Travel Service, a.s.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 31 DECEMBER 2016

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

Prepared on 25 September, 2017

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Chairman of the Board of Directors

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Member of the Board of Directors

Content

Consolidated income statement

	Note	Period of 12 months ended 31 December	
		2016	**2015**
Operating revenue			
Sales for transportation services	*5*	17 018 553 360	16 402 529 094
Other operating revenue	*6*	119 670 852	355 551 349
Total Operating revenue		**17 138 224 212**	**16 758 080 443**
Operating expenses			
Salaries	*8*	(1 755 169 252)	(1 436 347 122)
Fuel costs		(2 929 176 277)	(3 337 178 043)
Aircraft lease		(3 916 191 839)	(3 533 197 053)
Landing and handling cost		(4 831 614 427)	(4 754 404 398)
Maintenance cost		(2 398 708 907)	(2 169 461 789)
Other operating expenses	*7*	(1 165 277 987)	(1 074 937 550)
Depreciation		(40 978 270)	(64 618 960)
Total Operating expenses		**(17 037 116 958)**	**(16 370 144 915)**
Net operating profit before net financing costs		**101 107 254**	**387 935 528**
Net interest expense	*9*	(43 676 012)	(42 861 851)
Net financial expense/income	*10*	196 721 680	(220 772 603)
Net finance expense		**153 045 668**	**(263 634 454)**
Share on profit of at equity investments		139 142 083	228 641 633
Profit before tax		**393 295 004**	**352 942 707**
Income tax	*11*	(48 821 205)	(28 499 564)
Profit for the period		**344 473 800**	**324 443 143**

Consolidated statement of comprehensive income

Profit for the period		**344 473 800**	**324 443 143**
Foreign currency translation differences		4 607 776	1 471 346
Share on OCI of at equity investments	*20*	50 585 675	31 978 001
Other comprehensive income for the period		**55 193 451**	**33 449 347**
Total comprehensive income for the period		**399 667 250**	**357 892 490**

Consolidated Balance Sheet

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Aircraft, buildings and other operating assets	*15*	431 457 837	370 706 575
Prepayments on F/A acquisitions & F/A under constr.	*15*	693 436 285	236 868 191
Security deposits paid	*19*	711 547 864	622 103 180
Investments in subsidiaries		675 500	675 625
Investments in associates	*17*	505 312 980	315 585 222
Other intangible assets	*14*	66 212 977	30 101 187
Deferred tax assets	*11*	142 080 383	120 813 626
Total Non-current assets		**2 550 723 825**	**1 696 853 605**
Current assets			
Inventories	*18*	145 839 607	116 869 318
Income tax receivable	*11*	19 388 324	11 658 622
Trade and other receivables and deferred expenses	*19*	1 276 360 819	1 448 642 983
Receivables from related parties (non-trade)		0	0
Cash and cash equivalents	*13*	487 746 182	266 657 269
Positive fair value of derivatives	*12*	90 860 974	0
Total Current assets		**2 020 195 905**	**1 843 828 191**
Total assets		**4 570 919 730**	**3 540 681 797**

Consolidated Balance Sheet

	Note	31 December 2016	31 December 2015
Equity and liabilities			
Equity	*20*		
Share capital		1 241 236 250	250 000 000
Share premium		10 149 214	10 148 658
Translation reserve		(19 255 309)	(23 863 086)
Statutory reserve		42 089 846	42 089 846
Retained earnings		318 442 862	166 455 984
Share on OCI at equity investments		82 563 675	31 978 001
Total equity		**1 675 226 537**	**476 809 403**
Non-current liabilities			
Loans and borrowings	*22*	104 166 667	83 333 333
Provisions	*21*	295 355 495	263 814 383
Deferred tax liabilities	*11*	21 053 035	22 419 835
Total Non-current liabilities		**420 575 196**	**369 567 551**
Current liabilities			
Bank overdrafts	*22*	339 574 678	476 491 452
Loans and borrowings	*22*	328 736 009	620 381 728
Trade and other payables	*24*	1 290 573 120	1 263 627 593
Payables to related parties	*25*	275 555 085	71 237 280
Income tax payable	*11*	19 670 013	25 335 902
Deferred income	*24*	63 875 659	49 961 340
Provisions	*21*	157 133 434	163 786 620
Negative fair values of derivatives	*12*	0	23 482 926
Total Current liabilities		**2 475 117 997**	**2 694 304 842**
Total equity and liabilities		**4 570 919 730**	**3 540 681 797**

Consolidated Statement of Cash Flows

	31 December 2016	31 December 2015
Profit/loss for the period	**344 473 800**	**324 443 143**
Adjustments for:		
Depreciation and amortisation	40 978 270	64 618 960
Deferred income tax	-22 633 558	-37 067 557
Gain on disposal of long-term assets	-215 180	-75 840 423
Net change in inventories	-28 970 289	-10 204 787
Net change in receivables, other asssets and prepaid expenses	82 837 480	-242 804 937
Net change in trade accounts payable and other current liabilities	137 995 843	94 791 502
Net change in provisions	24 887 925	83 953 282
Gains/Losses on revaluation of derivatives at fair value, net	-114 343 900	-215 233 292
Share of profit of equity investments	-189 727 633	-226 747 280
Interest income	-119 385	-1 544 276
Interest expenses	43 795 397	44 406 128
Income tax expense	71 836 991	65 850 462
Cash generated from operations	**390 795 761**	**-131 379 074**
Interest received	119 385	1 544 276
Interest expenses paid	-24 462 757	-25 170 052
Income taxes paid	-58 441 399	-21 302 017
Net cash flows from operating activities	**308 010 989**	**-176 306 867**
Purchases of non-current assets	-553 752 498	-332 617 255
Proceeds from sale of non-current assets	152 066	749 126 181
Cash flows from investing activities	**-553 600 431**	**416 508 925**
Proceeds from the issue of share capital	991 236 250	0
Long term borrowings, change	-270 812 386	333 715 061
Short term borrowings, change	-136 916 775	-29 474 214
Finance lease liabilities, change	0	-508 242 938
Dividends paid	-117 688 136	0
Cash flows from financing activities	**465 818 954**	**-204 002 091**
Net increase in cash and cash equivalents	**220 229 511**	**36 199 968**
Cash and cash equivalents on 1 January	266 657 269	231 457 984
Effect of exchange rate fluctuations on cash held	859 402	-1 000 684
Cash and cash equivalents on 31 December	**487 746 182**	**266 657 269**

Consolidated statement of changes in equity

	Share capital	Share premium and Other capital contributions	Statutory reserve	Retained Earnings	Foreign currency translation reserve	Share on OCI at equity investments	Total Equity
Balance as at 31 December 2014	**250 000 000**	**10 148 658**	**34 089 846**	**-149 987 155**	**-25 334 432**	**0**	**118 916 917**
Allocation of retained earnings			8 000 000	-8 000 000			**0**
Result for the period				324 443 143			**324 443 143**
Other comprehensive income				-3	1 471 346	31 978 001	**33 449 343**
Balance as at 31 December 2015	**250 000 000**	**10 148 658**	**42 089 846**	**166 455 984**	**-23 863 086**	**31 978 001**	**476 809 403**
Increase of share capital (contribution)	991 236 250	556					**991 236 806**
Result for the period				344 473 800			**344 473 800**
Dividends				-192 486 922			**-192 486 922**
Other comprehensive income					4 607 777	50 585 675	**55 193 451**
Balance as at 31 December 2016	**1 241 236 250**	**10 149 214**	**42 089 846**	**318 442 862**	**-19 255 309**	**82 563 675**	**1 675 226 537**

1 INTRODUCTION AND GENERAL INFORMATION

1.1. General information

The consolidated financial statements of Travel Service, a. s. (the "Company") for the year ended 31st December 2016 comprise Travel Service, a. s., its subsidiaries Travel Service, légiforgálmi és szolgáltató Korlátolt Felelősségű Tarsaság, shortly Travel Service, Kft, Travel Service Polska spólka z Ograniczona Odpowiedzialonšcia, shortly Travel Service Polska Sp. z O. O., Travel Service Slovensko, s. r. o., T. S. Building, s. r. o. and the interest in an associate České aerolinie, a. s. (together referred to as „Travel Service" or the „Group").

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

The Group´s ordinary shares are not publicity traded.

1.2. Introduction

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

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

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

A significant position in the market of carriage of persons by air was retained by the Company or its subsidiaries – Travel Service Slovensko, s. r. o., Travel Service, Kft. and Travel Service Polska Sp. z O. O., in Slovakia, Hungary and Poland respectively.

The Company, together with its subsidiaries in Slovakia, Hungary and Poland, exploits the fleet of commercial aircrafts Boeing 737 – 900, Boeing 737 – 800, Boeing 737 – 700, Cessna 680 Citation Sovereign and Airbus A320-214 registered by Aviation Authorities in the Czech Republic, Hungary, Poland and Canada. Furthermore, it also exploits the short-term lease of aircrafts rendered by other aviation companies. At the beginning of 2016, the operation of aircrafts Airbus A320-214 was terminated and the aircrafts were returned to the leasing companies.

On 31st March 2015 Travel Service, a.s. acquired 356,015 common registered certificated shares with a nominal value of CZK 5,000.00 each, Nos. 000 001 – 356,015 issued by the České aerolinie. Total nominal value of the shares is CZK 1,780,075,000.00 [1] representing 34% of the registered capital of this company and 34% on voting rights on the General Meeting. Associated company České aerolinie, a. s. operates fleet of commercial aircrafts A330-300, A319-100, ATR 72 and ATR 42.

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

2 BASIC PRINCIPLES AND PREPARATION OF FINACIAL STATEMENTS

2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the IASB and endorsed for use in the European Union, that are applicable for the activity of the Group and effective for the accounting periods beginning 1 January 2016.

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

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

[1] Czech Airlines Share Capital is CZK 5,235,510 thousand, number of the shares is 1,047,102.00, Number of the Shares hold by Korea is 460,725, i. e. CZK 2,303,625 th. nominal value, Number of the Shares hold by Prisko is 206,654, i. e. CZK 1,033,270 th nominal value, Number of the Shares hold by Česká pojišťovna, a. s. is 23,708, i. e. CZK 118,540 th. nominal value.

2.2. Basis of preparation

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

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

The consolidated financial statements have been prepared in Czech Crowns ("CZK), unless stated otherwise. The Czech National Bank exchange rate was CZK 27.020 to the Euro as at 31 December

2016 and CZK 27.025 to the Euro as at 31 December 2015. Other important exchange rates are disclosed in note 13.

2.3. Going concern

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

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

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

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

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

provisions for repair/overhaul and maintenance – note 4.20
provision for vacation – note 21
useful life and residual values of non-current assets (aircraft, rotables) – note 4.11

determination of an appropriate discount rate to calculate the present value of long-term financial assets and liabilities and provisions – note 19
fair value of aircrafts for the classification of lease contracts – note 4.13

3 BASIS OF CONSOLIDATION

3.1. Controlled companies (subsidiaries)

The consolidated financial statements comprise the financial statements of Travel Service, a.s. and entities controlled by Travel Service, a.s. (its subsidiaries) – the subsidiaries included in consolidation are described in note 1. Travel Service controls an entity when the group is exposed to, or has right to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Several

of the subsidiaries prepare their financial statements in a currency other than Czech crown. The assets and liabilities of these subsidiaries are translated to CZK at the balance-sheet date exchange rate. The income and expenses of these subsidiaries are translated to CZK at the average exchange rate for the period. Foreign currency differences resulting are recognised directly in equity in the foreign currency translation reserve.

3.2. Associated companies (At equity investments)

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

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

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

The Group has only the interest in an associated company České aerolinie, a.s.

3.3. Transactions eliminated on consolidation

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

3.4. Companies excluded from consolidation

The Group's interest in Travel Service GmbH (100% share) has been considered as immaterial and has not been consolidated under IFRS 10, i.e. is accounted for and presented at cost. Travel Service GmbH was established to further support and develope the Group's business in Germany. Travel Service GmbH does not perform any activity and keeps equity in cash in the bank account.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1. Recognition of revenues and expenses

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

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

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

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

4.2. Deferred income

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

4.3. Segment reporting

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

4.4. Foreign currencies

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Czech crowns using exchange rates at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity in the foreign currency translation reserve.

4.5. Borrowing costs

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

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

4.6. Retirement benefit costs

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

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

4.7. Government grants

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

4.8. CO2 Emissions certificates

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

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

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

Every year, each operator must determine and report the volume of its CO2 emissions produced in the given year.

CO2 emissions allowances that are consumed are recorded as per the emissions actually produced. An estimated payable for the obligation to submit CO2 emissions allowances to the relevant authorities is recognised for an amount equivalent to the carrying amount of the capitalised CO2 allowances. If the obligation is not fully covered by available allowances, the out-standing amount of the estimated payable is measured using the market price of the emissions allowances as of the reporting date.

4.9. Taxation

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

- **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current income tax due includes tax calculated from a tax base using the tax rate valid for the year 2016 according to Act no. 586/1992 Coll., Section 21, paragraph 1, which is 19% (2015: 19%).

- **Deferred tax**

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

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

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

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

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

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

4.10. Intangible assets

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

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

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

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

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

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

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

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

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

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

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

The Group operates aircrafts, particularly Boeing 737-900, Boeing 737-800 and Boeing 737-700, Cessna 680 Citation Sovereign and Airbus A320-214 under operating lease agreements. . As mentioned above at the beginning of 2016, the operation of aircrafts Airbus A320-214 was terminated and the aircrafts were returned to the leasing companies. In the connection, the Group owns aircraft parts and equipment, which is classified as PP&E. Judgement is required in estimating their residual values and useful lives. Uncertainty exists in both the useful lives and the residual values.

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

4.12. Impairment

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

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

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

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

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

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

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

4.13. Leases

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

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

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

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

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

At lease classification the group also considers the materiality aspect. Immaterial finance leases are classified as operating leases.
Repair and overhaul costs are not included in the lease rentals and the Group makes regular payments (so called supplement rents) for future maintenance expenses to the lessor. These are based on the estimated costs and are calculated on agreed pattern (e.g. flight hours or cycles). When the maintenance is made, the Group is reimbursed for the payments already provided.

4.14. Inventories

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

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

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

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

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

4.15. Cash and cash equivalents

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

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

4.16. Investments and other financial assets

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

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

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

As at 31 December 2016, financial assets (derivative financial instruments) have been designated as at fair value through profit and loss (2015: at fair value through profit and loss)) – further comments are disclosed in note 12.

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

As at 31 December 2016, the Group had no available-for-sale financial instruments (2015: Nil).

- **Impairment of financial assets**

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

- **Assets carried at amortized cost**

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

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

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

4.17. Derivative financial instruments

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

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in profit or loss unless the derivative is designated and effective as hedging instrument. The Group decides not to apply hedge accounting for these derivatives although they are designed to cover business risks and presents the changes in the fair value of derivatives as a part of financial income and/or expense.

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

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

4.18. Bank borrowings

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

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

4.19. Trade and other payables

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

4.20. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

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

In addition, the Group recognises provisions for following items:
- unused vacation
- provision for regular checks and overhauls

4.21. Related parties

Related parties as defined by IAS 24 are natural persons and entities that Travel Service, a.s. has the ability to control or on which it can exercise significant influence, or natural persons and entities that

have the ability to control or exercise significant influence on Travel Service, a.s. or that are influenced by another related party of Travel Service, a.s.

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

4.22. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

- **Credit risk**

Credit risk relating to either single-seat tickets sales or group-seat tickets sales (e.g. sales to tour operators) is low as pre-payments or other kinds of security are required before flight is started.
For some payment relationships, depending upon the type and level of the particular payment, historical data or experience from the business relationship may be used to manage particular credit risk. Known risks are recognised through bad debt provisions.

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

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

- **Liquidity**

Appropriate department monitors the development of available and projected cash inflows and outflows to ensure sufficient resources to meet its liabilities when due. The Group implemented its treasury management tool and follows the situation on a daily basis.

Financing alternatives are continuously reviewed in order to arrange adequate and sufficient financial resources in time.

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

- **Market risk**

Market risk is the risk of changes in market prices. The most significant resources of market risk for the Group are:
- Foreign exchange rates
- Jet fuel (commodity) prices
- Interest rates

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

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

The following standards and their amendments have become mandatory for financial year 2015:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014)
- Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle (effective for annual periods beginning on or after 1 July 2014, except as detailed below). The annual Improvements include amendments to a number of IFRSs, which are summarised below:
- IFRS 2 Share – based Payment
- IFRS 3 Business Conbination
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement
- IAS 16 Property, Plant and Equipment
- IAS 24 Related Party Diclosures
- IAS 38 Intangible Assets
- Amendments to IFRSs Annual Improvements to IFRSs 2011-2013 Cycle (effective for annual periods beginning on or after 1 July 2014). The annual Improvements include amendments to a number of IFRSs, which are summarised below:
- IFRS 3 Business Conbination
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

Application of the above mentioned amendments did not have a significant impact on the consolidated financial statements.

The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2015, in accordance with their effective dates. In 2015, the Group did not take the decision for early adoption on a voluntarily basis of amendments and interpretations to the standards.

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

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

The new Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, regarding classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories: held to maturity, available for sale and loans and receivables.
Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value.
The 2010 amendments to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement mainly in relation to liabilities designated as fair value through profit or loss in case of changes in fair value, attributable to changes in credit risk of that liability. The standard requires changes in fair value to be presented directly in other comprehensive income. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.
New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortised cost or fair value.
Additionally amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments.

The Group does not expect the standard when initially applied to have an impact on measurement of financial instruments. Based on the standard, a classification of financial assets into respective categories will change.

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

In May 2014, the IASB published the new standard IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). IFRS 15 will replace IAS 11, "Construction Contracts," IAS 18, "Revenue,"
IFRIC 13, "Customer Loyalty Programmes," IFRIC 15, "Agreements for the Construction of Real Estate," IFRIC 18, "Transfers of Assets from Customers," and SIC-31, "Revenue—Barter Transactions
Involving Advertising Services." The standard defines when revenues should be recognized and in what amount. According to IFRS 15, revenues should be recognized in the amount that reflects the consideration expected for the performance obligations being undertaken. The standard shall be
applied for fiscal years beginning on or after January 1, 2018. Earlier application is permitted.

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

- Improvements to IFRS (2012 - 2014) (effective for annual periods beginning on or after 1 January 2016)

In the context of its Annual Improvements Process, the IASB revises existing standards. In September 2014, the IASB published a corresponding omnibus standard. It contains changes to IFRS and their associated Bases for Conclusions. The revisions affect the standards IFRS 5, IFRS 7, IAS 19 and IAS 34.

The Group does not expect the improvements to have material impact on its future consolidated financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28 — Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016)

In December 2014, the IASB published amendments to IFRS 10, IFRS 12 and IAS 28. The amendments are designed to clarify that entities that are both investment entities and parent entities are exempt from presenting consolidated financial statements even if they are themselves subsidiaries. They further clarify that subsidiaries providing investment-related services that are themselves investment entities shall be measured at fair value. For non-investment entities, they clarify that such entities should account for an investment entity using the equity method.

The Group expects that amendments to standards will not have an impact on future consolidated financial statements as they are not applicable to the Group.

- Amendments to IAS 1, "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2016)

In December 2014, the IASB published amendments to IAS 1. They are primarily intended to clarify disclosures of material information, and of the aggregation and disaggregation of line items on the balance sheet and in the statement of comprehensive income. The amendments further provide that an entity's share of the other comprehensive income of companies accounted for using the equity method shall be presented in its statement of comprehensive income.

The Group does not expect the amendments to have material impact on its future consolidated financial statements.

- Amendments to IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016)

In September 2014, the IASB published amendments to IFRS 10 and IAS 28. The amendments provide that unrealized gains from transactions between an investor and an associated company or a joint venture should be recognized in full by the investor if the transaction involves a business. In transactions where only assets are being sold, the recognition of gains shall be partial.

The Group does not expect the amendments to have material impact on its future consolidated financial statements.

- Amendments to IFRS 11 — Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

In May 2014, the IASB published amendments to IFRS 11. The standard thus amended requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in IFRS 3 to apply all of the principles relating to business combinations accounting in IFRS 3 and other standards, as long as those principles are not in conflict with the guidance in IFRS 11. Accordingly, the relevant information specified in those standards is to be disclosed. These amendments necessitated consequential amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards," to have the exemption extended to business combinations. Accordingly, it now also includes past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business.

The Group does not expect the amendments to have material impact on its future consolidated financial statements.

- Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after 1 January 2016)

In May 2014, the IASB published amendments to IAS 16 and IAS 38. The amendments contain further guidance on which methods can be used to depreciate property, plant and equipment, and to amortize intangible assets. In particular, they clarify that the use of a revenue-based method arising from an activity that includes the use of an asset does not provide an appropriate representation of its consumption. Within the context of IAS 38, however, this presumption can be rebutted in certain limited circumstances.

The Group does not expect the amendments to have material impact on its future consolidated financial statements of the Group.

- Amendments to IAS 27 - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)

In August 2014, the IASB published amendments to IAS 27, "Separate Financial Statements." The amendments permit the use of the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in the separate financial statements of an investor. The amendments shall be applied retrospectively in accordance with IAS 8.

The Group expects that amendments to standards will not have an impact on future consolidated financial statements as they are not applicable to the Group.

- IFRS 16 Leases – (effective for annual periods beginning on or after 1 January 2019)

In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the

recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side on the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet expet for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

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

- IFRIC Interpretation 21 Levies

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability to pay a levy imposed by government and to the timing of recognizing such liability. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognized when this event occurs. The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognized when that minimum activity threshold is reached. The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

The Group does not expect the amendment to have an impact on its future consolidated financial statements.

4.24. Significant changes in accounting policies compared to prior period

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements

5 REVENUES – SALES FOR TRANSPORTATION SERVICES

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

	2016	2015
Sales for charter services and related income	9 212 712 444	10 646 088 321
Sales for scheduled flights and related income	5 509 107 779	4 247 377 182
ACMI and other leases	2 296 733 136	1 509 063 591
Total Sales for transportation services	**17 018 553 360**	**16 402 529 094**

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

The share of the parent company Travel Service, a. s. in related income from transportation services was 86.84% in 2016, i. e. 14 779 387 573. In 2015 this share was 84.65% i. e. 13 885 012 584.

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

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

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

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

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

6 OTHER OPERATING REVENUE

	2016	2015
Other operating revenue	119 670 852	355 551 349

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

7 OTHER OPERATING EXPENSES

	2016	2015
Catering	193 271 184	264 451 904
Crew lease	72 753 566	40 817 044
Employee cost	68 093 254	55 166 184
Building and interior expenses	30 733 392	26 883 060
Communication expenses	223 322 825	142 187 773
Advertising cost	53 310 940	58 255 542
Office supplies	21 354 780	14 878 094
Consultancy expenses	164 561 474	144 153 744
Bad debt reserve / cost	27 560 230	31 056 491
Insurance and claims cost	116 974 288	108 673 795
Sundry expenses	193 342 055	188 413 919
Total Other operating expenses	**1 165 277 987**	**1 074 937 550**

8 PERSONNEL EXPENSES AND STAFF NUMBERS

	2016	2015
Salaries	1 031 143 479	870 225 926
Remunerations of statutory bodies	63 000	72 000
Statutory health insurance and social contributions	291 998 550	253 812 563
Changes in provision for personnel expenses	14 454 577	-339 147
Salary related expenses (incl. "per diem", training etc.)	417 509 645	312 575 781
Total Personnel expenses	**1 755 169 252**	**1 436 347 122**
Average number of employees	**1 477**	**1 369**
Average personnel expenses per employee	**1 188 059**	**1 049 542**

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

	Average 2016	**Average 2015**
Flight and cabin crew	1 020	957
Maintenance department	182	160
Sales, operation and administration	275	251
Total average number of employees	**1 477**	**1 369**

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

	2016 TCZK	**2015 TCZK**
Basic remuneration	33 275	25 122
Total remuneration of directors and key management	**33 275**	**25 122**

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

9 NET INTEREST EXPENSE

	2016	2015
Interests charged	27 840 701	29 606 722
Interests capitalised	-8 526 487	-1 893 888
Interest expense - charge for discount (net of reversal of discount from previous years)	24 481 182	16 693 293
Interests received	-119 385	-1 544 276
Total Net Interest expense	**43 676 012**	**42 861 851**

10 NET OTHER FINANCIAL EXPENSE

	2016	2015
Currency fluctuation, net (+loss, -gain)	-86 960 648	-15 486 271
Gain/loss from derivatives, net (+loss, -gain)	-109 761 032	236 258 874
Total Other financial expense	**-196 721 680**	**220 772 603**

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

11 INCOME TAX EXPENSES AND DEFERRED INCOME TAXES

Income tax expenses and deferred taxes	2016	2015
Current income tax expense	71 836 991	65 850 462
Deferred income tax	-23 015 786	-37 350 898
Total Income tax expense	**48 821 205**	**28 499 564**

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

Statutory income tax rate in the Czech Republic for the 2016 period was 19% (2015: 19%).

As at 31 December 2016, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% (2015: 19 %), that corresponds with the statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected. All subsidiaries of the Group apply the same tax rate = 19% on their tax base.

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

Reconciliation of expected to effective income tax expenses	**2016**	**2015**
Result before income taxes	393 295 005	352 942 707
Expected income tax expense	**74 726 051**	**67 059 114**
Effect of different tax rate outside the Czech Republic	0	0
Permanent differences	-30 435 931	-38 559 550
Effect of tax rate changes	0	0
Prior-period current tax expense	4 531 085	1 020 000
Other	0	0
Effective income tax expense	**48 821 205**	**28 499 564**
Effective income tax rate	**12%**	**8%**

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

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

Deferred tax assets and liabilities	**2016**	**2015**
Deferred tax liabilities:		
Difference between tax base and carrying amount of non-current assets	-19 271 576	-19 628 599
Other	-1 781 458	-2 791 235
Total	**-21 053 035**	**-22 419 835**
Offsetting	0	0
Deferred tax liabilities, net	**-21 053 035**	**-22 419 835**
Deferred tax assets:		
Tax loss carryforward	3 580 719	0
Discounted Deposits	25 767 824	20 445 162
Provisions	85 771 815	81 170 937
Depreciation of reclassified spare parts to fixed assets	11 158 543	8 349 400
Other	15 801 482	10 848 127
Total	**142 080 383**	**120 813 626**
Offsetting	0	0
Deferred tax assets, net	**142 080 383**	**120 813 626**
Deferred tax, net at the end of period	121 027 349	98 393 791
Deferred tax, net at the beginning of period	98 393 791	61 326 235
Change in deferred tax position	**22 633 558**	**37 067 557**
Effect of exchange rate fluctuations on taxes	-382 228	-283 342
Deferred income tax expense (benefit)	**23 015 786**	**37 350 898**

12 DERIVATIVES

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

	CZK thousand 2016	CZK thousand 2015
Currency risk:		
Currency Forwards and Options	31 293	12 195
Commodity risk:		
Commodity Swaps and Options	59 568	-35 678
Total Derivatives – Year-end Fair Values	**90 861**	**-23 483**

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

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

	CZK thousand 2016	CZK thousand 2015
Currency Forwards and Options	20 334	12 252
Commodity Swaps and Options	89 427	-248 511
Total Gains(+)/Losses(-) on derivatives net	**109 761**	**-236 259**

13 FINANCIAL RISK MANAGEMENT

- **Credit risk**

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

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

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

	Carrying amounts 2016	Carrying amounts 2015
Loans and receivables	1 276 360 819	1 448 642 983
Loans and receivables – Security deposits	711 547 864	622 103 180
Positive market values of derivatives	90 860 974	0
Cash and cash equivalents	487 746 182	266 657 269
Total financial assets	**2 566 515 839**	**2 337 403 432**

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

	2016	2015
Loans and receivables - carrying amount	1 355 860 410	1 509 851 502
Loans and receivables - impairment	-79 499 591	-61 208 519
Loans and receivables, net	**1 276 360 819**	**1 448 642 983**

The impairment is recognized predominantly for trade receivables.

Currency risk

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

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

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

The operating revenue of the parent company in US$ was US$ 224,259,146 and operating expenses in US$ was US$ 297,627,941 in 2015. The revenue in EUR was € 135,612,462 and the cost in EUR was € 120,154,435 in 2015.

The acquisition of new market in the Slovak Republic in 2010 minimized the risks linked winth EUR.

If the average exchange rate CZK/USD had increased by about 5% in 2016 the negative impact linked with operating profit of this one would have been 76,827,781 CZK. If the average exchange rate CZK/USD and CZK/EUR had increased by about 5% the positive impact linked with operating profit of this one would have been 36,967,717 CZK. These numbers confirm that operating revenue in USD is lower than operating expenses in USD and that operating revenue in EUR is higher than operating expenses in EUR.

The following significant exchange rates were applied during the year:

Applied exchange rates	**Average 2016**	**Year-end 2016**
USD	24,432	25,639
EUR	27,033	27,020
PLN	6,198	6,126
HUF	0,0868	0,0872
	Average 2015	**Year-end 2015**
USD	24,600	24,824
EUR	27,283	27,025
PLN	6,525	6,340
HUF	0,0881	0,0856

- **Interest rate risk**

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

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

The Group's obligation to make regular lease payments, which are generally in USD and linked to variable interest rates, expose the Group to variability in interest payments as well as to foreign currency risk. The Group did not enter into any financial instruments that would hedge this interest rate and foreign currency risk in the periods 2016 and 2015.

Fuel price risk

For the sake of unforeseeable increase of fuel price the Group agrees on fuel surcharges with its business partners to mitigate the risk. By the end of 2016 the Group have concluded commodity SWAPs to secure the fuel price in the volume of a bottom half of ten thousands tons of fuel.

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

2016		Platts used as Price Basis for Month:											
		2016											
Platts	**Units**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
FOB Rotterdam High	USC/USG	112.96	93.68	98.91	113.05	119.78	133.52	139.97	130.08	130.64	132.94	146.35	136.49
	USD/MT	373.89	310.09	327.40	374.20	396.48	441.96	463.30	430.56	432.42	440.02	484.43	451.77
CIF NWE High	USC/USG	116.42	94.98	100.36	114.35	120.39	134.39	141.20	131.12	131.11	133.90	147.01	137.81
	USD/MT	385.35	314.39	332.19	378.50	398.50	444.84	467.39	434.00	433.97	443.22	486.60	456.16
FOB MED Italy High	USC/USG	109.73	88.74	95.21	109.78	114.41	129.62	136.45	126.74	126.95	130.19	142.91	133.13
	USD/MT	363.20	293.73	315.13	363.38	378.71	429.05	451.65	419.51	420.19	430.92	473.05	440.67

In 2016 total consumption of the fuel was 245,124 tons. The main base for the calculation of fuel price is FOB Rotterdam High. The commodity swaps were concluded for 39.750 tons in Komerční banka, UniCredit Bank Czech Republic and Slovakia, a. s. and Česká spořitelna, a. s. Deal rates of commodity swaps were in interval from 299 US$ per ton to 510 US$ per ton. As of 1st January 2017 the commodity swaps were concluded for 28,300 tons of jet fuel.

14 INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
	CZK	CZK	CZK	CZK
Cost or valuation				
Balance at 1 January 2015	**40 388 232**	**3 036 365**	**12 881 631**	**56 306 228**
Additions	10 557 981	5 177 361	2 732 944	18 468 286
Disposals or classified as held for sale	-110 110	0	-2 341 934	-2 452 044
Transfer	1 327 305	0	-2 372 539	-1 045 234
Balance at 31 December 2015	**52 163 408**	**8 213 726**	**10 900 101**	**71 277 236**
Additions	9 292 310	32 832 926	7 266 379	49 391 615
Disposals or classified as held for sale	-81 355	-4 456 588	0	-4 537 943
Balance at 31 December 2016	**61 374 363**	**36 590 065**	**18 166 480**	**116 130 908**

Accumulated depreciation and impairment	CZK	CZK	CZK	CZK
Balance at 1 January 2015	**32 257 672**	**2 873 929**	**0**	**35 131 601**
Eliminated on disposals of assets	-110 110	0	0	-110 110
Amortisation expense	6 017 755	136 803	0	6 154 558
Balance at 31 December 2015	**38 165 317**	**3 010 732**	**0**	**41 176 049**
Eliminated on disposals of assets	0	0	0	0
Amortisation expense	8 607 800	134 083	0	8 741 883
Balance at 31 December 2016	**46 773 117**	**3 144 815**	**0**	**49 917 932**
Net book value at 31 December 2015	**13 998 092**	**5 202 994**	**10 900 101**	**30 101 187**
Net book value at 31 December 2016	**14 601 247**	**33 445 250**	**18 166 480**	**66 212 977**

Software includes the licences to Navision system, AIMS planning system, SQL Server, SW for 500 (Honneywell), Salsys store system, etc.

Intangible assets in progress comprise, in particular, the ongoing modernization and installation of the so-called Datalink for the aircraft Boeing 737 (to enhance the air traffic safety). In addition, intangible assets in progress include further development of the EFA software offering sales and operational functions and of the financial software Microsoft NAV 2013. It also includes the development of the software mentioned above in order to provide support for the implementation of maintenance system OASES etc.

Other intangible assets represent the acquisition cost of trade mark SMART WINGS and the relevant domain and the O2 emission allowances EUA and EUAA. Any changes of the emission allowances are given by the purchase of emission allowances, by free allocation of emission allowances and their disposal. Further comments to O2 emissions allowances are disclosed in note 4.8.

15 PROPERTY PLANT AND EQUIPMENT

	Buildings at cost	Aircrafts and aircraft related and other equipment	Tangible assets in progres	Prepayments on F/A acquisitions	Total
	CZK	CZK	CZK	CZK	CZK
Cost or valuation					
Balance at 1 January 2015	**231 408 237**	**1 085 404 837**	**16 227 660**	**88 596 180**	**1 421 636 914**
Additions	0	661 168 464	270 522	132 915 101	794 354 088
Disposals	0	-1 428 372 486	0	0	-1 428 372 486
Effect of foreign currency exchange differences	0	0	0	0	0
Transfer	0	2 186 507	-1 141 273	0	1 045 234
Balance at 31 December 2015	**231 408 237**	**320 387 322**	**15 356 910**	**221 511 281**	**788 663 750**
Additions	310 000	92 720 227	3 819 891	453 091 867	549 941 985
Disposals	0	-24 105 245	-13 395	0	-24 118 640
Effect of foreign currency exchange differences	0	0	0	0	0
Transfer	0	330 269	-330 269	0	0
Balance at 31 December 2016	**231 718 237**	**389 332 573**	**18 833 136**	**674 603 149**	**1 314 487 095**

	Buildings at cost	Aircrafts and aircraft related and other equipment	Tangible assets in progress	Prepayments on F/A acquisitions	Total
Accumulated depreciation and	CZK	CZK	CZK	CZK	CZK
Balance at 1 January 2015	**59 245 496**	**288 109 068**	**0**	**0**	**347 354 564**
Eliminated on disposals of assets	0	-224 932 491	0	0	-224 932 491
Depreciation expense	9 854 216	48 812 695	0	0	58 666 912
Effect of foreign currency exchange differences	0	0	0	0	0
Balance at 31 December 2015	**69 099 712**	**111 989 272**	**0**	**0**	**181 088 984**
Eliminated on disposals of assets	0	-23 698 571	0	0	-23 698 571
Depreciation expense	9 863 404	22 339 156	0	0	32 202 560
Effect of foreign currency exchange differences	0	0	0	0	0
Balance at 31 December 2016	**78 963 117**	**110 629 856**	**0**	**0**	**189 592 973**
Net book value at 31 December 2015	**162 308 525**	**208 398 050**	**15 356 910**	**221 511 281**	**607 574 766**
Net book value at 31 December 2016	**152 755 120**	**278 702 716**	**18 833 136**	**674 603 149**	**1 124 894 122**

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

Borrowing costs capitalised in 2016 and 2015 were CZK 8 526 thousand and CZK 1 894 thousand.

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

In line with the Group's strategy to, inter alia, modernize its fleet of aircraft that aims mainly at purchases and operating lease of aircraft Boeing 737 – MAX, in December 2016 the Group signed a contract in respect of a supply of 5 aircraft, type Boeing 737 – MAX. In total, together with the previous contract dated 29.7.2013 signed with Boeing Company for delivery of 3 aircrafts type Boeing 737 MAX, the Group entered into contracts to purchase eight aircraft of this type that are now recognized as the Group's assets – Prepayments on F/A acquisitions. As of 31 December 2016, advance payments of CZK 664,255 thousand were made in respect of these supplies.

The eligible interest of the Group is to maintain the fleet of aircraft in the best working condition possible and to minimize any delays due to lack of rotable (in the financial statements classified as aircraft related equipment, i.e. an item under property plant and equipment) or spare parts (classified as inventory). When any defect is discovered on an aircraft operated under the operating lease contracts and if it is vital to replace any rotable part, spare part or component, it happened in 2015 and to a certain extent even in previous years that the replaced spare or rotable part that was supplied for the aircraft was classified as a spare or rotable part in the Group's assets. Since there was no relevant document available, the removed spare part could not be capitalized in the Group's assets. When the operating lease was terminated and the aircraft returned to the lessor, the Group ceased to be the owner of the spare or rotable part affixed to the aircraft, however was not entitled to issue any invoice to the lessor for the installation of the spare or rotable part. On the other hand, by replacing the part in question, the Group became the owner of the spare or rotable part. These parts were divided into two groups – before repair and repaired. These spare or rotable parts were valued at their replacement costs. The spare or rotable parts that were not repaired as at the balance sheet date were than impaired. The impairment recognised reflects the amount of anticipated costs that are to be expended in order to reinstate the parts to the original condition. The above resulted in surpluses discovered at the physical count of inventory and property, plant and equipment and in corrections that were to be made to consumed spare and disposed rotable parts in 2015.

Most lease contracts the Group entered into have been classified as operating lease and, as a consequence, have not been capitalized (further comment to leases are disclosed in note 23). In the year 2010, the Group finished process of acquisition of Boeing 737-800 aircraft. Aircraft was leased from special purpose entity established for the purpose of the acquisition. Based on the package of contracts signed between the Group and other involved parties (financing consortium of banks, special purpose entities and Export Import Bank of the United States), lease relationship was classified as finance lease in terms of IAS 17. As a consequence, the aircraft was recognised as a part of property, plant and equipment item in the Group's balance sheet.

On 1 October 2015, a Termination and Release Agreement was concluded between the Company as a sub-lessee and all other involved parties, on the basis of which finance lease relationship and classification was terminated and derecognised, i.e. the aircraft was disposed from property, plant and equipment item in the Group's balance sheet.

Subsequently, on 9 October 2015, the company MALACHITE AIRCRAFT LEASING LIMITED, as Buyer, concluded an AIRCRAFT PURCHASE AGREEMENT with the Company as a seller, on the basis of which the company MALACHITE AIRCRAFT LEASING LIMITED became an aircraft owner.

On 9 October 2015, there was an AIRCRAFT LEASE AGREEMENT concluded between the company MALACHITE AIRCRAFT LEASING LIMITED, as a lessor, and the Company, as a lessee, on operating lease of the respective aircraft. These transactions were assessed as sale and lease back transaction that resulted in an operating lease.

16 CAPITAL COMMITMENTS

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

Delivery Schedule of the aircraft:

a) 2018 – 5 aircraft (January 18 – 1 (Operational Lease, hereinafter OL), March 18 – 1 (OL), April 18 -1 (OL), May 18 – 1 (OL), September 18 -1 (Purchase));
b) 2019 – 11 aircraft (January 19 – 1 (OL), February 19 – 2(OL), March 19 – 3 (OL – two aircraft, Purchase – 1 Aircraft), April 19 -1 (OL), May 19 – 2(OL), June 19 – 1 (Purchase), December 19 – 1(OL));
c) 2020 – 6 Aircraft (January 20 – 1 (OL), February 20 – 1(OL), March 20 – (OL), May 2020 – 1 (OL));
d) 2021 - 3 Aircraft (January 21- 1 (OL), February- 1 (OL), March 21 – 2 (OL), May 21 – 2(OL));
e) 2022 – 3 Aircraft (February 21 -1 (Purchase), March 21 – 1 (Purchase), May 21 – 1 (Purchase));
f) 2023 – 2 Aircraft (February 23 – 1 (Purchase), March 23 -1 (Purchase)).

Due to Purchase Agreements Travel Service has to remit significantly more than 10 % of Airframe Price, Features, etc. Total amount of pre-delivery payment is significantly more than US$ 100,000 thousand from July 2013 till March 2022. Travel Service has paid signifacantly more than US$ 30,000 thousand.Remaining amount will have been to paid by 1st March 2022.

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

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

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

17 INVESTMENTS IN ASSOCIATES

Details of material associates

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

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

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

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

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

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

The ČSA is the Czech national carrier with its hub at Prague Airport, it is one of the oldest airlines in Europe (it has been operating since 1923). The core business of the company is air transport of passengers and cargo. The ČSA is member of the SkyTeam alliance. Over the last few years, the company has undergone a massive restructuring in the context of the Restructuring Plan approved by the Commission by means of its State aid decision No. SA.30908 (2011/C, ex N176/2010). At the beginning of its restructuring process, the ČSA's fleet included 44 aircraft operated on scheduled flights, with 5 additional aircraft assigned to charter service. During the restructuring, the ČSA's fleet has been down-sized to the current 18 aircraft and simplified to include only Airbus (1x Airbus A330-300, 9x Airbus A319-100) and ATR aircraft (5 x ATR72 and 3x ATR42). Moreover, the ČSA has reduced its charter business, and since 2013 the company primarily operates scheduled flights and charter flights on an ad hoc basis only. As a part of the restructuring, ČSA has also undergone major network adjustments consisting of the reduction of routes and frequencies with the strategy of connecting the growing markets of Russia/CIS to Western Europe.

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

Travel Service horizontally overlap primarily in the segment of scheduled air transport of passengers.

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

ČSA	**2016**	**2015**
Current assets	1 864 562	1 480 824
Non-current assets	1 724 960	1 605 506
Current liabilities	-2 072 555	-2 115 895
Non-current liabilities	-358 120	-392 226

	2016	**2015**
Revenue	7 260 964	6 139 378
Profit or loss from continuing operations	431 857	693 883
Post-tax profit (loss) from discontinued operations	0	0
Profit (loss) for the year	431 857	693 883
Other comprehensive income for the year	148 782	94 053
Total comprehensive income for the year	**580 639**	**787 936**
Dividends received from the associate during the year	0	0

	2016	**2015**
Carrying amount of the Group´s interest in ČSA (excl. goodwill) at the beginning of the period	**260 619**	**-**
Net assets of the associate	1 158 847	578 208
Adjustments in respect with revaluation of net assets to fair value	-22 616	-21 408
Change of net assets for the period	558 023	766 528
Proportion of the Group´s ownership interest in ČSA	34%	34%
Post acquisition share on profit and OCI of ČSA	189 729	260 619
Goodwill at the date of acquisition (31 March 2015)	54 966	54 966
Carrying amount of the Group´s interest in ČSA incl. goodwill at the end of the period	**505 313**	**315 585**

18 INVENTORIES

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

Inventories	2016	2015
Spare parts	145 465 085	116 627 712
Other material	246 461	151 545
Goods	128 061	90 061
Total Inventories	**145 839 607**	**116 869 318**

Inventories are measured at the lower of cost and net realisable value. In 2016 the impairment of
inventories was CZK 4,716,550 (2015: CZK 4,759,971). The management of the Group believes that inventory will be utilized for repairs and overhauls and that the value in use or net realisable value of inventories is not lower than their cost.

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

Further, during the year, the Group determined surpluses of spare parts and consumption material, which relate particularly with the process of termination of operating lease of aircrafts – further comments are disclosed in note 15.

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

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

	2016	2015
Trade receivables	1 463 618 774	1 496 227 211
Other receivables	369 981 971	747 104 044
Offset*	-557 239 926	-794 688 272
Total Trade and Other Receivables	**1 276 360 819**	**1 448 642 983**

	2016	2015
Advanced payments and deposits	309 914 904	320 669 605
Receivables from employees	85 649 091	57 198 958
Prepaid leasing payments	96 644 137	94 179 398
Prepaid expenses other	35 784 387	246 722 691
VAT receivable	6 259 006	6 484 011
Other receivables	1 785 998	8 754 800
Total Other Receivables	**536 037 524**	**734 009 463**

* The Group classified transactions with its business partners under different asset and liability entries, such as advance payments, accounts receivable, accounts payable,

deposits, estimates. It is customary in trade transactions to communicate with business partners and settle net balances of mutual open / outstanding entries, the estimated set-off is also disclosed in the annual financial statements.

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

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

Prepaid leasing payments include the part of the lease as of 31 December 2016 (2015: 31 December 2015). It is determined from the invoices received and any payments made on the lease of aircraft that relate to the period up to 1 January 2017 (2015: 1 January 2016).

Prepaid other expenses consist primarily of insurance and training costs and preliminary invoiced expenses of unfinished overhauls. In 2015 the most significant prepaid other expenses were the incompleted repairs of the engine CFM56-7B26, serial number 888932, aircraft OK-TVB or HA-LKG, the repair thereof is being made by the company Lufthansa Technik and which was not up to the decisive date released for the operation.

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

The impairment losses recognised can be summarised as follows:

	2016	**2015**
Trade and other receivables - gross	1 913 100 336	2 304 539 774
Offset	-557 239 926	-794 688 272
Impairment (Provision for bad debts)	-79 499 591	-61 208 519
Total Net trade and other receivables	**1 276 360 819**	**1 448 642 983**

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

Non-current Receivables	**2016**	**2015**
Nominal values of operating lease related deposits	847 167 992	729 709 296
Discount on operating lease related deposits	-135 620 128	-107 606 116
Total Non-current Receivables	**711 547 864**	**622 103 180**

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

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

20 SHARE CAPITAL AND RESERVES

	2016	**2015**

Share capital	1 241 236 250	250 000 000
Share premium	10 149 214	10 148 658
Statutory reserve	42 089 846	42 089 846
Foreign currency translation reserve	-19 255 309	-23 863 086
Retained earnings	-26 030 938	-157 987 159
Result for the period	344 473 800	324 443 143
Share on OCI at equity investments	82 563 675	31 978 001
Total Equity	**1 675 226 537**	**476 809 403**

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

The shareholdings and voting rights of the shareholders as at 31 December 2016 and 2015 are as follows:

2016	**Share in %**	**TCZK**
	2016	**2016**
UNIMEX GROUP, a.s.	11,20%	139 018
Ing. Roman Vik	11,20%	139 018
CANARIA TRAVEL, spol. s r.o.	27,68%	343 574
China International Group Corporation Limited	49,92%	619 625
Total	**100,00%**	**1 241 236**

2015	**Share in %**	**TCZK**
	2015	**2015**
UNIMEX GROUP, a.s.	31,16%	77 900
Ing. Roman Vik	31,16%	77 900
CANARIA TRAVEL, spol. s r.o.	27,68%	69 200
China International Group Corporation Limited	10,00%	25 000
Total	**100,00%**	**250 000**

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

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

As at 31 December 2016, the registered capital was paid in full.

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their currencies to the Group's functional/presentation currency (i.e. CZK) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.
The shares are pledged in favour of Komerční banka and UniCredit Bank of the Czech Republic (further information is disclosed in note 22).

21 PROVISIONS

	2016	**2015**

Untaken vacation	49 443 964	34 989 387
Repair and maintenance	401 986 642	392 226 071
Other	1 058 323	385 546
Total Provisions	**452 488 929**	**427 601 004**

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

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

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

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

22 INTEREST-BEARING LIABILITIES

The Group has entered into following interest-bearing liabilities:

Long-term interest bearing liabilities	**2016**	**2015**
Bank overdrafts	0	0
Loans	104 166 667	83 333 333
Total Long-term interest bearing loans	**104 166 667**	**83 333 333**

Short-term interest bearing liabilities	**2016**	**2015**
Bank overdrafts	339 574 678	476 491 452
Loans	328 736 009	620 381 728
Total Long-term interest bearing loans	**668 310 687**	**1 096 873 180**

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

Payments for interest-bearing liabilities	**2016**	**2015**
Less than one year	668 310 687	1 096 873 180
Between one and five years	104 166 667	83 333 333
Total bearing liabilities	**772 477 354**	**1 180 206 514**

Owerview of loans according to loan providers:

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

31 December 2015	**Total amount of loan /credit limit TCZK**	**of which due less than 1 year**	**of which due in 1 and more years**
Loan provider	**Unpaid part TCZK**	**TCZK**	**TCZK**
Komerční banka, a.s.	80 000		
Overdraft	49 801	49 801	0
Komerční banka, a.s.	330 252[2]		
Revolving credit	328 655	328 655	0
Raiffeisenbank a.s.	200 000		
Short-term credit	200 000	200 000	0
UniCredit Bank Czech Republic and Slovakia, a.s.	500 000		
Overdraft	383 295	383 295	0
UniCredit Bank Czech Republic and Slovakia, a.s.	125 000		
Medium-term credit	125 000	41 667	83 333
Česká spořitelna, a. s.	100 000		
Overdraft	93 455	93 455	0
Credit Limit in total	**1 335 252**		
Unpaid part in total	**1 180 206**	**1 096 873**	**83 333**

[2] This amount is confirmed and calculated by Komerční banka, a. s. Reduction of the credit limit from 370 000 is an impact of the evaluation of derivatives (see chapter 12).

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

UniCredit Bank Czech Republic and Slovakia, a. s. and Travel Service, a.s. entered into a loan agreement on 29 September 2004, as amended. The Group may use a revolving multipurpose line in the maximum amount of CZK 550,000 thousand in the period from 1 November to 30 June or CZK 250,000 thousand in the period from 1 July to 31 October to finance its operations, to issue bank guarantees or documentary letters of credit or to pursue treasury transactions. Cash withdrawals are capped at CZK 500,000 thousand in the period from 1 November to 30 June or at CZK 250,000 thousand in the period from 1 July to 31 October. The loan is due on 31 December 2017.

Shares issued by Travel Service a.s., namely a total of 380ordinary shares in the nominal value of CZK 38,000 thousand were put in pledge for the benefit of UniCredit Bank Czech Republic and Slovakia, a. s., by the following pledgers:

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

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

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

After the balance sheet date, i.e. at 6 March 2017, the parties entered into Amendment 4, which set the global credit line at CZK 600,000 thousand for the period from 31 May5 2017 and from 1 December 2017 and at CZK 470,000 thousand for the period from 1 June 2017 to 30 November 2017.

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

1. Further comments to leases are disclosed in note 15.A letter of comfort issued by UNIMEX GROUP, a. s., Reg.No. 41693540;

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

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

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

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

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

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

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

The Group cooperates with Raiffeisenbank a.s., which also assist in the arrangement of day-to-day payment transaction and in financing the Group's operations and investments. In the area of operations financing, the bank granted the Group an overdraft credit in the amont of CZK 200,000 thousand under a loan contract No. 980466/2013/2. On 30 November 2016, the parties entered into amendment No. 5 to the foregoing loan agreement which set the term for drawing the credit at 30 June 2017 or 30 November 2017 respectively, subject to the prior consent of the bank's department in charge of the loan agreement. The final due date is set at 30 November 2017.

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

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

After the balance sheet date, the Group received a mid-term credit in the amount of CZK 150,000 thousand to refinance the purchase of the new airplane Boeing 737-8 MAX. The credit was drawn on

22 February 2017. The credit is secured by a blank bill of exchange plus the Contract About the Right to Complete a Blank Bill of Exchange. The credit is settled in monthly installments in the amount of

CZK 4,167 thousand. The last installement in the amount of the outstanding part of the principle is scheduled on the 3rd anniversary of the execution date of the contract, i.e. on 22 February 2020.

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

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

23 LEASES

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

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

Future lease payments	Amounts at CZK/USD year-end rate
due in 2017	2 794 082
due in 2018	2 622 211
due in 2019	2 222 134
due in 2020	1 784 648
due in 2021	1 323 603
due in 2022 and later	1 283 123
Total Future minimum lease payments	**12 029 800**

The Group's fleet comprises, in particular, aircraft that are used by the Group under the lease contracts. Most of the aircraft used by the Group are Boeing, type B 737-800 with capacity of 189 passengers and 6 members of the crew. In addition, the Group operates two aircraft, Boeing with capacity of 148 passengers and one aircraft with capacity of 212 passengers. In 2015, the Group's fleet of aircraft also included two aircraft Airbus A320 with capacity of 180 passengers. However, their lease was terminated in February 2016. For a long time, the Group also offers services of an aero taxi and, for these purposes, it uses Cessna Citation 680 with capacity of 9 passengers.

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

No.	Aircraft leased in 2016	Mfg Year	Lease Period (in months)	Expire date	Lessor
1	BOEING 737-8CX, MSN 32362, HA LKG (OK TVB)	2002	206	31.3.2019	MASL IRELAND (13) LIMITED
2	BOEING 737-8FH, MSN 29669, OK TVF (C-GTVF)	2005	183	19.4.2020	ALC BLARNEY AIRCRAFT Limited
3	BOEING 737-8Q8, MSN 30719, OK TVG (C-GTVG)	2007	169	31.3.2021	Macquarie AirFinance Acquisitions (Ireland) Limited
4	BOEING 737-8Q8, MSN 35275, OK TVH (C-GVVH)	2008	170	11.5.2022	ILFC AIRCRAFT 73B-35275 LIMITED
5	BOEING 737-86Q, MSN 30294, OK TVE (C-GRKB)	2004	170	19.3.2018	Wells Fargo Bank Northwest, National Association
6	BOEING 737-8Q8, MSN 29351, OK TVJ (C-FTAH)	2004	128	17.5.2019	ILFC Ireland Limited
7	BOEING 737-86N, MSN 32740, OK TVK (C-FGVK)	2004	97	22.5.2017	Celestial Aviation Trading 17 Limited
8	BOEING 737-8FN, MSN 37076, OK TVL	2010	191	9.10.2025	MALACHITE AIRCRAFT LEASING LIMITED
9	BOEING 737-8FN, MSN 37077, OK TVM	2010	187	3.6.2025	Fly Aircraft Holding Twenty Limited
10	BOEING 737-8CX, MSN 32360, OK TVO	2002	119	31.3.2020	MASL IRELAND (13) Limited n
11	BOEING 737-8K5, MSN 32907, OK TVP (C-GKVP)	2002	139	30.10.2021	DCAL 5 LEASING LIMITED
12	BOEING 737-86N, MSN 38018, OK TVR	2011	122	27.4.2021	Celestial Aviation Trading 12 Limited
13	BOEING 737-86N, MSN 39404, OK TVS	2011	122	4.5.2021	Celestial Aviation Trading 12 Limited
14	BOEING 737-86N, MSN 39394, OK TVT	2012	122	30.1.2022	Celestial Aviation Trading 12 Limited
15	BOEING 737-86N, MSN 38025, OK TVU (C-GKVU)	2012	122	19.3.2022	Celestial Aviation Trading 17 Limited
16	BOEING 737-86N, MSN 38027, OK TVV (C-GKVV)	2012	122	8.5.2022	Celestial Aviation Trading 26 Limited
17	BOEING 737-86Q, MSN 30295, OK TVW	2004	97	28.6.2020	SASOF III (A20) AVIATION IRELAND DAC
18	BOEING 737-8Z9, MSN 33833, OK TVX	2005	73	28.4.2019	Macquarie Aviation Capital Finance Limited
19	BOEING 737-8Q8, MSN 30724, OK TVY (C-GTQY)	2007	73	21.5.2019	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
20	BOEING 737-8S3, MSN 29250, OK TSA	2001	61	3.4.2018	SASOF III (A10) AVIATION IRELAND DAC (3)
21	BOEING 737-8Q8, MSN 41795, OK TSD	2014	122	4.5.2024	ILFC Aircraft 73B-41795 Limited
22	BOEING 737-81D, MSN 39437, OK TSE	2014	97	2.2.2022	Macquarie Aerospace Finance 39437 Limited
23	BOEING 737-8GJ, MSN 37360, OK TSF	2009	97	23.3.2023	Halodell Limited
24	BOEING 737-804, MSN 28231, OK TSH	2000	59	5.2.2020	Constitution Aircraft Leasing (Ireland) 9 Limited
25	BOEING 737-9GJER, MSN 37363, OK TSI	2012	67	31.10.2020	CIT Aerospace International

No.	Aircraft leased in 2016	Mfg Year	Lease Period (in months)	Expire date	Lessor
26	BOEING 737-8FH, MSN 35093, OK TSC (C-GTQX)	2007	71	7.3.2019	CONSTITUTION AIRCRAFT LEASING (IRELAND) 9 LIMITED
27	BOEING 737-7Q8, MSN 29346, OK SWT	2003	151	21.11.2024	ILFC IRELAND LIMITED
28	BOEING 737-7Q8, MSN 28254, OK SWW	2003	152	30.11.2024	ILFC IRELA)ND LIMITED
29	BOEING 737-900ER, MSN 34952, OK TSM	2007	75	31.3.2022	SASOF III (A8) Aviation Ireland DAC
30	BOEING 737-800-8GQ, MSN 35793,OK TSO	2007	73	5.5.2022	AWAS 35793
31	A320-214, MSN 4699, OK HCA	2011	30	14.4.2016	Celestial Aviation Trading 69 Limited
32	A320-214, MSN 2180, OK HCB	2004	29	4.3.2016	Artemis Ireland Leasing Limited
33	Citation 680, MSN 680-0139, OK UNI	2007	122	25.6.2017	UG Jet s.r.o.
34	Citation 680, MSN 680-0279, OK EMA	2009	97	21.5.2017	UG Jet s.r.o.
35	Citation 680, MSN 680-0324, OK UGJ	2012	97	12.3.2020	UG Jet s.r.o.
36	Citation 680, MSN 680-0558,OK JRT	2016	61	30.3.2021	UG Jet s.r.o.
37	BOEING 737-8BK, MSN 29643, SP TVZ	2007	110	14.2.2019	Wilmington Trust SP Services (Dublin) Limited
38	BOEING 737-82R, MSN 30666, OM TSG	2004	73	8.5.2020	ILFC Ireland Limited

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

In 2016, costs of lease of such aircraft amounted to CZK 1,137,031 thousand in total (2015: CZK 799,040 thousand). In 2016, the biggest lessors were České aerolinie (Czech Republic, Airbus A 320, A319), SUNWING AIRLINES (Canada, Boeing 737- 800), SMARTLYNX AIRLINES (Latvia, Airbus A 320), MIAT Mongolian Airlines (Mongolia, Boeing 737-800), GO2SKY (Slovakia, Boeing 737-800), AirExplore (Slovakia, Boeing 737-800), NOUVELAIR TUNISIE (Tunisia, Airbus A320) and CORENDON AIRLINES (Turkey, Boeing 737-800). During the year, the aircraft were allocated to the Group on an individual basis, such as in France, Canada, Oman and Maldives.

In addition the Group leases warehouses under operating lease.

24 CURRENT TRADE AND OTHER PAYABLES, DEFERRED INCOME

	2016	2015
Trade payables	843 051 578	1 078 021 667
Other payables	1 068 637 127	1 053 738 464
Offset*	-557 239 926	-794 688 272
Total Trade and Other Payables	**1 354 448 779**	**1 337 071 859**

	2016	2015
Payables to employees	74 361 215	61 265 831
Payables to institutions	54 521 511	35 829 446
Deposits received	226 961 174	413 147 013
Deferred income	63 875 659	49 961 340
Borrowings from related parties	0	0
Other payables	24 767 306	21 962 468
Total Other Payables	**444 486 865**	**582 166 098**

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

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

25 RELATED PARTY TRANSACTIONS

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

During the years ending 31 December 2016 and 31 December 2015, the Group had relations with following related parties:

	Company	Address	Statutory body	Owners
1.	**CANARIA TRAVEL, spol. s r. o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik Lenka Viková Ludvík Macháček	TO SERVIS spol. s r. o. (51,22%) EH Group s. r. o. (24,39%) Unimex Group, a. s. (24,39%)
2.	**TO - SERVIS spol. s r. o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik	Roman Vik (100%)
3.	**EH Group s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik	Roman Vik (100%)
4.	**EHQ Energy s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Veronika Viková Lenka Loštická	Roman Vik (50%) Marek Loštický (50%)
5.	**UG Jet, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Unimex Group, a. s. (50%) EH Group s. r. o. (50%)
6.	**UNIMEX GROUP, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	Jiří Šimáně (30%) Jaromír Šmejkal (20%) NEVILLE Investments B. V. (30%) JADA Investments B.V. (20%)
7.	**UNIMEX GROUP, uzavřený investiční fond, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	Jiří Šimáně (47.17%) Jaromír Šmejkal (31.34%) UNIMEX GROUP, a. s. (20.83%) Others (0.56%)
8.	**Fly Sport Investments s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně
9.	**UG SHOPS, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
10.	**UG-D,a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, uzavřený investiční fond, a.s. (100%)

	Company	Address	Statutory body	Owners
11.	**BT Golf, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Vladimír Klepal	UNIMEX GROUP, A. S. (100%)
12.	**Global Wines & Spirits s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Tomáš Otta	UNIMEX GROUP, A. S. (47.5%) Tomáš Otta (5%) Global Eastern Wine Holding GmbH (47,5%)
13.	**UNI HOBBY, a.s.**	Vinohradská 365/10, Praha 2 - Vinohrady	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	Jiří Šimáně (51%) Jaromír Šmejkal (34%) Petr Pavlát (15%)
14.	**Václavské, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
15.	**Janáčkovo, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
16.	**Příkopy, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
17.	**Global Stores, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
18.	**TRAVEL FREE, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Pavel Monhart	UNIMEX GROUP, A. S. (50%) Gebr. Heinemann SE & Co. KG (50%)
19.	**Vinohradská BLDG, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
20.	**UNISTAV International, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	UNIMEX GROUP, A. S. (100%)
21.	**Fly Investments s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
22.	**EHQ s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik Jiří Berger Marek Loštický	EH GROUP s. r. o. (50%) Jiří Berger (25%) IMMORENT AND TRADE, a.s. (25%)

	Company	Address	Statutory body	Owners
23.	**China International Group Corporation Limited**	Room 2302-2304, 23/F, Convention Plaza Office Tower, 1 Harbour Road, Wan Chai, Hong Kong, People´s Republic of China	Liefen Du Zhongqiu Liu	China United Association International Fudging Centre Ltd. (70 %) Zhong Ye Equity Investment Fund Ltd. (30 %)

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

- **Balances transaction with related parties**

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

	2016 TCZK	2015 TCZK
Revenue	**237.560**	**215.915**
Expenses	**3.261**	**2.938**
Receivable		
Trade receivables	0	5 944
Other receivables	0	7 000
Total receivables	0	12 944
Payables		
Trade payables	1 637	0
Loans received	0	0
Other liabilities	121	183
Total payables	1 758	183

2. UG Jet, s.r.o.

	2016 TCZK	2015 TCZK
Revenue	**0**	**0**
Expenses	**150 527**	**114 360**
Receivable		
Trade receivables	0	0
Other receivables	0	40 766
Total receivables	25 639	40 766
Payables		
Trade payables	0	5 970
Loans received	0	0
Other liabilities		0
Total payables	0	5 970

3. UNIMEX GROUP, a.s.

	2016 TCZK	2015 TCZK
Revenue	**0**	**0**
Expenses	**1 313**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	0
Loans received	0	57 000
Other liabilities	59 979	13 741
Total payables	59 979	70 741

4. BT Golf, s. r. o.

	2016 TCZK	2015 TCZK
Revenue	**0**	**0**
Expenses	**3 000**	**4 315**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	0
Loans received	0	
Other liabilities	0	0
Total payables		

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

	2016 TCZK	2015 TCZK
Revenue	**0**	**0**
Expenses	**64**	**7**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	2
Loans received	0	
Other liabilities	0	0
Total payables	0	2

6. Jiří Šimáně

	2016 TCZK	2015 TCZK
Revenue	**0**	**0**
Expenses	**0**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables		
Loans received	200 000	0
Other liabilities	0	0
Total payables	200 000	0

7. China International Group Corporation Limited

	2016 TCZK	2015 TCZK
Revenue	**0**	**0**
Expenses	**0**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables		
Loans received	0	0
Other liabilities	14 820	0
Total payables	14 820	0

8. Jiří Jurán

	2016 TCZK	2015 TCZK
Revenue	**0**	**0**
Expenses	**0**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables		
Loans received	756	496
Other liabilities	0	0
Total payables	0	0

26 AUDITOR'S FEE

	2016	2015
Audit of Annual accounts	1 647 042	1 438 971
Consultancy and Other services	0	1 400 000
Total Auditor's fee	**1 647 042**	**2 838 971**

27 SUBSEQUENT EVENTS

Česká spořitelna, a. s. granted the company an investment loan in the amount of CZK 150,000k for advance payments for the delivery of new airplanes (Boeing 737 – MAX) under the corresponding purchase contracts.

After the balance sheet date, specifically on 6 March 2017, the Company and Komerční bankou, a. s. entered into Amendment No. 4, which set the global credit line at CZK 600,000k for the period from 31 May 2017 and from 1 December 2017 and at CZK 470,000k for the period from 1 June 2017 to 30 November 2017.

The Company takes steps associated with the acquisition of a 20% capital interest in ALPHA FLIGHT a. s., Reg.No. 278 80 427, registered office K Letišti 1018/55 Ruzyně, 161 00 Praha 6.

In accordance with the terms of the purchase contracts and the airplane fleet revitalisation strategy, the Company pays advance payments to the Boeing Company for its airplane-related deliveries;

The Company pays supplementary pension contributions to employees who have satisifed the terms of the retirement scheme.

The Company and its subsidiaries will run during the Summer season of year 2017 some 44 to 45 passenger medium-haul airplanes, mostly airplanes type Boeing 737-800.