Smartwings, a.s.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 31 DECEMBER 2018

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

Prepared on September 13, 2019

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Chairman of the Board of Directors

Ing. ROMAN VIK
Member of the Board of Directors

Ing. JIŘÍ JURÁN
Member of the Board of Directors

Consolidated Statement of Income

	Note	Period of 12 months ended 31 December 2018 tCZK	2017 tCZK
Operating revenue			
Sales for transportation services	*5*	28 617 866	19 042 607
Other operating revenue	*6*	1 247 110	401 421
Total Operating revenue		**29 864 976**	**19 444 028**
Operating expenses			
Staff costs	*8*	(3 060 007)	(1 963 858)
Fuel costs		(6 880 834)	(3 838 066)
Aircraft lease	24	(5 222 065)	(4 139 473)
Landing and handling cost		(7 915 032)	(5 536 879)
Maintenance cost		(4 217 288)	(2 383 132)
Other operating expenses	*7*	(2 124 656)	(1 314 053)
Depreciation		(141 867)	(44 646)
Total Operating expenses		**(29 561 749)**	**(19 220 107)**
Net operating profit		**303 227**	**223 921**
Net interest expense	*9*	(35 795)	(34 959)
Net financial expenses/income	*10*	117 023	(373 729)
Net financial result		**81 228**	**(408 688)**
Share on profit of at equity investments	*17*	4 226	110 024
Profit before tax		**388 681**	**(74 743)**
Income tax	*11*	78 812	22 414
Profit for the period		**467 493**	**(52 329)**
Profit attributable to owners of the parent		*457 431*	*(52 329)*
Profit attributable to non-controlling interests		*10 062*	*0*

Consolidated Statement of Comprehensive Income

Profit for the period		**467 493**	**(52 329)**
Foreign currency translation differences		*(18 542)*	*(6 157)*
Fair value of hedging derivatives (net of tax)	12	*(93 864)*	*0*
Share on OCI of at equity investments	17	*0*	*8 421*
Other comprehensive income for the period		**(112 406)**	**2 264**
Other comprehensive income attributable to owners of the parent		*(110 503)*	2 264
Other comprehensive income attributable to non-controlling interests		*(1 903)*	0
Total comprehensive income for the period		**355 087**	**(50 065)**
Total comprehensive income attributable to owners of the parent		***346 928***	***(50 065)***
Total comprehensive income attributable to non-controlling interests		***8 159***	***0***

Consolidated Statement of Financial Position

	Note	31 December 2018 tCZK	31 December 2017 tCZK
Assets			
Non-current assets			
Aircraft, buildings and other operating assets	*15*	2 208 371	349 953
Prepayments on F/A acquisitions & F/A under constr.	*15*	1 861 681	1 267 829
Security deposits paid	*19*	836 760	617 861
Investments in associates	*17*	93 606	718 703
Other investments		17 986	0
Other intangible assets and intangible assets under constr.	*14*	240 773	52 955
Deferred tax assets	*11*	295 490	219 173
Total Non-current assets		**5 554 667**	**3 226 474**
Current assets			
Inventories	*18*	333 633	254 748
Income tax receivable		0	59 397
Trade and other receivables and deferred expenses	*13*	2 785 090	1 254 270
Cash and cash equivalents		964 464	151 745
Total Current assets		**4 083 187**	**1 720 160**
Total assets		**9 637 854**	**4 946 634**

Consolidated Statement of Financial Position

	Note	31 December 2018 tCZK	31 December 2017 tCZK
Equity and liabilities			
Equity attributable to owners of the parent	*20*		
Share capital		1 241 236	1 241 236
Share premium		10 149	10 149
Translation reserve		(33 423)	(29 001)
Hedging reserve	12	(93 864)	0
Statutory reserve		55 389	55 389
Retained earnings		188 094	212 974
Share on OCI at equity investments		0	90 984
Non controlling interests	*20*	19 411	0
Total equity		**1 386 993**	**1 581 731**
Non-current liabilities			
Loans and borrowings	*22*	59 859	83 333
Security deposits received		32 448	0
Provisions	*21*	495 733	241 327
Finance Lease liabilities	*22*	878 269	0
Deferred tax liabilities	*11*	31 781	53 608
Total Non-current liabilities		**1 498 090**	**378 268**
Current liabilities			
Bank overdrafts	*22*	655 595	588 114
Loans and borrowings	*22*	967 513	773 333
Current portion of long term finance lease liabilities	*22*	97 585	0
Trade and other payables	*25*	2 784 778	1 269 490
Payables to related parties	*26*	773 555	73 530
Income tax payable		295	(31)

Deferred income	*23*	908 910	96 656
Provisions	*21*	477 740	155 429
Negative fair values of derivatives	*12*	86 800	30 114
Total Current liabilities		**6 752 771**	**2 986 635**
Total equity and liabilities		**9 637 854**	**4 946 634**

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedging reserve	Share on OCI at equity investments	Non-controlling interests	Total equity
Balance as at 31 December 2016	**1 241 236**	**10 149**	**42 090**	**275 013**	**(19 255)**	**0**	**82 564**		**1 631 797**
									0
Allocation of retained earnings			13 299	(13 299)					0
Result for the period				(52 329)					(52 329)
Other changes				3 589	(9 746)		8 421		2 264
Balance as at 31 December 2017	**1 241 236**	**10 149**	**55 389**	**212 974**	**(29 001)**	**0**	**90 984**		**1 581 732**
									0
CSA acquisition – derecognition of previously held equity interest				(470 093)			(90 984)	11 252	(549 826)
Allocation of retained earnings									
Result for the period				457 431				10 062	467 493
Other changes				(12 217)	(4 422)	(93 864)		(1 903)	(112 406)
Balance as at 31 December 2018	**1 241 236**	**10 149**	**55 389**	**188 094**	**(33 423)**	**(93 864)**	**0**	**19 411**	**1 386 993**

Consolidated Statement of Cash Flows

	31 December 2018	31 December 2017
Profit / Loss for the period	**467 493**	**(52 329)**
Adjustments for:		
Depreciation	141 867	44 646
Deferred income tax	(100 167)	(34 505)
Gain/Loss on disposal of long-term assets	26 683	267
Net change in inventories	(78 885)	(108 908)
Net change in receivables, other assets and prepaid expenses	(354 329)	22 091
Net change in trade accounts payable and other current liabilities	469 632	(190 328)
Net change in provisions	(436 418)	(55 733)
Gains/Losses on revaluation of derivatives at fair value, net	31 918	120 974
Share of profit of equity investments	4 226	(213 390)
Interest income	(12 345)	(266)
Interest expenses	48 140	35 224
Income tax expense	19 845	12 093
Cash generated from operations	**227 660**	**(420 164)**
Interest received	12 345	266
Interest expenses paid	(138 034)	(37 994)
Income taxes paid	(35 067)	(74 082)
Net cash from operating activities	**66 904**	**(531 974)**

Purchases of non-current assets	(2 007 016)	(438 885)
Proceeds from sales of non-current assets	0	115
Cash flows from investing activities	**(2 007 016)**	**(438 770)**
Proceeds from the issue of share capital	0	0
Long term borrowings, change	(23 474)	(20 833)
Short term borrowings, change	261 660	693 137
Finance lease liabilities, change	975 855	0
Dividends paid	0	0
Cash and cash equivalents from ČSA acquisition	1 534 338	0
Cash flows from financing activities	**2 748 379**	**672 304**
Net increase in cash and cash equivalents	**808 268**	**(298 440)**
Cash and cash equivalents on 1 January	151 745	487 746
Effect of exchange rate fluctuations on cash held	4 451	(37 562)
Cash and cash equivalents on 31 December	**964 464**	**151 745**

NOTES TO THE FINANCIAL STATEMENTS

Content

1 INTRODUCTION AND GENERAL INFORMATION

1.1. General information

The consolidated financial statements of Smartwings, a. s. (the "Company") for the year ended 31st December 2018 comprise Smartwings, a. s., its subsidiaries Smartwings Hungary Kft., Smartwings Poland Sp z o.o., Smartwings Slovakia s. r. o., Smartwings Building, s. r. o., Smartwings Germany GmbH, České aerolinie, a. s. and the interest in the associate Alpha Flight, a.s. (together referred to as „Smartwings Group" or the „Group").

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

The Group´s ordinary shares are not publicity traded.

1.2. Introduction

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

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

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

The Company, together with its subsidiaries in Slovakia, Hungary and Poland, exploits the fleet of commercial aircraft Boeing 737 – 900, Boeing 737 – 800, Boeing 737 – 700, Cessna 680 Citation Sovereign registered by Aviation Authorities in the Czech Republic, Hungary, Poland and Canada. Furthermore, it also exploits the short-term lease of aircraft rendered by other aviation companies. The subsidiary České aerolinie, a. s. operates fleet of commercial aircraft A330-300, A319-100, ATR 72 and ATR 42.

On 11th October 2017 Smartwings a.s. acquired 20 unlisted ordinary book-entry shares with a nominal value of CZK 500,000 each, issued by Alpha Flight a.s. Total nominal value of the shares is CZK 10,000,000 representing 20% of the registered capital of this company and 20% on voting rights on the General Meeting. Associated company Alpha Flight a.s. supplies most of the airlines on the Prague Airport with catering services.

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

Smartwings Germany GmbH was established to further support and develope the Group's business in Germany. Smartwings Germany GmbH in 2017 started to perform activity to obtain the operating licence (Air Operator Certificate) from the Civil Aviation Authority of Germany. In 2018 no commercial activity was performed.

1.3. Business combinations in the reporting period

Smartwings, a. s. concluded on 5 October 2017 with PRISKO, a. s., ID No.: 46355901, a company registered in the Commercial Register of the Metropolitan Court in Prague, with its registered office at Thámova 181/20, Karlín, 186 00 Praha 8, *an Agreement on the Sale and Purchase of Shares in České aerolinie a. s.,* a company with its registered office at Evropská 846/176a, Vokovice, 160 00 Prague 6. The subject-matter of the Agreement on the Sale and Purchase of Shares was to acquire 206,654 shares in České aerolinie, a. s. with a total nominal value of CZK 1,033,270,000, which represents a stake of approximately **19.74%** in the registered capital of the issuer of such shares.

Smartwings, a. s. concluded on 5 October 2017 with Korean Air Lines, a company with its registered office at 260, Haneul-gil, Gangseo-gu, 157-712, Seoul, Republic of Korea, ID No. 110111-0108484, recorded in the Commercial Register of the Seoul Central District Court, Registration No. 011894, *an Agreement on the Sale and Purchase of Shares in České aerolinie a. s.*, a company with its registered office at Evropská 846/176a, Vokovice, 160 00 Prague 6. The subject-matter of the Agreement on the Sale and Purchase of Shares was to acquire 460,725 shares in České aerolinie a.s. with a total nominal value of CZK 2,303,625,000, which represents a stake of approximately 44% in the registered capital of České aerolinie, a. s.

The transfer of 667,379 shares, of which 206,654 shares purchased from PRISKO, a. s. and 460,725 shares purchased from Korean Air Lines, with a total nominal value of CZK 3,336,895,000, which in total represent an ownership stake **of 63.74%** in the registered capital of České aerolinie, a. s., required Smartwings, a. s. to obtain all necessary final decisions and approvals, including approvals from competition authorities in the Czech Republic, Republic of Cyprus, Republic of Portugal, Kingdom of Spain and the Russian Federation.

On 14 December 2017, the Office for Protection of Economic Competition issued, in administrative proceedings conducted under File Ref. No. ÚOHS - S0462/2017/KS and commenced on 24 November 2017, pursuant to Section 44 (1) of Act No. 500/2004 Sb., the Code of Administrative Procedure, as amended, and pursuant to Section 15 of Act No. 143/2001 Sb., On Protection of Economic Competition and on Changes to Certain Decisions, approval for a concentration between undertakings – specifically Smartwings, a. s., formerly known as Travel Service, a. s., and České aerolinie, a. s. Similar decisions were issued by the competition authorities of the Kingdom of Spain (18 January 2019),

Russian Federation (19 January 2018), Republic of Portugal (25 January 2018) and the Republic of Cyprus (1 February 2018).
With effect as of *27 February 2018,* the Company acquired ownership title to:

1. Aggregate Share No. 2 with a nominal value of CZK 523,550,000, issued by ČSA (České aerolinie, a. s.) and replacing 104,710 shares in ČSA with a nominal value of CZK 5,000 each, numbered from 356,016 - 460,725, purchased from Korean Air Lines, Co., Ltd., with its registered office at 260, Haneul-gil, Gangseo-gu, 157/712, Seoul, Republic of South Korea, ID No.: 110111-0108484;

and concurrently

2. Aggregate Share No. 3 with a nominal value of CZK 1,780,075,000, issued by ČSA (České aerolinie, a. s.) and replacing 356,015 shares in ČSA with a nominal value of CZK 5,000 each, numbered from 460,726 - 816,740, purchased from Korean Air Lines, Co., Ltd., with its registered office at 260, Haneul-gil, Gangseo-gu, 157/712, Seoul, Republic of South Korea, ID No.: 110111-0108484;

and concurrently

3. Aggregate Share No. 4 with a nominal value of CZK 1,033,270,000 issued by ČSA (České aerolinie, a. s.) and replacing 206,654 shares in ČSA with a nominal value of CZK 5,000 each, numbered from 816,741 - 1,023,394, purchased from PRISKO a.s., with its registered office at Thámova 181/20, Karlín, Prague 8, postcode 186 00, ID No. 463 55 901, recorded in the Commercial Register of the Metropolitan Court in Prague under File No. B 1729.

Due to the fact that as of 31 March 2015 the Company owned shares numbered from No. 1 through 356,015 in České aerolinie, a.s., which represented a stake of 34% in the registered capital of České aerolinie, and due to the fact that on 27 February 2018 the Company acquired a total of 667,379 shares, which represented a stake of approximately 63.74% in the registered capital of České aerolinie, the Company **became the majority shareholder in České aerolinie, with a stake of 97.74 % in the registered capital of such company**. Out of the total of 1,047,102 issued shares with an aggregate nominal value of CZK 5,235,510,000, the Company owns 1,023,394 shares with an aggregate nominal value of CZK 5,116,970,000. There are no restrictions on the shareholders' rights in respect of such shares. Česká pojišťovna, a. s. owns 23,708 shares, representing a stake of **2.26%** in the registered capital of České aerolinie.

From the date **27.2.2018 (date of acquisition)**, České aerolinie is consolidated by full method with non-controlling interest **2,26%.**

As at the date of acquisition the fair value of the acquired net assets of České aerolinie exceeded the purchase price of the acquired shares. It resulted into **bargain purchase** amount TCZK 71,761 recognised into revenues of 2018.

Due to above stated the financial statements as at 31.12.2018 are hardly comparable to prior period ending 31.12.2018. The full consolidation method for České aerolinie was used from the date of acquisition (27.2.2018).

České aerolinie acquisition	**31.12.2018 tCZK**	**27.02.2018 tCZK**
Current assets	2 306 622	2 933 832
Non-current assets	1 437 181	1 285 473
Current liabilities	-2 274 737	-2 792 546
Non-current liabilities	-603 049	-912 698

	Period 28.2.2018 - 31.12.2018	**Period 1.1.2018 – 27.2.2018**
Revenue	8 391 618	1 097 818
Profit or loss from continuing operations	438 789	-123 588
Post-tax profit (loss) from discontinued operations	0	0
Profit (loss) for the year	438 789	-123 588
Other comprehensive income for the year	-86 833	-31 636
Total comprehensive income for the year	351 956	-155 224
Dividends received from the associate during the year	0	0

	27.02.2018 tCZK
Net assets acquired	514 061
Group´s ownership interest in ČSA	97,74%
Amendments connected with revaluation of net assets to fair value	-24 666
Fair value of net assets acquired	489 395
Goodwill (+) / Bargain purchase (-)	-71 761

2 BASIC PRINCIPLES AND PREPARATION OF FINACIAL STATEMENTS

2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the IASB and endorsed for use in the European Union, that are applicable for the activity of the Group and effective for the accounting periods beginning 1 January 2018.

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

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

2.2. Basis of preparation

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

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

The consolidated financial statements have been prepared in thousand of Czech Crowns ("tCZK" or "TCZK"), unless stated otherwise. The Czech National Bank exchange rate was CZK 25.725 to the Euro as at December 2018 and CZK 25.540 to the Euro as at 31 December 2017. Other important exchange rates are disclosed in Note 13.

2.3. Going concern

For a subsequent event having significant impact on the going concern assumption refer to Note 28 Subsequent Events.

In general, the Group is exposed to business risks like fluctuating currency rates, jet fuel prices, interest rates, financial default of travel agencies and passengers demand.

The Group's current liabilities at year-end significantly exceed current assets which makes the Group dependent on its capability to continuously raise adequate external funding when and to the extent needed.

The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group will generate sufficient cash or raise adequate external funding to meet its liabilities to continue as a going concern for the forseeable future.

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

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

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

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

provisions for repair/overhaul and maintenance – Note 4.20
provision for vacation – Note 21
useful life and residual values of non-current assets (aircraft, rotables) – Note 4.11
determination of an appropriate discount rate to calculate the present value of long-term financial assets and liabilities and provisions – Note 19
fair value of aircraft for the classification of lease contracts – Note 4.13

3 BASIS OF CONSOLIDATION

3.1. Controlled companies (subsidiaries)

The consolidated financial statements comprise the financial statements of Smartwings, a.s. and entities controlled by Smartwings, a.s. (its subsidiaries) – the subsidiaries included in consolidation are described in Note 1. Smartwings controls an entity when the group is exposed to, or has right to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Several of the subsidiaries prepare their financial statements in a currency other than Czech crown. The assets and liabilities of these subsidiaries are translated to CZK at the balance-sheet date exchange rate. The income and expenses of these subsidiaries are translated to CZK at the average exchange rate for the period. Foreign currency differences resulting are recognised directly in equity in the foreign currency translation reserve.

3.2. Associated companies (At equity investments)

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

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

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

The Group has the interest in an associated company Alpha Flight, a.s. (as at 31.12.2017 the Group had also interest in associated company České aerolinie, a.s., which as a consequence of controlling stake acquisition changed to an interest in a subsidiary on 27.2.2018) – refer to Note 1.3.

3.3. Transactions eliminated on consolidation

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

3.4. Business combinations, initial consolidation and goodwill

The initial consolidation of Group companies takes place using the purchase method. This involves measuring the fair value of the assets, liabilities and contingent liabilities identified of the company acquired at the acquisition date and allocation of acquisition costs to them in accordance with IFRS 3.

Any excess of cost over the value of net assets acquired is capitalized as goodwill. If the value of net assets acquired exceeds the purchase price paid, the difference is recognized immediately in profit and loss (bargain purchase).

Goodwill is not amortised, but is tested annually for impairment.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1. Recognition of revenues and expenses

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

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

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

One subsidiary of the Group offers a frequent flyer program (České aerolinie).

4.2. Deferred income

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

4.3. Segment reporting

As either debt or equity instruments of Smartwings are not publicly traded, the Group does not apply IFRS 8 Operating segments.

4.4. Foreign currencies

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

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

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

4.5. Borrowing costs

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

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

4.6. Retirement benefit costs

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

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

4.7. Government grants

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

4.8. CO2 Emissions certificates

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

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

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

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

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

4.9. Taxation

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

- **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current income tax due includes tax calculated from a tax base using the tax rate valid for the year 2018 according to Act no. 586/1992 Coll., Section 21, paragraph 1, which is 19% (2017: 19%).

- **Deferred tax**

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

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

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

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

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

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

4.10. Intangible assets

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

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

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

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

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

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

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

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

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

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

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

The Group operates aircraft, particularly Boeing 737-900, Boeing 737-800 and Boeing 737-700, Boeing 737-8 MAX, Cessna 680 Citation Sovereign, Airbus A319, Airbus A330, ATR 72 and ATR 42 under operating lease agreements. One Airbus A319 is in the ownership of the Group and one Boeing 737-8 MAX is under finance lease agreement. In the connection, the Group owns aircraft parts and equipment, which is classified as PP&E. Judgement is required in estimating their residual values and useful lives. Uncertainty exists in both the useful lives and the residual values.

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

4.12. Impairment

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

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

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

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

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

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

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

4.13. Leases

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

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

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

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

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

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

At lease classification the group also considers the materiality aspect. Immaterial finance leases are classified as operating leases.

Repair and overhaul costs are not included in the lease rentals and the Group makes regular payments (so called supplement rents) for future maintenance expenses to the lessor. These are based on the estimated costs and are calculated on agreed pattern (e.g. flight hours or cycles). When the maintenance is made, the Group is reimbursed for the payments already provided.

4.14. Inventories

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

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

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

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

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

4.15. Cash and cash equivalents

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

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

4.16. Financial instruments

Financial assets are classified in the accordance with IFRS 9 as "at amortised costs", "at fair value through profit and loss" and "derivative financial instruments as an effective part of a hedging relationship".

The category "at amortised costs" consists of financial assets that are intended to be held to maturity and, apart from above mentioned cash and cash equivalents and bank balances, includes loans and receivables. They are classified as current and non-current according to their remaining maturity.

Derivative financial instruments that do not meet the criteria for hedge accounting are classified as "at fair value through profit and loss".

The Group uses derivatives for hedging which, if they meet the criteria for hedge accounting, are classified as "derivatives at fair value through other comprehensive income".

As at 31 December 2018, financial assets (derivative financial instruments) have been designated as at fair value through profit and loss and hedging financial instruments at fair value through equity (2017: all derivatives designated at fair value through profit and loss) – further comments are disclosed in Note 12.

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

Long-term low or non-interest bearing loans and receivables are recognized at net present value using the effective interest rate method.

- **Impairment of financial assets**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. IFRS 9 requires that when a receivable is recognized, an expected loss is provided for that reflects the credit risk of the recivable before a default event occurs. If there are doubts as to the recoverability of receivables, then impairment losses are recognized through profit and loss. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

4.17. Derivative financial instruments

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

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in profit or loss unless the derivative is designated and effective as hedging instrument.

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

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

From the 2018 period the Group uses the possibility to apply hedge accounting for selected derivatives hedging the fuel prices risk. Gains and losses arising from fair value changes are recognized through equity.

4.18. Bank borrowings

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

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

4.19. Trade and other payables

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

4.20. Provisions

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

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

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

4.21. Related parties

Related parties as defined by IAS 24 are natural persons and entities that Smartwings, a.s. has the ability to control or on which it can exercise significant influence, or natural persons and entities that have the ability to control or exercise significant influence on Smartwings, a.s. or that are influenced by another related party of Smartwings, a.s.

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

4.22. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

- **Credit risk**

Credit risk relating to either single-seat tickets sales or group-seat tickets sales (e.g. sales to tour operators) is low as pre-payments or other kinds of security are required before flight is started.

For some payment relationships, depending upon the type and level of the particular payment, historical data or experience from the business relationship may be used to manage particular credit risk. Known and expected risks are recognised through bad debt provisions.

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

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

- **Liquidity**

Appropriate department monitors the development of available and projected cash inflows and outflows to ensure sufficient resources to meet its liabilities when due. The Group implemented its treasury management tool and follows the situation on a daily basis. Financing alternatives are continuously reviewed in order to arrange adequate and sufficient financial resources in time.

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

- **Market risk**

Market risk is the risk of changes in market prices. The most significant resources of market risk for the Group are:

- Foreign exchange rates
- Jet fuel (commodity) prices
- Interest rates

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

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

The following standards and their amendments have become mandatory for financial year 2018:

- New standard and amendments to IFRS 9 Financial Instruments
- New standard IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transaction
- Amendments to IAS 40: Transfers of Investmenty Property
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRSs 2014-2016 Cycle (The amendments to IFRS 1 and IAS 28)

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

The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2018, in accordance with their effective dates. In 2018, the Group did not take the decision for early adoption on a voluntarily basis of amendments and interpretations to the standards.

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

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

In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating lease arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side on the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet expet for immateriality in cases of short term lease arrangements and small ticket lease arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

The Group will transit to IFRS 16 using the modified retrospective approach whereby comparative information will not be restated. For leases previously classified as operating leases, the applicable discount rate will be the lessee's incremental borrowing rate determined at the date of initial application. The Group has evaluated the impact of the standard on the financial statement prepared as at 31.12.2018 and the impact is summarized in the below table:

Potential impact of IFRS 16 Leases on Statement of financial position as at 31.12.2018	
	2018
	tCZK
Right of Use - Leased assets value	15 113 634
Lease obligations	15 838 358
Ret. earnings change	-760 227
PL impact	35 503

Potential impact of IFRS 16 Leases on Statement of Income as at 31.12.2018	
	2018
	tCZK
Aircraft lease payment	3 484 689
Amortisation of Right of Use asset	-3 059 069
Lease interest expense	-390 117
Total PL impact	35 503

- IFRIC 23: Uncertainty over Income Tax Treatments – (effective for annual periods beginning on or after 1 January 2019)

IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change.

Application of the interpretation is not expected to have a significant impact on consolidated financial statements.

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures – (effective for annual periods beginning on or after 1 January 2019)

Amendments to IAS 28 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

Application of these amendments is not expected to have a significant impact on consolidated financial statements.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation – (effective for annual periods beginning on or after 1 January 2019)

In October 2017, the IASB issued amendments to IFRS 9 40 being effective for annual periods beginning on or after 1 January 2019. These amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

Application of these amendments is not expected to have a significant impact on consolidated financial statements.

- *Annual Improvements to IFRSs 2015-2017 Cycle – (effective for annual periods beginning on or after 1 January 2019)*

In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019.

Application of these amendments is not expected to have a significant impact on consolidated financial statements.

- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement – (effective for annual periods beginning on or after 1 January 2019)*

Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Application of these amendments is not expected to have a significant impact on consolidated financial statements.

- *Conceptual Framework for Financial Reporting – (effective for annual periods beginning on or after 1 January 2020)*

In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework), replacing the previous version of the Conceptual Framework issued in 2010. The revised Conceptual Framework is effective immediately for the Board and the IFRS Interpretations Committee.

The revised Conceptual Framework has an effective date of 1 January 2020—with earlier application permitted—for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction. To assist companies with the transition, the Board issued a separate accompanying document Amendments to References to the Conceptual Framework in IFRS Standards. This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements.

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

- *Amendments to IFRS 3: Definition of a Business – (effective for annual periods beginning on or after 1 January 2020)*

Amendments to IFRS 3 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify the three elements, i.e. inputs, process and outputs in the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also, the amendments include an optional concentration test to permit a simplified assessment of whether an acquiered set of activities and assets is an asset acquisition rather than a business combination. The test is met if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

Application of these amendments is not expected to have a significant impact on consolidated financial statements.

- *Amendments to IAS 1 and IAS 8: Definition Material – (effective for annual periods beginning on or after 1 January 2020)*

Amendments to IAS 1 and IAS 8 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Application of these amendments is not expected to have a significant impact on consolidated financial statements.

4.24. Significant changes in accounting policies compared to prior period

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

5 REVENUES – SALES FOR TRANSPORTATION SERVICES

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

	2018 tCZK	2017 tCZK
Sales for charter services and related income	11 605 900	9 397 858
Sales for scheduled flights and related income	15 387 603	7 929 828
ACMI and other leases	1 624 363	1 714 921
Total Sales for transportation services	**28 617 866**	**19 042 607**

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

The share of the parent company Smartwings, a. s. in related income from transportation services was 62,55% in 2018, i. e. TCZK 17,899,980. In 2017 this share was 81,51%, i. e TCZK 15,520,705.

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

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

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

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

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

6 OTHER OPERATING REVENUE

	2018 tCZK	2017 tCZK
Other operating revenue	1 247 110	401 421

The other operating revenue particularly comprise insurance indemnity, free of charge allocated emission allowances and revenue from the sale of emission allowances, revenue from contractual penalties and late-payment interest, inventory differences and various income from other activities, such as commission, advertising, maintenance of aircraft for third parties, sales of goods etc. Other operationg revenue also includes revenue from bargain purchase of České aerolinie as at 27.2.2018 described in Note 1.3.

7 OTHER OPERATING EXPENSES

	2018 tCZK	2017 tCZK
Catering	366 448	241 119
Crew lease	82 019	127 860
Employee cost	111 833	71 707
Building and interior expenses	55 450	30 889
Communication expenses	546 254	276 828
Advertising cost	85 408	51 338
Office supplies	20 068	21 472
Consultancy expenses	309 596	88 590
Bad debt reserve / cost	69 322	27 938
Insurance and claims cost	178 788	103 045
Sundry expenses	299 470	273 267
Total Other operating expenses	**2 124 656**	**1 314 053**

8 STAFF COSTS AND NUMBERS

	2018 tCZK	2017 tCZK
Salaries	1 891 982	1 188 407
Remunerations of statutory bodies	11 523	80
Statutory health insurance and social contributions	616 280	367 526
Changes in provision for personnel expenses	12 979	-7 639
Salary related expenses (incl. "per diem", training etc.)	527 243	415 484
	0	0
Total Staff costs	**3 060 007**	**1 963 858**
Average number of employees	**2 438**	**1 580**
Average staff costs per employee	**1 255**	**1 243**

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

	Average 2018	Average 2017
Flight and cabin crew	1 619	1 072
Maintenance department	228	186
Sales, operation and administration	591	323
Total average number of employees	**2 438**	**1 580**

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

	2018 tCZK	2017 tCZK
Basic remuneration	70 451	25 163
Total remuneration of directors and key management	**70 451**	**25 163**

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

9 NET INTEREST EXPENSE

	2018 tCZK	2017 tCZK
Interests charged	59 158	17 226
Interests capitalised	-23 824	-2 769
Interest expense - charge for discount (net of reversal of discount from previous years)	12 806	20 768
Interests received	-12 345	-266
Total Net Interest expense	**35 795**	**34 959**

10 NET OTHER FINANCIAL EXPENSE

	2018 tCZK	2017 tCZK
Currency fluctuation, net (+loss, -gain)	-85 105	276 442
Gain/loss from derivatives, net (+loss, -gain)	-31 918	97 287
Total Other financial expense	**-117 023**	**373 729**

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

11 INCOME TAX EXPENSES AND DEFERRED INCOME TAXES

Income tax expenses and deferred taxes	**2018 tCZK**	**2017 tCZK**
Current income tax expense	21 356	12 092
Deferred income tax	-100 168	-34 506
Total Income tax expense	**-78 812**	**-22 414**

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

Statutory income tax rate in the Czech Republic for the 2018 period was 19% (2017: 19%).

As at 31 December 2018, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% (2017: 19 %), that corresponds with the statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected. All subsidiaries of the Group apply the same tax rate = 19% on their tax base.

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

Reconciliation of expected to effective income tax expenses	**2018 tCZK**	**2017 tCZK**
Result before income taxes	388 681	-74 742
Expected income tax expense	**73 849**	**-14 201**
Tax loss application	-37 817	0
Deferred tax of České aerolinie - first year posting	-105 483	0
Permanent differences	-9 362	-11 112
Effect of tax rate changes	0	0
Prior-period current tax expense	0	2 905
Other	0	0
Effective income tax expense	**-78 812**	**-22 408**
Effective income tax rate	**-20%**	**30%**

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

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

Deferred tax assets and liabilities	2018 tCZK	2017 tCZK
Deferred tax liabilities:		
Difference between tax base and carrying amount of non-current assets	0	-17 864
Assets under finance lease	-2 754	0
Elimination of FX revaluation of Prepayments for MAX	-13 901	-24 853
Other	-15 125	-10 891
Total Deferred tax liabilities	**-31 781**	**-53 608**
Deferred tax assets:		
Difference between tax base and carrying amount of non-current assets	33 983	0
Tax loss carryforward	131 997	94 069
Discounted Deposits	27 546	23 799
Provisions	30 272	71 187
Depreciation of reclassified spare parts to fixed assets	15 741	13 431
FFP	32 182	0
ČSA acquisition - def. tax from revaluation	4 275	0
Other	19 495	16 688
Deferred tax assets	**295 490**	**219 173**
Deferred tax, net at the end of period	263 709	165 566
Deferred tax, net at the beginning of period	165 565	131 215
Adjustment of prior year deferred tax	-1 944	0
Change in deferred tax position	100 088	34 351
Effect of exchange rate fluctuations on *taxes*	80	155
Deferred income tax expense (benefit)	**100 168**	**34 506**

12 DERIVATIVES

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

	2018 tCZK	2017 tCZK
Currency risk:		
Currency Forwards and Options	63 121	-38 007
Commodity risk:		
Commodity Swaps and Options	-149 921	7 894
Total Derivatives - Year-end Fair Values	**-86 800**	**-30 114**

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

	2018 tCZK	2017 tCZK
Recognized through P&L		
Currency Forwards and Options	81 655	69 300
Commodity Swaps and Options	-49 737	27 987
	31 918	**97 287**
Recognized through equity (hedge)		
Currency Forwards and Options	-21 525	0
Commodity Swaps and Options	-106 236	0
	-127 761	**0**

Net impact of realized/settled derivatives within the period:
(recognized under the position fuel cost)

	2018 tCZK	2017 tCZK
Commodity Swaps and Options	139 803	0
	139 803	**0**

13 FINANCIAL RISK MANAGEMENT

Credit risk

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

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

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

	Carrying amounts 2018 tCZK	**Carrying amounts 2017 tCZK**
Loans and receivables	2 785 090	1 254 270
Loans and receivables – Security deposits	836 760	617 861
Positive market values of derivatives	0	0
Cash and cash equivalents	964 464	151 745
Total financial assets	**4 586 314**	**2 023 876**

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

	2018 tCZK	**2017 tCZK**
Loans and receivables - carrying amount	2 863 571	1 310 387
Loans and receivables - impairment	-78 481	-56 117
Loans and receivables, net	**2 785 090**	**1 254 270**

The impairment is recognized predominantly for trade receivables.

Currency risk

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

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

The operating revenue of the parent company in US$ was US$ 285,754 thousand and operating expenses in US$ were US$ 439,304 thousand in 2018. The operating revenue of the parent company in EUR was € 327,833 thousand and operating expenses in EUR were € 212,330 thousand in 2018.

The operating revenue of the parent company in US$ was US$ 236.392 thousand and operating expenses in US$ was US$ 368,846 thousand in 2017. The revenue in EUR was € 309,782 thousand and the operating expenses in EUR were € 176,424 thousand in 2017.

The operations in the Slovak Republic since 2010 help to naturally mitigate the risks linked with EUR.

If the exchange rate CZK/USD for all transactions of parent company in 2018 had increased by 5%, the impact linked with the operating profit would have been minus CZK 165,081 thousand. If the exchange rate CZK/EUR for all transactions of parent company in 2018 had increased by 5% the impact linked with the operating profit would have been plus CZK 149,495 thousand. The calculation involves the impact of realized transactions on profit and loss and does not involve the impact of unrealised exchange rate differences on balance sheet positions.The following significant exchange rates were applied during the year:

Applied exchange rates	**Average 2018**	**Year-end 2018**
USD	21,735	22,466
EUR	25,643	25,725
PLN	6,02	5,98
HUF	0,08045	0,0802
	Average 2017	**Year-end 2017**
USD	23,382	21,291
EUR	26,33	25,54
PLN	6,185	6,114
HUF	0,0852	0,0823

Applied exchange rates	**Average**	**Year-end**
	2018	**2018**
USD	21,735	22,466
EUR	25,643	25,725
PLN	6,02	5,98
HUF	0,08045	0,0802

	Average	**Year-end**
	2017	**2017**
USD	23,382	21,291
EUR	26,33	25,54
PLN	6,185	6,114
HUF	0,0852	0,0823

Interest rate risk

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

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

The Group's obligation to make regular lease payments, which are generally in USD and linked to variable interest rates, expose the Group to variability in interest payments as well as to foreign currency risk. The Group did not enter into any financial instruments that would hedge this interest rate and foreign currency risk in the periods 2018 and 2017.

Fuel price risk

For the sake of unforeseeable increase of fuel price the Group agrees on fuel surcharges with its business partners to mitigate the risk. By the end of 2018 the Group have concluded commodity SWAPs to secure the fuel price in the volume of a bottom half of ten thousands tons of fuel.

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

2018		Platts used as Price Basis for Month: 2018											
Platts	**Units**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
FOB Rotterdam High	USC/USG	184,34	197,68	193,74	194,58	207,90	220,55	212,04	211,17	209,67	220,10	231,19	201,67
	USD/MT	610,18	654,32	641,28	644,05	688,16	730,01	701,85	698,98	694,01	728,53	765,24	667,53
CIF NWE High	USC/USG	185,20	198,52	194,15	193,95	209,47	220,31	212,40	212,59	210,77	220,92	231,54	202,18
	USD/MT	613,01	657,11	642,64	641,96	693,34	729,24	703,05	703,67	697,66	731,25	766,39	669,21
FOB MED Italy High	USC/USG	179,73	192,66	189,14	189,05	198,30	215,70	207,95	208,36	206,78	217,06	226,70	196,89
	USD/MT	594,92	637,72	626,05	625,75	656,38	713,96	688,33	689,67	684,45	718,48	750,39	651,72

In 2018 total consumption of the fuel of the group was 412,522 tons. The main base for the calculation of fuel price is FOB Rotterdam High. The commodity swaps were concluded in Komerční banka, UniCredit Bank Czech Republic and Slovakia, a. s. and Česká spořitelna, a. s. Deal rates of commodity swaps were in interval from 560 US$ per ton to 755 US$ per ton. As of 31 December 2018 the commodity swaps were concluded for 64,385 tons of jet fuel. For 11,500 tons of fuel the so called Zero cost collars were concluded (Buy & Sell Option).

14 INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
	tCZK	tCZK	tCZK	tCZK
Cost or valuation				
Balance at 1 January 2017	**61 374**	**36 590**	**18 166**	**116 131**
Additions	16 688	12 885	56	29 630
Disposals	-537	-24 627	0	-25 164
Transfer	10 971	0	-18 166	-7 195
Balance at 31 December 2017	**88 496**	**24 848**	**56**	**113 402**
Additions	27 952	207 840	4 009	239 801
Disposals	0	-102 297	0	-102 297
Additions from CSA acquisition	43 329	43 220	767	87 317
Transfer	699	0	-699	0
Balance at 31 December 2018	**160 477**	**173 611**	**4 133**	**338 221**
Accumulated depreciation and impairment	tCZK	tCZK	tCZK	tCZK
Balance at 1 January 2017	**46 773**	**3 145**	**0**	**49 918**
Eliminated on disposals of assets	-402	-485	0	-887
Amortisation expense	11 214	201	0	11 415
Balance at 31 December 2017	**57 585**	**2 861**	**0**	**60 446**
Eliminated on disposals of assets	0	4	0	4
Amortisation expense	35 827	1 171	0	36 999
Balance at 31 December 2018	**93 412**	**4 036**	**0**	**97 448**
Net book value at 31 December 2017	**30 911**	**21 987**	**56**	**52 955**
Net book value at 31 December 2018	**67 065**	**169 575**	**4 133**	**240 773**

The line Additions from CSA acquisition represent fair value of fixed assets acquired at acquisition date (27.2.2018) – mainly software and CO2 emission rights EUA and EUAA. Further additions during the year are presented in the lines Additions, Depreciation expense etc.

Software includes the licences to Navision system, AIMS planning system, SQL Server, SW for 500 (Honneywell), Salsys store system, DMS system, Oracle and other operation and economic systems.

Other intangible assets represent the acquisition cost of trade mark SMART WINGS and the relevant domain and the CO2 emission allowances EUA and EUAA. Any changes of the emission allowances are given by the purchase of emission allowances, by free allocation of emission allowances and their disposal. Further comments to CO2 emissions allowances are disclosed in Note 4.8.

15 PROPERTY PLANT AND EQUIPMENT

	Buildings at cost	Aircrafts and aircraft related and other equipment	Tangible assets in progres	Prepayments on F/A acquisitions	Total
	tCZK	tCZK	tCZK	tCZK	tCZK
Cost or valuation					
Balance at 1 January 2017	**231 408**	**389 333**	**28 209**	**611 610**	**1 260 870**
Additions	310	8 465	24 042	599 125	631 594
Disposals	0	-63 439	0	0	-63 439
Effect of foreign currency exchange differences	0	0	0	0	0
Transfer	0	78	5 814	-972	4 959
Balance at 31 December 2017	**231 718**	**334 437**	**58 065**	**1 209 764**	**1 833 984**
Additions	52	986 447	28 645	542 926	1 558 070
Disposals	0	-54 143	-3 148	0	-57 292
Additions from CSA acquisition	18	558 692	32 332	485 133	1 076 175
Effect of foreign currency exchange differences	0	-11	0	-57 642	-57 653
Transfer	0	434 393	-16 320	-418 073	0
Balance at 31 December 2018	**231 788**	**2 259 815**	**99 574**	**1 762 107**	**4 353 284**

	Buildings at cost	Aircraft and aircraft related and other equipment	Tangible assets in progress	Prepayments on F/A acquisitions	Total
Accumulated depreciation and impairment	tCZK	tCZK	tCZK	tCZK	tCZK
Balance at 1 January 2017	**78 963**	**110 630**	**0**	**0**	**189 593**
Eliminated on disposals of assets	0	-3 575	0	0	-3 575
Depreciation expense	9 872	20 312	0	0	30 184
Effect of foreign currency exchange differences					
Balance at 31 December 2017	**88 836**	**127 367**	**0**	**0**	**216 202**
Eliminated on disposals of assets	0	-37 744	0	0	-37 744
Depreciation expense	9 887	94 894	0	0	104 781
Effect of foreign currency exchange differences	0	-8	0	0	-8
Balance at 31 December 2018	**98 722**	**184 509**	**0**	**0**	**283 232**
Net book value at 31 December 2017	**142 883**	**207 071**	**58 065**	**1 209 764**	**1 617 782**
Net book value at 31 December 2018	**133 066**	**2 075 306**	**99 574**	**1 762 107**	**4 070 052**

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

The line Additions from CSA acquisition represents fair value of fixed assets acquired at acquisition date (27.2.2018). Further additions during the year are presented in the lines Additions, Depreciation expense etc.

Borrowing costs capitalised amounted to TCZK 23,824 as at 31.12.2018 and TCZK 24,783 as at 31.12.2017.

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

In line with the Group's strategy to, inter alia, modernise its fleet of aircraft that aims mainly at purchases and operating lease of aircraft Boeing 737 – MAX, in December 2016 Smartwings signed a contract in respect of a supply of 5 aircraft, type Boeing 737 – MAX. In total, the Company has entered into contracts to purchase eight aircraft of this type; one of the airplanes was delivered in September 2018 – please refer below. As of 31 December 2018, advance payments of CZK 1,125,411 thousand were made in respect of these supplies.

The Group also paid advance payments for contract signed between České aerolinie and Airbus for delivery of 7 aircraft type Airbus A320 NEO to be delivered in 2020 to 2022. These advance payments amounted to TCZK 563,188 as at 31.12.2018. The contract is under review as at the date of issue of the financial statements and possibly the type of aircraft will be changed to Airbus A220 Airbus A321 LR.

Most lease contracts the Group entered into have been classified as operating lease and, as a consequence, have not been capitalized (further comment to leases are disclosed in Note 24).

In 2018, the Company acquired through a financial lease an aircraft type B737-8 MAX registration code OK-SWF. The aircraft was originally acquired as an asset, but the management decided to change the financial approach and acquire the aircraft instead through a financial lease with a lease-end option. The company paid the initial instalment of the lease, and posted the amount to the deferred expenses. The total financial lease liability at 31 December 2018 amounted to TCZK 975,855. The lease instalments will be settled on a quarterly basis over the period of 10 years.

Through the CSA acquisition (27.2.2018) the group acquired one aircraft as fixed asset presented under Aircraft and aircraft related and other equipment - aircraft type Airbus A320 registration mark OK-REQ with fair value TCZK 315,339 as at the date of acquisition.

16 CAPITAL COMMITMENTS

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

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

In September 2018, the company took delivery of, on the basis of purchase contract No. PA 3989 concluded on 29 July 2013, an aircraft with the registration number OK-SWF, serial number 60134. This aircraft became part of the Company's assets and subsequently the purchase of such aircraft was financed by a consortium of banks in the usual manner. This included the use of EX-IM bank of the U. S. A.

For the purpose of financing the purchase of the aircraft with the registration number OK-SWF, a Term Sheet was concluded on 31 August 2018 with Marsh Ltd., a company with its registered office at Tower Place East London. This company secured the confirmed lines in the event that the financing provided is not repaid. These lines were from the insurers Sompo International, AXIS, Allianz and Allianz (Fidelis), where each of such insurers has a 25% share. This contractual covenant was concluded as a result of negotiations between the Company's Board of Directors and AFIC (Aircraft Finance Insurance Consortium), a consortium based in Washington DC, United States of America.

On the basis of the foregoing Term Sheet the Company's Board of Directors discussed the Indicative Terms and Conditions for An AFIC Supported Loan dated 21 September 2018, which stipulated the conditions for financing the purchase of the above-described aircraft via bank club financing (i.e syndicated financing). The financing agent was the French bank Crédit Agricole CIB, which was also the arranger, together with Société Génerale. The funds were provided by Crédit Agricole CIB, Česká spořitelna, a. s., Komerční banka, a. s. Raiffeisenbank, a. s. and UniCredit Bank Czech Republic and Slovakia, a. s.

The above-described financing was in the form of finance leases, where the lessor was the Irish firm THEODOR J. E. C. WILSON AIRCRAFT LEASING COMPANY LIMITED. The financing was provided for a period of 10 years and in euros. The interest rate is a variable rate based on 3 month EURIBOR, with the condition that if such value is negative, the interest rate can be no lower than zero. The fixed deviation is within a range of 0.85% p. a. to 1.45% p. a. and the exact value is a commercial secret.

In view of the fact that the financing was provided in euros, the Company did not hedge against the risk of an increase in the variable component of the interest rate, by means of an interest-rate swap, for example.

On the basis of the above-described purchase contract, an additional two aircraft were supposed to be delivered, one in March 2019 and the other in June 2019.

As at the preparation date of this Annual Report, due to two aviation accidents that occurred on 29 October 2018 (Lion Air, B 737-8 registration number PK-LQP, flight No. 610) and 10 March 2019 (Ethiopian Airlines, B 737-8 registration number ET-AVJ, flight No. 302), the operation of these aircraft has been suspended, primarily in accordance with the Emergency Airworthiness Directive No. 2019-0051-E issued by the European Union Aviation Safety Agency on 12 March 2019, until such time as these accidents have been investigated and the causes of the accidents have been corrected.

The prohibition of operation of aircraft that the Company has already taken delivery of, and aircraft that were supposed to be delivered prior to the start of the summer season or at the beginning of the summer season, causes operating problems for the Company and the group. Such operating problems are being partially mitigated by leasing other types of aircraft from other air carriers and by the cancellation of some of the planned flights. It is quite probable that this will cause the Company's operating revenue to decrease in comparison with 2018.

In view of the above-described events, the Company's Board of Directors has prepared an emergency plan and introduced a number of other measures, including the lease of other aircraft, reducing the number of flight personnel and so forth. This emergency plan, in the form of P/L statement was submitted to the Company's domestic banks.

The Board of Directors also made the effort that could be reasonably expected of it to minimize the impact of a situation that occurred independently of the Company's activities. The Board of Directors and qualified shareholders convened two general meetings of the Company in order to increase the Company's registered capital. In view of the fact that an increase in registered capital requires the approval of 60% of all shareholders, and because shareholders having in total only a 50.08% share of the Company's registered capital voted in favor of the capital increase, the registered capital increase was not approved.

In good faith, the Company's Board of Directors implemented the approved fleet renewal strategy. A suitable aircraft was identified, specifically a B 737- 8 (MAX) manufactured by the Boeing Company, an aircraft manufacturer headquartered in the United States of America. This aircraft represents the fourth generation of the B 737 aircraft, the successor to aircraft of the type Boeing 737 Next Generation (NG) which the Company has been using for a long time. The maiden flight of the new type - MAX aircraft took place on 29 January 2016 at the Renton Municipal Airport, almost 49 years after the maiden flight of the B 737 aircraft (9 April 1967).

The 737 MAX class of aircraft obtained certification for commercial flight from the FAA (Federal Aviation Administration of the U. S. A.) on 8 March 2017. This certification was approved on 27 March 2017 by - EASA (European Union Aviation Safety Agency). After more than 2,000 hours of flight testing, CFM International confirmed the airworthiness of the LEAP – 1B engines for this type of aircraft. The B 737 MAX aircraft represented Boeing's response to the introduction of new types of aircraft by Airbus, when in December 2010 Airbus introduced the Airbus A320neo family of aircraft with new LEAP engines from CFM International and Pratt & Whitney PW1000G engines.

For further consequences linked with the acquisition and subsequent grounding of Boeing 737-8 MAX refer to Note 28 Subsequent events.

17 INVESTMENTS IN ASSOCIATES

Investment in Alpha Flight, a.s.

Smartwings acquired on October 11th, 2017 20 common registered shares with a nominal value of CZK 500,000 each, issued by Alpha Flight a.s. ("the Alpha Flight"). Total nominal value of the shares is CZK 10,000,000 representing 20% of the registered capital of this company and 20% of voting rights on the General Meeting.

The registered capital of the Alpha Flight amounts to CZK 50,000,000 and is divided into 100 shares.

The list of shareholders is following:
1. Smartwings, a. s., corporate ID No. 25663135, stake 20 %;
2. Alpha Flight Group Limited, corporate ID no. 2997941, stake 80%.

The shareholders agreement is concluded including clauses securing SHAREHOLDER PROTECTIONS and RESTRICTIONS ON TRANSFER OF SHARES and RIGHT OF FIRST REFUSAL and DIVIDENDS.

The Alpha Flight's registered office is at K Letišti 1018/55, Ruzyně, 161 00 Prague 6.

Alpha Flight provides services in the check-in process at the Prague-Ruzyně Airport, Leoš Janáček Airport in Ostrava, Pardubice Airport, Karlovy Vary Airport, including inflight catering services.

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

Alpha Flight	**31.12.2018 tCZK**	**31.12.2017 tCZK**
Current assets	172 281	141 559
Non-current assets	402 389	415 235
Current liabilities	-106 642	-88 897
Non-current liabilities	0	0

	Year ended 31.12.2018 tCZK	**Year ended 31.12.2017* tCZK**
Revenue	611 041	464 541
Profit or loss from continuing operations	21 131	34 093
Post-tax profit (loss) from discontinued operations	0	0
Profit (loss) for the year	21 131	34 093
Other comprehensive income for the year	0	0
Total comprehensive income for the year	21 131	34 093

	31.12.2018 tCZK	31.12.2017 tCZK
Net assets of the associate	468 028	467 897
Change of net assets for the period (or after acquisition 30.9.2017)	131	-3 357
- dividend payment	*-21 000*	
- result for the year	*21 131*	
Proportion of the Group´s ownership interest in Alpha Flight	20%	20%
Post acquisition share on profit and OCI of Alpha Flight	26	-671
Negative goodwill		-93 854
Carrying amount of the Group´s interest in Alpha Flight	**93 606**	**93 579**

** whole year amounts*

Investment in České aerolinie, a.s.

For the further details about the acquisition of České aerolinie, a.s. refer to Note 1.3.

From the date 27.2.2018 (date of acquisition of controlling interest), České aerolinie is consolidated by full method with non-controlling interest 2,26%. Until the date 27.2.2018 the Company's share in České aerolinie was classified as investment in an associate applying the equity method. Carrying amount of the Group's interest in České aerolinie, a.s. reported as at 31 December 2017 can be analysed as follows:

	2017 tCZK
Carrying amount of the Group´s interest in ČSA (excl. goodwill) at the beginning of the period	**505 313**
Net assets of the associate	1 510 743
Adjustments in respect with revaluation of net assets to fair value	-1 554
Change of net assets for the period	351 896
Proportion of the Group´s ownership interest in ČSA	34%
Addition to post acquisition share on profit and OCI of ČSA for the period	119 116
Goodwill at the date of acquisition (31 March 2015)	54 966
Carrying amount of the Group´s interest in ČSA incl. goodwill at the end of the period	**624 430**

18 INVENTORIES

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

Inventories	**2018 tCZK**	**2017 tCZK**
Spare parts	333 562	254 324
Other material	0	421
Goods	71	4
Total Inventories	**333 633**	**254 748**

Inventories are measured at the lower of cost and net realisable value. In 2018 the impairment of inventories was TCZK 5,661 (2017: TCZK 6,665). The management of the Group believes that inventory will be utilized for repairs and overhauls and that the value in use or net realisable value of inventories is not lower than their cost.

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

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

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

	2018 tCZK	**2017 tCZK**
Trade receivables	2 373 853	1 315 865
Other receivables	902 431	330 582
Offset*	-491 195	-392 176
Total Trade and Other Receivables	**2 785 090**	**1 254 270**

	2018 tCZK	**2017 tCZK**
Advanced payments and deposits	518 728	218 512
Receivables from employees	24 024	9 037
Prepaid lease payments	190 385	72 993
Prepaid expenses other	128 894	53 990
VAT receivable	23 204	9 481
Other receivables	11 461	13
Total Other Receivables	**896 695**	**364 025**

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

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

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

Prepaid lease payments include the part of the lease as of 31 December 2018 (2017: 31 December 2017). It is determined from the invoices received and any payments made on the lease of aircraft that relate to the period up to 1 January 2019 (2017: 1 January 2018). It includes also first increased payment for finance lease of the aircraft OK-SWF.

Prepaid other expenses consist primarily of insurance and training costs.

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

The impairment losses recognised can be summarised as follows:

	2018 **tCZK**	**2017** **tCZK**
Trade and other receivables - gross	3 354 766	1 702 563
Offset	-491 195	-392 176
Impairment (Provision for bad debts)	-78 482	-56 117
Total Net trade and other receivables	**2 785 090**	**1 254 270**

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

Non-current Receivables	**2018** **tCZK**	**2017** **tCZK**
Nominal values of operating lease related deposits	981 738	743 120
Discount on operating lease related deposits	-144 978	-125 259
Total Non-current Receivables	**836 760**	**617 861**

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

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

20 EQUITY

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

The Equity is divided into Equity attributable to owners of the parent and Equity attributable to non-controlling interests (2,26% interest in ČSA).

The shareholdings and voting rights of the shareholders as at 31 December 2018 and 2017 are as follows:

2018	**Share in %**	**tCZK**
	2018	**2018**
UNIMEX GROUP, a.s.	11,20%	139 018
Ing. Roman Vik	11,20%	139 018
CANARIA TRAVEL, spol. s r.o.	27,68%	343 574
China International Group Corporation Limited	49,92%	619 625
Total	**100,00%**	**1 241 236**

2017	**Share in %**	**tCZK**
	2017	**2017**
UNIMEX GROUP, a.s.	11,20%	139 018
Ing. Roman Vik	11,20%	139 018
CANARIA TRAVEL, spol. s r.o.	27,68%	343 574
China International Group Corporation Limited	49,92%	619 625
Total	**100,00%**	**1 241 236**

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their currencies to the Group's functional/presentation currency (i.e. CZK) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

The shares are pledged in favour of Komerční banka and UniCredit Bank of the Czech Republic.

21 PROVISIONS

	2018 tCZK	2017 tCZK
Untaken vacation	76 192	41 805
Repair and maintenance	812 679	352 863
Other	84 602	2 089
Total Provisions	**973 473**	**396 756**

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

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

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

Other provisions include provisions for bonuses, restructuring and litigations.

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

22 INTEREST-BEARING LIABILITIES

The Group has entered into following interest-bearing liabilities:

Long-term interest bearing liabilities	2018 tCZK	2017 tCZK
Loans	59 859	83 333
Finance lease liabilities	878 269	0
Total Long-term interest bearing loans	**938 128**	**83 333**

Short-term interest bearing liabilities	2018 tCZK	2017 tCZK
Bank overdrafts	655 595	588 114
Loans	967 513	773 333
Current portion of Finance lease liabilities	97 585	0
Total Short-term interest bearing loans	**1 720 693**	**1 361 447**

Overview of loans according to loan providers:

31 December 2018 **Loan provider**	**Total amount of loan /credit limit tCZK** **Unpaid part tCZK**	**of which due less than 1 year** **tCZK**	**of which due in 1 and more years** **tCZK**
Komerční banka, a.s. Overdraft	80 000 54 445	54 445	0
Komerční banka, a.s. Revolving credit	470 000 449 500	449 500	0
Raiffeisenbank a.s. Short-term credit	300 000 300 000	300 000	
Raiffeisenbank a.s. Medium-term credit	125 000 20 833	20 833	0
UniCredit Bank Czech Republic and Slovakia, a.s. Overdraft	550 000 500 794	500 794	0
Československá obchodní banka, a.s. Overdraft	50 000 31 767	31 767	0
Československá obchodní banka, a.s. Short-term credit	100 000 100 000	100 000	0
Česká spořitelna, a. s. Medium-term credit	141 536 98 705	47 179	51 526
Česká spořitelna, a. s. Medium-term credit	150 000 58 333	50 000	#
Česká spořitelna, a. s. Overdraft	100 000 68 511	68 511	0
Other overdraft facilities	78	78	0
Credit Limit in total **Unpaid part in total**	**2 066 536** **1 682 966**	**1 623 107**	**59 859**

31 December 2017 Loan provider	Total amount of loan /credit limit tCZK Unpaid part tCZK	of which due less than 1 year tCZK	of which due in 1 and more years tCZK
Komerční banka, a.s.	80 000		
Overdraft	18 830	18 830	0
Komerční banka, a.s.	470 000		
Revolving credit	340 000	340 000	0
Raiffeisenbank a.s.	300 000		
Short-term credit	300 000	300 000	0
Raiffeisenbank a.s.	125 000		
Medium-term credit	62 500	41 667	20 833
UniCredit Bank Czech Republic and Slovakia, a.s.	550 000		
Overdraft	486 290	486 290	0
UniCredit Bank Czech Republic and Slovakia, a.s.	125 000		
Medium-term credit	41 667	41 667	0
Česká spořitelna, a. s.	150 000		
Medium-term credit	112 500	50 000	62 500
Česká spořitelna, a. s.	100 000		
Overdraft	82 994	82 994	0
Credit Limit in total	**1 900 000**		
Unpaid part in total	**1 444 781**	**1 361 448**	**83 333**

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

The loans of the Company are collateralised by the below instruments:

- Shares of the Company
- "Letter of comfort" issued by UNIMEX GROUP, a. s., corporate ID 41693540
- Pledge to real estate – administrative building with no. 1068, Ruzyně, owned by the subsidiary Smartwings Building, s. r. o., with its registered office at Václavské nám. 53/815, Prague 1, corporate ID 645 83 970

In 2018, the Company acquired through a financial lease an aircraft type B737-8 MAX registration code OK-SWF. The aircraft was originally acquired as an asset, but the management decided to change the financial approach and acquire the aircraft instead through a financial lease with a lease-end option. The total financial lease liability at 31 December 2018 amounted to TCZK 975,855. The lease instalments will be settled on a quarterly basis over the period of 10 years.

23 DEFERRED INCOME

Deferred income represents amounts of sold flight tickets which were not realized as at the balance sheet date, they were sold in advance to final customers. The flights will be operated in the next periods. The amount as at 31.12.2018 in total TCZK 908,910 increased in comparison to prior period due to acquisition of České aerolinie having a lot of flights sold in advance.

24 LEASES

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

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

Future lease payments	**tCZK**
due in 2019	3 627 505
due in 2020	3 096 243
due in 2021	2 524 071
due in 2022	1 853 566
due in 2023	1 558 734
due in 2024 and later	5 646 942
Total Future minimum lease payments	**18 307 061**

The Group's fleet comprises, in particular, aircraft that are used by the Group under the lease contracts. Most of the aircraft used by the Group are Boeing, type B 737-800 with capacity of 189 passengers and 6 members of the crew. In addition, the Group operates two aircraft, Boeing with capacity of 148 passengers and one aircraft with capacity of 212 passengers. The Group also leases Boeing type 737-8 MAX (6 aircraft on operating lease and 1 aircraft on finance lease – described under Note 15 Propery Plant & Equipment). The aircraft type Boeing 737-8 MAX were grounded in March 2019, see Note 28 Subsequent Events for details. Through the acquisition of the Czech Airlines in 2018 the Group also uses aircraft type Airbus A319, ATR 72 and ATR 42 and one Airbus A330, see the below table for details.

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

No.	Aircraft leased in 2018	Mfg Year	Lease Period (in months)	Start of lease	Estimated end of lease	Lessor
1.	BOEING 737-8CX, MSN 32362, HA LKG (OK TVB)	2002	274	3.5.2002	31.3.2025	MASL IRELAND (13) LIMITED
2.	BOEING 737-8FH, MSN 29669, OK TVF (C-GTVF)	2005	179	20.4.2005	19.4.2020	ALC BLARNEY AIRCRAFT Limited
3.	BOEING 737-8Q8, MSN 30719, OK TVG (C-GTVG)	2007	166	4.5.2007	31.3.2021	Macquarie AirFinance Acquisitions (Ireland) Limited
4.	BOEING 737-8Q8, MSN 35275, OK TVH (C-GVVH)	2008	167	12.5.2008	11.5.2022	ILFC AIRCRAFT 73B-35275 LIMITED
5.	BOEING 737-86Q, MSN 30294, OK TVE (C-GRKB)	2004	168	19.3.2004	19.3.2018	Wells Fargo Bank Northwest, National Association
6.	BOEING 737-8Q8, MSN 29351, OK TVJ (C-FTAH)	2004	185	18.11.2008	17.5.2024	Wilmington Trust SP Services (Dublin) Limited
7.	BOEING 737-8FN, MSN 37076, OK TVL	2010	188	25.1.2010	9.10.2025	Horizon Aviation 3 Limited
8.	BOEING 737-8FN, MSN 37077, OK TVM	2010	184	3.2.2010	3.6.2025	Fly Aircraft Holdings
9.	BOEING 737-8CX, MSN 32360, OK TVO	2002	177	21.6.2010	31.3.2020	MASL IRELAND (13) LIMITED
10.	BOEING 737-8K5, MSN 32907, OK TVP (C-GKVP)	2002	136	8.6.2010	30.10.2021	DCAL 5 LEASING LIMITED
11.	BOEING 737-86N, MSN 38018, OK TVR	2011	120	28.4.2011	27.4.2021	Celestial Aviation Trading 12 Limited
12.	BOEING 737-86N, MSN 39404, OK TVS	2011	120	5.5.2011	4.5.2021	Celestial Aviation Trading 12 Limited
13.	BOEING 737-86N, MSN 39394, OK TVT	2012	120	31.1.2012	30.1.2022	Celestial Aviation Trading 12 Limited
14.	BOEING 737-86N, MSN 38025, OK TVU (C-GKVU)	2012	120	20.3.2012	19.3.2022	Start Ireland Leasing 7 Limited
15.	BOEING 737-86N, MSN 38027, OK TVV (C-GKVV)	2012	120	9.5.2012	8.5.2022	Start Ireland Leasing 7 Limited
16.	BOEING 737-86Q, MSN 30295, OK TVW	2004	110	29.6.2012	28.6.2021	SASOF III (A20) AVIATION IRELAND DAC
17.	BOEING 737-8Z9, MSN 33833, OK TVX	2005	103	29.4.2013	30.11.2021	Macquarie Acquisitions (Ireland) Limited
18.	BOEING 737-8Q8, MSN 30724, OK TVY (C-GTQY)	2007	108	22.5.2013	21.5.2023	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
19.	BOEING 737-8S3, MSN 29250, OK TSA	2001	60	4.4.2013	3.4.2018	SASOF III (A10) AVIATION IRELAND DAC (3)
20.	BOEING 737-8Q8, MSN 41795, OK TSD	2014	120	5.5.2014	4.5.2024	ILFC Aircraft 73B-41795 Limited

21.	BOEING 737-81D, MSN 39437, OK TSE	2014	96	3.2.2014	2.2.2022	Macquarie Aerospace Finance 39437 Limited
22.	BOEING 737-8GJ, MSN 37360, OK TSF	2009	96	24.3.2015	23.3.2023	Halodell Limited
23.	BOEING 737-804, MSN 28231, OK TSH	2000	57	14.4.2015	5.2.2020	ACS Aero 1 Beta Limited
24.	BOEING 737-9GJER, MSN 37363, OK TSI	2012	119	13.5.2015	30.4.2025	CIT Aerospace International
25.	BOEING 737-8FH, MSN 35093, OK TSC (C-GTQX)	2007	70	7.5.2013	7.3.2019	CONSTITUTION AIRCRAFT LEASING (IRELAND) 9 LIMITED
26.	BOEING 737-7Q8, MSN 29346, OK SWT	2003	163	22.6.2012	21.11.2025	Klaatu Aicraft Leasing (Ireland) Limited
27.	BOEING 737-7Q8, MSN 28254, OK SWW	2003	164	1.6.2012	30.11.2025	ILFC IRELAND LIMITED
28.	BOEING 737-900ER, MSN 34952, OK TSM	2007	74	27.1.2016	31.3.2022	SASOF III (A8) Aviation Ireland DAC
29.	BOEING 737-800-8GQ, MSN 35793,OK TSO	2007	72	6.5.2016	5.5.2022	AWAS 35793
30.	BOEING 737-800, MSN 40875, OK-TSR	2010	64	12.6.2017	11.11.2022	Wilmington Trust SP Services (Dublin) Limited
31.	BOEING 737-81M, MSN 35272, OK-TSS	2008	70	11.5.2018	5.3.2024	Macquarie Aerospace Ireland Limited
32.	BOEING 737-86N, MSN 37 884, OK TST	2010	91	24.4.2018	23.4.2026	Horizon Aviation 3 Limited
33.	BOEING 737-8FZ, MSN 31 717, OK TSU	2010	84	2.5.2018	1.5.2025	Horizon Aviation 2 Limited
34.	BOEING 737-8 MAX, MSN 43555, OK-SWA	2018	144	30.1.2018	29.1.2030	Celestial Aviation Trading 46 Limited
35.	BOEING 737-8 MAX, MSN 43556, OK-SWB	2018	144	30.3.2018	29.3.2030	Celestial Aviation Trading 46 Limited
36.	BOEING 737-8 MAX, MSN 43296, OK-SWC	2018	156	16.5.2018	15.5.2031	ALC Blarney Aircraft Limited
37.	BOEING 737-8 MAX, MSN 43557, OK-SWD	2018	144	25.5.2018	24.5.2030	Celestial Aviation Trading 11 Limited
38.	BOEING 737-8 MAX, MSN 64937, OK-SWE	2018	144	20.6.2018	19.6.2030	WILMINGTON TRUST SP SERVICES (DUBLIN) LIMITED
40.	Citation 680, MSN 680-0139, OK UNI	2007	165	13.6.2007	31.3.2021	UG Jet s.r.o.
41.	Citation 680, MSN 680-0279, OK EMA	2009	142	21.5.2009	31.3.2021	UG Jet s.r.o.
42.	Citation 680, MSN 680-0324, OK UGJ	2012	95	13.3.2012	12.3.2020	UG Jet s.r.o.
43.	Citation 680, MSN 680-0558,OK JRT	2016	60	30.3.2016	30.3.2021	UG Jet s.r.o.
44.	Citation 680, OK SEM		15	13.4.2018	13.6.2019	UG Jet s.r.o.
45.	BOEING 737-8BK, MSN 29643, SP TVZ – operated by Travel Service Polska, Sp. z o. o.	2007	180	15.2.2010	14.2.2025	Wilmington Trust SP Services (Dublin) Limited
46.	BOEING 737-82R, MSN 30666, OM TSG – operated by Travel Service Slovensko, s.r.o.	2004	120	9.5.2014	8.5.2024	ILFC Ireland Limited
47.	Airbus A330, MSN 425, OK-YBA operated by České aerolinie a.s.	2001	90	13.5.2013	12.10.2020	Korean Air Lines Co., Ltd.
48.	Airbus A330, MSN 427, OK-GBB operated by České aerolinie a.s.		5	31.10.2018	5.4.2019	Air Transat A.T.INC.
49.	Airbus A319, MSN 3043, OK-MEK, operated by České aerolinie	2007	146	8.3.2007	8.3.2019	B.aircraft a.s.

50.	Airbus A319, MSN 3094, OK-MEL, operated by České aerolinie	2007	167	19.4.2007	31.12.2020	B.aircraft a.s.
51.	Airbus A319, MSN 3406, OK-NEM, operated by České aerolinie	2008	145	21.2.2008	1.2.2020	B.aircraft a.s.
52.	Airbus A319, MSN 3436, OK-NEN, operated by České aerolinie	2008	146	17.3.2008	1.3.2020	B.aircraft a.s.
53.	Airbus A319, MSN 3452, OK-NEO, operated by České aerolinie	2008	146	3.4.2008	3.4.2020	B.aircraft a.s.
54.	Airbus A319, MSN 3660, OK-NEP, operated by České aerolinie	2008	146	30.9.2008	30.9.2020	B.aircraft a.s.
55.	Airbus A319, MSN 4258, OK-PET, operated by České aerolinie	2010	110	31.3.2010	29.3.2019	BOC Aviation (IRELAND) Limited
56.	ATR 72-500, MSN 674, OK-GFQ, operated by České aerolinie	2001	97	5.10.2012	4.10.2020	Safair Lease Finance 72 Limited
57.	ATR 72-500, MSN 681, OK-GFR, operated by České aerolinie	2001	97	5.9.2012	4.9.2020	Safair Lease Finance 72 Limited
58.	ATR 72-500, MSN 679, OK-GFS, operated by České aerolinie	2001	97	12.12.2012	11.12.2020	Safair Lease Finance 72 Limited
59.	ATR 72-500, MSN 761, OK-MFT, operated by České aerolinie	2007	43	18.4.2016	31.10.2019	NAC Aviation 8 Limited
60.	ATR 72-500, MSN 789, OK-NFU, operated by České aerolinie	2008	49	20.3.2017	19.3.2021	NAC Aviation 8 Limited
61.	ATR 72-500, MSN 785, OK-NFV, operated by České aerolinie	2010	38	16.7.2018	15.8.2021	NAC Aviation 3 Limited
62.	ATR 42-500, MSN 637, OK-KFN, operated by České aerolinie	2005	169	3.5.2005	28.3.2019	Elix Assets 7 Limited
63.	ATR 42-500, MSN 639, OK-KFP, operated by České aerolinie	2005	161	20.10.2005	23.1.2019	Elix Assets 7 Limited

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

In addition the Group leases warehouses under operating lease.

25 CURRENT TRADE AND OTHER PAYABLES, DEFERRED INCOME

	2018 tCZK	2017 tCZK
Trade payables	2 067 718	762 322
Other payables	2 117 165	996 001
Offset*	-491 195	-392 176
Total Trade and Other Payables	**3 693 688**	**1 366 146**

	2018 tCZK	2017 tCZK
Payables to employees	142 891	77 412
Payables to institutions	93 291	62 207
Deposits received	300 508	202 876
Deferred income	908 910	96 656
Other payables	13 795	5 917
Total Other Payables	**1 459 395**	**445 067**

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

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

26 RELATED PARTY TRANSACTIONS

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

During the years ending 31 December 2018 and 31 December 2017, the Group had relations with following related parties:

Number	Company	Address	Statutory body	Owners
1.	**CANARIA TRAVEL, spol. s r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Lenka Viková Ludvík Macháček	TO SERVIS spol. s r. o. (50%) Unimex Group, a. s. (50%)
2.	**TO - SERVIS spol. s r. o.**	Horňátecká 481/5, Kobylisy, Praha 8	Lenka Viková	Roman Vik (2,5%) EH Group s. r. o. (2,5%) Lenka Viková (95 %)
3.	**EH Group s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik	Roman Vik (100%)
4.	**EHQ Energy s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Veronika Viková Lenka Loštická	Roman Vik (50%) Marek Loštický (50%)
5.	**UG Jet, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Roman Vik	Unimex Group, a. s. (50%) EH Group s. r. o. (50%)
6.	**UG Jet 2, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	Unimex Group, a. s. (100%)
7.	**Calvia Investments, s.r.o.**	Pařížská 131/28 Josefov Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
8.	**REAL PROPERTY INVESTMENTS, s.r.o.**	Ječná 529/29 Nové Město Praha 2	Jaromír Šmejkal	Jaromír Šmejkal (100%)
9.	**UNIMEX, spol. s .r.o.**	Ječná 529/29 Nové Město Praha 2	Jaromír Šmejkal	Fred Leker and Sohn Import - Export GmbH (50%) Jaromír Šmejkal (50%)

10.	**Pelicana, s.r.o.**	Ječná 529/29 Nové Město Praha 2	Jaromír Šmejkal Adéla Rostová	JADA Investments, B.V. (95%) Jaromír Šmejkal (5%)
11.	**Fly Investments II, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
12.	**UNIMEX GROUP, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	Jiří Šimáně (30%) Jaromír Šmejkal (20%) NEVILLE Investments B. V. (30%) JADA Investments B.V. (20%)
13.	**UNIMEX GROUP, uzavřený investiční fond, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	Jiří Šimáně (47.17%) Jaromír Šmejkal (31.34%) UNIMEX GROUP, a. s. (20.83%) Others (0.56%)
14.	**Fly Sport Investments s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně
15.	**UG-D,a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, uzavřený investiční fond, a.s. (100%)
16.	**BT Golf, s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Vladimír Klepal	UNIMEX GROUP, A. S. (10%) Jiří Šimáně (90%)
17.	**Global Wines & Spirits s.r.o.**	Václavské nám. 815/53, Praha 1	Jiří Šimáně Tomáš Otta	UNIMEX GROUP, A. S. (47.5%) Tomáš Otta (5%) Global Eastern Wine Holding GmbH (47,5%)
18.	**UNI HOBBY, a.s.**	Vinohradská 365/10, Praha 2 - Vinohrady	Jiří Šimáně Jaromír Šmejkal Petr Pavlát	Jiří Šimáně (51%) Jaromír Šmejkal (34%) Petr Pavlát (15%)
19.	**Václavské, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)

20.	**Janáčkovo, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
21.	**Příkopy, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
22.	**TRAVEL FREE, s.r.o.**	Nové Město Praha 1	Jaromír Šmejkal Pavel Monhart	Gebr. Heinemann SE & Co. KG (50%) UNIMEX GROUP, A. S. (50%)
23.	**Vinohradská BLDG, a.s.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně Jaromír Šmejkal	UNIMEX GROUP, A. S. (100%)
24.	**Fly Investments s.r.o.**	Václavské nám. 815/53, Nové Město Praha 1	Jiří Šimáně	Jiří Šimáně (100%)
25.	**EHQ s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Roman Vik Jiří Berger Marek Loštický	EH GROUP s. r. o. (50%) Jiří Berger (25%) IMMORENT AND TRADE, a.s. (25%)
26.	**China International Group Corporation Limited**	Room 2302-2304, 23/F, Convention Plaza Office Tower, 1 Harbour Road, Wan Chai, Hong Kong, People´s Republic of China	Liefen Du Zhongqiu Liu	Ye Jianming (90 %) Zang Jianjun (10 %)
27.	**Canaria Travel CZ s.r.o.**	Horňátecká 481/5, Kobylisy, Praha 8	Lenka Viková	CANARIA TRAVEL, spol. s r. o. (90 %) Lenka Viková (10 %)

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

Balances transaction with related parties

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

	2018 tCZK	2017 tCZK
Revenue	**0**	**226 416**
Expenses	**0**	**1 941**
Receivable		
Trade receivables	0	2 786
Other receivables	0	0
Total receivables	0	2 786
Payables		
Trade payables	0	0
Loans received	0	0
Other liabilities	0	0
Total payables	0	0

2. UG Jet, s.r.o.

	2018 tCZK	2017 tCZK
Revenue	**0**	**0**
Expenses	**175 363**	**162 240**
Receivable		
Trade receivables	0	0
Other receivables	22 466	21 291
Total receivables	22 466	21 291
Payables		
Trade payables	2 883	59 850
Loans received	0	0
Other liabilities	0	0
Total payables	2 883	59 850

3. UNIMEX GROUP, a.s.

	2018 tCZK	2017 tCZK
Revenue	**27**	**1 490**
Expenses	**3 788**	**0**
Receivable		
Trade receivables	12	0
Other receivables	0	0
Total receivables	12	0
Payables		
Trade payables	0	0
Loans received	0	0
Other liabilities	59 979	59 979
Total payables	59 979	59 979

4. BT Golf, s. r. o.

	2018 tCZK	2017 tCZK
Revenue	**0**	**0**
Expenses	**3 000**	**3 000**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	0
Loans received	0	0
Other liabilities	0	0
Total payables	0	0

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

	2018 tCZK	2017 tCZK
Revenue	**0**	**0**
Expenses	**69**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables		
Loans received	0	0
Other liabilities	0	0
Total payables	0	0

6. China International Group Corporation Limited

	2018 tCZK	2017 tCZK
Revenue	**0**	**0**
Expenses	**0**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables		
Loans received	0	0
Other liabilities	12 895	12 895
Total payables	12 895	12 895

7. Jiří Jurán

	2018 tCZK	2017 tCZK
Revenue		**0**
Expenses		**0**
Receivable		
Trade receivables	0	0
Other receivables	9	107
Total receivables	9	107
Payables		
Trade payables	0	0
Loans received	681	656
Other liabilities	0	0
Total payables	681	656

8. Jiří Šimáně

	2018 tCZK	2017 tCZK
Revenue	**0**	**0**
Expenses	**267**	**0**
Receivable		
Trade receivables	0	0
Other receivables	0	0
Total receivables	0	0
Payables		
Trade payables	0	0
Loans received	700 000	0
Other liabilities	0	0
Total payables	700 000	0

9. Canaria Travel CZ s.r.o.

	2018 tCZK	2017 tCZK
Revenue	**242 808**	**0**
Expenses	**3406**	**1 300**
Receivable		
Trade receivables	2 914	0
Other receivables	0	0
Total receivables	2 914	0
Payables		
Trade payables	3	1300
Loans received	0	0
Other liabilities	0	139
Total payables	3	1 439

27 AUDITOR'S FEE

	2018 tCZK	2017 tCZK
Audit of Annual accounts	2 435	1 579
Consultancy and Other services	0	0
Total Auditor's fee	**2 435**	**1 579**

28 SUBSEQUENT EVENTS

Since March 2019, all flights operated on Boeing 737-8 MAX aeroplanes has been temporarily suspended for an unspecified period of time, mostly in accordance with the Emergency Airworthiness Directive No. 2019-0051-E issued by the European Union Aviation Safety Agency on 12 March 2019. At the time of this suspension, the company had 7 aircrafts of this particular type in its fleet; nine additional aircrafts have been ordered and were expected to be delivered during the summer season of 2019. The aircrafts have not been delivered so far. The restrictions to the use of the aircrafts substantially affect the Group's business operations. After the suspension, management immediately entered into talks with its customers, lessors, Boeing representatives and other stakeholders and parties involved in the issue in order to mitigate the potential loss that may arise from the ongoing emergency.

The Board of Directors drafted an emergency plan and adopted measures, including the lease of other aircraft, change of the originally scheduled flight plan, reduction in the number of aviation staff among other. The emergency plan was presented to the Group's domestic banks.

At the date of these financial statement, the emergency situation is still pending, the management continues in intensive negotiations and in preparing and implementing response measures. The management has also entered in talks on obtaining additional funds to overcome the emergency. The situation is being monitored and the developments are being communicated with the Group's creditors. The management is convinced that the steps taken so far and planned for the upcoming weeks and months will be sufficient to resolve the emergency situation and to obtain the additional funds to overcome the difficult situation.

Over time, it becomes apparent that problems with 737-8 MAX aircraft are deepening and no specific and reliable information about possible release of the aircraft to service is provided. As a consequence, the Group will suffer significant losses in upcoming periods that will be forced to claim to be recovered from the Boeing company. The management started the communication with the Boeing company representatives in this matter, however many months of negotiations so far have not led to satisfactory results.

Financial statements as at and for the period ended 31 December 2018 do not include any losses incurred in connection with grounding of the Boeing 737-8 MAX aircraft.

Independent Auditor's Report
on the audit of consolidated financial statements
for the year ended 31.12.2018
of Smartwings, a.s.
a company having a registered office at K Letišti 1068/30, 168 08 Praha 6
Registration Number:256 63 135

Rödl & Partner

Independent Auditor's Report

to the shareholders of
Smartwings, a.s.
K Letišti 1068/30, 168 08 Praha 6
Reg.No.: 256 63 135

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Smartwings, a.s., and its subsidiaries (hereinafter also "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes ("the consolidated financial statements"). The basic disclosures about Smartwings, a.s. are presented in Note 1 of the notes to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Smartwings, a.s. as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 28 as specified in the notes to the financial statements which describes the subsequent event of directives being passed by the key international aviation agencies, bodies and regulators (inter alia Emergency Airworthiness Directive No. 2019-0051-E issued by the European Union Aviation Safety Agency on 12 March 2019) for the area of civil aviation to suspend all flights operated on Boeing 737-8 'MAX' aeroplanes for an unspecified period of time. The impact of this event has not been reflected in the financial statements for the year ended on 31 December 2018. However, this event could materially affect the Group's financial statements for the year ending on 31 December 2019 and subsequent years. The impact will depend on the period of time during which such flights will be suspended and on the settlement of potential losses and damages between parties affected by the suspension of flights operated on Boeing 737-8 'MAX' aeroplanes. Our opinion is not qualified in respect of this matter.

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

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Rödl & Partner

We communicate with the Board of Directors and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Prague, on 13.09.2019

Rödl & Partner Audit, s.r.o.
Platnéřská 2, 110 00 Praha 1
Licence Number 354
represented by the managing director

Andreas Höfinghoff

Ing. Ivan Brož, registered auditor, license number 2077