

ANNUAL REPORT 2018



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Identification details

SAZKA a.s.

Registered office:

Praha 9, K Žižkovu 851, Post Code 190 93

Id. No.:

26493993 Tax Id. No.:

CZ699003312

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

Principal business activities:

- a) manufacture, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act;
- b) operation of games of chance 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, and maintenance of tax records;
- 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 payment services pursuant to Act No. 370/2017 Coll., on Payments, as amended.

Subject of activity:

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

Company profile

SAZKA a.s. ("the Company") is a member of the group with its managing entity SAZKA Group a.s., and has 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, fixed-odds betting, a totalisator game, and technical games.

Other cornerstones include non-gambling products, primarily based on SAZKA mobil mobile operator's services, topping up pay-as-you-go mobile phones, and the sale of tickets for events.

The Company provides its products particularly through a unique sales network with more than seven thousand points of sale 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 lottery organisations.

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

The Company performs no research and development activities. During 2018, the Company did not repurchase any of its shares.

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 games of chance market.

COMPOSITION OF TOP MANAGEMENT BODIES:

Board of Directors:

Pavel Šaroch, chairman – member of Board of Directors A

Pavel Horák, vice-chairman – member of Board of Directors B

Robert Chvátal, member of Board of Directors A

Kamil Ziegler, member of Board of Directors A

David Havlín, member of 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

ENTRIES IN THE COMMERCIAL REGISTER:

On 17 November 2018, the place of residence of supervisory board member Petr Stöhr was changed in the Commercial Register to the following address: Hanzelkova 2655/21, Dejvice, 160 00 Praha 6.

On 25 April 2019, a change in the principal business activities was recorded in the Commercial Register in connection with the change in the title of the Act (previously Act on Lotteries; currently Games of Chance Act) and in connection with the passing of the new Act on Payments under a different number (previously 284/2009, currently 370/2017).

Major events for 2018

In 2018, the Company operated six number lotteries in its points of sale and internet lotteries, including five additional lotteries, two number lotteries only in the points of sale, and one number lottery only on the internet. Further, the Company operated forty five instant lotteries and one totalisator game in its points of sale. On the internet, the Company operated twenty two instant lotteries, one fixed-odds betting and twenty seven technical games.

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) entered into effect on 25 May 2018, representing a legal framework for personal data protection valid EU-wide and aiming to provide EU citizen with better control over their personal data. In connection with this, the Company established the post of personal data protection officer and carried out an overall analysis relating to personal data processing by the Company, including an assessment of the impact of individual processing on personal data protection (DPIA). The Company introduced a number of mechanism allowing data subjects to exercise their rights, and ensured that suitable instruments for personal data protection are in place.

SAZKAmobil innovated its portfolio, especially by reducing the data package price and increasing the data package size. The Company extended its payment services to include new partners and introduced the receipt of documents with a QR code. The Company launched a new service allowing for the depositing and issuing of parcels and the provision of loans.

Year-on-year between 2017 and 2018, there was a slight decline in the number of employees, which was caused by the integration and subsequent liquidation of Fsázky a.s. (related to the merger by acquisition with SAZKA a.s.).

Number of employees:

As at 31/12/2017: 394 employees

As at 31/12/2018: 390 employees

Ownership interests

IGT Czech Republic LLC

Registered office: The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, 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: Praha 9, K Žižkovu 851, Post 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 of 27 May 2011, bankruptcy was adjudicated against the debtor's assets. The decision became effective on 30 May 2011 at 11:52 a.m.

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

Report of Board of Directors on the Company's business activities and the state of its assets for 2018

SAZKA a.s. ("the Company") especially engages in the operation of games of chance.

The Company's principal business activities comprise the operation of lotteries, fixed-odds betting and technical games.

In 2018, the Company also continued to promote its other 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 2018, the Company generated profits before tax of TCZK (thousands of Czech crowns) 1 617 239.

The total amount wagered with the Company was TCZK 15 279 219.

The Company's assets and liabilities as at 31 December 2018 were the following:

- Non-current assets amounted to TCZK 12 709 762, of which non-current intangible assets totalled TCZK 2 228 452, property, plant and equipment amounted to TCZK 723 162 and goodwill amounted to TCZK 9 636 122.
- Current assets amounted to TCZK 1 308 978, of which current trade receivables and other current assets amounted to TCZK 335 853, and cash and cash equivalents to TCZK 966 615.

As at 31 December 2018, the Company's equity amounted to TCZK 4 495 931 and liabilities including external resources amounted to TCZK 9 522 809.

Risk management

The Company's risk management involves the identification, quantification, inspection and subsequent monitoring of circumstances that could have a financial impact or lead to the loss of the Company's position on the market.

The risk management method of the Company complies with ISO 27001:2013, ISO 31000:2018 and WLA-SCS:2016 standards.

The principal tool for risk management is the risk catalogue, containing all identified risks in the Company and their seriousness. Each risk is assessed for its impact and the probability of its occurrence. Each risk in the risk catalogue has its owner who proposes a measure to mitigate the risk and is responsible for its implementation and regular update.

The entire process of risk management is regularly assessed using the risk analysis report, which is submitted at least once a year and approved by the Company's management.

Financial instruments

SAZKA a.s. concluded interest rate swaps (IRS) with which it hedges interest payments from the loan drawn. The said derivatives are recorded as hedging instruments and are used to cover the risk of volatility of future cash flows arising from interest payments from the said loan.

Occasionally, forwards are used for hedging foreign currency to settle foreign currency liabilities.

ASSESSMENT OF THE COMPANY'S MAIN ACTIVITIES IN 2018

Games of chance

Number lotteries

In 2018, the Company created new and original opportunities for customer betting and entertainment that proved to be very popular. These included, for instance, an extraordinary drawing of lots in the Sportka lottery or Czech Friday in the Eurojackpot lottery. The revenues from Eurojackpot increased almost by 50% year-on-year also thanks to high jackpots.

Scratch tickets

The Company sold a record of 47 000 000 tickets and the revenues increased by 50% year-on-year. On this particular market, we launched 19 new products.

Fixed-odds betting

Fixed-odds betting saw significant growth. Sazkabet utilised the strong sports year of 2018 to the fullest.

Online

The Company launched a new online gaming vertical of the SAZKA game and extended its portfolio of lotteries to include Rychlé kačky, Šťastných 10 and Keno.

CRM

The management of online campaigns changed significantly due to the cooperation of teams across the Company's divisions. The SAZKA club membership programme for retail customers launched a whole range of new activities. At the end of 2018, the Company had a total of 200 000 registered customers in the SAZKA club.

Other activities

In April 2018, SAZKAmobil increased the rewards for the additional topping up of pay-as-you-go mobile phones to CZK 100 and 1 GB free of charge. It further reduced the data package price and increased the data package size, offering up to 10 GB. It also presented a new flat rate with 5 GB for CZK 407. SAZKAmobil continues to be the biggest independent virtual operator on the Czech market.

In cooperation with Direct Parcel Distribution CZ s.r.o., the Company launched DPD Pick-up in November 2018: a new service enabling the issue of parcels in 750 points of sale.

Outlook for future development of activities and the Company's financial performance

2018 was a truly extraordinary year for the Company and was positively influenced by the development of jackpots for number lotteries. As a similar development is not assumed for 2019, we expect the growth in revenues and profit to be lower. The Company will continue to intensively promote all its key products using marketing and it expects a growth in revenues for most portfolio products, in particular for instant lotteries and technical games.

In Prague, on 24 June 2019.

.....
Pavel Šaroch
Chairman and member
of SAZKA a.s.'s Board of Directors A

.....
David Havlín
Member of SAZKA a.s.'s Board of
Directors B

Report of the SAZKA a.s./ Board of Directors 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 Praha 9, K Žižkovu 851, Post Code 190 93, Id. No.: 26493993, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 7424 ("the Company") was a controlled entity within the meaning of Section 74 et seq. of Act No. 90/2012 Coll., on Companies and Cooperatives ("the Corporations Act") in the accounting period from 1 January 2018 to 31 December 2018 ("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 ("the Report on Relations" and "Related Entities") 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 entities

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, recorded in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 18161; simultaneously, SAZKA Group a.s. is a controlling entity pursuant to Section 74 (3) of the Corporations Act.

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, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 18644.

SAZKA Group a.s. is further controlled directly by KKCG AG, with its registered office at Kapellgasse 21, 6004 Lucerne, Switzerland, Reg. No. CHE-326.367.231 and EMMA CAPITAL LIMITED, with its registered office at Themistokli 48, Athienitis Centennial Building, 3rd Floor, Office 303, 1066 Nicosia, Cyprus, Reg. No. HE310908 (acting in conformity with EMMA GAMMA LIMITED and EMMA ALPHA HOLDING LTD).

The list of all related entities (related to the Company) is an appendix to this Report on relations.

2. Role of the Company

The Company plays an important role within the SAZKA Group: it is the biggest lottery operator in the Czech Republic. The principal activities consist of the operation of games of chance in accordance with the generally binding legal regulations, in particular in accordance with Act No. 186/2016 Coll., on Games of Chance. In addition to games of chance, the Company also operates other 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 the Related Entities, where the acts concern property exceeding 10% of the Company's equity ascertained from the last financial statements:

- Continuous depositing of available cash based on the CASH POOLING AGREEMENT with KKCG Structured Finance AG of 31 May 2016 (as mentioned in Article 5.2. above);
- Decision by the Company's statutory body - the Board of Directors - of 22 August 2018 on the distribution of an advance on the share of profits (dividend) of CZK 1 220 000 000 in favour of SAZKA Czech a.s.;
- On 27 April 2018 and 23 August 2018, the Company sent a dividend totalling CZK 500 000 000 in favour of SAZKA Czech a.s.;
- On 23 August 2018, the Company sent an advance on the share of profits (dividend) of CZK 1 220 000 000 in favour of SAZKA Czech a.s.;

5. Overview of mutual contracts

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

- Preliminary Lease Contract for the Bořislavka Centre with BOŘISLAVKA OFFICE&SHOPPING CENTRE s.r.o. of 19 February 2018;
- Cooperation Contract with Cestovní kancelář FISCHER, a.s. of 26 January 2018;
- Amendment No. 2 to the Contract on Adjustment of Relations within the VAT Group with MND a.s. and SAZKA FTS a.s. of 20 March 2018;
- Non-disclosure and Confidentiality Agreement with Conectart s.r.o. of 5 January 2018;
- Contract for the Provision of Services by an External Call Centre with Conectart s.r.o. of 8 January 2018;
- Amendment No. 1 to the Contract for the Provision of Services by an External Call Centre with Conectart s.r.o. of 3 April 2018;
- Contract for Personal Data Processing with Conectart s.r.o. of 6 June 2018;
- Contract for the Provision of Services of a Registry with Conectart s.r.o. of 22 June 2018;
- Letter of Intent with Conectart s.r.o. of 19 June 2018;
- Contract for the Provision of Reprography Services with Conectart s.r.o. of 1 September 2018;
- Settlement agreement with DataSpring s.r.o. of 23 January 2018;
- Non-disclosure and Confidentiality Agreement with DataSpring s.r.o. of 23 January 2018;
- Amendment No. 6 to the Contract for Lease of Premises Intended for Business Purposes with DataSpring s.r.o. of 23 January 2018;
- Letter of intent with DataSpring s.r.o. of 23 January 2018;
- Amendment No. 7 to the Contract for Lease of Premises Intended for Business Purposes with DataSpring s.r.o. of 9 April 2018;
- Amendment No. 1 to the Contract on the Supply and Implementation of Backing Up Hardware and Software, incl. Maintenance with DataSpring s.r.o. of 18 December 2018;
- Amendment No. 1 to the Contract for the Transfer of Activities and Services and to the Contract for the Provision of Services of Property Administration and Maintenance with FM&S Czech a.s. of 20 July 2018;
- Cooperation Contract with JITU Czech s.r.o. of 7 June 2018;
- Amendment No. 1 to the Contract for Lease of Premises Intended for Business Purposes with Kavárna štěstí s.r.o. of 29 May 2018;
- Cooperation Contract with Kavárna štěstí s.r.o. of 15 August 2018;
- License agreement for Registered Trademarks and Copyright Work with Kavárna štěstí s.r.o. of 31 August 2018;
- Contract for Personal Data Processing with KKCG a.s. of 18 June 2018;
- Amendment No. 1 to the Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 18 April 2018;
- Amendment No. 3 to the Contract for Comprehensive Services for Supplies of Gas with MND a.s. of 18 April 2018;
- Business Cooperation Contract with MND a.s. of 8 August 2018;
- Amendment No. 1 to the Contract for the Provision of Services with SafeDX s.r.o. of 23 April 2018;
- Amendment No. 1 to the Contract for the Lease of Premises Intended for Business Purposes with SAZKA FTS a.s. of 29 May 2018;
- Framework Deposit Agreement with SAZKA Group a.s. of 17 September 2018;
- Deposit Termination with SAZKA Group a.s. of 21 December 2018;
- Amendment No. 2 to the Contract for the Lease of Premises Intended for Business Purposes with SPORTLEASE a.s. of 29 May 2018;

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

- Contract on Adjustment of Relations within the VAT Group with Cestovní kancelář FISCHER, a.s. of 17 December 2018 as amended by Amendment No. 1 with MND a.s. and Cestovní kancelář FISCHER, a.s., and by Amendment No. 2 with MND a.s., Cestovní kancelář FISCHER, a.s. and SAZKA FTS a.s.;
- 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;
- Business Cooperation Contract with Cestovní kancelář FISCHER, a.s. of 7 March 2016;
- Framework Advisory Services Agreement with KKCG a.s. effective from 1 January 2016;
- Contract for Provision of Security Services with Kynero Consulting a.s. of 1 August 2015;
- Contract for Comprehensive Services for Supplies of Gas with MND a.s. of 8 December 2015 as amended by Amendment No. 1 to 3;
- Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 20 December 2017 as amended by Amendment No. 1;
- Non-disclosure Agreement with MND a.s. of 13 October 2017;
- Business Cooperation Contract with MND a.s. of 19 October 2017;
- Contract for Lease of Premises Intended for Business Purposes with SAZKA FTS a.s. of 1 August 2016 as amended by Amendment No. 1;
- 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 Kavárna štěstí s.r.o. of 1 August 2016 as amended by

- Amendment No. 1;
- Contract for the Provision of Services with Kavárna štěstí s.r.o. of 15 February 2017;
 - 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 Agendas with SPORTLEASE a.s. of 28 April 2003, as amended by Amendment No. 1;
 - Contract for Lease of Premises Intended for Business Purposes with Conectart s.r.o. of 27 April 2017 as amended by Amendment No. 1;
 - Cooperation Contract with Conectart s.r.o. of 7 February 2014 as amended by Amendment No. 1 and 2;
 - Contract on the Provision of Services with SafeDX s.r.o. of 21 July 2017 as amended by Amendment No. 1;
 - Contract for Lease of Premises Intended for Business Purposes with DataSpring s.r.o. of 21 February 2014 as amended by Amendment No. 1 to 7.
 - Contract for the Supply and Implementation of Hardware and Software and the Provision of Services of Communication System of Unified Communication and Maintenance with DataSpring s.r.o. of 20 October 2015 as amended by Amendment No. 1;
 - 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;
 - 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 (terminated on 4 November 2018);
 - Contract for the Transfer of Activities and Services, and Contract for the Provision of Services of Property Administration and Maintenance with FM&S Czech a.s. of 1 February 2016 as amended by Amendment No. 1;
 - Non-disclosure and Confidentiality Agreement with Springtide Ventures s.r.o. of 3 June 2015 (terminated on 3 June 2018);
 - Non-disclosure and Confidentiality Agreement with Springtide Ventures s.r.o. of 27 November 2015 (terminated on 27 November 2018);
 - 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;
 - 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. of 22 December 2017;
 - Cash Pooling Agreement with KKCG Structured Finance AG of 31 May 2016.

6. Assessment of damage incurred and its settlement

The Company incurred no damage due to the impact of Related Entities in the Accounting Period.

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

Being part of the SAZKA Group with SAZKA Group a.s. as the managing entity, 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 Entities can provide security for the Company's financial liabilities).

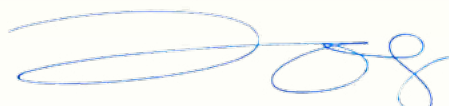
The Company identified no disadvantages following from relations with Related Entities.

Appendix: List of related entities

In Prague, on 18 March 2019.



Pavel Šaroch
Chairman and member
of SAZKA a.s.'s Board of Directors A



David Havlín
Chairman and member
of SAZKA a.s.'s Board of Directors B

Appendix No. 1 - List of related entities as at 31 December 2018

COMPANY	Registered Office, Identification Number / Registration Number
ANTAIOS s.r.o.	Ostrava, Moravská Ostrava, Nemocniční 987/12, Post Code 702 00, Id. No. 28345801
Austrian Gaming Holding a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 04047788
AUTOCONT a.s.	Hornopolská 3322/34, Moravská Ostrava, 702 00 Ostrava, Id. No. 04308697
AUTOCONT s.r.o.	Einsteinova 24, Bratislava 851 01, Slovakia, Id. No. 36396222
Belisar B.V.	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 57169284
BOŘISLAVKA OFFICE & SHOPPING CENTRE s.r.o	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 27457621
BOSM Czech, s.r.o.	Vinohradská 1511/230, Strašnice, 100 00 Praha 10, Id. No. 067 73 877
BXY Czech a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 04559851
CAD Studio s.r.o.	Ostrava, Moravská Ostrava, Hornopolská 3322/34, Post Code 702 00, Id. No. 26197081
CAME Holding GmbH	Universitätsring 10, 1010 Vienna, Austria, Reg. No. 038898d
Cestovní kancelář FISCHER, a.s.	Praha 4 – Nusle, Na Strži 65/1702, Post Code 140 62, Id. No. 26141647
CKF facility s.r.o.	Praha 4 – Nusle, Na Strži 65/1702, Post Code 140 62, Id. No. 28982738
CLS Beteiligungs GmbH	Goldschmiedg. 3, 1010 Vienna, Austria, Reg. No. FN84419x
Collington II Limited	Custom House Plaza Block 6, International Financial Services Centre, Dublin 1, Ireland, Reg. No. 506335
Conectart s.r.o.	Praha 9, Vysočany, K Žižkovu 851/4, Post Code 190 00, Id. No. 24728055
DataSpring s.r.o.	Praha 9, Vysočany, K Žižkovu 851/4, Post Code 190 00, Id. No. 28808681
EMMA DELTA FINANCE PLC	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE 284780
EMMA DELTA HELLENIC HOLDINGS LTD	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE320752
EMMA DELTA MANAGEMENT LTD	Arch. Makariou III, 2-4, CAPITAL CENTER, 9th floor, 1065 Nicosia, Kyperská republika, re.č. HE314151
EMMA DELTA VARIABLE CAPITAL INVESTMENT COMPANY LTD	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE314350
FM&S Czech a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 04283112
Geologichchne byreau "Lviv" LLC	L'vivska Oblast, L'viv, 79011, ul. Kubyovycha 18, Office 6, Ukraine
G-JET s.r.o.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 27079171
"Horyzonty" LLC	L'vivska Oblast, L'viv, 79005, Akademika Pavlova 6C, Office 7, Ukraine, Reg. No. 31978102
HELLENIC LOTTERIES S.A.	112 Athinon Avenue, Athens, Greece, Reg. No. 25891401000
HORSE RACES S.A.	112 Athinon Avenue, Athens, Greece, Reg. No. 132846101000
IGH Financing a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 05034353
INDUSTRIAL CENTER 28/23 SP. Z O.O.	ul. Twarda 18, 00-105 Warszawa, Poland
INTERMOS Bratislava s.r.o.	Bratislava, Moskovská 13, Post Code 811 08, Slovakia, Id. No. 35898411
INTERMOS Praha s.r.o.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 63076349
IPM – Industrial Portfolio Management a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 04572033
Austrian Gaming Holding a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 04828526
JTU Czech, s.r.o.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 02612020
Kavárna štěstí s.r.o.	Praha 9, K Žižkovu 851/4, Post Code 190 00, Id. No. 05111901
KKCG AG	Kapellgasse 21, 6004 Lucerne, Switzerland, Reg. No. CHE-236.367.231
KKCG a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 27107744
KKCG Director 1 B.V. (in liquidation)	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 58856765
KKCG Entertainment & Technology B.V. (in liquidation)	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 58856765
KKCG Industry B.V.	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 27271144
KKCG Investments AG	Kapellgasse 21, 6004 Lucerne, Switzerland, Reg. No. CHE-271.643.388

KKCG Real Estate a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 24291633
KKCG Structured Finance AG	Kapellgasse 21, 6004 Lucerne, Switzerland, Reg. No. CHE-292.174.442
KKCG Technologies s.r.o.	Vinohradská 1511/230, Strašnice, 100 00 Praha 10, Id. No. 07171234
KKCG UK Limited	London, One Connaught Place, 5th Floor, W2 2ET, United Kingdom, Reg. No. 8869774
KKCG US LLC	1675 South State Street, Suite B, Dover, DE, County of Kent, 19901, USA, Reg. No. 36-4831670
Kura Basin Operating Company LLC	70 Kostava Street (5 Gamsakhurdia Avenue), Tbilisi, Georgia, Reg. No. 405171567
Kynero Consulting a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 24193461
Liberty One Methanol LLC	400 Capitol Street, Suite 200, Charleston WV 25301, USA
Liberty One O&M LLC	400 Capitol Street, Suite 200, Charleston WV 25301, USA
Liberty Two Methanol LLC	400 Capitol Street, Suite 200, Charleston WV 25301, USA
LP Drilling S.r.l.	29016 Cortemaggiore, Salvo D'Acquisto 5, Italy, Reg. No. 01294260334
LTB Beteiligungs GmbH	Universitätsring 14, 1010 Vienna, Austria, Reg. No. FN84439a
Medial Beteiligungs-Gesellschaft m.b.h.	Goldschmiedgasse 3, 1010 Vienna, Austria, Reg. No. 117154k
MEDICEM Group a.s.	Vinohradská 1511/230, Strašnice, 100 00 Praha 10, Id. No. 07118422
MEDICEM Institute s.r.o.	Kamenné Žehrovice, Karlovarská třída 20, Post Code 273 01, Id. No. 26493331
MEDICEM Technology s.r.o	Kamenné Žehrovice, Karlovarská třída 20, Post Code 273 01, Id. No. 48036374
Metanol d.o.o.	Lendava, Mlinska ulica 5, 9220 Lendava – Lendva, Slovenia
Minus5 d.o.o.	Karlovačka cesta 24, 10 000 Zagreb, Croatia, Reg. No. 080697041
MND a.s.	Hodonín, Úprkova 807/6, Post Code 695 01, Id. No. 28483006
MND Drilling & Services a.s.	Lužice, Velkomoravská 900/405, Post Code 696 18, Id. No. 25547631
MND Drilling Germany GmbH	31582 Nienburg, Domänenweg 7, Germany, Reg. No. HRB206722
MND Energy Trading a.s	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 29137624
MND Gas Storage a.s.	Hodonín, Úprkova 807/6, Post Code 695 1, Id. No. 27732894
MND Gas Storage Germany GmbH	64665 Alsbach-Hähnlein, Birkenweg 2, Germany, Reg. No. HRB96046
MND Georgia B.V.	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 52308944
MND Germany GmbH	Lüneburger Heerstraße 77A, 29223 Celle, Germany, Reg. No. HRB207844
MND Group B.V.	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 34246576
MND Oil & Gas a.s	Úprkova 807/6, 695 01 Hodonín, Id. No. 07435304
MND Samara Holding B.V.	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 52990680
MND Ukraine B.V.	1101CT Amsterdam, Herikerbergweg 292, Netherlands, Reg. No. 59394072
MNG Group AG	Kapellgasse 21, 6004 Lucerne, Switzerland, Reg. No. CHE-448.401.517
Moravia Systems a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 26915189
NEUROSOFT S.A.	466 Irakliou Avenue & Kiprou Street, 141 22 Iraklio Attikis, Athens, Greece, Reg. No. 84923002000
000 Belisar	Saratov, ulitsa Chelyuskintsev 68, 410031, Russia, Reg. No. 1116317007674
000 MND Samara	ul. Alexeya Tolstogo 92, Samara, Samarská obl., 443099, Russia, Reg. No. 1046301405094
OPAP CYPRUS LTD	128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus Reg. No. HE140568
OPAP INTERNATIONAL LTD	128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus Reg. No. HE145913
OPAP INVESTMENT LTD	128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus Reg. No. HE297411
OPAP S.A.	112 Athinon Avenue, Athens, Greece, Reg. No. 3823201000
OPAP SERVICES S.A.	112 Athinon Avenue, Athens, Greece, Reg. No. 5873501000
OPAP SPORTS LTD	128-130 Lemesos Avenue, Strovolos, 2015, Nicosia, Cyprus Reg. No. HE133603
PDC INDUSTRIAL CENTER 48 SP. Z O.O.	ul. Twarda 18, 00-105 Warsaw, Poland

POM Czech, s.r.o.	Vinohradská 1511/230, Strašnice, 100 00 Praha 10, Id. No. 06773800
Precarpathian energy company LLC	Ivano-Frankovska Oblast, Bogorodchany, 77701, ul. Shevchenka, Ukraine
Puni broj d.o.o.	Stupnička 10, 10 000 Zagreb, Croatia, Reg. No. 080449012
Rezervoarji d.o.o	Lendava, Mlinska ulica 5, 9220 Lendava – Lendva, Slovenia
RUBIDIUM HOLDING LIMITED	8 Alasias Street, Christodoulides Building, 3095 Limassol, Cyprus Reg. No.HE287956
SafeDX s.r.o.	Praha 9, Vysočany, K Žižkovu 813/2, Post Code 190 00, Id. No. 04585119
SALEZA, a.s. (in bankruptcy)	Praha 9, K Žižkovu 851, Post Code 190 93, Id. No. 47116307
SAZKA a.s.	Praha 9, K Žižkovu 851, Post Code 190 93, Id. No. 26493993
SAZKA Asia a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 05266289
Sazka Asia Vietnam Company Limited	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.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 24852104
Sazka Distribution Vietnam Joint Stock Company	No. 10 Pham Van Hai, Ward 2, Tan Binh District, Ho Chi Minh City, Vietnam, Reg. No. 0313898374
SAZKA FTS a.s.	Praha 9, Vysočany, K Žižkovu 851/4, Post Code 190 00, Id. No. 01993143
SAZKA Group a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 24287814
SAZKA Group Adriatic d.o.o.	Krčka 18/d, 10 000 Zagreb, Croatia, Reg. No. 081147835
SAZKA Group Financing a.s.	Dúbravská cesta 14, Bratislava - mestká časť Karlova Ves, Post Code 841 04, Slovakia, Id. No. 51142317
SAZKA Group PLC	One Connaught Place, London, W2 2ET, United Kingdom, Reg.No. 11184992
SAZKA Group Russia LLC	Prospect Mira 40, floor 8, premise 1, room 11, 129090 Moscow, Russia, Reg. No. 1177746915257
SG INDUSTRIAL CENTER 02 SP. Z O.O.	ul. Twarda 18, 00-105 Warsaw, Poland
SIL Servis Partner a.s.	Ostrava, Slezská Ostrava, Těšínská 1970/56, Post Code 710 00, Id. No. 25830953
SPORTLEASE a.s.	Praha 9, K Žižkovu 851, Post Code 190 93, Id. No. 62361546
Springtide Ventures s.r.o.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 01726587
SUPER SPORT d.o.o.	Krčka 18/d, 10 000 Zagreb, Croatia, Reg. No. 080352592
Theta Real s.r.o.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 27631842
TOK Poland Sp. Z o.o.	ul. Żłota 59, 00-120 Warszawa, Poland
TORA DIRECT S.A.	108 Athinon Avenue and Chrimatistiriou Street, Athens, Greece, Reg. No. 5641201000
TORA WALLET S.A.	108 Athinon Avenue and Chrimatistiriou Street, Athens, Greece, Reg. No. 139861001000
US Methanol LLC	400 Capitol Street, Suite 200, Charleston WV 25301, USA
VESTINLOG, s.r.o.	Vinohradská 1511/230, Strašnice, 100 00 Praha 10, Id. No. 05629276
Vinohradská 230 a.s.	Praha 10, Strašnice, Vinohradská 1511/230, Post Code 100 00, Id. No. 26203944
Vitalpeak Limited	Arch. Makariou III, 195, Neocleous House, 3030 Limassol, Cyprus, Reg. No. HE 228204
WOODSLOCK a.s.	Praha 4, Libalova 2348/1, Post Code 149 00, Id. No. 27379434
Bellville Services Ltd	Tropic Isle Building, P.O. Box 3423, Road Town, Tortola, British Virgin Islands, Reg. No. 1782780
Emerging Markets Capital, a.s.	Na Zátorce 672/24, Bubeneč, 160 00 Praha 6, Id. No. 24262803
Emma Alpha Holding Ltd	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE313347
Emma Beta Holding Ltd	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE313575
Emma capital (BVI) Limited	Tropic Isle Building, P.O.Box 3423, Road Town, Tortola, British Virgin Islands, Reg. No. 1730358
Emma Capital Limited	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE310908
Emma Gamma finance a.s.	Dúbravská cesta 14, Bratislava - mestká časť Karlova Ves, 841 04, Slovakia, Id. No. 50897942

Emma Gamma Limited	Themistokli Dervi 48, Athienitis Centennial Building, 3rd floor, Office 303, 1066 Nicosia, Cyprus, Reg. No. HE347073
Emma Omega Ltd	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE319479
Forte Gaz GN S.r.l.	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.	Ghermanesti village, Aleea Islaz, Ilfov County, Snagov, Romania, Reg. No. J23/273/2001
Chapalaco imited	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE316455
Ligatne Limited	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE172557
Marjolendo Limited	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE310114
Paresta Limited	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE321734
Premier Energy Srl	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	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE311844
Serenity Resources Limited	premise 1, room 11, 129090 Moscow, Russian, Reg. No. 1177746915257
Timgaz S.A.	19C Principala St., Buzias, Timis County, Romania, Reg. No. J35/1147/1999
Tonala Limited	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Cyprus, Reg. No. HE315858

Financial statements

SAZKA a.s.

Financial statements for the year ended 31 December 2018 (in CZK thousand)

		For 2018	For 2017
Statement of profit or loss and other comprehensive income			
	Note		
Amounts stated	4	15 279 219	12 699 408
<i>Statement of profit or loss and other comprehensive income is as follows:</i>			
Gross gaming revenue		6 442 455	5 420 945
Lottery tax		-1 493 297	-1 260 082
Net margin from lottery and betting activities*		4 949 158	4 160 863
Revenue from goods and services	4	412 699	387 376
Other operating revenues		32 265	5 559
Partner fees	5	-785 384	-691 394
Materials and consumables	6	-1 218 658	-1 053 177
Marketing expenses	7	-598 022	-544 005
Personnel expenses	8	-476 133	-372 326
Other operating expenses	9	-286 892	-289 503
Profit/loss from operating activities before interest, tax, depreciation and amortisation (EBITDA)		2 029 033	1 603 393
Depreciation and amortisation	10	-93 056	-106 446
Profit/loss from operating activities		1 935 977	1 496 947
Interest revenue	12	1 332	547
Interest expense	12	-319 558	-314 176
Other profit (+)/loss (-) relating to financial activity	12	-512	177
Profit/loss from financial operations		-318 738	-313 452
Profit/loss before tax		1 617 239	1 183 495
Income tax	13	-316 691	-211 182
Profit/loss for the accounting period		1 300 548	972 313
Items that are or may be reclassified to profit or loss:			
Remeasurement of hedging derivatives		-106 367	109 414
Deferred tax from remeasurement of hedging derivatives	17	20 209	-20 789
Other comprehensive income for the accounting period (after tax)		-86 158	88 625
Comprehensive income for the accounting period		1 214 390	1 060 938

* Usually stated as net gaming revenue (NGR).

The notes to the financial statements on pages 7 to 56 form an integral part of these financial statements.

SAZKA a.s.

Financial statements for the year ended 31 December 2018 (in CZK thousand)

<i>Statement of financial position</i>	Note	31/12/2018	31/12/2017
ASSETS			
Intangible assets	14	2 228 452	2 196 876
Goodwill	14	9 636 122	9 636 122
Property, plant and equipment	15	723 162	717 910
Other non-current investments	16	19 656	19 656
Blocked accounts	20	55 000	0
Non-current trade receivables and other non-current assets	18	47 370	9 075
Total non-current assets		12 709 762	12 579 639
Inventories		6 510	11 969
Current trade receivables and other current assets	18	335 853	283 747
Current receivables from financial instruments	19, 22	0	272 851
Cash and cash equivalents	20	966 615	735 903
Current income tax asset	13	0	22 574
Total current assets		1 308 978	1 327 044
Total assets		14 018 740	13 906 683

The notes to the financial statements on pages 7 to 56 form an integral part of these financial statements.

SAZKA a.s.

Financial statements for the year ended 31 December 2018 (in CZK thousand)

<i>Statement of financial position (continued)</i>	Note	31/12/2018	31/12/2017
LIABILITIES AND EQUITY			
Equity			
Share capital	21	450 000	450 000
Capital and other reserves		1 426 690	1 512 848
Retained earnings and profit/loss for the current period		2 619 241	3 086 557
Total equity		4 495 931	5 049 405
Liabilities			
Bank loans and other loans - non-current portion	22	6 532 266	4 517 471
Non-current payables from financial instruments	16, 22	85 255	50 892
Deferred tax liability	17	285 541	309 657
Non-current provisions	24	87 839	65 879
Total non-current liabilities		6 990 901	4 943 899
Bank loans and other loans - current portion	22	627 684	2 287 364
Current trade and other payables	23	1 462 673	1 378 556
Current income tax liability	13	116 442	--
Current provisions	24	325 109	247 459
Total current liabilities		2 531 908	3 913 379
Total liabilities		9 522 809	8 857 278
Total equity and liabilities		14 018 740	13 906 683

The notes to the financial statements on pages 7 to 56 form an integral part of these financial statements.

SAZKA a.s.

Financial statements for the year ended 31 December 2018 (in CZK thousand)

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 2017	450 000	1 424 223	2 553 488	4 427 711
Payment of dividends	--	--	-443 983	-443 983
Impact of merger – see 21	--	--	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
	Share capital	Other capital reserves	Retained earnings and profit/loss for the current period	Total equity
Balance at January 2018	450 000	1 512 848	3 086 557	5 049 405
Payment of dividends	--	--	-1 720 000	-1 720 000
Other movements in the individual components of equity	--	--	-47 864	-47 864
Profit/loss for 2018	--	--	1 300 548	1 300 548
Remeasurement of hedging derivatives	--	-86 158	--	-86 158
Comprehensive income for 2018	--	-86 158	1 300 548	1 214 390
Balance at 31 December 2018	450 000	1 426 690	2 619 241	4 495 931

The notes to the financial statements on pages 7 to 56 form an integral part of these financial statements.

SAZKA a.s.
Financial statements for the year ended 31 December 2018 (in CZK
thousand)

Statement of cash flows

	Note	For 2018	For 2017
<u>OPERATING ACTIVITIES</u>			
Profit (+) for the accounting period		1 300 548	972 313
<i>Adjustments for:</i>			
Income tax	13	316 691	211 182
Depreciation of property, plant and equipment and amortisation of intangible assets	10	93 056	106 446
Gain (-)/loss (+) on sale of property, plant and equipment and intangible assets		1 339	-567
Gain (-)/loss (+) on remeasurement of non-current assets, financial instruments and investments		846	--
Net interest expense (+)	12	318 226	313 629
Derecognition of impairment of assets (-)/impairment of assets (+)		0	-295
Non-financial impact of merger	21	0	-4 739
Net foreign exchange gain (-)/loss (+)		1 883	--
Other financial gains (-)/losses (+)		- 1 722	--
Operating profit/loss prior to the change in working capital and provisions		2 030 868	1 597 969
Increase (+)/decrease (-) in provisions	24	51 745	3 814
Increase (-)/decrease (+) in inventories		5 459	-875
Decrease (+)/increase (-) in trade receivables and other assets	18	- 145 401	5 526
Decrease (-)/increase (+) in trade and other payables	23	73 476	242 326
Cash generated from operating activities		2 033 507	1 848 760
Interest paid		- 435 328	-340 131
Income tax paid		- 170 545	-264 335
Net cash flow from operating activities		1 410 274	1 244 294
<u>INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	15	- 54 921	-42 688
Acquisition of intangible assets	14	- 80 055	-71 289
Proceeds from sale of property, plant and equipment and intangible assets		3 196	914
Proceeds from sale of investments	16	0	22 543
Acquisition of an investment	21	0	-125 008
Interest received	12	1 332	547
Increase in cash due to a merger	21	0	62 714
Net cash flow generated (+)/used (-) in investing activities		- 130 448	-152 267
<u>FINANCING ACTIVITIES</u>			
Loans received	22	7 500 000	--
Loans paid	22	- 7 029 116	-783 333
Dividends paid	21	- 1 720 000	-443 983
Net cash flow used (-) in financing activities		- 1 249 116	-1 227 316
<i>Net decrease (-)/increase (+) in cash and cash equivalents</i>		30 711	-135 289
Balance of cash and cash equivalents at the beginning of the accounting period	20	935 904	1 071 193
Balance of cash and cash equivalents at the end of the accounting period	20	966 615	935 904

The notes to the financial statements on pages 7 to 56 form an integral part of these financial statements.

SAZKA a.s.

Financial statements for the year ended 31 December 2018 (in CZK thousand)

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SAZKA a.s.

Financial statements for the year ended 31 December 2018 (in CZK thousand)

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 lotteries, fixed-odds betting and games of skill.

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 19 August 2011. The Company’s registered office is at K Žižkovu 851, Praha 9, post code 190 93, identification number 264 93 993.

The beneficial owner of SAZKA a.s. is Karel Komárek, on the grounds referred to in Section 4 (4) of Act No. 253/2008 Coll., on Selected Measures against Legitimation of Proceeds of Crime and Financing of Terrorism, as amended, i.e. on the grounds that Karel Komárek is an individual who de facto has the possibility to exercise decisive influence in SAZKA a.s. indirectly.

1.2. Business activities

The principal business activities consist of the operation of games of chance in accordance with the generally binding legislation, i.e. the operation of instant and number lotteries, fixed-odds betting and games of skill in accordance with Act No. 186/2016 Coll., on Gambling (“the Gambling Act”).

In addition to gambling activities, SAZKA a.s. also pursues other business activities through points of sales and terminals (such as topping up prepaid cards for mobile phones; arranging sales of tickets for diverse cultural, sporting, and social events; 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 2018 (6 members

based on the statutes):

Pavel Šaroch, 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 2018 (3 members

based on the statutes):

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

SAZKA a.s.

Financial statements for the year ended 31 December 2018 (in CZK thousand)

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 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

No significant changes were made in 2018.

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 2018 and also in the preparation of comparative information, i.e. as at 31 December 2017.

These financial statements were approved by the Company's board of directors on 24 June 2019.

(b) Valuation method

The financial statements were prepared on a going concern basis using the historic cost method, except for the cases in accounting policies specified below.

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;
- note 26 – assessment of legal disputes.

(e) 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.

(f) New standards and interpretations effective for the period beginning on 1 January 2018

During the year, the Company initially applied new accounting standards and amendments to standards valid for the accounting period beginning on 1 January 2018:

Amendments, new and amended standards and interpretations	Effective for the period beginning on or after
Annual Improvements to IFRS 2014-2016 Cycle	1 January 2018
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018

The Company adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in advance as at 1 January 2017. The adoption of the standards, amendments and interpretations above during the period had no significant impact on the Company.

Standards and interpretations used before the effective date

The Group did not use any standard or interpretation before its effective date.

Standards and interpretations issued, but not used yet

As at the date of preparation of the financial statements, the following standards and interpretations, not yet effective and not used by the Company before their effective date, were issued:

Amendments, new and amended standards and interpretations	Effective for the period beginning on or after
IFRS 3 – Amendments to IFRS 3 Definition of a Business	1 January 2020*)
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021*)
IFRS 9 – Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IFRS 10, IAS 28 – Amendments to IFRS 10 and IAS 28 Sale or Contributions of Assets between an Investor and its Associate or Joint Venture	The date will be set*)
IAS 1, IAS 8 – Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020*)
IAS 19 – Amendments to IAS 19 Plan Amendment, Curtailment or Settlement	1 January 2019*)
IAS 28 – Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019*)
Annual Improvements to IFRS 2015-2017 Cycle	1 January 2019*)
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

*) Standards, amendments and interpretations that have not yet been approved to be used in the EU

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 an asset used and a lease liability. The used 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, approximately up to EUR 4.5 thousand.

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 2018:

- leased premises;
- cars;
- IT equipment.

As at the date of initial application, the Company will recognise a lease liability measured at the current value of lease payments, including those assessed as sufficiently certain that the Company will use the option to extend the lease, or will not use the option to terminate the lease, discounted using the incremental interest rate of Sazka Group a.s. Moreover, the Company will recognise right-of-use assets in the amount corresponding with the lease liability adjusted by an amount of all prepaid or accrued lease payments relating to this lease recognised in the statement of financial position immediately prior to the initial application.

The Company expects that the new standard will have a significant impact on the financial statements. The standard requires the Company to recognise assets and liabilities relating to operating leases for which the Company acts as a lessee in its statement of financial position.

As a result of the initial application of IFRS 16, the increase in total assets and liabilities in the statement of financial position will be significant, due to the capitalisation of right-of-use assets and the recognition of lease liabilities. The nature of expenses relating to these leases will also change, because IFRS 16 replaces operating lease expenses with the depreciation from right-of-use assets and interest expense on lease liabilities. This will result in significant improvement in EBITDA. Based on the analysis carried out, the Company would report right-of-use assets of approximately CZK 58 870 thousand and the corresponding increase in lease liabilities in the consolidated statement of financial position in 2018.

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) Financial instruments

Financial assets and financial liabilities are reported as soon as the Company becomes party to contractual provisions of a financial instrument.

Effective interest method

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.

(b) Non-derivative financial assets (*Appendix table 16*)

Financial assets measured at amortised cost

Loans and receivables (including bank balances) are financial assets held within a business model whose objective is to obtain contractual cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Therefore, the Company measures these assets at amortised cost using the effective interest method less any impairment losses. These assets arise when the Company provides cash, goods or services directly to a debtor and has no intention to trade the receivable.

In 2018, the Company recorded loans and receivables at amortised cost using the effective interest method less any impairment losses.

i. 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.

ii. 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.

iii. 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.

iv. 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.

(c) Non-derivative financial liabilities (*Appendix table 23*)

Financial liabilities measured at amortised cost

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.

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.

(d) Financial assets measured at fair value through profit or loss (“FVTPL”)

An instrument is classified as measured at FVTPL if it is held for trading or within a business model whose objective is to manage a financial asset on the basis of fair value, i.e. it will be realised through sale, in contrast to the objective of holding this asset to obtain contractual cash flows. This category presents the “initial” or “residual” category, unless the requirements for classifying a financial asset as a financial asset at amortised cost or a financial asset at FVOCI are met. At initial recognition, the related transaction costs are reported in profit or loss at the moment they are incurred. Financial instruments at FVTPL are measured at fair value and their changes are reported in the profit or loss from financial operations.

(e) Financial assets measured at fair value through other comprehensive income (“FVOCI”)

FVOCI is the classification of financial instruments for which dual business model applies, i.e. they are held for the purposes of both collecting contractual cash flows and selling financial assets. Contractual cash flows of instruments in this category are solely payments of principal and interest.

At initial recognition, an entity may classify an equity instrument as measured at FVOCI based on an irrevocable decision. This option may be applied only in respect of instruments that are not held for trading.

Changes in the fair value of debt instruments measured at FVOCI are reported in other comprehensive income. Interest income, foreign exchange gains/losses and impairment losses are immediately reported in profit or loss. Changes in the fair value previously reported in other comprehensive income are reclassified to profit or loss at the moment the debt instrument is sold.

Gains or losses recognised in other comprehensive income for capital instruments are never reclassified from equity to profit or loss.

(f) Financial derivatives and hedging instruments

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 2e). Positive fair values of derivatives are reported in assets in “Current receivables from financial instruments” or “Non-current receivables from financial instruments”. Negative fair values of derivatives are reported in liabilities in “Current payables from financial instruments” or “Non-current payables from financial instruments”.

Determination of fair value for derivatives.

The fair value of interest rate swaps is determined by the present value of the estimated future cash flows based on yield curves.

If a financial derivative effectively hedges cash flows relating to the recognised liabilities, a portion of profit or loss from the remeasurement of the derivative is recognised directly in the loss in other comprehensive income for the accounting period and cumulated in other capital reserves.

If a financial derivative hedges cash flows arising from a recognised liability or a highly probable transaction, a portion of profit or loss determined as an effective hedge is recognised in other comprehensive income for the accounting period and cumulated in other capital reserves. In case a non-financial item is recognised as a result of a hedged liability of the Company or a highly probable transaction, a portion of accumulated profit or loss is removed from equity and included in the acquisition cost of the given asset or liability. Otherwise, a portion of accumulated profit or loss in other comprehensive income for the accounting period is reclassified and reported in the income statement together with the hedged transaction.

If a hedging instrument or hedge relationship is terminated and at the same time it is still very probable that the hedged transaction will occur, the cumulated profit or loss will remain in equity until the hedged transaction takes place. If the hedged transaction is not probable any more, the cumulated result (unrealised gain or loss) in equity is immediately transferred to the income statement.

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. From 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.

Financial derivatives**Gaming contracts**

Gaming contracts are considered financial derivatives under IFRS 9 if the operator of lotteries concludes a position against its customer in the transaction. The value of individual positions depends on the result of a specific event and the operator is not guaranteed a specific fee or revenue. Gaming contracts are financial

derivatives, not insurance contracts, because the variable component of the contract is specific for each contract separately. The definition of insurance requires the exposure to an existing risk that had existed before the contract was concluded. This requirement is not fulfilled in case of gaming contracts.

Separable embedded derivatives

Financial and non-financial contracts (which, per se, are not measured at fair value through profit or 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.

(g) Share capital (*Appendix table 21*)

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.

(h) Cash and cash equivalents (*Appendix table 20*)

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.

(i) Blocked accounts

Balances at blocked accounts are not immediately available to meet the needs of the Company. Blocked accounts contain prize pool provided in favour of the Ministry of Finance as a guarantee for the issued gaming authorisation pursuant to the above Act No. 202/1990 Coll., on Lotteries and Other Similar Games.

(j) Impairment of financial assets

Except for assets at fair value reported in profit or loss, financial assets in 2018 are always assessed in terms of the expected credit loss at the moment the asset is recognised.

For the purposes of determining the expected credit losses, the Company applies a simplified approach under IFRS 9 which uses the assessment of lifetime expected credit losses for all current trade receivables.

The simplified model is applied to current trade receivables that do not contain a significant financing component. Based on a generated impairment matrix, which includes historical inputs and forward-looking inputs, the Company calculates adjustments for receivables assessed in terms of portfolio.

Relating to current receivables, the Company uses a matrix where individual past due periods are assigned the probabilities of historical losses based on past experience. The expected credit loss is calculated as the current receivable in the given group times the historical loss coefficient. The Company uses two baskets: a DPD (day past due) basket that is within 90 days past due and a basket exceeding 90 days past due.

On the basis of its historical experience for determining credit default, the Company uses the following criteria:

- It is not probable that the debtor will pay its liabilities in full without the Company taking steps against the debtor (e.g. realisation of pledges and guarantees).
- The financial asset is 90 and more days past due.

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.

The Company considers potential impairment of cash and cash equivalents insignificant due to a high credit quality supported with an investment external rating of banks that the Company cooperates with.

In 2018, financial assets were assessed to ascertain whether objective evidence of their impairment existed. A financial asset was impaired if objective evidence indicated 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 was 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 were 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 were also taken into account.

(k) Property, plant and equipment (*Appendix table 15*)

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. The valuation of finance lease liabilities is described in note 3c.

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.

iii. 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.

iv. 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:

• Buildings and constructions - own	30 - 60 years
• Machinery and equipment - own	2 - 14 years
• Machinery and equipment - leased	3 - 5 years
• Other property, plant and equipment	4 - 20 years

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

(l) Intangible assets (Appendix table 14)**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 (see "Impairment of financial assets").

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:

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• 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.

(m) Other non-current investments (*Appendix table 16*)

Other non-current investments comprise investments in associates.

Investments in associates are reported at cost less any impairment losses.

(n) 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.

Net realisable value is the value of an asset that can be realised during the sale of the asset, less the estimated costs of completion or potential sale of the given asset.

(o) Adjustments

Adjustments to non-current assets and inventories are determined based on information primarily ascertained during a physical stock-take and subsequent approval process.

(p) Provisions (*Appendix table 24*)

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.

(i) Establishment and release of provisions

The increase in a provision is recognised in the relevant expense account that corresponds with the substance of the provision. Adjustment of the provision to present value is recognised as interest expense in financial expenses. The release of a provision is recognised as a decrease in the relevant expense account.

(ii) Provision for jackpots

Jackpot games are games in which the winnings that are not won are transferred as a bonus to the next draw. In the following draw, winnings from deposits for this draw are increased by the bonus transferred from the previous draw. The liability for the transfer of positions that have not been won arises from the gaming plan of SAZKA lotteries that is part of the licence granted by the Czech Ministry of Finance. When the licence is terminated, the jackpot is paid out to the winners of the last draw, unless it has already been paid out and the licence has been renewed. The same mechanism would apply if the game was cancelled due to other reasons.

(iii) Provision for lottery tickets

In this type of games, the return to players of individual lottery tickets issues is determined in advance (regardless of the fact whether these winning lottery tickets have been sold or not). The difference between the actual and percentage return to players set in the issues is recognised in revenues in favour of the Company. As there is no liability to pay out a percentage of winnings, the Company uses its historical experience to calculate the expected payments from lottery tickets sold to recognise a provision for winnings from lottery tickets already sold.

(q) Recognition of revenues and accounting for winnings (*Appendix table 4*)

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 are recognised on a net basis, less winnings as Gross gaming revenue.

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 liabilities ("Prepaid number lotteries") and measured at fair value.

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. A provision is established for unused jackpots/superjackpots.

Gambling tax representing 23% (23% in 2017) 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 over the duration of the claim for payment of winnings, based on the legislative framework.

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. Winnings do not include winnings paid and a provision established based on historical experience.

The gambling tax of 23% (23% in 2017) 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 on a net basis, less relevant winnings. In case of a series of events, revenues are accounted for at the time the last betting event occurs.

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.

Gambling tax, which is 23% (23% in 2017) of the revenues from betting reduced by winnings in the given period, is fully accrued/deferred as at the date of the financial statements.

Games of skill

The revenue (GGR) is recognised as the difference between the sum of deposits in games and the sum of winnings paid out to the players during playing time, running from the moment the sum of money is put in the game until the final amount is collected from the game.

Lottery tax is 35% (in 2017, games of skill were not operated).

Revenue from goods and services

- **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, irrespective of the moment the cash for services is received.

In respect of 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.

- **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.

(r) Financial revenues and expenses (*Appendix table 12*)

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.

(s) Income tax (*Appendix table 13*)

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.

(t) Transactions in foreign currencies

Transactions in foreign currencies are translated to Czech crowns (functional currency) using the Czech National Bank official 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 Czech National Bank official 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.

(u) Related parties (*Appendix table 28*)

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).

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4. Revenues

	2018	2017
Amounts staked	15 279 219	12 699 408
Gross gaming revenue	6 442 455	5 420 945
Lottery tax	-1 493 297	-1 260 082
Net margin from lottery and betting activities (NGR)	6 442 455	5 420 945
 Revenue from goods and services	 412 699	 387 376

2018

	Gross gaming revenue	Revenue from other activities
Lottery and betting activities	6 442 455	
Mobile virtual network operator		259 552
Service of topping-up credit in mobile phones		98 114
Sale of tickets		3 880
Other		51 233

2017

	Gross gaming revenue	Revenue from other activities
Lottery and betting activities	5 420 945	
Mobile virtual network operator		256 250
Service of topping-up credit in mobile phones		98 071
Sale of tickets		3 340
Other		29 715

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

In 2018, revenues were generated from number and instant lotteries (both traditional printed and electronic, which showed the biggest growth in revenues). In terms of number lotteries, Eurojackpot was the most successful. In online betting, the growth is caused by the increased revenues in Sazka Bet as well as by starting a new Sazka Hry gaming vertical.

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5. Partner fees

	2018	2017
Partner fees	-785 384	-691 394
Fees for agents*	-785 384	-691 394

*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. These fees are linked to revenues and their increase is caused by revenue growth.

6. Materials and consumables

	2 018	2 017
Materials and consumables	-1 218 658	-1 053 177
Materials and energy	- 110 075	-96 474
Advisory and other professional services	-45 079	-83 015
Fees for system providers	-604 696	-511 609
Telecommunication services	-146 934	-168 761
Other services*	- 311 874	-193 318

* The most significant items include: transportation costs, telephone fees, lease payments for cars, lease payments for non-residential premises, services for computer technology, purchase of broadcasting rights for Sazka Bet, DEH and notarial fees.

7. Marketing expenses

	2 018	2 017
Marketing expenses	-598 022	-544 005
Advertising, promotion and other related costs	-554 167	-509 335
Sponsorship and donations	-43 855	-34 670

8. Personnel expenses

	2 018		2 017	
	Employees	Executives	Employees	Executives
Personnel expenses				
Wages and salaries	-255 948	-110 957	-189 764	-86 971
Remuneration for the members of the Company's bodies	-	-101	-	-4 825
Social and health insurance	-61 124	-32 178	-53 685	-25 942
Other social expenses	-15 825	-	-11 139	-
Total	-332 897	-143 236	-254 588	-117 738

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 2018 or 2017. Company vehicles are available to the Company's management according to its internal rules. In 2018, the Company paid remuneration of CZK 101 thousand (2017 – CZK 4 825 thousand) to the members of the Company's bodies.

The Company provides no post-employment benefits or pension plans.

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9. Other operating expenses

	2 018	2 017
Other operating expenses	-286 892	-289 503
Unclaimed VAT	-277 665	-238 123
Other operating expenses	-9 227	-51 380

10. Depreciation and amortisation

	31/12/2018	31/12/2017
Depreciation of property, plant and equipment and amortisation of intangible assets	-93 056	-106 446
Depreciation of property, plant and equipment	-45 106	-70 923
Amortisation of intangible assets	-47 950	-35 523

11. Fees payable to statutory auditors

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

12. Financial revenues and expenses

	2 018	2 017
Interest revenue	1 332	547
Bank interest	1 332	547
Interest expense	-319 558	-314 176
Interest on bank loans	-248 155	-192 370
Other interest	-71 403	-121 806
Other profit (+)/loss (-) relating to financial activity	-512	177
Profit (+)/loss (-) from foreign exchange operations	-1 883	204
Other financial expenses	-350	-300
Other financial revenues	1 721	273
Profit/loss from financial operations	-318 738	-313 452

13. Income tax

	2 018	2 017
Income tax	- 316 691	-211 182
Current income tax	- 309 370	-168 188
Deferred income tax	- 7 321	-42 994

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 2018 and 2017 financial years.

Current income tax comprises the tax estimate for the 2018 taxable period of CZK 304 140 thousand (2017 – CZK 168 800 thousand) and an adjustment to the tax estimate for the 2017 taxable period of CZK 5 230 thousand (2017 – an adjustment to the tax estimate for the 2016 taxable period of CZK 612 thousand).

In the 2018 statement of financial position, the income tax estimate of CZK 304 140 thousand (2017 – CZK 168 800 thousand) was reduced by income tax prepayments of CZK 187 698 thousand (2017 – CZK 191 374 thousand) and the net payable

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of CZK 116 442 thousand was recorded in current income tax liabilities (2017 – CZK 22 574 thousand recorded in current income tax assets).

Reconciliation of effective tax rate

	2018		2017	
Profit before tax		1 617 239		1 183 495
Income tax based on the applicable domestic tax rate	19.00%	-307 276	19.00%	-224 864
Other tax/tax-exempt items	0.58%	-9 415	-1.15%	13 682
Income tax reported in the statement of comprehensive income	19.58%	-316 691	17.85%	-211 182

14. Intangible assets and goodwill

2018	Trademarks	Intellectual property rights	Software	Other assets	Goodwill	Total
Acquisition cost						
Balance at 1/1/2018	1 871 987	179 120	317 703	12 429	9 636 122	12 017 361
Additions	0	0	72 076	7 979	0	80 055
Disposals	0	0	-12 856	0	0	-12 856
Transfers	0	0	12 428	-12 428	0	0
Balance at 31/12/2018	1 871 987	179 120	389 351	7 980	9 636 122	12 084 560
Accumulated amortisation						
Balance at 1/1/2018	0	-24 990	-159 380	0	0	-184 370
Amortisation expense	0	-4 317	-43 633	0	0	-47 950
Disposals	0		12 334	0	0	12 334
Balance at 31/12/2018	0	-29 307	-190 679	0	0	-219 986
Net book value 1/1/2018	1 871 987	154 130	158 323	12 429	9 636 122	11 832 991
Net book value 31/12/2018	1 871 987	149 813	198 672	7 980	9 636 122	11 864 574

2017	Trademarks	Intellectual property rights	Software	Other assets	Goodwill	Total
Acquisition cost						
Balance at 1/1/2017	1 871 987	179 059	200 252	81 472	9 636 122	11 968 892
Additions			52 649	9 021	0	61 670
Disposals			-19 776	0	0	-19 776
Merger		61	6 514	0	0	6 575
Transfers			78 064	-78 064	0	0
Balance at 31/12/2017	1 871 987	179 120	317 703	12 429	9 636 122	12 017 361

Accumulated amortisation						
Balance at 1/1/2017	–	-19 727	-144 913	0	0	-164 640
Amortisation expense		-5 212	-30 311		0	-35 523
Disposals			19 775	0	0	19 775
Merger		-51	-3 931	0	0	-3 982
Balance at 31/12/2017	0	-24 990	-159 380	0	0	-184 370
Net book value						
1/1/2017	1 871 987	159 332	55 339	81 472	9 636 122	11 804 252
Net book value						
31/12/2017	1 871 987	154 130	158 323	12 429	9 636 122	11 832 991

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 2018, the major additions to intangible assets were the investments in the Digital Entertainment Hub software platform of CZK 28 517 thousand, the purchase of licence support for SW Microsoft of CZK 7 338 thousand and the implementation of solutions for data privacy (GDPR) of CZK 6 252 thousand.

As at 31 December 2018, selected trademarks were pledged. The value of pledged trademarks as at 31 December 2018 was CZK 1 871 939 thousand (2017 – CZK 1 871 939 thousand) - see note 22.

Intangible assets with indefinite useful life, goodwill and impairment testing

In compliance with IAS 36, the Company tested the impairment of goodwill and intangible assets with indefinite useful life (trademarks and licences of lottery operators) in 2018.

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 before tax (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. For 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 12.12 x EV/EBITDA.

The resulting recoverable amount calculated based on 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 2018. 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. For trademark continuity over the explicit forecast, the model of terminal value (the Gordon growth model) is used. Net fees after tax (using the 5% royalty rate) were discounted using the weighted average cost of capital (WACC) before tax with the increase of 1%.

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 2018. 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 impairment of trademarks.

15. Property, plant and equipment**2018**

	Land	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment in the acquisition stage	Total
Acquisition cost						
Balance at 1/1/2018	65 475	538 579	311 607	33 399	41 307	990 367
Additions	--	19 917	11 030	--	23 974	54 921
Disposals	--	--	-98 691	--	--	-98 691
Transfers	--	13 216	26 950	--	-40 166	--
Balance at 31/12/2018	65 475	571 612	250 896	33 399	25 115	946 597
Accumulated depreciation						
Balance at 1/1/2018	--	-55 260	-217 197	--	--	-272 457
Depreciation expense	--	-10 159	-34 947	--	--	-45 106
Disposals	--	--	94 128	--	--	94 128
Balance at 31/12/2018	--	-65 419	-158 016	--	--	-223 435
Net book value 1/1/2018	65 475	483 319	94 410	33 399	41 307	717 910
Net book value 31/12/2018	65 475	506 293	92 880	33 399	25 115	723 162

2017

	Land	Buildings and structures	Machinery and equipment	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	148 484	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	311 607	33 399	41 307	990 367

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Accumulated depreciation

Balance at 1/1/2017	--	- 45 763	-70 968	--	--	-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	-217 197	--	--	-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

In 2018, the major additions to property, plant and equipment were construction modifications of the SAZKA office building (reconstruction of the 2nd floor, meeting rooms and a conference room) of CZK 19 816 thousand and investments in the hardware infrastructure upgrade for a hybrid cloud operation of CZK 7 553 thousand.

In 2018, the major additions to the acquisition of property, plant and equipment account were reconstructions that were in progress on the SAZKA building (gastro operation) of CZK 14 218 thousand and the equipment for the gastro operation of CZK 7 650 thousand.

As at 31 December 2018, 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 22). As at 31 December 2018, the net book value of this building including the adjacent property and structures totals CZK 571 768 thousand (2017 – CZK 548 794 thousand).

As at 31 December 2018, the Company does not record any machinery and equipment acquired under finance leases.

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16. Other non-current investments

		31/12/2018	31/12/2017
Other non-current investments	Ownership interest (%)	19 656	19 656
IGT Czech Republic LLC (former GTECH Czech Republic LLC.) ¹⁾	63.00%	19 656	19 656
SALEZA, a.s. ²⁾	98.10%	--	--

- 1) The Company has an ownership interest in IGT Czech Republic LLC, representing a 63% share. The ownership interest in IGT Czech Republic LLC 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 2018 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, which occurred in 2017. 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 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, 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, which arises from the concluded agreement and was discounted to the current value of CZK 51 738 thousand (2017 – CZK 50 892 thousand), is reported as a non-current payable from financial instruments. The nominal value of this financial liability is CZK 55 122 thousand. The fair value of this investment cannot be currently calculated, as the necessary financial information is not available as at 31 December 2018.

- 2) As at 31 December 2018, 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 2018, the Company's current financial statements are unavailable.

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17. Deferred tax assets and liabilities

The following deferred tax assets and liabilities and their year-on-year changes were reported as at 31 December 2018, 31 December 2017 and 31 December 2016:

	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	Assets		Liabilities		Net	
Deferred tax asset (+)/liability (-) attributable to:	--	--	-285 541	-309 657	-285 541	-309 657
Non-current assets	--	--	-371 739	-357 603	-371 739	-357 603
Current provisions	78 460	59 534	--	--	78 460	59 534
Remeasurement of derivatives	6 367	--	--	-13 842	6 367	-13 842
Other temporary differences	2 014	3 057	-643	-803	1 371	2 254
Calculated deferred tax assets and liabilities	86 841	62 591	-372 382	-372 248	-285 541	-309 657
Offset of deferred tax assets and liabilities	- 86 841	- 62 591	86 841	62 591	--	--

	31/12/2018	2018	31/12/2017	2017	31/12/2016
	Deferred tax liability	Recognise in comprehensive income/equity	Deferred tax liability	Recognise in comprehensive income/equity	Deferred tax liability
Deferred tax asset (+)/liability (-) attributable to:	-285 541	24 116	-309 657	-63 783	-245 874
Non-current assets	-371 739	-14 136	-357 603	-46 297	-311 306
Current provisions	78 460	18 926*	59 534	1 819	57 715
Remeasurement of hedging derivatives	6 367	20 209**	-13 842	-20 789*	6 947
Other temporary differences	1 371	-883	2 254	2 484	770

* Deferred tax from provisions includes deferred tax from current provisions and provisions for lottery tickets.

**Deferred tax from remeasurement of hedging derivatives is reported in equity.

18. 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.

	31/12/2018	31/12/2017
Non-current trade receivables and other non-current assets	47 370	9 075
Non-current advances and deposits provided	47 370	9 075

Non-current advances and deposits provided total CZK 47 370 thousand (2017 – CZK 9 075 thousand). The increase in receivables was caused by the payment of an advance of CZK 34 989 thousand relating to future lease payments in the Bořislavka Centre.

This amount also includes 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 3 305 thousand in 2018.

	31/12/2018 Third parties	31/12/2018 Related parties	31/12/2017 Third parties	31/12/2017 Related parties
Current trade receivables and other current assets	291 491	44 362	271 963	11 784
Current trade receivables	186 755	44 362	191 434	11 784
Current advances and deposits provided	17 207		12 450	
Receivables from employees	476		386	
Other current receivables	0		4	
VAT receivable	8 266		6 573	
Current prepaid expenses	78 787		61 116	

Prepaid expenses represent in particular expenses connected with the acquisition of lottery tickets that will enter the sales process in 2019 of CZK 59 846 thousand (2017 – CZK 36 053 thousand) and also invoices received that relate to the 2019 supplies in terms of substance of CZK 17 923 thousand (2017 – CZK 21 176 thousand).

The Company tested its receivables based on the ECL model. The expected credit losses are insignificant due to the following reasons. The Company has trade receivables from partners that operate as points of sale (POS) for the Company as part of its activities. The partners have an obligation to lodge a deposit at the Company's account before the business relation commences (the deposit amount is specified in note 23). The deposit is subsequently adjusted twice a year based on revenues that are generated at terminals located at the partners. In case a partner does not pay the liability, the Company can satisfy its claims from the deposit lodged by the partner in the Company.

By combining the above methods of credit risk hedging (short turnover period of receivables, access to the deposit lodged at the Company's bank account) and a high credit quality of the business partner portfolio, the Company assessed the potential adjustment according to the ECL model as insignificant.

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19. Current receivables from financial instruments

As at 31 December 2017, current financial assets included a receivable of CZK 200 001 thousand relating to a cash pooling agreement concluded with KKCG Structured Finance AG, Switzerland on 31 May 2016. This receivable was considered cash equivalent for the purposes of the statement of cash flows. As at 31 December 2018, this receivable was paid up.

Moreover, a receivable of CZK 72 850 thousand in respect of hedging derivatives was recorded in this position as at 31 December 2017. As at 31 December 2018, a liability in respect of hedging derivatives was recorded. (see note 22).

20. Cash and cash equivalents

	31/12/2018	31/12/2017
Cash and cash equivalents	966 615	735 903
Cash	3 388	4 840
Bank accounts	963 227	731 063

The Company has tied cash of CZK 55 000 thousand (2017 – CZK 65 259 thousand) related to gaming deposits above the limit of cash and cash equivalents at the account with ČSOB. This value is reported in blocked accounts in the balance sheet. As at 31 December 2018, the Company has pledged money at bank accounts of CZK 960 206 thousand (2017 – CZK 600 342 thousand).

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

	31/12/2018	31/12/2017
Cash and cash equivalents reported in the statement of cash flows	966 615	935 904
Cash and cash equivalents	966 615	735 903
Receivable from KKCG Structured Finance AG	0	200 001

21. 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 2018 or 2017.

Each share at CZK 100 thousand per share is connected with one voting right at the general meeting. Except for ordinary shares, the Company did not issue any shares of different types. Potential limited transferability of the ownership right, share of profit or loss or conditions under which the payout is made, can be connected only with generally applicable laws, the Company's statutes and contractual arrangement. Each shareholder has a right for the payout of the profit share approved by the general meeting that corresponds with the shareholder's share in the share capital. At the same time, if the Company is declared insolvent, each shareholder has a right for the share in the liquidation balance. Unless the Company's statutes or the shareholders' agreement stipulate otherwise, the liquidation balance is divided among the shareholders at first, up to the amount of their share in the share capital.

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

Other capital reserves

Based on concluded loan contracts and the connected hedge, the measurement of derivatives based on confirmation as at 31 December 2018 of CZK 33 517 thousand (2017 – CZK 72 850 thousand), see note 22, and a deferred tax asset of CZK 6 367 thousand (2017 – a deferred tax liability of CZK 13 842 thousand) were recorded in other capital reserves.

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Retained earnings and profit/loss for the current period

The Company paid a dividend of CZK 500 000 thousand (2017 – CZK 443 983 thousand) to Sazka Czech a.s., its parent company, from the retained earnings. Moreover, SAZKA Czech a.s. paid an advance for the dividend for 2018 of CZK 1 220 000 thousand.

In 2017, retained earnings were impacted by the merger of Fsázky a.s. as follows:

	Note	Amount
Acquisition of an investment		-125 008
Cash and cash equivalents	21	62 714
Property, plant and equipment and intangible assets	15, 16	57 301
Current trade receivables and other current assets	19	18 640
Current trade and other payables	24	-8 908
Impact of merger on the equity of SAZKA a.s. as at 31 December 2017		4 739

The merger with Fsázky a.s. was a transaction under joint control.

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22. Loans

	31/12/2018	31/12/2017
Bank loans and other loans - non-current portion	6 532 266	4 517 471
Non-current bank loans received – principal	6 532 266	4 517 471
	31/12/2018	31/12/2017
Bank loans and other loans - current portion	627 684	2 287 364
Current bank loans received – principal	617 385	772 623
Current bank loans received – interest	10 299	33 809
Current loans received from group companies – principal	--	1 399 949
Current loans received from group companies – interest	--	80 983
Reconciliation of movements in current and non-current loans and borrowings in the cash flow:	2018	2017
Balance at 1 January	6 804 835	7 614 681
<i>Cash flows</i>		
Loans received	7 500 000	--
Loans paid	- 7 029 116	-783 333
Payment of interest accumulated from previous years*	- 114 792	-153 734
<i>Non-cash changes</i>		
Outstanding interest	10 299	114 792
Impact of deferred/accrued arrangement fee	- 11 276	12 429
Balance at 31 December	7 159 950	6 804 835

*The payment of interest accumulated from previous years represents a portion of interest paid in the “Interest paid” item in the statement of cash flows.

As at 31 December 2018, the Company reported the following loans:

Type of loan	Interest rate	Interest expense 2018	Due date	Balance at 31/12/2018	Due within 1 year	Due in 1 to 5 years	Due in more than 5 years
Bank loan A - KB, ČS, ČSOB, UCB, Sberbank – principal	2.05% + 3M PRIBOR	54 335	17/6/2024	3 437 500	625 000	2 500 000	312 500
Balance at 31 December 2018 adjusted by transactions costs and interest		55 910		3 416 927	617 385	2 488 482	311 060
Bank loan B - KB, ČS, ČSOB, UCB, Sberbank – principal	2.3% + 3M PRIBOR	60 294	25/7/2025	3 750 000	--	--	3 750 000
Balance at 31 December 2018 adjusted by transactions costs and interest		62 011		3 732 723	--	--	3 732 723

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On 25 July 2018, SAZKA a.s. entered into a CZK 7 500 000 000 FACILITIES AGREEMENT with Komerční banka, a.s., Česká spořitelna, a.s., Československá obchodní banka, a.s., UniCredit Bank Czech Republic and Slovakia, a.s. and Sberbank CZ, a.s.

Based on this contract, the Company utilised loan tranches A of CZK 3 750 000 thousand and B of CZK 3 750 000 thousand on 30 July 2018.

Under the terms and conditions of the above loan agreement, the Company must comply with certain financial indicators, specifically debt coverage, debt service coverage and the debt-to-equity ratio. As at 31 December 2018, the Company complied with these financial indicators.

Security (hedging)

As stated above, SAZKA entered into a loan agreement on 25 July 2018. Based on this agreement it drew a loan up to the total of CZK 7 500 000 thousand with a variable interest rate depending on 3M PRIBOR. The loan documentation stipulates a contractual obligation to secure a portion of this loan by concluding interest rate swaps of at least 50% of the unpaid portion of the loan ("IRS").

SAZKA a.s. thus subsequently concluded interest rate swaps with selected bank entities. As at 31 December 2018, the nominal value of these derivatives totals CZK 6 674 026 thousand. When entering into these IRS, loan documentation was taken into account, as well as the current amount of interest rates and the rate trend forecasts.

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.

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

Hedging derivatives	Due	Average rate	Variable interest	Nominal value	Fair value at
	date		rate		31/12/2018
Payables from swap transactions – non-current	2024	2.11	3M PRIBOR	991 771	-6 854
Payables from swap transactions – non-current	2025	1.92	3M PRIBOR	3 250 000	-53 176
Receivables from swap transactions – non-current	2020	0.31	3M PRIBOR	450 000	14 855
Receivables from swap transactions – non-current	2024	1.62	3M PRIBOR	1 982 292	11 658
Total hedging financial derivatives					-33 517
Impact of the change in the value of hedging derivatives on the income statement and other comprehensive income	31/12/2017		Remeasurement of hedging derivatives in other comprehensive income	Reclassification of cash flow hedges in the income statement	31/12/2018
Cash flow hedges		72 850	-106 367	--	-33 517

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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 31/12/2017 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 31/12/2017 adjusted by transactions 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 14), a mortgage over the Company's building with adjacent property (see note 15) and a pledge over the Company's shares, receivables from insurance claim and bank accounts (see note 20).

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. thus subsequently concluded interest rate swaps with selected bank entities. As at 31 December 2017, the nominal value of these derivatives totals 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:

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Hedging derivatives	Due date	Fair value at 31/12/2017
Receivables from swap transactions – non-current	2019	2 783
Receivables from swap transactions – non-current	2020	70 067
Total hedging financial derivatives		72 850

Loans received from related parties

As at 31 December 2018, the Company did not report any loans received from related parties.

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

31 December 2017	Due date	Inter est rate	Principal balance 31/12/2017	Principal due within 1 year	Principal due in 1 year 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.

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thousand)

23. Trade and other payables

	31/12/2018 third parties	31/12/2018 related parties	31/12/2017 third parties	31/12/2017 related parties
Current trade and other payables	1 429 272	33 401	1 347 536	31 020
Current trade payables	397 543	33 401	328 506	31 020
Current deposits received 1)	119 723		108 078	
Payables from unpaid winnings	250 744		275 835	
Personal income tax payables	11 556		11 900	
Lottery tax payables	391 329		338 606	
Social and health insurance liabilities	9 161		8 280	
Payables to employees	22 640		22 176	
Estimated payables 2)	143 092		193 016	
Prepayments	78 652		58 359	
Other payables	4 832		2 780	

- 1) As at 31 December 2018, the Company reported a payable of CZK 119 723 thousand (31 December 2017 – CZK 108 078 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.
- 2) As at 31 December 2017, estimated payables comprise in particular estimated payables relating to supplier invoices of CZK 143 092 thousand (31 December 2017 – CZK 193 016 thousand).

Trade and other payables were not secured as at 31 December 2018 and 31 December 2017.

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.

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24. Provisions

Current provisions	Current provision for jackpots and lottery tickets	Other current provisions	Total
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
Balance at 31/12/2017	187 081	60 378	247 459
Additions	224 673	100 436	325 109
Utilisation	-187 081	-60 378	-247 459
Balance at 31/12/2018	224 673	100 436	325 109
Non-current provisions	Other non-current provisions		Total
Balance at 1/1/2017	43 920		43 920
Additions	21 959		21 959
Balance at 1/1/2018	65 879		65 879
Additions	21 960		21 960
Balance at 31/12/2018	87 839		87 839

Other current provisions are established for a bonus programme for employees.

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 87 839 thousand was recorded as at 31 December 2018 (31 December 2017 – CZK 65 879 thousand).

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

25. Profit/loss from operating activities before interest, tax, depreciation and amortisation (EBITDA)

The Company's board of directors has disclosed the EBITDA indicator in compliance with the internal methodology for preparing and disclosing the indicator. The EBITDA indicator is not defined as a performance indicator under IFRS.

The EBITDA indicator is calculated as the profit/loss before tax, other financial expenses/revenues, interest expense/revenue, depreciation and amortisation.

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

Action to determine the invalidity of an agreement on the sale of SAZKA a.s., filed by Mr Jiří Kabourek against Mr Josef Cupek, the insolvency practitioner of the debtor SAZKA, a.s. (now SALEZA, a.s.), reference number MSPH 60 ICm 3145/2011:

The proceedings are currently ongoing. Our Company is not being sued, it intervened in the proceedings as a subsidiary participant on 19 November 2013. Since 30 July 2013, no new developments have occurred in the proceedings. Before this date, primarily procedural issues were discussed (a judicial bias claim, the plaintiff requested the exemption from court fees and a court-appointed lawyer due to the plaintiff's property relations, etc.). The substance of the case is still not examined. Last act in the document is the filed confirmation of personal circumstances and property relations made by Mr Kabourek on July 2018. The document is currently still with the judge.

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.

Binding preliminary contract

Based on the existence of a binding preliminary lease contract for Bořislavka Centre, the Company has a contingent liability of CZK 358 920 thousand.

OPERATING LEASES

Operating leases at 31 December 2018					
Leased asset	Type of agreement	Termination date	Future lease payments		
			within 1 year	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	15 137	34 324	0
Non-residential premises	fixed period	30/6/2023	10 266	28 481	0
Reprographic equipment	fixed period	30/6/2019	300	0	0

* 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 2018 was CZK 537 477 thousand (2017 – CZK 471 055 thousand).
- (2) The car lease costs in 2018 amounted to CZK 16 149 thousand (2017 – CZK 15 195 thousand).
- (3) The car lease costs in 2018 amounted to CZK 11 320 thousand (2017 – CZK 8 444 thousand).

Operating leases at 31 December 2017

Leased asset	Type of agreement	Termination date	Future lease payments		
			within 1 year	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 2018 was CZK 537 477 thousand (2017 – CZK 471 055 thousand).
- 2) The car lease costs in 2018 amounted to CZK 16 149 thousand (2017 – CZK 15 195 thousand).

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. The Company trades primarily with highly-rated partners in respect of which it follows the principle that all customers that want to use credit facilities undergo procedures for credit risk assessment. The Group continuously monitors the balance of receivables on an individual and aggregate level.

One of the main instruments to mitigate the credit risk within ordinary business activities are deposits received from partners (agents) – see note 23 (1). 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.

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Credit risk based on a counterparty

<i>at 31 December 2018</i>	Enterprises (non- financial institutions)	Financial institutions	Natural persons	Total
Assets				
Non-current trade and other receivables	12 380	--	--	12 380
Current trade and other receivables	327 111	--	476	327 587
Blocked accounts		55 000		55 000
Cash and cash equivalents	3 388	963 227	--	966 615
Total	342 879	1 018 227	476	1 361 582

<i>at 31 December 2017</i>	Enterprises (non- financial institutions)	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
Cash and cash equivalents	4 840	731 063	--	735 903

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:

<i>at 31 December 2018</i>	Within due date	Overdue < 90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue >365 days	Adjustm ent	Total
Assets							
Non-current trade and other receivables	12 380	--	--	--	--	--	12 380
Current trade and other receivables	291 533	35 109	365	869	4 078	- 4 367	327 587
Blocked accounts	55 000						55 000
Cash and cash equivalents	966 615	--	--	--	--	--	966 615
Total	1 325 528	35 109	365	869	4 078	- 4 367	1 361 582

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at 31 December 2017	Within due date	Overdue < 90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue >365 days	Adjustment	Total
Assets							
Non-current trade and other receivables	9 075	--	--	--	--	--	9 075
Current trade and other receivables	266 396	14 833	455	600	3 912	-2 449	283 747
Current receivables from financial instruments	272 851	--	--	--	--	--	272 851
Cash and cash equivalents	735 903	--	--	--	--	--	735 903
Total	1 284 225	14 833	455	600	3 912	-2 449	1 301 576

The Company's management is convinced that overdue amounts that are not impaired can still be recovered in their full amount, considering the historical experience of payment of receivables based on the analysis of credit risk and customer rating, if it is available.

The following table shows gross amounts and values of adjustments for trade receivables and contract assets in 2018:

	Non-current receivables			Current receivables		
	Weighted average rate of expected losses	Gross value	Adjustment	Weighted average rate of expected losses	Gross value	Adjustment
Within due date	0.0%	12 380	--	0.0%	205 349	--
Overdue < 90 days		--	--	0.0%	35 109	--
Overdue 91-180 days		--	--	0.0%	365	--
Overdue 181-365 days		--	--	33.3%	869	-289
Overdue > 365 days		--	--	100.0%	4 078	-4 078
Total		47 370	0		245 770	-4 367

Movements in adjustments for trade receivables and contract assets are shown in the following table:

Movements in adjustments	Balance at 1/1/2018	Additions	Release	Depreciation	Impact of currency translation	Balance at 31/12/2018
Current receivables	2 449	2377	--	-459	--	4 367
Total	2 449	2377	0	-459	0	4 367

i. 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 monitors liquidity and maturity of investments, other financial assets, expected cash flows from its activity in individual currencies and satisfaction of bank liabilities, on an ongoing basis (see appendix table 23).

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 always 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 Company uses its own IT tools to manage liquidity risks, market risks and the measurement of financial instruments, or their trading.

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 "on-demand" category.

<i>at 31 December 2018</i>	Carrying amount	Contractual cash flows (1)	Within 1 year	1 to 5 years	More than 5 years	On demand
Assets						
Non-current trade and other receivables	12 380	12 380	--	--	--	12 380
Current trade and other receivables	327 587	327 587	327 587	--	--	--
Total	339 967	339 967	327 587	0	0	12 380
Cash and cash equivalents	966 615					
Liabilities						
Bank loans and other loans - non-current portion	6 532 266	6 562 500	--	2 500 000	4 062 500	--
Non-current payables from financial instruments	85 255	85 255	--	51 738	33 417	--
Bank loans and other loans - current portion	627 684	632 615	632 615	--	--	--
Current trade and other payables	1 027 987	1 027 987	1 027 987	--	--	--
Total	8 273 192	8 308 357	1 660 602	2 551 738	4 095 917	0
Net liquidity risk	-6 966 610	7 968 390	-1 333 015	-2 551 738	-4 095 917	12 380

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

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The Company's management does not expect the cash flows included in the liquidity risk analysis to be realised in a significant amount earlier than scheduled.

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

<i>at 31 December 2017</i>	Carrying amount	Contractual cash flows (1)	Within 1 year	1 to 5 years	More than 5 years	On demand
Assets						
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	--	--	--
Total	565 673	565 673	556 598	0	0	9 075
Cash and cash equivalents	735 903					
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	0	0
Net liquidity risk	-6 932 707	-7 901 878	-3 225 727	-4 685 226	0	9 075

(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.

ii. 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 Company is exposed to the risk of interest rate fluctuations primarily as a result of bank loans with variable interest rate. The Company continuously monitors the development in financial markets and based on the current situation decides whether loans will be drawn with either variable or fixed interest rate. The risk of increase in interest rates is monitored on an ongoing basis and if necessary, the application of standard tools for risk elimination (interest rate swap) is considered.

Non-current loans were issued and concluded with a variable interest rate, but the interest rate risk of these loans and bonds was hedged by interest rate swaps.

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 2018:

Analysis of the incurred interest rate risk (according to due dates)*at 31 December 2018*

	demand	On Within 1 year	1 to 5 years	More than 5 years	Total
Assets					
Non-current trade and other receivables	12 380	--	--	--	12 380
Current trade and other receivables	--	327 587	--	--	327 587
Blocked accounts	--	55 000			55 000
Cash and cash equivalents	966 615	--	--	--	966 615
Total	978 995	382 587	0	0	1 361 582

at 31 December 2018

	On demand	Wit hin 1 year	1 to 5 years	More than 5 years	Total
Liabilities					
Bank loans and other loans - non-current portion	--	--	2 500 000	4 062 500	6 562 500
Non-current payables from financial instruments	--	--	51 738	33 417	85 155
Bank loans and other loans - current portion	--	632 615	--	--	632 615
Current trade and other payables	--	1 027 987	--	--	1 027 987
Total	0	1 660 602	2 551 738	4 095 917	8 308 257

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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>	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Assets					
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	744 978	556 598	0	0	1 301 576
<i>at 31 December 2017</i>	On demand	Within 1 year	1 to 5 years	More than 5 years	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

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Sensitivity analysis

Non-current loans were issued and concluded with a variable interest rate, but the interest rate risk of these loans and bonds was hedged by interest rate swaps.

In connection with unsecured loans, an increase/decrease in PRIBOR interest rates by 1 percentage point would cause an increase/decrease in interest expense by CZK 4 859 thousand (2017 – CZK 22 739 thousand).

	Income statement		Equity excluding tax impact	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	+ profit/- loss	+ profit/- loss	+ increase/- decrease	+ increase/- decrease
31/12/2018				
Instruments with variable interest rate	-71 600	71 600	--	--
Interest rate swaps	--	--	66 741	-66 741
Cash flow sensitivity (net)	-71 600	71 600	66 741	-66 741
	Income statement		Equity excluding tax impact	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	+ profit/- loss	+ profit/- loss	+ increase/- decrease	+ increase/- decrease
31/12/2017				
Instruments with variable interest rate	-53 239	53 239	--	--
Interest rate swaps	--	--	30 500	-30 500
Cash flow sensitivity (net)	-53 239	53 239	30 500	-30 500

iii. 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.

iv. 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:

	31/12/2018	31/12/2017
Total liabilities	9 522 809	8 857 278
Less cash and cash equivalents (including a receivable from KKCG)	966 615	935 904
Structured Finance AG – see note 20)		
Net debt	8 556 194	7 921 374
Company's total equity	4 495 931	5 049 405
Debt to equity ratio	1.903	1.569

v. Risk of regulation changes

The gaming sector is regulated intensively by the national authorities. These authorities have the right to change unilaterally the legislative and regulatory framework governing the method of operating games that the Company offers.

Changes in the regulatory environment can have a considerable impact by limiting betting activities or changing expenses on adherence to regulations and taxes. The Company strictly complies with regulatory standards and effectively and efficiently understands and addresses the changing regulatory requirements. Potential non-compliance with the rules and regulatory framework by the Company as well as enacting new acts and/or further enforcement of legislation could have a negative impact on the Company's business activities.

vi. 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 22) exceeds their book value due to a decrease in the market interest rates.

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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	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Assets				
Non-current trade and other receivables	12 380	9 075	12 380	9 075
Current trade and other receivables	327 587	283 747	327 587	283 747
Current receivables from financial instruments	--	272 851	--	272 851
Blocked accounts	55 000	--	55 000	--
Cash and cash equivalents	966 615	735 903	966 615	735 903
Total	1 361 582	1 301 576	1 361 582	1 301 576
Liabilities				
Bank loans and other loans - non-current portion	6 532 266	4 517 471	6 532 266	4 517 471
Non-current payables from financial instruments	85 255	50 892	85 255	50 892
Bank loans and other loans - current portion	627 684	2 287 364	627 684	2 287 364
Current trade and other payables	1 027 987	1 378 556	1 027 987	1 378 556
Total	8 273 192	8 234 283	8 273 192	8 234 283

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.

	Net book value at 31 December 2018 Fair value of hedging instruments	Fair value at 31 December 2018		
		Level 1	Level 2	Level 3
Fair value of financial assets				
Interest rate swaps	26 513	--	26 513	--
Fair value of financial liabilities				
Interest rate swaps	- 60 030	--	- 60 030	--

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	Net book value at 31 December 2017 Fair value of hedging instruments	Fair value at 31 December 2017		
		Level 1	Level 2	Level 3
Fair value of financial assets				
Interest rate swaps	72 850	--	72 850	--

The fair values indicated in the tables were acquired from financial institutions with which the interest rate swaps were concluded.

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 and Emma Gamma Limited 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 2018 and 31 December 2017:

	Receivables		Liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
SPORTLEASE a.s.	9	19	--	--
IGT Czech Republic LLC.	782	1 828	--	--
KKCG a.s.	--	--	6 088	6 129
KKCG Structured Finance AG 1)	--	200 001	--	--
MND a.s.	--	9	853	829
DataSpring s.r.o.	1 079	3 096	3 289	2 698
Cestovní kancelář FISCHER, a.s.	--	--	1 500	9 500
Geewa a.s.	--	--	--	--
SAZKA FTS a.s.	594	1 151	1 471	--
Conectart s.r.o.	1 093	865	4 184	3 959
Kynero Consulting a.s.	--	--	22	44
SAZKA Group a.s. 2)	--	10	--	1 485 735
FM&S Czech a.s.	41	41	5 339	1 935
Kavárna štěstí s.r.o.	5 775	4 745	6	5
OPAP S.A.	--	19	--	--
SafeDX s.r.o.	--	1	706	1 118
Bořislavka Centre 3)	34 989	--	--	--
Autocont a.s.	--	--	9 943	--
Total	44 362	211 785	33 401	1 511 952

- 1) As at 31 December 2017, receivables from KKCG Structured Finance AG represent current receivables from financial instruments.
- 2) As at 31 December 2017, liabilities from SAZKA Group a.s. represent in particular a current loan liability, see note 22.
- 3) Based on the existence of a binding preliminary lease contract for Bořislavka Centre, SAZKA a.s. has a receivables of CZK 34 989 thousand as at 31 December 2018, in respect of an advance provided for future lease payments.

(b) Overview of transactions with related parties for the periods ended 31 December 2018 and 31 December 2017:

	Revenues for the period		Expenses for the period	
	2018	2017	2018	2017
SPORTLEASE a.s.	92	92	--	--
IGT Czech Republic LLC.	5 199	5 230	--	--
KKCG a.s.	--	--	20 782	21 103
KKCG AG	--	--	5	52 556
KKCG Structured Finance AG	1 438	41	--	35 451
MND a.s.	75	32	8 764	8 127
Conectart s.r.o.	4 042	2 998	19 519	20 229
DataSpring s.r.o.	4 141	4 185	12 384	10 218
Geewa a.s.	--	--	--	215
SAZKA FTS a.s.	8 734	9 199	--	--
Cestovní kancelář FISCHER, a.s.	--	--	54 000	63 599
Kynero Consulting a.s.	--	--	216	216
SAZKA Group a.s.	283	--	69 414	8 117
Kavárna štěstí s.r.o.	4 858	3 947	524	288
FM&S Czech a.s.	402	402	14 018	10 257
OPAP S.A.	--	--	--	12
SafeDX s.r.o.	--	24	3 352	3 607
Autocont a.s.	--	--	10 694	--
Vinohradská 230	--	--	5	--
Total	29 264	26 150	213 677	233 995

Expenses for 2018 incurred from transactions with SAZKA Group a.s. primarily represent interest expense from a received loan. Expenses for 2018 incurred from transactions with other companies mainly relate to purchased services within the KKCG Group.

(c) Overview of transactions with members of the Company's bodies for the period ended 31 December 2018

In 2018, the Company paid remuneration of CZK 101 thousand (2017 – CZK 4 825 thousand) to the members of the Company's bodies. No loans were provided to the members of the Company's bodies in 2018 or 2017.

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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 2018.

Date:

Signature of the statutory body



SAZKA a.s.
Chairman and member of
the board of directors A



David Havlín
Member of the board
of directors B