Annual Report 2019

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Content

Identification data

SAZKA a.s.
Registered office: Prague 9, K Žižkovu 851, postal code 190 93
Identification number: 26493993
Tax identification number: CZ699003312
Incorporated in the Commercial Register by the Municipal Court in Prague, Section B, Insert 7424

- Business activities:
- production, trade and services not listed in Annexes 1 to 3 of the Trade Licensing Act,
- operation of games of chance in accordance with generally binding legislation,
- manufacture, installation, repair of electrical machinery and apparatus, electronic and telecommunications equipment,
- work of accounting consultants, bookkeeping, maintaining tax records,
- installation, repair, inspection and testing of electrical equipment,
- registry management,
- performing communication activities pursuant to Act No. 127/2005 Coll., on electronic communications and on the amendment of some related acts, which is a business in electronic communications,
- provision of small-scale payment services pursuant to Act No. 370/2017 Coll., on payment systems, as amended.

- Subject of activity:
- rental of property, residential and non-residential premises.

Company profile

SAZKA a.s. (hereinafter also the "Company") is the oldest lottery company in the Czech Republic. The Company's main products are numerical lotteries with the most famous game Sportka.
In addition to numerical lotteries, in the area of games of chance, the product offer includes scratch card games, odds betting, totalizator games and technical games. Second pillar includes non-game of chance products, which include primarily SAZKAmobil mobile operator, mobile phone top-up service and tickets sale.

The Company provides its products mainly through a unique distribution network with almost 8,000 points of sale located throughout the Czech Republic.

The Company is a member of the largest and most important international lottery organizations - European Lotteries (EL) and World Lottery Association (WLA).

The Company adheres to and enforces the principles of responsible gaming and ethical principles in the betting and lottery industry. These activities are developed and supported on national and international level.

The Company does not carry out any activities in the area of research and development.

The Company did not do a buy back of its shares during 2019.

In its activities, the Company complies with the principles of environmental protection and labor law regulations.

The Company is a stable company and will be actively seeking to strenghten its position on the Czech market of games of chance.

Composition of bodies as at 31 December 2019:

Board of Directors:
Pavel Šaroch, chairman
Robert Chvátal, member of the Board of Directors
Kamil Ziegler, member of the Board of Directors

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 25 April 2019, a change in the business activities was entered in the Commercial Register in connection with a change in the title of the Act (formerly the Lotteries Act, now the Gambling Act) and also in connection with the adoption of a new Payment System Act under a different number (formerly 284/2009, now 370/2017).

Following the decision of the sole shareholder within the competence of the General Meeting of 17 July 2019 concerning the dismissal of members of the Board of Directors Pavel Horák and David Havlín and the adoption of Company's new Articles of Association, the following important entries among others were made in the Commercial Register on 17 July 2019:

- deletion of the number of members of the Board of Directors: 6,

- registration of the number of members of the Board of Directors: 3,
- deletion of information concerning the transferability of shares,
- deletion of the existing method of the Company's representation and registration of a new one:

The Company is always represented jointly by two members of the Board of Directors. A member of the Board of Directors, who is the CEO, is entitled to an independent Company representation at legal acts with third parties, from which the Company cannot incur liabilities exceeding CZK 5,000,000. Robert Chvátal, a member of the Board of Directors and CEO, is the person in charge of legal acts with the Company's employees.

Petr Stöhr was removed from the position of a member of the Supervisory Board on 29 February 2020 as a result of a decision of the sole shareholder within the competence of the General Meeting of 27 February 2020. The entry in the Commercial Register was made on 12 March 2020.

Significant events in 2019

In 2019, the Company operated 9 numerical lotteries (8 on the internet and points of sale and 1 only on the internet), including 6 additional lotteries. It also operated 67 instant lotteries and one totalizator game at points of sale. It operated 36 instant lotteries, odds betting and 98 technical games on the internet.

In 2019, the Company generated 176 new millionaires and 1 billionaire. In total, in all games, the Company paid out over 50 million of winnings in the amount of 9.1 billion Czech crowns.

The Company successfully implemented and launched an extensive regulatory data reporting project for the Ministry of Finance of the Czech Republic.

The Company successfully extended ISO and WLA security certifications for another 3 years.

The Company has launched a new numerical lottery called Happy date, that aims to be not only a game for lottery customers, but also attract new customers in retail and online. This innovation will attract customers with its simplicity and innovative graphic form of betting.

Human resources

Year-on-year 2018–2019, the number of employees slighly increased.

Number of employees:
As at 31 December 2018: 390 employees
As at 31 December 2019: 409 employees

Equity investments

The Company does not have a branch or part of a commercial establishment abroad.

IGT Czech Republic LLC

Legal form:	limited liability company
Registered office:	The Corporation Trus Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, USA
Equity investment of SAZKA a.s.:	63%

SALEZA, a.s. Identification number: 47116307

The company is incorporated in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 1855, on 15 February 1993

Registered office:	Prague 9, K Žižkovu 851, postal code 190 93
Share capital:	CZK 1,399,600,000
Equity investment of SAZKA a.s.:	98.1%

Based on the decision of the Municipal Court in Prague File no. MSPH 60 INS 628/2011-B-244 of 27 May 2011, it was decided to declare bankruptcy on the debtor's property. This decision became effective on 30 May 2011 at 11:52 a.m.

Report of the Board of Directors on the business activities of SAZKA a.s. and on the state of its assets for the year 2019

SAZKA a.s. (hereinafter referred to as the "Company") deals in particular with the operation of games of chance. Its core business consists of the operation of numerical lotteries, odds betting and technical games.

In 2019, the Company also continued to strengthen its activities in other areas, in particular through its virtual mobile operator SAZKAmobil.

At its meetings, the Board of Directors of the Company regularly focused on the management of the Company and the fulfillment of both short-term and long-term purposes in business activities.

In 2019, the Company made a profit before tax of CZK 2,021,202 thousand. The total amount of bets at the Company was CZK 17,736,364 thousand.

The state of the Company's assets as at 31 December 2019 was as follows:

• Non-current assets in the amount of CZK 12,813,812 thousand, of which intangible non-current assets amounted to CZK 2,258,517 thousand, tangible non-current assets amounted to CZK 717,694 thousand and goodwill was in the amount of CZK 9,636,122 thousand;
• Current assets in the amount of CZK 1,733,191 thousand, of which short-term trade receivables and other current assets in the amount of CZK 200,393 thousand and cash and cash equivalents in the amount of CZK 1,512,486 thousand.

Equity as at 31 December 2019 amounted to CZK 5,690,765 thousand and liabilities including external sources of capital amounted to CZK 8,856,238 thousand.

Risk management

Company's risk management includes identification, quantification, control and subsequent monitoring of those facts, which could lead to a financial impact or the loss of the Company's market position.

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

The basic tool for risk management is the risk catalog, which contains all identified risks of the Company and their severity. For each risk, the impact of the risk and the probability of its occurrence are assessed. Each risk in the risk catalog has its owner, who proposes measures to mitigate the risk and is responsible for its implementation and regular updating.

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

Financial instruments

The Company has entered into interest rate swaps (IRS), which hedge interest payments on a loan. These derivatives are held as hedging instruments, they serve to cover the risk, which is a cash flow volatility conditional on the payment of interest on the loan.

Forwards are occasionaly used to secure foreign exchange funds to settle foreign currency liabilities.

EVALUATION OF THE COMPANY 'S MAIN ACTIVITIES IN 2019

Games of chance

Numerical lotteries
In 2019, the Company created new and original opportunities to bet and entertain customers, that were very popular. For example, Friday the 13th, Czech Fridays, Mega Fridays, Billionaire Weekend or Halloween.

Thanks to these special lotteries, both Sportka and Eurojackpot are able to attract occasional customers and increase the share of full tickets.

The biggest success was clearly the Christmas draw on Christmas Day, when the Company guaranteed 3 new millionaires. This historically first special Tuesday draw of Sportka achieved high deposits.

Scratch cards
The Company sold 54 million of scratch cards, which is 7 millions more than in 2018. It launched 26 new scratch cards. In terms of the population of the Czech Republic, every citizen over the age of 18 bought scratch cards for CZK 490.

Online
At the end of 2019, the Company had 270,000 fully registered and active online customers. Online sales account for 20 % of total sales. The Company personalizes the website content according to the primary verticals and thus allows the customer to view only their preferred range of products.

The Company develops its own e-scratch cards, which are fully designed by an in-house team and fully in line with the printed model.

The Sazka Games tripled the 2019 budget. In total, over 50,000 users have tried Sazka Games.

Odds betting
The Company has launched a new website for betting Sazkabet. Through the new mobile application available, it already makes 63 % of bets.

CRM
The program for registered customers in the SAZKA Klub retail network reached more than 194,000 of active and fully registered members in the last year.

Technology
The new project organization streamlined the management of the Company's implementation projects.
The Company has launched a program of activities aimed at increasing the robustness of system operation, managing the handling of growing customer requirements and the Company's business. The company has introduced a new rDWH platform – an analytical platform for processing and examining large or diverse data sets, including real-time data processing.

Other activities

SAZKAmobil is still the largest independent virtual operator on the Czech market with more than 200,000 customers of prepaid and post-paid services. During the year, it introduced an activation rewards and reduced the price of data packages activated in the mobile application. In March, it reduced the price of calls, SMS and roaming data within the EU. The "Cash Payments" service, which the Company operates for SAZKA FTS a.s., has been expanded with new partners. The Company has discontinued support for the "SuperCASH" and "Kamali Loan Disbursement" services.

The "PaySafeCard Recharge" service is the Company's fastest growing non-lottery service. Customers made more than 1,800,000 transactions at the terminals. As part of the "Packages" service, the Company, in cooperation with points of sale, delivered more than 300,000 shipments in 2019.

Outlook for the future development of the Company's activities and management

The year 2019 was absolutely extraordinary for the Company and brought a record economic result. Great results across all of the Company's gaming verticals, especially the record Christmas season, contributed to this.

The Company is now working on measures to mitigate the effects of higher taxation on its business. Active measures should mitigate the effects of the above mentioned higher taxation by approximately 30 %. E.g. the Company is trying to negotiate business contracts with individual suppliers in such a way, that they partially take part in mitigating the impact on the Company.

The Company will continue to intensively support all its key products in terms of marketing.

Impact of the COVID-19 situation on the Company

In the interest of protecting the health and safety of its customers, employees, partners and the public, the Company fully complies with all decisions and recommendations of public authorities. The Company has implemented contingency and business continuity plans without having any signficant impact on business processes.

While digital channels operate without interruption, physical retail networks have taken various measures to protect the public health and health of their employees. The Company expects that this development will affect our financial performance. The extent of the impact will depend on the following factors: the duration of the outbreak, the duration of the existing restrictions, other measures taken by governments and the extent of the overall economic disruption.

From Monday, 16 March 2020, the Security Council of the Czech Republic decided to strictly restrict free movement in the Czech Republic in order to contain the spread of the COVID-19 epidemic. Citizens are allowed to go to work and shop for supplies limited to food, drugstore products, fuel and medicines, as well as use necessary financial and postal services.

The Company actively promotes the use of online platforms for lottery products and digital-only products. Increase in sales generated through digital channels is expected compared to preceeding periods and at the same time decrease in sales through physical network due to the above mentioned restrictions.

The Company considers the outbreak of the epidemic to be a subsequent event that does not result in an adjustment to the financial statements. As the situation is unstable and is evolving rapidly, it is not possible to estimate the potential impact on the Company. We will include the potential impact of the epidemic on the macroeconomic forecasts, our position and results in the estimates of allowances and provisions in 2020.

In Prague, on 31 March 2020

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Robert Chvátal	Pavel Šaroch
Member of the Board of Directors	Chairman of the Board of Directors
SAZKA a.s.	SAZKA a.s.

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

The company SAZKA a.s., with its registered seat at K Žižkovu 851, 190 93 Prague 9, Identification No. 26493993, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 7424 (hereinafter the "**Company**") in the accounting period from 1 January 2019 to 31 December 2019 (hereinafter the "**Accounting Period**") was a controlled entity within the meaning of Section 74 et seq. of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (hereinafter the "**Business Corporations Act**" or "**BCA**").

The Board of Directors of the Company, as a controlled entity, in accordance with Section 82 of Business Corporations Act has drafted for the lapsed Accounting Period this Report on the relations between the controlling entity and the controlled entity and between the controlled entity and other entities controlled by the same controlling entity (hereinafter also the "**Report on Relations**" and "**Related Entities**"). The Report on Relations is structured in accordance with Section 82 (2) and (4) of BCA.

1. The structure of relations between the Company and other related entities

The Company is member of the KKCG group consisting of companies which are all, directly or indirectly, controlled by KKCG AG, with its registered seat at Kapellgasse 21, 6004 Lucerne, Swiss Confederation, Reg. No. CHE-326.367.231 (hereinafter "**KKCG AG**").

The Company is controlled by ***KKCG AG*** indirectly, through the parent company ***SAZKA Czech a.s.***, with its registered seat at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Identification No. 24852104, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 18644, which is further controlled by ***SAZKA Group a.s.***, with its registered seat at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Identification No. 24287814, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 18161 (this company is directly controlled by KKCG AG).

A list of all companies in the KKCG Group, which are directly or indirectly controlled by KKCG AG, including the Company, constitutes an Annex 1 to this Report on Relations.

2. The role of the Company

The Company has an important role within the KKCG group, it is the largest lottery operator in the Czech Republic. The main business activity is the operation of games of chance in accordance with generally binding legal regulations, in particular in accordance with Act No. 186/2016 Coll. on Gambling. In addition to games of chance, the Company also operates other business activities through points of sale and terminals.

3. The method and means of control

The control is exercised vis-à-vis the Company through a 100% share in the voting rights at the Company's general meeting.

4. A summary of significant actions

In the Accounting Period, at the initiative or in the interest of KKCG AG or Related Entities the Company took the following actions concerning assets that exceed 10% of own capital of the Company as determined from the last financial statements preceding the issue of this report:

- Ongoing placement of free funds on the basis of the CASH POOLING AGREEMENT with KKCG Structured Finance AG dated 31 May 2016 (as stated in Section 5.2);
- In 2019, the sole shareholder of the Company decided to pay a dividend in the total amount of CZK 1,700,000 thousand of which the amount of CZK 1,220,000 thousand was netted against the advance on the dividend paid in 2018.

5. An overview of mutual contracts

5.1. In the Accounting Period, the following contracts were concluded between the Company and KKCG AG, or between the Company and the Related Entities controlled by KKCG AG:

- License agreement with AEC a.s. dated 28.1.2019;
- Amendment No. 1 to the Framework Agreement on the performance of penetration tests with AEC a.s. dated 13.4.2019;
- Agreement on the processing of personal data with AEC a.s. dated 16.4.2019;
- Confidentiality and information protection agreement with AEC a.s. dated 1.7.2019;
- Agreement on work with AEC a.s. dated 1.7.2019;
- Agreement on the provision of services of Cyber Defense Center with AEC a.s. dated 1.10.2019;
- Agreement on work with AEC a.s. dated 14.10.2019;
- VMS Tenable Service Support Agreement with AEC a.s. dated 29.11.2019;
- Purchase agreement with AUTOCONT a.s. dated 28.11.2019;
- Cooperation agreement with Cestovní kancelář FISCHER, a.s. dated 13.11.2019;
- Confidentiality and Information Protection Agreement with Cleverlance Enterprise Solutions a.s. dated 25.6.2019;
- Agreement on work – Parcel Point with Cleverlance Enterprise Solutions a.s. dated 1.8.2019;
- Agreement on technical maintenance and development of the Parcel Point system with Cleverlance Enterprise Solutions a.s. dated 1.8.2019;
- Amendment No. 2 to the Agreement on the lease of premises used for business with Conectart s.r.o. dated 15.1.2019;
- Amendment No. 3 to the Agreement on the lease of premises used for business with Conectart s.r.o. dated 15.1.2019;
- Amendment No. 4 to the Agreement on the lease of premises used for business with Conectart s.r.o. dated 7.3.2019;
- Agreement on the provision of external call center services with Conectart s.r.o. dated 1.9.2019;
- Amendment No. 1 to the Agreement on the provision of call center services with Conectart s.r.o. dated 30.12.2019;
- Service Agreement with DataSpring s.r.o. dated 31.5.2019;
- Agreement on personal data processing with DataSpring s.r.o. dated 30.9.2019;
- License agreement with DataSpring s.r.o. dated 5.12.2019;
- Agreement on the processing of personal data with FM&S Czech a.s. dated 4.4.2019;
- Amendment No. 2 to the Agreement on the Transfer of Activities and Services and the Agreement on the Provision of Asset Management and Maintenance Services with FM&S Czech a.s. dated 7.5.2019;
- Agreement on mutual performance with Kavárna štěstí s.r.o. dated 10.1.2019;
- Cooperation agreement with Kavárna štěstí s.r.o. dated 21.1.2019;
- Agreement on cancellation of procurement license with Kavárna štěstí s.r.o. dated 11.2.2019;
- Cooperation agreement with Kavárna štěstí s.r.o. dated 27.7.2019;
- Cooperation agreement with Kavárna štěstí s.r.o. dated 14.11.2019;
- Cooperation agreement with Kavárna štěstí s.r.o. dated 5.12.2019;
- Agreement on mediation and cooperation with Kavárna štěstí s.r.o. dated 5.12.2019;
- Agreement on mediation and cooperation with Kavárna štěstí s.r.o. dated 5.12.2019;
- Amendment No. 2 to the Framework Agreement on the Provision of Advertising Space on the Internet with KKCG a.s. (and Adexpres.com, s.r.o.) dated 10.1.2019;
- Amendment No. 2 to the Agreement on Combined Electricity Supply Services with MND a.s. dated 10.5.2019;

- Amendment No. 4 to the Agreement on Combined Gas Supply Services with MND a.s. dated 10.5.2019;
- Amendment No. 2 to the Service Agreement with SafeDX s.r.o. dated 30.4.2019;
- Agreement on lease of business premises with SafeDX s.r.o. dated 4.12.2019;
- Amendment No. 2 to the Agreement on the Lease of Premises Used for Business with SAZKA FTS a.s. dated 30.5.2019.

5.2. The following contracts concluded between the Company and KKCG AG, or between the Company and the other entities controlled by KKCG AG prior to the commencement of the Accounting Period were still in force during the Accounting Period:

- Framework agreement on the performance of penetration tests with AEC a.s. dated 30.5.2016, as amended by Appendix No. 1;
- Confidentiality and information protection agreement with AEC a.s. dated 16.5.2018 as amended by Appendix No. 1;
- Agreement on future lease agreement Bořislavka centrum with BOŘISLAVKA OFFICE&SHOPPING CENTRE s.r.o. dated 19.12.2018;
- Agreement on cooperation in the field of tourism with Cestovní kancelář FISCHER, a.s. dated 28.5.2012;
- Cooperation agreement with Cestovní kancelář FISCHER, a.s. dated 30.8.2012;
- Agreement on the adjustment of relations within the VAT of the Group with Cestovní kancelář FISCHER, a.s. dated 17.12.2013, as amended by Appendix No. 1 with MND a.s. and Cestovní kancelář FISCHER, a.s. and Appendix No. 2 with MND a.s., Cestovní kancelář FISCHER, a.s. and SAZKA FTS a.s.;
- Cooperation agreement with Cestovní kancelář FISCHER, a.s. dated 26.1.2018;
- Cooperation agreement with Conectart s.r.o. dated 7.2.2014, as amended by Appendices No. 1 and 2;
- Agreeement on the lease of premises used for business with Conectart s.r.o. dated 27.4.2017, as amended by Appendices No. 1 to 4;
- Confidentiality and information protection agreement with Conectart s.r.o. dated 5.1.2018;
- Agreement on the processing of personal data with Conectart s.r.o. dated 6.6.2018;
- Agreeement on the provision of registry office services with Conectart s.r.o. dated 22.6.2018;
- Agreeement on the provision of reprography services with Conectart s.r.o. dated 1.9.2018;
- Agreeement on the lease of premises used for business with DataSpring s.r.o. dated 21.2.2014, as amended by Appendices No. 1 to 7;
- Framework agreement on the provision of consulting services with DataSpring s.r.o. dated 30.6.2014;
- Agreement on the supply and implementation of hardware and on the provision of services of the communication system of unified communication and service provision with DataSpring s.r.o. dated 29.5.2015;
- Agreeement on the supply and implementation of hardware and software for backup, including maintenance, with DataSpring s.r.o. dated 20.10.2015, as amended by Appendix No. 1;
- Agreement on confidentiality and protection of confidential information with DataSpring s.r.o. dated 23.1.2018;
- Agreement on the transfer of activities and services and Agreement on the provision of asset management and maintenance services with FM&S Czech a.s. dated 1.2.2016, as amended by Appendices No. 1 and 2;
- Cooperation agreement with JTU Czech s.r.o. dated 7.6.2018;
- Agreeement on the lease of premises used for business with Kavárna štěstí s.r.o. dated 1.8.2016, as amended by Appendix No. 1;
- Agreeement on the procurement of services with Kavárna štěstí s.r.o. dated 15.2.2017;
- License agreement for trademarks and copyright works with Kavárna štěstí s.r.o. dated 31.8.2018;
- Framework agreement on the provision of consulting services with KKCG a.s. effective from 1.1.2016;
- Agreement on personal data processing with KKCG a.s. dated 18.6.2018;
- CASH POOLING AGREEMENT with KKCG Structured Finance AG dated 31.5.2016;

- Agreeement on the provision of security services with Kynero Consulting a.s. dated 1.8.2015;
- Agreement on combined gas supply services with MND a.s. dated 8.12.2015, as amended by Appendices No. 1 to 4;
- Confidentiality agreement with MND a.s. dated 13.10.2017;
- Agreement on business cooperation with MND a.s. dated 19.10.2017;
- Agreement on combined electricity supply services with MND a.s. dated 20.12.2017, as amended by Appendix No. 1 and 2;
- Agreement on business cooperation with MND a.s. dated 8.8.2018;
- Service agreement with SafeDX s.r.o. dated 21.7.2017, as amended by Appendix No. 1 and 2;
- Agreement on the processing of accounting evidence, financial statements and tax returns with SAZKA FTS a.s. dated 17.12.2015;
- Service agreement with SAZKA FTS a.s. dated 17.12.2015;
- Agreement on business representation with SAZKA FTS a.s. dated 15.12.2015, as amended by Appendix No. 1;
- Agreement on the lease of business premises with SAZKA FTS a.s. dated 1.8.2016, as amended by Appendices No. 1 and 2;
- FRAMEWORK DEPOSIT AGREEMENT with SAZKA Group a.s. dated 17.9.2018;
- Agreement on bookkeeping and related agenda with SPORTLEASE a.s. dated 28.4.2003, as amended by Appendix No. 1;
- Agreement on the lease of business premises with SPORTLEASE a.s. dated 1.3.2012, as amended by Appendices No. 1 and 2.

6. **The assessment of damage suffered and its settlement**

The Company did not suffer any damage as a result of influence of controlling persons during the Accounting Period.

7. **The evaluation of advantages and disadvantages resulting from the relations between the Related Entities**

Membership in the KKCG Group, with the Controlling Entity KKCG AG, enables the Company to benefit especially from the sharing of know-how and information (to the extent permitted by law and contractual arrangements with third parties), from the ability to take advantage from the good reputation associated with the KKCG brand and to access intra-group and bank financing of the Company (for example, in the form of the possibility to have collateral for financial liabilities of the Company provided by other persons in the group).

The Company has not identified any disadvantages arising to it from the relationships between the Related Entities.

Annex No. 1: List of Related Entities

In Prague, on 31 March 2020

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Robert Chvátal	Pavel Šaroch
Member of the Board of Directors	Chairman of the Board of Directors
SAZKA a.s.	SAZKA a.s.

Annex No. 1 - List of Related Entities as of 31 December 2019

List of parties controlled by the company KKCG AG, with its registered seat at Kapellgasse 21, 6004 Lucerne, The Swiss Confederation, registration number CHE-326.367.231, as of 31 December 2019

COMPANY	Registered seat, Identification number/Registration number
“Horyzonty” LLC	L’vivska Oblast, L’viv, 79005, Akademika Pavlova 6C, Office 7, Ukraine, reg. No. 36828617
AEC a.s.	Prague 8, Libeň, Voctářova 2500/20a, post code 180 00, identification no. 26236176
AEC Group a.s.	Prague 8, Libeň, Voctářova 2500/20a, post code 180 00, identification no. 04772148
AEC s.r.o.	Bratislava, Prievozská 1978/6, post code 821 09, Slovak Republic, identification no. 31384072
ANTAIOS s.r.o.	Ostrava, Moravská Ostrava, Nemocniční 987/12, post code 702 00, identification no. 28345801;
Aricoma Group a.s.	Prague 4, Chodov, Líbalova 2348/1, post code 149 00, identification no. 04615671
Austrian Gaming Holding a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 04047788
AUTOCONT a.s.	Hornopolní 3322/34, Moravská Ostrava, 702 00 Ostrava, identification no. 043 08 697
AUTOCONT s.r.o.	Krasovského 14, Bratislava – mestská časť Petržalka, post code 851 01, Slovak Republic, identification no. 36 396 222
BOŘISLAVKA OFFICE & SHOPPING CENTRE s.r.o	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 27457621
BOSM Czech, s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 06773877
BXY Czech, a.s., in liquidation	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 04559851
CAD Studio s.r.o.	Ostrava, Moravská Ostrava, Hornopolní 3322/34, post code 702 00, identification no. 26197081
CAME Holding GmbH	Universitätsring 10, 1010 Vienna, Austria, registration no. 038898d
CES EA s.r.o.	Prague 8, Libeň, Voctářova 2500/20a, post code 180 00, identification no. 08028656
Cestovní kancelář FISCHER, a.s.	Prague 4 – Nusle, Na Strži 65/1702, post code 140 62, identification no. 26141647
CKF facility s.r.o.	Prague 4 – Nusle, Na Strži 65/1702, post code 140 62, identification no. 28982738

Cleverlance Enterprise Solutions a.s.	Prague 8, Libeň, Voctářova 2500/20a, post code 180 00, identification no. 27408787
Cleverlance Group a.s.	Prague 8, Libeň, Voctářova 2500/20a, post code 180 00, identification no. 04771915
Cleverlance H2B a.s.	Brno, Slatina, Tuřanka 1519/115a, post code 627 00, identification no. 28223756
Cleverlance Slovakia s.r.o.	Bratislava, Prievozská 1978/6, post code 821 09, Slovak Republic, identification no. 35942487
Cloud4com SK, s.r.o.	Bratislava, Staré Grunty 36, post code 841 04, Slovak Republic, identification no. 50569694
Cloud4com, a.s.	Prague 7, Holešovice, U Uranie 954/18, post code 170 00, identification no. 24660329
CLS Beteiligungs GmbH	Goldschmiedg. 3, 1010 Vienna, Austria, registration no. FN84419x
Collington II Limited	Custom House Plaza Block 6, International Financial Services Centre, Dublin 1, Republic of Ireland, registration no. 506335
Conectart s.r.o.	Prague 9, Vysočany, K Žižkovu 851/4, post code 190 00, identification no. 24728055
DataSpring s.r.o.	Prague 9, Vysočany, K Žižkovu 851/4, post code 190 00, identification no. 28808681
EMMA DELTA FINANCE PLC, in liquidation	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Republic of Cyprus, registration no. HE284780
EMMA DELTA HELLENIC HOLDINGS LIMITED	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Republic of Cyprus, registration no. HE320752
EMMA DELTA MANAGEMENT LTD	Arch. Makariou III, 2–4, CAPITAL CENTER, 9th floor, 1065 Nicosia, Republic of Cyprus, registration no. HE314151
EMMA DELTA VARIABLE CAPITAL INVESTMENT COMPANY LTD	Esperidon 5, 4th floor, Strovolos, 2001 Nicosia, Republic of Cyprus, registration no. HE314350
FM&S Czech a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 04283112
Geewa a.s.	Prague 9, Karlín, Sokolovská 366/84, post code 186 00, identification no. 25617036
Geologichchne byreau “Lviv” LLC	L’vivska Oblast, L’viv, 79011, ul. Kubiyovicha 18, Office 6, Ukraine, registration no. 31978102
G-JET s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 10000, identification no. 27079171
HELLENIC LOTTERIES S.A.	112 Athinon Avenue, Athens, Greece, registration no. 25891401000

HORSE RACES S.A.	112 Athinon Avenue, Athens, Greece, registration no. 32846101000
IGH Financing a.s., in liquidation	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 05034353
INDUSTRIAL CENTER 28/23 SP. Z O.O.	ul.Twarda 18, 00-105 Warszawa, Poland, registration no. 1132912313
INTERMOS Praha s.r.o.	Prague 10, Vinohradská 1511/230, post code 100 00, identification no. 63076349
INTERMOS VALVES, s.r.o.	Bratislava-mestská časť Staré Mesto, Moskovská 13, post code 811 08, Slovak Republic, identification no. 35898411
Internet Projekt, s.r.o.	Prague 2, Nové Město, Vyšehradská 1376/43, post code 128 00, identification no. 08526541
IPM – Industrial Portfolio Management a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 04572033
Italian Gaming Holding a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 04828526
Italian GNTN Holding a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 07911319
JTU Czech, s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 02612020
Kavárna štěstí s.r.o.	Prague 9, K Žižkovu 851/4, post code 190 00, identification no. 05111901
KKCG a.s.	Prague 10, Vinohradská 1511/230, post code 100 00, identification no. 27107744
KKCG Entertainment & Technology B.V. (in liquidation)	1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, registration no. 58856765
KKCG Industry B.V.	1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, registration no. 27271144
KKCG Investments AG	Kapellgasse 21, 6004 Lucerne, Switzerland, registration no. CHE-271.643.388
KKCG Methanol Holdings LLC	1675 South State Street, Suite B, Dover, DE, County of Kent, 19901, United States of America, registration no. 36-4831670
KKCG Real Estate a.s.	Prague 10, Vinohradská 1511/230, post code 100 00, identification no. 24291633
KKCG Structured Finance AG	Kapellgasse 21, 6004 Lucerne, Switzerland, registration no. CHE-292.174.442
KKCG Technologies s.r.o.	Vinohradská 1511/230, Strašnice, 100 00 Prague 10, identification no. 07171234
KKCG UK Limited	London, One Connaught Place, 5th Floor, W2 2ET, United Kingdom, registration no. 8869774

KKCG US Advisory LLC	125 High Street, Boston, MA-02110, United States of America, registration no. 84-2817214
Kura Basin Operating Company LLC	70 Kostava Street (5 Gamsakhurdia Avenue), Tbilisi, Georgia, registration no. 405171567
Kynero Consulting a.s.	Prague 10, Vinohradská 1511/230, post code 100 00, identification no. 24193461
Liberty One Methanol LLC	400 Capitol Street, Suite 200, Charleston WV 25301, United States of America, registration no. 32-0521898
Liberty One O&M LLC	400 Capitol Street, Suite 200, Charleston WV 25301, United States of America, registration no. 30-0975326
Liberty Two Methanol LLC	400 Capitol Street, Suite 200, Charleston WV 25301, United States of America, registration no. 30-0988055
LP Drilling S.r.l.	29016 Cortemaggiore, Salvo D'Acquisto 5, Italy, registration no. 01294260334
LTB Beteiligungs GmbH	Universitätsring 10, 1010 Vienna, Austria, registration no. FN84439a
Medial Beteiligungs-Gesellschaft m.b.h.	Universitätsring 10, 1010 Vienna, Austria, registration no. 117154k
MEDICEM Group a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 07118422
Medicem Inc.	125 High Street, Boston, MA-02110, United States of America, registration no. 38-4126132
MEDICEM Institute s.r.o.	Kamenné Žehrovice, Karlovarská třída 20, post code 273 01, identification no. 26493331
MEDICEM Technology s.r.o	Kamenné Žehrovice, Karlovarská třída 20, post code 273 01, identification no. 48036374
Megalax Real, s.r.o.	Prague 9, Vysočany, K Žižkovu 851/4, post code 190 00, identification no. 07774656
Metanol d.o.o.	Lendava, Mlinska ulica 5, 9220 Lendava – Lendva, Slovenia, registration no. 6564534000
MND a.s.	Hodonín, Úprkova 807/6, post code 695 01, identification no. 28483006
MND Drilling & Services a.s.	Lužice, Velkomoravská 900/405, post code 696 18, identification no. 25547631
MND Drilling Germany GmbH	31582 Nienburg, Domänenweg 7, Germany, registration no. HRB206722
MND Energy Trading a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 29137624

MND Gas Storage a.s.	Hodonín, Úprkova 807/6, post code 695 01, identification no. 27732894
MND Gas Storage Germany GmbH	64665 Alsbach-Hähnlein, Birkenweg 2, Germany, registration no. HRB96046
MND Georgia B.V.	1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, registration no. 52308944
MND Germany GmbH	Lüneburger Heerstraße 77A, 29223 Celle, Germany, registration no. HRB207844
MND Group B.V.	1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, registration no. 34246576
MND Oil & Gas a.s.	Úprkova 807/6, 695 01 Hodonín, identification no. 074 35 304
MND Samara Holding B.V.	1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, registration no. 52990680
MND Ukraine B.V.	1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, registration no. 59394072
MNG Group AG	Kapellgasse 21, 6004 Lucerne, Switzerland, registration no. CHE-448.401.517
Moravia Systems a.s.	Prague 10, Vinohradská 1511/230, post code 100 00, identification no. 26915189
NEUROSOFT S.A.	466 Irakliou Avenue & Kiprou Street, 141 22 Iraklio Attikis, Athens, Greece, registration no. 84923002000
OOO MND Samara	ul. Alexeya Tolstogo 92, Samara, Samarská obl., 443099, Russia, registration no. 1046301405094
OPAP CYPRUS LTD	128–130 Lemesos Avenue, Strovolos, 2015, Nicosia, Republic of Cyprus, registration no. HE140568
OPAP INTERNATIONAL LTD	128–130 Lemesos Avenue, Strovolos, 2015, Nicosia, Republic of Cyprus, registration no. HE145913
OPAP INVESTMENT LTD	128–130 Lemesos Avenue, Strovolos, 2015, Nicosia, Republic of Cyprus, registration no. HE297411
OPAP S.A.	112 Athinon Avenue, Athens, Greece, registration no. 3823201000
OPAP SPORTS LTD	128–130 Lemesos Avenue, Strovolos, 2015, Nicosia, Republic of Cyprus, registration no. HE133603
PDC INDUSTRIAL CENTER 48 SP. Z O.O.	ul. Twarda 18, 00-105 Warszawa, Poland, registration no. 5252630921
POM Czech, s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 06773800
Precarpathian energy company LLC	Ivano-Frankovska Oblast, Bogorodchany, 77701, ul. Shevchenka, Ukraine, registration no. 36042045
Rezervoarji d.o.o	Lendava, Mlinska ulica 5, 9220 Lendava – Lendva, Slovenia, registration no. 6564470000

RUBIDIUM HOLDING LIMITED	8 Alasias Street, Christodoulides Building, 3095 Limassol, Republic of Cyprus, registration no. HE287956
SafeDX s.r.o.	Prague 9, Vysočany, K Žižkovu 813/2, post code 190 00, identification no. 04585119
SALEZA, a.s. (in bankruptcy, insolvency proceedings initiated)	Prague 9, K Žižkovu čp. 851, post code 19093, identification no. 471 16 307
SAZKA a.s.	Prague 9, K Žižkovu 851, post code 190 93, identification no. 26493993
SAZKA Asia a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 05266289
Sazka Asia Vietnam Company Limited	3rd Floor, The Vista Building, 628C Xa Lo Ha Noi, An Phu Ward, District 2, Ho Chi Minh City, Viet Nam, registration no. 0314057663
SAZKA Czech a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 24852104
Sazka Distribution Viet Nam Company Limited	3rd Floor, The Vista Building, 628C Xa Lo Ha Noi, An Phu Ward, District 2, Ho Chi Minh City, Viet Nam, registration no. 0313898374
SAZKA FTS a.s.	Prague 9, Vysočany, K Žižkovu 851/4, post code 190 00, identification no. 01993143
SAZKA Group a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 24287814
SAZKA Group Financing a.s.	Dúbravská cesta 14, Bratislava – mestská časť Karlova Ves, post code 841 04, Slovak Republic, identification no. 51142317
SAZKA Group Holding a.s.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 07877838
SAZKA Group Russia LLC	Prospect Mira 40, floor 8, premises I, room 11, 129090 Moskva, Russia, registration no. 1177746915257
SG INDUSTRIAL CENTER 02 SP. Z O.O.	ul. Twarda 18, 00-105 Warszawa, Poland, registration no. 5272464443
SIL Servis Partner a.s.	Ostrava, Slezská Ostrava, Těšínská 1970/56, post code 710 00, identification no. 25830953
SPORTLEASE a.s.	Prague 9, K Žižkovu 851, post code 190 93, identification no. 62361546
Springtide Ventures s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 01726587
SUPERMARINE, s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 08062773

Theta Real s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 27631842
TOK Poland Sp. Z o.o.	ul. Twarda 18, 00-105 Warszawa, Poland, registration no. 5252689699
TORA DIRECT S.A.	108 Athinon Avenue and Chrimatistiriou Street, Athens, Greece, registration no. 5641201000
TORA WALLET S.A.	108 Athinon Avenue and Chrimatistiriou Street, Athens, Greece, registration no. 139861001000
US Methanol LLC	400 Capitol Street, Suite 200, Charleston WV 25301, United States of America, registration no. 81-1952040
VESTINLOG, s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 05629276
Vinohradská 230 a.s.	Prague 10, Vinohradská 1511/230, post code 100 00, identification no. 26203944
Vitalpeak Limited	Arch. Makariou III, 195, Neocleous House, 3030 Limassol, Republic of Cyprus, registration no. HE 228204
VSU Czech s.r.o.	Prague 10, Strašnice, Vinohradská 1511/230, post code 100 00, identification no. 08062897
WOODSLOCK a.s.	Prague 4, Líbalova 2348/1, post code 149 00, identification no. 27379434

Financial Statements
for the year ended 31 December 2019

SAZKA a.s.

Translation note

This version of the financial statements is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of financial statements takes precedence over this translation.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Statement of profit or loss and other comprehensive income	**Note**	**2019**	**2018**
Amounts staked*		**17,736,364**	**15,279,219**
Statement of profit or loss and other comprehensive income is as follows:			
Gross gaming revenue (GGR)	**4**	**7,348,663**	**6,442,455**
Lottery tax		(1,714,379)	(1,493,297)
Net margin from lottery and betting activities**		5,634,284	4,949,158
Revenue from sale of goods and services	4	424,122	412,699
Other operating income		19,431	32,265
Partner fees	5	(828,655)	(785,384)
Materials and consumables	6	(1,388,066)	(1,218,658)
Marketing expenses	7	(616,870)	(598,022)
Personnel expenses	8	(511,311)	(476,133)
Other operating expenses	9	(310,245)	(286,892)
Profit/loss from operating activities before interest, tax, depreciation and amortisation (EBITDA)		**2,422,689**	**2,029,033**
Depreciation and amortisation	13, 14, 15	(118,904)	(93,056)
Profit/loss from operating activities		**2,303,785**	**1,935,977**
Interest income	11	3,677	1,332
Interest expense	11	(275,416)	(319,558)
Other profit (+)/loss (-) from financial operations	11	(10,844)	(512)
Profit/loss from financial operations		**(282,583)**	**(318,738)**
Profit/loss before tax		**2,021,202**	**1,617,239**
Income tax expense	12	(399,389)	(316,691)
Profit/loss for the accounting period		**1,621,813**	**1,300,548**
Items that are or may be reclassified to profit or loss:			
Remeasurement of hedging derivatives		65,458	(106,367)
Deferred tax from remeasurement of hedging derivatives	17	(12,437)	20,209
Other comprehensive income for the accounting period (after tax)		**53,021**	**(86,158)**
Total comprehensive income for the accounting period		**1,674,834**	**1,214,390**

* The amounts staked represent the total value of bets before deduction of winnings, except for technical games, for which the value of the amounts staked is reported as the difference between the amount of in-game stakes and the amount of prizes paid out to players during the game period running from the moment the financial amount is entered into the game and the final withdrawal of the financial amount from the game.
** Usually stated as Net gaming revenue (NGR)

The notes to the financial statements on pages 30 to 84 form an integral part of these financial statements.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Statement of financial position	**Note**	**31/12/2019**	**31/12/2018**
ASSETS			
Intangible assets	13	2,258,517	2,228,452
Goodwill	13	9,636,122	9,636,122
Property, plant and equipment	14	717,694	723,162
Right-of-use assets	15	51,478	-
Other non-current investments	16	19,656	19,656
Restricted cash on bank accounts	20	55,000	55,000
Non-current receivables from derivatives	19	29,252	-
Non-current trade receivables and other non-current assets	18	46,093	47,370
Total non-current assets		**12,813,812**	**12,709,762**
Inventories		11,639	6,510
Current trade receivables and other current assets	18	200,393	335,853
Current receivables from derivatives	19, 22	8,673	-
Cash and cash equivalents	20	1,512,486	966,615
Total current assets		**1,733,191**	**1,308,978**
Total assets		**14,547,003**	**14,018,740**

The notes to the financial statements on pages 30 to 84 form an integral part of these financial statements.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Statement of financial position (continued)

	Note	31.12.2019	31.12.2018
LIABILITIES AND EQUITY			
Equity			
Share capital	21	450,000	450,000
Capital and other reserves	21	1,479,711	1,426,690
Retained earnings and profit/loss for the current period		3,761,054	2,619,241
Total equity		**5,690,765**	**4,495,931**
Liabilities			
Bank loans and other borrowings - non-current portion	22	5,914,197	6,532,266
Non-current trade and other liabilities		52,584	51,738
Non-current liabilities from derivatives	22	5,984	33,517
Non-current lease liabilities	15	33,316	-
Deferred tax liability	17	330,361	285,541
Non-current provisions	24	-	87,839
Total non-current liabilities		**6,336,442**	**6,990,901**
Bank loans and other borrowings - current portion	22	627,346	627,684
Current trade and other payables	23	1,537,683	1,462,673
Current lease liabilities	15	19,017	-
Current income tax liability	12	128,486	116,442
Current provisions	24	207,264	325,109
Total current liabilities		**2,519,796**	**2,531,908**
Total liabilities		**8,856,238**	**9,522,809**
Total equity and liabilities		**14,547,003**	**14,018,740**

The notes to the financial statements on pages 30 to 84 form an integral part of these financial statements.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Statement of changes in equity

	Share capital	Capital and other reserves	Retained earnings and profit/loss for the current period	Total equity
Balance as at 1 January 2019	**450,000**	**1,426,690**	**2,619,241**	**4,495,931**
Payment of dividends	**--**	**--**	**(480,000)**	**(480,000)**
Other movements in the individual components of equity	**--**	**--**	**--**	**--**
Profit/loss for 2019	**--**	**--**	**1,621,813**	**1,621,813**
Remeasurement of hedging derivatives	**--**	**53,021**	**--**	**53,021**
Total comprehensive income for 2019	**--**	**53,021**	**1,621,813**	**1,674,834**
Balance as at 31 December 2019	**450,000**	**1,479,711**	**3,761,054**	**5,690,765**

	Share capital	Capital and other reserves	Retained earnings and profit/loss for the current period	Total equity
Balance as at 1 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)**
Total comprehensive income for 2018	**--**	**(86,158)**	**1,300,548**	**1,214,390**
Balance as at 31 December 2018	**450,000**	**1,426,690**	**2,619,241**	**4,495,931**

The notes to the financial statements on pages 30 to 84 form an integral part of these financial statements.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Statement of cash flows	**Note**	**For 2019**	**For 2018**
OPERATING ACTIVITIES			
Profit (+) for the accounting period		1,621,813	1,300,548
Adjustments for:			
Income tax expense	12	399,389	316,691
Depreciation of property, plant and equipment and amortisation of intangible assets	13, 14, 15	118,904	93,056
Gain (-) / loss (+) on sale of property, plant and equipment and intangible assets		4,344	1,339
Gain (-) / loss (+) on remeasurement of non-current assets, financial instruments and investments		-	846
Net interest expense (+)	11	271,739	318,226
Derecognition of impairment of assets (-) / impairment of assets (+)		4,027	-
Net foreign exchange gain (-) / loss (+)		2,601	1,883
Other financial gains (-) / losses (+)		-	(1,722)
Other non-monetary movements		(3,937)	-
Operating profit / loss prior to the change in working capital and provisions		**2,418,880**	**2,030,868**
Increase (+) / decrease (-) in provisions	24	(205,684)	51,745
Increase (+) / decrease (-) in inventories		(5,129)	5,459
Decrease (+) / increase (-) in trade receivables and other assets	18	134,169	(145,401)
Decrease (-) / increase (+) in trade and other payables	23	75,010	73,476
Cash generated from operating activities		**2,417,246**	**2,033,507**
Interest paid		(267,975)	(435,328)
Income tax paid		(354,962)	(170,545)
Net cash flow from operating activities		**1,794,309**	**1,410,274**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	14	(40,259)	(54,921)
Acquisition of intangible assets	13	(91,635)	(80,055)
Proceeds from sale of property, plant and equipment and intangible assets		2,841	3,196
Interest received	11	3,677	1,332
Net cash flow generated (+) / used (-) in investing activities		**(125,376)**	**(130,448)**
FINANCING ACTIVITIES			
Loans received	22	-	7,500,000
Loans paid	22	(625,000)	(7,029,116)
Dividends paid	21	(480,000)	(1,720,000)
Lease payments - principal		(18,062)	-
Net cash flow used (-) in financing activities		**(1,123,062)**	**(1,249,116)**
Net decrease (-) / increase (+) in cash and cash equivalents		***545,871***	***30,711***
Balance of cash and cash equivalents at the beginning of the accounting period	20	**966,615**	**935,904**
Balance of cash and cash equivalents at the end of the accounting period	20	**1,512,486**	**966,615**

The notes to the financial statements on pages 30 to 84 form an integral part of these financial statements.

Contents of the notes to the financial statements

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 numerical and instant lotteries. The Company's core business activities consist of the operation of numerical and instant lotteries, with sports and odds betting.

SAZKA a.s. is a joint-stock company recorded in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 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 ultimate controlling party pursuant to IFRS standards is VALEA FOUNDATION ("the Group").

1.2. Business activities

The principal business activities consist of the operation of lotteries and other similar games in accordance with the generally binding legislation, i.e. the operation of instant and numerical lotteries, sports and odds betting and other similar games in accordance with Act No. 186/2016 Coll., on Gambling ("the Lottery Act").

In addition to lottery and betting activities, SAZKA a.s. also pursues non-lottery business activities through points of sales and terminals (such as topping up prepaid cards for mobile phones; 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 2019 (3 members):

Pavel Šaroch, chairman of the Board of Directors
Robert Chvátal, member of the Board of Directors
Kamil Ziegler, member of the Board of Directors

Members of the Supervisory Board as at 31 December 2019 (3 members):

Tomáš Porupka, chairman of the Supervisory Board
Robert Kolář, member of the Supervisory Board
Petr Stöhr, member of the Supervisory Board

1.4. Sole shareholder of the Company

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

The 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, Swiss Confederation.

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

On 25 April 2019, a change in the business activities was entered in the Commercial Register in connection with a change in the title of the Act (formerly the Lottery Act, now the Gambling Act) and also in connection with the adoption of a new Payment System Act under a different number (formerly 284/2009, now 370/2017).

Following the decision of the sole shareholder within the competence of the General Meeting on 17 July 2019 concerning the dismissal of members of the Board of Directors Pavel Horák and David Havlín and the adoption of Company's new Articles of Association, the following important entries were made among others in the Commercial Register on 17 July 2019:

- deletion of the number of members of the Board of Directors: 6,
- registration of the number of members of the Board of Directors: 3,
- deletion of information concerning the transferability of shares,
- deletion of the existing method of the Company's representation and registration of a new one: The Company is always represented jointly by two members of the Board of Directors. A member of the Board of Directors, who is the CEO, is entitled to an independent Company representation at legal acts with third parties, from which the Company cannot incur liabilities exceeding CZK 5,000,000. Robert Chvátal, a member of the Board of Directors and CEO, is the person in charge of legal acts with the Company's employees.

Petr Stöhr was removed from the position of a member of the Supervisory Board on 29 February 2020, by a decision of the sole shareholder within the scope of the General Meeting on 27 February 2020. The entry in the Commercial Register was made on 12 March 2020.

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 2019 and also in the preparation of comparative information, i.e. as at 31 December 2018.

These financial statements were approved by the Company's Board of Directors on 31 March 2020.

(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, because they are the 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:

- Note 3(i) and Note 13 – assessment of impairment of goodwill, assessment of impairment of intangible assets with indefinite useful life and assessment of useful life of intangible assets.

(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.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

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 are observable, directly or indirectly
- Level 3: procedures based on input data that have a significant impact on the reported fair value and the input data are not based on observable 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 2019

During the year, the Company initially applied new accounting standards and amendments to standards valid for the accounting period beginning on 1 January 2019:

Amendments, new and amended standards and interpretations	Effective for periods beginning on or after
IFRS 16 – Leases	1 January 2019
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019
IFRS 9 – Amendments to IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IAS 28 – Amendments to IAS 28 – Long-term interests in associates and joint ventures	1 January 2019
Annual improvement of IFRS – 2015 - 2017 cycle	1 January 2019
IAS 19 – Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019

Apart from IFRS 16 - Leases, the adoption of the above standards, amendments and interpretations during the period did not have a significant impact on the Company.

IFRS 16 - Leases

The Company has elected to apply the standard from its mandatory date of adoption, which is from 1 January 2019 using a modified retrospective method, without restatement of the comparative data and using certain expedients permitted by the standard. Reclassifications and adjustments resulting from the new leasing rules are therefore recognised in the opening balance sheet as at 1 January 2019.

Following the adoption of IFRS 16, the Company recognised lease liabilities in respect of leases that were previously classified as “operating leases” in accordance with the rules of IAS 17 – Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. As at 1 January 2019, the weighted average incremental borrowing rate applied by the Company to lease liabilities was 4.015 %.

Right-of-use assets were measured at the amount corresponding to the lease liability at the date of adoption of IFRS 16 (adjusted for all prepaid or accrued expenses).

When applying IFRS 16 for the first time, the Company applied the following practical expedients permitted by the standard:

- application of a uniform discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on a prior assessment of whether leases are disadvantageous as an alternative to assessing impairment - as at 1 January 2019, there were no onerous contracts;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as current leases,
- exclusion of initial direct costs from the measurement of the right-of-use assets at the date of initial application,
- the use of retrospective approach in determining the lease term if the contract contains options to extend or terminate the lease.

The Company has also decided not to reassess whether the contract is a lease or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, it relied on its assessment under IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease.

The comparison of operating lease liabilities described in Note 26 and reported lease liabilities is as follows:

in CZK thousand	**1 January 2019**
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018 (Note 26)	88,208
– Impact of discounting on the present value	(4,437)
– Current and low-value leases that are not recognised as a liability	(24,882)
Total lease liabilities reported as of 1 January 2019	**58,889**
Of which	
Current lease liabilities	16,413
Non-current lease liabilities	42,476

The change in accounting policies affected the following items in the statement of financial position as at 1 January 2019:

in CZK thousand	**Impact of the adoption of IFRS 16**
Increase in right-of-use assets	58,889
Increase in lease liabilities	58,889

Standards and interpretations used before the effective date

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

Financial statements for the year ended 31 December 2019 (in CZK thousand)

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 17 – Insurance Contracts	1 January 2021*)
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
Changes to the conceptual framework for financial reporting	1 January 2020
IFRS 9, IAS 39, IFRS 7 – Amendments to IFRS 9, IAS 39, IFRS 7 – Interest Rate Benchmark Reform	1 January 2020
IAS 1 – Amendments to IAS 1 – Liabilities as Current or Non-current	1 January 2022*)

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

The Company does not expect the above mentioned amendments, new and amended standards and interpretations to have a material 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, unless stipulated otherwise.

(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 *(Note 16 and 18)*

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 2019, 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 *(Note 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 and borrowings, 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 and borrowings 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 2(e)). Positive fair values of derivatives are reported in assets in “Current receivables from derivatives” or “Non-current receivables from derivatives”. Negative fair values of derivatives are reported in liabilities in “Current payables from derivatives” or “Non-current payables from derivatives”.

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 profit or 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 anymore, 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 according to IAS 39. In this context, a document was drawn up constituting the documentation of the hedge relationship between the hedged item and the hedging derivative in accordance with IAS 39. This documentation includes:

- 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. The Company uses interest rate swaps to hedge interest rate risks arising from debt securities acquired. 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, even though 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 *(Note 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 *(Note 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) Restricted cash

Balances of restricted cash are not immediately available to meet the needs of the Company. Restricted cash contain represent cash pool provided in favour of the Ministry of Finance as a guarantee for the issued gaming license 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 are always assessed in terms of the expected credit loss at the moment the asset is recognised

Current receivables - a simplified model

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 allowance 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 DPD (day past due) baskets: basket that is within 90 days past due and a basket exceeding 90 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.

Other financial assets – Expected Credit Loss model (ECL model)

The Company assesses expected credit losses on the basis of risk exposures arising from loan commitments, contractual assets and other financial assets under the Standard ECL model. The Group measures expected credit losses at the end of each reporting period and recognizes net expected credit losses from impairment of financial and contractual assets. The measurement of expected credit loss reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) the time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future economic conditions.

Contractual assets and other financial assets subject to the Standard ECL model are presented in the statement of financial position net of allowances for expected credit losses. For loan commitments and financial guarantees, a separate allowance for expected credit losses is recognised as a liability in the statement of financial position.

The Standard ECL model developed by the Company applies a three-stage approach for impairment, based on changes in credit quality since initial recognition as required by IFRS 9. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their expected credit losses measured at an amount equal to expected credit losses within the next 12 months (“12 Months Expected Credit Losses”). If the Company identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its expected credit losses are measured based on expected credit losses for the entire life of the financial asset (“Lifetime Expected Credit Losses”). If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its expected credit losses are measured as expected credit losses for the entire life of the financial asset. The Company’s definition of credit impaired assets and definition of default is explained below. For financial assets that are purchased as credit-impaired, the expected credit losses are always measured as a Lifetime Expected Credit Losses.

Current accounts and term deposits which are placed in strong and stable credit institutions meeting all capital and liquidity requirements as set out by Basel III are considered to bear a “low credit risk”. In these cases, the Company applies a “low credit risk” exemption from the Standard ECL model and consequently does not assess the significant increase in credit risk for these financial assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Company considers reasonable and supportable information that is available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Significant increase in credit risk is considered to have occurred if the asset is at least 30 days past due, if the external rating grade has decreased by 2 notches since initial recognition, or if asset-specific qualitative information or forward-looking information that suggest that a significant increase in credit risk has occurred is available.

The Company considers the situation as a default when:

- the borrower is unlikely to pay its credit obligations to the Company in full without the Company taking action against the borrower (e.g. realization of collateral or guarantees); or
- the financial asset is more than 365 days past due.

For purposes of disclosure, the Company has fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Company.

The input parameters into the ECL model calculations are based on two approaches:

1. External rating-based approach
2. Internal rating-based approach.

The external rating-based approach is used for loans to and deposits with counterparties with an external credit rating from one of the Big Three rating agencies. The internal rating approach is used for loans to and deposits with counterparties without such external credit rating; the credit spread for the individual ratings is calibrated on regular basis.

The forward-looking information considered by the Company in the Standard ECL model has been derived from correlation analysis. The information considered are publicly available information about the expected year-to-year changes of GDP in the Czech Republic.

The following was considered objective evidence of impairment of a financial asset: default or delay on the side 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 and third-party guarantees were also taken into account.

(k) Property, plant and equipment *(Note 14)*

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. 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 profit or loss and other comprehensive income.

iii. Depreciation

Depreciation is reported in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful life of the given item of property, plant and equipment. 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 *(Note 13)*

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" chapter).

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 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 profit or loss and other comprehensive income in the period in which they were incurred.

iv. Amortisation

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

• Software	2 - 7 years

• Intellectual property rights - other	6 years
• Distribution network (contracts with providers)	20 years
• Trademarks	indefinite
• Licence of a lottery operator	indefinite

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

(m) Other non-current investments *(Note 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) Allowances

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

(p) Provisions *(Note 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 settlement of such an obligation is likely to require outflow of economic benefits and the relevant amount can be reliably estimated.

Provisions are reported at the expected amount of the settlement. Non-current liabilities are reported as liabilities at the current value of the expected amount of their settlement; (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 income 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 profit or loss and other comprehensive income as at the date the given estimate changes. The amount of provisions is reviewed on an ongoing basis.

(i) Creation 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 Ministry of Finance of the Czech Republic. 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 scratch cards

In this type of games, the return to players of individual scratch card issues is determined in advance (regardless of the fact whether winning scratch cards 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 scratch cards sold to recognise a provision for winnings from scratch cards already sold.

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

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:

Numerical lotteries

Revenues are recognised on a net basis, less winnings as Gross gaming revenue (GGR).

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 numerical lotteries") and measured at fair value.

Numerical 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 created for unused jackpots/superjackpots.

Lottery tax representing 23 % (23 % in 2018) 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 the payment of winnings, based on the legislative framework.

Instant lotteries

Revenues from the sale of scratch cards are recognised in the period of the transaction.

Winnings in instant lotteries and lottery tax

Winnings in instant lotteries are reported on an accrual basis. Winnings include winnings paid and a provision created based on historical experience.

The lottery tax of 23 % (23 % in 2018) of deposits less winnings is reported based on recognised revenues reduced by winnings in the given period.

Odds betting

In accordance with the gaming plan, 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 odds betting and lottery tax

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

Lottery tax, which is 23% (23% in 2018) of the revenues from betting reduced by winnings in the given period, is fully accrued/deferred as at the date of the financial statements.

Technical games

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% (35% in 2018).

Revenue from sale of goods and services

The Company recognizes revenue when the obligation to perform by transferring the promised goods or services to the customer, which acquires control of the asset, is fulfilled, which means after delivery of the services and goods and their acceptance by the customer. Revenue from the provision of services is reported net of value added tax and after deducting discounts. Revenue is measured at the transaction price that is allocated to the performance obligation.

- **Mobile virtual network operator (MVNO)**

  Revenues consist mainly of revenues from the provision of telecommunications network services to end customers.

  Revenues from voice services represent the main part of total revenues and consist mainly of domestic and foreign (roaming) call of customers. Another significant part of revenues is represented by revenues from non-voice services such as SMS, data transmission and MMS.

  In the case of contracts with more than one element, the transaction price is allocated between the performances arising from the contract in proportion to their separate selling prices. The Company considers the effect of variable performance and the financing component to be insignificant.

  If discounts on service charges are provided unequally over the life of the contract, while the monthly service is provided to the customer evenly, total service revenue is recognised on a straight-line basis.

- **Topping-up of mobile phones**

  Expenses and revenues connected with the topping-up of prepaid cards 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 income and expenses *(Note 11)*

Financial income includes interest income 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 profit or loss.

Financial expenses include interest expense for loans and borrowings, 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 profit or loss.

i. Interest income

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

ii. Interest expense

Interest expense is accounted for in the profit or loss upon its occurrence by applying the effective interest method and includes interest expense from bank loans and other borrowings 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 expense *(Note 12)*

Income tax expense comprises current tax and deferred tax. Income tax expense 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 have impact on 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 on the translation of foreign currencies are reported as profit or loss in the statement of comprehensive income.

(u) Related parties *(Note 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 financially contributing 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 B.(I) above has a significant influence over the entity or is a member of the key management personnel of the entity (or its parent company).

(v) Leases

The Company leases various premises, cars and IT equipment. Lease contracts are usually concluded for fixed periods, but may also have extension options, as described below.

Contracts may contain both lease and non-lease components. The Company allocates the contract consideration to lease and non-lease components on the basis of their relative stand-alone prices. However, in the case of leases of real estate for which the Company is the lessee, the Company has decided not to separate the lease components from the non-lease components and instead to account for them as a single lease component.

Lease conditions are negotiated individually and contain a wide range of different contractual conditions. Leases do not impose any covenants other than collateral on leased assets held by the lessor. Leased assets may not be used as collateral for lending purposes.

Until 2018, leases of property, plant and equipment were classified as finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date when the leased asset is available for use by the Company.

Lease liabilities are initially measured at present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including essentially fixed payments) less any lease incentives receivable,
- variable lease payment depending on an index or a rate that were initially measured at the index or rate at the commencement date,
- amounts expected to be payable by the Company under the residual value guarantees,
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for termination of the lease, if the lease term reflects the Company exercising an option to terminate the lease.

Options to extend or terminate a lease are included in several of the Company's property and equipment leases. These conditions are used to maximize operational flexibility in terms of managing the assets used in the Company's activities. Most extension and termination options held can only be exercised by the Company and not by the relevant lessor. Extension options (or the period after termination options) are included in the lease term only if it is reasonably certain that the lease will be extended (or not terminated). Lease payments to be made on the basis of reasonably certain extension options are also included in the measurement of the liability.

Lease payments are discounted using the lease's implicit interest rate. If this rate cannot be readily determined, the Company's incremental borrowing rate is used, which is the rate the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar rules, collateral and conditions.

To determine the incremental borrowing rate, the Company:

- if possible, will use as a starting point recent third-party funding adjusted to reflect changes in conditions from the date of receipt of such third-party funding,
- will apply an approach that begins with a risk-free interest rate adjusted for credit risk, and
- will make adjustments specific to the lease, such as period, country, currency and collateral.

The Company is exposed to a potential future increase in index- or rate-dependent variable lease payments that are not included in the lease liability until they become effective. When index- or rate-dependent adjustments to lease payments take effect, the lease liability is reassessed and adjusted based on the right-of-use asset.

Lease payments are divided into principal and finance costs. Finance costs are recognised in profit or loss over the lease term so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period.

The cost of a right-of-use asset includes:

- the amount of the initial measurement of the lease liability,
- any lease payments made on or before the commencement date after deducting any lease incentives received,
- any initial direct costs incurred by the Company, and

- the estimated costs to be incurred by the Company in dismantling and removing the underlying asset

Right-of-use assets are depreciated on a straight-line basis over the lease term. If the Company is reasonably certain that it will exercise the purchase option, the right-of-use asset is depreciated over underlying asset's useful life.

Payments related to current leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense within the statement of profit or loss. Current lease is a lease with a lease term of 12 months or less. Low-value assets include IT equipment and small items of office furniture with a value of up to approximately CZK 110 thousand, or lower.

Leases of terminals contain variable payment terms, which vary depending on the amount of gross revenue achieved. For individual terminals, 100% of leasing payments are based on variable payment terms with percentages ranging from 5% to 20% of gross revenue. Variable payment terms are used for a variety of reasons, including minimizing fixed costs. Variable lease payments that depend on sales are recognised within statement of profit or loss in the period in which the condition that gives rise to those payments occurs.

In order to optimize lease costs during the contract period, in some cases the Company provides guarantees of residual values in connection with the leasing of equipment. The Company initially estimates and reports the amounts expected to be due under the residual value guarantees as part of the lease liability. The expected residual value at the inception of the lease is usually equal to or higher than the guaranteed amount, so the Company does not expect to pay anything under the guarantees. At the end of each reporting period, the expected residual values are reviewed and, if necessary, adjusted to reflect the actual residual values achieved for comparable assets and expectations about future prices.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

4. Revenues

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

In 2019, revenues were generated by numerical and instant lotteries (both classic printed and electronic), odds betting and Sazka games. „Sportka“ was the most successful in numerical lotteries; in online betting, the growth is due to increased sales in Sazka Bet, as well as electronic lottery tickets and Sazka games. Revenues from non-lottery services were similar to 2018, there was a decrease in revenues from GSM top up and financial services, on the contrary, a new service "packing room" ("balíkovna") was launched, which compensates for this decrease.

Distribution of revenue according to the timing of revenue recognition:

2019	**At a point in time**	**Over time**	**Total**
Mobile virtual network operator	266,131	--	**266,131**
Service of topping-up credit in mobile phones	90,905	--	**90,905**
Sale of tickets	5,092	--	**5,092**
Other	81,425	--	**81,425**
Total revenue from contracts with customers	**443,553**	**--**	**443,553**
Lottery and betting activities			**7,348,663**
Total revenue			**7,792,216**

2018	**At a point in time**	**Over time**	**Total**
Mobile virtual network operator	258,183	--	**258,183**
Service of topping-up credit in mobile phones	98,114	--	**98,114**
Sale of tickets	3,858	--	**3,858**
Other	84,809	--	**84,809**
Total revenue from contracts with customers	**444,964**	**--**	**444,964**
Lottery and betting activities			**6,442,455**
Total revenue			**6,887,419**

5. Partner fees

	2019	**2018**
Partner fees	**828,655**	**785,384**
Fees for agents*	828,655	785,384

*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.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

6. Material and consumables

	2019	2018
Materials and consumables	**1,388,066**	**1,218,658**
Materials and energy	130,981	110,075
Advisory and other professional services	56,352	45,079
Fees for system providers	733,951	604,696
Telecommunication services	140,226	146,934
Other services*	326,556	311,874

* The most significant items include: transportation costs, telephone fees, services for computer technology, purchase of broadcasting rights for Sazka Bet, DEH and notarial fees

The largest increase is due to higher payments to system suppliers due to higher sales, as well as due to increased CSR activities.

7. Marketing expenses

	2019	2018
Marketing expenses	**616,870**	**598,022**
Advertising, promotion and other related costs	594,200	554,167
Sponsorship and donations	22,670	43,855

8. Personnel expenses

	2019	2018
Personnel expenses	**511,311**	**476,133**
Wages and salaries	383,846	366,905
Remuneration for the members of the Company's bodies	101	101
Social and health insurance	111,614	93,302
Other social expenses	15,750	15,825

The Company's liabilities under pension insurance are limited by the amount of the contribution to the supplementary pension insurance. The Company does not provide any post-employment benefits.

The number of employees was 409 as at 31 December 2019 (as at 31 December 2018: 390).

9. Other operating expenses

	2019	2018
Other operating expenses	**310,245**	**286,892**
Unclaimed VAT	307,858	277,665
Other operating expenses	2,387	9,227

10. Fees payable to statutory auditors

The information is disclosed in the notes to the consolidated financial statements prepared for the SAZKA Group a.s. consolidated group, in which the Company is included.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

11. Financial income and expenses

	2019	2018
Interest income	**3,677**	**1,332**
Bank interest	3,677	1,332
Interest expense	**(275,416)**	**(319,558)**
Interest on bank loans	(270,911)	(248,155)
Other interest	(4,505)	(71,403)
Other profit (+)/loss (-) relating to financial activity	**(10,844)**	**(512)**
Profit (+)/loss (-) from foreign exchange operations	(2,601)	(1,883)
Other financial expenses	(14,197)	(350)
Other financial income	5,954	1,721
Profit/loss from financial operations	**(282,583)**	**(318,738)**

12. Income tax expense

	2019	2018
Income tax expense	**399,389**	**316,691**
Current income tax	367,006	309,370
Deferred income tax	32,383	7,321

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 2019 and 2018 financial years.

In 2019, in the statement of financial position, tax estimate was CZK 367,360 thousand (2018 – CZK 304,140 thousand) reduced by paid advances for income tax in the amount of CZK 238,874 thousand (2018 – CZK 187,698 thousand) and the resulting liability in the amount of CZK 128,486 thousand was reported in the item Current income tax liability (2018 – CZK 116,442 thousand).

Reconciliation of effective tax rate

		2019		2018
Profit before tax		**2,021,202**		**1,617,239**
Income tax based on the applicable domestic tax rate	19.00%	(384,029)	19.00%	(307,276)
Other tax/tax-exempt items	0.76%	(15,360)	0.58%	(9,415)
Income tax expense reported in the statement of profit or loss and other comprehensive income	**19.76%**	**(399,389)**	**19.58%**	**(316,691)**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

13. Intangible assets and goodwill

2019	Trademarks	Intellectual property rights	Software	Other intangible assets	Goodwill	Total
Acquisition cost						
Balance as at 1/1/2019	**1,871,987**	**179,120**	**389,351**	**7,980**	**9,636,122**	**12,084,560**
Additions	-	-	67,909	23,706	-	91,615
Disposals	-	-	(42,929)	-	-	(42,929)
Transfers	-	-	7,999	(7,979)	-	20
Balance as at 31/12/2019	**1,871,987**	**179,120**	**422,330**	**23,707**	**9,636,122**	**12,133,266**
Accumulated depreciation						
Balance as at 1/1/2019	-	(29,307)	(190,679)	-	-	(219,986)
Amortisation expense	-	(4,317)	(57,253)	-	-	(61,570)
Disposals	-	-	42,929	-	-	42,929
Balance as at 31/12/2019	-	(33,624)	(205,003)	-	-	(238,627)
Net book value 1/1/2019	**1,871,987**	**149,813**	**198,672**	**7,980**	**9,636,122**	**11,864,574**
Net book value 31/12/2019	**1,871,987**	**145,496**	**217,327**	**23,707**	**9,636,122**	**11,894,639**

2018	Trademarks	Intellectual property rights	Software	Other intangible assets	Goodwill	Total
Acquisition cost						
Balance as at 1/1/2018	**1,871,987**	**179,120**	**317,703**	**12,429**	**9,636,122**	**12,017,361**
Additions	-	-	72,076	7,979	-	80,055
Disposals	-	-	(12,856)	-	-	(12,856)
Transfers	-	-	12,428	(12,428)	-	-
Balance as at 31/12/2018	**1,871,987**	**179,120**	**389,351**	**7,980**	**9,636,122**	**12,084,560**
Accumulated depreciation						
Balance as at 1/1/2018	-	(24,990)	(159,380)	-	-	(184,370)
Amortisation expense	-	(4,317)	(43,633)	-	-	(47,950)
Disposals	-		12,334	-	-	12,334
Balance as at 31/12/2018	-	(29,307)	(190,679)	-	-	(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**

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 2019, the major additions to intangible assets were the investments in the Digital Entertainment Hub software platform of CZK 33,115 thousand, investment in an online monitoring platform for the Ministry of Finance in the amount of CZK 7,672 thousand, investment in BI data warehouses in the amount of CZK

4,087 thousand and implementation of Vulnerability Management System for Company data protection in the amount of CZK 1,744 thousand, a significant investment in the acquisition phase is an investment in a software solution for virtual lottery studios in the amount of CZK 11,800 thousand and to the implementation of software for the customer club called 'Kolo štěstí' in the amount of CZK 6,861 thousand.

As at 31 December 2019, selected trademarks were laden with a lien in connection with the loan received (see Note 22). The value of pledged trademarks as at 31 December 2019 is CZK 1,871,939 thousand (2018 – CZK 1,871,939 thousand).

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) in 2019.

Impairment testing is performed annually as at 31 December. 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 market multiple method – i.e. comparing the tested company with similar publicly traded companies (FV hierarchy: category 2). 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: common market player, market multiple 11.71 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 2019. Moreover, the Company's management performed a sensitivity analysis of factors impacting the calculation of the recoverable amount. The expected movements of these factors do not indicate any impairment of goodwill.

Trademarks

Testing of trademark impairment 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. The budgets have been approved by management and are valid at the time the impairment test is performed. These budgets are based on past experience as well as future expectations and market trends. For trademark continuity even over the explicit forecast, the model of terminal value (the Gordon growth model) is used. A terminal growth rate of 2 % (2018: 2 %) 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 WACC reaches 9.8 %. Savings from the tax shield were also included in the calculation.

The resulting recoverable amount exceeded the book value of trademarks, which supported the conclusion that no impairment of trademarks should have been accounted for as at 31 December 2019. Moreover, the Company's management performed a sensitivity analysis of factors impacting the calculation of recoverable amounts. The expected movements of these factors do not indicate any impairment of trademarks.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

14. Property, plant and equipment

2019	Land	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment in the acquisition stage	Total
Acquisition cost						
Balance as at 1/1/2019	**65,475**	**571,712**	**250,896**	**33,399**	**25,115**	**946,597**
Additions	--	4,984	30,539	--	4,736	40,259
Disposals	--	--	(95,103)	--	--	(95,103)
Transfers	--	16,531	7,892	--	(24,443)	(20)
Balance as at 31/12/2019	**65,475**	**593,227**	**194,224**	**33,399**	**5,408**	**891,733**
Accumulated depreciation						
Balance as at 1/1/2019	**--**	**(65,419)**	**(158,016)**	**--**	**--**	**(223,435)**
Depreciation expense	--	(10,775)	(27,612)	--	--	(38,387)
Disposals	--	--	87,783	--	--	87,783
Balance as at 31/12/2019	**--**	**(76,194)**	**(97,845)**	**--**	**--**	**174,039**
Net book value 1/1/2019	**65,475**	**506,293**	**92,880**	**33,399**	**25,115**	**723,162**
Net book value 31/12/2019	**65,475**	**517,033**	**96,379**	**33,399**	**5,408**	**717,694**

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 as 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 as at 31/12/2018	**65,475**	**571,712**	**250,896**	**33,399**	**25,115**	**946,597**
Accumulated depreciation						
Balance as at 1/1/2018	**--**	**(55,260)**	**(217,197)**	**--**	**--**	**(272,457)**
Depreciation expense	--	(10,159)	(34,947)	--	--	(45,106)
Disposals	--	--	94,128	--	--	94,128
Balance as 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**

In 2019, the major additions to property, plant and equipment were investment in data repositories in the amount of CZK 13,709 thousand and an investment in the equipment of SAZKA outlets in the amount of CZK 4,425 thousand, a significant investment in the acquisition phase is an investment in a hardware solution for virtual lottery studios in the amount of CZK 3,599 thousand.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

As at 31 December 2019, in connection with the loan received (see Note 22), the building of SAZKA with the registered office at 851 K Žižkovu Street, Prague 9 was laden with a lien, together with adjacent land and supporting buildings. As at 31 December 2019, the net book value of this building, including adjacent land and buildings, is CZK 582,507 thousand (2018 - 571,768 thousand CZK).

15. Leases

	31/12/2019	1/1/2019
Right-of-use assets		
Leased premises	10,975	14,992
Cars	40,503	43,897
Total	**51,478**	**58,889**
Lease liabilities		
Current lease liabilities	19,017	16,413
Non-current lease liabilities	33,316	42,476
Total	**52,333**	**58,889**

Additions of right-of-use assets during 2019 amounted to CZK 11,758 thousand.

	2019	2018
Depreciation expense of right-of-use assets		
Leased premises	4,333	--
Cars	14,614	--
Total	**18,947**	--
Interest expense	2,335	--
Costs of short-term lease and lease of low-value assets	46	--

In 2019, the total outflow of cash for lease was CZK 20,425 thousand.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

16. Other non-current investments

		31/12/2019	31/12/2018
Other non-current investments	**Equity investment (%)**	**19,656**	**19,656**
IGT Czech Republic LLC[1)]	63.00 %	19,656	19,656
SALEZA, a.s. [2)]	98.10 %	--	--

1) The Company has an equity investment in IGT Czech Republic LLC, representing a 63 % share. The equity investment in IGT Czech Republic LLC is classified as Other non-current investment. The company's current financial information as at 31 December 2019 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.

   The reason for classifying this equity investment 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 the company IGT Global Solutions Corporation.

   In relation to the equity investment 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 present value of CZK 52,584 thousand (2018 – CZK 51,738 thousand), is reported as other non-current liability. 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 2019.

2) As at 31 December 2019, 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 decision 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 decision of the Municipal Court in Prague dated 3 May 2011, the debtor's right to handle the property was restricted. The effects of the decision arose on 3 May 2011. Based on a decision of the Municipal Court in Prague dated 27 May 2011, it was decided to declare bankruptcy on the debtor's property. The effects of the decision arose on 30 May 2011.

   As at 31 December 2019, the company's current financial statements are unavailable.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

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 2019, 31 December 2018 and 31 December 2017:

	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	Assets		**Liabilities**		**Net**	
Deferred tax asset (+)/ liability (-) attributable to:	**--**	**--**	**(330,361)**	**(285,541)**	**(330,361)**	**(285,541)**
Non-current assets (difference between net book value and the value for tax purposes)	--	--	(392,674)	(371,739)	(392,674)	(371,739)
Current and non-current provisions	39,380	78,460	--	--	39,380	78,460
Remeasurement of derivatives	--	6,367	(6,070)	--	(6,070)	6,367
Other temporary differences	29,484	2,014	(481)	(643)	29,003	1,371
Calculated deferred tax assets and liabilities	68,864	86,841	(399,225)	(372,382)	(330,361)	(285,541)
Offset of deferred tax assets and liabilities	(68,864)	(86,841)	68,864	86,841	--	--

	31/12/2019	2019	31/12/2018	2018	31/12/2017
	Deferred tax liability	**Recognised in statement of profit or loss and other comprehensive income**	**Deferred tax liability**	**Recognised in statement of profit or loss and other comprehensive income**	**Deferred tax liability**
Deferred tax asset (+)/ liability (-) attributable to:	**(330,361)**	**(44,820)**	**(285,541)**	**24,116**	**(309,657)**
Non-current assets (difference between net book value and the value for tax purposes)	(392,674)	(20,935)	(371,739)	(14,136)	(357,603)
Current and non-current provisions	39,380	(39,080)	78,460	18,926*	59,534
Remeasurement of derivatives*	(6,070)	(12,437)	6,367	20,209**	(13,842)
Other temporary differences**	29,003	27,632	1,371	(883)	2,254

* Deferred tax from remeasurement of derivatives is recognised in equity, its change is recognised in other comprehensive income.
** Deferred tax from other temporary differences consists mainly of the bonus program for employees and management of the Company.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

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.

	31/12/2019	31/12/2018
Non-current trade receivables and other non-current assets	**46,093**	**47,370**
Non-current advances and deposits provided	46,093	47,370

Non-current advances and deposits provided mainly represent an advance in the amount of CZK 34,989 thousand related to the future lease in the Bořislavka Centre, as well as the deposit paid to Vodafone (due to the transfer of revenues for GSM recharging) and the deposit for the operation of the Eurojackpot game.

	31/12/2019 Third parties	31/12/2019 Related parties	31/12/2018 Third parties	31/12/2018 Related parties
Current trade receivables and other current assets	**196,821**	**3,572**	**291,491**	**44,362**
Current trade receivables	44,914	3,572	186,755	44,362
Current advances and deposits provided	51,389	-	17,207	-
Receivables from employees	231	-	476	-
VAT receivable	7,074	-	8,266	-
Current prepaid expenses	93,213	-	78,787	-

Prepaid expenses represent in particular expenses connected with the acquisition of scratch cards that will enter the sales process in 2020 in the amount of CZK 68,256 thousand (2018 – CZK 59,846 thousand) and also invoices received that in terms of substance relate to the 2020 supplies in the amount of CZK 22,391 thousand (2018 – CZK 17,923 thousand).

The Company tested its receivables based on the expected credit loss model (ECL model). The expected credit losses are insignificant due to the following reasons. The Company has trade receivables from partners that operate as POS (point of sale) 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 sales 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.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

19. Non-current and current receivables from derivatives

As at 31 December 2019, non-current receivable in the amount of CZK 29,252 thousand and a current receivable in the amount of CZK 8,673 thousand were recognised due to hedging derivatives. As at 31 December 2018, a liability for hedging derivatives was recognised (see Note 22).

20. Cash and cash equivalents

	31/12/2019	31/12/2018
Cash and cash equivalents	**1,512,486**	**966,615**
Cash	4,165	3,388
Bank accounts	1,508,321	963,227

Except for cash and cash equivalents the Company has restricted cash of CZK 55,000 thousand (2018 – CZK 55,000 thousand) related to gaming deposits at the account in ČSOB. This amount is reported in Restricted cash on bank accounts in the balance sheet.

As at 31 December 2019, the Company has pledged bank accounts in connection with the loan received (see Note 22) in the amount of CZK 1,504,732 thousand (2018 – CZK 960,206 thousand).

21. Equity

Share capital and share premium

The Company's share capital consists of 4 500 pieces of ordinary certificated registered shares in nominal value of CZK 100 thousand. No changes were made in the Company's share capital in 2019 or 2018.

Each share in nominal value of CZK 100 thousand 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 pay-out is made, can be connected only with generally applicable laws, the Company's statutes and contractual arrangement. Each shareholder has a right for the pay-out 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 first divided among the shareholders 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 was recognised in Other capital reserves based on confirmation as at 31 December 2019 of CZK 31,941 thousand (2018 – CZK (33,517) thousand), see Note 22, and a deferred tax liability of CZK 6,070 thousand (2018 – a deferred tax asset of CZK 6,367 thousand). Other capital funds in the amount of CZK 1,453,840 thousand (as at 31 December 2018: CZK 1,453,840 thousand) mainly represent voluntary contributions of the Company's shareholders in previous years.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Retained earnings and profit/loss for the current period

In 2018, the Company made an advance dividend payment in the amount of CZK 1,220,000 thousand. In 2019, the sole shareholder of the Company decided to pay a dividend in the total amount of CZK 1,700,000 thousand, of which the amount of CZK 1,220,000 thousand was offset against the dividend advance paid in 2018.

22. Loans

	31/12/2019	31/12/2018
Bank loans and other borrowings - non-current portion	**5,914,197**	**6,532,266**
Non-current bank loans and borrowings received – principal	5,914,197	6,532,266

	31/12/2019	31/12/2018
Bank loans and other borrowings - current portion	**627,346**	**627,684**
Current bank loans and borrowings received – principal	618,068	617,385
Current bank loans and borrowings received – interest	9,278	10,299

Reconciliation of movements in current and non-current loans and borrowings in the cash flow:	**2019**	**2018**
Balance at the beginning of the period	**7,159,950**	**6,804,835**
Cash flows		
Loans received	-	7,500,000
Loans paid	(625,000)	(7,029,116)
Payment of interest accumulated from previous years*	(10,299)	(114,792)
Non-cash changes		
Outstanding interest	9,278	10,299
Impact of deferred/accrued arrangement fee	7,614	(11,276)
Balance at the end of the period	**6,541,543**	**7,159,950**

* 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 2019, the Company reported the following loans:

Type of loan	Interest rate	Interest expense 2019	Due date	Balance at 31/12/2019	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	126,704	17/6/2024	2,816,873	629,373	**2,187,500**	--
Balance at 31 December 2019 adjusted by transaction costs and interest		**120,413**		**2,801,355**	**622,441**	**2,178,914**	--
Bank loan B - KB, ČS, ČSOB, UCB, Sberbank – principal	2.3 % + 3M PRIBOR	159,236	25/7/2025	3,754,905	4,905	--	**3,750,000**
Balance at 31 December 2019 adjusted by transaction costs and interest		**150,848**		**3,740,188**	**4,905**	**--**	**3,735,283**

On 25 July 2018, SAZKA a.s. entered into FACILITIES AGREEMENT of CZK 7 500 000 000 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.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Based on this agreement, the Company drew on loan tranches A in the amount of CZK 3,750,000 thousand and B in the amount 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 2019, the Company complied with these financial covenants.

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 hedge 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 2019, the nominal value of these derivatives totals CZK 6,607,187 thousand (as at 31 December 2018: CZK 6,674,062 thousand). In concluding these IRS, an account was taken not only of the loan documentation but also of the current level of interest rates and the forecasts of their development.

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.

Potential sources of inefficiencies in a hedging relationship may be due to the non-zero fair value of derivatives used to hedge at the inception of the hedge or due to profits or losses from changes in the fair value of hedging instruments arising from non-interest rate risk being hedged. 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 date**	**Average rate**	**Variable interest rate**	**Nominal value**	**Fair value at 31/12/2019**
Liabilities from swap transactions – non-current	2024	2.22	3M PRIBOR	582,188	(1,283)
Liabilities from swap transactions – non-current	2025	2.52	3M PRIBOR	150,000	(4,701)
Receivables from swap transactions – current	2020	0.31	3M PRIBOR	450,000	8,673
Receivables from swap transactions – non-current	2024	1.73	3M PRIBOR	2,325,000	21,615
Receivables from swap transactions – non-current	2025	1.89	3M PRIBOR	3,100,000	7,637
Total hedging financial derivatives					**31,941**

Impact of the change in the value of hedging derivatives on the Statement of profit or loss and other comprehensive income	**31/12/2018**	**Remeasurement of hedging derivatives in other comprehensive income**	**Reclassification of cash flow hedges in the Statement of profit or loss (+) profit / (-) loss**	**31/12/2019**
Cash flow hedges	(33,517)	88,102	(22,644)	31,941

Financial statements for the year ended 31 December 2019 (in CZK thousand)

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	3,442,354	629,854	2,500,000	312,500
Balance at 31 December 2018 adjusted by transaction costs and interest		**55,910**		**3,421,782**	**622,239**	**2,488,482**	**311,060**
Bank loan B - KB, ČS, ČSOB, UCB, Sberbank – principal	2.3 % + 3M PRIBOR	60,294	25/7/2025	3,755,445	5,445	--	3,750,000
Balance at 31 December 2018 adjusted by transaction costs and interest		**62,011**		**3,738,168**	**5,445**	**--**	**3,732,723**

On 25 July 2018, SAZKA a.s. entered into FACILITIES AGREEMENT of CZK 7,500,000,000 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 agreement, the Company drew on loan tranches A in the amount of CZK 3,750,000 thousand and B in the amount 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 hedge 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 totaled CZK 6,674,026 thousand. In concluding these IRS, an account was taken not only of the loan documentation but also of the current level of interest rates and the forecasts of their development.

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.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

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 date	Average rate	Variable interest rate	Nominal value	Fair value at 31/12/2018
Liabilities from swap transactions – non-current	2024	2.11	3M PRIBOR	991,771	(6,854)
Liabilities 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 Statement of profit or loss and other comprehensive income	31/12/2017	Remeasurement of hedging derivatives in other comprehensive income	Reclassification of cash flow hedges in the Statement of profit or loss	31/12/2018
Cash flow hedges	72,850	(106,367)	--	(33,517)

Loans received from related parties

As at 31 December 2019, and as at 31 December 2018, the Company did not have any loans received from related parties.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

23. Trade and other payables

	31/12/2019 third parties	31/12/2019 related parties	31/12/2018 third parties	31/12/2018 related parties
Current trade and other payables	**1,493,549**	**44,134**	**1,429,272**	**33,401**
Current trade payables	235,551	44,134	397,543	33,401
Current deposits received 1)	123,804		119,723	
Payables from unpaid winnings	116,831		250,744	
Personal income tax payables	16,558		11,556	
Lottery tax payables	515,198		391,329	
Social and health insurance liabilities	40,290		9,161	
Payables to employees	140,156		22,640	
Estimated payables 2)	184,862		143,092	
Prepayments	117,781		78,652	
Other payables	2,518		4,832	

1) As at 31 December 2019, the Company recognised a payable of CZK 123,804 thousand (31 December 2018 – CZK 119,723 thousand) relating to received deposits. Agreements concluded with partners contain an entitlement for an immediate refund of the given deposit after their activities are terminated and all their liabilities to the Company are settled.
2) As at 31 December 2019, estimated payables comprise in particular estimated payables relating to supplier invoices of CZK 184,862 thousand (31 December 2018 – CZK 143,092 thousand).

Trade and other payables were not secured as at 31 December 2019 and 31 December 2018.

The currency and liquidity risks to which the Company is exposed in relation to the trade and other payables are described in Note 27 – Risk management policies and information disclosure.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

24. Provisions

Current provisions	Current provision for jackpots and scratch cards	Other current provisions	Total
Balance at 1/1/2018	**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**
Additions	207,264	--	207,264
Utilisation	(224,673)	(79,779)	(304,452)
Release	--	(20,657)	(20,657)
Balance at 31/12/2019	**207,264**	**-**	**207,264**

Non-current provisions	Other non-current provisions	Total
Balance at 1/1/2018	**65,879**	**65,879**
Additions	21,960	21,960
Balance at 1/1/2019	**87,839**	**87,839**
Utilisation	(84,684)	(84,684)
Release	(3,155)	(3,155)
Balance at 31/12/2019	**-**	**-**

The provision for jackpot is created cumulatively until the jackpot is won, as described in Note 3(p).

Other current provisions created for the employee bonus program were reclassified to current payables to employees.

Other non-current provisions, which were created for the non-current bonus program for the Company's management, were reclassified to current payables to employees.

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/income, interest expense/income, depreciation and amortisation.

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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 on 24 November 2011 by Mr Jiří Kabourek at Municipal Court in Prague against JUDr. Josef Cupek, the insolvency administrator of the SAZKA, a.s. debtor (now SALEZA, a.s.), reference number MSPH 60 ICm 3145/2011:

The proceedings are currently ongoing, our Company is not being sued, it entered the proceedings as a secondary 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 financial circumstances, etc.). The substance of the case is still not examined. The last act in the file is filing of confirmation of personal and financial circumstances made by Mr Kabourek in July 2018. The file is currently still with the judge.

Statement of the Company's management

The Company's management does not 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 expenses in the future periods. Consequently, no provision was established in respect of this dispute.

Binding preliminary agreement

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

OPERATING LEASES

The Company leases various non-residential premises, cars and IT equipment. As at 1 January 2019, the Company reported right-of-use assets for these leases, except for short-term leases and leases of low-value assets (for more information, see Notes 3(v) - Significant accounting policies and 15 - Leases).

In 2018, the Company had the following operating leases:

Operating leases at 31 December 2018

Leased asset	Type of agreement	Termination date	Within 1 year	Future lease payments from 1 to 5 years	More than 5 years
Terminals (1)	fixed period	31/12/2022	n/a*	n/a*	n/a*
Cars (2)	fixed period	10/8/2021	15,137	34,324	-
Non-residential premises (3)	fixed period	30/6/2023	10,266	28,481	-
Reprographic equipment	fixed period	30/6/2019	300	-	-

* lease payments for the lease of terminals change according to the amount of the gross revenue 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).

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. Threat 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.

For financial assets, the maximum credit risk (if the counterparties fail to meet all their contractual obligations and, at the same time, it is determined that the provided guarantees or collateral are worthless) is represented by their carrying amount. As for the cash and cash equivalents, the Company has accounts with renowned banks, where minimum risk is expected. Furthermore, the Company trades primarily with verified partners in respect of which it follows the principle that all customers that want to use credit facilities undergo procedures for individual 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 a regular 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.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Credit risk based on a counterparty

at 31 December 2019	Enterprises (non-financial institutions)	Financial institutions	Natural persons	Total
Assets				
Non-current receivables from derivatives	--	29,252	--	29,252
Non-current trade and other receivables	11,103	--	--	11,103
Non-current blocked accounts	--	55,000	--	55,000
Current trade and other receivables	47,071	--	231	47,302
Current receivables from derivatives	--	8,673	--	8,673
Cash and cash equivalents	4,164	1,508,322	--	1,512,486
Total	**62,338**	**1,601,247**	**231**	**1,663,816**

at 31 December 2018	Enterprises (non-financial institutions)	Financial institutions	Natural persons	Total
Assets				
Non-current trade and other receivables	12,380	--	--	12,380
Non-current blocked accounts	--	55,000	--	55,000
Current trade and other receivables	231,117	--	476	231,593
Cash and cash equivalents	3,388	963,227	--	966,615
Total	**246,885**	**1,018,227**	**476**	**1,265,588**

Credit risk based on a territory

Credit risk on both the assets and liabilities side is located in the Czech Republic, the Swiss Confederation and Republic of Cyprus.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

ii. Impairment losses

Ageing structure of financial assets:

at 31 December 2019	**Within due date**	**Overdue < 90 days**	**Overdue 91-180 days**	**Overdue 181-365 days**	**Overdue >365 days**	**Allowance**	**Total**
Non-current receivables from derivatives	***29,252***	**--**	**--**	**--**	**--**	**--**	***29,252***
- Receivables from derivatives	*29,252*	--	--	--	--	--	*29,252*
Non-current trade and other receivables	***11,103***	**--**	**--**	**--**	**--**	**--**	***11,103***
- Other receivables	11,103	--	--	--	--	--	11,103
Current trade and other receivables	***42,868***	***8,070***	***152***	***195***	***4,411***	***(8,394)***	***47,302***
- Trade receivables	42,868	8,070	152	195	4,411	(8,394)	47,302
Current receivables from derivatives	**8,673**	**--**	**--**	**--**	**--**	**--**	**8,673**
- Receivables from derivatives	8,673	--	--	--	--	--	8,673
Non-current blocked accounts	**55,000**	**--**	**--**	**--**	**--**	**--**	**55,000**
- Blocked accounts	55,000	--	--	--	--	--	55,000
Cash and cash equivalents	***1,512,486***	**--**	**--**	**--**	**--**	**--**	**1,512,486**
- Cash in hand	4,164	--	--	--	--	--	4,164
- Bank accounts	1,508,322	--	--	--	--	--	1,508,322
Total	**1,659,382**	**8,070**	**152**	**195**	**4,411**	**(8,394)**	**1,663,816**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

at 31 December 2018	**Within due date**	**Overdue < 90 days**	**Overdue 91-180 days**	**Overdue 181-365 days**	**Overdue >365 days**	**Allowance**	**Total**
Non-current trade and other receivables	**12,380**	**--**	**--**	**--**	**--**	**--**	**12,380**
- Non-current trade and other receivables	12,380	--	--	--	--	--	12,380
Current trade and other receivables	**195,539**	**35,109**	**365**	**869**	**4,078**	**(4,367)**	**231,593**
- Trade receivables	195,539	35,109	365	869	4,078	(4,367)	231,593
Non-current blocked accounts	**55,000**	**--**	**--**	**--**	**--**	**--**	**55,000**
Blocked accounts	55,000	--	--	--	--	--	55,000
Cash and cash equivalents	**966,615**	**--**	**--**	**--**	**--**	**--**	**966,615**
- Cash in hand	3,388	--	--	--	--	--	3,388
- Bank accounts	963,227	--	--	--	--	--	963,227
Total	**1,229,534**	**35,109**	**365**	**869**	**4,078**	**(4,367)**	**1,265,588**

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.

iii. Credit quality of financial assets at amortized cost

The Company classifies financial assets into credit quality classes. Class 1 consists of high quality financial assets that do not have any indicators of impairment and fulfils the definition for "low credit risk" exemption. Class 2 consists of all other financial assets.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

At 31 December 2019	Stage 1	Stage 2	Stage 3	Impairment matrix	Expected credit losses	Net carrying amount
Class 1						
Cash and cash equivalents	**1,512,486**	**--**	**--**	**--**	**--**	**1,512,486**
- Bank accounts	1,508,322	--	--	--	--	1,508,322
- Cash in hand	4,164	--	--	--	--	4,164
Non-current blocked accounts	**55,000**	**--**	**--**	**--**	**--**	**55,000**
- Blocked accounts	55,000	--	--	--	--	55,000
Class 2						
Current receivables from derivatives	**8,673**	**--**	**--**	**--**	**--**	**8,673**
- Receivables from derivatives	8,673	--	--	--	--	8,673
Current trade and other receivables	**--**	**--**	**--**	**55,696**	**(8,394)**	**47,302**
- Trade receivables	--	--	--	55,696	(8,394)	47,302
Non-current receivables from derivatives	**29,252**	**--**	**--**	**--**	**--**	**29,252**
- Receivables from derivatives	29,252	--	--	--	--	29,252
Non-current receivables	**11,103**	**--**	**--**	**--**	**--**	**11,103**
- Other receivables	11,103	--	--	--	--	11,103
Total	**1,616,514**	**--**	**--**	**55,696**	**(8,394)**	**1,663,816**

At 31 December 2018	Stage 1	Stage 2	Stage 3	Impairment matrix	Expected credit losses	Net carrying amount
Class 1						
Cash and cash equivalents	**966,615**	**--**	**--**	**--**	**--**	**966,615**
- Bank accounts	963,227	--	--	--	--	963,227
- Cash in hand	3,388	--	--	--	--	3,388
Non-current blocked accounts	**55,000**	**--**	**--**	**--**	**--**	**55,000**
- Blocked accounts	55,000	--	--	--	--	55,000
Class 2						
Current receivables	**--**	**--**	**--**	**235,960**	**(4,367)**	**231,593**
- Trade receivables	--	--	--	235,960	(4,367)	231,593
Non-current receivables	**12,380**	**--**	**--**	**--**	**--**	**12,380**
- Non-current trade and other receivables	12,380	--	--	--	--	12,380
Total	**1,033,995**	**--**	**--**	**235,960**	**-4,367**	**1,265,588**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Movements of allowances were as follows:

	Stage 1	Stage 2	Stage 3	Impairment matrix	Total
Balance at 1 January 2018	**--**	**--**	**--**	**2,449**	**2,449**
Additions – increase in allowance recognized in profit or loss during the year	--	--	--	2,377	2,377
Write-offs – receivables written off during the year as uncollectible	--	--	--	(459)	(459)
Balance at 31 December 2018	**--**	**--**	**--**	**4,367**	**4,367**
Additions – increase in allowance recognized in profit or loss during the year	--	--	--	4,458	4,458
Write-offs – receivables written off during the year as uncollectible	--	--	--	(431)	(1,431)
Balance at 31 December 2019	**--**	**--**	**--**	**8,394**	**8,394**

Impairment matrix for current receivables as of 31 December 2019:

	Gross carrying amount	Expected credit loss rate	ECL allowance	Net carrying amount
Before due date	**42,868**	**3.00 %**	**(1,281)**	**41,587**
- Trade receivables	30,499	4.20 %	(1,281)	29,218
- Receivables from agents	12,369	0.00 %	--	12,369
Past due < 90 days	**8,070**	**29.67 %**	**(2,394)**	**5,676**
- Trade receivables	8,070	29.67 %	(2,394)	5,676
Past due 91 – 180 days	**152**	**85.24 %**	**(130)**	**22**
- Trade receivables	152	85.24 %	(130)	22
Past due 181 – 365 days	**195**	**91.10 %**	**(178)**	**17**
- Trade receivables	195	91.10 %	(178)	17
Past due > 365 days	**4,411**	**100.00 %**	**(4,411)**	**--**
- Trade receivables	4,411	100.00 %	(4,411)	--
Total	**55,696**	**15.07 %**	**(8,394)**	**47,302**

(b) Liquidity risk

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

The Company monitors liquidity and maturity of investments, other financial assets, expected cash flows from its activity in individual currencies and fulfillment of bank liabilities, on an ongoing basis (see Note 22).

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 made every year for the following three years. Cash flows for closest following 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.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

at 31 December 2019	**Carrying amount**	**Contractual cash flows** [(1)]	**Within 1 year**	**1-5 years**	**More than 5 years**	**On demand**
Assets						
Non-current receivables from derivatives	29,252	29,252	--	29,252	--	--
Non-current trade and other receivables	11,103	11,103	--	--	--	11,103
Non-current blocked accounts	55,000	55,000	--	55,000	--	--
Current receivables from derivatives	8,673	8,673	8,673	--	--	--
Current trade and other receivables	47,302	47,302	47,302	--	--	--
Total	**151,330**	**151,330**	**55,975**	**84,252**	**-**	**11,103**
Cash and cash equivalents	**1,512,486**					
Liabilities						
Bank loans and other borrowings (Note 22)	6,541,543	7,732,713	909,487	6,823,225	--	--
Non-current trade and other liabilities	52,584	55,122	--	55,122	--	--
Non-current liabilities from derivatives	5,984	5,984	--	5,984	--	--
Current trade and other payables	678,725	678,725	678,725	--	--	--
Lease liabilities	52,333	52,333	19,017	33,316	--	--
Total	**7,331,169**	**8,524,877**	**1,607,229**	**6,917,648**	**--**	**--**
Net liquidity risk	**(5,667,353)**	**(8,373,547)**	**(1,551,254)**	**(6,833,396)**	**--**	**11,103**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

at 31 December 2018	Carrying amount	Contractual cash flows (1)	Within 1 year	1-5 years	More than 5 years	On demand
Assets						
Non-current trade and other receivables	12,380	12,380	--	--	--	12,380
Non-current blocked accounts	55,000	55,000	--	55,000	--	--
Current trade and other receivables	231,593	231,593	231,593	--	--	--
Total	**298,973**	**298,973**	**231,593**	**55,000**	**-**	**12,380**
Cash and cash equivalents	**966,615**					
Liabilities						
Bank loans and other borrowings (Note 22)	7,159,950	8,675,025	911,843	3,430,323	4,332,859	--
Non-current trade and other liabilities	51,738	55,122	--	55,122	--	--
Non-current liabilities from derivatives	33,517	--	--	--	33,517	--
Current trade and other payables	913,624	913,624	913,624	--	--	--
Total	**8,158,829**	**9,643,771**	**1,825,467**	**3,485,445**	**4,366,376**	**-**
Net liquidity risk	**(6,893,241)**	**(9,344,798)**	**(1,593,874)**	**(3,430,445)**	**(4,366,376)**	**12,380**

(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 liquidity risk analysis to be realised in a significant amount earlier than scheduled.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

(c) Offsetting arrangements

Effects of offsetting on the financial position of 2019

	Gross value	Offset amounts	Net amounts presented in the Statement of financial position	Potential amounts to be offset: Cash collateral	Potential amounts to be offset: Financial instruments	Net value
Assets						
Current trade receivables and other receivables	12,950	(581)	12,369	(12,369)	--	-
Cash and cash equivalents	1,508,340	--	1,508,340	(1,508,340)	--	-
Total	**1,521,290**	**(581)**	**1,520,709**	**(1,520,709)**	**--**	**-**
Liabilities						
Bank loans and other borrowings - non-current portion	5,914,197	--	5,914,197	(880,993)	--	5,033,204
Bank loans and other borrowings - current portion	627,346	--	627,346	(627,346)	--	-
Current trade and other payables	123,942	(581)	123,361	(12,369)	--	110,992
Total	**6,665,486**	**(581)**	**6,664,905**	**(1,520,709)**	**--**	**5,144,196**

Effects of offsetting on the financial position of 2018

	Gross values	Offset amounts	Net amounts presented in the Statement of financial position	Potential amounts to be offset: Cash collateral	Potential amounts to be offset: Financial instruments	Net value
Assets						
Current trade receivables and other receivables	195,755	--	195,755	(119,723)	--	76,032
Cash and cash equivalents	963,227	--	963,227	(963,227)	--	-
Total	**1,158,982**	--	**1,158,982**	**(1,082,950)**	**--**	**76,032**
Liabilities						
Bank loans and other borrowings - non-current portion	6,532,266	--	6,532,266	(335,543)	--	6,196,723
Bank loans and other borrowings - current portion	627,684	--	627,684	(627,684)	--	-
Current trade and other payables	119,723	--	119,723	(119,723)	--	-
Total	**7,279,673**	--	**7,279,673**	**(1,082,950)**	**--**	**6,196,723**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

Offset amounts
Payables arising from agents' commissions are offset against receivables from agents and only the net amounts are settled. The relevant amounts have therefore been presented net in the Statement of financial position.

Potential Offset Amounts
Deposits received from agents can be potentially offset against the Company's trade receivables.

Bank accounts pledged to financing banks as a collateral for bank loans could be offset against liabilities from bank loans.

(d) 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.

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 0 thousand (2018: CZK 4,859 thousand).

	Statement of profit or loss		**Equity excluding tax impact**	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	+ profit / - loss	+ profit / - loss	+ increase / - decrease	+ increase / - decrease
31/12/2019				
Instruments with variable interest rate	(65,625)	65,625	--	--
Interest rate swaps	65,625	(65,625)	242,061	(242,061)
Cash flow sensitivity (net)	**--**	**--**	**242,061**	**(242,061)**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

(e) 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 is exposed to risks arising from foreign currency transactions. These risks arise from purchases in currencies other than the functional currency.

The Company monitors currency risks and evaluates the potential impact of fluctuations in the currency exchange rates on the Company's operations on a ongoing basis. The management also evaluates regularly potential currency risks prior to the conclusion of significant contracts or business transactions.

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.

As at 31 December 2019	**EUR**	**USD**	**Other**	**Total**
Current trade receivables and other receivables	3,696	675	--	4,371
Cash and cash equivalents	761	371	63	1,195
Total assets	**4,457**	**1,046**	**63**	**5,566**
Current trade and other payables	17,672	41,344	624	59,640
Total liabilities	**17,672**	**41,344**	**624**	**59,640**
Total	**(13,215)**	**(40,298)**	**(561)**	**(54,074)**

As at 31 December 2018	**EUR**	**USD**	**Other**	**Total**
Current trade receivables and other receivables	1,403	26	--	1,429
Cash and cash equivalents	396	326	91	813
Total assets	**1,799**	**352**	**91**	**2,242**
Current trade and other payables	22,068	68,864	--	90,932
Total liabilities	**22,068**	**68,864**	--	**90,932**
Total	**(20,269)**	**(68,512)**	**91**	**(88,690)**

Sensitivity analysis

The strengthening (weakening) of foreign currencies against the Czech crown as at 31 December 2019 would have an impact on the measurement of financial instruments denominated in foreign currency and on equity and the Statement of profit or loss in the amounts presented below. This analysis assumes that all other variables, especially interest rates, remain constant.

	Statement of profit or loss		**Equity excluding tax impact**	
	10 % strengthening	10 % weakening	10 % strengthening	10 % weakening
CZK thousand	+ profit / - loss	+ profit / - loss	+ increase / - decrease	+ increase / - decrease
31/12/2019				
EUR	(1,322)	1,322	--	--
USD	(4,030)	4,030	--	--
GBP	(56)	56	--	--
31/12/2018				
EUR	(2,027)	2,027	--	--
USD	(6,851)	6,851	--	--
GBP	(9)	9	--	--

(f) Capital management

The Company strives to maintain a strong capital base with the objective to maintain trust 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:

	31/12/2019	**31/12/2018**
Total bank loans and other borrowings	6,541,543	7,159,950
Less cash and cash equivalents (Note 20)	1,512,486	966,615
Net debt	**5,029,057**	**6,193,335**
Company's total equity	**5,690,765**	**4,495,931**
Net debt to equity ratio	**0.884**	**1.378**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

(g) Risk of regulation changes

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

Changes in the regulatory environment can have a considerable impact by limiting betting activities or changing of 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.

(h) Financial instruments and fair values

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**	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Assets				
Non-current receivables from derivatives	29,252	-	29,252	-
Non-current trade and other receivables	11,103	12,380	11,103	12,380
Current trade and other receivables	47,302	231,593	47,302	231,593
Current receivables from derivatives	8,673	-	8,673	-
Non-current blocked accounts	55,000	55,000	55,000	55,000
Cash and cash equivalents	1,512,486	966,615	1,512,486	966,615
Total	**1,663,816**	**1,265,588**	**1,663,816**	**1,265,588**
Liabilities				
Bank loans and other borrowings - non-current portion	5,914,197	6,532,266	5,914,197	6,532,266
Non-current trade and other liabilities	52,584	51,738	52,584	51,738
Non-current liabilities from derivatives	5,984	33,517	5,984	33,517
Non-current lease liabilities	33,316	-	33,316	-
Bank loans and other borrowings - current portion	627,346	627,684	627,346	627,684
Current trade and other payables	678,725	913,624	678,725	913,624
Current lease liabilities	19,017	-	19,017	-
Total	**7,331,169**	**8,158,829**	**7,331,169**	**8,158,829**

Financial statements for the year ended 31 December 2019 (in CZK thousand)

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 are observable, directly or indirectly
- Level 3: procedures based on input data that have a significant impact on the reported fair value and the input data are not based on observable market data

	Net book value at 31 December 2019	Fair value at 31 December 2019		
	Fair value of hedging instruments	Level 1	Level 2	Level 3
Fair value of financial assets				
Interest rate swaps	37,925	--	37,925	--
Fair value of financial liabilities				
Interest rate swaps	5,984	--	5,984	--

	Net book value at 31 December 2018	Fair value at 31 December 2018		
	Fair value of hedging instruments	Level 1	Level 2	Level 3
Fair value of financial liabilities				
Interest rate swaps	33,517	--	33,517	--

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

Financial statements for the year ended 31 December 2019 (in CZK thousand)

28. Related parties

Related party transactions are represented by transfer of resources, services or obligations between the Company and a related party. All material transactions with related parties were carried out based on the arm's length principle.

(a) Overview of transactions with the Company's Shareholder

During 2019 (and 2018), there were no significant transactions between the Company and the sole shareholder of the Company, excluding the payment of dividends - see Note 21.

(b) Overview of transactions with other Group companies

Overview of outstanding balances as at 31 December 2019 and 31 December 2018:

	31/12/2019	31/12/2018
Receivables		
Current trade receivables	3,572	9,373
Other receivables	34,989	34,989
Liabilities		
Current trade payables	44,134	33,401

Other receivables as at 31 December 2019 mainly represent advances provided for future lease payments in the amount of CZK 34,989 thousand (31 December 2018: CZK 34,898 thousand) on the basis of a future lease agreement for the Bořislavka Centrum.

Overview of transactions in 2019 and 2018:

	2019	2018
Revenue from sale of goods and services	22,488	26,491
Other operating income	1,453	1,051
Materials, consumables and services	15,905	14,205
Other operating expenses	110,172	130,058
Other finance income	5,954	1,722
Interest expense	--	69,414

During 2019, the Company provided related parties with financial resources in the total amount of CZK 3,913,588 thousand, which were repaid in full as at 31 December 2019.

Financial statements for the year ended 31 December 2019 (in CZK thousand)

(c) Transactions with key members of the Company's management

	2019		2018	
Personnel expenses	**Members of the Company's bodies**	**Executives**	**Members of the Company's bodies**	**Executives**
Wages and salaries	--	160,843	--	110,957
Remuneration for the members of the Company's bodies	101	--	101	--
Social and health insurance	--	46,354	--	32,178
Total	**101**	**207,197**	**101**	**143,135**

In 2015, a bonus programme was introduced. It aims at motivating the management to achieve the Company's long-term growth targets. In connection with this, a liability of CZK 34,680 thousand was recorded as at 31 December 2019 (as at 31 December 2018, the provision of CZK 87,839 thousand was recorded).

No loans or borrowings were provided to the members of the Board of Directors, members of the Supervisory Board and other members of the Company's management in 2019 or 2018. Company's cars are available to the Company's management according to its internal rules.

29. Subsequent events

In order to protect the health and safety of its customers, employees, partners and the public, the Company fully complies with all decisions and recommendations of public authorities. The Company implemented contingency and business continuity plans without significantly impacting business processes.

While digital channels operate without interruption, physical retail networks have taken various measures to protect the public health and health of their employees. The Company anticipates that these developments will affect our financial performance. The extent of the impact will depend on the following factors: the duration of the outbreak, the duration of existing restrictions, other measures taken by governments and the extent of the overall economic disruption.

From Monday, 16 March, the Security Council of the Czech Republic decided to strictly restrict free movement in the Czech Republic in order to contain the spread of the COVID-19 epidemic. Citizens are allowed to shop for supplies limited to food, drugstore products, fuel and medicine as well as use necessary financial and postal services.

The Company actively promotes the use of online platforms for lottery products and digital-only products. Increase in sales generated through digital channels is expected compared to preceeding periods and at the same time decrease in sales through physical network due to the above-mentioned restrictions.

The Company considers the outbreak of the epidemic to be a subsequent event that does not result in an adjustment to the financial statements. As the situation is unstable and is evolving rapidly, it is not possible to estimate the potential impact on the Company. We will include the potential impact of the epidemic on the macroeconomic forecasts, our position and results in the estimates of allowances and provisions in 2020.

As at the date of preparation of the financial statements, the Company’s management is not aware of any other significant subsequent events that would have an impact on the financial statements as at 31 December 2019.

Date: 31 March 2020	Signature of the Statutory Representatives: Robert Chvátal Member of the Board of Directors Pavel Šaroch Chairman of the Board of Directors

English translation

Independent auditor's report

to the shareholder of SAZKA a.s.

Opinion

We have audited the accompanying financial statements of SAZKA a.s., with its registered office at K Žižkovu 851, Prague 9 ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2019 and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, of its financial performance and its cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report therein. The Board of Directors is responsible for the other information.

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

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

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

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

Responsibilities of the Board of Directors and Supervisory Board of the Company for the Financial Statements

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

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

The Supervisory Board of the Company is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the above-stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

31 March 2020

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar	Petra Jirková Bočáková Statutory Auditor, Licence No. 2253

This report is addressed to the shareholder of SAZKA a.s.

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.