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CZECH AIRLINES | ANNUAL REPORT

08

AT HOME IN THE SKY...



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COMPANY PROFILE – CORE BUSINESS ACTIVITIES

Czech Airlines (also referred to in this Annual Report as the “Company”), as the Czech Republic’s flagship air carrier, operates flights from Prague to most European metropolises, transit points in North America, and destinations in the Middle East, Central Asia and North Africa. With 85 years’ experience of ferrying passengers and cargo across the skies, Czech Airlines is a sought-after service provider among other airlines too.

Czech Airlines’ core business is the transportation of passengers on regular scheduled flights. The Company offers flights to 134 destinations in 47 countries worldwide, thus enabling customers to reach important commercial and political centres swiftly and easily. Czech Airlines prides itself on the quality of its services not only during flights, but throughout its passengers’ travel experience. In this spirit, the Company focuses on the maximum comfort of its passengers, as evidenced, for example, by onboard refreshments that are prepared only from the finest ingredients and reflect the latest gastronomic trends.

Besides providing quality services on regular scheduled flights, Czech Airlines also offers travel agencies and other contractual partners charter flights to attractive destinations. Throughout the year, Czech Airlines aircraft thus fly to top international tourist spots, transporting thousands of tourists on holiday. Czech Airlines’ charter services are becoming increasingly popular among domestic and foreign sports teams, high-profile multinational corporations and music ensembles. Czech Airlines also operates cargo services.

Besides passenger and cargo transportation, Czech Airlines also provides passenger and aircraft handling. The Company’s cutting-edge equipment and experienced staff enable it to handle more than 60% of all passengers at Prague Airport every year, no matter whether they are travelling with Czech Airlines or another airline.

Czech Airlines is particularly meticulous in its technical maintenance of aircraft. Besides maintaining its own fleet, it also carries out regular certified servicing for a myriad of important international air carriers. Czech Airlines also draws successfully on its many years’ experience of crew training. The Company has its own training centre where it organizes specialized training for its own crews and for the personnel of other airlines. Czech Airlines also operates duty free shops offering a wide range of gifts and luxury items as an in-flight service and airside at Prague Airport.

SELECTED ECONOMIC AND TRANSPORT INDICATORS

Financial results in accordance with Czech Accounting Standards (CZK '000)

	2007	2008
Production/Revenues	23,399,853	22,581,692
Operating profit	459,291	696,048
Profit before tax	111,175	499,149
Profit after tax	206,600	470,057
Equity	1,238,093	101,686
Share capital	2,735,510	2,735,510

Consolidated financial results in accordance with International Financial Reporting Standards as adopted by the EU (USD '000)

	2007	2008
Production/Revenues	1,188,129	1,361,438
Profit from operations	16,653	37,740
Profit/(loss) before tax	(8,825)	14,853
Profit after tax	9,659	8,780
Equity	361,501	247,371
Share capital	106,631	106,631

Selected indicators and economic results

Transportation	Unit	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tonne-kilometres performed	millions	288.3	311.6	360.9	388.3	407.6	498.1	606.0	747.9	771.7	744.5	742.5
Available tonne-kilometres	millions	507.7	550.7	587.9	625.3	639.8	770.3	973.0	1,207.2	1,221.9	1,289.4	1,320.3
Passengers carried	thousands	1,801.8	2,064.1	2,461.7	2,877.3	3,065.0	3,591.5	4,345.4	5,217.6	5,469.9	5,492.2	5,626.0
Cargo carried	tonnes (thousands)	11.9	13.0	16.6	16.2	17.9	21.1	22.7	22.1	23.2	22.7	20.4
Total load factor												
- weight	%	56.8	56.6	61.4	62.1	63.7	64.7	62.3	62.0	63.2	57.7	56.2
- seat	%	66.3	65.8	70.4	70.8	71.3	72.7	70.5	70.1	71.8	68.4	67.1

Employees and productivity

	Unit	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of employees		3,795	3,876	3,990	4,422	4,455	4,543	4,861	5,303	5,442	4,777	4,662
Tonne-kilometres performed per employee	thousands	75.96	80.39	90.44	87.82	91.48	109.63	120.34	141.08	141.81	155.86	159.28
Productivity (operating revenues per employee)	CZK millions	2.6	2.9	3.4	3.3	3.1	3.4	3.6	3.9	4.1	4.7	4.6

FOREWORD BY THE BOARD CHAIRMAN AND COMPANY PRESIDENT

Economically, 2008 was totally different from what the world had envisaged. In the air transport sector, too, there was meant to be a rise in demand, oil prices were forecast to be stable, and hence airlines and their revenues as a whole were projected to grow.

In fact, the first few months of 2008 played out as optimistically expected, as did the financial management figures estimated by Czech Airlines in the third year of its 2006–2008 OK Strategy for recovery. On completion of the process of divestments and land swaps between Czech Airlines and Prague Airport in the complex at Prague–Ruzyně, intended to resolve long-outstanding property relations between the two companies ahead of privatization and to pave the way for the development of Czech Airlines at its hub in Prague–Ruzyně, we turned our attention to pushing ahead with our core business. We successfully completed the replacement of the medium-haul fleet by collecting the last three of the twelve medium-range Airbus aircraft ordered in 2005. Over the full three years of the 2006–2008 OK Strategy, we invested more than CZK 6 billion in assets, of which over CZK 2 billion in 2008 alone.

Czech Airlines currently operates a modern fleet of 51 aircraft with an average age of 9.6 years, operated by pilots and cabin staff meeting the highest safety and quality requirements. The company was successful in other areas too: we gained a higher market share of handling services in Prague, and the Czech Airlines maintenance section underwent effective restructuring, including the successful introduction of an MRO system, which was named the best IT project in the Czech Republic in 2008. We created an efficient network flying to nearly 70 destinations in Europe, North America and the Middle East, and transport revenues in the peak summer season significantly exceeded those reported in the previous year. We continued Click4Sky, our commercially successful low-cost concept. There was also a rise in revenues from charter flights due to business activities which extended far beyond the borders of the Czech Republic.

In the end, though, 2008 was the most turbulent year aviation and the entire world economy could possibly imagine. In the summer, optimistic growth estimates gave way to alarm: huge increases in oil prices to USD 150 per barrel forced up airlines' costs as far as they could go. Some of them were unable to stand the pressure; others reported significant losses. Czech Airlines, thanks to its rational hedging strategy and rapid response in the product field, was able to minimize – though not entirely neutralize – the loss.

In the last quarter of 2008, Czech Airlines, along with other companies in the Czech Republic, was hit by the global economic crisis and the related slump in demand. This was most pronounced at the turn of the year and in the first quarter of 2009. The Company management

responded promptly and by November 2008 had adopted measures known as Action Plan 2009, which it then proceeded to implement. Three of four key revenue-focused projects were launched in January and February 2009, while in terms of costs austerity measures were introduced. Supply contracts were renegotiated and new, more efficient processes were put in place. Thanks to an agreement with the majority of trade unions, staff costs were cut by 5% in 2009. The Company's financial stability was supported by medium-term financing secured in April 2009. Despite all these measures, this year the Company will be unable to make up for the gap in revenues triggered by lower demand and the global crisis. In the updated financial plan for 2009, the Company projects a loss of CZK 300–600 million. Come 2010, however, Czech Airlines will be back in the black.

In spring 2008, we prepared the 2009–2013 Strategy, which was approved by shareholders at the General Meeting. The new strategy builds on the successful fulfilment of the 2006–2008 OK crisis plan, where the Company's accumulated loss was narrowed by almost CZK 300 million, thus outperforming the plan by almost CZK 700 million. Realistic planning and financial management, operational efficiency and innovation as a path to higher performance, a safe and interesting product delivering quality and income, realistic growth of a Company responsible to its staff, clients and owners: these were and are the pillars on which we will keep building at Czech Airlines. The ČSA 2009–2013 Strategy is a compelling document forming the basis for growth and development in the next five years. At the same time, it offers value to a potential strategic investor now being selected by the Czech Government (as the majority shareholder with a 91.5% stake) in the privatization process.

Czech Airlines is coping well with the global crisis of 2009 thanks to the restructuring it completed in 2006–2008, and also thanks to the way all managers and employees apply themselves in their everyday work. While 2009 will slow us down, it will not divert us from the road to higher revenues and prosperity for the Company and its employees. Czech Airlines stands ready to defend its position on the European air transport market.



Radomír Lašák

Chairman of the Board of Directors and President of Czech Airlines



CORPORATE GOVERNANCE

SHAREHOLDERS

Shareholder	Share (%)
Ministry of Finance of the Czech Republic	91.51
Česká pojišťovna a.s.	4.33
City of Prague	2.94
City of Bratislava	0.98
National Property Fund of the Slovak Republic	0.24

ADMINISTRATIVE BODIES

General Meeting

The General Meeting, which comprises the Company's shareholders, makes decisions on fundamental economic, organizational, and operating issues and on the strategic focus of the Company. Its competence and powers are defined by the Commercial Code and the Company's Articles of Association. As a rule, the Board of Directors convenes the General Meeting once a year. General information about the General Meeting, its status, and its powers can be found in Chapter IIIa, Articles 14–19 of the Company's Articles of Association.

Supervisory Board

The Company's Supervisory Board has twelve members and oversees the exercise of powers by the Board of Directors and the implementation of the Company's strategy, including business activities. The composition, competence, and powers of the Supervisory Board are defined in the Commercial Code and the Company's Articles of Association. As a rule, the Supervisory Board meets once every calendar month, but at least eight times per calendar year. General information about the Supervisory Board can be found in Chapter IIIc, Articles 28–34 of the Company's Articles of Association.

Board of Directors

The Board of Directors has nine members and is the governing body responsible for managing the Company's activities and acting in the Company's name. The Board of Directors is appointed by the Supervisory Board, and as a rule comprises members of Czech Airlines' executive management. The Board of Directors makes decisions on all Company

matters which are not regulated by legislation or by the Articles of Association, and which are not in the competence of the General Meeting or Supervisory Board of the Company. As a rule, the Board of Directors meets once a week, but not less than once a month. General information about the Board of Directors and its powers can be found in Chapter IIIb, Articles 20–27 of the Company's Articles of Association.

Committees of the Supervisory Board and Board of Directors

The prime role of the committees is to conversantly inform shareholders and selected stakeholders about events at the Company. They are essentially advisory and initiative-proposing bodies. Each committee has a clearly defined remit, with its tasks and operating policy described in its statutes and rules of procedure. General information about committees can be found in Chapter IIIb, Article 27, and in Chapter IV, Articles 36 and 39 of the Company's Articles of Association.

In 2008, the following committees worked as part of Czech Airlines' corporate governance:

- Audit Committee (of the Supervisory Board and Board of Directors),
- Personnel, Nomination and Remuneration Committee (of the Supervisory Board),
- Strategy Committee (of the Supervisory Board),
- Top 10 Meeting Committee (of the Board of Directors),
- Risk Management Committee (of the Board of Directors),
- Financial Risk Management Committee (of the Board of Directors).

SUPERVISORY BOARD

Ivan Kočárník

Chairman of the Supervisory Board since 10 April 2007

Graduated in Finance from the University of Economics, Prague, followed by postgraduate studies and academic training. He began his career in 1966 at the Finance and Credit System Research Institute as a researcher. He was an external lecturer at the University of Economics, Prague, between 1983 and 1987, and from 1984 to 1989 he worked at the Federal Ministry of Finance as the Deputy Director of the Research Department; he was subsequently appointed Department Director. From 1990 to 1992 he was the Deputy Minister for Finance of the Czechoslovak Federative Republic. From 1992 to 1997 he was a Deputy Prime Minister and the Minister

for Finance of the Czech Republic. He was a member of the Chamber of Deputies of the Parliament of the Czech Republic between 1996 and 1998. From 1997 to 2000 he was the Chairman of the Board of Directors at Česká pojišťovna a.s. Between 2000 and 2007 he held the position of Chairman of the Supervisory Board at the same company. Since autumn 2006, he has been the Vice-Chairman of the Supervisory Board of UNIPETROL, a.s. Since 2007, he has been an adviser to the Minister for Finance of the Czech Republic.

Tomáš Uvřra

First Vice-Chairman of the Supervisory Board and member of the Supervisory Board since 10 April 2007

A graduate of the Faculty of Operations and Economics of the Brno Institute of Agriculture (now the Mendel University of Agriculture and Forestry in Brno). He began his professional career as a programmer at ČSAD in 1991. In 1992–1993 he was a freelancer in the field of information technology. In 1993 and 1994 he was a methodologist and subsequently the Marketing Director at První slezská banka a.s. Between 1994 and 1996 he worked for the Czech National Bank as a banking expert. From 1996 to 1998 he was the conservator of Velkomoravská banka, a.s. In 1998 and 1999 he was an adviser to the Minister for Education, Youth and Sports of the Czech Republic. From 2000 to 2005 he was the Financial Director of Středočeská plynárenská, a.s., and from 2005 to 2007 he was the Vice-President responsible for the management of the Financial Section at AERO Vodochody a.s. Since April 2007, he has been the Executive Director of Asset Management at the Ministry of Finance of the Czech Republic. He is a member of the Supervisory Board of RWE Transgas, a.s. and Komerční úvěrová pojišťovna EGAP, a.s.

Dušan Horák

Second Vice-Chairman of the Supervisory Board since 27 November 2006 and member of the Supervisory Board elected by employees since 11 December 2002

Graduated in piloting from the Košice Military College of Aviation. On completing his studies, he was a professional soldier until 1996. As a military pilot, he was stationed at Přerov and Náměšť nad Oslavou. He joined Czech Airlines in 1997, first as a pilot, then as an ATR first officer, Boeing B737 first officer, ATR captain, and Boeing B737 captain; he is currently an Airbus A320 captain.

Tomáš Brabec

Member of the Supervisory Board elected by employees since 12 December 2007

Graduated in aviation mechanical engineering from the Secondary Transport Vocational College in Prague. He has worked for Czech Airlines since 1993. He has held positions as load control officer, ramp control officer and, subsequently, ramp handling services supervisor. At present, he is a ground operations supervisor in the Aircraft Handling Ground Operations Control Section. He is the managing director and a member of Kosmetický salon IVEN, s.r.o.

Jan Bürgermeister

Member of the Supervisory Board since 27 June 2007

Graduated in surface structures from the Czech Technical University in Prague, followed by postgraduate studies in the mechanics and dynamism of structural design. He launched his professional career as a designer at METROPROJEKT Praha a.s., before moving on to the ČKD Design Institute. From 1990 to 1995, he was the managing director and co-owner of the architectural design and construction firm P and P servis, v.o.s. Between 1994 and 2002 he was the mayor of the Borough of Praha 1. From 2002 to 2006 he was the deputy mayor of Prague. Since 2003, he has been the Chairman of the Board of Directors of Kongresové centrum Praha, a.s. Since 2006, he has been a member of the Chamber of Deputies of the Czech Parliament.

Ivan Foltýn

Member of the Supervisory Board since 10 April 2007

A graduate of the Mechanical and Electrical Engineering Faculty of the Transport Institute, Žilina (now the University of Žilina), and a postgraduate of the Czech Technical University, Prague, the Transport Institute, Žilina, and the Prague International Business School attached to the University of Economics, Prague. He began his professional career at the state enterprise Automatizace železniční dopravy Praha. In 1990, he was appointed the Vice-Chairman of the District National Committee in Olomouc and was subsequently made the Chairman of the District Authority in Olomouc. In 1992, he was a member of the People's Chamber of the Federal Assembly. In 1991 and 1992, he was the Deputy Transport Minister of the Czechoslovak Federative Republic, and from 1993 to 1997 he was the Deputy Minister for Transport of the

Czech Republic. In 1998, he was the CEO and Chairman of the Board of Directors of Českomoravská realitní a.s., and later became the CEO and Chairman of the Board of Directors of První investiční společnost. In 2003, he was elected the Chairman of the Management Board of Správa železniční dopravní cesty, státní organizace (Czech Railway Infrastructure Administration). From 2003 to 2006, he was a member of the Board of Directors and Deputy CEO responsible for economics at České dráhy, a.s. In 1993–1994 and 1997–1999, he was a member of the Czech Airlines Board of Directors and in 1999–2003 he was a member of the Supervisory Board.

Daniela Kovalčíková

Member of the Supervisory Board since 27 June 2007

Graduated from the Faculty of Law, Charles University, Prague. She began her career in 1975 as a corporate lawyer at the state enterprise Železniční stavitelství Praha. From 1984, she worked at the Ministry of Transport of the Czech Republic, first as an adviser to the Minister, then as Director of the Legislation Department and Executive Director of the Legislation Section. Since 2004, she has been the Deputy Minister for Transport of the Czech Republic. Between 1998 and 2003 she was a member of the Supervisory Board of Czech Airlines.

Radomil Kratochvíl

Member of the Supervisory Board elected by employees since 9 April 2008

Graduated in air transport operations and economics from the Transport Institute, Žilina (now the University of Žilina). He has been employed at Czech Airlines since 1978, initially as a pilot; he is now an Airbus A320 captain.

Jaroslav Lorenc

Member of the Supervisory Board elected by employees since 8 April 2003

Graduated in aviation mechanical engineering from the Secondary Mechanical Engineering College. In 2005, he acquired a "Director" certificate in the Corporate Governance Programme and holds an international aviation mechanic certificate authorizing him to release aircraft back into operation after maintenance. He joined Czech Airlines in 1968 as a mechanic. In 1994, he was appointed a Boeing B737 supervisor; in 2001 he became a head supervisor for the

Airbus A310 and Boeing B737. He currently works as Head of Hangar Maintenance Operations in the Technical Division.

Petr Polák

Member of the Supervisory Board since 27 November 2006

Graduated from the Faculty of Law, Charles University, Prague. He began his professional career as an assistant to the First Deputy Chairman of the Chamber of Deputies, at the Czech Parliament. He was subsequently Director of the Office of the Minister for Transport and Communications, Director of the Office of the Mayor of Prague, and Director of D-PLUS PROJEKTOVÁ A INŽENÝRSKÁ a.s. Since 5 September 2006, he has been Director of the Cabinet of the Minister for Industry and Trade of the Czech Republic.

Ivana Řápková

Member of the Supervisory Board since 27 November 2006

Graduated from the Faculty of National Economics, University of Economics, Prague, and the Faculty of Law, University of West Bohemia, Plzeň. She worked for the Prior Department Store as head of the Information System Department, before joining P&C s.r.o. as Economics Director. She has also been self-employed as an accounting and economics consultant and has acted as a bankruptcy trustee. In 1998, she was elected to Chomutov Municipal Council, since the 2002 elections she has been the Mayor of Chomutov. She is also a member of the Supervisory Board of Středočeské vodárny, a.s. and the liquidator of A G Z s.r.o., v likvidaci.

Pavel Škvára

Member of the Supervisory Board since 10 April 2007

Graduated from the Faculty of Law, Charles University, Prague, and subsequently earned his MBA at the Institute of Finance and Administration and the University of Washington. From 1999, he worked as a lawyer specializing in private law. In 2002–2004 he was the Executive Director of the Cabinet of the Minister for Regional Development. From 2004 to 2006, he was the Executive Director of the Cabinet of the Minister for Justice and Deputy Prime Minister of the Czech Republic, and from August 2006 to February 2007 he was the Deputy Minister for Transport of the Czech Republic. Since July 2005, he has been a member of the Supervisory Board of Severočeské doly a.s. On 23 January 2009, he was appointed Deputy Minister for Transport.

LIST OF MEMBERS OF THE SUPERVISORY BOARD WHO ENDED THEIR TENURE IN 2008 OR 2009 (UP TO THE DATE THAT THE ANNUAL REPORT WENT TO PRESS)

Hana Pešková

Member of the Supervisory Board from 8 April 2003 to 23 January 2008

BOARD OF DIRECTORS

Radomír Lašák

Chairman of the Board of Directors from 19 January 2006 and member of the Board of Directors since 18 January 2006

A graduate of the University of Economics, Prague, and the Prague International Business School, where he gained his MBA. He began his career at the Association for Chemical and Metallurgical Production in Ústí nad Labem. In 1991, he moved on to Komerční banka, a.s., where he held various sales and managerial positions. In 2000, he became the member of the Board of Directors of Komerční banka, a.s. responsible for the sales network and sales. He made a significant contribution to the bank's successful privatization. Between 2002 and 2004, he managed a team at eBanka, a.s. which was tasked with converting the originally electronic bank into a standard banking house over two years. In 2004–2006, he was a member of the Board of Directors of ČEZ, a. s., and Director of the ČEZ Group Administration Division, responsible for new foreign acquisitions. Since 19 January 2006, he has been the Czech Airlines President. In 2007, he became a member of the SkyTeam Alliance Executive Committee.

Jiří Devát

Vice-Chairman of the Board of Directors from 16 January 2007 and member of the Board of Directors since 1 September 2006

Graduated from the Technology Faculty, Brno University of Technology, the Tokyo Institute of Technology, Japan, and Swinburne University of Technology, Australia. In 1993, he joined THEMOS System Partner, s.r.o., where he ultimately became the Executive Director. He was hired by MICROSOFT s.r.o. in 1997, and from 2000 to 2006 was the Director of the Czech Republic and Slovakia offices. Since 1 September 2006, he has been the Czech Airlines Vice-President for Information

Technology. In 2007, he became a member of the SITA (Société Internationale de Télécommunications Aéronautiques) management board and a member of the SkyTeam Alliance Executive Committee. He is currently a member of the administrative bodies of Tomas Bata University, Zlín and non-profit organizations (Barriers Account of the Charter 77 Foundation, Zlín Film Festival Foundation). He is a member of the Supervisory Board of Thermis – společnost pro podporu vývozu, a.s. and a member of TORNADO LOU s.r.o.

Luboš Černý

Member of the Board of Directors since 1 September 2006

Graduated in mathematical engineering from the Czech Technical University, Prague. In 1993, he joined the Czech National Bank, where he managed foreign reserve assets. From here, he left for Komerční banka, a.s. where he remained, in various positions, for almost five years. While he was here, he contributed to the implementation of the strategy, methodology and policy of strategic risk management. Between 1999 and 2001, he managed restructuring projects at Konsolidační banka, s.p.ú. This was followed by a stint of bank auditing and control at Československá obchodní banka, a.s. In 2002, he was appointed Executive Director for Finance and a member of the Board of Directors of eBanka, a.s. In 2004–2006, he was the bank's Chief Executive Officer and Chairman of the Board of Directors, and managed the process of selling the bank to a new investor. Since 1 September 2006, he has been the Czech Airlines Vice-President for Economics. Since July 2007, he has been the Vice-Chairman of the Supervisory Board of ClickforSky, a.s.

Jan Janík

Member of the Board of Directors since 1 October 2006

A graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague, where he was subsequently a lecturer. Between 1993 and 1999, he was the Technical Director at TOMA. As a member of the acquisition team, he was involved in the successful sale of TOMA to Pepsi (PCGB). Between 1999 and 2002, he held various managerial positions at multinational corporations outside the aviation industry. From 2002 to 2004, he was the Vice-President of AERO Vodochody a.s., where he was responsible for restructuring the loss-making production operations. His interest in the position of an airline pilot drew him to Czech Airlines. In 2004, he completed his standard training and became a Boeing B737

first officer. At the beginning of 2006, he completed his training to be an Airbus A320 pilot. Since 1 October 2006, he has been the Czech Airlines Vice-President for Flight Operations.

Peter Jusko

Member of the Board of Directors since 2 September 2003

Graduated in civil aircraft application and navigation technology at the Kiev Institute of Civil Aviation Engineering, and subsequently completed the Sheffield Hallam University MBA programme run at the Masaryk Institute of Higher Education, Czech Technical University, Prague. He has worked for Czech Airlines since 1987. He began as an in-flight engineer, then became a TU 134, L 410, and Boeing B737 first officer, and was ultimately made captain of ATRs, Boeing B737s, and the Airbus A320 family. Since 2001, he has been a flight and ground instructor. Since 1 July 2006, he has been the Czech Airlines Vice-President for Ground Operations. He is a member of the board for aviation-based doctoral studies at the Faculty of Electrical Engineering, Czech Technical University, Prague, and the Transport Institute in Košice. Since 29 January 2009, he has been the Managing Director of SLOVAK AIR SERVICES s.r.o.

Petr Pišťálák

Member of the Board of Directors since 21 December 2006

Graduated in economics and management from the Faculty of Mechanical Engineering, Brno University of Technology. He also completed a two-year programme of macro- and microeconomics at Yale University, and a course of marketing, management and finance at Birmingham College, UK. Between 1992 and 2002, he held various marketing and sales positions at Procter & Gamble in the Czech Republic and abroad. He then spent three years in the management of eBanka a.s., ultimately as Vice-Chairman of the Board of Directors and Executive Director for Marketing and Products. Prior to joining Czech Airlines, he was the Head of Marketing, Products & Communication in China for the PPF financial group. Since 1 December 2006, he has been the Czech Airlines Vice-President for Marketing and Product Development. Since 18 September 2007, he has been the Chairman of the Supervisory Board of ClickforSky, a.s.

Roman Planička

Member of the Board of Directors since 1 July 2008

Graduated in material engineering (specializing in composite materials) from the Faculty of Technology, Brno University of Technology (now the Technology Faculty of Tomas Bata University in Zlín). He is a manager with a long-standing practical experience in the aviation industry, gained primarily at Let Kunovice, where he worked (with one brief interval away) after completing his studies in 1993. At Let Kunovice, he worked in various sales positions and was a member of the Supervisory Board. In 2001, he was appointed Commercial Director at Ferromoravia and subsequently worked in the aerospace and defence industry predominantly in Saudi Arabia. On returning to the Czech Republic in 2003, he specialized in foreign trade at the Aviation Division of PAMCO INT. with a view to the forthcoming acquisition of Let Kunovice. As Executive Director and a member of the Board of Directors of the newly formed company Aircraft Industries, a.s., his main task was to prepare for the acquisition of Let Kunovice and its subsequent revitalization. He is a member of the AeroSpace and Defence Industry of Europe and the Life Cycle Support & Maintenance, Repair and Overhaul Sectoral Group. In addition, he sits on the Board of the Aeronautics and Space Research Centre of the Czech Republic.

Dušan Ryban

Member of the Board of Directors since 26 July 2006

A graduate of the Military Academy in Bratislava and postgraduate of automation and informatics management at the University of Economics, Prague. Between 1993 and 1999, he took part in foreign missions in Iraq, Croatia and Bosnia and Herzegovina as a professional soldier. As chief instructor at the Czech Army's training centre, he trained specialists preparing for roles in the UN's foreign missions. He then worked for the Ministry of Defence of the Czech Republic, where he was responsible for the professionalization of the Czech Army in 2002 and 2003. He joined Czech Airlines in 2004 as Executive Director for Human Resources and Training. Since 1 February 2006, he has been the Vice-President for Human Resources. He is the Managing Director of CSA Services, s.r.o. and since 25 July 2008 he has been the Chairman of the Supervisory Board of HOLIDAYS Czech Airlines, a.s.

Petr Řehák

Member of the Board of Directors since 12 September 2006
 Graduated in economics and management from the Faculty of Social Economics, Jan Evangelista Purkyně University, Ústí nad Labem. During his studies, he was appointed the Head of the Corporate Clients unit at Československá obchodní banka, a.s. Between 2000 and 2002, he was the manager of a branch of Komerční banka, a.s. in Teplice. Between 2002 and 2006, he worked for eBanka a.s., first as Director of the North Bohemian Regional Division, then as Director of the Prague Sales Division and the Trade Finance Division. In 2004, he was appointed Executive Director of Sales and named the member of the Board of Directors responsible for drawing up and implementing the bank's business strategy, strategic development and sales projects, and the distribution network. Since 12 September 2006, he has been the Czech Airlines Vice-President for Sales. Since 4 September 2007, he has been a member of the Supervisory Board of ClickforSky, a.s.

LIST OF FORMER MEMBERS OF THE COMPANY'S BOARD OF DIRECTORS WHOSE TENURE ENDED IN 2008 OR 2009 (UP TO THE DATE THAT THE ANNUAL REPORT WENT TO PRESS)

Tomáš Heczko

Member of the Board of Directors from 2 September 2003 to 30 June 2008

EXECUTIVE MANAGEMENT**Radomír Lašák**

President since 19 January 2006

Luboš Černý

Vice-President for Economics since 1 September 2006

Jiří Devát

Vice-President for Information Technology since 1 September 2006

Jan Janík

Vice-President for Flight Operations since 1 October 2006

Peter Jusko

Vice-President for Ground Operations since 1 July 2006

Petr Pištělák

Vice-President for Marketing and Product Development since 1 December 2006

Roman Planička

Vice-President for Technology since 1 July 2008

Dušan Ryban

Vice-President for Human Resources since 1 February 2006

Petr Řehák

Vice-President for Sales since 12 September 2006

František Šír

Executive Director of the Supplier Services Management Section since 1 May 2006

LIST OF FORMER MEMBERS OF THE COMPANY'S EXECUTIVE MANAGEMENT WHOSE TENURE ENDED IN 2008 OR 2009 (UP TO THE DATE THAT THE ANNUAL REPORT WENT TO PRESS)

Tomáš Heczko

Vice-President for Technology from 13 September 1999 to 20 June 2008

REMUNERATION OF THE TOP MANAGEMENT

The senior management is remunerated on the basis of duly concluded management contracts which, in keeping with the principles of corporate governance, are scrutinized by the Supervisory Board's Personnel, Nomination and Remuneration Committee and subsequently approved by the Supervisory Board along with the salary and the remuneration rules. The basic monthly wage of a member of senior management (President and Vice-Presidents who are also members of the Board of Directors) was set at a maximum of CZK 300,000. In December 2008, a decision of the Czech Airlines Board of Directors reduced the basic monthly wage by 15% in response to the global economic crisis.

Besides the basic monthly wage, a bonus is available, payment of which depends primarily on how well the Company's financial management plan is implemented (adjusted for one-off exceptional items). The amount of the bonus is also modified on the basis of an evaluation of pre-set individual tasks for the period, which is subject to the approval of the Supervisory Board. As a result, bonuses range from 0 to 100% of the monthly basic pay. In 2008, the maximum bonus was 40%, in accordance with approved rules. This general principle has been applied to the remuneration of all members of management at levels B, B-1 and B-2 since 2006; the bonus is paid after the annual accounts have been audited and is subject to approval by the Company's competent governing bodies (the Board of Directors and the Supervisory Board).

Since 2006, the remuneration of top management has included a long-term incentive and stability programme focused on provable increases in the Company's liquidity resources in the period from 2006 to 2009. The programme principles have been examined and approved by the Supervisory Board. It is assessed by an external audit firm and authorized in accordance with the rules on corporate governance.

CORPORATE GOVERNANCE CODE BASED ON OECD PRINCIPLES

Czech Airlines statement on the level of compliance of its corporate governance with the Corporate Governance Code Based on OECD Principles

In 2004, Czech Airlines announced that it was acceding to the Corporate Governance Code Based on OECD Principles (2004). This was a declaration of interest by the Company's administrative bodies in respecting the principles of corporate governance.

Starting in 2005, a corporate governance model was gradually implemented at Czech Airlines. The Company Secretary's Office was set up and the position of Company Secretary was established. During 2008, the Company Secretary's Office promoted the importance of corporate governance among Czech Airlines staff and organized a suitable training programme for new employee-elected members of the Supervisory Board.

In the course of 2008, and up to the date the Annual Report went to press, the Board of Directors convened 60 regular and 2 extraordinary meetings. The Supervisory Board met 15 times; 1 of these was an extraordinary meeting.

In 2008, committees of the Supervisory Board and of the Board of Directors carried out routine activities; these committees were the Audit Committee as a joint committee of the Supervisory Board and the Board of Directors, the Personnel, Nomination and Remuneration Committee, and the Strategy Committee, as advisory bodies of the Supervisory Board, and the Top 10 Meeting Committee, Risk Management Committee and Financial Risk Management Committee, as advisory bodies of the Board of Directors. The activities of the individual committees and the Office are governed by statutes and rules of procedure. General information about the committees can be found in the Company's Articles of Association.

During 2008 and in the period up to the date that the Annual Report went to press, two Extraordinary General Meetings and one Annual General Meeting were convened:

Extraordinary General Meeting held on 23 January 2008

- This EGM approved the cessation of the 100% stake held by Czech Airlines in the share capital of Air Czech Catering a.s.

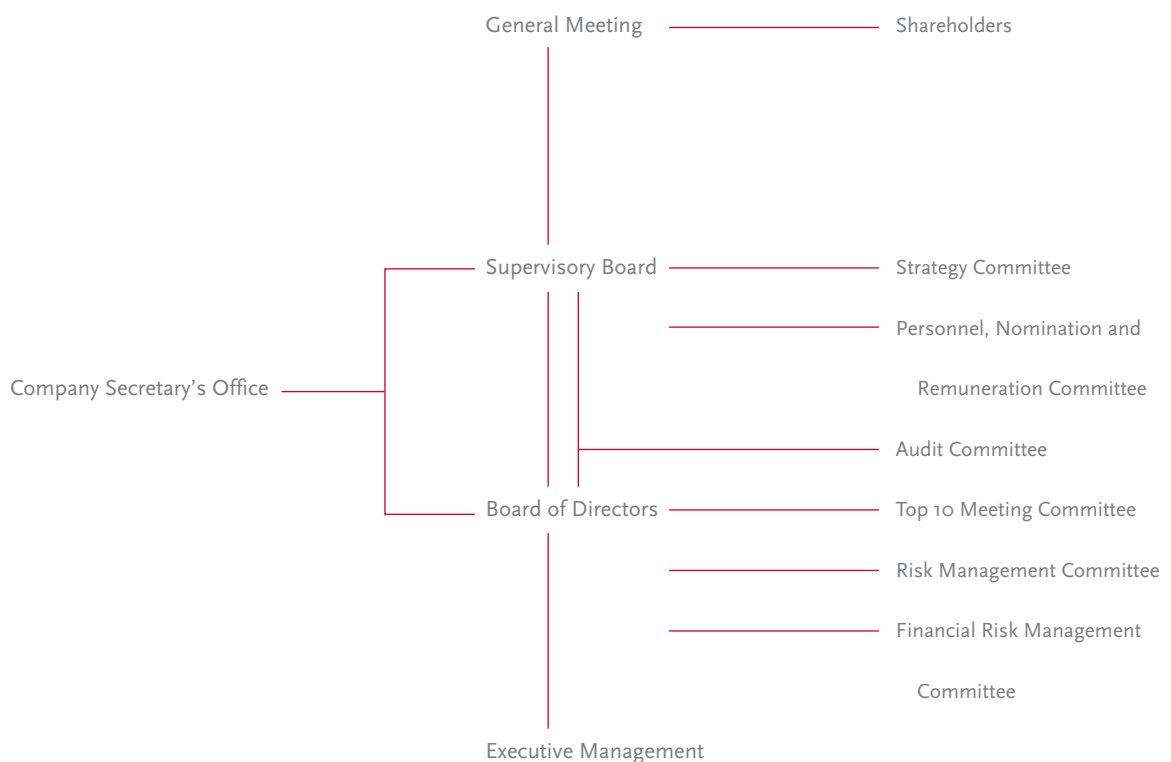
Annual General Meeting held on 25 June 2008

- Besides discussing statutory issues, the AGM stated that the key indicators of the 2006–2008 OK Strategy set for 2007 had been met and ordered the Board of Directors to proceed with further steps laid down in the approved Strategy. The Annual General Meeting also approved the 2009–2013 ČSA Strategy, decided on the remuneration of members of the Supervisory Board, and in this respect approved contracts for the performance of the duties of members of the Supervisory Board.

Extraordinary General Meeting held on 11 March 2008

- This EGM approved a proposal by the Board of Directors to carry out due diligence and disclose information stemming from this procedure in connection with the transfer of shares held by the Czech Ministry of Finance. It also decided on the remuneration of members of the Supervisory Board in 2009, in doing so endorsing appropriate addenda to the contracts for the performance of duties of members of the Supervisory Board.

Current Model of Corporate Governance at Czech Airlines





In 2008, more than 5.6 million passengers were carried by Czech Airlines.



Besides its scheduled flights, Czech Airlines offers charter services, enticing travellers with the prospect of unusual destinations.

CAPITAL INTERESTS

As at 31 December 2008, Czech Airlines had a significant stake in and controlled (within the meaning of the Commercial Code) the following companies:

AMADEUS MARKETING CSA, s.r.o.	65%
CSA Services, s.r.o.	100%
HOLIDAYS Czech Airlines a.s.	100%
ČSA Support s.r.o.	100%
SLOVAK AIR SERVICES s.r.o.	100%
ClickforSky, a.s.	100%

SUBSIDIARIES

AMADEUS MARKETING CSA, s.r.o.

Meteor Centre Office Park B, Sokolovská 100/94, 186 00 Praha 8
Gestin centrum, V Celnici 1040/5, 110 00 Praha 1
registered number: 496 80 030
incorporated at the Municipal Court in Prague, Section C,
Entry 21718
established 1 July 1993

AMADEUS MARKETING CSA, s.r.o. is the representative of the Amadeus global distribution system (GDS) for the Czech and Slovak Republics. The company's core business activities are the supply of the Amadeus system, the provision of training, and the offer of technical and user support for customers (travel agencies in the Czech Republic and Slovakia). The company is an important technological partner for travel agencies, and, through the latest products, it expands the opportunities and enhances the performance of the contemporary tourist industry. AMADEUS MARKETING CSA, s.r.o. has 15 employees.

The constant evolvement of Symphony, the internationally successful online booking system (developed in collaboration with the partner company Aaron Group), is the company's greatest achievement of the past few years and is driving forward online ticket sales in the Czech Republic, Slovakia, and beyond. The Symphony system enables users to make the most advantageous flight arrangements for their journey in terms of time and price, and is capable of offering passengers best-value alternatives.

Despite the adverse developments in the world financial and banking sectors in the second half of 2008, the company recorded a year-on-year rise in flight ticket bookings by 2.2%, in car rental bookings by 16.1% and in hotel bookings by 8.2%. It also reported a year-on-year increase in the number of connected terminals at Czech and Slovak travel agencies from 1,154 to 1,243 at the end of 2008.

In 2008, the company focused on the development, sale and support of innovations in the technology used by travel agencies. In cooperation with the German company Neckermann, AMADEUS MARKETING CSA, s.r.o. continued to expand the Amadeus Tours Suite booking application, which can process holiday reservations from 200 tour operators in 15 countries, numerous low-cost carriers, insurance companies and car rental outfits.

In 2009, the company will focus in particular on the development of new modules and on the expansion of the new version of the online application, Symphony 2.0 (incorporating low-cost airline and hotel bookings), a new version of essential booking tools (Selling Platform and Selling Platform Basic Pack), the introduction of a new Amadeus Selling Platform booking tool module called Amadeus Service Fee Manager, and the development of tools for the electronic archiving of data associated with the issuance and statistical evaluation of tickets.

CSA Services, s.r.o.

K letišti, 160 08 Praha 6
registered number: 25085531
incorporated at the Municipal Court in Prague, Section C,
Entry 48439
established 29 October 1996

CSA Services, s.r.o. is a subsidiary company divided into two main centres – a Call Centre and Recruitment Centre.

The Call Centre fields incoming calls for Czech Airlines (information on departures and arrivals, ticket bookings and sales, ticket changes, timetables, loyalty programmes, check-in over the telephone, etc.). The Call Centre runs a help desk for SkyTeam Alliance members, online booking services and handling agents. It processes incoming and outgoing e-mails sent via the main Czech Airlines contact addresses for OK Plus and OK Plus Corporate loyalty programme members and

for selected offices abroad. It also prepares reports from the reservation system via the Queue scheme. The Call Centre is open 24 hours a day, seven days a week, and provides customers with services in eight languages.

In 2008, cooperation with individual agencies was once again broadened. The Call Centre's operations were further extended in response to new services provided by Czech Airlines, such as free two-way taxi transfer between Prague Airport and any location in Prague. In 2008, the Call Centre processed 16.49% more contacts than in 2007. According to a SkyTeam Alliance customer satisfaction survey, the Czech Airlines Call Centre was the best SkyTeam call centre between October 2007 and March 2008.

The Recruitment Centre mainly offers temping services – providing temporary help where a flexible workforce is required – and try & hire, where an employee of CSA Services, s.r.o. carries out work based on a customer order and CSA Services, s.r.o. undertakes to release this worker to become a permanent employee of the customer if the customer so requests. In 2008, the Recruitment Agency increased its revenues by 52% year on year.

HOLIDAYS Czech Airlines, a.s.

Jana Kašpara 1069, 160 08 Praha 6
 registered number: 61860336
 incorporated at the Municipal Court in Prague, Section B,
 Entry 2929
 established 1 January 1995

HOLIDAYS Czech Airlines, a.s. is a travel agency providing inbound and outbound tourism services. It specializes in individual tours, business trips, corporate clients, incentive tourism, congresses, conferences and bespoke tours in various fields.

The company continues to provide services for Czech Airlines employees in the fields of wellness, individual recreation and staff tickets.

In 2008, the company revised its business strategy to reflect changing trends in demand in the tourism sector. It is now more focused on supplying Euro-weekends and reaching out to more affluent clients, offering them tailor-made tours and variously themed packages.

The company changed its name during the year and underwent internal restructuring to replace members of management and reduce the total number of employees. In keeping with the new business strategy, the company relocated its point of sale. Halfway through the year, the company also launched a new website (www.holidayscsa.cz).

ČSA Support s.r.o.

K letišti, 160 08 Praha 6
 registered number: 25674285
 incorporated at the Municipal Court in Prague, Section C,
 Entry 60140
 established 15 June 1998

ČSA Support s.r.o. is a subsidiary responsible for cleaning aircraft and buildings, and operates a transport service.

It cleans the aircraft of Czech Airlines and the foreign airlines to which Czech Airlines provides handling services. The volume of Czech Airlines aircraft cleaning was up by approximately 11.6% year on year in 2008. From April 2008, the company also started cleaning aircraft for airlines which contract Menzies Aviation for their handling requirements at the airport in Ruzyně, Prague. In January 2009, the company launched the cleaning of aircraft for airlines whose handling services are provided by Letiště Praha, a.s.; as a result ČSA Support s.r.o. covers the whole of the aircraft cleaning market at Prague Airport. Revenues from aircraft cleaning for external customers were up by CZK 2.3 million on 2007.

ČSA Support s.r.o. continues to clean all Czech Airlines premises in Prague, and also provides cleaning services to numerous external customers. In 2008, the company remained the contracted cleaner for Terminal 2 and Terminal 3 at Prague Airport.

Other core activities operated by ČSA Support s.r.o. include the transfer of air crews, the delivery of delayed baggage, the contractual transportation of passengers and freight transport.

SLOVAK AIR SERVICES s.r.o.

MR Štefánik Airport, 820 01 Bratislava
registered number: 31373844
incorporated at the Bratislava 1 District Court, Section for
Limited Liability Companies (Sro), Entry 7125/B
established 1 July 1994

SLOVAK AIR SERVICES s.r.o. is a subsidiary of Czech Airlines. From the outset, it has provided comprehensive handling for Czech Airlines' scheduled flight services at the airport in Bratislava. Besides its operations for Czech Airlines, the company also deals with special passenger flights, charter flights and the handling of other air carriers' goods. SLOVAK AIR SERVICES s.r.o. sells travel documents and insurance through IATA agencies in Košice, Prešov, Poprad, Piešťany and Bratislava. In 2008, the company handled 1,315 Czech Airlines flights and 215 flights of other airlines.

In 2008, the Company lost some of its revenues following legislative changes by the Ministry of Transport of the Slovak Republic which placed certain restrictions on cargo operations at Bratislava Airport.

For 2009, SLOVAK AIR SERVICES s.r.o., in collaboration with its parent Czech Airlines, has adopted a restructuring programme which, based on an analysis of individual centres, will ensure that stated objectives are achieved so that the company becomes a profitable venture by the end of 2009.

ClickforSky, a.s.

Jana Kašpara 1/1069, 160 08 Praha 6
registered number: 27145573
incorporated at the Municipal Court in Prague, Section B,
Entry 9307
established 28 April 2004

ClickforSky, a.s. is a ticket seller that draws inspiration from the model used by low-cost carriers. Under its own brand, CLICK4SKY.com, it sells tickets to the new low-cost customer segment, thus complementing the services provided by Czech Airlines. CLICK4SKY.com is the final sales point for long-term empty capacity on selected routes in the Czech Airlines network. Unlike other low-cost airlines, CLICK4SKY.com offers a single price to all destinations regardless of the estimated date of travel. At the end of 2008, the CLICK4SKY.com website sold return tickets to 37 mainly European destinations for a final guaranteed price of CZK 2,780.

It processes sales through its own online system and in collaboration with key travel agencies, primarily in the Czech Republic. The most popular destinations in 2008 included London, Amsterdam, Dublin, Rome, Brussels, Madrid and Barcelona.

2006–2008 OK STRATEGY

The 2006–2008 OK Strategy was approved by shareholders in 2006 as a three-year recovery plan intended to make Czech Airlines financially stable and gradually eliminate the accumulated loss from previous years as a procedure required under Section 193(1) of the Commercial Code.

The basic objectives of the 2006–2008 OK rescue plan were successfully implemented. In the past three years, new procedures and projects have been implemented within the individual operating sections that have led to the steady fulfilment of the 2006–2008 OK Strategy objectives.

The first year, 2006, was primarily devoted to restructuring, with a view to streamlining and simplifying the entire organization of the Company while respecting the elevated principle of safety and security. In this spirit, the Company took steps culminating in the greater efficiency of processes, centralized a number of activities (including purchasing, accounting, legal services, and human resources), reduced the number of management levels, set a new business model, including relationships with partners, and established a new sales remuneration system. Financial management concentrated on the preparation of a realistic survival plan, with strict checks and the prevention of financial risks.

In 2007, the focus was on generating revenue, introducing new technologies to cover non-productive operations, improving internal organization and harnessing the Company's own know-how. The clear customer orientation, including segmentation, was supplemented by a low-cost concept named Click4Sky. Commercial activities also resulted in higher income from charter operations. The Company's investments in new projects began to be managed centrally and in accordance with rules on profitability. Operating units reduced non-essential operating reserves and increased the use of aircraft and people. The product was standardized and managed with an emphasis on maximizing the value added. Incentive-based assessments and remuneration for employees were extended beyond the sales units. New

collective agreements for 2008–2010 anticipated a realistic blanket increase in wages at inflation + 1%. The Company approved a new strategy for the development of the aircraft fleet and a strategy to hedge financial and commodity risks, and concentrated on managing finances and cash flow.

In 2008, one of the main developments was the restructuring of Czech Airlines maintenance, which was partly related to the introduction of a new management and planning (MRO) application. The Company also succeeded in increasing the use of its aircraft. Influenced by oil prices, processes to ensure operational fuel savings continued to be streamlined. The commercial activities of the ground operations section increased the market share at Prague Airport. The sales and marketing strategy focused clearly on the customer, the promotion of direct sales, programmes to increase the number of regular passengers and optimal pricing. Sound commercial results, especially in the first three quarters of 2008, stabilized the Company's cash flow.

Czech Airlines is a financially stable, market-oriented company which generates an operating profit, steadily reduces the costs under its control, runs a standardized business and operating model, actively manages its risks, ensures that its management and sales staff are rewarded for performance, and remunerates other employees in accordance with realistic collective agreements. The Company's accumulated losses were reduced, and by 31 December 2008 had sunk to a level less than half the share capital at CZK 916 million.

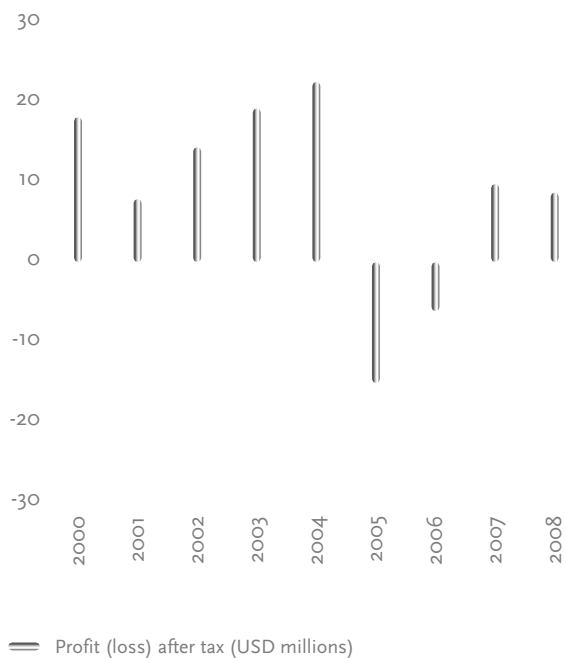
At the General Meeting in June 2008, shareholders adopted a new strategy drawn up by senior management, a realistic plan of Company development and growth up to 2013. This plan, in response to the global economic crisis, was modified by the Action Plan 2009, which was adopted by the Board of Directors in November 2008 and is being implemented in order to minimize the drop in demand for air transport. The financial objectives of the strategy for 2009 and 2010 are also being updated; in 2010 Czech Airlines is expected to return to profit.

Financial parameters of the 2006–2008 OK Strategy

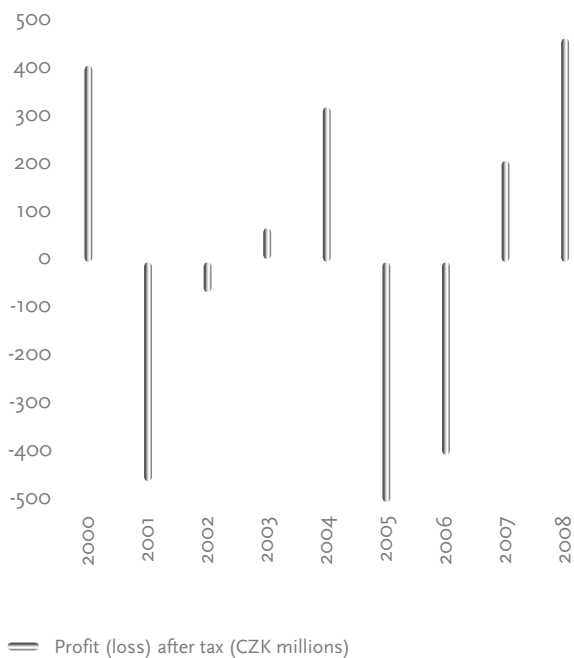
	2006	2007	2008
Net profit/loss (2006–2008 OK Strategy)	(500)	(100)	200
Net profit/loss (actual results 2006-2008)	(396)	206	470

ECONOMIC AND TRANSPORT RESULTS

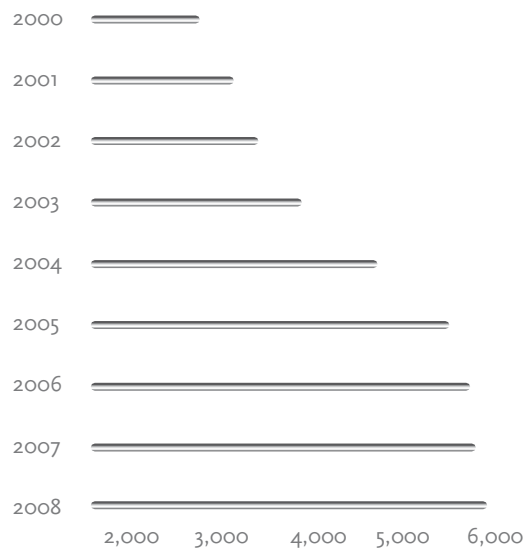
Financial management of Czech Airlines –
International Financial Reporting Standards as
adopted by the EU (consolidated for 2007 and 2008)



Financial management of Czech Airlines –
Czech Accounting Standards

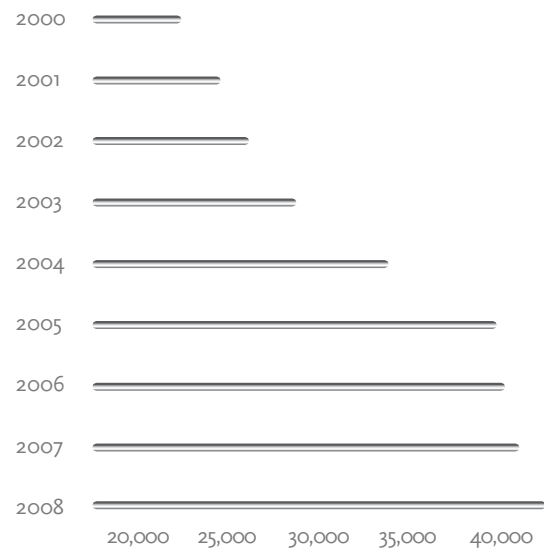


Number of passengers carried on Czech Airlines flights, 2000–2008



— Thousands

Number of flights on Czech Airlines routes, 2000–2008



— Number of flights

ORGANIZATION CHART

Information valid as at 31 December 2008

SUPERVISORY BOARD

Company Secretary's Office (KTS)

BOARD OF DIRECTORS

Company Secretary's Office (KTS)

PRESIDENT

Supplier Services Management Section (MDS)

Security Section (BEZ)

President's Office (KPR)

Company Privatization Office (KPS)

Communication (COM)

Quality Management (QMN)

Internal Audit and Risk Management (IAR)

Flight Safety (FS)

Legal Affairs (PV)

Sales Division

Cargo Strategic Sales Unit (CAR)
Charters Strategic Sales Unit (CHT)
Duty Free Strategic Sales Unit (DFR)
Sales Management and Support (RPO)
Reporting and Analysis (REA)
DS/SOJ Sales Management (DSS)
Czech Sales (OČR)
GSA Representation (GSA)
North America
Western Europe
Central Europe
UK, Ireland and Benelux
Russia and Ukraine
Balkans and NME
Scandinavia and Baltic

Marketing and Product Development Division

Marketing and Segment Management Section (MRS)
Booking and Distribution Systems (RDS)
Revenue Management (REM)
Routes, Contracts and Regulations (LSP)
Non-Commercial Tickets Analyses

Economic Division

Accounting Section (UCT)
Treasury (TRS)
External Financial Relations (EFV)
Payment System and Payment Transactions (PSO)
Controlling and Planning (CPL)
Aircraft Fleet Development (RLP)
Aircraft Fleet Development Technology (TRP)
Aircraft Acquisitions (AKL)

Human Resources Division

Human Resources Policy (PPO)
Wage Policy and Benefits (MPB)
Human Resources Training and Development (VZR)

Technical Division

Aircraft Control (KL)
 Maintenance Planning and Management (RTP)
 Quality Assurance and Airworthiness Inspections (ZJL)
 Aircraft Engineering (TL)
 Technical Division Supply and Development (ZRT)
 Aircraft Maintenance – Operations (ULPR)
 Aircraft Maintenance – Inspections (ULRE)
 Aircraft Unit and Undercarriage Maintenance (ULCP)

Ground Operations Division

Passenger Handling and Services Section (ODC)
 Ground Operations Control Section (OPP)
 Operational Planning and System Administration (PLP)
 Handling Contracts (HSM)
 International Traffic Control (RPZ)
 Operating Standards and Economic Administration (SES)

Flight Operations Division

Flight Operations Control Section (OLP)
 Flight Crew Section (FC)
 Cabin Crew Section (CC)
 Air Crew Training Strategic Sales Unit (VPL)
 Air Crew Training Quality System (SJV)
 Administration and Support (ADP)
 Aviation Regulations and Standards (LPS)

Information Technology Division

ICT Operation and Administration Section (ICT)
 Innovations and Projects (INP)



For Czech Airlines, looking after passenger comfort and ensuring that its services offer maximum convenience are always a priority. Business Class passengers can relax in VIP lounges, use the fast-track service at Prague Airport and enjoy free transfer to the airport by taxi.



Czech Airlines holds numerous service quality awards. These include Best Airline in Central Europe, conferred every year by the independent UK organization Skytrax in the context of the World Airline Awards, which is based on votes cast by millions of passengers from across the world.

IMPORTANT DEVELOPMENTS DURING 2008 AND 2009 (UP TO THE DATE THAT THE ANNUAL REPORT WENT TO PRESS)

IMPORTANT DEVELOPMENTS IN 2008

January

- Czech Airlines starts offering members of the OK Plus loyalty programme the new Platinum Card.
- The Extraordinary General Meeting of Czech Airlines approves the sale of the subsidiary Air Czech Catering a.s. to Alpha Overseas Holdings Ltd. The complete transfer of the company takes place in April.

February

- Czech Airlines rounds off collective bargaining after 321 days. The collective agreements for all staff cover the 2008–2010 period.
- Czech Airlines receives its first new Airbus A319 of the year from the factory in Hamburg, Germany.
- As of February, economy-class passengers enjoy a range of refreshments better suited to the time of day they are served.

March

- Another new Airbus A319 from this year's supply of new aircraft touches down in Prague.
- Czech Airlines summer timetable incorporates six new routes, taking in Strasbourg, Tbilisi, Damascus, Rostov na Donu, Almaty and Heraklion.

April

- The Company signs a contract with Air India for another year's wet lease of an Airbus A310.
- Czech Airlines takes receipt of another Airbus A319.

May

- Regular operations on the route between Prague and Brno are stepped up.
- The Ministry of Finance launches procurement procedure seeking a consultant for the privatization of Czech Airlines.
- Code-sharing with the largest US airline, Delta Air Lines, is expanded significantly. The number of connections offered by Czech Airlines in the US doubles.

June

- Czech Airlines starts offering free baggage wrapping as a new service for its passengers at Prague Airport.
- The SkyTeam Alliance celebrates its eighth anniversary.

July

- At the end of July, the Airbus A310 OK-YAC arrives in the Company's new livery. The interior is also revamped as part of the scheduled maintenance programme.
- The subsidiary ČSA Airtours a.s. starts operating under a new name – HOLIDAYS Czech Airlines a.s., reflecting the company's new profile as a specialist in European city packages.
- Oil prices peak at USD 147 per barrel in mid-July.

August

- SkyTeam Alliance customers single out Czech Airlines' services as among the best on offer. This is the result of the latest SkyTeam satisfaction survey.

September

- Czech Airlines strikes a deal with Správa Letiště Praha, s.p. on the settlement of mutual assets. This move pushes up the value of both companies and will facilitate the further development of Czech Airlines in Prague Airport's northern complex.
- Representatives of Czech civil aviation's three most important entities – Správa Letiště Praha (Prague Airport Management), Czech Air Traffic Control and Czech Airlines – sign a memorandum of cooperation with a view to optimizing operational efficiency and environmental protection.
- The last Airbus A319 from a 2004 tender to supply 12 new aircraft joins the Czech Airlines fleet.
- Czech Airlines provides a new service to Business Premium passengers – free two-way transfer by taxi between Prague Airport and any location in Prague.

October

- Czech Airlines celebrates its 85th anniversary.
- The Czech Airlines winter timetable includes more frequent flights to the most popular destinations in Western Europe and Scandinavia, as well as to a number of cities in South-eastern Europe. Domestic flights to Brno and Ostrava are also boosted.

November

- AMOS, the new integrated maintenance, repair and overhaul (MRO) system for the management and maintenance of aircraft, becomes fully operational on 10 November.
- From November, members of the Czech Airlines OK Plus loyalty programme can trade miles for upgrades to Business Class not only on Czech Airlines flights, but also on flights operated by SkyTeam partners.

December

- The Company publishes a 2009 Action Plan to address the economic crisis. In this Action Plan, Czech Airlines anticipates an increasing focus on profitable projects with quick returns, but further cost-cutting exercises are inevitable.
- The Ministry of Finance signs a mandate contract with a consortium comprising Deloitte Advisory and CMS Cameron McKenna as consultants for the privatization of Czech Airlines.
- Czech Airlines takes another step towards the more economic operation of the Technical Division by signing an agreement with Snecma Services on cooperation in the field of engine maintenance.
- A Czech Airlines Airbus A310 makes a record non-stop flight from El Salvador in Central America. This is the longest ever non-stop flight in the history of Czech Airlines.

IMPORTANT DEVELOPMENTS DURING 2009 (UP TO THE DATE THAT THE ANNUAL REPORT WENT TO PRESS)**January**

- Czech Airlines reaches an agreement on cooperation with the insurance company AIG Europe, enabling Czech Airlines passengers to take out travel insurance at premium prices when they purchase their tickets.
- The Company introduces more transparent excess baggage charges.

February

- The Ministry of Finance advertises a call for tenders seeking a new majority owner for Czech Airlines and publishes the tendering conditions.
- Czech Airlines introduces a goods purchasing service onboard its aircraft. Economy-class passengers can buy snacks and drinks beyond the standard service, which remains free.

March

- The Ministry of Finance announces that four candidates have submitted tenders for the purchase of a majority stake in Czech Airlines: Air France – KLM, Darofan from the Aeroflot group, Odien Group and a consortium comprising Unimex Group and Travel Service.
- Czech Airlines passengers can now purchase additional services at check-in counters, including upgrades or access to airport lounges.
- The Company's summer timetable offers flights to two new destinations in Central Asia – Tashkent and Novosibirsk. Czech Airlines also bolsters flights to Western and Eastern Europe and the Middle East.

April

- The Czech Government excludes Darofan and Odien Group from the tender for a majority stake in Czech Airlines. Air France – KLM Group and the Unimex Group/Travel Service consortium progress to the next round, where they will be able to carry out due diligence.
- Czech Airlines reaches agreements with eight of the nine trade unions on a reduction in wages in response to the economic crisis. The aim is to cut wage costs by five per cent. The Company is forced to release 28 employees from among its aircraft mechanics, having failed to reach an agreement with their trade union, in order to achieve its target of a 5% cut in wage costs.

SALES AND MARKETING STRATEGY

MARKETING

In 2008, the full impact of sales-support measures introduced in previous years as part of Czech Airlines' restructuring was felt. The first nine months of 2008 were marked by the fastest ever growth in all Czech Airlines' sales parameters. This growth was reflected in particular in increased passenger numbers, which rose by 5.9% in the first nine months of 2008 compared to the same period in the previous year. This result was achieved with the same number of aircraft as in previous years. Despite the global slump in demand in the last quarter of 2008, the total number of passengers carried by Czech Airlines in 2008 was 2% higher than in 2007. Compared to the woes of the competition, this was an excellent outcome.

The key pillars of Czech Airlines' business results in 2008 were the consistent use of data for planning new routes, revenue and pricing management, and careful control of the sales effectiveness of marketing campaigns.

Network of Routes

In 2008, Czech Airlines made full use of support planning systems supplied by Lufthansa Systems (Net Line Plan and Net Line Sched) for the creation of its timetable. These systems enhance the Company's ability to forecast sales results on newly planned routes and the financial impacts of alterations within the existing network. After years of revising down the routes it operated, in 2008 Czech Airlines gradually opened up new, commercially promising services to Almaty, Tbilisi, Rostov na Donu, Strasbourg, and Heraklion, and restored operations to Damascus after a seven-year hiatus. As a result of the new procedures and methods applied in the creation of the route network, all the new destinations met (and some even exceeded) sales projections for the period. The one exception was the new Tbilisi service, the first year of which was adversely affected by the conflict brewing in the region.

Czech Airlines continued to focus on the commercial cultivation of its timetable, with an emphasis on keeping revenues from each route higher than the directly related costs. This policy led to the termination of unprofitable routes to Montreal, Vienna and Sliač, and a reduction in the frequency of flights offered on other routes. The capacity freed up by this procedure was then used to enhance services to destinations such as Oslo, Stockholm, Stuttgart, Hamburg, Milan and Tel Aviv.

Scheduled services

Almaty | Amsterdam | Athens

Barcelona | Beirut | Belgrade | Berlin – Tegel | Bologna
Bratislava | Brno | Brussels | Budapest | Bucharest

Cairo | Cologne/Bonn | Copenhagen

Damascus | Dublin | Dusseldorf

Ekaterinburg

Frankfurt am Main

Hamburg | Hannover | Helsinki | Heraklion

Istanbul

Karlovy Vary | Kiev | Kosice | Krakow | Kuwait

Larnaca | Ljubljana | London – Heathrow

Madrid | Manchester | Marseille | Milan – Malpensa | Minsk
Moscow – Sheremetyevo | Munich

New York – John F Kennedy | Novosibirsk

Odessa | Oslo | Ostrava

Paris – Charles de Gaulle

Riga | Rome | Rostov na Donu

Samara | Skopje | Sofia | Split | St Petersburg | Stockholm
Strasbourg | Stuttgart

Tallinn | Tashkent | Tbilisi | Tel Aviv | Thessaloniki | Toronto

Venice | Vilnius | Warsaw

Yerevan

Zagreb | Zilina | Zurich

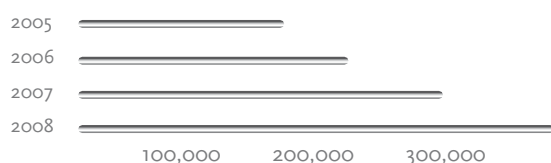
Product Management

In 2008, product management continued to focus on the use of data from surveys of client preferences and their importance when selecting an airline and purchasing tickets. Czech Airlines made full use of the detailed description of the process of communication between the client and the airline, covering initial contact when booking and paying for tickets, contact at the airport, the actual flight, and the post-flight service. In this chain of events, Czech Airlines concentrated on key factors that could steer passenger preferences the Company's way.

In 2008, Czech Airlines strictly enforced a policy of returns on marketing investments. It managed to fully establish a system keeping track of estimates, costs and results of all marketing and sales activities. This system allows the Company to create a database of effective and ineffective projects, so that in the future it will be able to improve the impact of its marketing and business investments.

The Czech Airlines loyalty programmes followed up on the excellent results reported in previous years. There was a considerable increase in the number of members, with the OK Plus loyalty programme recording 370,000 members (a 28% year-on-year rise). Newer programmes for agents and companies, OK Plus Partner and OK Plus Corporate, achieved the success expected of them.

Number of OK Plus members



Pricing and Revenue Management

In 2008, Czech Airlines fully harnessed the commercial potential of its pricing strategy. The pricing strategy, derived from Czech Airlines' position on each market, was one of the key pillars of the Company's sales success in 2008.

The active approach to group transportation resulted in a 3% year-on-year increase in group passengers, despite the dramatic worldwide decline in demand in the final quarter of 2008.

SALES MANAGEMENT

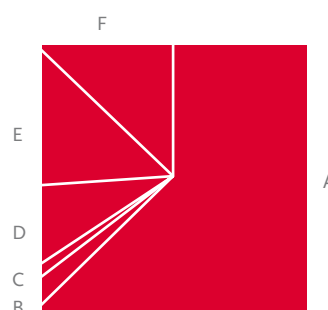
In accordance with the marketing strategy, the sales strategy was focused on winning over the most lucrative corporate clients, particularly through agencies.

New rules were set for the conclusion of corporate contracts and motivational tools were defined.

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

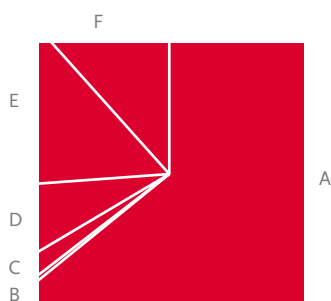
- Company offices
- Agencies
- Call Centre
- Internet
- ClickforSky, a.s.

Passengers by distribution channel (%)



Distribution channel	Share (%)	Distribution channel	Share (%)
A Agencies	62.3	D Internet	7.7
B Click4Sky	1.7	E Company offices	13.4
C Call Centre	1.4	F Other carriers	13.5

Revenues by distribution channel (%)



Distribution channel	Share (%)		
A Agencies	63.9	D Internet	6.7
B Click4Sky	0.4	E Company offices	14.5
C Call Centre	1.6	F Other carriers	12.9

Company Offices

The Czech Airlines office network consisted of 38 branches spread over four continents as at 31 December 2008. In recent years, their mission has been transformed by a move away from direct end-customer sales towards business activities (acquisitions, profiling, services) aimed at agencies and companies.

Since 1 December 2006, Czech Airlines has drawn on a system of regional management for its offices. Branches are divided into seven regions abroad plus the Czech Republic as a separate region. Regional managers, who report directly to the Vice-President for Sales, are employees deployed from the headquarters of Czech Airlines. The individual branches are managed by area managers who, depending on local conditions, are either deployed from headquarters or recruited locally. Markets where sales activities are provided via a General Sales Agent (GSA) are managed from headquarters. Czech Airlines currently works with nine GSAs in markets where the Company operates (Minsk, Yerevan, Larnaca, Beirut, Skopje, Kuwait, Tbilisi, Almaty, and Damascus). Czech Airlines also has 23 GSAs in locations where it does not operate flights.

In 2008, Czech Airlines compared its own network of offices with those of selected air carriers. This comparison showed

that practices at Czech Airlines are no different from others in terms of how it runs business and sales activities in foreign markets. Moreover, Czech Airlines generally operates its business activities and services with fewer workers while offering comparable transport capacity.

The future development of the Company's own offices is geared towards strengthening business activities at the expense of the internal ticketing system, which will tend to be concentrated in fewer locations in connection with the transition to electronic tickets.

Agencies

The agencies are the most important distribution channel for Czech Airlines' products. This sales conduit is managed on the various markets by domestic and foreign branches in collaboration with divisions at the Company's headquarters.

Through agencies, Czech Airlines can also reach out to most of its corporate customers. To maintain motivation, incentive-based commission agreements have been concluded with major agencies in the Czech Republic and abroad. For its direct agency sellers, Czech Airlines has launched a Frequent Seller incentive programme in regions where local legislation allows.

Sales-wise, agencies remain the most important distribution channel for Czech Airlines, despite the increasing share of sales via the Internet and the Call Centre. Therefore, agency sales will be given special attention in the field of the Company's commercial activities.

Call Centre

The Call Centre is a Czech Airlines distribution channel operated under the subsidiary CSA Services, s.r.o. The Centre provides services 24 hours a day throughout the year via telephone agents speaking a total of eight languages (English, German, Spanish, French, Italian, Russian, Czech and Slovak). At the end of 2008, the Call Centre employed 100 members of staff. Operations mainly comprise the fielding of incoming telephone calls, bookings, changes to reservations, charging, ticket sales and the provision of special services and information to members of the OK Plus loyalty programme. In 2008, besides processing incoming calls, 7% of the Call

Centre's capacity was taken up by outgoing calls in the form of telemarketing. Contact Centre availability has stood at 75% to 80% in the long term, i.e. more than three quarters of all incoming calls are processed within 20 seconds.

CHARTERS

In 2008, charter services continued the success reported in previous years with further growth. Revenues from charter services increased by more than 9% year on year. The Company made 3,576 charter flights, carrying 845,508 passengers. This result, a 6% rise on 2007, was the best in the history of Czech Airlines.

The Charters Unit continued implementing some major projects in ACMI aircraft leasing.

In 2008 Czech Airlines, through its autonomous Charters Unit, introduced clients to new destinations, with flights to places such as Podgorica in Montenegro, Kittilä in Finland, and Cancún in Mexico.

CARGO

The main task of the Cargo Autonomous Sales Unit (Cargo SOJ) is to transport air shipments and mail by exploiting the freight capacity available onboard the aircraft of Czech Airlines. Cargo SOJ is a member of SkyTeam Cargo Alliance, where it also represents the Alliance partners Korean Air Cargo and Delta Cargo as the General Sales Agent for the Czech Republic responsible for sales of Korean Air and Delta Air Lines aircraft capacity from Prague Airport.

Cargo SOJ operates under the separate corporate identity Czech Airlines Cargo. At its Prague hub, handling is provided by the newly formed company Skyport a.s.

In 2008, Cargo SOJ opened agencies in new destinations – Tbilisi, Almaty, Damascus, and Rostov na Donu. In addition to the use of cargo capacity on Czech Airlines' scheduled passenger flights, Cargo SOJ also operates scheduled and charter cargo flights and a lorry-based Road Feeder Service to support its key markets. From January to March 2008, there were regular purely cargo flights to Dubai and Hong Kong. As of mid-September 2008, projects were developed for small and medium-sized cargo flights to Minsk, Yerevan and other destinations. Despite the gradual economic slowdown, the Company managed to maintain customer interest in services to Eastern European destinations in particular; as a result, Cargo SOJ delivered 21,925 tonnes of cargo and mail in 2008.

Performance – charters

	2002	2003	2004	2005	2006	2007	2008
Number of passengers	260,048	243,992	330,160	706,913	796,308	797,248	845,508
Number of flights	1,461	1,413	1,764	2,945	3,235	3,384	3,576



Czech Airlines is a leader in the punctuality of its flights. Of the 27 leading European airlines in the Association of European Airlines, in 2008 the Company came third in the chart of on-time international flights.



Czech Airlines is a member of one of the most significant airline alliances in the world – the SkyTeam Alliance. Czech Airlines passengers have the guarantee of quality services from all SkyTeam carriers. They can enjoy any of the SkyTeam’s 16,700 daily flights to 905 destinations in 169 countries worldwide.

AWARDS WON IN 2008

Best Airline Based in Central/Eastern Europe – a high-profile prize awarded every year by the international aviation organization Official Airline Guide (OAG), based on a poll among the professional public.

Best Airline in Central Europe – this award, reflecting passenger preferences, is conferred every year by the independent UK organization Skytrax in the context of the World Airline Awards, based on votes cast by millions of passengers from across the world.

Best Airline in Central and Eastern Europe – in an annual reader survey organized by the US periodical Business Traveler, Czech Airlines won this category for the second year in succession.

Best Airline on the Czech market – readers of TTG Czech rated Czech Airlines as the Best Airline on the Czech Market. Czech Airlines beat all the other airlines operating flights to the Czech Republic.

Financial Director of the Year – Luboš Černý, Czech Airlines Vice-President for Economics, was voted Financial Director of the Year. This prestigious award was bestowed on Luboš Černý by the Financial Directors Club for restructuring the financing of Czech Airlines, optimizing the risk management system and generally revitalizing the company.

Design Prize – the interior of Czech Airlines' store in the centre of Prague won a prize for design. The professional jury awarded the prize for the interior graphic design.

MRO: IT Project of the Year – a new specialized information system for managing aircraft maintenance and repair, the MRO (maintenance, repair and overhaul) system, was named the IT Project of the Year 2008. MRO won the IT award in a competition held annually by the Czech Association of Information Technology Managers.

Rhodos Prize for Image – Czech Airlines won the Rhodos Prize for Corporate Image in the airlines category in 2008. This prestigious accolade shows that Czech Airlines is viewed as a company with a solid reputation.

SKYTEAM ALLIANCE

As at 31 December 2008, eleven airlines were members of the SkyTeam Alliance: Aeroflot, Aeroméxico, Air France, Alitalia, China Southern Airlines, Continental Airlines, Czech Airlines, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air and Northwest Airlines.

Through one of the world's most extensive networks of hubs of member airlines, the SkyTeam Alliance offers 462 million passengers per year a system of 16,700 flights per day to 905 destinations in 169 countries. The SkyTeam Alliance's collaborative projects aim, on the one hand, to create the simplest, most comfortable way to travel around the world, and on the other hand strive to make savings for individual members of the Alliance.

The most important projects of 2008 included Mileage Upgrade (upgrade to a higher class in return for miles accumulated under the loyalty programme) and Collocations, aimed at concentrating the premises of all SkyTeam airlines into one place at various major airports throughout the world.

AIRCRAFT FLEET AND TECHNICAL MAINTENANCE

CZECH AIRLINES FLEET

At the beginning of 2008, the Czech Airlines fleet comprised 49 aircraft (4 x A310-300, 11 x B737-500, 10 x Boeing B737-400, 4 x ATR72, 1 x ATR42-320, 7 x ATR42-500, 2 x A321, 8 x A320, 2 x 319). During the year, the fleet was expanded to 51 aircraft. In February, March and April 2008, Czech Airlines received additional new Airbus A320 aircraft under a contract concluded in 2004 with Airbus. These were three Airbus A319 aircraft (OK-NEM, OK-NEN, and OK-NEO) with capacity for 135 passengers. During April, Czech Airlines returned one Boeing B737-500 (OK-WGD) to the lessor. At the end of September, the Company received the final aircraft under the contract with Airbus (Airbus A319 OK-NEP), and at the very end of the year it sold its A310 OK-WAB after seventeen years' service for Czech Airlines.

TECHNICAL MAINTENANCE

During the year, the Czech Airlines Technical Division operated three heavy maintenance lines in Hangar F, geared towards the maintenance of aircraft operated by Czech Airlines (B737-400/500, A310 and A319/A320/321) and by its customers (especially Boeing B737NG aircraft).

Czech Airlines fleet in 2008

Type of aircraft	Number	Capacity	Remarks
A310-300	3	1 x 21C/188Y (WAA)	***
		1 x 18C/183Y (YAC)	
		1 x 18C/188Y (YAD)	
B737-400	10	7 x 144 C/Y *	
		3 x 162 C/Y **	
B737-500	10	10 x 108 C/Y *	****
ATR72-202	4	4 x 64C/Y *	
ATR42-320	1	1 x 46C/Y*	
ATR42-500	7	7 x 46C/Y *	
A320-214	8	8 x 162 C/Y*	
A319-112	6	6 x 135 C/Y*	
A321-211	2	2 x 212Y	

In all, 30 inspections were performed for Czech Airlines and 45 inspections for customers. Seventeen inspections of Czech Airlines' ATR42/72 aircraft were carried out in Hangar E.

Czech Airlines Aircraft

The priority in 2008 was to prepare for the roll-out, and then the implementation itself, of a new information system for process management at the Technical Division. The decision to purchase Swiss Aviation Software's AMOS was taken at the end of 2007. After intensive and complex preparations, the system went live on 10 November 2008.

Customers' Aircraft

In 2008, the Technical Division continued to provide maintenance of Boeing B737 aircraft for its most noteworthy customers – Air Berlin and Transavia. Last year, the Technical Division succeeded in winning another further significant customer for the heavy maintenance of Boeing B737 Classic aircraft, SAS Norway. The first in-depth inspection for this customer was launched in the first few days of 2009.

Repair Plant Maintenance

Technical Division staff continued their efforts to enhance line capacity for the general maintenance of Boeing B737-400/500 and Boeing B737NG undercarriages with a view to increasing Czech Airlines' revenues from these operations. Existing customers were joined at the end of 2008 by SAS Norway, with a Classic-generation Boeing B737 undercarriage. Specialized units (composite repairs, interior fixtures, etc.) tried to honour their commitments to the maintenance lines in Hangars F and E in order to respect the planned aircraft downtimes.

* Flexible configuration based on current requirements

** Flexible configuration, max. 5 "C" rows

C – Business class, Y – Economy class

*** WAB sold on 10 December 2008

**** WGD returned on 10 April 2008

Czech Airlines Aircraft Fleet in 2008

Type	Registration mark	Name	Year of production	Operated at Czech Airlines since	Remarks
A310-304	OK-WAA	Praha	1990	11. 2. 1991	
A310-304	OK-WAB	Bratislava	1991	1. 3. 1991	Sold on 10 December 2008
A310-325	OK-YAC	Zlín	1993	7. 6. 2003	
A310-325	OK-YAD	Frydek Místek	1993	26. 10. 2004	
ATR72-202	OK-XFA	Český Krumlov	1992	9. 4. 1992	
ATR72-202	OK-XFB	Znojmo	1992	14. 4. 1992	
ATR72-202	OK-XFC	Nitra	1992	24. 4. 1992	
ATR72-202	OK-XFD	Mladá Boleslav	1992	21. 5. 1992	
ATR42-320	OK-VFI	Sky Rider	1990	15. 5. 2000	
ATR42-500	OK-JFJ	Náměšť nad Oslavou	2004	19. 5. 2004	
ATR42-500	OK-JFK	Slavkov	2004	19. 5. 2004	
ATR42-500	OK-JFL	Sušice	2004	30. 7. 2004	
ATR42-500	OK-KFM	Benešov	2005	3. 5. 2005	
ATR42-500	OK-KFN	Přerov	2005	3. 5. 2005	
ATR42-500	OK-KFO	Sokolov	2005	7. 10. 2005	
ATR42-500	OK-KFP	Svitavy	2005	20. 10. 2005	
B737-400	OK-CGI	Prostějov	1997	26. 3. 2001	
B737-400	OK-DGM	Třeboň	1998	7. 4. 1998	
B737-400	OK-DGN	Třebíč	1998	18. 5. 1998	
B737-400	OK-EGP	Kladno	1999	19. 3. 1999	
B737-400	OK-FGR	Ostrava	2000	25. 2. 2000	
B737-400	OK-FGS	Brno	2000	25. 2. 2000	
B737-400	OK-CGT	Písek	1997	24. 5. 2002	
B737-400	OK-WGX	Uničov	1991	12. 6. 2004	
B737-400	OK-WGY	Roudnice nad Labem	1992	30. 6. 2004	
B737-400	OK-VGZ	Polička	1990	22. 12. 2004	
B737-500	OK-XGA	Plzeň	1992	3. 7. 1992	

Type	Registration mark	Name	Year of production	Operated at Czech Airlines since	Remarks
B737-500	OK-XGB	Olomouc	1992	6. 7. 1992	
B737-500	OK-XGC	České Budějovice	1992	10. 7. 1992	
B737-500	OK-XGD	Poprad	1992	31. 7. 1992	
B737-500	OK-XGE	Košice	1992	7. 8. 1992	
B737-500	OK-CGH	Ústí nad Labem	1997	13. 3. 1997	
B737-500	OK-CGJ	Hradec Králové	1997	13. 3. 1997	
B737-500	OK-CGK	Pardubice	1997	23. 5. 1997	
B737-500	OK-DGL	Tábor	1998	19. 3. 1998	
B737-500	OK-EGO	Jindřichův Hradec	1999	17. 2. 1999	
B737-500	OK-WGD	Rakovník	1991	8. 4. 2005	Returned on 10 April 2008
A320-214	OK-LEE	Jeseník	2006	30. 3. 2006	
A320-214	OK-LEF	Kutná Hora	2006	27. 4. 2006	
A320-214	OK-LEG	Slaný	2006	24. 5. 2006	
A320-214	OK-GEA	Rožnov pod Radhoštěm	2001	17. 3. 2005	
A320-214	OK-GEB	Strakonice	2001	29. 4. 2005	
A320-214	OK-MEH	Beskydy	2007	15. 2. 2007	
A320-214	OK-MEI	Šumava	2007	15. 3. 2007	
A320-214	OK-MEJ	Krkonoše	2007	13. 4. 2007	
A319-112	OK-MEK	Jeseníky	2007	8. 3. 2007	
A319-112	OK-MEL	Vysočina	2007	19. 4. 2007	
A319-112	OK-NEM	Vltava	2008	21. 2. 2008	2008 delivery
A319-112	OK-NEN	Labe	2008	17. 3. 2008	2008 delivery
A319-112	OK-NEO	Dyje	2008	3. 4. 2008	2008 delivery
A319-112	OK-NEP	Odra	2008	30. 9. 2008	2008 delivery
A321-211	OK-CEC	Havlíčkův Brod	1997	30. 5. 2005	
A321-211	OK-CED	Nové Město nad Metují	1997	20. 5. 2005	

INFORMATION TECHNOLOGY AND PROJECTS

In the context of the 2006–2008 OK Strategy drawn up for the Company's transformation, Czech Airlines' information and communication technologies (ICT) underwent significant modernization in 2008. There were innovations in the Company's technological infrastructure and, especially, in the application support of Czech Airlines' core business processes. A Business Intelligence team was set up within the Information Technology Division to increase the level of business support provided by the division.

In 2008, the Czech Airlines network infrastructure was completely reworked and, together with changes in server architecture, information system availability and reliability was permanently increased to more than 99%. An important factor in internal efficiency was the completion of the project for a fully outsourced virtual private network, which forms the basis of the backbone communication between the forty odd Czech Airlines sales offices in Europe, Asia and America and is also associated with the transition to a new supplier, SITA, under more favourable technical and pricing conditions. Outsourcing was also chosen as the way forward for printing and reprographic services, which continue to be provided by Konica Minolta. Data access security was tightened in the network environment in general through the introduction of physical security features, as well as in individual applications. In addition, the Company intensively prepared for a PCI DSS (Payment Card Industry Data Security Standard) audit. In advance of this, Czech Airlines met the IATA requirement of the 100% introduction of electronic tickets; at the end of May 2008 it was operating electronic communications with 81 partner carriers.

In the Company's project work, even closer links were forged between the work of the investment-focused Top 10 Committee and the Project Office. This step streamlined the management of the project portfolio based on benefits and returns. In 2008, 18 projects were launched and 28 were completed, thus reducing the number of projects in progress by 41% to 26 (as at 31 December 2008).

The most significant project to be completed was the implementation of the Maintenance, Repair and Overhaul (MRO) System in cooperation with Swiss Aviation Software. The new AMOS system replaces, entirely or partially, a number of existing non-standard applications and affects the activities of almost a thousand workers in the Technical Division. The most important benefits that the MRO project is expected

to deliver include a reduction in stocks, a reduction in direct hours worked to net flight hours for individual types of aircraft, and shorter inspection times. The AMOS system was installed and put into operation within nine months.

As a platform for the future concept of passenger transport systems (airline systems), Czech Airlines launched the implementation phase of the Airline System Strategy project. The main objectives of this project are to cut operating costs and increase operating reliability by removing the current fragmentation of airline systems, and to facilitate the development of other electronic services. Upon completion of all analytical work and after a solution had been defined, it was decided to change the concept of the project: instead of the previously proposed transition to a single system, the consolidation of the airline systems will be staggered by using the solutions of the existing key partners, Amadeus and SITA.

The most important ongoing project, oriented towards the promotion of higher sales revenue for Czech Airlines, is a technological shift to pricing management by the origin and destination method (O&D Revenue Management). In 2008, the supplier PROS helped build technical infrastructure for the solution. In the first half of 2009, the O&D project will be completed when it is hooked up to the Czech Airlines inventory system.

Czech Airlines made progress in the development of electronic commerce (the e-Commerce initiative), mainly by introducing a B2B solution for agencies and corporate clients and making headway with electronic payment instruments. Online payments are now secured via standard protection mechanisms, such as 3D Secure for card transactions. For 2009, Czech Airlines is planning alternative methods of payment, such as direct debit or account transfers.

Czech Airlines implemented ATC Reconciliation as part of its integrated air traffic information system. This introduced the automated control of navigation and over-flight charges.

In 2009, major modernization projects, the Airline System Strategy and O&D Revenue Management, will be completed, and activities will be carried out within the scope of the e-Commerce initiative to support sales growth. In the field of operations, further services and activities should be earmarked for outsourcing or hosting in order to make further operational savings while maintaining quality.

INTERNAL OPERATIONS

For the Supplier Services Management Section, 2008 was a year of further austerity measures across Czech Airlines, which translated into lower prices under supply contracts, streamlined internal processes and the adjustment of passenger products.

REAL ESTATE

In 2008, the Real Estate Department worked on about thirty large-scale, planned and ad hoc projects, investments or repairs.

In the first half of the year, the department started developing, and in July 2008 drafted, the Czech Airlines Real Estate Strategy, which brought together previously separately handled projects of strategic importance under one roof. Following its approval by the Company's Board of Directors, the Real Estate Strategy became the driver of a full-scale shift from the current model of real estate use towards a concept for the balanced distribution of the use of Company-owned and leased buildings in the Czech Republic and abroad.

The most important part of the Real Estate Strategy was the settlement of property relations between Czech Airlines and Správa Letiště Praha, s.p. During this settlement procedure, a number of buildings and land parcels in the South Complex were transferred to Letiště Praha, a. s. in exchange for land more suitable for further development in the North Complex of Prague Airport and financial consideration.

Other important projects in 2008 include the partial reconstruction of the main Czech Airlines headquarters, i.e. its administration and operations centre. New open space offices were prepared for the Sales Division and Marketing and Product Development Division, with final reconstruction due in the first half of 2009. New premises were converted in Hangar C for the Ground Facilities Department, and the roof of Hangar E, damaged by Hurricane Kyrill in January 2007, was repaired.

In the field of process management, the Real Estate Department hived off activities such as contract management, displacement and the management of complex operations to a new Facility Management Unit. The structure of the profit centres has been simplified to provide a higher level of control over costs and revenues. The Company started using new project management methodology for its investment projects.

In 2009, the Real Estate Department will focus on the implementation of the Czech Airlines Real Estate Strategy, in particular on the partial refurbishment of the headquarters, adjustments to Hangar B, and the overhaul of Hangar F. In 2009, the Real Estate Department is scheduled to work on 23 projects.

Overview of areas used in 2008

Item	Area (m ²)		
	Leased	Owned	Total
Offices	6,843	14,010	20,853
Operating areas	37,695	16,842	54,537
Support and related areas	7,323	4,283	11,606
Communal areas and technical facilities	8,132	14,483	22,615
Buildings – aggregate	59,993	49,618	109,611
Land	29,527	10,678	40,205

GROUND FACILITIES MAINTENANCE

In 2008, the final phases of the projects “Centralization of Workplace Technology Management”, “Centralization of Agency Vehicle Management”, “Replacement of Management and Officer Vehicles” and “Establishment of New Accounting Chains to Monitor Vehicle and Machine Costs” were completed. These projects were aimed at regulating administration and services for users and, in particular, at creating of uniform management and accountability for purchases and investments.

In the first quarter of 2008, the repair centre relocated from three buildings into one building, the southern hall of Hangar C. As there was less space here to carry out the same volume of work, a new maintenance management system had to be implemented to schedule the centre’s operations, streamline processes, and achieve greater availability of machinery and technology.

In 2009, the department plans to introduce the Maintenance, Repair and Overhaul (MRO) System, which has already been successfully implemented at the Technical Division. The primary objective will be to increase the availability of vehicles and machinery to 98%, i.e. 350 days a year. Another project which has been carried out continuously since 2006 is the optimization of the fleet of rolling stock and machinery in terms of the number of vehicles and maintenance processes.

CENTRAL PROCUREMENT

In 2008, Central Procurement carried out 830 various business activities and cost-cutting projects. These operations helped decrease capital expenditure and operating expenses and went some way to reducing stocks. The savings achieved by these activities had a positive impact on cash flow of CZK 330.8 million in 2008, to be joined by a further CZK 228.6 million in 2009.

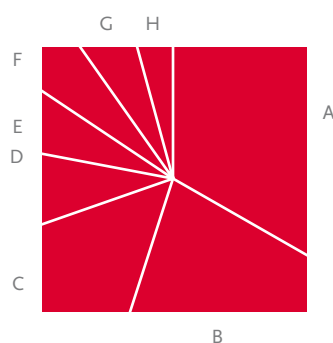
The most significant cost-cutting projects in which Central Procurement was involved in 2008 include a long-term contract for the maintenance of CFM56-3 engines for the Boeing fleet, optimization of stocks for aircraft maintenance, comprehensive outsourcing of office printing, navigation fees, the selection of another supplier to provide additional aviation fuel in Prague, the preliminary negotiation of

agreements to provide handling at individual airports within the Czech Airlines network, the optimization of refreshments and newspapers on board aircraft, baggage wrapping for passengers at Prague Airport, and overnight accommodation for crews at foreign airports.

Electronic purchasing was enhanced when the Company’s shopping environment was merged into a single e-store.

The global situation is forcing the Company to focus even more on its search for other cost-cutting measures. In this respect, Central Procurement has set the very ambitious target of saving CZK 400 million, which should help improve cash flow in 2009.

Most significant austerity measures in 2008 (CZK millions)



Activity	Saving (CZK millions)
A Optimization of inventory in stock via the Armac system	101.13
B CFM56-3 (CFM56-5) engine corrector	66.28
C Change in ATC charges from 1 January 2008 for navigation approach and navigation over-flight (route) services	44.70
D Selection of O&D supplier	25.36
E Selection of a supplier and conclusion of a contract to transfer business travellers by taxi	19.20
F Contracting of fuel for 371 destinations	17.62
G Negotiation of terms and conclusion of a contract to wrap baggage at Terminal 2 of Prague Airport	16.50
H Negotiation of terms and conclusion of a contract to wrap baggage at Terminal 1 of Prague Airport	13.50

CZECH AIRLINES AIRPORT SERVICES

PASSENGER AND AIRCRAFT HANDLING

In its passenger and aircraft handling for the flights of Czech Airlines and foreign carriers, the Ground Operations Division again kept to a high standard in 2008, as evidenced by the results of audits by airlines such as Delta Air Lines, Lufthansa and Swiss International Air Lines.

In 2008, Czech Airlines handled a total of 7.6 million passengers for 115,214 aircraft departures and arrivals at Prague Airport; this was a year-on-year increase by 7.9% in the number of passengers and 11% in the number of aircraft departures and arrivals. Czech Airlines' share in the total throughput at Prague Airport in 2008 was 60.5% relative to the number of passengers handled and 64.5% relative to the number of aircraft departures and arrivals handled; this represents a year-on-year increase by 3.5 percentage points and 5.1 percentage points respectively.

In 2008, the Ground Operations Division renewed handling agreements with Alitalia and Finnair. Czech Airlines also won tenders for the provision of handling services to Luxair, City Airline and Air Cairo. Brussels Airlines selected the rival Menzies Aviation Group for its aircraft handling operations. The restricted flights operated by foreign carriers had a negative impact on contractual handling revenues when the winter timetable came into effect. In 2008, Czech Airlines' lounges were visited by 250,000 passengers, a 10% increase on 2007.

Czech Airlines recorded revenues 45% higher than planned in its non-contractual handling operations. In the first half of 2008, cooperation was established with the US company Universal Weather and Aviation Inc. In the summer, Czech Airlines again provided handling for three Boeing B747-400 charter flights by Japan Air Lines from Tokyo, Osaka and Fukuoka. Czech Airlines also handled aircraft used for state visits.

In 2008, the Passenger Handling and Services Section implemented an internal coaching project to develop communication and professional skills in the field of customer orientation. Within the scope of the Foreign Ground Operations Management Department, the process of restructuring various areas in order to maintain a high standard of service continued in 2008. Labour costs were reduced following a cut in the number of staff at some

destinations. In 2008, a project was launched that was geared towards modern and efficient airport operations based on data exchanges and pooling between the key partners at Prague Airport.

DUTY FREE

The Duty Free Autonomous Sales Unit (Duty Free SOJ) sells merchandise in three exclusive airport shops in Prague, a store in Karlovy Vary and onboard Czech Airlines aircraft. Sales are split into two systems – sales of duty-free goods for non-EU destinations and sales of duty-paid goods for passengers travelling within the European Union.

At the beginning of 2008, the shop in Terminal 1 was refurbished and the range of goods (especially cosmetics) was expanded to include the world's leading brands. An attractive range of products, promotional events, the introduction of newspapers, the replacement of poor-selling merchandise and other business activities led to a modest rise in store revenues by 1% despite the economic slowdown at the end of 2008. The shop in Karlovy Vary reported receipts up by 25% year on year.

In-flight sales are available to passengers flying to 108 destinations and on selected charter flights. Sales may be ordered for a further 19 destinations. Passengers are able to place online orders for goods from the in-flight service in advance of their flight. The optimization of the trolley layout, increased margins and expanded sales of refreshments on charter flights helped in-flight sales achieve sound economic results, with revenues rising year on year by 4.3% to CZK 116 million.

AIR SECURITY

In terms of operational safety, flight operations are a very complex process exposed to the effects of various external factors, such as the technology used, operational procedures and the human factor. Modern air security systems work on the assumption that the negative events that constitute a threat to air traffic will always occur. The purpose of the risk management system is to limit their impact to an acceptable level of operating risk.

The Flight Operations Security Service (specifically its director) is in charge of drawing up and managing the Air Accident Prevention and Security Programme introduced at Czech Airlines established in line with EU-OPS requirements. Since November 2008, the director has been appointed and accepted by the Civil Aviation Authority as a Safety Manager under the requirements of ICAO Doc. 9859.

Main programme components:

- air traffic risk management
- continuous monitoring of data from operating recorders
- analysis of selected in-flight messages and reports in the confidential reporting system
- investigation of air traffic incidents
- provision of information and feedback to relevant units of Company management

The air traffic risk management system was put into operation in 2007. Threats are now classified under more than 140 categories. Automating this process allows for simple annual comparisons of increases or decreases in the frequency of incidents in each category. In its operations in 2008, Czech Airlines recorded no incidents entailing a high or unacceptable level of risk according to ICAO methodology.

A Programme extension is the Safety Management System (SMS), which extends the risk management of flight operation safety into the processes of ground operations and technical maintenance. Czech Airlines decided to introduce SMS in 2008. Under EASA regulations implementation should be mandatory in 2012.

Czech Airlines has not had an aircraft accident since 1976. When the analyses of parameters describing the safety of flight operations are summed up, the level of safety of Czech Airlines' flight operations in 2008 was stable and in keeping with the Company's position among other carriers.

CZECH AIRLINES SECURITY

In 2008, all Czech Airlines' internal documents were modified to reflect legislative changes. Practical training was provided under the specialized security training programme to prepare air crews for anomalous situations and emergencies and acquainted them with the work of onboard air marshals. One of the largest crisis-planning events was the "Crisis 2008" coordination exercise, held in conjunction with the Czech security forces. Crisis situations are not underestimated and Czech Airlines is ready to deal with them professionally. The Company successfully implemented and expanded the APIS and AQQ system, providing passenger information to immigration authorities in selected countries.

Fire protection entailed fire patrols of all Czech Airlines buildings with a new remote fire alarm system linked to the Prague Airport Fire Brigade. In 2008, as part of the management system for the protection of civil aviation against unlawful acts, operation monitoring activities focused on security measures in the Czech Airlines Security Programme.

Operation monitoring activities were carried out in the stipulated form of security audits, inspections and security tests as laid down in the Security Programme. The most frequent operation monitoring activity in 2008 was the security test to physically verify the effectiveness of security measures and procedures set out in the Security Programme. The results of this internal system in 2008 clearly show that security measures in the Czech Airlines Security Programme are of a very high quality and meet the requirements of national legislation.

The Security Section has an able team of security instructors to provide training to all employee categories. In administrative and IT security, standards were drawn up in conformity with the auditor's recommendations. The Company's building security team continued consolidating, modernizing and expanding the existing camera surveillance system. The outdated analogue system is steadily being replaced by a modern system using IP cameras. The Company continued its international cooperation with state organizations and made progress in the concept for travel document control; once again, it weeded out hundreds of passengers with invalid, incomplete, counterfeit and falsified travel documents. The financial impact of this work for Czech Airlines runs into tens of millions of crowns that it would otherwise have to pay in fines.

PUNCTUALITY OF OPERATIONS

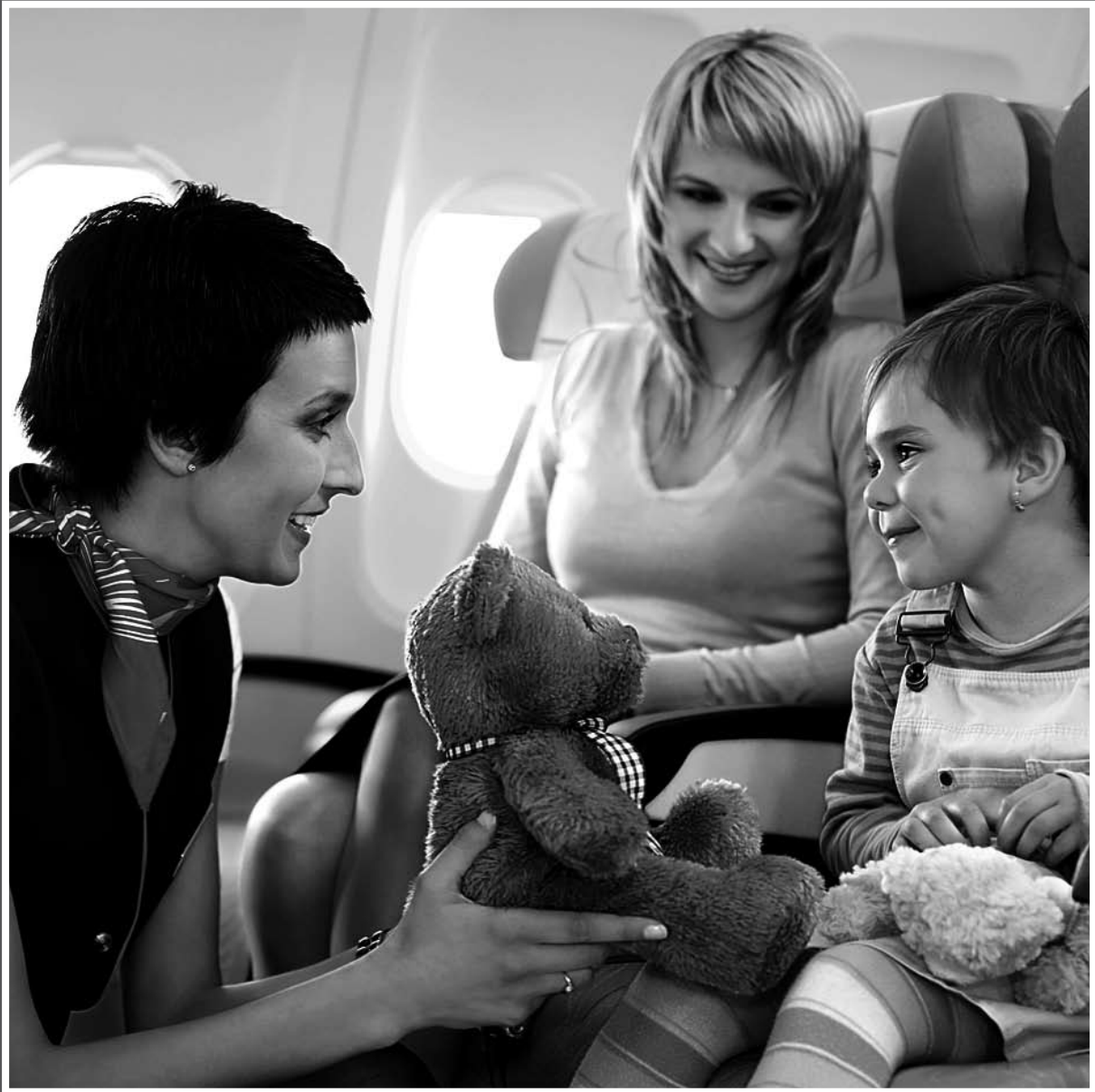
Air traffic punctuality remains one of the key indicators in evaluations of a carrier's quality. As in previous years, in 2008 Czech Airlines had no fundamental problems in this area. However, in the Czech Airlines traffic management system this is no longer a priority parameter. Profound changes were made to timetables as regards the structure of arrival and departure waves, while the aircraft fleet remained unchanged. In the annual comparison with carriers in the Association of European Airlines (AEA), Czech Airlines thus slipped from the first to third. This is the price of changes made with a view

to intensifying the use of the Czech Airlines fleet. Besides flight punctuality, the Company was compelled to monitor other indicators, such as the proportion of damaged or stolen baggage, luggage delivery and passenger check-in waiting times. These are indicators that stand alongside punctuality as proof of the quality of passenger service.

Between June and September 2008, Czech Airlines operated an average of 100 to 150 more flights per week compared to the previous year.

Chart of the punctuality of departures, based on AEA statistics

Month	Czech Airlines' rank among AEA carriers			
	Medium-haul and short routes	Long-haul routes	Domestic routes	Overall rank
January	1	6	1	2
February	1	2	1	1
March	1	1	1	1
April	2	6	1	1
May	1	1	1	2
June	2	1	2	4
July	5	1	1	3
August	10	1	1	9
September	11	8	3	13
October	20	4	3	19
November	11	4	4	11
December	6	8	3	8
2008	2	2	1	3



A Czech Airlines Airbus A310 has made a record non-stop flight from El Salvador in Central America. This is the longest ever non-stop flight in the history of Czech Airlines.



Between 2006 and 2008, Czech Airlines expanded its fleet by 12 Airbus A320 and A319 aircraft, which are among the most modern passenger aeroplanes in the industry. A further ten aircraft will be delivered to the Company by 2012.

ENVIRONMENTAL CARE

Czech Airlines finished phasing in its environmental management system (EMS) in accordance with ISO 14001, which was rounded off with a successful certification audit. An audit by the prestigious international organization Det Norske Veritas took place over two stages between July to October and focused on flight and ground operations, the technical maintenance of aircraft, training programmes and sales and support activities. The result of the audit reflects how Czech Airlines, in the context of its key processes and activities, has taken a number of long-term systemic actions and made improvements with regard to the environment, and has thus reached a level corresponding to the highest international standards. The certificate is valid for the whole of the Czech Republic.

Air Protection

In July 2008, the European Parliament and Council approved a directive incorporating aviation into the current system of emissions trading. The aim is to reduce greenhouse gas emissions (mainly CO₂) in the European Union. As of 1 January 2012, the system will cover all flights landing at or taking off from an airport in the European Union, i.e. all intra-Community flights and flights to or from third countries that land in or take off from any airport in the European Union, not only carriers registered in the EU. Accordingly, Czech Airlines will earmark the corresponding quantity of allowances for each flight in order to set off the CO₂ emissions produced by that flight.

Czech Airlines started monitoring the quantity of emissions from individual flights back in 2007. On its website, the Company has an emission calculator for customers to work out how much of the individual emission types (CO₂, SO₂, NO_x, etc.) will be generated during their flight. In 2009, Czech Airlines will introduce a programme of voluntary contributions for the emissions produced.

Noise

Aircraft noise plays a prominent role in the assessment and perception of air transport in relation to environmental protection. As such, the number of airports that monitor noise is constantly increasing.

For the protection of the immediate vicinity of airports, aircraft departure and arrival procedures are published that precisely define the trajectory of the aircraft flight and guarantee relatively small noise pollution for the area surrounding the airport. Airport operators notify airlines of navigational inaccuracies or any failure to observe prescribed noise procedures. The frequency of these reports can be used to judge the degree of consideration for the environment.

Czech Airlines traditionally figures among those corporations reporting high precision in the observance of published noise abatement procedures.

In 2008, Czech Airlines continued its cooperation with Letiště Praha, a.s. on measures to reduce noise exposure at Prague Airport. Czech Airlines has thus helped improve its home airport's noise monitoring system, which has been fully functional since early 2008 (after a period of trial operation). Prague Airport, in collaboration with the Borough of Praha 6, organized the second annual Quietest Carrier competition in 2008. This project ran from May to October 2008, which a period of intensive air traffic. Czech Airlines came third in the category of turbo-propeller airplanes and seventh in the category of jet aircraft.

During 2008, the Czech Airlines fleet consisted primarily of aircraft in the lowest noise category (62% in category 1 and 38% in category 2) according to the classification system used by Prague Airport (which has five categories).

Wastewater Treatment

At Czech Airlines, water management and the purity of discharged water receive special attention. The discharge of water from various technological processes is subject to control mechanisms ensuring the periodic monitoring of water quality. If limit values are transgressed, no matter how slight the overrun immediate measures are taken to rectify the situation.

In this respect, special attention is paid to compliance with the set quality of discharged industrial wastewater. This category includes water from technological processes for the washing of aircraft, aircraft parts, machinery and galvanization. All

the wastewater produced in this manner passes through appropriate technological facilities to eliminate pollutants in the used water. After all operations involving the cleaning of aircraft and parts, as well as galvanic plating, the wastewater undergoes various levels of treatment in the purifying technology or a neutralizing station. Before water that has undergone preliminary treatment can be discharged, set chemical analyses must be conducted; here, either the entire treated batch or discharged water at a preset interval is tested in an accredited laboratory. If the prescribed limits are met, the water can be discharged into Prague Airport's internal sewer system.

A central wastewater treatment plant is under construction in Hangar F, into which wastewater from Hangar F will flow naturally and to which water from the washing of aircraft and components in Hanger E and the engine plant will be transported. The application of this pre-treatment technology will result in significant financial savings and will reduce the generation of hazardous waste.

Waste

In view of its specific and often unique operations, Czech Airlines produces a wide range of different types of waste. Waste management must meet EU regulations as well as Czech environmental legislation. Some waste, however, is not covered by generally binding waste regulations and is subject, for example, to customs procedure.

Waste is divided into two basic categories, "miscellaneous" and "hazardous". Hazardous waste is generated primarily in technological and repair processes associated with operations and has one or more hazardous properties.

In 2008, a sorting line was launched for the separation of waste mainly from the operation of the Company's own aircraft, but is also at the disposal of contractual partners.

Chemicals

In 2008, Czech Airlines focused on setting up a system for the management of hazardous chemical substances and products in order to comply with all legal requirements in this area:

- a database of safety data sheets was established, to which employees have electronic access,
- the written rules on the treatment of selected chemical substances and products were revised,
- packaging in which chemical substances and products are stored in work areas was checked to ensure its suitability and proper labelling,
- the storage conditions of chemical substances and products were inspected.

Czech Airlines is preparing a project on the use of greener alternatives to chemicals for 2009.

Types of waste (t/year)

Type of waste	2002	2003	2004	2005	2006	2007	2008
Mixed waste	1,306.00	1,354.00	1,772.00	2,216.00	2,290.00	1,224.98	1,277.62
Hazardous waste	472.00	631.00	290.00	242.00	498.00	1,647.33	1,840.77
Miscellaneous waste	202.00	183.00	202.00	277.00	331.00	254.93	140.98
Reusable waste	603.00	628.00	667.00	498.00	470.00	252.56	453.91
Recycling	3.47	6.65	7.53	9.33	10.10	13.11	18.66

HUMAN RESOURCES

The total average number of employees (FTE) in 2008 was 4,662, which is 2.5% less than in 2007. The main reason for the reduction in the number of employees is the restructuring of the Company which has been in progress since 2007.

Wage Policy

In 2008, the wage policy was implemented in line with the Company strategy, which focused on restructuring. At the same time it respected the obligations arising from collective agreements.

There was an across-the-board increase in wages for all categories of employees under existing collective agreements, and the phasing-in of incentive schemes (particularly for groups of employees where there is a higher turnover) devoted to passenger and aircraft handling was continued. The average monthly wage at the Company in 2008 was CZK 59,979.

Employee Benefits

Under its social programme and in accordance with the collective agreement, in 2008 Czech Airlines provided numerous financial benefits for employees, such as:

- a contribution to children's recreation of CZK 1,351,007,
- the coverage of spa rehabilitation treatment for selected employee categories amounting to CZK 6,816,468,
- a contribution to insurance of liability for damage caused to the employer in the pursuance of a profession in the amount of CZK 215,861,
- a contribution to supplementary pension schemes of CZK 84,558,113,
- a contribution to meals of CZK 24,968,172,
- a new contribution provided for clothes cleaning, granted to workers who are not obliged to wear a uniform or protective clothing, in the amount of CZK 936,000.

Besides these benefits set out in the collective agreement, the Human Resources Division mediated numerous other employee benefits in 2008 from external suppliers.

Occupational Health and Safety

In 2008, the Company built on the significant decrease in the number of occupational accidents, which was one of the priorities in 2007. Expressed as a percentage, in 2007 there was a 41% reduction in the number of occupational accidents; in 2008 the reduction was 45%.

Human Resources Training and Development

In 2008, the Company successfully completed a comprehensive training programme for sales staff with financial support from the European Social Fund. The programme's main themes were sales and business skills, communication skills, time management, presentation skills in business and sales team leadership. Overall, the programme was attended by almost 200 employees.

By a decision of the International Civil Aviation Organization (ICAO) from 2003, a new system to test pilots' knowledge of English (ICAO Language Proficiency Test) was set up. This system has been certified by the Civil Aviation Authority of the Czech Republic. ICAO language proficiency requirements for pilots entered into force on 8 March 2008, and as of this date all Czech Airlines pilots met the requirements.

A total of 17 managers from the Company completed a long-term development programme aimed at acquiring basic management skills (Leadership Academy).

The largest project successfully completed in 2008 was the installation of a new AACT (Airbus Active Learning and Competence-Focused Training) classroom for the training of Airbus A320 maintenance personnel. So far, 83 aircraft mechanics have undergone training to acquire the standard Airbus A320 qualification.

On completion of the preparatory project, the conditions for the introduction of e-learning in the Company's teaching system were outlined. Three electronic courses were tested in different departments as part of the trial operations. As a certified centre of the International Air Transport Association (IATA), Czech Airlines prepared 887 external students for the IATA goods carriage certificate.

In 2008, more than 17,000 employees and more than 3,100 external customers took various courses organized by the Human Resources Training and Development Department. Overall, 2,264 training sessions took place lasting for 36,300 hours.

Employee structure by sex in 2008



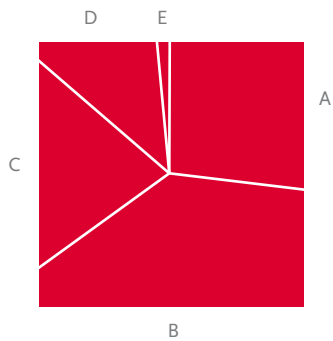
Number of employees, 2007–2008

Employee category	31 December 2007	31 December 2008	Net
Blue-collar	1,286	1,232	(54)
Management	98	76	(22)
White-collar	1,841	1,831	(10)
Cabin crew	1,015	968	(47)
Flight crew	534	535	1
Total	4,774	4,642	(132)

In the field of new recruitment, 547 new employment contracts were concluded in 2008 and 606 employees terminated their employment.

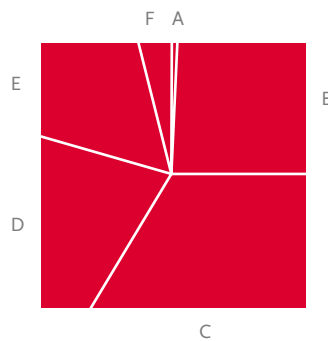
Employee category	New recruits	Employment terminated
Blue-collar	285	314
White-collar	227	245
Flight crew	16	14
Cabin crew	19	33
Total	547	606

Employee structure by category in 2008 (%)



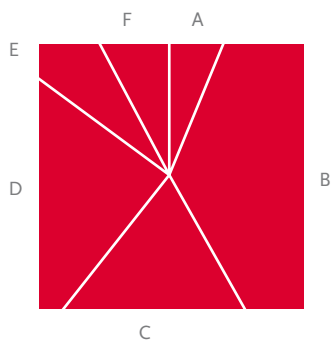
Category	Share (%)	Category	Share (%)
A Blue-collar	27	D Flight crew	12
B White-collar	39	E Management	2
C Cabin crew	21		

Employee structure by age in 2008 (%)



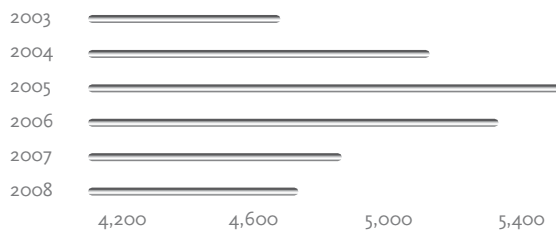
Age structure	Share (%)	Age structure	Share (%)
A up to 19 years	0.2	D 40–49 years	20.5
B 20–29 years	24.8	E 50–59 years	16.4
C 30–39 years	33.9	F over 60 years	4.1

Employee structure by length of work at Czech Airlines in 2008 (%)



Interval	Share (%)	Interval	Share (%)
A up to 1 year	6	D 11–20 years	24
B 1–5 years	36	E 21–30 years	7
C 6–10 years	19	F over 30 years	8

Registered number of employees, 2003–2008



AIR CREW PERSONNEL AND TRAINING

The Air Crew Training Autonomous Organizational Unit (Air Crew Training SOJ) holds authorizations to provide model training on all the different types of aircraft operated by Czech Airlines. The Air Crew Training Unit does not just supply model training. Many of the Unit's activities are devoted to the recurrent training of Czech Airlines air crews. All forms of training are carried out in accordance with a certificate issued by the Civil Aviation Authority of the Czech Republic, in accordance with the valid European regulations JAR-FCL1, EU-OPS, and in accordance with internal Czech Airlines training handbooks. In 2008, 19 new pilots, six captains, and 81 new flight attendants were trained for the requirements of Czech Airlines.

In the course of 2008, 40 pilots were retrained for the Airbus A320, 24 pilots received ATR training, and 4 pilots were trained for the Boeing B737. Part of the training took place in foreign training centres, at the Airbus A310 simulator in Berlin and to some extent at the ATR simulators in Helsinki and Thessaloniki. The introduction of ZFTT (Zero Flight Time Training) was of a high quality and cost efficient; 31 pilots received additional training entirely in a flight simulator. In the past, they would have had to take this part of training in real aircraft, which was a costly exercise.

Overall, 574 cabin crew members took part in conversion training to cope with the ATR, Airbus A320, and Boeing B737.

In all, 2,116 hours (of which 366 by external clients) were flown on the ATR 42 Flight Training Device. The Boeing B737 flight simulator was used intensively. Throughout 2008, 6,075 hours were flown (of which 4,141 were sold to external customers) on the simulator, covering model, refresher and recurrent courses. The most significant customers included Aerosvit, Bulgaria Air, KD Avia, General Line, Georgian Airways, Travel Servis, Air Slovakia and Seagle Air. Flight hours on the Airbus A320 simulator amounted to 3,860, of which 1,117 hours of training were sold to external customers, and 240 hours were used by Airbus for commercial purposes. The most important customers included Ural Airlines and Bulgaria Air.

The Aircrew Training Department has capacity primarily intended to train the aircrews of Czech Airlines. Any spare training capacity is offered to potential customers. The total proceeds from sales of training to external customers in 2008 were CZK 63.5 million.

An interesting activity carried out by the Air Crew Training Department is its "Fearless Flying" courses, which are also used by the general public. Several promotions were organized for Czech Airlines' business partners.

Czech Airlines pilot training on flight simulators in 2008

Simulator/aircraft type	Number of persons	Number of courses	Number of hours
A310	139	54	526
B737	427	222	1,802
ATR	528	137	1,944
A320	413	210	2,314

REPORT OF THE CZECH AIRLINES SUPERVISORY BOARD FOR 2008

Meetings of the Supervisory Board in 2008

In 2008 and to date in 2009, the Czech Airlines Supervisory Board convened 13 meetings (12 ordinary and 1 extraordinary) at the Company's registered office. Extraordinary Meeting No 02A-08 of the Supervisory Board granted approval to the Board of Directors for the acquisition of three A319 aircraft in 2008.

In 2009, up to the date that the Czech Airlines Annual Report for 2008 went to press, the Supervisory Board convened four ordinary meetings.

Members of the Supervisory Board

On 23 January 2008, Hana Pešková, a member of the Supervisory Board since 8 April 2003, resigned from her duties. On 9 April 2008, Radomil Kratochvíl was appointed the new member of the Supervisory Board elected by employees. On the same date, Jaroslav Lorenc was re-elected by employees.

Supervisory Board activities in the reporting period

In 2008 and to date in 2009, the Supervisory Board focused on its supervisory activities and fulfilled the tasks required of it in keeping with its reinforced powers under the Company's Articles of Association.

The Supervisory Board acquainted itself with the Independent Auditor's Report to the shareholders of Czech Airlines of 14 May 2009. The auditing company is Deloitte Audit s.r.o. (Licence No 79), represented by the auditor Martin Tesaf (Licence No 2030). The auditor's verdict on the financial statements, prepared in accordance with Czech accounting regulations, and on the consolidated financial statements, drawn up in accordance with International Financial Reporting Standards, was issued pursuant to an audit of the financial statements of Czech Airlines, i.e. the balance sheet for the year ended 31 December 2008, the profit and loss account, the statement of changes in equity, and the cash flow statement for the year then ended, as well as the notes to the financial statements, including a description of significant accounting policies used.

The audit was conducted in accordance with the Act on Auditors and International Auditing Standards and the related application clauses of the Chamber of Auditors of the Czech Republic; the Company's governing body is responsible for the preparation and fair presentation of the financial statements.

The auditor's report states that:

- the financial statements prepared in accordance with the accounting regulations of the Czech Republic present a true and fair view of the financial situation of Czech Airlines as at 31 December 2008, and the costs, revenues and result of its management and cash flows for the year then ended,
- the consolidated financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the EU present a true and fair view of the financial situation of the Czech Airlines holding as at 31 December 2008, and the costs, revenues and result of its management and cash flows for the year then ended.

The auditor also examined the accuracy of the disclosures in the Czech Airlines Report on Related Party Transactions as at 31 December 2008, which is part of the Annual Report, the preparation of which is the responsibility of the Company's governing body. The review was conducted in accordance with International Standards on Review Engagements (ISRE) 2400 and the related application clauses of the Chamber of Auditors of the Czech Republic. Based on this review, the auditor discovered no material misstatements in the disclosures in the Czech Airlines Report on Related Party Transactions as at 31 December 2008.

The auditor also examined the Annual Report for compliance with the financial statements prepared under Czech accounting regulations, in accordance with International Auditing Standards and the related application clauses of the Chamber of Auditors of the Czech Republic. Based on this examination, the auditor expressed the opinion that the information disclosed in the Annual Report complies, in all material respects, with the above-mentioned financial statements.

The Czech Airlines Supervisory Board has examined the audited financial statements for 2008, prepared in accordance with accounting regulations valid in the Czech Republic (CAS), and the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and recommends that the Czech Airlines General Meeting approve them.



The Czech Airlines Supervisory Board has examined and recommends that the Czech Airlines General Meeting approve the proposal of the Czech Airlines Board of Directors regarding the distribution of the Company's profit from 2008, determined in accordance with Czech accounting rules at CZK 470,057,041.31, i.e. the allocation of 5% of the profit, CZK 23,502,852.07, to statutory reserves in accordance with Article 44(3) of the Company's Articles of Association, with the remaining profit of CZK 446,554,189.24 to be transferred to the Accumulated Loss.

The Czech Airlines Supervisory Board also examined the Czech Airlines Report on Related Party Transactions as at 31 December 2008, which was drawn up and subsequently approved by the Board of Directors on 24 March 2009 in accordance with Section 66a of the Commercial Code and is part of the Annual Report. The Czech Airlines Supervisory Board states that the Company's Board of Directors is responsible for the completeness and correctness of the Report on Related Party Transactions. The Supervisory Board hereby takes due note of the fact that the auditor discovered no circumstances indicating that the information specified in the report is materially incorrect. The Czech Airlines Supervisory Board found no errors or incomplete information in the report, and has no reservations regarding the report presented to it.

The Czech Airlines Supervisory Board has acquainted itself with the Czech Airlines Annual Report for 2008. The report contains information about important circumstances characterizing the material and financial results of the Company in the final year of the 2006–2008 OK Strategy, i.e. the approved three-year restructuring programme. The Supervisory Board states that the Company's Board of Directors is responsible for the correctness of the information disclosed in the Annual Report, and duly notes the auditor's opinion that the information presented in the Annual Report complies, in all material respects, with the Company's financial statements drawn up under Czech accounting regulations for the year ended 31 December 2008. Against this background, the Supervisory Board recommends that the General Meeting approve the Annual Report.

The Supervisory Board discussed the Evaluation of the Fulfilment of the 2006–2008 OK Strategy in 2008, approved by the Annual General Meeting in 2006 as "another measure" within the meaning of Section 193(1) of the Commercial Code, and notes that the 2006–2008 OK Strategy was fulfilled in all key indicators in 2008.

The Supervisory Board also noted that the fulfilment of the objectives of the 2006–2008 OK Strategy for recovery ensured the financial, commercial and operational stabilization of the Company and increased its value in all three years.

Further, the Supervisory Board discussed the document Implementation of the 2009–2013 ČSA Strategy, took note of that material, and recommended that information about such implementation be presented to the Company's General Meeting.

At the same time, the Supervisory Board took note of a statement from the Board of Directors that, despite the updating of financial targets under the 2009–2010 Strategy necessitated by the global economic crisis, the basic principles of the approved 2009–2013 ČSA Strategy remain in place.

Prague, 20 May 2009



Ivan Kočárník
Chairman of the Supervisory Board of Czech Airlines

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

Having its registered office at: Ruzyně Airport, 160 08 Prague 6

Identification number: 45795908

Principal activities: Commercial airline operations

Report on the Financial Statements in accordance with accounting regulations applicable in the Czech Republic

Based upon our audit, we issued the following audit report dated 17 April 2009 on the financial statements prepared in accordance with accounting regulations applicable in the Czech Republic which are included in this annual report on pages 95 to 130:

“We have audited the accompanying financial statements of České aerolinie a.s., which comprise the balance sheet as of 31 December 2008, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of České aerolinie a.s. as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.”

Report on the Consolidated Financial Statements in accordance with International Financial Reporting Standards

Based upon our audit, we issued the following audit report dated 17 April 2009 on the consolidated financial statements prepared in accordance with International Financial Reporting Standards which are included in this annual report on pages 59 to 94:

“We have audited the accompanying consolidated financial statements of České aerolinie a.s., which comprise the balance sheet as of 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain

reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of České aerolinie a.s. consolidation group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of České aerolinie a.s. for the year ended 31 December 2008 which is included in this annual report on pages 134 to 147. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not

performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of České aerolinie a.s. for the year ended 31 December 2008 contains material factual misstatements. The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

Report on the Annual Report

We have also audited the annual report for consistency with the financial statements in accordance with accounting regulations applicable in the Czech Republic. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 14 May 2009

Audit firm:
Deloitte Audit s.r.o.
Certificate no. 79
Represented by:

Martin Tesař,
authorised employee

Statutory auditor:

Martin Tesař,
certificate no. 2030

CONSOLIDATED FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU

For the Year Ended 31 December 2008

GENERAL INFORMATION

Directors as at 31 December 2008

Board of Directors:

Radomír Lašák (Chairman)
Jiří Devát (Vice-Chairman)
Luboš Černý (Member)
Jan Janík (Member)
Peter Jusko (Member)
Petr Pištělák (Member)
Roman Planička (Member)
Dušan Ryban (Member)
Petr Řehák (Member)

Supervisory Board:

Ivan Kočárník (Chairman)
Tomáš Uvíra (1st Vice-chairman)
Dušan Horák (2nd Vice-chairman)
Tomáš Brabec (Member)
Jan Bürgermeister (Member)
Ivan Foltýn (Member)
Daniela Kovalčíková (Member)
Radomil Kratochvíl (Member)
Jaroslav Lorenc (Member)
Petr Polák (Member)
Ivana Řápková (Member)
Pavel Škvára (Member)

Registered Office

Ruzyně Airport
160 08 Prague 6
Czech Republic

Auditor

Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8
Czech Republic

INCOME STATEMENT

For the Year Ended 31 December 2008

Consolidated

USD '000	Notes	2008	2007
Revenues	3	1,361,438	1,188,129
Other operating income	4	87,319	13,839
		1,448,757	1,201,968
Cost of materials and services	5	(1,002,714)	(838,994)
Staff costs	6	(285,669)	(247,442)
Depreciation	10	(99,967)	(75,300)
Other operating expenses	7	(19,786)	(21,050)
Foreign exchange differences		(2,881)	(2,529)
Profit from operations		37,740	16,653
Interest income		819	809
Interest expense		(23,904)	(20,737)
Other financial expense, net	8	198	(5,550)
Profit/(Loss) before taxation		14,853	(8,825)
Income tax gain/(expense)	22	(6,073)	18,484
Net profit for the year	9	8,780	9,659
Earnings per share (USD)	9	32.10	35.31

Notes 1 to 34 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2008

Consolidated

USD '000	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment, net	10	847,859	908,894
Intangible assets, net	11	20,393	16,196
Financial assets available-for-sale	13	1,158	1,021
Long-term derivative financial instruments	21	–	1,020
Long-term receivables	14	8,117	7,948
		877,527	935,079
Current assets			
Inventories	15	26,755	29,519
Short-term derivative financial instruments	21	13,486	30,856
Trade and other receivables, net	16	171,482	105,207
Other assets (Prepaid expenses)	16	36,118	21,499
Cash and cash equivalents	17	28,077	27,529
		275,918	214,610
Assets held for sale	12	–	21,853
Total assets		1,153,445	1,171,542

USD '000	Notes	31 December 2008	31 December 2007
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	106,631	106,631
Non-distributable reserves	19	3,124	2,616
Revaluation reserve	19	(61,425)	40,018
Retained earnings		121,828	112,677
Profit for the period	9	8,780	9,659
Foreign exchange differences from translation of financial statements to the presentation currency		68,433	89,900
		247,371	361,501
Non-current liabilities			
Provisions for liabilities and charges	26	6,001	–
Interest-bearing loans and borrowings	20	8,398	2,617
Finance lease obligations	23	391,642	347,416
Long-term derivative financial instruments	21	8,674	847
Deferred tax liability, net	22	25,474	49,378
		440,189	400,258
Current liabilities			
Provisions for liabilities and charges	26	18,433	17,066
Provisions for current tax	22	1,292	–
Trade and other payables	24	216,615	188,996
Prepaid traffic documents	25	54,011	76,752
Short-term interest-bearing loans and borrowings	20	26,075	36,554
Current portion of finance lease obligations	23	70,445	59,759
Short-term derivative financial instruments	21	79,014	24,639
		465,885	403,766
Liabilities held for sale	12	–	6,017
Total equity and liabilities		1,153,445	1,171,542

Notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2008

Consolidated

USD '000	Share capital	Non-distributable reserves	Revaluation reserve	Retained earnings	Foreign exchange difference *	Total
Balance as at 1 January 2007	131,036	3,214	11,047	135,266	(518)	280,045
Changes in accounting policies	(24,405)	(598)	–	(22,589)	47,592	–
Restated opening balance	106,631	2,616	11,047	112,677	47,074	280,045
Revaluation gain/(loss) (Note 19)						
– interest rate swaps	–	–	424	–	–	424
– commodity swaps	–	–	23,193	–	–	23,193
– foreign currency derivatives	–	–	(8,983)	–	–	(8,983)
– foreign currency exposure hedge	–	–	20,811	–	–	20,811
– other	–	–	(6)	–	–	(6)
Deferred tax on revaluation gains/(losses) (Note 19, 22)	–	–	(6,468)	–	–	(6,468)
Net gains not recognised in the income statement	–	–	28,971	–	–	28,971
Net profit for the year	–	–	–	9,659	–	9,659
Foreign exchange difference	–	–	–	–	42,826	42,826
Balance as at 31 December 2007	106,631	2,616	40,018	122,336	89,900	361,501
Revaluation gain/(loss) (Note 19)						
– commodity swaps	–	–	(117,631)	–	–	(117,631)
– foreign currency derivatives	–	–	28,795	–	–	28,795
– foreign currency exposure hedge	–	–	(38,307)	–	–	(38,307)
– foreign currency option	–	–	1,188	–	–	1,188
– other	–	–	1	–	–	1
Deferred tax on revaluation gains/(losses) (Note 19, 22)	–	–	24,511	–	–	24,511
Net loss not recognised in the income statement	–	–	(101,443)	–	–	(101,443)
Profit distribution	–	508	–	(508)	–	–
Net profit for the year	–	–	–	8,780	–	8,780
Foreign exchange difference	–	–	–	–	(21,467)	(21,467)
Balance as at 31 December 2008	106,631	3,124	(61,425)	130,608	68,433	247,371

* Foreign exchange difference represents the difference resulting from translating equity other than revaluation reserve at historical rate, other balance sheet balances at closing rate and income statement at average rate for the period.

Notes 1 to 34 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the Year Ended 31 December 2008

Consolidated

USD '000	Note	2008	2007
Profit/(Loss) before tax		14,853	(8,825)
Adjustments for non-cash operations:			
Depreciation and amortisation		99,967	75,300
Movement on provisions		(9)	23,114
(Profit) on the sale of non-current assets		(74,772)	(3,924)
Interest expense (net)		23,085	19,119
Dividends received		(637)	(385)
Adjustments for other non-cash transactions	31	(74,648)	(39,969)
Operating cash flow before working capital changes		(12,161)	64,430
Change in receivables		(30,223)	10,049
Change in inventories		1,213	(160)
Change in payables		92,886	17,488
Cash generated by operations		51,715	91,807
Interest paid		(23,958)	(20,515)
Income tax paid		(5)	(17)
Dividends received		637	385
Excercised commodity derivatives		(7,727)	–
Net cash from operating activities		20,662	71,660
Purchase of property, plant and equipment		(50,128)	(48,077)
Purchase of intangible assets		(10,728)	(4,666)
Purchase of financial assets available-for-sale		(191)	–
Proceeds from disposals of non-current assets		98,400	78,076
Change of restricted cash		(21)	–
Interest received		819	810
Loans to unconsolidated related parties		–	(788)
Net cash used in investing activities		38,151	25,355
Change of borrowings	31	28,075	(57,639)
Repayments of finance lease obligations		(86,358)	(57,890)
Net cash used in financing activities		(58,283)	(115,529)
Net increase/(decrease) in cash and cash equivalents		530	(18,514)
Cash and cash equivalents at 1 January	17	27,521	46,035
Cash and cash equivalents at 31 December	17	28,051	27,521

Notes 1 to 34 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

Consolidated

1. GENERAL

České aerolinie a.s. (the "Company" or "ČSA") is a joint stock company registered and domiciled in the Czech Republic. The Company and its subsidiaries (the "Group") are engaged in the air transport of passengers and cargo and related activities principally in Europe and North America, operating from its hub in Prague, Czech Republic.

The Company was established as a joint stock company from the former state-owned company Československé aerolinie s.p. on 1 August 1992. The financial statements were approved by the Board of Directors and authorised for issue on 17 April 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, which comprise standards and interpretations approved by the IASB, that are applicable for the activity of the Group and effective for the accounting periods beginning 1 January 2008 and 1 January 2007.

a) Standards and amendments effective in 2007

– IFRS 7 – Financial Instruments: Presentation and an amendment to IAS 1 – Presentation of Financial Statements introduced new requirements for disclosures regarding financial instruments. There are no changes in classification and measurements of financial instruments of the Group.

b) Standards and not yet effective

At the date of approval of these financial statements there have been issued standards and interpretations which are not yet effective:

- IFRS 1 (restructured in 2008) First-time Adoption of IFRS – Restructured standard (2008) (effective for annual periods beginning on or after 1 July 2009);
- IFRS 1 (revised in 2008) First-time Adoption of IFRS and IAS 27 (revised in 2008) Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009);
- IFRS 2 (revised in 2008) Share-based Payment: Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009);
- IFRS 3 (revised in 2008) Business Combinations (effective for annual periods beginning on or after 1 July 2009);
- IAS 1 (revised in 2007) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009);
- IAS 23 (revised) Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). This standard requires capitalising borrowing costs incurred by a company in relation to construction of a qualifying asset. Management of the Group assumes that the qualifying assets of the Group in 2009 will consist of prepayments for future delivery of the aircraft and possibly certain items of land and buildings. The requirements of the standard will be applied in accordance with transitional provisions to assets that become qualifying on or after 1 January 2009;
- IAS 27 (revised in 2008) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009);
- IAS 32 (revised in 2008) Financial Instruments: Presentation and IAS 1 (revised in 2008) Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009);
- IAS 39 (revised in 2008) Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009);
- Improvements to IFRSs 2007 (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). This interpretation requires allocating all considerations received from customers among all services provided to the customers in the future, including all benefits arising from customer loyalty programmes. The Group runs the Frequent Flyer Programme that enables customers to collect points for purchased services; these points can be exchanged in the future for further services. In the financial statements as at and for the year ended 31 December 2008 based on the current accounting policies of the Group, the revenue from rendering the services is recognised in full in the income statement and a provision is recognised for expenses related to the future usage of earned points. The interpretation will be applied retrospectively and management of the Group expects that retained earnings as at 1 January 2008 will be decreased by USD 57,698 thousand and profit of 2008 will be increased by USD 35,313 thousand. These amounts include release of the provision for Frequent Flyer Programme.
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008);

- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009); and
- IFRIC 18 Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

The financial statements have been prepared on the historical cost basis, with certain exceptions as noted below in accounting principles and policies. This specifically concerns financial assets held for trading, financial assets available-for-sale and derivatives, which are reported at fair value. The financial statements have been prepared under the going concern assumption.

These financial statements are presented in US dollars (“USD”), which are considered by the Group’s management to be the appropriate presentation currency. The US dollar is a commonly used currency in the air transport industry. The functional currency of the parent company and its material subsidiaries is the Czech crown (“CZK”). The financial statements of the Group are translated from the functional to the presentation currency by translating assets and liabilities at the year-end exchange rate and income statement amounts at the average exchange rate for the period. Equity, except for the revaluation reserve, is translated at the historical rate. The difference that arose due to different exchange rates used for the translation is recognised in equity as a separate item.

The Czech National Bank’s foreign exchange rates (CZK/USD) used for the translation of the balances in the financial statements are as follows:

Year	2008	2007
Balance sheet	19.346	18.078
Income statement	17.035	20.308
Historical rate used for equity translation	25.654	25.654

The presented decrease in certain balance sheet items between 2007 and 2008 is therefore influenced by the presentation currency exchange rates as at these dates and does not necessarily express a decrease in the value of a particular item stated in the functional currency. All amounts are presented in thousands of USD, unless stated otherwise.

Consolidation

Subsidiaries

Subsidiaries are those entities where the Group has the power to govern financial and operating policies, that means that the Group owns majority of voting rights. Subsidiaries are consolidated from the date of acquisition to the date when the Group lost control.

Intragroup transactions, balances and unrealised profits from transactions between the Groups’ companies are eliminated at the preparation of the consolidated financial statements. Unrealised losses are also eliminated and assessed as a possible impairment indicator. All of the Group companies use the same accounting principles.

The consolidated entities in 2008 include České aerolinie a.s. and Air Czech Catering a.s., in 2007 České aerolinie a.s., Air Cargo Terminal a.s. and Air Czech Catering a.s.

Revenues and expenses

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

The Group charges to expenses provisions and allowances to cover all risks, losses and impairments that are known at the balance sheet date and that can be estimated reliably.

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

- Revenues from the Group’s own traffic documents; and
- Revenues from other airline traffic documents used in the flights of Czech airlines.

In recognising revenues, the Group refers to the principles provided in the Multilateral Prorate Agreement (“MPA”) and the Revenue Accounting Manual (“RAM”) issued by the International Air Transport Association (“IATA”), bilateral agreements between airlines and other regulations. The application of these principles is based upon the Company’s membership in IATA and a mutual application of those principles by other airlines. The Group recognises fare receipts as deferred income when a traffic document is issued. The collected fare is allocated among individual air coupons on the basis of a number of criteria, which include the established guidance of IATA or an arrangement between individual airlines. This allocated fare is recognised in the Group’s income when the transportation is provided by the Group. If the flight was realised by a partner airline, the allocated fare in respect of the relevant coupon is reversed from deferred income to payables.

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

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

The Group records as deferred income amounts collected from the sale of traffic documents, which have not been realised at the balance sheet date, i.e. have not been flown on or used otherwise. Unused flight coupons are recorded, according to the principle of prudence and on an accrual basis, as income after the elapse of a certain period from the issuance of the traffic document based on the historical analysis and statistics. When traffic documents are sold, the Group also recognises fees related to the sold traffic documents, the so called airport taxes. The Group collects part of these taxes for other entities (for example, airport authorities, and taxation authorities). The Group differentiates between taxes delivered at the moment of sale and taxes delivered at the moment when the flight is realised. Both taxes are accounted for on the balance sheet as payables and estimated items, respectively. Taxes not further delivered are recorded as the Group's income and are recognised in the period in which the sale or the flight of the given traffic document is realised in accordance with the conditions defined for the tax.

Revenues from the sale of goods and services are recognised on the supply date or on a contractual basis. Gains arising from contracts on aircraft repairs are recognised when the contract is completed.

Segment reporting

Given that either shares or debentures of the Group are not publicly traded, the Group does not apply IAS 14 – Segment Reporting but only discloses geographical segments of revenues (the regions where traffic documents have been sold).

Foreign currencies

Transactions denominated in the currencies other than Czech crowns are initially recorded using monthly foreign exchange rates valid as at the transaction date.

As at the balance sheet date monetary assets and liabilities denominated in foreign currencies are translated into Czech crowns at the exchange rates stated by the Czech National Bank as at that date. Foreign exchange gains and losses arising from the translation of monetary assets and liabilities (except for the translation of hedged monetary items) are recorded in the net profit for the period. Gains and losses arising from the translation of hedged monetary items are recognised in equity, they are transferred from equity to the income statement when realised.

Foreign exchange rate gains or losses arising from the year-end translation of securities and equity investments are treated as a component of the fair value or the value established using the equity method of accounting.

Borrowing costs

All borrowing costs are recognised in net profit or loss in the period on an accrual basis.

Retirement benefit costs

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

Taxation

The final amount of taxation stated in the income statement includes the current and deferred tax charge for the period.

The charge for current tax is based on the taxable profit. Taxable profit differs from the net profit reported in the profit and loss account. It is adjusted for items (revenues and expenses) that are taxable or deductible for other periods and it further excludes items that are never taxable or deductible. The current tax charge of the Group is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised or to the extent that the Group has sufficient taxable temporary differences. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit or the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and that have been enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt within equity.

Deferred tax assets and liabilities are offset 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.

Government grants

The Group is a recipient of a government grant for the business activity and for the training and re-qualification of employees which is in accordance with the rules of the General Programme for the Support of Technology Centres and Centres of Strategic Services approved by the Government of the Czech Republic. The grant for business activity is provided by the Ministry of Industry and Trade of the Czech Republic and it only relates to the settlement of expenses incurred in connection with the business activity of the technology centre or the centre of strategic services. The grant for training and re-qualification of employees is provided by the Ministry of Labour and Social Affairs of the Czech Republic and it only relates to the settlement of training and re-qualification expenses. The Group regularly assesses whether the condition of the government grants are met.

The Group is additionally a recipient of a grant of the “Common Programme Document for Target 3 of the Region NUTS 2 the Capital Prague”, co-financed from the State budget of the Czech Republic and the European Social Fund.

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

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

Property, plant and equipment (tangible fixed assets)

Tangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 5,000 (approx. USD 250) on an individual basis. Tangible fixed assets with an acquisition cost less than CZK 5,000 (approx. USD 250) are expensed upon their consumption.

Acquisition cost

Purchased tangible fixed assets are stated at acquisition cost less accumulated depreciation and any recognised impairment losses. The acquisition cost includes the purchase cost and costs attributable to the acquisition.

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

Tangible fixed assets recently identified and recognised (accounted for by a corresponding entry in the relevant accumulated depreciation account) are stated at replacement cost. The replacement cost of tangible fixed assets is determined by reference to the normal market price effective at the time that these assets are acquired/identified.

The cost of a tangible fixed asset technical improvement increases the acquisition cost of the related tangible fixed asset providing that it is a material amount for an individual asset during a taxation period and providing that it meets the recognition criteria.

Depreciation

Depreciation is charged so as to write off the cost of tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight-line method, on the following basis:

	Number of years
Buildings	30–50
Computer equipment at cost exceeding CZK 40,000 (approx. USD 2,000)	4
Radio and communication equipment and systems	4
Vehicles – other than aircraft	4
Vehicles – aircraft	
Airbus 320/319/310/300, Boeing 737	20
ATR	18
Components of cost	5–14
Rotables	Over the expected useful life of the related fleet
Technical improvements of assets held under operating leases	Over the term of the operating lease
Furniture and fixtures	8–15
Computer equipment at cost between CZK 5,000 and CZK 40,000 (approx. USD 250 to USD 2,000)	3
Other tangible fixed assets at cost between CZK 5,000 and CZK 40,000 (approx. USD 250 to USD 2,000)	2

Aircraft and rotables are depreciated to the expected residual value of 10% of cost.

At the date of acquisition the cost of an aircraft is split between its individual components (significant overhauls and the airframe), which are

depreciated separately based on their expected useful lives. When the next overhaul is performed its cost is capitalised and depreciated over an expected period between two overhauls.

Furthermore the cost of Airbus A320/A319 aircraft is decreased by the fair value of other assets, which the Group obtained under the contract. These mainly include rotables, spare parts and consumption material. These assets are recognised as the Group's assets and depreciated in accordance with the depreciation policy of the Group.

Retirement of assets

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at the date of sale and is recognised in the income statement.

Intangible fixed assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 5,000 (approx. USD 250) on an individual basis. Intangible fixed assets with an acquisition cost of less than CZK 5,000 (approx. USD 250) are expensed in the period of acquisition.

Acquisition cost

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

With respect to long term projects that relate to a software acquisition and bringing the software into use the Group capitalises internally incurred costs linked to the software development and bringing the software into use.

The cost of an intangible fixed asset technical improvement increases the acquisition cost of the related intangible fixed asset if it is a material amount for an individual asset during a taxation period and if it meets the recognition criteria.

Amortisation

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

	Number of years
Software	3–10
Licences	Over the contract term

Non-current assets held for sale

The Group classifies a non-current asset as being held for sale from the date when management of the Group decided about a sale of such an asset providing that it is highly probable that the sale will be realised within 12 months of the classification date. These assets are stated at the lower of the carrying amount and the fair value less cost to sell. The assets are not depreciated from the classification date.

Impairment

At each balance sheet date, the Group reviews in accordance with the principles of IAS 36 – Impairment of Assets the carrying amounts of its tangible and intangible fixed assets to determine whether there is any indication that those assets have suffered an impairment loss or whether there is an indication that an impairment loss recognised in prior periods will be reversed. In order to achieve that, the Group determines cash generating units. The cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or group of assets. As the most significant asset of the Group that generates cash inflows is the fleet, České aerolinie a.s. is considered to be one cash generating unit.

Financial leases

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. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in non-current liabilities under the finance lease obligation, rental obligations within one year are presented in current liabilities under the finance lease obligation.

The interest element of the finance cost is charged to the income statement on an accrual basis.

At lease classification the Group also considers the materiality aspect. Immaterial financial leases are classified as operating leases.

Operating leases

Payments under all other lease arrangements, known as operating leases, are charged to the income statement as they occur, over the period of the lease on an accrual basis.

If the Group pays for the overhaul of aircraft on operating leases these amounts are recognised as prepayments and charged to the income statement over shorter of the period to the next overhaul or the remaining period of the operating lease.

The Group regularly reviews its lease arrangements, if they are modified, to determine the proper lease classification.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises all expenditure incurred in bringing each product to its present condition (costs of material, direct payroll costs and operating cost relating to product) and location (custom fee, freight costs and commissions). Net realisable value is based on estimated selling prices less further costs expected to be incurred in bringing the inventory to completion and disposal.

Internally produced inventory is stated at internal costs incurred. Internal costs incurred include direct material and payroll costs and an element of indirect costs relating to production.

Inventory is issued out of stock using the FIFO (first in, first out) method.

A provision for slow-moving and obsolete inventory is recognised in circumstances where the impairment of the inventory is not deemed permanent, based upon an analysis of turnover and utilisability of inventory and based upon an individual assessment of specifically those inventories that have been idle for more than five years for inventory of aircraft's spares and more than three years for other inventory. These inventories are primarily reviewed for their potential future utilisability.

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. Restricted cash is not included within cash and cash equivalents for the purpose of cash flow reporting.

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

Financial assets and financial liabilities

The Group classifies its financial assets into a category based on the purpose of financial investment acquisition. This classification is determined at initial recognition. Financial assets, except for derivative financial instruments, are recognised on the Group's balance sheet at the settlement date and at the initial recognition they are measured at fair value including transaction costs.

a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading – derivatives contracted for a short period (up to 1 month). The Group decides not to apply hedge accounting for these derivatives although they are designed to cover business risk.

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 other financial expense, net.

b) Trade receivables

Trade receivables are stated at their amortised costs using the effective interest rate and reduced by appropriate allowances for estimated irrecoverable amounts. In accordance with IAS 39 – Financial Instruments: Recognition and Measurement, the nominal value of short term trade receivables due within 12 months is considered an appropriate basis for valuation of these receivables.

The allowance for irrecoverable amounts is recognised where there is any objective evidence that the Group will not receive cash at the original amount and/or original date. The fact that the receivable is more than 90 days overdue or the borrower has significant financial difficulties or has entered bankruptcy or liquidation is considered to be the objective evidence. The allowance is measured at the difference between the carrying amount of the receivable and the expected cash flows discounted by the original effective interest rate. The increase or decrease of the allowance is presented as part of other operating expenses.

c) Financial assets available for sale

Financial assets available for sale are measured at fair value. The gains and losses of a financial asset available for sale arising from a change in its fair values are recognised in equity until the financial asset is sold or impaired, the cumulative gains and losses recognised in equity are transferred to the profit for the period and presented as other financial expense, net. The foreign exchange differences arising from translation of monetary items are recognised in the profit for the period when they occurred, the foreign exchange differences arising from translation of non-monetary financial assets available for sale are recognised in equity until the financial asset is derecognised.

Dividends arising from financial assets available for sale are recognised when the Group is entitled to receive the dividends.

The Group uses the market value of securities as at the balance sheet date as their fair value. Securities not publicly traded are measured at cost less any impairment loss when the fair value cannot be estimated reliably and the cost to obtain such information exceeds the materiality of the item to the financial statements of the Group.

At each balance sheet date, in accordance with the principles of IAS 39 – Financial Instruments: Recognition and Measurement the Group assesses the value of its financial assets to determine whether the assets may be impaired or whether the previously recognised impairment loss may be reversed. In the case of impairment of financial assets available for sale the difference between the original cost and the present fair value is reduced for previously recognised impairment losses transferred from equity and recognised in the profit for the period. In the case of equity instruments it is not possible to reverse a previously recognised impairment loss to revenues.

d) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis using the effective interest rate and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

e) Trade payables

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

f) Derivative financial instruments

Derivative financial instruments including foreign currency forwards, currency, commodity and interest rate swaps, foreign currency and commodity options and other derivative financial instruments are initially recognised on the balance sheet at fair value – cost, including transaction costs and subsequently remeasured to their fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. Derivatives are presented in assets or in liabilities under derivative financial instruments when their fair value is positive or negative. Based on the maturity date they are classified as a long-term or short-term asset or liability as appropriate.

While the Group designates all derivatives for the purpose of the economic hedge, a portion of short-term contracts (up to one month) is recognised as trading derivatives and hedge accounting is not applied due to administrative costs. Changes in the fair value of trading derivatives are included in other financial expense, net.

Hedge accounting is applied for all other derivatives.

Hedge Accounting

The Group prospectively designates certain derivatives as a hedge of a future cash flow attributable to a forecasted transaction (cash flow hedge) or as a hedge of risk related to the change in fair value of an asset or liability (fair value hedge). A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

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

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

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

Changes in the fair value of derivatives, which qualify as effective cash flow hedges, are recorded in the revaluation reserve in equity. Where a hedged forecasted transaction results in the recognition of a financial asset or of a financial liability, amounts deferred in the revaluation reserve are transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

Where a hedged forecasted transaction results in the recognition of a non-financial asset or of a non-financial liability or the hedged forecasted transaction results in a firm commitment, for which fair value hedge in used amounts deferred in the revaluation reserve are included in cost or carrying amount for the non-financial asset or non-financial liability.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. The Group recognises provisions for the following items:

- Unused vacation;

- Bonuses of management;
- Benefits of the Frequent Flyer Programme (the amount of the provision includes fuel, catering services costs and the cost of free travel provided by other partners of the Group);
- Future overhaul of aircraft on operating lease (the Group is in accordance with the operating lease agreement liable to perform certain overhaul at the end of the lease or to return the aircraft and its components in certain wear and tear conditions. These provisions are initially recognized against prepayments and charged to the income statement over the remaining period of the operating lease. The provisions are recognized at their present values, if the time value of money is material).

Use of estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the 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 used to determine released differences on pro-rated traffic documents and the value in use of the cash generating unit that includes aircraft are significant estimates used to prepare these financial statements. These estimates depend on assumptions of future cash flows and on the determination of an appropriate discount rate to arrive at the present value of these cash flows.

Related parties

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

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

Subsequent events

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

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

Changes in accounting policies

Translation of equity to the presentation currency

Management of the Group decided to use the historical exchange rate to translate the share capital, retained profits and non-distributable funds and therefore the difference in these amounts between two balance sheet dates is not affected by different exchange rates used for the translation of balance sheet amounts to presentation currency.

The following table summarises the equity amounts reported in 2007 and their restated amounts in accordance with the new policy in the financial statements as at 31 December 2008.

USD '000	2007 restated	2007
Share capital	106,631	151,317
Non-distributable reserves	2,616	3,712
Revaluation reserve	40,018	40,018
Retained earnings	112,677	155,603
Profit for the period	9,659	9,659
Foreign exchange differences from translation of financial statements to the presentation currency	89,900	1,192
	361,501	361,501

Changes in accounting estimates

The amortisation period for software was 2 to 3 years until 2007. Starting 1 January 2008 the Group decided to determine the amortization period individually based on the useful life. The impact of this change on the financial statements for the year ended 31 December 2008 is not material. Rotables were depreciated over a period of 20 years until 2007. Based on analysis the Group has changed the depreciation period of rotables in relation to the remaining useful lives of the related type of aircraft. As a result the depreciation charge in 2008 increased by USD 464 thousand, the expected impact to depreciation charge in 2009 is USD 4,050 thousand.

Cash flow

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance, i.e. all current financial assets with the exception of restricted financial assets.

3. REVENUES

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

USD '000	2008	2007
Regular transportation	804,913	761,885
Charter services	167,752	127,261
Fees related to transportation	193,516	134,356
Released differences on pro-rating traffic documents	54,641	41,492
Maintenance provision release	14,657	18,026
Other services	87,891	69,766
Sale of goods	38,068	35,343
	1,361,438	1,188,129

The item Other services includes revenues from ACMI (Aircraft, Crew, Maintenance and Insurance) lease, handling, technical and catering services. The item Sale of goods includes revenues from duty free sales and other product sales.

The maintenance provisions represent amounts paid to the lessor on aircraft operating leases. These amounts are used by the lessor to cover future overhauls of the aircraft. The Group recognises these amounts in the income statement. The item Maintenance provision release represents the amount that was reimbursed by the lessor to the Group in respect of the overhaul made by the Group or paid by the Group to the third party.

In 2008 certain revenue items were reclassified, comparative information have been adjusted accordingly.

Geographical segments

Revenue from regular transportation by geographical area (based on the region of a ticket sale) is as follows:

USD '000	2008	2007
Czech Republic	203,018	182,954
Western Europe	321,080	304,733
Eastern Europe	174,573	155,646
Middle and Far East	28,744	20,266
USA and Canada	77,498	98,286
	804,913	761,885

Most of the Group's assets and employees are located in the main location – Ruzyně airport, Prague.

4. OTHER OPERATING INCOME

USD '000	2008	2007
Profit from the sale of tangible fixed assets and material, net	59,310	135
Profit from the sale of the subsidiary Air Cargo Terminal a.s., net	–	3,789
Profit from the sale of the subsidiary Air Czech Catering a.s., net	15,462	–
Government grants	765	455
Other operating income	11,782	9,460
	87,319	13,839

During 2008 the Group sold items of property, plant and equipment for a total amount of USD 112,795 thousand, the carrying amount of these items was USD 53,485 thousand (Note 10).

In April 2008 the Group sold its entire share in the subsidiary Air Czech Catering a.s. for USD 39,918 thousand, the carrying amount of the net assets sold was USD 24,456 thousand. The subsidiary was incorporated as at 1 April 2007 following the spin-off of the part of the parent company. In October 2007 the Group sold the entire share in the subsidiary Air Cargo Terminal a.s. for USD 29,693 thousand, the carrying amount of the net assets sold was USD 25,904 thousand. The subsidiary was incorporated as at 1 April 2007 following the spin-off of the part of the parent company.

In 2007, the profit from the sale of an aircraft apron of USD 1,610 thousand was reported in the line Profit from the sale of the subsidiary Air Cargo Terminal a.s., net, instead of the line Profit from the sale of tangible fixed assets and material, net. Comparative information for 2007 was restated in this respect.

Other income principally includes income from re-invoicing, income from the training of crew members for other airlines and settlement of damages.

5. COST OF MATERIALS AND SERVICES

USD '000	2008	2007
Landing, handling and navigation fees	212,785	191,050
Telecommunication, reservation and distribution system fees	59,699	57,218
Transport services	73,423	60,655
Consumed fuel	333,080	234,729
Consumed material	29,514	34,738
Aircraft operating leases	66,644	74,882
Other operating leases	21,128	15,664
Repairs and maintenance	42,064	49,136
Travel expenses	21,880	20,008
Energy	5,608	6,548
Other services	114,010	72,482
Cost of goods sold	22,879	21,884
	1,002,714	838,994

Aircraft operating leases include maintenance provisions, which consist of amounts that are used by the lessor to cover future overhauls of the aircraft.

Other services mainly consist of services for passengers, marketing, promotion and other administration services.

6. STAFF COSTS

USD '000	2008	2007
Wages and salaries	221,860	176,851
Bonuses to statutory bodies	407	320
Statutory health insurance and social security *	53,290	57,153
Charge/(usage) of provisions for staff costs	1,861	6,432
Other social cost	8,251	6,686
	285,669	247,442

* Social security includes legal contribution to the government's retirement benefit scheme.

Management remuneration

The Group's management wages and salaries (including social security and health insurance) totalled USD 7,505 thousand in 2008 (2007: USD 6,947 thousand). Directors and executives of the Group use company cars. No loans, guarantees or other benefits were granted to directors or executives in 2008 or 2007.

The Group's management includes members of top management, divisions' executive directors and directors of departments who report directly to the President of the Company.

The average number of employees of the Group during the year was as follows:

Number	2008	2007
Operational	2,872	3,297
Administration	1,965	1,955
	4,837	5,252

7. OTHER OPERATING EXPENSES

USD '000	2008	2007
Insurance	5,469	5,826
Write-off of receivables, provisioning	1,720	3,519
Fines and penalties	1,955	713
Other taxes and fees	585	1,779
Returned grant	558	–
Compensation of delay/cancel flights	1,447	1,226
Passenger compensations (e.g. accommodation, refreshment and phones in case of cancellation or overbooked flights etc.)	2,221	1,073
Wage compensation (e.g. severance pay, injury compensation)	1,248	1,523
Frequent Flyer Program	963	1,866
Other	3,620	3,525
	19,786	21,050

Returned grant relates to the grant for business activity provided by the Ministry of Industry and Trade of the Czech Republic. In 2008 the Group identified that the condition involving the minimum number of new working positions is not met. In accordance with the rules of the General Programme for the Support of Technology Centres and Centres of Strategic Services the Group will return grants received and recognised in the income statement of the Group in 2006 and 2007, therefore the Group recognised the appropriate liability.

8. OTHER FINANCIAL EXPENSE, NET

USD '000	2008	2007
Bank fees for transactions reimbursed by credit cards	6,886	6,057
Income from dividends	(637)	(385)
Net profit from financial assets and liabilities at fair value through profit or loss	(11,709)	(2,367)
Non-effective part of cash flow hedge – time value of options	2,648	–
Other	2,614	2,245
	(198)	5,550

In 2008 the Group sold the WALTER a.s. shares for USD 25 thousand, the cost of these shares was USD 119 thousand. The Group also reversed the provision for these shares in the amount of USD 94 thousand. The impact of this transaction on the income statement is nil.

Other includes bank fees, fees for guarantees and similar payments.

Net profit from financial assets and liabilities at fair value through profit or loss includes short term derivative financial instruments or instruments that do not meet a condition of hedge accounting (e.g. effectiveness), these are classified as trading derivatives.

9. EARNINGS PER SHARE

Earnings per share are calculated as the net profit, attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.

	2008	2007
Net profit (USD '000)	8,780	9,659
Weighted average number of ordinary shares (pcs) (Note 18)	273,551	273,551
Earnings per share (USD)	32.10	35.31

The Group has no outstanding instruments with a potential dilutive effect.

10. PROPERTY, PLANT & EQUIPMENT

USD '000	Freehold land and buildings	Aircraft	Plant & equipment	Total
Cost or valuation:				
Balance as at 1 January 2008	69,080	1,399,703	201,739	1,670,522
Additions	2,972	124,130	2,153	129,255
Disposals	(27,321)	(148,824)	(11,851)	(187,996)
Effect of exchange rate change	(2,737)	(81,987)	(12,446)	(97,170)
Balance as at 31 December 2008	41,994	1,293,022	179,595	1,514,611
Accumulated depreciation:				
Balance as at 1 January 2008	18,074	629,924	113,630	761,628
Charge for the year	2,117	72,446	18,053	92,616
Sale and disposals	(6,419)	(106,123)	(7,474)	(120,016)
Effect of exchange rate change	(3,622)	(53,877)	(9,977)	(67,476)
Balance as at 31 December 2008	10,150	542,370	114,232	666,752
Carrying amount as at 31 December 2008	31,844	750,652	65,363	847,859

USD '000	Freehold land and buildings	Aircraft	Plant & equipment	Total
Cost or valuation:				
Balance as at 1 January 2007	58,039	1,037,212	166,963	1,262,214
Additions	2,389	231,578	15,527	249,494
Disposals	(333)	(30,064)	(6,652)	(37,049)
Effect of exchange rate change	8,985	160,977	25,901	195,863
Balance as at 31 December 2007	69,080	1,399,703	201,739	1,670,522
Accumulated depreciation:				
Balance as at 1 January 2007	13,932	531,634	89,970	635,536
Charge for the year	2,062	54,593	13,772	70,427
Sale and disposals	(330)	(29,620)	(6,593)	(36,543)
Effect of exchange rate change	2,410	73,317	16,481	92,208
Balance as at 31 December 2007	18,074	629,924	113,630	761,628
Carrying amount as at 31 December 2007	51,006	769,779	88,109	908,894

The carrying amount of aircraft under finance lease amounts to USD 694,440 thousand as at 31 December 2008 (2007: USD 642,982 thousand). The carrying amount of other assets under finance lease is immaterial.

Depreciation

USD '000	2008	2007
Depreciation of property, plant and equipment	92,616	71,341
Amortisation of intangible assets (Note 11)	7,351	3,959
	99,967	75,300

The depreciation of property, plant and equipment in 2007 includes the depreciation of the subsidiary's assets amounting to USD 914 thousand, these assets are recognised as assets held for sale and were depreciated until their classification as assets held for sale.

Land and buildings include land totalling USD 1,386 thousand (2007: USD 2,365 thousand). The Group paid no significant advances for new buildings in 2008 or 2007.

Impairment

Value in use has been determined for the only one cash generating unit that includes all tangible and intangible assets of the Company as there are no other cash generating units of the Company that would generate cash flows independently on cash flows of other cash generating units. Cash flows were determined based on detail plans approved by management of the Company, that cover years 2009 and 2010 and that assume for 2009 5% year-on-year reduction in passengers carried and for 2010 2% year-on-year increase of passengers carried. These cash flows were extrapolated for years 2011 to 2013 in three alternatives of year-on-year increase of passengers carried: 2%, 3% and 4%. In cash flows from 2014 until the end of cash generating unit assets' useful lives there is not assumed any year-on-year increase/decrease in passengers carried. A weighted average of discounted cash flows has been calculated in order to determine the value in use.

The plans assume no changes in the size and structure of the fleet.

The discount rate of 11.56% has been determined based on weighted average cost of capital increased by a risk premium.

The key assumption to determine cash flows is the number of passengers carried in future periods which is represented by year-on-year change in the number of passengers carried. If this parameter is increased by 1 point, the present value of net cash flows is increased by USD 155,071 thousand.

In periods prior to 1 January 2004 the Group recognised an impairment loss of USD 52,389 thousand related to aircraft. During 2007 and 2008 this impairment loss was neither increased or reversed.

Disposals of property, plant and equipment in 2008

USD '000	Revenue on disposal	Carrying amount
Engine for Airbus A310 and engine for Airbus A320	14,204	9,981
Buildings in the area 'South' at the Prague Ruzyně Airport *	78,745	18,246
Land in the area 'South' at the Prague Ruzyně Airport *	4,600	892
Aircraft chassis for Boeing B737 new generations	3,544	1,652
Aircraft Airbus A310	9,291	21,616
Sales of other tangible fixed assets and materials	2,411	1,098
	112,795	53,485

* The purchase prices for the above transactions were determined by an independent valuer. Contracts for future contract to establish the users' right were entered into as a part of the transaction (Note 27).

In April 2008 the Group sold its entire share in the subsidiary Air Czech Catering a.s. for USD 39,918 thousand, the carrying amount of the net assets sold was USD 24,456 thousand. The subsidiary was incorporated as at 1 April 2007 following the spin-off of the part of the parent company.

Disposals of property, plant and equipment in 2007

In February 2007 the Group entered into sales and leaseback transaction of five Boeing B737-500 aircraft. The selling price amounted to USD 47,668 thousand. This transaction resulted in a loss of USD 13,976 thousand which was recognised in 2006 at the moment of classification of these assets as assets held for sale. The Group has classified the lease as an operating lease mainly due to the fact that present value of future lease payments was significantly below a fair value of the asset as at the commencement of the lease.

In October 2007 the Group sold the entire share in the subsidiary Air Cargo Terminal a.s. for USD 29,693 thousand. The subsidiary was incorporated as at 1 April 2007 following the spin-off of the part of the parent company.

Fleet

The Group's fleet at the year-end comprised the following aircraft:

Aircraft type	Number of aircraft in service at 31 December 2008				Average age (years)
	Owned aircraft	On balance sheet (finance leases)	Off balance sheet (operating leases)	Total	
Airbus A321-211	–	–	2	2	11.59
Airbus A320-200	–	6	2	8	3.65
Airbus A319-100	–	6	–	6	1.03
Airbus A310-300	1	–	2	3	16.63
Boeing B737-400 *	–	–	3	3	17.64
Boeing B737-400	–	5	2	7	10.41
Boeing B737-500	–	5	5	10	13.83
ATR 72-200	4	–	–	4	16.80
ATR 42	1	–	7	8	5.88
Total	6	22	23	51	9.54

* Aircraft with increased seat capacity.

Four Airbus A319 aircraft were delivered in 2008. Three Airbus A320 aircraft and two Airbus A319 aircraft were delivered in 2007.

Aircraft overhaul costs

Aircraft and engine overhaul costs totalling USD 15,659 thousand (2007: USD 13,881 thousand), were capitalised during 2008. The carrying amount of aircraft and engine overhaul costs, which forms part of the aircraft carrying amount presented in the balance sheet, was as follows:

USD '000	2008	2007
Cost	186,064	155,837
Accumulated depreciation	(82,733)	(79,820)
Carrying amount	103,331	76,017

The cost of fully depreciated assets that are used by the Group is USD 59,219 thousand (2007: USD 48,762 thousand).

No depreciation is provided in respect of certain plant and equipment and assets under construction with a total cost of USD 2,163 thousand (2007: USD 13,350 thousand).

The carrying amount of Aircraft includes also advances paid for the future expected delivery of Airbus aircraft totalling USD 44,833 thousand as at 31 December 2007 (retranslated at the foreign exchange rate ruling as at the balance sheet date). The last aircraft Airbus of this contract was delivered in 2008. This amount also includes pre-delivery payments of USD 5,746 thousand as at 31 December 2008 (2007: USD 6,149 thousand) for 8 Airbus A319 aircraft for which the Group has a purchase option.

As at 31 December 2008 the Group pledged fixed assets at a total cost of USD 1,058,135 thousand and accumulated depreciation of USD 380,647 thousand to secure bank loans (2007: at cost USD 1,004,528 thousand, accumulated depreciation of USD 377,990 thousand).

As part of the delivery of twelve Airbus A320/A319 aircraft the Group obtained certain fixed assets as part of the contract during 2007 and 2008. The fair value of these assets proportionally decreases the cost of delivered aircraft.

11. INTANGIBLE ASSETS

USD '000	Software	Other intangibles	Total
Cost or valuation:			
Balance as at 1 January 2008	28,885	3,028	31,913
Additions	–	11,731	11,731
Transfers	6,253	(6,253)	–
Disposals	(3)	–	(3)
Effect of exchange rate change	(1,893)	(198)	(2,091)
Balance as at 31 December 2008	33,242	8,308	41,550
Accumulated amortisation:			
Balance as at 1 January 2008	15,717	–	15,717
Charge for the year	7,351	–	7,351
Disposals	(3)	–	(3)
Effect of exchange rate change	(1,908)	–	(1,908)
Balance as at 31 December 2008	21,157	–	21,157
Carrying amount as at 31 December 2008	12,085	8,308	20,393

USD '000	Software	Other intangibles	Total
Cost or valuation:			
Balance as at 1 January 2007	14,134	9,012	23,146
Additions	–	5,184	5,184
Transfers	12,563	(12,563)	–
Disposals	–	–	–
Effect of exchange rate change	2,188	1,395	3,583
Balance as at 31 December 2007	28,885	3,028	31,913
Accumulated amortisation:			
Balance as at 1 January 2007	9,759	–	9,759
Charge for the year	3,959	–	3,959
Disposals	–	–	–
Effect of exchange rate change	1,999	–	1,999
Balance as at 31 December 2007	15,717	–	15,717
Carrying amount as at 31 December 2007	13,168	3,028	16,196

The Group did not obtain any intangible assets free of charge in 2008 and 2007.

Other intangibles as at 31 December 2008 include information technology projects in process (for example, Airline Systems, the Origin and Destination project, connectivity to the integrated system of flight operation, and the Revenue Management system).

The Group recognises provisions when the carrying amount of an asset exceeds its recoverable amount, the carrying amount is then reduced by a provision to the recoverable amount. In 2008 the Group recognised a provision for intangible assets in the course of construction. The provision relates to an information technology project which experienced a change of a supplier and the Group does not assume that costs already incurred will bring future economic benefits.

Provision for intangible assets:

USD '000	2008	2007
Balance as at 1 January	–	–
Charge for provision	1,244	–
Use of provision	–	–
Exchange difference	(148)	–
Balance as at 31 December	1,096	–

The Group estimates that entire costs incurred in relation to projects in the course of construction, reduced by a provision, will bring future economic benefits. Management of the Group assumes that the carrying amount of intangible assets approximates their fair value.

The cost of fully amortised intangible assets that are used by the Group is USD 9,685 thousand (2007: USD 9,944 thousand).

Significant intangible assets of the Group are landing and take-off slots which are not recognised as the Group acquired them for no consideration and their fair value is not readily obtainable.

12. ASSETS AND LIABILITIES HELD FOR SALE

On 15 December 2006, the Board of Directors of the parent company decided to transfer a part of the parent company's business, into the subsidiary undertakings Air Cargo Terminal a.s. and Air Czech Catering a.s. and to subsequently sell these subsidiaries in 2007. On 24 January 2007, the decision was approved by the General Meeting of Shareholders.

On 1 April 2007 the part of the parent company's business was transferred into the subsidiaries. The value of the net assets transferred to Air Cargo Terminal a.s. and Air Czech Catering a.s. amounted to USD 29,099 thousand and USD 17,643 thousand respectively.

Air Cargo Terminal a.s. was sold in October 2007. Air Czech Catering a.s. was sold in April 2008.

Air Czech Catering a.s. met the recognition criteria as a subsidiary held for sale at 31 December 2007. Its assets and liabilities are presented separately in the balance sheet. Revenues and expenses of the subsidiary are aggregated with the revenues and expenses of the Group after the elimination of intragroup transactions. Air Czech Catering a.s. does not meet the definition of a discontinued operation.

Carrying amounts as at 31 December 2007

USD '000	Air Czech Catering
Property, plant and equipment	17,974
Current assets	3,879
Total assets held for sale	21,853
Short term liabilities	6,017
Total liabilities held for sale	6,017

Other items of disposal groups are not material.

13. FINANCIAL ASSETS AVAILABLE FOR SALE

USD '000	Carrying value 31 December 2008	Carrying value 31 December 2007
Unconsolidated subsidiaries	368	269
Other available-for-sale financial investments at cost net of impairment	790	752
	1,158	1,021

In May 2008 the Group purchased 100% of shares of ClickforSky, a.s. from CSA Services, s.r.o. The cost amounted to USD 116 thousand.

In December 2008 the Group sold 2,100 shares of WALTER a.s. for USD 25 thousand, the cost of these shares was USD 119 thousand. The Group also reversed the provision for these shares in the amount of USD 94 thousand.

In 2007 the Group recognised an allowance for the financial investment in Holidays Czech Airlines, a.s. (former ČSA Airtours a.s.) in the amount of USD 553 thousand.

In 2007 the Group increased the share capital of Holidays Czech Airlines, a.s. (former ČSA Airtours a.s.) by a monetary subscription for new shares by USD 498 thousand.

In 2008 and 2007 the Group did not received any dividend from Other financial assets available-for-sale.

Other financial investments include the SITA Inc. shares, certificates and borrowings.

Unconsolidated Subsidiaries

Name of subsidiary	Functional currency	Nominal value USD '000	Proportion of ownership interest %	Cost of investment USD '000	Profit (loss) USD '000	Equity USD '000	Income from dividends USD '000
As at 31 December 2008							
Foreign							
Slovak Air Services s.r.o.	SKK	9	100	9	(208)	260	637
Domestic							
Amadeus Marketing CSA, s.r.o.	CZK	20	65	20	506 ¹⁾	695 ¹⁾	–
CSA Services, s.r.o.	CZK	14	100	14	96	157	–
Holidays Czech Airlines, a.s. ²⁾	CZK	517	100	517	(46)	(86)	–
ČSA Support s.r.o.	CZK	227	100	209	146	848	–
ClickforSky, a.s.	CZK	116	100	116	5	71	–
				885			637
Provision for investments in Holidays Czech Airlines, a.s. ²⁾				(517)			
				368			

Name of subsidiary	Functional currency	Nominal value USD '000	Proportion of ownership interest %	Cost of investment USD '000	Profit (loss) USD '000	Equity USD '000	Income from dividends USD '000
As at 31 December 2007							
Foreign							
Slovak Air Services s.r.o.	SKK	9	100	9	607	1,058	–
Domestic							
Amadeus Marketing CSA, s.r.o.	CZK	21	65	21	(138)	267	385
CSA Services, s.r.o.	CZK	15	100	15	35	38	–
Holidays Czech Airlines, a.s. ²⁾	CZK	553	100	553	(241)	(49)	–
ČSA Support s.r.o.	CZK	243	100	224	101	770	–
				822			385
Provision for investments in Holidays Czech Airlines, a.s. ²⁾				(553)			
				269			

¹⁾ Preliminary, unaudited data.

²⁾ In July 2008 ČSA Airtours changed its name to Holidays Czech Airlines, a.s.

14. LONG TERM RECEIVABLES

USD '000	31 December 2008	31 December 2007
Operating lease prepayments	6,247	5,893
Deposits – branch offices abroad	1,202	1,064
Other deposits	668	991
	8,117	7,948

Prepayments are paid to the lessor at the beginning of an operating lease of aircraft. They are refundable if the Group meets the criteria at the expiration of the operating lease. The prepayments are not discounted.

As at 31 December 2008 and 31 December 2007, the Group carried USD 963 thousand and USD 792 thousand respectively in receivables with the maturity over five years. These receivables relate only to the prepayments in terms of operating leases.

15. INVENTORIES

USD '000	31 December 2008	31 December 2007
Raw materials	21,016	25,056
Work in progress	183	172
Goods for resale	5,556	4,291
	26,755	29,519

Raw materials are stated net of provisions of USD 4,206 thousand (2007: USD 3,748 thousand).

The most significant part of inventories is aircraft spare parts. Inventory is not pledged.

The provision is recognised for the slow moving inventory where there was no movement during the last five years in respect of aircraft material and three years in respect of other material.

Provision for inventories:

USD '000	2008	2007
Balance as at 1 January	3,748	830
Charge for provision	853	2,557
Use of provision	(54)	(74)
Exchange difference	(341)	435
Balance as at 31 December	4,206	3,748

16. TRADE AND OTHER RECEIVABLES

USD '000	31 December 2008	31 December 2007
Trade debtors	139,942	83,623
Receivables from employees	1,072	1,206
VAT receivables	3,116	2,408
Estimated receivables	16,611	5,592
Other receivables	10,741	12,378
	171,482	105,207

Trade receivables as at 31 December 2008 include a receivable amount from the sale of land and buildings in the area 'South' at the Prague Ruzyně Airport of USD 43,055 thousand (Note 10). This amount was fully settled in accordance with the contract in 2009.

The average credit period taken on airline service sales is 30 days. Trade debtors are stated net of provisions for doubtful debts of USD 1,624 thousand (2007: USD 3,098 thousand), which have been calculated based on the ageing of overdue receivables.

Estimated receivables include the value of services provided in 2008 not invoiced to customers as at the balance sheet date. These mainly include performed aircraft and engine overhauls.

The receivables are stated net of intragroup balances.

Provision for receivables:

USD '000	2008	2007
Balance as at 1 January	3,098	4,719
Charge for provision	1,155	508
Use of provision	(2,598)	(2,602)
Exchange difference	(31)	473
Balance as at 31 December	1,624	3,098

The write off and the change in a provisioning for receivables in year 2008 increased the net profit by USD 498 thousand (2007: USD 1,875 thousand).

Ageing analysis of trade debtors is following:

USD '000	2008	2007
Due	137,881	72,265
Overdue: within 30 days	767	9,384
31 to 60 days	555	624
61 to 90 days	227	1,728
91 to 180 days	621	449
181 to 360 days	261	137
Over 361 days	1,254	2,134
	141,566	86,721
Provision for receivables	(1,624)	(3,098)
	139,942	83,623

Prepayments mainly consist of prepaid rent for aircraft operating leases and of amounts incurred to maintain the aircraft on operating leases when these amounts are not reimbursed by the lessor.

17. CASH AND CASH EQUIVALENTS

USD '000	31 December 2008	31 December 2007
Cash, stamps and vouchers	2,529	1,692
Current accounts	15,273	13,465
Term deposits (less than three months)	10,249	12,364
Restricted cash	26	8
	28,077	27,529

Bank balances and cash comprise cash and short-term deposits. The carrying amount of these assets approximates their fair value. The restricted cash is held in blocked accounts as guarantees relating to the custom duty guarantee and purchases of aircraft fuel. These amounts are not included in cash equivalents in the cash flow statement (Note 31). The restricted cash generates interest income.

18. SHARE CAPITAL

USD '000	Number of shares authorised and in issue	Allotted, called up and fully paid 2008	2007
Ordinary shares of CZK 10,000 each	273,551	106,631	106,631

The share capital amounts to CZK 2,735,510 thousand.

The shareholdings and voting rights of the shareholders as at 31 December 2008 and 2007 were:

Shareholders	Number of shares 2008	Shareholding 2008 %	Number of shares 2007	Shareholding 2007 %
Ministry of Finance of the Czech Republic	250,315	91.51	155,698	56.92
Czech Consolidation Agency (Česká konsolidační agentura)	–	0.00	94,617	34.59
Other shareholders (less than 20%)	23,236	8.49	23,236	8.49
	273,551	100.00	273,551	100.00

The Czech Consolidation Agency has been dissolved without liquidation by the Act 239/2001 Coll. with effect from 1 January 2008. The assignee is the State represented by the Ministry of Finance of the Czech Republic with all rights and obligations of the Czech Consolidation Agency.

19. OTHER COMPONENTS OF EQUITY

Retained losses (including the profit or loss for the current period) under the Accounting Act and other relevant legislation of the Czech Republic ("CAS") amounted to CZK 916,379 thousand (USD 47,368 thousand) as at 31 December 2008, as at 31 December 2007: CZK 1,376,106 thousand (USD 76,120 thousand), and therefore there are no funds available for distribution to shareholders pursuant to the legal regulations effective in the Czech Republic.

Non-distributable reserves – statutory reserve fund is created in accordance with the Commercial Code through a mandatory allocation of profit under CAS. This fund can only be used to offset accumulated losses. In 2008 there was a transfer to the non-distributable reserve in the amount of CZK 10,330 thousand (USD 508 thousand).

Revaluation reserve including deferred tax

USD '000	31 December 2008	31 December 2007
Commodity derivatives – swaps	(87,398)	30,233
Foreign currency derivatives – forwards	3,309	(25,486)
Foreign currency option (intrinsic value)	1,188	–
Deferred tax liability	14,548	(9,963)
Foreign currency exposure hedge	6,933	45,240
Other	(5)	(6)
	(61,425)	40,018

The above revaluation reserve includes exercised commodity derivatives in the amount of USD 6,804 thousand as at 31 December 2008 (2007: USD 0), these will be transferred to the income statement in the same period as the hedged items (jet fuel).

20. BANK OVERDRAFTS AND LOANS

Long-term interest-bearing loans

	Currency	Security	Maturity	31 December 2008 USD '000	31 December 2007 USD '000
Long-term loans	USD	Aircraft, simulator and bills of exchange	2008–2010	2,617	6,446
Pre-delivery payments (PDP)	USD		2008	–	32,725
Intermediate operating loan	CZK	Simulator	2012	9,810	–
				12,427	39,171

The long-term loans are repayable as follows:

USD '000	31 December 2008	31 December 2007
On demand or within one year	4,029	36,554
Long-term loans due between 2–5 years	8,398	2,617
	12,427	39,171
Less part of loan payable within one year (presented as short-term liability)	(4,029)	(36,554)
Long-term loans due after one year	8,398	2,617

The Group had one loan that bore fixed interest. This loan was repaid during 2008. Interest attached to other loans is variable on the basis of LIBOR or PRIBOR. The range of interest rates in 2008 was from 2.96 to 6.99 percent p.a. (from 4.69 to 6.99 percent p.a. in 2007). There are no material differences between the fair values of financial liabilities and their values stated in the financial statements of the Group.

The pre delivery payments (hereinafter "PDP") for the delivery of Airbus A320/A319 are financed by a loan that is transferred to the finance lease liability at the inception of the lease. The maturity date of these loans is the date of aircraft delivery.

The cost of assets pledged in respect of long-term bank loans is USD 12,931 thousand (2007: USD 13,838 thousand), the carrying amount of these assets is USD 0 thousand (2007: USD 1,208 thousand).

Short-term bank overdrafts and loans

Purpose	Currency	Balance	Balance	Balance	Balance
		31 December 2008 Loan currencies '000	31 December 2008 USD'000	31 December 2007 Loan currencies '000	31 December 2007 USD'000
Operating loan	CZK	365,648	18,900	–	–
Operating loan	USD	3,100	3,100	–	–
Operating loan	EUR	33	46	–	–
			22,046		
Short-term part of long term loans			4,029		36,554
Total short-term bank loans			26,075		36,554

The level of interest rates of short-term bank loans fluctuated between 1.25 and 4.99 percent p.a. in 2008 (from 2.88 to 5.85 percent p.a. in 2007).

The interest costs recognized in the income statement in 2008 were USD 3,497 thousand (2007: USD 1,610 thousand). There are no material differences between the fair values of financial liabilities and their values stated in the financial statements of the Group.

The exchange rate loss arising from the translation using the rate ruling at the balance sheet date amounted to USD 125 thousand in 2008 (2007: USD 774 thousand).

21. DERIVATIVE FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

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

Derivative financial instruments As at 31 December 2008	Foreign currency derivatives USD '000	Commodity derivatives USD '000	Interest rate derivatives USD '000	Total USD '000
Short – term financial assets	13,486	–	–	13,486
Short – term financial liabilities	1,773	77,241	–	79,014
Long – term financial liabilities	1,675	4,984	2,015	8,674

Derivative financial instruments As at 31 December 2007	Foreign currency derivatives USD '000	Commodity derivatives USD '000	Interest rate derivatives USD '000	Total USD '000
Short – term financial assets	623	30,233	–	30,856
Long – term financial assets	–	–	1,020	1,020
Short – term financial liabilities	24,639	–	–	24,639
Long – term financial liabilities	847	–	–	847

Foreign currency risk

The Group provides an international air transportation around the world and it is exposed to foreign currency risk. These risks are generated by open FX positions especially in US dollars, Euro and UK pounds. Foreign currency risk arises from the mismatch between future revenues and expenses denominated in different foreign currencies.

Management of the Group approved the strategy to cover from 20% to 80% of the foreign currency risk exposure for the future periods. The maximum hedging period is three years and the required hedging ratio is gradually decreasing going forward.

The total operating FX position in 2008 was covered by foreign currency forwards in the total amount of EUR 135,000 thousand, USD 189,000 thousand (2007: EUR 87,500 thousand, USD 120,000 thousand).

The foreign currency risk associated with US dollars liabilities from leases is covered partly by future cash inflows in US dollars (part of the revenue is denominated in US dollars). The rest of the risk is covered by a cash flow hedge – forwards that transfer future revenue denominated in Euro to USD. As the hedge is effective, the changes in the fair value (foreign exchange differences) of the finance lease liability are recorded in equity as a revaluation reserve. These amounts recognised in equity affect the income statement in the same period as the impact arising from

hedging items – revenues hedging the relevant foreign currency risks. As the majority of the Group's revenues is denominated in EUR, the Group increases the EUR share of total lease liabilities and decreases the USD share of total lease liabilities.

If the US dollar had weakened by 1% against the Euro (assuming other foreign exchange rates remain stable), the profit would have been higher by USD 1,035 thousand (2007: USD 253 thousand). This effect would arise from the translation of liabilities denominated in USD against the translation of Euro denominated receivables.

Foreign currency forwards

Hedging instruments	Maturity	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Foreign currency forwards	Within one month	440	(374)	–	(716)
Foreign currency forwards	From one to three months	902	(729)	–	(8,381)
Foreign currency forwards	From three months to one year	5,395	(650)	–	(15,542)
Foreign currency forwards	From one year to two years	–	(1,675)	–	(847)
		6,737	(3,428)	–	(25,486)

Currency options

Hedging instruments	Maturity	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Currency options	From one to three months	1,499	–	–	–
		1,499	–	–	–

The revaluation reserve in equity only includes the intrinsic value of currency options that hedge cash flows.

The Group uses the derivatives presented above as hedges and periodically reviews if hedge accounting criteria have been met.

Foreign currency swaps

Trading instruments	Maturity	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Foreign currency swaps	Within one month	14	(20)	38	–
Foreign currency swaps	From one to three months	–	–	585	–
		14	(20)	623	–

Currency options

Trading instruments	Maturity	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Currency options	Within one month	1,181	–	–	–
Currency options	From three months to one year	1,264	–	–	–
		2,445	–	–	–

Weighted forwards

Trading instruments	Maturity	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Weighted forwards	Within one month	257	–	–	–
Weighted forwards	From one to three months	481	–	–	–
Weighted forwards	From three months to one year	2,053	–	–	–
		2,791	–	–	–

Commodity risk

The commodity risks associated with the fuel price fluctuations (where fuel expenditure represents approximately 36% of the total cost of materials and services in 2008; in 2007: 32%) were partially hedged in 2008 and 2007 by a number of commodity swap contracts. These instruments fix a maximum fuel price per tonne.

Commodity swaps based on Jet Fuel FOB Barges Rotterdam are covering fuel prices risk. Fuel costs in 2008 were covered by 60% in accordance with the approved strategy (2007: 70%). The Strategy for commodity risk management defines the level of hedging for 2009 and 2010 in the range of 45–95%. The expected fuel consumption for 2009 is hedged at 56% as at 31 December 2008. That is a hedge of a forecasted transaction – a cash flow hedge.

If the jet fuel prices had increased by 10% (assuming foreign exchange rates remain stable), the profit would have been lower by USD 7,300 thousand (2007: 10,800 thousand). This effect would mainly result from increased prices of jet fuel that were not hedged.

Commodity swaps (Fuel hedge)

Hedging instruments	Expiration	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Commodity swaps	Within one month	–	(8,687)	–	–
Commodity swaps	From one to three months	–	(19,329)	5,380	–
Commodity swaps	From three months to one year	–	(47,594)	24,853	–
Commodity swaps	From one year to two years	–	(4,984)	–	–
		–	(80,594)	30,233	–

Call commodity options (Fuel hedge)

Hedging instruments	Expiration	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Call commodity options	Within one month	–	–	–	–
Call commodity options	From one to three months	–	–	–	–
		–	–	–	–

The Group uses the derivatives presented above as hedging and periodically reviews if hedge accounting criteria are met.

Commodity swaps

Trading instruments	Expiration	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Commodity swaps	Within one month	–	(1,631)	–	–
		–	(1,631)	–	–

Put commodity options

Trading instruments	Expiration	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		USD '000		USD '000	
		Positive	Negative	Positive	Negative
Put commodity options	Within one month	–	–	–	–
Put commodity options	From one to three months	–	–	–	–
		–	–	–	–

Interest-rate risk

The Group uses variable and fixed interest rates sources to finance its operations.

Within the fleet financing the Group diversifies the risk of the interest expense increase and it transfers part of the interest expense resulting from the lease contracts based on a floating interest rate to the fixed interest rate using interest-rate swaps. Interest-rate swaps are only concluded with partners of first class creditworthiness. These interest rate swaps were concluded in accordance with the hedge accounting rules although they currently do not meet hedge accounting criteria (because the repayment schedule of aircraft finance leases has been changed), they still cover the interest rate risk from the economic point of view.

If the 3 months EURIBOR interest rate had increased by 0.1% (assuming other interest rates remain stable), the profit would have been lower by USD 334 thousand (2007: USD 235 thousand). This effect would mainly result from increased costs for leasing payments.

Trading instruments	Expiration	Fair value as at 31 December 2008		Fair value as at 31 December 2007	
		Positive	Negative	Positive	Negative
Interest rate swaps	More than five years	–	(2,015)	1,020	–

Credit risk

In the majority of cases, the sale of passage and freight documents is handled via agencies within the sphere of influence of IATA. These agencies are connected with country-specific clearing systems for the settlement of passage or freight sales. Individual agents are checked by the particular clearing houses. The credit risk from sales agents is relatively low due to their worldwide distribution. Where the agreements upon which a payment is based do not explicitly state otherwise, claims and liabilities arising between the airlines are usually settled on a bilateral basis or via the Clearing House of IATA. Settlement takes place principally through the balancing of all receivables and liabilities payables at regular weekly intervals, which contributes to a significant reduction in the risk of non-payment. In individual cases, a separate security may be required in the particular payment agreement for other transactions.

For all other payment relationships, depending upon the type and level of the particular payment, security may be required or credit information/ references obtained. Historical data from the business relationship up until that point, in particular in relation to payment behaviour, may be used in an effort to avoid non-payment. Provisions for receivables are made in respect of recognised risks.

The credit risk from investments and derivative financial instruments arises from the danger of non-payment by a contract partner. Since the transactions are concluded with contracting parties with high credit ratings, the risk of non-payment is low.

Liquidity risk

Liquidity in the Group is protected on the one hand by appropriate liquidity planning process and on the other by an appropriate structure of financing sources, i.e. high financial reserves and sufficient short-term credit facilities. These sources cover seasonal fluctuations in revenues, which are usual in airline business. The liquidity forecasts are updated and evaluated regularly.

The liquid funds in a broader sense total approximately USD 28,051 thousand (2007: USD 27,521 thousand), comprising cash and cash equivalents, without restricted cash (Note 17). Furthermore, open credit facilities exceeds the amount of USD 26,350 thousand at the balance sheet date (2007: USD 107,866 thousand). The Group's operational finance lease obligations are repayable in agreed monthly instalments and are funded by operational receipts.

Forecasted liquidity

The following table analyses maturity of assets and liabilities as at the balance sheet date. The amounts stated in the table represent net undiscounted cash flows.

As at 31 December 2008	Within 1 year USD '000	1 to 2 years USD '000	2 to 5 years USD '000	More than 5 years USD '000	Total USD '000
Assets					
Derivative financial instruments	13,486	–	–	–	13,486
Receivables (net)	171,482	750	6,404	963	179,599
Liabilities					
Bank loans	26,649	3,191	5,956	–	35,796
Finance lease liabilities	84,542	73,965	172,184	201,959	532,650
Derivative financial instruments	79,014	6,659	–	2,015	87,688
Trade and other payables	216,615	–	–	–	216,615

As at 31 December 2007	Within 1 year USD '000	1 to 2 years USD '000	2 to 5 years USD '000	More than 5 years USD '000	Total USD '000
Assets					
Derivative financial instruments	30,856	–	–	1,020	31,876
Receivables (net)	105,207	515	6,641	792	113,155
Liabilities					
Bank loans	37,902	2,044	722	–	40,668
Finance lease liabilities	77,387	74,163	159,406	176,347	487,303
Derivative financial instruments	24,639	847	–	–	25,486
Trade and other payables	188,996	–	–	–	188,996

22. INCOME TAX

The Group estimates the current tax of USD 1,292 thousand in 2008. The current tax in 2007 amounted to zero as the Group utilised the tax losses and investments reliefs carried forward from previous periods.

The deferred tax liability is calculated at the rate enacted for the period of the expected realisation of the deferred tax. The Income Tax Act was amended in 2007, the corporate income tax was decreased from 24% valid in 2007 to 21% valid in 2008, 20% valid in 2009 and 19% valid in 2010 and 2011.

USD '000	2008	2007
Income statement:		
Current tax (expense); including withholding tax	(1,708)	(1,264)
Deferred tax income/(expense) – change in temporary differences	(4,365)	8,324
Deferred tax income – change in a tax rate	–	11,424
	(6,073)	18,484
Statement of changes in equity:		
Change in deferred tax liability	24,511	(6,468)

The tax charge for the year can be reconciled to the profit per the income statement multiplied by the statutory tax rate as follows:

	2008		2007	
	USD '000	%	USD '000	%
Profit/(loss) before tax	14,853		(8,825)	
Income tax charge at the statutory rate – income/ (expense)	(3,119)	21.0	2,118	24.0
Permanent differences	(2,954)	19.9	1,957	22.2
Change in a tax rate	–	–	11,424	129.5
Tax loss	–	–	2,985	33.8
Income tax income/ (charge)	(6,073)	40.9	18,484	209.5

Permanent differences arise mainly from tax non-deductible expenses, for example: write-off of receivables, deportation of passengers, contribution to canteen meals, other refreshment and representation expenses, member fees paid at conferences, remuneration for statutory bodies, damages.

The deferred tax liability recognised in the balance sheet can be analysed as follows:

USD '000	31 December 2008	31 December 2007
Deferred tax liabilities and assets:		
Difference between the tax base and carrying amount of non-current assets	38,324	37,344
Prepaid operating lease aircraft maintenance	975	–
Allowances for receivables and inventories	(949)	(213)
Revaluation of financial assets/liabilities to fair value	(16,519)	1,006
Revaluation of hedging derivatives	1,317	8,957
Tax losses	–	(2,985)
Provisions	(3,502)	(3,242)
Tax provisions for repairs of property, plant and equipment (under the Provisioning Act)	5,828	8,511
Net deferred tax liabilities	25,474	49,378

Analysis of a change in deferred tax liability:

USD '000	2008	2007
Balance as at 1 January	49,378	56,838
Recognised in the income statement	4,365	(19,748)
Recognised in equity	(24,511)	6,468
Exchange difference	(3,758)	5,820
Balance as at 31 December	25,474	49,378

The exchange difference results from different foreign exchange rates used for the translation of the financial statements to the presentation currency.

The change in deferred tax liability, recognised in the income statement is caused by the following:

USD '000	2008	2007
Change in temporary differences:		
Difference between the tax base and carrying amount of non-current assets	3,891	(3,796)
Prepaid operating lease aircraft maintenance	1,107	–
Allowances for receivables and inventories	(852)	193
Tax losses	3,168	(2,657)
Provisions	(536)	(1,512)
Tax provisions for repairs of property, plant and equipment (under the Provisioning Act)	(2,413)	(552)
	4,365	(8,324)
Change in a tax rate	–	(11,424)
	4,365	(19,748)

With effect from 1 January 2009 the amendment to Act No 593/1992 Coll. on Provisions to Determine the Tax Base significantly reduces the recognition of statutory provisions for tangible assets overhauls. The Group anticipates that the new provisions created from 2009 onwards will be only non-tax deductible.

23. FINANCE LEASE OBLIGATIONS

Aircraft USD '000	Minimum lease payments		Present value of minimum lease payments	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Amount payable:				
Within one year	84,542	77,387	70,445	59,759
Within two to five years	246,124	233,503	206,063	189,553
Due in more than five years	201,959	176,347	185,553	157,797
	532,625	487,237	462,061	407,109
Less: future interest payments	(70,564)	(80,128)	–	–
Present value of lease obligations	462,061	407,109	462,061	407,109
Less: amounts due within one year (shown under current liabilities)			(70,445)	(59,759)
Amounts due after one year			391,616	347,350
Other finance lease liability			26	66
			391,642	347,416

The Group leases a significant part of its aircraft fleet under finance leases. The lease term is 12 years. For the year ended 31 December 2008, the average effective borrowing interest rate varied from 2.738 to 5.336 percent p.a. (2007: 3.841 to 5.763 percent p.a.). Interest rates attached to the leases are variable on the basis of LIBOR and EURIBOR. The floating interest rate is usually revised on a quarterly basis.

The interest costs recognised in the income statement as a result of finance lease payments amounted to USD 21,834 thousand in 2008 (2007: USD 17,240 thousand).

All lease aircraft obligations are denominated in US dollars and EUR.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The carrying amount of leased assets is USD 694,440 thousand (2007: USD 642,982 thousand). Included in these amounts are leased pledged assets of USD 677,488 thousand (2007: 625,330 thousand).

The carrying amount of finance lease obligations approximates their fair value.

24. TRADE AND OTHER PAYABLES

USD '000	31 December 2008	31 December 2007
Trade creditors and accruals	192,039	151,198
Advances received	507	626
Payables to employees	13,258	11,473
Payables to public authorities	7,567	11,059
Other payables	3,244	14,640
	216,615	188,996

Trade and other payables principally comprise amounts outstanding for trade purchases.

Trade payables are stated net of intragroup balances.

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

25. PREPAID TRAFFIC DOCUMENTS

Prepaid traffic documents of USD 54,011 thousand (2007: USD 76,752 thousand) represent the value of traffic documents purchased by customers and not used at the balance sheet date.

26. PROVISIONS

Long-term USD '000	1 January 2008	Charge for provisions	Use of provisions	Foreign exchange difference	31 December 2008
Maintenance of aircraft on operating leases	–	6,001 *	–	–	6,001
	–	6,001	–	–	6,001

Short-term USD '000	1 January 2008	Charge for provisions	Use of provisions	Foreign exchange difference	31 December 2008
Frequent Flyer Programme	4,331	1,963	(1,000)	(399)	4,895
Provisions for unused vacation days and bonuses	12,735	8,254	(6,393)	(1,058)	13,538
	17,066	10,217	(7,393)	(1,457)	18,433

Long-term USD '000	1 January 2007	Charge for provisions	Use of provisions	Foreign exchange difference	31 December 2007
Maintenance of aircraft on operating leases	–	–	–	–	–
	–	–	–	–	–

Short-term USD '000	1 January 2007	Charge for provisions	Use of provisions	Foreign exchange difference	31 December 2007
Frequent Flyer Programme	1,936	2,192	(327)	530	4,331
Provisions for unused vacation days and bonuses	5,101	11,408	(5,315)	1,541	12,735
	7,037	13,600	(5,642)	2,071	17,066

* Charge for provisions also includes a change in the present value of the provision (unwinding the discount). At initial recognition the provision is charged against prepayments which are subsequently amortized to the income statement over the duration of the operating lease.

27. CONTINGENT LIABILITIES

In 2008, the Group concluded contracts for future contract to establish the right to use the land in the Ruzyně airport area in the total amount of USD 7,734 thousand. The conclusion of the contracts for the establishment of the right of user and also the settlement of purchase price are linked to the fulfilment of legal acts in the future (for example, a legally valid building permission).

Contingent liabilities arise to the Group from the activities disclosed in Notes 23, 28 and 29 and from the Group's impact on the environment. The Group applies an environmental policy under which the impacts of its activities on the environment are monitored specifically in the following areas:

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

The Group is a defendant in several legal disputes. Management of the Group believes that the outcome of these suits will not have a material effect. The Group is additionally dealing with certain of its receivables from bankrupt debtors through the courts.

There are guarantees drawn in favour of the Group especially to secure cash received from sales of traffic documents by agencies. The Group further issued bank guarantees to secure customs liabilities.

The Company guarantees the liabilities of its subsidiaries in the amount of USD 147 thousand.

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

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

Management of the Group is not aware of any other significant unrecorded contingent liabilities as at 31 December 2008 and 2007.

28. CAPITAL COMMITMENTS

The Group will purchase eight Airbus A319 aircraft in 2011–2012, in the total official list price value of USD 576,630 thousand as at the delivery date. The actual price will be set in accordance with the contract signed in 2005.

The Group has no other undisclosed significant contractual capital expenditure commitments.

29. OPERATING LEASE ARRANGEMENTS

The Group has outstanding commitments under non-cancellable operating leases. In 2008 the Group signed operating lease contracts for two Airbus A319 aircraft, which will be delivered in 2009 and 2010. The liabilities in respect of operating leases including the aircraft to be delivered in the future are as follows:

USD '000	31 December 2008	31 December 2007
Within one year	42,245	45,741
In the second to fifth year	98,472	110,650
After five years	39,073	2,800
	179,790	159,191

Future payments in respect of the two above mentioned aircraft A319 are as follows:

USD '000	31 December 2008	31 December 2007
Within one year	2,662	–
In the second to fifth year	32,125	–
After five years	39,073	–
	73,860	–

Operating lease payments represent rentals payable by the Group for certain aircraft in the Group's fleet. Operating leases are negotiated for an average term of five years.

The fleet is described in Note 10.

30. RELATED PARTY TRANSACTIONS

Related parties transactions performed during 2008 and 2007 were conducted at arm's length. The balances of intragroup receivables and payables due to/from unconsolidated subsidiaries are immaterial as at the balance sheet date.

In 2008, the Group sold land and buildings in the area "South" at the Prague – Ruzyně airport to Správa Letiště Praha, s.p. (Note 4). In 2009, land in the area "North" at the Prague – Ruzyně airport will be purchased from Letiště Praha, a.s. (Note 34). Správa Letiště Praha, s.p. has been transformed into Letiště Praha, a.s. This entity as well Česká aerolinie a.s. is owned by the Czech state.

Other related parties transactions and balances are as follows:

USD '000	31 December 2008	31 December 2007
Revenues		
Ústav jaderného výzkumu Řež a.s.	8	2
LACOMED, spol. s r.o.	7	6
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	83,582	248
Výzkumný a zkušební letecký ústav, a.s.	1	–
TECHNOEXPORT join stock company for foreign trade	90	–
ČEZ, a.s.	19	–
	83,707	256
Expenses		
Výzkumný a zkušební letecký ústav, a.s.	1	14
ČEZ, a.s.	56	20
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	113,258	93,497
	113,315	93,531

USD '000	31 December 2008	31 December 2007
Receivables		
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	43,948	113
TECHNOEXPORT join stock company for foreign trade	1	–
	43,949	113
Payables		
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	12,080	13,947
	12,080	13,947

31. CASH FLOW STATEMENT

The change in bank borrowings is represented by:

USD '000	2008	2007
Change of short term loans	25,037	(50,610)
Repayment of long term loans	7,272	(8,196)
Exchange difference	(4,234)	1,167
	28,075	(57,639)

The change in adjustments for other non-cash transactions is represented by:

USD '000	2008	2007
Released differences on pro-rating traffic documents	(54,641)	(41,492)
Foreign exchange differences	(20,007)	1,523
	(74,648)	(39,969)

32. RETIREMENT BENEFIT PLANS

Pension and other post-retirement benefits

In the Czech Republic there is a state pension system in addition to supplementary private pension schemes. Generally, there are no pension schemes operated by employers and the Group does not have any obligation to its employees following their retirement. The Group is only obliged to contribute to the government health, pension and unemployment schemes during the term of employment. The Group has no obligation to contribute to these schemes beyond the statutory rates in force. The contributions to these schemes are made on a pay-as-you-go basis and are recorded in the profit and loss as a period expense. As a result, the Group is not exposed to any post-retirement obligations in respect of its employees and consequently, no pension liability accrual has been recognised in the accounts.

33. LONG TERM CONTRACTUAL RELATIONSHIPS

Sky Team Alliance

The principles of co-operation in the Sky Team Alliance with regard to objectives, brand usage and mutual projects are documented in an Alliance Agreement. Details of the co-operation are regulated by bilateral framework agreements with the individual members of the Sky Team Alliance. These agreements have terms up to October 2010 and regulate co-operation projects, network, frequent flyer programme and other operational matters.

34. SUBSEQUENT EVENTS

On 5 February 2009, based on the resolution passed by the government of the Czech Republic, the Ministry of Finance of the Czech Republic announced a public tender to select an acquirer of the State's shareholding in České aerolinie a.s., which represents 91.51% of the Company's share capital. In February 2009, the Group concluded an agreement on the purchase of land in the area "North" at the Prague – Ruzyně airport. The transaction will be realised during 2009. The purchase price of land of USD 8,853 thousand was determined by an independent valuer (Notes 10). In January and April 2009, the Company increased the guarantees for liabilities of its subsidiaries by USD 165 thousand.

CAS FINANCIAL STATEMENTS**FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2008**

Name of the Company: České aerolinie a.s.
Registered Office: Letiště Ruzyně, 160 08 Praha 6
Legal Status: Joint Stock Company
Corporate ID: 45795908

Components of the Financial Statements:

Balance Sheet
Profit and Loss Account
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

These financial statements were prepared as at 17 April 2009.

Statutory body of the reporting entity:

Signature:

Radomír Lašák

Chairman of the Board of Directors



Luboš Černý

Member of the Board of Directors



FINANCIAL STATEMENTS

BALANCE SHEET IN FULL VERSION AS OF 31. 12. 2008

CZK '000		31. 12. 2008		31. 12. 2007	
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	13,918,369	3,499,498	10,418,871	10,161,647
B.	Fixed assets	7,941,522	3,386,713	4,554,809	5,999,069
B.I.	Intangible fixed assets	803,819	409,296	394,523	292,796
B.I.3.	Software	643,098	388,102	254,996	238,063
B.I.7.	Intangible fixed assets under construction	160,721	21,194	139,527	54,733
B.II.	Tangible fixed assets	7,105,294	2,967,417	4,137,877	5,368,861
B.II.1.	Land	26,822		26,822	42,761
B.II.2.	Structures	732,783	212,160	520,623	819,253
B.II.3.	Individual movable assets and sets of movable assets	4,422,238	2,670,826	1,751,412	1,920,168
B.II.6.	Other tangible fixed assets	58,335	23,718	34,617	27,405
B.II.7.	Tangible fixed assets under construction	441,075	60,713	380,362	545,717
B.II.8.	Prepayments for tangible fixed assets	1,424,041		1,424,041	2,013,557
B.III.	Non-current financial assets	32,409	10,000	22,409	337,412
B.III.1.	Equity investments in subsidiaries	17,127	10,000	7,127	323,820
B.III.3.	Other securities and investments	8,337		8,337	8,210
B.III.5.	Other non-current financial assets	6,945		6,945	5,382
C.	Current assets	5,193,925	112,785	5,081,140	3,581,488
C.I.	Inventories	598,971	81,371	517,600	533,653
C.I.1.	Material	487,183	81,371	405,812	452,329
C.I.2.	Work in progress and semifinished goods	3,541		3,541	3,106
C.I.5.	Goods	107,480		107,480	77,577
C.I.6.	Prepayments for inventory	767		767	641
C.II.	Long-term receivables	572,386		572,386	239,718
C.II.2.	Receivables – controlling entity				2,355
C.II.5.	Long-term prepayments made	157,035		157,035	141,323
C.II.7.	Other receivables				18,440
C.II.8.	Deferred tax asset	415,351		415,351	77,600
C.III.	Short-term receivables	3,479,391	31,414	3,447,977	2,310,439
C.III.1.	Trade receivables	2,502,706	31,414	2,471,292	1,436,519
C.III.2.	Receivables – controlling entity	1,000		1,000	16,000
C.III.6.	State – tax receivables	60,279		60,279	43,537
C.III.7.	Short-term prepayments made	306,856		306,856	120,733
C.III.8.	Estimated receivables	321,357		321,357	101,089
C.III.9.	Other receivables	287,193		287,193	592,561
C.IV.	Current financial assets	543,177		543,177	497,678
C.IV.1.	Cash on hand	48,922		48,922	30,590
C.IV.2.	Cash at bank	494,255		494,255	467,088
D. I.	Other assets	782,922		782,922	581,090
D.I.1.	Deferred expenses	682,073		682,073	431,799
D.I.3.	Accrued income	100,849		100,849	149,291

CZK 'ooo	31. 12. 2008	31. 12. 2007
TOTAL LIABILITIES & EQUITY	10,418,871	10,161,647
A. Equity	101,686	1,238,093
A.I. Share capital	2,735,510	2,735,510
A.I.1. Share capital	2,735,510	2,735,510
A.II. Capital funds	(1,794,873)	(188,409)
A.II.2. Other capital funds	(99)	(99)
A.II.3. Gains or losses from the revaluation of assets and liabilities	(1,794,774)	(188,310)
A.III. Statutory funds	77,428	67,098
A.III.1. Statutory reserve fund/Indivisible fund	77,428	67,098
A.IV. Retained earnings	(1,386,436)	(1,582,706)
A.IV.2. Accumulated losses brought forward	(1,386,436)	(1,582,706)
A.V. Profit or loss for the current period (+ -)	470,057	206,600
B. Liabilities	8,474,464	6,664,165
B.I. Provisions	1,979,712	2,263,095
B.I.1. Provisions under special legislation	593,443	809,771
B.I.3. Income tax provision	25,000	
B.I.4. Other provisions	1,361,269	1,453,324
B.II. Long-term liabilities	168,126	15,605
B.II.5. Long-term prepayments received	269	266
B.II.9. Other payables	167,857	15,339
B.III. Short-term liabilities	5,659,707	3,677,336
B.III.1. Trade payables	1,846,616	1,247,433
B.III.2. Payables – controlling entity		70,000
B.III.5. Payables to employees	256,490	207,416
B.III.6. Social security and health insurance payables	72,604	137,370
B.III.7. State – tax payables and subsidies	73,790	62,548
B.III.8. Short-term prepayments received	9,818	11,317
B.III.10. Estimated payables	1,826,184	1,450,664
B.III.11. Other payables	1,574,205	490,588
B.IV. Bank loans and borrowings	666,919	708,129
B.IV.1. Long-term bank loans	162,469	47,306
B.IV.2. Short-term bank loans	504,450	660,823
C. I. Other liabilities	1,842,721	2,259,389
C.I.1. Accrued expenses	168,695	215,328
C.I.2. Deferred income	1,674,026	2,044,061

**PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD
YEAR ENDED 31. 12. 2008**

CZK '000		Period to 31. 12. 2008	Period to 31. 12. 2007
I.	Sales of goods	633,434	632,124
A.	Costs of goods sold	370,907	384,892
+	Gross margin	262,527	247,232
II.	Production	22,581,692	23,399,853
II.1.	Sales of own products and services	22,543,168	23,379,450
II.2.	Change in internally produced inventory	435	(1,217)
II.3.	Own work capitalised	38,089	21,620
B.	Purchased consumables and services	18,361,912	18,273,562
B.1.	Consumed material and energy	6,225,069	5,433,775
B.2.	Services	12,136,843	12,839,787
+	Added value	4,482,307	5,373,523
C.	Staff costs	4,798,941	4,784,987
C.1.	Payroll costs	3,491,051	3,223,310
C.2.	Remuneration to members of statutory bodies	6,570	5,485
C.3.	Social security and health insurance costs	898,808	1,133,239
C.4.	Social costs	139,812	133,603
C.5.	Staff costs in abroad	262,700	289,350
D.	Taxes and charges	10,713	37,024
E.	Depreciation of intangible and tangible fixed assets	467,619	486,714
III.	Sales of fixed assets and material	1,931,371	1,003,342
III.1.	Sales of fixed assets	1,921,459	981,115
III.2.	Sales of material	9,912	22,227
F.	Net book value of fixed assets and material sold	573,030	383,364
F.1.	Net book value of sold fixed assets	567,748	362,468
F.2.	Book value of sold material	5,282	20,896
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	(254,254)	85,850
IV.	Other operating income	175,450	240,890
H.	Other operating expenses	297,031	380,525
*	Operating profit or loss	696,048	459,291

CZK '000		Period to 31. 12. 2008	Period to 31. 12. 2007
VI.	Proceeds from the sale of securities and investments	680,419	603,000
J.	Cost of securities and investments sold	320,984	526,059
VII.	Income from non-current financial assets	10,858	7,817
VII.1.	Income from subsidiaries and associates	10,858	7,817
X.	Interest income	13,168	15,505
N.	Interest expenses	27,431	70,759
XI.	Other financial income	1,717,914	699,552
O.	Other financial expenses	2,270,843	1,077,172
*	Financial profit or loss	(196,899)	(348,116)
Q.	Income tax on ordinary activities	29,092	(95,425)
Q.1.	– due	29,092	350
Q.2.	– deferred		(95,775)
**	Profit or loss from ordinary activities	470,057	206,600
***	Profit or loss for the current period (+/-)	470,057	206,600
****	Profit or loss before tax	499,149	111,175

STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31. 12. 2008

CZK '000	Share capital	Capital funds	Statutory funds	Valuation gains or losses	Accumulated losses brought forward	Profit or loss for the current period	Total equity
Balance at 31 December 2006	2,735,510	(99)	67,098	(281,157)	(1,185,755)	(396,951)	938,646
Distribution of profit or loss					(396,951)	396,951	
Change in the valuation of securities and derivatives				98,083			98,083
Change in the deferred tax				(5,236)			(5,236)
Profit or loss for the current period						206,600	206,600
Balance at 31 December 2007	2,735,510	(99)	67,098	(188,310)	(1,582,706)	206,600	1,238,093
Distribution of profit or loss			10,330		196,270	-206,600	
Change in the valuation of securities and derivatives				(1,944,215)			(1,944,215)
Change in the deferred tax				337,751			337,751
Profit or loss for the current period						470,057	470,057
Balance at 31 December 2008	2,735,510	(99)	77,428	(1,794,774)	(1,386,436)	470,057	101,686

CASH FLOW STATEMENT
YEAR ENDED 31. 12. 2008

CZK '000	Period to 31. 12. 2008	Period to 31. 12. 2007
P.		
Opening balance of cash and cash equivalents	497,533	961,020
Cash flows from ordinary activities		
Z.		
Profit or loss from ordinary activities before tax	499,149	111,175
A.1.		
Adjustments for non-cash transactions	(2,491,373)	(1,012,723)
A.1.1.		
Depreciation of fixed assets	467,619	486,714
A.1.2.		
Change in provisions and reserves	(254,254)	85,850
A.1.3.		
Profit/(loss) on the sale of fixed assets	(1,713,146)	(695,588)
A.1.4.		
Revenues from dividends and profit shares	(10,858)	(7,817)
A.1.5.		
Interest expense and interest income	14,263	55,254
A.1.6.		
Settlement of transportation documents disposed of	(930,810)	(842,675)
A.1.7.		
Adjustments for other non-cash transactions	(64,187)	(94,461)
A.*		
Net operating cash flow before changes in working capital	(1,992,224)	(901,548)
A.2.		
Change in working capital	663,381	900,342
A.2.1.		
Change in operating receivables and other assets	(681,356)	520,611
A.2.2.		
Change in operating payables and other liabilities	1,335,355	365,123
A.2.3.		
Change in inventories	9,742	14,586
A.2.4.		
Change in current financial assets	(360)	22
A.**		
Net cash flow from operations before tax and extraordinary items	(1,328,843)	(1,206)
A.3.		
Interest paid	(29,747)	(83,114)
A.4.		
Interest received	13,168	15,505
A.5.		
Income tax paid from ordinary operations	(92)	(350)
A.7.		
Received dividends and profit shares	10,858	7,817
A.8.		
Derivatives paid	(427,720)	(213,886)
A.***		
Net operating cash flows	(1,762,376)	(275,234)
Cash flows from investing activities		
B.1.		
Fixed assets expenditures	(470,624)	(1,042,557)
B.2.		
Proceeds from fixed assets sold	1,768,940	1,584,115
B.3.		
Loans provided to related parties	17,355	(16,000)
B.4.		
Settlement of paid prepayments	568,033	974,041
B.***		
Net investment cash flows	1,883,704	1,499,599
Cash flow from financial activities		
C.1.		
Change in payables from financing	(76,189)	(1,687,852)
C.***		
Net financial cash flows	(76,189)	(1,687,852)
F.		
Net increase or decrease in cash and cash equivalents	45,139	(463,487)
R.		
Closing balance of cash and cash equivalents	542,672	497,533

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

1. GENERAL INFORMATION

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

The Company's principal business activities are as follows:

- Providing of commercial air transport;
- Maintenance, repairs, modification and changes in design of aircraft and equipment;
- Providing services in check-in proceedings at the Prague Ruzyně airport, handling of aircraft at the service area, check-in of passengers, goods and mail;
- Retail sale of groceries; and
- Organising of professional courses, training and other educational activities including lectures on air transport.

The share capital of the Company is CZK 2,735,510 thousand.

The financial statements of the Company have been prepared as at and for the year ended 31 December 2008.

The members of the Board of Directors as at 31 December 2008 were as follows:

	Position
Radomír Lašák	Chairman
Jiří Devát	Vice-Chairman
Luboš Černý	Member
Jan Janík	Member
Peter Jusko	Member
Petr Pištělák	Member
Roman Planička	Member
Dušan Ryban	Member
Petr Řehák	Member

The members of the Supervisory Board as at 31 December 2008 were as follows:

	Position
Ivan Kočárník	Chairman
Tomáš Uvíra	1st Vice-Chairman
Dušan Horák	2nd Vice-Chairman
Tomáš Brabec	Member
Jan Bürgermeister	Member
Ivan Foltýn	Member
Daniela Kovalčíková	Member
Radomil Kratochvíl	Member
Jaroslav Lorenc	Member
Petr Polák	Member
Ivana Řápková	Member
Pavel Škvára	Member

Changes made in the Commercial Register ("CR") during the year ended 31 December 2008 related to personnel changes in the Board of Directors and the Supervisory Board were as follows:

Board of Directors	Position	Office taken on	Resignation	Recorded in the CR
Tomáš Heczko	Member		30 June 2008	15 August 2008
Roman Planička	Member	1 July 2008		15 August 2008

Supervisory Board	Position	Office taken on	Resignation	Recorded in the CR
Hana Pešková	Member		23 January 2008	7 April 2008
Radomil Kratochvíl	Member	9 April 2008		7 April 2008

The Company is organised as follows as at 31 December 2008:

President

Organisational units reporting to the President:	Divisions:
Supplier Service Management	Sales Division
Security	Marketing and Product Development Division
President's Office	Financial Division
Company Privatization Office	Human Resources Division
Communications	Technical Division
Quality Management	Ground Operations Division
Internal Audit and Risk Management	Flight Operations Division
Flights Safety	Information Technology Division
Legal Affairs	

The Company has organisational units abroad.

2. ACCOUNTING PRINCIPLES AND POLICIES

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

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

These financial statements are presented in thousands of Czech crowns ("CZK"), unless stated otherwise. The Company, in accordance with the Accounting Act 563/1991 Coll., also prepares consolidated financial statements under International Financial Reporting Standards as adopted by the EU.

Tangible Fixed Assets

Tangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 5 thousand on an individual basis.

Tangible assets with an acquisition cost less than CZK 5 thousand on an individual basis are treated as inventory and are expensed upon consumption.

Acquisition Cost

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

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

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

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

Depreciation

Depreciation is charged so as to write off the cost of tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

	Number of years
Buildings	30–50
Computer equipment with an acquisition cost above CZK 40 thousand	4
Computer equipment with an acquisition cost between CZK 5 thousand to CZK 40 thousand	3
Radio and communication equipment and systems	4
Vehicles – other than aircraft	4
Vehicles – newly purchased aircraft	
Airbus A320/A319/A310, Boeing B737	20
ATR	18
Rotables	Over the expected useful life of the related fleet
Technical improvements of assets held under operating leases	Over the term of the operating lease
Furniture and fixtures	8 or 15
Other tangible fixed assets with an acquisition cost between CZK 5 thousand to CZK 40 thousand	2

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

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

Retirement of Assets

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

Provisioning

If the carrying value of an asset is greater than its estimated recoverable value, the carrying value is reduced by a provision to the recoverable value. If the impairment of an asset is other than temporary, the asset is written down.

Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 5 thousand on an individual basis.

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

Amortisation of intangible assets with an acquisition cost exceeding CZK 5 thousand on an individual basis is set out below.

Acquisition Cost

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

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

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

Amortisation

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

	Number of years
Software	3–10
Licences	Over the contract term
Patents	Over the useful life

Provisioning

If the carrying value of an asset is greater than its estimated recoverable value, the carrying value is reduced through a provision to the recoverable value. If the impairment of an asset is other than temporary, the asset is written down.

Non-current Financial Assets

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

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

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

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

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

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

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

Valuation

At the balance sheet date, the Company records:

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

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

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

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

Current Financial Assets

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

Derivative Financial Instruments

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

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

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

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

Trading derivatives

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

Hedging derivatives

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

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

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

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

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

Inventory

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

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

Inventory is issued out of stock using the FIFO (first in, first out) method.

Provisioning

A provision for slow-moving/obsolete inventory is recognised in circumstances where the impairment of the inventory is not deemed permanent. The amount of the provision is based upon an analysis of turnover and utilisability of inventory and based upon an individual assessment of specifically those inventories that have been idle for more than five years for inventory of aircraft's spares and more than three years for other inventory. These inventories are primarily reviewed for their potential future utilisability.

Receivables

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

Provisioning

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

Trade Payables

Trade payables are stated at their nominal value.

Loans

Loans are stated at their nominal value.

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

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

Provisions

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

The Company recognises provisions for repairs of tangible fixed assets. These provisions are either non-tax deductible (i.e. accounting provisions) or tax deductible as defined by the Act on Provisions 593/1992 Coll. If the time to the planned repair exceeds the set legal time limit for tax deductible provisioning, the Company commences recognising a non-tax deductible provision. After reaching the set legal time limit for tax deductible provisioning, the Company derecognises the non-tax deductible provision and, at the same time, recognises the tax deductible provision so as to ensure that the recognition of the aggregate provision (the sum of the non-tax deductible and tax deductible provisions) and the tax deductible provision is allocated evenly in time. The level of the recognised provision for repairs is based upon the anticipated costs of repairs and the time to lapse before the repair commences. The provision is recognised as equal to the ratio of the current cost of repairs net of the charge already recognised and the number of years to elapse before the repair commences.

As the Company prepares the financial statements ahead of the income tax return for the current period and the current tax expense is not exactly determined, the Company recognises an income tax provision.

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

Frequent Flyer Programme

Members of the Frequent Flyer Programme can exchange earned points for free air tickets. The Company recognises provisions for these future costs of covering such gained free air tickets. The provisions include incremental fuel, catering servicing costs and the cost of free travel provided by other partners.

Foreign Currency Translation

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

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

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

Finance Leases

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

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

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

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

Taxation

Depreciation of Fixed Assets for Tax Purposes

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

Current Tax Payable

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

Deferred Taxation

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

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

The balance sheet liability method focuses on temporary differences, which are differences between the tax base of an asset and/or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future. Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised. Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

Retirement Benefit Costs

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

Furthermore, the Company 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.

Government Grants

The Company is a recipient of a government grant for the business activity and for the training and re-qualification of employees which is in accordance with the rules of the General Programme for the Support of Technology Centres and Centres of Strategic Services approved by the Government of the Czech Republic. The grant for the business activity is provided by the Ministry of Industry and Trade of the Czech Republic and it only relates to the settlement of expenses incurred in connection with the business activity of the technology centre or the centre of strategic services. The grant for training and re-qualification of employees is provided by the Ministry of Labour and Social Affairs of the Czech Republic and it only relates to the settlement of training and re-qualification expenses. The Company regularly assesses whether the condition of the government grants are met.

The Company is a recipient of a grant for the projects "the Common Programme Document for Target 3 of the Region NUTS 2 the Capital City of Prague", co-financed from the state budget of the Czech Republic and the European social fund.

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

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

Borrowing Costs

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

Revenue and Expense Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimates

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

Extraordinary Expenses and Income

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

Related Parties

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

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

Related party transactions and balances are disclosed in Note 24.

Subsequent Events

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

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

Significant Year-on-Year Changes in Accounting Principles and Policies

The amortization period for software was 2 to 3 years until 2007. Starting 1 January 2008 the Company decided to determine the amortization period individually based on the useful life. The impact of this change on the financial statements for the year ended 31 December 2008 is not material.

Rotables were depreciated over a period of 20 years until 2007. Based on analysis the Company has changed the depreciation period of rotatables in relation to the remaining useful lives of the related type of aircraft. As a result, the depreciation charge in 2008 increased by CZK 11 million and the expected impact to depreciation charge in 2009 is CZK 69 million.

3. INTANGIBLE FIXED ASSETS

Cost				
CZK '000	1 January 2008	Additions/transfers	Disposals/transfers	31 December 2008
Software	522,186	120,968	(56)	643,098
Intangible assets under development	54,733	226,956	(120,968)	160,721
	576,919	347,924	(121,024)	803,819

Accumulated Amortisation				
CZK '000	1 January 2008	Charge for the year	Disposals	31 December 2008
Software	(284,123)	(104,035)	56	(388,102)
Provision for diminution in value of intangible assets under development	–			(21,194)
Net book value	292,796			394,523

Cost				
CZK '000	1 January 2007	Additions/transfers	Disposals/transfers	31 December 2007
Software	295,070	227,116	–	522,186
Intangible assets under development	188,125	93,724	(227,116)	54,733
	483,195	320,840	(227,116)	576,919

Accumulated Amortisation				
CZK '000	1 January 2007	Charge for the year	Disposals	31 December 2007
Software	(203,723)	(80,400)	–	(284,123)
Net book value	279,472			292,796

The Company did not acquire any intangible fixed assets without consideration in either 2008 or 2007.

Intangible assets under development at 31 December 2008 represent information technology projects in process (for example the Airlines system, the Origin and Destination project, connectivity to the integrated system of flight operation, and the Revenue Management system).

The Company creates provisions if the carrying value of an asset is greater than its estimated recoverable value, the carrying value is then reduced by a provision to the recoverable value. In 2008, the Company created a provision for diminution in value of intangible assets under development amounting to CZK 21,194 thousand. The provision relates to an information technology project in process which experienced a change of a supplier and the Company does not anticipate that all costs already incurred will result in economic benefits in the future.

The Company anticipates that costs incurred in relation to projects in process, reduced by the provision described above, will bring future economic benefits.

The landing and take-off slots are also a significant part of the intangible fixed assets. These slots are not recognised as the Company acquired them for no consideration and their fair value is not readily obtainable.

4. TANGIBLE FIXED ASSETS

Cost

CZK '000	1 January 2008	Additions/transfers	Disposals/transfers	31 December 2008
Land	42,761	–	(15,939)	26,822
Buildings, halls and structures	1,164,667	46,092	(477,976)	732,783
Machinery and equipment	2,744,042	185,259	(128,286)	2,801,015
Aircraft	992,850	167,085	(387,303)	772,632
Vehicles	542,327	6,260	(54,827)	493,760
Furniture and fixtures	347,447	35,689	(28,305)	354,831
Other tangible fixed assets	45,705	15,117	(2,487)	58,335
Tangible assets under construction	568,636	327,941	(455,502)	441,075
Advances paid for fixed assets – Airbus	702,762	50,746	(642,343)	111,165
Advances paid for fixed assets – Boeing	1,277,411	–	–	1,277,411
Advances paid for fixed assets – other	33,384	2,413	(332)	35,465
	8,461,992	836,602	(2,193,300)	7,105,294

Accumulated Depreciation

CZK '000	1 January 2008	Charge for the year	Liquidation, sales, damages	Disposals	31 December 2008
Buildings, halls and structures	(326,739)	(36,059)	(311,540)	477,976	(196,362)
Machinery and equipment	(1,321,918)	(220,316)	(10,010)	116,442	(1,435,802)
Aircraft	(688,634)	(31,170)	(194,887)	387,303	(527,388)
Vehicles	(369,900)	(40,254)	(1,393)	54,827	(356,720)
Furniture and fixtures	(309,281)	(27,880)	(18,023)	28,305	(326,879)
Other tangible fixed assets	(18,300)	(7,905)	–	2,487	(23,718)
	(3,034,772)	(363,584)	(535,853)	1,067,340	(2,866,869)
Provision for diminution in value	(58,359)				(100,548)
Net book value	5,368,861				4,137,877

Provision for Diminution in Value

CZK '000	1 January 2008	Charge for the year	Release during the year	31 December 2008
Buildings, halls and structures	(18,675)	–	2,877	(15,798)
Machinery and equipment	(16,765)	(21,372)	14,100	(24,037)
Tangible assets under construction	(22,919)	(37,822)	28	(60,713)
	(58,359)	(59,194)	17,005	(100,548)

Cost

CZK 'ooo	1 January 2007	Additions/transfers	Disposals/transfers	31 December 2007
Land	56,372	–	(13,611)	42,761
Buildings, halls and structures	1,972,558	31,695	(839,586)	1,164,667
Machinery and equipment	2,548,802	580,390	(385,150)	2,744,042
Aircraft	1,276,738	236,625	(520,513)	992,850
Vehicles	669,939	52,088	(179,700)	542,327
Furniture and fixtures	336,282	42,908	(31,743)	347,447
Other tangible fixed assets	41,142	14,345	(9,782)	45,705
Tangible assets under construction	691,966	834,721	(958,051)	568,636
Advances paid for fixed assets – Airbus	1,178,928	593,727	(1,069,893)	702,762
Advances paid for fixed assets – Boeing	1,277,411	–	–	1,277,411
Advances paid for fixed assets – other	33,564	289	(469)	33,384
	10,083,702	2,386,788	(4,008,498)	8,461,992

Accumulated Depreciation

CZK 'ooo	1 January 2007	Charge for the year	Liquidation, sales, damages	Disposals	31 December 2007
Buildings, halls and structures	(362,406)	(41,861)	(762,058)	839,586	(326,739)
Machinery and equipment	(1,301,413)	(189,644)	(214,815)	383,954	(1,321,918)
Aircraft	(777,999)	(78,244)	(352,904)	520,513	(688,634)
Vehicles	(457,354)	(44,373)	(50,731)	182,558	(369,900)
Furniture and fixtures	(291,126)	(37,183)	(12,729)	31,757	(309,281)
Other tangible fixed assets	(13,073)	(15,009)	–	9,782	(18,300)
	(3,203,371)	(406,314)	(1,393,237)	1,968,150	(3,034,772)
Provision for diminution in value	(178,955)				(58,359)
Net book value	6,701,376				5,368,861

Provision for Diminution in Value

CZK 'ooo	1 January 2007	Charge for the year	Release during the year	31 December 2007
Buildings, halls and structures	–	(18,675)	–	(18,675)
Machinery and equipment	(18,537)	–	1,772	(16,765)
Tangible assets under construction	(160,418)	(2,896)	140,395	(22,919)
	(178,955)	(21,571)	142,167	(58,359)

Within the delivery of twelve Airbus A320/A319 aircraft the Company acquired certain fixed assets as part of delivery in 2008 and 2007. These fixed assets are capitalised as part of tangible fixed assets upon the delivery and depreciated in accordance with the depreciation plan. The total capitalised amount is amortised through the deferred income account over the period of the finance lease to the profit and loss account as an item decreasing the finance lease expenses.

Significant Fixed Assets Disposals in 2008

CZK '000	Income from the sale	Net book value
Engine for Airbus A310 and engine for Airbus A320	241,958	191,171
Buildings in the area "South" at the Prague – Ruzyně Airport *	1,341,424	310,818
Land in the area "South" at the Prague – Ruzyně Airport *	78,357	15,200
Aircraft chassis for Boeing B737 new generation	60,377	28,134
Aircraft Airbus A310	158,271	3,716

* The purchase prices for the stated transactions were determined by an independent valuer. Part of transactions involved the conclusion of agreements on future agreement on the establishment of the user's right to land (Note 26).

Significant Fixed Assets Disposals in 2007

In February 2007, the Company sold five Boeing B737-500 aircraft and leased them back for operating lease. The income from the sale amounted to CZK 968,036 thousand, the net book value of sold assets amounted to CZK 352,904 thousand.

On 1 April 2007 the tangible fixed assets at the net book value of CZK 1,024,319 thousand were transferred to the subsidiaries Air Cargo Terminal a.s. and Air Czech Catering a.s. (Note 28).

Advances

As at 31 December 2007 the advances paid represent advances for the purchase price of Airbus A320/A319 aircraft that were re-financed by finance lease at the delivery of the aircraft, the finance lease covers the total value of the aircraft. The advances for the purchase price of Airbus A320/A319 aircraft were fully re-financed by finance lease during 2008.

As at 31 December 2008 and 2007 the advances paid further represent advances for 8 Airbus A319 aircraft, which will be delivered in 2011–2012, in the amount of CZK 111,165 thousand. The Company has an option for the purchase of these aircraft.

As at 31 December 2008 and 2007, advances related to Boeing B737 aircraft are not re-financed by finance lease and will form the cost of the related aircraft at the termination of the finance lease when the aircraft becomes the property of the Company.

Provision for diminution in value

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

The fair value of aircraft purchased by the Company under finance lease is significantly higher than their carrying amount.

Pledged Fixed Assets

The Company has pledged fixed assets as follows:

CZK '000	31 December 2008		31 December 2007		Description
	Net book value	Value of secured liability	Net book value	Value of secured liability	
Full Flight Simulator	–	189,787	21,839	9,416	collateral for a loan, valid only if the Company does not fulfil its duties defined by the loan agreement

As at 31 December 2007, the right of lien to the full flight simulator related to the bank loan for the purchase of the flight simulator. This loan was repaid in 2008. As at 31 December 2008 the right of lien to the full flight simulator related to the medium-term operating loan (Note 13).

Finance Leases

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

Twenty two aircraft are held under finance lease contracts as at 31 December 2008 (as at 31 December 2007: eighteen aircraft):

Aircraft	Currency	Expire date	Amount paid and payable	Total amounts paid at 31 December 2007	Total amounts paid at 31 December 2008	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	USD '000	2009–2012	333,391	246,743	275,694	27,194	30,503
Airbus A319/A320	EUR '000	2018–2020	420,847	37,192	79,668	41,198	299,981
Total *	CZK '000		17,783,192	5,775,071	7,479,035	1,635,557	8,668,600

* The conversion from USD and EUR to CZK was effected using the rate of the Czech National Bank as at 31 December 2008.

Vehicles under finance lease:

CZK '000	31 December 2008	31 December 2007
Amounts paid on current finance lease contracts	14,069	421
Outstanding amounts payable within one year	18,032	3,054
Amounts payable after more than one year	20,030	5,432
Amounts paid and payable on current contracts	52,131	8,907

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

	Expire date	Amount paid and payable	Total amounts paid at 31 December 2007	Total amounts paid at 31 December 2008	Outstanding amounts payable within one year	Amounts payable after more than one year
in EUR thousand	2013	2,142	89	446	357	1,339
in CZK thousand *		57,684	2,397	12,011	9,614	36,059

* The conversion from EUR to CZK was effected using the rate of the Czech National Bank as at 31 December 2008.

The Company further operates 23 aircraft under operating lease. The information on operating lease commitments is disclosed in Note 25.

5. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiary undertakings comprise shares as follows:

At 31 December 2008:

	Number of Shares	Nominal Value	Cost CZK '000	% of Share Capital	2008 Net Profit/(Loss) CZK '000	Net Assets CZK '000	Dividend Income 2008 CZK '000
Foreign entities							
SLOVAK AIR SERVICES s.r.o. (Bratislava, SR)	N/A	SKK 200,000 ¹⁾	183	100	(3,168) ²⁾	5,038 ²⁾	10,858
Czech entities							
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.) (Prague)	1,000	CZK 10,000,000	10,000	100	(788)	(1,669)	–
ClickforSky, a.s. (Prague)	20	CZK 2,000,000	2,243	100	78	1,369	–
ČSA Support s.r.o. (Prague)	N/A	CZK 4,390,000	4,051	100	2,487	16,412	–
CSA Services, s.r.o. (Prague)	N/A	CZK 270,000	270	100	1,638	3,030	–
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	CZK 380,000	380	65	8,623 ³⁾	13,441 ³⁾	–
			17,127				10,858
Provision for diminution in value			(10,000)				
Net book value			7,127				

¹⁾ SKK = Slovak crowns

²⁾ The conversion from SKK to CZK was effected using the rate of the Czech National Bank as at 31 December 2008 and the average rate for 2008.

³⁾ Preliminary, unaudited data.

At 31 December 2007:

	Number of Shares	Nominal Value	Cost CZK '000	% of Share Capital	2007 Net Profit/(Loss) CZK '000	Net Assets CZK '000	Dividend Income 2007 CZK '000
Foreign entities							
SLOVAK AIR SERVICES s.r.o. (Bratislava, SR)	N/A	SKK 200,000 ¹⁾	162	100	12,331 ²⁾	19,123 ²⁾	–
Czech entities							
Air Czech Catering a.s. (Prague)	100	CZK 50,000,000	318,957	100	76,775	387,861	–
ČSA Airtours a.s. (Prague)	1,000	CZK 10,000,000	10,000	100	(4,889)	(882)	–
ČSA Support s.r.o. (Prague)	N/A	CZK 4,390,000	4,051	100	2,055	13,926	–
CSA Services, s.r.o. (Prague)	N/A	CZK 270,000	270	100	710	682	–
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	CZK 380,000	380	65	(2,795)	4,819	7,817
			333,820				7,817
Provision for diminution in value			(10,000)				
Net book value			323,820				

¹⁾ SKK = Slovak crowns

²⁾ The conversion from SKK to CZK was effected using the rate of the Czech National Bank as at 31 December 2007 and the average rate for 2007.

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

The Company sold its 100% share in the subsidiary Air Czech Catering a.s. in April 2008. The income from the sale of the company was CZK 680,000 thousand, the cost was CZK 318,957 thousand.

The Company purchased 100% of the share capital of ClickforSky, a.s. from CSA Services, s.r.o. in May 2008. The cost of the purchased shares was CZK 2,243 thousand. The purchase price was determined by an independent valuer.

The Company sold its 100% share in the subsidiary Air Cargo Terminal a.s. in October 2007. The income from the sale of the company was CZK 603,000 thousand, the cost was CZK 526,059 thousand.

The Company increased the share capital of HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.) in the amount of CZK 9,000 thousand in 2007. The increase was paid in.

The change in the provision for diminution in value of the investment in HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.) is analysed as follows:

CZK '000	2008	2007
Opening balance as at 1 January	10,000	1,000
Charge for the year	–	9,000
Released during the year	–	–
Closing balance as at 31 December	10,000	10,000

Related party transactions are disclosed in Note 24.

6. OTHER SECURITIES AND INVESTMENTS

Other Long-Term Investments (Available for Sale)

At 31 December 2008:

	Number of securities	Nominal value	Cost CZK '000
Foreign			
SITA Inc. shares	56	EUR 280	8
SITA Inc. certificates			8,329
			8,337

At 31 December 2007:

	Number of securities	Nominal value	Cost CZK '000
Foreign			
SITA Inc. shares	52	EUR 260	7
SITA Inc. certificates			7,783
Domestic			
WALTER a.s.	2,100	CZK 420,000	2,027
			9,817
Provision for diminution in value of WALTER a.s.			(1,607)
			8,210

Other investments available for sale are carried at cost at 31 December 2008 and 2007 because their fair value is not readily obtainable and the cost of obtaining the fair value measure is unreasonably high considering its impact on the Company's financial statements.

The Company sold 2,100 pieces of the shares of WALTER a.s. in December 2008. The income from the sale was CZK 419 thousand, the cost of sold shares was CZK 2,027 thousand. The Company released the provision for diminution in value of WALTER a.s. of CZK 1,607 thousand.

In 2008 and 2007, the Company obtained no dividends from other long-term investments available for sales.

Other Long-Term Investments

CZK '000	31 December 2008	Income 2008	31 December 2007	Income 2007
Foreign				
SITA Inc. loan	6,595	244	5,054	384
Other	350		328	
	6,945		5,382	

Short-Term Financial Assets

The structure of short-term financial assets:

CZK '000	31 December 2008	31 December 2007
Cash	48,920	30,521
Stamps and vouchers	2	69
Current accounts	295,466	243,433
Term deposits	198,284	223,510
Long-term blocked financial assets	505	145
	543,177	497,678

The long-term blocked financial assets are associated with the customs guarantee and further with the bank guarantee on the acquisition of aviation fuel, these financial assets are not included in the cash flow statements as cash equivalents (Note 27). The long-term blocked financial assets generate interest income.

Term deposits – short-term:

CZK '000	31 December 2008	31 December 2007
Term deposits in CZK	195,860	47,500
Term deposits in SKK	–	6,755
Term deposits in EUR	2,424	23,612
Term deposits in GBP	–	49,541
Term deposits in USD	–	96,102
	198,284	223,510

7. INVENTORIES

At 31 December 2008:

CZK '000	Cost	Provision for diminution in value	Net book value
Material			
Spares – aircraft	465,686	(68,902)	396,784
In-flight services	774	(664)	110
Other	20,723	(11,805)	8,918
Total material	487,183	(81,371)	405,812
Goods for resale	107,480	–	107,480
Work in progress	3,541	–	3,541
Advances paid for inventory purchases	767	–	767
Total	598,971	(81,371)	517,600

At 31 December 2007:

CZK '000	Cost	Provision for diminution in value	Net book value
Material			
Spares – aircraft	501,361	(55,952)	445,409
In-flight services	774	–	774
Other	17,951	(11,805)	6,146
Total material	520,086	(67,757)	452,329
Goods for resale	77,577	–	77,577
Work in progress	3,106	–	3,106
Advances paid for inventory purchases	641	–	641
Total	601,410	(67,757)	533,653

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

CZK '000	2008	2007
Opening balance as at 1 January	67,757	17,331
Charge for the year	14,529	51,926
Released during the year	(915)	(1,500)
Closing balance as at 31 December	81,371	67,757

8. RECEIVABLES

Long-Term Receivables

CZK '000	31 December 2008	31 December 2007
Long-term receivables	572,386	239,718

Long-term receivables represent mainly pre-payments, of which CZK 120,844 thousand as at 31 December 2008 (as at 31 December 2007: CZK 106,542 thousand) represents pre-payments for operating leases of aircraft. Long-term pre-payments maturing in more than five years represent the amount of CZK 18,630 thousand as at 31 December 2008 (as at 31 December 2007: CZK 14,318 thousand). These pre-payments will be repaid to the Company if the Company fulfils the conditions defined by the contract at the expiration of the operating leases. The long-term pre-payments further relate to the Customs Office and also include pre-payments provided by the Company's representations.

The long-term receivables further include a deferred tax asset of CZK 415,351 thousand as at 31 December 2008 (as at 31 December 2007: CZK 77,600 thousand) (Note 16).

The long-term receivable from a subsidiary of CZK 2,355 thousand as at 31 December 2007 represents the long-term loan granted to CSA Services, s.r.o. in 2004 (Note 24). The loan was prematurely repaid as at 31 December 2008.

Other long-term receivables include the fair value of derivatives as follows (Note 14):

CZK '000	31 December 2008	31 December 2007
Interest rate swaps	–	18,440

Short-Term Receivables

CZK '000		31 December 2008	31 December 2007
Trade receivables	– current	2,431,429	1,231,199
	– overdue	71,277	261,324
		2,502,706	1,492,523
Provision for doubtful receivables		(31,414)	(56,004)
Net trade receivables		2,471,292	1,436,519
Other receivables	– current	287,193	592,561
Net other receivables		287,193	592,561

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

Current trade receivables include a receivable from the sale of buildings and land in the area "South" at the Prague – Ruzyně airport amounting to CZK 832,938 thousand as at 31 December 2008 (Note 4). The receivable was paid in 2009 in accordance with the concluded agreement.

Trade receivables overdue primarily include amounts due from companies suspended from the IATA Clearing House or companies in bankruptcy. Trade receivables overdue more than 180 days amounted to CZK 29,300 thousand as at 31 December 2008 (as at 31 December 2007: CZK 41,050 thousand).

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

Other short-term receivables mainly comprise the fair value of derivatives as follows (Note 14):

CZK '000		31 December 2008	31 December 2007
Currency swaps		272	11,256
Call commodity options		–	–
Commodity swaps		–	546,550
Currency forwards		130,324	–
Currency options		76,300	–
Weighted forwards		54,000	–
		260,896	557,806

The short-term receivables from a subsidiary of CZK 1,000 thousand as at 31 December 2008 (as at 31 December 2007: CZK 16,000 thousand) represent the short-term loans granted to HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.) in the amount of CZK 1,000 thousand as at 31 December 2008 (as at 31 December 2007: CZK 1,000 thousand) and ClickforSky, a.s. in the amount of CZK 0 as at 31 December 2008 (as at 31 December 2007: CZK 15,000 thousand) (Note 24).

The short-term prepayments principally include prepayments for general overhauls of engines as at the balance sheet date.

The estimated receivables represent the volume of provided services, not yet invoiced as at the balance sheet date. These especially include performed repairs and checks of aircraft and engines.

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

CZK '000		2008	2007
Opening balance as at 1 January		56,004	98,521
Charge for the year		10,454	10,326
Released during the year		(19,342)	(15,012)
Released provision – written-off receivables		(15,702)	(37,831)
Closing balance as at 31 December		31,414	56,004

The Company revalued provisions carried in foreign currencies at the balance sheet date. The revaluation is recognised in the profit and loss account as a change in reserves and provisions relating to operating activities and complex deferred expenses.

Receivables from related parties are disclosed in Note 24.

9. OTHER ASSETS

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

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

10. EQUITY

Authorised and Issued Share Capital

	No.	31 December 2008 CZK '000	No.	31 December 2007 CZK '000
Ordinary shares of CZK 10,000, fully paid	273,551	2,735,510	273,551	2,735,510

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

%	31 December 2008	31 December 2007
Ministry of Finance of the Czech Republic	91.51	56.92
Czech Consolidation Agency (Česká konsolidační agentura)	–	34.59
Other shareholders	8.49	8.49
	100	100

The Czech Consolidation Agency was dissolved without liquidation by the Act 239/2001 Coll. as at 31 December 2007. The assignee is the State represented by the Ministry of Finance of the Czech Republic with all rights and obligations of the Czech Consolidation Agency with effect from 1 January 2008.

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

The profit after tax amounting to CZK 206,600 thousand for 2007 was authorised and distributed by the General Meeting of Shareholders on 25 June 2008. The transfer to the statutory reserve fund amounted to CZK 10,330 thousand and the remaining balance of CZK 196,270 thousand was carried forward to the account of accumulated losses.

Revaluation of Assets and Liabilities

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

CZK '000	31 December 2008	31 December 2007
Currency options (intrinsic value)	22,978	–
Commodity derivatives – swaps	(1,690,799)	546,550
Currency derivatives – forwards	(446,533)	(716,668)
Deferred tax asset/(liability)	319,576	(18,175)
Other	4	(17)
	(1,794,774)	(188,310)

Revaluation of Assets and Liabilities includes:

- replaced commodity derivatives with a negative impact on revaluation in the amount of CZK 131,628 thousand as at 31 December 2008 (as at 31 December 2007: CZK 0), the derivatives will be recognised in the profit and loss account as an expense in the periods during which the hedged item affects the profit and loss account (fuel expenses); and
- currency derivatives with a negative impact on revaluation in the amount of CZK 510,555 thousand as at 31 December 2008 (as at 31 December 2007: CZK 255,938 thousand), the derivatives are accrued to finance lease expenses over the duration of the finance lease of aircraft.

11. PROVISIONS

CZK '000	Fixed asset repairs provisions	Provisions for unused vacation days and other staff costs	Frequent Flyer Programme	Provision for Income Tax	Total
Opening balance as at 1 January 2007	1,933,709	106,500	40,407	–	2,080,616
Charge for the year	370,590	231,659	44,521	–	646,770
Released in the year	–	(8,645)	(263)	–	(8,908)
Used in the year	(349,714)	(99,300)	(6,369)	–	(455,383)
Closing balance as at 31 December 2007	1,954,585	230,214	78,296	–	2,263,095
Charge for the year	338,027	140,600	33,438	25,000	537,065
Released in the year	(188,014)	–	(7,704)	–	(195,718)
Used in the year	(506,496)	(108,900)	(9,334)	–	(624,730)
Closing balance as at 31 December 2008	1,598,102	261,914	94,696	25,000	1,979,712

For an analysis of the current and deferred income tax see Note 16.

Fixed asset repair provisions include provisions relating to planned revisions of aircraft and engines and overhauls of engines and landing gears. Some of these provisions are recognised as tax-deductible in accordance with the Act on Provisions 593/1992 Coll., the amount of CZK 593,443 thousand as at 31 December 2008 (as at 31 December 2007: CZK 809,771 thousand).

In accordance with the Act on Provisions 593/1992 Coll., the Company creates tax-deductible provisions only for repairs of tangible assets owned by the Company.

12. LIABILITIES

Long-Term Payables

CZK '000	31 December 2008	31 December 2007
Long-term payables	168,126	15,605

Other long-term payables comprise the fair value of derivatives as follows (Note 14) and they further represent long-term advance payments received from sales agents and customers:

CZK '000	31 December 2008	31 December 2007
Interest rate swaps	38,984	–
Currency forwards	32,392	15,312
Commodity swaps	96,415	–
	167,791	15,312

Short-Term Payables

CZK '000	31 December 2008	31 December 2007
Trade payables		
– current	1,827,460	1,216,880
– overdue	19,156	30,553
	1,846,616	1,247,433
Other payables		
– current	1,574,205	490,588
Estimated payables	1,826,184	1,450,664

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

Short-term trade payables overdue comprise payables to companies in bankruptcy and liabilities under compliant procedures. Payables overdue more than 180 days amounted to CZK 779 thousand as at 31 December 2008 (as at 31 December 2007: CZK 13,201 thousand).

As at 31 December 2008, the Company records liabilities for social security and health insurance amounting to CZK 72,604 thousand (as at 31 December 2007: CZK 137,370 thousand). The recorded payables are not overdue.

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

As the Company does not know the exact amount of the income tax liability a provision has been recognised in that respect (Note 11).
The short-term payable to a subsidiary of CZK 70,000 thousand as at 31 December 2007 represents the short-term loan granted by Air Czech Catering a.s. (Note 24).

Other short-term payables also comprise the fair value of derivatives as follows (Note 14):

CZK '000	31 December 2008	31 December 2007
Currency swaps	397	–
Currency forwards	33,910	445,418
Put commodity options	–	–
Commodity swaps	1,494,300	–
	1,528,607	445,418

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

Payables to related parties are disclosed in Note 24.

13. BANK LOANS AND OTHER BORROWINGS

CZK '000	31 December 2008	31 December 2007
Short-term bank loans due within 1 year	426,508	–
Part of long-term loans due within 1 year	77,942	660,823
Total loans due within 1 year	504,450	660,823
Part of long-term loans due between 1–5 years	162,469	47,306
Total bank loans and overdrafts	666,919	708,129

Short-Term Bank Loans

Purpose	Currency	Balance	Balance	Balance	Balance
		at 31 December 2008 in currencies '000	at 31 December 2008 CZK '000	at 31 December 2007 in currencies '000	at 31 December 2007 CZK '000
Operating loan	CZK	365,648	365,648	–	–
Operating loan	USD	3,100	59,973	–	–
Operating loan	EUR	33	887	–	–
Total			426,508		

The level of interest rates of short-term bank loans fluctuated between 1.25% and 4.99% p.a. in 2008 (2007: between 2.88% and 5.85% p.a.).

Long-Term Bank Loans

Purpose	Currency	Balance	Balance	Balance	Balance
		at 31 December 2008 in currencies '000	at 31 December 2008 CZK '000	at 31 December 2007 in currencies '000	at 31 December 2007 CZK '000
Financing of B737 aircraft	USD	2,617	50,624	5,925	107,115
Purchase of flight simulator	USD	–	–	521	9,416
Advances for aircraft A319/A320	USD	–	–	32,725	591,598
Medium-term operating loan	CZK	189,787	189,787	–	–
Total			240,411		708,129

Interest rates of bank loans are variable on the basis of PRIBOR or LIBOR. The Company had one loan, repaid during 2008, which bore fixed interest. The level of interest rates fluctuated between 2.96% and 6.99% p.a. in 2008 (2007: between 4.69% and 6.99% p.a.).

Advances paid for the delivery of Airbuses A319/A320 were financed by a loan, which became part of the overall financing through a finance lease at the moment of aircraft delivery. The maturity date of these loans is the date of aircraft delivery.

Schedule of repayments of bank loans (USD thousand or CZK thousand):

Purpose	Currency	2009	2010	2011	2012	Total
Financing of B737 aircraft	USD	1,917	700	–	–	2,617
Medium-term operating loan	CZK	40,851	40,851	40,851	67,234	189,787

Security of bank loans:

Purpose	Form of collateral
Financing of B737 aircraft	promissory notes
Purchase of flight simulator	collateral for a loan (Note 4)
Medium-term operating loan	collateral for a loan (Note 4)

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

CZK '000	31 December 2008			31 December 2007		
	Fair value		Nominal amount	Fair value		Nominal amount
	Positive	Negative		Positive	Negative	
Trading agreements						
Currency options	47,300	–	538,600	–	–	–
Weighted forwards	54,000	–	646,320	–	–	–
Commodity swaps	–	31,544	89,611	–	–	–
Put commodity options	–	–	266,607	–	–	–
Interest rate swaps	–	38,984	1,117,058	18,440	–	1,258,833
Currency swaps	272	397	99,273	11,256	–	1,453,024
	101,572	70,925	2,757,469	29,696	–	2,711,857
Cash flow hedging agreements						
Currency options	29,000	–	538,600	–	–	–
Currency forwards	130,324	66,302	3,508,979	–	460,730	6,749,542
Call commodity options	–	–	636,096	–	–	–
Commodity swaps	–	1,559,171	3,718,552	546,550	–	1,281,712
	159,324	1,625,473	8,402,227	546,550	460,730	8,031,254
Total derivatives	260,896	1,696,398	11,159,696	576,246	460,730	10,743,111

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

While the Company designates all derivatives for the purpose of the economic hedge, the Company has certain derivative transactions, which provide effective economic hedges under the Company's risk management strategy, but hedge accounting is not applied to them. These are short-term derivative transactions and the application of hedge accounting would not have a significant impact on the financial statements while resulting in a significant administrative burden for the Company or some of the hedge accounting criteria are not met (for example effectiveness). These derivatives are therefore presented as trading derivatives in the table above. Fair value changes of the trading derivatives are recognised in the profit and loss account.

Fair value changes of the above described cash flow hedging instruments are recognised in the revaluation reserve within equity until the hedged items affect the profit and loss account. The revaluation reserve in equity only includes the intrinsic value of currency options that hedge cash flows.

15. OTHER LIABILITIES

Accrued expenses principally represent accruals for finance and operating lease payments of aircraft.

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

16. TAXATION

During the 2008 tax period, the Company expects, after utilisation of tax losses from previous periods, incurring the due income tax in the amount of CZK 25,000 thousand. During the 2007 tax period, the Company utilised tax losses from previous periods. As such, there was no income tax charge for 2007.

The deferred tax asset/(liability) is calculated at the rate 20% (the tax rate for 2009) and 19% (the tax rate for 2010 and 2011) depending on the period of the expected realisation of deferred tax. The deferred tax asset/(liability) can be analysed as follows:

CZK '000	31 December 2008		31 December 2007	
	Equity	Profit and loss account	Equity	Profit and loss account
Deferred tax liability:				
Difference between tax and accounting net book values of fixed assets	N/A	(181,231)	N/A	(160,404)
Hedging derivative instruments – short-term	–	N/A	(21,238)	N/A
Hedging derivative instruments – long-term	–	N/A	–	N/A
	–	(181,231)	(21,238)	(160,404)
Deferred tax asset:				
Provisions for impairment	N/A	32,189	N/A	21,779
Provisions	N/A	258,641	N/A	276,132
Hedging derivative instruments – short-term	295,103	N/A	–	N/A
Hedging derivative instruments – long-term	24,473	N/A	3,063	N/A
Tax loss	N/A	–	N/A	54,043
	319,576	290,830	3,063	351,954
Net deferred tax asset/(liability)	319,576	109,599	(18,175)	191,550
Recognised deferred tax assets/(liability)	319,576	95,775	(18,175)	95,775

A deferred tax asset of CZK 319,576 thousand as at 31 December 2008 (a deferred tax liability of CZK 18,175 thousand as at 31 December 2007) relating to the items charged directly to equity is also recognised in equity (Note 10).

A deferred tax asset amounted to CZK 109,599 thousand as at 31 December 2008. As the difference between the deferred tax asset as at 31 December 2008 and the deferred tax asset recognised in the profit and loss account in 2007 was not significant, the deferred tax asset was not recognised in the profit and loss account in 2008. In the opinion of the Company's management, it is probable that sufficient future taxable profit will be available against which the recognised amount of the deferred tax asset will be utilised.

A deferred tax asset of CZK 191,550 thousand as at 31 December 2007 was recognised in the profit and loss account only in the amount of CZK 95,775 thousand in accordance with the prudence principle.

The Company recognises the total deferred tax asset of CZK 415,351 thousand as at 31 December 2008 (31 December 2007: CZK 77,600 thousand).

17. REVENUE ANALYSIS

Revenue from ordinary activities has been generated as follows:

CZK '000		2008	2007
Sales of goods	– foreign countries	633,434	632,124
Goods		633,434	632,124
Regular transportation	– international	13,714,847	15,499,488
	– domestic	228,422	222,987
Charter services	– international	2,857,659	2,584,411
Other services	– foreign countries	1,265,215	1,167,913
Security and fuel fee		2,690,558	2,046,697
Service fee		92,349	83,787
Operational handling fee and Airport taxes		513,634	565,467
Maintenance provision release		249,674	366,079
Settlement of unused traffic documents		930,810	842,621
Services		22,543,168	23,379,450

The Company's revenues were generated by conducting business with a number of clients in 2008. The major clients are as follows:

- airlines that have contracts with the Company for mutual provision of transport services, optionally bi-lateral contractual arrangements of non-transportation services (for example aircraft repairs, handling etc.);
- travel agencies and individuals who buy transport services; and
- other buyers – non-airlines that buy non-transportation services.

18. COST OF MATERIALS, ENERGY AND SERVICES

CZK '000	2008	2007
Consumed materials	6,129,538	5,314,360
Energy	95,531	119,415
Repairs and maintenance	1,130,884	1,274,091
Travel expenses	375,980	406,283
Services related to transport	1,250,704	1,231,381
Distribution, selling and apron handling services	732,207	821,399
Noise, navigation, landing, parking fees	2,572,648	2,728,303
Ground handling services	1,088,356	1,191,188
Services for passengers (refreshment etc.)	883,323	832,717
Finance leases	1,270,603	1,209,919
Operating leases of aircraft including maintenance provision	1,079,708	1,508,532
Compulsory audit of financial statements	4,264	3,665
Other services	1,748,166	1,632,309
	18,361,912	18,273,562

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

19. EMPLOYEE ANALYSIS

Employee numbers	2008	2007
Average number of members of management	27	31
Average number of staff	4,635	4,746
	4,662	4,777

The Company's management includes members of top management, sections' executive directors and directors of departments who directly report to the President.

CZK '000	Management	Other staff	Total
2008			
Wages and salaries	115,369	3,375,682	3,491,051
Social security costs	10,547	888,261	898,808
Other social costs	1,924	137,888	139,812
	127,840	4,401,831	4,529,671
2007			
Wages and salaries	103,076	3,120,234	3,223,310
Social security costs	36,077	1,097,162	1,133,239
Other social costs	1,932	131,671	133,603
	141,085	4,349,067	4,490,152

Total staff costs are reported without remunerations granted to members of statutory authorities and staff costs abroad. Staff costs abroad include personal costs of local staff and representatives at business representations of the Company in foreign countries. They are reported separately in the profit and loss account.

The remunerations granted to members of statutory authorities and Company's management are stated as follows:

CZK '000	Board of Directors	Supervisory Board	Other management	Total
2008				
Bonuses	1,740	4,830	–	6,570
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	593	–	1,087	1,680
Other benefits (responsibility of statutory authorities insurance)	–	824	–	824
2007				
Bonuses	1,740	3,745	–	5,485
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	742	–	1,449	2,191
Other benefits (responsibility of statutory authorities insurance)	–	890	–	890

20. OTHER OPERATING INCOME

CZK '000	2008	2007
Subsistence allowance	3,794	4,515
Income from advertisement	25,773	24,677
Income from re-invoicing	32,298	54,424
Income from sold and written-off receivables	30	62,013
Income from intermediary activities	4,757	9,810
Settlement of shortages and losses	49,786	22,640
Government grants	13,034	9,247
Other	45,978	53,564
	175,450	240,890

The item Other includes income from personal transport provided on the other airlines' traffic documents, income from the training of flying crew for other carriers, income from rental of areas for advertisement and commissions from pension funds.

21. OTHER OPERATING EXPENSES

CZK '000	2008	2007
Fines and penalty	33,297	14,482
Write-offs of receivables	16,137	39,130
Insurance	93,464	117,446
Denied boarding compensation	24,652	24,907
Sold receivables	–	61,722
Wages and salaries settlement (e.g. termination benefits, injury compensation)	21,257	35,620
Compensations to passengers (for example hotel accommodation, refreshment and phones in the case of flight cancellation, rebooking etc.)	37,837	21,787
Marketing expenses	16,971	15,673
Returned government grant	9,509	–
Shortages and losses	15,476	25,977
Other	28,431	23,781
	297,031	380,525

In 2008, the provisions amounting to CZK 15,702 thousand were released in respect of the written-off receivables mentioned above (2007: CZK 37,831 thousand) (Note 8). The total impact of the operation on the profit and loss account amounted to CZK 435 thousand in 2008 (2007: CZK 1,299 thousand).

The item Returned government grant relates to the grant for the business activity provided by the Ministry of Industry and Trade of the Czech Republic. In 2008, during the regular review of the conditions underlying the grant, the Company identified that the condition regarding the minimum number of new working positions is not met. In accordance with the rules of the General Programme for the Support of Technology Centres and Centres of Strategic Services, the Company will return the grants received and recognised in the profit and loss account in 2006 and 2007, therefore the Company recognised the respective liability.

22. OTHER FINANCIAL INCOME

CZK '000	2008	2007
Exchange rate gains	1,163,506	622,817
Income from derivative financial instruments	554,211	76,695
Other	197	40
	1,717,914	699,552

23. OTHER FINANCIAL EXPENSES

CZK 'ooo	2008	2007
Exchange rate losses	1,727,614	890,569
Expenses from derivative financial instruments	399,867	28,624
Bank charges for transaction payments made by credit cards	117,305	122,996
Other	26,057	34,983
	2,270,843	1,077,172

24. RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions:

CZK 'ooo	2008	2007
Revenue		
Air Cargo Terminal a.s.	–	7,519
Air Czech Catering a.s.	11,858	25,652
AMADEUS MARKETING CSA, s.r.o.	8	5,725
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	814	1,780
CSA Services, s.r.o.	14,608	17,070
ČSA Support s.r.o.	2,415	12,948
SLOVAK AIR SERVICES s.r.o.	11	335
ClickforSky, a.s.	291	79
Ústav jaderného výzkumu Řež a.s.	134	33
LACOMED, spol. s r.o.	118	124
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	1,423,820	5,045
Výzkumný a zkušební letecký ústav, a.s.	11	3
TECHNOEXPORT akciová společnost pro zahraniční obchod	1,540	–
ČEZ, a.s.	324	–
	1,455,952	76,313
Costs		
Air Cargo Terminal a.s.	–	27,625
Air Czech Catering a.s.	243,794	277,999
AMADEUS MARKETING CSA, s.r.o.	–	–
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	8,546	7,780
CSA Services, s.r.o.	166,947	131,865
ČSA Support s.r.o.	111,998	105,583
SLOVAK AIR SERVICES s.r.o.	4,811	2,504
ClickforSky, a.s.	61,214	23,207
Ústav jaderného výzkumu Řež a.s.	2	–
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	1,929,345	1,898,730
Výzkumný a zkušební letecký ústav, a.s.	24	278
ČEZ, a.s.	956	402
	2,527,637	2,475,973

The following related party balances were outstanding at:

CZK '000	31 December 2008	31 December 2007
Receivables		
Air Czech Catering a.s.	–	6,398
AMADEUS MARKETING CSA, s.r.o.	–	–
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	361	686
CSA Services, s.r.o.	5,725	7,481
ČSA Support s.r.o.	1,038	1,112
SLOVAK AIR SERVICES s.r.o.	1,018	7,039
ClickforSky, a.s.	72	62
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	850,215	2,037
LACOMED, spol. s r.o.	8	8
TECHNOEXPORT akciová společnost pro zahraniční obchod	27	–
	858,464	24,823
Payables		
Air Czech Catering a.s.	–	50,310
AMADEUS MARKETING CSA, s.r.o.	–	–
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	2,514	2,810
CSA Services, s.r.o.	20,152	8,181
ČSA Support s.r.o.	11,858	11,565
SLOVAK AIR SERVICES s.r.o.	–	922
ClickforSky, a.s.	–	27,309
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	233,701	252 137
	268,225	353 234

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

CZK '000	31 December 2008	31 December 2007
Provided loans – long-term		
CSA Services, s.r.o.	–	2,355
Provided loans – short-term		
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	1,000	1,000
ClickforSky, a.s.	–	15,000
	1,000	16,000
Received loans – short-term		
Air Czech Catering a.s.	–	70,000

The Company additionally provided/received loans to/from related parties that were repaid at the balance sheet date:

CZK '000	2008	2007
Provided loans – short-term		
Air Cargo Terminal a.s.	–	61,722
Air Czech Catering a.s.	–	40,000
	–	101,722
Received loans – short-term		
Air Czech Catering a.s.	5,112	35,000

Receivables from and payables to related parties including provided and received loans originated under arm's length conditions. Company cars are available for board members and other managers (Note 19).

Total remuneration for the members of the Board of Directors and the members of the Supervisory Board is disclosed in Note 19.

Besides the above stated remuneration and benefits, there was no other consideration provided to the Company's shareholders, members of the Company's boards and management in 2008 and 2007.

In 2008, the Company sold land and buildings in the area "South" at the Prague – Ruzyně airport to Správa Letiště Praha, s.p. (Note 4). In 2009, land in the area "North" at the Prague – Ruzyně airport will be purchased from company Letiště Praha, a.s. (Note 29). Správa Letiště Praha, s.p. has been transformed into Letiště Praha, a.s. This entity as well České aerolinie a.s. is owned by the Czech state.

25. COMMITMENTS

The Company has the following commitments in respect of operating leases of 23 aircraft as at 31 December 2008 (as at 31 December 2007: 24 aircraft) and 2 aircraft which will be included in the Company's fleet in 2009 and 2010:

Aircraft	Currency	Amount paid and payable	Total amounts paid at 31 December 2007	Total amounts paid at 31 December 2008	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	USD '000	102,047	49,035	65,091	14,138	22,818
Airbus A310/ A320/A321/A319	USD '000	187,807	61,531	80,011	19,553	88,243
ATR 42	USD '000	68,456	24,864	33,418	8,554	26,484
Total	USD '000	358,310	135,430	178,520	42,245	137,545
Total *	CZK '000	6,931,865	2,620,029	3,453,648	817,272	2,660,945

* The conversion from USD to CZK was effected using the rate of the Czech National Bank as at 31 December 2008.

The Company will purchase eight Airbus A319 aircraft in 2011 – 2012, in the total official list price value of USD 576,630 thousand as at the delivery date. The actual price will be set in accordance with the contract signed in 2005.

The Company has no other undisclosed significant commitments.

26. CONTINGENT ASSETS AND LIABILITIES

In 2008, the Company concluded contracts for future contract to establish the right to use the land in the Ruzyně airport area in the total amount of CZK 149,630 thousand. The conclusion of the contracts for the establishment of the right of user and also the settlement of purchase price are linked to the fulfilment of legal acts in the future (for example a legally valid building permission).

Contingent liabilities are incurred by the Company from the activities disclosed in Notes 4 and 25 and from the Company's impact on the environment.

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

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

The Company is a defendant in several legal disputes. Management of the Company believes that the outcome of these suits will not have a material effect. The Company is additionally dealing with certain of its receivables from bankrupt debtors through the courts.

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

The Company guarantees the liabilities of its subsidiaries at the amount of CZK 2,500 thousand.

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

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

Management of the Company is not aware of any other significant unrecorded contingent liabilities as at 31 December 2008 and 2007.

27. CASH FLOW STATEMENT

The Company has prepared the cash flow statement using the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash, i.e. all short-term financial assets except for long-term blocked financial assets (Note 6).

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

As the change in a cash flow statement format occurred in 2008, the values of 2007 were adjusted so they were comparable with 2008.

28. TRANSFER OF A PART OF THE COMPANY'S BUSINESS

The following assets and liabilities of the Company were transferred as at 1 April 2007 to the subsidiaries Air Cargo Terminal a.s. and Air Czech Catering a.s.:

CZK '000	Air Cargo Terminal a.s.	Air Czech Catering a.s.
Tangible Fixed Assets – net book value	684,913	339,406
Inventories – net book value	–	16,398
Short-term receivables – net value	7,471	5,324
Cash	–	2,846
Total Assets	692,384	363,974
Provisions	2,006	4,896
Short-term payables	4,772	40,121
Loans	159,547	–
Total Liabilities	166,325	45,017

The number of employees transferred as at 1 April 2007:

	Air Cargo Terminal a.s.	Air Czech Catering a.s.
Employee numbers	116	408

29. SUBSEQUENT EVENTS

With effect from 1 January 2009, the amendment to the Act on Provisions 593/1992 Coll., significantly restricts the creation of tax-deductible provisions for repairs of tangible assets. The Company anticipates that the recognition of new provisions initiated in 2009 will be only non-tax deductible.

On 5 February 2009, based on a resolution passed by the Government of the Czech Republic, the Ministry of Finance of the Czech Republic announced a public tender to select an acquirer of the State's shareholding in České aerolinie a.s., which represents 91.51% of the Company's share capital.

In February 2009, the Company concluded an agreement on the purchase of land in the area "North" at the Prague – Ruzyně airport. The transaction will be realised during 2009. The purchase price of land of CZK 171,279 thousand was determined by an independent valuer (Notes 4 and 26).

In January and April 2009, the Company increased the guarantees for liabilities of its subsidiaries by CZK 500 thousand and EUR 100 thousand.

CZECH AIRLINES COMMERCIAL-TRAFFIC OUTPUT IN 1998–2008

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Flights	total	15,205.0	17,718.5	20,319.0	22,760.5	24,453.0	27,021.5	32,702.0	38,676.0	39,143.5	39,850.0	41,742.5
	IT	15,204.0	17,718.5	19,704.5	21,595.5	23,319.0	25,970.0	31,488.0	37,163.5	37,159.5	37,855.0	39,468.0
	DT	1.0		614.5	1,165.0	1,134.0	1,051.5	1,214.0	1,512.5	1,984.0	1,995.0	2,274.5
Kilometres flown (thousands)	total	34,567.0	38,627.7	41,878.2	45,483.7	47,045.2	54,517.1	67,971.7	82,960.6	82,755.2	82,928.8	86,705.0
	IT	34,566.8	38,627.7	41,551.8	44,853.0	46,430.1	53,935.9	67,291.9	82,117.4	81,742.8	81,920.4	85,579.2
	DT	0.2		326.4	630.7	615.1	581.2	679.8	843.2	1,012.4	1,008.4	1,125.8
Flight hours	total	54,949	62,311	68,809	74,687	78,210	88,769	110,124	132,831	131,503	131,614	138,199
	IT	54,948	62,311	67,912	72,958	76,518	87,196	108,268	130,583	128,818	128,904	135,105
	DT	1		897	1,729	1,692	1,573	1,856	2,248	2,685	2,710	3,094
Passengers Carried (thousands)	total	1,801.8	2,064.1	2,461.7	2,877.3	3,065.0	3,591.5	4,345.4	5,217.6	5,469.9	5,492.2	5,626.0
	IT	1,801.8	2,064.1	2,436.4	2,831.5	3,016.7	3,538.4	4,282.5	5,137.2	5,361.9	5,379.5	5,508.2
	DT			25.3	45.8	48.3	53.1	62.9	80.4	108.0	112.7	117.8
Passengers Kilometres Flown (millions)	total	2,910.6	3,149.5	3,622.6	3,994.3	4,178.3	5,084.1	6,232.1	7,816.8	8,074.5	7,788.5	7,841.2
	IT	2,910.6	3,149.5	3,615.7	3,981.7	4,165.0	5,069.3	6,214.5	7,794.3	8,046.3	7,759.5	7,810.8
	DT			6.9	12.6	13.3	14.8	17.6	22.5	28.2	29.0	30.4
Seat load factor (%)	total	66.3	65.8	70.4	70.8	71.3	72.7	70.5	70.1	71.8	68.4	67.1
	IT	66.3	65.8	70.5	71.0	71.4	72.8	70.6	70.2	71.9	68.4	67.2
	DT			41.9	39.6	44.7	48.7	51.2	51.6	52.8	53.9	51.0
Tonne-kilometres performed (millions)	total	288.3	311.6	360.9	388.3	407.6	498.1	606.0	747.9	771.7	744.5	742.5
	IT	288.3	311.6	360.2	387.1	406.3	496.7	604.4	745.8	769.1	741.9	739.7
	DT			0.7	1.2	1.3	1.4	1.6	2.1	2.6	2.6	2.8
TKMs Freight and Mail performed (millions)	total	26.33	28.16	34.85	28.88	31.53	40.52	45.18	44.40	45.03	43.56	36.78
	IT	26.33	28.16	34.83	28.84	31.50	40.49	45.15	44.38	44.99	43.53	36.75
	DT			0.02	0.04	0.03	0.03	0.03	0.02	0.04	0.03	0.03
Weight Load Factor (%)	total	56.8	56.6	61.4	62.1	63.7	64.7	62.3	62.0	63.2	57.7	56.2
	IT	56.8	56.6	61.4	62.2	63.8	64.7	62.3	62.0	63.2	57.8	56.3
	DT			40.8	40.9	45.6	48.4	51.3	49.7	49.6	50.3	48.8

Note: IT – international transport; DT – domestic transport.

CZECH AIRLINES AIRCRAFT FLEET – AGGREGATE ECONOMIC INDICATORS

	A310	A319	A320	A321
NON-FINANCIAL INDICATORS – ABSOLUTE				
Aircraft in Fleet by Type	3	6	8	2
Average number of aircraft	3.96	4.65	8.00	2.00
Form of ownership:				
– own	1.96			
– finance leases		4.65	6.00	
– operating leases	2.00		2.00	2.00
Average aircraft age	16.63	1.03	3.65	11.59
Kilometres flown				
– scheduled flights	5,183,763	12,295,867	18,851,547	126,428
– total	6,466,136	12,326,231	20,313,081	4,533,848
Flight hours				
– productive (planned)	8,019.37	16,592.98	27,777.45	6,034.07
– productive (actual)	7,915.92	18,019.31	28,755.59	6,231.41
– total	8,031.76	18,035.38	28,806.43	6,238.83
Block hours				
– productive (actual)	8,426.14	21,079.66	33,455.21	6,941.83
– total	8,557.93	21,103.52	33,514.72	6,950.35
Number of takeoffs	1,050	9,814	13,771	2,414
Number of passengers carried	160,078	734,301	1,354,654	349,554
Tonne-kilometres performed ('000)	106,209.6	90,881.0	197,741.0	65,886.3
Available Tonne-kilometres ('000)	171,899.1	193,216.9	345,688.1	93,566.8
Passengers Kilometres Flown ('000)	1,042,205.7	959,999.2	2,098,004.2	731,127.3
Available Seat-kilometres ('000)	1,335,410.0	1,571,563.8	3,087,503.9	958,979.5
Aviation fuel consumption (t)	39,669	43,092	75,140	19,086
NON-FINANCIAL INDICATORS – INDEXED				
Average daily aircraft utilisation				
– from flight hours	7.42	10.59	9.84	8.52
– from block hours	7.91	12.39	11.45	9.50
– from block hours – actual result of previous year	10.42	12.12	10.83	9.34
Average haul length (km)	6,158	1,256	1,475	1,878
Average haul length (hours)				
– from flight hours	7.65	1.84	2.09	2.58
– from block time	8.15	2.15	2.43	2.88
Average speed (kms/hours)				
– from flight hours	805	683	705	727
– from block hours	756	584	606	652
Average aircraft payload (kgs)	16,426	7,373	9,735	14,532
of which: freight, mail (kgs)	1,919	364	439	19
freight, mail (%)	11.69	4.93	4.51	0.13
Average payload available (kgs)	26,585	15,675	17,018	20,637
Use of total available capacity (%)	61.8	47.0	57.2	70.4
Use of total available capacity (%) – actual result of previous year	60.0	43.5	55.8	72.3
Average number of passengers	161	78	103	161
Average number of seats available	207	127	152	212
Seat load factor (%)	78.0	61.1	68.0	76.2
Seat load factor (%) – actual result of previous year	77.0	57.3	66.2	78.2
Average taxiing time (mins)	30	19	21	18
Aviation fuel consumption (kg)				
– per flight hours	4,939	2,389	2,608	3,059
– per block hours	4,635	2,042	2,242	2,746
Aviation fuel consumption (g) per ASK	29.7	27.4	24.3	19.9

B737	B734	B735	AT72	AT42	PRON	BSA	Total
3	7	10	4	8			51
3.00	7.00	10.27	4.00	8.00			50.88
			4.00	1.00			6.96
	5.00	5.00					20.65
3.00	2.00	5.27		7.00			23.27
17.64	10.41	13.83	16.80	5.88			9.54
355,469	9,432,453	16,729,480	3,494,346	6,513,443	170,252		73,153,048
5,702,345	9,979,771	16,841,533	3,510,876	6,860,893	170,252		86,704,966
8,233.52	16,859.60	26,934.52	11,125.97	15,947.91			137,525.39
8,146.56	15,450.27	26,040.80	9,241.56	17,923.99	473.47		138,198.88
8,168.63	15,500.21	26,111.12	9,322.99	17,957.08	474.50		138,646.93
9,118.39	18,580.54	31,167.44	10,685.73	20,778.09	605.20		160,838.23
9,145.23	18,641.08	31,255.49	10,776.74	20,817.58	606.70		161,369.34
3,458	9,793	17,648	8,404	17,506	661		84,519
356,759	803,875	1,083,512	302,324	430,253	11,605	39,107	5,626,022
62,405.4	79,831.9	99,573.2	11,791.5	15,941.3	278.4	11,949.6	742,489.2
87,015.0	148,892.8	207,345.1	20,556.0	29,561.6	469.2	22,117.8	1,320,328.4
692,298.3	850,898.0	1,060,470.8	129,022.9	172,913.5	3,068.0	101,229.2	7,841,237.1
920,432.2	1,378,243.0	1,733,099.3	223,496.2	315,268.9	5,611.6	156,066.2	11,685,674.7
22,624	41,969	66,219	6,320	12,029	218		326,366
7.44	6.05	6.94	6.37	6.13			7.57
8.33	7.28	8.31	7.36	7.11			8.81
8.47	8.03	7.43	7.09	6.75			8.37
1,649	1,019	954	418	392	258		1,026
2.36	1.58	1.48	1.11	1.03	0.72		1.64
2.64	1.90	1.77	1.28	1.19	0.92		1.91
698	644	645	377	382	359		625
624	535	539	326	330	281		537
10,944	7,999	5,912	3,359	2,324	1,635		8,563
17	326	245	51	55	13		943
0.16	4.07	4.15	1.52	2.38	0.82		11.01
15,260	14,919	12,312	5,855	4,309	2,756		15,228
71.7	53.6	48.0	57.4	53.9	59.3	54.0	56.2
70.4	57.0	50.6	56.9	53.9		64.6	57.7
121	85	63	37	25	18	17	85
161	138	103	64	46	33	26	126
75.2	61.7	61.2	57.7	54.8	54.7	64.9	67.1
74.1	65.4	63.4	57.2	55.3		66.9	68.4
17	19	17	10	10	12		16
2,770	2,708	2,536	678	670	459		2,354
2,474	2,251	2,119	586	578	359		2,022
24.6	30.5	38.2	28.3	38.2	38.8		27.9

REPORT OF THE BOARD OF DIRECTORS ON RELATED PARTY TRANSACTIONS

pursuant to Section 66a(g) of the Commercial Code

Section I

Entities Constituting the Holding

1. CONTROLLED ENTITY

České aerolinie a.s. (Czech Airlines)

registered office: Praha 6, Letiště Ruzyně, 16008, registered number: 45795908

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1662

(hereinafter referred to as "controlled entity")

The controlled entity is a company whose core business is commercial air transportation. The company's objects of business are specified in detail in its articles of association.

2. CONTROLLING ENTITY

Czech Republic – Ministry of Finance

registered office: Letenská 525/15, 118 10 Praha 1, registered number: 00006947

(hereinafter referred to as "controlling entity")

The Ministry of Finance of the Czech Republic is a central government authority set up by Act of the Czech National Council No 2/1969 on the establishment of ministries and other central government authorities of the Czech Republic, as amended (the "Competence Act").

The Ministry's principal activities stem from its duties as laid down in the Competence Act.

In compliance with Act No 178/2005 on the winding-up of the National Property Fund of the Czech Republic (the "Fund") and on the competence of the Ministry of Finance of the Czech Republic in the privatization of the assets of the Czech Republic, all the Fund's assets transferred to the State on 1 January 2006.

On the date on which the Fund was wound up, the State assumed all the Fund's rights and obligations under legal relations to which the Fund was party. The Fund's duties passed to the Ministry of Finance of the Czech Republic on this day. The Ministry of Finance of the Czech Republic is competent to manage the assets which transferred to the State.

Under the aforementioned Act, the Ministry of Finance acquired shares in controlled entities and exercises shareholder rights.

3. RELATED ENTITIES

1. Company: Česká exportní banka, a.s.

registered office: 111 21 Praha 1, Vodičkova 34/701
registered number: 63078333

incorporated by entry in the Commercial Register kept by the

Municipal Court in Prague, Section B, Entry 3042

The company's core business is the receipt of deposits from the public and the granting of credit pursuant to Section 1(1)(a) and (b) of Act No 21/1992. The company's objects of business are specified in detail in its articles of association.

2. Company: Exportní garanční a pojišťovací společnost, a.s.

registered office: 111 21 Praha 1, Vodičkova 34/701
registered number: 45279314

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1619

The company's core business is insurance pursuant to Section 7(3) of Act No 363/1999 on insurance, as amended. The company's objects of business are specified in detail in its articles of association.

3. Company: Severočeské mlékárny, a.s., Teplice, v konkursu (in bankruptcy proceedings)

registered office: 415 03 Teplice, Libušina 2154
registered number: 48291749

incorporated by entry in the Commercial Register kept by the Provincial Court in Ústí nad Labem, Section B, Entry 438

The company's core business is the manufacture of dairy products. The company's objects of business are specified in detail in its articles of association.

4. Company: KONAX a.s. - v likvidaci (in liquidation proceedings)

registered office: 586 01 Jihlava, Křižíkova 17
registered number: 46347801

incorporated by entry in the Commercial Register kept by the Provincial Court in Brno, Section B, Entry 807

The company's core business is the production and sale of plush furniture coverings, woven furs and other pile fabrics. The company's objects of business are specified in detail in its articles of association.

5. Company: Ormilk, a.s. v likvidaci, v konkursu (in liquidation proceedings, in bankruptcy proceedings)

registered office: 564 01 Žamberk
registered number: 60109092

incorporated by entry in the Commercial Register kept by the Provincial Court in Hradec Králové, Section B, Entry 1043

The company's core business is the manufacture of dairy products. The company's objects of business are specified in detail in its articles of association.

6. Company: **Výzkumný a zkušební letecký ústav, a.s.**

registered office: 199 05 Praha, Letňany, Beranových 130
registered number: 00010669

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 446

The company's core business is research and development in the field of natural and technical sciences or social sciences. The company's objects of business are specified in detail in its articles of association.

7. Company: **Municipální finanční společnost a.s., abbreviated to MUFIS a.s.**

registered office: 110 00 Praha 1, Jeruzalémská 964/4
registered number: 60196696

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2517

The company's core business is the contract-based intermediation of credit. The company's objects of business are specified in detail in its articles of association.

8. Company: **ČMFL, a.s.**

registered office: 170 06 Praha 7, Janovského 438/2
registered number: 25541889

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 11886

The company's core business is finance leasing.

9. Company: **UNITEX a.s.**

registered office: 659 07 Brno, Šumavská 31
registered number: 49969358

incorporated by entry in the Commercial Register kept by the Provincial Court in Brno, Section B, Entry 1219

The objects of business are specified in the company's articles of association; they are not listed in the certificate of incorporation.

10. Company: **ČEZ, a. s.**

registered office: 140 53 Praha 4, Duhová 2/1444
registered number: 45274649

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1581

The company's core business is the generation of electricity, the assembly, repair and maintenance of speciality electrical equipment and the production of low-voltage switchboards, inspections of electrical equipment, the production and import of chemical agents and chemical formulations classified as inflammable, harmful to health, etc. The company's objects of business are specified in detail in its articles of association.

11. Company: **BH CAPITAL, a.s.**

registered office: 602 00 Brno, Příkop 834
registered number: 00546682

incorporated by entry in the Commercial Register kept by the Provincial Court in Brno, Section B, Entry 230

The company's core business is organizational and economic consulting, and the purchase and resale of goods. The company's objects of business are specified in detail in its articles of association.

12. Company: **Teplotechna Praha, a.s., v konkursu (in bankruptcy proceedings)**

registered office: 113 39 Praha 2, Ječná 39
registered number: 60192933

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2283

The company's core business is the production of plastic products for the building industry, project activities in capital construction, and the implementation of industrial construction projects. The company's objects of business are specified in detail in its articles of association.

13. Company: **SEVAC a.s. v likvidaci (in liquidation proceedings)**

registered office: 281 63, okres Kolín, Kostelec nad Černými Lesy, Bohumile
registered number: 60192968

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2291

The company's core business is the research, development and production of immunological, biological, chemical and pharmaceutical formulations, cosmetic and other preparations, and the supply of these products to customers. The company's objects of business are specified in detail in its articles of association.

14. Company: **VIPAP VIDEM KRŠKO d.d.**

registered office: SI-8270 Krško, Tovarniška 18, Republic of Slovenia

The company's core business is the manufacture of pulp from wood or other fibrous materials and the manufacture of paper and paperboard.

15. Company: **HOLDING Kladno a.s., "v likvidaci" (in liquidation proceedings)**

registered office: 272 00 Kladno, Cyrila Boudy 1444
registered number: 45144419

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1335

The company's core business is the production and sale of unwrought steel, fine section steel, medium and coarse rectangular bars and drawn steel, pipe products, steel welded pipes (except precision), and cylinders for forming metals. The company's objects of business are specified in detail in its articles of association.

16. Company: **TECHNOEXPORT akciová společnost pro zahraniční obchod**
 registered office: 113 34 Praha 1, Václavské náměstí 846/1
 registered number: 00000841
 incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section BXXXVI, Entry 62
 The company's core business is the purchase and resale of goods (except for the goods listed in an annex to Act No 455/1991 on licensed trade and goods excluded by that act). The company's objects of business are specified in detail in its articles of association.

17. Company: **STROJIMPORT a.s.**
 registered office: 130 00 Praha 3, U Nákladového nádraží 6
 registered number: 00000795
 incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 29
 The company's core business is distributive trades (except the activities listed in annexes to Act No 455/91), the letting of properties and non-residential premises, and ancillary services. The company's objects of business are specified in detail in its articles of association.

18. Company: **Českomoravská nemovitostní, a.s.**
 registered number: 60192836
 Liquidated, deleted from the Commercial Register on 12 August 2008.

19. Company: **ČKD EXPORT, a.s. (until 9 June 2008 ŠKODAEXPORT, a.s.)**
 registered office: 113 32 Praha 1, Opletalova 41/1683
 registered number: 00548421
 incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 107
 The company's core business is the design of electrical equipment, the preparation and production of technical designs, and technical consulting in the fields of civil engineering and energy. The company's objects of business are specified in detail in its articles of association.

20. Company: **Hotelinvest a.s., v konkursu (in bankruptcy proceedings)**
 registered office: 110 00 Praha 1, Nekázanka 4
 registered number: 00251976
 incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section BXXXVI, Entry 83
 The company's core business is the purchase and resale of goods and accommodation services, including the operation of catering services in those facilities. The company's objects of business are specified in detail in its articles of association.

21. Company: **Silnice Teplice a.s. v likvidaci (in liquidation proceedings)**
 registered office: 415 01 Teplice, Chelčického 7
 registered number: 47285583
 incorporated by entry in the Commercial Register kept by the Provincial Court in Ústí nad Labem, Section B, Entry 327
 The company's core business is construction, reconstruction, repair and maintenance in the areas of engineering, earth-moving, industrial and waterworks construction. The company's objects of business are specified in detail in its articles of association.

22. Company: **MERO ČR, a.s.**
 registered office: 278 01 Kralupy nad Vltavou, Veltruská 748
 registered number: 60193468
 incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2334
 The company's core business is the purchase, sale and storage of fuels and lubricants, including the import thereof, excluding the operation of petrol stations and exclusive procurement, and the sale and storage of fuels and lubricants in consumer-sized packages of up to 50 grams per package. The company's objects of business are specified in detail in its articles of association.

23. Company: **ČEPRO, a.s.**
 registered office: 170 04, Praha 7, Dělnická 213/12
 registered number: 60193531
 incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2341
 The company's core business is the manufacture and processing of fuel and lubricants, and operations in the field of hazardous waste management. The company's objects of business are specified in detail in its articles of association.

24. Company: **OSINEK, a.s. "v likvidaci" (in liquidation proceedings)**
 registered office: 186 00, Praha 8, Prvního pluku 206/7
 registered number: 00012173
 incorporated by entry in the Commercial Register kept by the Provincial Court in Ostrava, Section B, Entry 2392
 The company's core business is facility management, and the intermediation of trade and services. The company's objects of business are specified in detail in its articles of association.

25. Company: **PPP CENTRUM a.s.**

registered office: 128 00 Praha 2, Rašínovo nábřeží 42

registered number: 00013455

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 9672

The company's core business is the organization of specialist courses, training and other educational events, including instructor services.

The company's objects of business are specified in detail in its articles of association.

26. Company: **PAL a.s. v likvidaci (in liquidation proceedings)**

registered office: 120 00 Praha 2 – Nové Město, Rašínovo nábř. 390/42

registered number: 00211222

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 614

The company's core business is the management of property intended for restitution and the settlement of economic activities for public limited companies. The company's objects of business are specified in detail in its articles of association.

27. Company: **THERMAL-F, a.s.**

registered office: 360 01 Karlovy Vary, I. P. Pavlova 2001/11

registered number: 25401726

incorporated by entry in the Commercial Register kept by the Provincial Court in Plzeň, Section B, Entry 813

The company's core business is the operation of private healthcare facilities of the following type and with the following scope of care: psychiatry, balneology, and therapeutic rehabilitation – the provision of comprehensive inpatient and outpatient spa treatment – preventive, curative and rehabilitative treatments. The company's objects of business are specified in detail in its articles of association.

28. Company: **Dřevařské závody Borohrádek - F, a.s.**

registered office: 517 24 Borohrádek, okres Rychnov nad Kněžnou, Nádražní 35

registered number: 25288016

incorporated by entry in the Commercial Register kept by the Provincial Court in Hradec Králové, Section B, Entry 1783

The company's core business is joinery. The company's objects of business are specified in detail in its articles of association.

29. Company: **LETKA, a.s. v likvidaci (in liquidation proceedings)**

registered office: 128 00 Praha 2, Rašínovo nábřeží 42

registered number: 25134132

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 4759

The company's core business is the purchase and resale of goods. The company's objects of business are specified in detail in its articles of association.

30. Company: **STROJÍRNÝ TATRA PRAHA, a.s.**

registered office: 155 21 Praha 5, Zličín, K metru 312

registered number: 00674311

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 226

The company's core business is property letting without the provision of services other than basic services connected with the lease, and wholesale. The company's objects of business are specified in detail in its articles of association.

31. Company: **STAVOCENTRAL, a.s.**

registered office: 128 00 Praha 2, Jaromírova 64

registered number: 47116943

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1936

The company's core business is the leasing of machinery and vehicles. The company's objects of business are specified in detail in its articles of association.

32. Company: **JUNIOR centrum, a.s. v likvidaci (in liquidation proceedings)**

registered office: 538 07 Seč, ul. Čs. Pionýrů 197

registered number: 48154946

incorporated by entry in the Commercial Register kept by the Provincial Court in Hradec Králové, Section B, Entry 894

The company's core business is catering and accommodation services. The company's objects of business are specified in detail in its articles of association.

33. Company: **AGM, a.s. v likvidaci (in liquidation proceedings)**

registered office: 110 00 Praha 1, Senovážné nám. 24

registered number: 49240269

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1983

The company's core business is accommodation services. The company's objects of business are specified in detail in its articles of association.

34. Company: **JUNIA s.r.o. "v likvidaci" (in liquidation proceedings)**
 registered office: 702 00 Ostrava, Stodolní 9, okres Ostrava - město
 registered number: 45788740
 incorporated by entry in the Commercial Register kept by the Provincial Court in Ostrava, Section C, Entry 15852

The company's core business is the administration of movable and immovable property, and the purchase and resale of goods (apart from the goods referred to in an annex to Act No 455/1991 and goods precluded by this legislation).

35. Company: **Česká inkasní, s.r.o. v likvidaci (in liquidation proceedings)**

registered number: 60468165

Deleted from the Commercial Register on 30 September 2008.

36. Company: **Letiště Praha, a. s.**

registered office: 160 08 Praha 6, K Letišti 6/1019

registered number: 28 24 45 32

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 14003

The company's core business is manufacture, commerce and services as listed in Annexes 1 to 3 of the Trade Licensing Act. The company's objects of business are specified in detail in its articles of association. By a decision of the Minister of Transport of 18 November 2008, as of 1 December 2008 assets earmarked for privatization in Privatization Proposal No 64162, as amended at 31 October 2008, were removed from the state enterprise Správa Letiště Praha, s.p. and transferred to the Czech Republic, represented by the Ministry of Finance. Under an agreement on the contribution of the privatized assets of Správa Letiště Praha, s.p., concluded on 28 November 2008 between the Czech Republic (Ministry of Finance) and the public limited company Letiště Praha, a. s., having its registered office at Praha 6, K Letišti 6/1019, 16008, incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 14003, registered number 282 44 532, the assets were contributed to the share capital of Letiště Praha, a. s. in accordance with Resolutions of the Government of the Czech Republic No 1035 of 12 September 2007 and No 888 of 9 July 2008, such being under the conditions laid down by Act No 92/1991 on conditions for the transfer of state assets to other persons, as amended.

37. Company: **EXPLOSIA a.s.**

registered office: 530 50 Pardubice, Semtín 107

registered number: 25291581

incorporated by entry in the Commercial Register kept by the Provincial Court in Hradec Králové, Section B, Entry 1828

The company's core business is the research, development,

manufacture, destruction, disabling, processing, purchasing and sale of explosives. The company's objects of business are specified in detail in its articles of association.

38. Company: **GALILEO REAL, k.s.**

registered office: 170 06 Praha 7, Janovského 438/2

registered number: 26175291

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section A, Entry 42738

The company's core business is estate agency services and intermediation services in the field of an unqualified trade. The company's objects of business are specified in detail in its articles of association.

39. Company: **Global Investment a.s. v likvidaci (in liquidation proceedings)**

registered office: 110 00 Praha 1, Těšnov 1

registered number: 25071858

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 4245

The company's core business is the letting of its own properties, including the provision of basic services connected with the lease. The company's objects of business are specified in detail in its articles of association.

40. Company: **IMOB a.s.**

registered office: 170 06 Praha 7, Janovského 438/2

registered number: 60197901

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2651

The company's core business is estate agency services. The company's objects of business are specified in detail in its articles of association.

41. Company: **PRISKO a.s.**

registered office: 170 06 Praha 7, Janovského 438/2

registered number: 46355901

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1729

The company's core business is the letting of properties and the provision of related services. The company's objects of business are specified in detail in its articles of association.

A list of companies controlled by the above-mentioned related entities is included in Appendix No 1 to this report as an integral part hereof.

Section II Relations between Holding Entities

1. METHOD OF CONTROL

The controlling entity holds equities in the controlled entity, the total share of which amounts to 91.51% of the share capital of the controlled entity.

2. INTERLOCKING MANAGEMENT

As at the date this report was prepared, the controlled entity, acting with due professional care, is fully aware of the following:

Petr Polák

residing at Podolská 606/120, Praha 4, Podolí, 147 00, has been a member of the supervisory board of the controlled entity since 27 November 2006 and, concurrently, a member of the supervisory board of the related entity OSINEK, a.s. "v likvidaci" since 28 November 2008 and a member of the supervisory board of the related entity TECHNOEXPORT akciová společnost pro zahraniční obchod since 25 June 2007.

Tomáš Uvíra

residing at Topolová 772, Jesenice, 252 42, has been first vice-chairman of the supervisory board of the controlled entity since 10 April 2007 and concurrently a member of the supervisory board of the related entity Komerční úvěrová pojišťovna EGAP, a.s. since 10 October 2007.

3. STRUCTURE OF RELATIONS

The controlling entity has the following shares (expressed as a percentage) in the related entities:

Related entities	Share (%)	Remarks
Česká exportní banka, a.s.	39.00	
Exportní garanční a pojišťovací společnost, a.s.	40.00	company operating within the scope of Act No 219/2000
Severočeské mlékárny, a.s. Teplice, v konkursu	40.78	bankruptcy declared on 14 May 1996
KONAX a.s. - v likvidaci	44.10	
Ormmilk, a.s. v likvidaci, v konkursu	46.99	
Výzkumný a zkušební letecký ústav, a.s.	47.55	acquisition of shares from former Czech Consolidation Agency (ČKA) on 1 January 2008
Municipální finanční společnost a.s., abbreviated to MUFIS a.s.	49.00	
ČMFL, a.s.	51.72	acquisition of shares from former ČKA on 1 January 2008
UNITEX a.s.	52.00	
ČEZ, a. s.	63.02	sale of 17,625,013 shares on the Prague Stock Exchange

BH CAPITAL, a.s.	71.89	acquisition of shares from former ČKA on 1 January 2008
Teplotechna Praha, a.s., v konkursu	73.52	
SEVAC a.s. v likvidaci	78.86	
České aerolinie a.s.	91.51	acquisition of 34.59% of shares from former ČKA on 1 January 2008
VIPAP VIDEM KRŠKO d.d.	96.50	acquisition of shares from former ČKA on 1 January 2008
HOLDING KLADNO a.s. "v likvidaci"	96.85	
TECHNOEXPORT akciová společnost pro zahraniční obchod	98.85	acquisition of shares on 1 April 2008 in the settlement of the liquidation surplus of Česká inkasní, s.r.o. v likvidaci
STROJIMPORT a.s.	99.22	acquisition of shares on 1 April 2008 in the settlement of the liquidation surplus of Česká inkasní, s.r.o. v likvidaci
Českomoravská nemovitostní, a.s.	100	liquidated, deleted from the Commercial Register on 12 August 2008
ČKD EXPORT, a.s. (until 9 June 2008 ŠKODAEXPORT, a.s.)	100	share transfer on 26 May 2008
Hotelinvest a.s., v konkursu	100	acquisition of shares on 1 April 2008 in the settlement of the liquidation surplus of Česká inkasní, s.r.o. v likvidaci
Silnice Teplice a.s. v likvidaci	100	
MERO ČR, a.s.	100	
ČEPRO, a.s.	100	
OSINEK, a.s. "v likvidaci"	100	in liquidation proceedings since 5 November 2008
PPP Centrum a.s.	100	
PAL a.s. v likvidaci	100	
THERMAL-F, a.s.	100	
Dřevařské závody Borohrádek - F, a.s.	100	
LETKA, a.s. v likvidaci	100	share liquidation on 19 December 2008
STROJÍRNY TATRA PRAHA, a.s.	100	4
STAVOCENTRAL, a.s.	100	
JUNIOR centrum, a.s. v likvidaci	100	
AGM, a.s. v likvidaci	100	share liquidation on 5 December 2008
JUNIA s.r.o. "v likvidaci"	100	
Česká inkasní, s.r.o. v likvidaci	100	deleted from the Commercial Register on 30 September 2008
Letiště Praha, a. s.	100	company incorporated on 6 February 2008, increase in share capital recorded in Commercial Register on 5 December 2008
Explosia a.s.	100	acquisition of shares from former (ČKA) on 1 January 2008
GALILEO REAL, k.s.	100	acquisition of shares from former (ČKA) on 1 January 2008
Global Investment a.s. v likvidaci	100	acquisition of shares from former (ČKA) on 1 January 2008
IMOB a.s.	100	acquisition of shares from former (ČKA) on 1 January 2008
PRISKO a.s.	100	acquisition of shares from former (ČKA) on 1 January 2008

Section III Reporting Period

This report was prepared for the last accounting period, i.e. the period from 1 January 2008 to 31 December 2008.

Section IV Contracts and Agreements Concluded between the Holding Entities

Summary of contracts concluded in the reporting period.

CONTRACTS CONCLUDED IN ACCORDANCE WITH THE COMMERCIAL CODE

Business cooperation agreement

Parties: ČEZ, a. s.; České aerolinie a.s.

Agreement on conditions and procedures for the cashless, invoiced sale of ČSA transport documents

Parties: TECHNOEXPORT akciová společnost pro zahraniční obchod; České aerolinie a.s.

Heat supply agreement

Purchase agreement for movable assets at the Prague-Ruzyně international civil airport

Agreement on a future purchase agreement for a neutralization station and blue warehouse

Agreement on a future lease agreement for a blue warehouse

Agreement on a future lease agreement for a neutralization station

Parking space lease agreement

Agreement on a future purchase agreement for real estate in the North Complex

Hostel purchase agreement

Purchase agreement for real estate in the South Complex

Administration and maintenance agreement

Agreement on a future agreement on the establishment of a Water Mains easement

Agreement on a future agreement on the establishment of a Heat easement

Agreement on a future agreement on the establishment of a Heavy Current easement

Agreement on a future agreement on the establishment of a Light Current easement

Agreement on a future agreement on the establishment of a pre-emptive right attached to land parcels in the North Complex

Agreement on the establishment of a lien on HF

Agreement on a future agreement on the establishment of a pre-emptive right attached to Building HG

Agreement on a future agreement on the establishment of an easement

Agreement on a future agreement on the establishment of an easement

Agreement on a future agreement on the discontinuance of an easement

Agreement on a future agreement on the discontinuance of an easement

Agreement on a future agreement on the establishment of an easement on HG

Agreement on the establishment of a pre-emptive right attached to HB

Agreement on the discontinuance of easements

Non-residential lease agreements

Connection agreement

Proposal of a solution to ownership relations at Prague-Ruzyně international civil airport

Agreement on the establishment of an easement

Safety equipment service agreement

Settlement agreement

Framework agreement on cooperation and on the scope, quality and standard of services provided to Czech Airlines

Agreement on settlement and cooperation in the remedying of environmental damage between LP and CSA

Lease of non-residential premises – Shop, DFR A, B

Agreement on the letting of non-residential premises and the provision of certain related services

Agreement on the safekeeping of dangerous items

STA installation, administration and servicing

Parties: Letiště Praha, a. s.; České aerolinie a.s.

No other contracts were concluded in the reporting period.

In the opinion of the Board of Directors, the above-mentioned contracts were concluded on an arm's-length basis, i.e. under ordinary terms of business and for prices usual in business relations. The detailed terms and conditions of the contracts are considered trade secrets in accordance with Section 17 of the Commercial Code. There was no detriment to the controlled entity.

Section V

Acts in Law in the Interests of Related Entities, Other Measures in the Interests or at the Instigation of Related Entities Adopted or Implemented by the Controlled Entity, Considerations and Counter-Considerations

In the reporting period, the Board of Directors of the controlled company did not execute any acts in law in the interests of related entities, nor were other measures adopted which were in the interests or at the instigation of related entities or were implemented by the controlled entity.

Likewise, the Board of Directors is not aware of any situation where the related entities mutually and knowingly accepted any reciprocal measures or consideration which would act to the detriment of the related entities or the controlled entity.

Section VI Confidentiality

1. Information and facts that are parts of the trade secrets of the controlling, controlled and other related entities, as well as information specified as confidential by any entity which is a component of the holding, are considered confidential. Furthermore, this includes all information concerning business relations, the disclosure of which could, in and of itself or in connection with other information or facts, be detrimental to any entity forming the holding.
2. For the reasons cited above this report does not include the following:
 - information about projects on the acquisition of a capital interest in selected companies where the controlled entity was the party preparing the acquisition,
 - information regarding the business terms and price conditions of contracts.

Section VII Conclusion

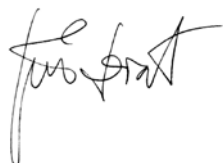
1. This report was discussed and approved at the regular meeting of the Board of Directors of Czech Airlines held on 24 March 2009.
2. This report will be submitted to the Supervisory Board for review and to the auditor, who will audit the financial statements in accordance with the relevant legislation. With consideration for the fact that the controlled company is preparing an annual report, this report will be attached to that annual report and will be filed within the time prescribed by law in the collection of documents kept in the Commercial Register at the Municipal Court in Prague.

Prague, 24 March 2009



Radomír Lašák

Chairman of the Board of Directors and President



Jiří Devát

Vice-Chairman of the Board of Directors

APPENDIX NO 1 TO THE REPORT ON RELATED PARTY TRANSACTIONS

List of Companies Controlled by Related Entities

Česká exportní banka, a.s.

Exportní garanční a pojišťovací společnost, a.s.

Komerční úvěrová pojišťovna EGAP, a.s. – 34.00% share, having its registered office at Praha 4, Na Pankráci 1683/127, 14000, registered number: 27245322

Česká exportní banka, a.s. – 25% share, having its registered office at Praha 1, Vodičkova 34/701, 11121, registered number: 63078333

Severočeské mlékárny, a.s., Teplice, v konkursu (in bankruptcy proceedings)

KONAX a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied

Or milk, a.s. v likvidaci, v konkursu (in liquidation proceedings, in bankruptcy proceedings) – information significant for the preparation of the report was not supplied

Výzkumný a zkušební letecký ústav, a.s. – information significant for the preparation of the report was not supplied

Municipální finanční společnost a.s., abbreviated to MUFIS a.s.

ČMFL, a.s.

AGROCREDIT, a.s. – 100% share, having its registered office at Praha 4, Durychova 101, 14201, registered number: 25542524

UNITEX a.s. – information significant for the preparation of the report was not supplied

ČEZ, a. s.

I & C Energo a.s. – 100% share (held until 30 June 2008, then 0%), having its registered office at Třebíč, Pražská 684/49, 674 01, registered number: 49433431

AFRAS Energo s.r.o. – 100% share (held until 30 June 2008, then 0%), having its registered office at Třebíč, Pražská 684/49, 674 01, registered number: 60714123

CEZ Bosna i Hercegovina d.o.o. – 100% share, incorporated 21 March 2008, having its registered office at Sarajevo, Fra Andela Zvizdovica br. 1, Bosnia-Herzegovina, registered number: 65-01-0142-08

CEZ Bulgaria EAD – 100% share, having its registered office at Sofia, Municipality of Sredets, 140 G.S. Rakovski street, 1000, Republic of Bulgaria, BULSTAT No 131434768

CEZ Ciepło Polska sp. z o.o. – 100% share, having its registered office at Warszawa, ul. Nowy Świat 64, 00-357, Republic of Poland, registered number: 0000287855

CEZ Deutschland GmbH – 100% share, having its registered office at München, Karl-Theodor Str. 69, 80803, Federal Republic of Germany, registered number: HRB 139537

CEZ Distributie S.A. – 51.01% share, having its registered office at Craiova, Dolj County, 2, Brestei St, 200581, Romania, registered number: 14491102

CEZ Elektro Bulgaria AD – 67.00% share, having its registered office at Sofia, Municipality of Sredets, 140 G.S. Rakovski street, 1000, Republic of Bulgaria, registered number: BULSTAT No 175133827

CEZ Elektroproduktstvo Bulgaria AD – 100% share, incorporated 10. 12. 2008, having its registered office at Village of Ezerovo, Varna District, 9168 Varna, Republic of Bulgaria, registered number: 200511185

CEZ Finance B.V. – 100% share, having its registered office at Amsterdam, Prins Bernhardplein 200, 1097JB, Netherlands, registered number: 33264065

CEZ Hungary Ltd. – 100% share, having its registered office at Budapest, Károlyi Mihály u. 12, IV. em., Ybl Palota Irodaház, 1053, Republic of Hungary, registered number: 13520670-4013-113-01

CEZ Laboratories Bulgaria EOOD – 100% share, having its registered office at Sofia, 1 Dobrinova Skala str., Lyulin Municipality, Republic of Bulgaria, registered number: BULSTAT No 175123128

CEZ MH B.V. – 100% share, having its registered office at Rotterdam, Weena 327, 3013 AL, Netherlands (registered office until 1 December 2008: Rotterdam, Weena 340, 3012 NJ, Netherlands), registered number: 24426342

CEZ Poland Distribution B.V. – 100% share, having its registered office at Rotterdam, Weena 327, 3013 AL, Netherlands (registered office until 1 December 2008: Rotterdam, Weena 340, 3012 NJ, Netherlands), registered number: 24301380

Elektrownia Skawina S.A. – 99.91% share (until 23 September 2008 a share of 74.91%), having its registered office at Skawina, ul. Piłsudskiego 10, 32-050, Republic of Poland, registered number: 0000038504

CEZ Polska sp. z o.o. – 100% share, having its registered office at Warszawa, ul. Rondo ONZ lokal VII Pietro, 00-124, Republic of Poland, registered number: 000026614

CEZ Razpredelenie Bulgaria AD – 67.00% share (name until 29 January 2008: Elektrorazpredelenie Stolichno AD), having its registered office at Sofia, 330 Tsar Simeon St., Ilinden region, 1309, Republic of Bulgaria, registered number: BULSTAT No 130277958

CEZ Romania S.R.L. – 100% share, having its registered office at București, Sector 1, Str. Ion Ionescu De La Brad, Nr. 2A, Romania, registered number: 18196091

CEZ RUS OOO – 100% share, incorporated 6 February 2008, having its registered office at Moskva, Presnenskij val 19, 123557, Russian Federation, registered number: 1087746177628

CEZ Servicii S.A. – 51.00% share, having its registered office at Pitești, 148 Republicii Boulevard, 110177, Romania, registered number: 20749442

CEZ Silesia B.V. – 100% share, having its registered office at Rotterdam, Weena 327, 3013 AL, Netherlands (registered office until 1 December 2008: Rotterdam, Weena 340, 3012 NJ, Netherlands), registered number: 24305701

CEZ Chorzow B.V. – 100% share, having its registered office at Rotterdam, Weena 327, 3013 AL, Netherlands (registered office until 1 December 2008: Rotterdam, Weena 340, 3012 NJ, Netherlands), registered number: 24305703

Elektrociepłownia Chorzów ELCHO sp. z o.o. – 75.20% share, having its registered office at Chorzów, ul. M. Skłodowskiej-Curie 30, 41-503, Republic of Poland, registered number: 0000060086

CEZ Slovensko, s.r.o. – 100% share, having its registered office at Bratislava, Gorkého 3, 811 01, Slovak Republic, registered number: 36797332

CEZ Srbija d.o.o. – 100% share, having its registered office at Beograd, Bulevar Mihajla Pupina 6, Republic of Serbia, registered number: 20180650

CEZ Trade Bulgaria EAD – 100% share, having its registered office at Sofia, Municipality of Sredets, 140 G.S. Rakovski street, 1000, Republic of Bulgaria, registered number: BULSTAT No 113570147

CEZ Trade Polska sp. z o.o. – 100% share, having its registered office at Warszawa, ul. Rondo ONZ, lokal VII Pietro, 00-124, Republic of Poland, registered number: 0000281965

CEZ Trade Romania S.R.L. – 99.99% share (other member's share: ČEZ Správa majetku, s.r.o.: 0.01%), having its registered office at București, Sector 1, Ion Ionescu de la Brad, Nr. 2B, Romania, registered number: 21447690

CEZ Ukraine CJSC – 100% share, having its registered office at Kiev, Velika Vasilkivska street 5, 01004, Ukraine, registered number: 34728482

CEZ Vanzare S.A. – 51.01% share, having its registered office at Craiova, Dolj County, 2, Brestei St, 200581, Romania, registered number: 21349608

CEZTel, a.s. – 100% share, having its registered office at Praha 2, Fügnerovo náměstí 1866/5, 120 00, registered number: 25107950

CM European Power International B.V. – 50.00% share, incorporated 17 July 2008, having its registered office at Rotterdam, Weena 327, 3013 AL, Netherlands (registered office until 1 December 2008: Weena 340, 3012 NJ, Rotterdam, Netherlands), registered number: 44525133

CM European Power International s.r.o. – 100% share, incorporated 5 December 2008, having its registered office at Bratislava, Vlčie hrdlo 1/A, 824 12, Slovak Republic, registered number: 44525133

ČEZ Distribuce, a. s. – 100% share (from 22 January 2008 to 1 October 2008 share held by ČEZ, a. s.: 99.72%; remaining share of 0.28% held by EVI, a.s.), having its registered office at Děčín 4, Teplická 874/8, 405 02, registered number: 27232425

ČEZ Distribuční služby, s.r.o. – 100% share, having its registered office at Ostrava – Moravská Ostrava, 28. října 3123/152, 709 02, registered number: 26871823

ČEZ Energetické produkty, s.r.o. – 100% share, having its registered office at Hostovice, Komenského 534, 253 01, registered number: 28255933

ČEZ Energetické služby, s.r.o. – 100% share (until 1 October 2008 share held by EVI, a.s.: 100%; from 1 October 2008 share held by ČEZ, a. s.: 100%), having its registered office at Ostrava – Vítkovice, Výstavní 1144/103, 706 02, registered number: 27804721

ČEZ ENERGOSERVIS spol. s r.o. – 100% share, having its registered office at Třebíč, Bráfova 16, 674 01, registered number: 60698101

- ČEZ ICT Services, a. s. (ČEZnet, a.s.) – 100% share (name until 30 September 2008: ČEZnet, a.s.), having its registered office at Praha 2, Fügnerovo náměstí 1866/5, 120 00, registered number: 26470411
- SINIT, a.s. – 100% share, having its registered office at Ostrava – Mariánské Hory, Emila Filly 296/13, 709 00, registered number: 25397401
- ČEZ Logistika, s.r.o. – 100% share, having its registered office at Ostrava – Moravská Ostrava, 28. října 3123/152, 709 02, registered number: 26840065
- ČEZ Měření, s.r.o. – 100% share, having its registered office at Hradec Králové, Riegrovo náměstí 1493, 500 02, registered number: 25938878
- ČEZ Obnovitelné zdroje, s.r.o. – 100% share, having its registered office at Hradec Králové, Křížkova 788, 500 03, registered number: 25938924
- ČEZ Prodej, s.r.o. – 100% share, having its registered office at Praha 4, Duhová 1/425, 140 53, registered number: 27232433
- ČEZ Správa majetku, s.r.o. – 100% share (from 4 January 2008 to 1 October 2008 share held by ČEZ, a.s.: 99.23%; remaining share of 0.77% held by EVI, a.s.), having its registered office at Děčín IV., Teplická 874/8, 405 49, registered number: 26206803
- ČEZ Teplárenská, a.s. – 100% share, se Chomutov, Školní 1051/30, 430 01 (registered office from 28 January 2008 to 6 March 2008: Chomutov, Školní 1051, 430 01; registered office until 28 January 2008: Most, Komořany, Teplárenská 2, 434 03), registered number: 27309941
- ALLEWIA leasing s.r.o. – 100% share (held as of 12 December 2008), having its registered office at Bohumín, Šunychelská 1159, 735 81, registered number: 61942634
- ČEZ Zákaznické služby, s.r.o. – 100% share, having its registered office at Plzeň, Guldenerova 2577/19, 303 28, registered number: 26376547
- ČEZData, s.r.o. – 100% share (company wound up on 1 October 2008), having its registered office at Plzeň, Guldenerova 2577/19, 303 38, registered number: 27151417
- Energetické opravy, a.s. – 100% share (sale of share on 4 March 2008), having its registered office at Kadaň, Prunéřov č. 375, 432 0, registered number: 25040707
- Energetika Vítkovice, a.s. (EVI, a.s.) – 100% share (company wound up on 1 October 2008), having its registered office at Ostrava – Vítkovice, Výstavní 1144/103, 706 02, registered number: 25854712
- ENERGOKOV, s.r.o., v konkursu – 100% share (deleted from Commercial Register on 21 August 2008), having its registered office at Děčín 1, Krokova 12, 405 01, registered number: 25015621
- ENPRO, a.s. – 100% share (company wound up on 4 June 2008), having its registered office at Přerov I, Město, náměstí Dr. Edvarda Beneše 1913/20, 750 02, registered number: 26831848
- ENPROSPOL, s.r.o. – 100% share (company wound up on 4 June 2008), having its registered office at Děčín, Resslerova 357/9, 405 02, registered number: 25488767
- ESS s.r.o. v likvidaci (in liquidation proceedings) – 51.00% share (name until 18 April 2008: ESS s.r.o.; entered into liquidation on 18 April 2008), having its registered office at Teplice – Sobědruhy, Důlní 97, 415 10, registered number: 25013271
- LOMY MOŘINA spol. s r.o. – 51.05% share, having its registered office at Mořina, 267 17, registered number: 61465569
- NERS d.o.o. – 51% share, having its registered office at Gacko, Industrijska zona bb, Bosnia-Herzegovina, registered number: RU-1-1864-00
- New Kosovo Energy L.L.C. – 100% share, having its registered office at Prishtina, Andrej Gropa Nr. 1, 10000, Kosovo, registered number: 70371863
- OSC, a.s. – 66.67% share, having its registered office at Brno, Staňkova 18a, 612 00, registered number: 60714794
- Ovidiu Development S.R.L. – 95.00% share (other member's share: CEZ Poland Distribution B.V.: 5.00%, share held as of 29 August 2008), having its registered office at Galbiori, 2 Morii St., Constanța County, Romania, registered number: 18874682
- PPC Úžín, a.s. – 100% share, having its registered office at Praha 3, Seifertova 570/55, 130 00, registered number: 27198367
- STE - obchodní služby spol. s r.o. (abbreviation: STE-OS s.r.o.) v likvidaci (in liquidation proceedings) – 100% share, having its registered office at Praha 2, Vinohradská 8, 120 21, registered number: 49826182
- Severočeské doly a.s.
- PRODECO, a.s. – 100% share (50.5% share until 26 September 2008), having its registered office at Teplice, Masarykova 51, 416 78, registered number: 25020790
- SD - 1.strojírenská, a.s. – 100% share, having its registered office at Bílina, Důlní 437, 418 01, registered number: 25437127
- SD - Autodoprava, a.s. – 100% share, having its registered office at Bílina, Důlní 429, 418 01, registered number: 25028197

- SD - Humatex, a.s. – 100% share (199% share until 7 November 2008, then 0%), having its registered office at Bílina, Důlní 429, 418 01, registered number: 25458442
- SD - Kolejová doprava, a.s. – 100% share, having its registered office at Kadaň, Tušimice 7, 432 01, registered number: 25438107
- SD - Rekultivace, a.s. – 100% share, having its registered office at Kadaň, Tušimice 7, 432 01, registered number: 27329011
- SD - Vrtné a trhací práce, a.s. – 100% share, having its registered office at Bílina, Důlní 375/89, 418 29, registered number: 25022768
- Skládka Tušimice, a.s. – 98.00% share, having its registered office at Kadaň, Tušimice 7, 432 01, registered number: 25005553
- SD - KOMES, a.s. – 92.65% share (share held as of 1 July 2008), having its registered office at Most, Moskevská 14/1, 434 01 (registered office from 1 July 2008 until 8 July 2008: Most, Moskevská 1/14, 434 01), registered number: 28666674
- SHD - KOMES a.s. – 92.65% share (share held from 26 June 2008 to 1 July 2008), having its registered office at Most, Moskevská 1/14, registered number: 44569891
- ŠKODA PRAHA a.s. – 100% share, having its registered office at Praha 4, Duhová 2/1444, 140 74 (registered office until 4 January 2008: Praha 6, Milady Horákové č.or. 109 č.p. 116, 160 41), registered number: 00128201
- EGI servis, s.r.o., v konkursu (in bankruptcy proceedings) – 100% share, having its registered office at Čelákovice, Kozovazská 1049, 250 88, registered number: 26423316
- EGI, a.s. v likvidaci (in liquidation proceedings) – 100% share, having its registered office at Praha 6, M. Horákové 109, 160 41, registered number: 60721332
- ŠKODA PRAHA Invest s.r.o. – 100% share (until 1 April 2008 share held by ŠKODA PRAHA a.s.), having its registered office at Praha 4, Duhová 2/1444, 140 74, registered number: 27257517
- ŠKO-ENERGO, s.r.o. – 12.00% share, having its registered office at Mladá Boleslav 1, Tř. Václava Klementa 869, 293 60, registered number: 61675938
- ŠKO-ENERGO FIN, s.r.o. – 5.00% share, having its registered office at Mladá Boleslav 1, Tř. Václava Klementa 869, 293 60, registered number: 61675954
- TEC Varna EAD – 100% share, having its registered office at Village of Ezerovo, Varna District, 9168 Varna, Republic of Bulgaria, registered number: BULSTAT No 103551629
- Tomis Team S.R.L. – 95.00% share (other member's share: CEZ Poland Distribution B.V.: 5.00%, share held as of 29 August 2008), having its registered office at Galbiori, 2 Morii St., Constanța County, Romania, registered number: 18874690
- MW Team Invest S.R.L. – 100% share, having its registered office at Galbiori, 2 Morii St., Constanța County, Romania, registered number: 18926986
- Transenergo International N.V. – 67.00% share (share until 10 April 2008: 100%), having its registered office at Rotterdam, Weena 327, 3013 AL, Netherlands (registered office until 1 December 2008: Rotterdam, Weena 340, 3012 NJ, Netherlands), registered number: 24426210
- ZAO TransEnergo – 100% share (change of owner from ČEZ, a.s. as of 29 August 2008), having its registered office at Moskva, Dvornikova 7, Russian Federation, registered number: 1057748236897
- Ústav jaderného výzkumu Řež a.s. – 52.46% share, having its registered office at Husinec-Řež č.p. 130, 250 68, registered number: 46356088
- Centrum výzkumu Řež s.r.o. – 100% share, having its registered office at Husinec-Řež č.p. 130, 250 68, registered number: 26722445
- ŠKODA VÝZKUM s.r.o. – 100% share, having its registered office at Plzeň, Tylova 1/57, 316 00, registered number: 47718684
- LACOMED, spol. s r.o. – 62.50% share, having its registered office at Husinec-Řež č.p. 130, 250 68, registered number: 46348875
- Nuclear Safety & Technology Centre s.r.o. – 40.00% share, having its registered office at Husinec-Řež č.p. 130, 250 68, registered number: 27091490
- Ústav aplikované mechaniky Brno, s.r.o. – 100% share, having its registered office at Brno, Veveří 95, 611 00, registered number: 60715871
- EGP INVEST, spol. s r.o. – 66.00% share (share held as of 15 December 2008), having its registered office at Uherský Brod, Antonína Dvořáka 1707, 688 01, registered number: 16361679
- BH CAPITAL, a.s. – information significant for the preparation of the report was not supplied
- Teplotchna Praha, a.s., v konkursu (in bankruptcy proceedings)
- SEVAC a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied
- VIPAP VIDEM KRŠKO d.d. – information significant for the preparation of the report was not supplied
- HOLDING KLADNO, a.s. "v likvidaci" (in liquidation proceedings) – information significant for the preparation of the report was not supplied

TECHNOEXPORT akciová společnost pro zahraniční obchod

Zemědělská akciová společnost Březno – 49.26% share, having its registered office at Dlouhá Lhota 107, 29405, registered number: 61672700
 Evropské fondy a dotace spol. s r.o. – 50.00% share, having its registered office at okrsek Vzaraždane, ul. Pirotska č. 98, Sofia, Bulgaria, registered number: 175251302

STROJIMPORT a.s.

Strojimport GmbH. Export – Import – 100% share, having its registered office at Paul-Friedländer-Strasse 8, 65203 Wiesbaden, Germany, ID No DE 113880990

Strojimport GesmbH. – 100% share, having its registered office at Porschestraße 11A – 1230 Wien, Austria, ID No ATU 16386300

Strojimport Tecnologia S.A. de C.V. – 76.00% share, having its registered office at Calle de Jesús Heróles No. 5, Colonia la Joya Ixtacala, C.P. 54160, Tlalnepantla, Estado de Mexico, Mexico

Nederlandse Strojimport Holding B.V. – 100% share, having its registered office at Communicatieweg 2, 3640 AD Mijdrecht, Netherlands

TOSPOLSKA CZ s.r.o. – 100% share, having its registered office at Praha 3, U nákladového nádraží 6, registered number: 62577131

Českomoravská nemovitostní, a.s. – information significant for the preparation of the report was not supplied

ČKD EXPORT, a.s. (until 9 June 2008 ŠKODAEXPORT, a.s.)

PRAGHOTELS s.r.o. – 100% share, having its registered office at Praha 1, Opletalova 41, 11000, registered number: 61509094

LIFOX a.s. "v likvidaci" – 67.30% share, having its registered office at Praha 4, Novodvorská 1010/14B, registered number: 49240994

Hotelinvest a.s., v konkursu (in bankruptcy proceedings)

Silnice Teplice a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied

MERO ČR, a.s.

MERO Pipeline, GmbH – 100% share, having its registered office at Mero-Weg 1, 85088 Vohburg a.d. Donau, Germany, ID No 152122768

ČEPRO, a.s.

OSINEK, a.s. "v likvidaci" (in liquidation proceedings)

ČEPS, a.s. – 51.00% share, having its registered office at Praha 10, Elektrárenská 774/2, 10152, registered number: 25702556

PPP Centrum a.s.

PAL a.s. v likvidaci (in liquidation proceedings)

Výzkumný a zkušební letecký ústav, a.s. – 44.61% share, having its registered office at Praha, Letňany, Beranových 130, 19905, registered number: 00010669

THERMAL-F, a.s.

Děvařské závody Borohrádek - F, a.s.

LETKA, a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied

STROJÍRNÝ TATRA PRAHA, a.s.

STAVOCENTRAL, a.s.

HYPO-CONSULT, a.s. – 100% share, having its registered office at Praha 2, Jaromírova 64, 12800, registered number: 25072145

JUNIOR centrum, a.s. v likvidaci (in liquidation proceedings)

AGM, a.s. v likvidaci (in liquidation proceedings)

JUNIA s.r.o. "v likvidaci" (in liquidation proceedings) – information significant for the preparation of the report was not supplied

Česká inkasní, s.r.o. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied

Letiště Praha, a. s.

Realitní developerská, a.s. – 100% share, having its registered office at Praha 1, Na Příkopě 583/15, 11000, registered number: 27174166

Explosia a.s.

FOSPOL a.s. – 100% share, having its registered office at Prachovice, Tovární 302, 53804, registered number: 15053628

Istrochem Explosives a.s. – 100% share, having its registered office at Bratislava, Nobelova 34, Slovak Republic, registered number: 44254504

GALILEO REAL, k.s.

Global Investment a.s. v likvidaci (in liquidation proceedings)

IMOB a.s.

PRISKO a.s.

RESPONSIBILITY FOR THE ANNUAL REPORT

The information disclosed in the Annual Report for 2008 is truthful; no material circumstances which could affect an accurate, correct assessment of Czech Airlines have been omitted.



Radomír Lašák

Chairman of the Board of Directors and President

GLOSSARY

ACMI – Aircraft, Crew, Maintenance, Insurance (long-term leasing of aircraft with crew and maintenance from another carrier)

AEA – Association of European Airlines

APC – Administration and Operations Centre

APIS – Advanced Passenger Information System

ATC – Air Traffic Control

CAS – Czech Accounting Standards

EASA – European Aviation Safety Agency

GDS – Global Distribution System

GSA – General Sales Agent

Hub – Transit point where passengers make their connecting flight, a hub airport is a transit point, but also a destination, where flows of passengers are divided depending on the final destination of their journey

IATA – International Air Transport Association

ICAO – International Civil Aviation Organisation

ICT – Information and communication technology

IFRS – International Financial Reporting Standards

JAR – Joint Airworthiness Requirements

Language Proficiency Test – Test of proficiency in English based on the requirements set out in regulations concerning the competence of air crew members

Lessor – Party leasing an aircraft to another party

LPH – Aviation fuel

MRO – Maintenance, Repair and Overhaul (an integrated system for the administration and management of aircraft maintenance)

O&D – Origin and Destination

Queue – Processing of messages from the booking system

Slot – The departure time of an aircraft allotted by the control tower, i.e. by the state enterprise Řízení letového provozu [Air Traffic Control] in the Czech Republic

SOJ – Autonomous Sales Unit

ZFTT – Zero Flight Time Training

CONTACT INFORMATION

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