ANNUAL REPORT

2017

- **Company name:** LEO Express a.s. (since 1 January 2018 Leo Express Global a.s.)
- **Registered office:** Praha 3 – Žižkov, Řehořova 908/4, 130 00, Czech Republic
- **Corporate ID:** 290 16 002
- **Established on:** 8 January 2010
- **Registered with:** Municipal Court in Prague, Section B, Insert 15847
- **Legal status:** Joint stock company
- **Share capital:** CZK 123,461,670

2017 ANNUAL REPORT

1 A GENERAL INFORMATION

1.1 Primary Business Activities and Ownership Structure

The Company has been principally engaged in providing railway and bus passenger transport. Railway transport is run by five STADLER Flirt low-floor through-train units. Each unit has a capacity of 229 seats divided into three classes of travel. The Group started operating railway passenger trains on the route Prague-Ostrava in November 2012. In November 2014 the Group started operating passenger bus transport, which is currently operated in seven European countries – the Czech Republic, Slovakia, Poland, Germany, Austria, Hungary and Ukraine. Since December 2014, the Group has also operated railway transportation in Slovakia and since July 2018 in Poland.

As of 31 December 2017, a majority equity investment (over 79%) in Leo Express Global a.s. was owned by Leoš Novotný, the remaining equity investment was owned by Martin Burda, Peter Köhler and other minority shareholders, predominantly within the management.

1.2 Year-on-Year Changes and Amendments in the Register of Companies

On 1 January 2018, the Company changed its name to Leo Express Global a.s. During 2017, Chairman of the Supervisory Board, Leoš Novotný, was recalled and Josef Němeček was appointed a new member of the Supervisory Board.

Another event was the issuance of 123,467 new shares, the share capital thus increased to CZK 123,462 thousand and the share premium to CZK 16,310 thousand.

1.3 Board of Directors and Supervisory Board as of the Balance Sheet Date

	Position	Name
Board of Directors	Chairman	Leoš Novotný
	Vice-chairman	Peter Köhler
	Member	Michal Miklenda
Supervisory Board	Member	Hana Továrková
	Member	Haydn Turner Abbott
	Member	Richard Tolmach
	Member	Josef Němeček

1.4 Group Identification

The Company is part of the Leo Express Group. The consolidated financial statements are prepared by Leo Express Global a.s., with its registered office at Řehořova 908/4, Prague 3, Czech Republic, and the consolidated financial statements may be found at www.le.cz.

As of 31 December 2017, a part of the business of Leo Express Global a.s. was sold to a newly established subsidiary Leo Express s.r.o. for a price determined by an expert opinion. As part of this transaction, operating activities and assets and liabilities were demerged and incorporated into this new entity. For this reason, there was for example a significant decrease in inventory as of the end of 2017, since the inventory was sold to Leo Express s.r.o. as part of the transaction, as well as the overdraft and prepayments received. The Stadler Flirt train units and their financing remained within LEO Express Global a.s.

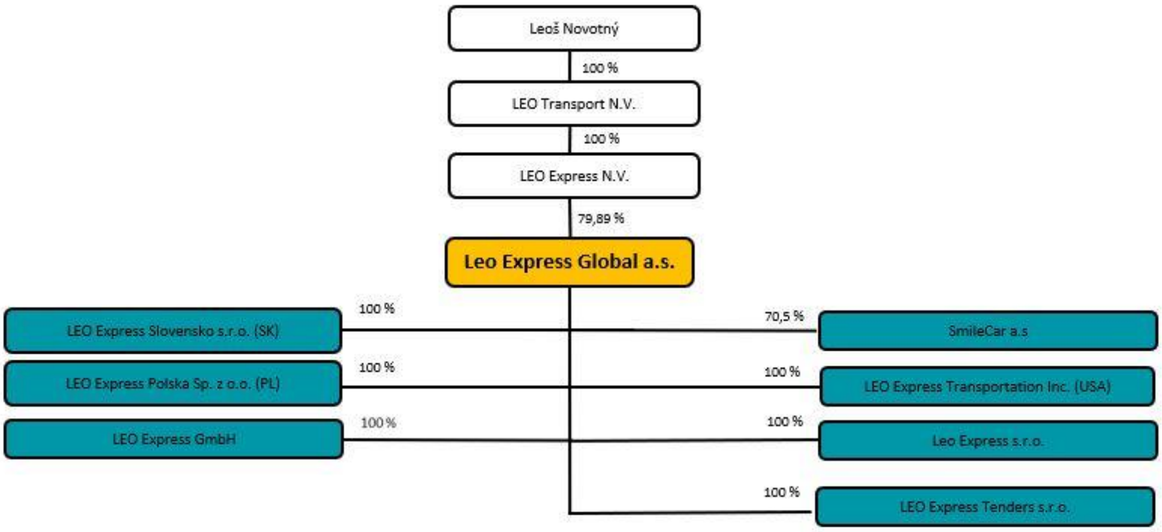
1.5 B REPORT ON RELATED PARTY TRANSACTIONS FOR 2017

In accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations, the Board of Directors of Leo Express Global a.s. prepared a report on relations between Leo Express Global a.s., with its registered office at Řehořova 908/4, 130 00 Praha 3 - Žižkov (the "Company") as the controlled entity, and Mr Leoš Novotný, a natural person, date of birth 8 March 1985, residence at Řehořova 1025/18, 130 00 Praha 3 as the controlling entity (hereinafter referred to as the "Controlling Entity"), and other entities controlled by the same entity (hereinafter referred to as "Related Parties") for the year ended 31 December 2017.

Persons forming a business group – structure of relationship

Related parties include all companies within the group controlled by Mr Leoš Novotný.

The direct ownership structure as of 31 December 2017 was as follows:



The role of the Controlled Entity, the manner and means of controlling

The role of the Company is to operate passenger transportation and provide services associated with passenger transportation together with an effort to appreciate invested resources. The Controlling Entity exercises an indirect control over the Company's management and decision-making through the majority and minority shareholders of the Company and has a direct influence through the position of Chairman of the Board of Directors.

Overview of actions made in 2017 at the instigation or in the interest of the Controlling Entity or of parties controlled by the Controlling Entity if the acts concern assets exceeding 10% of equity of the Controlled Entity according the most recent set of financial statements

In the year ended 31 December 2017, a part of the business of Leo Express Global a.s. was sold to a newly established subsidiary Leo Express s.r.o. for a price determined by an expert opinion. Other transactions are disclosed below in the overview of agreements.**Overview of mutual agreements between the Controlled Entity and the Controlling Entity or related parties**

As of 31 December 2017, the following agreements concluded with the Controlling Entity or related parties were effective:

Related party	Category	Contract
Leoš Novotný, Sr.	Person close to the Controlling Entity	Guarantee provision
Leoš Novotný, Sr.	Person close to the Controlling Entity	Provision of a borrowing to Leo Express Global a.s.
Leoš Novotný	Controlling Entity	Contract on Performance of Office
LEO Express NV	Controlling Entity	Borrowing agreement
AAKON Capital s.r.o.	Related Party	Borrowing agreement
AAKON Capital s.r.o.	Related Party	Agreement on provision of economic advisory
Aakon services s.r.o.	Related Party	Agreement on provision of economic advisory
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LEO Express Tenders s.r.o.	Subsidiary	Agreement on the lease of business premises
LEO Express Tenders s.r.o.	Subsidiary	Agreement on bookkeeping
LEO Express Transportation Inc.	Subsidiary	Agreement on provision of a borrowing
LEO Express Slovensko s.r.o.	Subsidiary	Agreement on rebilling of costs
SmileCar a.s.	Subsidiary	Agreement on the lease of business premises
SmileCar a.s.	Subsidiary	Agreement on bookkeeping
SmileCar a.s.	Subsidiary	Agreement on rebilling of costs
LEO Express Polska Sp. z.o.o	Subsidiary	Agreement on cooperation
LEO Express GmbH	Subsidiary	Agreement on provision of a borrowing
TURBOTIGER.EU sp. z.o.o.	Other related party	Loan agreement

Trade relations during 2017 were governed under the terms of the contracts signed or single orders. Contracts concluded in 2017 were entered into in line with the provisions of the Business Corporations Act. Detailed contractual conditions are subject to business secrecy pursuant to Section 504 of the Civil Code.

Information and events that are part of the trade secret of the Controlling Entity, Company or Related parties are considered confidential information as well as information which is considered to be a trade secret by any person related to the Group. Also, any information on trade relations which singly or in connection with other information could cause harm to any person within the Group should be considered confidential.

For the reasons outlined above this report does not include:

Information about projects which may lead to the acquisition of the share in selected companies, and in which the Controlled Entity was the party preparing the acquisition; and

Information on the business and pricing conditions of the contracts
Performance and consideration under the above mentioned contracts are provided at prices and terms customary in business to any other party.

Other legal acts and measures initiated by or at the interest of related parties and assessment of detriment suffered by the controlled entity

During the fiscal period, no acts were undertaken by the Company in the interest of the Controlling Entity or other related parties, except for acts consisting of normal legal processes in relation to the related parties executed in accordance with the conditions for the position of a shareholder in the Company.

During the fiscal period, there were no actions taken by the Company in the interest of the Controlling Entity or other related parties except for general actions taken by the Controlling Entity in relation to the Company as a majority shareholder of the Company.
During the fiscal period, no damage from the above mentioned agreements, compensations, other legal acts and measures was caused to the Company.

Transactions with related parties are disclosed in the notes to the financial statements.

Advantages, disadvantages and risks arising from the relationship between the persons according to paragraph 1

In general, the relations between related parties are advantageous.

The most important advantage is the possibility of obtaining funds for financing.

This report was prepared on 30 March 2018.

This report is presented to the auditor who audited the financial statements. Given that the Company is preparing an annual report, this report will be attached to the annual report and as such kept in the collection of documents in the Register of Companies held by the Municipal Court in Prague.

1.6 C OTHER

Research and Development

The Company continuously invests in the development of new information technologies that facilitate the customer purchase process and overall travel experience with Leo Express (mobile application, information on delays etc.). The Company also invests in new train units for commercial and public service operation.

Environmental Protection

The Company strictly complies with all legal requirements relating to environmental protection. Rolling stock ordered by the Company meets the latest environmental and noise standards according to TSI. The STADLER Flirt units allow for energy recovery and the use of non-spillage technology of operating fluids and vacuum toilets. In the area of railway vehicle maintenance the Company applies the strictest standards for waste management.

Human Resources

The Company is aware of the fact that the Company's success and growth depend on work with human resources. For this reason, the Company places great emphasis on the recruitment of employees and their subsequent development. The aim of employer branding and the subsequent targeted recruitment is to secure an inflow of talent for all departments. Elaborated on-boarding and development make it possible to fully utilise the potential of human resources. Motivating tools on the one hand and the monitoring of the Company's costs on the other lead to an increased efficiency of performance. In addition, the Company develops employee relations and refines its corporate vision and culture.

Organisational Branch Abroad

The Company has no organisational branch abroad.

Anticipated Development

The Company does not anticipate future development in the segment of multimodal public transport. In the area of railway transportation, following the change in the regulatory environment (especially the "Fourth Railway Package" approved by the European Commission), the opportunity for public service transportation will be significantly expanded and the Company and its subsidiaries intend to play an active role on the market in this area not just in the Czech Republic but also abroad.

Acquisition of Treasury Shares

As of the balance sheet date, the Company does not own any treasury shares.

Post Balance Sheet Date Events

No events occurred subsequent to the balance sheet date that would have a material impact on the Company.

In Prague on 9 July 2019

Leoš Novotný
Chairman on the Board of Directors

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 ACCOUNTING PRINCIPLES AND POLICIES

The Company's accounting books and records are maintained and the financial statements were 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 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 (unless stated otherwise), the accruals principle, the prudence concept and the going concern assumption.

The Company's financial statements have been prepared as of the balance sheet date, ie 31 December 2017, for the year ended 31 December 2017.

The financial statements were prepared on 9 July 2019.

These financial statements are presented in thousands of Czech crowns (CZK '000), unless stated otherwise.

As of 31 December 2017, a part of the business of Leo Express Global a.s. was sold to a newly established subsidiary Leo Express s.r.o. for a price determined by an expert opinion. As part of this transaction, operating activities and assets and liabilities were demerged and incorporated into this new entity. For this reason, there was for example a significant decrease in inventory as of the end of 2017, since the inventory was sold to Leo Express s.r.o. as part of the transaction, as well as the overdraft and prepayments received. The Stadler Flirt train units and their financing remained within LEO Express Global a.s.

1.1 Going Concern Assumption

The Group reported equity of CZK 260,467 thousand as of 31 December 2017, an operating profit for 2017 of CZK 25,385 thousand, a loss after tax for 2017 of CZK 28,277 thousand and a loss before interest, tax, depreciation and amortisation of CZK 109,050 thousand. The Company did not report any significant overdue liabilities.

Management of the Company expects to act in line with the business plan for 2018 for Leo Express Global a.s. and the newly established Leo Express s.r.o. (turnover of approximately CZK 300 million, EBITDA of CZK 40 million) which includes a series of actions and steps that should lead to an improvement of the financial situation in the following period. The Company's management believes that these plans are realistic.

In the year ended 31 December 2017, the Company did not comply with the covenants for drawing the bank loan provided by Credit Suisse. The funding of the Company was supported by the Company's shareholders in 2017. On 28 June 2019, the majority shareholder confirmed in writing that if necessary, he will make a maximum effort, including financial support, to make sure that the Company continues as a going concern and that all of its payables are settled.

Therefore, the Group prepared the separate financial statements on the going concern assumption.

1.2 Tangible Fixed Assets

Tangible fixed assets include land, structures and tangible assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand on an individual basis.

Purchased tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment losses. Tangible fixed assets developed internally are valued at direct costs and incidental costs directly attributable to the internal production of assets (production overheads) and to the production period. Costs of sale are not included.

The following tangible fixed assets are stated at replacement cost: tangible fixed assets acquired through donation, tangible fixed assets acquired without consideration on the basis of a contract to purchase a leased asset (accounted for by a corresponding entry in the relevant accumulated depreciation account), fixed assets recently entered in the accounting records (accounted for by a corresponding entry in the relevant accumulated depreciation account), and an investment of tangible fixed assets. In such a case, replacement cost is determined by an expert opinion.

The cost of fixed asset improvements exceeding CZK 40 thousand for the taxation period increases the acquisition cost of the related tangible fixed asset.

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:

	Depreciation method (straight line, accelerated, machine-hour-rate)	**Number of years/ %**
Train units	Straight-line	30 years
Buildings	Straight-line	10-15 years
Machinery and equipment	Straight-line	2-20 years
Overhauls of chassis	Machine-hour	Based on km

Assets held under finance leases are depreciated by the lessor.

Technical improvements on tangible fixed assets held under a lease are depreciated on a straight line basis over the shorter of the lease term or the estimated useful life.

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 through the profit and loss account.

1.3 Intangible Fixed Assets

Intangible fixed assets primarily include intangible assets arising from research and development, valuable rights and software with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Intangible assets arising from research and development, valuable rights and software are capitalised only if utilised for trading. Intangible assets arising from research and development, software and valuable rights generated internally for the Company's internal needs are not capitalised. Internally generated intangible assets are stated at the lower of internal production costs and replacement cost.

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

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

The cost of fixed asset improvements exceeding CZK 60 thousand for the taxation period increases the acquisition cost of the related intangible fixed asset.

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

	Amortisation method (straight line, accelerated, machine-hour-rate)	**Number of years/%**
Software	Straight-line	2
Other intangible fixed assets	Straight-line	3-4 years

1.4 Non-Current Financial Assets

Non-current financial assets consist of loans with maturity exceeding one year, equity investments in subsidiaries and associates, securities available for sale and debt securities with maturity over one year held to maturity.

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

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 - subsidiary (controlled entity) and equity investments in associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company is in a position to govern their financial and operating policies so as to obtain benefits from their operations are treated as 'Equity investment - subsidiary (controlled entity).

Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as 'Equity investments in associates.'

At the balance sheet date, the Company records:

– Equity investments in subsidiaries and associates at the value established using the equity method of accounting. The equity investment recognised at cost on acquisition is revalued at the balance sheet date to reflect the value equivalent to the Company's proportion of a subsidiary/associate's equity.

1.5 Derivative Financial Transactions

The Company designates derivative financial instruments as either trading or hedging. The Company's criteria for a derivative instrument to be accounted for as a hedge are as follows:

- At the inception of the hedge, a decision was made regarding hedged items and hedging instruments, the approach to establishing and documenting whether the hedge is effective, and the hedging relationship is formally documented;
- The hedge is highly effective (that is, within a range of 80 percent to 125 percent); and
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis.

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

Derivative financial instruments are carried at fair value at the balance sheet date. In determining fair value, the Company has referred to the market value.

The fair value of financial derivatives is determined as a present value of expected cash flows arising from these transactions. The present value is established on the basis of common market-recognised models. Parameters identified on an active market such as foreign exchange rates, yield curves, volatility of relevant financial instruments etc are subsequently included in these pricing models. All financial derivatives having positive fair values are reported as assets, derivatives with negative values are reported as liabilities.

Fair value changes in respect of trading derivatives are recognised as part of profit or loss for the current period.

The accounting treatment for hedging derivatives varies depending upon the hedging relationship which can be:

a. A fair value hedge; or
b. A cash flow hedge; or
c. The hedge of a net investment in a foreign subsidiary or associate undertaking.

A fair value hedge is a hedge of the exposure to changes in the fair value of an asset or liability (or an identified portion of such an asset or liability), or a group of assets or liabilities, that is attributable to a particular risk and that will affect profit or loss.

A hedged item:

- Can be recognised at fair value with gains or losses arising from the measurement being included in income or expenses as appropriate;
- May not be measured at fair value; then in using the fair value hedge the value of this asset or liability is adjusted over the term of the hedge to reflect changes in its fair value attributable to the hedged risks and these changes are recognised through expenses or income at the measurement date according to the nature of the hedged risk (such as interest income or expense, or gains or losses from foreign exchange rate differences);

- Is recognised at fair value with the valuation changes being retained on the balance sheet; then in using the fair value hedge, changes in fair values of the hedged item attributable to the hedged risks over the term of the hedge are re-allocated from this account to expenses or income, according to the nature of the hedged risk.

The same accounts of expenses or income to which changes of fair values of hedged items are recorded are used in accounting for:

- Changes of fair values of hedging instruments if the hedge effectiveness was fulfilled while taking into account aggregate changes of fair values of hedging instruments;
- Changes of fair values of hedging instruments attributable to the hedged risk if the hedge effectiveness was fulfilled while taking into account changes of fair values of hedging instruments attributable to the hedged risk. Changes in fair values of hedging instruments that are not attributable to the hedged risk are recorded as expenses or income from derivative transactions as appropriate.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a legally enforceable contract, a forecasted future transaction, groups of assets, groups of liabilities, legally enforceable contracts or forecasted future transactions with similar characteristics where the same type and category of risk is the subject of the hedge. Gains or losses arising over the term of the hedge from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to the hedged risks are retained on the balance sheet. The gains or losses are taken to income or expenses in the same period in which the income or expenses associated with the hedged item are recognised. Gains or losses arising from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to unhedged risks are recorded as expenses or income from derivative transactions at the measurement date.

The hedge of a net investment in a foreign subsidiary or associate undertaking is a hedge of the exposure to foreign currency risk arising from these undertakings. Gains or losses arising over the term of the hedge from the changes of fair values of these hedging derivatives attributable to the foreign currency risk are retained in the balance sheet. The gains or losses are recorded as income or expenses in the same period in which the income or expenses associated with the derecognition of the hedged investments in foreign subsidiaries or associates are recognised. Gains or losses arising from changes in fair values of those hedging derivatives that are attributable to other than foreign currency risk are recorded as income or expenses, as appropriate, at the measurement date.

The Company has decided not to account for embedded derivatives.

1.6 Inventory

Purchased inventory is valued at acquisition costs. Acquisition cost includes the purchase cost and indirect acquisition costs such as custom fees, freight costs and storage fees during transportation, commissions, insurance charges and discounts.

Provisioning

The Company recognised provisions against inventory whose impairment is not deemed permanent.

1.7 Receivables

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions for doubtful and bad amounts. Receivables acquired for consideration or through an investment are stated at cost less provisions for doubtful and bad amounts.

Provisioning

Provisions against receivables are recognised if the receivable is overdue by more than 360 days.

1.8 Payables

Payables are stated at their nominal value.

1.9 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.

1.10 Reserves

Reserves are intended to cover liabilities and expenditure the nature of which is clearly defined and which are either likely to be incurred or certain to be incurred as of the balance sheet date but uncertain as to their amount or as to the date on which they will arise.

The Company recognises a reserve for unused vacation days, which is created based on an analysis of unused vacation days transferred to subsequent years, and a reserve for legal disputes, which is created based on an analysis of future expenses in relation to legal disputes.

1.11 Foreign Currency Translation

Transactions denominated in foreign currencies during the year are translated using the exchange rate of the Czech National Bank prevailing on the date of the transaction**.**

At the balance sheet date, the relevant assets and liabilities are translated at the Czech National Bank’s exchange rate prevailing as of that date.

1.12 Finance Leases

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

Finance lease repayments are expensed as incurred. The initial lump-sum payment related to assets acquired under finance leases is amortised and expensed over the lease period.

1.13 Taxation

1.13.1 Current Tax Payable

Management of the Company has recognised a tax payable and a tax charge based on its tax calculation which follows from its understanding of the interpretation of Czech tax legislation valid at the financial statements date and believes that the amount of tax is correct in compliance with the effective Czech tax regulations. Since various interpretations of tax laws and regulations by third parties, including state administrative bodies, exist, the income tax payable reported in the Company's financial statements may change based on the ultimate opinion of the tax authorities.

1.13.2 Deferred Tax

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

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

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 related deferred tax is also dealt with in equity.

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

1.14 Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

1.15 Borrowing Costs

Borrowing costs arising from loans attributable to the acquisition, construction or production of fixed assets are added to the cost of those assets.

1.16 Revenue Recognition

Revenue is measured at the value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes.

Sales of services are recognised when the service is provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

The Company is a recipient of compensation for travel fare discounts from the Ministry of Transport. The compensation is intended to reimburse the discounts that the carrier provides to selected groups of passengers pursuant to Act No. 526/1990 Coll., on Prices. The compensation is reported in the period in which the transportation services were provided.

1.17 Use of 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 has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

1.18 Cash Flow Statement

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets which are easily convertible into cash in an amount agreed in advance and not expected to be subject to material fluctuations in value over time.

Cash and cash equivalents can be analysed as follows:

(CZK '000)

	31 December 2017	**31 December 2016**
Cash on hand and cash in transit	0	652
Cash at bank	2 206	38 470
Overdraft balances of current accounts included in current bank loans	0	0
Cash equivalents included in current financial assets	0	223
Total cash and cash equivalents	**2 206**	**39 345**

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

1.19 Year-on-Year Changes in the Classification and Designation of Balance Sheet and Profit and Loss Account Items and their Substance

In preparing the financial statements the Company proceeded in line with Czech Accounting Standard No. 024.

1.20 Conversion of the Financial Statements from IFRS to the Czech Accounting Standards ("CAS")

The statements prepared as of 31 December 2017 have been prepared pursuant to the Czech Accounting Standards because as of the end of 2017, the Company no longer had any issued debt securities traded on a public market. For this reason, the annual report for 2017 was prepared pursuant to CAS; comparative information for the 2016 period is presented in the statements in this annual report pursuant to CAS.

At the end of 2017, a part of the business was sold and a new company Leo Express s.r.o. was established. For this reason, the 2017 period will not be comparable to the 2016 period.

1.21 Reconciliation of 2016 under IFRS and CAS:

Fixed Assets

Due to differences in the valuation of acquisition costs of tangible fixed assets and a different approach to component depreciation, the value of fixed assets pursuant to CAS as of 31 December 2016 is CZK 48,926 thousand higher.

Current Assets

Pursuant to the IFRS rules, restricted cash held by the Company is reported as other receivables, whilst pursuant to CAS it is reported as cash. Therefore, the comparison of the annual report under IFRS and CAS shows a difference of CZK 17,269 thousand in the items of cash and other receivables.

Equity

Due to differences in the valuation of the acquisition of assets, there were differences in the past in the values of the depreciation charges and the financial costs of the loan used for the acquisition of these assets.

Liabilities

The differences in the 2016 annual report pursuant to IFRS and CAS are due to the differences in the valuation of assets and liabilities arising from the acquisition of train units, both in the items of long-term as well as short-term payables.

Profit/loss

The difference in the profit reported for 2016 pursuant to IFRS and CAS is due to the different valuation of assets (and the resulting different value of depreciation charges, CZK 14,062 thousand) and liabilities arising from the acquisition of train units (and the related impact on financial profit, CZK 4,404 thousand).

1.22 Changes in Accounting Policies

In the year ended 31 December 2017, the Company changed its approach to the recognition of overhauls and maintenance of train units.

The policy change was performed in order to render the fair view more accurate or to improve the information value of the financial statements. Starting from 2017, the Company has capitalised significant repairs (periodic, overhauls) of selected parts of train units. The repair costs are recorded as a separate asset item (component) and the depreciation period of the component is set based on the kilometre interval until the next overhaul. This component is therefore depreciated on a machine-hour basis.

If this approach had already been applied in 2016, expenses would have increased by the amount of depreciation of CZK 16,438 thousand, which would have led to a decrease in profit.

2 ADDITIONAL INFORMATION

2.1 Intangible Fixed Assets (Intangible FA)

Cost

(CZK '000)

	Opening balance	Additions	Disposals	Transfers	Closing balance
Research and development	0	0	0	0	0
Valuable rights/software	5 549	967	0	0	6 516
Goodwill	0	0	0	0	0
Other intangible FA	128	440	0	0	568
Prepayments for intangible FA	0	332	182	0	150
Intangible FA under construction	1 579	5 841	1 461	0	5 959
Total in 2017	**7 256**	**7 580**	**1 643**	**0**	**13 193**
Total in 2016	**25 987**	**8 906**	**27 636**	**0**	**7 257**

Provisions and Accumulated Amortisation

(CZK '000)

	Opening balance	Additions	Disposals	Closing balance
Research and development	0	0	0	0
Valuable rights/software	417	2 074	0	2 491
Goodwill	0	0	0	0
Other intangible FA	128	13	0	141
Prepayments for intangible FA	0	0	0	0
Intangible FA under construction	0	0	0	0
Total in 2017	**545**	**2 087**	**0**	**2 632**
Total in 2016	**109**	**437**	**0**	**546**

2.2 Tangible Fixed Assets (Tangible FA)

Cost

(CZK '000)

	Opening balance	Additions	Disposals	Transfers	Closing balance
Land	0	0	0	0	0
Buildings	3 519	0	3 037	0	482
Individual tangible movable assets and their sets	1 035 448	50 413	8 997	0	1 076 864
Valuation difference on acquired assets	0	0	0	0	0
Other tangible FA	0	0	0	0	0
Prepayments for tangible FA	31 611	28 168	27 159	0	32 620
Tangible FA under construction	1 788	71 014	50 532	0	22 270
Total in 2017	**1 072 366**	**149 595**	**89 725**	**0**	**1 132 236**
Total in 2016	**1 038 964**	**35 280**	**1 878**	**0**	**1 072 366**

Provisions and Accumulated Depreciation

(CZK '000)

	Opening balance	Additions	Disposals	Closing balance
Land	0	0	0	0
Buildings	1 285	-1 254	0	31
Individual tangible movable assets and their sets	148 189	477 119	0	625 308
Valuation difference on acquired assets	0	0	0	0
Other tangible FA	0	0	0	0
Prepayments for tangible FA	0	0	0	0
Tangible FA under construction	0	0	0	0
Total in 2017	**149 474**	**475 865**	**0**	**625 339**
Total in 2016	**113 750**	**35 724**	**0**	**149 474**

During 2017, impairment of five Stadler train units was recognised in the amount of CZK 438,351 thousand to the net book value as of 31 December 2017 in the amount of CZK 400,000 thousand.

2.3 Non-Current Financial Assets

2.3.1 Equity Investments – Controlled Entity

2017

(CZK '000)

Company name	Registered office	Ownership %	Share capital	Profit/loss	Net book value
LEO Express Tenders s.r.o.	Prague 3 - Žižkov, Řehořova 908/4, 130 00	100%	200	319	282
LEO Express Polska Sp. z o. o.	Warszawska 21, Katowice	100%	336	-1 112	0
LEO Express Slovensko, s.r.o.	Wolkrova 37 Bratislava-Petržalka 851 01	100%	128	-43	3
SmileCar a.s.	Prague 3 - Žižkov, Řehořova 908/4, 130 00	70.5%	2 000	-3 650	0
Leo Express GmbH	Wonnichstr. 64, Berlin, Germany	100%	705	-37 345	0
Leo Express Transportation, Inc.	383 King Street APT 1211, San Francisco, CA, 94158, United States	100%	3	10 577	0
Leo Express s.r.o.	Řehořova 908/4, Prague 3	100%	100	0	514 696

2016

(CZK '000)

Company name	Registered office	Ownership %	Share capital	Profit/loss	Net book value
LEO Express Tenders s.r.o.	Prague 3 - Žižkov, Řehořova 908/4, 130 00	100%	200	-57	0
LEO Express Polska Sp. z o. o.	Kasztanowa 3A/220, 53-125 Wrocław	100%	336	-862	0
LEO Express Slovensko, s.r.o.	Wolkrova 37, Bratislava-Petržalka 851 01	100%	128	-84	49
SmileCar a.s.	Prague 3 - Žižkov, Řehořova 908/4, 130 00	51%	2 000	-153	942
Leo Express Transportation, Inc.	383 King Street APT 1211, San Francisco, CA, 94158, United States	100%	3	-12 857	0

2.4 Inventory

Leo Express records no inventory as of 31 December 2017.

As of 31 December 2016, inventory predominantly included spare parts used for the maintenance of Stadler Flirt train units.

2.5 Short-Term Receivables

Receivables past their due dates as of 31 December 2017 amount to CZK 14,243 thousand (as of 31 December 2016: CZK 710 thousand).

Aging of trade receivables

(CZK '000)

Year	Category	Before due date	Past due date 0 - 90 days	91 - 180 days	181 – 360 days	1 - 2 years	2 and more years	Total past due date	Total
2017	Gross	8 011	14 125	0	94	24	0	14 243	**22 254**
	Provisions	0	0	0	0	0	0	0	**0**
	Net	8 011	14 125	0	94	24	0	14 243	**22 254**
2016	Gross	12 276	367	248	95	61	42	813	**13 089**
	Provisions	0	0	0	0	60	42	102	**102**
	Net	12 276	367	248	95	1	0	711	**12 987**

Provisioning movements can be analysed as follows:

(CZK '000)

	2017	2016
Opening balance at 1 January	102	62
Provisioning charge	0	40
Release	102	0
Closing balance at 31 December	**0**	**102**

2.5.1 Short-Term Intercompany Receivables

Short-term trade receivables

(CZK '000)

Company name	Balance at 31 December 2017	Balance at 31 December 2016
AAKON Capital s.r.o.	1 638	1 742
LEO Express GmbH	20 024	0
LEO EXPRESS POLSKA SP. Z O. O.	67	67
LEO Express Tenders, s.r.o.	0	34
SmileCar a.s.	48	55
Total short-term intercompany receivables	**21 777**	**1 898**
Other than intercompany receivables	477	11 089
Total short-term receivables	**22 254**	**12 987**

2.6 Equity

The Company's equity includes share capital, contributions outside the Company's share capital (other capital funds), a reserve for cash flow hedges, profit/loss of prior periods and profit/loss of the current period.

The share capital is composed of 12,346,167 ordinary registered shares in certificate form in the nominal value of CZK 10, ISIN CZ0008209681.

The Company does not hold any treasury shares; during the year 123,467 new shares were issued. All shares have been paid up; at present, no additional shares have been approved for issuance.

2.7 Movements in Equity

123,467 new shares were issued during the year, the share capital thus increased to CZK 123,462 thousand and the share premium to CZK 16,310 thousand.

2.8 Distribution of Profit or Settlement of Loss

The loss of 2017 will be allocated to accumulated losses brought forward.

2.9 Gains and Losses from the Revaluation of Assets and Liabilities

Movements on the 'Gains and losses from the revaluation of assets and liabilities' account:

	(CZK '000)
Balance at 1 Jan 2017	**-36 252**
Settlement of derivatives hedging future cash flows	21 255
Change in the valuation of an equity investment accounted for using the equity method of accounting	-1 801
Settlement of securities available for sale	0
Change of method in respect of deferred taxation	0
Balance at 31 Dec 2017	**-16 798**

Gains and losses from the revaluation of assets and liabilities are composed of:

(CZK '000)

	31 December 2017	**31 December 2016**
Settlement of derivatives hedging future cash flows	-13 814	-35 070
Change in the valuation of an equity investment accounted for using the equity method of accounting	-2 984	-1 182
Settlement of securities available for sale	0	0
Change of method in respect of deferred taxation	0	0
Total	**-16 798**	**-36 252**

2.10 Reserves

Other reserves

(CZK '000)

	Balance at 31 December 2017	**Balance at 31 December 2016**
Other reserves (reserve for unused vacation days)	995	2 058
Other reserves (legal disputes)	187	0
Other reserves (distributed credit)	0	6 812
Total other reserves	**1 182**	**8 870**

The item 'distributed credit' was decreased by the sale of a part of the business of LEO Express Global a.s. to the newly established company Leo Express s.r.o., which led to a transition to an operating entity.

2.11 Long-Term Payables

Long-term payables include payables that are due in more than one year as of the balance sheet date, and the deferred tax liability.

Long-term payables due in more than five years as of 31 December 2017 amount to CZK 0 thousand (as of 31 December 2016: CZK 0 thousand).

Long-term payables include bank loans described below.

2.11.1 Collateralised or Otherwise Secured Long-Term Payables

Stadler Flirt train units are used as collateral for the loan from Credit Suisse for their acquisition.

2.12 Short-Term Payables

Past-due payables as of 31 December 2017 amount to CZK 17,567 thousand (as of 31 December 2016: CZK 11,471 thousand).

2.12.1 Short-Term Intercompany Payables

Short-Term Trade Payables

(CZK '000)

Company name	**Balance at 31 December 2017**	**Balance at 31 December 2016**
AAKON Capital s.r.o.	242	242
Aakon Services s.r.o.	248	0
LEO EXPRESS POLSKA SP. Z O. O.	0	797
LEO Express Tenders, s.r.o.	431	48
Total short-term intercompany payables	**921**	**1 087**
Other than intercompany payables	36 401	37 014
Total short-term payables	**37 322**	**38 101**

2.13 Bank loans

Long-term bank loans include:

(CZK '000)

Bank/creditor	**Currency**	**Balance at 31 Dec 2017**	**Balance at 31 Dec 2016**	**Form of collateral**
CREDIT SUISSE AG)	CZK	-406 669	-508 336	Pledge of trains
NEY SD	CZK	-28 000	0	Pledge of current account
UniCredit Leasing CZ, a.s.	CZK	-361	0	-
Total		**-435 030**	**-508 336**	

The portions of the above stated loans maturing within one year from the balance sheet date are reported as part of short-term bank loans on the face of the balance sheet.

Short-term bank loans and financial borrowings include:

(CZK '000)

Bank/creditor	**Currency**	**Balance at 31 Dec 2017**	**Balance at 31 Dec 2016**	**Form of collateral**
CREDIT SUISSE AG	CZK	-101 667	-101 667	Pledge of trains
UniCredit Leasing CZ, a.s.	CZK	-203	0	
Raiffeisenbank a.s.	CZK	0	-24 950	Blank bill of exchange
Total		**-101 870**	**-126 617**	

2.14 Derivative Financial Instruments

The cash flow hedging reserve is composed of the gains or losses on the revaluation of derivatives. The Group received a loan with a floating interest rate of PRIBOR 3M + 1.15%. Based on the overall interest rate risk strategy, the Group requires the hedging of cash flow changes arising from interest rate risks that influence the amount of interest expenses. In line with these requirements the Group negotiated an interest rate swap with an annual fixed interest rate of 4.33% as part of which the Group is a payer of a fixed interest rate and a payee of a floating interest rate, thereby decreasing the risk of cash flow changes arising from interest payments. The Group does not hedge the interest margin above this rate as it is not affected by the interest rate risk. The Group classified the transaction as the hedging of future interest payments (cash flow hedging).

The positive and negative fair values of financial derivative instruments are reported within ‘Other receivables’ and ‘Other payables’, respectively.

The short term portion of financial derivatives is reported as part of short-term receivables or payables, the long-term portion is included in long-term receivables or payables.

	At 31 December 2017		At 31 December 2016	
	Positive fair value	**Negative fair value**	**Positive fair value**	**Negative fair value**
Derivatives designated as cash flow hedges – short-term portion	0	7 317	0	13 496
Derivatives designated as cash flow hedges – long-term portion	0	6 497	0	21 574
Total	**0**	**13 814**	**0**	**35 070**

2.15 Deferred Income Taxation

Leo Express Global a.s. records a deferred tax asset but does not account for it on the grounds of prudence.

2.16 Income from Ordinary Activities

(CZK ‘000)

	Year ended 31 December 2017			Year ended 31 December 2016		
	In-country	**Cross-border**	**Total**	**In-country**	**Cross-border**	**Total**
Sales of goods (tickets)	178	0	178	438	0	438
Sales of goods (other)	2	0	2	26	0	26
Total sales of goods	**180**	**0**	**180**	**464**	**0**	**464**
Advertising	15 508	0	15 508	13 588	0	13 588
Travel fare	226 221	74 215	300 436	222 284	32 952	255 236
Total sales of own products and services	241 729	74 215	315 944	235 872	32 952	268 824

2.17 Consumed Purchases

(CZK ‘000)

	Year ended 31 December 2017	Year ended 31 December 2016
Consumed material	24 358	15 210
Consumed energy	24 477	29 635
Consumption of other non-storable supplies	0	0
Total consumed purchases	**48 835**	**44 845**

2.18 Services

	Year ended 31 December 2017	(CZK '000) Year ended 31 December 2016
Repairs and maintenance	101 819	2 280
Travel expenses	7 319	4 051
Representation costs	199	176
Telephone and data services	8 081	4 131
Low value intangible assets put to use	469	320
Rental	9 273	9 094
Leases	0	250
Total other services	204 315	148 124
Fee for the use of infrastructure	45 618	53 857
Coach lines	102 632	41 342
Marketing	16728	9 985
Interior and exterior cleaning	6 334	8 160
Advisory	8 704	6 229
Catering	8 846	9 117
Other services	15 453	19 434
Total	**331 475**	**168 426**

2.19 Employees, Management and Statutory Bodies

The average recalculated headcount for the years ended 31 December 2017 and 31 December 2016 is as follows:

	2017	2016
Managers	7	7
Other employees	178	180
Total	**185**	**187**

Total payroll costs in the year ended 31 December 2017 amounted to CZK 74,743 thousand (2016: CZK 65,839 thousand).

Leo Express Global a.s. did not provide any bonuses, advances, prepayments, loans or borrowings to members of statutory, supervisory or administrative bodies.

2.20 Other Operating Income and Expenses

2.20.1 Sundry Operating Income

	Year ended 31 December 2017	(CZK '000) Year ended 31 December 2016
Contractual penalties and default interest	70	13
Compensation from the Ministry of Transport	20 755	22 358
Received insurance premiums	78 090	953
Income from the sale of a part of business	514 596	0
Other operating income	4 577	7 728
Total	**618 088**	**31 052**

2.20.2 Sundry Operating Expenses

(CZK '000)

	Year ended 31 December 2017	Year ended 31 December 2016
Sale of business part	-52 671	0
Gifts	15	20
Contractual penalties and default interest	244	279
Other penalties and fines	1 009	33
Insurance	3 207	2 801
Other operating expenses	1 657	3 706
Total	**-46 539**	**6 839**

2.20.3 Other Interest Income and Similar Income

(CZK '000)

	Year ended 31 December 2017	Year ended 31 December 2016
Interest on loans	1 045	9
Interest on current bank accounts	29	100
Other interest received from other debtors	0	37
Total	**1 074**	**146**

2.21 Interest Expenses and Similar Expenses

(CZK '000)

	Year ended 31 December 2017	Year ended 31 December 2016
Interest expenses with related parties	4 051	618
Other interest expenses	25 064	27 961
Total	**29 115**	**28 579**

2.22 Other Financial Income

(CZK '000)

	Year ended 31 December 2017	Year ended 31 December 2016
Foreign exchange rate gains	4 342	359
Total	**4 345**	**359**

2.23 Other Financial Expenses

(CZK '000)

	Year ended 31 December 2017	Year ended 31 December 2016
Foreign exchange rate losses	3 069	420
Expenses arising from financial assets	22 468	1 312
Banking fees	2 687	2 130
Other financial expenses	1 742	1 768
Total	**29 966**	**5 630**

2.24 Fee to the Auditors

The fee paid to Deloitte Audit s.r.o. for the obligatory audit of the annual financial statements for the year ended 31 December 2017 amounted to CZK 767 thousand.

Post Balance Sheet Events

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.

3 STATEMENTS