

ANNUAL REPORT

2017



Identification details	3
Company profile	4
Major events for 2017	5
Human resources	6
Ownership interests	7
Report of Board of Directors on the Company's business activities and the state of its assets for 2017	8
Report of the Board of Directors SAZKA a.s. on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity	10
List of related parties as at 31 December 2017	13
Financial statements for the year ended 31 December 2017	20
Notes to the financial statements - Contents	25
Notes to the financial statements	26
Independent Auditor's Report to the Shareholder of SAZKA a.s.	75

SAZKA a.s.

Registered office: Prague 9, K Žižkovu 851, Postal Code 190 93

Id. No.: 26493993 Tax Id. No.: CZ699003312

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section B, File No. 7424

Principal activities:

- a) manufacture, trade and services not defined in Appendices 1 to 3 to the Trades Licensing Act;
- b) operation of lotteries and other similar games in accordance with the generally binding legal regulations;
- c) assembly, repairs, revisions and tests of electrical equipment;
- d) manufacture, installation, repairs of electrical machines and instruments, electronic and telecommunication facilities;
- e) accounting advisory services, bookkeeping services, tax services;
- f) filing service management;
- g) performance of communication activities pursuant to Act No. 127/2005 Coll., on Electronic Communications and on Amendment to Certain Related Acts – Business Activities in Electronic Communications;
- h) provision of small-scale payments services pursuant to Act No. 284/2009 Coll., on Payment Systems, as amended.

Principal activities:

- a) lease of real estate, flats and non-residential premises.

SAZKA a.s. ("the Company") is a member of the group with its managing entity SAZKA Group a.s., with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Id. No.: 24287814. The Company is controlled by SAZKA Group a.s. indirectly, through its parent company SAZKA Czech a.s., with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Id. No.: 24852104. SAZKA a.s. is the oldest lottery company in the Czech Republic.

The Company's key lottery products include number lotteries, with Sportka being its best-known game. In addition to number lotteries, the Company's product portfolio relating to games of chance includes scratch tickets and betting. Another pillar consists of non-lottery products, primarily based on the services of the SAZKA-mobil mobile operator, on topping up pay-as-you-go mobile phones and selling tickets for events.

The Company provides its products in particular through a unique sales network with more than seven thousand points of sale located in the Czech Republic.

The Company is a fully-fledged member of the European Lotteries (EL) and the World Lottery Association (WLA) – the biggest and most influential international organisations.

The Company adheres to and promotes the principles of responsible gaming and ethical principles in the betting and lottery industries. The Company develops and endorses these activities at both national and international levels.

The Company performs no research and development activities.

In its activities, the Company complies with the principles of environmental protection, as well as employment regulations.

The Company is a stabilised company and will continue to actively strive to strengthen its position in the Czech lotteries market.

ENTRIES IN THE COMMERCIAL REGISTER

The change in the home address of Pavel Šároch, the chairman of the Board of Directors: an entry in the Commercial Register was made on 25 August 2017. Martin Škopek, a member of the Board of Directors was deleted from the Commercial Register on 30 November 2017.

A merger by acquisition of SAZKA a.s. and Fsázky a.s. was registered on 1 December 2017.

COMPOSITION OF TOP MANAGEMENT BODIES

Board of Directors:

Pavel Šároch, chairman – member of the Board of Directors A

Pavel Horák, vice-chairman – member of the Board of Directors B Robert Chvátal, member of the Board of Directors A

Martin Škopek, member of the Board of Directors A (till 31 October 2017) Kamil Ziegler, member of the Board of Directors A

David Havlín, member of the Board of Directors B

Supervisory board:

Tomáš Porupka, chairman of the Supervisory Board

Robert Kolář, member of the Supervisory Board

Petr Stöhr, member of the Supervisory Board

The sole shareholder, executing the powers of the general meeting dated 17 October 2017, dismissed Mr. Martin Škopek as a member of the Board of Directors with effect from 31 October 2017.

Based on the merger by acquisition project dated 23 October 2017 there was a merger during which SAZKA a.s., as a successor company, was transferred the assets and liabilities of the dissolving company Fsázky a.s., with its registered office at K Žižkovu 851/4, Vysočany, 190 00 Prague 9, Id. No.: 285 08 815. The merger became effective from 1 December 2017; at that date an entry was made in the Commercial Register.

At the beginning of last year, Act No. 186/2016 Coll., on Games of Chance (“the Games of Chance Act”), introducing a number of changes in the operation of games of chance, became effective. Simultaneously, two other related acts were adopted: Act No. 187/2016 Coll., on tax on games of chance; and a summary amendment No. 188/2016 Coll., implementing the amendments to the Games of Chance Act in other regulations.

The new Games of Chance Act substituted previous Act No. 202/1990 Coll., on Lotteries and other Similar Games.

In 2017 the Company obtained, based on the Games of Chance Act, a basic permit to operate lotteries, under which it operates number and internet number lotteries including supplementary lotteries, in addition to instant lotteries and internet instant lotteries. The Company also obtained a basic permit to operate technical games on the internet.

- On 20 March 2017 the Company launched “Digital Entertainment Hub” (“DEH”) that finally enabled on-line betting for Sportka, Euromiliony, Eurojackpot and Kasička lotteries. On 6 April 2017 the offer of online betting expanded with online scratch tickets.
- In April 2017 SAZKA KLUB – a loyalty programme for betters in traditional retail – was launched.
- 3 advertising campaigns of the Company were ranked in TOP 5 of the European Lotteries Advertising Awards.
- The Company took over the portfolio of lottery tickets of Fsázky a.s.
- SAZKAmobil started to offer mobile data based on the LTE technology.
- The Company started charging PaySafeCard.
- The Company obtained a WLA responsible gaming certificate – level 4, i.e. the highest level of WLA Responsible Gaming certification. This is the highest level of evaluation that can be achieved in responsible gaming in EL and WLA, international associations.

The ongoing development of the Company's business and implementation of new activities entailed an increase in the number of employees.

Number of employees:

As at 31 December 2016 – 352

As at 31 December 2017 – 394

IGT Czech Republic LLC

(as at 10 February 2017: change of the business name, formerly GTECH Czech Republic LLC, a limited liability company)

Registered office:	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle region, Delaware 19801, USA
Ownership interest of SAZKA a.s.:	63%

SALEZA, a.s.

	Id. No.: 47116307
	The Company is recorded in the Commercial Register maintained by the Municipal Court in Prague, file number B 1855, on 15 February 1993
Registered office:	Prague 9, K Žižkovu 851, Postal Code 190 93
Registered capital:	CZK 1 399 600 000
Ownership interest of SAZKA a.s.:	98.1%

Based on the resolution of the Municipal Court in Prague, ref. No. MSPH 60 INS 628/2011-B-244 dated 27 May 2011, bankruptcy was adjudicated against the debtor's assets. The decision became effective on 30 May 2011 at 11:52 a.m.

Fsázky a.s.

	Id. No.: 28508815
	The Company is recorded in the Commercial Register maintained by the Municipal Court in Prague, file number B 14936, on 15 January 2009
Registered office:	K Žižkovu 851/4, Vysočany, 190 00 Prague 9
Registered capital:	CZK 100 000 000
Ownership interest of SAZKA a.s.:	100% (since 23 May 2017)

Based on the merger by acquisition project dated 23 October 2017 there was a merger during which SAZKA a.s., as a successor company, was transferred the assets and liabilities of the dissolving company Fsázky a.s., with its registered office at K Žižkovu 851/4, Vysočany, 190 00 Prague 9, Id. No.: 285 08 815. The merger became effective from 1 December 2017; at that date an entry was made in the Commercial Register.

The Company has no branch or any other part of its business enterprise abroad.

In 2017, SAZKA a.s. continued to engage especially in the operation of games of chance. The Company's principal business activities comprise the operation of number and instant lotteries, and fixed-odds betting.

In 2017, the Company also continued to promote its non-lottery activities, especially through SAZKA mobil, its virtual mobile operator.

In its meetings, the Company's Board of Directors mainly dealt with the Company's financial management and achieving short-term and long-term goals concerning the Company's business activities.

In 2017, the Company generated profits of CZK 1 183 495 thousand. Sales from the Company's deposits amounted to CZK 12 699 408 thousand.

The Company's assets and liabilities as at 31 December 2017 amounted to:

- Non-current assets amounted to CZK 12 579 639 thousand, of which non-current intangible assets totalled CZK 2 196 876 thousand, property, plant and equipment amounted to CZK 717 910 thousand and goodwill amounted to CZK 9 636 122 thousand.
- Current assets amounted to CZK 1 327 044 thousand, of which receivables amounted to CZK 283 747 thousand, current financial assets and cash and cash equivalents to CZK 1 008 754 thousand.

As at 31 December 2017 the Company's equity amounted to CZK 5 049 405 thousand and liabilities including external resources amounted to CZK 8 857 278 thousand.

ASSESSMENT OF THE COMPANY'S MAIN ACTIVITIES IN 2017:

GAMES OF CHANCE

Number lotteries

Number lottery bets were drawn primarily thanks to Sportka, which recorded a 5% year-on-year increase in bets, primarily thanks to a high level of Superjackpot in the long-term, a successful extraordinary betting with a record on the Friday of 13 October 2017 and also thanks to a supplementary game "Stokrát 2 milioný" ("2 million one hundred times"). After years of stagnation, Euromiliony and Kasička lotteries recorded extraordinary growth thanks to a new option of online betting.

Scratch tickets

Total sales from scratch tickets reached MCZK 2 175 (a 25% year-on-year increase) in 2017. The market share including the portfolio taken from Fsázky a.s. achieved more than 82%.

Betting

In 2017, fixed-odds betting was launched on a new platform, which significantly increased the number of pre-game and live betting. In addition, new innovative functions were launched, e.g. early cashout (preliminary payment of winnings), AKO bonus (increase of winnings in respect of AKO bets) or a significant increase in the number of live video transmissions.

Online

The share of online bets in respect of number lotteries fulfilled the expectations. The offer of online betting tickets thanks to a number of interesting issues in various price categories became popular with the betters.

CRM

During 2017, the Company started direct communication with gamers thanks to their registration in DEH and Sazka Klub. Preparation for the launch of new tools – Campaign Management Tool and Web Analytics Tool – was completed.

Non-lottery activities

In May 2017, SAZKA mobil, a mobile operator, updated its offer. The offer was adjusted in line with the EU regulation for roaming, data services with high-speed connection LTE started to be offered and a new Remuneration for crediting was added – a credit of CZK 50. SAZKA mobil continues to be the biggest virtual operator on the Czech market.

In May 2017, the Company in cooperation with SAZKA FTS a.s. and Air Bank a.s. transformed the service “Výběr z banky” (“Bank Withdrawal”) to the Cash Advance model. The service is now available at more than 1 500 points of sale. A new service – PaySafeCard was introduced.

Sales network

The Company provides its products through a unique sales network, containing approximately 7 592 branches. At these selling points the Company provides its full product portfolio. In addition, the sales network is supplied with the Lottery Inside network, offering 3 910 points of sale with 9 036 counters and cash registers, where four core games of the Company can be bet, i.e. Sportka, Eurojackpot, Šťastných 10 and Euromiliony. The Lottery Inside network is operated at PENNY, COOP, Česká pošta, TESCO and GECO chains. During 2017, optimisation and expansion of the basic selling network continued. As part of the optimisation, 960 terminals were established or transferred, i.e. 13% of the total amount.

Security certificates

The Company confirms the compliance with all requested security standards and after a successful re-certification still holds two internationally recognised certifications attesting to the application and continued development of the information security management system (ISMS). These include the ISO/IEC 27001 standard and the SCS (Security Control Standard), an internationally recognised standard in the area of security in the gaming industry granted by the WLA (World Lottery Association).

IT

A significant step in terms of IT was the launch of sazka.cz, a new game portal (the DEH project), including the creation of infrastructure and organisational structures for system and application support.

To support business decisions and CRM processes, the base is developed in the data warehouse and in the new business-oriented reporting.

All technology of the primary nod of the data centre was transferred to the modern operation of SafeDX s.r.o.

In addition, a system integration of F-Sázky was performed.

Last but not least, IT organisation was strengthened to support standard ITIL processes in particular in the areas of business analysis, services management and IT operation.

Risk management

The Company annually identifies and assesses risks according to the degree of severity and probability of occurrence. Risks are recorded in the catalogue of risks and measures for mitigating risks in the risk mitigation plan.

Risk management was confirmed by an external auditor as part of the WLA-SCS and ISO 27001 certification and complies with ISO/IEC 27001:2013, WLA-SCS:2012 and ISO/IEC 31000:2009 standards.

Financial instruments

In 2017, the Company used financial instruments of the money market to appreciate temporarily free funds with an average maturity period of one month and with revenue derived from the PRIBID rate valid for the relevant time period. In addition, the Company entered into hedging derivatives (interest rate swaps) to mitigate interest rate risks from the bank loans drawn.

V Praze, dne 27. March. 2018



Robert Chvátal
Chief Executive Officer
and member of the Board of Directors A
SAZKA a.s.



Pavel Horák
Vice-chairman
and member of the Board of Directors B
SAZKA a.s.

Report of the Board of Directors of SAZKA a.s. on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity

SAZKA a.s., with its registered office in Prague 9, at K Žižkovu 851, Postal Code 190 93, Id. No.: 26493993, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 7424 (hereinafter the “Company”) was a controlled entity within the meaning of Section 74 et seq. of Act No. 90/2012 Coll., on Companies and Co-operatives (hereinafter the “Corporations Act”) in the accounting period from 1 January 2017 to 31 December 2017 (hereinafter the “Accounting Period”).

In compliance with Section 82 of the Corporations Act, the Board of Directors of the Company, as a controlled entity, prepared this Report on Relations between the controlling and controlled entities, and between the controlled entity and entities controlled by the same controlling entity (hereinafter the “Report on Relations” and “Related Parties”) for the past Accounting Period. The classification applied in the Report on Relations is based on Section 82 (2) and (4) of the Corporations Act.

1. Structure of relations between the Company and other related parties

The Company is a member of a group managed by SAZKA Group a.s., a company with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Id. No.: 24287814, recorded in the Commercial Register kept by the Municipal Court in Prague, Section B, File 18161; simultaneously, SAZKA Group a.s. is a controlling entity pursuant to Section 79 (3) of the Corporations Act.

SAZKA Group a.s. controls the Company indirectly, through SAZKA Czech a.s., a parent company, with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Id. No.: 24852104, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 18644.

The list of all Related Parties (with respect to the Company) is attached to this Report on Relations as an appendix.

2. Role of the Company

The Company plays an important role within the SAZKA Group: it is the biggest lottery company in the Czech Republic. The principal activities are the operation of lotteries and other similar games in accordance with the generally binding legal regulations, i.e. the operation of instant and number lotteries, sports and fixed-odds betting and other similar games in accordance with Act No. 186/2016 Coll., on Games of Chance. In addition to lottery and betting activities, the Company also performs non-lottery business activities through its points of sale and terminals.

3. Method and means of controls

The Company is controlled through a 100% share in voting rights at the Company's General Meeting.

4. Summary of important acts

During the Accounting Period, the Company performed the following acts at the instigation or in the interest of Related Parties, where the acts concern property exceeding 10% of the Company's equity capital ascertained from the last financial statements, specifically under the following agreements:

- CASH POOLING AGREEMENT with KKCG Structured Finance AG of 31 May 2016 (continuous depositing of available cash).

5. Overview of mutual contracts

The following agreements and contracts were concluded by and between the Company and Related Parties during the Accounting Period:

- AGREEMENT ON TERMINATION OF GUARANTEE AGREEMENT DATED 23 OCTOBER 2014 with KKCG AG and other entities of 30 June 2017;
- AGREEMENT ON TERMINATION OF PATRONAGE AGREEMENT DATED 23 OCTOBER 2014 with KKCG AG and other entities of 1 August 2017;
- AGREEMENT ON TERMINATION OF CALL OPTION AND GUARANTEE AGREEMENT DATED 23 OCTOBER 2014 with KKCG AG and other entities of 22 December 2017;
- AGREEMENT ON TERMINATION OF PATRONAGE AGREEMENT DATED 17 AUGUST 2016 with Emma Gamma Limited, KKCG AG and other entities of 22 December 2017;
- AGREEMENT ON TERMINATION OF PATRONAGE AGREEMENT DATED 1 AUGUST 2017 with KKCG Structured Finance AG of 22 December 2017;
- CALL OPTION AND GUARANTEE AGREEMENT with SAZKA Group a.s. and other entities of 22 December 2017;

- PATRONAGE AGREEMENT with SAZKA Group a.s. and other entities of 22 December 2017;
- Business Cooperation Agreement with Cestovní kancelář FISCHER, a.s. of 20 July 2017;
- Amendment No. 2 to the Cooperation Contract with Conectart s.r.o. of 1 January 2017;
- Contract for Lease of Premises Intended for Business Purposes with Conectart s.r.o. of 27 April 2017;
- Amendment No. 1 to the Contract for Lease of Premises Intended for Business Purposes with Conectart s.r.o. of 15 June 2017;
- Agreement on Termination of Contract on Provision of Services with Conectart s.r.o. of 9 June 2017;
- Contract on Provision of Services with DataSpring s.r.o. of 28 November 2017;
- Cooperation Contract with Kavárna štěstí s.r.o. of 2 January 2017;
- Contract on the Procurement of Services with Kavárna štěstí s.r.o. of 15 February 2017;
- PATRONAGE AGREEMENT with KKCG Structured Finance AG and other entities of 1 August 2017;
- Confidentiality agreement with MND a.s. of 13 October 2017;
- Business Cooperation Agreement with MND a.s. of 19 October 2017;
- Amendment No. 2 to the Contract for Comprehensive Services for Supplies of Gas with MND a.s. of 25 August 2017;
- Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 20 December 2017;
- Contract on the Provision of Services with SafeDX s.r.o. of 21 July 2017;
- Amendment No. 1 to the Contract for Lease of Premises Intended for Business Purposes with SPORTLEASE a.s. of 24 January 2017;
- Agreement for Payment of Fee for Professional Courses with SAZKA FTS a.s. and other entity of 6 February 2017;
- Agreement for Payment of Fee for Professional Courses with SAZKA FTS a.s. and other entity of 6 February 2017;
- Agreement for Payment of Fee for Organising Professional Courses with SAZKA FTS a.s. and other entity of 14 March 2017;
- Amendment No. 1 to the Business Agency Agreement with SAZKA FTS a.s. of 17 May 2017;
- Agreement on Termination of Contract for Provision of Services – training of terminal attendants on the circulation of bank-notes and coins with SAZKA FTS a.s. and other entity of 20 December 2017.

The following agreements concluded by and between the Company and Related Parties prior to the Accounting Period continued to be effective throughout the Accounting Period:

- Business Cooperation Agreement with Cestovní kancelář FISCHER, a.s. of 7 March 2016;
- Tourism Cooperation Agreement with Cestovní kancelář FISCHER, a.s. of 28 May 2012;
- Cooperation Contract with Cestovní kancelář FISCHER, a.s. of 30 August 2012;
- Contract on Adjustment of Relations within the VAT group with Cestovní kancelář FISCHER, a.s. of 17 December 2013, as amended by Amendment No. 1 s MND a.s. and Cestovní kancelář FISCHER, a.s.;
- Framework Advisory Services Agreement with KKCG a.s. effective from 1 January 2016;
- Contract for Comprehensive Services for Supplies of Gas with MND a.s. of 8 December 2015 as amended by Amendment No. 1 a 2;
- Contract for Lease of Premises Intended for Business Purposes with SAZKA FTS a.s. of 1 August 2016;
- Contract for Lease of Premises Intended for Business Purposes with Kavárna štěstí s.r.o. of 1 August 2016;
- Contract for Provision of Security Services with Kynero Consulting a.s. of 1 August 2015;
- Cooperation Contract with Conectart s.r.o. of 7 February 2014, as amended by Amendment No. 1 a 2;
- Contract on Provision of Services with Conectart s.r.o. of 1 July 2013 (terminated on 9 June 2017);
- Contract for Lease of Premises Intended for Business Purposes with DataSpring s.r.o. of 21 February 2014, as amended by Amendments No. 1 to 5;
- Contract for the Supply and Implementation of Hardware and Provision of Services of Communication System of Unified Communication and Servicing with DataSpring s.r.o. of 29 May 2015;
- Contract for the Supply and Implementation of Hardware and Software for Backup, including Maintenance with DataSpring s.r.o. of 20 October 2015;
- Framework Agreement on Consultancy Services with DataSpring s.r.o. of 30 June 2014;
- Non-disclosure and Confidentiality Agreement with DataSpring s.r.o. of 4 November 2015;
- Contract for the Preparation of Accounting Records, Financial Statements and Tax Returns with SAZKA FTS a.s. of 17 December 2015;
- Contract on the Provision of Services with SAZKA FTS a.s. of 17 December 2015;
- Business Agency Agreement with SAZKA FTS a.s. of 15 December 2015 as amended by Amendment No. 1;

- Contract for Lease of Premises Intended for Business Purposes with SPORTLEASE a.s. of 1 March 2012 as amended by Amendment No. 1;
- Agreement to Keep Accounts and Associated Agenda with SPORTLEASE a.s. of 28 April 2003, as amended by Amendment No. 1;
- Non-disclosure and Confidentiality Agreement with Springtide Ventures s.r.o. of 3 June 2015;
- Non-disclosure and Confidentiality Agreement with Springtide Ventures s.r.o. of 27 November 2015;
- FACILITY AGREEMENT with KKCG AG of 19 September 2013 as amended by Amendment No. 1 with KKCG AG and Emma Gamma Limited (transfer from KKCG AG and Emma Gamma Limited to SAZKA Group a.s. on 22 December 2017);
- PATRONAGE AGREEMENT with Emma Gamma Limited, KKCG AG and other entities of 17 August 2016 (terminated on 22 December 2017);
- CALL OPTION AND GUARANTEE AGREEMENT with KKCG AG and other entities of 23 October 2014 (terminated on 22 December 2017);
- GUARANTEE AGREEMENT with KKCG AG and other entities of 23 October 2014 (terminated on 30 June 2017);
- PATRONAGE AGREEMENT with KKCG AG and other entities of 23 October 2014 (terminated on 1 August 2017).

6. Assessment of damage incurred and its settlement

All the above-specified legal acts were performed within the ordinary course of business under conditions usual in business and the Company was provided with corresponding consideration for all performance provided by the Company under the above-listed contracts and agreements, i.e. the Company incurred no damage from relations with Related Parties in the Accounting Period.

7. Assessment of advantages and disadvantages arising from relations with Related Parties

Being part of the SAZKA Group with SAZKA Group a.s. as the managing person, allows the Company to benefit, in particular, from the shared know-how and information (to the extent permitted by law and contractual arrangements with third parties), and provides the Company with the possibility to access intra-group and bank financing (e.g. Related Parties can provide security for the Company's financial liabilities).

The Company identified no disadvantages following from relations with Related Parties.

Appendix: List of related parties

V Praze, dne 20. March. 2018



Robert Chvátal
Chief Executive Officer
and member of the Board of Directors A
SAZKA a.s.



Pavel Horák
Vice-chairman
and member of the Board of Directors B
SAZKA a.s.

- SAZKA Group a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 24287814;
- KKCG AG, with its registered office at Kapellgasse 21, 6004 Lucern, Switzerland, reg. No. CHE-326.367.231;
- ANTAIOS s.r.o., with its registered office at Ostrava, Moravská Ostrava, Nemocniční 987/12, Postal Code 702 00, Id. No. 28345801;
- Apus Holding N.V. (in liquidation), with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 54152593;
- Austrian Gaming Holding a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 04047788;
- AutoCont CZ a.s., with its registered office at Ostrava, Moravská Ostrava, Hornoplní 3322/34, Postal Code 702 00, Id. No. 47676795;
- AutoCont Holding a.s., with its registered office at Ostrava, Moravská Ostrava, Hornoplní 3322/34, Postal Code 702 00, Id. No. 27805786;
- AutoCont SK a.s., with its registered office at Bratislava, Einsteinova 27, Postal Code 85101, Slovakia, Id. No. 36396222;
- BAIH Beteiligungsverwaltungs GmbH, with its registered office at 1010 Vienna, Universitätsring 14, Austria, reg. No. FN 200466d;
- BOŘISLAVKA OFFICE & SHOPPING CENTRE s.r.o., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 27457621;
- BXY Czech, a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 04559851;
- BYW Czech, a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 04308697;
- CAD Studio a.s., with its registered office at Ostrava, Moravská Ostrava, Hornoplní 3322/34, Postal Code 702 00, Id. No. 26197081;
- CAME Holding GmbH, with its registered office at Universitätsring 10, 1010 Vienna, Austria, reg. No. 038898d;
- Cestovní kancelář FISCHER, a.s., with its registered office at Prague 4 – Nusle, Na Strži 65/1702, Postal Code 140 62, Id. No. 26141647;
- CKF facility s.r.o., with its registered office at Prague 4 – Nusle, Na Strži 65/1702, Postal Code 140 62, Id. No. 28982738;
- CLS Beteiligungs GmbH, with its registered office at Goldschmiedg. 3, 1010 Vienna, Austria, reg. No. FN84419x
- Collington II Limited, with its registered office at Custom House Plaza Block 6, International Financial Services Centre, Dublin 1, Ireland, reg. No. 506335;
- Conectart s.r.o., with its registered office at Prague 9, Vysočany, K Žižkovu 851/4, Postal Code 190 00, Id. No. 24728055;
- DataSpring s.r.o., with its registered office at Prague 9, Vysočany, K Žižkovu 851/4, Postal Code 190 00, Id. No. 28808681;
- Direct Communication, s.r.o., with its registered office at Prague 8, Libeň, Zenklova 32/28, Postal Code 180 00, Id. No. 24711462;

- EMMA DELTA FINANCE PLC, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, reg. No. HE 284780;
- EMMA DELTA HELLENIC HOLDINGS LTD, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, reg. No. HE320752;
- EMMA DELTA MANAGEMENT LTD, with its registered office at Arch. Makariou III, 2-4, CAPITAL CENTER, 9th floor, 1065 Nicosia, Cyprus, reg. No. HE314151;
- EMMA DELTA VARIABLE CAPITAL INVESTMENT COMPANY LTD, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, reg. No. HE314350;
- FM&S Czech a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 04283112;
- Geologichchne byreau “Lviv” LLC, with its registered office at L’vivska Oblast, L’viv, 79011, Kubiyovicha Street 18, Office 6, Ukraine;
- G-JET s.r.o., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 27079171;
- “Goryzonty” LLC, with its registered office at L’vivska Oblast, L’viv, 79005, Akademika Pavlova 6C, Office 7, Ukraine, reg. No. 31978102;
- IGH Financing a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 05034353;
- INTERMOS Bratislava s.r.o., with its registered office at Bratislava, Moskovská 13, Postal Code 811 08, Slovakia, Id. No. 35898411;
- INTERMOS Prague s.r.o., with its registered office at Prague 10, Vinohradská 1511/230, Postal Code 100 00, Id. No. 63076349;
- IPM – Industrial Portfolio Management a.s. (formerly BWV Czech, a.s.), with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 04572033;
- Italian Gaming Holding a.s., with its registered office at Prague 10, Vinohradská 1511/230, Postal Code 100 00, Id. No. 04828526;
- JTU Czech, s.r.o., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 02612020;
- Kavárna štěstí s.r.o., with its registered office at with its registered office at Prague 9, K Žižkovu 851/4, Postal Code 190 00, Id. No. 05111901;
- KKCG a.s., with its registered office at Prague 10, Vinohradská 1511/230, Postal Code 100 00, Id. No. 27107744;
- KKCG Director 1 B.V., with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 59525819;
- KKCG Entertainment & Technology B.V., with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 58856765;
- KKCG Industry B.V., with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 27271144;
- KKCG Investments AG, with its registered office at Kapellgasse 21, 6004 Luzern, Switzerland, reg. No. CHE- 271.643.388;
- KKCG Investments B.V. (in liquidation), with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 3425187;

- KKCG Oil & Gas B.V. (in liquidation), with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 61025119;
- KKCG Real Estate a.s., with its registered office at Prague 10, Vinohradská 1511/230, Postal Code 100 00, Id. No. 24291633;
- KKCG Structured Finance AG, with its registered office at Kapellgasse 21, 6004 Luzern, Switzerland, reg. No. CHE-292.174.442;
- KKCG Turkey B.V.(in liquidation), with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 60367601;
- KKCG UK Limited, with its registered office at London, One Connaught Place, 5th Floor, W2 2ET, United Kingdom, reg. No. 8869774;
- KKCG US LLC, with its registered office at 1675 South State Street, Suite B, Dover, DE, County of Kent, 19901, United Kingdom of America, reg. No. 36-4831670;
- Kura Basin Operating Company LLC, with its registered office at 70 Kostava Street (5 Gamsakhurdia Avenue), Tbilisi, Gruzia, reg. No. 405171567;
- Kynero Consulting a.s., with its registered office at Prague 10, Vinohradská 1511/230, Postal Code 100 00, Id. No. 24193461;
- Liberty One Methanol LLC, with its registered office at 400 Capitol Street, Suite 200, Charleston WV 25301, United Kingdom of America;
- Liberty One O&M LLC, with its registered office at 400 Capitol Street, Suite 200, Charleston WV 25301, United Kingdom of America;
- Liberty Two Methanol LLC, with its registered office at 400 Capitol Street, Suite 200, Charleston WV 25301, United Kingdom of America;
- LP Drilling S.r.l., with its registered office at 29016 Cortemaggiore, Salvo D'Acquisto 5, Itálie, reg. No. 01294260334;
- LTB Beteiligungs GmbH, with its registered office at Universitätsring 14, 1010 Vienna, Austria, reg. No. FN84439a;
- Medicem Group B.V., with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 53557972;
- MEDICEM GYNECO (CY) LIMITED, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Cyprus, reg. No. HE314834;
- MEDICEM Institute s.r.o., with its registered office at Kamenné Žehrovice, Karlovarská avenue 20, Postal Code 273 01, Id. No. 26493331;
- MEDICEM International GmbH in Liquidation, with its registered office at Zug, Baarerstrasse 8, 6300, Switzerland, reg. No. CH-170 April 010-812-2;
- MEDICEM OPHTHALMIC (CY) LIMITED, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Cyprus, reg. No. HE314823;
- MEDICEM Technology s.r.o., with its registered office at Kamenné Žehrovice, Karlovarská avenue 20, Postal Code 273 01, Id. No. 48036374;
- MEDICEM TISSUE (CY) LIMITED, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Cyprus, reg. No. HE314849;
- MIUS a.s., with its registered office at Teplice, U Nádraží 954/3, Postal Code 415 01, Id. No. 25035983;

- MND a.s., with its registered office at Hodonín, Úprkova 807/6, Postal Code 695 01, Id. No. 28483006;
- MND Drilling & Services a.s., with its registered office at Lužice, Velkomoravská 900/405, Postal Code 696 18, Id. No. 25547631;
- MND Drilling Germany GmbH, with its registered office at 31582 Nienburg, Domänenweg 7, Germany, reg. No. HRB206722;
- MND E&P Germany GmbH, with its registered office at 64665 Alsbach-Hähnlein, Birkenweg 2, Germany, reg. No. HRB96150;
- MND Energy Trading a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 29137624;
- MND Gas Storage a.s., with its registered office at Hodonín, Úprkova 807/6, Postal Code 695 1, Id. No. 27732894;
- MND Gas Storage Germany GmbH, with its registered office at 64665 Alsbach-Hähnlein, Birkenweg 2, Germany, reg. No. HRB96046;
- MND Georgia B.V., with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 52308944;
- MND Group AG, with its registered office at Kapellgasse 21, 6004 Luzern, Switzerland, reg. No. CHE-448.401.517;
- MND Group B.V. (formerly MND Group N.V.), with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 34246576;
- Belisar B.V. (formerly MND Russia B.V.), with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 57169284;
- MND Samara Holding B.V., with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 52990680;
- MND Ukraine B.V., with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. č. 59394072;
- Moravia Systems a.s., with its registered office at Prague 10, Vinohradská 1511/230, Postal Code 100 00, Id. No. 26915189;
- OOO Belisar, with its registered office at Saratov, ulitsa Chelyuskintsev 68, 410031, Russian Federation, reg. No. 1116317007674;
- OOO MND Samara, with its registered office at Alexeya Tolstogo 92, Samara, Samara area., 443099, Russian Federation, reg. No. 1046301405094;
- OPAP S.A., with its registered office at 112 Athinon Avenue, Athens, Greece, reg. No. 3823201000;
- OPAP CYPRUS LTD, with its registered office at 128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus, reg. No. HE140568;
- OPAP INTERNATIONAL LTD, with its registered office at 128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus, reg. No. HE145913;
- OPAP SPORTS LTD, with its registered office at 128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus, reg. No. HE133603;
- OPAP SERVICES S.A., with its registered office at 112 Athinon Avenue, Athens, Greece, reg. No. 5873501000;
- OPAP INVESTMENT LTD, with its registered office at 128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus, reg. No. HE297411;

- NEUROSOFT S.A., with its registered office at 466 Irakliou Avenue & Kiprou Street, 141 22 Iraklio Attikis, Athens, Greece, reg. No. 84923002000;
- HELLENIC LOTTERIES S.A., with its registered office at 112 Athinon Avenue, Athens, Greece, reg. No. 25891401000;
- HORSE RACES S.A., with its registered office at 112 Athinon Avenue, Athens, Greece, reg. No. 132846101000;
- TORA WALLET S.A., with its registered office at 108 Athinon Avenue and Chrimatistiriou Street, Athens, Greece, reg. No. 139861001000;
- TORA DIRECT S.A., with its registered office at 108 Athinon Avenue and Chrimatistiriou Street, Athens, Greece, reg. No. 5641201000;
- PXY Czech, a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 01409476;
- Quality Brands, s.r.o., with its registered office at Brno, Brno-city, Mečová 335/10, Postal Code 602 00, Id. No. 27687198;
- RUBIDIUM HOLDINGS LIMITED, with its registered office at 8 Alasias Street, Christodoulides Building, 3095 Limassol, Cyprus, reg. No. HE287956;
- SafeDX s.r.o., with its registered office at Prague 9, Vysočany, K Žižkovu 813/2, Postal Code 190 00, Id. No. 04585119;
- SALEZA, a.s., (in bankruptcy) with its registered office at Prague 9, K Žižkovu 851, Postal Code 190 93, Id. No. 47116307;
- SAZKA Asia a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 05266289;
- Sazka Asia Vietnam Company Limited, with its registered office at Kumho Asiana Plaza, 13th Floor, 39 Le Duan Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam, reg. No. 0314057663;
- SAZKA Czech a.s., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 24852104;
- Sazka Distribution Vietnam Joint Stock Company, with its registered office at No. 10 Pham Van Hai, Ward 2, Tan Binh District, Ho Chi Minh City, Vietnam, reg. No. 0313898374;
- SAZKA FTS a.s., with its registered office at Prague 9, Vysočany, K Žižkovu 851/4, Postal Code 190 00, Id. No. 01993143;
- SAZKA Group Financing a.s., with its registered office at Dúbravská cesta 14, Bratislava - mestská časť Karlova Ves, Postal Code 841 04, Slovakia, Id. No. 51142317;
- SAZKA Group Russia, a Limited Liability Company, with its registered office at Prospect Mira 40, floor 8, premise 1, room 11, 129090 Moskva, Russian Federation, reg. No. 1177746915257;
- SIL Servis Partner a.s., with its registered office at Ostrava, Slezská Ostrava, Těšínská 1970/56, Postal Code 710 00, Id. No. 25830953;
- SPORTLEASE a.s., with its registered office at Prague 9, K Žižkovu 851, Postal Code 190 93, Id. No. 62361546;
- Springtide Ventures s.r.o., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 01726587;
- SnackCall, s.r.o., with its registered office at Prague 2, Vinohrady, Anny Letenské 34/7, Postal Code 120 00, Id. No. 05776287;

- Theta Real s.r.o., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 27631842;
- TrustYard s.r.o., with its registered office at Prague 10, Strašnice, Vinohradská 1511/230, Postal Code 100 00, Id. No. 28960823;
- Turkish Lottery Holding B.V. (in liquidation), with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Netherlands, reg. No. 60370041;
- US Methanol LLC, with its registered office at 400 Capitol Street, Suite 200, Charleston WV 25301, United States of America;
- Vinohradská 230 a.s., with its registered office at Prague 10, Vinohradská 1511/230, Postal Code 100 00, Id. No. 26203944;
- Vitalpeak Limited, with its registered office at Arch. Makariou III, 195, Neocleous House, 3030 Limassol, Cyprus, reg. No. HE 228204;
- WOODSLOCK a.s., with its registered office at Prague 4, Líbalova 2348/1, Postal Code 149 00, Id. No. 27379434;
- Bellville Services Ltd, with its registered office at Tropic Isle Building, P.O. Box 3423, Road Town, Tortola, British Virgin Islands, reg. No. 1782780;
- Emerging Markets Capital, a.s., with its registered office at Na Zátorce 672/24, Bubeneč, 160 00 Prague 6, Id. No.: 24262803;
- Emma Alpha Holding Ltd, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE313347;
- Emma Beta Holding Ltd, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE313575;
- Emma Capital Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE310908;
- Emma Capital (BVI) Limited, with its registered office at Tropic Isle Building, P.O. Box 3423, Road Town, Tortola, British Virgin Islands, reg. No. 1730358;
- Emma Gamma Finance a.s., with its registered office at Dúbravská cesta 14, Bratislava – Karlova Ves, 841 04, reg. No. 50897942;
- Emma Gamma Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE347073;
- Emma Omega Ltd, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE319479;
- Forte Gaz GN S.r.l., with its registered office at 4 Vasile Alecsandri St. and 11 Constantin Daniel St., 2nd floor, building A, zone 1, District 1, Bucharest, Romania, reg. No. J40/1471/2015;
- Gaz Sud S.A., with its registered office at Ghermanesti village, Aleea Islaz, Ilfov County, Snagov, Romania, reg. No. J23/273/2001;
- Chapalaco Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE316455;
- Ligatne Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE172557
- Marjolendo Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE310114;

- Paresta Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE321734;
- Premier Energy Srl, with its registered office at 4 Vasile Alecsandri St. and 11 Constantin Daniel St., 2nd floor, building A, zone 1, District 1, Bucharest, Romania, reg. No. J40/1918/2007;
- Quiverda Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE311844;
- Serenity Resources Limited, with its registered office at Tropic Isle Building, P.O. Box 3423, Road Town, Tortola, British Virgin Islands, reg. No. 1760126;
- Timgaz S.A., with its registered office at 19C Principala St., Buzias, Timis County, Romania, reg. No. J35/1147/1999;
- Tonalá Limited, with its registered office at Esperidon 5, 4th floor, Strovolos, 2001, Nicosia, Cyprus, reg. No. HE315858.

Statement of profit or loss and other comprehensive income

	Note	For 2017	For 2016
Revenue from deposits	5	12 699 408	11 632 018
Gross gaming revenue		5 420 945	5 181 991
Lottery tax		-1 260 082	-1 272 507
Net gaming revenue		4 160 863	3 909 484
Revenue from other activities	5	387 376	364 240
Other operating revenues		5 559	19 159
Partner fees	6	-691 394	-695 520
Materials and consumables	7	-1 053 177	-967 373
Marketing expenses	8	-544 005	-384 436
Personnel expenses	9	-372 326	-360 201
Other operating expenses	10	-289 503	-252 990
Profit/loss from operating activities before interest, tax, depreciation and amortisation (EBITDA)		1 603 393	1 632 363
Depreciation and amortisation	11	-106 446	-59 682
Profit/loss from operating activities		1 496 947	1 572 681
Interest revenue	13	547	1 127
Interest expense	13	-314 176	-346 381
Other profit (+)/loss (-) relating to financial activity	13	177	7 670
Profit/loss from financial operations		-313 452	-337 584
Profit/loss before tax		1 183 495	1 235 097
Income tax	14	-211 182	-235 415
Profit/loss for the accounting period		972 313	999 682
Remeasurement of hedging derivatives		109 414	-35 606
Deferred tax from remeasurement of hedging derivatives		-20 789	6 765
Other comprehensive income for the accounting period (after tax)		88 625	-28 841
Comprehensive income for the accounting period		1 060 938	970 841
Earnings per share			
Basic earnings per share (in CZK)	22	216 070	222 152
Diluted earnings per share	22	216 070	222 152

The notes to the financial statements on pages 7 to 53 form an integral part of these financial statements.

Statement of financial position	Note	31/12/2017	31/12/2016
ASSETS			
Intangible assets	15	2 196 876	2 168 137
Goodwill	15	9 636 122	9 636 122
Property, plant and equipment	16	717 910	669 058
Other non-current investments	17	19 656	42 199
Non-current trade receivables and other non-current assets	19	9 075	7 733
Total non-current assets		12 579 639	12 523 249
Inventories		11 969	11 094
Current trade receivables and other current assets	19	283 747	310 681
Current receivables from financial instruments	20	272 851	300 324
Cash and cash equivalents	21	735 903	770 869
Current income tax asset	14	22 574	--
Total current assets		1 327 044	1 392 968
Total assets		13 906 683	13 916 217

The notes to the financial statements on pages 7 to 53 form an integral part of these financial statements.

**Statement of financial position
(continued)**

	Note	31/12/2017	31/12/2016
LIABILITIES AND EQUITY			
Equity			
Share capital	22	450 000	450 000
Capital and other reserves		1 512 848	1 424 223
Retained earnings and profit/loss for the current period		3 086 557	2 553 488
Total equity		5 049 405	4 427 711
Liabilities			
Bank loans and other loans - non-current portion	23	4 517 471	5 290 094
Non-current payables from financial instruments	17	50 892	50 046
Deferred tax liability	18	309 657	245 874
Non-current provisions	25	65 879	43 920
Total non-current liabilities		4 943 899	5 629 934
Bank loans and other loans - current portion	23	2 287 364	2 324 587
Current trade and other payables	24	1 378 556	1 158 244
Current income tax liability	14	--	73 573
Current payables from financial instruments	23	--	36 564
Current provisions	25	247 459	265 604
Total current liabilities		3 913 379	3 858 572
Total liabilities		8 857 278	9 488 506
Total equity and liabilities		13 906 683	13 916 217

The notes to the financial statements on pages 7 to 53 form an integral part of these financial statements.

Statement of changes in equity

	Share capital	Other capital reserves	Retained earnings and profit/loss for the current period	Total equity
Balance at 1 January 2016	450 000	1 453 064	2 753 806	4 656 870
Payment of dividends	--	--	-1 200 000	-1 200 000
Profit/loss for 2016	--	--	999 682	999 682
Remeasurement of hedging derivatives	--	-28 841	--	-28 841
Comprehensive income for 2016	--	-28 841	999 682	970 841
Balance at 31 December 2016	450 000	1 424 223	2 553 488	4 427 711
Balance at 1 January 2017	450 000	1 424 223	2 553 488	4 427 711
Payment of dividends	--	--	-443 983	-443 983
Merger	--	--	4 739	4 739
Profit/loss for 2017	--	--	972 313	972 313
Remeasurement of hedging derivatives	--	88 625	--	88 625
Comprehensive income for 2017	--	88 625	972 313	1 060 938
Balance at 31 December 2017	450 000	1 512 848	3 086 557	5 049 405

The notes to the financial statements on pages 7 to 53 form an integral part of these financial statements.

Statement of cash flows

	Note	For 2017	For 2016
<u>OPERATING ACTIVITIES</u>			
Profit (+) for the accounting period		972 313	999 682
<i>Adjustments for:</i>			
Income tax	14	211 182	235 415
Depreciation of property, plant and equipment and amortisation of intangible assets	11	106 446	59 682
Gain (-)/loss (+) on sale of property, plant and equipment and intangible assets		-567	-7 896
Loss (-) arising from disposal/sale of securities		--	-6 395
Net interest expense (+)	13	313 629	345 254
Derecognition of impairment of assets (-)/impairment of assets (+)		-295	-6 444
Non-financial impact of merger		-4 739	--
Operating profit/loss prior to the change in working capital and provisions		1 597 969	1 619 298
Increase (+) in provisions	25	3 814	107 578
Increase (+)/decrease (-) in inventories		-875	-4 271
Decrease (+)/increase (-) in trade receivables and other assets	19	5 526	28 999
Decrease (+)/increase (-) in trade and other payables	24	242 326	-151 043
Cash generated from operating activities		1 848 760	1 600 561
Interest paid		-340 131	-340 149
Income tax paid		-264 335	-213 679
Net cash flow from operating activities		1 244 294	1 046 733
<u>INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	16	-42 688	-28 764
Acquisition of intangible assets	15	-71 289	-47 021
Proceeds from sale of property, plant and equipment and intangible assets		914	69 109
Proceeds from sale of investments	17	22 543	24 995
Acquisition of an investment		-125 008	--
Interest received	13	547	1 127
Increase in cash due to a merger		62 714	--
Net cash flow generated (+)/used (-) in investing activities		-152 267	19 446
<u>FINANCING ACTIVITIES</u>			
Loans received	23	--	744 000
Loans paid	23	-783 333	-1 362 834
Dividends paid	22	-443 983	-1 200 000
Net cash flow used (-) in financing activities		-1 227 316	-1 818 834
Net decrease (-)/increase (+) in cash and cash equivalents		-135 289	-752 655
Balance of cash and cash equivalents at the beginning of the accounting period	21	1 071 193	1 823 848
Balance of cash and cash equivalents at the end of the accounting period	21	935 904	1 071 193

The notes to the financial statements on pages 7 to 53 form an integral part of these financial statements.

Notes to the financial statements - Contents

1.	General information on the Company.....	2
2.	Basis for preparation of the financial statements.....	4
3.	Significant accounting policies.....	7
4.	Determination of fair value.....	19
5.	Revenues	20
6.	Partner fees	20
7.	Materials and consumables.....	21
8.	Marketing expenses	21
9.	Personnel expenses	21
10.	Other operating expenses	22
11.	Depreciation and amortisation.....	22
12.	Fees payable to statutory auditors	22
13.	Financial revenues and expenses.....	22
14.	Income tax	23
15.	Intangible assets and goodwill	24
16.	Property, plant and equipment.....	26
17.	Other non-current investments.....	28
18.	Deferred tax assets and liabilities.....	29
19.	Trade receivables and other assets.....	30
20.	Current receivables from financial instruments	30
21.	Cash and cash equivalents.....	31
22.	Equity	31
23.	Loans	32
24.	Trade and other payables.....	36
25.	Provisions	37
26.	Contingent liabilities	39
27.	Risk management policies and information disclosure	40
28.	Related parties.....	47
29.	Subsequent events.....	50

Notes to the financial statements

1. General information on the Company

1.1. Description

SAZKA a.s. (“the Company”) is a company with its registered office in the Czech Republic, established under the laws of the Czech Republic (a change in the business name of the Company, originally called SAZKA sázková kancelář, a.s., was recorded in the Commercial Register on 27 June 2014). SAZKA a.s. is the largest domestic operator of number and instant lotteries. The Company’s core business activities consist of the operation of number and instant lotteries, and sports and fixed-odds betting.

SAZKA a.s. is a joint-stock company recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, file number 7424, Czech Republic, on 28 November 2001. The Company’s registered office is at K Žižkovu 851, Praha 9, post code 190 93, identification number 264 93 993.

1.2. Business activities

The principal business activities consist of the operation of lotteries and other similar games in accordance with the generally binding legislation, i.e. the operation of instant and number lotteries, sports and fixed-odds betting and other similar games in accordance with Act No. 202/1990 Coll., on Lotteries and Other Similar Games, as amended (“the Lottery Act”).

In addition to lottery and betting activities, SAZKA a.s. also pursues non-lottery business activities through points of sales and terminals (such as topping up prepaid cards for mobile phones; sale of tickets for diverse cultural, sporting, and social events; payment of invoices; insurance; payment of money orders; and repayment of loans through a network of terminals). SAZKA a.s. also operates SAZKAmobil, a virtual mobile network operator.

1.3. Statutory body and supervisory board

Members of the board of directors as at 31 December 2017 (5 members):

Pavel Šároch, chairman – member of the board of directors A
 Pavel Horák, vice-chairman – member of the board of directors B
 Robert Chvátal, member of the board of directors A
 Kamil Ziegler, member of the board of directors A
 David Havlín, member of the board of directors B

Members of the supervisory board as at 31 December 2017 (3 members):

Tomáš Porupka, chairman of the supervisory board
 Robert Kolář, member of the supervisory board
 Petr Stöhr, member of the supervisory board

1.4. Sole shareholder of the Company

SAZKA Czech a.s.
Vinohradská 1511/230, Strašnice, 100 00 Praha 10
Identification number: 248 52 104

The ultimate owner of the Company within the KKCG Group is KKCG AG, with its registered office in Switzerland.

The consolidated financial statements of the widest group of entities to which the Company as a consolidated entity belongs are prepared by KKCG AG, with its registered office at Kapellgasse 21, 6004 Lucerne, Switzerland.

The consolidated financial statements of the narrowest group of entities to which the Company as a consolidated entity belongs are prepared by SAZKA Group a.s., with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Praha 1, Czech Republic.

1.5. Changes in the Commercial Register in the accounting period

The following changes were made in 2017:

Board of directors and supervisory board:

Based on a decision of the sole shareholder exercising the powers of the general meeting dated 17 October 2017, Martin Škopek was removed from the board of directors, effective from 31 October 2017. This matter was recorded in the Commercial Register on 30 November 2017.

Merger:

Based on a project of merger by acquisition dated 23 October 2017, a merger took place, during which the assets and liabilities of Fsázky a.s., with its registered office at K Žižkovu 851/4, Vysočany, 190 00 Praha 9, identification number: 285 08 815, as the dissolving company, were transferred to SAZKA a.s., with its registered office at K Žižkovu 851, 190 93 Praha 9, identification number: 264 93 993, as the successor company. This matter was recorded in the Commercial Register on 1 December 2017.

2. Basis for preparation of the financial statements

(a) Statement of compliance

The financial statements were prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union (“IFRS”).

The accounting policies specified in note 3 were applied in the preparation of the financial statements for the year ended 31 December 2017 and also in the preparation of comparative information, i.e. as at 31 December 2016.

These financial statements were prepared as separate financial statements for the purposes of presenting the Company’s financial position.

These financial statements were approved by the Company’s board of directors on 27 March 2018.

(b) Valuation method

The financial statements were prepared on a going concern basis using the historic cost method. The Company records no items of the statement of financial position that would be recognised at fair value, except for the liability under a hedging derivative instrument (interest rate swap).

The Company applies accounting policies described below in a consistent manner.

(c) Functional and presentation currency

The financial statements are presented in Czech crowns (“CZK”), which constitute the Company’s functional currency. All financial information stated in CZK was rounded off to whole thousands (“CZK thousand”) unless stipulated otherwise.

(d) Use of estimates and assumptions

The preparation of the financial statements in accordance with IFRS requires the application of certain critical accounting estimates that affect the recognised items of assets, liabilities, revenues and expenses. It also requires the accounting entity’s management to use assumptions based on its own judgement during the application of accounting policies. The resulting accounting estimates, precisely because they are estimates, rarely correspond with the respective actual values.

The estimates and assumptions are reviewed on an ongoing basis. The reviews of accounting estimates are taken into account in the accounting period in which the respective estimate is reviewed (if the review of the estimate relates only to this period), or in the period of review and subsequent periods (if the review relates to the current and subsequent periods).

The information on the application of accounting policies and assumptions with a more significant impact on the amounts reported in the financial statements, are specified in the following notes:

- notes 3 (i) and 15 – assessment of impairment of goodwill, assessment of impairment of intangible assets with indefinite useful life, assessment of useful life of intangible assets;
- notes 3 (h) and 16 – assessment of useful life of property, plant and equipment;
- note 16 – recognition of operating lease of terminals;
- note 26 – assessment of legal disputes.

Accounting standards recently issued

In preparing these financial statements, the Company applied new or amended standards and interpretations that must be applied for the accounting period beginning on 1 January 2017 (no new or amended standards and interpretations that apply to non-profit companies and organisations active in the public sector are indicated below, since these standards and interpretations do not apply to the Company).

IFRS 9 Financial Instruments

The standard effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

The Company adopted IFRS 9 *Financial Instruments* in advance as at 1 January 2017. The total impact of adoption of the above standard is insignificant.

IFRS 15 Revenue from Contracts with Customers

The standard effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Company adopted IFRS 15 *Revenue from Contracts with Customers* in advance as at 1 January 2017. The total impact of adoption of the above standard is insignificant.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

It amends IAS 12 *Income taxes* to provide additional explanation on the following issues:

- Unrealised losses related to debt instruments measured at fair value but at cost for tax purposes give rise to deductible temporary differences regardless of whether the holder of the debt instrument expects to realise the carrying amount of the debt instrument by sale or use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.

The estimates of future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilisation of tax losses, an entity assesses a deferred tax asset in combination with other deferred tax assets of the same type.

The Company's accounting policies are in line with these amendments. The accounting policies have not changed.

Amendments to IAS 7: Disclosure of Other Information

The amendments are effective for annual periods beginning on or after 1 January 2017.

The amendments to IAS 7 *Statement of Cash Flows* require new disclosures that help users to evaluate changes in liabilities arising from financing activities.

Annual Improvements to IFRS 2014-2016 Cycle: Amendments to IFRS 12

The amendments specify that the requirements of IFRS 12 apply to interests in entities classified as held for sale, but which do not relate to summarised financial information on interests.

(e) Standards, interpretations and amendments of issued standards adopted before 31 December 2017 and not effective to date.

The following new standards and amendments to standards were not effective in the annual period ended 31 December 2017 and were not used in the preparation of these financial statements.

The Company considers other standards, interpretations and amendments to standards issued before 31 December 2017 that are not effective to date and not described below, as irrelevant.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options; and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

The goal of the Company is a modified retrospective transition to the standard and an application of the following practical simplification during transition:

- application of a uniform discount rate on the lease portfolio with reasonably similar characteristics.

The Company leases the following types of underlying assets arising from contractual arrangements that would be addressed by the new standard (operating leases) as at 31 December 2017:

- leased premises;
- cars;
- IT equipment.

In respect of leased premises, it is expected that the new standard, when initially applied, will have a significant impact on the financial statements, since it will require the Company to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Company acts as a lessee. The Company calculated the estimated present value of the remaining lease payments arising from contracts for a fixed period of time at CZK 1 646 thousand as at 31 December 2017

In addition, the Company identified lease contracts relating to cars, for which a detailed analysis of the lease period must be performed as at the date of adoption. The Company does not expect a significant impact on the financial statements arising from lease contracts for an indefinite period.

In respect of IT equipment, the Company does not expect the new standard, at the moment of application, to have a significant impact on the financial statements, because the Company is a member of a contractual arrangement that results in variable lease payments that are excluded from measuring leased assets and lease liabilities. Instead, they are recognised in expenses in the period in which they were incurred. As the Company only has lease contracts with variable lease payments and these payments depend on future revenues generated from leased assets, the Company has not changed its existing accounting policies as a result of adopting IFRS 16.

It is expected that additional amended standards and policies will not have a significant impact on the Company's financial statements.

3. Significant accounting policies

The accounting policies described were applied consistently in all accounting periods reported in these financial statements.

(a) Non-derivative financial assets

The Company has the following financial assets that do not constitute derivatives ("non-derivative financial assets"): trade and other receivables, loans provided, held-to-maturity financial assets.

i. Classification

Trade and other receivables are non-derivative financial assets with fixed or determinable payments. These assets are not quoted in the active market and are not classified as available-for-sale or held-to-maturity, or assets at fair value reported in profit or loss.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and a fixed due date that the Company intends to hold until maturity, for which the Company has the necessary prerequisites.

ii. Reporting

Upon initial recognition, financial assets acquired and sold in a usual way, including held-to-maturity assets, are reported as at the transaction date.

Receivables are reported as at the date they arise.

iii. Valuation

Receivables and held-to-maturity financial assets are measured at amortised acquisition cost less appropriate impairment losses.

Upon valuation at amortised acquisition cost, all differences between the acquisition cost and the value upon repayment are reported in the statement of comprehensive income as long as the relevant asset or liability exists, using the effective interest rate.

iv. Derecognition

A financial asset is derecognised when the contractual right to cash flows from the relevant asset expires or when the right to receive contractual cash flows is transferred within a transaction where, as a rule, all the risks and benefits associated with the ownership of the relevant asset are transferred. Any interest in the transferred financial assets acquired or retained by the Company is reported as a separate asset or liability.

Held-to-maturity instruments, loans and receivables are derecognised on the date the Company sells them.

v. Mutual offset of financial assets and liabilities

If the Company has a legally enforceable right to offset the reported amounts and the transaction is to be settled on a net basis, financial assets and liabilities are mutually offset and the resulting net amount is reported in the statement of financial position.

(b) Non-derivative financial liabilities

The Company has the following financial liabilities that do not constitute derivatives (“non-derivative financial liabilities”): trade and other payables, interest-bearing loans, liabilities arising from finance lease. Upon initial recognition, these financial liabilities are reported as at the settlement date at fair value increased by all respective directly associated transaction costs, except for financial liabilities at fair value reported in profit or loss. The financial liabilities are subsequently measured at amortised acquisition cost using the effective interest rate, except for financial liabilities at fair value reported in profit or loss.

The effective interest method is a method of calculating the residual value of a financial liability and the allocation of interest expense for the given period. The effective interest rate is the interest rate that exactly discounts the estimated future cash payments over the expected term of a financial liability or, if applicable, over a shorter period, using the residual value of a financial liability.

The Company classifies as current any part of non-current loans that is due within one year of the date of the statement of financial position.

The Company derecognises a financial liability as soon as the contractual obligations are fulfilled, cancelled or when they expire.

(c) Derivative financial instruments

Separable embedded derivatives

Financial and non-financial contracts (which, per se, are not measured at fair value through profit/loss) are assessed to identify whether the contracts contain any embedded derivatives.

Embedded derivatives are separated from the host contract and accounted for separately if: the economic characteristics and risks of the host contract are not closely linked with the characteristics and risks of the embedded derivative; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; a combined instrument is not measured at fair value reported in profit or loss.

Any changes in the fair value of separable embedded derivatives are immediately recorded in profit/loss.

(d) Hedging derivatives and hedge accounting

The Company uses hedging derivatives (interest rate swaps) to mitigate the risks associated with volatility of future cash flows arising from interest rate changes during the hedged period. Hedging derivatives are reported in the balance sheet at fair value (see note 4). Positive fair values of derivatives are reported in assets in “Current receivables from financial instruments”. Negative fair values of derivatives are reported in liabilities in “Current liabilities from financial instruments”.

In compliance with IFRS, the Company decided to apply hedge accounting to report effects from the hedge of interest rate risks. In this context, a document was drawn up constituting the documentation of the hedge relationship between the hedged item and the hedging derivative and contains the following:

- identification of the hedged items;
- identification of the hedging derivatives;
- identification of the hedged risk;
- calculation of hedge effectiveness;

The Company applies hedge accounting if:

- the hedge complies with the Company's risk management strategy;
- the hedge relationship is formally documented at the time of the transaction;
- the hedge relationship is expected to be effective throughout its term;
- the effectiveness of the hedge relationship is objectively measurable;
- the hedge relationship is effective throughout the accounting period, i.e. any changes in fair values or cash flows of the hedging instruments corresponding with the hedged risk are within the range of 80% to 125% of the changes in the fair values or cash flows of the hedged instruments corresponding with the hedged risk;
- in case of cash flow hedging, the expected transaction is highly probable and constitutes a risk that changes impacting profit or loss will occur in cash flows.

The Company applies the model of hedge accounting to hedge against the risk of cash flow variability. Of the recognised assets or liabilities or the expected transactions, the effective part of a hedge (i.e. the change in the fair value of a hedging instrument relating to the hedged risk) is accounted for in the other comprehensive income (part of equity in "Capital and other reserves"). The ineffective part is included in the income statement.

(e) Share capital

Ordinary shares

Ordinary shares are classified as equity. Any additional costs directly attributable to the issuance of new shares and share options are accounted for as a decrease in equity after taking into account the tax effect.

(f) Cash and cash equivalents

Cash and cash equivalents include cash, cash at the banks and short-term highly liquid investments, including fixed-term deposits with the original maturity not exceeding three months from the acquisition date, that are exposed to an insignificant risk of changes in fair value and used by the Company to manage its current liabilities. Bank accounts and deposits that are payable on demand and form an integral part of the Company's cash management are reported as part of cash and cash equivalents for the purposes of the cash flow statement.

(g) Impairment

i. Non-financial assets and investments in subsidiaries, jointly controlled entities and associated companies

As at the date of preparation of all financial statements, the book value of investments in subsidiaries, jointly controlled entities and associated companies and the Company's non-financial assets, except for deferred tax assets, is reviewed to identify any objective signs indicating the possibility of impairment of assets. If any such signs exist, the recoverable amount of the relevant asset is estimated. In case of goodwill and intangible assets that have an indefinite useful life or are unavailable for use yet, the estimate of the recoverable amount is carried out at least annually, as at the same date.

The recoverable amount of an asset or a cash-generating unit is determined by the fair value reduced by the cost of sale or its value in use, if higher. To determine the value in use, the estimated future cash flows are discounted to their current value using a discount rate before

tax, which reflects the current market valuation of the time value of money and the asset-specific risks.

For the purposes of impairment testing, the assets that cannot be tested separately are grouped into the smallest identifiable group of assets generating incoming cash flows from continual use that are noticeably independent of incoming cash flows from other assets or groups of assets ("cash-generating unit"). For the purposes of testing for possible impairment of goodwill, the cash-generating units to which goodwill was attributed are grouped so that the level at which impairment testing is performed constitutes the lowest level at which goodwill is monitored for the purposes of internal reporting. Goodwill acquired as a result of a merger by acquisition will be attributed to the groups of cash-generating units that are expected to benefit from the synergies arising from the relevant merger by acquisition.

Impairment loss will be reported whenever the book value of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Allocation of impairment losses reported in cash-generating units is performed, first, by decreasing the book value of all the goodwill attributed to these units and, subsequently, decreasing the book values of other assets within the unit (group of units), on a proportional basis.

Impairment loss in goodwill is not cancelled. In other assets, the impairment loss reported in prior periods is assessed as at each balance sheet date to identify any signs of decrease in or termination of such loss, as applicable. The impairment loss is cancelled if the estimates used to determine the recoverable amount change. However, the impairment loss is cancelled only to such an extent that the book value of an asset does not exceed the book value which would be determined (after depreciation and amortisation) if no impairment was reported.

ii. Financial assets (including trade and other receivables)

As at the date of preparation of all financial statements, financial assets not reported at fair value are assessed using the statement of comprehensive income to identify any objective evidence of impairment. A financial asset has been impaired if objective evidence indicates that, after the initial recognition of the asset, there was an occurrence of a loss with adverse impact (that can be reliably estimated) on the estimated future cash flows of the relevant asset.

The following can be considered objective evidence of impairment of a financial asset: default or delay on the part of a debtor; restructuring of the Company's receivables under conditions that would not be considered by the Company in standard circumstances; signals indicating that insolvency against the debtor or issuer is imminent; or the fact that an active market no longer exists for a security.

Current receivables are not discounted. In determining the recoverable amount of loans and receivables, the debtor's creditworthiness and economic performance as well as the value of all pledges or mortgages and third-party guarantees are also taken into account.

The impairment loss of a receivable reported at amortised acquisition cost is cancelled if followed by an increase in the recoverable amount that can be objectively associated with an event that occurred after the impairment loss was reported.

(h) Property, plant and equipment

i. Assets owned

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and any impairment loss.

The cost includes expenses that can be directly attributed to the acquisition of the relevant asset. If an item of property, plant and equipment consists of parts with different economic useful lives, the individual parts are accounted for as separate items (main components) of property, plant and equipment.

ii. Leased assets

Leases under which practically all the risks and benefits of ownership pass to the Company are classified as finance lease. Under a finance lease, leased assets are reported at the lower of the fair value or the current value of minimum lease payments as at the commencement of the lease, less accumulated depreciation (see below) and any impairment losses.

Under a finance lease, minimum lease payments are divided into a financial fee and a payment decreasing the amount of the outstanding payable. The financial fee is attributed to each period within the entire lease term so as to obtain a constant periodic interest rate on the balance of the outstanding payable.

Other leases have the character of operating lease and the leased assets are not reported in the Company's statement of financial position.

Payments made under operating lease are reported in the statement of comprehensive income on a straight-line basis throughout the lease term.

When identifying lease contracts, the Company also assesses other criteria defined in the interpretation of IFRIC 4 – Determining Whether an Arrangement Contains a Lease: the Company identifies whether an arrangement conveying the right to use assets fulfils the definition of a lease.

ii. Subsequent expenses

Subsequent expenses are capitalised only if it is probable that the Company will receive future economic benefits from a specific item of property, plant and equipment and that the relevant expenses can be reliably measured. All other expenses, including expenses incurred on daily servicing of property, plant and equipment, are reported directly in the statement of comprehensive income.

iii. Depreciation

Depreciation is reported in the statement of comprehensive income on a straight-line basis over the estimated useful life of the given item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful life (if it is not reasonably certain that the Company will acquire the ownership title to the given asset by the end of the lease term). Property is not depreciated.

The estimated useful lives of individual asset categories are as follows:

- | | |
|---|--------------|
| • Devices and special technical equipment | 4 - 14 years |
| • Fixtures and fittings | 4 - 14 years |
| • Energy and propulsion machinery and equipment | 5 - 20 years |
| • Motor vehicles | 6 years |
| • Other structures | 50 years |
| • Heavy plant and equipment | 4 - 14 years |

- Buildings and halls 30 - 60 years
- Utility networks 30 - 60 years
- Construction modifications of outdoor surfaces 15 - 30 years

Depreciation methods, useful lives and net book values are reassessed at the end of each accounting period and adjusted, if necessary.

(i) Intangible assets

i. Goodwill and intangible assets

Goodwill represents an amount by which the acquisition cost of the acquired enterprise exceeds the fair value of the Company's share in net identifiable assets of the acquired enterprise as at the acquisition date. Goodwill is reported in intangible assets.

Upon initial recognition, goodwill is measured at cost less cumulative impairment losses and is tested for impairment every year.

Gains and losses from the sale of an enterprise also include the book value of goodwill pertaining to the enterprise sold.

Intangible assets acquired through acquisition are accounted for at fair value as at the acquisition date if the asset is separable or was created as a result of contractual or other statutory rights. Intangible assets with indefinite useful life are not amortised and are reported at cost less any impairment losses.

Intangible assets with definite useful life are amortised over their useful life and are reported at cost less accumulated amortisation (see below) and any impairment losses.

ii. Software and other intangible assets

Software and other intangible assets with a final (definite) useful life acquired by the Company are reported at cost less accumulated amortisation (see below) and any impairment losses.

Intangible assets with indefinite useful life are not amortised and instead are tested for impairment every year. At the end of each accounting period, their useful life is reassessed to identify whether the events and circumstances that occurred continue to support the indefinite useful life.

iii. Subsequent expenditures

Subsequent expenditures on intangible assets are capitalised only if they increase future economic benefits arising from a specific asset to which they relate. All other expenditures are accounted for in the statement of comprehensive income in the period in which they were incurred.

iv. Amortisation

Amortisation of intangible assets, except for goodwill, trademarks and licences of lottery operators, are accounted for in the statement of comprehensive income on a straight-line basis over their estimated useful life, beginning on the date when the given asset is put into use. The estimated useful lives for the current and comparative periods are as follows:

- Software 2 - 7 years
- Intellectual property rights - other 6 years
- Distribution network (contracts with providers) 20 years

- Trademarks indefinite
- Licence of a lottery operator indefinite

Amortisation methods, useful lives and net book values are reassessed at the end of each accounting period and adjusted, if necessary.

(j) Assets held for sale

Assets with a significant net book value that will most likely be sold within one year of the date of the financial statements date are not part of non-current assets; they are reported in a separate item within current assets at the lower of the fair value less costs associated with the sale and its book value. These assets are not depreciated.

(k) Investments in subsidiaries, jointly controlled entities and associated companies

Subsidiaries are entities in which the Company has control over financial and operating procedures. Control is deemed to exist where the Company holds more than 50 percent of the other entity's voting rights.

Jointly controlled entities (joint ventures) are entities over whose activities the Company has a joint control, arising under a contractual arrangement and requiring unanimous consent in case of any strategic financial and operating decisions.

Associated companies are entities in which the Company has significant influence, rather than control over financial and operating procedures. Significant influence is deemed to exist where the Company holds between 20 to 50 percent of the other entity's voting rights.

Investments in subsidiaries, jointly controlled entities and associated companies are reported at cost less any impairment losses, as stipulated in accounting policy 3 (g).

(l) Inventories

Inventories are stated at the lower of the cost and net realisable value. The cost of inventories includes the purchase price, duties on import and other taxes (except for those that are subsequently reimbursed to the enterprise by tax authorities), transportation, handling costs and other costs directly attributable to the acquisition of finished goods, material and services. The cost is reduced by trade deductions, discounts and other similar items.

(m) Adjustments

Adjustments to non-current assets are determined based on information primarily ascertained during a physical stock-take and subsequent approval process. Adjustments to receivables are created and released in accordance with internal regulations.

(n) Provisions

Provisions are reported in the statement of financial position if the Company has a current legal or non-contractual obligation arising from an event that occurred in the past and if the performance of such an obligation is likely to require sacrifice of economic benefits and the relevant amount can be reliably estimated.

Provisions are reported at the expected amount of the supply. Non-current liabilities are reported as liabilities at the current value of the expected amount of their supply; if discounting has a significant effect, the rate before tax reflecting the existing market assessment of the time value of money and the obligation-specific risks is applied as the discount rate. Amounts of additions and the effects of changes in interest rates are reported in the statement of comprehensive income in financial revenues and expenses.

Changes in estimated provisions can primarily arise as a result of deviations from the originally estimated expenses or as a result of a changed settlement date or changed extent of the given obligation. Generally, any changes in estimates are reported in the statement of comprehensive income as at the date the given estimate changes. The amount of provisions is reviewed on an ongoing basis. A provision for the jackpot is created, because the jackpot (winning) arises cumulatively and is transferred to the subsequent accounting period.

(o) Recognition of revenues and accounting for winnings

Revenues are reported at fair value received or claimed within the ordinary course of business.

Expenses and revenues are accounted for on accrual basis in the period to which they relate in terms of substance and time. Revenues are reduced by any estimated discounts, value added tax and other sales-related taxes.

The period for lottery and betting games corresponds to a week from Monday to Sunday.

Expenses and revenues are reported if they fulfil the following requirements:

Number lotteries

Revenues from deposits that belong to the given lottery period are reported in that period.

Unpaid winnings (expired winnings not claimed properly by their winners) are recognised as revenue only after the respective claiming period expires.

Received deposits relating to future lottery periods are accounted for as deferred revenues ("Prepaid number lotteries").

Number lotteries, winnings and lottery tax

Claims for winnings are recognised in individual periods based on winning rolls for lottery periods and are fully accrued/deferred as at the balance sheet date. Unused jackpots/superjackpots are accrued/deferred based on recognised revenues reduced by the currently paid winnings for the relevant period.

Lottery tax representing 23% (23% in 2016) of deposits less winnings is reported based on recognised revenues reduced by winnings in the given period.

Unpaid claims for winnings are reported as current trade and other payables.

Instant lotteries

Revenues from the sale of lottery tickets are recognised in the period of the transaction.

Winnings in instant lotteries; lottery tax

Winnings in instant lotteries are reported on an accrual basis depending on claimed winnings.

Lottery tax representing 23% (23% in 2016) of deposits less winnings is reported based on recognised revenues reduced by winnings in the given period.

Fixed-odds betting

In accordance with the gaming plan, fixed-odds betting is organised through an online system and online betting linked to a central IT system.

Revenues from betting are accounted for at the time a betting event occurs. In case of a series of events, revenues are accounted for at the time the last betting event occurs.

Unpaid winnings (unclaimed winnings allocated for the benefit of an operator after the deadline for claiming the winnings expires – this concerns the online system only) are accounted for only if the deadline for claiming the winnings has expired; in case of online betting, no unclaimed winnings exist.

Winnings from fixed-odds betting; lottery tax

Winnings awarded based on claimed winnings and tables of winnings are fully accrued/deferred in all the events that occurred.

Lottery tax, which is 23% (23% in 2016) of the revenues from betting reduced by winnings in the given period, is fully accrued/deferred as at the date of the financial statements.

Mobile virtual network operator (MVNO)

Revenues and expenses related to the activities of a mobile virtual network operator are reported on an accrual basis and always attributed to the period (year) to which they relate in terms of substance and time.

Revenues are reported on an accrual basis with regard to the services currently received. In prepaid cards, the amount corresponding to unused voice and data services is accounted for in deferred revenues. Deferred revenues are accounted for directly in revenues upon expiry of the prepaid period. Charge-free voice and data services are accrued/deferred on a straight-line basis according to the period to which they belong.

Topping-up credit in mobile phones

Expenses and revenues connected with the topping-up of credit in mobile phones (GSM) are reported on an accrual basis in the period of the transaction. Under the terms and conditions of contracts concluded with mobile network operators, revenues equal to a fixed amount calculated from the GSM sales. Invoice period corresponds to a week (always from Monday to Sunday). The Company acts as an agent for mobile network operators; revenues are reported on a net basis, i.e. only in the amount equalling the commission on sale.

Sale of tickets

Revenues from the sale of tickets are reported on an accrual basis in the period of the transaction. The Company acts as an agent; revenues are reported on a net basis, i.e. only in the amount equalling the commission on sale.

Loyalty scheme

Benefits provided to customers reduce the product's revenue. In 2017, the Company commenced a loyalty scheme in connection with a new online platform. Revenues and expenses are reported on an accrual basis, always allocated in a period to which they relate in terms of substance and time.

Other activities

Revenues and expenses related to other activities are reported on an accrual basis in the period of the transaction and always attributed to the period to which they relate in terms of substance and time.

In most other activities, the Company acts as an agent; revenues are reported on a net basis, i.e. only in the amount equalling the commission on sale.

(p) Financial revenues and expenses

Financial revenues include interest revenue from invested funds (bank interest, interest on loans provided); proceeds from dividends; gains from the sale of available-for-sale financial assets; foreign exchange gains; and gains from derivative instruments accounted for in the income statement. Financial expenses include interest expense for loans and finance lease; bank fees; losses from the sale of available-for-sale financial assets; foreign exchange losses; and losses from derivative instruments accounted for in the income statement.

i. Interest revenue

Interest revenue is accounted for in the income statement upon its occurrence by applying the effective interest method and includes interest revenue from invested funds (bank loans or loans provided).

ii. Interest expense

Interest expense is accounted for in the income statement upon its occurrence by applying the effective interest method and includes interest expense from bank loans and other loans and from finance lease.

iii. Profit and loss from financial activity

Profit and loss from financial activity primarily include foreign exchange gains and losses, revenue from the holding of securities and bank fees.

(q) Income tax

Income tax comprises current tax and deferred tax. Income tax is reported in the statement of comprehensive income. Current tax includes tax estimate (tax liability or tax asset) calculated from the taxable income or loss for the current period using tax rates applicable as at the balance sheet date, as well as any adjustments to the current tax relating to prior years.

Deferred tax is calculated using the balance sheet liability method, which is based on temporary differences between the book values of assets and liabilities in the balance sheet and their values for tax purposes. Deferred tax is not calculated based on temporary differences in respect of those assets and liabilities whose initial recognition does not influence the accounting or taxable profit. Deferred tax is not reported upon initial recognition of goodwill.

The amount of deferred tax is based on the anticipated method of realisation or settlement of temporary differences by applying tax rates valid or basically enacted as at the balance sheet date.

Tax assets and liabilities from deferred tax are mutually offset if there is a legally enforceable right to mutual compensation (offset) of current tax assets and liabilities and if they relate to income taxes imposed by the same tax authority on the same tax entity, with the aim of settling current tax assets and liabilities on a net basis; tax assets and liabilities can also be mutually offset if realised simultaneously.

Tax asset from deferred tax is reported only if future taxable profits are likely to be available, against which any unclaimed tax losses, tax credits and deductible temporary differences can be utilised. Deferred tax assets are reduced to an extent in which the realisation of any related tax relief is not probable.

(r) Transactions in foreign currencies

Transactions in foreign currencies are translated to Czech crowns (functional currency) using the exchange rate valid as at the transaction date.

As at the date of the financial statements, assets and liabilities denominated in a foreign currency are translated to the functional currency using the exchange rate valid on the given day.

Foreign exchange differences arising in the translation of foreign currencies are reported as profit or loss in the statement of comprehensive income.

(s) Earnings per share

The Company reports basic earnings per share in respect of its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary shares in the Company by weighted average of the number of outstanding ordinary shares during the given period.

(t) Related parties

A related party is a person or entity that is related to an entity preparing its financial statements (the "reporting entity").

A) A person or a close member of that person's family is related to the reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or its parent company.

B) An entity is related to the reporting entity if any of the following conditions apply:

- (I) The entity and the reporting entity are members of the same group (which means that all parents, subsidiaries and affiliate companies are mutually related).
- (II) One entity is an associated company or a joint venture of another entity (or an associated company or a joint venture of a member of a group, of which the other entity is a member).
- (III) Both entities are joint ventures of the same third party.
- (IV) One entity is a joint venture of a third entity and the other entity is an associated company of the third entity.
- (V) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (VI) The entity is controlled or jointly controlled by a person identified in (A).
- (VII) A person identified in (I) has a significant influence over the entity or is a member of the key management personnel of the entity (or its parent company).

4. Determination of fair value

A number of the Company's accounting policies and a wide range of its disclosed information require determination of the fair value of financial and non-financial assets and liabilities. Fair values were determined for the purposes of valuation or disclosure by applying the methods indicated below. Further information on the prerequisites applied in determining the fair value is indicated in the notes that are specifically concerned with the given asset or liability, where appropriate.

Hierarchy of fair value

The Company applies the following hierarchy to determine and report the fair value of financial instruments according to valuation procedures:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: other procedures based on input data that have a significant impact on the reported fair value and which can be identified, directly or indirectly;
- Level 3: procedures based on input data that have a significant impact on the reported fair value and are not based on identifiable market data.

Fair values of assets (other than money and cash in banks) and liabilities that are not reported at fair value are determined through procedures under Level 3 of the hierarchy for determining the fair value. Fair value of money and cash in banks is determined through Level 1 of the hierarchy for determining the fair value.

(a) Intangible assets

The fair value of intangible assets reported as a result of a merger by acquisition is based on discounted cash flows that are expected to arise from the use or sale of a given asset.

(b) Non-derivative financial assets

The fair value of non-current trade receivables and other receivables is estimated as the current value of future cash flows discounted by market interest rate as at the balance sheet date.

(c) Non-derivative financial liabilities

The fair value determined for the purposes of presenting non-current trade payables is calculated based on the current value of future cash flows from principal amounts and interest, discounted by the market interest rate as at the balance sheet date. In respect of finance lease, the market interest rate is determined according to similar lease contracts.

(d) Derivative financial liabilities

The fair value of interest rate swaps is determined based on the remeasurement performed by a counterparty (bank) as at the date of the financial statements (see note 23).

5. Revenues

	2017	2016
Revenue from deposits	12 699 408	11 632 018
Gross gaming revenue	5 420 945	5 181 991
Lottery tax	-1 260 082	-1 272 507
Net gaming revenue	4 160 863	3 909 484
Revenue from other activities	387 376	364 240

	2017	2016
Gross gaming revenue	5 420 945	5 181 991
Revenue from deposits	12 699 408	11 632 018
Revenue from number lotteries	8 300 397	8 716 136
Revenue from instant lotteries	2 175 298	1 742 564
Revenue from fixed-odds betting	189 720	1 173 318
Revenue from DEH	2 033 993	--
Winnings	-7 278 463	-6 450 027
Winnings from number lotteries	-4 199 480	-4 331 123
Winnings from instant lotteries	-1 302 440	-1 025 435
Winnings from fixed-odds betting	-173 241	-1 093 469
Winnings from DEH	-1 603 303	--
Revenue from other activities	387 376	364 240

All the Company's revenues were generated in the Czech Republic.

In 2017, revenues were generated primarily from the number lotteries segment. The steepest increase in revenues relates to the instant lotteries segment (both standard printed and electronic lottery tickets) and the fixed-odds betting segment, in which the platform changed in 2017 and SazkaBet (fixed-odds betting) became part of the Sazka gaming portal, so called DEH.

6. Partner fees

	2017	2016
Partner fees	-691 394	-695 520
Fees for agents*	-691 394	-695 520

*Partner fees include fees for agents, such as kiosks, supermarkets, petrol stations and post offices of the Czech Post and represent commission for their services.

7. Materials and consumables

	2017	2016
Materials and consumables	-1 053 177	-967 373
Materials and energy	-96 474	-80 947
Advisory and other professional services 2)	-83 015	-56 224
Fees for system providers 1)	-511 609	-498 603
Telecommunication services	-168 761	-169 691
Other services 3)	-193 318	-161 908

1) The increase in fees was primarily caused by the increase in the share of lottery tickets sale and the activation of online betting in number lotteries, which have higher payments for system providers.

2) In 2017, Fsázky was acquired, followed by its merger, which resulted in significantly higher expenses incurred on advisory activities.

3) In 2017, other services mainly increased as a result of the following:

- a) Fixed-odds betting – considerably larger portfolio of sports streamed and thus significantly higher expenses;
- b) DEH (the Sazka gaming portal) – increased expenses incurred on bank fees and loyalty bonus;
- c) Lottery tickets – larger portfolio of lottery tickets resulted in the increased expenses incurred on their distribution and storage in 2017.

8. Marketing expenses

	2017	2016
Marketing expenses	-544 005	-384 436
Advertising, promotion and other related costs	-509 335	-377 429
Sponsorship and donations	-34 670	-7 007

Increased marketing expenses in 2017 were caused by investments in the SazkaBet product (fixed-odds betting) and the activation of online betting.

9. Personnel expenses

	2017		2016	
Personnel expenses	Employees	Executives	Employees	Executives
Wages and salaries	-189 764	-86 971	-178 071	-92 496
Remuneration for the members of the Company's bodies	--	-4 825	--	-5 958
Social and health insurance	-53 685	-25 942	-55 653	-18 107
Other social expenses	-11 139	--	-9 916	--
Total	-254 588	-117 738	-243 640	-116 561
Average number of employees	293	65	284	48

No loans were provided to the members of the board of directors, members of the supervisory board and other members of the Company's management in 2017 or 2016. Company vehicles are available to the Company's management according to its internal rules. In 2017, the Company paid

remuneration of CZK 4 825 thousand (2016 – CZK 5 958 thousand) to the members of the Company's bodies. No loans were provided to the members of the Company's bodies in 2017 or 2016. The Company provides no post-employment benefits or pension plans.

10. Other operating expenses

	2017	2016
Other operating expenses	-289 503	-252 990
Unclaimed VAT 1)	-238 123	-212 452
Other operating expenses	-51 380	-40 538

1) The increase in unclaimed VAT is caused by the following:

- a) increased payments to system suppliers; and
- b) considerably higher marketing expenses relating to lottery activities, in particular increased investments in fixed-odds betting and online betting.

11. Depreciation and amortisation

	31/12/2017	31/12/2016
Depreciation of property, plant and equipment and amortisation of intangible assets	-106 446	-59 682
Depreciation of property, plant and equipment 1)	-70 923	-29 165
Amortisation of intangible assets	-35 523	-30 517

- 1) The increased depreciation of property, plant and equipment represents the depreciation of a part of assets acquired as a result of a merger with Fsázky a.s.

12. Fees payable to statutory auditors

The information will be disclosed in the notes to the consolidated financial statements prepared for the KKCG AG consolidated group, in which the Company is included.

13. Financial revenues and expenses

	2017	2016
Interest revenue	547	1 127
Bank interest	547	1 127
Interest expense	-314 176	-346 381
Interest on bank loans	-192 370	-222 210
Other interest	-121 806	-124 171
Other profit (+)/loss (-) relating to financial activity	177	7 670
Profit (+)/loss (-) from foreign exchange operations	204	-1 007
Profit from sale of securities 1)	--	6 395
Bank fees	-300	--
Other financial revenues	273	2 282
Profit/loss from financial operations	-313 452	-337 584

- 1) Profit from the sale of securities in 2016 relates to the sale of Sportlease a.s., a subsidiary.

14. Income tax

	2017	2016
Income tax	-211 182	-235 415
Current income tax	-168 188	-203 829
Deferred income tax	-42 994	-31 586

Deferred tax is calculated using the applicable tax rates expected to be valid at the time the asset is realised or the liability is settled. According to the Czech legislation, the corporate income tax rate is 19% for the 2016 and 2017 financial years.

Current income tax comprises the tax estimate for the 2017 taxable period of CZK 168 800 thousand (2016 – CZK 202 391 thousand) and an adjustment to the tax estimate for the 2016 taxable period of CZK 612 thousand (2016 – an adjustment to the tax estimate for the 2015 taxable period of CZK 1 438 thousand).

In the 2017 statement of financial position, the income tax estimate of CZK 168 800 thousand (2016 – CZK 202 391 thousand) was reduced by income tax prepayments of CZK 191 374 thousand (2016 – CZK 128 818 thousand) and the net receivable of CZK 22 574 thousand was recorded in current income tax assets (2016 – CZK 73 573 thousand recorded in current income tax liabilities).

Reconciliation of effective tax rate

Reconciliation of effective tax rate

		2017		2016
Profit before tax		1 183 495		1 235 097
Income tax based on the applicable domestic tax rate	19.00%	-224 864	19.00%	-234 668
Other tax/tax-exempt items	-1.15%	13 682	0.06%	-747
Income tax reported in the statement of comprehensive income	17.85%	-211 182	19.06%	-235 415

15. Intangible assets and goodwill

2017	Intellectual property rights	Software	Other intangible assets	Goodwill	Total
Acquisition cost					
Balance at 1/1/2017	1 991 765	200 252	139 293	9 636 122	11 967 432
Additions	--	52 649	9 021	--	61 670
Disposals	--	-19 776	--	--	-19 776
Merger	61	6 514			6 575
Transfers	--	78 064	-78 064	--	--
Balance at 31/12/2017	1 991 826	317 703	70 250	9 636 122	12 015 901
Accumulated amortisation					
Balance at 1/1/2017	- 6 696	-144 913	-11 564	--	-163 173
Amortisation expense	-2 321	-30 311	-2 891	--	-35 523
Disposals	--	19 775	--	--	19 775
Merger	-51	-3 931			-3 982
Balance at 31/12/2017	-9 068	-159 380	-14 455	--	-182 903
Net book value 1/1/2017	1 985 069	55 339	127 729	9 636 122	11 804 259
Net book value 31/12/2017	1 982 758	158 323	55 795	9 636 122	11 832 998

2016	Intellectual property rights	Software	Other intangible assets	Goodwill	Total
Acquisition cost					
Balance at 1/1/2016	1 991 765	179 866	97 379	9 636 122	11 905 132
Additions	--	15 886	46 414	--	62 300
Disposals	--	--	--	--	--
Transfers	--	4 500	-4 500	--	--
Balance at 31/12/2016	1 991 765	200 252	139 293	9 636 122	11 967 432
Accumulated amortisation					
Balance at 1/1/2016	-4 294	-119 689	-8 673	--	-132 656
Amortisation expense	-2 402	-25 224	-2 891	--	-30 517
Disposals	--	--	--	--	--
Balance at 31/12/2016	- 6 696	-144 913	-11 564	--	-163 173
Net book value 1/1/2016	1 987 471	60 177	88 706	9 636 122	11 772 476
Net book value 31/12/2016	1 985 069	55 339	127 729	9 636 122	11 804 259

Intangible assets include mostly intellectual property rights, software and goodwill. The goodwill of CZK 9 636 122 thousand arose as a result of a merger by acquisition as at 1 January 2013.

In 2017, the major additions to intangible assets were the investments in the Digital Entertainment Hub software platform of CZK 31 131 thousand and the purchase of software tools acquired in the merger with Fsázky a.s. of CZK 6 228 thousand.

As at 31 December 2017, selected trademarks were pledged. The value of pledged trademarks as at 31 December 2017 was CZK 1 871 939 thousand (2016 – CZK 1 871 939 thousand) – see note 23.

Intangible assets with indefinite useful life, goodwill and impairment testing

Impairment testing is performed annually, always as at 31 December of the respective year. The recoverable amount is estimated using the higher of the following values:

1. Value in use (VIU) – VIU is based on the forecasts of future cash flows. The forecasts are prepared and updated by the Company's management. The weighted average cost of capital (WACC) is used as an appropriate discount rate to estimate the net present value of future cash flows allocated to each cash-generating unit (CGU). A cash flow forecast is always prepared based on specific expected operating results and a business plan covering at least three years. To reflect the business continuity over the explicit forecast, the model of terminal value (the Gordon growth model) is used.

2. Fair value less costs of disposal (FVLCD) – i.e. the amount recoverable from the sale of an asset or a CGU in an independent transaction between knowledgeable and willing parties, less costs of disposal. The estimate of FVLCD is based on one of the following:

a) market value of an asset/CGU derived from trading in an active market. Costs of disposal are considered insignificant.

b) market multiples method – i.e. comparing the tested companies with similar publicly traded companies. The Company relied on the peer-based EV/EBITDA valuation multiple to estimate the relevant FVLCD. Costs of disposal are considered insignificant. For the purpose of impairment testing, the following assumptions were applied: regular market player, market multiple 12.97 x EV/EBITDA.

The resulting recoverable amount calculated based on VIU and/or FVLCD exceeded the relevant book value which led to a conclusion that no impairment of tested assets should have been accounted for as at 31 December 2017. Moreover, the Company's management performed a sensitivity analysis of factors impacting the calculation of the recoverable amount and the expected movements of relevant factors do not indicate any impairment of the book values of goodwill.

Trademarks

Testing of trademark misuse was performed using the relief from royalty method. As in the paragraphs above, an explicit cash flow forecast was prepared based on a business plan covering at least three years. To reflect the trademark continuity over the explicit forecast, the model of terminal value (the Gordon growth model) is used. Net fees after tax were discounted using the weighted average cost of capital (WACC) with the increase of 1% p.a. Tax amortisation was also reflected in the calculation.

The resulting recoverable amount exceeded the book value of trademarks, which supported the conclusion that no impairment of trademarks should have been accounted for as at 31 December 2017. Moreover, the Company's management performed a sensitivity analysis of factors impacting the calculation of recoverable amounts and the expected movements of relevant factors do not indicate any damage to trademarks.

16. Property, plant and equipment

2017	Property - own	Buildings and structures - own	Machinery and equipment - own	Machinery and equipment - leased	Other property, plant and equipment	Property, plant and equipment in the acquisition stage	Total
Acquisition cost							
Balance at 1/1/2017	65 475	518 163	143 447	5 037	33 399	20 268	785 789
Additions	--	16 542	8 109	--	--	40 763	65 414
Disposals	--	--	-4 654	--	--	--	-4 654
Merger	--	--	143 818	--	--	--	143 818
Transfers	--	3 874	15 850	--	--	-19 724	--
Balance at 31/12/2017	65 475	538 579	306 570	5 037	33 399	41 307	990 367
Accumulated depreciation							
Balance at 1/1/2017	--	-45 763	-65 931	-5 037	--	--	-116 731
Depreciation expense	--	-9 497	-61 426	--	--	--	-70 923
Disposals	--	--	4 307	--	--	--	4 307
Merger	--	--	-89 110	--	--	--	-89 110
Transfers	--	--	--	--	--	--	--
Balance at 31/12/2017	--	-55 260	-212 160	-5 037	--	--	-272 457
Net book value 1/1/2017	65 475	472 400	77 516	--	33 399	20 268	669 058
Net book value 31/12/2017	65 475	483 319	94 410	--	33 399	41 307	717 910

2016	Property - own	Buildings and structures - own	Machinery and equipment - own	Machinery and equipment - leased	Other property, plant and equipment	Property, plant and equipment in the acquisition stage	Total
Acquisition cost							
Balance at 1/1/2016	65 475	509 222	127 786	5 037	33 399	1 406	742 325
Additions	--	8 894	19 288	--	--	20 062	48 244
Disposals	--	--	-4 780	--	--	--	-4 780
Transfers	--	47	1 153	--	--	-1 200	--
Balance at 31/12/2016	65 475	518 163	143 447	5 037	33 399	20 268	785 789
Accumulated depreciation							
Balance at 1/1/2016	--	-36 558	-50 024	-5 037	--	--	-91 619
Depreciation expense	--	-9 205	-19 960	--	--	--	-29 165
Disposals	--	--	4 053	--	--	--	4 053
Transfers	--	--	--	--	--	--	--
Balance at 31/12/2016	--	-45 763	-65 931	-5 037	--	--	-116 731

Net book value 1/1/2016	65 475	472 664	77 762	--	33 399	1 406	650 706
Net book value 31/12/2016	65 475	472 400	77 516	--	33 399	20 268	669 058

In 2017, the major additions to property, plant and equipment were assets acquired through a merger with Fsázky a.s. of CZK 142 250 thousand and construction modifications of the SAZKA office building (reconstruction of the 6th and 7th floor) of CZK 16 542 thousand.

In 2017, the major additions to the acquisition of property, plant and equipment account were reconstructions that were in progress on the SAZKA building (gastro operation, meeting rooms, reconstruction of the 3rd floor) of CZK 17 266 thousand, the acquisition of new lottery wheels of CZK 15 582 thousand and investments in reinforcing centralised data repositories of CZK 6 502 thousand.

As at 31 December 2017, the headquarters located at the address of the Company's registered office at K Žižkovu 851, Praha 9, together with the adjacent property and supporting structures, were mortgaged (see note 23). As at 31 December 2017, the net book value of this building including the adjacent property and structures totals CZK 548 794 thousand (2016 – CZK 537 875 thousand).

Leased machinery and equipment include in particular the original drawing apparatuses that the Company acquires under finance leases.

As at 31 December 2017, the Company records property, plant and equipment and intangible assets not reported in the statement of financial position of CZK 24 267 thousand (2016 – CZK 24 294 thousand).

OPERATING LEASES

Operating leases at 31/12/2017

Leased asset	Type of agreement	Termination date	within 1 year	Future lease payments	
				from 1 to 5 years	more than 5 years
Terminals (1)	fixed period	31/12/2022	n/a*	n/a*	n/a*
Cars (2)	fixed period	10/8/2021	13 883	6 532	--
Reprographic equipment	fixed period	30/6/2019	628	300	--

* lease payments for the lease of terminals change according to the amount of the gross income attained. For this reason, the lease is reported in operating leases.

- (1) The total cost of this lease for 2017 was CZK 471 055 thousand (2016 – CZK 478 825 thousand).
- (2) The car lease costs in 2017 amounted to CZK 15 195 thousand (2016 – CZK 14 025 thousand).

Operating leases at 31/12/2016

Leased asset	Type of agreement	Termination date	within 1 year	Future lease payments	
				from 1 to 5 years	more than 5 years
Terminals	fixed period	31/12/2022	n/a*	n/a*	n/a*

Cars	fixed period	23/1/2021	14 506	16 258	--
Reprographic equipment	fixed period	30/6/2019	656	1 528	--

* lease payments for the lease of terminals change according to the amount of the gross income attained. For this reason, the lease is reported in operating leases.

17. Other non-current investments

		31/12/2017	31/12/2016
Other non-current investments	Ownership interest (%)	19 656	42 199
IGT Czech Republic LLC, organizační složka (former GTECH Czech Republic LLC.) ¹⁾	63.00%	19 656	42 199
SALEZA, a.s. ²⁾	98.10%	--	--

- 1) The Company has an ownership interest in IGT Czech Republic LLC, organizační složka, representing a 63% share. The ownership interest in IGT Czech Republic LLC, organizační složka is classified as other non-current investment and was measured at CZK 42 199 thousand as at the acquisition date. The Company's current financial information as at 31 December 2017 is unavailable, therefore, the investment is recorded at historic cost less any impairment, which was represented by a release of an investment fund and the return of funds of CZK 22 543 thousand. The ownership interest remained unchanged.

The reason for classifying this ownership interest under other non-current investments is the fact that SAZKA a.s., despite being the majority owner of IGT Czech Republic LLC, organizační složka, does not control the possibility to pay dividends from its position of a majority owner in accordance with the Memorandum of Association and, at the same time, the transferability of its ownership interest is limited. In addition, the management control of this entity is delegated to GTECH Corporation.

In relation to the ownership interest in IGT Czech Republic LLC, organizační složka, the remaining share in this company, i.e. 37%, should be acquired on 31 December 2022 based on a concluded agreement.

The obligation to acquire the remaining 37% share in IGT Czech Republic LLC, organizační složka, which arises from the concluded agreement and was discounted to the current value of CZK 50 892 thousand (2016 – CZK 50 046 thousand), is reported as a non-current payable from financial instruments. The nominal value of this financial liability is CZK 68 502 thousand (USD 3 million). The fair value of this investment cannot be currently calculated, as the necessary financial information is not available as at 31 December 2017.

- 2) As at 31 December 2017, the Company owned a 98.10% share in SALEZA, a.s., against which insolvency proceedings were commenced based on a notice issued by the Municipal Court in Prague dated 17 January 2011. Legal effects of the insolvency proceedings arose on 17 January 2011. Based on a resolution of the Municipal Court in Prague dated 29 March 2011, the debtor was declared insolvent. The effects of the decision arose on 29 March 2011. Based on a resolution of the Municipal Court in Prague dated 3 May 2011, the debtor's right to dispose of the insolvency estate was restricted. The effects of the decision arose on 3 May 2011. Based on a resolution of the Municipal Court in Prague dated 27 May 2011, the debtor was declared insolvent. The effects of the decision arose on 30 May 2011.

As at 31 December 2017, the Company's current financial statements are unavailable.

18. Deferred tax assets and liabilities

The following deferred tax assets and liabilities and their year-on-year changes were reported as at 31 December 2017, 31 December 2016 and 31 December 2015:

	31/12/2017	31/12/2016	31/12/2017 7	31/12/2016 7	31/12/2017 7	31/12/2016 7
	Assets		Liabilities		Net	
Deferred tax asset (+)/liability (-)	--	--	-309 657	-245 874	-309 657	-245 874
Non-current assets	--	--	-357 603	-311 306	-357 603	-311 306
Current provisions	59 534	57 715	--	--	59 534	57 715
Remeasurement of derivatives	--	6 947	-13 842	--	-13 842	6 947
Other temporary differences	3 057	2 056	-803	-1 286	2 254	770
Calculated deferred tax assets and liabilities	62 591	66 718	-372 248	-312 592	-309 657	-245 874
Offset of deferred tax assets and liabilities	-62 591	-66 718	62 591	66 718	--	--

	31/12/2017	2017	31/12/2016	2016	31/12/2015
	Deferred tax liability	Recognised in comprehensive income/equity	Deferred tax liability	Recognised in comprehensive income/equity	Deferred tax liability
Deferred tax asset (+)/liability (-)	-309 657	-63 783	-245 874	-24 821	-221 053
Non-current assets	-357 603	-46 297	-311 306	-50 729	-260 577
Current provisions	59 534	1 819	57 715	18 965	38 750
Remeasurement of hedging derivatives	-13 842	-20 789	6 947	6 765	182
Other temporary differences	2 254	1 484	770	178	592

19. Trade receivables and other assets

Non-current receivables include provided advances and deposits that are due in more than twelve months from the balance sheet date.

	31/12/2017	31/12/2016
Non-current trade receivables and other non-current assets	9 075	7 733
Non-current advances and deposits provided	9 075	7 733

Non-current advances and deposits provided total CZK 9 075 thousand (2016 – CZK 7 733 thousand). As at 31 December 2017, this amount comprises two receivables from Vodafone relating to a deposit provided in respect of remittance of revenues from GSM top-up and also a deposit provided for the operation of the Eurojackpot game, which increased by CZK 1 342 thousand in 2017.

	31/12/2017	31/12/2016
Current trade receivables and other current assets	283 747	310 681
Current trade receivables	203 218	243 749
Current advances and deposits provided	12 450	2 976
Receivables from employees	386	529
Other current receivables	4	3 102
VAT receivable	6 573	--
Current prepaid expenses	61 116	60 325

A decrease in current trade receivables as at 31 December 2017, compared to 31 December 2016, was caused by higher payments of winnings carried out through a provider, which reduce a receivable for the last betting week.

In 2017, the VAT refund receivable arose in the recalculation of the annual advance coefficient for the final settlement.

Current advances and deposits provided increased as a result of a merger with Fsázky a.s.

Prepaid expenses represent in particular unclaimed winnings from instant lotteries in 2017 of CZK 36 053 thousand (2016 – CZK 41 687 thousand) and invoices received that relate to the 2018 supplies in terms of substance of CZK 21 176 thousand (2016 – invoices received that relate to the 2017 supplies in terms of substance of CZK 14 885 thousand).

20. Current receivables from financial instruments

Current financial assets include a receivable of CZK 200 001 thousand relating to a cash pooling agreement concluded with KKCG Structured Finance AG, Switzerland on 31 May 2016 (at 31 December 2016 – a receivable of CZK 300 324 thousand in respect of debt securities – held-to-maturity notes based on an investment agreement concluded with KKCG STRUCTURED FINANCE LIMITED, Cyprus). These receivables are considered cash equivalents for the purposes of the statement of cash flows.

Moreover, this item includes a receivable of CZK 72 850 thousand (2016 – CZK 0) in respect of hedging derivatives (see note 23).

21. Cash and cash equivalents

	31/12/2017	31/12/2016
Cash and cash equivalents	735 903	770 869
Cash	4 840	3 683
Bank accounts	731 063	767 186

The Company has tied cash of CZK 65 259 thousand (2016 – CZK 65 259 thousand) related to gaming deposits at accounts with ČSOB and Česká spořitelna, a.s.

As at 31 December 2017, the Company has pledged money at bank accounts of CZK 600 342 thousand (2016 – CZK 767 186 thousand).

Reconciliation of cash and cash equivalents with the statement of cash flows

	31/12/2017	31/12/2016
Cash and cash equivalents reported in the statement of cash flows	935 904	1 071 193
Cash and cash equivalents	735 903	770 869
Receivable from KKCG Structured Finance AG	200 001	300 324

22. Equity

Share capital and share premium

The Company's share capital consists of 4 500 ordinary certificated registered shares at CZK 100 thousand per share. No changes were made in the Company's share capital in 2017 or 2016.

The Company's share capital has been fully paid up.

Other capital reserves

Based on concluded loan contracts and the connected hedge, a valuation difference to derivatives based on confirmation as at 31 December 2017 of CZK -72 850 thousand (2016 – CZK 36 564 thousand) and a deferred tax liability of CZK 13 842 thousand (2016 – a deferred tax asset of CZK 6 947 thousand) were recorded in other capital reserves.

Retained earnings and profit/loss for the current period

The Company paid a dividend of CZK 443 983 thousand (2016 – CZK 1 200 000 thousand) to Sazka Czech a.s., its parent company, from the retained earnings.

A merger with Fsázky a.s. had an impact of CZK 4 739 thousand on retained earnings.

As at the date of the financial statements, no decision was made on the distribution of profit for 2017.

Earnings per share

Earnings pertaining to holders of ordinary shares (in CZK thousand)

	2017	2016
Net profit pertaining to holders of ordinary shares	972 313	999 682
Net profit pertaining to holders of ordinary shares	972 313	999 682

Weighted average of the number of ordinary shares

	Number of items	Weight	Weighted average	Weighted average
Ordinary shares issued as at 1 January	4 500	1	4 500	4 500
Newly issued shares	--			
Ordinary shares issued as at 31 December	4 500	1	4 500	4 500
Weighted average of the number of ordinary shares as at 31 December	4 500	1	4 500	4 500
Basic earnings per share per year (in CZK)			216 070	222 152
Diluted earnings per share per year (in CZK)			216 070	222 152

23. Loans

	31/12/2017	31/12/2016
Bank loans and other loans - non-current portion	4 517 471	5 290 094
Non-current bank loans received - principal	4 517 471	5 290 094
	31/12/2017	31/12/2016
Bank loans and other loans - current portion	2 287 364	2 324 587
Current bank loans received - principal	772 623	770 904
Current bank loans received - interest	33 809	37 383
Current loans received from group companies - principal	1 399 949	1 399 949
Current loans received from group companies - interest	80 983	116 351

Bank loans

As at 31 December 2017, the Company reported the following loans:

Type of loan	Interest rate	Interest expense 2017	Due date	Balance at 31/12/2017	Due within 1 year	Due in 1 to 5 years
Bank loan I - KB, ČS, ČSOB, Unicredit – principal	2.65% + 3M PRIBOR	61 678	22/10/2019	1 566 667	783 333	783 334
Balance at 31 December 2017 adjusted by transaction costs and interest		61 678		1 553 216	772 623	780 593
Bank loan II - KB, ČS, ČSOB, Unicredit – principal	2.85% + 3M PRIBOR	130 992	22/10/2020	3 750 000	--	3 750 000
Balance at 31 December 2017 adjusted by transaction costs and interest		130 992		3 736 878	--	3 736 878

On 22 October 2014, SAZKA a.s. entered into a CZK 7 500 000 000 SYNDICATED LOAN AGREEMENT with Komerční banka, a.s., Česká spořitelna, a.s., Československá obchodní banka, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s. Based on this agreement, the Company utilised loan tranches Ia of CZK 3 250 000 thousand and IIa of CZK 3 250 000 thousand on 30 October 2014. On 14 April 2015, the Company utilised loan tranches Ib of CZK 128 000 thousand and IIb of CZK 128 000 thousand.

On 14 January 2016, loan tranche Ib was increased by CZK 372 000 thousand to CZK 500 000 thousand and tranche IIb was increased by CZK 372 000 thousand to CZK 500 000 thousand. On 22 April 2016, loan tranches Ia and Ib were combined and loan tranches IIa and IIb were combined.

The above loans comprise a pledge over trademarks (see note 15), a mortgage over the Company's building with adjacent property (see note 16) and a pledge over the Company's shares, receivables from insurance claim and bank accounts (see note 21).

Under the terms and conditions of the above loan agreements, the Company must comply with certain financial indicators, specifically debt coverage, debt service coverage and the debt-to-equity ratio. As at 31 December 2017, the Company complied with these financial indicators.

Security (hedging)

As stated above, SAZKA a.s. entered into a loan agreement on 22 October 2014. Based on this agreement it may draw a loan up to the total of CZK 7 500 000 thousand. The loan documentation stipulates an obligation to secure a portion of this loan by concluding interest rate swap(s) of at least CZK 2 812 000 thousand ("IRS"). The Company's board of directors subsequently approved a limit of CZK 5 000 000 thousand for this type of transaction. SAZKA a.s. then concluded interest rate swaps with selected bank entities; as at 31 December 2017, the nominal value of these derivatives is CZK 3 050 000 thousand. When entering into these IRS, loan documentation was taken into account, as well as the fact that the interest rates were at an all-time low at the time the Company concluded the transactions.

A variable interest rate, specifically 3M PRIBOR, was set to calculate interest on the loan. Cash flows in CZK arising from payments of interest are therefore a hedged item. IRS are thus hedging derivatives consisting of the replacement of a variable interest rate (paid by banks) with a fixed interest rate (paid by SAZKA a.s.). The amount of fixed rates slightly varies based on individual counterparties; nonetheless, they all correspond with the current market offer. All IRS were

concluded for the same period as the loan contract and the settlement dates correspond with the payments of instalments.

As at the balance sheet date, the Company held the following hedging derivatives to hedge CZK cash flows arising from interest payments:

IRS	Bank entity	Due date	Nominal value (CZK thousand)	Fair value (CZK thousand)
IRS_14961	Česká spořitelna, a.s.	22/10/2020	500 000	12 940
66789993	Československá obchodní banka, a.s.	22/10/2020	450 000	14 010
6444120	UniCredit Bank Czech Republic and Slovakia, a.s.	22/10/2020	700 000	15 903
1553000104	Komerční banka, a.s.	22/10/2019	400 000	2 783
1653000034	Komerční banka, a.s.	22/10/2020	500 000	13 607
1653000044	Komerční banka, a.s.	22/10/2020	500 000	13 607
Total				72 850

As at 31 December 2016, the Company reported the following loans:

Type of loan	Interest rate	Interest expense 2016	Due date	Balance at 31/12/2016	Due within 1 year	Due in 1 to 5 years
Bank loan I - KB, ČS, ČSOB, Unicredit - principal	2.65% + 3M PRIBOR	88 779	22/10/2019	2 350 000	783 333	1 566 667
Balance at 31 December 2016 adjusted by transaction costs and interest		88 779		2 329 741	770 904	1 558 837
Bank loan II - KB, ČS, ČSOB, Unicredit - principal	2.85% + 3M PRIBOR	133 432	22/10/2020	3 750 000	--	3 750 000
Balance at 31 December 2016 adjusted by transaction costs and interest		133 432		3 731 257	--	3 731 257

On 22 October 2014, SAZKA a.s. entered into a CZK 7 500 000 000 SYNDICATED LOAN AGREEMENT with Komerční banka, a.s., Česká spořitelna, a.s., Československá obchodní banka, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s. Based on this agreement, the Company utilised loan tranches Ia of CZK 3 250 000 thousand and IIa of CZK 3 250 000 thousand on 30 October 2014. On 14 April 2015, the Company utilised loan tranches Ib of CZK 128 000 thousand and IIb of CZK 128 000 thousand.

On 14 January 2016, loan tranche Ib was increased by CZK 372 000 thousand to CZK 500 000 thousand and tranche IIb was increased by CZK 372 000 thousand to CZK 500 000 thousand. On 22 April 2016, loan tranches Ia and Ib were combined and loan tranches IIa and IIb were combined.

The above loans comprise a pledge over trademarks (see note 15), a mortgage over the Company's building with adjacent property (see note 16) and a pledge over the Company's shares, receivables from insurance claim and bank accounts (see note 21).

Under the terms and conditions of the above loan agreements, the Company must comply with certain financial indicators, specifically debt coverage, debt service coverage and the debt-to-equity ratio. As at 31 December 2016, the Company complied with these financial indicators.

Security (hedging)

As stated above, SAZKA a.s. entered into a loan agreement on 22 October 2014. Based on this agreement it may draw a loan up to the total of CZK 7 500 000 thousand. The loan documentation stipulates an obligation to secure a portion of this loan by concluding interest rate swap(s) of at least CZK 2 812 000 thousand ("IRS"). The Company's board of directors subsequently approved a limit of CZK 5 000 000 thousand for this type of transaction. SAZKA a.s. then concluded interest rate swaps with selected bank entities in the amount of this limit. When entering into these IRS, loan documentation was taken into account, as well as the fact that the interest rates were at an all-time low at the time the Company concluded the transactions.

A variable interest rate, specifically 3M PRIBOR, was set to calculate interest on the loan. Cash flows in CZK arising from payments of interest are therefore a hedged item. IRS are thus hedging derivatives consisting of the replacement of a variable interest rate (paid by banks) with a fixed interest rate (paid by SAZKA a.s.). The amount of fixed rates slightly varies based on individual counterparties; nonetheless, they all correspond with the current market offer. All IRS were concluded for the same period as the loan contract and the settlement dates correspond with the payments of instalments.

As at the balance sheet date, the Company held the following hedging derivatives to hedge CZK cash flows arising from interest payments:

IRS	Bank entity	Due date	Nominal value (TCZK)	Fair value (TCZK)
IRS_14961	Česká spořitelna, a.s.	22/10/2020	500 000	-4 503
IRS_14832	Česká spořitelna, a.s.	22/10/2020	550 000	-7 227
65088434	Československá obchodní banka, a.s.	22/10/2020	550 000	-7 300
66789993	Československá obchodní banka, a.s.	22/10/2020	450 000	-761
6444120	UniCredit Bank Czech Republic and Slovakia, a.s.	22/10/2020	700 000	-8 395
1553000104	Komerční banka, a.s.	22/10/2019	600 000	-2 174
1653000034	Komerční banka, a.s.	22/10/2020	500 000	-3 102
1653000044	Komerční banka, a.s.	22/10/2020	500 000	-3 102
Total				-36 564

Loans received from related parties

As at 31 December 2017, the Company reported the following loans received from related parties:

31/12/2017	Due date	Interest rate	Principal balance 31/12/2017	Principal due within 1 year	Principal due in 1 to 5 years	Principal due in more than 5 years
SAZKA Group a.s.	19/10/2019	8.5%	1 399 949	--	1 399 949	--

Based on an agreement of assignment dated 22 December 2017, all receivables from KKCG Structured Finance AG and EMMA GAMMA LIMITED were assigned to SAZKA Group a.s.

With respect to the above loan, payables of CZK 80 983 thousand were reported in respect of the outstanding interest as at 31 December 2017.

Loans received from related parties are subordinated to the bank loans described above and any early repayment must first be approved by the bank syndicate. Based on the agreement, the loan is due in 2019. Nonetheless, the creditor may request early repayment. Given this fact, the loan is classified as current in the statement of financial position.

As at 31 December 2016, the Company reported the following loans received from related parties:

31/12/2016	Due date	Interest rate	Principal balance 31/12/2016	Principal due within 1 year	Principal due in 1 to 5 years	Principal due in more than 5 years
KKCG AG (75%)	19/10/2019	8.5%	1 049 962	--	1 049 962	--
EMMA GAMMA LIMITED (25%)	19/10/2019	8.5%	349 987	--	349 987	--
Total			1 399 949	--	1 399 949	--

On 15 January 2016, an unscheduled payment of CZK 612 833 thousand was made and caused partial repayment of the principal of a loan received from KKCG PLC. At the same time, outstanding interest from previous years relating to this loan was also paid.

The original creditor KKCG PLC changed its legal form and subsequently transferred its registered office to Switzerland, thus establishing a new entity KKCG AG, which became the creditor to SAZKA a.s. in respect of the provided loan. Subsequently, KKCG AG concluded an agreement with EMMA GAMMA LIMITED on 17 August 2016 on assigning 25% of the principal of the above loan (CZK 349 987 thousand). Outstanding interest for 2016 was assigned together with the assigned principal as at the assignment date.

With respect to the above loans, payables of CZK 116 351 thousand were reported in respect of the outstanding interest as at 31 December 2016; payables to KKCG AG total CZK 87 263 thousand and payables to EMMA GAMA LIMITED total CZK 29 088 thousand.

Loans received from related parties are subordinated to the bank loans described above and any early repayment must first be approved by the bank syndicate. Based on the agreement, the loan is due in 2019. Nonetheless, the creditor may request early repayment. Given this fact, the loan is classified as current in the statement of financial position.

24. Trade and other payables

	31/12/2017	31/12/2016
Current trade and other payables	1 378 556	1 158 244
Current trade payables 1)	359 526	267 237
Current deposits received 2)	108 078	110 040
Payables from unpaid winnings	275 835	207 894
VAT payables	--	412

Personal income tax payables	11 900	13 191
Lottery tax payables	338 606	320 512
Social and health insurance liabilities	8 280	7 809
Payables to employees	22 176	20 046
Estimated payables 3)	193 016	119 498
Prepayments	58 359	88 405
Other payables	2 780	3 200

- 1) Trade payables represent items resulting from the Company's ordinary operations, falling due according to the given payment terms. The increase is caused by the operation of online betting in respect of financial accounts of bettors and also payables relating to payments of major winnings.
- 2) As at 31 December 2017, the Company reported a payable of CZK 108 078 thousand (2016 – CZK 110 040 thousand) relating to received deposits. Agreements concluded with partners contain an entitlement for an immediate refund of the given deposit after their activities are completed and all their liabilities to the Company are settled.
- 3) Estimated payables comprise in particular estimated payables relating to supplier invoices of CZK 174 417 thousand (2016 – CZK 100 523 thousand) and partner fees of CZK 18 599 thousand (2016 – CZK 18 975 thousand).

Trade and other payables were not secured as at 31 December 2017 and 31 December 2016.

The currency and liquidity risks to which the Company is exposed in relation to the trade and other payables are described in note 27 of the notes to the financial statements - Risk management policies and information disclosure.

25. Provisions

Current provisions	Current provision for jackpots	Other current provisions	Total
Balance at 1/1/2016	128 652	51 334	179 986
Additions	205 506	60 098	265 604
Utilisation	-128 652	-51 334	-179 986
Release	--	--	--
Balance at 31/12/2016	205 506	60 098	265 604
Balance at 1/1/2017	205 506	60 098	265 604
Additions	187 081	60 378	247 459
Utilisation	-205 506	-60 098	-265 604
Release	--	--	--
Balance at 31/12/2017	187 081	60 378	247 459

Non-current provisions	Other non-current provisions	Total
Balance at 1/1/2016	21 960	21 960
Additions	21 960	21 960
Balance at 31/12/2016	43 920	43 920

Balance at 1/1/2017	43 920	43 920
Additions	21 959	21 959
Balance at 31/12/2017	65 879	65 879

A new long-term bonus programme was introduced in 2015. It aims at motivating the management to achieve the Company's long-term growth targets. In connection with this, a provision of CZK 65 879 thousand was recorded as at 31 December 2017 (at 31 December 2016 – CZK 43 920 thousand).

The provision for jackpot is accumulated gradually until the jackpot is won, as described in note 3(n).

26. Contingent liabilities

The following material legal disputes are pending against the Company:

Actions to determine the invalidity of an agreement on the sale of an enterprise

In 2012, four actions to determine the invalidity of an agreement on the sale of an enterprise were filed against SAZKA, a.s., and the insolvency practitioner of SAZKA a.s., v konkurzu (in liquidation) (currently SALEZA a.s.). In support of these actions, DF Deutsche Forfait s.r.o., T-Mobile Czech Republic, a.s., Nova Ljubljanska banka d.d. (former NLB Factoring a.s.) (merged in a joint action) and Jiří Kabourek, the plaintiffs, demanded that the agreement stipulating the transfer of the SAZKA enterprise to SAZKA a.s. be determined invalid. The Municipal Court in Prague dismissed the first three actions above. On 18 June 2014, the High Court in Prague, as the court of appeal, upheld the negative decision of the Municipal Court in Prague. The decisions thus became enforceable. Nova Ljubljanska banka d.d. Ljubljana lodged an appeal against this decision on 18 September 2014 and T-Mobile Czech Republic a.s. on 23 September 2014; the appeal was dismissed in one part and rejected in the other part by the judgement of the High Court dated 22 December 2016.

On 15 May 2017, T-Mobile lodged a constitutional complaint; SAZKA defined its position on the constitutional complaint on 27 November 2017.

This complaint was dismissed by the Constitutional Court on 13 February 2018 and no appeals shall be permitted on this point.

Action to determine the invalidity of the sale of SAZKA a.s. filed within the insolvency proceedings by Mr Jiří Kabourek: In support of this action dated 24 November 2011, the plaintiff demanded that the agreement on the sale of SAZKA a.s. be determined invalid. The plaintiff did not identify SAZKA a.s. as a party to proceedings on the part of the defendant, therefore, SAZKA intervened in the proceedings by virtue of its submission dated 19 November 2013, as a subsidiary participant. Despite the above, the courts do not treat SAZKA a.s. as a party to the proceedings. The information of SAZKA a.s. is thus based on the information from publicly available sources.

The proceedings commenced by Mr Kabourek are currently still ongoing. Only procedural issues have been discussed in the proceedings so far (the plaintiff requested the exemption from court fees, a court-appointed lawyer and also raised a bias claim), as well as ordinary and extraordinary remedies filed by the plaintiff against decisions relating to these procedural issues.

Statement of the Company's management

The Company's management cannot find any justification for annulling the agreements on the sale of an enterprise. The Company's management considers the action of Mr Kabourek to be entirely unfounded and anticipates that, in terms of the risk of the final impact on the Company's financial situation, the above action will not significantly impair the Company's liquidity or future expenses. Consequently, no provision was established in respect of this dispute.

27. Risk management policies and information disclosure

This section describes in detail the financial and operating risks to which the Company is exposed and the methods of managing these risks. The most important financial risks for the Company are the credit risk and the liquidity risk. Given that the Company is encumbered with loans, the interest rate risk can also be considered significant.

(a) Credit risk

i. Danger of credit risk

Credit risk is a risk of financial loss the Company faces if its customer or counterparty in a transaction with a financial instrument fails to perform its contractual obligations. The Company is exposed to credit risk especially as a result of its operating activity (especially with respect to trade receivables) and as a result of its financial activity, including deposits with banks and financial institutions, loans provided to third parties and other financial instruments.

The greatest credit risk related to financial assets (if the counterparties fail to perform all their contractual obligations and, at the same time, it is determined that the provided guarantees or pledges/mortgages are worthless) is entailed in their book value. As regards cash and cash equivalents, the Company has accounts with renowned banks, where minimum risk is expected.

One of the main instruments to mitigate the credit risk within ordinary business activities are deposits received from partners (agents) – see note 24 (2). Receivables from partners are monitored by the Company's management on an ongoing basis.

As at the balance sheet date, the maximum credit risks, broken down based on the type of counterparties and according to geographical areas, are given in the following tables.

Credit risk based on a counterparty

<i>at 31 December 2017</i>	Enterprises (non-financial institutions)	State, government	Financial institutions	Natural persons	Total
Assets					
Non-current trade and other receivables	9 075	--	--	--	9 075
Current trade and other receivables	283 366	--	--	381	283 747
Current receivables from financial instruments	200 001	--	72 850	--	272 851
Current income tax asset	--	22 574	--	--	22 574
Cash and cash equivalents	4 840	--	731 063	--	735 903
Total	497 282	22 574	803 913	381	1 324 150

<i>at 31 December 2016</i>	Enterprises (non-financial institutions)	State, government	Financial institutions	Natural persons	Total
Assets					
Non-current trade and other receivables	7 733	--	--	--	7 733
Current trade and other receivables	310 173	--	--	508	310 681

Current receivables from financial instruments (cash equivalents)	300 324	--	--	--	300 324
Cash and cash equivalents	3 683	--	767 186	--	770 869
Total	621 913	--	767 186	508	1 389 607

Credit risk based on a territory

Credit risk on both the assets and liabilities sides is located in the Czech Republic, Switzerland and Cyprus.

ii. Impairment losses

Ageing structure of financial assets:

Ageing structure

<i>at 31 December 2017</i>	Within due date	Overdue < 90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue >365 days	Total
Assets						
Other non-current investments	19 656	--	--	--	--	19 656
Non-current trade and other receivables	9 075	--	--	--	--	9 075
Current trade and other receivables	266 396	14 833	455	600	1 463	283 747
Current receivables from financial instruments	272 851	--	--	--	--	272 851
Current income tax asset	22 574	--	--	--	--	22 574
Cash and cash equivalents	735 903	--	--	--	--	735 903
Total	1 326 455	14 833	455	600	1 463	1 343 806

<i>at 31 December 2016</i>	Within due date	Overdue < 90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue >365 days	Total
Assets						
Other non-current investments	42 199	--	--	--	--	42 199
Non-current trade and other receivables	7 733	--	--	--	--	7 733
Current trade and other receivables	297 288	10 614	308	952	1 519	310 681
Current receivables from financial instruments (cash equivalents)	300 324	--	--	--	--	300 324
Cash and cash equivalents	770 869	--	--	--	--	770 869
Total	1 418 413	10 614	308	952	1 519	1 431 806

The Company's management is convinced that overdue amounts that are not impaired can still be recovered in their full amount.

(b) Liquidity risk

Liquidity risk is the risk that the Company will have difficulties with performing obligations associated with its financial liabilities that are settled using money or other financial assets.

The Company's management minimises liquidity risk (i.e. the risk of insufficient funds to cover liabilities) through regular management and planning of its future cash flows. The main instrument for cash flow planning is the creation of a medium-term plan, which is compiled every year for the following three years. Cash flows for subsequent years are consequently broken down in detail according to the individual months and updated regularly.

The liquidity risk management strategy also comprises the fact that the Company holds a part of its assets in highly liquid financial means.

The table below provides an analysis of the Company's financial assets and liabilities broken down according to the due dates, in particular based on the time left from the balance sheet date to the contractual maturity date. If an option of earlier repayment exists, the Company opts for the most prudent manner of assessment; payables are thus expected to be paid as soon as possible and receivables are expected to be collected on the latest possible date. Assets and liabilities with no contractually fixed maturity are grouped in the "non-defined maturity" category.

Analysis of the incurred liquidity risk (according to due dates)

<i>at 31 December 2017</i>	Book value	Contractual cash flows⁽¹⁾	Within 1 year	1 to 5 years	More than 5 years	Non-defined maturity
Assets						
Other non-current investments	19 656	19 656	--	--	--	19 656
Non-current trade and other receivables	9 075	9 075	--	--	--	9 075
Current trade and other receivables	283 747	283 747	283 747	--	--	--
Current receivables from financial instruments	272 851	272 851	272 851	--	--	--
Current income tax asset	22 574	22 574	22 574	--	--	--
Total	607 903	607 903	579 172	--	--	28 731
Liabilities						
Bank loans and other loans - non-current portion	4 517 471	4 634 334	--	4 634 334	--	--
Non-current payables from financial instruments	50 892	50 892	--	50 892	--	--
Bank loans and other loans - current portion	2 287 364	2 403 769	2 403 769	--	--	--
Current trade and other payables	1 378 556	1 378 556	1 378 556	--	--	--
Total	8 234 283	8 467 551	3 782 325	4 685 226	--	--
Net liquidity risk	-7 626 380	-7 859 648	-3 203 153	-4 685 226	--	28 731

(1) Contractual cash flows not adjusted by the discounting to the net present value, but including any outstanding interest.

<i>at 31 December 2016</i>	Book value	Contractual cash flows (1)	Within 1 year	1 to 5 years	More than 5 years	Non-defined maturity
Assets						
Other non-current investments	42 199	42 199	--	--	--	42 199
Non-current trade and other receivables	7 733	7 733	--	--	--	7 733
Current trade and other receivables	310 681	310 681	310 681	--	--	--
Current receivables from financial instruments (cash equivalents)	300 324	300 324	300 324	--	--	--
Total	660 937	660 937	611 005	--	--	49 932
Liabilities						
Bank loans and other loans - non-current portion	5 290 094	5 491 003	--	5 491 003	--	--
Non-current payables from financial instruments	50 046	50 046	--	--	50 046	--
Bank loans and other loans - current portion	2 324 587	2 499 097	2 499 097	--	--	--
Current trade and other payables	1 158 244	1 158 244	1 158 244	--	--	--
Payables from financial instruments	36 564	36 564	36 564	--	--	--
Current income tax liability	73 573	73 573	73 573	--	--	--
Total	8 933 108	9 308 527	3 767 478	5 491 003	50 046	--
Net liquidity risk	-8 272 171	-8 647 590	-3 156 473	-5 491 003	-50 046	49 932

(1) Contractual cash flows not adjusted by the discounting to the net present value, but including any outstanding interest.

The Company's management does not expect the cash flows included in the analysis of due dates to occur much earlier or in much greater volumes.

(c) Interest rate risk

In its activities, the Company is exposed to the risk of interest rate fluctuations, as the interest-bearing assets and interest-bearing liabilities have different due dates or dates of remeasurement, or are payable or remeasured at different amounts. The period during which a certain financial instrument has a fixed interest rate therefore shows the extent to which a given financial instrument is exposed to the interest rate risk. The risk related to a change in market interest rates primarily applies to the Company's non-current liabilities with variable interest rates (held-to-maturity financial assets and liabilities arising from finance lease bear a fixed interest rate).

The table below provides data on the extent of the Company's interest rate risk according to the contractual maturity dates of the Company's financial instruments. The Company does not record any financial instruments remeasured to the market interest rate before their due date – according to the date of the next change of the interest rate. Assets and liabilities with no contractually fixed maturity or bearing no interest are grouped in the “non-defined maturity” category.

Financial information relating to interest-bearing and zero-interest assets and liabilities and their contractual maturity dates as at 31 December 2017:

**Analysis of the incurred interest rate risk
(according to due dates)**

<i>at 31 December 2017</i>	Within 1 year	1 to 5 years	More than 5 years	Non-defined maturity (or zero-interest)	Total
Assets					
Other non-current investments	--	--	--	19 656	19 656
Non-current trade and other receivables	--	--	--	9 075	9 075
Current trade and other receivables	283 747	--	--	--	283 747
Current receivables from financial instruments	272 851	--	--	--	272 851
Cash and cash equivalents	--	--	--	735 903	735 903
Total	556 598	--	--	764 634	1 321 232

<i>at 31 December 2017</i>	Within 1 year	1 to 5 years	More than 5 years	Non-defined maturity (or zero-interest)	Total
Liabilities					
Bank loans and other loans - non-current portion	--	4 517 471	--	--	4 517 471
Non-current payables from financial instruments	--	50 892	--	--	50 892
Bank loans and other loans - current portion	2 287 364	--	--	--	2 287 364
Current trade and other payables	1 378 556	--	--	--	1 378 556
Total	3 665 920	4 568 363	--	--	8 234 283

Financial information relating to interest-bearing and zero-interest assets and liabilities and their contractual maturity dates as at 31 December 2016:

Analysis of the incurred interest rate risk (according to due dates)

<i>at 31 December 2016</i>	Within 1 year	1 to 5 years	More than 5 years	Non-defined maturity (or zero-interest)	Total
Assets					
Other non-current investments	--	--	--	42 199	42 199
Non-current trade and other receivables	--	--	--	7 733	7 733
Current trade and other receivables	310 681	--	--	--	310 681
Current receivables from financial instruments (cash equivalents)	300 324	--	--	--	300 324
Cash and cash equivalents	--	--	--	770 869	770 869
Total	611 005	--	--	820 801	1 431 806

<i>at 31 December 2016</i>	Within 1 year	1 to 5 years	More than 5 years	Non-defined maturity (or zero-interest)	Total
Liabilities					
Bank loans and other loans - non-current portion	--	5 290 094	--	--	5 290 094
Non-current payables from financial instruments	--	--	50 046	--	50 046
Bank loans and other loans - current portion	2 324 587	--	--	--	2 324 587
Current trade and other payables	1 158 244	--	--	--	1 158 244
Payables from financial instruments	36 564	--	--	--	36 564
Total	3 519 395	5 290 094	50 046	--	8 859 535

Sensitivity analysis

The effective interest rate pertaining to loans is 4.44% (2016 – 4.42%). The Company carries out stress testing using standardised interest rate shock, which means that the interest positions of the portfolio are subject to an immediate decrease/increase in interest rates by +/- 0.44% (2016 – +/-0.44%). The testing is applied consistently to all loans with a fixed or variable interest rate.

As at the balance sheet date, a change in interest rates by 10% would increase or decrease the profit by the amounts presented in the following table. In this analysis it is assumed that all other variables will remain constant.

	31/12/2017	31/12/2016
Increase in the interest rate by 10%	-31 332	-34 521
Decrease in the interest rate by 10%	+31 332	+34 521

(d) Currency risk

Currency risk is the risk that the fair value of future cash flows from financial instruments will change as a result of changes in foreign exchange rates.

The Company could potentially be exposed to a foreign exchange risk due to its participation in the Eurojackpot lottery up to the exchange rate amount of CZK 30 per Euro. The Company's management does not perceive this risk as significant. Hedging of the foreign exchange risk arising from the payment of major winnings (Eurojackpot) is dealt with on the level of the KKCG Group.

(e) Capital management

The Company strives to maintain a strong capital base with the objective to maintain confidence of the ultimate shareholder, creditors and markets, and manage future development of its own business activities.

By managing the capital and optimising the debt-to-equity ratio (up to the ratio of 3), the Company intends to secure preconditions for conducting its business activities under the going concern principle and maximising dividends for its shareholders.

As at the end of the period, the Company reported the following debt-to-equity ratio:

	31/12/2017	31/12/2016
Total liabilities	8 857 278	9 488 506
Less cash and cash equivalents (including a receivable from KKCG Structured Finance AG – see note 21)	935 904	1 071 193
Net debt	7 921 374	8 417 313
Company's total equity	5 049 405	4 427 711
Debt-to-equity ratio	1.569	1.901

(f) Financial instruments and fair values

Categories of financial instruments

The Company's financial assets comprise non-current and current loans provided, trade and other receivables and cash and cash equivalents, all classified as loans and receivables.

Financial liabilities comprise interest-bearing loans, bank loans and trade and other payables, derivatives (liabilities from financial instruments) and current tax liabilities.

The book values of financial assets and liabilities are approximately the same as their fair values. The fair value of non-current loans from related parties bearing a fixed interest rate of 8.5% (see note 23) exceeds their book value due to a decrease in the market interest rates.

The fair values and book values of financial assets and liabilities are set out in the statement of financial position as follows:

Fair values and book values of financial assets and liabilities	Book value		Fair value	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Assets				
Other non-current investments	19 656	42 199	19 656	42 199
Non-current trade and other receivables	9 075	7 733	9 075	7 733
Current trade and other receivables	283 747	310 681	283 747	310 681
Current receivables from financial instruments	272 851	300 324	272 851	300 324
Current income tax asset	22 574	--	22 574	--
Cash and cash equivalents	735 903	770 869	735 903	770 869
Total	1 343 806	1 431 806	1 343 806	1 431 806
Liabilities				
Bank loans and other loans - non-current portion	4 517 471	5 290 094	4 517 471	5 290 094
Non-current payables from financial instruments	50 892	50 046	50 892	50 046
Bank loans and other loans - current portion	2 287 364	2 324 587	2 287 364	2 324 587
Current trade and other payables	1 378 556	1 158 244	1 378 556	1 158 244
Current payables from financial instruments	--	36 564	--	36 564
Current income tax liability	--	73 573	--	73 573
Total	8 234 283	8 933 108	8 234 283	8 933 108

Fair value hierarchy

The Company applies the following hierarchy to determine and report the fair value of financial instruments according to valuation procedures:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: other procedures based on input data that have a significant impact on the reported fair value and which can be identified, directly or indirectly;
- Level 3: procedures based on input data that have a significant impact on the reported fair value and are not based on identifiable market data.

28. Related parties

The relations between the Company and its related parties include relations with its shareholders and other entities, as stated in the table below. These include:

- (1) – Shareholders and companies controlled by them;
- (2) – Key members of management of the given entity or its parent company.

All entities stated below are related to the Company based on the influence of their relations within the KKCG AG Group. Some of them are also mutually related due to the key management members.

All material transactions with related parties were carried out based on the arm's length principle.

(a) Overview of open balances with related parties as at 31 December 2017 and 31 December 2016:

	Receivables		Liabilities	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
SPORTLEASE a.s.	19	11	--	--
IGT Czech Republic LLC.	1 828	908	--	45
KKCG a.s.	--	--	6 129	6 220
KKCG AG (former KKCG PLC) 1)	--	--	--	1 137 225
KKCG Structured Finance AG 2)	200 001	300 324	--	--
EMMA GAMMA LIMITED 3)	--	--	--	379 075
MND a.s.	9	--	829	980
DataSpring s.r.o.	3 096	463	2 698	4 479
Cestovní kancelář FISCHER, a.s.	--	--	9 500	7 135
Geewa a.s.	--	--	--	20
SAZKA FTS a.s. 4)	1 151	1 149	--	--
Conectart s.r.o.	865	3	3 959	3 375
Kynero Consulting a.s.	--	--	44	22
SAZKA Group a.s. 1)	10	96	1 485 735	--
FM&S Czech a.s.	41	81	1 935	1 304
Kavárna štěstí s.r.o.	4 745	6	5	1
OPAP S.A.	19	--	--	--
SafeDX s.r.o.	1	7	1 118	--
Total	211 785	303 048	1 511 952	1 539 881

- 1) In August 2017, a receivable from SAZKA a.s. was assigned from KKCG AG to KKCG Structured Finance AG and subsequently, on 22 December 2017, a receivable from SAZKA a.s. was assigned from KKCG Structured Finance AG and EMMA GAMMA LIMITED to SAZKA Group. This liability to SAZKA Group represents loans received from related parties, described in detail in note 23.
- 2) As at 31 December 2017 and 31 December 2016, receivables from KKCG Structured Finance AG represent current receivables from financial instruments.

For the purposes of the statement of cash flows, these receivables are classified as part of cash equivalents (see note 21).
- 3) As at 31 December 2016, a liability of EMMA GAMMA LIMITED represents loans received from related parties, described in detail in note 23.
- 4) Moreover, SAZKA a.s. has a liability to SAZKA FTS a.s. of CZK 5 115 thousand relating to the payment of cash collected at the SAZKA terminals. The relation is not mutual, as the supplies are provided by business partners of SAZKA FTS a.s. and via SAZKA terminals and SAZKA a.s. only keeps records of the cash flow.

(b) Overview of transactions with related parties for the periods ended 31 December 2017 and 31 December 2016:

	Revenues for the period		Expenses for the period	
	2017	2016	2017	2016
SPORTLEASE a.s.	92	82	--	--
IGT Czech Republic LLC.	5 230	4 304	--	584
KKCG a.s.	--	--	21 103	22 076
KKCG AG (dříve KKCG PLC) 1)	--	--	52 556	111 684
KKCG Structured Finance AG	41	177	35 451	--
MND a.s.	32	--	8 127	9 643
Conectart s.r.o.	2 998	34	20 229	17 519
DataSpring s.r.o.	4 185	2 307	10 218	11 880
Geewa a.s.	--	--	215	259
SAZKA FTS a.s.	9 199	9 577	--	--
Cestovní kancelář FISCHER, a.s.	--	--	63 599	56 680
Kynero Consulting a.s.	--	--	216	291
SAZKA Group a.s.	--	461	8 117	--
Kavárna štěstí s.r.o.	3 947	26	288	13
FM&S Czech a.s.	402	1 034	10 257	9 595
OPAP S.A.	--	--	12	--
SafeDX s.r.o.	24	538	3 607	--
Total	26 150	18 540	233 995	240 224

- 1) Expenses for 2017 and 2016 from KKCG AG, KKCG Structured Finance AG and SAZKA Group represent interest expense from loans received from related parties, described in detail in note 23.

(c) Overview of transactions with members of the Company's bodies for the period ended 31 December 2017

In 2017, the Company paid remuneration of CZK 4 825 thousand (2016 – CZK 5 958 thousand) to the members of the Company's bodies. No loans were provided to the members of the Company's bodies in 2017 or 2016.

29. Subsequent events

The Company's management is not aware of any events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2017.

V Praze, dne 27. 3. 2018



Robert Chvátal
člen představenstva A
SAZKA a.s.



Pavel Horák
místopředseda a člen představenstva B
SAZKA a.s.



KPMG Česká republika Audit, s.r.o.

Pobřežní 1a

186 00 Praha 8

Czech Republic

+420 222 123 111

www.kpmg.cz

This document is an unsigned English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholder of SAZKA a.s.

Opinion

We have audited the accompanying financial statements of SAZKA a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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



Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body and of the Supervisory Board for the Financial Statements

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

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

The Supervisory Board is responsible for the oversight of the Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

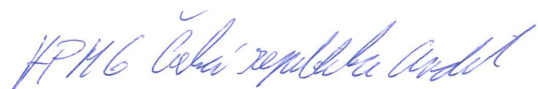
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Statutory Auditor Responsible for the Engagement

Petr Sikora is the statutory auditor responsible for the audit of the financial statements of SAZKA a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague, 27 March 2018



KPMG Česká republika Audit, s.r.o.

Registration number 71



Petr Sikora

Partner

Registration number 2001