



CZECH AIRLINES
ANNUAL REPORT 2007

CZECH AIRLINES, AS THE CZECH REPUBLIC'S FLAGSHIP AIR CARRIER, OPERATES FLIGHTS FROM PRAGUE TO MOST EUROPEAN CAPITALS, NORTH AMERICA, AND DESTINATIONS IN THE MIDDLE EAST AND NORTH AFRICA. THE COMPANY BOASTS A MODERN AIRCRAFT FLEET, EXPERIENCED PILOTS, AND PLEASANT CABIN CREWS. WITH AIR-TRANSPORT EXPERIENCE STRETCHING BACK MORE THAN EIGHTY YEARS, CZECH AIRLINES IS A SOUGHT-AFTER SERVICE PROVIDER AMONG OTHER AIRLINES TOO.

CZECH AIRLINES WAS NAMED THE BEST AIRLINE BASED IN CENTRAL/EASTERN EUROPE. IN 2007, THE COMPANY RECEIVED THIS HIGH-PROFILE PRIZE, AWARDED EVERY YEAR BY THE LONDON-BASED INTERNATIONAL AVIATION ORGANIZATION OFFICIAL AIRLINE GUIDE (OAG), BASED ON PROFESSIONAL PUBLIC POLLING, FOR THE FOURTH TIME.

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COMPANY PROFILE – CORE BUSINESS ACTIVITIES

Czech Airlines (also referred to in this Annual Report as the “Company”), as the Czech Republic’s flagship air carrier, operates flights from Prague to most European metropolises, transit points in North America, and destinations in the Middle East and North Africa. With air-transport experience stretching back more than eighty years, Czech Airlines is a sought-after service provider among other airlines too.

Czech Airlines’ core business is the transportation of passengers on regularly scheduled flights. The Company offers flights to 135 destinations in 48 countries worldwide, thus enabling customers to reach important commercial and political centres swiftly and easily.

In addition to operating regularly scheduled flights, Czech Airlines also offers travel agencies and other contractual partners charter flights to out-of-the-way destinations. Throughout the year, Czech Airlines’ aircraft thus fly to top international tourist spots, transporting thousands of tourists on holiday. Czech Airlines’ charter services are becoming increasingly popular among domestic and foreign sports teams, high-profile multinational corporations and music ensembles.

Czech Airlines also operates cargo services (Czech Airlines Cargo). Czech Airlines decided to retain its cargo transport services onboard its aircraft despite selling the Cargo Terminal at Prague Airport in 2007.

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

At the beginning of 2008, Czech Airlines finalized the sale of its catering operations as part of a plan to focus on its core business. The enterprise taking over the catering services continues to supply in-flight refreshments onboard Czech Airlines aircraft under a long-term, mutually beneficial contract.

Czech Airlines is particularly meticulous in its technical maintenance of aircraft. Besides maintaining its own fleet, it also carries out regular certified servicing for a myriad of important international air carriers.

Czech Airlines also draws successfully on its many years’ experience of crew training. The Company has its own training centre where it organizes specialized training for its own crews and for the personnel of other airlines.

Czech Airlines also operates duty free shops offering a wide range of gifts and luxury items as an in-flight service and airside at Prague Airport.

SELECTED ECONOMIC AND TRANSPORT INDICATORS

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

	2006	2007
Production/Revenues	23,375,950	23,399,853
Operating profit/(loss)	(205,358)	459,291
Profit/(loss) before tax	(396,204)	111,175
Profit/(loss) after tax	(396,951)	206,600
Equity	938,646	1,238,093
Share capital	2,735,510	2,735,510

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

	2006	2007
Production/Revenues	1,063,876	1,188,129
Profit from operations	13,887	16,653
Loss before tax	(1,375)	(8,825)
Profit/(loss) after tax	(6,231)	9,659
Equity	280,045	361,501
Share capital*	131,036	151,317

* The share capital in 2006 and 2007 was CZK 2,735,510 thousand. The difference in USD amounts is due to the application of different CZK/USD exchange rates as at 31 December 2006 and 31 December 2007.

Selected indicators and economic results

	Unit	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Transportation												
Tonne-kilometres performed	millions	285.4	288.3	311.6	360.9	388.3	407.6	498.1	606.0	747.9	771.7	744.5
Available Tonne-kilometres	millions	501.2	507.7	550.7	587.9	625.3	639.8	770.3	973.0	1,207.2	1,221.9	1,289.4
Passengers carried	thousands	1,733.7	1,801.8	2,064.1	2,461.7	2,877.3	3,065.0	3,591.5	4,345.4	5,217.6	5,469.9	5,492.2
Cargo tonnes carried	tonnes (thousands)	10.4	11.9	13.0	16.6	16.2	17.9	21.1	22.7	22.1	23.2	22.7
Total load factor												
Weight	%	56.9	56.8	56.6	61.4	62.1	63.7	64.7	62.3	62	63.2	57.7
Seat	%	66.8	66.3	65.8	70.4	70.8	71.3	72.7	70.5	70.1	71.8	68.4

Employees and productivity

	Unit	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of employees		3,912	3,795	3,876	3,990	4,422	4,455	4,543	4,861	5,303	5,442	4,777
Tonne-kilometres performed per employee	thousands	72.95	75.96	80.39	90.44	87.82	91.48	109.63	120.34	141.06	141.81	155.86
Productivity (operating revenues per employee)	CZK millions	2.3	2.6	2.9	3.4	3.3	3.1	3.4	3.6	3.9	4.1	4.7

REPORT OF THE BOARD
OF DIRECTORS ON COMPANY
BUSINESS ACTIVITIES
AND ASSETS



IN JUST THE SECOND YEAR OF THE 2006–2008 OK RECOVERY STRATEGY, CZECH AIRLINES MANAGED TO MOVE OUT OF THE RED, MAKING A NET PROFIT OF CZK 207 MILLION. THE COMPANY IS FINANCIALLY STABLE, BOASTING A HEALTHY FLEET OF FIFTY AIRCRAFT, A QUALITY TEAM OF MANAGERS AND RELIABLE EMPLOYEES, WITH WHOM IT HAS SIGNED A COLLECTIVE AGREEMENT UNTIL 2010. THE COMPANY IS DEBT-FREE, HAS A CLEARLY DEFINED AND COMPETITIVE MARKET POSITION, AND OWNS A SOUND BRAND. IN THE PAST TWO YEARS, CZECH AIRLINES HAS SIGNIFICANTLY IMPROVED ITS PERFORMANCE, THUS DRIVING UP THE COMPANY'S VALUE. THE RESTRUCTURING PROGRAMME HAS BEEN A RUNAWAY SUCCESS AND THE COMPANY IS NOW WELL PLACED FOR PRIVATIZATION.

RADOMÍR LAŠÁK, CHAIRMAN OF THE BOARD OF DIRECTORS AND COMPANY PRESIDENT

FOREWORD BY THE BOARD CHAIRMAN AND COMPANY PRESIDENT

I am pleased to present to you our annual report for the past year, which sets out the achievements of Czech Airlines and its employees in 2007. For Czech Airlines, 2007 was unquestionably a turning point. Czech Airlines managed to improve its operations by almost CZK 900 million. We fulfilled the cost plan and generated more revenues than projected – especially carriage revenues. In just the second year of the 2006–2008 OK recovery strategy, the Company managed to move out of the red, making a net profit of CZK 207 million. The plan, based on the economic performance reported in 2006 and 2007, was 132% fulfilled. This result forms a solid basis for fulfilment of the fundamental financial targets set out in the 2006–2008 OK Strategy. I am convinced that we have succeeded in kick-starting lasting growth at Czech Airlines. Last year was a year of stabilization. We obtained guarantees from ECAs and continued investing in the replacement of the Company's aircraft fleet. We have five new medium-haul Airbus A320/A319 aircraft. We took delivery of another three aircraft in spring 2008 and expect the last to arrive in September this year. By then, 40% of the Czech Airlines fleet, numbering some 50 aircraft, will be less than five years old. I regard the fact that Czech Airlines managed to invest CZK 1.4 billion in the development of its own aircraft fleet in the economically challenging years of 2005, 2006 and 2007 to be a major achievement. In addition, we exercised an option for a further eight A319s from Airbus, due for delivery in 2001 and 2012. Our modern fleet is our pride and a competitive edge; it is our investment in the Company's future. The new aircraft offer larger capacity and greater comfort for passengers. The new approach to marketing and sales generated more business opportunities, created an improved product in the form of more frequent flights to the most popular destinations, improved departure times and introduced new routes. Czech Airlines now offers

services to 135 destinations in 48 countries worldwide. Europe – especially European business passengers – remains the core market for Czech Airlines. Last year was highly successful in this regard, as borne out by the more than 40% jump in customers willing to pay extra. Besides the Czech Airlines service geared towards business passengers, in the second half of 2007 we offered a brand new product. This was the very successful low-cost Click4Sky.com concept, a unique way of filling idle seating capacity in the aircraft of Czech Airlines. In 2007, 5.5 million passengers were carried by Czech Airlines. We maintained a share of more than 40% at Prague Airport. The handling service operated by Czech Airlines is also successful, enjoying a market share just shy of 60% at the airport in Ruzyně. Charter services, including ACMI leases, developed at a fast pace, expanding by 18% year on year. Czech Airlines' carriage revenues went up by 6%, i.e. by CZK 1.2 billion. This result is all the more important when we consider that the growth of revenues and production was not accompanied by rising costs. Total savings in operating costs in 2007 came to almost CZK 430 million compared to 2006, and were a major factor in the Company's improved operating result. The preservation and development of the 50-aircraft fleet gave work to more than 4,700 people at the Company. In the field of human resources, 2007 was a year of collective bargaining. Thanks to the pragmatic, responsible approach adopted by all parties, agreements were successfully thrashed out. They are fair and economically rational, benefiting both employees and the Company, and will remain in force until 2010. They respect employees' current benefits and the principle of comparable growth for all employees. Last year saw the launch of two major projects that have continued in 2008. The replacement of existing airline systems with new, modern versions has affected the whole

Company. The implementation of the new MRO system is applicable to maintenance at Czech Airlines. These two projects will save the Company a lot of money in the future; they will streamline and speed up internal processes and simplify and improve passenger services. This is another step on the way to a modern, financially stable, rapacious and internally efficient airline, which Czech Airlines has clearly become in 2008, the 85th anniversary of its foundation. During 2007, we successfully ran two divestment projects involving the cargo terminal and catering. The revenues from these divestments gave us financial stability, freed us of past debt, cleared past liabilities and secured liquidity for the off-season at the start of 2008. All this was achieved without financial assistance from the shareholder. Czech Airlines in 2008 is debt-free, has a clearly defined competitive market position, a solid brand, and much better performance than in the past, and has seen a rise in its value. The restructuring programme has therefore been blatantly successful and shows that the Company is well-prepared for privatization, which received backing from the Government of the Czech Republic in April 2008. After bottoming out, we are now on the way back up – we have achieved this ourselves, with no state aid or financial assistance from shareholders. We accomplished this progress by drawing on our own resourcefulness and commitment. I would like to thank all employees for their work, passengers for their loyalty, and shareholders for their support.



Radomír Lašák
Chairman of the Board of Directors and President
of Czech Airlines



SHAREHOLDERS

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

* As at 31 December 2007, the Czech Consolidation Agency was wound up without going into liquidation (Act No 239/2001 on the Czech Consolidation Agency, further to Section 20). The agency's legal successor is the state, represented by the Ministry of Finance of the Czech Republic, to which all the Czech Consolidation Agency's rights and obligations were assigned as at the date on which the agency was wound up. Since 1 January 2008, the state has held a 91.51% stake in Czech Airlines.

ADMINISTRATIVE BODIES

General Meeting

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

Supervisory Board

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

Board of Directors

The Board of Directors has nine members and is the governing body responsible for managing the Company's activities and acting in the Company's name. The Board of Directors is appointed by the Supervisory Board, and as a rule comprises members of Czech Airlines' executive management. The Board of Directors makes decisions on all Company matters which are not regulated by legal regulations or by the Articles of Association, and which are not in the competence of the General Meeting or Supervisory Board of the Company. As a rule, the Board of Directors meets once a week, but no fewer than ten times per calendar year. General information about the Board of Directors and its powers can be found in Chapter IIIb, Articles 20–27 of the Company's Articles of Association.

Committees of the Supervisory Board and Board of Directors

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

Based on a resolution of the Board of Directors of 2 March 2005 and a resolution of the Supervisory Board of 23 February 2005, the following committees were set up as of 1 April 2005:

- Audit Committee (of the Supervisory Board and Board of Directors),
- Personnel, Nomination and Remuneration Committee (of the Supervisory Board),
- Strategy Committee (of the Supervisory Board).

By virtue of a resolution of the Board of Directors of 27 March 2007, the following committee was set up:

- Top 10 Meeting Committee (of the Board of Directors).

By virtue of a resolution of the Board of Directors of 11 December 2007, the following committees were set up:

- Risk Management Committee (of the Board of Directors),
- Financial Risk Management Committee (of the Board of Directors).

SUPERVISORY BOARD

Ivan Kočárník

Chairman of the Supervisory Board since 10 April 2007
 Graduated in Finance from the University of Economics, Prague, followed by postgraduate studies and academic training. He began his career in 1966 at the Finance and Credit System Research Institution as a researcher. He was an external lecturer at the University of Economics, Prague between 1983 and 1987, and from 1984 to 1989 he worked at the Federal Ministry of Finance as the Deputy Director of the Research Department; he was subsequently appointed Department Director. From 1990 to 1992 he was the Deputy Minister for Finance of the Czechoslovak Federative Republic. From 1992 to 1997 he was a Deputy Prime Minister and the Minister for Finance of the Czech Republic. He was a member of the Chamber of Deputies of the Parliament of the Czech Republic between 1996 and 1998. From 1997 to 2000 he was the Chairman of the Board of Directors at Česká pojišťovna a.s. Between 2000 and 2007 he held the position of Chairman of the Supervisory Board at the same company. Since autumn 2006 he has been the Vice-chairman of the Supervisory Board of UNIPETROL, a.s. Since 2007, he has been an adviser to the Minister for Finance of the Czech Republic.

Tomáš Uvíra

First Vice-Chairman of the Supervisory Board and member of the Supervisory Board since 10 April 2007
 A graduate of the Faculty of Operations and Economics of the Brno Institute of Agriculture (now the Mendel University of Agriculture and Forestry in Brno). He began his professional career as a programmer at ČSAD in 1991. In 1992–1993 he was a freelancer in the field of information technology. In 1993 and 1994 he was a methodologist and subsequently the Marketing Director at První slezská banka a.s. Between 1994 and 1996 he worked for the Czech National Bank as a banking expert. From 1996 to 1998 he was the conservator of Velkomoravská banka, a.s. In 1998 and 1999 he was an adviser to the Minister for Education and Sport of the Czech Republic. From 2000 to 2005 he was the Financial Director of Středočeská plynárenská, a.s., and from 2005 to 2007 he was the Vice-president for the management of the financial section at AERO Vodochody a.s. Since April 2007 he has been the Executive Director of Asset Management at the Ministry of Finance. He is the Chairman of the Board of Directors of Midware a.s. and a member of the Supervisory Board of RWE Transgas, a.s. and Komerční úvěrová pojišťovna EGAP, a.s.

Dušan Horák

Second Vice-Chairman of the Supervisory Board since 27 November 2006 and member of the Supervisory Board elected by employees since 11 December 2002. Graduated in Piloting from the Košice Military College of Aviation. On completing his studies, he was a professional soldier until 1996. As a military pilot, he was stationed at Přerov and Náměšť nad Oslavou. He joined Czech Airlines in 1997, first as a pilot, then as an ATR co-pilot, Boeing B737 co-pilot, ATR pilot-in-command, and Boeing B737 pilot-in-command; he is currently an Airbus A320 captain.

Tomáš Brabec

Member of the Supervisory Board elected by employees since 12 December 2007. Graduated in Aviation Mechanical Engineering from Secondary Transport Vocational College. He has worked for Czech Airlines since 1993. He has held positions as load control officer, ramp control officer and, subsequently, ramp handling services supervisor. At present, he is a ground operations supervisor in the Aircraft Handling Ground Operations Control Section. He is the Managing Director and a member of Kosmetický salon IVEN, s.r.o.

Jan Bürgermeister

Member of the Supervisory Board since 23 April 2007. Graduated in Surface Structures from the Czech Technical University in Prague, followed by postgraduate studies in the Mechanics and Dynamism of Structural Design. He launched his professional career as a designer at METROPROJEKT Praha a.s., before moving on to the ČKD Design Institute. From 1990 to 1995, he was the Managing Director and co-owner of the architectural design and construction firm P and P servis v.o.s. Between 1994 and 2002 he was the mayor of the Borough of Praha 1. From 2002 to 2006 he was the deputy mayor of Prague. Since 2003, he has been the Chairman of the Board of Directors of Kongresové centrum Praha, a.s. Since 2006, he has been a member of the Chamber of Deputies of the Czech Parliament.

Ivan Foltýn

Member of the Supervisory Board since 10 April 2007. A graduate of the Mechanical and Electrical Engineering Faculty of the Transport Institute, Žilina (now the University of Žilina), and a postgraduate of the Czech Technical University, Prague, the Transport Institute, Žilina, and the Prague International Business School attached to the University of Economics, Prague. He began his professional career at the state enterprise Automatizace železniční dopravy Praha. In 1990, he was appointed the Vice-chairman of the District National Committee in Olomouc and was subsequently made the Chairman of the District Authority in Olomouc. In 2002, he was a member of the People's Chamber of the Federal Assembly. In 1991 and 1992, he was the Deputy Transport Minister of the Czechoslovak Federative Republic, and from 1993 to 1997 he was the Deputy Minister for Transport of the Czech Republic. In 1998, he was the CEO and Chairman of the Board of Directors of Českomoravská realitní a.s., and later became the CEO and Chairman of the Board of Directors of První investiční společnost. In 2003, he was elected the Chairman of the Management Board of Správa železniční dopravní cesty, státní organizace (Czech Railway Infrastructure Administration). From 2003 to 2006, he was a member of the Board of Directors and deputy CEO responsible for economics at České dráhy, a.s. In 1993–1994 and 1997–1999, he was a member of the Board of Directors of Czech Airlines and in 1999–2003 he was a member of the Supervisory Board of Czech Airlines.

Daniela Kovalčíková

Member of the Supervisory Board since 27 June 2007. Graduated from the Faculty of Law, Charles University, Prague. She began her career in 1975 as a corporate lawyer at the state enterprise Železniční stavitelství Praha. From 1984, she worked at the Ministry of Transport of the Czech Republic, first as an adviser to the minister, then as Director of the Legislation Department and Executive Director of the Legislation section. Since 2004, she has been the Deputy Minister for Transport of the Czech Republic. Between 1998 and 2003 she was a member of the Supervisory Board of Czech Airlines.

Radomil Kratochvíl

Member of the Supervisory Board elected by employees since 9 April 2008. Graduated in Air Transport Operations and Economics from the Transport Institute, Žilina (now the University of Žilina). He has been employed at Czech Airlines since 1978, initially as a pilot; he is now an Airbus A320 captain.

Jaroslav Lorenc

Member of the Supervisory Board elected by employees since 8 April 2003. Graduated in Aviation Mechanical Engineering from Secondary Mechanical Engineering College. In 2005, he acquired a "Director" certificate in the Corporate Governance Programme and holds an international aviation mechanic certificate authorizing him to release aircraft back into operation after maintenance. He joined Czech Airlines in 1968 as a mechanic. In 1994, he was appointed a Boeing B737 supervisor; in 2001 he became a head supervisor for the Airbus A310 and Boeing B737. He currently works as Head of Hangar Service Operations in the Technical Division.

Petr Polák

Member of the Supervisory Board since 27 November 2006. Graduated from the Faculty of Law, Charles University, Prague. He began his professional career as Assistant to the First Deputy Chairman of the Czech Chamber of Deputies. He was subsequently Director of the Office of the Minister for Transport and Communications, Director of the Office of the Mayor of Prague, and Director of D-PLUS PROJEKTOVÁ A INŽENÝRSKÁ a.s. He is currently Director of the Cabinet of the Minister for Industry and Trade of the Czech Republic.

Ivana Řápková

Member of the Supervisory Board since
27 November 2006

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

Pavel Škvára

Member of the Supervisory Board since 10 April 2007
Graduated from the Faculty of Law, Charles University, Prague, and subsequently the Institute of Finance and Administration, University of Washington, where he earned his MBA. From 1999, he worked as a lawyer specializing in private law. In 2002–2004 he was the executive director of the Cabinet of the Minister for Regional Development. From 2004 to 2006, he was the Executive Director of the Cabinet of the Minister for Justice and Deputy Prime Minister, and from August 2006 to February 2007 he was the Deputy Minister for Transport. Since July 2005, he has been a member of the Supervisory Board of Severočeské doly a.s.

List of former members of the Company's
Supervisory Board whose tenure ended in 2007 or
2008 (up to the closing date of the Annual Report)

Pavel Bém

Member of the Supervisory Board from 25 June 2003
to 10 April 2007

Zdeněk Čáp

Member of the Supervisory Board from 25 June 2004
to 24 January 2007

Pavel Hladík

Member of the Supervisory Board elected by employees
from 9 February 2007 to 11 December 2007

Kateřina Malechová

Member of the Supervisory Board from 10 April 2007
to 27 June 2007

Tomáš Páv

First Vice-Chairman and member of the Supervisory Board
from 27 November 2006 to 10 April 2007

Hana Pešková

Member of the Supervisory Board elected from
9 February 2003 to 23 January 2008

Jiří Pos

Member of the Supervisory Board elected by employees
from 11 December 2002 to 5 February 2007

Elemír Václavík

Member of the Supervisory Board from 27 November 2006
to 20 February 2007

Rudolf Vyčichla

Chairman and member of the Supervisory Board from
27 November 2006 to 10 April 2007

Miroslav Ševčík

Chairman and member of the Supervisory Board from
7 November 2006 to 10 April 2007

BOARD OF DIRECTORS

Radomír Lašák

Chairman of the Board of Directors from 19 January 2006 and member of the Board of Directors since 18 January 2006. A graduate of the University of Economics, Prague, and the Prague International Business School, where he gained his MBA. He began his career at the Association for Chemical and Metallurgical Production in Ústí nad Labem. In 1991 he moved on to Komerční banka, a.s., where he held various sales and managerial positions. In 2000, he became the member of the Board of Directors of Komerční banka, a.s. responsible for the sales network and sales. He made a significant contribution to the bank's successful privatization. Between 2002 and 2004, he managed a team at eBanka, a.s. which was tasked with converting the originally electronic bank into a standard banking house over two years. In 2004–2006, he was a member of the Board of Directors of ČEZ, a. s., and Director of the ČEZ Group administration division, responsible in particular for new foreign acquisitions. Since 19 January 2006, he has been the President of Czech Airlines. In 2007, he became a member of the SkyTeam Alliance executive committee.

Jiří Devát

Vice-Chairman of the Board of Directors from 16 January 2007 and member of the Board of Directors since 1 September 2006. Graduated from the Technology Faculty, Brno University of Technology, Tokyo Institute of Technology, Japan, and Swinburne University of Technology, Australia. In 1993, he joined THEMOS System Partner, s.r.o., where he ultimately became the Executive Director. He was hired by MICROSOFT s.r.o. in 1997, and from 2000 to 2006 was the Director of the branch for the Czech Republic and Slovakia. Since 1 September 2006, he has been the Czech Airlines Vice-President for Information Technology. In 2007, he became a member of the SITA (Société Internationale de Télécommunications Aéronautiques) management board and a member of the SkyTeam Alliance executive committee. He is currently a member of the administrative bodies of Czech universities (Institute of Finance and Administration, Prague, Tomas Bata University, Zlín) and non-profit organizations (Barriers Account of the Charter 77 Foundation, Zlín Film Festival Foundation). He is a member of the Supervisory Board of Thermis – společnost pro podporu vývozu, a.s. and a member of TORNADO LOU s.r.o.

Luboš Černý

Member of the Board of Directors since 1 September 2006. Graduated in Mathematical Engineering from the Czech Technical University, Prague. In 1993, he joined the Czech National Bank, where he was responsible for the management of foreign reserve assets. From here, he left for Komerční banka, a.s. where he remained, in various positions, for almost five years. While he was there, he contributed to the implementation of the strategy, methodology and policy of strategic risk management. Between 1999 and 2001, he managed restructuring projects at Konsolidační banka, s.p.ú. This was followed by a stint of bank auditing and control at Československá obchodní banka, a. s. In 2002, he was appointed Executive Director for finance and a member of the Board of Directors of eBanka, a.s. In 2004–2006, he was the bank's Chief Executive Officer and Chairman of the Board of

Directors, and managed the process of selling the bank to a new investor. Since 1 September 2006, he has been the Czech Airlines Vice-President for Economics. Since July 2007, he has been the Vice-chairman of the Supervisory Board of ClickforSky, a.s.

Tomáš Heczko

Member of the Board of Directors since 2 September 2003. Graduated from the Faculty of Mechanical Engineering, Czech Technical University, Prague. As part of his postgraduate project, he spent 1992 at the Faculty of Aerospace Engineering, Glasgow University. He joined Czech Airlines in 1993 as a marketing engineer in the Technical Division, where he subsequently became Head of Technical Maintenance Marketing and Sales until 1999. Here, he contributed to the development of aircraft maintenance services for external customers. Since 13 September 1999, he has been the Czech Airlines Vice-President for Technology. Since 1999, he has been a member of the AEA Technical and Operations Committee and a member of the Supervisory Board of the Czech Aircraft Manufacturers Association.

Jan Janík

Member of the Board of Directors since 1 October 2006. A graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague, where he went on to spend three years as a lecturer. Between 1993 and 1999, he was the technical director at TOMA. As a member of the acquisition team, he was involved in the successful sale of TOMA to Pepsi (PCGB). Between 1999 and 2002, he held various managerial positions at multinational corporations outside the aviation industry. From 2002 to 2004, he was the Vice-president of AERO Vodochody a.s., where he was responsible for restructuring the loss-making production operations. His interest in the position of an airline pilot drew him to Czech Airlines. In 2004, he completed his standard training and became a Boeing B737 co-pilot. At the beginning of 2006, he completed his training to be an Airbus A320 pilot. Since 1 October 2006, he has been the Czech Airlines Vice-President for Flight Operations.

Peter Jusko

Member of the Board of Directors since 2 September 2003
 Graduated in Civil Aircraft Application and Navigation Technology at the Kiev Institute of Civil Aviation Engineering, and subsequently completed the Sheffield Hallam University MBA programme run at the Masaryk Institute of Higher Education, Czech Technical University, Prague. He has worked for Czech Airlines since 1987. He began as an in-flight engineer, then became the co-pilot for TU 134, L 410, and Boeing B737 aircraft, and was ultimately made captain of ATRs and Boeing B737s. Since 2001, he has been a flight and ground instructor. Since 1 July 2006, he has been the Czech Airlines Vice-President for Ground Operations. He is a member of the board for aviation-based doctoral studies at the Faculty of Electrical Engineering, Czech Technical University, Prague, and the Transport Institute in Košice.

Petr Pištělák

Member of the Board of Directors since 21 December 2006
 Graduated in Economics and Management from the Faculty of Mechanical Engineering, Brno University of Technology. He also completed a two-year programme of macro- and microeconomics at Yale University, and a course of marketing, management and finance at Birmingham College, UK. Between 1992 and 2002, he held various marketing and sales positions at Procter & Gamble in the Czech Republic and abroad. He then spent three years in the management of eBanka a.s., ultimately as Vice-chairman of the Board of Directors and Executive Director for Marketing and Products. Prior to joining Czech Airlines, he was the Head of Marketing, Products & Communication in China for the PPF financial group. Since 1 December 2006, he has been the Czech Airlines Vice-President for Marketing and Product Development. Since 18 September 2007, he has been the Chairman of the Supervisory Board of ClickforSky, a.s.

Dušan Ryban

Member of the Board of Directors since 26 July 2006
 A graduate of the Military Academy in Bratislava and postgraduate of management in automatic and informatics at the University of Economics, Prague. Between 1993 and 1999, he took part in foreign missions in Iraq, Croatia and Bosnia and Herzegovina as a professional soldier. As chief instructor at the Czech Army's training centre, he trained specialists preparing for roles in the UN's foreign missions. He then worked for the Ministry of Defence of the Czech Republic, where he was responsible for the professionalization of the Czech Army in 2002 and 2003. He joined Czech Airlines in 2004 as Executive Director for Human Resources and Training. Since 1 February 2006, he has been the Vice-President for Human Resources. He is the Managing Director of CSA Services, s.r.o. and a member of the Board of Directors of ČSA Airtours a.s. Since 1 April 2007, he has been a member of the Supervisory Board of Air Czech Catering a.s.

Petr Řehák

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

TOP MANAGEMENT**Radomír Lašák**

President since 19 January 2006

Luboš Černý

Vice-President for Economics since 1 September 2006

Jiří Devát

Vice-President for Information Technology since 1 September 2006

Tomáš Heczko

Vice-President for Technology since 13 September 1999

Jan Janík

Vice-President for Flight Operations since 1 October 2006

Peter Jusko

Vice-President for Ground Operations since 1 July 2006

Petr Pištělák

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

Dušan Ryban

Vice-President for Human Resources since 1 February 2006

Petr Řehák

Vice-President for Sales since 12 September 2006

František Šír

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

CORPORATE GOVERNANCE CODE BASED ON OECD PRINCIPLES

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

In 2004, a resolution of the Board of Directors and Supervisory Board decreed that Czech Airlines would accede to the Corporate Governance Code Based on OECD Principles (2004). This was a declaration of interest by the Company's administrative bodies in respecting the principles of corporate governance.

In 2005, a corporate governance model started to be implemented at Czech Airlines in line with the procedure approved by the administrative bodies. The Company Secretary's Office was set up and the position of company secretary was established.

In 2007, the Company Secretary's Office initiated an Intranet campaign to raise awareness of the role played by corporate governance at the Company. The Office oversaw the appointment of members of the Supervisory Board elected by employees. The Office also paved the way for a project to provide electronic support to the administrative bodies and started work on the Company's code of ethics.

In 2007, committees of the Supervisory Board and of the Board of Directors carried out routine activities; these committees were the Audit Committee as a joint committee of the Supervisory Board and the Board of

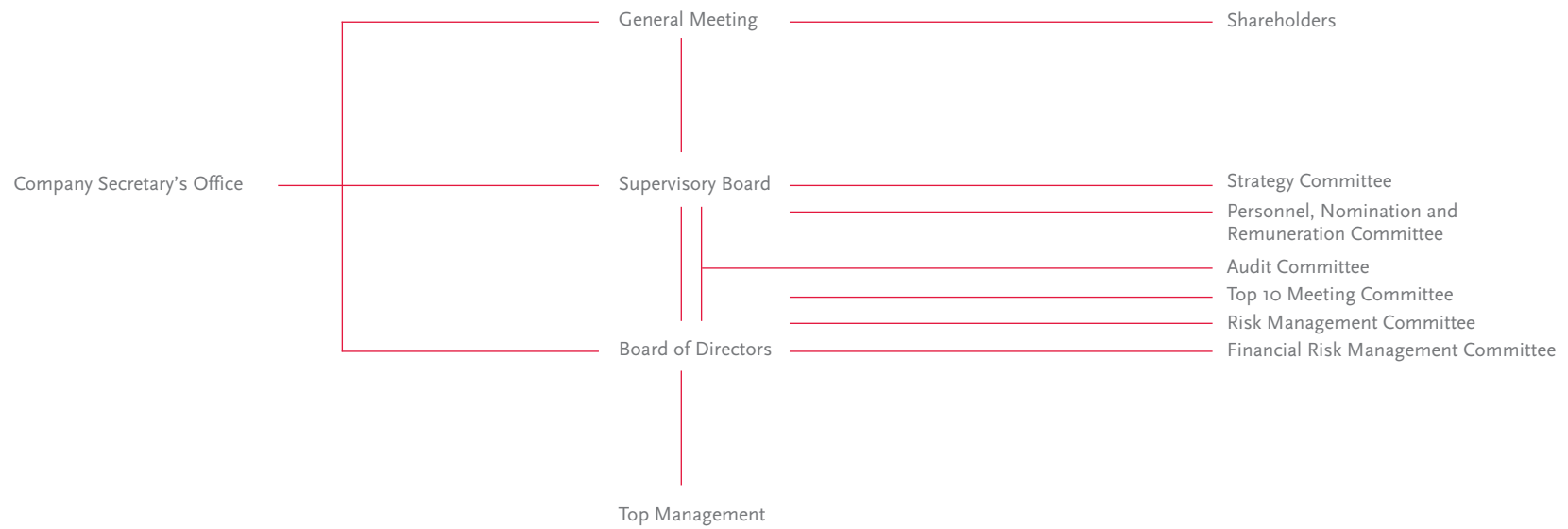
Directors, the Personnel, Nomination and Remuneration Committee, and the Strategy Committee, as advisory bodies of the Supervisory Board. By a decision of the Board of Directors taken on 27 March 2007, the Top 10 Meeting Committee was set up, and under another decision of 11 December 2007, the Risk Management Committee (new statutes) and Financial Risk Management Committee were established as advisory bodies of the Board of Directors. The activities of the individual committees and the Office are governed by statutes and rules of procedure. General information about the committees can be found in the Company's Articles of Association.

During 2007 and in the period up to the Annual Report's closing date, four Extraordinary General Meetings and one Annual General Meeting were convened:

- Extraordinary General Meeting held on 24 January 2007
 - This EGM approved the establishment of the subsidiaries Air Cargo Terminal a.s. and Air Czech Catering a.s.
- Extraordinary General Meeting held on 10 April 2007
 - This EGM approved personnel changes in the Czech Airlines Supervisory Board, which were subsequently scrutinized by the Supervisory Board on 23 April 2007. The Supervisory Board also reappointed committee members.
- Annual General Meeting held on 27 June 2007
 - Besides discussing statutory issues, the AGM stated that the key indicators of the 2006–2008 OK Strategy had been met and ordered the Board of Directors to take further action in line with the Strategy.

- It approved a change to the objects of business of Czech Airlines and completed personnel changes in the Supervisory Board. In this respect, the AGM approved contracts on the appointment of members of the Supervisory Board.
- Extraordinary General Meeting held on 2 August 2007
 - This EGM approved the cessation of the 100% stake held by Czech Airlines in the share capital of Air Cargo Terminal a.s.
- Extraordinary General Meeting held on 23 January 2008
 - This EGM approved the cessation of the 100% stake held by Czech Airlines in the share capital of Air Czech Catering a.s.

Current model of corporate governance at Czech Airlines



Czech Airlines had a significant stake in and controlled (within the meaning of the Commercial Code) the following companies:

Air Czech Catering a.s.	100%
AMADEUS MARKETING CSA, s.r.o.	65%
CSA Services, s.r.o.	100%
ČSA Airtours a.s.	100%
ČSA Support s.r.o.	100%
SLOVAK AIR SERVICES s.r.o.	100%

SUBSIDIARIES

Air Czech Catering a.s.

K letišti 1018, 160 08 Praha 6

registered number: 27880427

incorporated at the Municipal Court in Prague, Section B, Entry 11732

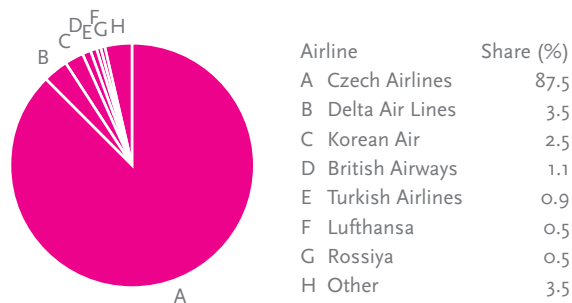
established 1 April 2007

On 1 April 2007, Czech Airlines' autonomous Catering unit was hived off to become the subsidiary Air Czech Catering a.s. This move did not affect the quality of service enjoyed by passengers.

The process of singling out a strategic investor was carried out in 2007, ending with the sale of Czech Airlines' 100% stake in Air Czech Catering a.s. to Alpha Overseas Holding Ltd as of 2 April 2008.

Air Czech Catering a.s. provides catering services under contract to Czech Airlines and other airlines. The market share held by Air Czech Catering a.s. in catering services provided at Prague Airport is at least 85%.

Client portfolio in 2007 (%)



AMADEUS MARKETING CSA, s.r.o.

Meteor Centre Office Park B, Sokolovská 100/94, 186 00 Praha 8

registered number: 49680030

incorporated at the Municipal Court in Prague, Section C, Entry 21718

established 1 July 1993

AMADEUS MARKETING CSA, s.r.o. is the representative of the Amadeus global distribution system for the Czech Republic and Slovakia.

The core business activities of AMADEUS MARKETING CSA, s.r.o. are the supply and maintenance of the Amadeus system, the provision of training, and the offer of technical and user support for customers (travel agencies in the Czech Republic and Slovakia). The company is an important technological partner for travel agencies, and, through the latest products, it expands the opportunities and enhances the performance of the contemporary tourist industry. AMADEUS MARKETING CSA, s.r.o. has 16 employees. In 2007, the company relocated to new, modern premises in Praha 8.

In 2007, there was another rise in ready widespread electronic services, i.e. there was an increase in the share of e-tickets and a drop in conventional paper tickets, which should be phased out in 2008. There is a steady rise in the proportion of flights, hotel rooms, cars and other travel products booked online. The growing tourism market is exerting pressure on the creation of new services and value added for passengers in a keenly competitive environment.

The constant evolvement of Symphony, the internationally successful online booking system, developed in collaboration with the software engineers at Aaron Group, is the company's greatest achievement of the past few years and is driving forward online ticket sales in the Czech Republic, Slovakia.

Thanks to constant advances in the technology available and customer support services, in 2007 AMADEUS MARKETING CSA, s.r.o. recorded a year-on-year rise in flight ticket bookings by 14.9%, in car rental bookings by 7.6% and in hotel bookings by 10.3%.

CSA Services, s.r.o.

K letišti, 160 08 Praha 6

registered number: 25085531

incorporated at the Municipal Court in Prague, Section C, Entry 48439

established 29 October 1996

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

The Call Centre fields incoming calls for Czech Airlines that are made to the main Czech Airlines contact numbers (information on departures and arrivals, ticket bookings and sales, ticket changes, timetables, loyalty programmes, check-in over the telephone, etc.). The Call Centre is a help desk for SkyTeam Alliance members, online booking services and handling agents. It deals with the e-mail addresses used as the main Czech Airlines contact addresses, and provides further services for OK Plus and OK Plus Corporate loyalty programme members and selected offices abroad. It also provides prepaid ticket advice (PTA) for agencies from the UK, Germany and other localities, runs a Queue service (for the processing of messages from the booking system), and actively contacts customers. The Call Centre is open 24 hours a day, seven days a week.

Number of contacts processed by the Call Centre*



* Number of contacts processed (the plan for 2007 was 684,630, the actual result for 2007 was 719,544 contacts).

In 2007, there was a further expansion in cooperation with Czech Airlines' agencies in the Czech Republic and abroad. Czech Airlines' local call centres in the regions were closed and their operations were transferred to CSA Services, s.r.o.

In 2007, Call Centre services were expanded to include phone check-in and active client contacting prior to the cancellation of a booking.

The Recruitment Centre mainly offers temping services – providing temporary help where a flexible workforce is required – and Try & Hire, where an employee of CSA Services, s.r.o. carries out work based on a customer order and CSA Services, s.r.o. undertakes to release this worker to become a permanent employee of the customer if the customer so requests.

In 2007, the Recruitment Agency focused on providing flexible assistance for the operational departments of Czech Airlines. This service made it possible to cope more efficiently with seasonal, monthly, weekly and daily spikes in operations. The Recruitment Agency carries out special or time-limited activities with the assistance of temps.

ČSA Airtours a.s.

Štěpánská 27/1742, 110 00 Praha 1

registered number: 61860336

incorporated at the Municipal Court in Prague, Section B, Entry 2929

established 1 January 1995

The travel agency ČSA Airtours a.s. provides its customers with outbound and inbound tourist services, specializing in individual tours, business trips, incentive tourism, congresses, conferences and specialized trips for various sectors (culture and sport). ČSA Airtours a.s. also provides services to the employees of Czech Airlines, mainly by organizing spa treatments, recreational facilities, and employee flight tickets.

The company enjoyed a period of economic stabilization in 2007. During the year, the shareholder increased the share capital to the current CZK 10 million, thus reconciling accumulated losses.

The gradual decline in costs laid the foundations for conditions that would support activities crucial for the running of the company in future years. A great emphasis was placed on the development of the online system. Commercial cooperation with Czech Airlines was also reinforced.

ČSA Support s.r.o.

K letišti, 160 08 Praha 6

registered number: 25674285

incorporated at the Municipal Court in Prague, Section C, Entry 60140

established 15 June 1998

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

It cleans the aircraft of Czech Airlines and other airlines to whom Czech Airlines provides handling services.

Compared to 2006, the volume of aircraft cleaning was up by 3.5% in 2007. In November 2007, the company started providing aircraft cleaning services to Lufthansa.

ČSA Support s.r.o. continues to clean all the Prague premises used by Czech Airlines, and also offers cleaning services to external customers.

In 2007, there was a slight increase in cleaning operations at Prague Airport's Terminals 2 and 3, where the company is one of several contractors.

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

SLOVAK AIR SERVICES s.r.o.
MR Štefánik Airport, 820 01 Bratislava
registered number: 31373844
incorporated at the Bratislava 1 District Court, section for
Limited Liability Companies (Sro), Entry 7125/B
established 1 January 1994

SLOVAK AIR SERVICES s.r.o. was set up as a 100% subsidiary of Czech Airlines to provide reliable technical and commercial handling for Czech Airlines' scheduled flight services at the airport in Bratislava. The company also offers other comprehensive services connected with passenger and cargo transport to other carriers with operations in Bratislava. After taking over travel agencies from Czech Airlines, SLOVAK AIR SERVICES s.r.o. (via IATA agencies) also sells travel documents in Piešťany, Poprad, Prešov, Bratislava and Košice.

In 2007, the company had a headcount of 70 employees. The company's licence to operate at Bratislava Airport was renewed until 2013.

In terms of earnings, 2007 was a successful year for SLOVAK AIR SERVICES s.r.o. While the operating profit reported by the company was minimal, the profit after tax was SKK 15 million following the sale of property in Bratislava. The Company currently provides handling services for 1,200–1,300 scheduled and approximately 300 non-scheduled services.

The company's sound financial results offered an opportunity to invest in its technical facilities. It purchased another cargo vehicle, aircraft steps, and a special microbus to transfer slight crews. The remaining mechanical equipment was given a general overhaul, which stabilized the technical handling centre.

THE GOAL OF THE
INNOVATIONS IS TO SAVE CZK

1.69

BILLION WITHIN
THREE YEARS



CZECH AIRLINES AND ITS PEOPLE HAVE RESTORED THEIR INNOVATIVE POTENTIAL. PROJECTS LAUNCHED OR INITIATED LAST YEAR WILL TRIGGER A RISE IN PRODUCTIVITY THAT SHOULD IMPROVE THE COMPANY'S FINANCIAL STANDING BY CZK 1.69 BILLION AS EARLY AS 2010. CHANGES IN PROJECT MANAGEMENT MEAN THESE SAVINGS ARE MORE OR LESS CERTAIN – ALREADY ALMOST 90% OF PROJECTS ARE BEING COMPLETED ACCORDING TO THE ORIGINAL TIMEFRAME AND FINANCIAL PLAN.

JIŘÍ DEVÁT, VICE-CHAIRMAN OF THE BOARD OF DIRECTORS AND VICE-PRESIDENT FOR INFORMATION TECHNOLOGY

2006: rescue; 2007: stabilization; 2008: future

The General Meeting of Czech Airlines, held on 28 June 2006, approved the 2006–2008 OK Strategy as a three-year concept to steady the Company, adopting it as a measure within the meaning of Section 193(1) of the Commercial Code. The strategy is viewed as a general framework for the Company's business activities over a three-year period, and should culminate in the stabilization of the Company and the gradual coverage of accumulated losses.

Guiding principles of the 2006–2008 OK Strategy:

- We will bring our grasp of the competitive environment into play.
- We will offer a clear cost advantage over our traditional rivals.
- We will safeguard Czech Airlines' prominent status on the domestic market.
- We are not a behemoth, and that will give us a competitive edge.
- We will resolve fundamental problems in organization.
- We will craft a clear vision of the future that will earn the full support of employees and investors.

Basic pillars of the 2006–2008 OK Strategy:

- OK 01 – Achieving higher revenues from better services
- OK 02 – Creating an efficient, simpler operating model
- OK 03 – Ensuring financial stability
- OK 04 – Building a high-performing organization

Fulfilment of objectives of the 2006–2008 OK Strategy in 2007:

- OK 01 – Achieving higher revenues from better services
 - Carriage revenues, based on comparable exchange rates, climbed year on year by 6%, i.e. by CZK 1.2 billion.
 - Revenues from charter operations, including ACMI leases, went up by CZK 0.49 billion (18%).
 - The number of passengers using scheduled services, including the Air India ACMI lease, was 4.825 million; charter flights were used by almost 0.8 million passengers.
 - In 2007, Czech Airlines carried 5% more business-class passengers and 37% more upper economy class clients compared to 2006. In absolute figures, the number of passengers in this classes increased year on year by 177,000.
 - In 2007, aircraft capacity was used much more efficiently. A low-cost model marketed under the trademark Click4Sky.com was successfully implemented as a means of filling available capacity.
 - We maintain high standards of product quality and security.

OK 02 – Creating an efficient, simpler operating model

- The Company's overall operating improvement in 2007 amounted to CZK 856 million.
- Total operating cost savings came to CZK 429.7 million.
- Savings recorded in operating and capital costs following the centralization of procurement stand at CZK 446.52 million.

- For 2008, additional estimated savings will be at least CZK 147.35 million. New contracts have already secured savings of a further CZK 176.77 million.

OK 03 – Ensuring financial stability

- The plan for the 2006–2008 OK Strategy, based on the economic performance reported in 2006 and 2007, has been 132% fulfilled. The outperformance of this plan forms a solid basis for the fulfilment of the plan in 2008.
- Liquidity in 2008 is secured by the completion of the Catering divestment, the sale of spare engines and an Airbus A310 aircraft, and the estimated year-on-year operating improvement by CZK 100 million with no need to draw on operating credit up to the end of 2008.
- Guarantees were obtained from ECAs for the purchase of four Airbus A319 aircraft in 2007.
- Options for the purchase of eight Airbus A319 aircraft were used.

OK 04 – Building a high-performing organization

- Finalization of the organizational structure, including standardization of positions.
- Preservation of efficient corporate governance.
- Introduction of a smoothly running system of dealer evaluation, motivation and training.
- Introduction and evaluation of KPIs, including forced distribution rules.
- Signing of collective agreements for 2008–2010, preservation of social peace.
- Equal opportunities – award of the “Prize for Major Progress in Equal Opportunities”.

Priority management – Top 10 Platform

One of the key events of 2007 was the introduction of the Top 10 system for the uniform assessment of investments and new activities of Czech Airlines. This system compares all the Company's new commercial and non-commercial activities from the perspective of financial parameters, with an emphasis on their net present value and cash flow in real time. The uniform financial evaluation methodology precisely identifies activities and projects that carry the highest financial benefit for Czech Airlines. On this basis, activities are assigned a priority, funding for implementation, and support.

Most noteworthy projects in 2007

The most important project for the Company between 2007 and 2009 is the Strategy of Airline Systems (SAS). The prime objective is to convert Czech Airlines to a uniform modern IT platform from a single supplier that covers strategic commercial areas relating to bookings and ticket dispensing, including an electronic ticket database, handling and ticket booking over the Internet.

This project is driven by the need to find a definitive solution to the Company's current patchwork architecture of airline systems, which significantly hampers development, complicates the distribution of tickets, and consequently pushes up costs.

The SAS project was launched in April 2007 and the first stage (the replacement of the booking system) is planned for

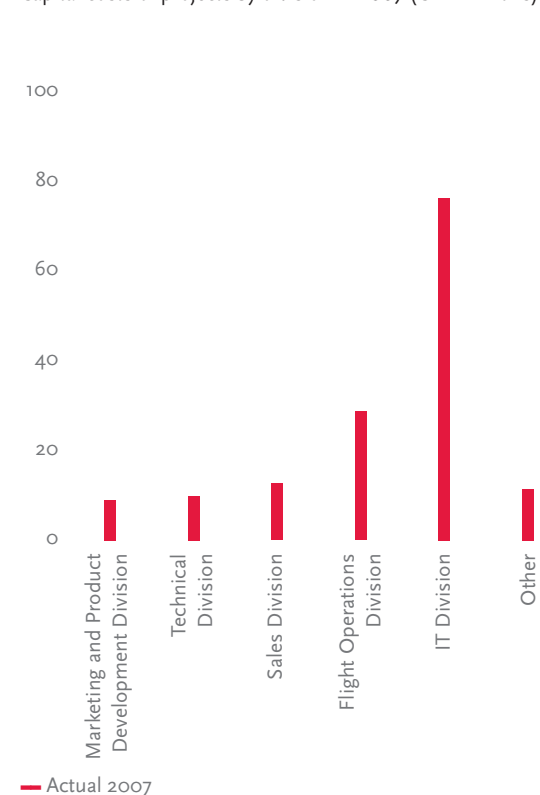
completion in October 2008. In 2007 Worldspan's Meridian system was selected in a tender. Most of the work connected with verifying the concept of the overall design and the subsequent conclusion of the contract was carried out last year.

The Interline e-ticketing project was a key marketing and sales project in 2007. The aim was to replace paper tickets for Company flights sold by other carriers with electronic tickets, thus creating conditions for Czech Airlines to comply with the IATA requirement to wind up sales of paper tickets via sales agencies by 31 May 2008.

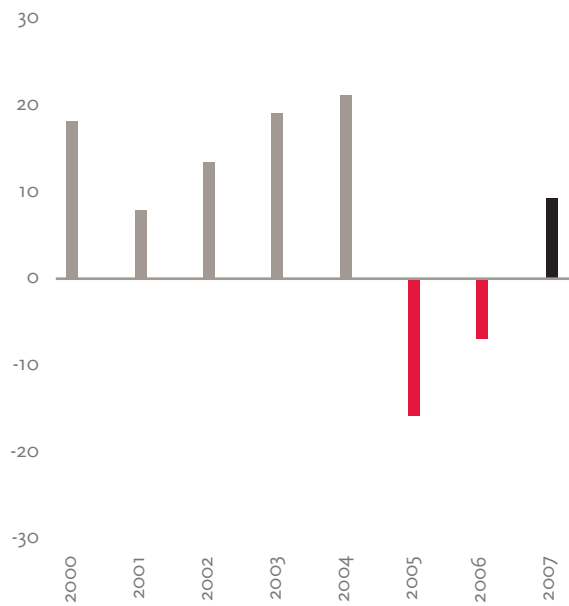
The implementation of this project means that, as of June 2008, annual receipts from sales of Czech Airlines tickets via other air carriers within the scope of interlining will be preserved at almost CZK 2.3 billion.

For the Technical Division, a pivotal project in 2007 was Maintenance, Repair and Overhaul (MRO), which aims to replace aircraft maintenance IT information systems currently in use with a single modern integrated solution – the AMOS solution supplied by Swiss Aviation Software Ltd. This solution is based on best practices in aircraft maintenance and will enable the Company to comply with all legislative requirements in this field. Implementation of the MRO system will cut maintenance costs, reduce maintenance times and ultimately enhance Czech Airlines' competitiveness. This project began in September 2007 and pilot operation of the AMOS system is planned for launch in the fourth quarter of 2008.

Capital costs of projects by division in 2007 (CZK millions)

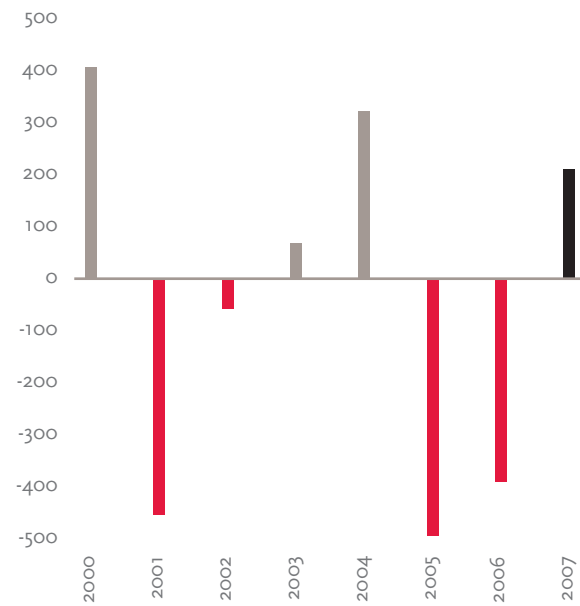


Financial management of Czech Airlines – International Financial Reporting Standards as adopted by the EU (2007 consolidated)



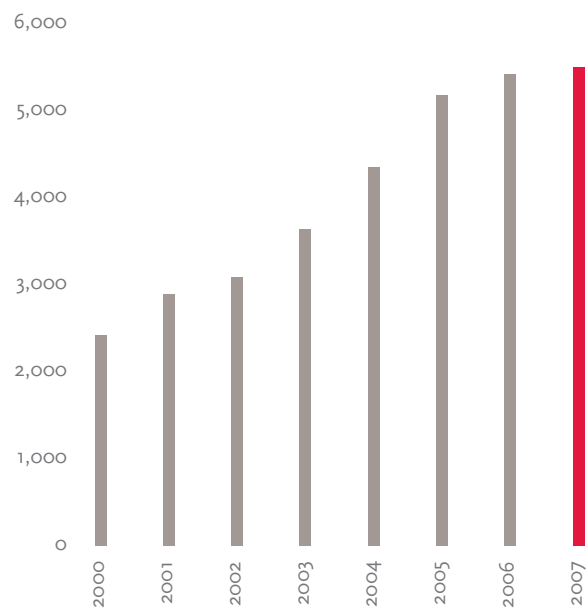
— Profit (loss) after tax (USD millions)

Financial management of Czech Airlines – Czech Accounting Standards



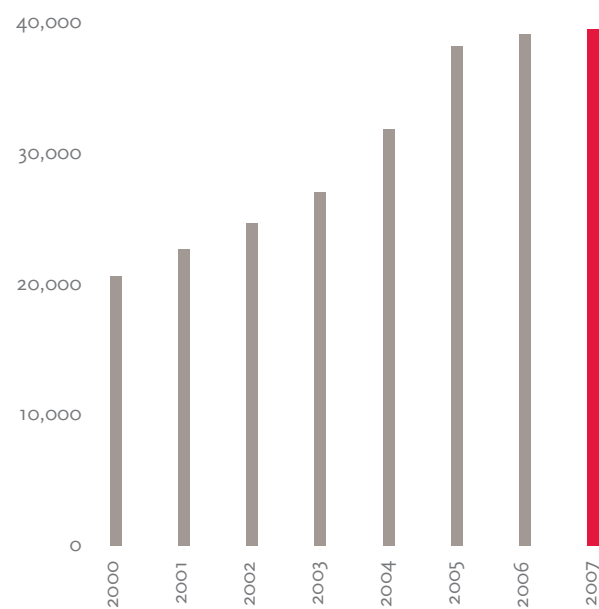
— Profit (loss) after tax (CZK millions)

Number of passengers carried on Czech Airlines flights,
2000–2007



— Thousands

Number of flights on Czech Airlines routes, 2000–2007



— Number of flights

ORGANIZATION CHART

Information valid as at 31 December 2007

SUPERVISORY BOARD

Company Secretary's Office (KTS)

BOARD OF DIRECTORS

PRESIDENT

Supplier Services Management Section (MDS)

Security Section (BEZ)

President's Office (KPR)

Communication (COM)

Quality Management (QMN)

Internal Audit and Control (IAK)

Flight Safety (FS)

Legal Affairs (PV)

Sales Division

Cargo Autonomous Sales Unit (CAR)

Charters Autonomous Sales Unit (CHT)

Duty Free Autonomous Sales Unit (DFR)

Sales Management and Support (RPO)

Reporting and Analysis (REA)

Management of the Sales of DS and

Autonomous Sales Units (DSS)

GSA Representation (GSA)

Czech Sales (OČR)

North America

Western Europe

Central Europe

Sothern Europe

UK and Ireland

Russia and CIS

Balkans

Middle East

Scandinavia and Baltic

Marketing and Product Development Division

Marketing and Segment Management Section (MRS)

Booking and Distribution Systems (RDS)

Revenue Management (REM)

Routes, Contracts and Regulations (LSP)

Non-Commercial Tickets

Analyses

Economic Division

Accounting Section (UCT)

Treasury (TRS)

External Financial Relations (EFV)

Payment System and Payment Transactions (PSO)

Controlling and Planning (CPL)

Aircraft Fleet Development (RLP)

Aircraft Fleet Development Technology (TRP)

Aircraft Acquisitions (AKL)

Human Resources Division

Human Resources Policy (PPO)

Wage Policy and Benefits (MPB)

Human Resources Training and Development (VZR)

Technical Division

Aircraft Maintenance Section (UDL)
 Technical Division Supply and Development
 Section (ZRT)
 Aircraft Engineering Section (TL)
 Technical Division Service Marketing
 and Sales (MP)
 Technical Inspections (TK)
 Quality Assurance and Airworthiness
 Inspections (ZJL)

Ground Operations Division

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

Flight Operations Division

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

Information Technology Division

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



NET PROFIT
OF CZK

207

MILLION

THE GREAT ECONOMIC PERFORMANCE ACHIEVED BY THE COMPANY IN THE SECOND YEAR OF THE 2006–2008 OK RECOVERY STRATEGY HAS GIVEN US THE OPPORTUNITY TO FOCUS ON FURTHER DEVELOPMENT. CZECH AIRLINES HAS DECIDED TO MAKE USE OF AN ADVANTAGEOUS OPTION TO ORDER ADDITIONAL A319 AIRBUSES, DUE FOR DELIVERY IN 2011–2012. THE COMPANY IS ALSO INTRODUCING A NEW INTEGRATED INFORMATION SYSTEM FOR THE ADMINISTRATION AND MANAGEMENT OF AIRCRAFT MAINTENANCE – THE MRO SYSTEM – AND A NEW COMPREHENSIVE AIRLINE SYSTEM TO SUPPORT KEY BUSINESS ACTIVITIES SUCH AS TICKET BOOKINGS, PRICING AND DISPENSING, PASSENGER AND BAGGAGE HANDLING, AND ONLINE SALES. AFTER YEARS OF STAGNATION, THE CZECH AIRLINES NETWORK IS ALSO SET TO EXPAND.

LUBOŠ ČERNÝ, MEMBER OF THE BOARD OF DIRECTORS AND VICE-PRESIDENT FOR ECONOMICS

IMPORTANT DEVELOPMENTS DURING 2007 AND 2008 (UP TO THE ANNUAL REPORT CLOSING DATE)

IMPORTANT DEVELOPMENTS IN 2007

January

- Czech Airlines introduces new uniforms for its employees.
- On 24 January, the Extraordinary General Meeting decides to hive off Cargo Terminal and Catering as the autonomous subsidiaries Air Cargo Terminal a.s. and Air Czech Catering a.s.
- Hurricane Kyrill and heavy snowfall cripple Prague Airport on 18 January. As a result, Czech Airlines is forced to cancel more than a hundred flights.

February

- A new Airbus A320 with the registration mark OK-MEH lands in Prague during the night of 15/16 February. It transports passengers to Moscow for the first time.

March

- The first Airbus A319 is introduced into the Czech Airlines fleet.
- The Company enters into a contract with Air India for the one-year wet lease of an Airbus A310.
- Czech Airlines officially starts operating its Airbus A320 flight simulator at the training centre.

April

- The subsidiaries Air Cargo Terminal a.s. and Air Czech Catering a.s. are formed; 524 employees transfer to these companies.
- Negotiations on the new collective agreements for the 2008–2010 period are officially launched.
- Ivan Kočárník is appointed the new Chairman of the Supervisory Board of Czech Airlines.

May

- The company introduces a brand new product – the Jetsters Club loyalty programme for children.
- On 3 May, Czech Airlines' range of long-haul flights is expanded by the capacity of the service provided between Prague and Atlanta by Delta Air Lines.

June

- Czech Airlines introduces the possibility for passengers from Prague, Paris and Amsterdam to check in on its website.
- The new scheduled passenger service between Karlovy Vary and St Petersburg is launched.
- Czech Airlines enters into a three-year contract with EXIM TOURS a.s., the largest Czech travel agency.

July

- Czech Airlines publishes its interim results for the half-year. The Company manages to narrow its loss to CZK 175 million. This result is CZK 600 million better than in 2006, despite the much higher financial burden.
- Of the 26 companies in the Association of European Airlines (AEA), Czech Airlines ranks at the top of in flight punctuality performance for the first half of 2007.

August

- The Extraordinary General Meeting of Czech Airlines endorses the sale of Air Cargo Terminal a.s. to Central European Handling.
- Czech Airlines wins a tender to provide handling services to the German airline Lufthansa.

September

- Representatives of Czech Airlines management and trade unions agree on the wording of the joint part of the collective agreements.
- Containers are put into service for baggage and cargo in Airbus A320 aircraft; this increases the cargo volume and prevents needless damage and loss.
- Czech Airlines, in cooperation with Správa Letiště Praha, s.p., launches Fast Track for business class passengers, speeding up the passport and security controls at Prague Airport.
- The new low-cost brand Click4Sky.com enters the market.

- The Company is successfully IOSA audited and recertified as an IOSA Registered Airline.
- The Company introduces a new logo as part of the gradual conversion to a new visual style.

October

- Czech Airlines holds naming ceremonies for five new Airbus aircraft (A320/319), which are given the names of Czech mountain ranges: Krkonoše, Beskydy, Jeseníky, Vysočina and Šumava.
- The first Czech Airlines aircraft decked out in the new corporate colours is introduced at Prague Airport on 15 October.

November

- Czech Airlines, in collaboration with Emirates SkyCargo, launches its first ever scheduled cargo service (Prague–Dubai–Hong Kong and back).
- The Company reports that after years of network stagnation, in 2008 it will start operating six new scheduled services.

December

- Dušan Horák, Tomáš Brabec, Radomil Kratochvíl and Jaroslav Lorenc are appointed to the Supervisory Board as members elected by employees.
- The Company officially launches the Airbus A320 cabin simulator.

IMPORTANT DEVELOPMENTS DURING 2008 (UP TO THE ANNUAL REPORT CLOSING DATE)

January

- The Extraordinary General Meeting of Czech Airlines approves the sale of the subsidiary Air Czech Catering a.s. to Alpha Overseas Holding Ltd.
- The Platinum Card becomes available for members of the OK Plus loyalty programme.
- Czech Airlines intensifies code-sharing with Korean Air.

February

- Czech Airlines announces its preliminary economic performance. After years in the red, preliminary results indicate that the Company has made a profit of CZK 111 million. The plan for 2007 had been to generate a profit of approximately 40 CZK million.
- The Company rounds off negotiations with trade unions on the collective agreements for the 2008–2010 period. The Company reaches agreement with all nine trade unions on a wage increase by 1–2% above inflation, depending on the financial results reported.
- In 2007, Czech Airlines comes top in the survey of most punctual airlines in the Association of European Airlines.
- Czech Airlines prepares a more varied, richer range of refreshments for economy class passengers.

March

- In the summer timetable, Czech Airlines reinforces operations on more than twenty existing routes. It also offers new direct services to Strasbourg, Tbilisi, Rostov na Donu, Damascus, Almaty and Heraklion.
- Code-sharing is launched with China Airlines on the outbound and inbound service Prague–Frankfurt am Main–Taipei.
- Czech Airlines starts specifying the full price, including charges and tax, on its web sites.

April

- The Government starts the search for a consulting company to assist in the privatization of Czech Airlines.
- The Company enters into a contract with Air India for another year's wet lease of an Airbus A310.
- Czech Airlines upgrades online check-in to encompass further European destinations. Passengers can now use this service for flights from 31 cities.

As at 31 December 2007 the following eleven airlines were members of the SkyTeam Alliance: Aeroflot, AeroMéxico, Air France, Alitalia, Continental Airlines, České aerolinie, Delta Air Lines, China Southern Airlines, KLM Royal Dutch Airlines, Korean Air and Northwest Airlines.

The most recent full member is China Southern Airlines, which joined the alliance on 11 November 2007 and made SkyTeam the first grouping of its kind to have a member carrier from mainland China.

In September 2007, the SkyTeam Alliance admitted three new associate members – Air Europa, Copa Airlines and Kenya Airways.

By means of one of the world's most extensive networks of hubs of member airlines, the SkyTeam Alliance offers 428 million passengers per year a system of 16,400 flights per day to 841 destinations in 162 countries. The scale of the SkyTeam Alliance's flight network is now very close to that of Star Alliance, and is also further ahead of the Oneworld alliance.

One of the SkyTeam Alliance's pet projects in 2007 was Co-location, activities focusing on the use of shared areas at Heathrow Airport, London. All SkyTeam Alliance members will steadily move their flights to Terminal 4, resulting in a marked improvement in the conditions for transit passengers. The project also includes the construction of a common Alliance lounge, which will provide top-quality services to business class passengers and SkyTeam Elite Plus passengers.

Another project which should enhance the quality of service for Alliance passengers is the Mileage Upgrade Project. In practice, passengers will have the chance to transfer from economy class to business class if they meet certain conditions.

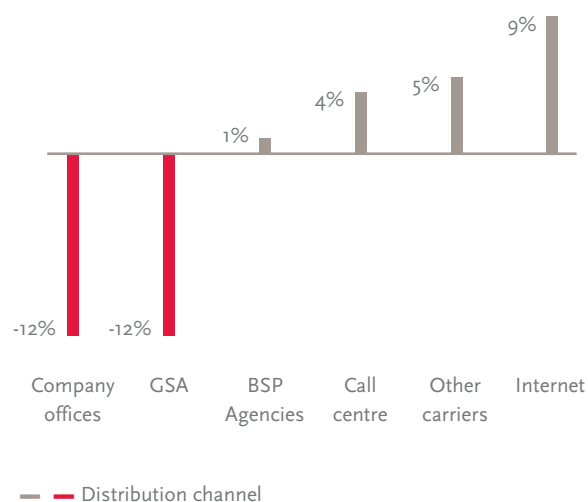
All the joint projects run by the SkyTeam Alliance are geared to fulfil of the motto "Caring More About You". Proof of the successfulness of these efforts came when the SkyTeam Alliance was named 2007 Best Airline Alliance by readers of Business Traveler Magazine.

From the perspective of sales and marketing, the focus of all core activities on sales performance parameters while aiming at the most lucrative corporate customers continued in 2007. This strategy resulted in higher average revenues and growth in the number of passengers, thus confirming that it was the right path to take.

The positive developments in the selected strategy were fuelled by the fact that, for the first time in its history, Czech Airlines had data at its disposal that could be used with sufficient precision to identify business opportunities on the individual markets. Booking data (MIDT – Marketing Information Data Tapes) and sales data (BSP – Billing and Settlement Plan) facilitated comparisons with the competition in the booking and sales process, thus increasing the efficiency of business decisions.

In response to the information obtained, Czech Airlines altered its communications originally directed at end clients, and used the money it had saved in this way to invest in tools to promote direct sales online and via the Call Centre. The impact of these investments returned higher sales via a more cost-effective distribution channel – the Internet.

Year-on-year change in the shares of distribution channels in total revenues (%)



NETWORK OF ROUTES

In 2007, Czech Airlines introduced support planning systems for the creation of its timetable; these appliances, Net Line Plan and Net Line Sched, were supplied by Lufthansa Systems. They enable the Company to forecast sales results on newly planned routes and the financial impacts of alterations within the existing network. After calibrating the systems in line with actual past results, the timetable for summer 2008 was planned with the full support of this software, which made a significant improvement to the use of fleet capacity. In 2007, loss-making routes were gradually closed, and the capacity this freed up was used to intensify services to existing destinations offering high potential.

At the end of 2007, Company management decided to change the model used for services to Canada. The service to Montreal was terminated in mid-January 2008 and flights to Toronto were suspended, although this route will be serviced by Czech Airlines again between June and October 2008.

Scheduled services

Almaty	Brussels	Houston	Lyons	Paris – Charles de Gaulle	St. Petersburg
Amsterdam – Schipol	Budapest	Charlotte	Madrid	Phoenix	Stockholm
Ancona	Bucharest	Chicago – O'Hare	Malta	Pisa	Stuttgart
Athens	Cairo	Indianapolis	Manchester	Poprad – Tatry	Strasbourg
Atlanta – Hartsfield-Jackson	Catania	Istanbul	Marseilles	Portland	Taipei
Austin	Cincinnati	Irkutsk	Memphis	Priština	Tallinn
Baltimore	Cleveland	Jackson	Mexico	Riga	Tampa
Barcelona	Cologne/Bonn	Jacksonville	Miami	Rostov na Donu	Tbilisi
Bari	Copenhagen	Genoa	Milan – Malpensa	Rome – Fiumicino	Tel Aviv
Barnaul	Zurich	Ekaterinburg	Minsk	Sacramento	Thessaloniki
Mulhouse	Dallas	Yerevan	Munich	Saint Louis	Torino
Beijing	Damascus	Karlovy Vary	Moscow – Sheremetyevo	Salt Lake City	Toronto
Beirut	Denver	Kemerovo	Naples	Samara	Toulouse
Belgrade	Detroit	Košice	Nashville	San Diego	Trieste
Venice	Dublin	Krakow	New York – J. F. Kennedy	San Francisco	Valencia
Berlin – Tegel	Dusseldorf	Kuwait	Nice	San José	Warsaw
Bilbao	Florence	Kiev	Odessa	Sarasota	Verona
Bologna	Fort Lauderdale	Lamezia	Oklahoma	Savannah	Vilnius
Bordeaux	Frankfurt am Main	Larnaca	Omsk	Seattle	Washington – Ronald
Boston – Logan	Hamburg	Lisbon	Orlando	Skopje	Reagan
Bratislava	Hannover	London – Heathrow	Oslo	Sofia	West Palm Beach
Brno – Tuřany	Helsinki	Los Angeles	Ostrava	Seoul	Zagreb
Brno – bus stop	Heraklion	Ljubljana	Palermo	Split	Žilina

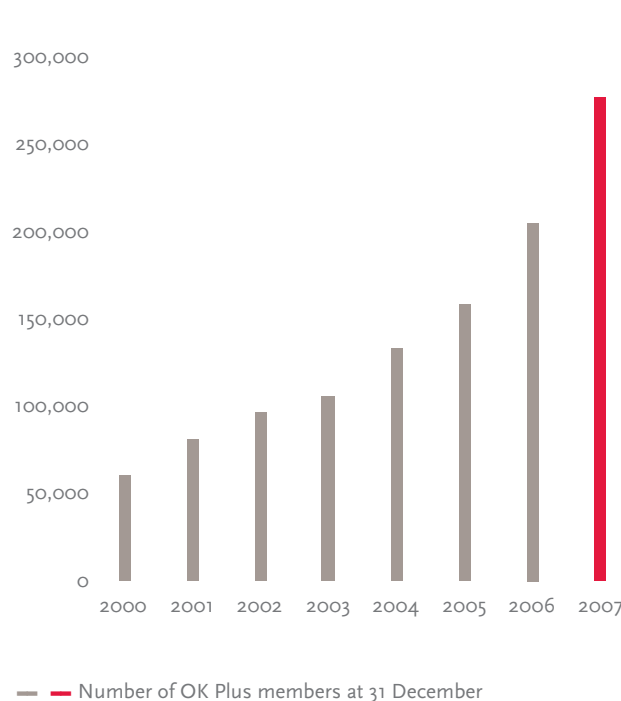
PRODUCT MANAGEMENT

In 2007, product management focused on the use of data from surveys of client preferences and their importance when selecting an airline and purchasing tickets. A detailed description was formed of the full process of communication between the client and the airline, covering initial contact when booking and paying for tickets, contact at the airport, the actual flight, and the post-flight service. In this chain, key factors were identified that have the potential to alter client preferences.

A major initiative in 2007 was the clear-cut identification of the links in the purchase chain that truly clinch the sale of a ticket in a particular segment. In light of the research results, a major portion of marketing resources could be switched from instruments not addressing these key links to activities that focus directly on them. This resulted, for example, in the creation and launch of the Frequent Seller programme, under which bonus points can be collected and exchanged for free tickets, thus motivating agency staff to sell Czech Airlines tickets. This programme will be expanded in 2008 to selected foreign markets.

An analysis of data on customer behaviour showed that members of Czech Airlines' OK Plus loyalty programme fly at least twice as often as non-members. After making this discovery, we took the active step of intensifying the acquisition of new loyalty programme members. By running new acquisition campaigns, the Company succeeded in increasing the number of OK Plus members by 35% year on year to almost 300,000 customers.

Number of OK Plus members

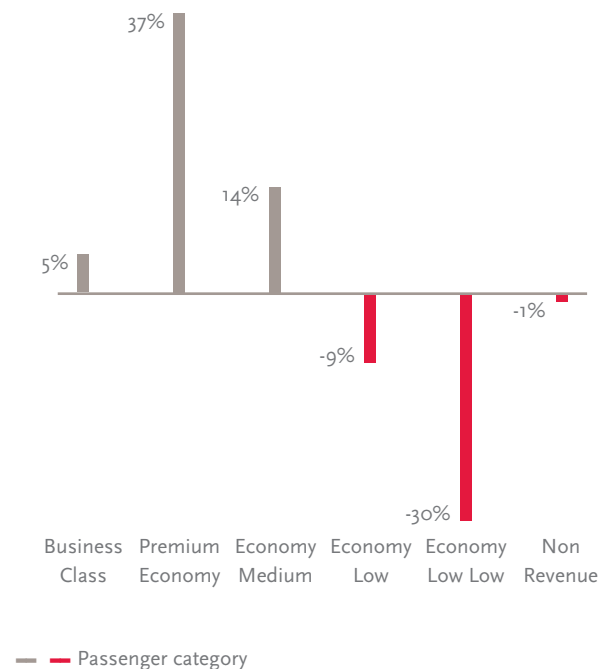


PRICING AND REVENUE MANAGEMENT

There was also a change in pricing in 2007. Czech Airlines departed from the past track of offering the lowest prices on foreign markets. The new price strategy is dictated by Czech Airlines' status on individual markets. The first wave of this new direction saw an across-the-board rise in prices as prices were brought to the level offered by the competition in 2007.

The rigorous application of revenue management tools and the clear targeting of higher-income brackets resulted in a tangible improvement in the structure of passengers using Czech Airlines' scheduled services. There was a marked rise in the number of passengers from higher price segments, accompanied by a moderate increase in the total number of passengers carried.

Year-on-year change in the passenger structure (%)



SALES MANAGEMENT

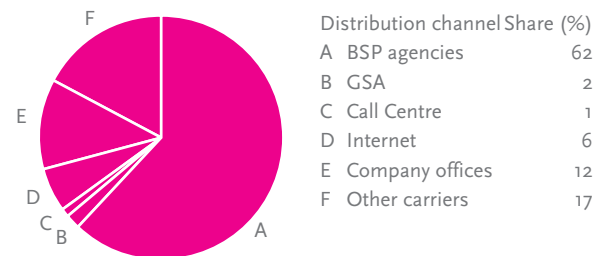
During 2007, a new system for the regional management of the sales network in the Czech Republic and abroad was fully implemented. A significant change was the availability of data painting a comprehensive picture of agency bookings and sales and guiding salespersons to new sales opportunities. By the same token, these data facilitate a detailed analysis of sales already made and subsequent exploitation of best practices. With a view to increasing sales performance, new sales management and assessment instruments were used at all levels in the Sales Division, including individual KPIs (Key Performance Indicators), systematic management and the regular assessment of the performance of each employee.

A new employee remuneration system was introduced with a larger variable wage component, which is linked directly to individual performance. There was a noticeable change to current practices in the recruitment of sales managers and salespersons at international offices. In the past, in most cases employees from the Czech Republic were posted to take over these key positions. In 2007, the majority of processes were modified for the sake of standardization, facilitating the recruitment of local sales managers and salespersons with a detailed knowledge of the respective markets. Approximately a third of international sales Office are managed by local employees.

As at 31 December 2007, Czech Airlines had 38 international sales offices on four continents. The sales offices were managed by nine regional directors. The number of foreign regions was cut to seven in January 2008 as part of the procedure to streamline and centralize certain operations.

Besides the Company's own offices, sales abroad were also made through other distribution channels, the most significant being BSP (Business Settlement Plan) agencies, the Internet, GSAs (General Sales Agents), the Call Centre and other carriers.

Share of distribution channels in total revenues (%)



IMPLEMENTATION OF NEW MANAGEMENT PROCESSES

In 2007, a new communication platform of specialist departments was set up under the Marketing and Product Development Division and the Sales Division. This platform generates sales strategies for individual markets, and measures culminating in the attainment of planned financial performance are hatched, implemented and evaluated here.

The uniform setting of common targets for revenue generation and the uniform configuration of financial incentives across all sales and marketing departments have seen them join forces. Therefore, Czech Airlines has boosted motivation among all its sales and marketing units and achieved better, more efficient performance.

CARGO

The main task of the Cargo autonomous sales unit (Cargo SOJ) is to transport air shipments by exploiting the freight capacity available onboard the aircraft of Czech Airlines. Cargo SOJ is a member of SkyTeam Cargo Alliance; here, one of its secondary activities is to represent the Alliance partners Korean Air Cargo and Delta Air Lines Cargo as the General Sales Agent for the Czech Republic responsible for sales of Korean Air aircraft capacity and, from May 2007, Delta Air Lines flights from Prague Airport.

In January 2007, Czech Airlines hived off cargo landing operations and the cargo terminal from Cargo SOJ's operations. On 1 April 2007, the autonomous public limited company Air Cargo Terminal a.s. was formed and subsequently sold. Cargo SOJ continues to run its core activities, i.e. the provision of freight services onboard the aircraft of Czech Airlines, and has a contract with Air Cargo Terminal a.s. for the handling of its air shipments.

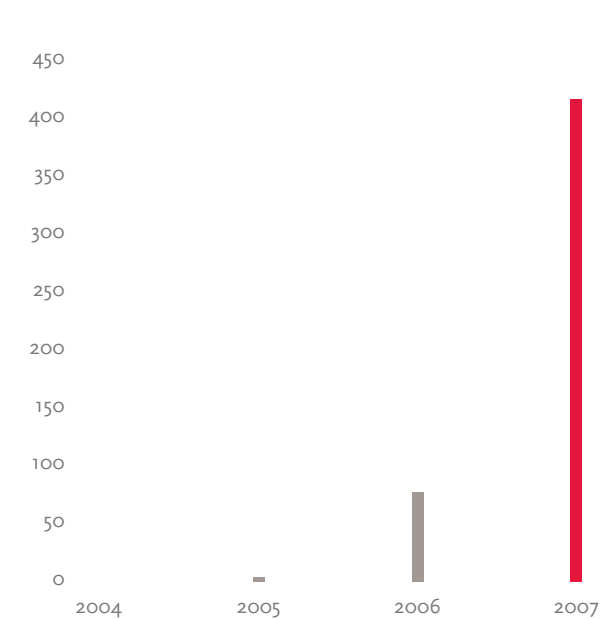
During 2007, a transparent business model for the management of network sales activities was established. On some strategic markets, cargo managers were appointed at the end of the year to oversee regional business activities. In November 2007, under an agreement with Emirates Sky Cargo, the first ever purely cargo flights began on the Hong Kong–Dubai–Prague route, forging a link with one of the most important manufacturing regions in the world, Southern China.

This pro-active business strategy proved highly successful, as underscored by the positive results reported at the end of 2007. Although, in 2007, Cargo SOJ had to get by without the capacity of the terminated Czech Airlines service to Dubai, Colombo, Birmingham, and Edinburgh, and Cork, by pursuing all the avenues at its disposal it still managed to transport 24,072 tonnes of cargo and mail. As part of the project to overhaul the corporate identity of Czech Airlines, the Cargo autonomous sales unit has been rebranded since January 2008.

Performance

	2002	2003	2004	2005	2006	2007
Number of passengers	260,048	243,992	330,160	706,913	796,312	797,248
Number of flights	1,461	1,413	1,764	2,945	3,235	3,384

Revenues from aircraft leases (CZK millions)



— Revenues from aircraft leases (CZK millions)

CHARTERS

In 2007, charter services followed up on the positive developments reported in 2006. Charter performance, measured by flights undertaken and passengers carried, continued to grow. Revenues from charter services increased by 17.4% year on year. Revenues also climbed in all sales segments, most markedly in the field of aircraft leases, where the Charters autonomous sales unit was a key player in increasing the use of the aircraft fleet otherwise intended for scheduled services.

Important attributes and achievements promoting the expansion in charter services in 2007 included the signing of framework agreements with the most important clients, the annual lease of an Airbus A310 to Air India, and the strengthening of Czech Airlines' position on foreign markets. The share of revenues from abroad was 35% in 2007.

As in previous years, in 2007 CSA Charters again introduced new destinations, such as Monrovia (Liberia), Faro (Portugal), and Oviedo (Spain).

CLICK4SKY.COM – ENTERING THE LOW-COST MARKET

In 2007, Czech Airlines entered the market of low-cost carriers, thus tapping into a new market of approximately 1.5 million budget passengers. Through CSA Services, s.r.o., Czech Airlines set up a 100% subsidiary, ClickforSky, a.s., to sell slack capacity on Czech Airlines flights at a uniform price of CZK 1,990 per single ticket, including tax, regardless of the destination; the fare to some selected destinations is even as low as CZK 994. This service is marked as the brand Click4Sky.com. The terms of sale of the Click4Sky.com service have been set to suit the low-cost segment of the market (conditions concerning minimum stay, departure times, destination). The strict terms of sale prevent other Czech Airlines customers from making the switch to Click4Sky.com. The number of tickets offered by Click4Sky.com is constantly overseen by the Revenue Management Department. Over the first few weeks that this surplus sales model was put into trial operation in 2007, ClickforSky, a.s., sold more than 10,000 tickets, thus fully meeting the target revenues and economic performance planned for 2007.



6

NEW DESTINATIONS
AFTER YEARS
OF
STAGNATION

AFTER SPENDING TWO YEARS RESTRUCTURING, CZECH AIRLINES HAS FOUND ITSELF IN A POSITION WHERE IT IS ABLE TO MAKE THE ECONOMICALLY CHALLENGING MOVE OF OPENING SERVICES TO NEW DESTINATIONS. THE 2008 SUMMER TIMETABLE WILL SEE THE CZECH AIRLINES NETWORK EXPAND BY A FULL SIX NEW ROUTES, TAKING IN STRASBOURG, TBILISI, ROSTOV NA DONU, DAMASCUS, ALMATY AND HERAKLION.

PETR PIŠTĚLÁK, MEMBER OF THE BOARD OF DIRECTORS AND VICE-PRESIDENT FOR MARKETING AND PRODUCT DEVELOPMENT

AWARDS WON IN 2007

42

Best Airline on the Czech market – readers of TTG (Travel Trade Gazette Czech) rated Czech Airlines the Best Airline on the Czech Market for the eighth time. Czech Airlines beat all the other airlines operating flights to the Czech Republic.

Best Airline Based in Central/Eastern Europe – a high-profile prize awarded every year by the London-based international aviation organization Official Airline Guide (OAG), based on a poll among the professional public. This was the fourth time the accolade had gone to Czech Airlines. Czech Airlines was also short-listed among airlines nominated for the award of Best Airline of the Year 2007.

Best Airline in Central and Eastern Europe – in an annual reader survey organized by the US periodical Business Traveler, Czech Airlines won in this category. In the survey, respondents evaluated areas such as in-flight service or the range of destinations offered by airlines.

Best Airline in Central Europe – this prestigious award is conferred every year by the independent UK organization Skytrax in the context of the World Airline Awards, based on votes cast by millions of passengers from across the world. Besides overall victory in Central Europe, Czech Airlines' crews were also praised. They provided the **Best In-Flight Service in Central Europe**. In the pan-European chart, the cabin crews of Czech Airlines came in third.

Special Gender Studies Prize – Czech Airlines won this prize in the Competition for Best Company with Equal Opportunities for Women and Men. This competition is held by Gender studies, o.p.s.; dozens of top Czech corporations figure among the contestants. In the third year of the competition, Czech Airlines received a special prize for making good progress in the promotion of equal opportunities.

WebTop 100 – the Czech Airlines website was rated the top transport site in the sixth annual WebTop 100. Overall, 158 websites were assessed by a panel of 40 judges.

AIRCRAFT FLEET AND TECHNICAL MAINTENANCE

FLEET

At the beginning of 2007, the Czech Airlines fleet comprised 50 aircraft. During 2007, the number of aircraft was reduced to 49, although the structure was not altered to any marked degree. In February, March and April, Czech Airlines received additional new Airbus A320 and Airbus A319 aircraft under a contract concluded in 2004 with Airbus. These new aircraft comprise three Airbus A320s configured for 162 passengers, and two Airbus A319s configured for 135 passengers. During May and June, Czech Airlines returned four Boeing B737-500 and one Boeing B737-400 to their lessors. A further Boeing B737-400 was returned to the lessor in November.

TECHNICAL MAINTENANCE

In 2007, the Czech Airlines Technical Division operated three heavy maintenance lines in Hangar F, geared towards the maintenance of aircraft operated by Czech Airlines and its customers (especially Boeing B737NG aircraft).

Overall, 60 major aircraft checks were carried out in Hangar F (21 checks for Czech Airlines and 39 for other customers), while in Hangar E 16 checks of Czech Airlines' ATR42/72 aircraft were conducted.

Czech Airlines fleet in 2007

Type of aircraft	Number	Capacity
A310-300	4	2 x 21C/188 Y (WAA;WAB) 1 x 18C/183 (YAC) 1 x 18C/188 Y (YAD)
B737-400	10	7 x 144C/Y* 3 x 162C/Y**
B737-500	11	11 x 108C/Y*
ATR72	4	4 x 64C/Y*
ATR42-320	1	1 x 46C/Y*
ATR42-500	7	7 x 46C/Y*
A320-214	8	8 x 162C/Y*
A319-112	2	2 x 135C/Y
A321-211	2	2 x 212Y
Total	49	

* Flexible configuration based on current requirements.

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

C – Business class, Y – Economy class

Czech Airlines Aircraft

The Technical Division also worked on preparations for checks of Airbus A320 aircraft. A significant step in this

respect was the successful performance of the first IL (intermediate lay-over) checks on Airbus A320s by Technical Division staff in Hangar F.

During the IL check a change was made to the configuration of the passenger cabins to make them comply with the new Airbus A320 standard, i.e. the seating capacity was increased to 162 passengers.

Customers' aircraft

In 2007, the Technical Division provided maintenance for the B737 aircraft of its largest customers – Air Berlin and Transavia. Last year, the Technical Division carried out work for a new customer, Brussels Airlines, on Airbus A320 aircraft for the first time. It also succeeded in renewing cooperation with Lufthansa, which ordered four Boeing B737CL checks and also commissioned the Technical Division to check an Airbus A319 operated by S7.

Repair plant maintenance

In 2007, there were more activities related to the general maintenance of undercarriages. The successful completion of staff recruitment and training, combined with process changes, resulted in 25 general overhauls of undercarriage sets, compliance with time limits, and a significant increase in the volume of general parts maintenance; there was a 47% rise in output.

Czech Airlines aircraft fleet in 2007

Type	Registration mark	Name	Date of production	Date of delivery	Note
A310-304	OK-WAA	Praha	20. 10. 1990	11. 2. 1991	
A310-304	OK-WAB	Bratislava	5. 2. 1991	1. 3. 1991	
A310-325	OK-YAC	Zlín	24. 2. 1993	7. 6. 2003	
A310-325	OK-YAD	Frýdek Místek	13. 3. 1993	26. 10. 2004	
ATR72-202	OK-XFA	Český Krumlov	12. 2. 1992	9. 4. 1992	
ATR72-202	OK-XFB	Znojmo	17. 2. 1992	14. 4. 1992	
ATR72-202	OK-XFC	Nitra	26. 3. 1992	24. 4. 1992	
ATR72-202	OK-XFD	Mladá Boleslav	15. 4. 1992	21. 5. 1992	
ATR42-320	OK-VFI	Sky Rider	2. 1. 1990	15. 5. 2000	
ATR42-500	OK-JFJ	Náměšť nad Oslavou	6. 3. 2004	19. 5. 2004	
ATR42-500	OK-JFK	Slavkov	26. 4. 2004	19. 5. 2004	
ATR42-500	OK-JFL	Sušice	22. 7. 2004	30. 7. 2004	
ATR42-500	OK-KFM	Benešov	3. 3. 2005	3. 5. 2005	
ATR42-500	OK-KFN	Přerov	19. 4. 2005	3. 5. 2005	
ATR42-500	OK-KFO	Sokolov	20. 9. 2005	7. 10. 2005	
ATR42-500	OK-KFP	Svitavy	4. 10. 2005	20. 10. 2005	
B737-400	OK-DGM	Třeboň	6. 4. 1998	7. 4. 1998	
B737-400	OK-DGN	Třebíč	17. 5. 1998	18. 5. 1998	
B737-400	OK-EGP	Kladno	18. 3. 1999	19. 3. 1999	
B737-400	OK-FGR	Ostrava	24. 2. 2000	25. 2. 2000	
B737-400	OK-FGS	Brno	24. 2. 2000	25. 2. 2000	
B737-400	OK-CGI	Prostějov	1. 1. 1997	26. 3. 2001	
B737-400	OK-CGT	Písek	17. 1. 1997	24. 5. 2002	
B737-400	OK-YGU	Mělník	14. 6. 1993	28. 3. 2003	Returned on 5 November 2007
B737-400	OK-YGA	Bechyně	1. 6. 1993	22. 5. 2004	Returned on 30 May 2007
B737-400	OK-WGX	Uničov	6. 11. 1991	12. 6. 2004	
B737-400	OK-WGY	Roudnice nad Labem	8. 1. 1992	30. 6. 2004	
B737-400	OK-VGZ	Polička	4. 4. 1990	22. 12. 2004	

Type	Registration mark	Name	Date of production	Date of delivery	Note
B737-500	OK-XGA	Plzeň	12. 6. 1992	3. 7. 1992	
B737-500	OK-XGB	Olomouc	1. 7. 1992	6. 7. 1992	
B737-500	OK-XGC	České Budějovice	8. 7. 1992	10. 7. 1992	
B737-500	OK-XGD	Poprad	29. 7. 1992	31. 7. 1992	
B737-500	OK-XGE	Košice	6. 8. 1992	7. 8. 1992	
B737-500	OK-CGH	Ústí nad Labem	12. 3. 1997	13. 3. 1997	
B737-500	OK-CGJ	Hradec Králové	12. 3. 1997	13. 3. 1997	
B737-500	OK-CGK	Pardubice	22. 5. 1997	23. 5. 1997	
B737-500	OK-DGL	Tábor	18. 3. 1998	19. 3. 1998	
B737-500	OK-EGO	Jindřichův Hradec	16. 2. 1999	17. 2. 1999	
B737-500	OK-XGV	Mariánské Lázně	13. 7. 1992	29. 4. 2003	Returned on 11 May 2007
B737-500	OK-XGW	Františkovy Lázně	14. 9. 1992	28. 5. 2003	Returned on 21 June 2007
B737-500	OK-DGB	Beroun	23. 3. 1998	25. 5. 2004	Returned on 11 June 2007
B737-500	OK-DGC	Český Brod	21. 10. 1998	14. 6. 2004	Returned on 20 June 2007
B737-500	OK-WGD	Rakovník	21. 3. 1991	8. 4. 2005	
A320-214	OK-GEA	Rožnov pod Radhoštěm	18. 4. 2001	17. 3. 2005	
A320-214	OK-GEB	Strakonice	10. 5. 2001	29. 4. 2005	
A320-214	OK-LEE	Jeseník	2. 3. 2006	30. 3. 2006	
A320-214	OK-LEF	Kutná Hora	4. 4. 2006	27. 4. 2006	
A320-214	OK-LEG	Slaný	5. 5. 2006	23. 5. 2006	
A320-214	OK-MEH	Beskydy	23. 12. 007	15. 2. 2007	2007 delivery
A320-214	OK-MEI	Jeseníky	9. 2. 2007	15. 3. 2007	2007 delivery
A320-214	OK-MEJ	Krkonoše	21. 3. 2007	9. 4. 2007	2007 delivery
A319-112	OK-MEK	Šumava	19. 2. 2007	8. 3. 2007	2007 delivery
A319-112	OK-MEL	Vysočina	5. 4. 2007	9. 4. 2007	2007 delivery
A321-211	OK-CED	Nové Město nad Metují	20. 6. 1997	20. 5. 2005	
A321-211	OK-CEC	Havlíčkův Brod	16. 5. 1997	30. 5. 2005	

In 2007, the Information Technology Division focused on steps culminating in a rapid improvement in performance (especially in sales), and a reduction in the financial and administrative burdens of everyday operations. Last year was a time of intensive preparations for the fundamental modernization of Czech Airlines, a period given over to the internal analysis of requirements, the selection of suppliers, and the building of implementation teams.

In 2007, the Information Technology Division was re-organized over several steps, and top-class experts from other sectors joined the team. The innovation branch has been boosted significantly. Its absorption of the former autonomous Strategic Development and Projects Section gave it the resources to set up a unique professional Project Office. The creation of this office is bound up with the production of new project methodology, supported by a set of standardized instruments for the record-keeping, monitoring and evaluation of investment projects. Thanks to all these changes, the division succeeded in maintaining a much higher degree of discipline in the implementation of projects – today less than one project in eight derogates from the initial project plan. The operations of the Project Office were then effectively combined with the activities of the Top 10 Committee (similar to an investment committee); this has streamlined and clarified decision-making on investment plans at Czech Airlines.

During 2007, an emphasis was placed on the completion of projects already in progress, and on narrowing the project portfolio (at the end of 2006, 76 projects had not been completed by the end of the year; the figure for the end of 2007 was 44 projects). Of the new projects, those with a rapid positive effect on the business performance of Czech Airlines were prioritized. The most noteworthy project to be completed last year was the first stage of the establishment of an integrated flight operations information system (IISLP) in liaison with Lufthansa Systems, which includes processes that create a network of routes and the related timetable, and the planning of flight operations. Internal efficiency was enhanced by the completion of a virtual private network (VPN), which now incorporates more than 40 of Czech Airlines' sales offices in Europe, Asia and America.

The linchpin of Czech Airlines' sales was the successful transition to electronic tickets, making it well-placed to meet the deadline for full e-ticket application set by the IATA (which has been put back to 31 May 2008). Czech Airlines made significant steps towards this goal in 2007: the number of interline partners rose from 8 to 33, constituting more than 85% growth in sales for Czech Airlines at other carriers. Meeting the IATA's mandatory objective is feasible; in combination with sales for the Company's own flights it was possible to issue electronic tickets in more than 90% of cases by the end of 2007.

Information technology helped improve Czech Airlines' sales performance in all sales channels. In the first half of 2007, a new call centre solution was implemented, increasing customer convenience and enhancing management of the sales process. Subsequent months witnessed the large-scale reconstruction of the Czech Airlines website, including online sales boosted with additional means of payment, and the introduction of Internet check-in services. A unique project was the record speed at which online sales were created for the new low-cost brand Click4Sky.com.

Last year can be characterized as a time of preparation for extensive modernization of the information environment. After the meticulous internal analytical phase and a study of benchmark cases, the decision was taken to renovate the airline systems and the solution for technical aircraft maintenance (maintenance, repair and overhaul services – MRO). Both projects, which are of an exceptional scale in the history of Czech Airlines, had been successfully prepared for implementation at the end of 2007.

Czech Airlines opted for the Meridian solution from the US corporation Worldspan as the basis for the future concept of airline systems. This choice was supported by the exceptionally high operational savings arising from the design architecture (up to a billion crowns over five years) and by the progressive nature of the solution from the perspective of online and telephone sales. Ticket bookings, distribution and sales will benefit from the concentration of the different systems into the Meridian platform; Czech Airlines previously covered this area of activity with 12 sub-solutions from eight suppliers. All elements of Czech Airlines management have paid special attention to the implementation of the project – 22 teams have contributed to the project and almost 1,500 employees will have to be trained for the new solution. By pursuing this avenue, Czech Airlines has aligned itself with US partners in the SkyTeam Alliance – Delta Air Lines and Northwest Airlines.

The project to change the technical maintenance solution is also of an exceptional scale. It affects the whole Technical Division, which has a thousand employees, and has triggered procedural and (subsequently) organizational changes. Much of 2007 was devoted to a meticulous search for the right solution, which resulted in the selection of Swiss Aviation Software's AMOS product. Preparations were in place for implementation to start at the beginning of 2008.

It would be unjust to overlook numerous operating measures to stabilize the information environment at Czech Airlines, the appreciably higher availability and reliability of information services for users, and the identification of more effective models for the financing and administration of IT equipment.

These and a number of other conceptual changes were incorporated into the Czech Airlines ICT Development Strategy for 2008–2010, which was adopted by the Company's Board of Directors in the second half of 2007. The strategy provides the backbone for the above-mentioned key projects in 2008 and aims to bring Czech Airlines up to the technological level of the 25% most advanced airlines in the world by the end of 2010. However, an essential aim is to facilitate and support the Company's commercial development while making operations more efficient.

For the Supplier Services Management Section, 2007 was another year of cost-cutting measures throughout Czech Airlines. The Supplier Services Management Section is responsible for the direct management of the Central Procurement, Real Estate and Ground Facilities Maintenance Departments.

REAL ESTATE

In the first half of the year, Czech Airlines scrutinized the configuration of key processes and started preparing for implementation so that the Real Estate Department would be able to handle more tasks more efficiently than in the previous year in the context of the new organizational structure in 2008. This department also made arrangements to support divestments, implement important changes with a medium-term impact on operations, and gradually optimize the administrative units of Czech Airlines (redistribution).

Key developments in 2007 included divestments and the related support for the transfer of assets to subsidiaries, contractual administration and maintenance arrangements for Air Czech Catering a.s. and Air Cargo Terminal a.s.

Preparations for the relocation of the Ground Facilities Maintenance Department to the southern hall of Hangar C, the reconstruction and relocation of the Technical Division

Overview of areas used (m²)

Description	Type of ownership	Area (m ²)
Administration and operations	Company property	60,004
Support and related areas	Company property	8,234
Communal areas and technical facilities	Company property	20,894
Administration and operations	Lease	19,288
Support and related areas	Lease	4,176
Communal areas and technical facilities	Lease	2,036
Total		114,630

Overview of land used

Description	Type of ownership	Area (m ²)
Land	Company property	55,507
Land	Lease	9,985
Land	Easement	103,871
Total		169,363

Car fleet

Vehicle fleet at 1 January 2007	Vehicle fleet at 31 December 2007	Optimization (units/%)
389	270	-119/31

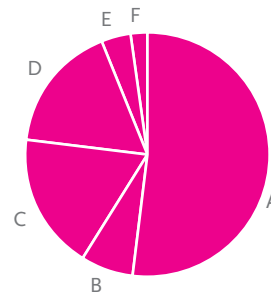
to Hangar B, and arrangements for an addendum to the lease agreement with the Czech Technical University, Prague, regarding the letting of premises in Kolejní Street, Praha 6 were also significant. Electricity supply costs were optimized. The foundations were laid to sell off surplus properties in Bratislava and Vienna, as well as the land under the Secondary Vocational College of Civil Aviation in Prague.

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Important procedural changes were made in the Operational Management and Waste and Water Management Units. These changes were implemented by reference to outsourcing analyses where processes and financial flows were examined and feedback was set up for cleaning quality evaluations. All properties and land were audited, resulting in the optimization of leases in Terminals 1 and 2 and at the Gestin Centre.

In the first quarter of 2008, the Real Estate Department mainly handled the preparations for the relocation of 200 employees from the building at Kolejní Street in Praha 6, which will take place in the final quarter. The sale of buildings in Vienna and Bratislava was completed.

Overview of areas used in 2007 (%)



Description	Share (%)
A Administrative and operating areas owned by the Company	52
B Support and related areas owned by the Company	7
C Communal areas and technical facilities owned by the Company	18
D Administrative and operating areas leased	17
E Support and related areas leased	4
F Communal areas and technical facilities leased	2

GROUND FACILITIES MAINTENANCE

This department's task is to provide all users of vehicles, machinery and workplace technology with comprehensive administration services in order to optimize current processes and reduce the costs incurred by Czech Airlines.

Current vehicle fleet

- 270 cars, trucks and special vehicles
- 728 machines
- 2,300 workplace technology resources

In 2007, there was a year-on-year reduction in this departments total costs by CZK 12.7 million, i.e. by 15%. The profit rose by 17%.

Another important step was the streamlining of activities in response to labour productivity, with the presumption that the professional standard of services rendered would be maintained, with the provision of services on a larger scale. This action increased labour productivity from 50% to 63%, eliminated downtime, and made full use of the repair centre, even though there had been a reduction in human resources. Another highly valued benefit resulting from the streamlining of processes is the availability of machinery. The new system of machinery maintenance planning increased availability from 86% to 93%, making it possible to apply technical resources in the aircraft handling process 340 days a year.

In 2007, the vehicle fleet was also optimized.

CENTRAL PROCUREMENT

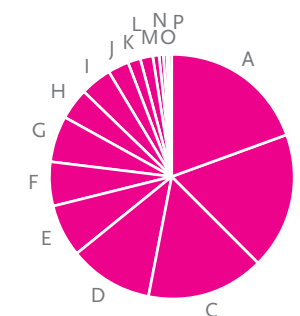
In 2007, Central Procurement spearheaded 637 business activities and cost-cutting projects which resulted in savings totalling more than CZK 418 million. Of the savings achieved, CZK 264.13 million was reflected in cash flow in 2007 and the remaining CZK 154.83 million will affect cash flow in 2008.

The most significant purchasing categories in 2007 were aviation fuel and airport charges, handling services, aeronautical maintenance and information technologies. Successful business activities include the selection of a supplier of airline and MRO systems, the selection of a supplier for the heavy maintenance of Boeing B737 aircraft, the renewal of aviation insurance contracts, new business conditions for the land link to Brno, the repeat tender for a handling service provider at the airport in Barcelona, the selection of a hardware supplier, and numerous other operations.

Czech Airlines Central Procurement also played an active role in joint procurement projects implemented by the SkyTeam Alliance; the most successful include the procurement of handling services in Barcelona and Bucharest, and the conclusion of a global contract with AEROXCHANGE Ltd.

In its management of supplier-customer relations, especially in the fields of engineering, information technology and in-flight, Central Procurement plans to make savings of more than CZK 250 million in 2008.

Savings made in individual procurement categories in 2007 (CZK millions)



Name of category	Saving (CZK millions)
A Fuel, including operational economies	82.51
B Airport charges	75.00
C Handling	65.41
D Information technology and telecommunication costs	45.94
E Aeronautical maintenance	29.37
F In-flight	25.22
G Facility management	25.03
H Insurance	17.42
I Marketing	17.11
J Transport services	11.58
K Accommodation	7.19
L Vehicles and machinery	6.86
M Security	3.65
N Professional services	2.88
O Printed materials, office, overheads	2.26
P Personnel services, clothing, catering	1.50

PASSENGER AND AIRCRAFT HANDLING

In its passenger and aircraft handling for the flights of Czech Airlines and foreign carriers, the Ground Operations Division again kept to a high standard in 2007, as evidenced by the results of audits of airlines such as Delta Air Lines, KLM Royal Dutch Airlines, Lufthansa, Swiss International Air Lines, and the Star Alliance.

In 2007, Czech Airlines handled 7.1 million passengers for 104,000 aircraft departures and arrivals at Prague-Ruzyně Airport; this was a yearly increase of 2.4% in the number of passengers and 3.5% in the number of aircraft departures and arrivals.

The share of Czech Airlines in the total output at Prague Airport in 2007, expressed in relation to the number of passengers handled, was 57%; in terms of the number of arrivals and departures handled the Company's share was 59.4%.

Czech Airlines recorded revenues approximately 4% higher than planned in its contractual handling operations. In 2007, the Ground Operations Division renewed handling contracts with Austrian Airlines, China Airlines, Meridiana, SAS Scandinavian Airline System and Swiss International Air Lines and won tenders to provide handling services to Delta Air Lines and German airline Lufthansa. The Company also succeeded in entering into

a new handling contract with the Danish company Cimber Air and Atlantic Airways.

Czech Airlines recorded revenues approximately 25% higher than planned in its non-contractual handling operations. Between July and October 2007, Czech Airlines again provided handling for nine charter flights of Japan Air Lines from Osaka, Nagoya, Hiroshima and Tokyo Narita in a Boeing B747-400. Within the scope of state visits, the non-contractual handling service handled an Italian Air Force Airbus A319 carrying the Italian Prime Minister Romano Prodi in May 2007, and handled the Italian President Giorgio Napolitano in September 2007.

On 1 February 2007, the Passenger Handling and Services Section introduced an arrival service procedure to enhance the quality of service and to improve the competitiveness of the Company. Under the International Traffic Control project, operating activities and responsibilities at stations were transferred to Area Station Managers on 1 April 2007. In June 2007, Czech Airlines launched online passenger check-in, which has had a positive effect on improving handling processes. In August 2007, the Ground Operations Control Section took over the de-icing of aircraft from the Technical Division with a view to concentrating all handling services in a single Company unit.

In September 2007, the first eight Airbus A320 aircraft started to use the Cargo Loading System, making use of containers to transport baggage and cargo. This change has increased the volume of cargo that can be carried and prevent baggage damage.

Since the winter timetable came into effect, the Ground Operations Division has successfully met the challenge of relocating new Schengen area countries from Terminal 1 to Terminal 2 at Prague Airport.

DUTY FREE

The activities of the Duty Free Autonomous Sales Unit include sales of goods in airport outlets in the Czech Republic and onboard Czech Airlines aircraft.

Sales are made in two regimes – duty-free goods for non-EU destinations and duty-paid goods within the European Union. All commercial activities in 2007 generated further growth in revenues. In-flight sales are offered to passengers flying to 88 destinations on scheduled flights, and are also available on selected charter flights. Sales may be ordered for a further 22 destinations.

The total Duty Free revenues in 2007 came to CZK 650 million, a 5.8% year-on-year increase.

In 2007, all Czech Airlines' internal documents were modified following amendments to legislation in 2006 that concerned the protection of the Czech Republic's civil aviation from unlawful acts.

In the field of fire protection, the Security Section amended an organizational standard used for the periodic fire protection training of managers, preventive fire patrols and fire protection officers. It was also responsible for regular fire patrols of all Czech Airlines' buildings where the work on the replacement of the electric fire alarm system by a new system with remote signal transmission was completed in 2007.

During 2007, the established practical component was included in specialized training for air crews, with contributions from employees of the Security Section and the Police Force of the Czech Republic. It involved the training of aircrew personnel to handle anomalous situations during a flight and to cope with the increasing aggressiveness of uncooperative passengers. The trainees were also acquainted with the work of air marshals onboard aircraft.

In 2007, as part of the management system for the protection of civil aviation against unlawful acts, operation monitoring activities were carried out that focused on security measures laid down in the Czech Airlines Security Programme.

Operation monitoring activities were carried out in the stipulated form of security audits, inspections and security tests at the frequency laid down in the annual plan, which was presented to the Ministry of Transport of the Czech Republic in accordance with legal provisions. The Security Section has permanent staff authorized by the Ministry to conduct checks on the implementation of measures and procedures laid down in the security programme. The most frequent operation monitoring activity is the security test, where the effectiveness of security measures and procedures laid down in the security programme is physically verified.

The results of this internal system clearly show that Czech Airlines' security measures within the scope of the Czech Airlines Security Programme are of a very high standard and comply fully with the requirements of national legislation, in particular Act No 49/1997 on civil aviation, Aviation Regulation L17, and the relevant European Union regulations. In 2007, Czech Airlines again underwent a successful IOSA audit of the protection of civil aviation from unlawful acts.

Relevant Czech Airlines' regulations were amended in the context of aviation security and crisis planning. Crisis planning training drills were held, one of the largest of which was a coordination exercise with the Karlovarský kraj Provincial Integrated Rescue System, called "Airport 2007". This exercise involved the top management, crisis teams

and all relevant Company employees. The result showed that crisis management is not underestimated.

A very important change for the whole Company was the replacement (and expansion) of the entry security system with a next-generation system facilitating further development, optimization and adaptation. The electronic security system was then optimized and connected to a central point in the APC building. The complete reconstruction of the Gestin Centre, including the upgrading of security systems, enhanced the level of security at this point of sale. Also worth mentioning is the modernization and implementation of the new technology applied in the security camera system in Hangar F and the installation of a next-generation entry and camera system in the Czech Airlines engine plant.

In line with the Company's long-term concept and strategy for travel document control, in 2007 the Company successfully reduced the numbers of passengers with incomplete, counterfeit and falsified travel documents; this has saved the Company tens of millions of crowns in fines. Given the constantly changing trends in illegal migration, the Security Section cooperates with state institutions not only in the Czech Republic, but also in destinations where Czech Airlines flies.

Air traffic punctuality is one of the key indicators in evaluating of an air carrier's quality. In addition to operational security and the comfort of transport services, Czech Airlines pays a lot of attention to this parameter. Despite the rising output and relatively dense flight operations, punctuality should not suffer. In 2007, Czech Airlines ranked top for the first time in statistics maintained by the Association of European Airlines (AEA).

The indicators reported in connection with punctuality are generally better compared to the previous year, even though the rise in output has only been moderate. The areas where the Company was not as punctual as it would have liked to be can be ascribed to the following factors in particular:

- limited capacity/system output for air traffic at Prague Airport, and flight operation service systems;
- the bad weather in January, November and December 2007; and
- the prolongation of inspections and reductions in the availability of aircraft.

The Company's excellent ranking in the punctuality of flights is reflected not only in higher customer confidence, but also economically. Further to Commission Regulation No 261/2004 on compensation for passengers, punctuality is advantageous in that it reduces expenditures on compensation.

Chart of the punctuality of departures, based on AEA statistics

Month	Czech Airlines rank among AEA carriers			Overall rank
	Medium-haul and short routes	Long-haul routes	Domestic routes	
January	5	4	1	6
February	1	3	2	2
March	1	1	1	1
April	2	5	1	1
May	2	1	1	2
June	1	1	1	1
July	1	1	1	1
August	2	1	1	2
September	2	1	1	2
October	2	1	2	2
November	3	4	3	2
December	1	5	1	1
2007	2	1	1	1

The complexity of environmental protection at Czech Airlines and the momentum of structural changes culminated in the decision to introduce an environmental management system (EMS) in accordance with ISO 14001. This system was gradually implemented at Czech Airlines from 2004, and it is expected in 2008 it will be ready for certification.

Direct environmental aspects, i.e. environmental impacts that Czech Airlines controls and is in a position to influence, are concentrated primarily in the Technical Division and the Flight Operations Division. The principal aspects in this respect are the consumption of fuel and other operating substances, emissions into the air and water, and the production of hazardous waste.

Air Protection

Emissions from air transport currently account for approximately 3% of total greenhouse gas emissions in the European Union. In the Czech Republic, air transport in 2004 contributed 0.7% to total CO₂ emissions.

On 20 December 2006, the European Commission published a change proposal for Directive 2003/87/EC in view of the incorporation of greenhouse gas emissions from civil aviation into the established European Union system for trading in emissions of these gases from significant technological sources EU ETS – European Union Emissions Trading System). Interconnection with

the EU ETS system, in which the operators of large stationary sources currently operate, is designed to ensure the greater efficiency of the market, as it will be possible to implement measures to reduce emissions in places with the lowest costs.

As of 2011, the Directive should apply to all national and international flights between airports in the European Union, and as of 2012 it should apply to international flights departing from or arriving in airports in the European Union. It is not yet clear in what form the resultant proposal will be approved.

In 2007, Czech Airlines started to monitor the quantity of emissions from individual flights. On its website, Czech Airlines has an emission calculator for customers to work out how much of the individual emission types is generated during their flight (CO₂, SO₂, NO_x, etc.).

In 2008, Czech Airlines is considering whether to introduce a programme of voluntary contributions for emissions generated during a flight. Passengers would thus have the chance to contribute to a specific project, e.g. tree-planting.

Noise

Environmental policies, the most important aspect of which is noise pollution, are increasing subjected to confrontation with surrounding municipalities and public institutions for environmental protection. As such, the number of airports that monitor noise is constantly increasing.

For the protection of the immediate vicinity of airports, aircraft departure and arrival procedures are published (prescribed) that, in three-dimensional space, precisely define the trajectory of the aircraft flight and that, by design, guarantee relatively small noise pollution for the area surrounding the airport. Non-compliance with prescribed noise abatement procedures is punishable with fines.

Czech Airlines is a corporation reporting high precision in the observance of published noise abatement procedures.

In 2007, Czech Airlines continued its cooperation with Správa Letiště Praha, s.p. on the drafting and assessment of procedures to reduce noise exposure at Prague Airport. It has helped improve the noise monitoring system at Prague Airport, which has been fully functional since 2008 after trial operation.

At some airports, Czech Airlines and other carriers are subject to noise charges for aircraft noise which are derived from the maximum takeoff weight of an aircraft and its classification in the relevant noise category according to the ICAO Annex 16 noise certificate. The Czech Airlines noise policy follows the standard pattern. In 2007, the replacement of the aircraft fleet with new-generation, quieter aircraft continued. The fleet of Czech Airlines aircraft now largely comprises aircraft in the lowest noise category.

Types of waste (t/year)

Type of waste	2002	2003	2004	2005	2006	2007
Mixed waste	1,306.00	1,354.00	1,772.00	2,216.00	2,290.00	1,224.98
Hazardous waste	472.00	631.00	290.00	242.00	498.00	1647.33
Other waste	202.00	183.00	202.00	277.00	331.00	254.93
Reusable waste	603.00	628.00	667.00	498.00	470.00	252.56
Recycling	3.47	6.65	7.53	9.33	10.10	13.11

Wastewater treatment

At Czech Airlines, the purity of discharged water receives special attention. Discharges of water from different technological processes are subject to control mechanisms; water quality is regularly monitored and if it reports even a slight overrun of the limit values, measures are immediately taken to rectify the situation.

In 2007, new technology was installed for the treatment of water from the kitchen and dining hall of the APC building, the capacity of which is consistent with the increasing requirements regarding the range and quantity of meals being prepared and issued.

At the end of 2007, at the head office the original fat separator was replaced with modern equipment that, besides increasing operating capacity, will also facilitate more intensive service care.

An increase in capacity, in line with operating requirements, is also being handled in relation to the fat separators for Hangar F, where the existing equipment needs to be replaced with a facility offering roughly double the flow rate. In the fourth quarter of 2007, project preparations were made, followed by the EIA fact-finding procedure.

Czech Airlines also paid special attention to compliance with the set quality of discharged industrial wastewater. This category includes water from technological processes for the washing of aircraft, aircraft parts, machinery and galvanization. All the wastewater produced in this manner passes through technological facilities intended for the elimination of pollutants in the used water.

Other water from the washing of aircraft and parts passes through special treatment technologies. Therefore, since the second quarter, water preparations have been in progress for the construction of a central industrial wastewater treatment plant, which should be put into trial operation in mid-2008.

Waste

The generation of individual types of waste is constantly monitored with a view to reducing dangerous waste and achieving an optimum quantity in response to transport and repair output for internal requirements or for external customers under contract. Waste which can be reused materially is concentrated by Czech Airlines prior to handover to an authorized person so that the necessary quality is maintained, thus achieving an economically optimal improvement.

In the second half of 2007, project preparations and planning permission preparations progressed for an investment to put into operation the technology of the sorting line for the separate of waste, predominantly from the operation of the Company's own aircraft and those of contractual partners. Full trial operation of the sorting line was launched as of the summer timetable, i.e. as of March 2008.

Chemicals

In 2007, there was a significant legislative change relating to chemical substances and chemical products when REACH was adopted (Registration, Evaluation and Authorization of Chemicals). For Czech Airlines, this development means that it will communicate with the suppliers of individual chemical substances regarding:

- the acquisition of new safety data sheets in accordance with REACH legislation;
- information as to whether the manufacturer/distributor of a substance envisages its registration with the European Commission; and
- feedback to the distributors/manufacturers on how we handle a chemical from the perspective of its impact on people and the environment (the exposure scenario).



4,777

EMPLOYEES

CZECH AIRLINES HAS ENTERED INTO COLLECTIVE AGREEMENTS WITH ALL TRADE UNIONS FOR THE NEXT THREE YEARS. I AM COMPELLED TO RECORD MY HIGH APPRECIATION FOR THE APPROACH ADOPTED BY THE TRADE UNIONS, WHICH GRASPED THE COMPANY'S ECONOMIC SITUATION AND BEHAVED VERY FAIRLY DURING COLLECTIVE BARGAINING. THIS HAS RESULTED IN COLLECTIVE AGREEMENTS GUARANTEEING WAGE INCREASES OVER THE NEXT THREE YEARS, WHICH WILL BE IN LINE WITH INFLATION PLUS ONE OR TWO PERCENT, DEPENDING ON THE COMPANY'S ECONOMIC PERFORMANCE. THIS DEAL TAKES INTO ACCOUNT THE GENUINE OPPORTUNITIES AVAILABLE TO THE COMPANY. I BELIEVE THAT WE HAVE SUCCEEDED IN STRIKING AN IDEAL BALANCE FOR THE NEXT THREE YEARS. WE ARE PRESERVING REAL WAGES, INCREASING THEM SLIGHTLY WHILE EARNING THE REVENUE NEEDED TO COVER THIS RISE.

DUŠAN RYBAN, MEMBER OF THE BOARD OF DIRECTORS AND VICE-PRESIDENT FOR HUMAN RESOURCES

For human resources, 2007 was characterized in particular by the implementation of the new Labour Code, the launch of collective bargaining and the implementation of measures culminating in changes to corporate culture.

In collective bargaining, the overwhelming majority of collective agreements were negotiated and signed in 2007. These agreements cover more than 90% of Czech Airlines employees. The remaining agreements were signed at the beginning of 2008.

Corporate culture measures were geared towards the promotion of equal opportunities between men and women and the reconciliation of working and personal lives of employees. Czech Airlines' activities earned it a special prize in a competition to identify the company with the best equal opportunities. In 2007, once again Czech Airlines enjoyed popularity among potential job-seekers, which was reflected in its third placing in the Employer of the Year award.

The total average number of employees (FTE) in 2007 was 4,777, which is 12% less than in 2006, when the average FTE headcount was 5,442 persons. The main reason for the reduction in the number of employees was the continuing restructuring of the Company, including the sale of the cargo and catering services.

Number of employees as at 31 December

Employee category	31. 12. 2006	31. 12. 2007	Difference
Blue-collar	1,672	1,286	(386)
Management	147	98	(49)
White-collar	1,887	1,841	(46)
Cabin crew	1,017	1,015	(2)
Flight crews	524	534	10
Total	5,247	4,774	(473)

Employee arrivals and departures in 2007

Employee category	New recruits	Employment terminated
Blue-collar	248	252
White-collar	355	300
Flight crews	19	18
Cabin crew	45	39
Sale of cargo, catering services	0	524
Total	667	1,133

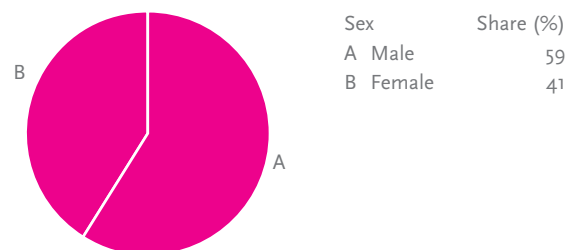
Wage policy

In 2007, the wage policy was consistent with the strategy for the restructuring of the Company, the honouring of all commitments to employees under collective agreements, and an amendment to labour-law legislation.

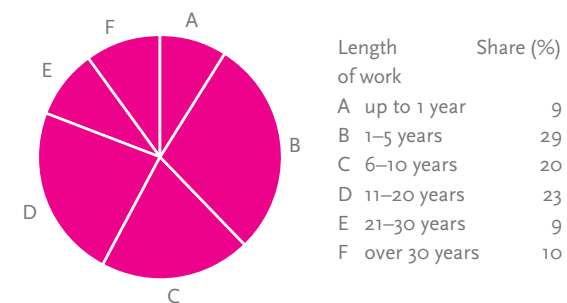
As at 1 January 2007, there was an increase in wages in all employee categories in accordance with valid collective agreements and changes were made in accordance with the provisions of the new Labour Code. The average monthly wage at the Company in 2007 was CZK 54,265.

In the field of new recruitment, 667 new members of staff were taken on in 2007 and 1,133 employees terminated their employment.

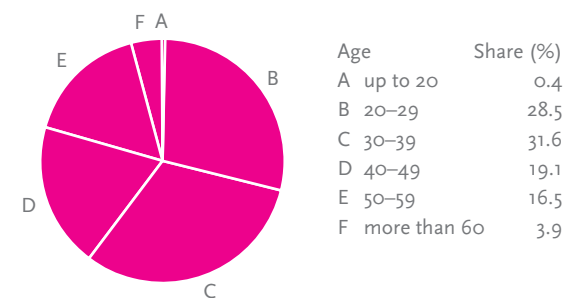
Share of men and women in 2007 (%)



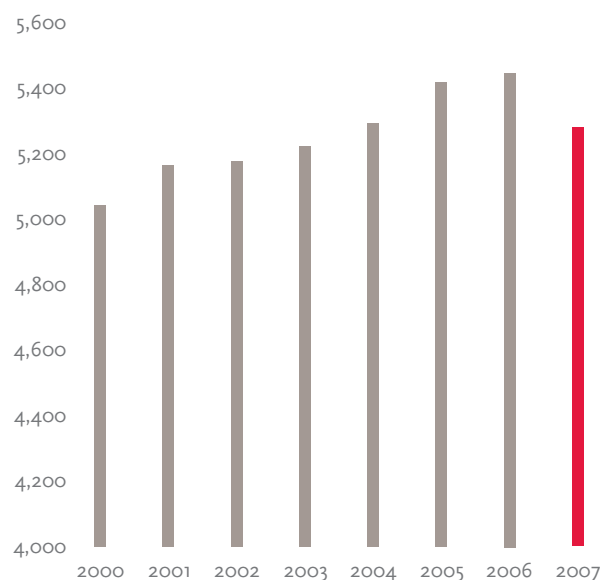
Employee structure by length of work in 2007 (%)



Employee age structure in 2007 (%)



Number of employees (FTE), 2000–2007



— Number of employees, 2000–2007

Employee benefits

In 2007, as part of its social programme Czech Airlines provided employees with the following:

- A contribution to children's recreation of CZK 529,508
- The coverage of spa rehabilitation treatment for selected employee categories amounting to CZK 5,282,382
- A contribution to insurance of liability for damage caused to the employer in the pursuance of a profession in the amount of CZK 200,000
- A contribution to supplementary pension schemes of CZK 77,700,740
- A contribution to catering of CZK 24,817,650

Besides these benefits granted to employees, the Human Resources Division provided additional employee benefits in 2007 in accordance with the collective agreement.

Human resources training and development

In 2007, the main priority was the educational programme for Czech Airlines traders, with financial assistance from the European Social Funds. The programmes was attended by 300 traders from the Sales Section.

By a decision of the International Civil Aviation Organization (ICAO) from 2003, a system to test pilots' knowledge of English was set up (ICAO Language Proficiency Test) – and certified by the Civil Aviation Authority.

In 2007, the programme for the development of basic managerial skills (Leadership Academy) continued; another 17 Company managers stand ready to sit the final examination, which will test their level of competence for the quality management of a team.

In the systematic preparation of professional conduct with customers (Customer Care for Front Line Workers), coaches were selected and prepared for intensive work with individual employees responsible for passenger handling directly at the workplace. The established system ensures the more efficient implementation of skills acquired during training.

In the field of technical training, a contract was concluded for the supply of an MFTD simulator for Airbus A320 aircraft, which was installed at Czech Airlines in 2008.

The e-learning pilot project was also implemented in 2007. This form of training will enable employees to manage the time set aside for training more efficiently and to share their knowledge and skills.

Courses organized by the Human Resources Division were attended by 16,000 participants from the ranks of Czech Airlines employees and 3,300 external customers.

The Air Crew Training Autonomous Sales Unit (Air Crew Training SOJ) holds authorizations to provide model training on all the different types of aircraft operated by Czech Airlines. The latest authorization is for model training in Airbus A320 aircraft. In 2007, Airbus and Thales put the Airbus A320 flight simulator into operation. The simulator was certified in February 2007; since then it has flown 2,966 hours during training and other activities of Czech Airlines – of which 328 hours for Airbus and the sale of 566 hours to external customers.

The Air Crew Training SOJ does not just supply model training. Many of the Unit's activities are devoted to the repeat or refresher training of Czech Airlines air crews. All forms of training are carried out in accordance with a certificate issued by the Civil Aviation Authority of the Czech Republic, in accordance with the valid European regulations JAR-FCL1, JAR-OPS1, and in accordance with internal Czech Airlines training handbooks. In 2007, 23 new pilots, nine captains in the internal promotion procedure, and 62 new flight attendants were trained for the requirements of Czech Airlines.

Thirty aircrews were retrained for the new Airbus A320 in 2007. The theoretical part of this training took place in Prague; some training on simulators was held at foreign training centres (Toulouse, London). After the installation of the Airbus A320 simulator, training could also be provided in Prague.

Overall, 231 air crew members took part in retraining to cope with the ATR, Airbus A320, and Boeing B737.

Work on the installation of a cabin simulator for Airbus A320 aircraft was finalized in September and October 2007. In October, the facility was put into operation. It is primarily used in the training of air crews, but may also be used for other activities.

1,928 hours (of which 299 by external clients) were flown on the ATR 42 Flight Training Device.

The Boeing B737 flight simulator was used intensively. Throughout 2007, 5,793 hours were flown (of which 3,659 by external customers) on the simulator, covering model, refresher and repeat courses. The most significant customers included Aerosvit, Bulgaria Air, Hemus Air, Kras Air, Georgian Airways, Travel Servis and Slovenské aerolinie.

The Air Crew Training SOJ has capacity primarily intended to meet the requirements of training the aircrews of Czech Airlines. These requirements take priority. Any free training capacity sells easily. The total proceeds from sales of training to external customers in 2007 were CZK 46 million.

An interesting activity carried out by the Air Crew Training SOJ is its "Fearless Flying" course, which is also used by the general public. For Czech Airlines' business partners, the Air Crew Training Centre held specific events. Aircrew training strives to cultivate the positive image of Czech Airlines among the public and business partners.

Performance of aircrews in Czech Airlines' flight operations

Based on methodology applied by the Association of European Airlines (AEA), by the end of 2007, pilots had flown an average of 748.4 hours with a monthly average 62.4 hours per pilot over the calendar year. There was a year-on-year improvement in the average pilot performance by 3.5%.

Cabin crews registered average annual flying time of 806.3 hours in 2007 (average monthly value: 67.2 hours per flight attendant). The average performance of flight attendants thus rose by 1.3% compared to 2006.

Ground training of aircrews in 2007

Name	Number of persons	Number of courses	Number of hours
Czech Airlines	11,514	805	5,427
External customers	1,376	104	531
Total	12,890	909	5,958

Ground training of pilots in 2007

Type of aircraft	Customer	Number of persons	Number of courses	Number of hours	Number of hours of CBT (Computer Based Training)
Airbus A310	internal	161	41	451	793
Boeing B737	internal	1,163	153	1,066	1,577
ATR	internal	702	126	1,391	1,990
Airbus A320	internal	561	90	601	0
All types	external	323	63	386	616

Training Airlines pilots on flight simulator in 2007

Simulator/type of aircraft	Number of persons	Number of courses	Number of hours
Airbus A310	143	52	755
Boeing B737	570	246	2,009
ATR	505	119	1,448
Airbus A320	297	133	2,593

Average number of disposable cabin crew numbers

Air crews	2006	2007	2006/2007	New
Pilots	528	524	(4)	24
Cabin crew	964	929	(35)	64
Total	1,492	1,453	(39)	88

Average monthly flying time by pilots

Month	2006	2007
January	55.62	54.70
February	50.83	49.59
March	56.51	60.53
April	59.08	62.38
May	62.43	67.15
June	63.52	65.64
July	64.37	68.63
August	65.11	67.84
September	63.36	66.36
October	63.47	64.58
November	58.19	59.01
December	59.94	62.02
Average	60.20	62.37

Average monthly flying time by flight attendants

Month	2006	2007
January	64.34	61.39
February	58.69	56.19
March	62.73	64.87
April	65.72	67.05
May	68.93	70.86
June	67.59	65.95
July	70.52	73.55
August	70.22	74.76
September	69.02	69.36
October	70.79	69.85
November	63.20	65.60
December	64.23	66.89
Average	66.33	67.19

In 2007, the Czech Airlines Supervisory Board carried out the activities required of it under the Commercial Code, as amended, the Czech Airlines Articles of Association, a decision of the General Meeting, and its Rules of Procedure.

Supervisory Board meetings in 2007

In 2007 and to date in 2008, the Czech Airlines Supervisory Board convened eleven ordinary and three extraordinary meetings at the Company's registered office. Extraordinary Supervisory Board Meeting No 02A-07 granted the Board of Directors approval for a final transaction involving the sale and leaseback of five B737-500 aircraft and the acquisition of five A319/320 aircraft in 2007.

On 10 April 2007, on the initiative of a shareholder Extraordinary Supervisory Board Meeting 04A-07 was held to elect the Chairman and First Vice-Chairman of the Supervisory Board in the wake of personnel changes within the Supervisory Board approved by the Extraordinary General Meeting held on the same day. The extraordinary meeting in June (06A-07) scrutinized the proposal by the Board of Directors for the termination of the 100% stake held by Czech Airlines in the share capital of Air Cargo Terminal a.s., which was approved with final force and effect by the Extraordinary General Meeting held on 2 August 2007.

In 2008, up to the closing date of the Czech Airlines Annual Report for 2007, the Supervisory Board convened three ordinary meetings and one extraordinary meeting (02A-08). On 13 February 2008, the extraordinary meeting of the Supervisory Board approved the acquisition of three A319 aircraft in 2008.

Members of the Supervisory Board

In 2007 and 2008, changes were made in the composition of the Czech Airlines Supervisory Board: Zdeněk Čáp resigned from his position of member of the Supervisory Board (effective as of 24 January 2007); Jiří Pos resigned as employee representative on the Supervisory Board (5 February 2007) and was replaced on 9 February 2007 by Pavel Hladík in accordance with the result of an employee vote in 2002. Elemír Václavík ceased to be a member of the Supervisory Board on the date of his death, i.e. 20 February 2007. Pavel Bém, Rudolf Vyčichla and Miroslav Ševčík resigned on 10 April 2007 and Hana Pešková resigned with effect as of 23 January 2008. On 11 December 2007, the term of office of Pavel Hladík, the member of the Supervisory Board representing employees, came to an end. The Company's Extraordinary General Meeting on 10 April 2007 removed Tomáš Páv from his office of member of the Supervisory Board, thus automatically terminating his office of First Vice-Chairman of the Supervisory Board. At the same time, it appointed Ivan Kočárník, Pavel Škvára, Kateřina Malechová, Ivan Foltýn, and Tomáš Uvíra as new members of the Supervisory Board of Czech Airlines with effect as

of 10 April 2007. At the end of the Company's Extraordinary General Meeting on 10 April 2007, Extraordinary Supervisory Board Meeting No 04A-07 was held, where the Chairman was elected Ivan Kočárník and the First Vice-Chairman Tomáš Uvíra. Ordinary Supervisory Board Meeting No 04-07 of 23 April 2007 co-opted Jan Bürgermeister as an alternate member of the Supervisory Board. His co-option was confirmed by the Company's Annual General Meeting held on 27 June 2007; he was appointed to the position with effect as of 27 June 2007. This General Meeting also removed Kateřina Malechová from office as a member of the Supervisory Board and appointed Daniela Kovalčíková a member of the Supervisory Board as of 27 June 2007.

In the final quarter of 2007, employee elections of members representing them on the Supervisory Board took place at Czech Airlines. In the light of the results of the elections, the Main Electoral Commission decided that Supervisory Board members representing employees would be Dušan Horák and Tomáš Brabec with effect as of 12 December 2007, and Jaroslav Lorenc and Radomil Kratochvíl with effect as of 9 April 2008.

Supervisory Board activities in the reporting period

In 2007 and to date in 2008, the Supervisory Board focused on its supervisory activities, thus fulfilling the tasks required of it in keeping with its reinforced powers under the Company's Articles of Association.

The Supervisory Board acquainted itself with the independent auditor's report to the shareholders of Czech Airlines of 30 April 2008. The auditing company is Deloitte Audit s.r.o. (Licence No 79), represented by the auditor Michal Petrman (Licence No 1105). The auditor's verdict on the financial statements, prepared in accordance with Czech accounting regulations and, for the consolidated financial statements, International Financial Reporting Standards, was issued pursuant to an audit of the financial statements of Czech Airlines, i.e. the balance sheet for the year ended 31 December 2007, the profit and loss account, the statement of changes in equity, and the cash flow statement for the year then ended, as well as the notes to the financial statements, including a description of significant accounting policies used.

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

– the financial statements prepared in accordance with accounting regulations of the Czech Republic give a true and fair view of the financial position of České aerolinie a.s. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended.

– the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU give a true and fair view of the financial position of České aerolinie a.s. consolidation group as of 31 December 2007, its financial performance and its cash flows for the year then ended.

The auditor also examined the factual of the information included in the related party transactions report of Czech Airlines for the year ended 31 December 2007, which is included Annual Report, the preparation of which is the responsibility of the Company's Statutory Body. The review was conducted in accordance with International Standards on Review Engagements (ISRE) 2400 and the related application guidelines issued the Chamber of Auditors of the Czech Republic. Based on this review, the auditor discovered no material misstatements in the disclosures in the related party transactions report issued by Czech Airlines as at 31 December 2007.

The auditor also examined the Annual Report for compliance with the financial statements prepared under Czech accounting regulations, in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Based on this examination, the auditor expressed the opinion that the information included in the Annual Report is consistent, in all material respects, with the financial statements referred to above.

The Czech Airlines Supervisory Board examined the audited financial statements for 2007, prepared in accordance with accounting regulations valid in the Czech Republic, and the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and recommends that the Czech Airlines General Meeting approve them.

The Czech Airlines Supervisory Board has examined and recommends that the Czech Airlines General Meeting approve the proposal of the Czech Airlines Board of Directors regarding the distribution of the Company's profit from 2007, determined in accordance with Czech accounting rules, amounting to CZK 206,600,039.43, i.e. the allocation of 5% of the profit, CZK 10,330,001.97, to statutory reserves in accordance with Article 44(3) of the Company's Articles of Association, with the remaining profit to be transferred to Retained Earnings.



The Czech Airlines Supervisory Board has examined the Czech Airlines related party transactions report as at 31 December 2007, which was drawn up and subsequently approved by the Board of Directors on 25 March 2008 in accordance with Section 66a of the Commercial Code and is part of the Annual Report. The Czech Airlines Supervisory Board states that the Company's Board of Directors is responsible for the completeness and correctness of the related party transactions report. The Supervisory Board hereby takes due note of the fact that the auditor discovered no circumstances indicating that the information specified in the report is materially incorrect. The Czech Airlines Supervisory Board found no errors or incomplete information in the report, and has no reservations regarding the report presented to it.

The Czech Airlines Supervisory Board has acquainted itself with the Czech Airlines Annual Report for 2007. The report contains information about important circumstances characterizing the material and financial results of the Company in the second year of the 2006–008 OK Strategy, i.e. the approved three-year restructuring programme. The Supervisory Board states that the Company's Board of Directors is responsible for the correctness of the information disclosed in the Annual Report, and duly notes the auditor's opinion that the information presented in the

Annual Report complies, in all material respects, with the Company's financial statements drawn up under Czech accounting regulations for the year ended 31 December 2007. Against this background, the Supervisory Board recommends that the General Meeting approve the Annual Report.

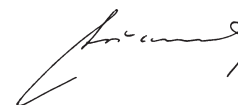
The Supervisory Board discussed the Evaluation of the Fulfilment of the 2006–2008 OK Strategy, approved by the 2006 Annual General Meeting as 'another measure' within the meaning of Section 193(1) of the Commercial Code, and notes that the 2006–2008 OK Strategy was fulfilled in all key indicators in 2007.

The Supervisory Board scrutinized the material for the 2009–2013 Czech Airlines Strategy, which follows up on the 2006–2008 OK Strategy, and considers the 2009–2013 Czech Airlines Strategy to offer a general framework for the business activities of Czech Airlines between 2009 and 2013. The approval of specific steps under this Strategy will take place in conformity with the law, in particular the Commercial Code, and with the Articles of Association of Czech Airlines.

The Supervisory Board recommends that the General Meeting approve the 2009–2013 Czech Airlines Strategy and order the Board of Directors to continue steps in accordance with this approved Strategy, the fulfilment of

which is fundamental to the Company's growth and development; this Strategy will increase the value of Czech Airlines for shareholders and potential strategic investors and paves the way for the gradual coverage of accumulated losses.

Prague, 21 May 2008



Ivan Kočárník
Chairman of the Supervisory Board of Czech Airlines

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

Having its registered office at: Ruzyně Airport, 160 08 Prague 6
Identification number: 45795908
Principal activities: Commercial airline operations

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

Based upon our audit, we issued the following audit report dated 31 March 2008 on the financial statements prepared in accordance with accounting regulations applicable in the Czech Republic which are included in this annual report on pages 109 to 150:

“We have audited the accompanying financial statements of České aerolinie a.s., which comprise the balance sheet as of 31 December 2007, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of České aerolinie a.s. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.”

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

Based upon our audit, we issued the following audit report dated 18 April 2008 on the consolidated financial statements prepared in accordance with International Financial Reporting Standards which are included in this annual report on pages 69 to 108:

“We have audited the accompanying consolidated financial statements of České aerolinie a.s., which comprise the balance sheet as of 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining

internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of České aerolinie a.s. consolidation group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of České aerolinie a.s. for the year ended 31 December 2007 which is included in this annual report on pages 154 to 163. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of České aerolinie a.s. for the year ended 31 December 2007 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

Report on the Annual Report

We have also audited the annual report for consistency with the financial statements in accordance with accounting regulations applicable in the Czech Republic. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

In Prague on 30 April 2008



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

Statutory auditor:



Michal Petrman
statutory executive



Michal Petrman
certificate no. 1105

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

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For the Years Ended 31 December 2007 and 2006

GENERAL INFORMATION

Directors as at 31 December 2007

Board of Directors:

Radomír Lašák (Chairman)

Jiří Devát (Vice-Chairman)

Luboš Černý (Member)

Tomáš Heczko (Member)

Jan Janík (Member)

Peter Jusko (Member)

Petr Pištělák (Member)

Dušan Ryban (Member)

Petr Řehák (Member)

Supervisory Board:

Ivan Kočárník (Chairman)

Tomáš Uvíra (1st Vice-chairman)

Dušan Horák (2nd Vice-chairman)

Tomáš Brabec (Member)

Jan Bürgermeister (Member)

Ivan Foltýn (Member)

Daniela Kovalčíková (Member)

Jaroslav Lorenc (Member)

Hana Pešková (Member)

Petr Polák (Member)

Ivana Řápková (Member)

Pavel Škvára (Member)

Registered Office

Ruzyně Airport

160 08 Prague 6

Czech Republic

Auditor

Deloitte Audit s.r.o.

Nile House

Karolinská 654/2

186 00 Prague 8

Czech Republic

INCOME STATEMENTS

For the Years Ended 31 December 2007 and 2006

Consolidated

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USD '000	Notes	2007	2006 restated
Revenues	3	1,188,129	1,063,876
Other operating income	4	13,839	18,365
		1,201,968	1,082,241
Cost of materials and services	5	(838,994)	(778,715)
Staff costs	6	(247,442)	(203,144)
Depreciation	11	(75,300)	(75,924)
Other operating expenses	7	(21,050)	(19,800)
Foreign exchange differences		(2,529)	9,229
Profit from operations		16,653	13,887
Interest expense, net	8	(19,928)	(13,693)
Other financial expense, net	9	(5,550)	(1,569)
Loss before taxation		(8,825)	(1,375)
Income tax gain / (expense)	23	18,484	(4,856)
Net profit / (loss) for the year	10	9,659	(6,231)
Earnings per share (USD)	10	35.31	(22.78)

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

BALANCE SHEETS

As at 31 December 2007 and 2006

Consolidated

USD '000	Notes	2007	2006 restated
ASSETS			
Non-current assets			
Property, plant and equipment, net	11	908,894	626,678
Intangible assets, net	12	16,196	13,387
Financial assets available-for-sale	14	1,021	1,041
Long-term derivative financial instruments	22	1,020	6,359
Long-term receivables	15	7,948	7,487
		935,079	654,952
Current assets			
Inventories	16	29,519	29,157
Short-term derivative financial instruments	22	30,856	4,516
Trade and other receivables, net	17	126,706	126,888
Cash and cash equivalents	18	27,529	46,043
		214,610	206,604
Assets held for sale	13	21,853	114,879
Total assets		1,171,542	976,435

USD '000	Notes	2007	2006 restated
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	151,317	131,036
Non-distributable reserves	20	3,712	3,214
Revaluation reserve	20	40,018	11,047
Retained earnings		155,603	141,497
Profit / (loss) for the period	10	9,659	(6,231)
Foreign exchange differences from translation of financial statements to the presentation currency		1,192	(518)
		361,501	280,045
Non-current liabilities			
Interest-bearing loans and borrowings	21	2,617	15,967
Finance lease obligations	24	347,416	189,716
Long-term derivative financial instruments	22	847	3,776
Deferred tax liability, net	23	49,378	56,838
		400,258	266,297
Current liabilities			
Provisions for liabilities and charges	27	17,066	7,037
Trade and other payables	25	188,996	179,863
Prepaid traffic documents	26	76,752	78,702
Short-term interest-bearing loans and borrowings	21	36,554	101,956
Current portion of finance lease obligations	24	59,759	36,571
Short-term derivative financial instruments	22	24,639	16,983
		403,766	421,112
Liabilities held for sale	13	6,017	8,981
Total equity and liabilities		1,171,542	976,435

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

STATEMENTS OF CHANGES IN EQUITY

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For the Years Ended 31 December 2007 and 2006

Consolidated

USD '000	Share capital	Non-distributable reserves	Revaluation reserve	Retained earnings	Foreign exchange difference *	Total
Balance as at 1 January 2006	111,254	2,729	8,587	124,114	402	247,086
Changes in accounting policies	–	–	–	(4,382)	–	(4,382)
Restated opening balance	111,254	2,729	8,587	119,732	402	242,704
Revaluation gain/(loss) (Note 20):						
– financial assets available-for-sale	–	–	(3,778)	–	–	(3,778)
– interest rate swaps	–	–	452	–	–	452
– commodity swaps	–	–	5,641	–	–	5,641
– foreign currency derivatives	–	–	(16,503)	–	–	(16,503)
– foreign currency exposure hedge	–	–	18,788	–	–	18,788
Deferred tax on revaluation gains / (losses) (Note 20)	–	–	(2,140)	–	–	(2,140)
Net gains not recognised in the income statement	–	–	2,460	–	–	2,460
Net loss for the year	–	–	–	(6,231)	–	(6,231)
Foreign exchange difference **	19,782	485	–	21,765	(920)	41,112
Balance as at 31 December 2006	131,036	3,214	11,047	135,266	(518)	280,045
Revaluation gain/(loss) (Note 20)						
– interest rate swaps	–	–	424	–	–	424
– commodity swaps	–	–	23,193	–	–	23,193
– foreign currency derivatives	–	–	(8,983)	–	–	(8,983)
– foreign currency exposure hedge	–	–	20,811	–	–	20,811
– other	–	–	(6)	–	–	(6)
Deferred tax on revaluation gains / (losses) (Note 20)	–	–	(6,468)	–	–	(6,468)
Net gains not recognised in the income statement	–	–	28,971	–	–	28,971
Net profit for the year	–	–	–	9,659	–	9,659
Foreign exchange difference **	20,281	498	–	20,337	1,710	42,826
Balance as at 31 December 2007	151,317	3,712	40,018	165,262	1,192	361,501

* Foreign exchange difference amounts to the difference resulting from using different exchange rates between CZK and USD to translate the balance sheet items and the income statement items (foreign exchange rate as at 31 December, average foreign exchange rate, respectively)

** Foreign exchange difference reconciles the opening equity balance translated at the exchange rate between CZK and USD as at 1 January to the closing equity balance translated at the exchange rate as at 31 December

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

CASH FLOW STATEMENTS

For the Years Ended 31 December 2007 and 2006

Consolidated

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USD '000	Notes	2007	2006 restated
Loss before tax		(8,825)	(1,375)
Adjustments for non-cash operations:			
Depreciation and amortisation		75,300	75,924
Movement on provisions		23,114	5,726
(Profit)/loss on the sale of fixed assets		(3,924)	(13,988)
Interest expense (net)		19,119	12,085
Dividends received		(385)	(616)
Adjustments for other non-cash transactions		(39,969)	11,559
Operating cash flow before working capital changes		64,430	89,315
Change in receivables		10,049	(29,522)
Change in inventories		(160)	(5,681)
Change in payables		17,488	73,040
Cash generated by operations		91,807	127,152
Interest paid		(20,515)	(13,782)
Income tax paid		(17)	–
Dividends received		385	616
Net cash from operating activities		71,660	113,986
Purchase of property, plant and equipment		(48,077)	(133,243)
Purchase of intangible assets		(4,666)	(6,784)
Purchase of financial assets available-for-sale		–	308
Proceeds from disposals of property, plant and equipment		78,076	15,681
Change of restricted cash		–	712
Interest received		810	1,608
Loans to unconsolidated related parties		(788)	–
Net cash used in investing activities		25,355	(121,718)
Change of borrowings	31	(57,639)	31,749
Repayments of finance lease obligations		(57,890)	(32,050)
Net cash used in financing activities		(115,529)	(301)
Net decrease in cash and cash equivalents		(18,514)	(8,033)
Cash and cash equivalents at 1 January	18	46,035	54,068
Cash and cash equivalents at 31 December	18	27,521	46,035

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

NOTES TO THE FINANCIAL STATEMENTS

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For the Years Ended 31 December 2007 and 2006

Consolidated

1. GENERAL

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

The Company was established as a joint stock company from the former state-owned company Československé aerolinie s.p. on 1 August 1992.

The financial statements were approved by the Board of Directors and authorized for issue on 18 April 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU, which comprise standards and interpretations approved by the IASB, that are applicable for the activity of the Group and effective for the accounting periods beginning 1 January 2007 and 1 January 2006.

a) Standards and amendments effective in 2007

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

b) Standards not yet effective

At the date of approval of these financial statements there have been issued standards and interpretations which are not yet effective. Management of the Group assumes that the following standards and interpretations may have a potential impact on financial statements of future periods.

– IAS 23 Borrowing Costs. This standard requires capitalising borrowing costs incurred by a company in relation to construction of a qualifying asset. Management of the Group assumes that the qualifying assets of the Group in 2009 will consist of prepayments for future delivery of the aircraft and possibly certain items of land and buildings. Management of the Group does not have sufficient information at present to estimate the impact of this standard on the financial statements as at and for the year ended 31 December 2009.

– IFRIC 13 Customer Royalty Programmes. This interpretation requires allocating all considerations received from customers among all services provided to the customers in the future, including all benefits arising from customer royalty programmes. The Group runs the Frequent Flyer Programme that enables customers to collect points for purchased services; these points can be exchanged in the future for further services. In the financial statements as at and for the year ended 31 December 2007 based on current accounting policies of the Group, the revenue from rendering the services is recognised in full and a provision is recognised for expenses related to the future usage of earned points. Management of the Group is analysing the impact of interpretation IFRIC 13 on the future financial statements and it does not have sufficient information at present to estimate the impact of this interpretation on the financial statements as at and for the year ended 31 December 2008.

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

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

These financial statements are presented in US dollars (“USD”), which are considered by the Group’s management to be the appropriate presentation currency. The functional currency of the material subsidiaries of the Group is the Czech crown (“CZK”). The financial statements of the Group are translated from the functional to the presentation currency by translating balance sheet balances at the year-end exchange rate and income statement amounts at the average exchange rate for the period. The difference that arose from the translation of the balance sheet and income statement items at different foreign exchange rates is presented as a separate component of equity.

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

Year	2007	2006
Balance sheet	18.078	20.876
Income statement	20.308	22.609

The presented increase in certain balance sheet items, including equity items, between 2006 and 2007 is therefore influenced by the presentation currency exchange rates as at these dates and does not necessarily express an increase in the value of a particular item stated in the functional currency.

All amounts are presented in thousands of USD, unless stated otherwise.

Consolidation

Subsidiaries

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

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

The consolidated entities are České aerolinie a.s., Air Cargo Terminal a.s. and Air Czech Catering a.s.

Revenues and expenses

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

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

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

- revenues from the Group's own traffic documents; and
- revenues from other airline traffic documents used in the CSA airlines.

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

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

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

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

The Group records as deferred income amounts collected from the sale of traffic documents, which have not been realized at the balance sheet date, i.e. have not been flown on or used otherwise. Unused flight coupons are recorded, according to the principle of prudence and on an accrual basis, as income after the elapse of a certain period from the issuance of the traffic document based on the historical analysis and statistics.

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

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

Segment reporting

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

Foreign currencies

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

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

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

Borrowing costs

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

Retirement benefit costs

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

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

Taxation

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

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised or to the extent that the Group has sufficient taxable temporary differences. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Government grants

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

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

The grants are recognised in revenues in the period in which the eligible expenses are recognised on an accrual basis. The grants are subject to income tax.

Property, plant and equipment (tangible fixed assets)

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

Acquisition cost

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

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

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

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

Depreciation

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

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

Aircraft and rotables are depreciated to the expected residual value of 10% of cost. Other assets are expected to have a nil residual value.

At the date of acquisition the cost of an aircraft is split between its individual components (significant overhauls and the airframe), which are depreciated separately based on their expected useful lives. When the next overhaul is performed its cost is capitalised and depreciated over an expected period between two overhauls.

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

Retirement of assets

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

Intangible fixed assets

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

Acquisition cost

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

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

Amortisation

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

	Number of years
Software	2–3
Licences	Over the contract term
Patents	Over the useful life

Non-current assets held for sale

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

Impairment

At each balance sheet date, the Group reviews in accordance with principles of IAS 36 – Impairment of Assets the carrying amounts of its tangible and intangible fixed assets to determine whether there is any indication that those assets have suffered an impairment loss or whether there is an indication that an impairment loss recognised in prior periods will be reversed.

Financial leases

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

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

Operating leases

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

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

Inventories

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents are valued at nominal value at the balance sheet. Cash and cash equivalents for the purpose of cash flow reporting include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is not included within cash and cash equivalents for the purpose of cash flow reporting.

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

Financial assets

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

a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading – derivatives contracted for a short period (up to 1 month). The Group decides not apply hedge accounting for these derivatives although they are designed to cover business risk, because of high administrative demand and because there is no significant impact on the Group's financial statements.

Gains and losses arising from fair value changes of “financial assets at fair value through profit or loss” are recognised in the profit for the period and are presented as other financial expense, net.

b) Trade receivables

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

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

c) Financial assets available for sale

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

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

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

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

Bank borrowings

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

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

Trade payables

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

Derivative financial instruments

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

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

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

Hedge accounting is applied for all other derivatives.

Hedge Accounting

The Group prospectively designates certain derivatives as a hedge of a future cash flow attributable to a forecasted transaction or a firm commitment (cash flow hedge) or as a hedge of risk related to the change of fair value (fair value hedge).

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

- formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- the hedge is effective on an ongoing basis (that is, within a range of 80 percent to 125 percent); and
- the hedge item is not a security classified as held for trading.

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

Changes in the fair value of derivatives, which qualify as effective cash flow hedges, are recorded in the revaluation reserve in equity. Where a hedged forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in the revaluation reserve are transferred from the revaluation reserve and form a part of the cost of the asset or liability.

Otherwise, amounts deferred in the revaluation reserve are transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

In case of the fair value hedge, the impact of revaluation of the hedged item is recognised in the income statement in the same line where the impact of revaluation of the hedging item is recognised.

Provisions

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

- unused vacation;
- bonuses of management;
- benefits of the Frequent Flyer Programme (the amount of the provision includes incremental fuel, catering services costs and the cost of free travel provided by other partners; these costs do not include opportunity costs).

Use of estimates

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

The estimates used to determine the value in use of the cash generating unit that includes aircraft are significant estimates used to prepare these financial statements. These estimates depend on assumptions of future cash flows and on the determination of an appropriate discount rate to arrive at the present value of these cash flows.

Related parties

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

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

Related party transactions and balances do not have a material impact on the financial statements.

Subsequent events

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

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

Changes in accounting policies

Discontinued operation

Subsequent to the issuance of the Group's financial statements as at 31 December 2006 and for the year then ended, the Group's management determined that the presentation of revenues and expenses of Air Cargo Terminal a.s. and Air Czech Catering a.s. on the separate line "Profit from discontinued activities", as applied in the income statement for the years ended 31 December 2006 and 31 December 2005, is not appropriate because the above transaction does not fully meet the criteria set out in IFRS 5 and the respective amounts of revenues and expenses should not be presented separately. As a result, the comparative financial information for the year ended 31 December 2006 presented in the income statement, statement of cash flows and related disclosures has been restated (comparing to the amounts stated in the financial statements for the year ended 31 December 2006) by the following amounts:

Income statement	Note	USD '000
Revenues	3 Other services	32,477
Other operating income	4 Other operating income	2,050
Cost of material and services	5 Consumed materials and fuel	(17,538)
Staff costs	6 Wages and salaries	(9,148)
Depreciation	11	(2,759)
Other operating expenses	7 Other	(187)
Profit from operations		4,895
Interest expense, net	8 Interest expense	(405)
Loss before taxation		4,490

Security charges and fuel surcharges

As at 1 January 2007, the Group changed the accounting policy in terms of accounting for and presenting the security charges and fuel surcharges. Until the end of 2006 the Group recognised these items as revenue at the moment of sale of the related traffic document. Starting 1 January 2007 these items have been recognised as part of the related traffic documents and transferred to revenue when the traffic document is used. This change has been applied retrospectively in the financial statements and affected the following comparatives:

- retained profit as at 1 January 2006 was reduced by USD 4,382 thousand;
- revenue for 2006 was increased by USD 135 thousand, which has reduced the net loss of the year ended 31 December 2006;
- trade payables as at 31 December 2006 were increased by USD 5,016 thousand; and
- the above mentioned adjustments were reflected in the cash flow statement for the year ended 31 December 2006 as appropriate.

Cash flow

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

3. REVENUES

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

USD '000	2007	2006 restated
Regular transportation	774,603	647,180
Charter services	128,302	108,517
Fees related to transportation	134,356	126,732
Released differences on pro-rating traffic documents	41,492	55,710
Maintenance provision release	18,026	24,165
Other services	57,048	73,577
Sale of goods	34,302	27,995
	1,188,129	1,063,876

Other services include revenues from handling, technical and catering services. The sale of goods includes revenues from duty free and other product sales.

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

Geographical segments

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

USD '000	2007	2006
Czech Republic	183,130	118,627
Western Europe	317,209	286,316
Eastern Europe	155,672	125,148
Middle and Far East	20,275	26,213
USA and Canada	98,317	90,876
	774,603	647,180

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

4. OTHER OPERATING INCOME

USD '000	2007	2006 restated
Income from advertisement and barter deals	1,215	931
Profit from the sale of tangible fixed assets and material, net	1,745	9,159
Profit from the sale of a subsidiary Air Cargo Terminal a.s., net	2,179	–
Other operating income	8,700	8,275
	13,839	18,365

Other income includes income from re invoicing and settlement of damages.

During 2007 the Group sold five Boeing B737-500 aircraft for USD 47,668 thousand. This transaction resulted in a loss of USD 13,976 thousand which was recognised in 2006 at the moment of classification of these assets as assets held for sale.

During 2007 the Group sold an aircraft apron for USD 4,924 thousand, making a profit of USD 1,610 thousand.

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

During 2006 the Group sold Hangar C for USD 9,031 thousand. The carrying amount at the date of the sale was USD 733 thousand.

5. COST OF MATERIALS AND SERVICES

USD '000	2007	2006 restated
Landing, handling, navigation and other fees	248,268	219,888
Transport services	60,655	51,539
Consumed materials and fuel	269,467	280,153
Operating leases	90,546	87,608
Repairs and maintenance	49,136	40,152
Travel expenses	20,008	14,473
Energy	6,548	4,582
Other services	72,482	63,309
Cost of goods sold	21,884	17,011
	838,994	778,715

Operating leases mainly include the lease of aircraft (refer to the analysis of the Group's fleet in Note 11).

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

6. STAFF COSTS

USD '000	2007	2006 restated
Wages and salaries	176,851	146,353
Bonuses to statutory bodies	320	146
Statutory health insurance and social security *	57,153	46,473
Charge / (usage) of provisions for staff costs	6,432	1,571
OK agreement	–	2,431
Other social cost	6,686	6,170
	247,442	203,144

* Social security includes legal contribution to the state pension fund.

As part of the restructuring efforts the Group offered its employees a programme called OK agreement that included termination benefits over and above the statutory requirements paid when the work contract was terminated by the employee by September 1, 2006. This programme was accepted by 142 employees and the total staff costs amounted to USD 2,431 thousand, including health insurance of USD 109 thousand. This phase was completed in 2006 and there are no other liabilities arising from this programme to the Group.

Management remuneration

The Group's management wages and salaries (including social security and health insurance) totalled USD 6,947 thousand in 2007 (2006 – USD 6,244 thousand). Directors and executives of the Group use company cars. No loans, guarantees or other benefits were granted to directors or executives in 2007 or 2006.

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

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

Numbers	2007	2006
Operational	3,297	4,583
Administration	1,955	859
	5,252	5,442

7. OTHER OPERATING EXPENSES

USD '000	2007	2006 restated
Insurance	5,826	10,022
Write-off of receivables, provisioning	3,519	2,809
Fines and penalties	713	1,491
Other taxes and fees	1,779	164
Other	9,213	5,314
	21,050	19,800

Other includes the charges of the provision for the Frequent Flyer Programme and expenses to reimburse the passengers.

8. INTEREST EXPENSE, NET

USD '000	2007	2006 restated
Interest income	(809)	(1,608)
Interest expense	20,737	15,301
	19,928	13,693

9. OTHER FINANCIAL EXPENSE, NET

USD '000	2007	2006
Bank fees for transactions reimbursed by credit cards	6,057	5,404
Net profit from the sale of securities	–	(5,177)
Income from dividends	(385)	(275)
Derivatives	(2,367)	(270)
Other	2,245	1,887
	5,550	1,569

Other includes bank fees, fees for guarantees and similar payments. Details about the sale of securities are stated in Note 14.

Derivatives include short term derivative financial instruments classified as trading derivatives because the application of hedge accounting would not have a material impact on the financial statements of the Group.

In 2006 the Group sold France Telecom shares for USD 5,358 thousand. The profit of USD 5,177 thousand is recognised in the income statement as a part of other financial expense, net.

10. EARNINGS PER SHARE

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

	2007	2006
		restated
Net profit/ (loss) (USD '000)	9,659	(6,231)
Weighted average number of ordinary shares (pcs) (Note 19)	273,551	273,551
Earnings per share (USD)	35.31	(22.78)

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

11. PROPERTY, PLANT & EQUIPMENT

USD '000	Freehold land and buildings	Aircraft	Plant & equipment	Total
Cost or valuation:				
Balance as at 1 January 2007	58,039	1,037,212	166,963	1,262,214
Additions	2,389	231,578	15,527	249,494
Disposals	(286)	(25,650)	(5,709)	(31,645)
Effect of exchange rate change	8,938	156,563	24,958	190,459
Balance as at 31 December 2007	69,080	1,399,703	201,739	1,670,522
Accumulated depreciation:				
Balance as at 1 January 2007	13,932	531,634	89,970	635,536
Charge for the year	2,062	54,593	13,772	70,427
Sale and disposals	(330)	(29,620)	(6,593)	(36,543)
Effect of exchange rate change	2,410	73,317	16,481	92,208
Balance as at 31 December 2007	18,074	629,924	113,630	761,628
Carrying amount as at 31 December 2006	44,107	505,578	76,993	626,678
Carrying amount as at 31 December 2007	51,006	769,779	88,109	908,894

USD '000	Freehold land and buildings	Aircraft	Plant & equipment	Total
Cost or valuation:				
Balance as at 1 January 2006	82,481	901,725	138,797	1,123,003
Additions	4,090	160,890	32,702	197,682
Disposals	(2,187)	(9,186)	(5,543)	(16,916)
Effect of exchange rate change	14,278	158,704	23,693	196,675
Assets of disposal group (Note 13)	(40,623)	(174,921)	(22,686)	(238,230)
Balance as at 31 December 2006	58,039	1,037,212	166,963	1,262,214
Accumulated depreciation:				
Balance as at 1 January 2006	13,928	498,706	76,571	589,205
Charge for the year	2,274	59,932	12,861	75,067
Sale and disposals	(1,572)	(10,843)	(4,159)	(16,574)
Effect of exchange rate change	2,730	93,755	14,704	111,189
Assets of disposal group (Note 13)	(3,428)	(109,916)	(10,007)	(123,351)
Balance as at 31 December 2006	13,932	531,634	89,970	635,536
Carrying amount as at 31 December 2005	68,553	403,019	62,226	533,798
Carrying amount as at 31 December 2006	44,107	505,578	76,993	626,678

The carrying amount of aircraft under finance lease amounts to USD 642,982 thousand as at 31 December 2007 (2006 – USD 367,794 thousand). The carrying amount of other assets under finance lease is immaterial.

In periods prior to 1 January 2004 the Group recognised an impairment loss of USD 52,389 thousand related to aircraft. During 2007 this impairment loss was not increased or reversed.

Depreciation

USD '000	2007	2006 restated
Depreciation of property, plant and equipment	71,341	75,067
Amortisation of intangible assets (Note 12)	3,959	857
	75,300	75,924

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

Land and buildings include land totalling USD 2,365 thousand (2006 – USD 2,700 thousand). The Group had no significant down payment for new buildings in 2007 or 2006.

The value of fully depreciated assets still in use by the Group is not material.

No depreciation is provided in respect of certain plant and equipment and assets under construction with a total cost of USD 13,350 thousand (2006 – USD 16,727 thousand).

The carrying amount of Aircraft includes also advances paid for the future expected delivery of Airbus aircraft totalling USD 44,833 thousand (recalculated at the foreign exchange rate as at the balance sheet date), (2006 – USD 63,251 thousand). Included in this amount are also pre delivery payments of USD 6,149 thousand for 8 Airbus A319 aircraft for which the Group has a purchase option.

As at 31 December 2007 the Group has pledged fixed assets at a total cost of USD 972,265 thousand and accumulated depreciation of USD 350,807 thousand to secure bank loans (2006 – at cost USD 685,348 thousand, accumulated depreciation of USD 299,425 thousand).

Within the delivery of twelve Airbus A320/A319 aircraft the Group obtained during 2006 and 2007 certain fixed assets as part of the contract. The fair value of these assets proportionally decreases the cost of delivered aircraft.

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

Aircraft type	Number of aircraft in service at 31 December 2007				Average age (years)
	Owned aircraft	On balance	Off balance	Total	
		sheet (finance leases)	sheet (operating leases)		
Airbus A321-211	–	–	2	2	10.58
Airbus A320-200	–	6	2	8	2.65
Airbus A319-100	–	2	–	2	0.76
Airbus A310-300	2	–	2	4	15.95
Boeing 737-400*	–	–	3	3	16.63
Boeing 737-400	–	5	2	7	9.41
Boeing 737-500	–	5	6	11	13.19
ATR 72-200	4	–	–	4	15.79
ATR 42	1	–	7	8	4.88
Total	7	18	24	49	9.60

* Aircraft with increased seat capacity.

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

Aircraft overhaul costs

Aircraft and engine overhaul costs totalling USD 13,881 thousand (2006 – USD 9,081 thousand), were capitalised during 2007. The carrying amount of aircraft and engine overhaul costs, which forms part of the aircraft carrying amount presented in the balance sheet, was as follows:

USD '000	2007	2006
Cost	155,837	138,605
Accumulated depreciation	(79,820)	(77,098)
Carrying amount	76,017	61,507

12. INTANGIBLE ASSETS

12. INTANGIBLE ASSETS

USD '000	Software	Other intangibles	Total
Cost or valuation:			
Balance as at 1 January 2007	14,134	9,012	23,146
Additions	–	5,184	5,184
Transfers	12,563	(12,563)	–
Disposals	–	–	–
Effect of exchange rate change	2,188	1,395	3,583
Balance as at 31 December 2007	28,885	3,028	31,913
Accumulated amortisation:			
Balance as at 1 January 2007	9,759	–	9,759
Charge for the year	3,959	–	3,959
Disposals	–	–	–
Effect of exchange rate change	1,999	–	1,999
Balance as at 31 December 2007	15,717	–	15,717
Carrying amount as at 31 December 2006	4,375	9,012	13,387
Carrying amount as at 31 December 2007	13,168	3,028	16,196

USD '000	Software	Other intangibles	Total
Cost or valuation:			
Balance as at 1 January 2006	8,331	6,659	14,990
Additions	–	5,529	5,529
Transfers	4,361	(4,361)	–
Disposals	(33)	–	(33)
Effect of exchange rate change	1,475	1,185	2,660
Balance as at 31 December 2006	14,134	9,012	23,146
Accumulated amortisation:			
Balance as at 1 January 2006	7,530	–	7,530
Charge for the year	857	–	857
Disposals	(33)	–	(33)
Effect of exchange rate change	1,405	–	1,405
Balance as at 31 December 2006	9,759	–	9,759
Carrying amount as at 31 December 2005	801	6,659	7,460
Carrying amount as at 31 December 2006	4,375	9,012	13,387

Other intangibles as at 31 December 2007 include information technology projects in process (for example, data warehouse for reporting and analyses, system VPN, Project management and the Revenue Management system).

The value of fully amortised intangible assets that are used by the Group is immaterial.

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

13. ASSETS AND LIABILITIES HELD FOR SALE

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

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

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

On 21 December 2006, the Supervisory Board of the parent company approved the decision to sell and lease back five Boeing B737-500 aircraft. As the carrying amount of the Boeing B737-500 aircraft exceeded their fair value, the Group has recognised in the financial statements as at 31 December 2006 an additional depreciation expense in the amount of USD 13,596 thousand. The aircraft were sold in February 2007 for USD 47,668 thousand.

Carrying amounts as at 31 December 2007

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

Carrying amounts as at 31 December 2006

USD '000	Boeing B737-500	Air Czech Catering	Air Cargo Terminal	Total
Land and buildings	–	12,917	24,278	37,195
Other tangible fixed assets	65,005	3,624	9,055	77,684
Total assets held for sale	65,005	16,541	33,333	114,879
Bank loans due within one year	–	–	2,953	2,953
Long-term bank loans	–	–	6,028	6,028
Total liabilities held for sale	–	–	8,981	8,981

Other items of disposal groups are not material.

14. FINANCIAL ASSETS AVAILABLE FOR SALE

USD '000	Carrying value 2007	Carrying value 2006
Unconsolidated subsidiaries	269	231
Other available for sale financial investments at cost net of impairment	752	810
	1,021	1,041

In 2007 the Group increased the share capital of ČSA Airtours a.s. by monetary subscription of new shares by USD 498 thousand.

The Group recognised an allowance for the financial investment in ČSA Airtours a.s. in the amount of USD 553 thousand (2006 – USD 48 thousand).

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

In 2006, the Group obtained dividends from France Telecom of USD 273 thousand and from WALTER a.s. of USD 2 thousand. Dividends received from unconsolidated subsidiaries are included in the tables below.

Unconsolidated Subsidiaries

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

Name of subsidiary	Functional currency	Nominal value USD'000	Proportion of ownership interest %	Cost of investment USD'000	Profit (loss) USD'000	Equity USD'000	Income from dividends USD'000
As at 31 December 2006							
Foreign							
SLOVAK AIR SERVICES s.r.o.	SKK	6	100	6	50	354	–
Domestic							
AMADEUS MARKETING CSA, s.r.o.	CZK	18	65	18	570	982	310
CSA Services, s.r.o.	CZK	13	100	13	5	25	–
ČSA Airtours a.s.	CZK	48	100	48	(259)	(221)	–
ČSA Support s.r.o.	CZK	210	100	194	84	569	–
				279			310
Provision for investments in ČSA Airtours a.s.				(48)			
				231			

Related parties transactions performed during 2007 and 2006 were conducted at arms length and do not have a material impact on these financial statements. The balances of intragroup receivables and payables due to/from unconsolidated subsidiaries are immaterial as at the balance sheet date.

15. LONG TERM RECEIVABLES

USD '000	2007	2006
Operating lease prepayments	5,893	5,638
Deposits – branch offices abroad	1,064	1,225
Other deposits	991	624
	7,948	7,487

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

As at 31 December 2007 and 31 December 2006, the Group carried USD 792 thousand and USD 1,558 thousand respectively in receivables with the maturity over five years. These receivables relate only to the prepayments in terms of operating leases.

Management of the Group considers that the carrying amount of long term receivables approximates their fair value.

16. INVENTORIES

USD '000	2007	2006
Raw materials and spare parts	25,056	24,419
Work in progress	172	207
Goods for resale	4,291	4,531
	29,519	29,157

Raw materials are stated net of provisions of USD 3,748 thousand (2006 – USD 830 thousand).

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

The Group does not have any inventories to be used in more than 12 months, except for items for which provision has been charged. This provision is recognised to the slow moving inventory where there was no movement during the last five years in respect of aircraft material and three years in respect of other material.

Provision for inventories:

USD '000	2007	2006
Balance as at 1 January	830	613
Charge for provision	2,557	471
Use of provision	(74)	(311)
Exchange difference	435	57
Balance as at 31 December	3,748	830

17. TRADE AND OTHER RECEIVABLES

USD '000	2007	2006
Trade debtors	83,623	93,305
Prepayments	21,499	11,772
Receivables from employees	1,206	1,750
VAT receivables	2,408	2,217
Other receivables	17,970	17,844
	126,706	126,888

The average credit period taken on airline service sales is 30 days. Trade debtors are stated net of provisions for doubtful debts of USD 3,098 thousand (2006 – USD 4,719 thousand), which have been calculated based on the ageing of overdue receivables.

Management of the Group considers that the carrying amount of trade and other receivables approximates their fair value.

The receivables are stated net of intragroup balances.

Provision for receivables:

USD '000	2007	2006
Balance as at 1 January	4,719	2,347
Charge for provision	508	1,903
Use of provision	(2,602)	(99)
Exchange difference	473	568
Balance as at 31 December	3,098	4,719

18. CASH AND CASH EQUIVALENTS

USD '000	2007	2006
Cash, stamps and vouchers	1,692	1,158
Current accounts	13,465	11,609
Term deposits (less than three months)	12,364	33,268
Restricted cash	8	8
	27,529	46,043

Bank balances and cash comprise cash and short-term deposits held by the treasury function. The carrying amount of these assets approximates their fair value.

The restricted cash is held in blocked accounts as guarantees relating to rental contracts and various agreements for the supply of goods and services. The restricted cash generates interest income.

19. SHARE CAPITAL

	Number of shares authorised and in issue	Allotted, called up and fully paid	
		2007 USD '000	2006 USD '000
Ordinary shares of CZK 10,000 each	273,551	151,317	131,036

There were no movements in the share capital of the Group in either 2007 or 2006. The share capital amounts to CZK 2,735,510 thousand. The difference between the above stated balances in 2006 and 2007 is attributable to the use of a different exchange rate for the translation of the financial statements to the presentation currency.

The shareholdings and voting rights of the shareholders as at 31 December 2007 and 2006 were:

Shareholders	Number of shares 2007	Shareholding 2007 %	Number of shares 2006	Shareholding 2006 %
Ministry of Finance of the Czech Republic	155,698	56.92	155,698	56.92
Czech Consolidation Agency (Česká konsolidační agentura)	94,617	34.59	94,617	34.59
Other shareholders (less than 20%)	23,236	8.49	23,236	8.49
	273,551	100.00	273,551	100.00

20. OTHER COMPONENTS OF EQUITY

Retained losses including the profit or loss for the current period under the Accounting Act and other relevant legislation of the Czech Republic ("CAS") amounted to CZK 1,376,106 thousand (USD 76,120 thousand) in 2007, in 2006 – CZK 1,582,706 thousand (USD 75,815 thousand), and therefore there are no funds available for distribution to shareholders pursuant to the legal regulations effective in the Czech Republic.

Non-distributable reserves – statutory reserve fund is created in accordance with the Commercial Code through a mandatory allocation of profit under CAS. This fund can only be used to offset accumulated losses.

Revaluation reserve including deferred tax

USD '000	2007	2006
Interest rate swaps	–	(424)
Commodity derivatives – swaps	30,233	7,040
Foreign currency derivatives – forwards	(25,486)	(16,503)
Deferred tax liability	(9,963)	(3,495)
Foreign currency exposure hedge	45,240	24,429
Other	(6)	–
	40,018	11,047

The above described revaluation reserve includes revaluation related to securities and hedging derivative financial instruments (Note 22).

21. BANK OVERDRAFTS AND LOANS

Long-term interest-bearing loans

	Currency	Security	Maturity	2007 USD'000	2006 USD'000
Long-term loans	USD	Aircraft and simulator	2008–2010	6,446	12,216
Pre-delivery payments (PDP)	USD		2008	32,725	56,474
				39,171	68,690

The long-term loans are repayable as follows:

USD'000	2007	2006
On demand or within one year	36,554	52,723
Long-term loans due between 2–5 years	2,617	15,967
Long-term loans due after 5 years	–	–
	39,171	68,690
Less part of loan payable within one year (presented as short-term liability)	(36,554)	(52,723)
Long-term loans due after one year	2,617	15,967

The Group has one loan that bears fixed interest. Interest attached to other loans is variable on the basis of LIBOR or EURIBOR. The range of interest in 2007 was from 3.841 to 6.99 percent p.a. (from 3.406 to 6.99 percent p.a. in 2006).

The pre delivery payments (hereinafter “PDP”) for the delivery of new Airbuses are financed by a loan that is transferred to the finance lease liability at the inception of the lease. The maturity date of these loans is the date of aircraft delivery. In 2005, the Group paid these advances from its own sources, PDPs were re-financed by loan in January 2006 and the following advances are financed directly by the loan.

The assets pledged in respect of long-term bank loans are described in Note 11.

Short-term bank overdrafts and loans

Purpose	Currency	Balance 2007 Loan currencies '000	Balance 2007 USD'000	Balance 2006 Loan currencies '000	Balance 2006 USD'000
Operating loan	CZK	–	–	890,000	42,633
Operating loan	USD	–	–	6,600	6,600
			–		49,233
Short-term part of long term loans			36,554		52,723
Total short-term bank loans			36,554		101,956

The level of interest rates of short-term bank loans fluctuated between 2.88 and 5.85 percent p.a. in 2007 (from 2.335 to 5.81 percent p.a. in 2006).

Management of the Group considers that the carrying amount of interest bearing loans approximates their fair value.

22. DERIVATIVE FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

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

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

Derivative financial instruments As at 31 December 2006	Foreign currency	Commodity	Interest rate	Total
	derivatives	derivatives	swap	
	USD '000	USD '000	USD '000	USD '000
Short – term receivables	1	4,515	–	4,516
Long – term receivables	165	6,194	–	6,359
Short – term payables	13,404	3,475	104	16,983
Long – term payables	3,263	193	320	3,776

Foreign currency risk

The Group provides an international air transport around the world and it is exposed to foreign currency risk. These risks are generated by open FX positions especially in US dollars, Euro and UK pounds.

Foreign currency risk arises from the mismatch between future revenues and expenses denominated in different foreign currencies.

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

The total operating FX position in the 2007 was covered by forwards in the total amount of EUR 87,500 thousand, USD 120,000 thousand (2006 – EUR 95,000 thousand, USD 119,000 thousand).

Foreign currency risk associated with US dollars liabilities from leases is covered partly by future cash inflows in US dollars (part of the revenue is denominated in US dollars). The rest of the risk is covered by a cash flow hedge – through forward sales of future revenue in Euro. As the hedge is effective, the changes in the fair value of the lease liability are recorded in equity as a revaluation reserve. These values affect the income statement in the same period as the impacts arising from foreign currency denominated revenues hedging the relevant foreign currency risks. As the majority of the Group's revenues is denominated in EUR, the Group increases the EUR share of total lease liabilities and decreases the USD share of total lease liabilities.

The risk generated by a mismatch in the currency structure of income and costs is hedged by the Group through foreign currency forwards.

If the US dollar had weakened by 1% against the Euro (assuming other foreign exchange rates remain stable), the profit would have been higher by USD 253 thousand. This change would mainly result from a foreign exchange gain on the translation of Euro denominated receivables.

Foreign currency derivatives as at 31 December

Hedging instruments	Expiration	Fair value 2007		Fair value 2006	
		Positive	Negative	Positive	Negative
Foreign currency derivatives	Within one month	38	(716)	1	(342)
Foreign currency derivatives	From one to three months	585	(8,381)	–	(6,496)
Foreign currency derivatives	From three months to one year	–	(15,542)	–	(6,566)
Foreign currency derivatives	From one year to two years	–	(847)	165	(3,263)
		623	(25,486)	166	(16,667)

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

Commodity risk

The commodity risks associated with the fuel price fluctuations (where fuel expenditure represents approximately 24% of the total cost of materials and services) were partially hedged in 2007 and 2006 by means of a number of commodity swap contracts. These provide a maximum fuel price per tonne on fuel costs.

Commodity swaps based on Jet Fuel FOB Barges Rotterdam are covering fuel prices risk. Fuel costs in 2007 were covered by 70% in accordance with the approved Strategy. The Strategy for commodity risk management defines the level of hedging for 2008 and 2009 in the range of 30–70%. The expected fuel costs for 2008 are covered by hedging in 35%.

Commodity derivatives (Fuel hedge) as at 31 December

Hedging instruments	Expiration	Fair value 2007		Fair value 2006	
		Positive	Negative	Positive	Negative
Commodity derivatives	Within one month	–	–	–	(226)
Commodity derivatives	From one to three months	5,380	–	378	(2,161)
Commodity derivatives	From three months to one year	24,853	–	4,137	(1,088)
Commodity derivatives	From one year to two years	–	–	6,194	(193)
		30,233	–	10,709	(3,668)

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

Interest-rate risk

The Group uses variable interest rates sources within the operating financing programme.

Within the fleet financing programme the Group diversifies the risk of the interest expense growth and it transfers part of the interest expense resulted from the lease contracts, bound to a floating interest rate, to the fixed interest rate using the interest-rate swaps. Interest-rate swaps are only concluded with partners of first class creditworthiness.

Hedging instruments	Expiration	Fair value	Fair value
		2007	2006
		USD '000	USD '000
Interest rate swaps	From three months to one year	–	(104)
Interest rate swaps	More than five years	1,020	(320)
		1,020	(424)

Credit risk

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

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

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

Liquidity risk

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

The liquid funds in a broader sense total approximately USD 27,521 thousand (2006 – USD 46,035 thousand), comprising cash and cash equivalents, without restricted cash (Note 18). Furthermore, open credit facilities exceeds amount of USD 107,866 thousand at the balance sheet date (2006 – USD 57,756 thousand). The Group's operational finance lease obligations are repayable in agreed monthly instalments and are funded by operational receipts that are influenced by seasonal fluctuations.

Forecasted liquidity

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

As at 31 December 2007	Within 1 year USD '000	1 to 2 years USD '000	2 to 5 years USD '000	More than 5 years USD '000	Total USD '000
Assets					
Derivative financial instruments	30,856	–	–	1,020	31,876
Receivables (net)	126,706	515	6,641	792	134,654
Liabilities					
Bank loans	36,554	1,917	700	–	39,171
Finance lease liabilities	59,759	59,526	130,093	157,797	407,175
Derivative financial instruments	24,639	847	–	–	25,486
Trade and other payables	188,996	–	–	–	188,996
As at 31 December 2006					
	Within 1 year USD '000	1 to 2 years USD '000	2 to 5 years USD '000	More than 5 years USD '000	Total USD '000
Assets					
Derivative financial instruments	4,516	6,359	–	–	10,875
Receivables (net)	126,888	130	5,799	1,558	134,375
Liabilities					
Bank loans	101,956	13,350	2,617	–	117,923
Finance lease liabilities	36,571	38,435	87,708	63,573	226,287
Derivative financial instruments	16,983	3,456	–	320	20,759
Trade and other payables	179,863	–	–	–	179,863

23. INCOME TAX

The current tax in 2007 and 2006 amounts to zero as the Group utilises the tax losses and investments reliefs carried forward from previous periods.

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

USD '000	2007	2006
Income statement:		
Current tax income/ (expense)	(1,264)	(33)
Deferred tax income/ (expense) – change in temporary differences	8,324	(4,823)
Deferred tax income/ (expense) – change in a tax rate	11,424	–
	18,484	(4,856)
Statement of changes in equity:		
Change in deferred tax liability (asset)	(6,468)	(2,140)

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

	2007		2006 restated	
	USD '000	%	USD '000	%
Profit/ (loss) before tax	(8,825)		(1,375)	
Income tax charge at the statutory rate – income/ (expense)	2,118	24.0	330	24.0
Permanent differences	1,957	22.2	(5,186)	377.2
Change in a tax rate	11,424	129.5	–	–
Tax loss	2,985	33.8	–	–
Income tax income (charge)	18,484	209.5	(4,856)	353.2

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

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

USD '000	2007	2006
Deferred tax liabilities and assets:		
Difference between the tax base and carrying amount of fixed assets	37,344	45,515
Allowances for receivables and inventories	(213)	(470)
Revaluation of financial assets/liabilities to fair value	1,006	(2,373)
Revaluation of hedging derivatives	8,957	5,867
Tax losses	(2,985)	–
Provisions	(3,242)	(1,689)
Tax provisions for repairs of property, plant and equipment	8,511	9,988
Net deferred tax liabilities	49,378	56,838

Analysis of a change in deferred tax liability:

USD '000	2007	2006
Balance as at 1 January	56,838	43,554
Recognised in the income statement	(19,748)	4,823
Recognised in equity	6,468	2,140
Exchange difference	5,820	6,321
Balance as at 31 December	49,378	56,838

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

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

USD '000	2007	2006
Change in temporary differences:		
Difference between the tax base and carrying amount of fixed assets	(3,796)	1,320
Allowances for receivables and inventories	193	(112)
Tax losses	(2,657)	6,650
Provisions	(1,512)	(806)
Tax provisions for repairs of property, plant and equipment	(552)	(2,229)
	(8,324)	4,823
Change in a tax rate	(11,424)	–
	(19,748)	4,823

24. FINANCE LEASE OBLIGATIONS

Aircraft USD '000	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
Amount payable:				
Within one year	77,387	46,308	59,759	36,571
Within two to five years	233,503	146,711	189,553	125,820
Due in more than five years	176,347	69,920	157,797	63,573
	487,237	262,939	407,109	225,964
Less: future interest payments	(80,128)	(36,975)	–	–
Present value of lease obligations	407,109	225,964	407,109	225,964
Less: amounts due within one year (shown under current liabilities)			(59,759)	(36,571)
Amounts due after one year			347,350	189,393
Other finance lease liability			66	323
			347,416	189,716

The Group leases a significant part of its aircraft fleet under finance leases. The lease term is 12 years. For the year ended 31 December 2007, the average effective borrowing rate varied from 3.841 to 5.763 percent p.a. (2006 – 3.2 to 5.2 percent p.a.). Interest rates attached to the leases are variable on the basis of LIBOR. The floating interest rate is usually revised on a quarterly basis.

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

The fair value of the Group's lease obligations approximates their carrying amount.

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

The carrying amount of leased assets is USD 642,982 thousand (2006 – USD 368,541 thousand).

25. TRADE AND OTHER PAYABLES

USD '000	2007	2006 restated
Trade creditors and accruals	151,198	143,762
Advances received	626	303
Payables to employees	11,473	8,901
Payables to public authorities	11,059	8,408
Other payables	14,640	18,489
	188,996	179,863

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. Management of the Group considers that the carrying amount of trade and other payables approximates their fair value.

Trade payables are stated net of intragroup balances.

26. PREPAID TRAFFIC DOCUMENTS

Prepaid traffic documents of USD 76,752 thousand (2006 – USD 78,702 thousand) represent the value of traffic documents purchased by customers and not used at the balance sheet date.

27. PROVISIONS

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

USD '000	1 January 2006	Charge for provisions	Use of provisions	Foreign exchange difference	31 December 2006
Frequent Flyer Programme	1,263	695	(281)	259	1,936
Provisions for unused vacation days and bonuses	2,887	4,711	(3,139)	642	5,101
	4,150	5,406	(3,420)	901	7,037

28. CONTINGENT LIABILITIES

Contingent liabilities arise to the Group from the activities disclosed in Notes 24 and 30 and from the Group's impact on the environment.

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

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

The Group is the defendant in a several legal disputes, management of the Group believes that the outcome of these suits will not have a material effect. The Group further solves some of its receivables within bankruptcy by the legal proceedings.

There are guarantees drawn in favour of the Group especially to secure cash received from sales of traffic documents by agencies and to secure future repairs connected with delivered construction contracts.

The Group further issued bank guarantees to secure customs liabilities.

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

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

Management of the Group is not aware of any other significant unrecorded contingent liabilities as at 31 December 2007 and 2006.

29. CAPITAL COMMITMENTS

The Group will purchase four Airbus A319 aircraft under finance leases during 2008, in the official list price of USD 247,211 thousand. Three of these aircraft have been delivered by the date of the approval of these financial statements. The purchase is financed through a finance lease. The Group will further purchase eight Airbus A319 aircraft in 2011–2012, in total official list price of USD 576,630 thousand as at the delivery date. The Group has no other undisclosed significant contractual capital expenditure commitments.

30. OPERATING LEASE ARRANGEMENTS

The Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

USD '000	2007	2006
Within one year	45,741	52,134
In the second to fifth year	110,650	103,379
After five years	2,800	10,069
	159,191	165,582

Operating lease payments represent rentals payable by the Group for certain aircraft in the Group's fleet.

Leases are negotiated for an average term of five years.

31. CASH FLOW STATEMENT

The change in bank borrowings is represented by:

USD '000	2007	2006
Change of short term loans	(50,610)	(17,880)
Repayment of long term loans	(8,196)	(10,383)
Refinancing of PDP	–	52,144
Exchange difference	1,167	7,868
	(57,639)	31,749

32. RETIREMENT BENEFIT PLANS

Pension and other post-retirement benefits

In the Czech Republic there is a state pension system in addition to supplementary private pension schemes. Generally, there are no pension schemes operated by employers and the Group does not have any obligation to its employees following their retirement.

The Group is only obliged to contribute to the government health, pension and unemployment schemes during the term of employment. The Group has no obligation to contribute to these schemes beyond the statutory rates in force. The contributions to these schemes are made on a pay-as-you-go basis and are recorded in the profit and loss as a period expense.

As a result, the Group is not exposed to any post-retirement obligations in respect of its employees and consequently, no pension liability accrual has been recognised in the accounts.

33. LONG TERM CONTRACTUAL RELATIONSHIPS

Sky Team alliance

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

34. SUBSEQUENT EVENTS

Supervisory Board

Hana Pešková and Jaroslav Lorenc, members of the Supervisory Board of the Company resigned at the date of the preparation of the financial statements. Jaroslav Lorenc (re-election) and Radomil Kratochvíl have been appointed members of the Supervisory Board.

Other events

On 20 December 2007, the Board of Directors and the Supervisory Board approved the sale of the subsidiary Air Czech Catering a.s. The decision was approved by the General Meeting of Shareholders on 23 January 2008. The sale took place on 2 April 2008.

Three new Airbus A319 aircraft acquired under a finance lease were delivered in February, March and April 2008.

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2007

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

Components of the Financial Statements:

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

These financial statements were prepared on 31 March 2008.

Statutory body of the reporting entity:

Signature:

Radomír Lašák
Chairman of the Board of Directors



Luboš Černý
Member of the Board of Directors



FINANCIAL STATEMENTS

BALANCE SHEET IN FULL VERSION AS OF 31. 12. 2007

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CZK '000		31. 12. 2007			31. 12. 2006
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	13,674,269	3,512,622	10,161,647	11,679,439
B.	Fixed assets	9,387,930	3,388,861	5,999,069	7,002,571
B.I.	Intangible fixed assets	576,919	284,123	292,796	279,472
B.I.3.	Software	522,186	284,123	238,063	91,347
B.I.7.	Intangible fixed assets under construction	54,733		54,733	188,125
B.II.	Tangible fixed assets	8,461,992	3,093,131	5,368,861	6,701,376
B.II.1.	Land	42,761		42,761	56,372
B.II.2.	Structures	1,164,667	345,414	819,253	1,610,152
B.II.3.	Individual movable assets and sets of movable assets	4,626,666	2,706,498	1,920,168	1,985,332
B.II.6.	Other tangible fixed assets	45,705	18,300	27,405	28,069
B.II.7.	Tangible fixed assets under construction	568,636	22,919	545,717	531,548
B.II.8.	Prepayments for tangible fixed assets	2,013,557		2,013,557	2,489,903
B.III.	Non-current financial assets	349,019	11,607	337,412	21,723
B.III.1.	Equity investments in subsidiaries	333,820	10,000	323,820	4,865
B.III.3.	Other securities and investments	9,817	1,607	8,210	10,292
B.III.5.	Other non-current financial assets	5,382		5,382	6,566
C.	Current assets	3,705,249	123,761	3,581,488	4,372,262
C.I.	Inventories	601,410	67,757	533,653	608,663
C.I.1.	Material	520,086	67,757	452,329	505,197
C.I.2.	Work in progress and semifinished goods	3,106		3,106	4,323
C.I.5.	Goods	77,577		77,577	94,599
C.I.6.	Prepayments for inventory	641		641	4,544
C.II.	Long-term receivables	239,718		239,718	291,394
C.II.2.	Receivables – controlling entity	2,355		2,355	2,355
C.II.5.	Long-term prepayments made	141,323		141,323	156,289
C.II.7.	Other receivables	18,440		18,440	132,750
C.II.8.	Deferred tax asset	77,600		77,600	
C.III.	Short-term receivables	2,366,443	56,004	2,310,439	2,511,018
C.III.1.	Trade receivables	1,492,523	56,004	1,436,519	1,879,344
C.III.2.	Receivables – controlling entity	16,000		16,000	
C.III.6.	State – tax receivables	43,537		43,537	46,211
C.III.7.	Short-term prepayments made	120,733		120,733	222,536
C.III.8.	Estimated receivables	101,089		101,089	231,204
C.III.9.	Other receivables	592,561		592,561	131,723
C.IV.	Current financial assets	497,678		497,678	961,187
C.IV.1.	Cash on hand	30,590		30,590	24,172
C.IV.2.	Cash at bank	467,088		467,088	937,015
D.I.	Other assets	581,090		581,090	304,606
D.I.1.	Deferred expenses	431,799		431,799	233,254
D.I.3.	Accrued income	149,291		149,291	71,352

CZK '000		31. 12. 2007	31. 12. 2006
TOTAL LIABILITIES & EQUITY		10,161,647	11,679,439
A.	Equity	1,238,093	938,646
A.I.	Share capital	2,735,510	2,735,510
A.I.1.	Share capital	2,735,510	2,735,510
A.II.	Capital funds	(188,409)	(281,256)
A.II.2.	Other capital funds	(99)	(99)
A.II.3.	Gains or losses from the revaluation of assets and liabilities	(188,310)	(281,157)
A.III.	Statutory funds	67,098	67,098
A.III.1.	Statutory reserve fund/Indivisible fund	67,098	67,098
A.IV.	Retained earnings	(1,582,706)	(1,185,755)
A.IV.2.	Accumulated losses brought forward	(1,582,706)	(1,185,755)
A.V.	Profit or loss for the current period (+ -)	206,600	(396,951)
B.	Liabilities	6,664,165	8,557,527
B.I.	Provisions	2,263,095	2,080,616
B.I.1.	Provisions under special legislation	809,771	845,628
B.I.4.	Other provisions	1,453,324	1,234,988
B.II.	Long-term liabilities	15,605	92,752
B.II.5.	Long-term prepayments received	266	959
B.II.9.	Other payables	15,339	78,854
B.II.10.	Deferred tax liability		12,939
B.III.	Short-term liabilities	3,677,336	3,734,929
B.III.1.	Trade payables	1,247,433	1,340,287
B.III.2.	Payables – controlling entity	70,000	
B.III.5.	Payables to employees	207,416	185,810
B.III.6.	Social security and health insurance payables	137,370	122,142
B.III.7.	State – tax payables and subsidies	62,548	53,394
B.III.8.	Short-term prepayments received	11,317	6,263
B.III.10.	Estimated payables	1,450,664	1,607,916
B.III.11.	Other payables	490,588	419,117
B.IV.	Bank loans and borrowings	708,129	2,649,230
B.IV.1.	Long-term bank loans	47,306	459,140
B.IV.2.	Short-term bank loans	660,823	2,190,090
C.I.	Other liabilities	2,259,389	2,183,266
C.I.1.	Accrued expenses	215,328	245,578
C.I.2.	Deferred income	2,044,061	1,937,688

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD YEAR ENDED 31. 12. 2007

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CZK '000		Year ended 31. 12. 2007	Year ended 31. 12. 2006
I.	Sales of goods	632,124	632,953
A.	Costs of goods sold	384,892	384,601
+	Gross margin	247,232	248,352
II.	Production	23,399,853	23,375,950
II.1.	Sales of own products and services	23,379,450	23,360,048
II.2.	Change in internally produced inventory	(1,217)	837
II.3.	Own work capitalized	21,620	15,065
B.	Purchased consumables and services	18,273,562	18,235,990
B.1.	Consumed material and energy	5,433,775	6,438,154
B.2.	Services	12,839,787	11,797,836
+	Added value	5,373,523	5,388,312
C.	Staff costs	4,784,987	4,520,265
C.1.	Payroll costs	3,223,310	3,020,472
C.2.	Remuneration to members of statutory bodies	5,485	3,295
C.3.	Social security and health insurance costs	1,133,239	1,053,176
C.4.	Social costs	133,603	139,507
5.	Staff costs abroad	289,350	303,815
D.	Taxes and charges	37,024	4,953
E.	Depreciation of intangible and tangible fixed assets	486,714	502,150
III.	Sales of fixed assets and material	1,003,342	248,350
III.1.	Sales of fixed assets	981,115	232,475
III.2.	Sales of material	22,227	15,875
F.	Net book value of fixed assets and material sold	383,364	38,680
F.1.	Net book value of sold fixed assets	362,468	23,304
F.2.	Book value of sold material	20,896	15,376
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	85,850	523,459
IV.	Other operating income	240,890	180,539
H.	Other operating expenses	380,525	433,052
*	Operating profit or loss	459,291	(205,358)

CZK '000		Year ended 31. 12. 2007	Year ended 31. 12. 2006
VI.	Proceeds from the sale of securities and investments	603,000	119,825
J.	Cost of securities and investments sold	526,059	2,774
VII.	Income from non-current financial assets	7,817	13,244
VII.1.	Income from subsidiaries and associates	7,817	7,020
VII.2.	Income from other non-current securities and investments		6,224
L.	Costs of the revaluation of securities and derivatives		1,422
X.	Interest income	15,505	36,357
N.	Interest expenses	70,759	130,731
XI.	Other financial income	699,552	816,854
O.	Other financial expenses	1,077,172	1,042,199
*	Financial profit or loss	(348,116)	(190,846)
Q.	Income tax on ordinary activities	(95,425)	747
Q.1.	– due	350	747
Q.2.	– deferred	(95,775)	
**	Profit or loss from ordinary activities	206,600	(396,951)
***	Profit or loss for the current period (+/-)	206,600	(396,951)
****	Profit or loss before tax	111,175	(396,204)

STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31. 12. 2007

CZK '000	Share capital	Capital funds	Statutory funds	Valuation gains or losses	Accumulated losses brought forward	Profit or loss for the current period	Total equity
Balance at 31. 12. 2005	2,735,510	(99)	67,098	105,741	(689,698)	(496,057)	1,722,495
Distribution of profit or loss					(496,057)	496,057	
Change in the valuation of securities and derivatives				(386,898)			(386,898)
Profit or loss for the current period						(396,951)	(396,951)
Balance at 31. 12. 2006	2,735,510	(99)	67,098	(281,157)	(1,185,755)	(396,951)	938,646
Distribution of profit or loss					(396,951)	396,951	
Change in the valuation of securities and derivatives				92,847			92,847
Profit or loss for the current period						206,600	206,600
Balance at 31. 12. 2007	2,735,510	(99)	67,098	(188,310)	(1,582,706)	206,600	1,238,093

CASH FLOW STATEMENT

YEAR ENDED 31. 12. 2007

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CZK '000		Year ended 31. 12. 2007	Year ended 31. 12. 2006
P.	Opening balance of cash and cash equivalents	961,020	1,329,417
	Cash flows from ordinary activities		
Z.	Profit or loss from ordinary activities before tax	111,175	(396,204)
A.1.	Adjustments for non-cash transactions	(904,745)	(437,766)
A.1.1.	Depreciation of fixed assets	486,714	502,150
A.1.2.	Change in provisions and reserves	85,850	523,459
A.1.3.	Profit/(loss) on the sale of fixed assets	(695,588)	(326,222)
A.1.4.	Revenues from dividends and profit shares	(7,817)	(13,244)
A.1.5.	Interest expense and interest income	55,254	94,374
A.1.6.	Settlement of transportation documents disposed of	(842,675)	(1,259,539)
A.1.7.	Adjustments for other non-cash transactions	13,517	41,256
A.*	Net operating cash flow before changes in working capital	(793,570)	(833,970)
A.2.	Change in working capital	578,478	385,200
A.2.1.	Change in operating receivables and other assets	171,382	(136,552)
A.2.2.	Change in operating payables and other liabilities	392,488	533,311
A.2.3.	Change in inventories	14,586	(29,089)
A.2.4.	Change in current financial assets	22	17,530
A.**	Net cash flow from operations before tax and extraordinary items	(215,092)	(448,770)
A.3.	Interest paid	(83,114)	(133,276)
A.4.	Interest received	15,505	36,357
A.5.	Income tax paid from ordinary operations	(350)	(747)
A.7.	Received dividends and profit shares	7,817	13,244
A.***	Net operating cash flows	(275,234)	(533,192)
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	(68,516)	(512,641)
B.2.	Proceeds from fixed assets sold	1,584,115	352,300
B.3.	Loans provided to related parties	(16,000)	
B.***	Net investment cash flows	1,499,599	(160,341)
	Cash flow from financial activities		
C.1.	Change in payables from financing	(1,687,852)	325,136
C.***	Net financial cash flows	(1,687,852)	325,136
F.	Net increase or decrease in cash and cash equivalents	(463,487)	(368,397)
R.	Closing balance of cash and cash equivalents	497,533	961,020

NOTES TO THE FINANCIAL STATEMENTS

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Year ended 31 December 2007

1. GENERAL INFORMATION

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

The Company's principal business activities are as follows:

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

The share capital of the Company is CZK 2,735,510 thousand. The financial statements of the Company have been prepared as at and for the year ended 31 December 2007.

The members of the Board of Directors as at 31 December 2007 were as follows:

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

The members of the Supervisory Board as at 31 December 2007 were as follows:

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

Changes made in the Commercial Register ("CR") during the year ended 31 December 2007 related to personnel changes in the Board of Directors and the Supervisory Board were as follows:

Board of Directors	Position	Office taken on	Resignation	Recorded in the CR
Jiří Devát	Vice-Chairman	16 January 2007		2 February 2007
Supervisory Board				
Daniela Kovalčíková	Member	27 June 2007		10 July 2007
Jan Bürgermeister	Member	23 April 2007		5 June 2007
Jan Bürgermeister	Member		27 June 2007	10 July 2007
Jan Bürgermeister	Member	27 June 2007		10 July 2007
Jiří Pos	Member		5 February 2007	21 March 2007
Dušan Horák	2nd Vice-Chairman		11 December 2007	2 January 2008
Dušan Horák	2nd Vice-Chairman, Member	12 December 2007		2 January 2008
Pavel Bém	Member		10 April 2007	7 May 2007
Kateřina Malechová	Member	10 April 2007		7 May 2007
Kateřina Malechová	Member		27 June 2007	10 July 2007
Tomáš Páv	1st Vice-Chairman, Member		10 April 2007	7 May 2007
Ivan Foltýn	Member	10 April 2007		7 May 2007
Tomáš Uvíra	1st Vice-Chairman	10 April 2007		24 May 2007
Elemír Václavík	Member		20 February 2007	25 April 2007
Pavel Hladík	Member	9 February 2007		25 April 2007
Pavel Hladík	Member		11 December 2007	2 January 2008
Tomáš Brabec	Member	12 December 2007		2 January 2008
Rudolf Vyčichla	Member		10 April 2007	7 May 2007
Pavel Škvára	Member	10 April 2007		7 May 2007
Miroslav Ševčík	Chairman, Member		10 April 2007	7 May 2007
Ivan Kočárník	Chairman	10 April 2007		24 May 2007
Zdeněk Čáp	Member		24 January 2007	21 March 2007

The Company is organised as follows as at 31 December 2007:

President	
Organisational units reporting to the President:	Divisions:
President's Office	Sales Division
Internal Audit and Control	Marketing and Product Development Division
Quality Management	Financial Division
Legal Affairs	Human Resources Division
Flights Safety	Technical Division
Communications	Ground Operations Division
Security Section	Flight Operations Division
Management of Supply Services Section	Information Technology Division

The Company has organisational units abroad.

2. ACCOUNTING PRINCIPLES AND POLICIES

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

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

These financial statements are presented in thousands of Czech crowns ("CZK"), unless stated otherwise. The Company, in accordance with the Accounting Act 563/1991 Coll., also prepares consolidated financial statements under International Accounting Standards according to the law of the European Communities.

a) Tangible Fixed Assets

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

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

Acquisition Cost

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

Tangible fixed assets developed internally are valued at direct costs, which include direct material and payroll costs, incidental costs directly attributable to the internal production of assets (production overheads), or alternatively incidental costs of an administrative character if the production period of the assets exceeds one accounting period.

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

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

Depreciation

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

	Number of years
Buildings	30–50
Computer equipment with an acquisition cost above CZK 40 thousand	4
Computer equipment with an acquisition cost between CZK 5 thousand to CZK 40 thousand	3
Radio and communication equipment and systems	4
Vehicles – other than aircraft	4
Vehicles – newly purchased aircraft	
Airbus 320/319/310/300, Boeing 737	20
ATR	18
Rotables	20
Technical improvements of assets held under operating leases	over the term of the operating lease
Furniture and fixtures	8 or 15
Other tangible fixed assets with an acquisition cost between CZK 5 thousand to CZK 40 thousand	2

Rotables are depreciated to the expected residual value of 10% of cost. Other assets are expected to have a nil residual value.

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

Retirement of Assets

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

Provisioning

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

b) Intangible Fixed Assets

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

Intangible assets with an acquisition cost of less than CZK 5 thousand on an individual basis are expensed in the period of acquisition. Amortisation of intangible assets with an acquisition cost exceeding CZK 5 thousand on an individual basis is set out below.

Acquisition Cost

Software generated internally for internal purposes is not capitalised.

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

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

Amortisation

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

	Number of years
Software	2–3
Licences	Over the contract term
Patents	Over the useful life

Provisioning

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

c) Non-current Financial Assets

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

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

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

At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as “Equity investment in subsidiaries”. Securities and equity investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, are classified as available for sale. These securities and investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or if the investments can be sold to raise operating capital. Management determines the appropriate classification of securities and investments at the time of purchase and the classification is reviewed on a regular basis.

Valuation

At the balance sheet date, the Company records:

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

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

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

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

d) Current Financial Assets

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

e) Derivative Financial Instruments

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

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

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

Trading derivatives

Changes in the fair value of derivatives held for trading are included in the net profit or loss from financial transactions.

Hedging derivatives

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

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

- formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- the hedge is effective on an ongoing basis (that is, within a range of 80% to 125%); and
- the hedge item is not a security classified as held for trading.

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

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the revaluation reserve in equity. Where a hedged forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in the revaluation reserve are transferred from the revaluation reserve and form a part of the cost of the asset or liability.

Otherwise, amounts deferred in the revaluation reserve are transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

f) Inventory

Purchased inventory is carried at acquisition costs net of provisioning.

Acquisition cost includes all direct and indirect overheads incurred to bring inventory to its present stage and location – such as customs fees, freight costs and commissions.

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

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

Provisioning

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

These inventories are primarily reviewed for their potential future utilisability.

g) Receivables

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

Provisioning

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

h) Trade Payables

Trade payables are stated at their nominal value.

i) Loans

Loans are stated at their nominal value.

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

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

j) Provisions

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

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

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

Frequent Flyer Programme

Members of the Frequent Flyer Programme can exchange earned points for free air tickets. The Company recognises provisions for these future costs of covering such gained free air tickets. The provisions include incremental fuel, catering servicing costs and the cost of free travel provided by other partners. These costs do not include opportunity costs.

k) Foreign Currency Translation

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

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

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

l) Finance Leases

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

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

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

Advances made for future lease instalments before the finance lease initiation are recorded as prepayments made for tangible fixed assets. Following the expiration of the finance lease, the prepayments made in respect of the leased asset are capitalised. If the prepayments are re-financed, they are included in the lease instalments.

m) Taxation

Depreciation of Fixed Assets for Tax Purposes

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

Current Tax Payable

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

Deferred Taxation

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

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

The balance sheet liability method focuses on temporary differences, which are differences between the tax base of an asset and/or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

n) Retirement Benefit Costs

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

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

o) Government Grants

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

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

The grants are recognised in revenues in the period in which the eligible expenses are recognised on an accrual basis. The grants are subject to income tax.

p) Borrowing Costs

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

q) Revenue and Expense Recognition

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

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

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

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

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

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

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

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

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

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

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

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

r) Estimates

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

s) Extraordinary Expenses and Income

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

t) Related Parties

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

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

Related party transactions and balances are disclosed in Note 24.

u) Subsequent Events

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

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

3. INTANGIBLE FIXED ASSETS

Cost

CZK 'ooo	1 January 2007	Additions/transfers	Disposals/transfers	31 December 2007
Software	295,070	227,116	–	522,186
Intangible assets under development	188,125	93,724	(227,116)	54,733
	483,195	320,840	(227,116)	576,919

Accumulated Amortisation

CZK 'ooo	1 January 2007	Charge for the year	Disposals	31 December 2007
Software	(203,723)	(80,400)	–	(284,123)
Net book value	279,472			292,796

Cost

CZK 'ooo	1 January 2006	Additions/transfers	Disposals/transfers	31 December 2006
Software	204,851	91,032	(813)	295,070
Intangible assets under development	163,725	115,432	(91,032)	188,125
	368,576	206,464	(91,845)	483,195

Accumulated Amortisation

CZK 'ooo	1 January 2006	Charge for the year	Disposals	31 December 2006
Software	(185,155)	(19,381)	813	(203,723)
Net book value	183,421			279,472

The Company did not acquire any intangible fixed assets without consideration in either 2007 or 2006.

Intangible assets under development at 31 December 2007 represent information technology projects in process (for example data warehouse for reporting and analyses, the VPN system, the Project Management, the Revenue Management system).

The Company anticipates that all projects will be capitalised. The Company believes that the carrying amount of assets corresponds to the fair value.

The landing and take-off slots are also a significant part of the intangible fixed assets. These slots are not recognised as the Company acquired them for no consideration and their fair value is not readily obtainable.

4. TANGIBLE FIXED ASSETS

Cost

CZK '000	1 January 2007	Additions/transfers	Disposals/transfers	31 December 2007
Land	56,372	–	(13,611)	42,761
Buildings, halls and structures	1,972,558	31,695	(839,586)	1,164,667
Machinery and equipment	2,548,802	580,390	(385,150)	2,744,042
Aircraft	1,276,738	236,625	(520,513)	992,850
Vehicles	669,939	52,088	(179,700)	542,327
Furniture and fixtures	336,282	42,908	(31,743)	347,447
Other tangible fixed assets	41,142	14,345	(9,782)	45,705
Tangible assets under construction	691,966	834,721	(958,051)	568,636
Advances paid for fixed assets	2,489,903	594,016	(1,070,362)	2,013,557
	10,083,702	2,386,788	(4,008,498)	8,461,992

Accumulated Depreciation

CZK '000	1 January 2007	Charge for the year	Liquidation, sales, damages	Disposals	31 December 2007
Buildings, halls and structures	(362,406)	(41,861)	(762,058)	839,586	(326,739)
Machinery and equipment	(1,301,413)	(189,644)	(214,815)	383,954	(1,321,918)
Aircraft	(777,999)	(78,244)	(352,904)	520,513	(688,634)
Vehicles	(457,354)	(44,373)	(50,731)	182,558	(369,900)
Furniture and fixtures	(291,126)	(37,183)	(12,729)	31,757	(309,281)
Other tangible fixed assets	(13,073)	(15,009)	–	9,782	(18,300)
	(3,203,371)	(406,314)	(1,393,237)	1,968,150	(3,034,772)
Provision for diminution in value	(178,955)				(58,359)
Net book value	6,701,376				5,368,861

Provision for Diminution in Value

CZK '000	1 January 2007	Charge for the year	Release during the year	31 December 2007
Buildings, halls and structures	–	(18,675)	–	(18,675)
Machinery and equipment	(18,537)	–	1,772	(16,765)
Tangible assets under construction	(160,418)	(2,896)	140,395	(22,919)
	(178,955)	(21,571)	142,167	(58,359)

Cost CZK '000	1 January 2006	Additions/transfers	Disposals/transfers	31 December 2006
Land	61,136	–	(4,764)	56,372
Buildings, halls and structures	1,876,195	145,374	(49,011)	1,972,558
Machinery and equipment	2,222,838	424,838	(98,874)	2,548,802
Aircraft	1,290,321	22,020	(35,603)	1,276,738
Vehicles	659,031	30,299	(19,391)	669,939
Furniture and fixtures	297,277	63,233	(24,228)	336,282
Other tangible fixed assets	38,994	9,673	(7,525)	41,142
Tangible assets under construction	508,650	878,753	(695,437)	691,966
Advances paid for fixed assets	2,471,828	978,240	(960,165)	2,489,903
	9,426,270	2,552,430	(1,894,998)	10,083,702

Accumulated Depreciation

CZK '000	1 January 2006	Charge for the year	Liquidation, sales, damages	Disposals	31 December 2006
Buildings, halls and structures	(342,477)	(51,413)	(17,527)	49,011	(362,406)
Machinery and equipment	(1,187,186)	(173,776)	(3,751)	63,300	(1,301,413)
Aircraft	(663,941)	(149,661)	–	35,603	(777,999)
Vehicles	(423,092)	(53,653)	–	19,391	(457,354)
Furniture and fixtures	(240,930)	(46,197)	(28,275)	24,276	(291,126)
Other tangible fixed assets	(12,439)	(8,069)	–	7,435	(13,073)
	(2,870,065)	(482,769)	(49,553)	199,016	(3,203,371)
Provision for diminution in value	(33,495)				(178,955)
Net book value	6,522,710				6,701,376

Provision for Diminution in Value

CZK '000	1 January 2006	Charge for the year	Release during the year	31 December 2006
Machinery and equipment	(11,024)	(11,155)	3,642	(18,537)
Tangible assets under construction	(12,636)	(148,649)	867	(160,418)
Advances paid for fixed assets	(9,835)	–	9,835	–
	(33,495)	(159,804)	14,344	(178,955)

Within the delivery of twelve Airbus 320/319 aircraft the Company acquired certain fixed assets as part of delivery in 2007 and 2006. These fixed assets are capitalised as part of tangible fixed assets upon the delivery and depreciated in accordance with the depreciation plan. The total capitalised amount is amortised through the deferred income account over the period of the finance lease to the profit and loss account as an item decreasing the finance lease expenses.

Fixed Assets Disposals

In February 2007, the Company sold five Boeing B737-500 aircraft and leased them back for operating lease. The income from the sale amounted to CZK 968,036 thousand, the net book value of sold assets amounted to CZK 352,904 thousand.

At 1 April 2007 the tangible fixed assets at the net book value of CZK 1,024,319 thousand were transferred to the Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries (Note 28).

In 2006, the Company sold hangar C including land for CZK 204,197 thousand, the net book value of sold assets was CZK 16,570 thousand.

Advances

Advances have been paid for the purchase price of Airbus 320/319 aircraft that are re-financed by finance lease at the delivery of the aircraft, the finance lease covers the total value of the aircraft. The increase in advances in 2007 is caused by advances paid as a part of the purchase price for 4 Airbus aircraft to be delivered in 2008. The decrease in advances is caused by the re-financing of advances for Airbus aircraft delivered in 2007.

The advances for 8 Airbus 319 aircraft, which will be delivered in 2011–2012, in the amount of CZK 111,165 thousand have been paid in 2007. The Company owned an option for these aircraft.

Further advances relate to Boeing 737 aircraft. These advances are not re-financed by finance lease and will form the cost of the related aircraft at the termination of the lease when the aircraft becomes the property of the Company.

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

The fair value of aircraft purchased by the Company on finance lease is significantly higher than their accounting value.

Pledged Fixed Assets

The Company has pledged fixed assets as follows:

CZK '000	31 December 2007		31 December 2006		Description
	Net book value	Value of secured liability	Net book value	Value of secured liability	
Full Flight Simulator	21,839	9,416	49,038	31,512	collateral for a loan, valid only if the Company does not fulfil its duties defined by the loan agreement
Cargo terminal	–	–	669,544	187,504	collateral for a loan

At 1 April 2007 the Cargo terminal was transferred to the Air Cargo Terminal a.s. subsidiary including the right of lien and related loan (Note 28).

Finance Leases

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

Eighteen aircraft are held under finance lease contracts as at 31 December 2007 (as at 31 December 2006: thirteen aircraft) (in USD thousand or in EUR thousand):

	Expire date	Amount paid and payable	Amounts paid at 31 December 2006	Amounts paid at 31 December 2007	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing 737 in USD thousand	2009	83,832	62,727	70,316	7,679	5,837
Boeing 737 in USD thousand	2010	107,615	74,034	83,644	9,535	14,436
Boeing 737 in USD thousand	2011	68,644	41,520	47,627	5,998	15,019
Boeing 737 in USD thousand	2012	76,476	38,259	45,156	6,841	24,479
Total in USD thousand		336,567	216,540	246,743	30,053	59,771
Airbus 320 in EUR thousand	2018	120,725	9,510	21,151	12,471	87,103
Airbus 319/320 in EUR thousand	2019	186,355	–	16,041	19,674	150,640
Total in EUR thousand		307,080	9,510	37,192	32,145	237,743
Total in CZK thousand *		14,258,928	4,167,766	5,450,671	1,398,998	7,409,259

* the conversion from USD and EUR to CZK was effected using the rate of the Czech National Bank as at 31 December 2007

Five cars are held under finance lease contracts as at 31 December 2007 (as at 31 December 2006: forty six cars):

CZK '000	31 December 2007	31 December 2006
Amounts paid on current finance lease contracts	36,326	31,558
Outstanding amounts payable within one year	873	4,768
Amounts payable after more than one year	–	873
Amounts paid and payable on current contracts	37,199	37,199

Airbus 320 flight simulator held under a finance lease contract (in EUR thousand):

	Expire date	Amount paid and payable	Amounts paid at 31 December 2006	Amounts paid at 31 December 2007	Outstanding amounts payable within one year	Amounts payable after more than one year
in EUR thousand	2013	2,142	–	89	357	1,696
in CZK thousand *		57,020	–	2,369	9,503	45,148

* the conversion from EUR to CZK was effected using the rate of the Czech National Bank as at 31 December 2007

The information on operating lease commitments is disclosed in Note 25.

5. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiary undertakings comprise shares as follows:

At 31 December 2007:

	Number of Shares	Nominal Value	Cost CZK'000	% of Share Capital	2007 Net Profit/(Loss) CZK'000	Net Assets CZK'000	Dividend Income 2007 CZK'000
Foreign entities							
SLOVAK AIR SERVICES s.r.o. (Bratislava, SR)	N/A	SKK 200,000 *	162	100	12,331 **	19,123 **	–
Czech entities							
Air Czech Catering a.s. (Prague)	100	CZK 50,000,000	318,957	100	76,775	387,861	–
ČSA Airtours a.s. (Prague)	1,000	CZK 10,000,000	10,000	100	(4,889)	(882)	–
ČSA Support s.r.o. (Prague)	N/A	CZK 4,390,000	4,051	100	2,055	13,926	–
CSA Services, s.r.o. (Prague)	N/A	CZK 270,000	270	100	710	682	–
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	CZK 380,000	380	65	(2,795)	4,819	7,817
			333,820				7,817
Provision for diminution in value			(10,000)				
Net book value			323,820				

* SKK = Slovak crowns.

** the conversion from SKK to CZK was effected using the rate of the Czech National Bank as at 31 December 2007 and the average rate for 2007

At 31 December 2006:

	Number of Shares	Nominal Value	Cost CZK'000	% of Share Capital	2006 Net Profit/(Loss) CZK'000	Net Assets CZK'000	Dividend Income 2006 CZK'000
Foreign entities							
SLOVAK AIR SERVICES s.r.o. (Bratislava, SR)	N/A	SKK 200,000 *	164	100	1,126 **	7,395 **	–
Czech entities							
ČSA Airtours a.s. (Prague)	100	CZK 1,000,000	1,000	100	(5,398)	(4,992)	–
ČSA Support s.r.o. (Prague)	N/A	CZK 4,390,000	4,051	100	1,900	11,871	–
CSA Services, s.r.o. (Prague)	N/A	CZK 270,000	270	100	119	517	–
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	CZK 380,000	380	65	12,879	20,492	7,020
			5,865				7,020
Provision for diminution in value			(1,000)				
Net book value			4,865				

* SKK = Slovak crowns.

** the conversion from SKK to CZK was effected using the rate of the Czech National Bank as at 31 December 2006 and the average rate for 2006

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

The Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries were established at 1 April 2007. They have incorporated a part of the Company's business (Note 28).

The Company sold a 100% share in Air Cargo Terminal a.s. subsidiary in October 2007. The income from the sale of the company was CZK 603,000 thousand, the cost was CZK 526,059 thousand.

The Company controls 100% of the share capital of ClickforSky, a.s. (previously Czech Charters, a.s.) via CSA Services, s.r.o.

The Company has increased the share capital of ČSA Airtours a.s. by CZK 9,000 thousand in 2007. The increase has been paid in.

The change in the provision for diminution in value of the investment in ČSA Airtours a.s. is analysed as follows:

CZK '000	2007	2006
Opening balance as at 1 January	1,000	–
Charge for the year	9,000	1,000
Released during the year	–	–
Closing balance as at 31 December	10,000	1,000

Related party transactions are disclosed in Notes 8, 12 and 24.

6. OTHER SECURITIES AND INVESTMENTS

Other Long-Term Investments (Available for Sale)

At 31 December 2007:

	Number of securities	Nominal value	Fair value/Cost CZK'000
Foreign			
SITA Inc. shares	52	EUR 260	7
SITA Inc. certificates			7,783
Domestic			
WALTER a.s.	2,100	CZK 420,000	2,027
			9,817
Provision for diminution in value of WALTER a.s.			(1,607)
			8,210

At 31 December 2006:

	Number of securities	Nominal value	Fair value/Cost CZK'000
Foreign			
SITA Inc. shares	15	EUR 75	2
SITA Inc. certificates			9,870
Domestic			
WALTER a.s.	2,100	CZK 420,000	2,027
			11,899
Provision for diminution in value of WALTER a.s.			(1,607)
			10,292

Other investments available for sale are carried at cost at 31 December 2007 and 2006 because their fair value is not readily obtainable and the cost of obtaining the fair value measure is unreasonably high considering its impact on the Company's financial statements.

In 2006, the sale of 211,879 shares of France Telecom took place, the income from the sale of shares amounted to CZK 119,725 thousand, the cost of sold shares amounted to CZK 2,674 thousand.

In 2007, the Company obtained no dividends from other long-term investments available for sales. In 2006, the Company obtained dividends from Walter of CZK 47 thousand and from France Telecom's shares of CZK 6,177 thousand.

In 2006, the Company sold a 0.011% share in Boeing Česká s.r.o. for CZK 100 thousand, the cost of the sold share was CZK 100 thousand.

Other Long-Term Investments

CZK '000	31 December 2007	Income 2007	31 December 2006	Income 2006
Foreign				
SITA Inc. loan	5,054	384	6,188	422
Other	328		378	
	5,382		6,566	

Short-Term Financial Assets

The structure of short-term financial assets:

CZK '000	31 December 2007	31 December 2006
Cash	30,521	24,074
Stamps and vouchers	69	98
Current accounts	243,433	242,353
Term deposits	223,510	694,495
Long-term blocked financial assets	145	167
	497,678	961,187

The long-term blocked account is associated with the bank guarantee on acquisition of aviation fuel and is not included in the cash flow statements as cash equivalents (Note 27).

Term deposits – short-term:

CZK '000	31 December 2007	31 December 2006
Term deposits in CZK	47,500	353,000
Term deposits in SKK	6,755	–
Term deposits in EUR	23,612	117,266
Term deposits in GBP	49,541	–
Term deposits in USD	96,102	224,229
	223,510	694,495

7. INVENTORIES

At 31 December 2007:

CZK '000	Cost	Provision for diminution in value	Net book value ^a
Material			
Spares – aircraft	501,361	(55,952)	445,409
In-flight services	774	–	774
Preventive measures	–	–	–
Other	17,951	(11,805)	6,146
Total material	520,086	(67,757)	452,329
Goods for resale	77,577	–	77,577
Work in progress	3,106	–	3,106
Advances paid for inventory purchases	641	–	641
Total	601,410	(67,757)	533,653

At 1 April 2007 the inventories at the net book value of CZK 16,398 thousand were transferred to Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries (Note 28).

At 31 December 2006:

CZK '000	Cost	Provision for diminution in value	Net book value
Material			
Spares – aircraft	454,113	(14,976)	439,137
Catering and In-flight services	2,935	–	2,935
Preventive measures	206	–	206
Other	65,274	(2,355)	62,919
Total material	522,528	(17,331)	505,197
Goods for resale	94,599	–	94,599
Work in progress	4,323	–	4,323
Advances paid for inventory purchases	4,544	–	4,544
Total	625,994	(17,331)	608,663

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

CZK '000	2007	2006
Opening balance as at 1 January	17,331	13,708
Charge for the year	51,926	10,658
Released during the year	(1,500)	(7,035)
Closing balance as at 31 December	67,757	17,331

8. RECEIVABLES

Long-Term Receivables

CZK '000	31 December 2007	31 December 2006
Long-term receivables	239,718	291,394

Long-term receivables of CZK 106,542 thousand as at 31 December 2007 (as at 31 December 2006: CZK 117,709 thousand) represent mainly pre-payments for operating leases of aircraft. Long-term pre-payments maturing in more than five years represent the amount of CZK 14,318 thousand as at 31 December 2007 (as at 31 December 2006: CZK 32,535 thousand). These pre-payments will be repaid to the Company if the Company fulfils the conditions defined by the contract at expiration of the operating leases. The long-term pre-payments also include pre-payments related to the Customs Office and pre-payments provided by the Company's representations.

The long-term receivables further include a deferred tax asset of CZK 77,600 thousand as at 31 December 2007 (as at 31 December 2006: CZK 0) (Note 16).

The long-term receivable from a subsidiary of CZK 2,355 thousand as at 31 December 2007 and 2006 represents the long-term loan granted to CSA Services, s.r.o. in 2004 (Note 24).

Other long-term receivables include the fair value of derivatives as follows (Note 14):

CZK '000	31 December 2007	31 December 2006
Interest rate swaps	18,440	–
Currency forwards	–	3,451
Commodity swaps	–	129,299
	18,440	132,750

Short-Term Receivables

CZK '000	31 December 2007	31 December 2006
Trade receivables		
	– current	1,231,199
	– overdue	261,324
		1,492,523
Provision for doubtful receivables	(56,004)	(81,997)
Net trade receivables	1,436,519	1,879,344
Other receivables		
	– current	592,561
	– overdue	–
		592,561
Provision for other receivables	–	(16,524)
Net other receivables	592,561	131,723

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

Trade receivables overdue especially include amounts due from companies suspended from the IATA Clearing House or companies in bankruptcy.

Trade receivables overdue more than 180 days amounted to CZK 41,050 thousand as at 31 December 2007 (as at 31 December 2006: CZK 77,236 thousand).

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

Other short-term receivables also comprise the fair value of derivatives as follows (Note 14):

CZK '000	31 December 2007	31 December 2006
Currency swaps	11,256	14
Commodity swaps	546,550	94,253
	557,806	94,267

The short-term receivables from a subsidiary of CZK 16,000 thousand as at 31 December 2007 (as at 31 December 2006: CZK 0) represent the short-term loans granted to ČSA Airtours a.s. in the amount of CZK 1,000 thousand and ClickforSky, a.s. in the amount of CZK 15,000 thousand (Note 24).

The estimated receivables represent provided and not yet invoiced services as at the balance sheet date, especially for performed repairs and checks of aircraft and engines.

At 1 April 2007 the short-term receivables at the net value of CZK 12,795 thousand were transferred to Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries (Note 28).

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

CZK '000	2007	2006
Opening balance as at 1 January	98,521	57,718
Charge for the year	10,326	43,041
Released during the year	(15,012)	(1,640)
Released provision – written-off receivables	(37,831)	(598)
Closing balance as at 31 December	56,004	98,521

The Company has revalued provisions carried in foreign currencies at the balance sheet date. The revaluation is recognised in the profit and loss account as a change in reserves and provisions relating to operating activities and complex deferred expenses.

Receivables from related parties are disclosed in Note 24.

9. OTHER ASSETS

As at the balance sheet date, deferred expenses primarily represent finance lease payments for Airbus 319/320 aircraft, aircraft and other property operating lease payments.

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

10. EQUITY

Authorised and Issued Share Capital

	31 December 2007		31 December 2006	
	No.	CZK'000	No.	CZK'000
Ordinary shares of CZK 10,000, fully paid	273,551	2,735,510	273,551	2,735,510

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

%	31 December 2007	31 December 2006
Ministry of Finance of the Czech Republic	56.92	56.92
Czech Consolidation Agency (Česká konsolidační agentura)	34.59	34.59
Other shareholders (less than 20%)	8.49	8.49
	100	100

The share of voting rights held by the Ministry of Finance of the Czech Republic and persons controlled by the Ministry is restricted by the Company's Statute to 49.9%.

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

The loss for 2006 was carried forward to the account of accumulated losses, on the basis of a decision made by the General Meeting of Shareholders on 27 June 2007.

Revaluation of Assets and Liabilities

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

CZK '000	31 December 2007	31 December 2006
Interest rate swaps	–	(8,849)
Commodity derivatives – swaps	546,550	146,976
Currency derivatives – forwards	(716,668)	(406,329)
Deferred tax liability	(18,175)	(12,939)
Other	(17)	(16)
	(188,310)	(281,157)

11. PROVISIONS

CZK '000	Fixed asset repairs provisionsy	Provisions for unused vacation days and other staff costs	Frequent Flyer Programme	Total
Opening balance as at 1 January 2006	1,677,072	70,976	–	1,748,048
Charge for the year	440,672	106,500	40,407	587,579
Released in the year	–	(5,259)	–	(5,259)
Used in the year	(184,035)	(65,717)	–	(249,752)
Closing balance as at 31 December 2006	1,933,709	106,500	40,407	2,080,616
Charge for the year	370,590	231,659	44,521	646,770
Released in the year	–	(8,645)	(263)	(8,908)
Used in the year	(349,714)	(99,300)	(6,369)	(455,383)
Closing balance as at 31 December 2007	1,954,585	230,214	78,296	2,263,095

For an analysis of the current and deferred income tax see Note 16.

Fixed asset repair provisions include provisions relating to planned revisions of aircraft and engines and overhauls of engines and landing gears. Some of these provisions are recognised as tax-deductible in accordance with the Act on Provisions 593/1992 Coll.

In accordance with the Act on Provisions 593/1992 Coll., the Company creates tax-deductible provisions only for repairs of fixed assets owned by the Company.

At 1 April 2007 the provisions in the amount of CZK 6,902 thousand were transferred to Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries (Note 28).

12. LIABILITIES

Long-Term Payables

CZK '000	31 December 2007	31 December 2006
Long-term payables	15,605	92,752

Long-term payables represent long-term advance payments received from sales agents and customers. As at 31 December 2006 they further include a deferred tax liability of CZK 12,939 thousand (Note 16).

Other long-term payables also comprise the fair value of derivatives as follows (Note 14):

CZK '000	31 December 2007	31 December 2006
Interest rate swaps	–	6,673
Currency forwards	15,312	68,134
Commodity swaps	–	4,029
	15,312	78,836

Short-Term Payables

CZK '000		31 December 2007	31 December 2006
Trade payables	– current	1,216,880	1,300,402
	– overdue	30,553	39,885
		1,247,433	1,340,287
Other payables	– current	490,588	419,117
Estimated payables		1,450,664	1,607,916

Trade and other payables have not been secured with assets of the Company.

Short-term trade payables overdue comprise payables to companies in bankruptcy, liabilities in compliant procedures. Payables overdue more than 180 days amounted to CZK 13,201 thousand as at 31 December 2007 (as at 31 December 2006: CZK 36,054 thousand).

As at 31 December 2007, the Company records liabilities for social security and health insurance amounting to CZK 137,370 thousand (as at 31 December 2006: CZK 122,142 thousand). The recorded payables are not overdue.

The Company has no tax liabilities payable to the relevant tax authority.

The short-term payable to a subsidiary of CZK 70,000 thousand as at 31 December 2007 (as at 31 December 2006: CZK 0) represents the short-term loan granted by Air Czech Catering a.s. (Note 24).

Other short-term payables also comprise the fair value of derivatives as follows (Note 14):

CZK '000	31 December 2007	31 December 2006
Interest rate swaps	–	2,176
Currency forwards	445,418	279,806
Commodity swaps	–	72,547
	445,418	354,529

Estimated payables represent services not yet invoiced as at the balance sheet date, estimates related to the expenses associated with the aircraft operation (for example aviation fuel, handling, landing).

At 1 April 2007 the short-term payables amounting to CZK 44,893 thousand were transferred to Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries (Note 28).

Payables to related parties are disclosed in Note 24.

13. BANK LOANS AND OTHER BORROWINGS

CZK '000	31 December 2007	31 December 2006
Short-term bank loans due within 1 year	–	1,027,782
Part of long-term loans due within 1 year	660,823	1,162,308
Total loans due within 1 year	660,823	2,190,090
Part of long-term loans due between 1–5 years	47,306	459,140
Total bank loans and overdrafts	708,129	2,649,230

Short-Term Bank Loans

Purpose	Currency	Balance at 31 December 2007 in currencies '000	Balance at 31 December 2007 CZK'000	Balance at 31 December 2006 in currencies '000	Balance at 31 December 2006 CZK'000
Operating loan	CZK	–	–	890,000	890,000
Operating loan	USD	–	–	6,600	137,782
Total			–		1,027,782

The level of interest rates of short-term bank loans fluctuated between 2.88% and 5.85% p.a. in 2007 (2006: between 2.335% and 5.81% p.a.).

Long-Term Bank Loans

Purpose	Currency	Balance at 31 December 2007 in currencies '000	Balance at 31 December 2007 CZK'000	Balance at 31 December 2006 in currencies '000	Balance at 31 December 2006 CZK'000
Financing of B737 aircraft	USD	5,925	107,115	10,706	223,504
Purchase of flight simulator	USD	521	9,416	1,510	31,512
Advances for aircraft A319/A320	USD	32,725	591,598	56,473	1,178,928
Cargo terminal	EUR	–	–	6,819	187,504
Total			708,129		1,621,448

Interest rates of bank loans are variable on the basis of LIBOR or EURIBOR. The Company has one loan that bears fixed interest. The level of interest rates fluctuated between 4.69% and 6.99% p.a. in 2007 (2006: between 3.406% and 6.99% p.a.).

Advances paid for the delivery of new Airbuses are financed by a loan, which becomes a part of the overall financing through a finance lease at the moment of aircraft delivery. The maturity date of these loans is the date of aircraft delivery.

At 1 April 2007 the long-term bank loan for Cargo terminal construction amounting to CZK 159,547 thousand was transferred to the Air Cargo Terminal a.s. subsidiary (Note 28).

Schedule of repayments of bank loans (USD thousand):

Purpose	Currency	2008	2009	2010	Total
Financing of B737 aircraft	USD	3,308	1,917	700	5,925
Purchase of flight simulator	USD	521	–	–	521
Advances for aircraft A319/A320 *	USD	32,725	–	–	32,725

* this loan will not be repaid, but re-financed by a finance lease at the moment of aircraft delivery

Security of bank loans:

Purpose	Form of collateral
Financing of B737 aircraft	promissory notes
Purchase of flight simulator	collateral for a loan (Note 4)

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

CZK '000	31 December 2007			31 December 2006		
	Fair value		Nominal amount	Fair value		Nominal amount ^a
	Positive	Negative		Positive	Negative	
Trading agreements						
Interest rate swaps	18,440	–	1,258,833	–	–	–
Currency swaps	11,256	–	1,453,024	14	–	37,709
	29,696	–	2,711,857	14	–	37,709
Cash flow hedging agreements						
Interest rate swaps	–	–	–	–	8,849	2,543,032
Currency forwards	–	460,730	6,749,542	3,451	347,940	6,789,773
Commodity swaps	546,550	–	1,281,712	223,552	76,576	4,297,932
	546,550	460,730	8,031,254	227,003	433,365	13,630,737
Total derivatives	576,246	460,730	10,743,111	227,017	433,365	13,668,446

Fair value changes of the above described cash flow hedging instruments are recognised in the revaluation reserve within equity until the hedged items affect the profit and loss account.

The Company has certain derivative transactions, which provide effective economic hedges under the Company's risk management strategy, but hedge accounting is not applied to them. These are short-term derivative transactions and the application of hedge accounting would not have a significant impact on the financial statements while resulting in a significant administrative burden for the Company. These derivatives are therefore presented as trading derivatives in the table above. Fair value changes of the trading derivatives are recognised in the profit and loss account.

15. OTHER LIABILITIES

Accrued expenses principally represent accruals for finance and operating lease payments of aircraft.

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

16. TAXATION

During the 2007 tax period, the Company expects that it will utilise tax losses from previous periods. As such, there will be no income tax charge for the year. During the 2006 tax period, the Company utilised an allowance amounting to 10% of the cost on tangible fixed assets. As such, there was no income tax charge for the year.

The deferred tax asset/(liability) is calculated at the rate 21% (tax rate for 2008), 20% (tax rate for 2009) and 19% (tax rate for 2010) depending on the period of the expected realisation of deferred tax.

The deferred tax asset/(liability) can be analysed as follows:

CZK '000	31 December 2007		31 December 2006	
	Equity	Income Statement	Equity	Income Statement
Deferred tax liability:				
Difference between tax and accounting net book values of fixed assets	N/A	(160,404)	N/A	(236,484)
Hedging derivative instruments – short-term	(21,238)	N/A	–	N/A
Hedging derivative instruments – long-term	–	N/A	(12,939)	N/A
	(21,238)	(160,404)	(12,939)	(236,484)
Deferred tax asset:				
Provisions for impairment	N/A	21,779	N/A	15,077
Provisions	N/A	276,132	N/A	296,397
Hedging derivative instruments – short-term	–	N/A	62,466	N/A
Hedging derivative instruments – long-term	3,063	N/A	–	N/A
Tax loss	N/A	54,043	N/A	147,302
	3,063	351,954	62,466	458,776
Net deferred tax asset/(liability)	(18,175)	191,550	49,527	222,292

A deferred tax liability of CZK 18,175 thousand as at 31 December 2007 (as at 31 December 2006: CZK 12,939 thousand) relating to the items charged directly to the equity is also recognised in equity (Note 10). A deferred tax asset of CZK 191,550 thousand as at 31 December 2007 has been recognised in profit and loss account only in the amount of CZK 95,775 thousand in accordance with the prudence principal. According to the opinion of the Company's management, it is probable that sufficient future taxable profit will be available against which the recognised amount of deferred tax asset will be utilised. In 2006, the deferred tax asset of CZK 222,292 thousand was not recognised in accordance with the prudence principal as there was not an evidence of its future utilisation against taxable profit. The Company recognises the total deferred tax asset of CZK 77,600 thousand.

17. REVENUE ANALYSIS

Revenue from ordinary activities has been generated as follows:

CZK '000		2007	2006
Sales of goods	– foreign countries	632,124	632,953
	– Czech Republic	–	–
Goods		632,124	632,953
Regular transportation	– international	15,499,488	15,154,068
	– domestic	222,987	187,218
Charter services	– international	2,584,411	2,453,452
	– domestic	–	–
Other services	– foreign countries	1,167,913	954,141
	– Czech Republic	–	–
Security and fuel fee		2,046,697	2,135,303
Service fee		83,787	81,884
Operational handling fee and Airport taxes		565,467	588,107
Maintenance provision release		366,079	546,336
Settlement of unused traffic documents		842,621	1,259,539
Services		23,379,450	23,360,048

The Company's revenues were generated by relations with a number of clients in 2007. The major clients are as follows:

- airlines that have contracts with the Company for mutual provision of transport services, optionally bi-lateral contractual arrangements of non-transportation services;
- travel agencies and individuals, who buy transport services; and
- other buyers – non-airlines that buy non-transportation services.

18. COST OF MATERIALS, ENERGY AND SERVICES

CZK '000	2007	2006
Consumed materials	5,314,360	6,334,564
Energy	119,415	103,590
Repairs and maintenance	1,274,091	1,097,385
Travel expenses	406,283	327,229
Services related to transport	1,231,381	1,128,578
Distribution, selling and apron handling services	821,399	766,019
Noise, navigation, landing, parking fees	2,728,303	2,717,311
Ground handling services	1,191,188	1,204,756
Services for passengers (refreshment etc.)	832,717	478,134
Finance leases	1,209,919	861,230
Operating leases of aircraft including maintenance provision	1,508,532	1,716,310
Other services	1,635,974	1,500,884
	18,273,562	18,235,990

19. EMPLOYEE ANALYSIS

Employee numbers	2007	2006
Average number of members of management	31	46
Average number of staff	4,746	5,396
	4,777	5,442

The Company's management includes members of top management, sections' executive directors and directors of departments who directly report to the President. The employee number in 2006 comprises also employees transferred at 1 April 2007 to Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries (Note 28).

CZK '000	Management	Other staff	Total
2007			
Wages and salaries	103,076	3,120,234	3,223,310
Social security costs	36,077	1,097,162	1,133,239
Other social costs	1,932	131,671	133,603
	141,085	4,349,067	4,490,152
2006			
Wages and salaries	103,067	2,917,405	3,020,472
Social security costs	36,073	1,017,103	1,053,176
Other social costs	2,040	137,467	139,507
	141,180	4,071,975	4,213,155

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

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

As part of the restructuring efforts, in 2006 the Company offered its employees a programme called "OK Agreement" that includes termination benefits over and above the statutory requirements paid when the work contract was terminated by the employee by 1 September 2006. This programme was accepted by 142 employees and the total costs included in wages and salaries and other operating expenses (Note 21) amounted to CZK 54,952 thousand, including the health insurance in the amount of CZK 2,465 thousand. The programme was completed in 2006 and the Company has no other liabilities in this respect.

The remunerations granted to members of statutory authorities and Company's management are stated as follows:

CZK '000	Board of Directors	Supervisory Board	Other management	Total
2007				
Bonuses	1,740	3,745	–	5,485
Personal cars/other tangible and intangible assets available for personal usage (amount increases the tax base of employees)	742	–	1,449	2,191
Other benefits (responsibility of statutory authorities insurance)	–	890	–	890
	2,482	4,635	1,449	8,566
2006				
Bonuses	1,225	2,070	–	3,295
Personal cars/other tangible and intangible assets available for personal usage (amount increases the tax base of employees)	727	94	2,760	3,581
Other benefits (responsibility of statutory authorities insurance)	–	890	–	890
	1,952	3,054	2,760	7,766

20. OTHER OPERATING INCOME

CZK '000	2007	2006
Subsistence allowance	4,515	4,932
Income from advertisement and barter deals	24,677	21,059
Income from re-invoicing	54,424	20,287
Income from sold and written-off receivables	62,013	112
Income from intermediary activities	9,810	8,437
Settlement of shortages and losses	22,640	16,858
Government grants	9,247	2,389
Other income	53,564	106,465
	240,890	180,539

The item Other income includes income from personal transport provided on the other airlines' traffic documents, income from the training of flying crew for other carriers and in 2006 also from catering services provided to other airline companies.

21. OTHER OPERATING EXPENSES

CZK '000	2007	2006
Fines and penalty	14,482	33,701
Write-offs of receivables	39,130	16,740
Insurance	117,446	226,582
Denied boarding compensation	24,907	44,552
Sold receivables	61,722	–
Wages and salaries settlement (e.g. termination benefits, injury compensation)	35,620	42,219
Shortages and losses	25,977	37,364
Other expenses	61,241	31,894
	380,525	433,052

The provisions amounting to CZK 37,831 thousand were released to the written-off receivables mentioned above (Note 8). The total impact of the operation to the profit and loss account amounted to CZK 1,299 thousand. The item Other expenses includes especially compensations to passengers relating for example to hotel accommodation and refreshment in case of flight cancellation, rebooking etc.

22. OTHER FINANCIAL INCOME

CZK '000	2007	2006
Exchange rate gains	622,817	796,685
Income from derivative financial instruments	76,695	19,820
Other	40	349
	699,522	816,854

23. OTHER FINANCIAL EXPENSES

CZK '000	2007	2006
Exchange rate losses	890,569	857,653
Expenses from derivative financial instruments	28,624	12,299
Bank charges for transaction payments made by credit cards	122,996	122,188
Other	34,983	50,059
	1,077,172	1,042,199

24. RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions:

CZK '000	2007	2006
Revenue:		
Air Cargo Terminal a.s.	7,519	–
Air Czech Catering a.s.	25,652	–
AMADEUS MARKETING CSA, s.r.o.	5,725	6,626
ČSA Airtours a.s.	1,780	2,622
CSA Services, s.r.o.	17,070	17,020
ČSA Support s.r.o.	12,948	2,963
SLOVAK AIR SERVICES s.r.o.	335	1,425
ClickforSky, a.s.	79	–
	71,108	30,656
Costs:		
Air Cargo Terminal a.s.	27,625	–
Air Czech Catering a.s.	277,999	–
AMADEUS MARKETING CSA, s.r.o.	–	–
ČSA Airtours a.s.	7,780	7,684
CSA Services, s.r.o.	131,865	88,733
ČSA Support s.r.o.	105,583	107,006
SLOVAK AIR SERVICES s.r.o.	2,504	–
ClickforSky, a.s.	23,207	–
	576,563	203,423

The following related party balances were outstanding at:

CZK '000	31 December 2007	31 December 2006
Receivables		
Air Czech Catering a.s.	6,398	–
AMADEUS MARKETING CSA, s.r.o.	–	484
ČSA Airtours a.s.	686	669
CSA Services, s.r.o.	7,481	4,756
ČSA Support s.r.o.	1,112	61
SLOVAK AIR SERVICES s.r.o.	7,039	722
ClickforSky, a.s.	62	–
	22,778	6,692
Payables		
Air Czech Catering a.s.	50,310	–
AMADEUS MARKETING CSA, s.r.o.	–	–
ČSA Airtours a.s.	2,810	–
CSA Services, s.r.o.	8,181	3,293
ČSA Support s.r.o.	11,565	11,607
SLOVAK AIR SERVICES s.r.o.	922	–
ClickforSky, a.s.	27,309	–
	101,097	14,900

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

CZK '000	31 December 2007	31 December 2006
Provided loans – long-term		
CSA Services, s.r.o.	2,355	2,355
Provided loans – short-term		
ČSA Airtours a.s.	1,000	–
ClickforSky, a.s.	15,000	–
	16,000	–
Received loans – short-term		
Air Czech Catering a.s.	70,000	–

The Company was further involved in the following related party transactions of provided and received loans, that were repaid at the balance sheet date:

CZK '000	2007	2006
Provided loans – short-term		
Air Cargo Terminal a.s.	61,722	–
Air Czech Catering a.s.	40,000	–
	101,722	–
Received loans – short-term		
Air Czech Catering a.s.	35,000	–

Receivables from and payables to related parties including provided and received loans arose under arm's length conditions.

Company cars and mobile phones are available for board members and other managers (Notes 4 and 19).

Total remuneration for the members of the Board of Directors and the members of the Supervisory Board is disclosed in Note 19.

Besides the above stated remuneration and benefits, there was no other consideration provided to the Company's shareholders, members of the Company's boards and management in 2007 and 2006.

25. COMMITMENTS

The Company has the following commitments in respect of operating leases of 24 aircraft as at 31 December 2007 (as at 31 December 2006: 25 aircraft) (in USD thousands):

	Amount paid and payable	Amounts paid at 31 December 2006	Amounts paid at 31 December 2007	Outstanding amounts payable within one year	Amounts payable after more than one year
A310	30,088	14,174	18,950	4,776	6,362
Boeing 737/400	69,190	34,331	42,972	9,126	17,092
Boeing 737/500	37,541	2,700	10,323	7,354	19,864
ATR 42	68,456	16,311	24,864	8,554	35,038
A320	43,357	12,055	19,657	7,495	16,205
A321	50,249	13,873	22,924	8,436	18,889
Total in USD thousands	298,881	93,444	139,690	45,741	113,450
Total in CZK thousands *	5,403,171	1,689,281	2,525,316	826,906	2,050,949

* the conversion from USD to CZK was effected using the rate of the Czech National Bank as at 31 December 2007

26. CONTINGENT ASSETS AND LIABILITIES

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

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

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

The management of the Company is not aware of any other significant unrecorded contingent liabilities as at 31 December 2007 and 2006.

27. CASH FLOW STATEMENT

The Company has prepared the cash flow statement following the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash, i.e. all short-term financial assets except for long-term blocked financial assets (Note 6).

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

28. TRANSFER OF A PART OF THE COMPANY'S BUSINESS

The following assets and liabilities of the Company were transferred as at 1 April 2007 to Air Cargo Terminal a.s. and Air Czech Catering a.s. subsidiaries:

CZK '000	Air Cargo Terminal a.s.	Air Czech Catering a.s.
Tangible Fixed Assets – net book value	684,913	339,406
Inventories – net book value	–	16,398
Short-term receivables – net value	7,471	5,324
Cash	–	2,846
Total Assets	692,384	363,974
Provisions	2,006	4,896
Short-term payables	4,772	40,121
Loans	159,547	–
Total Liabilities	166,325	45,017

The number of employees transferred as at 1 April 2007:

	Air Cargo Terminal a.s.	Air Czech Catering a.s.
Employee numbers	116	408

29. SUBSEQUENT EVENTS

Supervisory Board

Hana Pešková, member of the Supervisory Board resigned at the date of the preparation of the financial statements.

Other events

On 20 December 2007, the Board of Directors and the Supervisory Board approved the sale of the Air Czech Catering a.s. subsidiary. The decision was approved by the General Meeting of Shareholders on 23 January 2008.

Two new Airbus 319 aircraft acquired under a finance lease were delivered in February and March 2008.

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

CZECH AIRLINES COMMERCIAL-TRAFFIC OUTPUT IN 1997–2007

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		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Flights	total	14,489.5	15,205.0	17,718.5	20,319.0	22,760.5	24,453.0	27,021.5	32,702.0	38,676.0	39,143.5	39,850
	IT	14,478.5	15,204.0	17,718.5	19,704.5	21,595.5	23,319.0	25,970.0	31,488.0	37,163.5	37,159.5	37,855.0
	DO	11.0	1.0		614.5	1,165.0	1,134.0	1,051.5	1 214.0	1,512.5	1,984.0	1,995.0
Kilometres flown	total	33,583.6	34,567.0	38,627.7	41,878.2	45,483.7	47,045.2	54,517.1	67 971.7	82,960.6	82,755.2	82,928.8
	IT	33,580.9	34,566.8	38,627.7	41,551.8	44,853.0	46,430.2	53,935.8	67 291.9	82,117.4	81,742.8	81,920.4
	DO	2.8	0.2		326.4	630.7	615.1	581.2	679.8	843.1	1,012.4	1,008.4
Flight hours	total	53,687.5	54,949.0	62,310.6	68,808.9	74,687.3	78,210.2	88,769.2	110,123.8	132,831.3	131,503.1	131,613.8
	IT	53,680.1	54,948.2	62,310.6	67,911.6	72,957.5	76,518.4	87,196.3	108 267.8	130,582.6	128,817.7	128,903.8
	DO	7.4	0.8		897.3	1,729.8	1,691.8	1,572.8	1,856.0	2,248.8	2,685.4	2,710.0
Passengers Carried (thousands)	total	1,733.7	1,801.8	2,064.1	2,461.7	2,877.3	3,065.0	3,591.5	4,345.4	5,217.6	5,469.9	5,492.2
	IT	1,722.1	1,801.8	2,064.1	2,436.4	2,831.5	3,016.7	3,538.4	4,282.5	5,137.2	5,361.9	5,379.5
	DO	11.5			25.3	45.7	48.3	53.0	62.9	80.4	108.0	112.7
Passengers Kilometres Flown (millions)	total	2,897.9	2,910.6	3,149.5	3,622.6	3,994.3	4,178.3	5,084.1	6,232.1	7,816.8	8,074.5	7,788.5
	IT	2,894.8	2,910.6	3,149.5	3,615.7	3,981.7	4,165.0	5,069.3	6,214.5	7,794.3	8,046.3	7,759.5
	DO	3.2			7.0	12.6	13.3	14.8	17.6	22.5	28.2	29.0
Seat load factor (%)	total	66.8	66.3	65.8	70.4	70.8	71.3	72.7	70.5	70.1	71.8	68.4
	IT	66.8	66.3	65.8	70.5	71.0	71.4	72.8	70.6	70.2	71.9	68.4
	DO	67.8			41.9	39.6	44.7	48.7	51.2	51.6	52.8	53.9
Tonne-kilometres performed (millions)	total	285.4	288.3	311.6	360.9	388.3	407.6	498.1	606.0	747.9	771.7	744.5
	IT	285.1	288.3	311.6	360.2	387.2	406.3	496.7	604.4	745.8	769.2	741.9
	DO	0.3			0.6	1.2	1.2	1.4	1.6	2.0	2.6	2.6
TKMs Freight and Mail performed (millions)	total	24.6	26.3	28.2	34.8	28.9	31.5	40.5	45.2	44.4	45.0	43.6
	IT	24.6	26.3	28.2	34.8	28.8	31.5	40.5	45.2	44.4	45.0	43.5
	DO				0.02	0.04	0.04	0.03	0.02	0.03	0.04	0.03
Weight Load Factor (%)	total	56.9	56.8	56.6	61.4	62.1	63.7	64.7	62.3	62.0	63.2	57.7
	IT	56.9	56.8	56.6	61.4	62.2	63.8	64.7	62.3	62.0	63.2	57.8
	DO	67.1			40.8	40.9	45.6	48.4	51.3	49.7	49.6	50.3

CZECH AIRLINES AIRCRAFT FLEET – AGGREGATE ECONOMIC INDICATORS

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	A310	A319	A320	A321	B737	B734	B735	AT72	AT42	BSA	Total
NON-FINANCIAL INDICATORS – ABSOLUTE											
Aircraft in Fleet by Type	4	2	8	2	3	7	11	4	8		49
Average number of aircraft	4.00	1.52	7.40	2.00	3.41	7.84	12.74	4.00	8.00		50.91
Form of ownership:											
– own	2.00						0.63	4.00	1.00		7.63
– finance leases		1.52	5.40			5.00	5.00				16.92
– operating leases	2.00		2.00	2.00	3.41	2.84	7.11		7.00		26.36
Average aircraft age	15.95	0.76	2.65	10.58	16.63	9.41	13.19	15.79	4.88		9.60
Kilometres flown											
– scheduled flights	8,547,052	3,955,659	17,387,853	127,126	673,219	12,124,979	18,346,612	3,360,426	6,142,182		70,665,108
– total	9,481,364	3,966,094	17,630,501	4,485,194	6,557,202	12,508,526	18,435,087	3,378,834	6,486,007		82,928,809
Flight hours											
– productive (planned)	13,535.98	5,961.91	26,622.63	6,940.32	6,930.75	18,365.73	29,973.70	10,514.90	15,630.50		134,476.41
– productive (actual)	11,589.30	5,773.79	24,966.74	6,159.51	9,376.69	19,254.89	28,713.26	8,962.91	16,816.66		131,613.75
– total	11,626.93	5,782.18	25,005.20	6,171.24	9,398.28	19,291.36	28,811.00	9,008.60	16,845.86		131,940.65
Block hours											
– productive (actual)	12,308.08	6,728.80	29,205.42	6,806.29	10,513.86	22,946.41	34,414.75	10,304.65	19,666.05		152,894.31
– total	12,355.34	6,739.69	29,251.02	6,820.46	10,540.57	22,992.73	34,533.53	10,356.29	19,699.88		153,289.51
Number of takeoffs	1,619	3,247	12,447	2,258	4,129	11,937	20,432	8,086	17,436		81,591
Number of passengers carried	234,583	234,624	1,214,198	328,431	437,233	1,005,243	1,273,905	290,121	426,545	47,326	5,492,209
Tonne-kilometres performed ('000)	151,497.3	27,169.4	167,577.0	66,829.0	70,719.1	106,611.6	112,950.8	11,347.1	15,275.0	14,548.2	744,524.5
Available Tonne-kilometres ('000)	252,657.9	62,451.0	300,457.4	92,379.9	100,397.8	187,119.7	223,108.7	19,956.3	28,324.2	22,512.7	1,289,365.8
Passengers Kilometres Flown ('000)	1,509,131.8	292,030.2	1,751,997.9	741,893.8	781,895.2	1,123,911.3	1,190,177.7	123,793.0	165,027.9	108,643.6	7,788,502.5
Available Seat-kilometres ('000)	1,959,515.8	509,559.3	2,648,368.9	948,251.1	1,055,809.6	1,718,115.3	1,875,943.9	216,236.5	298,268.8	162,299.0	11,392,368.1
Aviation fuel consumption (t)	57,803	13,902	65,946	19,271	26,538	53,484	74,138	6,131	11,503		328,716

	A310	A319	A320	A321	B737	B734	B735	AT72	AT42	BSA	Total
NON-FINANCIAL INDICATORS – INDEXED											
Average daily aircraft utilisation – from flight hours	9.80	10.40	9.26	8.45	7.55	6.74	6.20	6.17	5.77		7.21
– from block hours	10.42	12.12	10.83	9.34	8.47	8.03	7.43	7.09	6.75		8.37
– from block hours – actual result of previous year	10.91		10.53	9.86	7.94	9.20	7.96	7.65	6.62		8.44
Average haul length (km)	5,856	1,221	1,416	1,986	1,588	1,048	902	418	372		1,016
Average haul length (hours) – from flight hours	7.18	1.78	2.01	2.73	2.28	1.62	1.41	1.11	0.97		1.62
– from block time	7.63	2.08	2.35	3.02	2.55	1.93	1.69	1.28	1.13		1.88
Average speed (kms/hours) – from flight hours	815	686	705	727	698	648	640	375	385		629
– from block hours	767	588	603	658	622	544	534	326	329		541
Average aircraft payload (kgs)	15,978	6,850	9,505	14,900	10,785	8,523	6,127	3,358	2,355		8,978
of which: cargo, mail (kgs)	1,653	224	561	13	53	436	317	61	65		1,102
cargo, mail (%)	10.35	3.26	5.91	0.09	0.49	5.12	5.17	1.81	2.77		12.27
Average payload available (kgs)	26,648	15,746	17,042	20,597	15,311	14,959	12,102	5,906	4,367		15,548
Use of total available capacity (%)	60.0	43.5	55.8	72.3	70.4	57.0	50.6	56.9	53.9	64.6	57.7
Use of total available capacity (%) – actual result of previous year	62.9	0.0	62.0	77.2	68.3	63.6	57.1	61.0	54.7	65.0	63.2
Average number of passengers	159	74	99	165	119	90	65	37	25	18	88
Average number of seats available	207	128	150	211	161	137	102	64	46	27	128
Seat load factor (%)	77.0	57.3	66.2	78.2	74.1	65.4	63.4	57.2	55.3	66.9	68.4
Seat load factor (%) – actual result of previous year	80.1	0.0	68.3	81.8	71.1	70.1	66.6	59.8	54.9	65.0	71.8
Average taxiing time (mins)	27	18	20	17	17	19	17	10	10		16
Aviation fuel consumption (kg) – per flight hours	4,971	2,404	2,637	3,123	2,824	2,772	2,573	681	683		2,491
– per block hours	4,678	2,063	2,254	2,825	2,518	2,326	2,147	592	584		2,144
Aviation fuel consumption (g) per ASK	29.5	27.3	24.9	20.3	25.1	31.1	39.5	28.4	38.6		28.9

REPORT OF THE BOARD OF DIRECTORS ON RELATED PARTY TRANSACTIONS REPORT

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pursuant to Section 66a(9) of the Commercial Code

Section I Entities Constituting the Holding

1. CONTROLLED ENTITY

České aerolinie a.s. (Czech Airlines)

registered office: Praha 6, Letiště Ruzyně, 160 08, registered number: 45795908

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1662 (hereinafter referred to as 'controlled entity')

The controlled entity is a company whose core business is air transportation. The company's objects of business are specified in detail in the Articles of Association.

2. CONTROLLING ENTITY

Czech Republic – Ministry of Finance

registered office: Letenská 525/15, 118 10 Praha 1, registered number: 00006947

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section A.LXII, Entry 174 hereinafter referred to as "controlling entity")

The Ministry of Finance is a central body of state administration set up by Act of the Czech National Council No 2/1969 on the establishment of ministries and other central bodies of state administration of the Czech Republic, as amended (hereinafter referred to as the "Competence Act").

The Ministry's principal activities stem from its competence as laid down in the Competence Act.

In compliance with Act No 178/2005 on the winding-up of the National Property Fund of the Czech Republic (hereinafter referred to as "Fund") and on the competence of the Ministry of Finance of the Czech Republic in the privatization of the assets of the Czech Republic, all the Fund's assets transferred to the state on 1 January 2006.

On the date on which the Fund was wound up, the state assumed all the Fund's rights and obligations under legal relations to which the Fund was party. The Fund's competence passed to the Ministry of

Finance of the Czech Republic on this day. The Ministry of Finance is competent to manage the assets which transferred to the state. Under the aforementioned Act, the Ministry of Finance acquired shares in controlled entities and exercises shareholder rights.

3. RELATED ENTITIES

1. Company: Exportní garanční a pojišťovací společnost, a.s.

registered office: 111 21 Praha 1, Vodičkova 34/701

registered number: 45279314

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1619

The company's core business is insurance pursuant to Section 7(3) of Act No 363/1999 on insurance, as amended. The company's objects of business are specified in detail in the Articles of Association.

2. Company: Severočeské mlékárny, a.s., Teplice, v konkursu (in bankruptcy proceedings)

registered office: 415 03 Teplice, Libušina 2154

registered number: 48291749

incorporated by entry in the Commercial Register kept by the Regional Court in Ústí nad Labem, Section B, Entry 438

The company's core business is the manufacture of dairy products. The company's objects of business are specified in detail in the Articles of Association.

3. Company: Česká exportní banka, a.s., abbreviated to ČEB, a.s.

registered office: 111 21 Praha 1, Vodičkova 34/701

registered number: 63078333

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 3042

The company's core business is the receipt of deposits from the public and the granting of credit pursuant to Section 1(1)(a) and (b) of Act No 21/1992. The company's objects of business are specified in detail in the Articles of Association.

4. Company: KONAX a.s. - v likvidaci (in liquidation proceedings)

registered office: 586 01 Jihlava, Křižíkova 17

registered number: 46347801

incorporated by entry in the Commercial Register kept by the Regional Court in Brno, Section B, Entry 807

The company's core business is the production and sale of plush furniture coverings, woven furs and other pile fabrics. The company's objects of business are specified in detail in the Articles of Association.

5. Company: Ormilk, a.s. v likvidaci, v konkursu (in liquidation proceedings, in bankruptcy proceedings)

registered office: 564 01 Žamberk

registered number: 60109092

incorporated by entry in the Commercial Register kept by the Regional Court in Hradec Králové, Section B, Entry 1043

The company's core business is the manufacture of dairy products. The company's objects of business are specified in detail in the Articles of Association.

6. Company: Městská finanční společnost a.s., abbreviated to MUFIS a.s.

registered office: 110 00 Praha 1, Jeruzalémská 964/4

registered number: 60196696

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2517

The company's core business is the contract-based intermediation of credit. The company's objects of business are specified in detail in the Articles of Association.

7. Company: UNITEX a.s.

registered office: 659 07 Brno, Šumavská 31

registered number: 49969358

incorporated by entry in the Commercial Register kept by the Regional Court in Brno, Section B, Entry 1219

The objects of business are specified in the company's Articles of Association; they are not listed in the certificate of incorporation.

8. Company: AERO HOLDING a.s. v likvidaci (in liquidation proceedings)

registered office: Praha 9, Beranových 130

registered number: 00002127

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 361

The company's core business is the intermediation of research, production, distribution and use of aviation technology and

complementary engineering production programmes. The company's objects of business are specified in detail in the Articles of Association.

9. Company: **ČEZ, a. s.**

registered office: 140 53 Praha 4, Duhová 2/1444

registered number: 45274649

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1581

The company's core business is the generation of electricity, the assembly, repair and maintenance of speciality electrical equipment and the production of low-voltage switchboards, inspections of electrical equipment, the production and import of chemical agents and chemical formulations classified as inflammable, harmful to health, etc. The company's objects of business are specified in detail in the Articles of Association.

10. Company: **Teplotechna Praha, a.s., v konkursu (in bankruptcy proceedings)**

registered office: 113 39 Praha 2, Ječná 39

registered number: 60192933

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2283

The company's core business is the production of plastic products for the building industry, project activities in capital construction, and the implementation of industrial construction projects. The company's objects of business are specified in detail in the Articles of Association.

11. Company: **SEVAC a.s. v likvidaci (in liquidation proceedings)**

registered office: 281 63, okres Kolín, Kostelec nad Černými Lesy, Bohumile

registered number: 60192968

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2291

The company's core business is the research, development and production of immunological, biological, chemical and pharmaceutical formulations, cosmetic and other preparations connected to main production programmes, and the supply of these products to customers. The company's objects of business are specified in detail in the Articles of Association.

12. Company: **HOLDING KLADNO a.s., v likvidaci (in liquidation proceedings)**

registered office: Kladno, Cyrila Boudy 1444

registered number: 45144419

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1335

The company's core business is the production and sale of unwrought steel, fine section steel, medium and coarse rectangular bars and drawn steel, pipe products, steel welded pipes (except precision), and cylinders for forming metals. The company's objects of business are specified in detail in the Articles of Association.

13. Company: **ŠKODAEXPORT, a.s.**

registered office: 113 32 Praha 1, Opletalova 41/1683

registered number: 00548421

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 107

The company's core business is the design of electrical equipment, the preparation and production of technical designs, and technical consulting in the fields of civil engineering and energy. The company's objects of business are specified in detail in the Articles of Association.

14. Company: **Silnice Teplice a.s. v likvidaci (in liquidation proceedings)**

registered office: 415 01 Teplice, Chelčického 7

registered number: 47285583

incorporated by entry in the Commercial Register kept by the Regional Court in Ústí nad Labem, Section B, Entry 327

The company's core business is construction, reconstruction, repair and maintenance in the areas of engineering, earth-moving, industrial and waterworks construction. The company's objects of business are specified in detail in the Articles of Association.

15. Company: **MERO ČR, a.s.**

registered office: 278 01 Kralupy nad Vltavou, Veltruská 748

registered number: 60193468

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2334

The company's core business is the purchase, sale and storage of

fuels and lubricants, including the import thereof (excluding the operation of petrol stations and exclusive procurement), and the sale and storage of fuels and lubricants in consumer-sized packages of up to 50 kg per package. The company's objects of business are specified in detail in the Articles of Association.

16. Company: **ČEPRO, a.s.**

registered office: 170 04, Praha 7, Dělnická 213/12

registered number: 60193531

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 2341

The company's core business is the purchase, sale and storage of fuels and lubricants, including the import thereof (except in cases of exclusive procurement), and the sale and storage of fuels and lubricants in consumer-sized packages of up to 50 kg per package. The company's objects of business are specified in detail in the Articles of Association.

17. Company: **OSINEK, a.s.**

registered office: 706 02 Ostrava-Vítkovice, Ruská 56/397

registered number: 00012173

incorporated by entry in the Commercial Register kept by the Regional Court in Ostrava, Section B, Entry 2392

The company's core business is facility management, and the intermediation of trade and services. The company's objects of business are specified in detail in the Articles of Association.

18. Company: **PPP Centrum a.s.**

registered office: 128 00 Praha 2, Rašínovo nábřeží 42

registered number: 00013455

incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 9672

The company's core business is the organization of specialist courses, training and other educational events, including instructor services. The company's objects of business are specified in detail in the Articles of Association.

19. Company: **PAL a.s.**
 registered office: 120 00 Praha 2 – Nové město,
 Rašínovo nábř. 390/42
 registered number: 00211222
 incorporated by entry in the Commercial Register kept by the
 Municipal Court in Prague, Section B, Entry 614
 The company's core business is the management of property
 intended for restitution and the settlement of economic activities
 for public limited companies. The company's objects of business
 are specified in detail in the Articles of Association.

20. Company: **THERMAL-F, a.s.**
 registered office: 360 01 Karlovy Vary, I. P. Pavlova 2001/11
 registered number: 25401726
 incorporated by entry in the Commercial Register kept by the
 Regional Court in Plzeň, Section B, Entry 813
 The company's core business is the operation of private
 healthcare facilities of the following type and with the following
 scope of care: physiatry, balneology, and therapeutic rehabilitation
 – the provision of comprehensive inpatient and outpatient spa
 treatment – preventive, curative and rehabilitative treatments. The
 company's objects of business are specified in detail in the
 Articles of Association.

21. Company: **Dřevořádky Borohrádek - F, a.s.**
 registered office: 517 24 Borohrádek, okres Rychnov nad Kněžnou,
 Nádražní 35
 registered number: 25288016
 incorporated by entry in the Commercial Register kept by the
 Regional Court in Hradec Králové, Section B, Entry 1783
 The company's core business is joinery. The company's objects of
 business are specified in detail in the Articles of Association.

22. Company: **LETKA, a.s. v likvidaci (in liquidation proceedings)**
 registered office: 128 00 Praha 2, Rašínovo nábřeží 42
 registered number: 25134132
 incorporated by entry in the Commercial Register kept by the
 Municipal Court in Prague, Section B, Entry 4759
 The company's core business is the purchase and resale of goods.
 The company's objects of business are specified in detail in the
 Articles of Association.

23. Company: **STROJÍRNÝ TATRA PRAHA, a.s.**
 registered office: 155 21 Praha 5 – Zličín, K metru 312
 registered number: 00674311
 incorporated by entry in the Commercial Register kept by the
 Municipal Court in Prague, Section B, Entry 226
 The company's core business is property letting without the
 provision of services other than basic services connected with the
 lease, and wholesale. The company's objects of business are
 specified in detail in the Articles of Association.

24. Company: **STAVOCENTRAL, a.s.**
 registered office: 128 00 Praha 2, Jaromírova 64
 registered number: 47116943
 incorporated by entry in the Commercial Register kept by the
 Municipal Court in Prague, Section B, Entry 1936
 The company's core business is the leasing of machinery and
 vehicles. The company's objects of business are specified in detail
 in the Articles of Association.

25. Company: **JUNIOR centrum, a.s. v likvidaci (in liquidation proceedings)**
 registered office: 538 07 Seč, ul. Čs. pionýrů 197
 registered number: 48154946
 incorporated by entry in the Commercial Register kept by the
 Regional Court in Hradec Králové, Section B, Entry 894
 The company's core business is catering and accommodation
 services. The company's objects of business are specified in detail
 in the Articles of Association.

26. Company: **AGM, a.s. v likvidaci (in liquidation proceedings)**
 registered office: 116 47 Praha 1, Senovážné nám. 24
 registered number: 49240269
 incorporated by entry in the Commercial Register kept by the
 Municipal Court in Prague, Section B, Entry 1983
 The company's core business is accommodation services.
 The company's objects of business are specified in detail in the
 Articles of Association.

27. Company: **JUNIA s.r.o. "v likvidaci" (in liquidation proceedings)**
 registered office: 702 00 Ostrava, Stodolní 9, okres Ostrava-město
 registered number: 45788740
 incorporated by entry in the Commercial Register kept by the

Regional Court in Ostrava, Section C, Entry 15852
 The company's core business is the administration of movable
 and immovable property, and the purchase and resale of goods
 (apart from the goods referred to in an annex to Act No 455/1991
 and goods precluded by this legislation).

28. Company: **Česká inkasní, s.r.o. v likvidaci (in liquidation proceedings)**
 registered office: 170 00 Praha 7, Komunardů 6
 registered number: 60468165
 incorporated by entry in the Commercial Register kept by the
 Municipal Court in Prague, Section C, Entry 25556
 The company's core business is factoring, the unblocking of
 receivables and asset and liability management, including movable
 and immovable property.

A list of companies controlled by the above-mentioned related
 entities is included in Appendix No 1 to this report as an integral
 part hereof.

Section II Relations between Holding Entities

1. METHOD OF CONTROL

The controlling entity holds equities in the controlled entity, the
 total share of which amounts to 56.92% of the registered capital of
 the controlled entity.

2. INTERLOCKING MANAGEMENT

As at the date this report was prepared, the controlled entity,
 acting with due professional care, is fully aware of the following:

Petr Polák

residing at Podolská 606/120, Praha 4, Podolí, 147 00, has been
 a member of the Supervisory Board of the controlled entity since
 27 November 2006 and concurrently a member of the Supervisory
 Board of the related entity OSINEK, a.s. since 23 November 2006.

3. STRUCTURE OF RELATIONS

The controlling entity has the following shares (expressed as a percentage) in the related entities:

Related entities	Share (%)	Note
Exportní garanční a pojišťovací společnost, a.s.	40.00	company operating within the scope of Act No 219/2000
Severočeské mlékárny, a.s., Teplice, v konkursu (in bankruptcy proceedings)	40.78	bankruptcy declared on 14 May 1996
Česká exportní banka, a.s., abbreviated to ČEB, a.s.	37.95	42.60% increase in registered capital – not yet entered in the Commercial Register, company operating within the scope of Act No 219/2000
KONAX a.s. - v likvidaci (in liquidation proceedings)	44.10	bankruptcy proceedings discontinued on 20 September 2001
Ormlík, a.s. v likvidaci, v konkursu (in liquidation proceedings, in bankruptcy proceedings)	46.99	bankruptcy declared on 21 April 1998
Municipální finanční společnost a.s., abbreviated to MUFIS a.s.	49.00	company operating within the scope of Act No 219/2000
UNITEX a.s.	52.00	
AERO HOLDING a.s. v likvidaci (in liquidation proceedings)	61.83	liquidation proceedings completed on 12 April 2007, zero retention
ČEZ, a. s.	65.99	sale of 9,586,263 shares on the Prague Stock Exchange
Teplotechna Praha, a.s., v konkursu (in bankruptcy proceedings)	73.52	bankruptcy declared on 12 March 1998
SEVAC a.s. v likvidaci (in liquidation proceedings)	78.86	bankruptcy proceedings discontinued on 14 October 2006
HOLDING KLADNO a.s., v likvidaci (in liquidation proceedings)	96.85	bankruptcy proceedings discontinued on fulfilment of the resolution on the distribution of the estate
ŠKODAEXPORT, a.s.	100	company operating within the scope of Act No 219/2000
Silnice Teplice a.s. v likvidaci (in liquidation proceedings)	100	bankruptcy proceedings discontinued on 15 June 2005
MERO ČR, a.s.	100	
ČEPRO, a.s.	100	
OSINEK, a.s.	100	
PPP Centrum a.s.	100	
PAL a.s.	100	
THERMAL-F, a.s.	100	
Dřevařské závody Borohrádek - F, a.s.	100	
LETKA, a.s. v likvidaci (in liquidation proceedings)	100	
STROJÍRNÝ TATRA PRAHA, a.s.	100	transfer of shares from the Ministry of Industry and Trade of the Czech Republic as of 30 September 2007
STAVOCENTRAL, a.s.	100	company operating within the scope of Act No 219/2000
JUNIOR centrum, a.s. v likvidaci (in liquidation proceedings)	100	company operating within the scope of Act No 219/2000
AGM, a.s. v likvidaci (in liquidation proceedings)	100	company operating within the scope of Act No 219/2000
JUNIA s.r.o. "v likvidaci" (in liquidation proceedings)	100	company operating within the scope of Act No 219/2000
Česká inkasní, s.r.o. v likvidaci (in liquidation proceedings)	100	company operating within the scope of Act No 219/2000

Section III Reporting Period

This report was prepared for the last accounting period, i.e. the period from 1 January 2007 to 31 December 2007.

Section IV Contracts and Agreements Concluded between the Holding Entities

Summary of contracts concluded in the reporting period.

CONTRACTS CONCLUDED IN ACCORDANCE WITH THE COMMERCIAL CODE

Business Cooperation Agreement

Contracting parties: ČEZ, a. s.; České aerolinie a.s.

In the opinion of the Board of Directors, the above-mentioned contract was concluded on an arm's-length basis, i.e. under ordinary terms of business and for prices usual in business relations. The detailed terms and conditions of the contract are considered trade secrets in accordance with Section 17 of the Commercial Code. There was no detriment to the controlled entity.

Section V Acts in Law in the Interests of Related Entities, Other Measures in the Interests or at the Instigation of Related Entities Adopted or Implemented by the Controlled Entity, Considerations and Counter-Considerations

In the reporting period, the Board of Directors of the controlled company did not execute any acts in law in the interests of related entities, nor were other measures adopted which were in the interests or at the instigation of related entities or were implemented by the controlled entity.

Likewise, the Board of Directors is not aware of any situation where the related entities mutually and knowingly accepted any reciprocal measures or consideration which would act to the detriment of the related entities or the controlled entity.

Section VI Confidentiality of Information

1. Information and facts that are parts of the trade secrets of the controlling, controlled and other related entities, as well as information specified as confidential by any entity which is a component of the holding, are considered confidential. Furthermore, this includes all information concerning business relations, the disclosure of which could, in and of itself or in connection with other information or facts, be detrimental to any entity forming the holding.
2. For the reasons cited above this report does not include the following:
 - information about projects on the acquisition of a capital interest in selected companies where the controlled entity was the party preparing the acquisition;
 - information regarding the business terms and price conditions of contracts.

Section VII Conclusion

1. This report was discussed and approved at the regular meeting of the Board of Directors of Czech Airlines held on 25 March 2008.
2. This report will be submitted to the Supervisory Board for review and to the auditor, who will audit the financial statements in accordance with the relevant legislation. With consideration of the fact that the controlled company is preparing an annual report, this report will be attached to the annual report and will be filed within the time prescribed by law in the collection of documents kept in the Commercial Register at the Municipal Court in Prague.

Prague, 20 March 2008



Radomír Lašák

Chairman of the Board of Directors and President



Jiří Devát

Vice-Chairman of the Board of Directors

ANNEX NO 1 TO THE RELATED PARTY TRANSACTIONS REPORT

List of Companies Controlled by Related Entities

Exportní garanční a pojišťovací společnost, a.s.

Komerční úvěrová pojišťovna EGAP, a.s. – share: 100%, control until 11 October 2007, registered office: Praha 1, Vodičkova 34/701, 111 21, registered number: 27245322

Severočeské mlékárny, a.s., Teplice, v konkursu (in bankruptcy proceedings)

Česká exportní banka, a.s., abbreviated to ČEB, a.s.

KONAX a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied

Ormillk, a.s. v likvidaci, v konkursu (in liquidation proceedings, in bankruptcy proceedings) – information significant for the preparation of the report was not supplied

Municipální finanční společnost a.s., abbreviated to MUFIS a.s.

UNITEX a.s. – information significant for the preparation of the report was not supplied

AERO HOLDING a.s. v likvidaci (in liquidation proceedings) – share: 61.83%, held until 12 April 2007, then 0%

ČEZ, a. s.

CEZ Bulgaria EAD – share: 100%, registered office: Sofia, Municipality of Sredets, 140 G.S. Rakovski street, 1000, Republic of Bulgaria, BULSTAT No 131434768

CEZ Ciepło Polska sp. z o.o. – share: 100%, incorporated on 6 September 2007, registered office: Warszawa, ul. Nowy Świat 64, 00-357, Republic of Poland, registered number: 0000287855

CEZ Deutschland GmbH – share: 100%, registered office: München, Karl-Theodor Str. 69, 80803, Federal Republic of Germany, HRB 139537

CEZ Distributie S.A. – renamed as of 15 March 2007 (formerly Electrica Oltenia S.A.), share: 51.01%, registered office: Craiova, Dolj County, 2, Brestei St, 200581, Romania, registered number: 14491102

CEZ Elektro Bulgaria AD – share: 67.00%, registered office: Sofia, Municipality of Sredets, 140 G.S. Rakovski street, 1000, Republic of Bulgaria, BULSTAT No 175133827

CEZ Finance B.V. – share: 100%, registered office: Amsterdam, Prins Bernhardplein 200, 1097 JB, Kingdom of the Netherlands, registered number: 33264065

CEZ Hungary Ltd. – share: 100%; registered office: Budapest, Károlyi Mihály u. 12, IV. em., Ybl Palota Irodaház, 1053, Republic of Hungary, registered number: 13520670-4013-113-01

ČEZ Laboratories Bulgaria EOOD – share: 100%; registered office: Sofia, 1 Dobrinova Skala str., Lyulin Municipality, Republic of Bulgaria, BULSTAT No 175123128

CEZ MH B.V. – share: 100%, incorporated on 14 December 2007, registered office: Rotterdam, Weena 340, 3012 NJ, Kingdom of the Netherlands, registered number: 24426342

CEZ Poland Distribution B.V. – share: 100%, registered office: Rotterdam, Wenna 340, 3012 NJ, Kingdom of the Netherlands; registered number: 24301380

Elektrownia Skawina S.A. – share: 74.82%, registered office: Skawina, ul. Piłsudskiego 10, 32-050, Republic of Poland; registered number: 000038504

CEZ Polska sp. z o.o. – share: 100%; registered office: Warszawa, ul. Nowy Świat 64, 00-357, Republic of Poland; registered number: 000026614

CEZ Romania S.R.L. – share: 100%, registered office: Bucuresti, Sector 1, Str. Ion Ionescu De La Brad, Nr. 2A, Romania, registered number: 18196091

CEZ Servicii S.A. – share: 51.00%, incorporated on 16 May 2007, registered office: Pitești, 148 Republicii Boulevard, 110177, Romania, registered number: 20749442

CEZ Silesia B.V. – share: 100%, registered office: Rotterdam, Wenna 340, 3012 NJ, Kingdom of the Netherlands; registered number: 24305701

CEZ Chorzow B.V. – share: 100%; registered office: Rotterdam, Wenna 340, 3012 NJ, Kingdom of the Netherlands; registered number: 24305703

Elektrociepłownia Chorzów ELCHO Sp. z o.o. – share: 75.20%; registered office: Chorzów, ul. M. Skłodowskiej-Curie 30, 41-503, Republic of Poland; registered number: 0000060086

CEZ Slovensko, s.r.o. – share: 100%, incorporated on 27 June 2007, registered office: Bratislava, Gorkého 3, 811 01, Slovak Republic, registered number: 36797332

CEZ Srbija d.o.o. – share: 100%, registered office: Beograd, Bulevar Mihajla Pupina 6, Republic of Serbia, registered number: 20180650

CEZ Trade Bulgaria EAD – share: 100%, registered office: Sofia, Municipality of Sredets, 140 G.S. Rakovski street, 1000, Republic of Bulgaria, BULSTAT No 113570147

CEZ Trade Polska sp. z o.o. – share: 100%, incorporated on 30 May 2007, registered office: Warszawa, ul. Nowy Świat 64, 00-357, Republic of Poland, registered number: 0000281965

CEZ Trade Romania S.R.L. – share: 99.99% (share held by other member: ČEZ Správa majetku, s.r.o., 0.01%), incorporated on 26 March 2007, registered office: București, Sector 1, Ion Ionescu de la Brad, Nr. 2B, Romania, registered number: 21447690

CEZ Ukraine CJSC – share: 100%, registered office: Kiev, Velika Vasilkivska street 5, 01004, Ukraine, registered number: 34728482

CEZ Vanzare S.A. – share: 51.01%, spun off from Electrica Oltenia S.A. and incorporated on 15 March 2007, registered office: Craiova, Dolj County, 2, Brestei St, 200581, Romania, registered number: 21349608

CEZTel, a.s. – share: 100%; registered office: Praha 2, Fügnerovo náměstí 1866/5, 120 00; registered number: 25107950

ČEZ Distribuce, a. s. – share: 100% (held as of 1 October 2007, owners until 1 October 2007: STE 22.81%, VČE 21.54%, SČE 20.11%, ZČE 12.70%, SME 22.84%), registered office: Děčín 4, Teplická 874/8, 405 02, registered number: 27232425

ČEZ Distribuční služby, s.r.o. – share: 100% (shares of other members from 29 June 2007 to 1 October 2007: ČEZ, a. s. 0.15%, SČE 20.23%, STE 20.95%, VČE 21.33%, ZČE 15.26%, SME 22.08%; shares of members until 29 June 2007: ČEZ, a. s. 0.18%, STE 26.27%, VČE 26.74%, ZČE 19.13%, SME 27.68%); registered office: Ostrava – Moravská Ostrava, 28. října 3123/152, 709 02; registered number: 26871823

ČEZ Energetické služby, s.r.o. – share: 100%, registered office: Ostrava – Vítkovice, Výstavní 1144/103, 706 02, registered number: 27804721

ČEZ ENERGOSERVIS spol. s r.o. – share: 100%; registered office: Třebíč, Bráfova 16, 674 01, registered number: 60698101

ČEZ Logistika, s.r.o. – share: 100%; registered office: Ostrava – Moravská Ostrava, 28. října 3123/152, 709 02; registered number: 26840065

ČEZ Měření, s.r.o. – share: 100%; registered office: Hradec Králové, Riegrovo náměstí 1493, 500 02; registered number: 25938878

ČEZ Obnovitelné zdroje, s.r.o. – share: 100% (shares of members from 28 May 2007 to 1 October 2007: ČEZ, a. s. 30.70%, SČE 25.30%, VČE 21.20%, ZČE 22.80%; shares of members until 28 May 2007: ČEZ, a. s. 60.80%, VČE 39.20%), registered office: Hradec Králové, Křížkova 788, 500 03, registered number: 25938924

ČEZ Prodej, s.r.o. – share: 100% (held as of 1 October 2007, owners until 1 October 2007: ČEZ, a. s. 11.95%, STE 17.05%, VČE 16.32%, SČE 18.07%, ZČE 15.84%, SME 20.77%), registered office: Praha 4, Duhová 1/425, 140 53 (until 15 June 2007 registered office at Praha 2, Vinohradská 325/8, 120 21); registered number: 27232433

ČEZ Správa majetku, s.r.o. – share: 100% (shares of members from 3 July 2007 to 1 October 2007: ČEZ, a. s. 16.14%, STE 30.02%, SČE 11.83%, VČE 13.11%, ZČE 13.69%, SME 15.21%; shares of members until 3 July 2007: ČEZ, a. s. 18.30%, STE 34.05%, VČE 14.87%, ZČE 15.53%, SME 17.25%), registered office: Děčín IV., Teplická 874/8, 405 49; registered number: 26206803

ČEZ Zákaznické služby, s.r.o. – share: 100%; registered office: Plzeň, Guldenerova 2577/19, 303 28, registered number: 26376547

ČEZData, s.r.o. – share: 100%; registered office: Plzeň, Guldenerova 2577/19, 303 38, registered number: 27151417

ČEZnet, a.s. – share: 100%; registered office: Praha 2, Fügnerovo náměstí 1866/5, 120 00; registered number: 26470411

SINIT, a.s. – share: 100%; registered office: Ostrava – Mariánské Hory, Emila Filly 296/13, 709 00, registered number: 25397401

Electrica Oltenia S.A. – share: 51.01% (company split into CEZ Distributie S.A. and CEZ Vanzare S.A. on 15 March 2007), registered office: Craiova, Judetul Dolj, 2, Brestei St, 200581, Romania, registered number: 14491102

Elektrorazpredelenie Pleven AD – share: 67% (wound up on merger with Elektrorazpredelenie Stolichno AD on 2 November 2007), registered office: Pleven, 73 Doyran St., 5800, Republic of Bulgaria, BULSTAT No 114521288

Elektrorazpredelenie Sofia Oblast AD – share: 67% (wound up on merger with Elektrorazpredelenie Stolichno AD on 2 November 2007), registered office: Sofia, 2 Evropa Blvd., Municipality Vrabnitsa, 1360, Republic of Bulgaria; BULSTAT No 130278316

Elektrorazpredelenie Stolichno AD – share: 67%; registered office: Sofia, 330 Tsar Simeon St., Ilinden region, 1309, Republic of Bulgaria; BULSTAT No 130277958

Energetické opravny, a.s. – share: 100%, registered office: Kadaň, Prunéřov č. 375, 432 01, registered number: 25040707

Energetika Vítkovice, a.s. (EVI, a.s.) – share: 100% (until 1 October 2007 100% held by SME), registered office: Ostrava – Vítkovice, Výstavní 1144/103, 706 02, registered number: 25854712

ENERGOKOV, s.r.o., v konkursu (in bankruptcy proceedings) – share: 100% (until 1 October 2007 100% held by SČE), registered office: Děčín 1, Krokova 12, 405 01, registered number: 25015621

ENPRO, a.s. – share: 100% (until 1 October 2007 100% held by SME), registered office: Přerov I, Město, nábř. Dr. Edvarda Beneše 1913/20, 750 02, registered number: 26831848

ENPROSPOL, s.r.o. – share: 100% (until 1 October 2007 100% held by SČE), registered office: Děčín, Resslova 357/9, 405 02, registered number: 25488767

ESS s.r.o. – share: 51.00% (until 1 October 2007 51.00% held by SČE), registered office: Teplice – Sobědruhy, Důlní 97, 415 10, registered number: 25013271

I & C Energo a.s. – share: 100%, registered office: Třebíč, Pražská 684/49, 674 01; registered number: 49433431

AFRAS Energo s.r.o. – share: 100%, registered office: Třebíč, Pražská 684/49, 674 01, registered number: 60714123

KNAUF POČERADY, spol. s r.o. – share: 40% (share held until 30 July 2007, then 0%, registered office: Počerady čp. 17, 439 44, registered number: 47780690

LOMY MOŘINA spol. s r.o. – share: 51.05%, registered office: Mořina, 267 17, registered number: 61465569

NERS d.o.o. – share: 51.00%, registered office: Gacko, Industrijska zona bb, Bosnia and Herzegovina, RU-1-1864-00

New Kosovo Energy L.L.C. – share: 100%, registered office: Prishtina, Andrej Gropa Nr. 1, 10000, Kosovo, registered number: 70371863

OSC, a.s. – share: 66.67%, registered office: Brno, Staňkova 18a, 612 00, registered number: 60714794

PPC Úžín, a.s. – share: 100%, registered office: Praha 3, Seifertova 570/55, 130 00, registered number: 27198367

- Severočeská energetika, a.s.** – share: 100% (share held until 1 October 2007, then merger with ČEZ, a. s., the merger became effective on 1 October 2007, operative event documented as 1 January 2007), registered office: Děčín IV, Teplická 874/8, 405 49, registered number: 49903179
- Energetická montážní společnost Česká Lípa, s.r.o.** – share: 49% (share held until 9 August 2007, then 0%), registered office: Česká Lípa, Dubická ulice 959, 470 02, registered number: 62743333
 - Energetická montážní společnost Liberec, s.r.o.** – share: 100% (share held until 24 July 2007, then 0%), registered office: Liberec, Budyšínská 1294, 460 01, registered number: 62743325
 - Energetická montážní společnost Ústí nad Labem, s.r.o.** – share: 100% (share held until 28 August 2007, then 0%), registered office: Ústí nad Labem, U vlečky 440, 400 01, registered number: 62743317
- Severočeské doly a.s.** – share: 100%, registered office: Chomutov, Boženy Němcové 5359, 430 01, registered number: 49901982
- PRODECO, a.s.** – share: 50.50%, registered office: Teplice, Masarykova 51, 416 78, registered number: 25020790
 - SD - 1.strojírenská, a.s.** – share: 100%, registered office: Bílina, Důlní 437, 418 01, registered number: 25437127
 - SD - Autodoprava, a.s.** – share: 100%, registered office: Bílina, Důlní 429, 418 01, registered number: 25028197
 - SD - Humatex, a.s.** – share: 100%, registered office: Bílina, Důlní 199, 418 01, registered number: 25458442
 - SD - Kolejová doprava, a.s.** – share: 100%, registered office: Kadaň, Tušimice 7, 432 01, registered number: 25438107
 - SD - Rekultivace, a.s.** – share: 100% (incorporated on 23 July 2007), registered office: Kadaň, Tušimice 7, 432 01, registered number: 27329011
 - SD - Vrtné a trhací práce, a.s.** – share: 100%, registered office: Bílina, Důlní 375/89, 418 29; registered number: 25022768
 - Skládka Tušimice, a.s.** – share: 98.00%, registered office: Kadaň, Tušimice 7, 432 01, registered number: 25005553
 - Výzkumný ústav pro hnědé uhlí a.s.** – share: 44.58%, registered office: Most, Budovatelů 2830, 434 37, registered number: 44569181
- Severomoravská energetika, a. s.** – share: 100% (share held until 1 October 2007, then merger with ČEZ, a. s., merger became effective on 1 October 2007, operative event documented as 1 January 2007), registered office: Ostrava – Moravská Ostrava, 28. října 3123/152, 709 02, registered number: 47675691
- Elektrovod Holding, a.s.** – share: 50.00% + 1 equity (share held until 10 December 2007, then 0%), registered office: Bratislava, Čulenova 5, 816 46, Slovak Republic, registered number: 35834111
 - Elektrovod, a.s.** – share: 100%, registered office: Brno – Horní Heršpice, Traťová 574/1, 619 00, registered number: 25302736
 - ELV Projekt, a.s.** – share: 100%, registered office: Bratislava, Čulenova 5, 816 46, Slovak Republic, registered number: 35768584
 - ELV - SERVIS, spol. s r.o.** – share: 83.34%, registered office: Bratislava, Čulenova 5, 816 46, Slovak Republic, registered number: 35702095
 - Elektrovod Stav s.r.o.** – share: 50.00%, registered office: Bratislava, Čulenova 5, 816 46, Slovak Republic, registered number: 35872241
 - Elektrovod Rozvádzače, s.r.o.** – share: 70.00%, registered office: Bratislava, Čulenova 5, 816 46, Slovak Republic, registered number: 35801859
 - ELTODO OSVETLENIE, s.r.o.** – renamed as of 24 August 2007 (formerly Elektrovod OSVETLENIE, s.r.o.), share: 50.00%, registered office: Košice, Krmanova 14, 040 01, Slovak Republic, registered number: 36170151
 - ELTODO Slovakia, s.r.o.** – share: 50.00% (deleted from the Commercial Register on 31 March 2007), registered office: Skalica, Potočná 6, 909 01, Slovak Republic, registered number: 31662030
 - MSEM, a.s.** – share: 100% (share held until 23 April 2007, then 0%), registered office: Frýdek-Místek, Collo louky 126, 738 02, registered number: 64610080
 - SIGMA - ENERGO s.r.o.** – share: 51.00% (share held until 23 October 2007, then 0%), registered office: Třebíč, Na Nivkách 299, 674 01, registered number: 60702001
 - STE - obchodní služby spol. s r.o. (abbreviated to STE-OS s.r.o.) v likvidaci (in liquidation proceedings)** – share: 100% (until 1 October 2007 100% held by STE), registered office: Praha 2, Vinohradská 8, 120 21, registered number: 49826182
- Středočeská energetická a.s.** – share: 100% (share held until 1 October 2007, then merger with ČEZ, a. s., the merger became effective on 1 October 2007, operative date documented as 1 January 2007; until 8 January 2007 share: 97.91%), registered office: Praha 2, Vinohradská 325/8, 120 21, registered number: 60193140
- ECK Generating, s.r.o.** – share: 11.00% (share held until 1 January 2007, then 0%), registered office: Kladno – Dubí, Dubská 257, 272 03, registered number: 62956761
 - ELTRAF, a.s.** – share: 51.00% (share held until 29. 3. 2007, then 0%), registered office: Kralice č. p. 49, p. Uhlířské Janovice, 285 04, registered number: 46357483
 - ENERGETICKÉ CENTRUM Kladno, spol.s r.o.** – share: 10.99% (share held until 1 January 2007, then 0%), registered office: Kladno – Dubí, Dubská 257, 272 03, registered number: 46358293

- ŠKODA PRAHA a.s. – share: 100%, registered office: Praha 6, Milady Horákové č.or. 109 č.p. 116, 160 41, registered number: 00128201
- EGI servis, s.r.o., v konkursu (in bankruptcy proceedings) – share: 100%, registered office: Čelákovice, Kozovazská 1049, 250 88, registered number: 26423316
- EGI, a.s. v likvidaci (in liquidation proceedings) – share: 100%, registered office: Praha 6, M. Horákové 109, 160 41, registered number: 60721332
- ŠKODA PRAHA Invest s.r.o. – share: 100%, registered office: Praha 4, Duhová 2/1444, 140 74 (until 13 December 2007, registered office: Praha 6, Milady Horákové 109/116, 160 41), registered number: 27257517
- ŠKO-ENERGO, s.r.o. – share: 12.00% (until 1 October 2007 12.00% held by STE), registered office: Mladá Boleslav 1, Tř. Václava Klementa 869, 293 60, registered number: 61675938
- ŠKO-ENERGO FIN, s.r.o. – share: 5.00% (until 1 October 2007 5.00% held by STE), registered office: Mladá Boleslav 1, Tř. Václava Klementa 869, 293 60, registered number: 61675954
- TEC Varna EAD – share: 100%, registered office: Town of Ezerovo, Varna District, 9168 Varna, Republic of Bulgaria, BULSTAT No 103551629
- Teplárenská, a.s. – share: 100% (held as of 5 April 2007), registered office: Most, Komořany, Teplárenská 2, 434 03, registered number: 27309941
- Transenergo International N.V. – share: 100% (incorporated on 13 December 2007), registered office: Rotterdam, Weena 340, 3012 NJ, Kingdom of the Netherlands, registered number: 24426210
- Ústav jaderného výzkumu Řež a.s. – share: 52.46%, registered office: Husinec-Řež čp. 130, 250 68, registered number: 46356088
- Centrum výzkumu Řež s.r.o. – share: 100%, registered office: Husinec-Řež č. p. 130, 250 68, registered number: 26722445
- DECOM Slovakia, spol. s r.o. – share: 23.08% (share held until 7 May 2007, then 0%), registered office: Trnava, Jána Bottu 2, 917 01, Slovak Republic, registered number: 31438318
- ŠKODA VÝZKUM s.r.o. – share: 100%, registered office: Plzeň, Tylova 1/57, 316 00, registered number: 47718684
- LACOMED, spol. s r.o. – share: 62.50%, registered office: Husinec-Řež čp. 130, 250 68, registered number: 46348875
- Nuclear Safety & Technology Centre s.r.o. – share: 40.00%; registered office: Husinec-Řež čp. 130, 250 68, registered number: 27091490
- Ústav aplikované mechaniky Brno, s.r.o. – share: 100%, registered office: Brno, Veveří 95, 611 00, registered number: 60715871
- Ústav jaderných informací Zbraslav, a. s. – share: 74% (share held until 13 April 2007, then 0%), registered office: Praha 5 – Zbraslav, Elišky Přemyslovny 1335, 156 00, registered number: 45270902
- WADE, a.s. – share: 50.00% (share held until 29 March 2007, then 0%), registered office: Třebíč, Bráfova třída 531, 674 01, registered number: 25523520
- Východočeská energetika, a.s. – share: 100% (share held until 1 October 2007, then merger with ČEZ, a. s., the merger became effective on 1 October 2007, operative date documented as 1 January 2007), registered office: Hradec Králové, Sladkovského 215, 501 03, registered number: 60108720
- VČE - montáže, a.s. – share: 100% (share held until 13 April 2007, then 0%), registered office: Pardubice, Arnošta z Pardubic 2082, 531 17, registered number: 25938746
- VČE - transformátory, s.r.o. – share: 100% (share held until 13 April 2007, then 0%), registered office: Hradec Králové, Koutníková 208, 503 01, registered number: 25938916
- ZAO TransEnergo – share: 100%, registered office: Moskva, Dvornikova 7, Russian Federation, No 1057748236897
- Západočeská energetika, a.s. – share: 100% (share held until 1 October 2007, then merger with ČEZ, a. s., the merger became effective on 1 October 2007, operative date documented as 1 January 2007), registered office: Plzeň, Guldenerova 19, 303 28, registered number: 49790463
- SEG s.r.o. – share: 100% (share held until 3 May 2007, then 0%), registered office: Plzeň, Skladová 4, 326 00, registered number: 46883657
- Teplotechna Praha, a.s., v konkursu (in bankruptcy proceedings)
- SEVAC a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied
- HOLDING KLADNO, a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied
- ŠKODAEXPORT, a.s.
- LIFOX a.s. "v likvidaci" (in liquidation proceedings) – share: 67.30%, registered office: Praha 4, Novodvorská 1010/14B, registered number: 49240994
- PRAGHOTELS s.r.o. – share: 100%, registered office: Praha 1, Opletalova 41, registered number: 61509094
- Silnice Teplice a.s. v likvidaci (in liquidation proceedings) – information significant for the preparation of the report was not supplied
- MERO ČR, a.s.
- MERO Pipeline, GmbH – share: 100%, registered office: Vohburg a. d. Donau, Mero-Weg 1, 85088, Federal Republic of Germany, IdNr 152122768
- ČEPRO, a.s.
- BAUFELD - ekologické služby, s.r.o. – share: 49.00% (share held until 15 October 2007, then 0%), registered office: Praha 6, Na Petynci 716/48, 169 00, registered number: 49681036
- OSINEK, a.s.
- ČEPS, a.s. – share: 51.00%, registered office: Praha 10, Elektrárenská 774/2, 101 52, registered number: 25702556
- ENIT, a.s. – share: 100% (deletion from the Commercial Register on 31 August 2007), registered office: Praha 10, Elektrárenská 774/2, 101 52, registered number: 25426796

PPP Centrum a.s.

PAL a.s.

Výzkumný a zkušební letecký ústav, a.s. – share: 44.61%, registered office: Praha 9, Beranových 130, 199 00, registered number: 00010669

THERMAL-F, a.s.

Dřevařské závody Borohrádek - F, a.s.

LETKA, a.s. v likvidaci (in liquidation proceedings)

STROJÍRNY TATRA PRAHA, a.s. – share: held as of 30 September 2007

STAVOCENTRAL, a.s.

HYPO-CONSULT, a.s. – share: 100%, registered office: Praha 2, Jaromírova 64, 128 00, registered number: 25072145

JUNIOR centrum, a.s. v likvidaci (in liquidation proceedings)

AGM, a.s. v likvidaci (in liquidation proceedings)

JUNIA s.o.r. “v likvidaci” (in liquidation proceedings) – information significant for the preparation of the report was not supplied

Česká inkašná, s.r.o. v likvidaci (in liquidation proceedings) – renamed on 21 March 2007 (formerly Česká inkašná, s.r.o.) information significant for the preparation of the report was not supplied

RESPONSIBILITY FOR THE ANNUAL REPORT

The information disclosed in the Annual Report for 2007 is truthful; no material circumstances which could affect an accurate, correct assessment of Czech Airlines have been omitted.



Radomír Lašák

Chairman of the Board of Directors and President

AC – Air crew	ICAO – International Civil Aviation Organization	Slot – The departure time of an aircraft allotted by the control tower, i.e. by the state enterprise Řízení letového provozu [Air Traffic Control] in the Czech Republic
AEA – Association of European Airlines	ICT – Information and communication technology	SOJ – Autonomous Sales Unit
APC – Administration and operations centre	IFRS – International Financial Reporting Standards	ST GB – SkyTeam Governing Board
APIS – Advanced Passenger Information System	JAA – Joint Aviation Authority	ÚCL – Civil Aviation Authority of the Czech Republic
ATI – Anti-trust immunity	JAR – Joint Airworthiness Requirements	
BSP – Billing and Settlement Plan (sales data)	KPI – Key Performance Indicators	
CAS – Czech Accounting Standards	L – ICAO rules and regulations in Czech	
CBT – Computer Base Training (an instructional program to train pilots on the ground)	Language Proficiency Test – Test of proficiency in English based on the requirements set out in regulations concerning the competence of air crew members	
CC – Cabin crew	Lessor – Party leasing an aircraft to another party	
Code-share agreement – Agreement under which several carriers contribute to the operation of a single route, which is labelled with the codes and numbers of the operating marketing carrier	LPH – Aviation fuel	
DBC – Denied Boarding Compensation (rules for the compensation of passengers to be paid by an airline in cases where a flight is cancelled or severely delayed, and other cases where boarding is denied)	MIDT – Marketing Information Data Tapes (booking data)	
EASA – European Aviation Safety Agency	MRO – Maintenance, Repair and Overhaul (an integrated system for the administration and management of aircraft maintenance)	
EIA – Environmental impact assessment	On-line booking – Reservation of tickets over the Internet	
Electronic ticketing – E-ticket sales system	OBCL – Civil Aviation Safety Department	
FC – Flight crew	PAX – Passengers	
GDS – Global Distribution System	PL – Plan	
GSA – General Sales Agent	PTA – Prepaid ticket advice	
Hub – Transit point where passengers make their connecting flight, a hub airport is a transit point, but also a destination, where flows of passengers are divided depending on the final destination of their journey	Queue – Processing of messages from the booking system	
IATA – International Air Transport Association	REACH – Registration, Evaluation and Authorization of Chemicals (new chemical legislation of the European Union)	
IATA CK – Travel agencies registered with the IATA	SAS – Strategy of Airline Systems (introduction of a comprehensive airline system to support key business activities)	
	SC – Steering Committee (the SkyTeam Alliance body authorized by the GB to monitor and ensure the realization of the Alliance's principal objectives)	
	SK – Actual	

CONTACT INFORMATION

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