

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Financial analysis of Prague Airport Company

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Karolína Straková

Economics and Management

Thesis title

Financial Analysis of Prague Airport Company

Objectives of thesis

The thesis titled "Financial analysis of Prague Airport Company" deals with the issue of financial statements of the company operating in air transport. The main objective is to measure the financial performance and development by using different techniques of financial analysis. The thesis aims to evaluate the current financial situation and make suggestions for possible improvements. All materials used in this thesis are based on real data provided by Czech Aeroholding.

Methodology

Basically, the thesis consists of theoretical and analytical section. The first part provides brief overview explaining not only the term financial analysis itself, but also varied issues related. Concise description of the company Czech Aeroholding including short history and the hierarchy of Prague Airport is mentioned as well. All the information serves as a theoretical background for the upcoming analytical section.

The research based on data obtained from annual reports aims to measure the financial performance of the company throughout past years. Methods as SWOT analysis, ratio analysis, vertical and horizontal analysis are being used. Conducted analysis results in a comparison and final evaluation of the financial progress of the company.

The proposed extent of the thesis

40 pages

Keywords

Financial analysis, airline industry, annual report, comparison, development, Prague Airport, Czech Aero-holding, ROA, ROE

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Declaration

I declare that I have worked on my bachelor thesis titled "Financial analysis of Prague Airport Company" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 12th March 2017

Karolína Straková

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Finanční analýza Letiště Praha, a.s.

Souhrn

Bakalářská práce s názvem “Finanční analýza Letiště Praha, a.s.” zkoumá finanční a ekonomický výkon společnosti provozující civilní mezinárodní letiště v České republice.

Teoretická část slouží jako základ pro nadcházející analytickou část a obsahuje vysvětlení pojmu finanční analýza, včetně použitých poměrových ukazatelů a údajů o finančních výrocích společnosti. Dále jsou v této části zmíněné ekonomické a enviromentální skutečnosti a dopady týkající se oblasti letištní dopravy. V neposlední řadě je v práci konkrétně popsána zkoumaná společnost - obecné informace, její fungování a cíle, včetně soupisu událostí, které mohly mít vliv na celkový výkon firmy.

Na základě dat získaných z účetních výkazů firmy, metod a postupů popsaných v teoretické části byl proveden důkladný rozbor a analýza firmy. Dostupná data byla zpracována, vyhodnocena a znázorněna pomocí tabulek a grafů. Provedená analýza podává celkový obraz o působení firmy a její výsledky jsou dále shrnuty v samém závěru práce.

Klíčová slova: Finanční analýza, ROA, ROE, letecká doprava, výroční zpráva, Letiště Praha, rozvoj

Financial analysis of Prague Airport Company

Summary

The bachelor thesis titled “Financial analysis of Prague Airport Company” focuses on examining financial and economic performance of the company operating the civil international airport located in the Czech Republic.

Firstly, the theoretical part serves as a background for upcoming practical section and thus provides an explanation of the term financial analysis, including the basic information about financial statements and ratios applied. Furthermore, air transport related economic and environmental issues are mentioned and described as well. Last part of theoretical section contains specifications regarding analyzed company, such as aims, functioning and events that have significantly influenced its past and current performance.

Based on the data contained in company’s financial statements along with the methods and procedures mentioned in theoretical part, the thorough research and analysis have been performed. Available data was processed, calculated and visualized by graphs and tables. Conducted analysis resulted in overall evaluation of company’s performance summarized in conclusion.

Key words: Financial analysis, ROA, ROE, air transport, annual report, Prague Airport, development

Table of contents

1. Introduction.....	12
2. Objectives and Methodology.....	13
2.1. Objectives.....	13
2.2. Methodology	13
3. Theoretical Part	14
3.1. Financial analysis	14
3.1.1. Financial statements.....	14
3.1.2. Ratio Analysis.....	17
3.2. Air transport economics	23
3.2.1. Airport revenues and expenditures	23
3.2.2. Environmental and social impact.....	24
3.2.3. Labour.....	25
3.2.4. IT Development	26
3.3. Prague Airport Company	27
3.3.1. Objectives	27
3.3.2. Principles	27
3.3.3. Board of Directors	29
3.3.4. History (2010-2015)	29
3.4. Literature Review.....	31
4. Practical part.....	32
4.1. Economic Analysis of Prague Airport	32
4.1.1. Earnings	32
4.1.2. Passengers.....	33
4.1.3. Employment.....	34
4.2. Correlation analysis.....	35
4.3. Financial Analysis	36
4.3.1. Profitability	36
4.3.2. Liquidity.....	37
4.3.3. Leverage Ratios	38
4.4. Comparison	39
5. Conclusion	40

6. References.....	41
7. Appendix.....	44

List of Abbreviations

ACI – Airports Council International

ATM – Air traffic management

CZK – Czech crown; currency

EAT – Earnings after tax

EBIT – Earnings before interest and taxes

EBITDA – Earnings before interest, taxes, depreciation and amortization

e.g. – for example

Etc. – etcetera; and so on

EU – European Union

GAAP – Generally Accepted Accounting Principles

IATA – International Air Transport Association

ICAO – International Civil Aviation Organization

IFRS – International Financial Reporting Standards

IT – Information technologies

ROA – Return on Assets

ROE – Return on Equity

ROS – Return on Sales

List of Figures

Figure 1: Earnings after taxes (2010-2015)	33
Figure 2: Number of handled passengers	34
Figure 3: Average number of Prague Airport employees	34
Figure 4: Scatter plot.....	35

List of Tables

Table 1: Earnings after taxes (2010-2015)	32
Table 2: Number of handled passengers	33
Table 3: Correlation coefficient	35
Table 4: Revenue per Employee	37
Table 5: Selected European Airports (no. of passengers in 2016).....	39

1. Introduction

Current world, full of people being in a hurry all the time, requires the possibility to travel by the fastest means of transport possible. No wonder, the demand for fast and convenient air transportation has recorded a significant growth throughout past years. Undoubtedly, airports represent a base and shelter for the aircrafts, as well as the travel hub for all passengers, and therefore play the key role in air transport industry. Furthermore, airports are considered to be the substantial driving force of the world economy. Air transport enables the flow of people, goods, technologies and provides the important connection between cities, which appear to be the vital element not only for the international trade. Another point lies at first, in the obvious support of tourism and secondly, in the wide range of various direct or indirect job positions created by this industry. From the global perspective, this sector keeps developing all the time, which is indisputably good news.

Undoubtedly, Vaclav Havel Airport Prague as the largest and most important airport in the Czech Republic is considered one of the crucial driving forces behind the national economy. The Company significantly contributes to the prosperity of the whole country and provides many benefits.

The capability of examining and evaluating company's financial performance belongs to the key assumptions determining the viability of every business. Therefore, this thesis focuses on analyzing financial and economic aspects of Prague Airport Company based on the data collected from its annual reports and financial statements. Most commonly used ratios have been applied to examine and evaluate Company's performance.

Many people and institutions are concerned with the financial situation of particular business and doesn't matter, whether they are directly interested in a successful activity of a company, such as owners, creditors, customers, potential investors, employees or simply ordinary citizens. Actually, every individual involved in any kind of a business should be able to realize the importance of financial controlling and efficient allocation of resources.

2. Objectives and Methodology

2.1. Objectives

The thesis titled "Financial analysis of Prague Airport Company" deals with the issue of financial statements of the company operating in air transport.

The main objective is to measure the financial performance and development by using different techniques of financial analysis. The thesis aims to evaluate the current financial situation and make suggestions for possible improvements. All materials used in this thesis are based on real data provided by Czech Aeroholding.

2.2. Methodology

Basically, the thesis consists of theoretical and analytical section. The first part provides brief overview explaining not only the term financial analysis itself, but also varied issues related. Concise description of the company Czech Aeroholding including short history and the hierarchy of Prague Airport is mentioned as well. All the information serves as a theoretical background for the upcoming analytical section.

The research based on data obtained from annual reports aims to measure the financial performance of the company throughout past years. Methods as economic analysis, ratio analysis, data mining and others are being used. Conducted analysis results in a comparison and final evaluation of the financial progress of the company.

3. Theoretical Part

3.1. Financial analysis

Increasing the owner's wealth belongs undoubtedly to the main objectives of every single company or entrepreneurship. Company needs to make money to satisfy shareholders, investors, customers and other organizations interested in its successful business activity. In other words, it is really important to be able to monitor and control financial activities of the company and thus to measure its financial performance. Financial analysis represents a set of tools necessary to gain the information about the financial health of the firm, understand it and therefore to enable more effective decision-making. These measures aims to find out how much in detail particular factors influence the current overall performance of the company.

The results of the financial analysis provide the overview and information necessary not only for the owner's needs but it also serves the third parties such as investors, banks, government etc.

As Friedlob (2003) mentions in his book, the importance and necessity of analyzing the financial performance has been taken into account since the beginning of business activity. The simple accounting records were found more than 7 000 years ago in Babylon, Assyria and Sumeria. The profit was easily determined by comparing the value of the harvest with the value of the seed. In simple terms, basically the competent person prepared the list of assets and liabilities at the beginning and then evaluated it at the end of the cycle. The change indicated profit or loss. Even though the processes, means and the methods of measuring financial activities have been changing and developing throughout the centuries, the purpose has remained the same.

(Friedlob and Schleifer, 2003)

3.1.1. Financial statements

Basically, when conducting financial analysis of the company, analysts focus on three major statements which provide an appropriate demonstration of a company's performance:

- Income statement
- Balance sheet
- Cash flow statement

(Vance, 2002)

3.1.1.1. *Income statement*

Also known as the profit or loss account. Income statement indicates the performance of the company during the specific period and shows e.g. its profitability. Revenues, expenses and income belong to the main items included in Profit or Loss Account. Following formula explains the relationship among these elements:

$$\text{Revenues} - \text{Expenses} = \text{Net income (+Profit; -Loss)} \quad [1]$$

Revenues can be defined as overall amount of money that firm obtained during the specific accounting period, regardless the fact, whether it has been already charged, or not.

On the other hand, expenses represent the amount of money spent by company in order to gain revenues, however, the real payment did not have to be necessarily accomplished in that specific period.

(Knápková et al., 2013)

Items included in Income statement

First row of the profit/loss account consists of revenues from sales, followed by cost of goods sold. Profit margin represents the difference between those two items mentioned. The list of all components will be analyzed in practical section.

Basically, earnings are recognized in three components: operational, financial and extraordinary profit/loss result. The operating net income is gained by subtracting all the operating expenses from all the operating revenues. It is an important indicator showing company's performance within the main operating activity of the firm.

(Knápková et al., 2013)

3.1.1.2. *Balance Sheet*

Another important part of company's financial statements is a balance sheet containing the information about assets, equity and liabilities of the firm. The assets must be always equal to the sum of equity and liabilities:

$$\text{Assets} = \text{Equity} + \text{Liabilities} \quad [2]$$

The balance sheet assesses the company's financial position, hence it can also be called the Statement of Financial Position.

Items included in Balance sheet

The statement is divided into two sections – assets and equity plus liabilities. The first item mentioned, including fixed and current assets, indicates the property of the company that can be turned into cash if necessary. There are many types of assets, such as intangible – e.g. copyrights, software, patents etc. and tangible, such as buildings, machinery, equipment, both belonging to fixed assets. Current assets contain items like inventories, financial assets, receivables etc.

Equity represents the capital invested into the company by the owner. Liabilities include the obligations owed to creditors, such as bank loans, payables and others used as a different source of business financing. These separates into short-term and long-term liabilities.

(Knápková et al., 2013)

3.1.1.3. *Cash flow Statement*

The decision-making process and the correct financial controlling of the company require (apart from balance sheet and income statement) the information about firm's cash flows. No doubt, cash flow statement is considered to be the significant element of financial analysis, as it explains the increase or decrease in cash along with the reason, why that particular change occurred. In case, the company runs out of money needed for its everyday operation, it could have a serious impact on the existence of the firm. Therefore,

the cash flow monitoring appears to be a necessary activity when conducting financial analysis.

The common computation generally used to understand the relationship of cash flow components is following:

$$\text{Cash flow} = \text{Gains} - \text{Costs} \quad [3]$$

3.1.2. Ratio Analysis

Ratio analysis is based on the items listed in the company's financial statements mentioned above. However, in order to determine how the firm is actually doing financially, the brief look at the statements is not enough and thus the further activity is required. Obviously, the ratios can be created by combination of items, or one item to another one and then simply calculated. The results could serve as a comparison among companies operating in the same field. This type of analysis is used for the calculation and evaluation of various aspects associated with the performance of the company such as profitability, liquidity, efficiency and solvency. (Picardo, 2016)

Profitability

Every business was established primarily to generate profit. Therefore, the measurement of profitability belongs to the key aspects in terms of financial reporting of a company. Information contained in income statement directly demonstrates, whether the business is using its assets efficiently compared to its expenses and other costs and thus indicates the overall profitability. In other words, this measure shows company's ability to generate earnings during specific period. Commonly used profitability ratios include: Profit Margin (ROS), Return on Assets (ROA), Return on Equity (ROE). (Staff, 2017)

Return on Assets (ROA)

Considered as a crucial element in assessing company's profitability, Return on Assets ratio indicates the net income generated by total amount of assets during a specific period. In terms of utilization, this aspect represents the useful tool when comparing the year to year performance of a firm.

The following calculation simply determines whether a firm is able to make profit from its assets:

$$ROA = \frac{\text{Net income}}{\text{Average total assets}} \times 100 [\%] \quad [4]$$

All components of formula mentioned above can be easily obtained from the company's financial statements. Net income is listed in the income statement, at the bottom line and the information about total assets can be easily taken from the balance sheet.

(Boyte-White, 2015)

Return on Equity (ROE)

Generally, majority of current or potential investors emphasize on ROE calculation as it demonstrates, whether the business is capable of returning on the money that owner have invested into the company. Commonly, the higher the percentage, the better result. Basically, similar to ROA, the ROE formula consists of items that can be easily found in income statement and the balance sheet. It is calculated as follows:

$$ROE = \frac{\text{Net income}}{\text{Equity}} \times 100 [\%] \quad [5]$$

(My Accounting Course, 2016)

Profit Margin (ROS)

Profit Margin, also called Return on Sales, determines the relationship between the revenues and sales at various stages of earnings. In other words, ratio is described as a profit in percentages generated on 1 CZK of sales revenue. (FAF, 2012)

Gross Profit Margin

$$\text{Gross Profit Margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100 [\%] \quad [6]$$

Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net income}}{\text{Sales revenue}} \times 100 \text{ [\%]} \quad [7]$$

Operating Profit Margin

$$\text{Operating Profit Margin} = \frac{\text{EBIT}}{\text{Net sales}} \times 100 \text{ [\%]} \quad [8]$$

Revenue per Employee

Apart from indicating the level of productivity and efficiency in terms of utilization of labour force, Revenue per Employee ratio can show, whether the company seems to be overstaffed, or not. The ratio measures how much is the average revenue generated by one worker. Obviously, it is preferred to gain the highest value possible, in order to operate productively. However, the comparison with other companies in the same industry is necessary to obtain applicable information. (Staff, 2016)

$$\text{Revenue per Employee} = \frac{\text{Revenue}}{\text{No. of employees}} \quad [9]$$

Liquidity

When discussing a risk measurement, the liquidity is an important indicator denoting the company's relationship between current assets and current liabilities. In other words, liquidity examines, whether the firm has available amount of liquid assets that can be easily converted to cash or cash equivalents, to pay its short-term debts and obligations. (Friedlob and Schleifer, 2003)

Undoubtedly, assessing the liquidity belongs to the significant part of the financial analysis. High level of liquidity can be associated with large amount of owner's equity or conservative approach, as well as with the signal of underusing of resources. On the other

hand, weak liquidity directly contributes to the vulnerability of the business. The owner must take into account pros and cons. (FAF, 2016)

The list of ratios commonly used to measure the liquidity includes current ratio, quick/acid test ratio, working capital ratio and cash ratio.

Current Liquidity

The concept of current liquidity ratio determines the company's ability to pay off its short-term liabilities to satisfy the creditors. Generally, this indicator shows how much in current assets is available to cover 1 CZK of the firm's short-term liabilities.

(Friedlob and Schleifer, 2003)

$$\text{Current Liquidity Ratio} = \frac{\text{Current assets}}{\text{Short term liabilities} + \text{short term loans}} \quad [10]$$

The recommended value is denoted between 1,5 and 2,5.

Quick (Acid-test) Liquidity

In this case, when calculating quick liquidity, the inventory item is subtracted from current assets.

$$\text{Quick Liquidity Ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Short term liabilities} + \text{short term loans}} \quad [11]$$

The recommended value is denoted between 0,7 and 1,2.

Cash Liquidity

First of all, cash ratio is considered as the strictest indicator of liquidity. Actually, this measurement examines the company's ability to pay off its short-term liabilities "right now", which means only by currently available financial assets (cash, money from bank accounts, securities etc.). (Atlantis PC, 2016)

$$\text{Cash Liquidity Ratio} = \frac{\text{Current financial assets}}{\text{Short term liabilities} + \text{short term loans}} \quad [12]$$

The recommended value is indicated between 0,2 and 0,5.

Solvency (Leverage Ratios)

In contrast to liquidity, solvency concerns about the long-term liabilities. Focusing more on long-term sustainability of a company, leverage ratios measure the level of debts compared to various indicators such as assets, equity and revenues.

Leverage I

This ratio indicates how much of long-term liabilities is determined for 1 CZK of equity.

$$\text{Leverage I} = \frac{\text{Long term obligations} + \text{Long term loans}}{\text{Equity}} \quad [13]$$

Leverage II

Leverage II measures the relation of long-term liabilities and total assets. In other words, following calculation demonstrates how much of long-term obligations is assigned for 1 CZK of total assets.

$$\text{Leverage II} = \frac{\text{Long term obligations} + \text{Long term loans}}{\text{Assets}} \quad [14]$$

Leverage III

The higher the leverage, the more indebted and risky company. The formula below indicates the amount of total liabilities assigned for 1 CZK of assets.

$$\text{Leverage III} = \frac{\text{Long term} + \text{short term obligations} + \text{loans}}{\text{Assets}} \quad [15]$$

(Atlantis PC, 2016)

Return on investments (ROI)

Return on investment is commonly used ratio when evaluating and measuring the efficiency of company's investment. It is computed as follows:

$$\text{ROI} = \frac{\text{EBIT}}{\text{Total assets} - \text{short term liabilities}} \quad [16]$$

3.2. Air transport economics

Undoubtedly, airports all around the world significantly contribute to economic development of the particular country they serve. Basically, air transport allows the flow of goods, people and technologies, thus making international trade much faster and efficient. To put it simply, the more freight capacity, the lower transport costs. Also the price of air tickets for tourists continues to decrease, which means the increased amount of potentially handled passengers. According to IATA (International Air Transport Association), when comparing the current average transport costs to twenty years ago, they have been decreased by more than half. Generally, airports help to keep the economic growth by supporting tourism and investments, enabling the access to international markets, as well as by simply offering many various job positions in air transport industry.

Therefore it is important to keep developing this industry to improve the connectivity between cities.

(IATA, 2016)

3.2.1. Airport revenues and expenditures

3.2.1.1. *Revenues*

In fact, revenues of airports are divided into aeronautical and non-aeronautical. In broader sense, aeronautical part of the business consists of fees paid for evident airport-related activities such as operating and landing of aircraft, rental of terminals for airlines, passengers and freight usage fees etc. Airlines pay the rent for the hangar, gate space, maintenance facilities and other. Aeronautical revenues consist of charges levied on aircraft and charges levied on passengers, which are commonly included in the price of a ticket. Nowadays, the trend of passenger-based charging has been moving upwards. In total, these revenues represent the major part of the airport income.

On the other hand, non-aeronautical side has recorded a significant boost in past years as they tend to produce higher profit margins and therefore to reduce overall costs. As Airports Council International (2013) mentions in their report: “The revenue generated from non-aeronautical revenue often determines the financial viability of airports.” Furthermore, airports keep focusing on non-aeronautical revenues to cope with unstable and unpredictable cycle in airline business. Commercial activities attract either

public or private investors to raise funds necessary for airport expansion. Especially services such as parking, car rentals, ground transportation, retail and concessions represent the major part generating income when talking about non-aeronautical side. Variability and quality of products and services available at the airports contributes to passengers' willingness to pay, so they can enjoy convenient stay while waiting for their flights. Airports are increasingly expanding the food and beverage options, as well as the fashion and beauty sector, by offering not only international brands but also locally produced goods. Additional source of income lies in renting of space for advertising inside or outside terminals.

(Anon, 2017)

3.2.1.2. Expenditures

Due to airport assorted costs depending on wide range of operational models, generalization of expenditures seems to be a little complicated. There are many detailed information needed to make a comparison. For instance, many airport companies providing ground handling do not use their own labour force, but some of them do. In general, about 30 percent of airports worldwide are considered profitable. (Anon, 2013)

ACI (2007) mentioned in position brief the explanation of two approaches to the airport business model. First one, called "dual till" system consists of aeronautical and non-aeronautical business separated into income and expenditure accounts. This method aims to take the income from aeronautical side and use it solely for the coverage of aeronautical expenditures such as repairing of runways or terminals. The non-aeronautical revenue therefore remains for non-aeronautical expenditure. Compared to a "single till" approach using all airport revenues in the cost base for charge calculations. As a result, in order to maintain satisfying return, the airport then must target at non-aeronautical income.

3.2.2. Environmental and social impact

Although, users significantly benefit from airport business, the air transport and related activities have considerably negative effect upon the environment. Since the demand for air transport has been growing constantly, society has to accept not only benefits, but the costs as well. Key environmental impacts such as air and water pollution, climate change, noise, use of resources etc., belong to the major subjects being currently solved.

The main objective is to make the aviation long term sustainable, which appears quite impossible in its current form because of dependency on non-renewable resources. However, many processes and activities are being done to at least improve the sustainability of air transport. Particularly by effective developing and improving technologies, ATM systems and other equipment.

(Eurocontrol, 2016)

3.2.2.1. Noise

Despite the fact that aircraft noise is considered rather as a local problem than a huge environmental issue (compared for example to the climate change), it is still widely discussed topic due to its adverse effect especially on health of the people living near airports. In some cases, noise disturbance can cause serious cardiovascular and psychophysiological problems. Common perceptible effects include sleep disturbance, irritation, weak performance, communication interference and others. (Eurocontrol, 2016)

Of course, there is a large scale of policies and regulations throughout the world that help to monitor and control the noise abatement. International Civil Aviation Organization (2004) set up the policy called the Balanced Approach to Aircraft Noise Management containing detailed information about aircraft noise reductions. There are four elements representing the core principle: reduction of noise at source, land-use planning and management, noise abatement operational procedures, operating restrictions. Primary goal remains to decrease the number of affected people. (ICAO, 2004)

Without exception, Prague Airport implemented economic, technical and operational measures as well, in order to minimize the aircraft noise. Since 1998, the affected area has not been spreading out, even though the number of take-offs and landings at the Prague airport has increased. In addition, the policy of setting charges based on the aircraft noise level appeared highly motivating. This challenge encourages air transport companies to use the most innovative quiet type of aircrafts. (Vaclav Havel Airport Prague, 2016)

3.2.3. Labour

Labour force belongs to the basic factors of production and therefore, represents the key element of every business including air transport industry without exception. Large scale of various job positions has been created by this sphere, which seems to be simultaneously

a significant contribution to the global economy as well as the reduction of unemployment itself.

As the Air Transport Action Group (2004) noted, the aviation industry offered almost 63 million jobs worldwide. Obviously, this number has certainly increased even more till now.

Basically, the positions can be distinguished according to the operations they provide. Direct jobs are related to work in industry itself including the areas such as airlines associated positions, airport operators, air navigation services, civil aerospace etc. Whereas indirect jobs comprise the air transport industry suppliers, e.g. goods manufacturers, construction companies, suppliers of fuels and other activities indirectly associated with the aviation. Next category consists of artificial jobs that relate to the operational activities within the industry, such as retail stores, restaurants, producers of various goods etc. Direct employees spend their money on there. Last but not least, there are many jobs created within the tourism sector that is obviously connected with air transport industry.

(Air Transport Action Group, 2004)

3.2.4. IT Development

Information technologies are the essential part of the aviation and associated operational activities from the early beginning of air transport industry. The innovations and improvements in the field of IT simplify the processes and functions related to the operating challenges of airports, aircrafts control and other activities needed to manage, maintain and support the air transport.

3.3. Prague Airport Company

The joint stock company, Prague Airport belongs to the group of companies which operate in air transport industry and related ground services at the international airport located in Prague/Ruzyně. The group owned by Czech Aeroholding has the single shareholder, which is the Czech Republic, represented by the Ministry of Finance of the Czech Republic.

In 2008 as the result of privatization, former state enterprise known as Správa Letiště, s.p. was transformed and the joint stock company Prague Airport (Letiště Praha, a.s.) was established. In 2011, Czech government started to implement the first steps in inclusion of Prague Airport into Czech Aeroholding. In March 2012 it finally came under the structure of Czech Aeroholding, as the sole shareholder.

(Vaclav Havel Airport Prague, 2016)

3.3.1. Objectives

Prague Airport aims to operate, control and maintain the international civil Vaclav Havel Airport situated in Ruzyně effectively and securely. The company enables the passengers to travel in a fast, modern, convenient way and thereby constantly contributes to the development of air transport in the Czech Republic. Undoubtedly, the allocation of free capacities among airlines belongs to the main concerns of the company. In addition, Airport provides space rental for commercial purposes and related activities such as parking. Company constantly works on further development and expansion of services. In 2011, International Air Transport Association awarded Prague Airport the prize for the most developing airport in the world.

(Prague Airport, 2015)

3.3.2. Principles

Apart from the company's main mission, there are also several basic acknowledged principles worth to mention. First of all, these values significantly contribute to the Airport's great performance and stability.

Security

Undoubtedly, the security related issues belong to the key factors in air transport all around the world. Safety in air space begins on the ground. Prague Airport aims to maintain the outstandingly safe environment for travelling. Enhanced level of security is provided by trained specialists, as well as the technological development and innovation.

Customer service

Airport emphasizes customer-oriented approach that results in mutual satisfaction. Every individual is treated in a professional friendly manner. Actually, during the year 2016 Prague Airport managed to handle 13 074 517 passengers, which indicates a growth of 8.7 % compared to the year 2015. (Vaclav Havel Airport Prague, 2017)

Competitiveness

Through creative and innovative thinking the company remains focused on fulfilling its desired targets. As the largest and most important international airport in the Czech Republic, Prague Airport successfully continues to develop and expand available services and spaces.

Responsibility

The company realizes how enormous influence it has not only on direct air transport participants but also on the airport surrounding areas. Social responsibility evokes many activities Prague Airport organizes to maintain a good relationship e.g. towards neighbourhoods and the overall environment.

Transparency

Prague Airport is responsible for all the decisions made on the basis of equal treatment of customers, trading partners, employees and others. The company handles every arisen situation in a professional trustworthy and respectful manner.

(Vaclav Havel Airport Prague, 2016)

3.3.3. Board of Directors

The leadership of Prague Airport, the joint stock company, is divided into the Board of Directors consisting of four members headed by the Chairman (currently represented by Václav Řehoř) and Supervisory Board containing three members appointed on 4 years.

3.3.4. History (2010-2015)

In order to be able to correctly evaluate the financial position and overall performance of the Prague Airport Company, there are several events worth mentioning. The following summary contains the historical moments that occurred particularly within the years 2010 and 2015. Obviously, the explanation of some basic events influencing Company's performance throughout past years helps to clarify the relationship between accounting numbers and particular situations, and thus to obtain the comprehensive frame about Airport's prosperity.

Year 2010

The Company's performance during 2010 was affected primarily by economic crisis that was on decline but otherwise significantly influenced the whole economic cycle. In spite of this fact, Prague Airport managed to handle 11 556 858 passengers. Furthermore, natural adverse effects had considerable impact on whole air transport industry. In the first half of the year, air transportation across the Europe was interrupted for a while, due to volcano eruption on Iceland. Before the end of a year, some European airports had to cancel many flights because of strong snowstorms. (Prague Airport, 2010)

Year 2011

Despite of struggling with unstable conditions in the air transport market, the Company performed quite well. As a proof of innovation and technological development, Prague Airport introduced automatic passport control system called Easy Go. This improvement significantly enhanced the capacity of handled passengers, because the whole process through this new gate takes only about twelve to twenty seconds. (Prague Airport, 2011)

Year 2012

Prague Airport officially became the part of a group owned by Czech Aeroholding and celebrated its 75th anniversary. Furthermore, the Company decided to start beekeeping because of biomonitoring of the environment. The produced honey reached the anticipated quality level and even more, this excellent product obtained an appropriate certification from Czech Beekeeping Association. (Prague Airport, 2012)

Year 2013

The government of the Czech Republic agreed to sell 460 725 pieces of Czech Aeroline's shares to Korean Air Lines Co. Such a business strategy contributed to the development of Prague Airport in sense of becoming an important transfer hub.

A launch of the first official Airport's Facebook profile evoked a significant progress in the field of publicity and communication. People can share their experiences and photographs there, as well as check the news from Prague Airport. (Prague Airport, 2013)

Year 2014

Ministry of Transport of the Czech Republic approved the implementation of new Security system. Besides, Prague Airport managed to win a second place in prestigious award "Highly Commended Airport" in a category of 4 – 20 million passengers within the framework of the conference called Routes Europe Marketing Awards 2014. (Prague Airport, 2014)

Year 2015

According to the modification of EU legislation, new security procedures associated with the cabin luggage control was additionally implemented. Furthermore, the Civil Aviation Authority executed the government quality control at Vaclav Havel Airport Prague.

(Prague Airport, 2015)

3.4. Literature Review

A lot of people are concerned with the topic of financial analysis and various issues associated. Vance (2002), as well as Friedlob (2003) examine this problematic and include a lot of practical examples there. However, the methods and some explanations can be misleading, because they both follow the Generally Accepted Accounting Principles (GAAP) – accounting standards applied mostly in the United States. Compared to Knápková (2013) along with Růčková (2015), both coming from the Czech Republic, who obey the rules based on the International Financial Reporting Standards (IFRS). Atlantis PC (2016) explains ratio analysis in detail, including the recommended values and formulas, whereas Picardo (2016) also emphasizes on thorough clarification of associated terms.

Eurocontrol (2016) concerns, apart from other activities with the environmental issues of aviation, similarly to International Civil Aviation Organization (2016) interested in environmental protection.

Royal Aeronautical Society (2013), Oxford Economics (2015), Florida Tech (2016) and Air Transport Action Group (2014) analyze the economic impacts influencing air transport industry, as well as the aspects of airports.

4. Practical part

4.1. Economic Analysis of Prague Airport

4.1.1. Earnings

The financial results are getting better from year to year and Airport manages to achieve the estimated level of earnings. As shown in Table 1, earnings decreased slightly between 2010 and 2012, mostly influenced by ending economic crisis and weather related adverse effects. Year 2012 recorded a significant downturn in operating results caused by the decrease of airlines operating at the Airport. Furthermore, organizational changes associated with the establishment of holding company impacted the performance as well. Since the beginning of 2013, the economic activity proceeded under the structure of Czech Aeroholding and the earnings have recorded a constant growth.

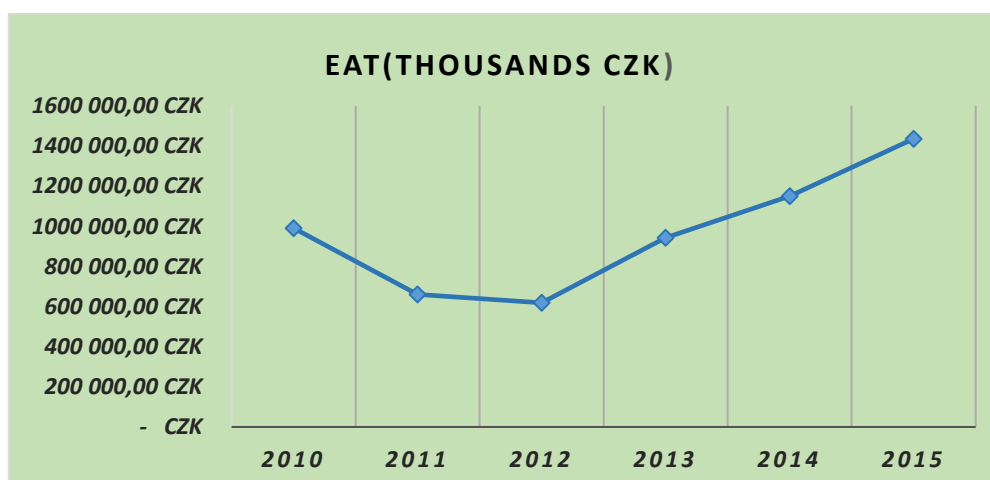
Table 1: Earnings after taxes (2010-2015)

Year	EAT (thousands CZK)
2010	990 741,00 CZK
2011	660 816,00 CZK
2012	618 507,00 CZK
2013	942 463,00 CZK
2014	1 149 585,00 CZK
2015	1 435 850,00 CZK

Source: own data processing; source of data: Prague Airport, 2016

Following Figure 1 visibly demonstrates the earnings fluctuations, particularly above mentioned growth within the years 2013 and 2015 can be clearly seen.

Figure 1: Earnings after taxes (2010-2015)



Source: own data processing; source of data: Prague Airport, 2016

4.1.2. Passengers

Last year, Prague Airport managed to handle over 13 million passengers, which means 8,7 percent growth compared to 2015. Enhanced capacity of aircrafts as well as the improvements made within terminals and gates will enable to transport even more people in the future.

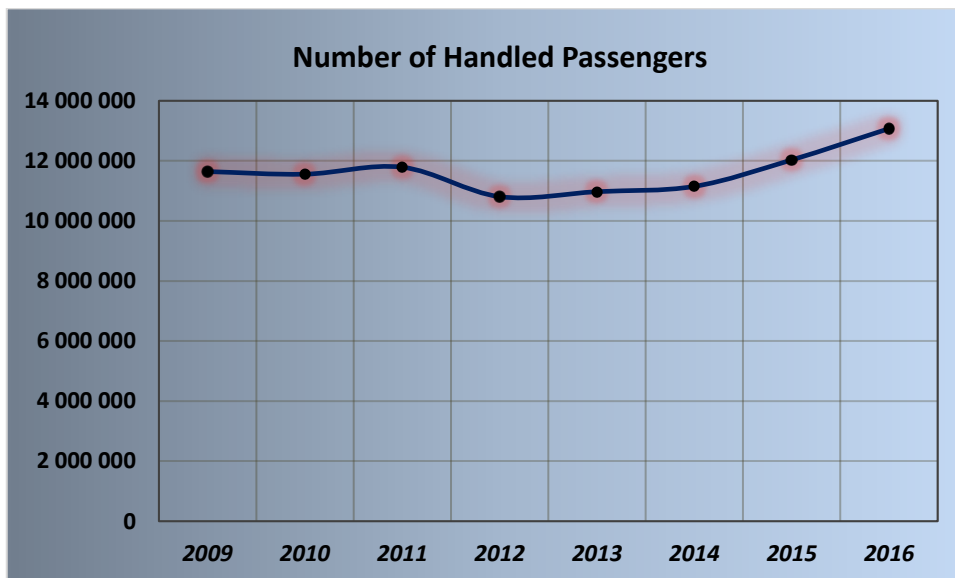
Table 2 demonstrates the Prague Airport passengers handled from 2009 to 2016, including information about percentage change against previous year. Following time series (Figure 2) visualizes the information contained in Table 2.

Table 2: Number of handled passengers

Year	Number of Passengers	Change
2009	11 643 858	-
2010	11 556 858	-0,7%
2011	11 788 629	2%
2012	10 807 890	-8,3%
2013	10 974 196	1,5%
2014	11 149 926	1,6%
2015	12 030 928	7,9%
2016	13 074 517	8,7%

Source: own data processing; source of data: Prague Airport, 2016

Figure 2: Number of handled passengers

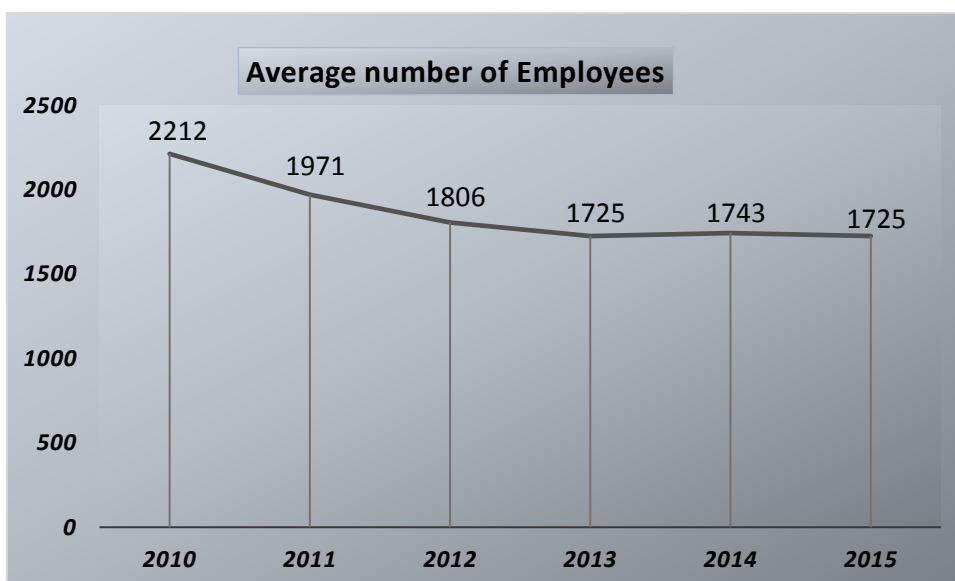


Source: own data processing; source of data: Prague Airport, 2016

4.1.3. Employment

Figure 3 below demonstrates a significant decrease in Prague Airport personnel between the years 2010 and 2013. In spite of this fact, the Company earnings started to grow again after the weaker performance in 2012. Definitely, this aspect indicates the higher productivity and efficiency of labour. However, the financial results appeared to be much higher in 2015, even though the average number of employees was the same as in 2013.

Figure 3: Average number of Prague Airport employees



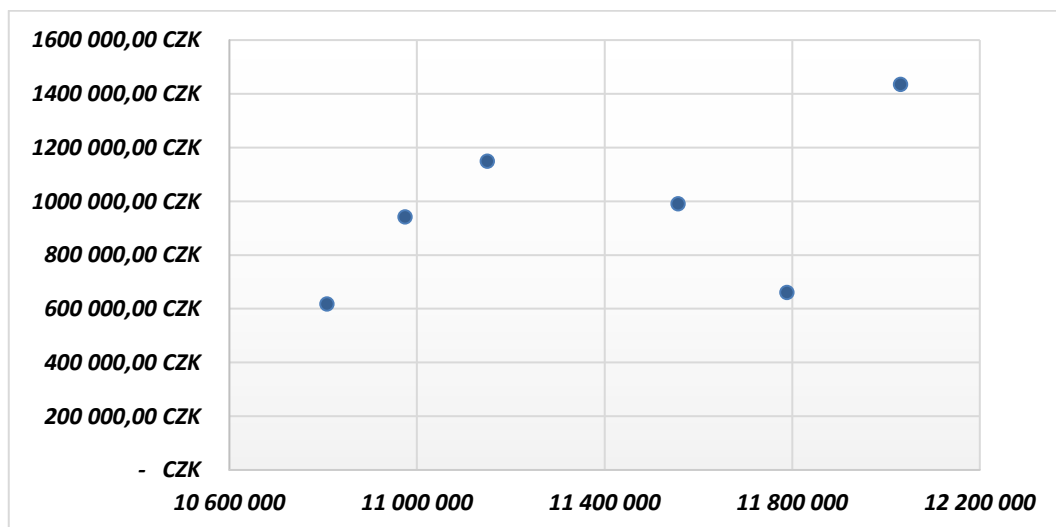
Source: own data processing; source of data: Prague Airport, 2016

4.2. Correlation analysis

Correlation analysis aims to determine the strength of a relationship between two or more variables. It is measured by so called coefficient of correlation that ranges from -1 to +1. The closer the value to -1 or 1, the stronger the relationship (positive or negative).

In this case, correlation indicates, whether there can be a relation between the number of handled passengers and company's net earnings.

Figure 4: Scatter plot



Source: own data processing; source of data: Prague Airport, 2016

Table 3: Correlation coefficient

Year	No.of Passengers	Earnings after tax (thousands)
2010	11 556 858	990 741,00 CZK
2011	11 788 629	660 816,00 CZK
2012	10 807 890	618 507,00 CZK
2013	10 974 196	942 463,00 CZK
2014	11 149 926	1 149 585,00 CZK
2015	12 030 928	1 435 850,00 CZK
	Correlation coefficient	0,475065468

Source: own data processing; source of data: Prague Airport, 2016

Table 3 above expresses the value of coefficient 0,475 that signifies moderate correlation.

This number indicates a positive moderate relationship between two selected variables – number of passengers and earnings after taxes.

4.3. Financial Analysis

Following financial analysis has been conducted on the basis of the information contained in Prague Airport income statement, balance sheet and cash flow statement. The original documents (2015) are attached in appendix at the end of this thesis. Unfortunately, current financial situation (2016) cannot be examined in detail, because the data provided by Prague Airport are available only up to the year 2015.

4.3.1. Profitability

Return on Assets (ROA)

$$ROA (2015) = \frac{EBIT}{Assets} = \frac{1\,787\,643}{9\,158\,023} = 0,1952$$

When considering the recommended value of ROA which is at least 8%, Prague Airport Company proved very good ability to generate earnings by assets because of ROA representing almost 20%.

Return on Equity (ROE)

$$ROE (2015) = \frac{EAT}{Equity} = \frac{1\,435\,850}{3\,948\,112} = 0,36368$$

Computed Return on equity indicates a value of 36%, which is a great result compared to the minimal requirement of 10%. This indicator shows the ability of Prague Airport to return on the money invested in the company. Of course, the higher the percentage, the better.

Return on Sales (ROS)

The ROS recommended value denotes above 10%. Prague Airport exceeded significantly the required minimum and reached 30% of Return on sales.

$$ROS (2015) = \frac{EBIT}{Sales\ revenue} = \frac{1\ 787\ 643}{5\ 968\ 409} = 0,29952$$

Revenue per Employee

Table 4: Revenue per Employee

Year	EBIT(thousands) / No. of employees	Revenue per employee (thousands CZK)
2011	828 896 / 1971	420,55 CZK
2012	773 596 / 1806	428,35 CZK
2013	1 174 362 / 1725	680,79 CZK
2014	1 435 411 / 1743	823,53 CZK
2015	1 787 643 / 1725	1 036,314 CZK

Source: own data processing; source of data: Prague Airport, 2016

4.3.2. Liquidity

The items composed in calculations below are denoted in thousands CZK. Generally, if computed liquidity shows the value greater than 1, the company is in a good financial health and its short term liabilities are fully covered. Therefore, Prague Airport is less likely to fall into financial troubles according to results represented below.

Current liquidity

$$\frac{Current\ assets}{Short\ term\ liabilities} = \frac{2\ 196\ 758}{510\ 445} = 4,30361$$

Quick liquidity

$$\frac{\text{Current assets} - \text{Inventories}}{\text{Short term liabilities}} = \frac{2\,196\,758 - 397\,845}{510\,445} = 3,5242$$

Cash liquidity

$$\frac{\text{Current financial assets}}{\text{Short term liabilities}} = \frac{1\,039\,130}{510\,445} = 2,03573$$

4.3.3. Leverage Ratios

In general, the higher the value, the more risky and indebted company. Usually, the values below 0.5 and less are considered ideal but of course, depends on industry. According to following computations, Prague Airport achieved very good results.

Leverage I

$$\frac{\text{long term liabilities}}{\text{Equity}} = \frac{212\,373}{3\,948\,112} = 0,05379$$

Leverage II

$$\frac{\text{Long term liabilities}}{\text{Assets}} = \frac{212\,373}{9\,158\,023} = 0,02318$$

Leverage III

$$\frac{\text{Long} + \text{Short term liabilities}}{\text{Assets}} = \frac{212\,373 + 510\,445}{9\,158\,023} = 0,0789$$

4.4. Comparison

Table 5: Selected European Airports (no. of passengers in 2016)

Airport	Number of Handled Passengers	Location
Berlin Brandenburg Airport	32,9 million	Germany
Bratislava Airport	1,76 million	Slovakia
Frankfurt Airport	60,8 million	Germany
Heathrow Airport	75,7 million	Great Britain
Charles de Gaulle Airport	65,9 million	France
Munich Airport	42,3 million	Germany
Vaclav Havel Airport Prague	13,08 million	Czech Republic
Vienna International Airport	23,4 million	Austria
Warsaw Chopin Airport	12,8 million	Poland

Source: own data processing

As shown in Table 5, when assessing the number of passengers handled within the year 2016, Western Europe significantly exceeds the other areas. People travel there mostly because of the business and related issues. Airports located in the east seem not to be so busy. Considering the number of population and size, Prague Airport manages to reach highly satisfying results. As the heart of the Europe, Czech Republic is becoming a necessary international transfer hub used by much more people all around the world than before.

5. Conclusion

Based on the thoroughly conducted economic and financial analysis, the achieved results confirmed that Prague Airport belongs to the successful and prospering companies comparable to other European airports. Overall performance evaluation indicated a very good financial health of the company, its strong position on the market and also significant progress made within past years. Annual earnings have been increasing again, as well as the number of passengers. Furthermore, Company managed to improve the productivity of labour by the reduction of employees. All the values computed by ratios significantly exceeded the recommended minimal percentages. Prague Airport is not expected to fall into the financial difficulties, because of its great ability to pay off the obligations. The company generates earnings high enough to be able to put annually a part of money to the reserve fund.

Undoubtedly, main advantage lies in Prague Airport's future potential expansion and further development, because the size of area enables the possibility to accept more aircrafts.

Future predictions indicate the continuing growth in the number of handled passengers and revenues. Enhanced capacity of aircraft as well as the improvements made within terminals and gates will enable to transport even more people in the future and thus increase earnings.

The aims of the thesis defined in the beginning were completely fulfilled, because the financial and economic examination of Prague Airport Company was successfully accomplished and evaluated.

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7. Appendix

List of attachments

Document 1: Prague Airport – Income statement 2015

Document 2: Prague Airport – Balance sheet 2015 (Assets)

Document 3: Prague Airport – Balance sheet 2015 (Equity + Liabilities)

Document 4: Prague Airport – Cash flow statement 2015

Document 1: Prague Airport – Income statement 2015

LETIŠTĚ PRAHA, A. S.

VÝKAZ ZISKU A ZTRÁTY V DRUHOVÉM ČLENĚNÍ

ZA OBDOBÍ OD 1.1.2015 DO 31.12.2015 (V TISÍCÍCH KČ)

		Období do 31.12.2015	Období do 31.12.2014
I.	Tržby za prodej zboží	15 942	14 990
A.	Náklady vynaložené na prodané zboží	8 521	8 570
+	Obchodní marže	7 421	6 420
II.	Výkony	5 968 409	5 675 863
1.	Tržby za prodej vlastních výrobků a služeb	5 927 958	5 643 438
2.	Změna stavu zásob vlastní činnosti	38 663	25 060
3.	Aktivace	1 788	7 365
B.	Výkonová spotřeba	2 740 772	2 758 587
1.	Spotřeba materiálu a energie	411 051	427 451
2.	Služby	2 329 721	2 331 136
+	Přidaná hodnota	3 235 058	2 923 696
C.	Osobní náklady	1 049 152	1 075 459
1.	Mzdové náklady	733 098	746 946
2.	Odměny členům orgánů obchodní korporace	13 527	21 345
3.	Náklady na sociální zabezpečení a zdravotní pojištění	255 142	259 211
4.	Sociální náklady	47 385	47 957
D.	Daně a poplatky	1 429	1 705
E.	Odpisy dlouhodobého nehmotného a hmotného majetku	369 806	361 842
III.	Tržby z prodeje dlouhodobého majetku a materiálu	54 235	61 833
1.	Tržby z prodeje dlouhodobého majetku	6 735	4 895
2.	Tržby z prodeje materiálu	47 500	56 938
F.	Zůstatková cena prodaného dlouhodobého majetku a materiálu	44 260	55 099
1.	Zůstatková cena prodaného dlouhodobého majetku	377	1 890
2.	Prodaný materiál	43 883	53 209
G.	Změna stavu rezerv a opravných položek v provozní oblasti a komplexních nákladů příštích období	-27 752	-508
IV.	Ostatní provozní výnosy	26 089	30 822
H.	Ostatní provozní náklady	95 489	102 259
*	Provozní výsledek hospodaření	1 782 998	1 420 495
X.	Výnosové úroky	2 615	3 865
N.	Nákladové úroky	9	7
XI.	Ostatní finanční výnosy	10 914	15 764
O.	Ostatní finanční náklady	8 875	4 706
*	Finanční výsledek hospodaření	4 645	14 916
Q.	Daň z příjmů za běžnou činnost	351 793	285 826
1.	- splatná	364 228	298 258
2.	- odložená	-12 435	-12 432
**	Výsledek hospodaření za běžnou činnost	1 435 850	1 149 585
***	Výsledek hospodaření za účetní období (+/-)	1 435 850	1 149 585
****	Výsledek hospodaření před zdaněním	1 787 643	1 435 411

Document 2: Prague Airport – Balance sheet 2015 (Assets)

LETIŠTĚ PRAHA, A. S.
ROZVAHA V PLNÉM ROZSAHU
K DATU 31.12.2015 (V TISÍCÍCH KČ)

		31.12.2015			31.12.2014
		Brutto	Korekce	Netto	Netto
	AKTIVA CELKEM	9 158 023	-4 327 228	4 830 795	4 574 429
B.	Dlouhodobý majetek	6 517 389	-4 306 554	2 210 835	2 184 354
B.I.	Dlouhodobý nehmotný majetek	55 500	-33 932	21 568	12 026
	3. Software	29 721	-25 764	3 957	6 117
	4. Ocenitelná práva	19 765	-8 168	11 597	1 849
	6. Jiný dlouhodobý nehmotný majetek	4 350		4 350	4 060
	7. Nedokončený dlouhodobý nehmotný majetek	1 664		1 664	
B.II.	Dlouhodobý hmotný majetek	6 461 889	-4 272 622	2 189 267	2 172 328
	2. Stavby	1 116 146	-184 349	931 797	812 537
	3. Samostatné hmotné movité věci a soubory hmotných movitých věcí	5 275 263	-4 088 273	1 186 990	1 220 660
	6. Jiný dlouhodobý hmotný majetek	67		67	67
	7. Nedokončený dlouhodobý hmotný majetek	70 413		70 413	139 064
C.	Oběžná aktiva	2 196 758	-20 674	2 176 084	1 952 171
C.I.	Zásoby	397 845	-6 844	391 001	362 597
	1. Materiál	38 095	-6 844	31 251	36 776
	2. Nedokončená výroba a polotovary	356 447		356 447	323 134
	3. Výrobky	1 055		1 055	77
	4. Mladá a ostatní zvířata a jejich skupiny	688		688	657
	5. Zboží	1 545		1 545	1 664
	6. Poskytnuté zálohy na zásoby	15		15	289
C.III.	Krátkodobé pohledávky	759 783	-13 830	745 953	669 661
	1. Pohledávky z obchodních vztahů	658 114	-13 768	644 346	565 192
	6. Stát - daňové pohledávky	28 352		28 352	37 200
	7. Krátkodobé poskytnuté zálohy	38 140		38 140	39 069
	8. Dohadné účty aktivní	32 877		32 877	26 434
	9. Jiné pohledávky	2 300	-62	2 238	1 766
C.IV.	Krátkodobý finanční majetek	1 039 130		1 039 130	919 913
	1. Peníze	5 454		5 454	3 421
	2. Účty v bankách	1 033 676		1 033 676	916 492
D.I.	Časové rozlišení	443 876		443 876	437 904
	1. Náklady příštích období	442 043		442 043	434 100
	3. Příjmy příštích období	1 833		1 833	3 804

Document 3: Prague Airport – Balance sheet 2015 (Equity + Liabilities)

LETIŠTĚ PRAHA, A. S.
ROZVAHA V PLNÉM ROZSAHU
K DATU 31.12.2015 (V TISÍCÍCH KČ)

		31.12.2015	31.12.2014
	PASIVA CELKEM	4 830 795	4 574 429
A.	Vlastní kapitál	3 948 112	3 661 847
A.I.	Základní kapitál	2 512 227	2 512 227
	1. Základní kapitál	2 512 227	2 512 227
A.II.	Kapitálové fondy	35	35
	2. Ostatní kapitálové fondy	35	35
A.V.1.	Výsledek hospodaření běžného účetního období (+/-)	1 435 850	1 149 585
B.	Cizí zdroje	825 003	783 625
B.I.	Rezervy	102 185	95 897
	3. Rezerva na daň z příjmů	87 322	87 908
	4. Ostatní rezervy	14 863	7 989
B.II.	Dlouhodobé závazky	212 373	213 150
	1. Závazky z obchodních vztahů	76 600	64 942
	10. Odložený daňový závazek	135 773	148 208
B.III.	Krátkodobé závazky	510 445	474 578
	1. Závazky z obchodních vztahů	203 262	236 085
	5. Závazky k zaměstnancům	51 965	57 361
	6. Závazky ze sociálního zabezpečení a zdravotního pojištění	28 921	29 648
	7. Stát - daňové závazky a dotace	14 572	16 008
	8. Krátkodobé přijaté zálohy	30 748	13 563
	10. Dohadné účty pasivní	178 768	119 526
	11. Jiné závazky	2 209	2 387
C.I.	Časové rozlišení	57 680	128 957
	1. Výdaje příštích období	31 946	88 695
	2. Výnosy příštích období	25 734	40 262

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 Auditor
 evidenční č. 2030

Document 4: Prague Airport – Cash flow statement 2015

LETIŠTĚ PRAHA, A. S.
PŘEHLED O PENĚŽNÍCH TOCÍCH
ZA OBDOBÍ OD 1.1.2015 DO 31.12.2015 (V TISÍCÍCH KČ)

	Období do 31.12.2015	Období do 31.12.2014
Peněžní toky z provozní činnosti		
Účetní zisk (+) / ztráta (-) z běžné činnosti před zdaněním	1 787 643	1 435 411
A.1 Úpravy o nepeněžní operace:	366 848	355 380
A.1.1 Odpisy stálých aktiv a pohledávek	403 640	362 866
A.1.2 Změna stavu opravných položek a rezerv	-27 752	-508
A.1.3 Zisk (-) / ztráta (+) z prodeje stálých aktiv	-6 358	-3 005
A.1.5 Vyúčtované nákladové (+) a výnosové (-) úroky	-2 606	-3 858
A.1.6 Úpravy o ostatní nepeněžní operace	-76	-115
A* Čistý peněžní tok z provozní činnosti před zdaněním, změnami pracovního kapitálu a mimořádnými položkami	2 154 491	1 790 791
A.2 Změny stavu nepeněžních složek pracovního kapitálu:	-127 268	52 985
A.2.1 Změna stavu pohledávek a přechodných účtů aktiv	-92 712	131 387
A.2.2 Změna stavu krátkodobých závazků a přechodných účtů pasiv	-9 014	-86 959
A.2.3 Změna stavu zásob	-25 542	8 557
A** Čistý peněžní tok z provozní činnosti před zdaněním a mimořádnými položkami	2 027 223	1 843 776
A.3 Úroky vyplacené	-9	-7
A.4 Úroky přijaté	2 615	3 865
A.5 Zaplacená daň z příjmů za běžnou činnost	-364 814	-263 537
A*** Čistý peněžní tok z provozní činnosti	1 665 015	1 584 097
Peněžní toky z investiční činnosti		
B.1 Výdaje spojené s nabytím stálých aktiv	-402 295	-406 194
B.2 Příjmy z prodeje stálých aktiv	6 735	4 895
B*** Čistý peněžní tok z investiční činnosti	-395 560	-401 299
Peněžní toky z finanční činnosti		
C.1 Změna stavu dlouhodobých a krátkodobých závazků	-653	2 588
C.2 Změna stavu vlastního kapitálu:	-1 149 585	-953 754
C.2.1 Zvýšení peněžních prostředků z titulu zvýšení základního kapitálu		52 061
C.2.6 Vyplacené dividendy [podíly na zisku]	-1 149 585	-1 005 815
C*** Čistý peněžní tok z finanční činnosti	-1 150 238	-951 166
Čisté zvýšení / snížení peněžních prostředků a peněžních ekvivalentů	119 217	231 632
Stav peněžních prostředků a peněžních ekvivalentů na počátku roku	919 913	688 281
Stav peněžních prostředků a peněžních ekvivalentů na konci roku	1 039 130	919 913