodity and financial derivatives is presented in “Other receivables” if positive, or in “Other payables” if negative. The derivatives can be analysed as follows:

	31 December 2010		Nominal amount CZK'000	31 December 2009		Nominal amount CZK'000
	Fair value			Fair value		
	Positive CZK'000	Negative CZK'000		Positive CZK'000	Negative CZK'000	
<b>Trading derivatives</b>						
Interest rate swaps		53,996	781,071		58,051	961,316
Currency swaps				436	1,166	582,931
		<b>53,996</b>	<b>781,071</b>	<b>436</b>	<b>59,217</b>	<b>1,544,247</b>
<b>Cash flow hedges</b>						
Currency forwards	2,368	1,364	150,360	10,818	146,395	2,094,619
Commodity collar				119,997		1,821,876
Commodity swaps	73,572		433,978	41,445	37,383	750,564
	<b>75,940</b>	<b>1,364</b>	<b>584,338</b>	<b>172,260</b>	<b>183,778</b>	<b>4,667,059</b>
<b>Total derivatives</b>	<b>75,940</b>	<b>55,360</b>	<b>1,365,409</b>	<b>172,696</b>	<b>242,995</b>	<b>6,211,306</b>

The Company is exposed to fluctuations in fuel prices, interest rates and foreign exchange rates. In recognition of this fact, it is the Company's policy to (i) balance any such risks internally as far as possible, (ii) control net positions in a way to produce the optimum effect on net income and (iii) hedge open positions wherever it is deemed necessary. The Company identifies particular future cash flows for which a hedging derivative instrument is arranged / concluded.

While the Company designates all derivatives for the purpose of the economic hedge, the Company has certain derivative transactions, which provide effective economic hedges under the Company's risk Management strategy, but hedge accounting is not applied to them. These are largely short-term derivative transactions, and the application of hedge accounting would not have a significant impact on the financial statements while resulting in a significant administrative burden for

the Company or some of the hedge accounting criteria are not met (for example, effectiveness). These derivatives are therefore presented as trading derivatives in the table above. Fair value changes of the trading derivatives are recognized in the profit and loss account.

Fair value changes of the above-described cash flow hedging instruments are recognized in the “Gains or losses from the revaluation of assets and liabilities” within equity until the hedged items affect the profit and loss account. The “Gains or losses from the revaluation of assets and liabilities” in equity only includes the intrinsic value of currency options that hedge cash flows.



## 16. OTHER LIABILITIES

Deferred income includes amounts received from sold traffic documents that were not yet realized as at the balance sheet date, i.e. were not yet flown on.

Within the delivery of twelve Airbus A320/A319 aircraft, the Company acquired certain fixed assets as part of delivery in 2010 and 2009. These fixed assets are capitalized as part of tangible fixed assets upon the delivery and depreciated in accordance with the depreciation plan. The total capitalized amount is amortized through the deferred income account over the period of the finance lease to the profit and loss account as an item decreasing the finance lease expenses.

The accounting value of other liabilities transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28. The accounting value of other liabilities transferred as part of the Company during 2010 is mentioned in Note 28.



## 17. TAXATION

During the 2010 tax period, the Company did not expect income tax payable. During 2009, the income tax was zero. In 2009, the provision for income tax in the amount of CZK 25,000 thousand was released after the determination of the actual tax payable for 2008.

The deferred tax asset/(liability) is calculated at the 19% rate (2009: 19%). The deferred tax asset/(liability) can be analysed as follows:

	31 December 2010		31 December 2009	
	Equity CZK'000	Profit and loss account CZK'000	Equity CZK'000	Profit and loss account CZK'000
<b>Deferred tax liability:</b>				
Hedging derivative instruments – short-term		(14,429)		
		<b>(14,429)</b>		
<b>Deferred tax asset:</b>				
Difference between tax and accounting net book values of fixed assets		57,712		42,621
Allowances		12,199		135,109
Provisions		313,310		356,396
Hedging derivative instruments – short-term	259		27,597	
Hedging derivative instruments – long-term	78,794		87,900	
Tax losses		444,329		
	<b>79,053</b>	<b>827,550</b>	<b>115,497</b>	<b>534,126</b>
Net deferred tax asset / (liability)	<b>64,624</b>	<b>827,550</b>	<b>115,497</b>	<b>534,126</b>
Recognized deferred tax assets / (liability)			115,497	

A deferred tax asset of CZK 115,497 thousand as at 31 December 2009 relating to items recorded directly to equity was recorded to equity (Note 11).

In 2010, the deferred tax asset in the amount of CZK 115,497 thousand was derecognized. The total deferred tax asset in the amount of CZK 892,174 thousand was not recognized as the Company does not have reasonable certainty that the amount will be recoverable in following periods.

The accounting value of deferred tax transferred to the subsidiaries as non-monetary contribution during 2010 is mentioned in Note 28.



## 18. REVENUE ANALYSIS

Revenue from ordinary activities has been generated as follows:

	2010 CZK'000	2009 CZK'000
Sales of goods	46,622	573,430
Goods	46,622	573,430
Regular transportation		
– international	11,024,110	12,354,819
– domestic	137,147	179,689
Charter services	1,300,298	2,386,610
Other services	831,037	1,331,067
Security and fuel fee	1,913,959	2,055,235
Service fee	84,869	104,268
Operational handling fee and airport taxes	485,382	492,659
Maintenance provision release	396,329	301,648
Settlement of unused traffic documents	367,315	549,112
Services	<b>16,540,446</b>	<b>19,755,107</b>

The Company's revenues were generated by conducting business with a number of clients in 2010 and 2009. The major clients are as follows:

- ▶ airlines that have contracts with the Company for mutual provision of transport services, optionally bilateral contractual arrangements of non-transportation services (e.g. aircraft repairs, handling);
- ▶ travel agencies and individuals that buy transport services; and
- ▶ other buyers – non-airlines that buy non-transportation services.

## 19. COST OF MATERIALS, ENERGY AND SERVICES

	2010 CZK'000	2009 CZK'000
Consumed materials	3,913,514	5,738,081
Energy	84,382	97,895
Repairs and maintenance	1,453,972	1,364,631
Travel expenses	222,778	325,526
Services related to transport	761,564	1,118,392
Distribution, selling and check-in services	708,765	764,431
Noise, navigation, landing, parking fees	2,180,298	2,488,130
Ground handling services	1,400,832	1,067,170
Services for passengers (refreshment, etc.)	631,766	752,406
Finance leases	1,308,070	1,325,881
Operating leases of aircraft including maintenance provision	1,154,332	1,295,927
Other services	1,206,007	1,459,048
	<b>15,026,280</b>	<b>17,797,518</b>

The item "Other services" includes temporary allocation of employees, rent of residential and non-residential premises, telecommunication and marketing services, legal and consultancy services.



## 20. EMPLOYEE ANALYSIS

<b>Employee numbers</b>	<b>2010</b>	<b>2009</b>
Average number of members of the Management	15	24
Average number of staff	2,634	4,425
	<b>2,649</b>	<b>4,449</b>

The Management of the Company includes Top Management (level B) and Management (level B-1).

Number of employees who were transferred to the subsidiaries in relation to non-monetary contribution during 2010 is mentioned in Note 28.

	<b>Management CZK'000</b>	<b>Other staff CZK'000</b>	<b>Total CZK'000</b>
<b>2010</b>			
Wages and salaries	41,526	2,106,929	2,148,455
Social security costs	9,824	616,073	625,897
Other social costs	375	54 422	54,797
	<b>51,725</b>	<b>2,777,424</b>	<b>2,829,149</b>
<b>2009</b>			
Wages and salaries	118,590	3,516,367	3,634,957
Social security costs	11,212	863,132	874,344
Other social costs	1,704	129,785	131,489
	<b>131,506</b>	<b>4,509,284</b>	<b>4,640,790</b>

Total staff costs are reported without remuneration granted to members of statutory authorities and staff costs in abroad.

Staff costs abroad include personnel expenses of local staff and representatives at business representations of the Company in foreign countries. They are reported separately in the profit and loss account.



Remunerations granted to members of statutory authorities and Company's Management are stated as follows:

	Board of Directors CZK'000	Supervisory Board CZK'000	Other Management CZK'000	Total CZK'000
<b>2010</b>				
Remuneration	600	1,455		2,055
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	308		657	965
Other benefits (responsibility of statutory authorities insurance)	204	245		449
<b>2009</b>				
Remuneration	1,540	4,277		5,817
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	527		1,083	1,610
Other benefits (responsibility of statutory authorities insurance)		485		485

## 21. OTHER OPERATING INCOME

	2010 CZK'000	2009 CZK'000
Subsistence allowance	1,916	3,088
Income from advertisement	17,399	14,118
Income from re-invoicing	42,236	21,205
Income from sold and written-off receivables	208	425
Income from intermediary activities	3,233	4,215
Income from slot exchange	486,162	
Income from licence fees	18,752	
Settlement of shortages and losses	8,758	46,022
Government grants and public support	40,691	29,309
Other	35,189	39,766
	<b>654,544</b>	<b>158,148</b>

The item "Other" includes income from personal transport provided on the other airlines' traffic documents, insurance indemnification for damage relating to landing gear overhaul and income from invoicing for undesirable passengers.

In 2010, the Company exchanged the landing and take-off slots at the London Heathrow destination. The income in the amount of CZK 486,162 thousand was realized.



## 22. OTHER OPERATING EXPENSES

	2010 CZK'000	2009 CZK'000
Fines and penalties	68,415	121,226
Write-offs of receivables	27,612	11,698
Insurance	88,498	98,712
Denied boarding compensation	27,436	21,645
Wages and salaries settlement (e.g. termination benefits, injury compensation)	1,304	1,934
Compensations to passengers (e.g. hotel accommodation, refreshment and phones in the case of flight cancellation, rebooking etc.)	39,063	31,538
Marketing expenses	5,230	11,558
Shortages and damages	10,773	15,510
Other	27,487	54,500
	<b>295,818</b>	<b>368,321</b>

In 2010, allowances amounting to CZK 17,974 thousand were released with respect to the written-off receivables (2009: CZK 10,323 thousand) (Note 9). The total impact on the profit and loss account amounted to a loss of CZK 9,638 thousand in 2010 (2009: CZK 1,375 thousand loss).

In 2010, the item "Other" contains the brokerage from the sale of aircraft and other non-taxable expenses. In 2009, the item "Other" represents the disposal of rotables in the amount of CZK 18,701 thousand.

## 23. OTHER FINANCIAL INCOME

	2010 CZK'000	2009 CZK'000
Foreign exchange rate gains	555,974	987,153
Income from derivative financial instruments	220,105	1,115,398
Other		121
	<b>776,079</b>	<b>2,102,672</b>

## 24. OTHER FINANCIAL EXPENSES

	2010 CZK'000	2009 CZK'000
Foreign exchange rate losses	648,271	1,116,431
Expenses from derivative financial instruments	269,162	941,057
Bank charges for transaction payments made by credit cards	91,872	101,913
Other	16,956	22,772
	<b>1,026,261</b>	<b>2,182,173</b>

## 25. EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses relate to the sale of part of the Company's business – Duty Free. The income from the sale was in the amount of CZK 767,195 thousand and the carrying amount of assets and liabilities of the sold part was CZK 59,177 thousand (Note 28).

## 26. RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions:

	2010 CZK'000	2009 CZK'000
<b>Revenue</b>		
<b>Subsidiaries</b>		
AMADEUS MARKETING CSA, s.r.o.	31	49
HOLIDAYS Czech Airlines, a.s.	959,955	1,115
CSA Services, s.r.o.	20,057	14,049
Czech Airlines Handling, s.r.o. (formerly ČSA Support s.r.o.)	83,492	7,758
SLOVAK AIR SERVICES, s.r.o.	337	178
Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.)	70,632	3,192
<b>Other related companies</b>		
Letiště Prague, a.s. (formerly Správa Letiště Prague, s.p.)	1,088,913	612,794
ČEZ, a.s.	102	
	<b>2,223,519</b>	<b>639,135</b>

Revenue received from ČEZ, a.s. represents the interest income from the promissory notes issued by ČEZ, a.s. (Note 7).



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Expenses	2010 CZK'000	2009 CZK'000
<b>Subsidiaries</b>		
AMADEUS MARKETING CSA, s.r.o.		47
HOLIDAYS Czech Airlines, a.s.	79,759	32,933
CSA Services, s.r.o.	123,693	135,620
Czech Airlines Handling, s.r.o. (formerly ČSA Support s.r.o.)	624,002	113,622
SLOVAK AIR SERVICES, s.r.o.	5,773	6,164
Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.)	476,407	23,434
<b>Other related companies</b>		
Letiště Prague, a.s. (formerly Správa Letiště Prague, s.p.)	1,650,596	264,821
	<b>2,960,230</b>	<b>576,641</b>

The following related party balances were outstanding at:

Receivables	31 December 2010 CZK'000	31 December 2009 CZK'000
<b>Subsidiaries</b>		
HOLIDAYS Czech Airlines, a.s.	125,468	439
CSA Services, s.r.o.	6,302	5,780
Czech Airlines Handling, s.r.o. (formerly ČSA Support s.r.o.)	41,538	1,002
SLOVAK AIR SERVICES, s.r.o.	653	395
Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.)	47,139	612
<b>Other related companies</b>		
Letiště Prague, a.s. (formerly Správa Letiště Prague, s.p.)	5,879	114,352
	<b>226,979</b>	<b>122,580</b>

Payables	31 December 2010 CZK'000	31 December 2009 CZK'000
<b>Subsidiaries</b>		
HOLIDAYS Czech Airlines, a.s.	84,790	2,390
CSA Services, s.r.o.	3,554	13,368
Czech Airlines Handling, s.r.o. (formerly ČSA Support s.r.o.)	93,932	11,450
SLOVAK AIR SERVICES, s.r.o.	1,798	1,947
Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.)	60,875	3,119
<b>Other related companies</b>		
Letiště Prague, a.s. (formerly Správa Letiště Prague, s.p.)	322,081	423,776
	<b>567,030</b>	<b>456,050</b>

The following related party balances of provided and received loans were outstanding at:

Received loans – short-term	31 December 2010 CZK'000	31 December 2009 CZK'000
Ministry of Trade and Industry of the Czech Republic (Note 13)		2,500,000

In 2010, the Company further provided loans to the subsidiaries, which were fully repaid at year end. The loan carries a variable interest rate based on PRIBOR and the interest rate fluctuated between 3.83% and 4.22% p.a. In 2010, the interest income from those loans was in the amount of CZK 3,998 thousand.

As of 30 September 2010, the Company signed the loan agreement with Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.) for payment of the rotables purchase price with a total maximum amount of CZK 500,000 thousand. During 2010, the amount drawn was CZK 412,142 thousand. The receivable of the Company was settled by offsetting with the receivable of Czech Airlines Technics, a.s. for subscribed shares (Note 6).

Trade receivables from and payables to related parties, including provided and received loans, originated under arm's length conditions.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Company cars are available to members of the Management and to members of the Board of Directors (Note 20).

Total remuneration for the members of the Board of Directors and the members of the Supervisory Board is disclosed in Note 20.

Besides the above-stated remuneration and benefits, there were no other considerations provided to the Company's shareholders, members of the Company's boards and the Management in 2010 and 2009.

In 2009, land in the "North" area at the Prague – Ruzyně airport was purchased from Letiště Prague, a.s. (Note 5). Správa Letiště Prague, s.p. has been transformed into Letiště Prague, a.s. This entity, as well České aerolinie a.s., is owned by the Czech state. The sale of property to Letiště Prague, a.s. during 2010 is disclosed in Note 5.



## 27. COMMITMENTS

The Company has the following future commitments with respect to operating leases of 18 aircraft as at 31 December 2010 (as at 31 December 2009: 22 aircraft):

Aircraft	Currency	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	USD '000	32,857	19,922	26,851	5,313	693
Airbus A310/A320/A321/A319	USD '000	165,093	69,594	85,366	16,242	63,485
ATR 42	USD '000	68,456	41,972	50,525	8,554	9,377
<b>Total</b>	<b>USD '000</b>	<b>266,406</b>	<b>131,488</b>	<b>162,742</b>	<b>30,109</b>	<b>73,555</b>
<b>Total *</b>	<b>CZK '000</b>	<b>4,995,379</b>	<b>2,465,531</b>	<b>3,051,575</b>	<b>564,574</b>	<b>1,379,230</b>

\* The conversion from USD to CZK was carried out using the rate of the Czech National Bank as at 31 December 2010.

Except for the future commitments with respect to operating leases, the Company has the following future commitments with respect to non-residential premises:

Rent	Currency	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
Non-residential premises	EUR '000	3,702	397	1,160	726	1,816
Non-residential premises**	CZK '000	3,009,479	214,837	339,291	123,207	2,546,981
	CZK '000					
<b>Total *</b>		<b>3,102,251</b>	<b>224,786</b>	<b>368,361</b>	<b>141,400</b>	<b>2,592,490</b>

\* The conversion from EUR to CZK was carried out using the rate of the Czech National Bank as at 31 December 2010.

\*\* Non-residential premises – amounts payable after more than one year include the rent of real estate with the contractual rental period of 20 to 30 years.

The Company will purchase eight Airbus A319 aircraft in 2011–2014, in the total official list price value of USD 586,786 thousand as at the delivery date. The actual price will be set in accordance with the contract signed in 2005.

The Company has no other undisclosed significant commitments.



## 28. NON-MONETARY CONTRIBUTION AND SALE OF PART OF THE COMPANY

### Non-monetary contribution

The Company contributed the following assets and liabilities to subsidiaries:

Subsidiary	Czech Airlines Handling, s.r.o. (formerly ČSA Support, s.r.o.)	HOLIDAYS Czech Airlines, a.s.	Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.)
Date of contribution	1 January 2010	1 June 2010	1 August 2010
CZK '000			
<b>Assets</b>			
Intangible fixed assets – net book value	1,606		55,403
Tangible fixed assets – net book value	121,480		67,022
Inventories – net book value	12,408		262,387
Deferred tax asset	695		
Short-term trade receivables – net	35,191	127,473	15,939
Short-term prepayments made	504		45
Other receivables	557	512	460
Cash related to customers' prepayments		50,648	
Deferred expenses			803
	<b>172,441</b>	<b>178,633</b>	<b>402,059</b>
<b>Liabilities</b>			
Provisions	1,561		23,285
Short-term trade liabilities	18,987	8,342	11,505
Payables to employees	19,426	333	24,187
Short-term prepayments received		3,838	
Estimated payables	3,604	2,983	1,367
Other payables	814		
Deferred income		131,842	238
	<b>44,392</b>	<b>147,338</b>	<b>60,582</b>
Net book value of transferred assets	<b>128,049</b>	<b>31,295</b>	<b>341,477</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Subsidiary	Czech Airlines Handling, s.r.o. (formerly ČSA Support, s.r.o.)	HOLIDAYS Czech Airlines, a.s.	Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.)
Date of transfer	1 January 2010	1 June 2010	1 August 2010
Number of transferred employees	971	14	840

### The Sale of Part of the Company

The carrying amount of assets and liabilities related to part of the Company – Duty Free in the balance sheet of the Company as of 9 February 2010 (date of sale) are described below. The profit for the year 2010 until the date of sale was in the amount of CZK 4,996 thousand. The part of the Company – Duty Free was sold for CZK 767,195 thousand (Note 25).

	Allocated balances in the balance sheet of the Company as at 9 February 2010 CZK '000
<b>Assets</b>	
Buildings	7,588
Individual movable assets and sets of movable assets	4,893
Goods	50,985
Trade receivables	2,959
Short-term prepayments made	2,739
Other receivables	217
Deferred expenses	1,165
	<b>70,546</b>
<b>Liabilities</b>	
Trade payables	1,395
Payables to employees	1,463
Estimated payables	1,632
Accrued expenses	6,461
	<b>10,951</b>

Number of transferred employees of Duty Free was 79.



## 29. CONTINGENT ASSETS AND LIABILITIES

In 2008, the Company concluded an agreement on future contracts for establishing the easement relating to the land in the Ruzyně airport area in the total amount of CZK 149,630 thousand. The conclusion of the contracts for the establishment of the easement and also the settlement of the purchase price are linked to the fulfilment of legal acts in the future (for example, a legally valid building permit).

Contingent liabilities are incurred by the Company from the activities disclosed in Notes 5 and 27 and from the Company's impact on the environment.

The Company applies an environmental policy under which the impacts of its activities on the environment are monitored specifically in the following areas:

- ▶ treatment of solid and liquid waste;
- ▶ air pollution; and
- ▶ noise from airline activities.

The Company is a defendant in several legal disputes. The Company's Management believes that the outcome of these suits will not have a material effect. The Company has a provision for some legal disputes (Note 12). The Company is additionally dealing with certain of its receivables from bankrupt debtors through the court system.

There are guarantees drawn in favour of the Company especially to secure cash received from sales of traffic documents by agencies and to secure future repairs connected with delivered construction contracts. The Company further issued bank guarantees to secure customs liabilities and other parties related to the operating activities of the Company.

The Company guarantees the liabilities of its subsidiaries in the amount of CZK 8,000 thousand (2009: CZK 3,000 thousand and EUR 200 thousand).

The Company has insured its assets including aircraft and liability for damage.

The Company is not aware of any breaches of applicable standards that may trigger significant sanctions or any other charges.

The Company's Management is not aware of any other significant unrecorded contingent liabilities as at 31 December 2010 and 2009.

## 30. CASH FLOW STATEMENT

The Company has prepared the cash flow statement using the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash, i.e. all short-term financial assets.

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

## 31. SUBSEQUENT EVENTS

As of 19 January 2011, the Government Resolution decided to privatize part of assets of the Company Správa Letiště Prague, s.p. by contribution to Český Aeroholding, a.s. The Company was established as of 11 March 2011.

As of 1 January 2011, the Company transferred the activities and employees of the Customs Department and the Waste and Water Management Department to its subsidiary Czech Airlines Technics, a.s.

As of 1 January 2011, the Company transferred a part of activities and employees of the Revenue Accounting Department to its subsidiary CSA Services, s.r.o.

As of 1 January 2011, IT employees were transferred to Letiště Prague, a.s.

In January 2011, the Company sold the B737 aircraft. The revenues were in amount of CZK 128,026 thousand and resulted in a carrying amount of CZK 110,059 thousand.

As of 15 February 2011, the Commercial Register deleted Mr. Tomáš Uvíra, a member of the Company's Supervisory Board, whose membership in the Supervisory Board ended as of 31 January 2011.

As of 15 February 2011, the Company's Board of Directors decided to transfer the landing gears division to the Czech Airlines Landing Gears, s.r.o. subsidiary, which



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

was established by the decision of the Board of Directors on 11 April 2011.

As of 1 April 2011, the structure of the Company's Supervisory Board was changed. Mr. Michal Mejstřík remains as the Chairman of the Supervisory Board, Mr. Petr Matoušek became the Vice-Chairman of the Supervisory Board, and Mr. Josef Maurer became a member of the Supervisory Board. Mr. Tomáš Brabec and Mr. Radomil Kratochvíl were recalled from the position of members of the Supervisory Board. Mr. Miroslav Dvořák, Chairman and Mr. Josef Adam, member, were recalled from the Board of Directors.

As of 11 April 2011 the structure of the Company's Board of Directors was changed. Mr. Philippe Moreels became the Chairman, Mr. Marek Týbl became the Vice-Chairman, and Mr. Jiří Marek remains as a member of the Board of Directors.

These financial statements were prepared on 15 April 2011.

**Philippe M. Moreels**

Chairman of the Board of Directors



**Marek Týbl**

Vice-Chairman of the Board of Directors



## CONSOLIDATED BALANCE SHEET FULL VERSION – AS OF 31 DECEMBER 2010 (IN CZK THOUSANDS)

		31 December 2010			31 December 2009
		Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>		<b>10,114,021</b>	<b>3,432,549</b>	<b>6,681,472</b>	<b>7,984,365</b>
<b>B.</b>	<b>Fixed assets</b>	<b>5,535,344</b>	<b>2,958,137</b>	<b>2,577,207</b>	<b>3,933,403</b>
<b>I.</b>	<b>Intangible fixed assets</b>	<b>876,211</b>	<b>535,942</b>	<b>340,269</b>	<b>396,616</b>
3.	Software	849,627	535,773	313,854	294,959
4.	Valuable rights	168	168		
6.	Other intangible fixed assets	85	1	84	
7.	Intangible fixed assets under construction	26,331		26,331	101,657
<b>II.</b>	<b>Tangible fixed assets</b>	<b>4,642,815</b>	<b>2,422,195</b>	<b>2,220,620</b>	<b>3,519,099</b>
1.	Land				192,436
2.	Structures	83,794	55,599	28,195	163,846
3.	Individual movable assets and sets of movable assets	3,890,460	2,304,280	1,586,180	1,675,607
6.	Other tangible fixed assets	51,705	26,573	25,132	33,781
7.	Tangible fixed assets under construction	113,671	35,743	77,928	295,272
8.	Prepayments for tangible fixed assets	503,185		503,185	1,158,157
<b>III.</b>	<b>Non-current financial assets</b>	<b>16,318</b>		<b>16,318</b>	<b>17,688</b>
1.	Equity investments in subsidiaries	380		380	2,343
3.	Other securities and investments	8,079		8,079	7,915
5.	Other non-current financial assets	7,859		7,859	7,430
<b>C.</b>	<b>Current assets</b>	<b>3,736,861</b>	<b>474,412</b>	<b>3,262,449</b>	<b>3,252,360</b>
<b>I.</b>	<b>Inventories</b>	<b>427,571</b>	<b>167,867</b>	<b>259,704</b>	<b>379,675</b>
1.	Material	424,425	167,867	256,558	319,521
2.	Work in progress and semifinished goods	53		53	1,952
5.	Goods				56,268
6.	Prepayments for inventory	3,093		3,093	1,934
<b>II.</b>	<b>Long-term receivables</b>	<b>138,419</b>	<b>25</b>	<b>138,394</b>	<b>257,886</b>
5.	Estimated receivables	138,419	25	138,394	142,389
8.	Deferred tax asset				115,497
<b>III.</b>	<b>Short-term receivables</b>	<b>1,834,093</b>	<b>306,520</b>	<b>1,527,573</b>	<b>2,025,838</b>
1.	Trade receivables	1,490,314	306,520	1,183,794	1,576,253
6.	State - tax receivables	58,980		58,980	54,590
7.	Other prepayments made	36,886		36,886	109,562
8.	Estimated receivables	157,896		157,896	94,878
9.	Other receivables	90,017		90,017	190,555
<b>IV.</b>	<b>Current financial assets</b>	<b>1,336,778</b>		<b>1,336,778</b>	<b>588,961</b>
1.	Cash on hand	27,273		27,273	25,923
2.	Cash at bank	934,257		934,257	563,038
3.	Short-term securities and investments	375,248		375,248	
<b>D.</b>	<b>Other assets</b>	<b>841,816</b>		<b>841,816</b>	<b>798,602</b>
1.	Deferred expenses	787,840		787,840	717,733
3.	Accrued income	53,976		53,976	80,869



	31 December 2010	31 December 2009
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>6,681,472</b>	<b>7,984,365</b>
<b>A. Equity</b>	<b>368,570</b>	<b>(2,333,845)</b>
<b>I. Share capital</b>	<b>5,235,510</b>	<b>2,735,510</b>
1. Share capital	5,235,510	2,735,510
<b>II. Capital funds</b>	<b>(340,226)</b>	<b>(492,479)</b>
2. Other capital funds	(99)	(99)
3. Gains or losses from the revaluation of assets and liabilities	(340,127)	(492,380)
<b>III. Statutory funds</b>	<b>100,931</b>	<b>100,931</b>
1. Statutory reserve fund / Indivisible fund	100,931	100,931
<b>IV. Retained earnings</b>	<b>(4,696,007)</b>	<b>(927,285)</b>
Accumulated profits brought forward		12,597
Accumulated losses brought forward	(4,696,007)	(939,882)
<b>V. Profit or loss for the current period (+ -)</b>	<b>68,362</b>	<b>(3,750,522)</b>
1. Profit or loss for the current period (+ -)	68,362	(3,750,522)
<b>B. Liabilities</b>	<b>4,606,906</b>	<b>8,673,048</b>
<b>I. Provisions</b>	<b>1,806,073</b>	<b>2,075,745</b>
1. Provisions under special legislation	127,326	198,792
3. Income tax provision	3,885	
4. Other provisions	1,674,862	1,876,953
<b>II. Long-term liabilities</b>	<b>56,453</b>	<b>60,003</b>
5. Long-term prepayments received	1,139	1,319
9. Other payables	54,329	58,124
10. Deferred tax liability	985	560
<b>III. Short-term liabilities</b>	<b>2,676,295</b>	<b>6,283,163</b>
1. Trade payables	1,130,484	1,370,736
5. Payables to employees	196,392	242,771
6. Social security and health insurance payables	76,691	69,451
7. State - tax payables and subsidies	36,667	48,473
8. Short-term prepayments received	30,659	34,166
10. Estimated payables	1,160,469	1,792,049
11. Other payables	44,933	2,725,517
<b>IV. Bank loans and borrowings</b>	<b>68,085</b>	<b>254,137</b>
1. Long-term bank loans	27,234	68,085
2. Short-term bank loans	40,851	186,052
<b>C. Other liabilities</b>	<b>1,705,996</b>	<b>1,645,162</b>
1. Accrued expenses	7,071	97,743
2. Deferred income	1,698,925	1,547,419



CONSOLIDATED PROFIT AND LOSS STATEMENT STRUCTURED BY THE NATURE OF EXPENSE METHOD  
– YEAR ENDED 31 DECEMBER 2010 (IN CZK THOUSANDS)

	Period to 31 December 2010	Period to 31 December 2009
I. Sales of goods	46,622	573,430
A. Costs of goods sold	25,824	338,995
<b>+ Gross margin</b>	<b>20,798</b>	<b>234,435</b>
II. Production	16,867,459	19,842,131
1. Sales of own products and services	16,859,561	19,807,618
2. Change in internally produced inventory	(1,898)	(1,590)
3. Own work capitalized	9,796	36,103
B. Purchased consumables and services	14,255,195	17,597,617
1. Consumed material and energy	4,150,308	5,847,225
2. Services	10,104,887	11,750,392
<b>+ Added value</b>	<b>2,633,062</b>	<b>2,478,949</b>
C. Staff costs	3,900,004	5,117,141
1. Payroll costs	2,800,959	3,811,941
2. Remuneration to members of statutory bodies	4,719	6,134
3. Social security and health insurance costs	838,749	931,249
4. Social costs	72,811	136,938
5. Staff costs in abroad	182,766	230,879
D. Taxes and charges	62,513	11,559
E. Depreciation of intangible and tangible fixed assets	551,531	460,125
III. Sales of fixed assets and material	2,715,234	909,700
1. Sales of fixed assets	2,686,037	888,644
2. Sales of material	29,197	21,056
F. Net book value of fixed assets and material sold	1,953,901	509,217
1. Net book value of sold fixed assets	1,911,402	506,564
2. Book value of sold material	42,499	2,653
G. Change in allowances and provisions relating to operating activities and complex deferred expenses	(441,538)	612,036
IV. Other operating income	655,922	159,354
H. Other operating expenses	301,380	371,100
<b>* Operating profit or loss</b>	<b>(323,573)</b>	<b>(3,533,175)</b>
VI. Proceeds from the sale of securities and investments	17,874	
J. Cost of securities and investments sold	1,959	
VII. Income from non-current financial assets	4,238	3,900
1. Income from subsidiaries and associates	4,238	3,900
X. Interest income	5,738	6,369
N. Interest expenses	69,898	79,190
XI. Other financial income	784,118	2,103,906
O. Other financial expenses	1,051,188	2,183,215
<b>* Financial profit or loss</b>	<b>(311,077)</b>	<b>(148,230)</b>
Q. Income tax on ordinary activities	5,006	69,117
1. - due	3,885	-26,882
2. - deferred	1,121	95,999
<b>** Profit or loss from ordinary activities</b>	<b>(639,656)</b>	<b>(3,750,522)</b>
XIII. Extraordinary income	767,195	
R. Extraordinary expenses	59,177	
<b>* Extraordinary profit or loss</b>	<b>708,018</b>	
<b>** Profit or loss for the current period (+/-)</b>	<b>68,362</b>	<b>(3,750,522)</b>
<b>*** Profit or loss before tax</b>	<b>68,362</b>	<b>(3,750,522)</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – YEAR ENDED 31 DECEMBER 2010 (IN CZK THOUSANDS)

	Share capital	Capital funds	Statutory funds	Valuation differences	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2008	2,735,510	(99)	77,428	(1,794,774)	(1,386,436)	470,057	101,686
Distribution of profit or loss			23,503		459,151	(470,057)	12,597
Change in the valuation of securities and derivatives				1,506,473			1,506,473
Change in the deferred tax				(204,079)			(204,079)
Profit or loss for the current period						(3,750,522)	(3,750,522)
Balance at 31 December 2009	2,735,510	(99)	100,931	(492,380)	(927,285)	(3,750,522)	(2,333,845)
Distribution of profit or loss					(3,750,522)	3,750,522	
Change in share capital	2,500,000						2,500,000
Change in the valuation of securities and derivatives				267,750	(18,200)		249,550
Change in the deferred tax				(115,497)			(115,497)
Profit or loss for the current period						68,362	68,362
Balance at 31 December 2010	5,235,510	(99)	100,931	(340,127)	(4,696,007)	68,362	368,570



## CONSOLIDATED CASH FLOW STATEMENT – YEAR ENDED 31 DECEMBER 2010 (IN CZK THOUSANDS)

	Period to 31 December 2010	Period to 31 December 2009	
P.	Cash and cash equivalents at the beginning of the accounting period	588,961	542,672
	<b>Cash flows from ordinary activities</b>		
Z.	Profit/(loss) from ordinary activities before tax	73,368	(3,681,405)
A.1.	Adjustments for non-cash transactions	(1,500,611)	24,919
A.1.1.	Depreciation of fixed assets	551,531	460,125
A.1.2.	Change in allowances and provisions	(441,536)	612,036
A.1.3.	Profit/(loss) on the sale of fixed assets	(790,550)	(382,080)
A.1.4.	Revenues from dividends and profit shares	(4,238)	(3,900)
A.1.5.	Interest expense and interest income	64,160	72,821
A.1.6.	Settlement of transportation documents disposed of	(367,119)	(549,112)
A.1.7.	Adjustments for other non-cash transactions	195,159	(184,971)
A.1.8.	Profit/(loss) on the sale of the part of business	(708,018)	
A.*	Net operating cash flow before changes in working capital	(1,427,243)	(3,656,486)
A.2.	Change in working capital	(313,623)	756,921
A.2.1.	Change in operating receivables and other assets	193,287	735,493
A.2.2.	Change in operating payables and other liabilities	(564,304)	(53,617)
A.2.3.	Change in inventories	57,394	74,540
A.2.4.	Change in current financial assets		505
A.**	Net cash flow from operating activities before tax and extraordinary items	(1,740,866)	(2,899,565)
A.3.	Interest paid	(69,122)	(80,258)
A.4.	Interest received	5,738	6,369
A.5.	Income tax paid from ordinary operations	(3,885)	1,882
A.6.	Receipts and expenditures relating to extraordinary activities	767,195	
A.7.	Received dividends and profit shares	4,238	3,900
A.8.	Derivatives paid		(61,664)
A.***	Net operating cash flows	(1,036,702)	(3,029,336)
	<b>Cash flows from investing activities</b>		
B.1.	Fixed assets expenditures	(450,210)	(488,221)
B.2.	Proceeds from fixed assets sold	2,430,485	1,476,628
B.***	Net investment cash flows	1,980,275	988,407
	<b>Cash flow from financial activities</b>		
C.1.	Change in payables from financing	(195,756)	2,087,218
C.***	Net financial cash flows	(195,756)	2,087,218
F.	Net increase or decrease in cash and cash equivalents	747,817	46,289
R.	Closing balance of cash and cash equivalents	1,336,778	588,961



## 1. GENERAL INFORMATION

České aerolinie a.s. ("Parent Company"), corporate ID 45795908, was registered in the Commercial Register by the Municipal Court in Prague, Section B, File 1662 on 1 August 1992. The Company's registered office is located at Prague 6, Ruzyně Airport, Postal Code 160 08.

The share capital of the Parent Company is CZK 5,235,510 thousand.

The consolidated financial statements have been prepared as at and for the year ended 31 December 2010.

The members of the Board of Directors of the Parent Company as at 31 December 2010 were as follows :

	<b>Position</b>
Ing. Miroslav Dvořák	Chairman
Philippe M. Moreels	Vice-Chairman
Mgr. Josef Adam	Member
Mgr. Jiří Marek	Member
Ing. Marek Týbl	Member

The members of the Supervisory Board of the Parent Company as at 31 December 2010 were as follows:

	<b>Position</b>
Prof. Ing. Michal Mejstřík, CSc.	Chairman
Ing. Tomáš Uvíra	Vice-Chairman
JUDr. Radek Šmerda, Ph.D.	Member
Tomáš Brabec	Member
Ing. Radomil Kratochvíl	Member
Ing. Miroslav Bernášek	Member

The changes made in the Commercial Register ("CR") during the year ended 31 December 2010 relating to personnel changes in the Board of Directors and the Supervisory Board of the Parent Company were as follows:

<b>Board of Directors</b>	<b>Position</b>	<b>Office taken on</b>	<b>Resignation</b>	<b>Recorded in the CR</b>
Peter Jusko	Member	3 September 2008	28 June 2010	12 August 2010
Miloš Kvapil	Member	28 June 2010	15 December 2010	14 January 2011
Jiří Marek	Member	15 December 2010		14 January 2011

<b>Supervisory Board</b>	<b>Position</b>	<b>Office taken on</b>	<b>Resignation</b>	<b>Recorded in the CR</b>
Roman Boček	Member	24 June 2009	30 September 2010	19 October 2010
Radek Šmerda	Member	30 September 2010		19 October 2010
Josef Doruška	Member	18 November 2009	30 September 2010	19 October 2010
Miroslav Bernášek	Member	30 September 2010		19 October 2010

The Parent Company is organized as follows as at 31 December 2010:

<b>President</b>	
<b>Organisational units reporting to the President: Divisions:</b>	
President's Office	Marketing, Sales and Financial Division
Security	Flight Operations Division
Communications	IT, Human Resources and Legal Services Division
Quality Management and Internal Audit	
Flight Safety	
Supplier Service Management	
Ground Operations Management	
Technical Operations Management	
Landing Gears	



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## DEFINITION OF THE GROUP:

Company name	Registered office	Share in equity (percentage)	Type of influence	Consolidation method
České aerolinie a.s.	Prague 6, Ruzyně Airport, 160 08			
Czech Airlines Handling, s.r.o.	Prague 6, Jana Kašpara 1069, 160 08	100	Controlling influence	Full
HOLIDAYS Czech Airlines, a.s.	Prague 6, Jana Kašpara 1069, 160 08	100	Controlling influence	Full
Czech Airlines Technics, a.s.	Prague 6, Jana Kašpara 1/1069, 160 08	100	Controlling influence	Full
CSA Services, s.r.o.	Prague 6, K letišti, 161 00	100	Controlling influence	Full

The Group does not consolidate the following companies due to immateriality to the Group:

Name of the Company	Registered office	Share in equity (percentage)	Reason for non-consolidation
AMADEUS MARKETING CSA, s.r.o.	Prague 8, Sokolovská 100/94, 186 00	65	Immateriality

The financial statements of all companies, both consolidated and unconsolidated, are available at the registered office of the Parent Company.

The balance sheet date of the companies included in the Group is 31 December 2010.

## SUBSIDIARIES

The following table summarizes the information about subsidiaries as of 31 December 2010:

Name of the Company	Ownership interest percentage	Voting rights percentage	Principal activity
Czech Airlines Handling, s.r.o.	100%	100%	Providing check-in services at the Prague Ruzyně Airport (handling of aircraft, passengers, luggage, cargo and mail)
HOLIDAYS Czech Airlines, a.s.	100%	100%	Travel agency and charter transportation
Czech Airlines Technics, a.s.	100%	100%	Providing services in the area of aircraft maintenance and overhauls
CSA Services, s.r.o.	100%	100%	Recruitment, call centre services
AMADEUS MARKETING CSA, s.r.o.	65%	65%	Providing services in the area of the travel agency systems



## Changes in the Group

As of 16 December 2009, the Parent Company Board of Directors decided to increase the share capital and the share premium in Czech Airlines Handling, s.r.o. (formerly ČSA Support, s.r.o.) by CZK 570,000 thousand and CZK 84,831 thousand, respectively. The increase was made by the non-monetary contribution valued by an independent valuer appointed by a court. The accounting value of the transferred net assets was CZK 128,049 thousand as at 1 January 2010.

As of 5 May 2010, the Parent Company Board of Directors decided to increase the share capital and the share premium in HOLIDAYS Czech Airlines, a.s. by CZK 162,000 thousand and CZK 19,745 thousand, respectively. The increase was made by the non-monetary contribution valued by an independent valuer appointed by a court. The accounting value of the transferred net assets was CZK – 19,353 thousand as at 1 June 2010. At the same time, the Parent Company released an allowance to the investment in HOLIDAYS Czech Airlines, a.s. in an amount of CZK 10,000 thousand. As of 30 December 2010, the Parent Company concluded a settlement agreement with HOLIDAYS Czech Airlines, a.s. in the amount of CZK 50,648 thousand.

As of 28 June 2010, the Parent Company Board of Directors decided to increase the share capital in Czech Airlines Technics, a.s. (formerly ClickforSky, a.s.) by CZK 380,000 thousand. The increase was made by the non-monetary contribution valued by an independent valuer appointed by a court. The accounting value of the transferred net assets was CZK 341,477 thousand as at 1 August 2010.

As of 16 December 2010, the Parent Company Board of Directors further decided to increase the share capital and share premium in Czech Airlines Technics, a.s. (former ClickforSky, a.s.) by CZK 402,100 thousand and CZK 42 thousand, respectively. The increase was carried out by the subscription of 4,021 pieces of ordinary shares by the Parent Company with a nominal value of CZK 100 thousand per share. At the same time, the offsetting agreement was signed with respect to the loan provided by the Parent Company to Czech Airlines Technics, a.s. and the receivable of Czech Airlines Technics, a.s. for subscribed shares in the amount of CZK 402,142 thousand. The increase of the share capital in Czech Airlines Technics, a.s. was recorded in the Commercial Register on 23 February 2011.

In September 2010, the Parent Company sold its 100% share in SLOVAK AIR SERVICES, s.r.o. The revenues from the sale amounted to CZK 17,874 thousand and a carrying amount of CZK 1,959 thousand.

## 2. ACCOUNTING PRINCIPLES AND POLICIES

The Group's accounting books and records are maintained and the consolidated 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.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost basis with certain exceptions (as further described in this note), the accruals principle, the prudence concept and the going concern assumption.

In order to compile the consolidated financial statements of the Group, the accounting principles applied by the Group companies were brought into conformity. Significant accounting policies are outlined below.

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

### Scope of Consolidation and Consolidation Method

Consolidation is performed using the direct consolidation method. Direct consolidation involves the consolidation of all the Group's accounting entities at once without using the consolidated financial statements presented for sub-groups.

The Group consists of the Parent Company, České aerolinie a.s., and its subsidiaries. The definition of subsidiaries is as follows:

#### Subsidiaries

Investments in enterprises in which the Parent Company has the power to govern



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

the financial and operating policies so as to obtain benefits from their operations are treated as 'Equity investments in subsidiaries'.

For consolidation purposes, a subsidiary is a Company where the Parent Company has a controlling influence through the ownership of more than 50 percent of shares/ share capital interests.

These companies are consolidated using the full consolidation method.

When the full consolidation method is used, mutual transactions between the Parent Company and subsidiaries and between subsidiaries themselves are eliminated. The elimination of mutual transactions that influence the profit or loss is carried out in accordance with the stated consolidation rules.

## **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 on an individual basis.

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

### Acquisition Cost

Purchased tangible fixed assets are stated at acquisition cost less accumulated depreciation and allowances for diminution in value. The acquisition cost includes the purchase cost and costs attributable to the acquisition.

Tangible fixed assets developed internally are valued at direct costs, which include direct material and payroll costs and incidental costs directly attributable to the internal production of assets (production overheads).

The following tangible fixed assets are stated at replacement cost: tangible fixed assets acquired without consideration on the basis of a contract to purchase a leased asset (finance lease) and tangible fixed assets recently identified and recognized (accounted for by a corresponding entry in the relevant accumulated depreciation account). The replacement cost of tangible fixed assets is determined by reference to the normal market price effective at the time that these assets are acquired/identified.

The cost of a technical improvement exceeding CZK 40 thousand per asset for the taxation period increases the acquisition cost of the related tangible fixed asset.

### Depreciation

Depreciation is charged with respect to tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

	<b>Number of years</b>
Buildings	30–50
Computer equipment with an acquisition cost above CZK 40 thousand	4
Computer equipment with an acquisition cost between CZK 5 thousand to CZK 40 thousand	3
Radio and communication equipment and systems	4
Vehicles - other than aircraft	4
Vehicles - newly purchased aircraft	
Airbus A320/A319/A310, Boeing B737	20
ATR	18
Rotables	Over the expected useful life of the relevant aircraft
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

Rotables are depreciated to the expected residual value of 10% of cost.

Assets held under finance leases are depreciated by the lessor. Following the expiration of finance leases, aircraft acquired under finance leases are depreciated over their remaining estimated useful lives.

### Retirement of Assets

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognized in the profit and loss account.

### Allowances

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 other than temporary, the asset is written off.

## **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 on an individual basis.

Intangible assets with an acquisition cost of less than CZK 5 thousand on an individual basis are expensed in the period of acquisition.

### Acquisition Cost

Purchased intangible fixed assets are stated at acquisition cost less accumulated amortization and allowance for diminution in value.

With respect to long term projects that relate to software acquisition and bringing the software into use, the Company capitalizes internally incurred costs linked to the software development and bringing the software into use.

The cost of technical improvements exceeding CZK 40 thousand per asset for the taxation period increases the acquisition cost of the related intangible fixed asset.

### Amortization

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

	<b>Number of years</b>
Software	3–10
Licences	Over the contract term
Patents	Over the useful life

### Allowance

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 other than temporary, the asset is written off.

## **Non-Current Financial Assets**

Non-current financial assets principally consist of provided loans with maturity exceeding one year, equity investments, securities and equity investments available for sale.

Upon acquisition, securities and equity investments are carried at cost. The cost of securities or equity investments includes the direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

Securities and equity investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in market conditions (for example interest rates), are classified as available for sale. These securities and investments are included in non-current assets unless the Management has the express intention of holding the investment for less than 12 months from the balance sheet date. The Management determines the appropriate classification of securities and investments at the time of purchase.

### Valuation

► securities and equity investments available for sale are carried at fair value, if determinable. Changes in fair values of securities and equity investments available for sale are charged against “Gains or losses from the revaluation of assets and liabilities” within equity, in the case of a permanent decrease in the fair value to the profit and loss account.

In determining the fair value, the Group refers to the market value of securities at the balance sheet date. Securities and equity investments that are not traded on public markets are stated at cost when their fair value is not readily obtainable and the cost of obtaining the fair value measure is unreasonably high considering its materiality and impact on the Group's financial statements.



If the carrying value of securities and equity investments that have not been measured at fair value is greater than their estimated recoverable value, the securities and equity investments are provided for.

### **Current Financial Assets**

Current financial assets consist of cash equivalents, cash on hand and cash at bank.

### **Derivative Financial Instruments**

Derivative financial instruments including currency forwards, currency, commodity and interest rate swaps, currency and commodity options, and other derivative financial instruments are initially recognized on the balance sheet at cost and subsequently are remeasured to their 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.

The Group designates derivative financial instruments as either trading or hedging.

While the Group designates all derivatives for economic hedge purposes, a portion of short-term contracts (up to one month) are recognized as trading derivatives and hedge accounting is not applied due to administrative costs. Hedge accounting is applied to all other derivatives.

#### Trading Derivatives

Changes in the fair value of derivatives held for trading are included in the profit and loss account as part of financial profit or loss.

#### Hedging Derivatives

The Group prospectively designates certain derivatives as a hedge of a future cash flow attributable to a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way, provided all of the following criteria are met:

- ▶ formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- ▶ the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period; and
- ▶ the hedge is effective on an ongoing basis (that is, within a range of 80% to 125%).

If derivative instruments do not meet the criteria for hedge accounting referred to above, they are treated as trading derivatives.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the "Gains or losses from the revaluation of assets and liabilities" within equity. Where a hedged forecasted transaction results in the recognition of a financial asset or of a financial liability, the gains and losses previously deferred in the "Gains or losses from the revaluation of assets and liabilities" are transferred to the profit and loss account and classified as income or expense in the periods during which the hedged item affects the profit and loss account.

### **Inventory**

Purchased inventory is carried at acquisition costs net of allowances. Acquisition cost includes all direct and indirect overheads incurred to bring inventory to its present stage and location, e.g. customs fees, freight costs and commissions.

Internally developed inventory is valued at the cost of producing the inventory which consists of direct material and payroll costs incurred in production and the portion of indirect costs relating to production.

Inventory material is issued out of stock at costs determined using the weighted arithmetic average method.

#### Allowances

An allowance for slow-moving/obsolete inventory is recognized in circumstances



where the impairment of the inventory is not deemed permanent. The amount of the allowance is based on an analysis of turnover and utilizability of inventory and based on an individual assessment of specifically those inventories that have been idle for more than three years.

## **Receivables**

Upon origination, receivables are stated at their nominal value and subsequently reduced by an appropriate allowance for doubtful and bad amounts.

## Allowances

An allowance for receivables is recognized on the basis of an aging analysis of the debts. Allowances are additionally recorded based on an individual assessment of the financial health of debtors whose balances would not have been provided for according to the aging analysis.

## **Trade Payables**

Trade payables are stated at their nominal value.

## **Bank and Non-Banking Loans**

Loans are stated at their nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans.

Interest is accrued and included in the profit or loss for the period.

## **Provisions**

Provisions are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred, but which are uncertain as to the amount or the date on which they will arise; however, their reliable estimate can be made.

The Group recognizes provisions for repairs of tangible fixed assets. These provisions are either non-tax deductible (i.e. accounting provisions) or tax deductible as defined by the Act on Provisions 593/1992 Coll. The level of the recognized provision for repairs is based on the anticipated costs of repairs and the time to lapse

before the repair commences. The provision is recognized as equal to the ratio of the current cost of repairs net of the charge already recognized and the number of years to elapse before the repair commences. As a result of the amendment to the Act on Provisions 593/1992 Coll., effective 1 January 2009, the Group has recorded only non-tax deductible charges with respect to the provisioning commenced in 2009.

As the Group prepares the financial statements ahead of the income tax return for the current period and the current tax expense is not exactly determined, the Group recognizes an income tax provision. The provision is released in the next accounting period and the Group records actual tax liability.

In addition, the Group recognizes other provisions for known risks, which are anticipated to give rise to a future probable liability. This specifically involves a provision for outstanding vacation days, the Frequent Flyer Programme and not yet paid out remunerations related to the current accounting period.

## Frequent Flyer Programme

Members of the Frequent Flyer Programme can exchange earned points for free air tickets and selected goods and services. The Group recognizes provisions for these future costs. The provisions include incremental fuel, catering servicing costs and the cost of free travel provided by other partners.

## **Foreign Currency Translation**

Transactions denominated in foreign currencies during the accounting period are translated using the fixed monthly exchange rate.

All monetary assets and liabilities denominated in a foreign currency are translated using the effective exchange rate stated by the Czech National Bank as of 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.

Foreign exchange rate gains or losses arising from the year-end translation of securities and equity investments are treated as a component of the fair value. If the security or equity investment is not recognized at fair value, then the foreign exchange rate gains or losses are recorded through equity accounts on the balance sheet.



## Finance Leases

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, the asset's ownership title transfers from the lessor to the lessee; pending the transfer of title, the lessee makes lease payments to the lessor for the asset that are charged to expenses.

During the leasing period, the acquisition cost of assets acquired under finance leases is not capitalized as part of fixed assets. Aggregated amounts related to finance leases (leasing instalments) are accrued and regularly expensed over the lease period.

Amounts payable in future periods, but not due at the balance sheet date, are disclosed in the notes, but are not recognized in the balance sheet.

Advances paid for finance lease that are not re-financed and fees and other expenses related to the conclusion of an agreement on the finance lease are recognized as advances or acquired fixed assets, are not depreciated and form part of the aircraft acquisition costs when the finance lease terminates.

## 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 Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

### Deferred Taxation

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

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

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 recognized if it is probable that sufficient future taxable profit will be available against which the assets can be utilized.

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 are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

## Retirement Benefit Costs

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

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

## Government Grants

In accordance with the agreement on public service delegation, the Group is additionally a recipient of funds to operate the air connection between Strasbourg and Prague. The parties to the agreement include the Group, the Ministry of Foreign and European Affairs in France, the Trade and Industrial Chamber in Strasbourg and the Department Bas-Rhin.

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



The grants are subject to income tax.

### **Borrowing Costs**

All borrowing costs are recognized in expenses in the period in which they are incurred.

### **Revenue and Expense Recognition**

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

The Group charges to expenses provisions and allowances carried to cover all risks, losses and impairment that are known at the balance sheet date.

The recognition of the Group's revenues from airline transportation services comprises of two basic components:

- ▶ revenues from the Group's own traffic documents; and
- ▶ revenues from the traffic documents of other airline carriers used on Czech Airlines flights.

In recognizing revenue, the Group refers to the principles provided in the MPA (Multilateral Prorate Agreement) and RAM (Revenue Accounting Manual), issued by the International Air Transport Association ("IATA"), bilateral agreements between airlines and other regulations. The use of these principles is based on the Parent Company membership in IATA and a mutual application of those principles by other airlines.

The Group recognizes fare receipts as deferred income when a traffic document is issued. The collected fare is allocated among individual air coupons on the basis of a number of criteria, which include the established guidance of IATA or a contractual arrangement between individual airlines.

This allocated fare is recognized in the Group's income when the transportation is provided by the Group. In instances where the flight was realized by a partner Company, the allocated fare with respect to the relevant coupon is reversed from deferred income to payables.

With regard to companies with which the Group applies the "sampling" accounting approach, the Group allocates the fare among individual coupons on the basis of an

extrapolation of a representative sample in accordance with the IATA guidance. This extrapolation is subsequently reviewed and adjusted by the partner airline.

The mutual settlement of receivables and payables between airline companies is made weekly via the IATA Clearing House.

The Group records as deferred income amounts collected from the sale of traffic documents, which have not been realized at the balance sheet date, i.e. have not been flown on or used otherwise. The Group recognizes unused traffic documents in revenues after a certain period of time from the sale of the traffic document on the basis of historical analyses and statistical trends considering the accruals basis of revenues and expenses together with the prudence principle.

When traffic documents are sold, the Group also recognizes fees related to the sold traffic documents, the so-called "airport taxes". The Group collects part of these taxes for other entities (for example, airport authorities, taxation authorities). The Group differentiates between taxes delivered at the moment of sale and taxes delivered at the moment when the flight is realized. Both taxes are accounted for on the balance sheet as payables and estimated items, respectively. Taxes not further delivered are recorded as the Group's income and are recognized in the period in which the sale or the flight of the given traffic document is realized in accordance with the conditions defined for the tax.

Revenues from the sale of goods and services are recognized on the supply date or on a contractual basis. Gains arising from long-term production contracts are recognized when the contract is completed and billed on the basis set out in the underlying contract.

The Group further recognizes the so-called maintenance provisions in revenues and expenses. The maintenance provisions represent amounts paid to the lessor providing aircraft operating leases. These amounts are used by the lessor to cover future overhauls of the aircraft. The Group recognizes these payments in the profit and loss account in the period of payment as they are repeated on a regular basis. The "Maintenance Provision Release" item represents the amount that was repaid by the lessor to the Group in respect of the overhaul made by the Group or paid for by the Group to the third party.



## **Estimates**

The presentation of financial statements requires the 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. The Management of the Group believes that the estimates and assumptions used will not significantly differ from the actual results and outcomes in the following reporting periods.

## **Extraordinary Expenses and Income**

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Group as well as income or expenses from events or transactions that are not expected to recur frequently or regularly.

## **Related Parties**

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

- ▶ shareholders of which the Group is a subsidiary or an associate, directly or indirectly, and subsidiaries and associates of these shareholders;
- ▶ members of the Company's statutory and supervisory bodies, the Management and parties close to such members, including entities in which they have a controlling or significant influence;
- ▶ companies with the same member of the Management.

Related party transactions and balances are disclosed in Note 25.

## **Subsequent Events**

The effects of events which occurred between the balance sheet date and the date of preparation of the financial statements are recognized 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 recognized in the financial statements.



### 3. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The Group's consolidated financial statements have been prepared under the going concern assumption.

The Government of the Czech Republic decided to stabilize the situation in the Parent Company in 2009 and requested the preparation of a Restructuring Plan. The plan was approved in May 2010 for year 2010 through 2013. The Restructuring Plan was presented to the European Commission on 12 May 2010 which is currently undertaking a review relating to the loan provided by the Company OSINEK, a.s. "in liquidation". The Restructuring Plan was approved at the Parent Company extraordinary General Meeting held on 20 May 2010. The going concern assumption applied by the Group's Management is conditional upon the successful implementation of the Restructuring Plan.

As of 24 November 2010, the Government of the Czech Republic approved the proposal to create the holding of selected companies in the area of air transport and ground services owned by the state including Letiště Prague, a.s. and České aerolinie a.s. The Government also approved the establishment of the joint stock Company Český Aeroholding, a.s. and charged the Ministry of Finance with the preparation of a draft decision to increase the share capital by contributing the state share in the companies Letiště Prague, a.s. and České aerolinie a.s., so that the holding creates an effective structure that will provide airport operations, air transport services and related services. After the restructuring of České aerolinie a.s., within three years, a draft proposal of entry of a strategic investor to České Aerolinie a.s. should be introduced.

As of 19 January 2011, the Government Resolution decided to privatize the part of assets of the Company Správa Letiště Prague, s.p. by its contribution to Český Aeroholding, a.s. The Company was established as of 11 March 2011.

The holding structure and strong group base should support the Parent Company in the successful fulfilling of the Restructuring Plan.

In 2010, the Group had negative cash flow from operating activities, which indicates possible impairment of fixed assets. The Group's Management prepared the

analysis of possible impairment of the fixed assets, which is based on future discounted cash flow from operating activities. The assumption is that in future years it will be possible to complete the implementation of the measures contained in the Restructuring Plan and the Group will achieve positive operating cash flow. Based on those long term projections, the Group's Management has concluded that the fixed assets are not impaired.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 4. INTANGIBLE FIXED ASSETS

**At 31 December 2010:**

Cost

	1 January 2010 CZK'000	Consolidated the first time CZK'000	Additions CZK'000	Disposals CZK'000	Transfers CZK'000	31 December 2010 CZK'000
Start-up costs		198		(198)		
Software	777,278	1,822	20,632	(46,755)	96,650	849,627
Patents, licences		168				168
Other intangible fixed assets			85			85
Intangible assets under construction	101,657		21,739	(415)	(96,650)	26,331
	<b>878,935</b>	<b>2,188</b>	<b>42,456</b>	<b>(47,368)</b>		<b>876,211</b>

Accumulated Amortization

	1 January 2010 CZK'000	Consolidated the first time CZK'000	Charge for the year CZK'000	Disposals CZK'000	Transfers CZK'000	31 December 2010 CZK'000
Software	(482,328)	(1,813)	(98,386)	46,754		(535,773)
Patents, licences		(9)				(9)
Other intangible fixed assets		(198)	(1)	198		(1)
	<b>(482,328)</b>	<b>(2,020)</b>	<b>(98,387)</b>	<b>46,952</b>		<b>(535,783)</b>
Allowance for diminution in value of patents, licences		(159)				(159)
<b>Net book value</b>	<b>396,607</b>	<b>9</b>				<b>340,269</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## At 31 December 2009:

### Cost

	1 January 2009 CZK'000	Consolidated the first time CZK'000	Additions / transfers CZK'000	Disposals / transfers CZK'000	31 December 2009 CZK'000
Start-up costs		198			198
Software	643,098	2,572	134,237	(807)	779,100
Patents, licences			168		168
Intangible assets under construction	160,721		75,173	(134,237)	101,657
	<b>803,819</b>	<b>2,770</b>	<b>209,578</b>	<b>(135,044)</b>	<b>881,123</b>

### Accumulated Amortization

	1 January 2009 CZK'000	Consolidated the first time CZK'000	Charge for the year CZK'000	Disposals CZK'000	31 December 2009 CZK'000
Start-up costs		(182)	(16)		(198)
Software	(388,102)	(2,062)	(94,784)	807	(484,141)
Patents, licences			(9)		(9)
	<b>(388,102)</b>	<b>(2,244)</b>	<b>(94,809)</b>	<b>807</b>	<b>(484,348)</b>
	(21,194)	(159)		21,194	(159)
<b>Net book value</b>	<b>394,523</b>	<b>367</b>			<b>396,616</b>

The Group did not acquire any intangible fixed assets without consideration in either 2010 or 2009.

Intangible assets under construction at 31 December 2010 represent information technology projects in progress (for example the Airlines system, Cargo SPOT software, the AVES system development).

The Group creates allowance if the carrying value of an asset is greater than its estimated recoverable value; the carrying value is then reduced by an allowance to the recoverable value.

In 2009, the Group wrote off the intangible fixed assets under construction related to an information technology project and the allowance in amount of CZK 21,194 thousand was released. The impact to profit or loss was CZK 0 thousand.

The Group anticipates that costs incurred in relation to projects in progress will bring future economic benefits.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 5. TANGIBLE FIXED ASSETS

At 31 December 2010:

Cost

	1 January 2010 CZK'000	Consolidated the first time CZK'000	Additions CZK'000	Disposals CZK'000	Transfers CZK'000	31 December 2010 CZK'000
Land	192,436			(192,436)		
Buildings, halls and structures	290,028	203	18,030	(226,396)	1,929	83,794
Machinery and equipment	2,696,460	6,697	62,028	(906,986)	2,330	1,860,529
Aircraft	1,130,418		904	(1,088,051)	1,221,967	1,265,238
Vehicles	456,895	17,929	5,795	(35,682)	120	445,057
Furniture and fixtures	345,958	298	3,508	(32,094)	1,365	319,035
Small tangible fixed assets			1,667	(4,351)	3,285	601
Other tangible fixed assets	59,826			(8,104)	(17)	51,705
Tangible assets under construction	358,129		8,169	(11,964)	(240,663)	113,671
Advances paid for fixed assets	1,158,157		370,809	(35,465)	(990,316)	503,185
	<b>6,688,307</b>	<b>25,127</b>	<b>470,910</b>	<b>(2,541,529)</b>		<b>4,642,815</b>

Accumulated Depreciation

	1 January 2010 CZK'000	Consolidated the first time CZK'000	Charge for the year CZK'000	Disposals CZK'000	Transfers CZK'000	31 December 2010 CZK'000
Buildings, halls and structures	(126,220)	(165)	(10,956)	81,742		(55,599)
Machinery and equipment	(1,489,178)	(5,979)	(294,907)	737,037	2,841	(1,050,186)
Aircraft	(543,527)		(98,700)	82,721		(559,506)
Vehicles	(354,617)	(8,626)	(26,739)	31,384		(358,598)
Furniture and fixtures	(331,335)	(238)	(11,541)	32,217	(69)	(310,966)
Small tangible fixed assets			(1,828)	4,227	(2,772)	(373)
Other tangible fixed assets	(26,045)		(9,036)	8,508		(26,573)
	<b>(2,870,922)</b>	<b>(15,008)</b>	<b>(453,707)</b>	<b>977,836</b>		<b>(2,361,801)</b>
Allowances for diminution in value	(308,405)					(60,394)
<b>Net book value</b>	<b>3,508,980</b>	<b>10,119</b>				<b>2,220,620</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Allowance for Diminution in Value

	1 January 2010 CZK'000	Charge for the year CZK'000	Release during the year CZK'000	31 December 2010 CZK'000
Buildings, halls and structures	(245,548)		220,897	(24,651)
Tangible assets under construction	(62,857)	(5,966)	33,080	(35,743)
	<b>(308,405)</b>	<b>(5,966)</b>	<b>253,977</b>	<b>(60,394)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## At 31 December 2009:

### Cost

	1 January 2009 CZK'000	Consolidated the first time CZK'000	Additions / transfers CZK'000	Disposals / transfers CZK'000	31 December 2009 CZK'000
Land	26,822		171,279	(5,665)	192,436
Buildings, halls and structures	732,783	203	134,204	(576,959)	290,231
Machinery and equipment	2,801,015	7,260	118,423	(223,541)	2,703,157
Aircraft	772,632		387,813	(30,027)	1,130,418
Vehicles	493,760	13,801	4,957	(37,694)	474,824
Furniture and fixtures	354,831	1,417	18,257	(28,249)	346,256
Other tangible fixed assets	58,335		6,601	(5,110)	59,826
Tangible assets under construction	441,075	1,690	747,101	(831,737)	358,129
Advances paid for fixed assets – aircraft Airbus	111,165		21,211		132,376
Advances paid for fixed assets – aircraft Boeing	1,277,411			(287,095)	990,316
Advances paid for fixed assets – other	35,465	684	575	(1,259)	35,465
	<b>7,105,294</b>	<b>25,055</b>	<b>1,610,421</b>	<b>(2,027,336)</b>	<b>6,713,434</b>

### Accumulated Depreciation

	1 January 2009 CZK'000	Consolidated the first time CZK'000	Charge for the year CZK'000	Sale, contribution, damages CZK'000	Disposals CZK'000	31 December 2009 CZK'000
Buildings, halls and structures	(196,362)	(128)	(26,084)	(480,770)	576,959	(126,385)
Machinery and equipment	(1,435,802)	(6,056)	(228,700)	(29,439)	204,840	(1,495,157)
Aircraft	(527,388)		(44,279)	(1,886)	30,026	(543,527)
Vehicles	(356,720)	(6,471)	(35,689)	(2,057)	37,694	(363,243)
Furniture and fixtures	(326,879)	(1,287)	(31,579)	(48)	28,220	(331,573)
Other tangible fixed assets	(23,718)		(7,437)		5,110	(26,045)
	<b>(2,866,869)</b>	<b>(13,942)</b>	<b>(373,768)</b>	<b>(514,200)</b>	<b>882,849</b>	<b>(2,885,930)</b>
Allowance for diminution in value	(100,548)					(308,405)
<b>Net book value</b>	<b>4,137,877</b>					<b>3,519,099</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Allowance for Diminution in Value

	1 January 2009 CZK'000	Charge for the year CZK'000	Release during the year CZK'000	31 December 2009 CZK'000
Buildings, halls and structures	(15,798)		15,798	
Machinery and equipment	(24,037)	(244,091)	22,580	(245,548)
Tangible assets under construction	(60,713)	(2,553)	409	(62,857)
	<b>(100,548)</b>	<b>(246,644)</b>	<b>38,787</b>	<b>(308,405)</b>

In 2009, the Group mainly created the allowance for rotables in the amount of CZK 243,395 thousand as it is expected that their value will be covered by sale rather than by use.

In 2010, the financial leasing of three Boeing B737 was expired and the aircraft were added to the assets at acquisition costs of CZK 484,996 thousand. Furthermore, the financial leasing of other four B737 aircraft was prematurely expired and the aircraft were added to the assets at acquisition costs of CZK 736,954 thousand.

The finance lease of three Boeing B737-500 expired in 2009 and the aircraft were added to the assets of the Group at the acquisition cost of CZK 383,518 thousand.

## Significant Fixed Assets Disposals in 2010

	Revenue from the sale CZK'000	Net book value CZK'000
Hangar F including land	815,886	129,648
6 aircraft Boeing B737	1,186,039	1,005,313
Land around the APC building	68,894	53,325
Land around Hangar F	34,089	34,089
Land under Hangar G	89,025	89,025

## Significant Fixed Assets Disposals in 2009

	Revenue from the sale CZK'000	Net book value CZK'000
Aircraft Airbus A310	247,125	1,886
APC building including land	606,710	437,910

## Advances

The advances paid in the amount of CZK 503,145 thousand as of 31 December 2010 (as of 31 December 2009: CZK 132,376 thousand) represent advances for 8 Airbus A319 aircraft, which will be delivered in 2011 – 2014. The Group has an option for the purchase of these aircraft. The prepayments are classified as unrefundable and they are recalculated using a historical foreign exchange rate.

The advances in the amount of CZK 0 thousand as of 31 December 2010 (as of 31 December 2009: CZK 990,316 thousand) related to Boeing B737 aircraft are not re-financed by a finance lease and became part of the acquisition costs of the respective aircraft at the expiry of the finance lease when the aircraft became property of the Group. The decrease of the advances of CZK 990,316 thousand in 2010 relates to the expiry of financial leasing of seven Boeing B737 and its addition to the assets of the Company. The decrease in the advances in 2009 in the amount of CZK 287,095 thousand relates to the expiry of the finance leasing of three Boeing B737 aircraft and their addition to the assets of the Group.

## Allowance for Diminution in Value

The Group creates an allowance for assets under construction – technical improvement of aircraft under finance lease, when the lessor did not approve the depreciation thereof. The Group further creates an allowance if the carrying value of an asset is greater than its estimated recoverable value; the carrying value is then reduced by an allowance to the recoverable value.

The fair value of aircraft purchased by the Parent Company after the expiry of the finance leases is significantly higher than their carrying amount.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Pledged Fixed Assets

The Group has pledged fixed assets as follows:

### At 31 December 2010:

	31 December 2010		Creditor*
	Net	Value of	
	book value	secured liability	
	CZK'000	CZK'000	
Full Flight Simulator B737		48,012	Middle-term operational loan from UniCredit Bank
Flight Simulator MFTD 320	20,073	20,073	Middle-term operational loan from UniCredit Bank

\* The pledges to secure the loan liability are activated only in case the Group is in default.

### At 31 December 2009:

	31 December 2009		Creditor*
	Net	Value of	
	book value	secured liability	
	CZK'000	CZK'000	
Full Flight Simulator B737		87,621	Middle-term operational loan from UniCredit Bank
Flight Simulator MFTD 320	21,315	21,315	Middle-term operational loan from UniCredit Bank
Aircraft ATR	2,078	132,325	Komerční banka, a.s.
Aircraft ATR	4,458		Commerzbank AG
Rotables to Airbus A310, B737, ATR	700,637	700,637	Ministry of Trade and Industry of the Czech Republic
Trade-mark		150,561	Ministry of Trade and Industry of the Czech Republic
IT Technologies	88,716	82,542	Ministry of Trade and Industry of the Czech Republic
Aircraft Boeing 737	369,136	461,000	Ministry of Trade and Industry of the Czech Republic
Hangar F	247,633	930,000	Ministry of Trade and Industry of the Czech Republic
Land	53,325	62,430	Ministry of Trade and Industry of the Czech Republic
Simulator A320	221,574	160,000	Ministry of Trade and Industry of the Czech Republic

\* The pledges to secure the loan liability are activated only in case the Group is in default.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Finance Leases

The Group uses assets under finance lease contracts that are not recorded as tangible fixed assets in the financial statements until the expiration of the lease.

Twelve aircraft are held under finance lease contracts as at 31 December 2010  
(as at 31 December 2009: 19 aircraft):

Aircraft	Currency	Expire date	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	USD '000	2010	248,551	218,727	248,551		
Airbus A319/A320	EUR '000	2018–2020	387,714	116,030	150,168	34,307	203,239
Total *	CZK '000		14,376,692	7,009,062	8,423,790	859,733	5,093,169

\* For the conversion from USD and EUR to CZK, the rate of the Czech National Bank as at 31 December 2010 was used.

In 2010, the prematurely expired four B737 aircraft financial leases and the instalments in the amount of CZK 316,658 thousand were paid as lump sum.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Vehicles Under Finance Lease:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Amounts paid on current finance lease contracts	32,282	32,203
Outstanding amounts payable within one year	17,256	17,100
Amounts payable after more than one year	3,034	2,828
Total lease payments paid on current finance lease contracts	<b>52,572</b>	<b>52,131</b>

## The Airbus A320 Flight Simulator Held Under a Finance Lease Contract:

	Expire date	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
in EUR thousands	2013	2,142	803	1,160	357	625
in CZK thousands*		53,679	20,123	29,070	8,946	15,663

\*For the conversion from EUR to CZK, the rate of the Czech National Bank as at 31 December 2010 was used.

The Group further operates 20 aircraft under operating lease (2009: 22 aircraft).

The information on operating lease commitments is disclosed in Note 26.



## 6. OTHER SECURITIES AND INVESTMENTS

### Other Long-Term Investments (Available for Sale)

#### At 31 December 2010:

	Number of securities	Nominal value	Cost CZK'000
Foreign			
SITA Inc. shares	46	EUR 230	6
SITA Inc. certificates			8,073
			<b>8,079</b>

#### At 31 December 2009:

	Number of securities	Nominal value	Cost CZK'000
Foreign			
SITA Inc. shares	51	EUR 255	7
SITA Inc. certificates			7,908
			<b>7,915</b>

Other investments available for sale are carried at cost at 31 December 2010 and 2009 because their fair value is not readily obtainable and the cost of obtaining the fair value measure is unreasonably high considering its impact on the Group's financial statements.

In 2010 and 2009, the Group obtained no dividends from other long-term investments available for sales.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Other Long-Term Investments

Foreign	31 December 2010 CZK'000	Income 2010 CZK'000	31 December 2009 CZK'000	Income 2009 CZK'000
SITA Inc. loan	7,859	159	7,098	344
Other			332	
	<b>7,859</b>		<b>7,430</b>	

## Short-Term Financial Assets

The structure of short-term financial assets:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Cash	27,273	25,923
Current accounts	124,344	183,907
Term deposits	809,913	379,131
Promissory notes	375,248	
	<b>1,336,778</b>	<b>588,961</b>

Term deposits – short-term (max. one month):

	31 December 2010 CZK'000	31 December 2009 CZK'000
Term deposits in CZK	347,737	307,003
Term deposits in EUR	121,541	31,758
Term deposits in GBP	34,056	23,839
Term deposits in USD	306,579	16,531
	<b>809,913</b>	<b>379,131</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 7. INVENTORIES

### At 31 December 2010:

	Cost CZK'000	Allowance for diminution in value CZK'000	Net book value CZK'000
<b>Material</b>			
Spare parts – aircraft	395,495	(163,049)	232,446
Spare parts – landing gears	17,167	(1,231)	15,936
Other material	11,763	(3,587)	8,176
Total material	424,425	(167,867)	256,558
Work in progress	53		53
Advances paid for inventory	3,093		3,093
<b>Total</b>	<b>427,571</b>	<b>(167,867)</b>	<b>259,704</b>

### At 31 December 2009:

	Cost CZK'000	Allowance for diminution in value CZK'000	Net book value CZK'000
<b>Material</b>			
Spare parts – aircraft	454,887	(151,580)	303,307
Other	16,214		16,214
Total material	471,101	(151,580)	319,521
Goods	57,114	(846)	56,268
Work in progress	1,952		1,952
Advances paid for inventory	1,934		1,934
<b>Total</b>	<b>532,101</b>	<b>(152,426)</b>	<b>379,675</b>

The change in the allowance for diminution in inventory value is analysed as follows:

	2010 CZK'000	2009 CZK'000
Opening balance as at 1 January	152,426	81,371
Increase in the year	17,058	83,524
Released during the year	(1,617)	(12,469)
<b>Closing balance as at 31 December</b>	<b>167,867</b>	<b>152,426</b>



## 8. RECEIVABLES

### Long-Term Receivables

	31 December 2010 CZK'000	31 December 2009 CZK'000
Long-term receivables	138,419	257,953
Allowance for diminution in value	(25)	(67)
Net value long-term receivables	<b>138,394</b>	<b>257,886</b>

Long-term receivables represent mainly prepayments, of which CZK 113,669 thousand as at 31 December 2010 (as at 31 December 2009: CZK 109,226 thousand) represents prepayments for operating leases of aircraft. Long-term prepayments maturing in more than five years represent the amount of CZK 32,993 thousand as at 31 December 2010 (as at 31 December 2009: CZK 25,956 thousand). These prepayments will be repaid to the Group if the Group fulfils the conditions defined by the contract at the expiration of the operating leases. The long-term prepayments further relate to the prepayments provided by the representations and also to the Customs Office as at 31 December 2009.

The long-term receivables further include a deferred tax asset of CZK 115,497 thousand as at 31 December 2009. As at 31 December 2010 the deferred tax asset was not recognized (Note 16).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## Short-Term Receivables

		31 December 2010 CZK'000	31 December 2009 CZK'000
Trade receivables	- current	905,124	1,456,518
	- overdue	585,190	386,397
		1,490,314	1,842,915
Allowance for doubtful receivables		(306,520)	(266,662)
<b>Net trade receivables</b>		<b>1,183,794</b>	<b>1,576,253</b>
Other receivables	- current	90,017	190,555
<b>Net other receivables</b>		<b>90,017</b>	<b>190,555</b>

The Group's receivables principally include receivables from other airlines for provided services, passenger and goods transport and receivables from sold traffic documents.

Overdue trade receivables primarily include amounts due from companies suspended from the IATA Clearing House or companies in bankruptcy.

Trade receivables overdue more than 180 days amounted to CZK 309,471 thousand as at 31 December 2010 (as at 31 December 2009: CZK 44,064 thousand).

Outstanding trade receivables are not secured. The payment of receivables settled through the IATA Clearing House is secured.

Other short-term receivables mainly comprise the fair value of derivatives as follows (Note 14):

	31 December 2010 CZK'000	31 December 2009 CZK'000
Currency swaps		436
Commodity collars		119,997
Commodity swaps	73,572	41,445
Currency forwards	2,368	10,818
	<b>75,940</b>	<b>172,696</b>

The short-term prepayments principally include prepayments for telecommunication, reservation and check-in systems, refreshment and brokerage.

The estimated receivables relate to provided services, not yet invoiced as at balance sheet date. It mainly includes provided overhauls of landing gears and estimations related to accounting of maintenance provision due to overhauls of leased aircraft and engines, which the Group paid to a third party.

The change in the allowance for doubtful receivables may be analysed as follows:

	2010 CZK'000	2009 CZK'000
Opening balance as at 1 January	266,687	31,490
Increase of allowance	92,145	249,313
Decrease of allowance	(33,024)	(3,793)
Decrease of allowance – written-off receivables	(19,263)	(10,323)
Closing balance as at 31 December	<b>306,545</b>	<b>266,687</b>

The creation of the allowance relating to receivables in 2009 primarily relates to the lease of aircraft with the crew for a customer who did not fulfil the contracted obligations.

The Company revalued the allowance to receivables denominated in foreign currencies at the balance sheet date. The revaluation is recognized in the profit and loss account as a change in allowances and provisions relating to operating activities. The revaluation of provision in the Company HOLIDAYS Czech Airlines, a.s. in the total amount of CZK 22,701 thousand is recognized in the profit and loss account as a financial expense together with the revaluation of relating receivables.



## 9. OTHER ASSETS

As at the balance sheet date, deferred expenses primarily represent finance lease payments for Airbus A319/A320 aircraft, aircraft and other property operating lease payments.

As at the balance sheet date, accrued income largely includes air coupons of other airlines when the flights were realized by the Parent Company, for which the income will occur in the following period.

## 10. EQUITY

### Authorized and Issued Share Capital

	No.	31 December 2010 CZK'000	No.	31 December 2009 CZK'000
Ordinary shares in nominal value CZK 5 thousand each, fully paid	1,047,102	5,235,510	547,102	2,735,510

As of 3 May 2010, the Government of the Czech Republic approved the capitalization of the state receivable related to the loan provided by OSINEK, a.s. "in liquidation" (Note 12).

Based on the decision of the extraordinary General Meeting held on 20 May 2010, the share capital of the Parent Company was increased by the monetary contribution with a subscription of 500 thousand pieces of new ordinary shares with a nominal value of CZK 5 thousand per share by the Ministry of Finance of the Czech Republic. At the same time, the offsetting agreement was signed to offset the receivable from the Ministry of Finance of the Czech Republic relating to the loan provided by OSINEK, a.s. "in liquidation" and receivable of the Company for payment of the new shares' issue price. By this agreement, CZK 2,500,000 thousand was transferred from liabilities to equity. The change was recorded in the Commercial Register on 19 July 2010.

The principal shareholders exceeding 20% of the share capital are as follows:

	31 December 2010 %	31 December 2009 %
Ministry of Finance of the Czech Republic	95.69	91.75
Other shareholders	4.31	8.25
	<b>100</b>	<b>100</b>

Based on the decision of the Parent Company General Meeting, held on 28 June 2010, the loss in the amount of CZK 3,756,125 thousand for 2009 was transferred to Accumulated Losses Brought Forward.

### Revaluation of Assets and Liabilities

The Group records the fair value remeasurement of assets in equity as follows:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Commodity derivatives – swaps	73,572	4,062
Replaced commodity derivatives – swaps		(13,738)
Currency derivatives – forwards	1,003	(135,576)
Currency derivatives – forwards (hedging aircraft)	(414,702)	(462,629)
Deferred tax asset / (liability)		115,497
Other		4
	<b>(340,127)</b>	<b>(492,380)</b>

Revaluation of assets and liabilities includes:

- ▶ replaced commodity derivatives with a negative impact on revaluation in the amount of CZK 0 thousand as at 31 December 2010 (as at 31 December 2009: CZK 13,738 thousand); the derivatives will be recognized in the profit and loss account as an expense in the periods during which the hedged item affects the profit and loss account (fuel expenses); and
- ▶ currency derivatives with a negative impact on revaluation in the amount of CZK 414,702 thousand as at 31 December 2010 (as at 31 December 2009: CZK 462,629 thousand), which were already settled and the loss is accrued to finance lease expenses over the duration of the finance lease of aircraft.



## 11. PROVISIONS

	Fixed assets repairs CZK'000	Personal costs CZK'000	Frequent Flyer Programme CZK'000	Income tax provision CZK'000	Other CZK'000	Total CZK'000
Closing balance as at 1 January 2009	1,598,102	262,879	94,696	25,409		1,981,086
Increase in the year	347,442	423,954	320,085	83	51,064	1,142,628
Released in the year	(120,446)	(261,705)	(15,236)	(25,409)		(422,796)
Used in the year	(528,047)	(79,664)	(17,462)			(625,173)
Closing balance as at 31 December 2009	<b>1,297,051</b>	<b>345,464</b>	<b>382,083</b>	<b>83</b>	<b>51,064</b>	<b>2,075,745</b>
Increase in the year	233,681	136,945	27,643	3,885	26,114	428,268
Released in the year	(121,508)	(121,646)		(83)		(243,237)
Used in the year	(192,932)	(233,572)	(28,199)			(454,703)
Closing balance as at 31 December 2010	<b>1,216,292</b>	<b>127,191</b>	<b>381,527</b>	<b>3,885</b>	<b>77,178</b>	<b>1,806,073</b>

For an analysis of the current and deferred income tax, see Note 16.

The provision for repairs of tangible fixed assets includes provisions relating to planned checks of aircraft and engines and overhauls of engines and landing gears. Part of these provisions is recognized as tax-deductible in accordance with the Act on Provisions 593/1992 Coll. in the amount of CZK 127,326 thousand as at 31 December 2010 (as at 31 December 2009: CZK 198,792 thousand).

In accordance with the Act on Provisions 593/1992 Coll., the Group creates tax-deductible provisions only for repairs of tangible assets owned by the Group. According to the amendment of this Act, the Group does not create any new tax-deductible provisions for repairs of tangible assets from 2009.

Remuneration of the Parent Company Management team, which resigned in October 2009, also included the 'OK Bonus'. A provision was recognized for the estimated amount of the OK Bonus in the relevant reporting period. Following the finalization of the financial statements under International Financial Reporting Standards as adopted by the EU for the year ended 31 December 2009, the final amount of the OK Bonus was determined by an independent advisory firm for the

entire 2006 – 2009 period. Based on the calculation, the provision was released in the amount of CZK 112,282 thousand during 2010. As of 31 December 2009, the provision recognized in accounting records remained the same as at 31 December 2008 (i.e. in the amount of CZK 120 million). The amount of the OK Bonus was not possible to estimate with reasonable certainty as of the date of 2009 financial statements completion due to an uncertainty related to the interpretation of the mechanism of the calculation, which is prepared by an independent advisory firm, although the Parent Company Management performed a detailed analysis of the OK Bonus amount calculation.

The other provision represents a provision for prematurely terminated lease and other contracts, a provision for the loss from sale of the aircraft B737 and a provision for legal disputes.



## 12. LIABILITIES

### Long-Term Payables

	31 December 2010 CZK'000	31 December 2009 CZK'000
Long term prepayments received	1,139	1,319
Interest rate swaps	53,996	58,051
Other payables	1,318	633
	<b>56,453</b>	<b>60,003</b>

### Short-Term Payables

	31 December 2010 CZK'000	31 December 2009 CZK'000
Trade payables		
- current	1,119,693	1,364,382
- overdue	10,791	6,354
	<b>1,130,484</b>	<b>1,370,736</b>
Other payables		
- current	44,933	2,725,517
Estimated payables	1,160,469	1,792,049

Trade and other payables have not been secured by the Group's assets.

Short-term trade payables overdue comprise of liabilities under complaint procedures. Payables overdue more than 180 days amounted to CZK 4,356 thousand as at 31 December 2010 (2009: CZK 6,351 thousand).

As at 31 December 2010, the Group records liabilities for social security and health insurance amounting to CZK 76,691 thousand (as at 31 December 2009: CZK 69,451 thousand). The recorded payables are not overdue.

The Group has no tax arrears to the relevant tax authority.

As of 31 December 2009, the other liabilities also contain a non-banking loan in the amount of CZK 2,500,000 thousand provided by the Ministry of Trade and

Industry of the Czech Republic. The loan was provided by OSINEK, a.s. "in liquidation" during 2009 and was due for repayment in November 2010. According to the agreement dated 29 September 2009, the loan was transferred from OSINEK, a.s. "in liquidation" to the Ministry of Trade and Industry of the Czech Republic. As at 14 May 2010, the right to manage the receivable was transferred to the Ministry of Finance of the Czech Republic (Note 10). The loan carried a variable interest rate based on PRIBOR.

In 2010, the interest rate fluctuated between 4.43% and 4.54% p.a. (2009: 4.90% and 5.52% p.a.).

The Government instructed the Ministry of Finance, in cooperation with the Chairman of the Office for Protection and Competition, to ensure the notification of the Restructuring Plan to the European Commission, which is undertaking a review relating to the loan provided by OSINEK, a.s. "in liquidation".

Other short-term payables also comprise of the fair value of derivatives as follows (Note 14):

	31 December 2010 CZK'000	31 December 2009 CZK'000
Currency swaps		1,166
Currency forwards	1,364	146,395
Commodity swaps		37,383
	<b>1,364</b>	<b>184,944</b>

Estimated payables represent the volume of services provided to the Group in terms of aircraft operation (for example, aviation fuel, handling, landing, navigation), not yet invoiced as at the balance sheet date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 13. LOANS AND OTHER BORROWINGS

	31 December 2010 CZK'000	31 December 2009 CZK'000
Short-term bank loans due within 1 year		132,352
Part of long-term loans due within 1 year	40,851	53,700
Total loans due within 1 year	<b>40,851</b>	<b>186,052</b>
Part of long-term loans due between 1 – 5 years	27,234	68,085
Total loans and overdrafts	<b>68,085</b>	<b>254,137</b>

### Short-Term Bank Loans

Purpose	Currency	Balance at 31 December 2010 in currencies '000	Balance at 31 December 2010 CZK'000	Balance at 31 December 2009 in currencies '000	Balance at 31 December 2009 CZK'000
Operating loan	EUR			5,001	132,352
Total					<b>132,352</b>

Interest rates relating to bank loans are variable on the basis of PRIBOR. The level of interest rates relating to short-term bank loans fluctuated between 3.12% and 4.15% p.a. in 2010 (2009: between 0.90% and 5.54% p.a.).

### Long-Term Bank Loans

Purpose	Currency	Balance at 31 December 2010 in currencies '000	Balance at 31 December 2010 CZK'000	Balance at 31 December 2009 in currencies '000	Balance at 31 December 2009 CZK'000
Financing of B737 aircraft	USD			700	12,849
Medium-term operating loan	CZK	68,085	68,085	108,936	108,936
Total			<b>68,085</b>		<b>121,785</b>

Interest rates relating to bank loans are variable on the basis of PRIBOR or LIBOR. The level of interest rates fluctuated between 4.25% and 4.56% p.a. in 2010 (2009: between 3.46% and 5.11% p.a.).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Schedule of repayments of long-term bank loans (CZK thousand):

Purpose	Currency	2011	2012	Total
Medium-term operating loan	CZK	40,851	27,234	68,085

Security of long-term bank loans:

Purpose	Form of collateral
Financing of B737 aircraft	promissory notes
Medium-term operating loan	Full Flight Simulator Boeing B737 and MFTD A320 Simulator (Note 5)



## 14. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of commodity and financial derivatives is presented in “Other receivables” if positive, or in “Other payables” if negative. The derivatives can be analysed as follows:

	31 December 2010			31 December 2009		
	Fair value		Nominal amount CZK'000	Fair value		Nominal amount CZK'000
	Positive CZK'000	Negative CZK'000		Positive CZK'000	Negative CZK'000	
<b>Trading derivatives</b>						
Interest rate swaps		53,996	781,071		58,051	961,316
Currency swaps				436	1,166	582,931
		<b>53,996</b>	<b>781,071</b>	<b>436</b>	<b>59,217</b>	<b>1,544,247</b>
<b>Cash flow hedges</b>						
Currency forwards	2,368	1,364	150,360	10,818	146,395	2,094,619
Commodity collar				119,997		1,821,876
Commodity swaps	73,572		433,978	41,445	37,383	750,564
	<b>75,940</b>	<b>1,364</b>	<b>584,338</b>	<b>172,260</b>	<b>183,778</b>	<b>4,667,059</b>
<b>Total derivatives</b>	<b>75,940</b>	<b>55,360</b>	<b>1,365,409</b>	<b>172,696</b>	<b>242,995</b>	<b>6,211,306</b>

The Group is exposed to fluctuations in fuel prices, interest rates and foreign exchange rates. In recognition of this fact, it is the Company's policy to (i) balance any such risks internally as far as possible, (ii) control net positions in a way to produce the optimum effect on net income and (iii) hedge open positions wherever it is deemed necessary. The Group identifies particular future cash flows for which a hedging derivative instrument is arranged/concluded.

While the Group designates all derivatives for the purpose of the economic hedge, the Group has certain derivative transactions, which provide effective economic hedges under the Group's risk Management strategy, but hedge accounting is not applied to them. These are largely short-term derivative transactions and the application of hedge accounting would not have a significant impact on the financial statements while resulting in a significant administrative burden for the Group or some of the hedge accounting criteria are not met (for example, effectiveness).

These derivatives are therefore presented as trading derivatives in the table above. Fair value changes of the trading derivatives are recognized in the profit and loss account.

Fair value changes of the above-described cash flow hedging instruments are recognized in the “Gains and losses from the revaluation of assets and liabilities” within equity until the hedged items affect the profit and loss account. The “Gains and losses from the revaluation of assets and liabilities” in equity only includes the intrinsic value of currency options that hedge cash flows.



## 15. OTHER LIABILITIES

Deferred income includes amounts received from sold traffic documents that were not yet realized as at the balance sheet date, i.e. were not yet flown on.

Within the delivery of twelve Airbus A320/A319 aircraft, the Parent Company acquired certain fixed assets without consideration as part of delivery in 2010 and 2009. These fixed assets are capitalized as part of tangible fixed assets upon the delivery and depreciated in accordance with the depreciation plan. The total revenue from these fixed assets received for free is deferred and amortized through the deferred income account over the period of the finance lease to the profit and loss account as an item decreasing the finance lease expenses.



## 16. TAXATION

During the 2010 tax period, the Group recognized the income tax provision in the amount of CZK 3,885 thousand. During the 2009 tax period, the income tax was CZK 83 thousand. In 2009, the income tax provision in the amount of CZK 25,409 thousand was released after the determination of the actual tax payable for 2008.

The deferred tax asset/(liability) is calculated at the 19% tax rate (2009: 19%).

The deferred tax asset/(liability) can be analysed as follows:

	31 December 2010		31 December 2009	
	Equity CZK'000	Profit and loss account CZK'000	Equity CZK'000	Profit and loss account CZK'000
<b>Deferred tax liability:</b>				
Difference between tax and accounting net book values of fixed assets		(7,026)		(560)
Hedging derivative instruments – short-term	(14,429)			
Hedging derivative instruments – long-term				
	<b>(14,429)</b>	<b>(7,026)</b>		<b>(560)</b>
<b>Deferred tax asset:</b>				
Difference between tax and accounting net book values of fixed assets		57,712		42,642
Allowances		98,084		135,109
Provisions		318,162		356,396
Hedging derivative instruments – short-term	259		27,597	
Hedging derivative instruments – long-term	78,794		87,900	
Tax losses		457,475		
	<b>79,053</b>	<b>931,433</b>	<b>115,497</b>	<b>534,147</b>
Net deferred tax asset / (liability)	<b>64,624</b>	<b>924,407</b>	<b>115,497</b>	<b>533,587</b>
Recognized deferred tax assets / (liability)		(985)	115,497	(560)

A deferred tax asset of CZK 115,497 thousand as at 31 December 2009 relating to items recorded directly to equity was recorded to equity (Note 10).

In 2010, the deferred tax asset in the amount of CZK 115,497 thousand was derecognized. The total deferred tax asset in the amount of CZK 988,046 thousand was not recognized as the Group does not have reasonable certainty that the amount will be

recoverable in following periods. The Group recognized the deferred tax liability in the amount of CZK 985 thousand (2009: CZK 560 thousand). The deferred tax liability is not possible to settle with the deferred tax asset within the Group's tax base.



## 17. REVENUE ANALYSIS

Revenue from ordinary activities has been generated as follows:

	2010 CZK'000	2009 CZK'000
Sales of goods	<b>46,622</b>	<b>573,430</b>
Regular transportation		
- international	11,024,110	12,354,819
- domestic	137,147	179,689
Charter services		
- international	1,493,472	2,386,610
Other services		
- foreign countries	908,207	1,383,578
Security and fuel fee	1,961,745	2,055,235
Service fee	84,936	104,268
Operational handling fee and airport taxes	485,382	492,659
Maintenance provision release	396,942	301,648
Settlement of unused traffic documents	367,620	549,112
<b>Services</b>	<b>16,859,561</b>	<b>19,807,618</b>

The Group's revenues were generated by conducting business with a number of clients in 2010 and 2009. The major clients are as follows:

- ▶ airlines that have contracts with the Group for mutual provision of transport services, optionally bi-lateral contractual arrangements of non-transportation services (for example, aircraft repairs, handling, etc.);
- ▶ travel agencies and individuals who buy transport services; and
- ▶ other buyers – non-airlines that buy non-transportation services.

## 18. COST OF MATERIALS, ENERGY AND SERVICES

	2010 CZK'000	2009 CZK'000
Consumed materials	4,050,061	5,749,330
Energy	100,247	97,895
Repairs and maintenance	1,016,713	1,364,631
Travel expenses	208,145	325,526
Services related to transport	682,349	1,118,392
Distribution, selling and check-in services	708,765	764,431
Noise, navigation, landing, parking fees	2,180,940	2,488,130
Ground handling services	898,180	885,116
Services for passengers (refreshment, etc.)	614,316	561,753
Finance leases	1,325,326	1,325,881
Operating leases of aircraft including maintenance provision	1,131,969	1,295,927
Mandatory audit of the financial statements	6,051	3,009
Other services	1,332,133	1,617,596
	<b>14,255,195</b>	<b>17,597,617</b>

The item "Other services" includes temporary allocation of employees, rent of residential and non-residential premises, telecommunication and marketing services, legal and consultancy services.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 19. EMPLOYEE ANALYSIS

Employee numbers	2010	2009
Average number of members of the Management	32	38
Average number of staff	4,687	5,034
	4,719	5,072

The Management includes the Top Management (level B) and Management (level B-1).

	Management CZK'000	Other staff CZK'000	Total CZK'000
<b>2010</b>			
Wages and salaries	55,387	2,745,572	2,800,959
Social security costs	14,226	824,523	838,749
Other social costs	566	72,245	72,811
	<b>70,179</b>	<b>3,642,340</b>	<b>3,712,519</b>
<b>2009</b>			
Wages and salaries	129,849	3,682,092	3,811,941
Social security costs	14,181	917,068	931,249
Other social costs	2,009	134,929	136,938
	<b>146,039</b>	<b>4,734,089</b>	<b>4,880,128</b>

Total staff costs are reported without remuneration granted to members of statutory authorities and staff costs abroad.

Staff costs abroad include personal costs of local staff and representatives at business representations of the Group in foreign countries. They are reported separately in the profit and loss account.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Remuneration granted to members of statutory authorities and the Company's Management are stated as follows:

	Board of Directors/ Managing Director CZK'000	Supervisory Board CZK'000	Other members of the Management CZK'000	Total CZK'000
<b>2010</b>				
Remuneration	3,100	1,619		4,719
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	363	303	838	1,504
Other benefits (responsibility of statutory authorities insurance)	204	245		449
<b>2009</b>				
Remuneration	1,788	4,346		6,134
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	527		1,083	1,610
Other benefits (responsibility of statutory authorities insurance)		485		485

## 20. OTHER OPERATING INCOME

	2010 CZK'000	2009 CZK'000
Subsistence allowance	1,916	3,088
Income from advertisement	17,716	14,118
Income from sold and written-off receivables	227	425
Income from intermediary activities	4,094	4,215
Income from slot exchange	486,162	
Settlement of shortages and losses	8,595	46,022
Government grants and public support	40,691	29,309
Income from re-invoicing	18,623	21,205
Other	77,898	40,972
	<b>655,922</b>	<b>159,354</b>

The item "Other" includes income from insurance indemnification for damage relating to landing gear overhaul and income from invoicing for the undesirable passengers.

In 2010, the Parent Company exchanged the landing and take-off slots at the London Heathrow destination. The income in the amount of CZK 486,162 thousand was realized.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 21. OTHER OPERATING EXPENSES

	2010 CZK'000	2009 CZK'000
Fines and penalties	68,437	121,226
Write-offs of receivables	29,306	11,698
Insurance	89,475	98,712
Denied boarding compensation	27,436	21,645
Wages and salaries settlement (e.g. termination benefits, injury compensation)	2,068	1,934
Compensations to passengers (e.g. hotel accommodation, refreshment and phones in the case of flight cancellation, rebooking, etc.)	45,399	31,538
Marketing expenses	5,269	11,558
Shortages and damages	11,527	15,510
Other	22,463	57,279
	<b>301,380</b>	<b>371,100</b>

In 2010, the item "Other" contains the brokerage from the sale of aircraft and other non-taxable expenses. In 2009, the item "Other" represents the disposal of rotables in the amount of CZK 18,701 thousand.

## 22. OTHER FINANCIAL INCOME

	2010 CZK'000	2009 CZK'000
Foreign exchange gains	564,013	987,566
Income from derivative financial instruments	220,105	1,115,398
Other		942
	<b>784,118</b>	<b>2,103,906</b>

## 23. OTHER FINANCIAL EXPENSES

	2010 CZK'000	2009 CZK'000
Foreign exchange losses	672,232	1,116,791
Expenses from derivative financial instruments	269,162	941,057
Bank charges for transaction payments made by credit cards	93,189	102,391
Other	16,605	22,976
	<b>1,051,188</b>	<b>2,183,215</b>

## 24. EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses relate to the sale of part of the Company's business Duty Free. The income from the sale was in the amount of CZK 767,195 thousand and the carrying amount of assets and liabilities of the sold part was CZK 59,177 thousand.

## 25. RELATED PARTY TRANSACTIONS

The Group was involved in the following related party transactions:

Revenue	2010 CZK'000	2009 CZK'000
<i>Other related companies</i>		
Letiště Prague, a.s. (former Správa Letiště Prague, s.p.)	1,098,720	612,794
ČEZ, a.s.	102	
	<b>1,098,822</b>	<b>612,794</b>

Revenues received from ČEZ, a.s. represents the interest income from the promissory notes issued by ČEZ, a.s. (Note 6).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

<b>Expenses</b>	<b>2010 CZK'000</b>	<b>2009 CZK'000</b>
<i>Other related companies</i>		
Letiště Prague, a.s. (former Správa Letiště Prague, s.p.)	1,772,257	264,821
	<b>1,772,257</b>	<b>264,821</b>

The following related party balances were outstanding at:

<b>Receivables</b>	<b>31 December 2010 CZK'000</b>	<b>31 December 2009 CZK'000</b>
<i>Other related companies</i>		
Letiště Prague, a.s. (former Správa Letiště Prague, s.p.)	7,544	114,352
	<b>7,544</b>	<b>114,352</b>

<b>Payables</b>	<b>31 December 2010 CZK'000</b>	<b>31 December 2009 CZK'000</b>
<i>Other related companies</i>		
Letiště Prague, a.s. (former Správa Letiště Prague, s.p.)	324,721	423,776
	<b>324,721</b>	<b>423,776</b>

The following related party balances of provided and received loans were outstanding at:

<b>Received loans – short-term</b>	<b>31 December 2010 CZK'000</b>	<b>31 December 2009 CZK'000</b>
Ministry of Trade and Industry of the Czech Republic (Note 12)		2,500,000

Company cars are available to members of Management and to members of the Board of Directors (Note 19).

Total remuneration for the members of the Board of Directors, Managing Director and the members of the Supervisory Board is disclosed in Note 19.

Besides the above-stated remuneration and benefits, there were no other considerations provided to the Group's shareholders, members of the Company's boards and the Management in 2010 and 2009.

In 2009, land in the 'North' area at the Prague – Ruzyně airport was purchased from Letiště Prague, a.s. (Note 5). Správa Letiště Prague, s.p. has been transformed into Letiště Prague, a.s. This entity, as well as České aerolinie a.s., is owned by the Czech state.

In 2010, the sale of Hangar F, land around Hangar F and land around the APC administration building was realized to Letiště Prague, a.s.



## 26. COMMITMENTS

The Company has the following future commitments with respect to operating leases of 20 aircraft as at 31 December 2010 (as at 31 December 2009: 22 aircraft):

Aircraft	Currency	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	USD '000	39,001	19,922	27,811	9,153	2,037
Airbus A310/ A320/A321/A319	USD '000	165,093	69,594	85,366	16,242	63,485
ATR 42	USD '000	68,456	41,972	50,525	8,554	9,377
<b>Total</b>	USD '000	<b>272,550</b>	<b>131,488</b>	<b>163,702</b>	<b>33,949</b>	<b>74,899</b>
<b>Total*</b>	CZK '000	<b>5,110,585</b>	<b>2,465,531</b>	<b>3,069,576</b>	<b>636,578</b>	<b>1,404,431</b>

\*For the conversion from USD to CZK, the rate of the Czech National Bank as at 31 December 2010 was used.

Except for the future commitments with respect to operating leases, the Company has the following future commitments with respect to non-residential premises:

Rent	Currency	Total lease payments	Total amounts paid at 31 December 2009	Total amounts paid at 31 December 2010	Outstanding amounts payable within one year	Amounts payable after more than one year
Non-residential premises	EUR '000	3,702	397	1,160	726	1,816
Non-residential premises**	CZK '000	3,023,642	220,134	345,991	124,579	2,553,072
<b>Total *</b>	CZK '000	<b>3,116,414</b>	<b>230,083</b>	<b>375,061</b>	<b>142,772</b>	<b>2,598,581</b>

\* For the conversion from EUR to CZK, the rate of the Czech National Bank as at 31 December 2010 was used.

\*\* Non-residential premises – amounts payable after more than one year include the rent of real estate with the contractual rental period of 20 to 30 years.

The Group will purchase eight Airbus A319 aircraft in 2011 – 2014, in the total official list price value of USD 586,786 thousand as at the delivery date. The actual price will be set in accordance with the contract signed in 2005.

The Group has no other undisclosed significant commitments.



## 27. CONTINGENT ASSETS AND LIABILITIES

In 2008, the Parent Company concluded an agreement on future contracts for establishing the easement relating to the land in the Ruzyně airport area in the total amount of CZK 149,630 thousand. The conclusion of the contracts for the establishment of the easement and also the settlement of the purchase price are linked to the fulfilment of legal acts in the future (for example, a legally valid building permit).

Contingent liabilities are incurred by the Group from the activities disclosed in Notes 5 and 26 and from the Group's impact on the environment.

The Group applies an environmental policy under which the impacts of its activities on the environment are monitored specifically in the following areas:

- ▶ treatment of solid and liquid waste;
- ▶ air pollution; and
- ▶ noise from airline activities.

The Group is a defendant in several legal disputes. The Group's Management believes that the outcome of these suits will not have a material effect. The Group has a provision for some legal disputes (Note 11). The Group is additionally dealing with certain of its receivables from bankrupt debtors through the court system.

There are guarantees drawn in favour of the Group especially to secure cash received from sales of traffic documents by agencies and to secure future repairs connected with delivered construction contracts. The Group further issued bank guarantees to secure customs liabilities and other parties related to operating activities.

The Group has insured its assets including aircraft and liability for damage.

The Group is not aware of any breaches of applicable standards that may trigger significant sanctions or any other charges.

The Group's Management is not aware of any other significant unrecorded contingent liabilities as at 31 December 2010 and 2009.

## 28. CASH FLOW STATEMENT

The Company has prepared the cash flow statement using the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash, i.e. all short-term financial assets.

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

## 29. SUBSEQUENT EVENTS

As of 19 January 2011, the Government Resolution decided to privatize a part of assets of Správa Letiště Prague, s.p. by contribution to Český Aeroholding, a.s. The Company was established as of 11 March 2011.

As of 1 January 2011, the Company transferred the activities and employees of the Customs Department and the Waste and Water Management Department to its subsidiary, Czech Airlines Technics, a.s.

As of 1 January 2011, the Company transferred a part of activities and employees of the Revenue Accounting Department to its subsidiary, CSA Services, s.r.o.

As of 1 January 2011, IT employees were transferred to Letiště Prague, a.s.

In January 2011, the Board of Directors of HOLIDAYS Czech Airlines, a.s. decided to lease two Airbus A320 aircraft in the year 2011.

In January 2011, the Company sold the B737 aircraft. The revenues amounted to CZK 128,026 thousand and resulted in a carrying amount of CZK 110,059 thousand.

As of 15 February 2011, the Commercial Register deleted Mr. Tomáš Uvíra, a member of the Company's Supervisory Board, whose membership in the Supervisory Board ended as of 31 January 2011.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

As of 15 February 2011, the Company's Board of Directors decided to transfer the landing gears division to the Czech Airlines Landing Gears, s.r.o. subsidiary, which was established by the decision of the Board of Directors on 11 April 2011.

As of 1 April 2011, the structure of the Parent Company Supervisory Board was changed. Mr. Michal Mejstřík remained as the Chairman of the Supervisory Board, Mr. Petr Matoušek became the Vice-Chairman of the Supervisory Board and Mr. Josef Maurer became a member of the Supervisory Board. Mr. Tomáš Brabec and Mr. Radomil Kratochvíl were recalled from the position of members of the Supervisory Board. Mr. Miroslav Dvořák, chairman, and Mr. Josef Adam, member, were recalled from the Board of Directors.

As of 11 April 2011, the structure of the Parent Company Board of Directors was changed. Mr. Philippe Moreels became the Chairman, Mr. Marek Týbl became the Vice-Chairman and Mr. Jiří Marek remained a member of the Board of Directors.

These consolidated financial statements were prepared on 6 May 2011.

Statutory body of the reporting entity

**Philippe M. Moreels**

Chairman of the Board of Directors

**Marek Týbl**

Vice-Chairman of the Board of Directors



# CZECH AIRLINES AIRCRAFT FLEET – OVERALL OPERATIONAL INDICATORS

ANNUAL REPORT 2010 | 139

	A310	A319	A320	A321	B737	B734	B735	AT72	AT42	LEASE	BSA	IN TOTAL
<b>NON-FINANCIAL INDICATORS - ABSOLUTE</b>												
Registered number of aircraft		8	8	2			9	4	8			39
Average number of aircraft	1.21	7.76	8.00	2.00	1.54	4.37	9.93	4.00	8.00			46.81
Form of ownership												9
– own							4	4	1			
– financial leasing		6	6									12
– operational leasing		2	2	2			5		7			18
Average age of aircraft		2.58	5.65	13.59			16.06	18.80	7.88			9.63
Kilometres flown												
– regular transport	1,408	19,618,914	17,353,817	353,269	144,910	2,784,334	12,516,721	3,374,932	6,155,025	1,015,685		63,319,015
– total	731,370	19,679,345	18,746,470	2,753,191	2,413,173	2,891,415	12,631,831	3,376,315	6,409,753	1,015,685		70,648,548
Net flying hours												
– productive	899.67	28,450.83	26,851.76	3,838.07	3,400.08	4,406.27	19,750.54	8,872.28	16,485.51	2,858.72		115,813.73
– total	915.61	28,490.61	26,869.18	3,843.55	3,406.28	4,451.62	19,785.95	8,999.14	16,525.81	2,858.72		116,146.47
Block flying hours												
– productive	946.19	33,004.41	31,276.68	4,306.20	3,797.27	5,226.95	23,813.94	10,181.99	19,037.74	3,482.72		135,074.09
– total	966.84	33,058.71	31,308.58	4,313.03	3,805.76	5,281.27	23,863.52	10,324.98	19,089.52	3,482.72		135,494.93
Number of take-offs	119	14,220	13,051	1,564	1,327	2,548	13,865	7,417	15,144	3,215		72,470
Number of passengers	13,707	1,231,289	1,406,546	222,336	152,598	237,950	970,363	298,246	424,114	65,601	39,006	5,061,756
Converted tonne-kilometres used (000)	10,535	166,608	196,395	39,568	27,801	25,528	84,534	12,678	16,845	1,939	10,778	593,208
Converted tonne-kilometres offered (000)	14,962	308,555	324,412	56,880	35,819	43,638	156,546	19,687	26,795	3,045	14,596	1,004,935
Passenger-kilometres flown (000)	117,041	1,758,114	2,084,336	433,365	308,352	275,985	902,432	138,068	183,833	21,538	119,754	6,342,818
Passenger-kilometres offered (000)	147,373	2,528,477	2,884,060	578,281	390,111	403,673	1,306,841	214,942	294,594	33,533	162,174	8,944,059
Aviation fuel consumption in tonnes	4,586	68,743	70,505	11,887	9,160	11,415	48,897	5,911	10,869	1,255		243,230
<b>NON-FINANCIAL INDICATORS - RELATIVE</b>												
Daily aircraft use												
– from net time	2	10	9	5	6	3	5	6	6			7
– from block time	2	12	11	6	7	3	7	7	7			8
– from block time*	9	12	11	9	7	6	8	8	7			9
Average stretch length (km)	6,146	1,384	1,436	1,760	1,819	1,135	911	455	423	316		975
Average stretch length (hours)												
– from net time	7.7	2.0	2.1	2.5	2.6	1.7	1.4	1.2	1.1	0.9		1.6
– from block time	8.1	2.3	2.4	2.8	2.9	2.1	1.7	1.4	1.3	1.1		1.9
Average speed (km/h)												
– from net time	799	691	698	716	708	650	638	375	388	355		608
– from block time	756	595	599	638	634	547	529	327	336	292		521
Average payload of aircraft (kg)	14,404	8,466	10,476	14,372	11,521	8,829	6,692	3,755	2,628	1,909		8,397
of which goods, mail (kg)	2	426	470	205	20	238	262	75	47	1		1,296
i.e. in %	0.01	5.03	4.48	1.43	0.18	2.70	3.92	1.99	1.78	0.04		15.43
Average payload offered (kg)	20,457	15,679	17,305	20,660	14,843	15,092	12,393	5,831	4,180	2,998		14,224
% of total offered capacity	70	54	61	70	78	58	54	64	63	64	74	59
% use of total offered capacity*	58	49	59	72	70	58	51	59	56	57	51	57
Average number of PAX	160	89	111	157	128	95	71	41	29	21	19	79
Average number of seats offered	202	128	154	210	162	140	103	64	46	33	25	111
% use of seat capacity	79	70	72	75	79	68	69	64	62	64	74	71
% use of seats capacity*	78	63	69	78	73	67	65	59	57	56	51	68
Average taxiing time (min.)	26	19	20	18	18	20	18	11	10	12		16
Aviation fuel consumption (kg)												
– per net hour	5,009	2,413	2,624	3,093	2,689	2,564	2,471	657	658	439		2,094
– per block hour	4,744	2,079	2,252	2,756	2,407	2,161	2,049	573	569	360		1,795
Aviation fuel consumption (g) per offered passenger-kilometre	31	27	24	21	23	28	37	28	37	37		27

\* Actual results of previous year



		<b>2010</b>
<b>Flights</b>	<b>total</b>	<b>35,978.0</b>
	ITR*	34,003.5
	DT**	1,974.5
<b>Km flown</b> 000	<b>total</b>	<b>70,648.5</b>
	ITR	69,681.5
	DT	967.0
<b>Hours sold</b> net	<b>total</b>	<b>115,813.7</b>
	ITR	113,049.7
	DT	2,764.0
<b>Number of passengers transported</b> 000	<b>total</b>	<b>5,061.8</b>
	ITR	4,975.5
	DT	86.3
<b>Passenger-kilometres flown</b> 000 000	<b>total</b>	<b>6,342.8</b>
	ITR	6,320.9
	DT	21.9
<b>Seating capacity used</b>	<b>total</b>	<b>70.9</b>
	ITR	71.0
	DT	53.5
<b>tkm used</b> including cargo flights 000 000	<b>total</b>	<b>597.7</b>
	ITR	595.7
	DT	2.0
<b>Cargo tkm used</b> including cargo flights 000 000	<b>total</b>	<b>26.9</b>
	ITR	26.9
	DT	0.0
<b>Offered capacity used</b> including cargo flights	<b>total</b>	<b>58.7</b>
	ITR	58.8
	DT	52.6

\* ITR – International Transport, \*\* DT – Domestic Transport

Note: The table shows the total for Czech Airlines a.s. and HOLIDAYS Czech Airlines (fleet incl. OK-WGX/-WGY, regular transport performance for months January through December 2010, charter transport for the months January through September 2010.

In 10/2010 the subsidiary Company for charter transport HOLIDAYS Czech Airlines a.s. acquired the Certificate of a Flight Operator with own ICAO code HCC.



## SECTION I. ENTITIES IN THE GROUP

### 1. Controlled Entity

Czech Airlines a.s.  
registered office at Prague 6, Letiště Ruzyně, post code 160 08, ID No.: 45795908  
entered in the Commercial Register administered by the Municipal Court in Prague,  
Section B, File No. 1662 (**hereinafter referred to as the “controlled entity”**).

The controlled entity is a trading Company engaged mainly in commercial air transportation. The subject of business is specified in the Company regulations.

### 2. Controlling Entity

Czech Republic – Ministry of Finance  
registered office at Letenská 525/15, 118 10 Prague 1, ID No. 00006947  
(**hereinafter referred to as the “controlling entity”**).

The Ministry is a central body of the state administration constituted by the Czech National Council Act No. 2/1969, on the establishment of the ministries and other central bodies of the state administration of the Czech Republic, as amended (hereinafter referred to as the “Competence Act”).

The Ministry's main activities stem from the scope set by the Competence Act. In accordance with Act No. 178/2005 Coll., on the abolition of the National Property Fund of the Czech Republic (hereinafter the Fund) and on the agencies of the Ministry of Finance of the Czech Republic in the privatization of the property of the Czech Republic, all the assets of the Fund passed to the state on 1 January 2006. As of the date of the abolition of the Fund the state assumed all the rights and obligations of the legal relations to which the Fund was a party. The Ministry of Finance is competent to manage the property passed to the state. Under this Act the Ministry of Finance of the Czech Republic acquired the shares of the controlled entity and exercises the shareholder rights.

### 3. Interconnected Entities

1. Company: **Exportní garanční a pojišťovací společnost, a.s.**  
registered office at 111 21 Prague 1, Vodičkova 34/701  
ID No.: 45 27 93 14, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 1619

The Company is engaged mainly in the insurance business according to the Act on Insurance, specifically branches 14, 15 and 16 of non-life insurance etc. The subject of business is further specified in the Regulations of the company.

2. Company: **Severočeské mlékárny, a.s. Teplice**  
of registered office at 415 03 Teplice, Libušina 2154  
ID No.: 48 29 17 49, entered in the Commercial Register administered by the Regional Court in Ústí nad Labem, Section B, File No. 438

The Company is engaged mainly in the production of milk and related products. The subject of business is further specified in the Regulations of the company.

3. Company: **KONAX a.s. - v likvidaci (in liquidation)**  
registered office at Jihlava, Křižíkova 17, ID No.: 46 34 78 01  
entered in the Commercial Register administered by the Regional Court in Brno, Section B, File No. 807

4. Company: **Ormmilk, a.s. v likvidaci (in liquidation)**  
registered office at 564 01 Žamberk, ID No.: 60 10 90 92, entered in the Commercial Register administered by the Regional Court in Hradec Králové, Section B, File No. 1043

The Company is mainly engaged in the production of milk and related products. The subject of business is further specified in the Regulations of the company.



# REPORT OF THE STATUTORY BODY OF THE COMPANY RELATIONS BETWEEN INTER-CONNECTED PERSONS IN ACCORDANCE WITH § 66a) (9) OF THE COMMERCIAL CODE

5. Company: **Municipální finanční společnost a.s., abbreviated form MUFIS a.s.**  
registered office at 110 00 Prague 1, Jeruzalémská 964/4  
ID No.: 60 19 66 96, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2517

The Company is mainly engaged in production, sales, and services not mentioned in Annexes 1 to 3 of the Trades Licensing Act. The subject of business is further specified in the Regulations of the company.

6. Company: **ČMFL, a.s. v likvidaci (in liquidation)**  
registered office at 170 06, Prague 7, Janovského 438/2  
ID No.: 25 54 18 89, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 11886

The Company is mainly engaged in financial leasing. The subject of business is further specified in the Regulations of the Company.

7. Company: **UNITEX a.s.**  
Erased from the Commercial Register on 8 July 2009.

8. Company: **Česká exportní banka, a.s.**  
registered office at 111 21 Prague 1, Vodičkova 34/701  
ID No.: 63 07 83 33, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 3042

The Company is mainly engaged in the activities according to § 1 (1) of Act. No. 21/1992 a) receiving deposits from the public, and b) credit provision etc. The subject of business is further specified in the Regulations of the Company.

9. Company: **ČEZ, a.s.**  
registered office at 140 53 Prague 4, Duhová 2/1444  
ID No.: 45 27 46 49, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 1581

The Company is mainly engaged in energy generation; assembly, repairs and maintenance of electrical apparatus; production of low-voltage switchboards; revision of electrical apparatus; production and import of chemicals and chemical preparations

classified as flammable, injurious to health; etc. The subject of business is further specified in the Regulations of the Company.

10. Company: **BH CAPITAL, a.s.**  
registered office at 602 00 Brno, Příkop 843/4,  
ID No.: 00 54 66 82, entered in the Commercial Register administered by the Regional Court in Brno, Section B, File No. 230

The Company is engaged in auditing, accountancy etc. The subject of business is further specified in the Regulations of the Company.

11. Company: **Teplotechna Prague, a.s.**  
registered office at 113 39 Prague 2, Ječná 39  
ID No.: 60 19 29 33, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2283

The Company is engaged in production, sales, and services not mentioned in Annexes 1 to 3 of the Trades Licensing Act.

12. Company: **SEVAC a.s. v likvidaci (in liquidation)**  
registered office at 281 63, District: Kolín, Kostelec nad Černými Lesy, Bohumile, ID No.: 60 19 29 68, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2291

The Company is mainly engaged in the research, development and production of immunological, biological, biochemical, chemical and pharmaceutical preparations, cosmetics, and other preparations linked to the principal production programs; and in supplying such products to customers. The subject of business is further specified in the Regulations of the Company.

13. Company: **Výzkumný a zkušební letecký ústav, a.s.**  
registered office at 199 05, Prague, Letňany, Beranových 130  
ID No.: 00 01 06 69, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 446

The Company is mainly engaged in research and development in natural, technical and social sciences. The subject of business is further specified in the Regulations of the Company.



# REPORT OF THE STATUTORY BODY OF THE COMPANY RELATIONS BETWEEN INTER-CONNECTED PERSONS IN ACCORDANCE WITH § 66a) (9) OF THE COMMERCIAL CODE

14. Company: **VIPAP VIDEM KRŠKO d.d.**

registered office at SI-8270 Krško, Tovarniška 18, Slovenia

The Company is mainly engaged in the production of cellular tissue from wood or other fibrous materials and in the production of paper and paperboard.

15. Company: **HOLDING KLADNO a.s. „v likvidaci“ (in liquidation)**

registered office at 272 00 Kladno, Cyrila Boudy 1444

ID No.: 45 14 44 19, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 1335

The Company is engaged mainly in the production and sale of raw steel, fine sectional steel, intermediate and coarse-grained steel universal mill plates and drawn steel, tubular products, welded steel pipes (excluding precision welded steel pipes), and rolls for metal shaping. The subject of business is further specified in the Regulations of the Company.

16. Company: **Hotelinvest a.s.**

registered office at 110 00 Prague 1, Nekázanka 4,

ID No.: 00 25 19 76, entered in the Commercial Register administered by the Municipal Court in Prague, Section BXXXVI, File No. 83

The Company is mainly engaged in production, sales, and services not mentioned in Annexes 1 to 3 of the Trades Licensing Act. The subject of business is further specified in the Regulations of the Company.

17. Company: **MERO ČR, a.s.**

registered office at 278 01 Kralupy nad Vltavou, Veltruská 748,

ID No.: 60 19 34 68, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2334

The Company is engaged mainly in the production, installation and repair of electrical machines and apparatus and electronic and telecommunication devices, etc. The subject of business is further specified in the Regulations of the Company.

18. Company: **ČEPRO, a.s.**

registered office at 170 04, Prague 7, Dělnická 213/12

ID No.: 60 19 35 31, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2341

The Company is engaged mainly in the production and manufacturing of fuels and lubricants; hazardous waste disposal; etc. The subject of business is further specified in the Regulations of the Company.

19. Company: **PPP Centrum a.s.**

registered office at 128 00 Prague 2, Rašínovo nábřeží 42

ID No.: 00 01 34 55, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 9672

The Company is engaged mainly in collection and dissemination of experience with public sector projects such as public-private partnerships, etc. The subject of business is further specified in the Regulations of the Company.

20. Company: **PAL a.s. v likvidaci (in liquidation)**

registered office at 120 00 Prague 2 – Nové Město, Rašínovo

nábř. 390/42, ID No.: 00 21 12 22, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 614

The Company is mainly engaged in the Management of property intended for restitution and settlement of economic activities of the Company. The subject of business is further specified in the Regulations of the Company.

21. Company: **Thermal – F, a.s.**

registered office at 360 01 Karlovy Vary, I.P.Pavlova 2001/11

ID No.: 25 40 17 26, entered in the Commercial Register administered by the Regional Court in Plzeň, Section B, File No. 813

The Company is engaged mainly in the operation of a private health facility with the following type and scope of care: physiatry, balneology and curative rehabilitation, provision of comprehensive inpatient and outpatient spa care (preventive, curative and rehabilitative), etc. The subject of business is further specified in the Regulations of the Company.



# REPORT OF THE STATUTORY BODY OF THE COMPANY RELATIONS BETWEEN INTER-CONNECTED PERSONS IN ACCORDANCE WITH § 66a) (9) OF THE COMMERCIAL CODE

22. Company: **STROJÍRNÝ TATRA Prague, a.s. v likvidaci (in liquidation)**  
registered office at 155 21 Prague 5, Zličín, K metru 312  
ID No.: 00 67 43 11, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 226

The Company is engaged mainly in property letting without providing any other than basic letting-related services. The subject of business is further specified in the Regulations of the Company.

23. Company: **STAVOCENTRAL, a.s. "v likvidaci" (in liquidation)**  
registered office at 128 00, Prague 2, Jaromírova 64  
ID No.: 47 11 69 43, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 1936

The Company is mainly engaged in hospitality activities and construction planning, etc. The subject of business is further specified in the Regulations of the Company.

24. Company: **JUNIOR centrum, a.s. v likvidaci (in liquidation)**  
registered office at 538 07, Seč, ul. Čs. Pionýrů 197  
ID No.: 48 15 49 46, entered in the Commercial Register administered by the Regional Court in Hradec Králové, Section B, File No. 894

The Company is engaged mainly in hospitality activities, provision of accommodation services, etc. The subject of business is further specified in the Regulations of the Company.

25. Company: **JUNIA s.r.o. "v likvidaci" (in liquidation)**  
registered office at 702 00, Ostrava, Stodolní 9, District Ostrava - město, ID No.: 45 78 87 40, entered in the Commercial Register administered by the Regional Court in Ostrava Section C, File No. 15852

The Company is engaged mainly in accounting and economics, and production, sales and services not mentioned in Annexes 1 to 3 of the Trades Licensing Act. The subject of business is further specified in the Regulations of the Company.

26. Company: **Letiště Prague, a. s.**  
registered office at 160 08, Prague 6, K Letišti 6/1019  
ID No.: 28 24 45 32, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 14003

The Company is engaged mainly in the operation of the public international airport Prague Ruzyně, etc. The subject of business is further specified in the Regulations of the Company.

27. Company: **Explosia a.s.**  
registered office at 530 50, Pardubice, Semtín 107,  
ID No.: 25 29 15 81, entered in the Commercial Register administered by the Regional Court in Hradec Králové, Section B, File No. 1828

The Company is engaged mainly in explosives research, development, production, destruction, disposal, treatment, purchase and sale, etc. The subject of business is further specified in the Regulations of the Company.

28. Company: **GALILEO REAL, k.s.**  
registered office at 170 06, Prague 7, Janovského 438/2  
ID No.: 26 17 52 91, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 42738

The Company is engaged mainly in real estate agency and brokerage activities in the field of trade conducted as a free trade, etc. The subject of business is further specified in the Regulations of the Company.

29. Company: **IMOB a.s.**  
registered office at 170 06, Prague 7, Janovského 438/2  
ID No.: 60 19 79 01, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2651

The Company is engaged mainly in real estate agency activities. The subject of business is further specified in the Regulations of the Company.



30. Company: **PRISKO a.s.**  
 registered office at 170 06, Prague 7, Janovského 438/2  
 ID No.: 46 35 59 01, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 1729

The Company is engaged mainly in the administration and settlement of assets and liabilities related to privatized property, etc. The subject of business is further specified in the Regulations of the Company.

A list of companies controlled by the aforementioned interconnected entities is given in Annex 1 of this Report.

## SECTION II. RELATIONS AMONG ENTITIES IN THE GROUP

### 1. Manner of Control

The controlling entity owns shares in the controlled entity; the aggregate percentage share of the controlled entity's registered capital is 95.69%.

### 2. Personnel Links

As of the date of this report is the controlled entity, acting with due managerial care, is cognizant that:

- ▶ Ing. Miroslav Dvořák, resided at Na Lysině 1181/6, Prague 4, Podolí, 147 00, has been the Chairman of the Board of Directors of the controlled entity since 19 October 2009 and at the same time Chairman of the Board of Directors of the interconnected entity Letiště Prague, a.s. since 14 November 2008.
- ▶ Mgr. Josef Adam, resided at U Radnice 456, Odolena Voda, 250 70, has been a member of the Board of Directors of the controlled entity since 19 October 2009, and at the same time was a member of the Board of Directors of Realitní developerská, a.s., a subsidiary of the interconnected entity Letiště Prague, a.s., from 19 December 2008, till 1 April 2010.
- ▶ Mgr. Roman Boček, MBA, resided at Zvole, Přední 372, 252 45, was a member of the supervisory board of the controlled entity since 24 June 2009, till 30 September 2010, and at the same time has been a member of the supervisory board of the interconnected entity Letiště Prague, a.s., since 15 April 2009.

### 3. Structure of the Interconnection

Interconnected entities	Percentage share	Note
Exportní garanční a pojišťovací společnost, a.s.	40.00%	
Severočeské mlékárny, a.s. Teplice	40.78%	In bankruptcy
KONAX a.s. v likvidaci	44.10%	
Ormilk a.s. v likvidaci	46.99%	
Municipální finanční společnost a.s. zkr. MUFIS a.s.	49.00%	
ČMF, a.s. v likvidaci	51.72%	
UNITEX a.s.	52.00%	Erased from the TR, 8 July 2009. Abolishing of shares in CDCP 7/2010.
Česká exportní banka, a.s.	54.20%	Increase of the basic capital, entered in the TR, 6 August 2010.
ČEZ, a.s.	69.37%	
BH CAPITAL, a.s.	71.89%	
Teplotchna Prague, a.s.	73.52%	Bankruptcy abolished, 29 October 2009.
SEVAC a.s. v likvidaci	78.86%	Abolishing of shares in CDCP on 25 October 2010.
České aerolinie a.s.	95.69%	Increase of the basic capital, 20 May 2010.
Výzkumný a zkušební letecký ústav, a.s.	92.16%	Acquisition of shares, 18 October 2010
VIPAP VIDEM KRŠKO d.d.	96.50%	
HOLDING KLADNO a.s. v likvidaci	96.85%	
Hotelinvest, a.s.	100%	
MERO ČR, a.s.	100%	
ČEPRO, a.s.	100%	
PPP Centrum a.s.	100%	
PAL a.s.	100%	Liquidation of shares 1 December 2010. Proposition for erasure from Commercial Registry submitted.
THERMAL – F, a.s.	100%	Increase of basic capital recorded into Commercial Register as per 20 October 2010
STAVOCENTRAL, a.s. v "likvidaci"		4 Liquidation proceedings started 15 October 2009.
JUNIOR centrum, a.s. v likvidaci	100%	Liquidation proceedings started 15 October 2009.
JUNIA s.r.o. v "likvidaci"	100%	
Letiště Prague, a.s.	100%	
Explosia a.s.	100%	
GALILEO REAL, k.s.	100%	Decrease of the basic capital and limited partner's contribution
IMOB, a.s.	100%	
PRISKO a.s.	100%	



## SECTION III. REFERENCE PERIOD

This report was drawn up for the last fiscal period, i.e. the period between 1 January 2010 and 31 December 2010.

## SECTION IV. CONTRACTS AND AGREEMENTS CONCLUDED BETWEEN ENTITIES IN THE GROUP

### OVERVIEW OF CONTRACTS CONCLUDED IN THE REFERENCE PERIOD

Contracts Concluded in Accordance with the Commercial Code

**Contracting parties: Czech Republic – Ministry of Finance; Czech Republic – Ministry of Industry and Trade; Czech Airlines,**

Contract on a Loan (as amended by Annexes 1 to 3).  
Agreement on Mutual Offsetting of Claims of 30 June 2010  
Share Subscription Agreement between Czech Airlines and the Ministry of Finance of the Czech Republic of 28 June 2010

The Company OSINEK, a.s. “v likvidaci“ (in liquidation) assigned a claim on Czech Airlines established under the aforementioned Contract on a Loan (the “Claim”) to the Czech Republic – Ministry of Industry and Trade on the basis of a Contract on the Payout of a Deposit on a Liquidation Balance concluded on 29 September 2009. The assignment of the Claim was announced to Czech Airlines on 2 October 2009.

On 14 May 2010, the right to manage the Claim was transferred to the Ministry of Finance of the Czech Republic on the basis of the record of Management of the assets between organizational agencies of the Government in accordance with § 19 (1) of Act No. 219/2000. The Claim to the value of CZK 2.5 billion was terminated on 30 June 2010 by an agreement on the mutual offsetting of claims and obligations concluded between CSA and the Ministry of Finance of the Czech Republic. The remaining part of the claim, consisting in accessories to the loan on

the basis of the Contract on a Loan, was paid into the account of the Ministry of Finance and Ministry of Industry and Trade of the Czech Republic.

**Contracting parties: Letiště Prague, a.s.; Czech Airlines**

2010/04810 Subletting of Space in Hangar F  
2010/04363 Drainage of Rainfall and Contaminated Water  
2010/04377 Performance of Ordinary Maintenance and Ordinary Repairs  
2010/04403 Provision of Reception Services  
2010/04406 Maintenance of Buildings Owned by CSA  
2010/04407 Maintenance of Buildings Rented by CSA  
2010/04422 Supply of Heat  
2010/04460 Lease of Commercial Space T1  
2010/04464 Lease of Parking Lot APC  
2010/04498 Lease Agreement HF  
2010/04841 Lease of Commercial Space T1  
2010/04842 Lease of Commercial Space T2  
2010/04295 Lease of Store DFR at T2  
2010/04296 Lease of Stores DFR at T1 and SO  
2010/04323 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/01096 Tomáš Hejdánek  
2010/04325 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2008/03050 Assa Abloy  
2010/04326 Tripartite Contract on the Transfer of Rights and Obligations from Contract Miroslav Jupa  
2010/04327 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2006/02258 Jiří Čtvrtečka  
2010/04328 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/01110 DELTA CVS  
2010/04329 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2008/02880 EuroClean  
2010/04330 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/00797 Milan Fiala  
2010/04331 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/01177 Friml stavby  
2010/04332 Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/01097 Friml stavby



# REPORT OF THE STATUTORY BODY OF THE COMPANY RELATIONS BETWEEN INTER-CONNECTED PERSONS IN ACCORDANCE WITH § 66a) (9) OF THE COMMERCIAL CODE

2010/04333	Tripartite Contract on the Transfer of Rights and Obligations from Contract 2009/04278 OTIS	2008/03129	Lease of HS Data Room
2010/04334	Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/00917 Insprav	2008/03132	Lease of Chadraba
2010/04335	Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/01104 Josef Mlinarik	2008/03133	Lease of Chemicals Warehouse
2010/04336	Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/00767 Karel Převor	2008/03136	Contract on Lease of Engine Room I. (first underground floor, ground floor, first floor, sheet metal warehouse)
2010/04337	Tripartite Contract on the Transfer of Rights and Obligations from Contract 2005/01337 Schindler	2008/03137	Contract on Lease of Engine Room II. (second floor)
2010/04338	Contract on the Assignment of Rights and Transfer of Obligations from Contract 2009/03590 JaP Jacina	2008/03139	Lease of Neutralization Station
2010/04339	Contract on the Assignment of Rights and Transfer of Obligations from Contract 2009/03653 Altron	2008/03144	Lease of Accommodation Facility
2010/04461	Lease of Commercial Space T2	2008/03319	Termination of Easements, Handling Area for Aircraft by HE
2010/04388	Fire Protection Services Hangar F	2008/03321	Agreement on a Future Contract on the Establishment of Easements HG
2010/04344	Purchase Contract for Plots of Land by the APC Building	2008/03322	Agreement on a Future Contract on the Termination of Easements
2010/04487	Sale of HF and Adjacent Plots of Land	2008/03323	Agreement on a Future Contract on the Termination of Easements HG
2010/04829	the Assignment of Rights and Transfer of Obligations (Commitments) from a Contract Non-disclosure Agreement	2008/03325	Agreement on Future Contract on the Establishment of Easements 2 RWY
2005/00121	Storage of Articles Taken Away from Passengers	2009/03876	Provision of CCTV Images in Real Time
2005/00124	Refreshment for Passengers	2009/03877	Supply of Metallic Circuit Cable Fixed Infrastructure Services
2005/00946	Letting of Space for Waste Storage and Sorting - Interim Storage	2009/03888	Vehicle Wash and MMP
2005/00947	Lease of Plots of Land for Use of De-icing Fluid Tanks	2009/04055	Connection to the LP Distribution System
2005/00951	Operation of Charging Station	2009/04061	Definition of Qualitative Parameters for Services Provided at Prague Airport
2005/00962	Engine-Room Plot	2009/04062	Definition of Qualitative Parameters and Provision of Services at Prague Airport between LP, A.O.C, Menzies Aviation
2005/01213	Gas Transit	2009/04073	Provision of Drinking Water and Collection of Waste Water
2006/01683	Letting of Parking Space	2009/04088	Lease of a Plot of Land for Parking of the DAKOTA Aircraft in front of APC
2006/01763	Lease of Office Space in Terminal South	2009/04128	Consent for the Performance of Changes in the Engine-Room
2006/02197	Controlled Entries, Connecting Building	2009/04181	Transit of Natural Gas by Pipeline
2007/02609	Letting of Parking Places in HF	2009/04228	Agreement on Mutual Payment Terms
2008/03124	Lease of Brake Room	2009/04229	Lease of APC
2008/03126	Lease of HB Plating Room	2005/00097	STA in Crystal Lounge
2008/03127	Lease of HB Training Centre (including fire-fighting simulator and parking)	2005/00560	Provision of Corporate Canteen at T1
		2005/00950	Gas Storage Facility
		2005/00963	Plot for the Construction of APC
		2005/01215	Disposal of Waste Water and De-icing Fluids
		2006/01630	Lease of the VIP Lounge



# REPORT OF THE STATUTORY BODY OF THE COMPANY RELATIONS BETWEEN INTER-CONNECTED PERSONS IN ACCORDANCE WITH § 66a) (9) OF THE COMMERCIAL CODE

2006/01631	Lease of Operational Space in T2
2006/01954	Lease of Commercial Space DFR T2
2006/02070	Electricity Supply
2007/02345	Lease of Non-Residential Spaces T1
2007/02511	Lease of Store DFR A and B
2007/02516	Supply of Thermal Energy to APC and HF
2008/03125	Lease of Disinfection Station
2008/03142	Lease of Warehouse 72 DKP
2008/03143	Lease of Blue Warehouse
2009/03853	Fire Protection
2007/02718	Consultation Services
2008/02910	Establishment of an Easement on APC Technologies Room
2008/03327	Agreement on a Future Contract Establishing the Right of First Refusal to Building HG
2008/03328	Agreement on a Future Contract Establishing the Right of First Refusal to HF
2008/03329	Agreement on a Future Contract Establishing the Right of First Refusal to Plots of Land in North Complex
2008/03333	Agreement on a Future Contract Establishing Easements, Sewage
2008/03334	Agreement on a Future Contract Establishing Easements, Weak Current
2008/03335	Agreement on a Future Contract Establishing Easements, Strong Current
2008/03336	Agreement on a Future Contract Establishing Easements, Heat
2008/03337	Agreement on a Future Contract Establishing Easements, Water Supply
2008/03355	Contract on Management and Maintenance
2008/03431	Agreement of a Future Contract on the Sale of Neutralizing Station and Blue Warehouse
2009/03878	Agreement on the Establishment of the Right of First Refusal to Plots of Land in North Complex
2009/04042	Establishment of the Right of First Refusal in North Complex
2009/04114	Lease of Non-residential Spaces HC, HF, HS

## **Contracting parties: ČEZ a.s.; Czech Airlines**

Agreement on Business Cooperation

No other contracts were concluded in the reference period.

The Board is of the opinion that the aforementioned contracts were concluded under ordinary commercial conditions and at customary business prices. The contract details are trade secrets within the meaning of § 17 of the Commercial Code.

No detriment was caused to the controlled entity.

## **SECTION V. ACTS IN LAW UNDERTAKEN IN THE INTEREST OF THE INTERCONNECTED PERSONS, OTHER MEASURES ADOPTED OR EFFECTED BY THE CONTROLLED ENTITY IN THE INTEREST OF OR AT THE INSTIGATION OF THE INTERCONNECTED PERSONS, PERFORMANCE AND CONSIDERATION**

During the reference period, the Board of Directors of the controlled entity did not undertake any acts in law in the interest of the interconnected entities, and no other measures were adopted in the interest or at the instigation of the interconnected entities or were effected by the controlled entity.

As far as the Board of Directors is aware, no measures or performance was assumed by the interconnected persons that would cause any detriment to the interconnected persons or the controlled entity.



## SECTION VI. CONFIDENTIAL INFORMATION

1. Information and facts constituting trade secrets of the entities in the Group and also information and facts designated as confidential by any entity in the Group - controlling, controlled or interconnected – are deemed confidential. All business-related information which could be detrimental to any entity in the Group – separately or jointly with other information or facts – is also deemed confidential.
2. For the reasons set out above the Report does not include:
  - ▶ information on projects intended to lead to the acquisition of a capital share in selected trading companies where the party preparing the acquisition is a controlled entity;
  - ▶ information on the commercial and price terms of contracts.

## SECTION VII. CONCLUSION

1. This Report was discussed and approved on 25 March 2011 at a regular meeting of the Board of Directors of Czech Airlines.
2. This Report will be submitted for examination to the Supervisory Board and the auditor who will audit the financial statements within the meaning of a special act. Given that the controlled entity draws up the Annual Report, this Report will be attached to the Annual Report and will be placed within the legally defined time limit in the Collection of Documents maintained by the Commercial Register of the Municipal Court in Prague.

Prague, 25 March 2011

Philippe Marc Moreels  
Vice-Chairman of the Board of Directors of  
Czech Airlines



Mgr. Jiří Marek  
Member of the Board of Directors of  
Czech Airlines a.s.



**Exportní garanční a pojišťovací společnost, a.s.**

**Severočeské mlékárny, a.s. Teplice**

**KONAX a.s., in liquidation** – key report data not delivered

**Or milk, a.s., in liquidation** – key report data not delivered

**Municipální finanční společnost a.s. (MUFIS a.s.)**

**ČMFL, a.s., in liquidation**

**Agrokredit, a.s., in liquidation**, share 100%, registered office at Prague 4, Durychova 101, ID No. 25542524, share 100%

**UNITEX a.s.** – key report data not delivered

**Česká exportní banka, a.s.**

**ČEZ, a. s.** – see Annex No. 2

**BH CAPITAL, a.s.**

**Teplotechna Prague, a.s.** – key report data not delivered

**SEVAC a.s., in liquidation** – key report data not delivered

**Výzkumný a zkušební letecký ústav, a.s.**

**VIPAP VIDEM KRŠKO d.d.** – key report data not delivered

**HOLDING KLADNO a.s., in liquidation** – key report data not delivered

**Hotelinvest a.s.** – key report data not delivered

**MERO ČR, a.s.**

**MERO Germany AG** – share 100%, registered office at Mero-Weg 1, 85088 Vohburg a.d. Donau, FRG, ID. No. 152122768

**ČEPRO, a.s.**

**PPP Centrum a.s.**

**PAL a.s., in liquidation**

**THERMAL-F, a.s.**

**STROJÍRNY TATRA Prague, a.s., in liquidation**

**STAVOCENTRAL, a.s., in liquidation**

**HYPO-CONSULT, a.s.** – share 100%, registered office at Prague 2, Jaromírova 64, 12800, ID No. 25072145

**JUNIOR centrum, a.s., in liquidation**

**JUNIA s.r.o., in liquidation**

**Letiště Prague, a. s.**

**Realitní developerská, a.s.** – share 100%, registered office at K Letišti, 6/1019, Prague 6, ID No. 27174166

**Explosia a.s.**

**FOSPOL a.s.** – share 100%, registered office at Pardubice, Českova 1758, 530 02, ID No. 15053628

**ISTROCHEM Explosives a.s., in liquidation** – share 100%, registered office at Bratislava, Nobelova 34, 836 05, Slovak Republic, ID No. 44254504

**Explosia SK s.r.o.**, share 100%, registered office at Bratislava, Dostojevského rad 5, 811 09, Slovak Republic, ID No. 45909903

**FOSPOL SK, spol. s r.o.**, share 100%, registered office at Humenné, Brestovská 123, 066 01, Slovak Republic, ID No. 44793502

**GALILEO REAL, k.s.**

**IMOB a.s.**

**PRISKO a.s.**



# ANNEX NO. 2 TO THE REPORT ON RELATIONS BETWEEN INTERCONNECTED PERSONS – CONCERN ČEZ

Line no.	Company name	ID No.	Address	Owner	Share of registered capital (%)	Comments
1	Centrum výzkumu Řež s.r.o.	26722445	Husinec-Řež č. p. 130, post code 250 68	ÚJV Řež	100%	
2	CEZTel, a.s.	25107950	Prague 2, Fügnerovo náměstí 1866/5, post code 120 00	ČEZ	100%	
3	ČEZ Distribuce, a. s.	27232425	Děčín 4, Teplická 874/8, post code 405 02	ČEZ	100%	wound up as of 1 October 2010 – merger with ČEZ Distribuční zařízení, a.s., by formation of new Company
4	ČEZ Distribuční služby, s.r.o.	26871823	Ostrava, Moravská Ostrava, 28. října 3123/152, post code 709 02	ČEZ	100%	
5	ČEZ Distribuční zařízení, a.s.	28922727	Prague 4, Duhová 2/1444, post code 140 53	ČEZ	100%	wound up as of 1 October 2010 – merger with ČEZ Distribuce, a.s., by formation of new Company
6	ČEZ ENERGOSERVIS spol. s r.o.	60698101	Třebíč, Bráfova 16, post code 674 01	ČEZ	100%	
7	ČEZ Logistika, s.r.o.	26840065	Ostrava, Moravská Ostrava, 28. října 3123/152, post code 709 02	ČEZ	100%	
8	ČEZ Měření, s.r.o.	25938878	Hradec Králové, Riegrovo náměstí 1493, post code 500 02	ČEZ	100%	
9	ČEZ Obnovitelné zdroje, s.r.o. (ČEZ OZE)	25938924	Hradec Králové, Křížíkova 788, post code 500 03	ČEZ	99.9%	
10	ČEZ Prodej, s.r.o.	27232433	Prague 4, Duhová 1/425, post code 140 53	ČEZ	100%	
11	ČEZ Správa majetku, s.r.o.	26206803	Děčín IV., Teplická 874/8, post code 405 49	ČEZ	100%	
12	ČEZ Zákaznické služby, s.r.o.	26376547	Plzeň, Guldenerova 2577/19, post code 303 28	ČEZ	100%	
13	ČEZ Energetické služby, s.r.o.	27804721	Ostrava, Vítkovice, Výstavní 1144, post code 706 02	ČEZ	100%	
14	ČEZ Energetické produkty, s.r.o.	28255933	Hostivice, Komenského 534, post code 253 01	ČEZ	100%	
15	ČEZ ICT Services, a.s.	26470411	Prague 2, Fügnerovo náměstí 1866/5, post code 120 00	ČEZ	100%	
16	Elektrárna Chvaletice, a.s.	28786009	Chvaletice, K Elektrárně 227, post code 533 12	ČEZ	100%	1 February 2010 – establishment
17	EGI, a.s., v likvidaci	60721332	Prague 6, Milady Horákové 109, post code 160 41	ŠKODA Prague	100%	
18	FVE Buštěhrad, a.s.	27420493	Hradec Králové, Křížíkova 788, post code 500 03	ČEZ OZE	100%	6 April 2010 purchase of 100% share
19	PPC Úžín, a.s.	27198367	Prague 3, Seifertova 570/55, post code 130 00	ČEZ	100%	
20	LACOMED, spol. s r.o.	46348875	Husinec-Řež č. p. 130, post code 250 68	ÚJV Řež	62.50%	
21	LOMY MOŘINA spol. s r.o.	61465569	Mořina, post code 267 17	ČEZ	51.05%	
22	Nuclear Safety & Technol.Centre s.r.o.	27091490	Husinec-Řež, č.p.130, post code 250 68	ÚJV Řež	40%	
23	OSC, a.s.	60714794	Brno, Staňkova 18a, post code 612 00	ČEZ	66.67%	
24	PRODECO, a.s.	25020790	Teplice, ul. Masarykova 51, post code 416 78	SD	100%	
25	SD – 1. strojírenská, a.s.	25437127	Bílina, ul. Důlní čp. 437, post code 418 01	SD	100%	
26	SD – Autodoprava, a.s.	25028197	Bílina, Důlní 429, post code 418 01	SD	100%	
27	SD – Kolejová doprava, a.s.	25438107	Kadaň, Tušimice 7, post code 432 01	SD	100%	
28	SD – Rekultivace, a.s.	27329011	Kadaň, Tušimice 7, post code 432 01	SD	100%	
29	Bioplyn technologie, s.r.o.	26407086	Hradec Králové, Křížíkova 788, post code 500 03	ČEZ OZE	100%	5 May 2010 purchase of 100% share
30	SD – KOMES, a.s.	28666674	Most, Moskevská 14/1, post code 434 01	SD	92.65%	
31	Severočeské doly a.s.	49901982	Chomutov, Boženy Němcové 5359, post code 430 01	ČEZ	100%	
32	SINIT, a.s.	25397401	Ostrava-Mariánské Hory, Emila Filly 296/13, post code 709 00	ČEZnet	100%	
33	Skládka Tušimice, a.s.	25005553	Teplice, Úprkova 3120, post code 415 01	SD	98.00%	up to 22 January 2010 share of 98%, then 0% – sale
34	STE – obchodní služby spol. s r.o. v li.	49826182	Prague 2, Vinohradská 325/8, post code 120 21	ČEZ	100%	
35	ŠKODA Prague a.s.	00128201	Prague 4, Duhová 2/1444, post code 140 74	ČEZ	100%	
36	ŠKODA Prague Invest s.r.o.	27257517	Prague 4, Duhová 2/1444, post code 140 74	ČEZ	100%	
37	ŠKO-ENERGO FIN, s.r.o.	61675954	Mladá Boleslav 1, Tř. Václava Klementa 869, post code 293 60	ČEZ	5%	
38	ŠKO-ENERGO, s.r.o.	61675938	Mladá Boleslav 1, Tř. Václava Klementa 869, post code 293 60	ČEZ	12%	



# ANNEX NO. 2 TO THE REPORT ON RELATIONS BETWEEN INTERCONNECTED PERSONS – CONCERN ČEZ

39	ŠKODA VÝZKUM s.r.o.	47718684	Plzeň, Tylova 1/57, post code 316 00	ÚJV Řež	100%	
40	EGP INVEST, spol. s r.o.	16361679	Uherský Brod, Antonína Dvořáka 1707, post code 688 01	ÚJV Řež	100%	
41	Ústav aplik. mechaniky Brno, s.r.o.	60715871	Brno, Veveří 95, č.p. 972, post code 611 00	ÚJV Řež	100%	
42	ČEZ Teplárenská, a.s.	27309941	Chomutov, Školní 1051/30, post code 430 01	ČEZ	100%	
43	Teplárna Trmice, a.s.	28707052	Trmice, Edisonova 453, post code 400 04	ČEZ	85%	7 May 2010 purchase of 85% share
44	Ústav jaderného výzkumu Řež a.s.	46356088	Husinec-Řež, č. p. 130, post code 250 68	ČEZ	52.46%	
45	CZECH HEAT, a.s.	27587991	Prague 10, Jižní spojka 3247, post code 106 00	ČEZ	100%	14 December 2010 – winding up; merger successor subsidiary Energetické centrum, s.r.o.
46	Energetické centrum, s.r.o.	26051818	Jindřichův Hradec, Otín čp.3, post code 377 01	ČEZ	100%	14 December 2010 merger with parent Company CZECH HEAT, a.s. as the Company being wound up; ČEZ – acquisition of 100% shares
47	ČEZ Bohunice, a.s.	28861736	Prague 4, Duhová 2/1444, post code 140 74	ČEZ	100%	
48	MALLA, a.s.	28263341	Tábor, Špitálské nám. 509, post code 390 01	ČEZ OZE	100%	1 November 2010 merger with ČEZ OZE – winding up
49	Š-BET, s.r.o.	25994522	Janov, čp. 315, post code 569 55	ČEZ OZE	100%	1 November 2010 merger with ČEZ OZE – winding up
50	Elektra Žabčice, a.s.	28270975	Hradec Králové, Křížíkova 788, post code 500 03	ČEZ OZE	100%	1 November 2010 merger with ČEZ OZE – winding up
51	EDICOLA, a.s.	27756769	Hradec Králové, Křížíkova 788, post code 500 03	ČEZ OZE	100%	1 November 2010 merger with ČEZ OZE – winding up
52	GENTLEY, a.s.	28209117	Prague 4, Michle, Duhová 1444/2, post code 14053	ČEZ	100%	
53	Bohemian Development, a.s.	28073142	Prague 1, V kolkovně 920/5, post code 110 00	GENTLEY	100%	
54	TEPLEX s.r.o.	28707800	Ústí nad Labem, Masarykova 209, post code 400 01	ČEZ Tepl.	100%	wound up as of 1 November 2010 – merger with successor ČEZ Teplárenská,a.s.
55	Martia, a.s.	25006754	Ústí/Labem, Mezní 2854/4, post code 400 11	ČEZ Tepl.	100%	
56	Tepelné hospodářství města Ústí nad Labem s.r.o.	49101684	Ústí nad Labem, Malátova 2437/11, post code 400 01	Tep. Trmice	19.60%	7 May 2010 purchase of 19.60% share
57	Tepelné hospodářství města Ústí nad Labem s.r.o.	49101684	Ústí nad Labem, Malátova 2437/11 post code 400 01	ČEZ Tepl.	36.25%	1 November 2010 merger with successor ČEZ Tepl. with TEMPLEX,s.r.o. (16.67% na THMÚ) and detach. part MARTIA,a.s.(19,58% na THMÚ)
58	ULITEP, spol. s r. o.	62741144	Ústí nad Labem, Špitálské nám. 11, post code 400 01	Tep.Trmice	65%	7 May 2010 – purchase of 65% share
59	eEnergy Ralsko, a.s.	28217918	Prague 4, Michle, Duhová 1444/2, post code 14053	ČEZ	100%	10 June 2010 purchase of 100% share
60	3L invest a.s.	26780828	Prague 4, Michle, Duhová 1444/2, post code 14053	eEn.Ral.	100%	10 June 2010 purchase of 100% share eEng.Ralsko
61	FVE Vranovská Ves, a.s.	28432495	Prague 4, Michle, Duhová 1444/2, post code 14053	ČEZ	100%	8 July 2010 purchase of 100% share
62	DOMICA FPI, s.r.o.	28289650	Prague 4, Michle, Duhová 1444/2, post code 14053	FVE V.V.	100%	8 July 2010 purchase of 100% share FVE Vranovská Ves, a.s.
63	Vrtné a trhací práce, a.s.	25022768	Bílina, Důlní 375/89, post code 418 29	SD-Autodop.	100%	wound up as of 31 July 2010; merger – with successor SD Autodop.
64	Jadrová energetická spoločnosť Slovenska, a.s.	45337241	Bratislava, Tomašíkova 22, post code 820102	ČEZ Bohun.	49%	
65	JESS Invest, s.r.o.	45659044	Bratislava, Tomašíkova 22, post code 820102	Jadr.en.spol.Slov.	100%	1 August 2010 established, ČEZ Bohunice owns 49% founder



# ANNEX NO. 2 TO THE REPORT ON RELATIONS BETWEEN INTERCONNECTED PERSONS – CONCERN ČEZ

66	eEnergy Hodonín, a.s.	28217853	Prague 4, Michle, Duhová 1444/2, post code 14053	ČEZ	100%	6 August 2010 purchase of 100% share
67	eEnergy Ralsko-Kuřivody, a.s.	28208811	Prague 4, Michle, Duhová 1444/2, post code 14053	ČEZ	100%	24 August 2010 purchase of 100% share
68	AREA-GROUP CL, a.s.	25431781	Prague 4, Michle, Duhová 1444/2, post code 14053	eE.Ral.-Kuř.	100%	24 August 2010 purchase of 100% shares eEn.Ral.-Kuř.
69	ČEZ Distribuce, a. s.	24729035	Děčín IV-Podmokly, Teplická 874/8, post code 405 02	ČEZ	100%	1 October 2010 – establishment
70	ENERGIE KRUPKA, s.r.o.	25410083	Krupka 1, Mariánské nám. 22, post code 417 42	ČEZ Tep.	50%	1 November 2010 – detach. parts from MARTIA, a.s.
71	FM service, s.r.o.	25445626	Ústí nad Labem, Mezní 2854/4, post code 400 11	MARTIA,a.s	50%	
72	CZ INVEST-PLUS	28075951	Hradec Králové, Křižíkova 788, post code 500 03	EDICCOLA	100%	1 November 2010 merger with ČEZ OZE – winding up
73	KEFARIUM, a.s.	27936392	Hradec Králové, Křižíkova 788, post code 50003	ČEZ OZE	100%	8 December 2010, purchase of 100% share
74	CEZ Bosna i Hercegovina d.o.o.	65-01-0142-08	Fra Andela Zvizdovića br.1, Sarajevo, Bosnia and Herzegovina	ČEZ	100%	
75	CEZ Bulgaria EAD	BULSTAT No. 131434768	Sofia, Municipality of Sredets, 140 G.S. Rakovski street, PC 1000, Bulgaria	ČEZ	100%	
76	CEZ Ciepło Polska sp. z o.o.	0000287855	ul. Rondo ONZ, lokal VII Pietro, Warsaw, 00-124	ČEZ	100%	
77	CEZ Deutschland GmbH	HRB 139537	München, Karl-Theodor Str. 69, 80803, Germany	ČEZ	100%	
78	CEZ Distributie S.A.	14491102	Craiova, Dolj County, 2, Brestei St, PC 200581, Romania	ČEZ	100%	change in share of ČEZ, a.s., as of 30 June 2010 – sale of 1 share to CEZ Poland Distribution B.V.
79	CEZ Elektro Bulgaria AD	BULSTAT No. 175133827	Sofia, Municipality of Sredets, 140 G.S. Rakovski street, PC 1000, Bulgaria	ČEZ	67%	
80	CEZ Elektroproizvodstvo Bulgaria AD	200511185	Village of Ezerovo, Varna District, PC 9168 Varna, Bulgaria	ČEZ	100%	
81	CEZ Finance B.V.	33264065	Hogehilweg 7H, 1101 CA Amsterdam Zuidoost, the Netherlands	ČEZ	100%	change of registered office from 1 July 2010
82	CEZ Hungary Ltd.	13520670-4013-113-01	Károlyi Mihály u.12 IV.em., Ybl Palota Irodaház, 1053 Budapest, Hungary	ČEZ	100%	
83	CEZ Chorzow B.V.	24305703	Hogehilweg 7H, 1101 CA Amsterdam Zuidoost, the Netherlands	CEZ Silesia	100%	change of registered office from 16 October 2010
84	CEZ Laboratories Bulgaria EOOD	BULSTAT No. 175123128	14 Dobrinova Skala str., Lyulin Municipality, Sofia, Bulgaria	ČEZ	100%	change of registered office
85	CEZ MH B.V.	24426342	Hogehilweg 7H, 1101 CA Amsterdam Zuidoost, the Netherlands	ČEZ	100%	change of registered office from 14 October 2010
86	CEZ Poland Distribution B.V.	24301380	Hogehilweg 7H, 1101 CA Amsterdam Zuidoost, the Netherlands	ČEZ	100%	change of registered office from 14 October 2010
87	CEZ Polska sp. z o.o.	000026614	ul. Rondo ONZ, lokal VII Pietro, Warsaw, 00-124, Poland	ČEZ	100%	to 26 February 2010 increase in registered capital
88	CEZ Romania S.A.	18196091	Bucharest, Sector 1, Str. Ion Ionescu De La Brad, Nr. 2A, Romania	ČEZ	100%	change of legal form of entity from S.R.L. to S.A. + change in share of ČEZ, a.s., as of 27 October 2010 to 99.9998% and as of 31 December 2010 to 99.9995%, in both cases sale to CEZ Poland Distribution B.V.
89	CEZ RUS OOO	1087746177628	Presnenskij val 19, Moscow, 123557, Russian Federation	ČEZ	100%	
90	CEZ Servicii S.A.	20749442	Pitesti, 148 Republicii Boulevard, 110177, Romania	ČEZ	100%	from 28 July 2010 ČEZ, a.s., 100%, as of 31 December 2010 winding up by merger with Company CEZ Romania S.A.



# ANNEX NO. 2 TO THE REPORT ON RELATIONS BETWEEN INTERCONNECTED PERSONS – CONCERN ČEZ

91	CEZ Silesia B.V.	24305701	Hogehilweg 7H, 1101 CA Amsterdam Zuidoost, the Netherlands	ČEZ	100%	change of registered office from 14 October 2010
92	CEZ Slovensko, s.r.o.	36797332	Gorkého 3, Bratislava, 811 01, Slovakia	ČEZ	100%	
93	CEZ Srbija d.o.o.	20180650	Bulevar Mihajla Pupina 6, Belgrade, Serbia	ČEZ	100%	
94	CEZ Trade Bulgaria EAD	BULSTAT No. 113570147	Sofia, Municipality of Sredets, 140 G.S. Rakovski street, PC 1000, Bulgaria	ČEZ	100%	
95	CEZ Trade Polska Sp. z o.o.	0000281965	ul. Rondo ONZ, lokal VII Pietro, Warsaw, 00-124, Poland	ČEZ	100%	
96	CEZ Trade Romania S.R.L.	21447690	Bucharest Sector 1, Ion Ionescu de la Brad, Nr. 2B, Romania	ČEZ	99.99375 %	
97	CEZ Ukraine CJSC	34728482	Velika Vasilkivska street 5, 01004 Kiev, Ukraine	ČEZ	100%	
98	CEZ Vanzare S.A.	21349608	Craiova, Dolj County, 2, Brestei St, PC 200581, Romania	ČEZ	100%	change in share of ČEZ, a.s., as of 30 June 2010, sale of 1 share to CEZ Poland Distribution B.V.
99	CM European Power International B.V.	24439848	Weena 327, 3013 AL, Rotterdam, the Netherlands	ČEZ/MOL	50%	increase in registered capital as of 18 March 2010
100	CM European Power International s.r.o.	44525133	Lakeside Park, Tomášikova 64, 831 04 Bratislava, Slovakia	CM European Power International B.V.	100%	
101	Elektrociepłownia Chorzów ELCHO sp. z o.o.	0000060086	ul. M. Skłodowskiej-Curie 30, 41-503 Chorzów, Poland	CEZ Chorzow	100%	change in share – from 30 August 2010 CEZ Chorzow B.V. 100%
102	CEZ Razpredelenie Bulgaria AD	BULSTAT No. 130277958	Sofia, 330 Tsar Simeon St., Ilinden region, PC 1309, Bulgaria	ČEZ	67%	
103	Elektrownia Skawina S.A.	0000038504	ul. Piłsudskiego 10, 32-050 Skawina, Poland	CEZ Poland Distribution	100%	
104	MW Team Invest S.R.L.	18926986	2B Ion Ionescu de la Brad Street, 2nd floor, room 3, Sector 1, Bucharest, 013813, Romania	Tomis Team S.R.L.	100%	change of registered office 25 March 2010
105	NERS d.o.o.	RU-1-1864-00	Industrijska zona bb, Gacko, PC 89240, Bosnia and Herzegovina	ČEZ	51%	
106	New Kosovo Energy L.L.C.	70371863	Andrej Gropa Nr. 30, Pristina, PC 10000, Kosovo	ČEZ	100%	
107	Ovidiu Development S.R.L.	18874682	2B Ion Ionescu de la Brad Street, 2nd floor, room 1, Sector 1, Bucharest 013813, Romania	ČEZ	95%	change of registered office 25 March 2010
108	TEC Varna EAD	BULSTAT No. 103551629	Village of Ezerovo, Varna District, PC 9168 Varna, Bulgaria	ČEZ	100%	
109	Tomis Team S.R.L.	18874690	2B Ion Ionescu de la Brad Street, 2nd floor, room 2, Sector 1, Bucharest, 013813, Romania	ČEZ	100%	change of registered office 25 March 2010
110	CEZ Albania Sh.A.	K91629005R	Abdyl Frasheri Street, EGT Tower, P. 12/1, Tirana, Albania	ČEZ	100%	
111	CEZ Shpërndarje Sh.A. (former Operatori i Sistemit te Shperndarjes Sh.A.)	K72410014H	Blloku Vasil Shanto, Tirane, Albania	ČEZ	76%	change of Company name (formerly Operatori i Sistemit te Shperndarjes Sh.A.)
112	CEZ Trade Albania SH.P.K.	K92129026D	Abdyl Frasheri Street, EGT Tower, P. 12/1, Tirana, Albania	ČEZ	100%	
113	CEZ Finance Ireland Ltd.	471 391	Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland	ČEZ	100%	
114	MOL-CEZ European Power Hungary Ltd.	13-09-115216	Olajmunkás út. 2, Százhalombatta, 2440, Hungary	CM European Power International B.V.	100%	
115	JTSD - Braunkohlebergbau GmbH	HRB 9374	Glück-Auf-Straße 1, 06712 Zeitz, Germany	Severočeské doly / Lignite Investments 1 Ltd.	50% Severočeské doly. 50% Lignite Investments 1 Ltd.	change of registered office from 1 January 2010, as of 26 January 2010 merger with Mibrag B.V.
116	Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAGmbH)	HRB 207574	Wiesenstrasse 20, 06727 Theissen, Germany	JTSD raunkohlebergbau GmbH	100%	change of owner (merger between JTSD and Mibrag B.V.) as of 26 January 2010
117	Fernwärme GmbH Hohenmölsen - Webau	HRB 204190	Ernst-Thälmann-Str. 6, 06679 Hohenmölsen, Germany	Stadt Hohenmölsen	51% Stadt Hohenmölsen. 49% MIBRAGmbH	



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118	GALA-MIBRAG-Service GmbH	HRB 210208	Elsteraue OT Profen, Platz der Freiheit 4, 06729, Elsteraue, Germany	MIBRAGmbH	100%	
119	Gröbener Logistik GmbH Spedition, Handel und Transport	HRB 205569	Werkstrasse 1, 06682 Gröben, Germany	MIBRAG GmbH	100%	change in share – from 1 January 2010 100% MIBRAG GmbH, as of 26 January 2010 merger with MIBRAG B.V. – winding up
120	Montan Bildungs-und Entwicklungsgesellschaft mbH	HRB 212202	Wiesenstrasse 20, 06727 Theissen, Germany	MIBRAGmbH	100%	
121	MUEG Mitteldeutsche Umwelt - und Entsorgung GmbH	HRB 201620	Geiseltalstrasse 1, 06242 Braunsbedra, Germany	MIBRAGmbH/ Remondis Kommunale Dienste Ost GmbH	50% MIBRAGmbH. 50% Remondis Kommunale Dienste Ost GmbH	
122	Ingenieurbüro für Grundwasser GmbH	HRB 2322	Nonnenstrasse 9, 04229 Leipzig, Germany	see next column	25% Mitteldeutsche Braunkohlengesellschaft mbH.17% Dr. Holger Mansel. 17% Bernd Haferkorn. 17% Dr. Dietrich Sames.12% Prof. Ludwig Luckner.12% Prof. Dr. R. Mull u. Partner GmbH	
123	CEZ International Finance B.V.	24 461 985	Hogehilweg 7H, 1101 CA Amsterdam Zuidoost, the Netherlands	ČEZ	100%	change of registered office from 16 August 2010
124	Aken B.V.	24 356 181	Bergweg 133-A, 3037 EE Rotterdam, the Netherlands	Akenerji Elektrik Üretim A.S.	100%	
125	Mibrag B.V.	33 254 246	Handweg 159, 1185 TX Amstelveen, the Netherlands	JTSD raunkohlebergbau GmbH	100%	wound up – merger with JTSD Braunkohlebergbau GmbH as of 26 January 2010
126	CEZ Produkty Energetyczne Polska sp. z o.o.	321 795	ul. M. Skłodowskiej-Curie 30, 41-503 Chorzow, Poland	ČEZ	100%	
127	CEZ Nowa Skawina S.A.	336 846	ul. Piłsudskiego 10, 32-050 Skawina, Poland	ČEZ	100%	
128	Energonuclear S.A.	25 344 972	Str. Polona 65, Etaj 5, Sector 1, Bucharest, Romania	Societatea Nationala Nuclearelectrica	Societatea Nationala Nuclearelectrica SA 51%. ArcelorMittal Galati SA 6.2%. ČEZ a.s. 9.15%. GDF SUEZ S.A. 9.15%. Enel Investment Holding BV 9.15%. Iberdrola Generación S.A.U. 6.2%. RWE Power AG 9.15%	sale of share in Company as of 30 December 2010
129	Akcez Enerji A.S.	683 905	Miralay Şefik Bey Sok. Ak-Han No. 15, Room no: 3, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	see next column	Akenerji Elektrik Üretim Anonim Şirketi 45%. Ali Raif Dinçkök 0.0000002%. Ömer Dinçkök 0.0000002%. Akkök Sanayi Yatırım ve Geliştirme A.Ş. 27.4999996% ČEZ. a.s. 27.5000000%	



# ANNEX NO. 2 TO THE REPORT ON RELATIONS BETWEEN INTERCONNECTED PERSONS – CONCERN ČEZ

130	Sakarya Elektrik Dağıtım A.S.	10941-18573	Miralay Şefik Bey Sok. Ak-Han No. 15, Gümüşsuyu Beyoğlu, 34437, İstanbul, Turkey	Akcez Enerji A.S.	Akcez Enerji A.S. 99.99999828%. CEZ Poland Distribution B.V. 0.00000043%. CEZ Silesia B.V. 0.00000043%. Gamze Dinçkok Yucaoglu 0.00000043%. Raif Ali Dinçkok 0.00000043%.	
131	Akenerji Elektrik Üretim A. S.	255005/202577	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, İstanbul, Turkey	see next column	Akkök Sanayi Yatırım ve Geliştirme Anonim Şirketi 20.4329%. Emniyet Ticaret ve San. Anonim Şirketi. 5.3568%. Ömer Dinçkök 5.7859%. Ali Raif Dinçkök 5.7859%. ČEZ. a.s. 37.3614%. Other Shareholders 25.2772%	increase in registered capital as of 14 July 2010
132	Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	625774	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, İstanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 99.000%. Ali Raif Dinçkök 0.3650%. Ömer Dinçkök 0.1400%. Raif Ali Dinçkök 0.1200%. Ayça Dinçkök 0.1200%. Gamze Dinçkök Yucaoglu 0.1200%. Mutlu Dinçkök 0.1200%. Alize Dinçkök 0.0150%	
133	Akkur Enerji Üretim A.S.	607030	Miralay Şefik Bey Sokak, Ak Han No.15-17, K:3-4, Oda No. 2, Gümüşsuyu Beyoğlu, 34437, İstanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 99.000%. Ali Raif Dinçkök 0.3561%. Ömer Dinçkök 0.3500%.Raif Ali Dinçkök 0.1250%.Ayça Dinçkök 0.0500%.Gamze Dinçkök Yucaoglu 0.0500%. Mutlu Dinçkök 0.0500%. Alize Dinçkök 0.0189%.	
134	Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A.S.	512971	Miralay Şefik Bey Sokak, No.13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, İstanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 90.0000%. Ali Raif Dinçkök 4.0000%. Ömer Dinçkök 4.0000%. Ayça Dinçkök 1.0000%. Raif Ali Dinçkök 1.0000%.	



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135	Egemer Elektrik Üretim A.S.	695245	Miralay Şefik Bey Sokak, Ak Han No.15-17, K:3-4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim A.Ş. TRY 134 999 992.50. 99.9999944%. Raif Ali Dinçkök TRY 1.25. 0.0000009% Ayça Dinçkök. TRY 1.25. 0.0000009% Gamze Dinçkök Yücaoğlu TRY 1.25. 0.0000009% CEZ Poland Distribution B.V. TRY 1.88. 0.0000014% CEZ Silesia B.V. TRY 1.87. 0.0000014%	change in shareholder structure as of 4 November 2010
136	AK-EL Yalova Elektrik Üretim A.S.	417382	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 90.0721429%. Ömer Dinçkök 4.0639286%. Ali Raif Dinçkök 4.0638571%. Emniyet Ticaret Anonim Şirketi 1.8000000%. Raif Ali Dinçkök 0.0000714%	
137	Akka Elektrik Üretim A.S.	664669	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 90.0000%. Ali Raif Dinçkök 3.6500%. Ömer Dinçkök 3.5000%. Raif Ali Dinçkök 1.2000%. Ayça Dinçkök 0.5000%. Gamze Dinçkök Yücaoğlu 0.5000%. Mutlu Dinçkök 0.5000%. Alize Dinçkök 0.1500%.	
138	CM European Power Slovakia s.r.o.	44 354 258	Vlčie Hrdlo 1, Bratislava 824 12, Slovakia	CM European Power International B.V.	24.5% = ČEZ. a.s. 51% = CM European Power International B.V. 24.5% = Slovnaft. a.s.	
139	MIBRAG Neue Energie GmbH	HRB 25878	Glück-Auf-Straße 1, 06712 Zeitz, Germany	Mitteldeutsche Braunkohlengesellschaft mbH	100%	new Company – effective date 19 February 2010
140	Ickale Enerji Elektrik Üretim ve Ticaret A.S.	736921	Miralay Şefik Bey Sokak No:13 Kat:4 Oda: 1 Gümüşsuyu / Beyoğlu - İstanbul	Akenerji Elektrik Üretim A.S.	99.99%	new Company – date of acquisition 20 May 2010
141	Akenerji Dogal Gaz İthalat İhracat ve Toptan Ticaret A.S.	745367	Miralay Şefik Bey Sokak No:15 Kat:3 Oda: 3 Gümüşsuyu / Beyoğlu - İstanbul	Akenerji Elektrik Üretim A.S.	99.99%	new Company – date of acquisition 20 August 2010
142	Taidana Limited	HE 272531	Griva Digeni 115, Trident Centre, 3101 Limassol, Cyprus	Tomis Team S.R.L.	100%	new Company – date of acquisition 7 December 2010



# EQUITY HOLDINGS OF CZECH AIRLINES IN WHICH THE COMPANY HAD SIGNIFICANT OR DECISIVE INFLUENCE IN THE YEAR 2010

**AMADEUS MARKETING CSA, s.r.o.**, ID No. 496 80 030, registered office at Prague 8, Sokolovská 100/94, 186 00, entered in the Commercial Register administered by the Municipal Court in Prague, Section C, File No. 21718. Czech Airlines a.s. owns 65%.

**Slovak Air Services, s.r.o.**, ID No. 313 73 844, registered office at M.R. Štěfánika, Bratislava, 820 01, entered in the Commercial Register administered by the District Court in Bratislava 1, Section Sro, File No. 7125/B. Czech Airlines a.s. owned 100% until 30 September 2010.

**Czech Airlines Handling, s.r.o.** / ČSA Support s.r.o. / Company name changed on 9 February 2010, registered office at Prague 6, Jana Kašpara 1069, post code 160 08, ID No. 256 74 285, entered in the Commercial Register administered by the Municipal Court in Prague, Section C, File No. 60140. Czech Airlines a.s. owns 100%.

**CSA Services, s.r.o.**, ID No. 250 85 531, registered office at Prague 6, K letišti, 161 00, entered in the Commercial Register administered by the Municipal Court in Prague, Section C, File No. 48439. Czech Airlines a.s. owns 100%.

**HOLIDAYS Czech Airlines, a.s.**, ID No.: 61860336, registered office at Prague 6, Jana Kašpara 1069, 160 08, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2929. Czech Airlines a.s. owns 100%.

**Czech Airlines Technics, a.s.** / ClickforSky, a.s. /, Company name changed on 15 June 2010, ID No. 27145573, registered office at Prague 6, Jana Kašpara 1/1069, 160 08, entered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 9307. Czech Airlines a.s. owns 100%.



The data provided in the Annual Report for the year 2010 correspond to reality. No essential facts that could influence an accurate and proper assessment of the joint-stock Company Czech Airlines, which is the controlling entity in relation to its subsidiary companies and together with them forms a consolidated unit, were omitted.

**Philippe M. Moreels**  
Chairman of the Board of Directors



**Ing. Marek Týbl**  
Vice-Chairman of the Board of Directors



**AEA** – Association of European Airlines

**AOC** – Air Operator Certificate

**AOG** – Aircraft On Ground (refers to a situation when an aircraft is on the ground and cannot fly for technical reasons)

**CUSS** – Common Use Self Service

**IATA** – International Air Transport Association

**ICT** – Information and Communication Technology

**GSA** – General Sales Agent

**ICAO** – International Civil Aviation Organization

**JAR** – Joint Airworthiness Requirements

**ZFTT** – Zero Flight Time Training



## **Czech Airlines**

Prague Airport  
160 08 PRAGUE 6

Identification no.: 45795908  
the Company entered in the Commercial Register maintained by the Municipal  
Court in Prague, Section B, File no. 1662

## **TELEPHONE NUMBERS:**

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