

11 June 2010 / 07:30
Petr is having breakfast on a hotel terrace in Paris, the final day of a five-day negotiation ahead of him. He looks forward to being home with his family he will see them tonight.

CZECH AIRLINES

ANNUAL REPORT 2009

CONTENTS

Introduction – foreword by the Board Chairman and Company President	4	Sky Team Alliance	34	14. Derivate Financial Instruments	83
Company Profile – Business Activities	5	Aircraft Fleet	34	15. Other Liabilities	84
Important Developments during 2009 and 2010, up to the date the Annual Report went to press	8	Aircraft Park	34	16. Taxation	84
Awards Won in 2009	11	Flight Safety	36	17. Revenue Analysis	85
Selected Economic Indicators	11	Czech Airlines Security	36	18. Cost of Materials, Energy and Services	85
Corporate Governance and Management	14	Punctuality of Operations	36	19. Employee Analysis	85
Shareholders	14	Environmental Care	37	20. Other Operating Income	87
Administrative Bodies	14	Human Resources	40	21. Other Operating Expenses	87
Supervisory Board	15	Occupational Health and Safety	40	22. Other Financial Income	88
Board of Directors	18	Human Resources Training and Development	40	23. Other Financial Expenses	88
Corporate Governance Code of the Company, based on OECD Principles	22	Employee Numbers Development	40	24. Related Party Transactions	88
Top Executive Management	25	Wage Policy	41	25. Commitments	91
Areas of Business activity	26	Air Crew Personnel and their Training	42	26. Sale and Transfer of the Discontinued Operations	92
Regular transport – network of routes	26	FINANCIAL PART OF THE ANNUAL REPORT	43	27. Contingent Assets and Liabilities	93
Cargo	28	Report of the Supervisory Board of the Czech Airlines a.s. for the Year 2009	44	28. Cash Flow Statement	93
Duty Free	28	Independent Auditor's Report	46	29. Subsequent Events	94
Technical Maintenance	28	CAS Financial Statements	48	Commercial-Transportation Achievements in the Year 1999-2009	95
Customer's Aircraft	28	Notes to the Financial Statements for the Year Ended 31 December 2009	57	Czech Airlines Aircraft Fleet - Overall	96
Repair Plant Maintenance	28	1. General Information	57	Operation Indicators	96
Handling	28	2. Accounting Principles and Policies	60	Report of the Statutory Body of the Company Relations Between Interconnected Persons	98
Aircraft Handling	28	3. Intangible Fixed Assets	67	Appendix No.1 to the Report on relations between interconnected persons	106
Passenger Handling	28	4. Tangible Fixed Assets	68	Equity Holding of the Czech Airlines	116
Charters	29	5. Investments In Subsidiaries	74	Glossary	117
Product Management and the Loyalty Programme, OK PLUS	30	6. Other Securities and Investments	76	Contacts	117
Pricing and Revenue Management	30	7. Inventories	77		
Sales Management	31	8. Receivables	78		
Owned Offices	31	9. Other Assets	79		
Agencies	31	10. Equity	79		
Contact Centre	31	11. Provisions	80		
		12. Liabilities	81		
		13. Bank Loans and Other Borrowings	82		

FOREWORD BY THE BOARD CHAIRMAN AND COMPANY PRESIDENT

By the beginning of this year it became clear that Czech Airlines would find itself at the centre of action throughout the coming year – not just because of instability in the air transport market and the global economic recession, but also because of our closely watched privatization.

Pessimistic assumptions that the air transport segment faced the greatest crisis in history were confirmed. Czech Airlines failed to avoid fallout from this difficult period as well. The optimism of the beginning of the year was replaced by negative news concerning the Company's struggle against a decline in passengers, lack of finances and an unrealized privatization. Possibly at no point in its entire eighty-six year history has Czech Airlines faced so many challenges in a single year.

Accompanying the economic recession was a marked reduction in world-wide demand for air transport. Quantitative shrinkage of passengers was worsened by a severe fall in average ticket prices. This situation projected itself tangibly in the declining profits of airline companies. Czech Airlines reacted to adverse situations in the market by initiating a number of measures, comprehensively called Action plan 2009. This plan included several profit building projects and restrictive measures in the field of expenditures. It set itself an aim to organise more effective management within the Company. On the basis of an agreement with most trade union organizations, the cost of human resources was lowered by 5%. Despite all these efforts and the fact that more measures were taken, the situation proved too difficult to stabilise.

I took over the leadership of Czech Airlines in October of 2009. At the same time, major changes took place within the management personnel, as well as in the statutory and supervisory bodies of the Company. The new team had to deal with a large number of challenges: to honourably carry on during the low season, to deepen the process of restructuring and to give Czech Airlines a completely new form.

One of the key moments at the end of last year was an historic agreement with trade union organizations, owing to which wages of all employees were cut even further. By taking this step, employees sent a clear signal that the future of the company matters to them and that they are willing to provide a helping hand. I consider this to have been a vital moment for the future evolution of the airlines. It was clear, however, that merely to lower expenses would not be adequate and that the company must be radically transformed in a way that would allow it to compete, so that its functioning would stem not only from the real configuration of the market, but also in a way that would bring long-term stability.

Therefore, Czech Airlines are now embarking upon a holding system that we consider to be a model with good prospects. The mother company of Czech Airlines will continue to focus on its core area of business, regular air transport. Through its subsidiary companies, it will then operate and offer highly specialized and professional services, including passenger and aircraft handling, charter transport, etc.

In the medium-term, it will develop its potential as a network carrier, focussing on so-called point-to-point, as well as transfer passengers. This corresponds with our intent to strengthen Prague as an important Central European hub.

Czech Airlines have a good reputation and a long tradition in the field of air transport and aims to profile itself through high standards and the quality of all its services. It will continue to build upon these attributes. I firmly believe that, thanks to the commitment of all employees and the new direction in which the Company is headed, the entire Czech Airlines Group is now ready to prove it belongs at the top of the European air transport.



“ Czech Airlines will continue to increase its focus on its core area of business activities, regular air transport

Miroslav Dvořák
Chairman of the Board of Directors and President of
Czech Airlines

COMPANY PROFILE – BUSINESS ACTIVITIES

Czech Airlines (further referred to only as “Czech Airlines” or as the “Company”), is the Czech Republic's flagship air carrier. The Company has been active in air transport for more than 86 years. Within the framework of the SkyTeam Alliance, it cooperates closely with more than eleven airline companies.

Czech Airlines' core business is the transportation of passengers on regularly scheduled flights. The Company enables its customers to reach important commercial and political centres, swiftly and comfortably.

In addition to providing quality services on regularly scheduled flights, Czech Airlines also offers irregular charter flights to attractive destinations, to travel agencies and other contractual partners. Along with passenger service, the Company is also involved in cargo transportation.

Czech Airlines also provides passenger and aircraft handling. Thanks to cutting-edge equipment and experienced staff, it handles more than half of all passengers at Prague Ruzyně Airport every year, not only those travelling with Czech Airlines, but on other airlines' flights as well.

Czech Airlines pays particularly meticulous attention to the technical maintenance of aircraft. Besides maintaining its own fleet, it also carries out regular certified servicing for a number of important international air carriers.

Czech Airlines also draws on its many years of experience in the area of crew training. The Company has its own training centre, where it organizes specialized training for its own crews as well as personnel of other airlines.

A close-up photograph of a person in a dark suit and light blue shirt sitting at a wooden table. They are holding a silver mobile phone with a QWERTY keyboard. The phone's screen displays a website with a red header and various text and images. In the background, another person's hand is visible, holding a pen over a document. Two white arrows originate from the top of the image, pointing towards two text boxes on either side of the person. The left arrow points to a text box containing a timestamp and a paragraph of text. The right arrow points to another text box with a timestamp and a paragraph of text.

11 June 2010 / 12:30

Petr successfully concluded his negotiations in Paris. The agreement has been signed and now all that's left is to confirm his Czech Airlines ticket for the trip back to Prague.

11 June 2010 / 13:05

Petr returns to his hotel. He still has to sort out important e-mails, pack, check out of the hotel and buy some presents for his wife and son.

IMPORTANT DEVELOPMENTS DURING 2009

2009

JANUARY

- » Czech Airlines reached an agreement with AIG Europe insurance company. Thanks to that agreement, Czech Airlines passengers will be able to purchase travel insurance at an advantageous price along with their air ticket.
- » The Company makes clearer its system of payment for overweight luggage.

FEBRUARY

- » The Ministry of Finance of the Czech Republic issues a tender as a majority shareholder in the Czech Airlines Company.
- » Czech Airlines introduces the option to purchase goods onboard its aircraft. Travellers in Economy Class may purchase additional refreshments and drinks above the scope of standard service, which remains free of charge.

MARCH

- » The Ministry of Finance of the Czech Republic announces that four contenders have registered for the tender to become a majority shareholder in the Czech Airlines Company: Air France–KLM, the consortium Unimex Group and Travel Service, all of whom are now able to carry out due diligence.
- » Czech Airlines' passengers may now purchase supplementary services at check-in counters, including upgrade to a higher class or entry to airport lounges.
- » The summer timetable offered flights to two new destinations: Tashkent and Novosibirsk. The Company also extended connections to Western and Eastern Europe and also the Near East.

APRIL

- » In the privatization competition, the Government of the Czech Republic decided to reject bids by the Darofan and Odien Group companies. The second round is entered by France–KLM and the consortium Unimex Group and Travel Service, earning the right to carry out due diligence.
- » In reaction to the economic crisis, Czech Airlines finalised their agreement with eight out of nine trade union organizations to lower wages.

MAY

- » Czech Airlines continued to modernize its fleet – they acquired a new Airbus A319 aircraft, the ATR42 aircraft is equipped with a new coat of paint in the SkyTeam colours.
- » Czech Airlines secured mid-term financing through a loan from the Osinek company.

JUNE

- » Czech Airlines successfully completed an IOSA audit of all operational activities and a new audit ISAGO that guarantees the quality of available handling services.

2009

JULY

- » In reaction to an estimated decrease in the number of passengers during the summer season, Czech Airlines determines to accelerate its Action plan.
- » Czech Airlines assists its passengers with securing Canadian visas.
- » Czech Airlines wins a tender as provider of handling services for the Air France – KLM company.

AUGUST

- » Air France – KLM Company withdraws from the tender for purchasing a majority share in Czech Airlines.
- » As a result of the economic crisis, Czech Airlines undertakes a number of measures, including a reduction in the number of employees.
- » Czech Airlines begins individual sales of tickets for selected charter flights.

SEPTEMBER

- » The consortium Unimex – Travel Service offers approximately one billion Czech crowns to purchase Czech Airlines.
- » Changes are made in the composition of the Supervisory Board of the Company, including the position of head of the supervisory body.

OCTOBER

- » The government declines the Unimex – Travel Service Consortium offer and halts the privatization of Czech Airlines.
- » In the context of a new structure of leadership of Czech Airlines, the number of members of the Board of Directors is reduced to five. Miroslav Dvořák becomes the new President of Czech Airlines, as well as Chairman of the Board of Directors.
- » All trade union organizations and the new leadership of the Company sign amendments to their collective agreements. These include wage decrease and a reduction in contribution to the pension insurance fund.
- » Czech Airlines terminate their own route to New York and optimized the winter flight schedule, in increasing the frequency of flights, particularly to destinations in Eastern Europe.
- » A new system of Revenue Management O&D was introduced in the Company.

NOVEMBER

- » A new Supervisory Body of the Company is appointed and the number of its members was reduced from twelve to six. Michal Mejstřík becomes its chairman.
- » For the first time in history, Czech Airlines hosts the European Airline Training Symposium.
- » In cooperation with the Prague Airport, Czech Airlines launches self-service check-in kiosks.

DECEMBER

- » In the tender for the purchase of Czech Airlines' independent business unit, Duty Free, a member of the international group Lagardere Services, the Aelia Czech Republic company, emerged victorious.

IMPORTANT DEVELOPMENTS OF 2010 UNTIL THE ANNUAL REPORT DEADLINE

2010

JANUARY

» All activities connected with handling of passengers and aircraft were transferred to the Czech Airlines Support subsidiary company.

FEBRUARY

» An extraordinary General meeting of Czech Airlines discussed an offer by a serious party to cooperate in the field of charter transport and authorises Czech Airlines to continue with further negotiations.

» The subsidiary company, the Czech Airlines Support is renamed to Czech Airlines Handling.

» The European Commission announces that it will formally begin to consider the stabilization plan of Czech Airlines and will also determine whether the credit extended to Czech Airlines by the Osinek Company can be reconciled with European Union legislation in the field of public support.

» The transfer of a separate business unit of Czech Airlines, Duty Free, to the Aelia Czech Republic Company is completed.

MARCH

» Czech Airlines decides that it will refuse the offer of a strategic partnership in the field of charter transport. The Company prefers to sequester the services of irregular transport into a subsidiary company.

» The new flight schedule of the Company offers connections for example to Dubrovnik in Croatia, after winter hiatus flights to Manchester were resumed. Czech Airlines will offer, in the summer season of 2010, regular flights to 110 destinations in 45 countries and, within its own network, connections to 68 destinations in 38 countries.

APRIL

» The Supervisory Board agrees to a proposal by the Board of Directors to present the new restructuring plan to the Ministry of Finance of the Czech Republic, in order to fulfill an appropriate decree by the Government of the Czech Republic. The proposed restructuring plan of Czech Airlines comprehensively deals with the functioning of the company during the 2010–2012 period.

» The eruption of a volcano in Iceland halted air traffic over Europe for nearly seven days. Czech Airlines was unable to dispatch over 900 flights.

MAY

» The Government of the Czech Republic approved the proposed restructuring plan.

AWARDS WON IN 2009

BEST AIRLINE BASED IN CENTRAL/EASTERN EUROPE

This prestigious prize is awarded on the basis of a poll by experts from the public of the London-based international aviation organization, Official Airline Guide (OAG).

BEST AIRLINE IN CENTRAL EUROPE

This award is given on the basis of voting by millions of passengers from around the world by the independent UK organization, Skytrax, in the context of the World Airline Awards.

BEST AIRLINE ON THE CZECH MARKET

First Prize in the Best Airline Company in the context of TTG Travel Awards, as judged by approximately 850 professionals in the business.

RHODOS PRIZE FOR IMAGE

This prestigious title is a sign of the fact that Czech Airlines is perceived as a company with a good reputation.

PRIZES FROM HANDLING PARTNERS

Except for corporate awards Czech Airlines also regularly earned a number of awards in the category of handling services offered to the partners of the Company; for example the "Star of the Month" for September and third place in the "Station of the Year 2009" category. Both prizes were awarded by the Swiss International Airlines Company.

SKYLINERS' AWARDS

In 2009 the Company also received the Skyliners' Awards prize for a 99.75% accuracy in observing the Czech Airlines departure/arrival procedures at Manchester airport.

SELECTED ECONOMIC INDICATORS

Financial results according to Czech accounting legislation (thousands CZK)

	2008	2009
Production/Revenues	22,532,908	19,789,620
Operating profit/loss	696,048	(3,539,760)
Profit/loss before tax	499,149	(3,688,239)
Profit/loss after tax	470,057	(3,756,125)
Equity	101,686	(2,352,045)
Share capital	2,735,510	2,735,510

BOARDING PASS
BILLET D'EMBARQUEMENT

CZECH AIRLINES
NOVAKI / PETRINA

11 June 2010 / 13:50
Petr checked in online for his flight home. Online check-in is a great asset. Petr won't have to wait at the airport.

11 June 2010 / 14:55
Petr arrives at the airport. There is less than an hour till departure. He likes to use fast-track, as fast passage through the airport saves his precious time.

DATE
DATE
11 JUN

TIME
DEPART
15H45

FROM ... TO
DE ... A
PARIS CDG 2D
PRAGUE

CORPORATE GOVERNANCE AND MANAGEMENT

SHAREHOLDERS

Shareholder	Share (%)
Ministry of Finance of the Czech Republic	91.75 *
Česká pojišťovna	4.33
Capital city of Prague	2.94
Capital city of Bratislava	0.98

* On 28 July 2009 a share of the National Property fund of the Slovak Republic was transferred to the shareholders of the Ministry of Finance of the Czech Republic.

ADMINISTRATIVE BODIES

General Meeting

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

Supervisory Board

The Company's Supervisory Board is a control body with extended powers. On the basis of a decision taken during the Extraordinary General Meeting on 18 November 2009, the number of its members was decreased from twelve to six. The Supervisory Board oversees the implementation of the Company's business activities, elects and recalls the members of the Board of Directors and checks on their work. Four members of the Board of Directors are elected by shareholders and two by the company employees. The composition, competence, and powers of the Supervisory Board are defined in the Commercial Code and in the Company's Articles of Association.

Board of Directors

The Board of Directors is a statutory body, managing the activities of the Company and acting in the Company's name, in accordance with the rules defined in the Czech Airlines' Articles of Association. The statutory body is appointed by the Supervisory Board and is generally comprised of members holding top executive management positions in the Company. Based on the decision of an Extraordinary General Meeting on 18 November 2009, the number of its members was decreased from nine to five. The Board of Directors makes decisions on all Company matters that are not regulated by legislation or by the Articles of Association and which are not within the competence of the General Meeting or Supervisory Board of the Company.

Committees of the Supervisory Board and Board of Directors

Based on a decision taken by the Supervisory Board on 16 December 2009, all committees were abolished with regard to the number of members of the Board of Directors and the Supervisory Board.

One exception was the Committee for the Management of Risks, the operation of which was modified.

The audit competences from the abolished Audit Committee were passed onto the Supervisory Board which, in cooperation with the statutory body, proceeded to set up a common commission for audit towards 20 January 2010. Its task is to coordinate auditing activities within the Company and to secure necessary advisory and consultation support.

SUPERVISORY BOARD

MICHAL MEJSTŘÍK

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

A graduate of the University of Economics, Prague, in the field of Econometrics. Acquired the Candidate of Economic Sciences title (CSc.) for his academic research in the area of evaluation of projects. Completed his advanced studies at the London School of Economics (1990–91). Since 1997, he has been a professor of Banking and Firm Finances at the Charles University in Prague and since 1993, has been building the Institute of Economic Studies at the Faculty of Social Sciences of the Charles University in Prague (IES). He has published over 150 articles at home and abroad. He repeatedly served as an external consultant to international organizations, for example USAID, The World Bank, the Czech Government and a number of corporations, either independently or through the consultant firm EEIP, of which he is a chairman of the Board of Directors. He was a member of the National Economic Advisory Council (NERV) to the Czech government. During 2002–2008, he served as a vice-chairman of the Supervisory Board of the Východočeská Plynárenská, as well as a member of the Supervisory Board in Západočeská Plynárenská and Severomoravská Plynárenská.

TOMÁŠ UVÍRA

» Vice-chairman 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). In 1993 and 1994 he worked as a methodologist and, subsequently, as Marketing Director

at První Slezská Banka. Between 1994 and 1996 he worked for the Czech National Bank as a banking expert. Then he served for two years as the conservator of Velkomoravská Banka. In 1998–1999 he was an adviser to the Minister for Education, Youth and Sports of the Czech Republic. From 2000 to 2005 he was the Financial Director of Středočeská Plynárenská and from 2005 to 2007 he was the Vice-President responsible for the management of the Financial Section at AERO Vodochody. Since April 2007, he has been the Executive Director of Asset Management at the Ministry of Finance of the Czech Republic.

ROMAN BOČEK

» Member of the Supervisory Board since 24 June 2009
Graduate of the Faculty of Pedagogy at the Masaryk University in Brno. Since 1997, was a member of the Board of Directors of Kotva. At the same time, he held the post of Financial Director and member of the Board of Directors of the company Mercuria Plus. In 1998 he became the Economic-Personnel Director of Kotva and a year later, its Director General. He held the same position, including being a member of the Board of Directors, in the Real Spectrum, company. During 2003–2008 he directed and was a chairman of the Board of Directors of the Regional Hospital Příbram. Since January 2009 he has been the Deputy Minister of Transport. He is a member of supervisory boards of companies CDV, v.v.i., Prague Airport Direction, s.p. Prague Airport and is also the chairman of the steering committee of Czech Railways and a member of the supervisory board of Czech Railways Cargo.

JOSEF DORUŠKA

» Member of the Supervisory Board since 18 November 2009
Graduate of the University of Mining in Ostrava in the subject of drafting and building. Until the end of 1980, he worked at the Hlubina coal mine in Ostrava. Then he joined public administration, where he served in leadership positions managing fuel and energy industries on the Ministry and the Government. Since 2002, he has been working at the Ministry of Finance of the Czech Republic, currently as an advisor to the Minister. He is a member of the supervisory board of the Českomoravská Záruční a Rozvojová Banka and a member of the administrative board of the University of Mining in Ostrava.

TOMÁŠ BRABEC

» Member of the Supervisory Board elected by employees since 12 December 2007
Graduated in aviation mechanical engineering from the Secondary Transport Vocational College in Prague. He has worked for Czech Airlines since 1993. He has held positions as Load Control officer, Ramp Control officer and, subsequently, Ramp Handling Services supervisor. At present, he works in the subsidiary company Czech Airlines Handling as a Supervisor, in the Organization of Aircraft Handling Ground Operations.

RADOMIL KRATOCHVÍL

» Member of the Supervisory Board elected by employees since 9 April 2008
Graduate of the University of Transport in Žilina (now the Žilina University in Žilina) in the subject of Operation and Economics of Air Transport. Since 1978, has been an employee of Czech Airlines, first as a pilot and currently as the captain of the Airbus A320 aircraft.

LIST OF MEMBERS OF THE SUPERVISORY BOARD IN 2009 UP TO THE DATE THE ANNUAL REPORT WENT TO PRESS

PERIOD	COMPOSITION OF THE SUPERVISORY BOARD	
1 JANUARY 2009	<p>Chairman Ivan Kočárník Member and held post from 10 April 2007 to 14 September 2009</p> <p>1st Vice-Chairman Tomáš Uvíra Member and has held the post since 10 April 2007</p> <p>2nd Vice-Chairman Dušan Horák Member since 11 December 2002 and held the post from 27 November 2006 to 18 November 2009</p>	<p>Member Ivan Foltýn Member from 10 April 2009 to 14 September 2009</p> <p>Pavel Škvára Member from 10 April 2007 to 14 September 2009</p> <p>Jan Bürgermeister Member from 23 April 2007 to 14 September 2009</p> <p>Daniela Kovalčíková Member from 27 June 2007 to 24 June 2009</p> <p>Ivana Řápková Member from 27 November 2006 to 14 September 2009</p> <p>Jaroslav Lorenc* Member from 8 April 2003 to 18 November 2009</p> <p>Radomil Kratochvíl* Member since 9 April 2008</p> <p>Roman Boček Member since 24 June 2009</p> <p>Tomáš Brabec* Member since 12 December 2007</p> <p>Petr Polák Member from 27 November 2006 to 14 September 2009</p>

PERIOD	COMPOSITION OF THE SUPERVISORY BOARD	
14 SEPTEMBER 2009	<p>Chairman: Václav Novák Member and held post from 14 September 2009 to 19 October 2009</p> <p>Miroslav Zámečník Held post from 19 October 2009 to 18 November 2009</p> <p>1st Vice-Chairman: Tomáš Uvíra Member and has held the post from 10 April 2007</p> <p>2nd Vice-Chairman Dušan Horák* Member from 11 December 2002 and held post from 27 November 2006 to 18 November 2009</p>	<p>Member: Zdeněk Šmejkal Member from 14 September 2009 to 19 October 2009</p> <p>Pavel Fuchs Member from 14 September 2009 to 18 November 2009</p> <p>Pavel Zámečník Member from 14 September 2009 to 18 November 2009</p> <p>Vladimír Bail Member from 14 September 2009 to 18 November 2009</p> <p>Michal Mejstřík Member since 14 September 2009</p> <p>Jaroslav Lorenc* Member from 8 April 2003 to 18 November 2009</p> <p>Radomil Kratochvíl* Member since 9 April 2008</p> <p>Roman Boček Member since 24 June 2009</p> <p>Tomáš Brabec* Member since 12 December 2007</p>

* Supervisory board members elected by company employees

PERIOD	COMPOSITION OF THE SUPERVISORY BOARD
18 NOVEMBER 2009 To the date that the annual report went to press	<p>Chairman: Michal Mejstřík Member since 14 September 2009 has held post since 18 November 2009</p> <p>1st Vice-Chairman: Tomáš Uvíra Member and has held the post from 10 April 2007</p> <p>Member: Josef Doruška Member since 18 November 2009</p> <p>Roman Boček Member since 24 June 2009</p> <p>Radomil Kratochvíl* Member since 9 April 2008</p> <p>Tomáš Brabec* Member since 12 December 2007</p>

MEMBERS OF THE BOARD OF DIRECTORS IN 2009 UP TO THE DATE THAT THE ANNUAL REPORT WENT TO PRESS

BOARD OF DIRECTORS

MIROSLAV DVOŘÁK

» Chairman of the Board of Directors since 19 October 2009
Graduate of the Operational-economic faculty, with specialization in business, finance and business law from the Czech Agricultural University in Prague. He started his professional career in 1992 in the position of the Deputy Director of the Division of administration of assets in ČSOB. In the period 1997–2001, he held the post of the Director and Chairman of the Board of Directors in the Patria Asset Management company. He served in the position of the Chief Director at ČSOB from 2002 to 2007. In June 2007 he became the Chief Executive of the Prague Airport Management, s.p. Since 19 October, he has been active in Czech Airlines in the position of Chairman of the Board of Directors and from 1 November 2009 also in the position of President of the Company.

PHILIPPE MOREELS

» Vice-Chairman of the Board of Directors since 1 December 2009 and member of the Board of Directors since 18 November 2009
Graduate of the Vrije Universiteit in Brussels, where he majored in computer science and sociology, and of the Solvay Business School. Since 1993, worked in the Bratislava headquarters of Tatra Bank; first as the Director of Operations and, since 1998, as a member of the Board of Directors. He was at the same time, from 2001, the co-manager of the RAISA Company (Raiffeisen Informatik Service Ausland), responsible for the coordination of activities of internet banking of the RZB group in Central and Eastern Europe. Since November 2009 he has worked at Czech Airlines as the Vice-President for Marketing, Sales and Economics. He is, from 1 December 2009, the Vice-Chairman of the Board of Directors of Czech Airlines.

JOSEF ADAM

» Member of the Board of Directors since 19 October 2009
Graduate of the Faculty of Law of the Charles University. After completing his studies, he worked in various law firms. In August 2007 started work at Airport Prague, where he became the Manager of the Legal department and participated in important company projects. He was one of the key persons who realized the transformation of the state company Prague Airport Management, s.p. into a joint-stock company, Prague Airport. Since 19 October 2009, when he became a member of the Board of Directors of Czech Airlines, he participated in pivotal projects and transactions of the ongoing restructuring and stabilization of the Company. Left Prague Airport in January 2010. Since 16 January 2010, has held the position of the Vice-President for ICT, human resources and legal matters.

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 his postgraduate at the Sheffield Hallam University MBA programme, run at the Masaryk Institute of Higher Education, Czech Technical University, Prague. He has worked for Czech Airlines since 1987. He began as an in-flight engineer, then became a TU 134, L 410, and Boeing B737 first officer and was ultimately made Captain of ATRs, Boeing B737s, and the Airbus A320 family. Since 2001, he has been a flight and ground instructor. Since 1 July 2006, he has been the Czech Airlines Vice-President for Ground Operations. He is a member of the board for aviation-based doctoral studies at the Faculty of Electrical Engineering, Czech Technical University, Prague, and the Transport Institute in Košice.

MAREK TÝBL

» Member of the Board of Directors since 18 November 2009
Graduate of the Faculty of Transport at the Czech Technical University in Prague. Since 2000, he has been active as a teacher at this Faculty. He completed his aviation exams and joined Czech Airlines, first as a second officer on B737 aircraft, then on long-distance A310 aircraft. Since 2004 he has flown ATR as a captain, at the same time commanding the wing and becoming the ATR chief pilot. He became Vice-President for flight operations of Czech Airlines in December 2009.

PERIOD

1 JANUARY 2009

COMPOSITION OF THE BOARD OF DIRECTORS

Chairman:

Radomír Lašák

Member since 18 January 2006, held post from 19 January 2006 to 19 October 2009

Vice-Chairman:

Jiří Devát

Member since 1 September 2006, held post from 16 January 2007 to 19 October 2009

Member:

Luboš Černý

Member from 26 July 2006 to 31 July 2009

Jiří Hrbáček

Member from 1 August 2009 to 19 October 2009

Jan Janík

Member from 1 October 2006 to 19 October 2009

Roman Planička

Member from 1 July 2008 to 19 October 2009

Dušan Ryban

Member from 26 July 2006 to 19 October 2009

Petr Pištělák

Member from 21 December 2006 to 19 October 2009

Petr Řehák

Member from 12 September 2006 to 13 October 2009

Peter Jusko

Member since 2 September 2003

PERIOD

19 OCTOBER 2009

Up to the date the annual report went to press

COMPOSITION OF THE BOARD OF DIRECTORS

Chairman:

Miroslav Dvořák

Member and holds post since 19 October 2009

Vice-Chairman:

Philippe Moreels

Member since 18 November 2009, has held the post since 1 December 2009

Member:

Josef Adam

Member since 19 October 2009

Marek Týbl

Member since 18 November 2009

Peter Jusko

Member since 2 September 2003

Pavel Dolák

Member from 19 October 2009 to 18 November 2009

Jan Trčala

Member from 19 October 2009 to 18 November 2009



11 June 2010 / 15:30
Petr steps into the aircraft and a smiling flight attendant welcomes him on board. It's the pleasant staff that Petr likes the most about Czech Airlines.

11 June 2010 / 15:35
Petr takes a comfortable seat, quickly checks the e-mail on his mobile phone and sends final instructions to his assistant.

CORPORATE GOVERNANCE AND MANAGEMENT CODE BASED ON OECD PRINCIPLES

CZECH AIRLINES STATEMENT ON THE LEVEL OF COMPLIANCE OF ITS CORPORATE GOVERNANCE AND MANAGEMENT WITH THE CORPORATE GOVERNANCE CODE BASED ON OECD PRINCIPLES

In 2004, Czech Airlines acceded to being in compliance with the Corporate Governance and Management Code Based on OECD Principles. The administrative bodies of the Company thus declared their interest in respecting the principles of due corporate governance.

The ongoing implementation of the corporate governance model at Czech Airlines was initiated in 2005. The position of Company Secretary was established and a Company Secretary's Office was set up to promote awareness of the importance of corporate governance among Czech Airlines employees, including the members of the administrative bodies. Many of them have undergone the relevant training programmes.

Throughout 2009 and 2010, up to the date the Annual Report went to press, five extraordinary and one regular General Meeting was convened:

Extraordinary General Meeting of the Company, held on 11 March 2009:

Approved the proposal by the Board of Directors to carry out due diligence and disclose information, stemming from this procedure, in connection with the transfer of shares held by the Ministry of Finance of the Czech Republic, as well as decided on the remuneration of members of the Supervisory Board in 2009.

Regular General Meeting of the Company, held on 24 June 2009:

Except for discussing by-law stipulated matters, the General Meeting stated that the key indicators of the 2006–2008 OK Strategy, set for 2008, had been met.

It evaluated the 2009–2013 Strategy of Czech Airlines, concluding that, for the 2009–2010 period, the financial goals of the approved strategy had to be updated due to the worldwide economic crisis, but the basic tenets of the strategy 2009–2013 remain valid. In this context, the General Meeting noted the information presented by the Board of Directors regarding the preparation of alternative scenarios of the development of the Czech Airlines' economy in the 2009 and 2010 period.

It set the volume of financial resources for granting sponsorship in the course of 2010.

It carried out personnel changes in the Supervisory Board and approved the change of Articles.

Extraordinary General Meeting of the Company, held on 14 September 2009:

Decided on splitting shares of Czech Airlines and, in this context, also approved the change of Articles. Toward 24 June 2009, carried out personnel changes in the Supervisory Board.

Extraordinary General Meeting of the Company, held on 18 November 2009:

As another measure, in the sense of paragraph 193, article 1 of the Commercial Code, adopted Czech Airlines' Restructuring plan for the 2009/2010 period, approved on 20 October 2009 by the Board of Directors, led by Chairman M. Dvořák.

Carried out additional personnel changes in the Supervisory Board.

The crux of the approved change of Articles was a reduction in the number of members of the Supervisory Board and the Board of Directors.

Decided on the remuneration of members of the Board of Directors and the Supervisory Board and, in this context, approved the agreements on administration of duty.

Took note of the information, submitted by the Board of Directors, concerning "Information of the Board of Directors on the Economy of Czech Airlines in the Course of 2009 and the Economic plan 'till 2014". In this context, it tasked the Board of Directors to prepare an economic plan until 2014, by the date of regular General Meeting of the Company in 2010.

Extraordinary General Meeting of the Company, held on 16 December 2009:

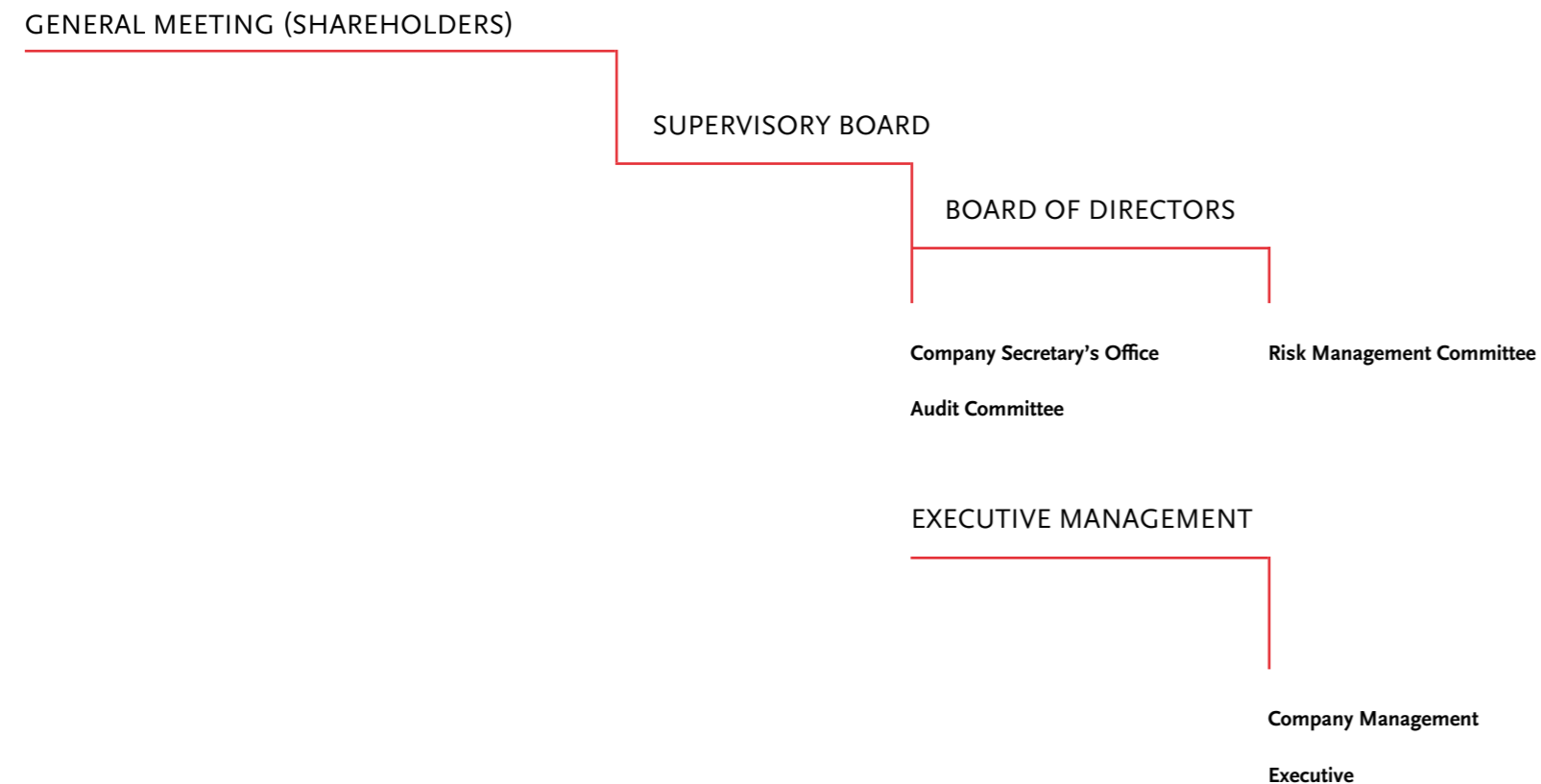
Gave approval to the closing of an agreement between Czech Airlines and the Aelia Czech Republic Company, regarding the transfer of that portion of the Company titled "Duty Free".

Gave approval to raising the basic capital of the Czech Airlines Support company through the non-monetary investment of an independent organizational unity of Czech Airlines, titled "Ground Operations".

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

Gave approval to close an agreement between Czech Airlines and Travel Service, regarding the transfer of a portion of the Company, titled "SOJ Charterly" and approved the transfer of 100% of the business shares held by Czech Airlines in the Slovak Air Services Company, under the conditions of a regular tender.

CURRENT MODEL OF CORPORATE GOVERNANCE AT CZECH AIRLINES



TOP EXECUTIVE MANAGEMENT

A LIST OF MEMBERS OF TOP EXECUTIVE MANAGEMENT WHO TERMINATED THEIR ACTIVITY IN CZECH AIRLINES IN 2009

Radomír Lašák
President of the Company from 19 January 2006 to 31 October 2009

Jiří Devát
Vice-President for IT from 1 September 2006 to 23 October 2009

Jan Janík
Vice-President for Flight Operations from 1 October 2006 to 23 October 2009

Luboš Černý
Vice-President for Economics from 1 September 2006 to 31 July 2009

Jiří Hrbáček
Vice-President for Economics from 1 August 2009 to 23 October 2009

Petr Pištělák
Vice-President for Marketing and Product Development from 1 December 2006 to 23 October 2009

Roman Planička
Vice-President for Technics from 1 July 2008 to 23 October 2009

Dušan Ryban
Vice-President for Human Resources from 1 February 2006 to 23 October 2009

Petr Řehák
Vice-President for Sales from 12 September 2006 to 13 October 2009

František Šír
Executive Director of the Management of Supply Services department from 1 May 2006 to 31 October 2009

A LIST OF MEMBERS OF TOP EXECUTIVE MANAGEMENT

Miroslav Dvořák
President of the Company since 1 November 2009

Philippe Moreels
Vice-President for Marketing, Sales and Economics since 16 November 2009

Josef Adam
Vice-President for ICT, Human Resources and Legal Matters since 16 January 2010

Peter Jusko
Vice-President for Ground Operations from 1 July 2006, then for Operational Services since 1 November 2009

Marek Týbl
Vice-President for Flight Operations from 1 December 2009

AREAS OF BUSINESS

REGULAR TRANSPORT

Network of Routes:

On the basis of following trends, Czech Airlines acceded to a more stringent adjustment of the flight timetable in the summer season of 2009. The Company then strengthened the frequency of flights to Eastern European destinations, although the number of flights to Ostrava were circumscribed and the capacity on routes to Budapest, Warsaw, Scandinavia and the Baltic states was reduced. By abolishing routes to New York and the seasonal route to Toronto, Czech Airlines terminated the operation of the Company's own long-haul routes. Its presence in the market of long-haul routes is henceforth secured through cooperation with its partners – Delta Airlines on the Prague–New York route, also during the summer on the Prague–Atlanta route and Korean Air on the route Prague–Seoul/Inchon. Other similar projects are being negotiated.

For 2010, Czech Airlines terminated the operation on the unprofitable route to Istanbul. Czech Airlines furthermore expects to change in the flight timetable, which will ensue from measures stemming from the restructuring plan. Regular air traffic will continue to be the main area of business.



CARGO

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

As a consequence of the economical crisis there was a decrease in the transported load. Czech Airlines Cargo therefore concentrated on improving the quality of services in the transit process and on offering products with added value.

In connection with increased demand to Eastern Europe several charter cargo flights were dispatched towards the end of 2009. In 2009 Czech Airlines Cargo transported 21,153,572 kg of goods and mail.

DUTY FREE

Duty Free Autonomous Sales Unit (Duty Free SOJ). In 2009, it secured the sale of merchandise in three airport shops in Prague, a store in Karlovy Vary and onboard Czech Airlines aircraft.

In-flight sales, called SKY SHOP were, in the course of 2009, available to passengers flying to 45 destinations and on selected charter flights. On-order sales are available on additional 29 destinations.

Within the framework of the restructuring plan of Czech Airlines, in December 2009, the SOJ Duty Free was divested. In the selection procedure, a member of the international Lagardère group, the Aelia Czech Republic Company, won the competition. At the beginning of February, the transfer of the unit to this company was completed, while 79 employees of Czech Airlines transferred to it as well.

TECHNICAL MAINTENANCE

During 2009, the Czech Airlines technical Division (towards the end of the year renamed Technical Service) operated three heavy maintenance lines in Hangar F, geared towards the maintenance of aircraft operated by Czech Airlines and its customers. In all, 27 inspections were performed for Czech Airlines and 45 for customers. 21 inspections of ATR42/72 aircraft belonging to Czech Airlines were carried out in Hangar E.

Customer's Aircraft

In 2009, the Technical Division successfully continued to provide maintenance of Boeing B737 aircraft for external customers, particularly for Air Berlin, Transavia and SAS. This year, the Technical Division also carried out the first C-check on an Airbus A320 aircraft belonging to the Ural Airlines company, widening its portfolio of its services.

Repair Plant Maintenance

Throughout 2009, the Technical Division staff continued their efforts to enhance the efficacy of four lines for the general maintenance of Boeing B737-400/500 and Boeing B737NG undercarriages, with a view to increasing Czech Airlines' revenues from these operations. Direct costs for the maintenance of whole aircraft were lowered. A large number of activities were taken over by external entities in order to minimize costs for rotating aircraft units. Alongside this programme, other projects of specialized maintenance were launched, for example repair of pressure tanks, interior equipment.

HANDLING

In the area of its passenger and aircraft handling for Czech Airlines and foreign carrier flights, the Ground Operations Division again kept to a high standard in 2009, as evidenced by the results of audits by airlines such as Delta Air Lines, Lufthansa, Swiss International Air Lines, Austrian Airlines and Air France. By 1 January 2010 the Ground Operations Division had transferred to the subsidiary company Czech Airlines Support later was renamed to Czech Airlines Handling.

Aircraft Handling

In the framework of the continual increase in quality of services offered, since the beginning of 2009 a process to certify the Ground Operations Division according to the standards of ISAGO was underway. It was successfully completed on the basis of an audit in May 2009. Czech Airlines thus became the only holder of a certificate of quality that offers handling services at the Prague Airport.

Prague Airport is also used as an important transit point, i.e. it puts great emphasis on handling transferred luggage. Thanks to a specially configured system that devotes a certain number of staff only for activities connected with "Short connection" luggage, the amount of un-transferred luggage fell, year on year, by more than 40%. The same trend is also expected to continue in 2010.

Passenger Handling

In the area of Passenger Handling, Czech Airlines built on its successful results from the previous year, as confirmed by the renewal of handling agreements with airline operators such as Air France – KLM, Malév, Scandinavian Airline System, China Airlines – Cargo, Air Malta, Cimber Sterling and Luxair. Czech Airlines thus managed to hold onto the majority position in offering handling services at the Prague Ruzyně Airport.

Since January 2009, Czech Airlines simplified the collection of fees for overweight luggage and initiated the sale of additional services directly at check-in counters at Prague Ruzyně Airport. There, Czech Airlines also completed methods for changing the handling system, focusing on handling passengers on irregular routes.

CHARTERS

As a consequence of the world-wide economic crisis, in 2009 there was a decrease in demand for charter services as well. 3,216 charter flights were made, carrying 756,147 passengers. This represented a 10% drop compared to 2008.

Performance – charters

	2003	2004	2005	2006	2007	2008	2009
Number of passengers	243,992	330,160	706,913	796,308	797,248	845,508	756,147
Number of flights	1,413	1,764	2,945	3,235	3,384	3,576	3,216

PRODUCT MANAGEMENT AND LOYALTY PROGRAMMES

In 2009, the field of product management focused on using data from surveys of client preferences and their importance when selecting an airline company. Czech Airlines made full use of the detailed description of the process for communication between the client and the airline, from the initial contact when booking and paying for tickets, contact at the airport, to the actual flight and the post-flight service. In this chain of events, Czech Airlines concentrated on key factors that might steer passenger preferences the Company's way. The OK Plus loyalty programme recorded 453,904 members, which results in a 26% increase compared with 2008.

In 2009, the OK Plus Corporate Programme was expanded to two new markets – Macedonia and Armenia. At present, the OK Plus Corporate Programme has 6,690 registered firms. Compared with last year, this represents a 22% increase.

The OK Plus Partner Programme reached 2,707 members, which is 55% more than in 2008. This programme was implemented in thirteen new markets: Belgium, Canada, Denmark, Finland, France, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Great Britain and the United States of America.

Increase in the number of OK Plus members

Year	Number
2005	157,860
2006	204,036
2007	275,517
2008	360,228
2009	453,904

PRICING AND REVENUE MANAGEMENT

To support Pricing and Revenue Management, a new electronic system, Origin & Destination (O&D), was introduced. It allows prices to be set more effectively for individual segments within the Czech Airlines network. The Company plans to make full use of this system in 2010.

SALES MANAGEMENT

For the distribution and sales of its products, Czech Airlines mainly uses the following distribution channels:

- » Company Offices
- » Agencies
- » Contact Centre
- » Internet

COMPANY OFFICES

As of 31 December 2009, the Czech Airlines office network consisted of 38 branches in the Czech Republic and abroad. These branches primarily secure the business activities focused on agencies and company customers. A part of their activity is the sale of air travel to final customers.

AGENCIES

Despite the growing share of sales via the Internet and Call Centre, Agencies remain the most important distribution channel for Czech Airlines' products. This sales conduit is managed on various markets by domestic and foreign branches, in collaboration with divisions at the Company's headquarters.

Through agencies, Czech Airlines also reaches out to most of its corporate customers. To maintain motivation, incentive-based commission agreements have been concluded with the most important agencies in the Czech Republic and abroad. In regions where local legislation allows, Czech Airlines apply the Frequent Seller incentive programme for direct agency sellers.

CONTACT CENTRE

The Contact Centre serves as a distribution channel, operated under the subsidiary Czech Airlines Services. Via telephone, agents speaking a total of eight languages (English, German, Spanish, French, Italian, Russian, Czech and Slovak) provide services 24 hours a day, throughout the year.

In 2009, besides processing incoming calls, 6% of Contact Centre capacity was taken up by outgoing, active, outreach calls in the form of telemarketing. Contact Centre availability stands consistently at 75 to 80% in the long term, i.e. more than three quarters of all incoming calls are processed within 20 seconds.



11 June 2010 / 16:00
Petr appreciates the advantages of business class. He symbolically toasts with champagne, celebrating his successful negotiations and the beginning of the weekend.

11 June 2010 / 16:10
Petr is reading a newspaper, having looked forward to the Czech press for a whole week. The next moment, the flight attendant brings his dinner of beef steak and vegetables.

SKYTEAM ALLIANCE

As of 31 December 2009, eleven airlines were members of the SkyTeam Alliance: Aeroflot, Aeroméxico, Air France, Alitalia, China Southern Airlines, Czech Airlines, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air and two associated members – Air Europa and Kenya Airways. Through one of the world's most extensive network hubs of member airlines, the SkyTeam Alliance offered, in the past year alone, 384 million passengers a system flying 13,133 flights per day to 856 destinations in 169 countries.

It is expected that two new members – Vietnam Airlines and Tarom – will join the alliance in 2010.

AIRCRAFT FLEET

CZECH AIRLINES AIRCRAFT FLEET AS OF 31 DECEMBER 2009:

At the beginning of 2009, the Czech Airlines Fleet comprised 51 airplanes (3 x A310-300, 10 x B737-500, 10 x Boeing B737-400, 4 x ATR72, 1 x ATR42-320, 7 x ATR42-500, 2 x A321, 8 x A320, 6 x A319). During the year, the number of fleet aircraft was lowered to 49.

Type	Reg.mark	Name	Date of prod.	Operated at	Remarks
A310-304	OK-WAA	Praha	20. 10. 1990	11. 2. 1991	Sold on 19. 6. 2009
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-CGI	Prostějov	1. 1. 1997	26. 3. 2001	Returned on 22.4.2009
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-CGT	Písek	17. 1. 1997	24. 5. 2002	
B737-400	OK-WGX	Uničov	6. 11. 1991	12. 6. 2004	
B737-400	OK-WGY	Roudnice nad Labem	8. 1. 1992	30. 6. 2004	

Type	Reg.mark	Name	Date of prod.	Operated at	Remarks
B737-400	OK-VGZ	Polička	4. 4. 1990	22. 12. 2004	Returned on 2. 10. 2009
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	
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-GEA	Rožnov pod Radhoštěm	18. 4. 2001	17. 3. 2005	
A320-214	OK-GEB	Strakonice	10. 5. 2001	29. 4. 2005	
A320-214	OK-MEH	Beskydy	23. 12. 2007	15. 2. 2007	
A320-214	OK-MEI	Šumava	9. 2. 2007	15. 3. 2007	
A320-214	OK-MEJ	Krkonoše	21. 3. 2007	9. 4. 2007	
A319-112	OK-MEK	Jeseníky	19. 2. 2007	8. 3. 2007	
A319-112	OK-MEL	Vysočina	5. 4. 2007	9. 4. 2007	
A319-112	OK-NEM	Labe	21. 2. 2008	21. 2. 2008	
A319-112	OK-NEN	Vltava	13. 3. 2008	14. 3. 2008	
A319-112	OK-NEO	Odra	2. 4. 2008	3. 4. 2008	
A319-112	OK-NEP	Dyje	30. 9. 2008	1. 10. 2008	
A319-112	OK-OER	Ohře	1. 4. 2009	7. 5. 2009	Delivered 2009
A321-211	OK-CEC	Havlíčkův Brod	16. 5. 1997	30. 5. 2005	
A321-211	OK-CED	Nové Město nad Metují	20. 6. 1997	20. 5. 2005	

Czech Airlines Fleet in 2009 – configuration

Type	Number	Capacity	Note
A310-300	2	1 x 18C/183Y (YAC) 1 x 18C/188Y (YAD)	WAA sold 19. 6. 2009
B737-400	8	6 x 144 C/Y * 2 x 162 C/Y **	CGI returned 22. 4. 2009 VGZ returned 2. 10. 2009
B737-500	10	10 x 108 C/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 162 C/Y*	
A319-112	7	7 x 135 C/Y*	Delivered OER
A321-211	2	2 x 212Y	
Celkem	49		

* Flexible configuration according to requirements

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

C – Business class

Y – Economy class

FLIGHT SAFETY

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

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

Main programme components:

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

The goal of this programme is mainly to prevent the occurrence of incidents with a grave or fatal impact and to prevent the repetition thereof for the same reasons. The programme was successfully audited by both IOSA and UCL in 2009.

When the analyses of parameters describing flight safety are summed up, the level of flight safety of Czech Airlines' in 2009 was stable and in keeping with the Company's position among other carriers, despite the growing impact of the economic crisis and its effects on Czech Airline's operations.

CZECH AIRLINES SECURITY

In 2009 a number of changes occurred in international legislation, which were incorporated into Czech Airlines' internal documents. The application of safety and emergency procedures is regularly checked in destinations operated by Czech Airlines. Safety procedures are consulted with SkyTeam's expert team. In 2009 the number of emergency assistants among employees increased. Several educative cooperative drills with the Czech police forces took place. They were aimed at handling non-standard situations on board an aircraft, mainly eliminating illegal actions. In 2009 Czech Airlines successfully passed the IOSA re-audit for the protection of civil air transport against illegal actions. The system of quality management of safety regulations for the protection of civil air transport against illegal actions incorporated in 2009 more than 100 monitoring activities, which were carried out in the prescribed form of safety audits, inspections, and safety tests. In internal documentation one of the most important components is the Safety programme approved by the Ministry of transport of the Czech Republic and other state administration authorities.

The long-term concept and strategy of testing and examination of travel documents since 2006 provided Czech Airlines with good results. In 2009, the number of passengers with incomplete, forged or altered documents decreased greatly. Considering the changing trends in the area of illegal immigration, agreements have been concluded securing greater effectiveness and lower costs to these passengers.

Czech Airlines completed the consolidation of its digital surveillance camera system for the effective protection of the Company in the area of physical security. Administrative and IT security continues to be in conformity with the standards recommended by the auditor.

Fire protection prevention in 2009 was based on regular fire inspections of all buildings where Czech Airlines staff are employed. The audits of Fire protection security and a theme inspection by the Prague Fire Brigade found no defects.

PUNCTUALITY OF OPERATIONS

Air traffic punctuality remains one of the key indicators in evaluation of a carrier's quality. Comparing 2009 and 2008, within the Association of European Airlines (AEA), the punctuality of departures rose on average by 4%. The regularity of traffic punctuality of Czech Airlines was, in the first half of 2009, comparable with the same period in 2008 and, in the second half of the year, was 5% higher on average than in the same period during the previous year. In the AEA statistic, Czech Airlines placed 7th out of 36 registered members in the category of departure delays beyond 15 minutes.

Regarding the questions of availability and utilization of the aircraft fleet, Czech Airlines shows in the annual comparison between 2008/2009 a 3.7% increase in availability and a 5.1% decrease in utilization.

ENVIRONMENTAL CARE

ENVIRONMENTAL MANAGEMENT SYSTEM

Czech Airlines has been paying long-term attention to environmental care. In October 2009, the prestigious international organization, Det Norske Veritas, finished the first certification audit of the Environmental Management System (EMS) introduced in accord with the Czech norm ISO 14001. The successful result of the audit confirmed that Czech Airlines acts fully within legislative rules and continuously tries to lower its impact on the environment. Throughout 2009, Czech Airlines carried out an extensive e-learning programme, focused on environmental protection. Its goal was to introduce the staff of all professions to principles of environmental care. At the end of 2009, the Company announced its new environmental care policy, devoted to consistent environmental care.

AIR PROTECTION

Within the EU, a legislative process aimed at incorporating aviation into the current system of emissions trading continued (EU ETS). As of 1 January, 2012, the system will cover all flights landing or taking off from airports in the European Union, i.e. all intra-Union flights, as well as flights to non-EU countries. Accordingly, Czech Airlines will earmark its corresponding quantity of allowances for each flight, in order to offset the CO2 emissions produced by that flight.

NOISE

Aircraft noise plays a prominent role in the assessment and perception of air transport in relation to environmental protection. Prague airport has a system of monitoring noise that allows it to assess the level of noise in the airport's immediate vicinity. The monitoring not only analyzes the noise level during overpass by an aircraft, but also maps the distribution of noise pollution, taking into account state hygienic norms. Each of Czech Airlines' aircraft is equipped with an internationally recognized certificate that assigns it the appropriate noise class category.

DEFROSTING OF AIRCRAFT

Beside its own fleet, Czech Airlines provides defrosting and icing prevention services to other airlines. In the winter season of 2009/2010, a total 2,749 aircraft were defrosted, out of which 1,980 aircraft belonged to Czech Airlines. The defrosting liquid used is disposed of by Prague Airport.

WASTEWATER TREATMENT

At Czech Airlines, water management and the purity of discharged water receive special attention. The discharge of water from various technological processes is subject to stringent control mechanisms. The quality of discharged wastewater is regularly monitored. This category includes water from technological processes of washing aircraft, aircraft parts, mechanization substances, as well as the galvanization process of metal coating.

WASTE

The liquidation of different kinds of waste meets Czech environmental legislation regulations and those of the European Union.

HAZARDOUS CHEMICAL WASTE TREATMENT


Czech Airlines' carefully outlined and rigorously applied a system for working with hazardous chemical substances that meets all legal requirements. In 2009, the Company paid great attention to using of greener alternatives to chemicals.

PREVENTION OF ACCIDENTS

In the spring of 2009, the control bodies of the state administration carried out an extensive inspection to examine the fulfilment of obligations in the prevention of serious accidents. The results of the inspection confirmed that the activity of the Company is fully in accordance with legal requirements.

Types of waste (t/year)

Type of waste	2002	2003	2004	2005	2006	2007	2008	2009
Mixed waste	1,306.00	1,354.00	1,772.00	2,216.00	2,290.00	1,224.98	1,277.62	1,123.72
Hazardous waste	472.00	631.00	290.00	242.00	498.00	1,647.33	1,840.77	1,650.64
Miscellaneous waste	202.00	183.00	202.00	277.00	331.00	254.93	140.98	213.85
Reusable waste	603.00	628.00	667.00	498.00	470.00	252.56	453.91	176.29
Recycling	3.47	6.65	7.53	9.33	10.10	13.11	18.66	19.74



11 June 2010 / 16:35
Before landing, Petr took a short nap. He cannot wait to spend the weekend with his family and at this point no longer thinks of work.

11. June 2010 / 17:35
The flight from Paris with Petr on board lands on time in Prague. Petr says goodbye to the flight attendants and hurries to meet his wife, Kateřina.

HUMAN RESOURCES

OCCUPATIONAL HEALTH AND SAFETY

In 2009, the Company built upon a significant decrease in the number of occupational accidents, one of the priorities it set in 2006. Expressed in percentages, compared to 2008, in 2009 the number of occupational accidents fell by 43% and, since 2006, by a full 69%.

HUMAN RESOURCES TRAINING AND DEVELOPMENT

In 2009, more than 24,500 Company staff members and another 2,700 external customers underwent various courses organized by the Company training centre. Overall, 1,780 training exercises were carried out, representing 27,680 hours of classes.

Throughout 2009, a new version of security training, in accordance with the National programme of security training in civil aviation in the Czech Republic, was introduced. This training fulfils all requisite requirements and all Company staff must undergo this training.

Regarding technical professions, training has shifted from aircraft of the Boeing B737 type to the Airbus A319/A320/A321. On the other hand, throughout 2009, Czech Airlines terminated or greatly cut training that does not have a direct impact on operational security or that is not required by regulations.

DEVELOPMENTS IN THE NUMBER OF EMPLOYEES

The average number of employees in 2009 stood at 4,449, or 4.6% less than in 2008. The main reason for the decrease in the number of employees lay in the restructuring process initiated in the second half of 2009.

Number of employees, 2008–2009

Employee category	31. 12. 2008	31. 12. 2009	Net 08–09
Blue-collar	1,232	1,105	(127)
Management	76	56	(20)
White-collar	1,831	1,662	(169)
Cabin crew	968	879	(89)
Flight crew	535	470	(65)
Total	4,642	4,172	(470)

In the field of new recruitment, 192 new employment contracts were concluded in 2009 and 656 employees terminated their employment.

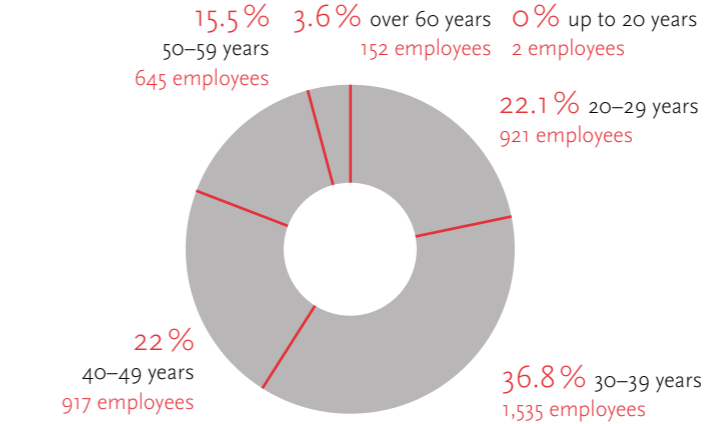
Employee category	New recruits	Employment terminated
Blue-collar	33	168
White-collar	141	329
Flight crew	6	78
Cabin crew	12	81
Total	192	656

As of 1 January 2010, Czech Airlines transferred 859 employees to the subsidiary company, Czech Airlines Support, later renamed Czech Airlines Handling.

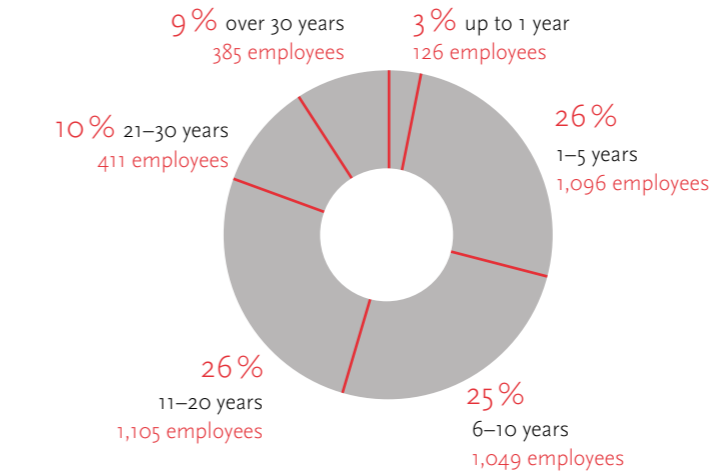
WAGE POLICY

In 2009, a wage policy was implemented, in line with a strategy focused on lowering personnel costs and restructuring the Company. According to the valid collective agreements, an across-the-board increase of wages for all categories of employees was implemented. As a result of the developing crisis, in April the increased wages were again reverted to the levels of 2008 and, in November, once again lowered for all categories of employees. On the basis of the adopted changes, in 2009 the savings in the area of personnel costs rose to more than a billion Czech crowns. Within the framework of continued restructuring of the Company, it is expected that, in 2010, savings will again reach several hundred million Czech Crowns.

EMPLOYEE STRUCTURE BY AGE



EMPLOYEE STRUCTURE BY LENGTH OF WORK FOR CZECH AIRLINES



AIR CREW PERSONNEL AND TRAINING

For its activities, Air Crew Training is authorised to provide model training on all the differing types of aircraft operated by Czech Airlines, including recurrent and refresher training of air crews. All forms of training are carried out in accordance with a certificate issued by the Civil Aviation Authority of the Czech Republic, in accordance with the valid European regulations JAR-FCL1, EU-OPS, and in accordance with internal Czech Airlines training handbooks.

During the course of 2009, 37 pilots were retrained to operate the Airbus A320 type of aircraft, 11 pilots to ATR type and 1 pilot was trained for the Boeing B737. Part of the training took place in foreign training centres, at the Airbus A310 simulator in Berlin and, to some extent, at the ATR simulators in Helsinki and Thessaloniki.

The Zero Flight Time Training (ZFTT), within the framework of which 29 pilots received comprehensive training in a flight simulator, showed itself to be of higher quality and more cost effective than training in an actual aircraft, which was always a rather costly exercise.

In all, 1,922 hours (out of this 576 hours were flown by external clients) were flown on the ATR 42 Flight simulator. The Boeing B737 flight simulator was also used intensively. Throughout 2009, a total of 4,957 hours were flown in it in all forms of model, refresher and recurrent courses. From this number, 3,318 hours were sold to external clients. Among the most significant customers were Aerosvit, Bulgaria Air, General Line, Travel Servis, Air Slovakia and Seagle Air. Flight hours on the Airbus A320 simulator totaled 5,053 hours, of which

2,276 training hours were sold to external customers. The most important customers included Ural Airlines, Bulgaria Air, Dobnassaero and the Military Air Force of the Czech Republic.

Overall, 253 cabin crew members took part in conversion training to cope with the ATR, Airbus 320, and Boeing B373.

The Aircrew Training Department has a capacity primarily intended to train aircrews of Czech Airlines. However, any spare training capacity is, despite the continuing economic woes in civil aviation, successfully sold to external customers.

An interesting activity carried out by the Air Crew Training Department is its "Fearless Flying" Courses, which are organized for the general public. In 2009, 70 people took part in them and judged them extremely positively. The Air Crew Training Department also offers excursions for schools, business partners and different agencies, with the opportunity to try out flight simulators under the supervision of experienced pilots. These lessons were attended by a total of 1,350 participants.

In November 2009, Czech Airlines hosted the European Airline Training Symposium in Prague. The conference and a visit to the Aircrew Training Department were lauded by both the participants and the main organizer of the event, the publisher of Civil Aviation Training magazine, which is available throughout the world.

Czech Airlines pilot training in flight simulators in 2009

Simulator/ aircraft type	Number of persons	Number of courses	Number of hours
A310	91	37	368
B737	443	223	1,561
ATR	538	127	1,413
A320	553	303	3,772

FINANCIAL PART OF THE ANNUAL REPORT



www.czechairlines.com

REPORT OF THE SUPERVISORY BOARD OF THE CZECH AIRLINES A.S. FOR THE YEAR 2009

MEETINGS OF THE SUPERVISORY BOARD IN THE YEAR 2009

» The Supervisory Board of the Czech Airlines a.s. met at 12 meetings during 2009 and six meetings were held under special conditions.

» In the year 2010, until the deadline of the Annual Report of the Czech Airlines a.s. for the year 2009, the Supervisory Board met at three general meetings and one meeting under special conditions.

ACTIVITIES OF THE SUPERVISORY BOARD

During the year 2009 or 2010, the Supervisory Board dealt both with the control activities and with the performance of the tasks resulting from its strengthened powers given by the Regulations of the company. The reports of the company management for the particular month, economical results of the subsidiaries, performance of the tasks in the project management were all presented on a regular basis. Assessment of the remunerations for the members of the statutory body was actively observed. In the first half of the year 2009 the main topic was the supervision of the proper course of the company privatization, the acceptance of the Czech Airlines financial plan for the year 2009 connected with assessment of the Strategie 2008 and Strategie 2009-2013. The Supervisory Board became acquainted with documents such as the Report on the Czech Airlines flight safety operations; in the second half of the year the Supervisory Board dealt with the acceleration of the action plan called "RED BULL". In October 2009, the Supervisory Board became acquainted with the schedule of the elaboration of the interim statement of finances and consequently it discussed the restructuring plan of 2009/10 including the analysis of the economical situation and the restructuring plan proposal compiled by the Supervisory Board. In November 2009 at the meeting of the Supervisory Board, the liquidity of the company was discussed and consequently also the interim statement of finances. The Supervisory board also confirmed the contract on the conversion of the part of the company which represents the organizational unit of Czech Airlines marked as Duty Free, the contract on depositing of the Czech Airlines part

which represents an independent organizational unit marked as the "Ground traffic" into the subcompany Czech Airlines Support s.r.o. and agreed to submit these contracts to the special general meeting in December 2009. Furthermore it agreed with the foundation of a lien in accordance with the document "Property guarantee" and it agreed with the sale of the APC building and related holdings.

The special Supervisory Board in February 2010 discussed the materials regarding the decision MVH of the company namely concerning the decision with the contract about the transfer of the part of the Czech Airlines a.s. which represents an independent trade unit marked as the "SOJ Charters", furthermore the decision on the transfer of 100% business share of the Czech Airlines a.s. in the company Slovak Air Services s.r.o. and the proposal on the statute change. Moreover, the Supervisory Board decided to accept the competences of the audit boards. In regards to a significant reduction of the number of the Supervisory Board all the others sub-boards were dismissed. Their competences will be exercised by the Czech Airlines Supervisory Board without affecting the principals of the "corporate governance" in Czech Airlines.

The Supervisory board actively helped through the chosen members to elaborate a new restructuring plan for discussion in the European Commission.

PERSONAL CHANGES IN THE SUPERVISORY BOARD IN 2009

» The personal changes in the Supervisory Board in 2009 are included in the text part of the Annual Report in the chapter Corporate governance and management.

SUPERVISORY BOARD COMMENTS TO THE ECONOMICAL RESULTS FOR THE YEAR 2009

The Supervisory Board in accordance with the Company Regulations dealt with the results of the Czech Airlines plan fulfillment on a regular basis in a way those results were in the form of reports submitted by the board of company directors. The Supervisory Board became



” During the year 2009 or 2010, the Supervisory Board dealt both with the control activities and with the performance of the tasks resulting from its strengthened powers given by the Regulations of the company

Michal Mejstřík

President of the supervisory board Czech Airlines a.s.

consequently acquainted with the Report of the independent auditor for the share holders of the Czech Airlines a.s. from 20th May 2009. The audit has been provided by the company Deloitte Audit s.r.o. (license nr. 79) represented by the responsible auditor Mr. Martin Tesař (license nr. 2030) who was an independent auditor of the Czech Airlines a.s. approved by the Czech Airlines General Assembly on 26th April 2009. The auditor's opinion on the financial statements compiled in accordance with the accounting regulations of the Czech Republic was issued on the basis of this financial statements by the Czech Airlines a.s. i.e. on the basis of the balance as per 31st December 2009, profit and loss statement, review on the changes of equity and on the basis of the annex to these financial statements including the description of the used significant accounting methods. Excepting the chapter 26 in the Annex to the financial statement, the audit was accomplished in accordance with law on auditors and with the International Audit Standards and related application clauses of the Chamber of Auditors of the Czech Republic. The statutory body of the company is responsible for the compilation and a fair and true view on the financial statements. The auditor's statement includes an opinion that:

Financial statements compiled according to the Czech Accounting Regulations give a fair and true view of the financial position of the company Czech Airlines a.s. as per 31st December 2009 and a view on costs, revenues and the results of its management and financial flows for the year which ends to this date. Furthermore it draws attention to the following facts (without expressing reserves):

» As stated in the financial statements of the company, its equity as per 31st December 2009

reached a negative result of 2 352 045 thousand crowns and the operating result of the company is a loss of 3 756 125 thousand crowns. Therefore, the company management proposed a restructuring plan which includes the individual steps which shall be taken so that the continuation of the company was not threatened at least for the time of the next accounting period. This restructuring plan, which is in detail described in the chapter nr. 29, was approved by the Government of the Czech Republic on 3rd May 2010 and on 20th May 2010 authorized by the share holders of the company. Regarding the fact that this restructuring plan was not to the date of this report fully implemented, there is uncertainty over the result of this implementation which could significantly influence the ability of the company to continue.

» The Auditor also checked the objective accuracy of the data stated in the Report on relations between the interconnected persons of the Czech Airlines a.s. as per 31st December 2009 which is a part of the Annual Report. The statutory body of the company is responsible for the compilation of the Annual Report. The audit was accomplished in accordance with the International Security Risk Evaluation (ISRE) 2400 and related application annexes of the Chamber of Auditors of the Czech Republic. On the basis of this audit, no significant objective discrepancies stated in the Report on the relations among the interconnected persons of the Czech Airlines a.s. as per 31st December 2009 were disclosed by the auditor.

» Furthermore, the auditor verified the correspondency of the Annual Report and the Financial Statements in accordance with the accounting regulations of the Czech Republic respectively in compliance with the International Audit Standard and related application annexes of the Chamber

of Auditors of the Czech Republic. On the basis of this verification, the information stated in the Annual Report are according to the auditor in all significant aspects in compliance with the financial statements.

» The Supervisory board of the Czech Airlines a.s. reviewed the audited financial statements for the year 2009 compiled in accordance with the Accounting Regulations of the Czech Republic and recommends its approval of the General Assembly of the Czech Airlines a.s.

» The Supervisory board of the Czech Airlines a.s. reviewed the proposal of the Board of Directors of the Czech Airlines a.s. and recommends the General Assembly of the company to approve it in order to deal with the company losses for the year 2009, which was found according to the Czech accountancy regulations in the amount of – 3 756 124 755,83 Kč for the year 2009, in such a way that the amount will be transferred to the account called Unliquidated loss from the previous years.

» The Supervisory board of the Czech Airlines a.s. also reviewed the Report on relations between interconnected persons of the Czech Airlines a.s. as per 31st December 2009 which was elaborated and subsequently approved by the board on 9th March 2010 in accordance with § 66a of the Commercial code and which is a part of the Annual Report. The Supervisory board of the Czech Airlines a.s. states that the board of the company takes responsibility for the integrity and accuracy of the Report on relations between interconnected persons. In this occasion the Supervisory board takes into account that the auditor did not disclose any facts indicating that the information stated in the Report are objectively incorrect. The Supervisory board of the Czech Airlines a.s. did

not find any inadequacies and incompleteness and has no reservation to the submitted report.

» The Supervisory Board of the Czech Airlines a.s. became acquainted with the Annual Report of the Czech Airlines for the year 2009. The Report includes the data about important facts which characterize both objectively and financially the results of the company reached in the difficult year 2009. Supervisory board states that the Board of Directors is responsible for the data accuracy in the Annual Report and at the same time it takes into account the auditor's opinion on this subject which states that the information in the Annual Report are in all significant respects in compliance with the financial statements of the company in accordance with the accountancy regulations of the Czech Republic as per 31st December 2009. On the basis of these facts, the Supervisory Board recommends the General Assembly to approve the Annual Report.

» The Supervisory board actively helped through its members to create the Restructuring plan of the Czech Airlines a.s. which was after the approval of the Government of the Czech Republic subsequently approved by the share holders on the General Assembly of the Czech Airlines on 20th May 2010. Both development in performance of the Restructuring plan of the Czech Airlines for the years 2010-2012 and its impacts on Czech Airlines resulting from the course of negotiations with the European Commission concerning the solution of the possible aspect of state support for Czech Airlines will be continually observed by the Supervisory Board and in the case of significant discrepancies the share holders will be informed in accordance with the company regulations.

In Prague on 26 May 2010

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

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 20 May 2010 on the financial statements prepared in accordance with accounting regulations applicable in the Czech Republic which are included in the Financial Part of this annual report:

"We have audited the accompanying financial statements of České aerolinie a.s., which comprise the balance sheet as of 31 December 2009, 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

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 2009, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Martin Tesař
Statutory auditor

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.

Emphasis of Matters

Without qualifying our opinion, we draw attention to the following matters.

As discussed in the financial statements, the Company reported a deficit on its equity of CZK 2,352,045 thousand as of 31 December 2009 and a loss of CZK 3,756,125 thousand for the year then ended. Management of the Company has therefore developed a restructuring plan describing individual steps to be taken to maintain the Company's ability to operate as a going concern at least for the next reporting period. This restructuring plan, which is disclosed in greater detail in Note 29, was approved

by the Government of the Czech Republic on 3 May 2010 and by the Company's shareholders on 20 May 2010. Given that this restructuring plan has not been fully implemented as of the date of this report, there is uncertainty regarding the outcome of this implementation which may cast significant doubt about the Company's ability to continue as a going concern."

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 2009 which is included in the Financial Part of this annual report. 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 2009 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

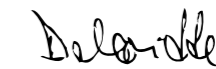
We have also audited the annual report for consistency with the financial statements in accordance with accounting regulations applicable in the Czech Republic. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of 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 26 May 2010

Audit firm::
Deloitte Audit s.r.o.
certificate no. 79



Statutory auditor:
Martin Tesař
certificate no. 2030



CAS FINANCIAL STATEMENTS

BALANCE SHEET full version		Czech Airlines IN 45795908			
As of 31.12.2009 (in CZK thousand)		Ruzyně Airport 160 08 PRAGUE 6			
		31. 12. 2009		31. 12. 2008	
		Gross	Adjustment	Net	Net
TOTAL ASSETS		12,038,033	4,089,462	7,948,571	10,418,871
B.	Fixed assets	7,601,494	3,671,655	3,929,839	4,554,809
B.I.	Intangible fixed assets	878,935	482,328	396,607	394,523
B.I.3.	Software	777,278	482,328	294,950	254,996
B.I.7.	Intangible fixed assets under construction	101,657		101,657	139,527
B.II.	Tangible fixed assets	6,688,307	3,179,327	3,508,980	4,137,877
B.II.1.	Land	192,436		192,436	26,822
B.II.2.	Structures	290,028	126,220	163,808	520,623
B.II.3.	Individual movable assets and sets of movable assets	4,629,731	2,964,205	1,665,526	1,751,412
B.II.6.	Other tangible fixed assets	59,826	26,045	33,781	34,617
B.II.7.	Tangible fixed assets under construction	358,129	62,857	295,272	380,362
B.II.8.	Prepayments for tangible fixed assets	1,158,157		1,158,157	1,424,041
B.III.	Non-current financial assets	34,252	10,000	24,252	22,409
B.III.1.	Equity investments in subsidiaries	18,907	10,000	8,907	7,127
B.III.3.	Other securities and investments	7,915		7,915	8,337
B.III.5.	Other non-current financial assets	7,430		7,430	6,945
C.	Current assets	3,639,951	417,807	3,222,144	5,081,140
C.I.	Inventories	531,760	152,426	379,334	517,600
C.I.1.	Material	470,760	151,580	319,180	405,812
C.I.2.	Work in progress and semifinished goods	1,952		1,952	3,541
C.I.5.	Goods	57,114	846	56,268	107,480
C.I.6.	Prepayments for inventory	1,934		1,934	767

		Gross	31. 12. 2009 Adjustment	Net	31. 12. 2008 Net
C.II.	Long-term receivables	255,926		255,926	572,386
C.II.5.	Long-term prepayments made	140,429		140,429	157,035
C.II.8.	Deferred tax asset	115,497		115,497	415,351
C.III.	Short-term receivables	2,292,747	265,381	2,027,366	3,447,977
C.III.1.	Trade receivables	1,845,020	265,381	1,579,639	2,471,292
C.III.2.	Receivables - controlling entity				1,000
C.III.6.	State - tax receivables	54,450		54,450	60,279
C.III.7.	Short-term prepayments made	109,046		109,046	306,856
C.III.8.	Estimated receivables	94,871		94,871	321,357
C.III.9.	Other receivables	189,360		189,360	287,193
C.IV.	Current financial assets	559,518		559,518	543,177
C.IV.1.	Cash on hand	25,582		25,582	48,922
C.IV.2.	Cash at bank	533,936		533,936	494,255
D. I.	Other assets	796,588		796,588	782,922
D.I.1.	Deferred expenses	715,771		715,771	682,073
D.I.3.	Accrued income	80,817		80,817	100,849

BALANCE SHEET full version		Czech Airlines IN 45795908	
As of 31.12.2009 (in CZK thousand)		Ruzyně Airport 160 08 PRAGUE 6	

		31. 12. 2009	31. 12. 2008
TOTAL LIABILITIES & EQUITY			
A.	Equity	(2,352,045)	101,686
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	(492,479)	(1,794,873)
A.II.2.	Other capital funds	(99)	(99)
A.II.3.	Gains or losses from the revaluation of assets and liabilities	(492,380)	(1,794,774)
A.III.	Statutory funds	100,931	77,428
A.III.1.	Statutory reserve fund / Indivisible fund	100,931	77,428
A.IV.	Retained earnings	(939,882)	(1,386,436)
A.IV.2.	Accumulated losses brought forward	(939,882)	(1,386,436)
A.V.	Profit or loss for the current period (+/-)	(3,756,125)	470,057
B.	Liabilities	8,655,885	8,474,464
B.I.	Provisions	2,074,560	1,979,712
B.I.1.	Provisions under special legislation	198,792	593,443
B.I.3.	Income tax provision		25,000
B.I.4.	Other provisions	1,875,768	1,361,269
B.II.	Long-term liabilities	59,443	168,126
B.II.5.	Long-term prepayments received	1,319	269
B.II.9.	Other payables	58,124	167,857
B.III.	Short-term liabilities	6,267,745	5,659,707

		31. 12. 2009	31. 12. 2008
B.III.1.	Trade payables	1,385,377	1,846,616
B.III.5.	Payables to employees	231,464	256,490
B.III.6.	Social security and health insurance payables	63,317	72,604
B.III.7.	State - tax payables and subsidies	42,949	73,790
B.III.8.	Short-term prepayments received	29,427	9,818
B.III.10.	Estimated payables	1,789,840	1,826,184
B.III.11.	Other payables	2,725,371	1,574,205
B.IV.	Bank loans and borrowings	254,137	666,919
B.IV.1.	Long-term bank loans	68,085	162,469
B.IV.2.	Short-term bank loans	186,052	504,450
C. I.	Other liabilities	1,644,731	1,842,721
C.I.1.	Accrued expenses	97,688	168,695
C.I.2.	Deferred income	1,547,043	1,674,026

PROFIT AND LOSS ACCOUNT structured by the nature of expense method		Czech Airlines IN 45795908	
Year ended 31.12.2009 (in CZK thousand)		Ruzyně Airport 160 08 PRAGUE 6	
	period until 31. 12. 2009	period until 31. 12. 2008	
I. Sales of goods	573,430	633,434	
A. Costs of goods sold	338,995	370,907	
+ Gross margin	234,435	262,527	
II. Production	19,789,620	22,532,908	
II.1. Sales of own products and services	19,755,107	22,494,384	
II.2. Change in internally produced inventory	(1,590)	435	
II.3. Own work capitalised	36,103	38,089	
B. Purchased consumables and services	17,797,518	18,313,128	
B.1. Consumed material and energy	5,835,976	6,225,069	
B.2. Services	11,961,542	12,088,059	
+ Added value	2,226,537	4,482,307	
C. Staff costs	4,877,486	4,798,941	
C.1. Payroll costs	3,634,957	3,491,051	
C.2. Remuneration to members of statutory bodies	5,817	6,570	
C.3. Social security and health insurance costs	874,344	898,808	
C.4. Social costs	131,489	139,812	
C.5. Staff costs in abroad	230,879	262,700	
D. Taxes and charges	9,626	10,713	
E. Depreciation of intangible and tangible fixed assets	456,738	467,619	
III. Sales of fixed assets and material	907,129	1,931,371	
III.1. Sales of fixed assets	888,401	1,921,459	

	period until 31. 12. 2009	period until 31. 12. 2008
III.2. Sales of material	18,728	9,912
F. Net book value of fixed assets and material sold	507,774	573,030
F.1. Net book value of sold fixed assets	506,357	567,748
F.2. Book value of sold material	1,417	5,282
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	611,629	(254,254)
IV. Other operating income	158,148	175,450
H. Other operating expenses	368,321	297,031
* Transfer of operating expenses	(3,539,760)	696,048
VI. Proceeds from the sale of securities and investments		680,419
J. Cost of securities and investments sold		320,984
VII. Income from non-current financial assets	3,900	10,858
VII.1. Income from subsidiaries and associates	3,900	10,858
X. Interest income	6,214	13,168
N. Interest expenses	79,092	27,431
XI. Other financial income	2,102,672	1,717,914
O. Other financial expenses	2,182,173	2,270,843
* Financial profit or loss	(148,479)	(196,899)
Q. Income tax on ordinary activities	67,886	29,092
Q 1. - due	(27,889)	29,092
Q 2. - deferred	95,775	
** Profit or loss from ordinary activities	(3,756,125)	470,057
*** Profit or loss for the current period (+/-)	(3,756,125)	470,057
**** Profit or loss before tax	(3,688,239)	499,149

CASH FLOW STATEMENT		Czech Airlines IN 45795908	
Year ended 31.12.2009 (in CZK thousand)		Ruzyně Airport 160 08 PRAGUE 6	
	period until 31. 12. 2009	period until 31. 12. 2008	

P.	Opening balance of cash and cash equivalents	542,672	497,533
	Cash flows from ordinary activities		
Z.	Profit or loss from ordinary activities before tax	(3,688,239)	499,149
A.1.	Adjustments for non-cash transactions	6,843	(2,491,373)
A.1.1.	Depreciation of fixed assets	456,738	467,619
A.1.2.	Change in provisions and reserves	611,629	(254,254)
A.1.3.	Profit/(loss) on the sale of fixed assets	(382,044)	(1,713,146)
A.1.4.	Revenues from dividends and profit shares	(3,900)	(10,858)
A.1.5.	Interest expense and interest income	72,878	14,263
A.1.6.	Settlement of transportation documents disposed of	(549,112)	(930,810)
A.1.7.	Adjustments for other non-cash transactions	(199,346)	(64,187)
A.*	Net operating cash flow before changes in working capital	(3,681,396)	(1,992,224)
A.2.	Change in working capital	743,523	663,381
A.2.1.	Change in operating receivables and other assets	738,163	(681,356)
A.2.2.	Change in operating payables and other liabilities	(70,026)	1,335,355
A.2.3.	Change in inventories	74,881	9,742
A.2.4.	Change in current financial assets	505	(360)
A.**	Net cash flow from operations before tax and extraordinary items	(2,937,873)	(1,328,843)
A.3.	Interest paid	(80,160)	(29,747)
A.4.	Interest received	6,214	13,168

	period until 31. 12. 2009	period until 31. 12. 2008	
A.5.	Income tax paid from ordinary operations	2,889	(92)
A.7.	Received dividends and profit shares	3,900	10,858
A.8.	Derivatives paid	(61,664)	(427,720)
A.***	Net operating cash flows	(3,066,694)	(1,762,376)
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	(481,063)	(470,624)
B.2.	Proceeds from fixed assets sold	1,476,385	1,768,940
B.3.	Loans provided to related parties	1,000	17,355
B.4.	Settlement of paid prepayments		568,033
B.***	Net investment cash flows	996,322	1,883,704
	Cash flow from financial activities		
C.1.	Change in payables from financing	2,087,218	(76,189)
C.***	Net financial cash flows	2,087,218	(76,189)
F.	Net increase or decrease in cash and cash equivalents	16,846	45,139
R.	Closing balance of cash and cash equivalents	559,518	542,672

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT OF CHANGES IN EQUITY							Czech Airlines IN 45795908
Year ended 31.12.2009 (in CZK thousand)							Ruzyně Airport 160 08 PRAGUE 6
	Share capital	Capital funds	Statutory funds	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	Total equity

Balance at 31 December 2007	2,735,510	(99)	67,098	(188,310)	(1,582,706)	206,600	1,238,093
Distribution of profit or loss			10,330		196,270	(206,600)	
Change in the valuation of securities and derivatives				(1,944,215)			(1,944,215)
Change in the deferred tax				337,751			337,751
Profit or loss for the current period						470,057	470,057
Balance at 31 December 2008	2,735,510	(99)	77,428	(1,794,774)	(1,386,436)	470,057	101,686
Distribution of profit or loss			23,503		446,554	(470,057)	
Change in the valuation of securities and derivatives				1,506,473			1,506,473
Change in the deferred tax				(204,079)			(204,079)
Profit or loss for the current period						(3,756,125)	(3,756,125)
Balance at 31 December 2009	2,735,510	(99)	100,931	(492,380)	(939,882)	(3,756,125)	(2,352,045)

1. GENERAL INFORMATION

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

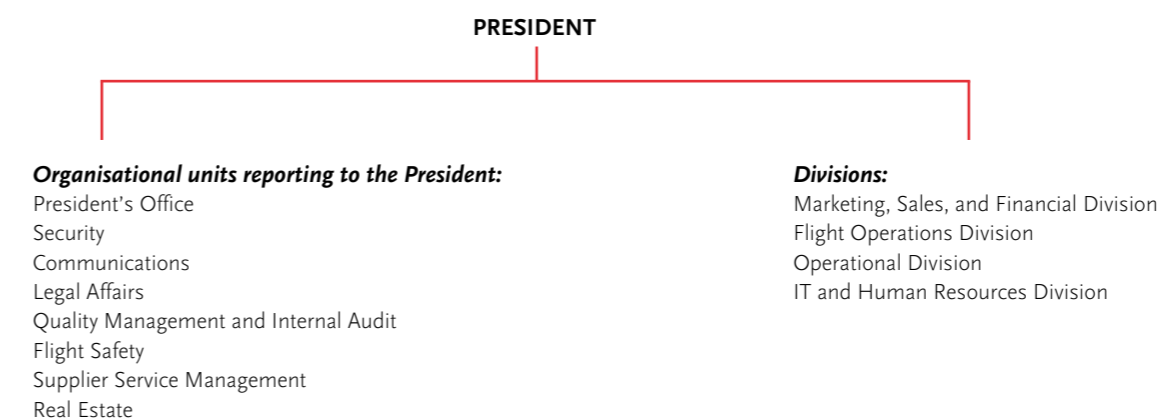
The Company's main business activities are as follows:

- »Providing commercial air transportation;
- »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 Organisation 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 of and for the year ending 31 December 2009.

THE COMPANY IS ORGANISED AS FOLLOWS AS OF 31 DECEMBER 2009:



The Company has organisational units abroad.

The members of the Board of Directors as of 31 December 2009 were as follows:

	Position
Miroslav Dvořák	Chairman
Philippe Moreels	Vice-Chairman
Josef Adam	Member
Peter Jusko	Member
Marek Týbl	Member

The members of the Supervisory Board as of 31 December 2009 were as follows:

	Position
Michal Mejstřík	Chairman
Tomáš Uvíra	1 st Vice-Chairman
Ivan Boček	Member
Tomáš Brabec	Member
Josef Doruška	Member
Radomil Kratochvíl	Member

THE CHANGES MADE IN THE COMMERCIAL REGISTER ("CR") DURING THE YEAR ENDING 31 DECEMBER 2009 RELATING 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
Radomír Lašák	Chairman	19 January 2006	19 October 2009	30 November 2009
Jiří Devát	Vice-Chairman	1 September 2006	19 October 2009	30 November 2009
Luboš Černý	Member	1 September 2006	31 July 2009	19 August 2009
Jan Janík	Member	1 October 2006	19 October 2009	30 November 2009
Petr Pištělák	Member	21 December 2006	19 October 2009	30 November 2009
Roman Planička	Member	1 July 2006	19 October 2009	30 November 2009
Dušan Ryban	Member	26 July 2006	19 October 2009	30 November 2009
Petr Řehák	Member	12 September 2006	19 October 2009	30 November 2009
Jiří Hrbáček	Member	1 August 2009	19 October 2009	30 November 2009
Pavel Dolák	Member	19 October 2009	18 November 2009	17 December 2009
Jan Trčala	Member	19 October 2009	18 November 2009	17 December 2009
Miroslav Dvořák	Chairman	19 October 2009		30 November 2009
Philippe Moreels	Vice-Chairman	1 December 2009		17 December 2009
Josef Adam	Member	19 October 2009		30 November 2009
Marek Týbl	Member	18 November 2009		17 December 2009

THE CHANGES MADE IN THE COMMERCIAL REGISTER ("CR") DURING THE YEAR ENDING 31 DECEMBER 2009 RELATING TO PERSONNEL CHANGES IN THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD WERE AS FOLLOWS:

Supervisory Board	Position	Office taken on	Resignation	Recorded in the CR
Ivan Kočárník	Chairman	10 April 2007	14 September 2009	13 October 2009
Dušan Horák	2st Vice-Chairman	12 December 2007	18 November 2009	17 December 2009
Jan Bürgermeister	Member	23 April 2007	14 September 2009	13 October 2009
Jaroslav Lorenc	Member	8 April 2003	18 November 2009	17 December 2009
Petr Polák	Member	27 November 2006	14 September 2009	13 October 2009
Ivana Řápková	Member	27 November 2006	14 September 2009	13 October 2009
Pavel Škvára	Member	10 April 2007	14 September 2009	13 October 2009
Ivan Foltýn	Member	10 April 2007	14 September 2009	13 October 2009
Daniela Kovalčíková	Member	27 June 2007	24 June 2009	19 August 2009
Zdeněk Šmejkal	Member	14 September 2009	19 October 2009	20 November 2009
Pavel Fuchs	Member	14 September 2009	18 November 2009	17 December 2009
Miroslav Zámečník	Chairman	19 October 2009	18 November 2009	17 December 2009
Václav Novák	Chairman	14 September 2009	19 October 2009	20 November 2009
Vladimír Bail	Member	14 September 2009	18 November 2009	17 December 2009
Michal Mejstřík	Chairman	18 November 2009		17 December 2009
Ivan Boček	Member	24 June 2009		19 August 2009
Josef Doruška	Member	18 November 2009		17 December 2009

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 also prepares financial statements under International Financial Reporting Standards as adopted by the EU.

TANGIBLE FIXED ASSETS

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

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

Acquisition Cost

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

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

The following tangible fixed assets are stated at replacement cost: tangible fixed assets acquired without consideration on the basis of a contract to purchase a leased asset (finance lease) and tangible fixed assets recently identified and recognised (accounted for by a corresponding entry in the relevant accumulated depreciation account). The replacement cost of tangible fixed assets

is determined by reference to the normal market price effective at the time that these assets are acquired/identified.

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

Depreciation

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

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

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

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

Retirement of Assets

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

Provisioning

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

INTANGIBLE FIXED ASSETS

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

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

Acquisition Cost

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

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

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

Amortisation

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

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

Provisioning

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

NON-CURRENT FINANCIAL ASSETS

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

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

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

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

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

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

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

Valuation

At the balance sheet date, the Company records:

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

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

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

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

CURRENT FINANCIAL ASSETS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

TRADING DERIVATIVES

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

Hedging derivatives

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

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

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

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

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

INVENTORY

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

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

Inventory is issued out of stock using the FIFO (first in, first out) method. Inventory material is issued out of stock at costs determined using the weighted arithmetic average method.

Provisioning

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

RECEIVABLES

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

Provisioning

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

Trade Payables

Trade payables are stated at their nominal value.

Loans

Loans are stated at their nominal value.

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

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

PROVISIONS

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

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

As a result of the amendment to the Act on Provisions 593/1992 Coll., with effect from 1 January 2009, the Company has recorded only non-tax deductible charges in respect of the provisioning commenced in 2009.

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

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

Frequent Flyer Programme

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

FOREIGN CURRENCY TRANSLATION

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

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

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

FINANCE LEASES

A finance lease is the acquisition of a tangible fixed asset 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 assets that are charged to expenses.

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

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

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

TAXATION

Depreciation of Fixed Assets for Tax Purposes

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

Current Tax Payable

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

Deferred Taxation

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

Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply to the period according to the Company's expectation 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 on 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 on the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

RETIREMENT BENEFIT COSTS

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

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

GOVERNMENT GRANTS

The Company is a recipient of a government grant for the business activity and for the training and re-qualification of employees which is in accordance with the rules of the General Programme for the Support of Technology Centres and Centres of Strategic Services approved by the Government of the Czech Republic in 2005. The grant for the business activity is provided by the Ministry of Industry and Trade of the Czech Republic and it only relates to the settlement of expenses incurred in connection with the business activity of the technology centre or the centre of strategic services. The grant for training and re-qualification of employees is provided by the Ministry of Labour and Social Affairs of the Czech Republic and it only relates to the settlement of training and re-qualification expenses. The Company regularly assesses whether the condition of the government grants are met. In 2008, the Company identified non-fulfilment of the condition involving the creation of the minimum number of new jobs. For this reason, the Company recorded a liability in 2008 to return the grants which had been recorded to revenues in 2006 and 2007. In 2009, in line with the rules of the General Programme for the Support of Technology Centres and Centres of Strategic Services, the Company returned the grants received in 2008 and requested the waiver of the obligation to refund to the government budget the grants, including accrued interest, received in 2006 and 2007. The request was approved by the Ministry of Finance.

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

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

BORROWING COSTS

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

REVENUE AND EXPENSE RECOGNITION

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

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

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

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

In 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 includes the established guidance of IATA or a contractual arrangement between individual airlines. This allocated fare is recognised in the Company's income when the transportation is provided by the Company. In instances where the flight was realised by a partner company, the allocated fare in respect of the relevant coupon is reversed from deferred income to payables.

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

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

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

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

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

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

ESTIMATES

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

EXTRAORDINARY EXPENSES AND INCOME

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

RELATED PARTIES

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

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

Related party transactions and balances are disclosed in Note 24.

SUBSEQUENT EVENTS

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

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

SIGNIFICANT YEAR-ON-YEAR CHANGES IN ACCOUNTING PRINCIPLES AND POLICIES

The presentation of account 518 – Other services – personal – not accepted charges, was changed in the line ‘Services’. This account was reclassified to revenues in the line ‘Sales of own products and services’ in the amount of CZK 45,578 thousand in 2009 (2008: CZK 48,784 thousand).

3. INTANGIBLE FIXED ASSETS

COST

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

ACCUMULATED AMORTISATION

	1 January 2009 CZK’000	Charge for the year CZK’000	Disposals CZK’000	31 December 2009 CZK’000
Software	(388,102)	(94,283)	57	(482,328)
Provision for diminution in value of intangible assets under development	(21,194)		21,194	–
Net book value	394,523	(94,283)	21,251	396,607

The Company did not acquire any intangible fixed assets without consideration in either 2009 or 2008.

Intangible assets under development at 31 December 2009 represent information technology projects in process (for example the Airlines system, airplane maintenance, and the AVES system development).

The Company creates provisions if the carrying value of an asset is greater than its estimated recoverable value; the carrying value is then reduced by a provision to the recoverable value. In 2008, the Company created a provision for diminution in value of intangible assets under development amounting to CZK 21,194 thousand. The provision relates to an information technology project in process,

COST

	1 January 2008 CZK’000	Additions / transfers CZK’000	Disposals / transfers CZK’000	31 December 2008 CZK’000
Software	522,186	120,968	(56)	643,098
Intangible assets under develop- ment	54,733	226,956	(120,968)	160,721
	576,919	347,924	(121,024)	803,819

ACCUMULATED AMORTISATION

	1 January 2008 CZK’000	Charge for the year CZK’000	Disposals CZK’000	31 December 2008 CZK’000
Software	284,123	(104,035)	56	(388,102)
Provision for diminution in value of intangible assets under development	–			21,194
Net book value	272,796			394,523

which experienced a change of a supplier and the Company does not anticipate that all costs already incurred will result in economic benefits in the future. In 2009, the intangible fixed asset was written off and the provision was released.

The Company anticipates that costs incurred in relation to projects in process, reduced by the provision described above, will bring future economic benefits.

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

4. TANGIBLE FIXED ASSETS

COST

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

ACCUMULATED DEPRECIATION

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

PROVISION FOR DIMINUTION IN VALUE

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

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

COST

	1 January 2008 CZK'000	Additions / transfers CZK'000	Disposals / transfers CZK'000	31 December 2008 CZK'000
Land	42,761	–	(15,939)	26,822
Buildings, halls, and structures	1,164,667	46,092	(477,976)	732,783
Machinery and equipment	2,744,042	185,259	(128,286)	2,801,015
Aircraft	992,850	167,085	(387,303)	772,632
Vehicles	542,327	6,260	(54,827)	493,760
Furniture and fixtures	347,447	35,689	(28,305)	354,831
Other tangible fixed assets	45,705	15,117	(2,487)	58,335
Tangible assets under construction	568,636	327,941	(455,502)	441,075
Advances paid for fixed assets - Airbus	702,762	50,746	(642,343)	111,165
Advances paid for fixed assets - Boeing	1,277,411	–	–	1,277,411
Advances paid for fixed assets - other	33,384	2,413	(332)	35,465
	8,461,992	836,602	(2,193,300)	7,105,294

ACCUMULATED DEPRECIATION

	1 January 2008 CZK'000	Charge for the year CZK'000	Liquida- tion, sale, damages CZK'000	Disposals CZK'000	31 December 2008 CZK'000
Buildings, halls, and structures	(326,739)	(36,059)	(311,540)	477,976	(196,362)
Machinery and equipment	(1,321,918)	(220,316)	(10,010)	116,442	(1,435,802)
Aircraft	(688,634)	(31,170)	(194,887)	387,303	(527,388)
Vehicles	(369,900)	(40,254)	(1,393)	54,827	(356,720)
Furniture and fixtures	(309,281)	(27,880)	(18,023)	28,305	(326,879)
Other tangible fixed assets	(18,300)	(7,905)	–	2,487	(23,718)
	(3,034,772)	(363,584)	(535,853)	1,067,340	(2,866,869)
Provision for diminution in value	(58,359)				(100,548)
Net book value	5,368,861				4,137,877

PROVISION FOR DIMINUTION IN VALUE

	1 January 2008 CZK'000	Charge for the year CZK'000	Release during the year CZK'000	31 December 2008 CZK'000
Buildings, halls, and structures	(18,675)	–	2,877	(15,798)
Machinery and equipment	(16,765)	(21,372)	14,100	(24,037)
Tangible assets under construction	(22,919)	(37,822)	28	(60,713)
	(58,359)	(59,194)	17,005	(100,548)

Upon the delivery of twelve Airbus A320/A319 aircraft, the Company acquired certain fixed assets as part of delivery in 2009 and 2008. 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.

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

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

SIGNIFICANT FIXED ASSETS DISPOSALS IN 2009

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

SIGNIFICANT FIXED ASSETS DISPOSALS IN 2008

	Income from the sale CZK'000	Net book value CZK'000
Engine for Airbus A310 and engine for Airbus A320	241,958	191,171
Buildings in the 'South' area at the Prague – Ruzyně airport *	1,341,424	310,818
Land in the 'South' area at the Prague – Ruzyně airport *	78,357	15,200
Aircraft chassis for Boeing B737 new generation	60,377	28,134
Aircraft Airbus A310	158,271	3,716

* The purchase prices for the stated transactions were determined by an independent valuer. Part of transactions involved the conclusion of agreements on future agreement on the establishment of the user's right to land (Note 27).

ADVANCES

As at 31 December 2009 and 2008, the advances paid represent advances for 8 Airbus A319 aircraft, which will be delivered in 2011 – 2012, in the amount of CZK 132,376 thousand and CZK 111,165 thousand, respectively. The Company has an option for the purchase of these aircraft. The prepayments are classified as non-refundable and are recalculated using a historical foreign exchange rate.

As at 31 December 2009 and 2008, advances related to Boeing B737 aircraft are not re-financed by finance lease and will form the cost of the related aircraft at the expiry of the finance lease when the aircraft becomes the property of the Company. The decrease in the advances in 2009 in the amount of CZK 287,095 thousand relates to the expiry of the finance leasing of three Boeing B737 aircraft and their addition to the assets of the Company.

PROVISION FOR DIMINUTION IN VALUE

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

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

PLEGDED FIXED ASSETS

The Company has pledged fixed assets as follows:

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

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

The Company has pledged fixed assets as follows:

	31 December 2008		
	Net book value CZK'000	Value of secured liability CZK'000	Creditor*
Full Flight Simulator B737	–	189,787	Middle-term operational loan from UniCredit Bank

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

FINANCE LEASES

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

Nineteen aircraft are held under finance lease contracts as at 31 December 2009 (as of 31 December 2008: twenty two aircraft):

Aircraft	Currency	Expiry date	Amount paid and payable	Total amounts paid 31 December 2008	Total amounts paid 31 December 2009	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	in USD thousands	2010–2012	333,391	275,694	303,644	16,664	13,083
Airbus A319/A320	in EUR thousands	2018–2020	420,847	79,668	160,886	31,920	228,041
Total *	in CZK thousands		17,261,442	7,172,361	9,835,181	1,150,847	6,275,414

* The conversion from USD and EUR to CZK was effected using the rate of the Czech National Bank as of 31 December 2009.

Vehicles under finance lease:

	31 December 2009 CZK'000	31 December 2008 CZK'000
Amounts paid on current finance lease contracts	32,203	14,171
Outstanding amounts payable within one year	17,100	18,032
Amounts payable after more than one year	2,828	19,928
Amounts paid and payable on current contracts	52,131	52,131

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

	Expiry date	Amount paid and payable	Total amounts paid 31 December 2008	Total amounts paid 31 December 2009	Outstanding amounts payable within one year	Amounts payable after more than one year
in EUR thousands	2013	2,142	446	803	357	982
in CZK thousands *	2013	56,688	11,803	21,251	9,448	25,989

* The conversion from EUR to CZK was effected using the rate of the Czech National Bank as of 31 December 2009.

The Company further operates 22 aircraft under operating lease. The information on operating lease commitments is disclosed in Note 25.

5. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiary undertakings comprise shares as follows.

On 31 December 2009:

	Number of Shares	Nominal Value	Cost CZK'000	% of Share Capital	2009 Net Profit / (Loss) CZK'000	Net Assets CZK'000	Dividend Income 2009 CZK'000
Foreign entities							
SLOVAK AIR SERVICES s.r.o. (Bratislava, SR)	N/A	EUR 217,000	1,963	100	1,747 ¹⁾	12,253 ¹⁾	3,900
Czech entities							
HOLIDAYS Czech Airlines, a.s. (Prague)	1,000	CZK 10,000,000	10,000	100	329	(1,322)	–
ClickforSky, a.s. (Prague)	20	CZK 2,000,000	2,243	100	17	1,387	–
ČSA Support s.r.o. (Prague)	N/A	CZK 4,390,000	4,051	100	3,033	589,446	–
CSA Services, s.r.o. (Prague)	N/A	CZK 270,000	270	100	2,224	5,253	–
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	CZK 380,000	380	65	7,509	12,328	–
			18,907				3,900
Provision for diminution in value			(10,000)				
Net book value			8,907				

1) The conversion from EUR to CZK was effected using the rate of the Czech National Bank as of 31 December 2009 and the average rate for 2009.

On 31 December 2008:

	Number of Shares	Nominal Value	Cost CZK'000	% of Share Capital	2008 Net Profit / (Loss) CZK'000	Net Assets CZK'000	Dividend Income 2008 CZK'000
Foreign entities							
SLOVAK AIR SERVICES s.r.o. (Bratislava, SR)	N/A	SKK 200,000 ¹⁾	183	100	(3,168) ²⁾	5,038 ²⁾	10,858
Czech entities							
HOLIDAYS Czech Airlines, a.s. (Prague)	1,000	CZK 10,000,000	10,000	100	(788)	(1,669)	–
ClickforSky, a.s. (Prague)	20	CZK 2,000,000	2,243	100	78	1,369	–
ČSA Support s.r.o. (Prague)	N/A	CZK 4,390,000	4,051	100	2,487	16,412	–
CSA Services, s.r.o. (Prague)	N/A	CZK 270,000	270	100	1,638	3,030	–
AMADEUS MARKETING CSA, s.r.o. (Prague)	N/A	CZK 380,000	380	65	8,623	13,441	–
			17,127				10,858
Provision for diminution in value			(10,000)				
Net book value			7,127				

1) SKK = Slovak crowns

2) The conversion from SKK to CZK was effected using the rate of the Czech National Bank as of 31 December 2008 and the average rate for 2008.

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

The Company sold its 100% share in the subsidiary Air Czech Catering a.s. in April 2008. The income from the sale of the entity was CZK 680,000 thousand; the cost was CZK 318,957 thousand.

The Company purchased 100% of the share capital of ClickforSky, a.s. from CSA Services, s.r.o. in May 2008. The cost of the purchased shares was CZK 2,243 thousand. The purchase price was determined by an independent valuer.

The Company reports the provision for diminution in value of the investment in HOLIDAYS Czech Airlines, a.s. in amount of CZK 10,000 thousand (2008: CZK 10,000 thousand).

Related party transactions are disclosed in Note 24.

6. OTHER SECURITIES AND INVESTMENTS

Other Long-Term Investments (Available for Sale)

On 31 December 2009:

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

On 31 December 2008:

	Number of securities	Nominal value	Cost CZK'000
Foreign			
SITA Inc. shares	56	EUR 280	8
SITA Inc. certificates			8,329
			8,337

Other investments available for sale are carried at cost on 31 December 2009 and 2008 because their fair value is not readily obtainable and the cost of obtaining the fair value measure is unreasonably high considering its impact on the Company's financial statements.

The Company sold 2,100 pieces of the shares of WALTER a.s. in December 2008. The income from the sale was CZK 419 thousand, the cost of sold shares was CZK 2,027 thousand. The Company released the provision for diminution in value of WALTER a.s. of CZK 1,607 thousand.

In 2009 and 2008, the Company obtained no dividends from other long-term investments available for sales.

OTHER LONG-TERM INVESTMENTS

	31 December 2009 CZK'000	Income 2009 CZK'000	31 December 2008 CZK'000	Income 2008 CZK'000
Foreign				
SITA Inc. loan	7,098	344	6,595	244
Other	332		350	
	7,430		6,945	

SHORT-TERM FINANCIAL ASSETS

The structure of short-term financial assets:

	31 December 2009 CZK'000	31 December 2008 CZK'000
Cash	25,582	48,920
Stamps and vouchers	–	2
Current accounts	167,408	295,466
Term deposits	366,528	198,284
Long-term blocked financial assets	–	505
	559,518	543,177

The long-term blocked financial assets are associated with the customs guarantee and further with the bank guarantee on the acquisition of aviation fuel; these financial assets are not included in the cash flow statements as cash equivalents (Note 28). The long-term blocked financial assets generate interest income.

Term deposits - short-term:

	31 December 2009 CZK'000	31 December 2008 CZK'000
Term deposits in CZK	294,400	195,860
Term deposits in EUR	31,758	2,424
Term deposits in GBP	23,839	–
Term deposits in USD	16,531	–
	366,528	198,284

7. INVENTORIES

On 31 December 2009:

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

On 31 December 2008:

	Cost CZK'000	Provision for diminution in value CZK'000	Net book value CZK'000
Material			
Spares - aircraft	465,686	(68,902)	396,784
In-flight services	774	(664)	110
Other	20,723	(11,805)	8,918
Total material	487,183	(81,371)	405,812
Goods for resale	107,480	–	107,480
Work in progress	3,541	–	3,541
Advances paid for inventory purchases	767	–	767
Total	598,971	(81,371)	517,600

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

	2009 CZK'000	2008 CZK'000
Opening balance as of 1 January	81,371	67,757
Charge for the year	83,524	14,529
Released during the year	(12,469)	(915)
Closing balance as of 31 December	152,426	81,371

8. RECEIVABLES

LONG-TERM RECEIVABLES

	31 December 2009 CZK'000	31 December 2008 CZK'000
Long-term receivables	255,926	572,386

Long-term receivables represent mainly pre-payments, of which CZK 109,226 thousand as of 31 December 2009 (as of 31 December 2008: CZK 120,844 thousand) represents pre-payments for operating leases of aircraft. Long-term pre-payments maturing in more than five years represent the amount of CZK 25,956 thousand as of 31 December 2009 (as of 31 December 2008: CZK 18,630 thousand). These pre-payments will be repaid to the Company if the Company fulfils the conditions defined by the contract at the expiration of the operating leases. The long-term pre-payments further relate to the Customs Office and also include pre-payments provided by the Company's representations.

The long-term receivables further include a deferred tax asset of CZK 115,497 thousand as of 31 December 2009 (as of 31 December 2008: CZK 415,351 thousand) (Note 16).

SHORT-TERM RECEIVABLES

		31 December 2009 CZK'000	31 December 2008 CZK'000
Trade receivables	– current	1,461,183	2,431,429
	– overdue	383,837	71,277
		1,845,020	2,502,706
Provision for doubtful receivables		(265,381)	(31,414)
Net trade receivables		1,579,639	2,471,292
Other receivables	– current	189,360	287,193
Net other receivables		189,360	287,193

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

Current trade receivables include a receivable from the sale of buildings and land in the 'South' area at the Prague – Ruzyně airport amounting to CZK 832,938 thousand as of 31 December 2008 (Note 4). The receivable was collected in 2009 in accordance with the concluded agreement.

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

Trade receivables overdue more than 180 days amounted to CZK 42,785 thousand as of 31 December 2009 (as of 31 December 2008: CZK 29,300 thousand).

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

Other short-term receivables mainly comprise the fair value of derivatives as follows (Note 14):

	31 December 2009 CZK'000	31 December 2008 CZK'000
Currency swaps	436	272
Commodity collars	119,997	–
Commodity swaps	41,445	–
Currency forwards	10,818	130,324
Currency options	–	76,300
Weighted forwards	–	54,000
	172,696	260,896

The short-term prepayments principally include prepayments for general overhauls of engines as of the balance sheet date.

The estimated receivables represent the volume of provided services, not yet invoiced as of the balance sheet date. These especially include performed repairs and checks of aircraft and engines.

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

	2009 CZK'000	2008 CZK'000
Opening balance as of 1 January	31,414	56,004
Charge for the year	248,083	10,454
Released during the year	(3,793)	(19,342)
Released provision – written-off receivables	(10,323)	(15,702)
Closing balance as of 31 December	265,381	31,414

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

The Company revalued the 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.

Receivables from related parties are disclosed in Note 24.

9. OTHER ASSETS

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

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

10. EQUITY

AUTHORISED AND ISSUED SHARE CAPITAL

	No.	31 December 2009 CZK'000	No.	31 December 2008 CZK'000
Ordinary shares, fully paid	547,102 ¹⁾	2,735,510	273,551 ²⁾	2,735,510

1) In amount of CZK 5,000

2) In amount of CZK 10,000

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

	31 December 2009 %	31 December 2008 %
Ministry of Finance of the Czech Republic	91,75	91,51
Other shareholders	8,25	8,49
	100	100

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

The profit after tax amounting to CZK 470,057 thousand for 2008 was authorised and distributed by the General Meeting of Shareholders on 24 June 2009. The transfer to the statutory reserve fund amounted to CZK 23,503 thousand and the remaining balance of CZK 446,554 thousand was carried forward to the account of accumulated losses.

REVALUATION OF ASSETS AND LIABILITIES

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

	31 December 2009 CZK'000	31 December 2008 CZK'000
Currency options (intrinsic value)	–	22,978
Commodity derivatives - swaps	(9,676)	(1,690,799)
Currency derivatives - forwards	(598,205)	(446,533)
Deferred tax asset / (liability)	115,497	319,576
Other	4	4
	(492,380)	(1,794,774)

Revaluation of assets and liabilities includes:

- » replaced commodity derivatives with a negative impact on revaluation in the amount of CZK 13,738 thousand as of 31 December 2009 (as of 31 December 2008: CZK 131,628 thousand); the derivatives will be recognised in the profit and loss account as an expense in the periods during which the hedged item affects the profit and loss account (fuel expenses); and
- » currency derivatives with a negative impact on revaluation in the amount of CZK 462,629 thousand as of 31 December 2009 (as of 31 December 2008: CZK 510,555 thousand); the derivatives are accrued to finance lease expenses over the duration of the finance lease of aircraft.

11. PROVISIONS

	Fixed asset repairs provisions CZK'000	Provisions for personal costs CZK'000	Frequent flyer programme CZK'000	Provision for income tax CZK'000	Other provision CZK'000	Total CZK'000
Closing balance as of 1 January 2008	1,954,585	230,214	78,296	–	–	2,263,095
Charge for the year	338,027	140,600	33,438	25,000	–	537,065
Released in the year	(188,014)	–	(7,704)	–	–	(195,718)
Used in the year	(506,496)	(108,900)	(9,334)	–	–	(624,730)
Closing balance as of 31 December 2008	1,598,102	261,914	94,696	25,000	–	1,979,712
Charge for the year	347,442	422,852	320,085	–	51,064	1,141,443
Released in the year	(120,446)	(260,740)	(15,236)	(25,000)	–	(421,422)
Used in the year	(528,047)	(79,664)	(17,462)	–	–	(625,173)
Closing balance as of 31 December 2009	1,297,051	344,362	382,083	–	51,064	2,074,560

For an analysis of the current and deferred income tax, see Note 16.

The fixed asset repair provisions include provisions relating to planned revisions of aircraft and engines and overhaul of engines and landing gears. Part of these provisions are recognised as tax-deductible in accordance with the Act on Provisions 593/1992 Coll. in the amount of CZK 198,792 thousand as of 31 December 2009 (as of 31 December 2008: CZK 593,443 thousand).

In accordance with the Act on Provisions 593/1992 Coll., the Company creates tax-deductible provisions only for repairs of tangible assets owned by the Company. According to the amendment of this Act, the Company does not create any new tax-deductible provisions for repairs of tangible assets with effect from 2009.

Remuneration of the management team, which resigned in October 2009, also included the 'OK Bonus'. A provision was recognised for the estimated amount of the OK Bonus in the relevant reporting period. Following the closing of the work on the financial statements under International Financial Reporting Standards as adopted by the EU for the year ended 31 December 2009, the final amount of the OK Bonus will be determined by an independent advisory firm for the entire 2006 – 2009 period. While the Company's management has undertaken a detailed analysis of the calculation of the final amount of the OK Bonus, the Company has retained in its accounting records the provision in the same amount as of 31 December 2008 (i.e. in the amount of CZK 120 million) because the estimate of the final amount of the OK Bonus cannot be made at the 2009 financial statements date in view of the uncertainty arising from the interpretation of the mechanism of the calculation and given the fact that the calculation is made by an independent advisory firm.

The other provision represents a provision for prematurely terminated lease contracts.

12. LIABILITIES

LONG-TERM PAYABLES

	31 December 2009 CZK'000	31 December 2008 CZK'000
Long term received prepayments	1,319	269
Other payables - derivatives	58,124	167,857
	59,443	168,126

Other long-term payables comprise the fair value of derivatives as follows (Note 14) and they further represent long-term advance payments received from sales agents and customers:

	31 December 2009 CZK'000	31 December 2008 CZK'000
Interest rate swaps	58,051	38,984
Currency forwards	–	32,392
Commodity swaps	–	96,415
	58,051	167,791

SHORT-TERM PAYABLES

	31 December 2009 CZK'000	31 December 2008 CZK'000
Trade payables	– current	1,385,374
	– overdue	3
	1,385,377	1,846,616
Other payables	– current	2,725,371
Estimated payables	1,789,840	1,826,184

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

Short-term trade payables overdue comprise payables to companies in bankruptcy and liabilities under complaint procedures. Payables overdue more than 180 days amounted to CZK 0 as of 31 December 2009 (as of 31 December 2008: CZK 779 thousand).

As of 31 December 2009, the Company records liabilities for social security and health insurance amounting to CZK 63,317 thousand (as of 31 December 2008: CZK 72,604 thousand). The recorded payables are not overdue.

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

The other payables also include a non-banking loan from the Ministry of Trade and Industry of the Czech Republic as of 31 December 2009. The loan was provided to the Company during 2009, and will fall due for repayment in November 2010. The loan carries a variable interest rate based on PRIBOR. In 2009 the interest rate fluctuated between 4.90% and 5.52% percent. The loan is collateralised by a pledge on the Company's assets (Note 4).

Other short-term payables also comprise the fair value of derivatives as follows (Note 14):

	31 December 2009 CZK'000	31 December 2008 CZK'000
Currency swaps	1,166	397
Currency forwards	146,395	33,910
Commodity swaps	37,383	1,494,300
	184,944	1,528,607

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

Payables to related parties are disclosed in Note 24.

13. BANK LOANS AND OTHER BORROWINGS

	31 December 2009 CZK'000	31 December 2008 CZK'000
Short-term bank loans due within 1 year	132,352	426,508
Part of long-term loans due within 1 year	53,700	77,942
Total loans due within 1 year	186,052	504,450
Part of long-term loans due between 1 – 5 years	68,085	162,469
Total bank loans and overdrafts	254,137	666,919

SHORT-TERM BANK LOANS

Purpose	Currency	Balance on 31 December 2009 in currencies '000	Balance on 31 December 2009 CZK'000	Balance on 31 December 2008 in currencies '000	Balance on 31 December 2008 CZK'000
Operating loan	CZK	–	–	365,648	365,648
Operating loan	USD	–	–	3,100	59,973
Operating loan	EUR	5,001	132,352	33	887
Total			132,352		426,508

The level of interest rates attached to short-term bank loans fluctuated between 0.90% and 5.54% p.a. in 2009 (2008: between 1.25% and 4.99% p.a.).

LONG-TERM BANK LOANS

Purpose	Currency	Balance on 31 December 2009 in currencies '000	Balance on 31 December 2009 CZK'000	Balance on 31 December 2008 in currencies '000	Balance on 31 December 2008 CZK'000
Financing of B737 aircraft	USD	700	12,849	2,617	50,624
Medium-term operating loan	CZK	108,936	108,936	189,787	189,787
Total			121,785		240,411

Interest rates attached to bank loans are variable on the basis of PRIBOR or LIBOR. The Company had one loan, repaid during 2008, which bore fixed interest. The level of interest rates fluctuated between 3.46% and 5.11% p.a. in 2009 (2008: between 2.96% and 6.99% p.a.).

Schedule of repayments of bank loans (USD thousands or CZK thousands):

Purpose	Currency	2010	2011	2012	Total
Financing of B737 aircraft	USD	700	–	–	700
Medium-term operating loan	CZK	40,851	40,851	27,234	108,936

Security of bank loans:

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

	31 December 2009			31 December 2008		
	Fair value		Nominal amount CZK'000	Fair value		Nominal amount CZK'000
	Positive CZK'000	Negative CZK'000		Positive CZK'000	Negative CZK'000	
Trading agreements						
Currency options	–	–	–	47,300	–	538,600
Weighted forwards	–	–	–	54,000	–	646,320
Commodity swaps	–	–	–	–	31,544	89,611
Put commodity options	–	–	–	–	–	266,607
Interest rate swaps	–	58,051	961,316	–	38,984	1,117,058
Currency swaps	436	1,166	582,931	272	397	99,273
	436	59,217	1,544,247	101,572	70,925	2,757,469

Cash flow hedging agreements

Currency options	–	–	–	29,000	–	538,600
Currency forwards	10,818	146,395	2,094,619	130,324	66,302	3,508,979
Call commodity options	–	–	–	–	–	636,096
Commodity collar	119,997	–	39,764,065	–	–	–
Commodity swaps	41,445	37,383	750,564	–	1,559,171	3,718,552
	172,260	183,778	42,609,248	159,324	1,625,473	8,402,227
Total derivatives	172,696	242,995	44,153,495	260,896	1,696,398	11,159,696

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

While the Company designates all derivatives for the purpose of the economic hedge, the Company has certain derivative transactions, which provide effective economic hedges under the Company's risk management strategy, but hedge accounting is not applied to them. These are largely short-term derivative transactions and the application of hedge accounting would not have a significant impact on the financial statements while resulting in a significant administrative burden for the Company or some of the hedge accounting criteria are not met (for example effectiveness). These derivatives are therefore presented as trading derivatives in the table above. Fair value changes of the trading derivatives are recognised in the profit and loss account.

Fair value changes of the above-described cash flow hedging instruments are recognised in the revaluation reserve within equity until the hedged items affect the profit and loss account. The revaluation reserve in equity only includes the intrinsic value of currency options that hedge cash flows.

15. OTHER LIABILITIES

Accrued expenses principally represent accruals for finance and operating lease payments of aircraft.

Deferred income includes amounts received for sold traffic documents that were not yet realised as at the balance sheet date, i.e. were not yet used.

16. TAXATION

During the 2009 tax period, the Company does not expect reporting due income tax. During the 2008 tax period, the Company expected, after utilisation of tax losses from previous periods, incurring the due income tax in the amount of CZK 25,000 thousand and a provision was created for this amount. After the final calculation of the income tax liability for 2008, the provision was released in 2009.

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

	31 December 2009		31 December 2008	
	Equity CZK'000	Profit and loss account CZK'000	Equity CZK'000	Profit and loss account CZK'000
Deferred tax liability				
Difference between tax and accounting net book values of fixed assets	–	–	–	(181,231)
Hedging derivative instruments - short-term	–	–	–	–
Hedging derivative instruments - long-term	–	–	–	–
	–	–	–	(181,231)
Deferred tax asset				
Difference between tax and accounting net book values of fixed assets	–	42,621	–	–
Provisions	–	135,109	–	32,189
Reserves	–	356,396	–	258,641
Hedging derivative instruments - short-term	27,597	–	295,103	–
Hedging derivative instruments - long-term	87,900	–	24,473	–
Tax loss	–	–	–	–
	115,497	534,126	319,576	290,830
Net deferred tax asset / (liability)	115,497	534,126	319,576	109,599
Recognised deferred tax assets / (liability)	115,497	–	319,576	95,775

A deferred tax asset of CZK 115,497 thousand as of 31 December 2009 (a deferred tax liability of CZK 319,576 thousand as of 31 December 2008) relating to items recorded directly to equity was recorded to equity (Note 10).

The Company expects to utilize this deferred tax asset in the following years with a reasonable degree of certainty. The total amount of the calculated deferred tax asset is CZK 649,623 thousand (2008: CZK 415,351 thousand).

17. REVENUE ANALYSIS

Revenue from ordinary activities has been generated as follows:

		2009 CZK'000	2008 CZK'000
Sales of goods	– foreign countries	573,430	633,434
Goods		573,430	633,434
Regular transportation	– international	12,354,819	13,666,063
	– domestic	179,689	228,422
Charter services	– international	2,386,610	2,857,659
Other services	– foreign countries	1,331,067	1,265,215
		2,055,235	2,690,558
Security and fuel fee		104,268	92,349
Service fee		492,659	513,634
Operational handling fee and airport taxes		301,648	249,674
Maintenance provision release		549,112	930,810
Settlement of unused traffic documents		19,755,107	22,494,384
Services		19,755,107	22,494,384

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

- » airlines that have contracts with the Company for mutual provision of transport services, optionally bi-lateral contractual arrangements of non-transportation services (for example aircraft repairs, handling etc.);
- » travel agencies and individuals who buy transport services; and
- » other buyers – non-airlines that buy non-transportation services.

18. COST OF MATERIALS, ENERGY, AND SERVICES

	2009 CZK'000	2008 CZK'000
Consumed materials	5,738,082	6,129,538
Energy	97,895	95,531
Repairs and maintenance	1,364,631	1,130,884
Travel expenses	325,526	375,980
Services related to transport	1,118,392	1,201,920
Distribution, selling, and apron-handling services	764,431	732,207
Noise, navigation, landing, parking fees	2,488,129	2,572,648
Ground handling services	1,067,170	1,088,356
Services for passengers (refreshment etc.)	752,406	883,323
Finance leases	1,325,881	1,270,603
Operating leases of aircraft including maintenance provision	1,295,927	1,079,708
Compulsory audit of financial statements	4,342	4,264
Other services	1,454,706	1,748,166
	17,797,518	18,313,128

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

19. EMPLOYEE ANALYSIS

Employee numbers	2009	2008
Average number of members of management	24	27
Average number of staff	4,425	4,635
	4,449	4,662

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

	Management CZK'000	Other staff CZK'000	Total CZK'000
2009			
Wages and salaries	118,590	3,516,367	3,634,957
Social security costs	11,212	863,132	874,344
Other social costs	1,704	129,785	131,489
	131,506	4,509,284	4,640,790
2008			
Wages and salaries	115,369	3,375,682	3,491,051
Social security costs	10,547	888,261	898,808
Other social costs	1,924	137,888	139,812
	127,840	4,401,831	4,529,671

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

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

The remunerations granted to members of statutory authorities and the Company's management are stated as follows:

	Board of Directors CZK'000	Supervisory Board CZK'000	Other management CZK'000	Total CZK'000
2009				
Bonuses	1,540	4,277	–	5,817
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	527	–	1,083	1,610
Other benefits (responsibility of statutory authorities insurance)	–	485	–	485
2008				
Bonuses	1,740	4,830	–	6,570
Personal cars/other movable and immovable assets available for personal usage (the amount increases the tax base of employees)	593	–	1,087	1,680
Other benefits (responsibility of statutory authorities insurance)	–	824	–	824

20. OTHER OPERATING INCOME

	2009 CZK'000	2008 CZK'000
Subsistence allowance	3,088	3,794
Income from advertisement	14,118	25,773
Income from re-invoicing	21,205	32,298
Income from sold and written-off receivables	425	30
Income from intermediary activities	4,215	4,757
Settlement of shortages and losses	46,022	49,786
Government grants and public support	29,309	13,034
Other	39,766	45,978
	158,148	175,450

The item "Other" includes income from personal transport provided for the other airlines' traffic documents, income from the training of flight crews for other carriers, income from the rental of areas for advertisement, and commissions from pension funds.

21. OTHER OPERATING EXPENSES

	2009 CZK'000	2008 CZK'000
Fines and penalties	121,226	33,297
Write-offs of receivables	11,698	16,137
Insurance	98,712	93,464
Denied boarding compensation	21,645	24,652
Sold receivables	–	–
Wages and salaries settlement (e.g. termination benefits, injury compensation)	1,934	21,257
Compensations to passengers (e.g. hotel accommodation, refreshment and phones in the case of flight cancellation, rebooking, etc.)	31,538	37,837
Marketing expenses	11,558	16,971
Returned government grant	–	9,509
Shortages and losses	15,510	15,476
Other	54,500	28,431
	368,321	297,031

In 2009, provisions amounting to CZK 10,323 thousand were released in respect of the written-off receivables (2008: CZK 15,702 thousand) (Note 8). The total impact of on the profit and loss account amounted to CZK 1,375 thousand in 2009 (2008: CZK 435 thousand).

The item "Other" represents the disposal of rotables in the amount of CZK 18,701 thousand.

The item "Returned government grant" relates to the grant for the business activity provided by the Ministry of Industry and Trade of the Czech Republic. In 2008, during the regular review of the conditions underlying the grant, the Company identified that the condition regarding the minimum number of new jobs was not met. In accordance with the rules of the General Programme for the Support of Technology Centres and Centres of Strategic Services, the Company returned the grants received and recognised in the profit and loss account in 2006 and 2007; therefore, the Company recognised the respective liability.

22. OTHER FINANCIAL INCOME

	2009 CZK'000	2008 CZK'000
Exchange rate gains	987,153	1,163,506
Income from derivative financial instruments	1,115,398	554,211
Other	121	197
	2,102,672	1,717,914

23. OTHER FINANCIAL EXPENSES

	2009 CZK'000	2008 CZK'000
Exchange rate losses	1,116,431	1,727,614
Expenses from derivative financial instruments	941,057	399,867
Bank charges for transaction payments made by credit cards	101,913	117,305
Other	22,772	26,057
	2,182,173	2,270,843

24. RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions:

	2009 CZK'000	2008 CZK'000
REVENUE		
<i>Subsidiaries</i>		
Air Czech Catering a.s.	–	11,858
AMADEUS MARKETING CSA, s.r.o.	49	8
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	1,115	814
CSA Services, s.r.o.	14,049	14,608
ČSA Support s.r.o.	7,758	2,415
SLOVAK AIR SERVICES s.r.o.	178	11
ClickforSky, a.s.	3,192	291
<i>Other related companies</i>		
Ústav jaderného výzkumu Řež a.s.	–	134
LACOMED, spol. s.r.o.	–	118
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	612,794	1,423,820
Výzkumný a,zkušební letecký ústav, a.s.	–	11
TECHNOEXPORT akciová společnost pro zahraniční obchod	17	1,540
ČEZ, a.s.	–	324
	639,152	1,455,952

The company showed the following ballances with related parties:

	2009 CZK'000	2008 CZK'000
COSTS		
<i>Subsidiaries</i>		
Air Czech Catering a.s.	–	243,794
AMADEUS MARKETING CSA, s.r.o.	47	–
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	32,933	8,546
CSA Services, s.r.o.	135,620	166,947
ČSA Support s.r.o.	113,622	111,998
SLOVAK AIR SERVICES s.r.o.	6,164	4,811
ClickforSky, a.s.	23,434	61,214
<i>Other related companies</i>		
Ústav jaderného výzkumu Řež a.s.	2	2
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	264,821	1,929,345
Výzkumný a,zkušební letecký ústav, a.s.	77	24
ČEZ, a.s.	–	956
	576,720	2,527,637

The following related party balances were outstanding at:

	31 December 2009 CZK'000	31 December 2008 CZK'000
RECEIVABLES		
<i>Subsidiaries</i>		
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	439	361
CSA Services, s.r.o.	5,780	5,725
ČSA Support s.r.o.	1,002	1,038
SLOVAK AIR SERVICES s.r.o.	395	1,018
ClickforSky, a.s.	612	72
<i>Other related companies</i>		
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	114,352	850,215
LACOMED, spol. s.r.o.	5	8
TECHNOEXPORT akciová společnost pro zahraniční obchod	–	27
	122,585	858,464

	31 December 2009 CZK'000	31 December 2008 CZK'000
PAYABLES		
<i>Subsidiaries</i>		
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	2,390	2,514
CSA Services, s.r.o.	13,368	20,152
ČSA Support s.r.o.	11,450	11,858
SLOVAK AIR SERVICES s.r.o.	1,947	–
ClickforSky, a.s.	3,119	–
<i>Other related companies</i>		
Letiště Praha, a.s. (formerly Správa Letiště Praha, s.p.)	423,776	233,701
	456,050	268,225

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

	31 December 2009 CZK'000	31 December 2008 CZK'000
PROVIDED LOANS – SHORT-TERM		
HOLIDAYS Czech Airlines, a.s. (formerly ČSA Airtours a.s.)	–	1,000
RECEIVED LOANS – SHORT-TERM		
Ministry of Trade and Industry Czech Republic	2,500,000	–

The loan is disclosed in Note 12.

The Company additionally provided/received loans to/from related parties that were repaid at the balance sheet date:

	2009 CZK'000	2008 CZK'000
RECEIVED LOANS – SHORT-TERM		
Air Czech Catering a.s.	–	5,112

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

Company cars are available for Board members and other managers (Note 19).

Total remuneration for the members of the Board of Directors and the members of the Supervisory Board is disclosed in Note 19.

Besides the above-stated remuneration and benefits, there were no other considerations provided to the Company's shareholders, members of the Company's boards, and management in 2009 and 2008.

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

25. COMMITMENTS

The Company has the following future commitments in respect of operating leases of 22 aircraft as of 31 December 2009 (as of 31 December 2008: 23 aircraft) and 1 aircraft, which will be included in the Company's fleet in 2010:

Aircraft	Currency	Amount paid and payable	Total amounts paid on 31 December 2008	Total amounts paid on 31 December 2009	Outstanding amounts payable within one year	Amounts payable after more than one year
Boeing B737	USD '000	74,851	65,091	51,992	11,669	11,190
Airbus A310/A320/A321/A319	USD '000	186,946	80,011	98,096	19,891	68,959
ATR 42	USD '000	68,455	33,418	41,971	8,554	17,930
Total	USD '000	330,252	178,520	192,059	40,114	98,079
Total *	CZK '000	6,066,069	3,279,055	3,527,740	736,814	1,801,515

* The conversion from USD to CZK was effected using the rate of the Czech National Bank as of 31 December 2009.

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

Rent	Currency	Amount paid and payable	Total amounts paid on 31 December 2008	Total amounts paid on 31 December 2009	Outstanding amounts payable within one year	Amounts payable after more than one year
Non-residential premises	EUR '000	3,815	56	431	752	2,632
Non-residential premises**	CZK '000	2,101,494	215,120	263,519	93,040	1,744,935
Total *	CZK '000	2,202,458	216,602	274,925	112,940	1,814,588

* The conversion from EUR to CZK was effected using the rate of the Czech National Bank as of 31 December 2009.

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

The Company will purchase eight Airbus A319 aircraft in 2011 – 2013, the total official list price value being USD 576,630 thousand at the delivery date. The actual price will be set in accordance with the contract signed in 2005.

The Company has no other undisclosed significant commitments.

26. SALE AND TRANSFER OF THE DISCONTINUED OPERATIONS

As of 16 December 2009, the Company's Board of Directors decided to increase the share capital and share premium of ČSA Support s.r.o. in the amount of CZK 570,000 thousand and CZK 84,831 thousand, respectively. The increase is based on the non-monetary contribution valued by an independent valuer using the income approach. The accounting value of the non-monetary contribution was CZK 128,049 thousand as of 1 January 2010. As of January 2010, the Company transferred the below-mentioned balances to its subsidiary ČSA Support s.r.o.

Allocated balances in the balance sheet of the Company as of 31 December 2009 (CZK '000)	
ASSETS	
Software	1,606
Buildings	272
Individual movable assets and sets of movable assets	106,035
Other tangible fixed assets	15,172
Material	12,408
Deferred tax asset	695
Trade receivables	35,191
Short-term prepayments made	504
Other receivables	558
	172,441
LIABILITIES	
Other reserves	1,561
Trade payables	18,987
Payables to employees	19,426
Estimated payables	3,604
Other payables	814
	44,392

The balance sheet and profit and loss account reflect the balances of Duty Free, which was sold as of 9 February 2010. The selling price amounted to CZK 764,000 thousand.

Allocated balances in the balance sheet of the Company as of 31 December 2009 (CZK '000)	
ASSETS	
Buildings	7,801
Individual movable assets and sets of movable assets	4,346
Goods	57,111
Long-term prepayments made	1,534
Trade receivables	5,411
Short-term prepayments made	1,475
Other receivables	216
LIABILITIES	
Trade payables	29,887
Payables to employees	1,245
Estimated payables	2,152
Other payables	10
Accrued expenses	106
Allocated balances in the profit and loss account of the Company for the year ended 31 December 2009 (CZK '000)	
Sales of goods	571,856
Costs of goods sold	338,994
Sales of own products and services	9,880
Consumed material and energy	8,524
Services	100,894
Payroll costs	20,771
Social security and health insurance costs	7,600
Social costs	392
Depreciation	2,653
Sale of fixed assets	84
Change in reserves and provisions relating to operating activities	748
Other operating income	9,897
Other operating expenses	2,709
Other financial expenses	4,498

27. CONTINGENT ASSETS AND LIABILITIES

In 2008, the Company closed contracts for future contract to establish the right to use the land in the Ruzyně airport area to the total amount of CZK 149,630 thousand. The conclusion of the contracts for the establishment of the right of user and also the settlement of the purchase price are linked to the fulfilment of legal acts in the future (for example, a legally valid building permit).

Contingent liabilities are incurred by the Company from the activities disclosed in Notes 4 and 25 and from the Company's impact on the environment.

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

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

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

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

The Company guarantees the liabilities of its subsidiaries in the amount of CZK 3,000 thousand and EUR 200 thousand, respectively (2008: CZK 2,500 thousand)

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

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

Management of the Company is not aware of any other significant unrecorded contingent liabilities as of 31 December 2009 and 2008.

28. CASH FLOW STATEMENT

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

29. SUBSEQUENT EVENTS

Sale of Land around the APC Building

The sale of land around the APC building to Letiště Praha, a.s. for a price of CZK 138,020 thousand was made on 2 February 2010.

Duty Free

The sale of Duty Free to Aelia Czech Republic s.r.o. for the price of CZK 764,000 thousand was made on 9 February 2010.

Closure of Air Traffic

The airspace over the Czech Republic and the whole of Europe was closed in the period from 16 April 2010 to 19 April 2010 as a result of the eruption of the Eyjafjallajökull volcano in Iceland and the spread of the volcanic ash cloud. The financial impacts are being determined.

Restructuring

Pursuant to Resolution No. 1343 of the Government of the Czech Republic on 26 October 2009, it was decided to cancel the tender process to sell the State's shareholding in Czech Airlines, which continues to be 91.75 percent owned by the State. The Government has also approved plans to stabilise the situation in Czech Airlines and has requested the preparation of a restructuring plan.

The Company reported a deficit on its equity of CZK 2,352,045 thousand as of 31 December 2009 and incurred a loss of CZK 3,756,125 thousand for the year then ended. Management of the Company has therefore developed a restructuring plan describing individual steps to be taken to maintain the Company's ability to operate as a going concern at least for the next reporting period.

The prepared restructuring plan of the Company was approved by the Government of the Czech Republic on 3 May 2010 and the Company is expected to follow the restructuring plan in managing its operations for the coming three-year period. The Government has also approved the capitalisation of the State's receivable arising from the loan from Osinek, whereby CZK 2.5 billion will be converted from the loan into equity as part of liabilities. The European Commission was notified about the restructuring plan on 12 May 2010 and is undertaking a review relating to the loan provided by OSINEK, a.s. "in liquidation proceedings".

The plan was approved at the Company's extraordinary general meeting held on 20 May 2010. The fulfilment of the going concern assumption as applied by the Company's management is conditional upon the successful implementation of the restructuring plan.

COMMERCIAL-TRANSPORTATION ACHIEVEMENTS IN THE YEARS 1999 - 2009

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Flights	total	17,718.5	20,319.0	22,760.5	24,453.0	27,021.5	32,702.0	38,676.0	39,143.5	39,850.0	41,742.5	40,989.0
	ITR	17,718.5	19,704.5	21,595.5	23,319.0	25,970.0	31,488.0	37,163.5	37,159.5	37,855.0	39,468.0	38,097.0
	INT	–	614.5	1,165.0	1,134.0	1,051.5	1,214.0	1,512.5	1,984.0	1,995.0	2,274.5	2,892.0
Flown km	total (000)	38,627.7	41,878.2	45,483.7	47,045.2	54,517.1	67,971.7	82,960.6	82,755.2	82,928.8	86,705.0	84,458.2
	MPŘ	38,627.7	41,551.8	44,853.0	46,430.1	53,935.9	67,291.9	82,117.4	81,742.8	81,920.4	85,579.2	83,039.2
	VPR	–	326.4	630.7	615.1	581.2	679.8	843.2	1,012.4	1,008.4	1,125.8	1,419.0
Sold hours	total	62,311	68,809	74,687	78,210	88,769	110,124	132,831	131,503	131,614	138,199	135,399.7
	ITR	62,311	67,912	72,958	76,518	87,196	108,268	130,583	128,818	128,904	135,105	131,380.3
	INT	–	897	1,729	1,692	1,573	1,856	2,248	2,685	2,710	3,094	4,019.5
Nr. of transported passengers	total (000)	2,064.1	2,461.7	2,877.3	3,065.0	3,591.5	4,345.4	5,217.6	5,469.9	5,492.2	5,626.0	5,464.6
	ITR	2,064.1	2,436.4	2,831.5	3,016.7	3,538.4	4,282.5	5,137.2	5,361.9	5,379.5	5,508.2	5,356.6
	INT	–	25.3	45.8	48.3	53.1	62.9	80.4	108.0	112.7	117.8	108.0
Passengers kilometres flown	total (000 000)	3,149.5	3,622.6	3,994.3	4,178.3	5,084.1	6,232.1	7,816.8	8,074.5	7,788.5	7,841.2	7,557.5
	ITR	3,149.5	3,615.7	3,981.7	4,165.0	5,069.3	6,214.5	7,794.3	8,046.3	7,759.5	7,810.8	7,530.3
	INT	–	6.9	12.6	13.3	14.8	17.6	22.5	28.2	29.0	30.4	27.2
Used seats capacity	total (%)	65.8	70.4	70.8	71.3	72.7	70.5	70.1	71.8	68.4	67.1	68.1
	ITR	65.8	70.5	71.0	71.4	72.8	70.6	70.2	71.9	68.4	67.2	68.3
	INT	–	41.9	39.6	44.7	48.7	51.2	51.6	52.8	53.9	51.0	45.7
Used tkm	total (000 000)	311.6	360.9	388.3	407.6	498.1	606.0	747.9	771.7	744.5	742.5	708.7
	ITR	311.6	360.2	387.1	406.3	496.7	604.4	745.8	769.1	741.9	739.7	706.2
	INT	–	0.7	1.2	1.3	1.4	1.6	2.1	2.6	2.6	2.8	2.5
Tkm goods, mail	total (000 000)	28.16	34.85	28.88	31.53	40.52	45.18	44.40	45.03	43.56	36.78	28.5
	ITR	28.16	34.83	28.84	31.50	40.49	45.15	44.38	44.99	43.53	36.75	28.5
	INT	0.00	0.02	0.04	0.03	0.03	0.03	0.02	0.04	0.03	0.03	–
Used off. capacity	total (%)	56.6	61.4	62.1	63.7	64.7	62.3	62.0	63.2	57.7	56.2	56.6
	ITR	56.6	61.4	62.2	63.8	64.7	62.3	62.0	63.2	57.8	56.3	56.7
	INT	–	40.8	40.9	45.6	48.4	51.3	49.7	49.6	50.3	48.8	44.5

ITR - international transportation

INT - interstate transportation

CZECH AIRLINES AIRCRAFT FLEET - OVERALL OPERATION INDICATORS

	A310	A319	A320	A321	B737	B734	B735	AT72	AT42	LEASE	BSA	IN TOTAL
NATURAL INDICATORS - ABSOLUTE												
Evidence number of aircrafts	2	7	8	2	2	6	10	4	8			49
Average number of aircrafts	2.47	6.65	8.00	2.00	2.75	6.31	10.00	4.00	8.00			50.18
Way of ownership												
- own	0.47						1.00	4.00	1.00			6.47
- financial leasing		6.00	6.00			5.00	2.00					19.00
- operational leasing	2.00	0.65	2.00	2.00	2.75	1.31	7.00		7.00			24.71
Average age of the aircraft	16.84	1.83	4.65	12.59	18.08	11.14	14.83	17.80	6.88			9.93
Flown kilometers												
- regular transportation	4,137,180	17,981,297	118,112	197,417	5,996,058	15,179,502	3,654,998	6,405,607	1,309,613			71,888,111
- in total	5,382,718	18,141,115	19,282,060	4,155,482	3,001,879	7,397,874	15,373,802	3,667,256	6,746,405	1,309,613		84,458,204
Net flying hours												
- productive PL	7,285.31	25,204.64	27,690.68	6,004.18	6,636.52	10,117.13	24,928.71	10,080.59	17,295.25	3,673.86		138,916.85
- productive SK	6,557.45	26,068.31	27,187.90	5,666.76	4,251.60	11,140.46	23,768.12	9,561.69	17,486.96	3,710.46		135,399.71
- in total	6,602.89	26,086.86	27,241.80	5,668.48	4,322.60	11,184.39	23,798.04	9,606.31	17,535.58	3,711.63		135,758.58
Block flying hours												
- productive	6,984.40	30,191.23	31,534.31	6,296.42	4,750.20	13,143.87	28,626.55	10,924.93	20,171.82	4,581.83		157,205.56
- in total	7,042.53	30,215.73	31,602.69	6,298.92	4,829.64	13,200.99	28,666.83	10,975.01	20,230.35	4,583.33		157,646.02
Number of take offs	857	12,993	12,883	2,148	1,733	6,286	16,721	8,155	16,493	4,579		82,848
Number of Passengers	128,883	1,023,607	1,333,118	318,070	173,982	560,858	1,109,178	290,707	418,523	80,698	27,019	5,464,643
Tonne - kilometres performed (ooo)	83,807.9	137,259.6	193,004.1	62,222.1	31,892.0	64,542.7	97,508.6	12,343.0	16,111.9	2,169.9	7,817.7	708,679.5
Passengers kilometres flown (ooo)	144,098.2	278,202.3	328,722.6	86,342.1	45,288.5	110,828.1	189,366.8	20,995.9	28,683.0	3,833.1	15,511.6	1,251,872.3
Available Tonne - kilometres (ooo)	854,922.8	1,453,262.2	2,063,105.8	688,905.7	353,551.1	692,728.7	1,039,322.0	134,399.0	175,887.2	24,075.2		7,557,549.5
Available Seat-kilometres (ooo)	1,098,072.4	2,303,342.9	2,970,682.1	879,739.5	484,507.7	1,033,557.5	1,587,683.3	229,565.5	309,747.1	43,236.0		
Aviation fuel consumption in t	33,113	62,420	71,570	17,673	11,654	29,504	59,514	6,382	11,592	1,665		305,087

	A310	A319	A320	A321	B737	B734	B735	AT72	AT42	LEASE	BSA	IN TOTAL
NATURAL INDICATORS - RELATIVE												
Daily aircraft use												
- from net time	8.31	10.74	9.33	7.77	5.95	4.86	6.52	6.58	6.01			7.57
- from block time	8.86	12.44	10.82	8.63	6.65	5.73	7.85	7.52	6.93			8.79
- from block time -d.l.y	7.91	12.39	11.45	9.50	8.33	7.28	8.31	7.36	7.11			8.81
Average sector lenght (km)	6,281	1,396	1,497	1,935	1,732	1,177	919	450	409	286		1,019
Average sector lenght (hours)												
- from net time	7.70	2.01	2.11	2.64	2.49	1.78	1.42	1.18	1.06	0.81		1.64
- from block time	8.22	2.33	2.45	2.93	2.79	2.10	1.71	1.35	1.23	1.00		1.90
Average speed (km/h)												
- from net time	815	695	708	733	694	661	646	382	385	353		622
- from block time	764	600	610	660	622	560	536	334	333	286		536
Average capacity use of the aircraft (kg)	15,570	7,566	10,010	14,974	10,624	8,724	6,343	3,366	2,388	1,657		8,391
therein: goods, mail (kg)	1,275	356	380	53	24	297	258	67	42	2		813
i.e. in %	8.19	4.71	3.80	0.35	0.23	3.40	4.07	2.00	1.75	0.14		9.68
Average offered payload (kg)	26,771	15,335	17,048	20,778	15,087	14,981	12,318	5,725	4,252	2,927		14,822
% use of total offered capacity	58.2	49.3	58.7	72.1	70.4	58.2	51.5	58.8	56.2	56.6	50.4	56.6
% use of total offered capacity - d.l.y	61.7	47.0	57.2	70.4	71.7	53.6	48.0	57.4	53.9	59.3	54.0	56.2
Average number of PAX	159	80	107	166	118	94	68	37	26	18	15	84
Average number of offered seats	204	127	154	212	161	140	103	63	46	33	29	124
% use of seats capacity	77.9	63.1	69.4	78.3	73.0	67.0	65.5	58.5	56.8	55.7	51.0	68.1
% use of seats capacity - d.l.y	78.0	61.1	68.0	76.2	75.2	61.7	61.2	57.7	54.8	54.6	64.8	67.1
Average time of taxi (min)	31	19	20	18	18	19	17	10	10	11		16
Aviation fuel consumption (kg)												
- for a net hour	5,015	2,393	2,627	3,118	2,696	2,638	2,501	664	661	449		2,247
- for a block hour	4,702	2,066	2,265	2,806	2,413	2,235	2,076	581	573	363		1,935
Aviation fuel consumption (g) for offered oskm	30.2	27.1	24.1	20.1	24.1	28.5	37.5	27.8	37.4	38.5		27.5

Note.: d.l.y- data for the last year

REPORT OF THE STATUTORY BODY OF THE COMPANY ON RELATIONS BETWEEN INTERCONNECTED PERSONS

PARAGRAPH I. HOLDING ASSOCIATES

1. CONTROLLED ENTITY

Czech Airlines a.s.
registered office at Praha 6, Letiště Ruzyně, 160 08 ,
IN 45 79 59 08
registered in the Commercial Register administered by
the Municipal Court in Prague, Section B, File No. 1662
(hereinafter referred to as the “controlled entity”).

The controlled entity is a trading company engaged in
commercial air transportation. The subject of enterprise is
specified in the company regulations

The ministry is a central body of the state administration
constituted by the law of ČNR nr. 2/1969 of the Civil Code on
the establishment of the ministries and other central bodies
of the state administration of the Czech Republic as amended
(hereinafter referred to as the “competence law”).

2. CONTROLLING ENTITY

The Czech Republic – Ministry of Finance
registered office at Letenská 525/15, 118 10 Praha 1, IN 00 00 69 47
(hereinafter referred to as the “controlling entity”).

3. INTERCONNECTED ENTITIES

1. Česká exportní banka, a.s.

registered office at 111 21 Praha 1, Vodičkova 34/701
IN 63 07 83 33
registered in the Commercial Register administered by the
Municipal Court in Prague
Section B, File No. 3042

The company is engaged in the activities according to the
§ 1 Sec. 1 Code. No. 21/1992 Coll. Lett. a) Receiving of public
investment, Lett. b) Leasing provision, etc. The subject of
enterprise is specified in the regulations of the company.

2. Exportní garanční a pojišťovací společnost, a.s.

registered office at 111 21 Praha 1, Vodičkova 34/701
IN 45 27 93 14
registered in the Commercial Register administered by the
Municipal Court in Prague,
Section B, File No. 1619

The company is engaged in the insurance business according
to the § 7 Sec. 3 Code. No. 363/1999 Coll., as amended. etc.
The subject of enterprise is specified in the regulations of the
company.

3. Severočeské mlékárny, a.s., Teplice, v bankrotu (in bankruptcy proceedings)

registered office at 415 03 Teplice, Libušina 2154
IN 48291749
registered in the Commercial Register administered by the
Regional Court in Ústí nad Labem, Section B, File No. 438
The company is engaged in the production of milk and
related products. The subject of enterprise is specified in the
regulations of the company.

4. KONAX a.s., v likvidaci (in liquidation proceedings)

registered office at Jihlava, Křižíkova 17
IN 46 34 78 01
registered in the Commercial Register administered by the
Regional Court in Brno, Section B, File No. 807

The company is engaged in the production and sale of the
furniture plush, weaved furs, and other hair fabrics. The subject
of enterprise is specified in the regulations of the company.

5. Ormilk, a.s., v likvidaci (in liquidation proceedings)

registered office at 564 01 Žamberk
IN 60 10 90 92
registered in the Commercial Register administered by the
Regional Court in Hradec Králové, Section B, File No. 1043

The company is engaged in the production of milk and
related products. The subject of enterprise is specified in the
regulations of the company.

6. Výzkumný a zkušební letecký ústav, a.s.

registered office at 199 05, Praha, Letňany, Beranových 130
IN 00 01 06 69
registered in the Commercial Register administered by the
Municipal Court in Prague, Section B, File No. 446

The company is engaged in the research and development in
the field of natural, technical, and social sciences. The subject
of enterprise is specified in the regulations of the company.

7. Městská finanční společnost a.s., abbreviated form MUFIS a.s.

registered office at 110 00 Praha 1, Jeruzalémská 964/4
IN 60 19 66 96
registered in the Commercial Register administered by the
Municipal Court in Prague
Section B, File No. 2517

The company is engaged in production, sales, and services
which are not included in the annex 1 to 3 of the Trades
Licensing Act. The subject of enterprise is specified in the
regulations of the company.

8. ČMFL, a.s.

registered office at 170 06, Praha 7, Janovského 438/2
IN 25 54 18 89
registered in the Commercial Register administered by the
Municipal Court in Prague, Section B, File No. 11886

The company is engaged in financial leasing.

9. UNITEX a.s.

Erased from the Commercial Register on 8th July 2009

10. ČEZ, a.s.

registered office at 140 53 Praha 4, Duhová 2/1444
IN 45 27 46 49
registered in the Commercial Register administered by the
Municipal Court in Prague
Section B, File No. 1581

The company is engaged in energy production, assembly,
reparation and the service of electrical facilities and production
of fuse boards, revisions of electrical facilities, production
and import of chemical substances and chemical preparation
classified as flammable, health threatening, etc. The subject of
enterprise is specified in the regulations of the company.

11. BH CAPITAL, a.s.

registered office at 602 00 Brno, Příkop 843/4
IN 00 54 66 82
registered in the Commercial Register administered by the
Regional Court in Brno, Section B, File No. 230

The company is engaged in auditing, accountancy, etc. The
subject of enterprise is specified in the regulations of the
company.

12. Teplotechna Praha, a.s.

registered office at 113 39 Praha 2, Ječná 39
IN 60 19 29 33
registered in the Commercial Register administered by the
Municipal Court in Prague
Section B, File No. 2283

The company is engaged in the production, sales, and services
which are not included in the annex 1 to 3 of the Trades
Licensing Act. The subject of enterprise is specified in the
regulations of the company.

13. SEVAC a.s., v likvidaci (in liquidation proceedings)

registered office at 281 63, Okres: Kolín, Kostelec nad
Černými Lesy, Bohumile
IN 60 19 29 68
registered in the Commercial Register administered by the
Municipal Court in Prague
Section B, File No. 2291

The company is engaged in the research, development, and
production of the immunological, biological, biochemical,
chemical and pharmaceutical products, cosmetics, and other
preparations connected to the main production programs and
at the same time involved in supplying the customers with
these products. The subject of enterprise is specified in the
regulations of the company.

14. VIPAP VIDEM KRŠKO d.d.

registered office at SI-8270 Krško, Tovarniška 18, Slovenia
The company is engaged in the production of cellular tissue
from wood or other form filled materials and in the production
of paper and tar paper.

15. HOLDING Kladno a.s. , v likvidaci (in liquidation proceedings)

registered office at 272 00 Kladno, Cyrila Boudy 1444
IN 45 14 44 19
registered in the Commercial Register administered by the
Municipal Court in Prague
Section B, File No. 1335

The company is engaged in the production and sale of raw
steel, fine sectional steel, middle and rough universal mill
plates and drawn steel, tubular products, welded steel pipes
(except precise ones), and rolls for metal forming. The subject
of enterprise is specified in the regulations of the company.

16. TECHNOEXPORT akciová společnost pro zahraniční obchod

registered office at 113 34 Praha 1, Václavské náměstí 846/1
IN 00 00 08 41
registered in the Commercial Register administered by the
Municipal Court in Prague
Section BXXXVI, File No. 62

The company is engaged in the renting of non-residential
spaces including related elementary services and production,
sales, and services which are not included in the annex 1 to 3 of
the Trades Licensing Act. The subject of enterprise is specified
in the regulations of the company.

17. STROJIMPORT a.s.

registered office at 130 00 Praha 3, U Nákladového
nádraží 6
IN 00 00 07 95
registered in the Commercial Register administered by the
Municipal Court in Prague
Section B, File No. 29

The company is engaged in the production, sales, and services
which are not included in the annex 1 to 3 of the Trades
Licensing Act. The subject of enterprise is specified in the
regulations of the company.

18. **HOTELINVEST a.s., v bankrotu** (in bankruptcy proceedings)
registered office at 110 00 Praha 1, Nekázanka 4
IN 00 25 19 76
registered in the Commercial Register administered by the Municipal Court in Prague
Section BXXXVI, File No. 83
The company is engaged in the production, sales, and services which are not included in the Annex 1 to 3 of the Trades Licensing Act. The subject of enterprise is specified in the regulations of the company.

19. **Silnice Teplice, a.s., v likvidaci** (in liquidation proceedings)
registered office at 415 01, Teplice, Chelčického 7
IN 47 28 55 83
registered in the Commercial Register administered by the Regional Court in Ústí nad Labem
Section B, File No. 327
Erased from the Commercial Register on 17th June 2009.

20. **MERO ČR, a.s.**
registered office at 278 01 Kralupy nad Vltavou, Veltruská 748
IN 60 19 34 68
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 2334
The company is engaged in the production, installation, repair of electrical machines and equipment, electronically and telecommunication devices, etc. The subject of enterprise is specified in the regulations of the company.

21. **ČEPRO, a.s.**
registered office at 170 04, Praha 7, Dělnická č.p. 213, č. or. 12
IN 60 19 35 31
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 2341

The company is engaged in the production and manufacturing of fuel and oil, enterprise in the field of dangerous waste disposal, etc. The subject of enterprise is specified in the regulations of the company.

22. **OSINEK, a.s. „v likvidaci“** (in liquidation proceedings)
registered office at 186 00, Praha 8, Prvního pluku 206/7
IN 00 01 21 73
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 15040
The company is engaged in asset management, brokering, and intermediation services. The subject of enterprise is specified in the regulations of the company.

23. **PPP Centrum a.s.**
registered office at 128 00 Praha 2, Rašínovo nábřeží 42
IN 00 01 34 55
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 9672
The company is engaged in collection and dissemination of experience with public sector projects, such as public-private partnerships. The subject of enterprise is specified in the regulations of the company.

24. **PAL a.s., v likvidaci** (in liquidation proceedings)
registered office at 120 00 Praha 2 – Nové město,
Rašínovo nábř. 390/42
IN 00 21 12 22
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 614
The company is engaged in the management of property intended for restitution and settlement of activities of the company. The subject of enterprise is specified in the regulations of the company.

25. **Thermal – F, a.s.**
registered office at 360 01 Karlovy Vary, I.P.Pavlova 2001/11
IN 25 40 17 26
registered in the Commercial Register administered by the Regional Court in Plzeň
Section B, File No. 813
The company is engaged in the operation of a private health facility with the following type and scope of care: FBLR, providing comprehensive inpatient and outpatient spa care-preventive, curative and rehabilitative. The subject of enterprise is specified in the regulations of the company.

26. **Finesko industry, a.s.**
registered office at Praha 3 – Žižkov, Na Rovnosti 2244/5
IN 25 28 80 16
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 15160
The company is engaged in joinery. The subject of enterprise is specified in the regulations of the company.

27. **LETKA, a.s. , v likvidaci** (in liquidation proceedings)
Erased from the Commercial Register on 5th November 2009.
28. **STROJÍRNÝ TATRA PRAHA, a.s., v likvidaci** (in liquidation proceedings)
registered office at 155 21 Praha 5, Zličín, K metru 312,
IN 00 67 43 11
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 226
The company is engaged in rental property without providing other than basic services related to rental. The subject of enterprise is specified in the regulations of the company.

28. **STROJÍRNÝ TATRA PRAHA, a.s., v likvidaci** (in liquidation proceedings)
registered office at 155 21 Praha 5, Zličín, K metru 312,
IN 00 67 43 11
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 226
The company is engaged in rental property without providing other than basic services related to rental. The subject of enterprise is specified in the regulations of the company.

29. **STAVOCENTRAL, a.s., v likvidaci** (in liquidation proceedings)
registered office at 128 00, Praha 2, Jaromírova 64
IN 47 11 69 43
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 1936
The company is engaged in hospitality activities and project activities in construction, etc. The subject of enterprise is specified in the regulations of the company.

30. **JUNIOR centrum, a.s., v likvidaci** (in liquidation proceedings)
registered office at 538 07, Seč, ul. Čs. Pionýrů 197
IN 48 15 49 46
registered in the Commercial Register administered by the Regional Court in Hradec Králové
Section B, File No. 894
The company is engaged in hospitality activities, provision of accommodation services, etc. The subject of enterprise is specified in the regulations of the company.

31. **AGM, a.s., v likvidaci** (in liquidation proceedings)
Erased from the Commercial Register on 6th April 2009

32. **JUNIA s.r.o., v likvidaci** (in liquidation proceedings)
registered office at 702 00, Ostrava, Stodolní 9, okres Ostrava - město
IN 45 78 87 40
registered in the Commercial Register administered by the Regional Court in Ostrava
Section C, File No. 15852
The company is engaged in accounting and economics, production, sale, and services which are not included in the Annex 1 to 3 of the Trades Licensing Act. The subject of enterprise is specified in the regulations of the company.

33. **LETIŠTĚ PRAHA, a.s.**
registered office at 160 08, Praha 6, K Letišti 6/1019
IN 28 24 45 32
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 14003
The company is engaged in the production, sales, and services which are not included in the Annex 1 to 3 of the Trades Licensing Act. The subject of enterprise is specified in the regulations of the company.

34. **EXPLOSIA a.s.**
registered office at 530 50, Pardubice, Semtín 107
IN 25 29 15 81
registered in the Commercial Register administered by the Regional Court in Hradec Králové
Section B, File No. 1828
The company is engaged in research, development, production, destruction, disposal, treatment, purchase and the sale of explosives, etc. The subject of enterprise is specified in the regulations of the company.

35. **GALILEO REAL, k.s.**
registered office at 170 06, Praha 7, Janovského 438/2
IN 26 17 52 91
registered in the Commercial Register administered by the Municipal Court in Prague
Section A, File No. 42738
The company is engaged in real estate agency and brokerage activities in the field of trade, etc. The subject of enterprise is specified in the regulations of the company.

36. **GLOBAL INVESTMENT a.s., v likvidaci** (in liquidation proceedings)
Erased from the Commercial Register on 7th August 2009.

37. **IMOB a.s.**
registered office at 170 06, Praha 7, Janovského 438/2
IN 60 19 79 01
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 2651
The company is engaged in a real estate agency activities. The subject of enterprise is specified in the regulations of the company.

38. **PRISKO a.s.**
registered office at 170 06, Praha 7, Janovského 438/2
IN 46 35 59 01
registered in the Commercial Register administered by the Municipal Court in Prague
Section B, File No. 1729
The company is engaged in the leasing of buildings and the provision of related services. The subject of enterprise is specified in the regulations of the company.

The list of the companies controlled by the above-mentioned interconnected entities is in the Annex nr. 1 of this Report as its integral part.

SECTION II. RELATIONS AMONG THE HOLDING ASSOCIATES

1. WAY OF CONTROL

The controlling entity owns the shares of stocks of the controlled entity whose overall share on the authorized capital is 91,75%.

2. PERSONAL UNION

The controlled entity, behaving as a careful manager, is to the date of elaboration of this report conscious that:

- » **Miroslav Dvořák**, domiciled at Na Lysině 1181/6, Praha 4, Podolí, 147 00, has been the CEO and the chairman of the Board of Directors of the controlled entity since 19 October 2009 and at the same time a chairman of the Board of Directors of the interconnected entity Letiště Praha, a.s. since 14 November 2008
- » **Josef Adam**, domiciled at U Radnice 456, Odolena Voda, 250 70, has been a member of the Board of Directors of the controlled entity since 19 October 2009 and at the same time a member of the Board of Directors of the subcompany Realitní developerská, a.s. of the interconnected entity Letiště Praha, a.s. since 19 December 2008
- » **Roman Boček**, domiciled at Zvole, Přední 372, 252 45, has been a member of the Supervisory Boards of the controlled entity since 24 June 2009 and at the same time a member of the Supervisory Board of the interconnected entity Letiště Praha, a.s. since 15 April 2009.
- » **Petr Polák**, domiciled at Podolská 606/120, Praha 4, Podolí, 147 00, was a member of the Supervisory Board of the controlled entity from 27 November 2006 to 14 September 2009 and at the same time a member of the Supervisory Board of the interconnected entity Technoexport a.s. from 25 June 2007 to 25 June 2009 and at the same time he has been a member of the Supervisory Board of the interconnected entity OSINEK a.s., in liquidation proceedings since 28 November 2008.

3. STRUCTURE OF THE INTERCONNECTION

The controlling entity has the following perceptual share on the interconnected entities:

Interconnected entities	Percentual share	Note
Česká exportní banka, a.s.	37.90%	Increase of the basic capital as per 9 September 2009
Exportní garanční a pojišťovací společnost, a.s.	40.00%	
Severočeské mlékárny, a.s., – v bankrotu	40.78%	
Konax a.s. – v likvidaci	44.10%	
Ormilc a.s. – v likvidaci	46.99%	
Výzkumný a zkušební letecký ústav, a.s.	47.55%	
Municipální finanční společnost a.s. (MUFIS a.s.)	49.00%	
ČMF, a.s.	51.72%	
Unitec a.s.	52.00%	Erased from the TR 8 July 2009
ČEZ, a.s.	69.37%	Decrease of the basic capital, recorded into OR 12 February 2009
BH Capital, a.s.	71.89%	
Teplotechna Praha, a.s.	73.52%	Bankruptcy abolished 29 October 2009
Sevac a.s. – v likvidaci	78.86%	
České aerolinie a.s.	91.75%	Gain of 670 pieces of shares of stocks 28 July 2009
VIPAP VIDEM KRŠKO d.d.	96.50%	
Holding Kladno a.s. – v likvidaci	96.85%	
TECHNOEXPORT akciová společnost pro zahraniční obchod	98.85%	Share of stocks transfer 23 June 2009
STROJIMPORT a.s.	99.22%	Share of stocks transfer 18 June 2009

Interconnected entities	Percentual share	Note
Hotelinvest, a.s. – v bankrotu	100%	
Silnice Teplice a.s. – v likvidaci	100%	Erased from the TR 17 July 2009
Mero ČR, a.s.	100%	
Čepro, a.s.	100%	
Osinek, a.s. – v likvidaci	100%	Transfer of the share of stocks on the ČR - MPO 1 September 2009
PPP Centrum a.s.	100%	
Pal a.s.	100%	Settlement of a claim 15 March 2009
Thermal – F, a.s.	100%	Increase of the basic capital as per 11 June 2009
Dřevařské závody Borohrádek – F, a.s.	100%	Transfer of the share of stocks on 7 January 2009
Letka, a.s. – v likvidaci	100%	Erased from the TR 5 October 2009
Strojírny Tatra Praha, a.s. – v likvidaci	100%	Settlement of a claim 15 October 2009
Stavocentral, a.s. – v likvidaci	100%	Settlement of a claim 15 October 2009
JUNIOR centrum, a.s. – v likvidaci	100%	
AGM, a.s. – v likvidaci	100%	Erased from the TR 6 April 2009
JUNIA s.r.o. – v likvidaci	100%	
Letiště Praha, a.s.	100%	
Explosia, a.s.	100%	
Galileo Real, k.s.	100%	
Global Investment a.s.	100%	Erased from the TR 7 August 2009
IMOB, a.s.	100%	
PRISKO a.s.	100%	

SECTION III. DECISIVE PERIOD

This report was drawn up for the last fiscal period between 1 January 2009 and 31 December 2009

SECTION IV. CONTRACTS AND AGREEMENTS CON- CLUDED BETWEEN HOLDING ASSOCIATES

OVERVIEW OF THE CONTRACTS CONCLUDED IN THE DECISIVE PERIOD

Contracts concluded in accordance with the Commercial Law

Contract on business cooperation

Contractors: ČEZ.a.s.; České aerolinie a.s.

*Contract on the conditions and procedures at credit transfers of
the Czech Airlines transport documents on invoices*

**Contractors: TECHNOEXPORT akciová společnost pro
zahraniční obchod; Czech Airlines a.s.**

Contract on a loan (in a word of the Amendment nr. 1 to 3)

Contractors: Osinek, a.s. – “winding up”; Czech Airlines a.s.

OSINEK, a.s. – company assigned a claim for Czech Airlines a.s. established from the above mentioned Contract on a loan („Claim“) to the Czech Republic – Ministry of Industry and Trade on the basis of the Contract on deposit payment at the liquidation balance concluded on 29 September 2009. Assignment of the Claim was announced to Czech Airlines a.s. on 2 October 2009.

- » *Provision of the CCTV station to the Czech Airlines
Station dispatching workplace*
- » *Contract on supply of services in the field of fire protection*
- » *Amendment nr. 1 to the Contract on supply of services in
the field of fire protection*
- » *General Contract on supply of services – courses and
training holding*
- » *Contract on Lease – Douglas DC-3*

- » *Contract on cooperation – Parking C*
- » *Amendment nr. 1 to the Contract on cooperation –
Parking C*
- » *Maintenance Contract on a car wash*
- » *Contract on Lease (blue store)*
- » *Contract on Lease (neutralizing station)*
- » *Contract on Lease (APC building)*
- » *Contract of purchase – APC building*
- » *Contract of purchase - neutralizing station, blue store*
- » *Contract of purchase – holdings in North area*
- » *Amendment nr. 5 on the Contract on catering*
- » *Contract on a part of the area – lay-by on the Praha-
Ruzyně Airport*
- » *Contract on supply of services of the fixed infrastructure of
the metallic circle cable*
- » *Contract on supply of drinking water and on drain of
sewage water*
- » *Agreement on settlement and collaboration at
eliminating ecological burden.*

Contractors: Osinek, a.s. – “winding up”; Czech Airlines a.s.

- » No other contracts were concluded in the decisive period.
- » The Board envisages that the above-mentioned contracts were concluded on the basis of common commercial circumstances and at the common prices in the business contact.
- » Detailed conditions of the contract are subject to the §17 of the Commercial Code business confidentiality.
- » No detriment was caused to the Controlled entity.

SECTION V. LEGAL ACTS ADOPTED ON BEHALF OF THE INTERCONNECTED PERSONS OTHER LEGAL ACTS WHICH WERE ADOPTED ON BEHALF OF THE INTERCONNECTED PER- SONS OR REALIZED BY THE CONTROLLED ENTITY OBSERVANCE AND CONSIDERA- TION

No measures were taken in the course of the decisive period by the Controlled person in the interest or at the motion of another holding associate beyond the framework of ordinary measures taken by the Controlling person as a member of the Controlled person.

According to the Board information, no detriment was caused to the Controlled person on the basis of concluded contracts, other legal acts, or measures taken by holding associates.

SECTION VI. CONFIDENTIAL INFORMATION

1. The information and facts which are part of the holding associates' commercial secrets, and also the information and facts which were designated as confidential by any holding associate, are considered confidential within the framework of the holding. All business-related information which could be detrimental to any holding associate – separately or jointly with another information or fact – is also considered confidential.

2. Leading from the above-mentioned reasons, the Report does not include:

- » Information on projects aimed to gain a capital share in the chosen trading companies where the party preparing the acquisition would be the controlled entity.
- » Information on business and price conditions of contracts.

SECTION VII. CONCLUSION

1. This Report was discussed and approved on 9 March 2010 on the regular meeting of the Board of Directors of Czech Airlines.

2. This Report will be submitted for verification to the auditor who carries out an audit of its Financial Statements pursuant to the special law regulation. With regard to the fact that the controlled entity carries out the Annual Report, this Report will be amended to it and in legally given term filed in the Collection of Documents kept by the Commercial Register administered by the Municipal Court in Prague.

In Prague, on 9 March 2008 (corrected on 26 May 2010)

ING. MIROSLAV DVOŘÁK

President of the Board and CEO of the Czech Airlines a.s.

MGR. JOSEF ADAM

Member of the Board of the Czech Airlines a.s.

APPENDIX NO.1 TO THE REPORT ON RELATIONS BETWEEN INTERCONNECTED PERSONS

LIST OF THE COMPANIES CONTROLLED BY THE INTERCONNECTED PERSONS

Česká exportní banka, a.s.

Exportní garanční a pojišťovací společnost, a.s. – decisive data for elaboration have not been delivered

Severočeské mlékárny, a.s. Teplice, – decisive data for elaboration have not been delivered

KONAX a.s., in liquidation proceedings – decisive data for elaboration have not been delivered

Ormil, a.s., in liquidation proceedings – decisive data for elaboration have not been delivered

Výzkumný a zkušební letecký ústav, a.s.

Municipální finanční společnost a.s. (MUFIS a.s.)

ČMFL, a.s.

Agrokredit, a.s., Praha 4, Durychova 101, IN 25542524, share 100%

UNITEX a.s. – decisive data for elaboration have not been delivered

ČEZ, a. s. - see Annex 2

BH CAPITAL, a.s.

Teplotechna Praha, a.s. – decisive data for elaboration have not been delivered

SEVAC a.s., in liquidation proceedings – decisive data for elaboration have not been delivered

VIPAP VIDEM KRŠKO d.d. – decisive data for elaboration have not been delivered

HOLDING KLADNO a.s., in liquidation proceedings – decisive data for elaboration have not been delivered

TECHNOEXPORT akciová společnost pro zahraniční obchod

STROJIMPORT a.s.

Strojimport GmbH. Export – Import – share 100%, registered office at Paul-Friedländer-Strasse 8, 65203 Wiesbaden, SRN, Id. Nr. DE 113880990

Strojimport GesmbH. – share 100%, registered office at Porschestraße 11A – 1230 Wien, Austria, Id. Nr. ATU 16386300

Strojimport Tecnologia S.A. de C.V. – share 76%, registered office at Calle de Jesús Heroles

No. 5, Colonia la Joya Ixtacala, C.P. 54160, Tlalnepantla, Estado de Mexico, Mexico

TOSPOLSKA CZ s.r.o. – share 100%, registered office at Praha 3, U Nákladového nádraží 6, IN 62577131

Hotelinvest a.s., in bankruptcy proceedings

Silnice Teplice a.s., in liquidation proceedings – Reased from the TR

MERO ČR, a.s.

MERO Germany AG– share 100%, registered office at Mero-Weg 1, 85088 Vohburg a.d. Donau, SRN, Id. Nr. 152122768

ČEPRO, a.s.

OSINEK, a.s., in liquidation proceedings

ČEPS, a.s. – share 51%, registered office at Praha 10, Elektrárenská 774/2, 10152, IN 25702556

PPP Centrum a.s.

PAL a.s., in liquidation proceedings – decisive data for elaboration have not been delivered

THERMAL-F, a.s.

FINESKO Industry, a.s. (till 23. 2. 2009 registered name Dřevařské závody Borohrádek - F, a.s.)

since 7. 1. 2009 has not been controlled by MF-ČR.

LETKA, a.s. in liquidation proceedings – Erased from the TR on 5. 11. 2009

STROJÍRNÝ TATRA PRAHA, a.s.

STAVOCENTRAL, a.s. in liquidation proceedings

HYPO-CONSULT, a.s. – share 100%, registered office at Praha 2, Jaromírova 64, 12800, IČ 25072145

JUNIOR centrum, a.s. in liquidation proceedings

AGM, a.s. in liquidation proceedings - JUNIA s.r.o. “in liquidation proceedings” – erased from the TR 6. 4. 2009

JUNIA s.r.o., in liquidation proceedings

Letiště Praha, a. s.

Realitní developerská, a.s. – share 100%, registered office at K Letišti,6/1019, Praha 6, 160 08 IN 27174166

Explosia a.s.

FOSPOL a.s. – share 100%, registered office at Prachovice, Tovární 302, 53804, IN 15053628

Istrochem Explosives a.s. – share 100%, registered office at Bratislava, Nobelova 34, Slovakia, IN 44254504

GALILEO REAL, k.s.

Global Investment a.s., in liquidation proceedings – Erased from the TR 7. 8. 2009

IMOB a.s.

PRISKO a.s.

CONCERN ČEZ, A.S., 2009

No	Related entities	IN	Address	Owner	Share (%)	Note
1	Centrum výzkumu Řež s.r.o.	26722445	Husinec-Řež č. p. 130, 250 68	ÚJV Řež	100%	
2	CEZTel, a.s.	25107950	Praha 2, Fügnerovo náměstí 1866/5, 120 00	ČEZ	100%	
3	ČEZ Distribuce, a. s.	27232425	Děčín 4, Teplická 874/8, 405 02	ČEZ	100%	
4	ČEZ Distribuční služby, s.r.o.	26871823	Ostrava, Moravská Ostrava, 28. října 3123/152, 709 02	ČEZ	100%	
5	ČEZ Distribuční zařízení, a.s.	28922727	Praha 4, Duhová 2/1444, 140 53	ČEZ	100%	2.7.2009 - foundation
6	ČEZ ENERGOSERVIS spol. s r.o.	60698101	Třebíč, Bráfova 16, 674 01	ČEZ	100%	
7	ČEZ Logistika, s.r.o.	26840065	Ostrava, Moravská Ostrava, 28. října 568/147, 709 02	ČEZ	100%	
8	ČEZ Měření, s.r.o.	25938878	Hradec Králové, Riegrovo náměstí 1493, 500 02	ČEZ	100%	
9	ČEZ Obnovitelné zdroje, s.r.o. (ČEZ OZE)	25938924	Hradec Králové, Křižíkova 788, 500 03	ČEZ	100%	
10	ČEZ Prodej, s.r.o.	27232433	Praha 4, Duhová 1/425, 140 53	ČEZ	100%	
11	ČEZ Správa majetku, s.r.o.	26206803	Děčín IV., Teplická 874/8, 405 49	ČEZ	100%	
12	ČEZ Zákaznické služby, s.r.o.	26376547	Plzeň, Guldenerova 2577/19, 303 28	ČEZ	100%	
13	ČEZ Energetické služby, s.r.o.	27804721	Ostrava, Vítkovice, Výstavní 1144, 706 02	ČEZ	100%	
14	ČEZ Energetické produkty, s.r.o.	28255933	Hostivice, Komenského 534, 253 01	ČEZ	100%	
15	ČEZ ICT Services, a. s.	26470411	Praha 2, Fügnerovo náměstí 1866/5, 120 00	ČEZ	100%	
16	EGI servis, s.r.o., v konkursu	26423316	Čelákovice, Kozovazská 1049, 250 88	ŠKODA PRAHA	0%	till 25. 3. 2009 share 100%, then 0% - deletion from CR
17	EGI, a.s., v likvidaci	60721332	Praha 6, Milady Horákové 109/116, 160 41	ŠKODA PRAHA	100%	
18	ESS s.r.o., v likvidaci	25013271	Teplice - Sobědruhy, Důlní 97, 415 10	ČEZ	0%	till 18. 2. 2009 share 51%, then 0% - deletion from CR

No	Related entities	IN	Address	Owner	Share (%)	Note
19	PPC Úžín,a.s.	27198367	Praha 3, Seifertova 570/55, 130 00	ČEZ	100%	
20	LACOMED, spol. s r.o.	46348875	Husinec-Řež č. p. 130, 250 68	ÚJV Řež	62,50%	
21	LOMY MOŘINA spol. s r.o.	61465569	Mořina, 267 17	ČEZ	51,05%	
22	Nuclear Safety & Technol. Centre s.r.o.	27091490	Husinec-Řež, č.p.130, 250 68	ÚJV Řež	40%	
23	OSC, a.s.	60714794	Brno, Staňkova 18a, 612 00	ČEZ	66,67%	
24	PRODECO, a.s.	25020790	Teplice, ul. Masarykova 51, 416 78	SD	100%	
25	SD - 1.strojírenská, a.s.	25437127	Bílina, ul. Důlní čp. 437, 418 01	SD	100%	
26	SD - Autodoprava, a.s.	25028197	Bílina, Důlní 429, 418 01	SD	100%	
27	SD - Kolejová doprava, a.s.	25438107	Kadaň, Tušimice 7, 432 01	SD	100%	
28	SD - Rekultivace, a.s.	27329011	Kadaň, Tušimice 7, 432 01	SD	100%	
29	SD - Vrtné a trhací práce, a.s.	25022768	Bílina, Důlní 375/89, 418 29	SD	0%	till 30.11.2009 share 100%, then 0% - sale
30	SD - KOMES, a.s.	28666674	Most, Moskevská 14/1, 434 01	SD	92,65%	
31	Severočeské doly a.s.	49901982	Chomutov, Boženy Němcové 5359, 430 01	ČEZ	100%	
32	SINIT,a.s.	25397401	Ostrava-Mariánské Hory, Emila Filly 296/13, 709 00	ČEZnet	100%	
33	Skládka Tušimice, a.s.	25005553	Kadaň, Tušimice 7, 432 01	SD	98,00%	
34	STE - obchodní služby spol. s r.o. v li.	49826182	Praha 2, Vinohradská 325/8, 120 21	ČEZ	100%	
35	ŠKODA PRAHA a.s.	00128201	Praha 4, Duhová 2/1444, 140 74	ČEZ	100%	
36	ŠKODA PRAHA Invest s.r.o.	27257517	Praha 4, Duhová 2/1444, 140 74	ČEZ	100%	
37	ŠKO-ENERGO FIN, s.r.o.	61675954	Mladá Boleslav 1, Tř. Václava Klementa 869, 293 60	ČEZ	5%	
38	ŠKO-ENERGO, s.r.o.	61675938	Mladá Boleslav 1, Tř. Václava Klementa 869, 293 60	ČEZ	12%	
39	ŠKODA VÝZKUM s.r.o.	47718684	Plzeň, Tylova 1/57, 316 00	ÚJV Řež	100%	
40	EGP INVEST, spol. s r.o.	13661679	Uherský Brod, Antonína Dvořáka 1707, 688 01	ÚJV Řež	100%	till 7. 7. 2009 share 66%, then 100% - increase 34%

No	Related entities	IN	Address	Owner	Share (%)	Note
41	Ústav aplik.mechaniky Brno, s.r.o.	60715871	Brno, Veveří 95, 611 00	ÚJV Řež	100%	
42	ČEZ Teplárenská, a.s.	27309941	Chomutov, Školní 1051/30, 430 01	ČEZ	100%	
43	ALLEWIA leasing, s.r.o.	61942634	Bohumín, Šunychelská 1159, 735 81	ČEZ Tepl.	0%	till 1. 8. 2009 share 100%, then 0% - merger with ČEZ Teplárenská
44	Ústav jaderného výzkumu Řež a.s.	46356088	Husinec-Řež č. p. 130, 250 68	ČEZ	52,46%	
45	CZECH HEAT, a.s.	27587991	Praha 10, Jižní spojka 3247, 106 00	ČEZ	100%	2. 4. 2009 - purchase
46	Energetické centrum, s.r.o.	26051818	Jindřichův Hradec, Otín čp.3, 377 01	CZECH HEAT	100%	2. 4. 2009 - purchase
47	ČEZ Bohunice, a.s.	28861736	Praha 4, Duhová 2/1444, 140 74	ČEZ	100%	19. 3. 2009 - foundation
48	MALLA, a.s.	28263341	Tábor, Špitálské nám. 509, 390 01	ČEZ OZE	100%	1. 7. 2009 - purchase
49	Š-BET, s.r.o.	25994522	Janov, čp. 315, 569 55	ČEZ OZE	90%	2. 4. 2009 - purchase
50	Elektra Žabčice, a.s.	28270975	Hradec Králové, Křižíkova 788, 500 03	ČEZ OZE	100%	30. 9. 2009 - purchase
51	EDICOLA, a.s.	27756769	Hradec Králové, Křižíkova 788, 500 03	ČEZ OZE	100%	23. 10. 2009 - purchase
52	GENTLEY, a.s.	28209117	Praha 1, V kolkovně 920/5, 110 00	ČEZ	100%	21. 12. 2009 - purchase
53	Bohemian Development, a.s.	28073142	Praha 1, V kolkovně 920/5, 110 00	GENTLEY	100%	21. 12. 2009 - purchase
54	TEPLEX s.r.o.	28707800	Ústí/Labem, Masarykova 209, 400 01	ČEZ Tepl.	100%	8. 9. 2009 - purchase
55	Martia, a.s.	25006754	Ústí/Labem, Mezní 2854/4, 400 11	ČEZ Tepl.	100%	12. 5. 2009 - purchase
56	CEZ Bosna i Hercegovina d.o.o.	65-01-0142-08	Fra Andela Zvizdovića br.1, Sarajevo, Bosnia–Herzegovina	ČEZ	100%	
57	CEZ Bulgaria EAD	BULSTAT No. 131434768	Sofia, Municipality of Sredets, 140 G.S. Rakovski street, PC 1000, Bulgaria	ČEZ	100%	
58	CEZ Ciepło Polska sp. z o.o.	0000287855	ul. RondoONZ, likal VII Pietro, Warszawa, 00-124, Poland	ČEZ	100%	registered office change
59	CEZ Deutschland GmbH	HRB 139537	München, Karl-Theodor Str. 69, 80803, Germany	ČEZ	100%	

No	Related entities	IN	Address	Owner	Share (%)	Note
60	CEZ Distributie S.A.	14491102	Craiova, Dolj County, 2, Brestei St, PC 200581, Romania	ČEZ	100,00%	share change - till 28.9.2009 ČEZ share = 81,01%, since 9.10.2009 ČEZ share = 100%
61	CEZ Elektro Bulgaria AD	BULSTAT No. 175133827	Sofia, Municipality of Sredets, 140 G.S. Rakovski street, PC 1000, Bulgaria	ČEZ	67%	
62	CEZ Elektroproduktstvo Bulgaria AD	200511185	Village of Ezerovo, Varna District, PC 9168 Varna, Bulgaria	ČEZ	100%	
63	CEZ Finance B.V.	33264065	Prins Bernhardplein 200, 1097JB, Amsterdam, the Netherlands	ČEZ	100%	
64	CEZ Hungary Ltd.		Károlyi Mihály u.12 IV.em., Ybl Palota Irodaház, 1053 Budapest, Hungary	ČEZ	100%	
65	CEZ Chorzow B.V.	24305703	Weena 327, 3013 AL, Rotterdam, the Netherlands	CEZ Silesia	100%	
66	CEZ Laboratories Bulgaria EOOD	BULSTAT No. 175123128	1 Dobrinova Skala str., Lyulin Municipality, Sofia, Bulgaria	ČEZ	100%	
67	CEZ MH B.V.	24426342	Weena 327, 3013 AL, Rotterdam, the Netherlands	ČEZ	100%	
68	CEZ Poland Distribution B.V.	24301380	Weena 327, 3013 AL, Rotterdam, the Netherlands	ČEZ	100%	
69	CEZ Polska sp. z o.o.	000026614	ul. Rondo ONZ, lokal VII Pietro, Warszawa, 00-124, Poland	ČEZ	100%	
70	CEZ Romania S.R.L.	18196091	Bucuresti, Sector 1, Str. Ion Ionescu De La Brad, Nr. 2A, Romania	ČEZ	100%	
71	CEZ RUS OOO	1087746177628	Presnenskij val 19, Moscow, 123557, Russia	ČEZ	100%	
72	CEZ Servicii S.A.	20749442	Pitesti, 148 Republicii Boulevard, 110177, Romania	ČEZ	ČEZ, a.s. 63%, Elektra S.A. 37%	share change - till 30.9.2009 ČEZ, a.s. = 63% (purchase from the minority shareholder)
73	CEZ Silesia B.V.	24305701	Weena 327, 3013 AL, Rotterdam, the Netherlands	ČEZ	100%	

No	Related entities	IN	Address	Owner	Share (%)	Note
74	CEZ Slovensko, s.r.o.	36797332	Gorkého 3, Bratislava, 811 01, Slovakia	ČEZ	100%	
75	CEZ Srbija d.o.o.	20180650	Bulevar Mihajla Pupina 6, Bělehrad, Serbia	ČEZ	100%	
76	CEZ Trade Bulgaria EAD	BULSTAT No. 113570147	Sofia, Municipality of Sredets, 140 G.S. Rakovski street, PC 1000, Bulgaria	ČEZ	100%	
77	CEZ Trade Polska Sp. z o.o.	0000281965	ul. Rondo ONZ, lokal VII Pietro, Warszawa, 00-124, Poland	ČEZ	100%	
78	CEZ Trade Romania S.R.L.	21447690	București, Sector 1, Ion Ionescu de la Brad, Nr. 2B, Romania	ČEZ	ČEZ, a.s. : 99,99375% ČEZ Správa majetku, s.r.o.: 0,00625%	
79	CEZ Ukraine CJSC	34728482	Velika Vasilkivska street 5, 01004 Kiev, Ukraine	ČEZ	100%	
80	CEZ Vanzare S.A.	21349608	Craiova, Dolj County, 2, Brestei St, PC 200581, Romania	ČEZ	100,00%	share change since 28.9.2009 ČEZ = 81,01%, od 9.10.2009 ČEZ share = 100%
81	CM European Power International B.V.	24439848	Weena 327, 3013 AL, Rotterdam, the Netherlands	ČEZ/MOL	50,00%	
82	CM European Power International s.r.o.	44525133	Lakeside Park, Tomášikova 64, 831 04 Bratislava, Slovakia	CM European Power International B.V.	100,00%	registered office change
83	Elektrociepłownia Chorzów ELCHO sp. z o.o.	0000060086	ul. M. Skłodowskiej-Curie 30, 41-503 Chorzów, Poland	CEZ Chorzow	75,2%	
84	CEZ Razpredelenie Bulgaria AD	BULSTAT No. 130277958	Sofia, 330 Tsar Simeon St., Ilinden region, PC 1309, Bulgaria	ČEZ	67%	
85	Elektrownia Skawina S.A.	0000038504	ul. Piłsudskiego 10, 32-050 Skawina, Poland	CEZ Poland Distribution	100,00%	share change since 18.3.2009 100% CEZ Poland Distribution B.V. (purchase from the minority shareholder)
86	MW Team Invest S.R.L.	18926986	Str. Nicolae Iorga Nr. 20, Incaperile 2 Si 3, Etaj 2, Constanta, Romania	Tomis Team S.R.L.	100%	registered office change

No	Related entities	IN	Address	Owner	Share (%)	Note
87	NERS d.o.o.	RU-1-1864-00	Industrijska zona bb, Gacko, PC 89240, Bosnia–Herzegovina	ČEZ	51%	
88	New Kosovo Energy L.L.C.	70371863	Andrej Gropa Nr. 30, Prishtina, PC 10000, Kosovo	ČEZ	100%	registered office change
89	Ovidiu Development S.R.L.	18874682	Str. Nicolae Iorga Nr. 20, Incaperile 4 Si 4A, Etaj 2, Constanta, Romania	ČEZ	95%	registered office change
90	TEC Varna EAD	BULSTAT No. 103551629	Village of Ezerovo, Varna District, PC 9168 Varna, Bulgaria	ČEZ	100%	
91	Tomis Team S.R.L.	18874690	Str. Nicolae Iorga Nr. 20, Incaperea 1, Etaj 2, Constanta, Romania	ČEZ	ČEZ, a.s.: 99,999998%, CEZ Poland Distribution 0,000002%	18.12.2008 - share change (entered in the Commercial Register in 2009), registered office change
92	Transenergo International N.V.	24426210	Weena 327, 3013 AL, Rotterdam, The Netherlands	ČEZ	67%	28.5.2009 - company sale
93	ZAO TransEnergo	basic state reg. No. 1057748236897	Dvornikova 7, Moscow, Russia	Transenergo International N.V.	100%	28.5.2009 - the company ransenergo International N.V.share sold (shareholder of the company ZAO TrasEnergo)
94	CEZ Albania Sh.A.	K91629005R	Abdyl Frasherri Street, EGT Tower, P. 12/1, Tirane, Albania	ČEZ	100%	incorporated on 29.4.2009
95	Operatori i Sistemit te Shperndarjes Sh.A.	K72410014H	Blloku Vasil Shanto, Tirane, Albania	ČEZ	ČEZ, a.s. : 76%, Albania: 24%	incorporated on 29.5.2009
96	CEZ Trade Albania SH.P.K.	K92129026D	Abdyl Frasherri Street, EGT Tower, P. 12/1, Tirane, Albania	ČEZ	100%	incorporated on 29.9.2009
97	CEZ Finance Ireland Ltd.	471 391	Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland	ČEZ	100%	incorporated on 28.5.2009
98	MOL-CEZ European Power Hungary Ltd.	13-09-115216	Olajmunkás út. 2, Százhalombatta, 2440, Hungary	CM European Power International B.V.	100%	incorporated on 31.3.2009
99	JTSD - Braunkohlebergbau GmbH	HRB 9374	Wiesenstrasse 20, 06727 Theissen, Germany	Severočeské doly / Lignite Investments 1 Ltd.	50% Severočeské doly, 50% Lignite Investments 1 Ltd.	incorporated on 23.2.2009

No	Related entities	IN	Address	Owner	Share (%)	Note
100	Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG-mbH)	HRB 207574	Wiesenstrasse 20, 06727 Theissen, Germany	Mibrag B.V.	100%	incorporated on 10.6.2009
101	Fernwärme GmbH Hohenmölsen - Webau	HRB 204190	Ernst-Thälmann-Str. 6, 06679 Hohenmölsen, Germany	Stadt Hohenmölsen	51 % Stadt Hohenmölsen, 49% MIBRAGmbH	incorporated on 10.6.2009
102	GALA-MIBRAG-Service GmbH	HRB 210208	Elsteraue OT Profen, Platz der Freiheit 4, 06729, Elsteraue, Germany	MIBRAGmbH	100%	incorporated on 10.6.2009
103	Gröbener Logistik GmbH Spedition, Handel und Transport	HRB 205569	Werkstrasse 1, 06682 Gröben, Germany	MIBRAGmbH/ Kleinwächter GmbH	50% MIBRAGmbH, 50% Kleinwächter GmbH & Co. KG	incorporated on 10.6.2009
104	Montan Bildungs-und Entwicklungsgesellschaft mbH	HRB 212202	Wiesenstrasse 20, 06727 Theissen, Germany	MIBRAGmbH	100%	incorporated on 10.6.2009
105	MUEG Mitteldeutsche Umwelt - und Entsorgung GmbH	HRB 201620	Geiseltalstrasse 1, 06242 Braunsbedra, Germany	MIBRAGmbH/ Remondis Kommunale Dienste Ost GmbH	50% MIBRAGmbH, 50% Remondis Kommunale Dienste Ost GmbH	incorporated on 10.6.2009
106	Ingenieurbüro für Grundwasser GmbH	HRB 2322	Nonnenstrasse 9, 04229 Leipzig, Germany		25% Mitteldeutsche Braunkohlengesellschaft mbH, 17% Dr. Holger Mansel, 17% Bernd Haferkom, 17% Dr. Dietrich Sames, 12% Prof. Ludwig Luckner, 12% Prof. Dr. R. Mull u. Partner GmbH	incorporated on 10.6.2009
107	CEZ International Finance B.V.	24 461 985	Weena 327, 3013 AL, Rotterdam, the Netherlands	ČEZ	100%	incorporated on 27.5.2009
108	Aken B.V.	24 356 181	Bergweg 133-A, 3037 EE Rotterdam, the Netherlands	Akenerji Elektrik Üretim A.S.	100%	incorporated on 14.5.2009
109	Mibrag B.V.	33 254 246	Handweg 159, 1185 TX Amstelveen, the Netherlands	JTSD Braunkohlebergbau GmbH	100%	incorporated on 10.6.2009
110	CEZ Produkty Energetyczne Polska sp. z o.o.	321 795	ul. M. Skłodowskiej-Curie 30, 41-503 Chorzow, Poland	ČEZ	100%	incorporated on 19.1.2009
111	CEZ Nowa Skawina S.A.	336 846	ul. Piłsudskiego 10, 32-050 Skawina, Poland	ČEZ	100%	incorporated on 10.9.2009

No	Related entities	IN	Address	Owner	Share (%)	Note
112	Energonuclear S.A.	25 344 972	Str. Polona 65, Etaj 5, Sector 1, Bucuresti, Romania	Societatea Nationala Nuclearelectrica	Societatea Nationala Nuclearelectrica SA 51 %,ArcelorMittal Galati SA 6.2 %, ČEZ a.s. 9.15 %, GDF SUEZ S.A. 9.15 %, Enel Investment Holding BV 9.15 %,Iberdrola Generación S.A.U. 6.2 %, RWE Power AG 9.15 %	incorporated on 27.3.2009
113	Akcez Enerji A.S.	683 905	Miralay Şefik Bey Sok. Ak-Han No. 15, Room no: 3, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	viz sloupec F	Akenerji Elektrik Üretim Anonim Şirketi 45,0000000%,Ali Raif Dinçkök 0,0000002%, Ömer Dinçkök 0,0000002%, Akkök Sanayi Yatırım ve Geliştirme A.Ş. 27,4999996%,ČEZ, a.s. 27,5000000 %	incorporated on 14.5.2009
114	Sakarya Elektrik Dağıtım A.S.	10941-18573	Miralay Şefik Bey Sok. Ak-Han No. 15, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akcez Enerji A.S.	Akcez Enerji A.S. 99,99999828%, CEZ Poland Distribution B.V. 0,00000043%,CEZ Silesia B.V. 0,00000043 % ,Gamze Dinckok Yücaoglu 0,00000043 %,Raif Ali Dinckok 0,00000043 %	incorporated on 14.5.2009
115	Akenerji Elektrik Üretim A. S.	255005/202577	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	viz sloupec F	Akkök Sanayi Yatırım ve Geliştirme Anonim Şirketi 20,4329 %, Emniyet Ticaret ve San. Anonim Şirketi, 5,3568 %, Ömer Dinçkök 5,7859 %,Ali Raif Dinçkök 5,7859 %, ČEZ, a.s. 37,3614 %, Ostatní akcionáři 25,2772 %	incorporated on 14.5.2009
116	Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	625774	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 99,000 %,Ali Raif Dinçkök 0,3650 %, Ömer Dinçkök 0,1400 %, Raif Ali Dinçkök 0,1200 %, Ayça Dinçkök 0,1200 %,Gamze Dinçkök Yücaoglu 0,1200 %, Mutlu Dinçkök 0,1200 %,Alize Dinçkök 0,0150 %	incorporated on 14.5.2009

No	Related entities	IN	Address	Owner	Share (%)	Note
117	Akkur Enerji Üretim A.S.	607030	Miralay Şefik Bey Sokak, Ak Han No.15-17, K:3-4, Oda No. 2, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 99,000 %,Ali Raif Dinçkök 0,3561 %,Ömer Dinçkök 0,3500 %,Raif Ali Dinçkök 0,1250 %,Ayça Dinçkök 0,0500 %,Gamze Dinçkök Yücaoglu 0,0500 %, Mutlu Dinçkök 0,0500 %, Alize Dinçkök 0,0189 %	incorporated on 14.5.2009
118	Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A.S.	512971	Miralay Şefik Bey Sokak, No.13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 90,0000 %,Ali Raif Dinçkök 4,0000 %,Ömer Dinçkök 4,0000 %, Ayça Dinçkök 1,0000 %,Raif Ali Dinçkök 1,0000 %	incorporated on 14.5.2009
119	Egemer Elektrik Üretim A.S.	695245	Miralay Şefik Bey Sokak, Ak Han No.15-17, K:3-4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 98,9999944 %,M. Birol Ensari 1,0000000 %,Raif Ali Dinçkök 0,0000019 %,Ayça Dinçkök 0,0000019 %, Gamze Dinçkök Yücaoglu, 0,0000019 %	incorporated on 14.5.2009
120	AK-EL Yalova Elektrik Üretim A.S.	417382	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 90,0721429 %,Ömer Dinçkök 4,0639286 %,Ali Raif Dinçkök 4,0638571 %, Emniyet Ticaret Anonim Şirketi 1,8000000 %, Raif Ali Dinçkök 0,0000714 %	incorporated on 14.5.2009
121	Akka Elektrik Üretim A.S.	664669	Miralay Şefik Bey Sokakm No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, 34437, Istanbul, Turkey	Akenerji Elektrik Üretim A.S.	Akenerji Elektrik Üretim Anonim Şirketi 90,0000 %, Ali Raif Dinçkök 3,6500 %, Ömer Dinçkök 3,5000 %, Raif Ali Dinçkök 1,2000 %, Ayça Dinçkök 0,5000 %, Gamze Dinçkök Yücaoglu 0,5000 %,Mutlu Dinçkök 0,5000 %, Alize Dinçkök 0,1500 %	incorporated on 14.5.2009
122	CM European Power Slovakia s.r.o.	44 354 258	Vlčie Hrdlo 1, Bratislava 824 12, Slovakia	CM European Power International B.V.	24,5 % = ČEZ, a.s.,51 % = CM European Power International B.V.,24,5 % = Slovnaft, a.s.	incorporated on 30.11.2009
123	ČEZ, a. s.	45274649	Praha 4, Duhová 2/1444, 14053			

EQUITY HOLDING OF THE CZECH AIRLINES A.S.

Amadeus Marketing CSA, s.r.o., IN 496 80 030, registered office at Praha 8 Sokolovská 100/94, 186 00, registered in the Commercial Register administered by the Municipal Court in Prague, Section C, File No. 21718.

Slovak Air Services, s.r.o., IN 313 73 844, registered office at Letisko M.R. Štefánika, Bratislava, 820 01, registered in the Commercial Register administered by the District Court in Bratislava 1, Section Sro, File No. 7125/B.

ČSA Support, s.r.o., registered office at Praha 6, K letišti, 160 08, IN 256 74 285, registered in the Commercial Register administered by the Municipal Court in Prague, Section C, File No. 60140. (On 25 February 2010 the company name and registered place changed to Czech Airlines Handling, s.r.o., Praha 6, Jana Kašpara 1069, 160 08.)

CSA Services, s.r.o., IN 250 85 531, registered office at Praha 6, K letišti, 161 00, registered in the Commercial Register administered by the Municipal Court in Prague, Section C, File No. 48439.

HOLIDAYS Czech Airlines, a.s., IN 61860336, registered office at Praha 6, Jana Kašpara 1069, 160 08, registered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 2929.

ClickforSky, a.s., IN 27145573, registered office at Praha 6, Jana Kašpara 1/1069, 160 08, registered in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 9307.

GLOSSARY

AEA – Association of European Airlines

APC – Administration and Operations Centre

C-check – An extensive check of aircraft carried out every 12–18 months, or after a certain number of flight hours, as set by the manufacturer

CAS – Czech Accounting Standards

Disponibility – Flight availability of an aircraft; it represents the time, when an aircraft is physically available and is not under maintenance

FNM SR – National Property Fund of the Slovak Republic

Hub – Transit point where passengers make their connecting flight. A hub airport is a transit point, but also a destination, where the flow of passengers is divided, depending on the final destination of their journey

IATA – International Air Transport Association

ICT – Information and communication technology

IOSA – IATA Operational Safety Audit – Audit focused on checking all the levels of operational activities of a company

ISAGO – IATA Safety Audit for Ground Operations – Audit focused on commercial use of handling services by other airline companies

JAR – Joint Airworthiness Requirements – Common flight regulations

MVH – Extraordinary General Meeting of the Company

O&D – Origin and Destination – A price-setting method allowing for a more effective setting of prices for individual segments within the Czech Airlines network

Short connection luggage – Transferred luggage with a short flight time

SOJ – Autonomous Sales Unit

Utilization – The use of the aircraft for flight, constitutes the time when the aircraft is available and truly used for flying

ZFTT – Zero Flight Time Training – Training with a zero flight time

Czech Airlines

Ruzyně Airport
160 08 PRAGUE 6

registered number: 45795908
incorporated in the Commercial
Register kept by the Municipal Court
in Prague, Section B, Entry 1662

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The text part of the Czech Airlines Annual Report for 2009 also includes some key events from the beginning of the year 2010.



11 June 2010 / 17:45
Petr and Kateřina greet each other at the airport. They have a lot to talk about and Kateřina tells Petr all about what happened at home during the week. In turn, Petr boasts about his successful negotiations in Paris.

CSA CZECH AIRLINES



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