



ANNUAL REPORT  
SAZKA a.s.  
2016

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## IDENTIFICATION DETAILS

SAZKA a.s.

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

Id. No: 26493993

Tax Id. No.: CZ699003312

Registration in the Register kept by the Municipal Court in Prague, Section B, File 7424

Objects of business:

manufacture, trade and services not included in Annexes 1 to 3 to the Trade Act;

operation of lotteries and other similar games in accordance with the generally binding legal regulations;

assembly, repairs, revisions and tests of electrical equipment;

manufacture, installation, repairs of electrical machines and instruments, electronic and telecommunication facilities;

activities of accounting consultants, keeping of accounts, keeping of tax records;

management of the filing service;

performance of communication activities pursuant to Act No. 127/2005 Coll., on electronic communications and on amendment to certain related laws, constituting operation of a business in electronic communications;

provision of small-scale payments services pursuant to Act No. 284/2009 Coll., on payment systems, as amended.

Objects of activities:

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

## COMPANY PROFILE

SAZKA a.s. (hereinafter also referred to as the “**Company**”) is a member of the KKCG multinational investment group operating in 11 countries on 4 continents. The Company is based in the Czech Republic and was established under the Czech laws.

SAZKA is the Czech Republic’s oldest lottery company.

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

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

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

The Company embraces and promotes the principles of responsible gaming and ethical principles in the betting and lottery industry. The Company develops and endorses these activities on both national and international levels.

The Company performs no activities in the area of research and development.

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

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

### **Entries in the Commercial Register:**

Pavel Šaroch, Chairman of the Board of Directors (deregistered from the Commercial Register on 12 September 2016)

Robert Chvátal, Member of the Board of Directors (deregistered from the Commercial Register on 12 September 2016)

Martin Škopek, Member of the Board of Directors (deregistered from the Commercial Register on 12 September 2016)

Martin Bláha, Member of the Board of Directors (deregistered from the Commercial Register on 12 September 2016)

Kamil Ziegler, Member of the Board of Directors (deregistered from the Commercial Register on 12 September 2016)

Karel Komárek, Chairman of the Supervisory Board (deregistered from the Commercial Register on 12 September 2016)

Robert Kolář, Member of the Supervisory Board (deregistered from the Commercial Register on 12 September 2016)

Ivo Tajšl, Member of the Supervisory Board (deregistered from the Commercial Register on 12 September 2016)

Pavel Šaroch, Chairman of the Board of Directors – Director A (registered in the Commercial Register on 12 September 2016)

Pavel Horák, Vice-Chairman of the Board of Directors – Director B (registered in the Commercial Register on 12 September 2016)

Robert Chvátal, member of the Board of Directors – Director A (registered in the Commercial Register on 12 September 2016)

Martin Škopek, Director A (registered in the Commercial Register on 12 September 2016)

Kamil Ziegler, Director A (registered in the Commercial Register on 12 September 2016)

David Havlín, Director B (registered in the Commercial Register on 12 September 2016)

Tomáš Porupka, Chairman of the Supervisory Board (registered in the Commercial Register on 12 September 2016)

Robert Kolář, Member of the Supervisory Board (registered in the Commercial Register on 12 September 2016)

Petr Stöhr, Member of the Supervisory Board (registered in the Commercial Register on 12 September 2016)

Number of members of the Board of Directors: 6 (registered in the Commercial Register on 12 September 2016)

Number of members of the Supervisory Board: 3 (registered in the Commercial Register on 12 September 2016)

Due to an amendment to the Articles of Association, the following change in the manner of acting for the Company was registered in the Commercial Register on 12 September 2016: The Company is represented by two members of the Board of Directors acting jointly, either one Director A and one Director B, or two Directors A. The member of the Board of Directors who is the Chief Executive Officer is authorised represent the Company independently in juridical acts *vis-à-vis* third parties that cannot constitute commitments of the Company exceeding the amount of CZK 5 000 000 (in words: five million Czech crowns) – registered in the Commercial Register on 12 September 2016.

On 12 September 2016, the contents of the “Shares” section in the Commercial Register was supplemented with a statement that transferability of shares is subject to the General Meeting’s consent.

In accordance with Section 164 (3) of Act No. 89/2012 Coll., the Civil Code, Robert Chvátal, Member of the Board of Directors and Chief Executive Officer, was registered as a person authorised to perform legal acts *vis-à-vis* employees in the “Manner of Acting for the Company” section in the Commercial Register on 12 November 2016.

## *SUMMARY OF MAJOR EVENTS OF 2016*

Last year, new Act No. 186/2016 Coll., on games of chance, was adopted, effective from 1 January 2017. Simultaneously, two other related laws were adopted: Act No. 187/2016 Coll., on tax on games of chance; and a summary amendment No. 188/2016 Coll., implementing the amendments to the Games of Chance Act in other regulations.

New Act No. 186/2016 Coll., on games of chance, substituted previous Act No. 202/1990 Coll., on lotteries and other similar games.

The Games of Chance Act primarily opens up the Czech gambling market to operators having their registered office in an EU Member State or a state that is a party to the Agreement on the European Economic Area, and provides for online operating of games of chance; the Act also strives to protect betters and their family and friends by keeping pathological gambling at bay.

New Act No. 187/2016 Coll., on tax on games of chance, subjects gambling to an increased tax.

In 2016, the Company was actively getting ready for the implementation of all the changes in legislation.

The Company optimised its sales network. The Company provided its customers with over one thousand new points of sale within the CORN project.

The co-operation with Česká pošta, s.p. (Czech Post), the Company's strategic partner, was taken to a higher level.

New geo-analytic methods were implemented in the functioning of the sales network: the methods are to explore the potential of individual regions in a better way.

The position of the lottery tickets portfolio strengthened and new issues were launched.

A noon draw within the Šťastných 10 game was added.

A unique project was initiated, aimed at SAZKA FANTASY's fans.

In 2016, the Company generated 153 new millionaires and allocated over CZK 1 billion and 100 million amongst them.

The Company gave away hundreds of prizes and the second highest winnings in the history of Sportka.

SAZKAmobil became the Czech Republic's biggest virtual operator, with over 210,000 happy customers.

Within a comparison of mobile operators performed by the CTO (Czech Telecommunication Office), the Company ended up first, winning the "Fairest of the Mobile Operators" title.

The SAZKAsvět blog has attracted over 500,000 followers.

Sportvokoli.cz was launched, a new portal with over 15,000 sports clubs registered. Ice-hockey player Jaromír Jágr continues to participate in a number of sporting events and projects.

The partnership with the Czech Olympic Committee has been strengthened.

The Company promoted Dvořák Prague International Festival of Classical Music. A new modern contact point was opened.

The Company has been actively presenting itself as an attractive employer.

The ongoing development of the Company and implementation of new activities resulted in an increase in the number of employees.

The renovation of the building at the Company's registered office has entered a new phase. The renovation should lead to a pleasant and modern working environment.

The Company started publishing SAZKAmagazín (*magazine*) for its partners and service providers.

Its internal communications won a few prestige awards. Its new Kompas intranet won a Grand Prix in the category of digital.

The “Milionové dárky pro SAZKAmobil” campaign (Million-worth Gifts for SAZKAmobil) was awarded as the most interesting digital solution in the WEBTOP100 competition.

The Company celebrated its 60<sup>th</sup> anniversary.

The Company went ahead with preparations for the Digital Entertainment Hub key project.

## TOP MANAGEMENT

Until 1 September 2016:

### **Board of Directors:**

Pavel Šaroch, Chairman of the Board of Directors  
Robert Chvátal, Member of the Board of Directors  
Martin Škopek, Member of the Board of Directors  
Martin Bláha, Member of the Board of Directors  
Kamil Ziegler, Member of the Board of Directors

### **Supervisory Board:**

Karel Komárek, Chairman of the Supervisory Board  
Robert Kolář, Member of the Supervisory Board  
Ivo Tajšl, Member of the Supervisory Board

From 1 September 2016:

### **Board of Directors:**

Pavel Šaroch, Chairman of the Board of Directors – Director A  
Pavel Horák, Vice-Chairman of the Board of Directors – Director B  
Robert Chvátal, Director A  
Martin Škopek, Director A  
Kamil Ziegler, Director A  
David Havlín, Director B

### **Supervisory Board:**

Tomáš Porupka, Chairman of the Supervisory Board  
Robert Kolář, Member of the Supervisory Board  
Petr Stöhr, Member of the Supervisory Board

By virtue of its decision of 1 September 2016, acting in the capacity of the General Meeting, the sole shareholder removed the following members of the Board of Directors: Pavel Šaroch, Martin Bláha, Martin Škopek, Kamil Ziegler, Robert Chvátal, as well as the following members of the Supervisory Board: Karel Komárek, Robert Kolář and Ivo Tajšl. On the same date, the following new members of the Board of Directors were elected: Pavel Šaroch, Pavel Horák, Robert Chvátal, Martin Škopek, Kamil Ziegler, David Havlín, as well as the following new members of the Supervisory Board: Tomáš Porupka, Robert Kolář and Petr Stöhr.

On 1 September 2016, Pavel Šaroch was elected the Chairman of the Board of Directors, Pavel Horák was elected the Vice-Chairman of the Board of Directors, Robert Chvátal was elected the CEO. On the same date, Tomáš Porupka was elected the Chairman of the Supervisory Board.



## *HUMAN RESOURCES*

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

Number of employees:

as of 1 January 2016 – 330

as of 31 December 2016 – 352

**GTECH Czech Republic LLC., a limited liability company**

Registered office: The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, USA  
Property interest (share) of SAZKA a.s.: 63%

**SPORTLEASE a.s. Id. No: 623 61 546**

The company was registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 10231, on 8 March 1995

Registered office: Prague 9, K Žižkovu 851, Postal Code 190 93  
Registered capital: CZK 40 100 000

On 22 February 2016, SAZKA Czech a.s., a company with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Id. No. 24852104, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File No. 18644, as the new shareholder, acquired a 100% share under the Share Transfer Agreement made by and between SAZKA a.s. and SAZKA Czech a.s.

**SALEZA, a.s. Id. No: 47116307**

The company was registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 1855, on 15 February 1993.

Registered office: Prague 9, K Žižkovu 851, Postal Code 190 93  
Registered capital: CZK 1 399 600 000  
Property interest (share) of SAZKA a.s.: 98.1%

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

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

## REPORT OF THE BOARD OF DIRECTORS ON BUSINESS ACTIVITIES AND THE STATE OF THE COMPANY ASSETS IN 2016

In 2016, SAZKA a.s. continued to engage especially in the operation of lotteries and other similar games of chance. The Company's core business activities consist in the operation of number and instant lotteries, and sports and fixed-odds betting. Last year, the Company continued to strengthen its position in the area of instant lotteries (scratch tickets).

In 2016, the Company also continued to promote its non-lottery activities, especially through SAZKA mobil, its virtual mobile operator.

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

In 2016, the Company generated profits of CZK 1 235 097 thousand before tax. The Company's total sales reached CZK 11 905 989 thousand.

The Company's property as of 31 December 2016 was as follows:

- Fixed assets amounted to CZK 12 523 249 thousand, of which intangible fixed assets amounted to CZK 2 168 137 thousand, tangible fixed assets amounted to CZK 669 058 thousand, and goodwill amounted to CZK 9 636 122 thousand.
- Current assets equalled CZK 1 392 968 thousand, of which receivables amounted to CZK 310 681 thousand and short-term financial assets, cash and cash equivalents amounted to CZK 1 071 193 thousand.

As of 31 December 2016, equity capital equalled CZK 4 427 711 thousand and liabilities, including external resources, amounted to CZK 9 488 506 thousand.

Assessment of the Company's main activities in 2016:

### Lottery activities

#### Number lotteries

In 2016, Sportka was able to maintain the dynamics of the previous year until September, when Superjackpot fell. Total annual sales fell behind the extraordinary year 2015 by 3.7% only, especially thanks to the intensive support of extraordinary draws and additional events in the Q4: "Černý pátek s černým Mustangem" (*"Black Friday with Black Mustang"*) and "3 vánoční milionáři" (*"3 Christmas Millionaires"*).

Eurojackpot had an extraordinary year with sales of 1.5 billion and a 26% year-on-year growth. Communications campaigns, which gained a very favourable response, as well as 2 waves of the additional game "Cesta kolem světa" (*"A Travel Around the World"*) and especially 4 peaks of jackpot exceeding CZK 2 billion contributed to the year being so successful. Šťastných 10 recorded a modest year-on-year growth, in particular thanks to introducing a second daily draw in April 2016.

#### Fixed-odds betting

In 2016, the offer of live betting increased by 200%. Further, the web design was modernised and a new communication style was presented. The rest of the activities was focused at a new and modern product to be launched in 2017.

#### Online

The SAZKA mobile application, used regularly by nearly 300 000 customers to check their winnings, is being upgraded in the long run. Thanks to a rich and attractive content, SAZKA succeeded in creating large communities of active fans in social media, especially on Facebook. The new website at sazka.cz provides interesting content and features to its customers, who will be introduced to a brand new world of online betting.

#### CRM

In 2016, a brand new contact point was built to provide customer care. The main goal consisted in preparing for extending communication channels, focusing on digitalisation (Live Chat, social networks) and, in co-operation with a new CRM Department, manage the relations with existing customers, increase their value and enhance customer experience in a new era of online gambling.

## Non-lottery activities

In April, the SAZKAmobil mobile operator expanded the range of its product by adding "Internet zdarma" (*"Charge-free Internet"*). The CTO assessed SAZKAmobil as the fairest mobile operator on the market. By late 2016, SAZKAmobil had more than 210 000 active customers, maintaining its leading position among virtual operators and sub-brands of network operators.

In 2016, the number and volume of Financial Services transactions increased. Topping-up credits with mobile operators showed a steady growth; a new operator OpenCall emerged within the O2 network. Topping-up credits in payment cards showed a steady growth too; and new cards appeared: Biip, VISA and Waletka. In January 2016, the performance of cash payments was taken up by SAZKA FTS a.s., a company with the relevant licence to carry out activities of a payment institution.

## Sales network

The Company has been offering its products through a unique sales network of more than seven and a half thousand branches. The Company offers the whole portfolio of its products at these branches. Lottery Inside supports the network by providing 4 028 points of sale with 9 232 counters or cash registers, where customers can play one of the four Company's basic games. The Lottery Inside network is operated in the chains of PENNY, COOP and TESCO supermarkets, as well as Czech Post. The optimisation of the backbone sales network continued in 2016, with the new establishment or transfer of 1 091 terminals, i.e. over 14%.

## Security certificates

The Company holds two internationally recognised certifications attesting to the application and continued development of the information security management system (ISMS). These include the ISO/IEC 27001 standard and the SCS (Security Control Standard), an internationally recognised standard in the area of security in the gaming industry granted by the WLA (World Lottery Association). In 2016, the Company went through a re-certification process, which confirmed the compliance by the Company with security standards for renewal of the obtained ISO 27001 and WLA-SCS certificates.

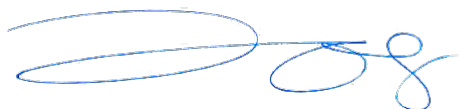
## IT

The Company has embraced a brand new philosophy concerning the integration of newly implemented systems, by adopting a cutting-edge SOA (service-oriented architecture) with all the benefits entailed by this concept. The architecture is based on the implementation of the Enterprise Service Bus solution on the standard Talend platform. We have implemented the hardware and software for the operation of a new entertainment portal sazka.cz, including its integration into a number of existing systems.

A completely new infrastructure was implemented within the contact point, enabling the use of new modern communication channels when communicating with customers.

The newly launched Company intranet, based on the open source Liferay platform, was awarded the Grand Prix prize in category of Internal Communication 2016. The transfer of IT infrastructure to a new modern data centre operated by SafeDX s.r.o. is well under way.

In Prague, on 21 March 2017



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David Havlín  
Director B  
SAZKA a.s.



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Pavel Šaroch  
Director A  
SAZKA a.s.

*REPORT OF THE BOARD OF DIRECTORS OF SAZKA A.S. ON RELATIONSHIPS BETWEEN THE CONTROLLING AND CONTROLLED ENTITIES, AND RELATIONSHIPS BETWEEN THE CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY*

SAZKA a.s., with its registered office in Prague 9, at K Žižkovu 851, Postal Code 190 93, Id. No.: 26493993, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 7424 (hereinafter the **"Company"**) was a controlled entity within the meaning of Section 74 *et seq.* of Act No. 90/2012 Coll., on companies and co-operatives (hereinafter the **"Corporations Act"**) in the accounting period from 1 January 2016 to 31 December 2016 (hereinafter the **"Accounting Period"**).

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

### **1. Structure of relationships between the Company and other Related Parties**

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

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

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

### **2. Mission of the Company**

The Company plays an important role within the SAZKA Group: it is the biggest lottery company in the Czech Republic. The core objects of business consist in the operation of lotteries and other similar games in accordance with the generally binding legal regulations, i.e. the operation of instant and number lotteries, sports and fixed-odds betting and other similar games in accordance with Act No. 202/1990 Coll., on lotteries and other similar games, and Act No. 186/2016 Coll., on games of chance. In addition to the lottery and betting activities, the Company also performs non-lottery business activities through its points of sale and terminals.

### **3. Method and means of control**

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

### **4. Summary of important acts**

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

- CASH POOLING AGREEMENT with KKCG Structured Finance AG of 31 May 2016 (continuous depositing of available cash);
- FACILITY AGREEMENT with KKCG AG (previously KKCG PLC) of 19 September 2013 (repayment of loan of 15 January 2016).

### **5. Summary of intra-Group agreements and contracts**

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

- Business Co-operation Agreement with Cestovní kancelář FISCHER, a.s. of 7 March 2016;
- Agreement on Termination of Service Agreement with DataSpring s.r.o. of 6 September 2016;

- Voucher within the meaning of Section 1939 *et seq.* of Act No. 89/2012 Coll., the Civil Code, with KKCG a.s. and MĚDEA, a.s. of 23 March 2016;
- Framework Consultancy Services Agreement with KKCG a.s., effective as of 1 January 2016 (substitutes the Service Agreement of 16 April 2013, as amended by Amendments 1 and 2);
- Agreement on Termination of the INVESTMENT AGREEMENT with KKCG Structured Finance AG (previously KKCG STRUCTURED FINANCE LIMITED) of 31 May 2016;
- Amendment 2 to the Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 8 June 2016;
- Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 11 October 2016;
- Amendment 1 to the Contract for Comprehensive Services for Supplies of Gas with MND a.s. of 30 December 2016;
- Trade Mark Licence Agreement with KKCG AG of 15 August 2016;
- Purchase Contract with SafeDX s.r.o. of 7 January 2016;
- Supplementing Agreement to the Purchase Contract with SafeDX s.r.o. of 15 January 2016;
- Agreement on Assigning the Preliminary Contract for Connection at High-voltage Level with SafeDX s.r.o. and PREdistribuce, a.s. of 19 January 2016;
- Contract for Lease of Premises Intended for Business Purposes with SafeDX s.r.o. of 3 March 2016;
- Agreement on Termination of Contract for Lease of Premises Intended for Business Purposes with SafeDX s.r.o. of 30 September 2016;
- Agreement on Re-invoicing Services with SafeDX s.r.o. of 20 April 2016;
- Share Transfer Agreement with SAZKA Czech a.s. of 22 February 2016;
- Contract for Lease of Premises Intended for Business Purposes with SAZKA FTS a.s. of 1 August 2016;
- Contract for Lease of Premises Intended for Business Purposes with Kavárna štěstí s.r.o. of 1 August 2016;
- Agreement on Procurement of Services with Kavárna štěstí s.r.o. of 12 August 2016;
- Amendment 1 to the Agreement on Procurement of Services with Kavárna štěstí s.r.o. of 1 October 2016;
- Amendment 1 to the FACILITY AGREEMENT with KKCG AG (previously KKCG PLC) of 19 September 2013, concluded on 17 August 2016 with KKCG AG and EMMA GAMMA LIMITED;
- PATRONAGE AGREEMENT with KKCG AG, EMMA GAMMA LIMITED and other entities of 17 August 2016.

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

- Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 1 January 2015, as amended by Amendments 1 and 2;
- Contract for Comprehensive Services for Supplies of Gas with MND a.s. of 8 December 2015, as amended by Amendment 1;
- Security Services Agreement with Kynero Consulting a.s. of 1 August 2015;
- Contract for the Provision of Services Concerning Operation of Call Center with Conectart s.r.o. (previously Informační linky s.r.o.) of 31 March 2015;
- Co-operation Agreement with Conectart s.r.o. (previously Informační linky s.r.o.) of 7 February 2014, as amended by Amendment 1;
- Service Agreement with Conectart s.r.o. (previously Informační linky s.r.o.) of 1 July 2013;
- Contract for Lease of Premises Intended for Business Purposes with DataSpring s.r.o. of 21 February 2014, as amended by Amendments 1 to 5;
- Contract for the Supply and Implementation of Hardware and Provision of Services of Communication System of Unified Communication and Servicing with DataSpring s.r.o. of 29 May 2015;
- Contract for the Supply and Implementation of Hardware and Software for Backup, including Maintenance with DataSpring s.r.o. of 20 October 2015;
- Non-disclosure and Confidentiality Agreement with DataSpring s.r.o. of 4 November 2015;
- Framework Agreement on Consultancy Services with DataSpring s.r.o. of 30 June 2014;
- Non-disclosure and Confidentiality Agreement with Springtide Ventures s.r.o. of 3 June 2015;
- Non-disclosure and Confidentiality Agreement with Springtide Ventures s.r.o. of 27 November 2015;
- Business Co-operation Agreement with Cestovní kancelář FISCHER, a.s. of 2 December 2015;
- Tourism Co-operation Agreement with Cestovní kancelář FISCHER, a.s. of 28 May 2012;
- Co-operation Agreement with Cestovní kancelář FISCHER, a.s. of 30 August 2012;
- Agreement on Relationships within VAT Group with Cestovní kancelář FISCHER, a.s. of 17 December 2013, as amended by Amendment 1 with MND a.s. and Cestovní kancelář FISCHER, a.s.;
- Contract for the Preparation of Accounting Records and Tax Returns with SAZKA FTS a.s. of 17 December 2015;

- Service Agreement with SAZKA FTS a.s. of 17 December 2015;
- Business Agency Agreement with SAZKA FTS a.s. of 15 December 2015;
- FACILITY AGREEMENT with KKCG AG (previously KKCG PLC) of 19 September 2013, as amended by Amendment 1 with KKCG AG and EMMA GAMMA LIMITED;
- CALL OPTION AND GUARANTEE AGREEMENT with KKCG AG (previously KKCG PLC) and other entities of 23 October 2014;
- GUARANTEE AGREEMENT with KKCG AG (previously KKCG PLC) and other entities of 23 October 2014;
- PATRONAGE AGREEMENT with KKCG AG (previously PLC) and other entities of 23 October 2014;
- Contract for Lease of Premises Intended for Business Purposes with SPORTLEASE a.s. of 1 March 2012;
- Agreement to Keep Accounts and Associated Agenda with SPORTLEASE a.s. of 28 April 2003, as amended by Amendment 1.

## 6. Assessment of damage incurred and its compensation

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

## 7. Assessment of benefits and drawbacks following from relationships with Related Parties

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

The Company identified no drawbacks following from the relationships with Related Parties.

### Annex: List of Related Parties

In Prague, on 21 March 2017




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David Havlín  
Director B  
SAZKA a.s.




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Pavel Šaroch  
Director A  
SAZKA a.s.

## ANNEX: LIST OF RELATED PARTIES

### LIST OF RELATED PARTIES AS OF 31 DECEMBER 2016

- **SAZKA Group a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 24287814;
- **KKCG AG**, with its registered office at Kapellgasse 21, 6004 Lucerne, Swiss Confederation, Reg. No. CHE-326.367.231;
- **Apus Holding N.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 54152593;
- **Austrian Gaming Holding a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 04047788;
- **BAIH Beteiligungsverwaltungs GmbH**, with its registered office at 1010 Wien, Universitätsring 14, Republic of Austria, Reg. No. FN 200466d;
- **BOŘISLAVKA OFFICE & SHOPPING CENTRE s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 27457621;
- **IPM - Industrial Portfolio Management a.s. (previously BWV Czech, a.s.)**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 04572033;
- **BXY Czech, a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 04559851;
- **CAME Holding GmbH**, with its registered office at Universitätsring 10, 1010 Vienna, Republic of Austria, Reg. No. 038898d;
- **Cestovní kancelář FISCHER, a.s.**, with its registered office in Prague 4 - Nusle, at Na Strži 65/1702, Postal Code 140 62, Id. No. 26141647;
- **CKF facility s.r.o.**, with its registered office in Prague 4 - Nusle, at Na Strži 65/1702, Postal Code 140 62, Id. No. 28982738;
- **CLS Beteiligungs GmbH**, with its registered office at Goldschmiedg. 3, 1010 Wien, Republic of Austria, Reg. No. FN84419x;
- **Collington II Limited**, with its registered office at Custom House Plaza Block 6, International Financial Services Centre, Dublin 1, Republic of Ireland, Reg. No. 506355;
- **Conectart s.r.o. (previously Informační linky s.r.o.)**, with its registered office in Prague 1, Nové Město, at Opletalova 1015/55, Postal Code 110 00, Id. No. 24728055;
- **DataSpring s.r.o.**, with its registered office in Prague 9, Vysočany, at K Žižkovu 851/4, Postal Code 190 00, Id. No. 28808681;
- **Direct Communication, s.r.o.**, with its registered office in Prague 8, Libeň, at Zenklova 32/28, Postal Code 180 00, Id. No. 24711462;
- **Družstvo Šárecké údolí**, with its registered office at Vinohradská 1511/230, Strašnice, Postal Code 100 00 Prague 10, Id. No. 05029287;
- **FM&S Czech a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 04283112;
- **Geologichchne byreau "Lviv" LLC**, with its registered office at L'vivska Oblast, L'viv, 79011, ul. Kubiyovicha 18,



Office 6, Ukraine;

- **G-JET s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 27079171;
- **"Goryzonty" LLC**, with its registered office at L'vivska Oblast, L'viv, 79005, Akademika Pavlova 6C, Office 7, Ukraine, Reg. No. 31978102;
- **IGH Financing a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 05034353;
- **INTERMOS Bratislava s.r.o.**, with its registered office in Bratislava, at Moskovská 13, Postal Code 811 08, Slovak Republic, Id. No. 35898411;
- **INTERMOS Praha s.r.o.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 63076349;
- **Italian Gaming Holding a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 04828526;
- **JTU Czech s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 02612020;
- **Kavárna štěstí s.r.o.**, with its registered office in Prague 9, at K Žižkovu 851/4, Postal Code 190 00, Id. No. 05111901;
- **KKCG a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 27107744;
- **KKCG Director 1 B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 59525819;
- **KKCG Entertainment & Technology B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 58856765;
- **KKCG Industry B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 27271144;
- **KKCG Investments AG**, with its registered office at Kapellgasse 21, 6004 Lucerne, Swiss Confederation, Reg. No. CHE-271.643.388;
- **KKCG Investments B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 3425187;
- **KKCG Oil & Gas B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 61025119;
- **KKCG Real Estate a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No.: 24291633;
- **KKCG Structured Finance AG** (previously KKCG STRUCTURED FINANCE LIMITED), with its registered office at Kapellgasse 21, 6004 Lucerne, Swiss Confederation, Reg. No. CHE-292.174.442;
- **KKCG Turkey B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 60367601;
- **KKCG UK Limited**, with its registered office in London, at One Connaught Place, 5th Floor, W2 2ET, United Kingdom, Reg. No. 8869774;

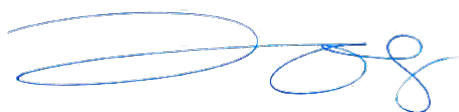
- **KKCG US LLC**, with its registered office at 1675 South State Street, Suite B, Dover, DE, County of Kent, 19901, United States of America, Reg. No. 36-4831670;
- **Kura Basin Operating Company LLC**, with its registered office at 70 Kostava Street (5 Gamsakhurdia Avenue), Tbilisi, Georgia, Reg. No. 405171567;
- **Kynero Consulting a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 24193461;
- **LP Drilling S.r.l.**, with its registered office at 29016 Cortemaggiore, Salvo D'Acquisto 5, Italy, Reg. No. 01294260334;
- **LTB Beteiligungs GmbH**, with its registered office at Universitätsring 14, 1010 Wien, Republic of Austria, Reg. No. FN84439a;
- **Medicem Group B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 53557972;
- **MEDICEM GYNECO (CY) LIMITED**, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE314834;
- **MEDICEM Institute s.r.o.**, with its registered office in Kamenné Žehrovice, at Karlovarská třída 20, District of Kladno, Postal Code 273 01, Id. No. 26493331;
- **MEDICEM International CR s.r.o.**, with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Id. No. 24197653;
- **MEDICEM International GmbH**, with its registered office in Zug, at Baarerstrasse 8, 6300, Swiss Confederation, Reg. No. CH- 170.4.010-812-2;
- **MEDICEM OPHTHALMIC (CY) LIMITED**, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE314823;
- **MEDICEM Technology s.r.o.**, with its registered office in Kamenné Žehrovice, at Karlovarská třída 20, District of Kladno, Postal Code 273 01, Id. No. 48036374;
- **MEDICEM TISSUE (CY) LIMITED**, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE314849;
- **MND a.s.**, with its registered office in Hodonín, at Úprkova 807/6, Postal Code 695 01, Id. No. 28483006;
- **MND Drilling & Services a.s.**, with its registered office in Lužice, at Velkomoravská 900/405, Postal Code 696 18, Id. No. 25547631;
- **MND Drilling Germany GmbH**, with its registered office at 82031 Grünwald, Bavariafilmplatz 7, Bavaria, Federal Republic of Germany, Reg. No. HRB200127;
- **MND E&P Germany GmbH**, with its registered office at 22299 Hamburg, Himmelstrasse 9, Federal Republic of Germany, Reg. No. HRB125993;
- **MND Energy Trading a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 29137624;
- **MND Gas Storage a.s.**, with its registered office in Hodonín, at Úprkova 807/6, Postal Code 695 01, Id. No. 27732894;
- **MND Gas Storage Germany GmbH**, with its registered office at 45136 Essen, Ruhrallee 80, Federal Republic of Germany, Reg. No. HRB25715;

- **MND Georgia B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 52308944;
- **MND Group AG**, with its registered office at Kapellgasse 21, 6004 Lucerne, Swiss Confederation, Reg. No. CHE-448.401.517;
- **MND Group B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 34246576;
- **MND Russia N.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 57169284;
- **MND Samara Holding B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 52990680;
- **MND Ukraine B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 59394072;
- **Moravia Systems a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 26915189;
- **OOO Belisar**, with its registered office at Saratov, ulitsa Chelyuskintsev 68, 410031, Russian Federation, Reg. No. 1116317007674;
- **OOO MND Samara**, with its registered office at ul. Alexeya Tolstogo 92, Samara, Samara District, 443099, Russian Federation, Reg. No. 1046301405094;
- **OOO Saratovneftedobycha**, with its registered office at 92-ya Sadovaya ul., Office 6, Saratov, Saratov Region, 41000, Russian Federation;
- **PERULA a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 28226364;
- **Prykarpatska Energetychna Kompania LLC**, with its registered office at Ivano-Frankovska Oblast, Bogorodchany, 77701, ul. Shevchenka, Ukraine;
- **PXY Czech, a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 01409476;
- **RUBIDIUM HOLDINGS LIMITED**, with its registered office at 8 Alasias Street, Christodoulides Building, 3095 Limassol, Republic of Cyprus, Reg. No. HE287956;
- **SafeDX s.r.o.**, with its registered office at K Žižkovu 813/2, Vysočany, Postal Code 190 00 Prague 9, Id. No. 04585119;
- **SALEZA a.s.**, with its registered office in Prague 9, at K Žižkovu 851, Postal Code 190 93, Id. No. 47116307;
- **SAZKA Asia a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 05266289;
- **Sazka Asia Vietnam Company Limited**, with its registered office at Kumho Asiana Plaza, 13th Floor, 39 Le Duan Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam, Reg. No. 0314057663;
- **SAZKA FTS a.s.**, with its registered office in Prague 9, Vysočany, at K Žižkovu 851/4, Postal Code 190 00, Id. No. 01993143;
- **SKALANE LIMITED**, with its registered office at Arch. Makariou III, 195, Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE 330624;

- **SPORTLEASE a.s.**, with its registered office in Prague 9, at K Žižkovu 851, Postal Code 190 93, Id. No. 62361546;
- **Springtide Ventures s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 01726587;
- **Theta Real s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 27631842;
- **TrustYard s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 28960823;
- **Turkish Lottery Holding B.V.**, with its registered office at 1101CT Amsterdam, Herikerbergweg 292, Kingdom of the Netherlands, Reg. No. 60370041;
- **US Methanol LLC**, with its registered office at 1675 South State Street, Suite B, Dover, DE, County of Kent, 19901, United States of America;
- **Vinohradská 230 a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 26203944;
- **Vitalpeak Limited**, with its registered office at Arch. Makariou III, 195, Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE 228204;
- **Emma Gamma Limited**, with its registered office in Republic of Cyprus, 1087, Nicosia, at Esperidon 12, 4th floor, Reg. No. HE 347073;
- **Bellville Services Ltd**, with its registered office at Tropic Isle Building, P.O. Box 3423, Road Town, Tortola, British Virgin Islands, Reg. No. 1782780;
- **Emerging Markets Capital, a.s.**, with its registered office at Evropská 2690/17, 160 00 Prague 6, Id. No.: 24262803;
- **Emma Alpha Holding Ltd**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE313347;
- **Emma Beta Holding Ltd**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE313575;
- **Emma Capital Holding Ltd**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE310908;
- **Emma Capital (BVI) Limited**, with its registered office at Tropic Isle Building, P.O. Box 3423, Road Town, Tortola, British Virgin Islands, Reg. No. 1730358;
- **Emma Delta Finance PLC**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE287780;
- **Emma Delta Hellenic Holdings Ltd**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE320752;
- **Emma Delta Management Ltd**, with its registered office at Arch. Makariou III, 2-4, Capital Center, 1065, Nicosia, Republic of Cyprus, Reg. No. HE314151;
- **Emma Delta Variable Capital Investment Company Ltd**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE314350;
- **Emma Omega Ltd**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE319479;

- **Gaz Sud S.A.**, with its registered office at Ghermanesti village, Alea islaz, Ilfov County, Snagov, Romania, Reg. No. J23/273/2001;
- **Grup Dezvoltare Retele S.A.**, with its registered office at 19-21 Bucuresti-Ploiesti Avenue, Baneasa Business Center, District 1, Bucharest, Romania, Reg. No. J40/1614/2001;
- **Hellenic Football Prognostics Organisation S.A. (OPAP S.A.)**, with its registered office at 62 Kifissou Av, 12132, Peristeri - Athens, Greece, Reg. No. 3823201000;
- **Chapalaco Limited**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE316455;
- **Ligatne Limited**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE172557;
- **Marjolendo Limited**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE310114;
- **Paresta Limited**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE321734;
- **Premier Energy Srl**, with its registered office at 19-21 Bucuresti-Ploiesti Avenue, Baneasa Business Center, District 1, Bucharest, Romania, Reg. No. J40/1918/2007;
- **Quiverda Limited**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE311844;
- **Serenity Source Limited**, with its registered office at Tropic Isle Building, P.O. Box 3423, Road Town, Tortola, British Virgin Islands, Reg. No. 1760126;
- **Springrock Limited**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE321794;
- **Tonala Limited**, with its registered office at Esperidon 12, 1087 Nicosia, Republic of Cyprus, Reg. No. HE315858.

In Prague, on 21 March 2017




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David Havlín  
Director B  
SAZKA a.s.




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Pavel Šaroch  
Director A  
SAZKA a.s.

## FINANCIAL STATEMENTS

<i>Statement of profit and loss and other comprehensive income</i>	<i>Paragraph of Annex</i>	<i>For 2016</i>	<i>For 2015</i>
<b>Proceeds from lottery and betting activities</b>	<b>5</b>	<b>5 181 991</b>	<b>4 935 884</b>
Proceeds from deposits		11 541 749	11 002 512
Winnings		-6 359 758	-6 066 628
<b>Proceeds from other activities</b>	<b>5</b>	<b>364 240</b>	<b>329 548</b>
<b>Net sales</b>		<b>5 546 231</b>	<b>5 265 432</b>
<b>Cost of proceeds from lottery and betting activities</b>	<b>6</b>	<b>-2 437 039</b>	<b>-2 097 724</b>
Service fee		-1 072 945	-1 033 383
Lottery tax		-1 272 507	-982 105
Other cost of proceeds from lottery and betting activities		-91 587	-82 236
<b>Cost of proceeds from other activities</b>	<b>6</b>	<b>-271 926</b>	<b>-222 109</b>
<b>Cost of sale</b>		<b>-2 708 965</b>	<b>-2 319 833</b>
<b>Gross margin</b>		<b>2 837 266</b>	<b>2 945 599</b>
<b>Other operating revenues</b>	<b>7</b>	<b>19 159</b>	<b>334</b>
<b>Operating costs</b>	<b>7</b>	<b>-1 283 744</b>	<b>-1 343 876</b>
Marketing and distribution costs		-699 303	-758 500
Administrative costs		-513 978	-508 551
Other operating expenses		-70 463	-76 825
<b>Operating profit/loss</b>		<b>1 572 681</b>	<b>1 602 057</b>
<b>Interest revenue</b>	<b>9</b>	<b>1 127</b>	<b>1 694</b>
<b>Interest expense</b>	<b>9</b>	<b>-346 381</b>	<b>-405 119</b>
<b>Other profit (+) / loss (-) from financial area</b>	<b>9</b>	<b>7 670</b>	<b>33 162</b>
<b>Profit/loss from financial operations</b>		<b>-337 584</b>	<b>-370 263</b>
<b>Profit/loss before tax</b>		<b>1 235 097</b>	<b>1 231 794</b>
<b>Income tax</b>	<b>10</b>	<b>-235 415</b>	<b>-237 313</b>
<b>Profit/loss for the accounting period</b>		<b>999 682</b>	<b>994 481</b>
Revaluation of hedging derivatives		-35 606	16 290
Deferred tax from revaluation of hedging derivatives		6 765	- 3 094
<b>Other comprehensive income for the accounting period (after tax)</b>		<b>-28 841</b>	<b>13 196</b>
<b>Comprehensive income for the accounting period</b>		<b>970 841</b>	<b>1 007 677</b>
<b>Earnings per share (EPS)</b>			
Basic EPS (in CZK)	20	222 152	220 996
Diluted EPS (in CZK)	20	222 152	220 996

**Statement of financial position****Paragraph  
of Annex****31 December 2016****31 December  
2015****ASSETS**

Fixed intangible assets	11	2 168 137	2 136 354
Goodwill	11	9 636 122	9 636 122
Tangible fixed assets (property, plant and equipment)	12	669 058	650 706
Investments in enterprises with decisive influence	14	--	18 600
Other long-term financial investments	15	42 199	42 199
Long-term trade receivables and other fixed assets	17	7 733	8 761
<b>Total fixed assets</b>		<b>12 523 249</b>	<b>12 492 742</b>
Inventories		11 094	6 823
Short-term trade receivables and other short-term assets	17	310 681	339 507
Short-term receivables from financial instruments	18	300 324	1 200 152
Cash and cash equivalents	19	770 869	623 696
Assets earmarked for sale	13	--	53 190
<b>Total current assets</b>		<b>1 392 968</b>	<b>2 223 368</b>
<b>Total assets</b>		<b>13 916 217</b>	<b>14 716 110</b>

Annex to financial statements on pages 7 to 53 forms an integral part of these financial statements.

**Statement of financial position (continued)****Paragraph  
of Annex****31 December 2016****31 December  
2015****Liabilities****Equity**

Registered capital	20	450 000	450 000
Capital and other contributions	20	1 424 223	1 453 064
Retained earnings/accumulated losses from previous years and current period	20	2 553 488	2 753 806
<b>Total equity capital</b>		<b>4 427 711</b>	<b>4 656 870</b>

**Payables**

Bank credits and other loans - long-term part	21	5 290 094	5 416 747
Long-term liabilities from financial instruments	15	50 046	49 200
Deferred tax liability	16	245 874	221 053
Long-term provisions ( <i>in Czech: rezervy</i> )	23	43 920	21 960

<b>Total long-term liabilities</b>		<b>5 629 934</b>	<b>5 708 960</b>
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Bank credits and other loans - short-term part	21	2 324 587	2 811 702
Short-term trade payables and other short-term payables	22	1 158 244	1 274 212
Liability on account of payable income tax	10	73 573	83 423
Short-term liabilities from financial instruments	21	36 564	957
Short-term provisions ( <i>in Czech: rezervy</i> )	23	265 604	179 986

<b>Total short-term liabilities</b>		<b>3 858 572</b>	<b>4 350 280</b>
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<b>Total liabilities</b>		<b>9 488 506</b>	<b>10 059 240</b>
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<b>Total equity capital and liabilities</b>		<b>13 916 217</b>	<b>14 716 110</b>
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Annex to financial statements on pages 7 to 53 forms an integral part of these financial statements.



*Statement of changes in equity capital*

	Registered capital	Other capital funds	Retained earnings/accumulated losses from previous years and current period	Total equity capital
Balance as of 1 January	450 000	1 439 868	1 759 325	3 649 193
Profit/loss for 2015	--	--	994 481	994 481
Revaluation of hedging derivatives	--	13 196	--	13 196
Comprehensive income for 2015	--	13 196	994 481	1 007 677
Balance as of 31 December 2015	450 000	1 453 064	2 753 806	4 656 870
Balance as of 1 January 2016	450 000	1 453 064	2 753 806	4 656 870
Payment of dividends	--	--	-1 200 000	-1 200 000
Profit/loss for 2016	--	--	999 682	999 682
Revaluation of hedging derivatives	--	-28 841	--	-28 841
Comprehensive income for 2016	--	-28 841	999 682	970 841
Balance as of 31 December 2016	450 000	1 424 223	2 553 488	4 427 711

Annex to financial statements on pages 7 to 53 forms an integral part of these financial statements

**Cash flow statement**

	Paragraph of Annex	For 2016	For 2015
<b><u>OPERATING ACTIVITIES</u></b>			
Profit (+) for accounting period		999 682	994 481
<i>Adjusted by:</i>			
Income tax	10	235 415	237 313
Depreciation of tangible and intangible fixed assets	7	59 682	52 925
Loss (-) / profit (+) from sale of tangible and intangible fixed assets	7	-7 896	4 051
Profit (-) associated with removal/sale of securities	9	-6 395	-981
Net interest cost (+)	9	345 254	403 425
De-recognition of impairment of assets (-) / impairment of assets (+)		-6 444	7 789
Net foreign exchange loss (+)		--	2 153
Revenue from the holding of securities (-)		--	-34 335
<b>Operating profit/loss prior to change in working capital and provisions (in Czech: <i>rezervy</i>)</b>		<b>1 619 298</b>	<b>1 666 821</b>
 Increase (+) in provisions ( <i>in Czech: rezervy</i> )	23	107 578	5 808
Increase (-) / decrease (+) in inventories		-4 271	876
Decrease (+) / increase (-) in trade receivables and other assets	17	28 999	-162 522
Decrease (-) / increase (+) in trade payables and other payables	22	-151 043	121 421
<b>Operating cash</b>		<b>1 600 561</b>	<b>1 632 404</b>
 Interest paid		-340 149	-285 441
Income tax paid		-213 679	-36 078
<b>Net operating cash flow</b>		<b>1 046 733</b>	<b>1 310 885</b>
<b><u>INVESTMENT ACTIVITIES</u></b>			
Acquisition of tangible fixed assets	12	-28 764	-62 332
Acquisition of intangible fixed assets	11	-47 021	-65 327
Proceeds from sale of tangible and intangible fixed assets	7	69 109	280
Proceeds from sale of financial investments	9	24 995	--
Proceeds from share of liquidation balance in property interests	9	--	89 288
Interest received	9	1 127	1 694
Dividends received	9	--	34 335
<b>Net cash flow generated (+) /used (-) in investment activities</b>		<b>19 446</b>	<b>-2 062</b>
<b><u>FINANCIAL ACTIVITIES</u></b>			
Credits and loans received	21	744 000	256 000
Credits and loans paid	21	-1 362 834	-827 881
Dividends paid	20	-1 200 000	--
<b>Net cash flow used (-) in financial activities</b>		<b>-1 818 834</b>	<b>-571 881</b>
<b>Net decrease (-) / increase (+) in cash and cash equivalents</b>		<b>-752 655</b>	<b>736 942</b>
 <b>Balance of cash and cash equivalents – beginning of accounting period</b>	19	<b>1 823 848</b>	<b>1 086 906</b>
<b>Balance of cash and cash equivalents – end of accounting period</b>	19	<b>1 071 193</b>	<b>1 823 848</b>

Annex to financial statements on pages 7 to 53 forms an integral part of these financial statements.

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## **Annex to Financial Statements**

### **1. General information on the Company**

#### **1.1. Characteristics**

SAZKA a.s. (hereinafter 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 registered in the Commercial Register on 27 June 2014). SAZKA a.s. is the largest domestic operator of number and instant lotteries. The Company's core business activities consist in the operation of number and instant lotteries, and sports and fixed-odds betting.

SAZKA a.s. is a joint-stock company registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 7424, Czech Republic, on 28 November 2001. The Company's registered office: K Žižkovu 851, Prague 9, Postal Code 190 93, Id. No. 264 93 993.

#### **1.2. Objects of activities**

The core objects of business consist in the operation of lotteries and other similar games in accordance with the generally binding legal regulations, i.e. the operation of instant and number lotteries, sports and fixed-odds betting and other similar games in accordance with Act No. 202/1990 Coll., on lotteries and other similar games, as amended (hereinafter the "Lottery Act").

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

#### **1.3. Members of the governing body and of the Supervisory Board**

Members of the Board of Directors as of 31 December 2016 (number of members: 6):

Pavel Šaroch, Chairman of the Board of Directors – Director A  
Pavel Horák, Vice-Chairman of the Board of Directors – Director B  
Robert Chvátal, Director A  
Martin Škopek, Director A  
Kamil Ziegler, Director A  
David Havlín, Director B

Members of the Supervisory Board as of 31 December 2016 (number of members: 3):

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 Prague 10  
Identification number: 248 52 104

KKCG AG, a company with its registered office in Swiss Confederation, is the ultimate owner of the Company within the KKCG Group.

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

Lucerne, Swiss Confederation.

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

### **1.5. Changes registered in the Commercial Register during accounting period**

In 2016, the following changes were registered:

#### *Board of Directors and Supervisory Board:*

By virtue of its decision of 1 September 2016, acting in the capacity of the General Meeting, the sole shareholder removed the following members of the Board of Directors: Pavel Šaroch, Martin Bláha, Martin Škopek, Kamil Ziegler, Robert Chvátal, as well as the following members of the Supervisory Board: Karel Komárek, Robert Kolář and Ivo Tajšl. On the same date, the following new members of the Board of Directors were elected: Pavel Šaroch, Pavel Horák, Robert Chvátal, Martin Škopek, Kamil Ziegler, David Havlín, as well as the following new members of the Supervisory Board: Tomáš Porupka, Robert Kolář and Petr Stöhr.

Simultaneously, the sole shareholder decided that Pavel Šaroch, Robert Chvátal, Martin Škopek and Kamil Ziegler are Directors A and Pavel Horák and David Havlín are Directors B.

The sole shareholder also decided to amend the Company's Articles of Association.

On 1 September 2016, Pavel Šaroch was elected the Chairman of the Board of Directors, Pavel Horák was elected the Vice-Chairman of the Board of Directors, Robert Chvátal was elected the CEO. On the same date, Tomáš Porupka was elected the Chairman of the Supervisory Board.

The changes were registered in the Commercial Register on 12 September 2016.

#### *Sole shareholder:*

Since 12 September 2016, the transferability of the shares of the Company has been subject to the General Meeting's consent.

Since 12 November 2016, the Company has been represented by two members of the Board of Directors acting jointly, either one Director A and one Director B, or two Directors A. The member of the Board of Directors who is the Chief Executive Officer is authorised represent the Company independently in juridical acts *vis-à-vis* third parties that cannot constitute commitments of the Company exceeding the amount of CZK 5 000 000 (in words: five million Czech crowns). Pursuant to Section 164 (3) of Act No. 89/2012 Coll., the Civil Code, Robert Chvátal, member of the Board of Directors and Chief Executive Officer, is authorised to perform juridical acts *vis-à-vis* the employees of the Company.

SAZKA a.s.

Financial statements for year ending on 31 December 2016 (in CZK thousand)

## **2. Bases for the compilation of the financial statements**

### **(a) Declaration of conformity**

The financial statements were compiled in accordance with the International Financial Reporting Standards in the wording adopted by the European Union ("IFRS").

The accounting procedures specified in paragraph 3 were applied in the compilation of the financial statements for the year ending on

31 December 2016, as well as the compilation of data for the comparative period, i.e. as of 31 December 2015.

These financial statements are compiled as separate for the purposes of presentation of the Company's financial position. Information on investments in enterprises with decisive influence is provided in paragraph 14 of this Annex.

These financial statements were approved by the Company's Board of Directors on 21 March 2017.

### **(b) Valuation approach**

The financial statements were compiled on a going concern basis by applying the historical-cost method. The Company records no items of the statement of financial position that would be reported at fair value, except for the obligation under a hedging derivative instrument (interest rate swap).

The Company applies accounting procedures 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 the financial information stated in CZK was rounded off to whole thousands ("CZK thousand") unless stipulated otherwise.

### **(d) Application of estimates and assumptions**

Compiling of financial statements in accordance with the IFRS requires the application of certain critical accounting estimates that affect the reported items of assets, liabilities, revenues and expenses. It also requires that the accounting entity's management apply assumptions based on its own judgement in the application of accounting procedures. The resulting accounting estimates, exactly because they are estimates, rarely correspond to the respective actual values.

Estimates and assumptions are reviewed from time to time. Reviews of accounting estimates are taken into account in the accounting period in which the respective estimate is reviewed (if the review is concerned with such a period only), or in the review and subsequent periods (if the review is concerned with current and subsequent periods).

Information on the application of accounting procedures, and on the estimates with the most significant effect on the amounts reported in the financial statements, are specified in the following paragraphs of the Annex:

- Paragraphs 3 (i) and 11 – assessment of impairment of goodwill, assessment of impairment of intangible assets with indefinite useful life, assessment of useful life of intangible assets;
- Paragraphs 3 (h) and 12 – assessment of useful life of tangible assets;
- Paragraph 12 – reporting of operating lease of terminals;
- Paragraph 13 – assessment of impairment of material assets held for sale;

- Paragraph 24 – assessment of court disputes.

**(e) Recently issued accounting standards**

When compiling these financial statements, the Company applied new or amended standards and interpretations that must be obligatorily applied to the accounting period beginning on 1 January 2016 (no new or amended standards and interpretations that apply to non-profit companies and organisations active in the public sector are indicated below, since those standards and interpretations do not apply to the Company).

**IFRS 14 Regulatory Deferral Accounts**

Effective for the annual reporting period beginning on or after 1 January 2016. Earlier application is permitted. IFRS 14 is a new standard, which permits an accounting entity which is a first-time adopter of the International Financial Reporting Standards to continue to account (with some limited changes) for “regulatory deferral account balances” in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

This standard has no effect on the financial statements, since the accounting entity records no regulatory deferral account balances.

**Amendment to IAS 1**

Effective for the annual reporting period beginning on or after 1 January 2016. Earlier application is permitted. This amendment to IAS 1 contains the below-stated five specific improvements of disclosure requirements of the standard concerned.

The provisions concerned with materiality in IAS 1 were amended to clarify the following:

- Information which is not material can draw attention away from useful information;
- Materiality applies to the whole financial statements;
- Materiality applies to each case where the IFRS standard requires disclosure of specific information.

The provisions concerned with the order of notes (paragraphs of the annex) (including accounting policies) were amended to:

- remove from IAS 1 the formulation which was interpreted as prescribing the order of notes;
- clarify that accounting entities are free to choose where in the financial statements accounting policies will be specified.

Upon initial application, the amendment had no significant effect on compiling and disclosing the accounting entity's financial statements.

**Amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations**

Effective for the annual reporting period beginning on or after 1 January 2016; to be applied prospectively. Earlier application is permitted.

This amendment requires that the relevant principles for business combinations are applied when accounting for the acquisition of an interest in a joint operation that is a business.

Principles concerning accounting for business combinations also apply in accounting for the acquisition of additional interest in a joint operation if the joint operator retains joint control. The acquired additional interest is valued at fair value. Any previously held interest in the joint operation would not be revaluated.

The Amendment had no significant effect on the financial statements.

**Amendment to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/joint venture**

The amendment is effective for the annual reporting period beginning on or after 1 January 2016 and is to be applied prospectively. Earlier application is permitted.

This Amendment clarifies that in case of transactions concerning an associate or joint venture, the extent of reporting profit or loss depends on whether or not the assets sold or contributed constitute a business, where:

- full profit or loss should be reported if the relevant transaction between an investor and its associate or

joint venture concerns assets that constitute a business (whether the business is housed in a subsidiary or not), while partial profit or loss should be reported if the transaction between an investor and its associate or joint venture concerns assets that do not constitute a business (even if the assets are housed in a subsidiary).

The Amendment had no significant effect on the financial statements.

#### **Amendment to IAS 16 and IAS 38: Acceptable methods of depreciation and amortisation**

Effective for the annual reporting period beginning on or after 1 January 2016; to be applied prospectively. Earlier application is permitted.

Ban on depreciation based on revenue concerning the items of property, plant and equipment.

The Amendment expressly states that revenue-based depreciation method cannot be applied to items of property, plant and equipment.

New restrictive test for intangible assets.

The Amendment introduces a rebuttable presumption that the revenue-based amortisation method is not appropriate for intangible assets. The presumption can be rebutted only if the revenue and consumption of economic benefits of an intangible asset are closely related or if the intangible asset is expressed as valuation of revenue.

The Amendment had no significant effect on the accounting entity's financial statements, since the accounting entity does not apply any revenue-based amortisation/depreciation methods.

#### **Amendment to IAS 27: Equity Method in Separate Financial Statements**

Effective for the annual reporting period beginning on or after 1 January 2016 and is to be applied retrospectively. Earlier application is permitted.

The Amendment to IAS 27 reinstates the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

The Amendment did not have any significant effect on the financial statements in its initial application, since the accounting entity intends to continue to value its investments in subsidiaries, associates and joint ventures at their acquisition price.

#### **(f) Standards, interpretations and amendments of issued standards adopted before 31 December 2016 and not effective to date.**

#### **IFRS 9 Financial instruments**

Effective for the annual reporting period beginning on or after 1 January 2018; to be applied retrospectively subject to certain exceptions. No adjustment of prior periods is required and is only permitted if information is available without the application of retrospective view. Earlier application is permitted.

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement, but an exception under IAS 39 continues to apply with the aim of securing fair value of interest rate exposure of an accounting entity in the portfolio of financial assets or financial liabilities and entities may choose to account for each hedge (security) under the requirements stipulated by IFRS 9, or continue to comply with the current requirements contained in IAS 39.

The Company expects that IFRS 9 will have no significant effect on the financial statements. Given the nature of the activities performed by the accounting entity and the kinds of financial instruments held by the entity, no change in classification and valuation of the entity's financial instruments under IFRS 9 is expected to occur.

#### **IFRS 15 Revenue from Contracts with Customers**

Effective for the annual reporting period beginning on or after 1 January 2018. Earlier application is permitted.



This new standard provides a framework which substitutes the former regulation of reporting revenues under the IFRS. Accounting entities are to introduce a five-step model to identify the exact time and amount of reporting revenues. The new model stipulates that revenue should be accounted for at the time when the accounting entity passes the control over goods or services to its customers and in an amount in which the accounting entity expects to be entitled. Subject to the fulfilment of certain criteria, revenue is reported as follows:

- over time, in a manner reflecting the performance by the accounting entity; or
- at the point in time when the control over goods or services passes to a customer.

Further, IFRS 15 stipulates principles applied by an accounting entity with the aim of providing the users of financial statements with useful qualitative and quantitative information on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

To date, the accounting entity has not performed any detailed analysis of the expected effect of this new standard.

### **3. Important accounting procedures**

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

#### **(a) Non-derivative financial assets**

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

##### ***i. Classification***

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

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

##### ***ii. Reporting***

Financial assets acquired and sold in the regular manner, including held-to-maturity assets, are reported as of the transaction date upon initial recognition.

Receivables are reported as of the date of their arising.

##### ***iii. Valuation***

Receivables and held-to-maturity financial assets are valued at amortised acquisition price minus any impairment loss.

Upon valuation at amortised acquisition price, all the differences between the acquisition price and value upon re-payment are reported in the statement of comprehensive income as long as the relevant asset or liability exists, by applying the effective interest rate.

##### ***iv. De-recognition***

A financial asset is de-recognised when the contractual right to cash flow 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, credits, loans and receivables are de-recognised on the date when they are sold by the Company.

##### ***v. Mutual set-off of financial assets and liabilities***

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

#### **(b) Non-derivative financial liabilities**

The Company has the following financial liabilities that do not constitute derivatives ("non-derivative financial liabilities"): trade payables and other payables, interest-bearing credits and loans, payables under finance lease. Upon initial recognition, these financial liabilities are reported as of the settlement date at fair value plus any and all respective directly associated transaction costs, except for financial liabilities at fair value reported in profit or loss. Subsequently, the financial liabilities are valued at amortised acquisition price by applying effective interest rate, except for financial liabilities at fair value reported in profit or loss.

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

residual value of a financial liability for a shorter period.

The Company classifies as short-term the part of long-term credits and loans with maturity under one year as of the date of the statement of financial position.

The Company de-recognises the financial liability as soon as the contractual obligations are performed, cancelled or expire.

**(c) Derivative financial instruments**

***Separable embedded derivatives***

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

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

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

**(d) Hedging derivatives and hedge accounting**

The Company uses hedging derivatives (interest rate swaps) aimed at limiting the risks associated with volatility of future cash flows following from interest rate changes during the hedged period. Hedging derivatives are reported in the balance sheet at fair value (see paragraph 4). Positive fair values of the derivatives are reported in assets in the item of "Short-term receivables from financial instruments". Negative fair values of the derivatives are reported in liabilities in the item of "Short-term liabilities from financial instruments".

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

- Identification of the hedged items;
- Identification of the hedging derivatives;
- Identification of the hedged risk;
- Calculation of hedge effectiveness;

The Company applies hedge accounting if:

- the hedge complies with the Company's strategy for risk management;
- 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 to the hedged risk are within the range from 80% to 125% of the changes in the fair values or cash flows of the hedged instruments corresponding to the hedged risk;
- in case of cash flow hedge, the forecasted transaction is highly probable and constitutes a risk that changes in cash flows will occur with effect on profit or loss.

The Company applies the model of hedge accounting to hedge against the risk of cash flow variability. From among the assets or liabilities or forecasted transactions accounted for, the effective part of hedge (i.e. the change in the fair value of the hedging instrument on account of the hedged risk) is accounted for in the other comprehensive income (part of equity capital in the item of "Capital and other contributions"). The ineffective part is included in the profit and loss account.

**(e) Registered capital**

***Ordinary shares***

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

**(f) Cash and cash equivalents**

Cash and cash equivalents include cash, money in banks and short-term highly liquid investments including fixed-term deposits with original maturity not exceeding three months from the acquisition date, exposed to an insignificant risk of change in the fair value and used by the Company to manage its short-term 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 summary.

**(g) Impairment**

***i. Non-financial assets and investments in subsidiaries, jointly controlled entities and associates***

As of the date of compilation of any financial statements, the book value of investments in subsidiaries, jointly controlled entities and associates and the Company's non-financial assets, except for deferred tax assets, is reviewed in order to identify any objective signs indicating the possibility of impairment of assets. If any such signs exist, the recoverable amount of the relevant asset is estimated. In case of goodwill and intangible assets which have indefinite useful life or are not available for use yet, the estimate of the recoverable amount is carried out once annually at least, as of the same date.

The recoverable amount of the asset or cash-generating unit is determined by the fair value minus cost of sale, or its value-in-use, if higher. To determine the value-in-use, the estimated future cash flows are discounted to their current value by applying a discount rate before tax, which reflects the current market valuation of the time value of money and the asset-specific risks.

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

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

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

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

***ii. Financial assets (including trade and other receivables)***

As of the date of compiling any financial statements, financial assets not reported at fair value are assessed by means of the statement of comprehensive income in order to identify any objective evidence of impairment. A financial asset is impaired where objective evidence indicates that, after the initial recognition of the asset, a harmful event occurred with adverse effect (which can be reliably estimated) on the estimated future cash flows of the relevant asset.

The following can be considered objective evidence of impairment of a financial asset: default or delay on the part of the debtor; restructuring the Company's receivables under terms and conditions that would not be considered by the Company under normal 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.

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

Impairment loss of a receivable reported at amortised acquisition price is cancelled if followed by an increase in the recoverable amount that can be objectively associated with an event occurring after the reporting of the impairment loss.

## **(h) Tangible fixed assets**

### ***i. Assets owned***

Items of tangible fixed assets are accounted for at acquisition price minus accumulated depreciation (see below) and impairment loss.

Acquisition price includes expenses that can be directly attributed to the acquisition of the relevant asset.

If an item of tangible fixed assets consists of parts with different economic useful life, the individual parts are accounted for as separate items (main components) of the tangible fixed assets.

### ***ii. Leased assets***

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

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

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

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

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

### ***iii. Subsequent costs***

Subsequent costs are activated only where it is probable that the Company will receive future economic benefits from a specific item of tangible fixed assets and that the relevant costs can be reliably measured. All other expenses, including costs of daily servicing of tangible fixed assets, are reported directly in the statement of comprehensive income.

### ***iv. Depreciation***

Depreciation is reported in the statement of comprehensive income on straight-line basis throughout the estimated useful life of the given item of tangible fixed assets. Leased assets are depreciated for the shorter of the lease term or useful life (if it is not reasonably certain that the Company will acquire the ownership title to the given asset by the end of the lease term). Properties (land) are not depreciated.

The estimated useful life for the individual categories of assets is as follows:

- Devices and special technical equipment: 4 to 14 years
- Furnishing: 4 to 14 years
- Energy and propulsion machinery and equipment: 5 to 20 years

- Means of transport: 6 years
- Other structures (buildings): 50 years
- Construction machinery and equipment: 4 to 14 years
- Buildings and halls: 30 to 60 years
- Utility networks: 30 to 60 years
- Construction modifications of outdoor surfaces: 15 to 30 years

Manner of depreciation, the useful life and residual values are reassessed at the end of each accounting period and adjusted, if necessary.

## (i) **Intangible assets**

### *i. Goodwill and intangible assets*

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

Upon initial recognition, goodwill is valued at acquisition price minus cumulative impairment loss and is tested for impairment each year.

Profits and losses in 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 of 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 depreciated and are reported at acquisition price minus impairment loss.

Intangible assets with definite useful life are depreciated throughout the useful life and are reported at acquisition price minus accumulated depreciation (see below) and impairment losses.

### *ii. Software and other intangible assets*

Software and other intangible assets acquired by the Company and having a final (definite) useful life are reported at acquisition price minus accumulated depreciation (see below) and impairment losses.

Intangible assets with indefinite useful life are not depreciated and are tested for impairment each year instead. Their useful life is reassessed at the end of each period in order to identify whether past events or existing circumstances continue to indicate the existence of indefinite useful life.

### *iii. Subsequent expenses*

Subsequent expenses for intangible assets are activated only if they increase the future economic benefits following from a specific asset to which they relate. All other expenses are accounted for in the statement of comprehensive income in the period in which they arose.

### *iv. Depreciation*

Depreciation of intangible assets, except for goodwill, trade marks and licences of lottery operators, are accounted for on straight-line basis in the statement of comprehensive income throughout the estimated useful life, beginning on the date when the given asset was put into use. The estimated useful lives for the current and comparative periods are as follows:

- Software: 2 to 7 years
- Royalties – others: 6 years
- Distribution network (contracts with providers): 20 years
- Trade marks: indefinite
- Licence of lottery operator: indefinite

Manner of depreciation, the useful life and residual values are reassessed at the end of each accounting period and adjusted, if necessary.

**(j) Assets earmarked for sale**

Assets with significant residual value to be sold with high probability within one year of the financial statements date are not part of fixed assets and are reported in a separate item within current assets at the lower of fair value minus costs associated with sale or book value. These assets are not depreciated.

**(k) Investments in subsidiaries, jointly controlled entities and associates**

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

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

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

Investments in subsidiaries, jointly controlled entities and associates are reported at acquisition price minus any impairment losses, as stipulated in accounting procedure 3 (g).

**(l) Inventories**

Inventories are valued at the lower of acquisition costs and net realisable value. Acquisition costs of inventories include the acquisition 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. Acquisition costs are decreased by business deductions, discounts and other similar items.

**(m) Adjustments (in Czech: *opravné položky*)**

Adjustments to fixed assets are determined based on information ascertained primarily in physical inventory and subsequent approval process. Adjustments receivables are created and cancelled in accordance with internal regulations.

**(n) Provisions (in Czech: *rezervy*)**

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

Provisions are reported at the expected amount of the performance. Long-term liabilities are reported as liabilities at the current value of the expected amount of their performance, where (if discounting has significant effect) the rate before tax reflecting the existing market assessment of time value of money and the obligation-specific risks is applied as the discount rate. Parts of accruals and the effects of changes in interest rates are reported in the statement of comprehensive income in financial revenues and expenses.

Changes in estimated provisions can arise primarily as a result of deviations from the originally estimated costs or as a result of a changed settlement date or changed extent of the given obligation. Generally, any changes in estimates are reported in the statement of comprehensive income as of the date of change in the given estimate. The amount of provisions is reviewed from time to time.

In view of the fact that the jackpot (winnings) arises cumulatively and is carried over to the subsequent accounting period, a provision for the jackpot is created.

**(o) Recognition of revenues and accounting for winnings**

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

Costs and revenues are accounted for on accrual basis in the period with which they are related in temporal and substantive terms. Revenues are decreased by any estimated discounts, value added tax and other sales-related taxes.

The period for lottery and betting games corresponds to a week from Monday to Sunday. Costs and revenues are reported subject to the fulfilment of the following requirements:

**Number lotteries**

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

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

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

*Number lotteries, winnings and lottery tax*

Claims for winnings are recognised in the individual periods based on winning rolls for lottery periods and are fully subject to accruals and deferrals as of the balance sheet date. Standing jackpots/superjackpots are subject to accruals and deferrals based on recognised revenues minus the currently paid winnings for the relevant period.

Lottery tax representing 23% (20% in 2015) of deposits minus winnings is reported based on the recognised revenues minus winnings in the given period.

Unpaid claims for winnings are reported as short-term trade payables and other short-term payables.

**Instant lotteries**

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

*Winnings in instant lotteries; lottery tax*

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

Lottery tax representing 23% (20% in 2015) of deposits minus winnings is reported based on the recognised revenues minus winnings in the given period.

**Fixed-odds betting**

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

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

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

*Winnings from fixed-odds betting; lottery tax*

Winnings awarded based on the claimed winnings and a table of winnings are fully subject to accruals and deferrals in all the events occurred.

Lottery tax, which is 23% (20% in 2015) of the revenues from betting minus winnings in the given period, is fully subject to accruals and deferrals as of the financial statements date.

**Mobile virtual network operator (MVNO)**

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

Revenues are reported on accrual basis with regard to the services currently received. In prepaid cards, the amount corresponding to unused voice and data services is accounted for as deferred revenues.



Deferred revenues are accounted for directly in revenues upon expiry of the prepaid period. Charge-free voice and data services are subject to accruals and deferrals on an even basis according to the period to which they belong.

#### **Topping-up credit in mobile phones**

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

#### **Sale of tickets**

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

#### **Other activities**

Revenues and costs related to the other activities are reported on accrual basis in the period of effecting the transaction and are always attributed to the period to which they relate in substantive and temporal terms.

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

### **(p) Financial revenues and costs**

Financial revenues include interest revenue from the invested finances (bank interest, interest on loans provided); proceeds from dividends; profits from the sale of realisable financial assets; foreign exchange profits; and profits from derivative instruments which are accounted for in the profit/loss. Financial expenses include interest expense for credits and loans and finance lease; bank fees; losses from the sale of realisable financial assets; foreign exchange losses; and losses from derivative instruments which are accounted for in profit/loss.

#### **i. Interest revenue**

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

#### **ii. Interest expense**

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

#### **iii. Profit and loss from financial area**

Profit and loss from financial area include primarily foreign exchange profit and loss, revenue from the holding of securities and bank fees.

### **(q) Income tax**

Income tax includes payable tax and deferred tax. Income tax is reported in the statement of comprehensive income. Payable tax includes tax estimate (tax liability or tax asset) calculated from taxable income or loss for the current period by applying tax rates applicable as of the balance sheet date, as well as any and all adjustments of payable tax concerning prior years.

Deferred tax is calculated by applying 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 reporting does not influence the accounting or taxable profit. Deferred tax is not reported upon initial reporting of goodwill.

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

Tax assets and liabilities from deferred tax are mutually compensated if there is a lawfully enforceable right to mutual compensation (set-off) of payable 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 payable tax assets and liabilities on a net basis; tax assets and liabilities can also be mutually compensated if realised simultaneously.

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

**(r) Transactions in foreign currencies**

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

Assets and liabilities denominated in a foreign currency are converted, as of the financial statements date, to the functional currency at the exchange rate valid on the given day.

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

**(s) Earnings per share (EPS)**

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

**(t) Affiliates**

An affiliate is a person or entity that is affiliate to the entity that is preparing its financial statements (the "reporting entity").

- A) A person or a close member of that person's family is affiliated with a 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 of a parent of the reporting entity.
- B) An entity is affiliated with a reporting entity if any of the following conditions applies:
- (I) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is affiliated with the others).
  - (II) One entity is an associate or joint venture of the other entity (or an associate or 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 associate 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 affiliated with the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also affiliated with the reporting entity.
  - (VI) The entity is controlled or jointly controlled by a person identified in (A).
  - (VII) A person identified in (I) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**4. Determination of fair value**

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

**Hierarchy of fair value**

The Company applies the following hierarchy when determining and reporting the fair value of financial instruments according to the 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 significant effect on the reported fair value and which can be identified, directly or indirectly;
- Level 3: procedures based on input data that have significant effect on the reported fair value and are not based on identifiable market data.

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

**(a) Intangible assets**

Fair value of intangible assets reported as a result of a merger by acquisition is based on the discounted cash flows that are expected to follow from the use and, if applicable, sale of the given asset.

**(b) Non-derivative financial assets**

Fair value of long-term trade receivables and other receivables is estimated as current value of future cash flows, discounted by market interest rate as of the balance sheet date.

**(c) Non-derivative financial liabilities**

Fair value determined for the purposes of presentation of long-term trade payables is calculated on the basis of the current value of future cash flows from principal amounts and interest discounted by market interest rate as of the balance sheet date. For finance lease, the market interest rate is determined according to similar lease contracts.

**(d) Derivative financial liabilities**

Fair value of interest swaps is determined based on revaluation performed by the counterparty (bank) as of the financial statements date (see paragraph 21).

*Revenues*  
*Cost of sale*

## 5. Revenues

	2016	2015
<b>Proceeds from lottery and betting activities</b>	<b>5 181 991</b>	<b>4 935 884</b>
<b>Proceeds from deposits</b>	<b>11 541 749</b>	<b>11 002 512</b>
Proceeds from number lotteries	8 626 008	8 500 914
Proceeds from instant lotteries	1 742 564	1 202 126
Proceeds from fixed-odds betting	1 173 177	1 299 472
<b>Winnings</b>	<b>-6 359 758</b>	<b>-6 066 628</b>
Winnings from number lotteries	-4 240 995	-4 165 107
Winnings from instant lotteries	-1 025 435	-698 595
Winnings from fixed-odds betting	-1 093 328	-1 202 926
<b>Proceeds from other activities</b>	<b>364 240</b>	<b>329 548</b>
<b>Net sales</b>	<b>5 546 231</b>	<b>5 265 432</b>

All the Company's sales take place in the Czech Republic.

In 2016, the revenues were generated primarily within the segment of number lotteries. The steepest increase in revenues relates to the segment of instant lotteries (lottery tickets).

Eurojackpot record-breaking winnings of CZK 2 466 million were paid out in 2015. The winning stake was made in the Czech Republic. Therefore, the Company was subsequently obliged to pay the winnings to the winner. Since Eurojackpot is a game with shared prize pool, all the lottery companies within the Eurojackpot association that accepted stakes in the given period participate in the winnings. The Company arranged the payment to the winner within the Company's licence, but the Company's costs constituted only a small portion of the winnings corresponding to the deposits/stakes accepted in the Czech Republic.

## 6. Cost of sale

	2016	2015
<b>Cost of proceeds from lottery and betting activities</b>	<b>-2 437 039</b>	<b>-2 097 724</b>
<b>Service fee</b>	<b>-1 072 945</b>	<b>-1 033 383</b>
Partner fees*	-593 241	-553 614
System provider fees	-479 704	-479 769
<b>Lottery tax</b>	<b>-1 272 507</b>	<b>-982 105</b>
<b>Other cost of proceeds from lottery and betting activities</b>	<b>-91 587</b>	<b>-82 236</b>
<b>Cost of proceeds from other activities</b>	<b>-271 926</b>	<b>-222 109</b>
<b>Service fee</b>	<b>-113 205</b>	<b>-102 634</b>
Partner fees*	-94 306	-84 354
System provider fees	-18 899	-18 280
<b>Other cost of proceeds from other activities</b>	<b>-158 721</b>	<b>-119 475</b>

<b>Cost of sale</b>	<b>-2 708 965</b>	<b>-2 319 833</b>
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\*Partner fees include fees to agents, such as kiosks, supermarkets, petrol stations and post offices of the Czech Post and represent commission for their services.

In 2016, levies on lotteries increased by 3% (from the original 20%), resulting in disproportionate increase in lottery tax paid.

## Operating costs

The cost of sale does not include direct wages and salaries and direct amortisation, which are reported in the position of Operating costs (see paragraph 7).

### 7. Operating costs

In the statement of comprehensive income, the Company presents the classification of operating costs. Classification by nature of operating costs is shown below:

	2016	2015
<b>Operating costs</b>	<b>-1 283 744</b>	<b>-1 343 876</b>
Personnel costs	-360 201	-331 581
Depreciation of tangible assets	-29 165	-26 361
Depreciation of intangible assets	-30 517	-26 564
Advertising, promotion and other related costs	-384 436	-461 161
Unclaimed VAT	-212 452	-208 820
Loss from sale of assets (costs minus revenues) 1)	--	-4 051
Other 2)	-266 973	-285 338

- 1) This year, the Company generated profits from sale of assets (minus related costs plus cancellation of adjustment for assets earmarked for sale in the amount of CZK 7 711 thousand) totalling CZK 15 607 thousand, reported in the position of Other operating revenues.
- 2) Other operating costs include, without limitation, costs of consultancy and legal services, real estate transfer tax, electricity and gas consumption, employee trainings and IT and software services.

Higher operating costs in 2015 were caused by the launch of a new SAZKAmobil postpaid product in April 2015 and also by the increase in the customer base and sales of the virtual mobile network operator.

	2016		2015	
<b>Personnel costs</b>	<b>Employees</b>	<b>Senior employees</b>	<b>Employees</b>	<b>Senior employees</b>
Wages and salaries	-178 071	-92 496	-155 709	-91 203
Remuneration for the members of the bodies of the Company	--	-5 958	--	-6 035
Social security and health insurance	-55 653	-18 107	-49 289	-19 267
Other social expenses	-9 916	--	-10 078	--
<b>Total</b>	<b>-243 640</b>	<b>-116 561</b>	<b>-215 076</b>	<b>-116 505</b>
<b>Average number of employees</b>	<b>284</b>	<b>48</b>	<b>272</b>	<b>52</b>

No loans or credits were provided to the members of the Board of Directors, members of the Supervisory Board and other members of the Company management in 2016 or 2015. Company vehicles are available to the Company's senior employees according to its internal rules. In 2016, the Company paid remunerations to the members of the bodies of the Company in the amount of CZK 5 958 thousand (2015 – CZK 6 035 thousand). No loans or credits were provided to the members of the bodies of the Company in 2016 or 2015.

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

## 8. Remuneration of statutory auditors

This information will be included in the Annex to the consolidated financial statements compiled for the part of the KKCG AG Group, in which the Company is included.

## 9. Financial revenues and costs

	2016	2015
<b>Interest revenue</b>	<b>1 127</b>	<b>1 694</b>
Bank interest	1 127	1 694
<b>Interest expense</b>	<b>-346 381</b>	<b>-405 119</b>
Interest on bank loans	-222 210	-226 346
Other interest	-124 171	-178 773
<b>Other profit (+) / loss (-) from financial area</b>	<b>7 670</b>	<b>33 162</b>
Loss (-) from foreign exchange operations	-1 007	-2 154
Profit from sale of securities 1)	6 395	--
Revenue from the holding of securities	--	34 335
Bank fees	--	-300
Other financial revenues 3)	2 282	89 288
Other financial expenses 4)	--	-88 007
<b>Profit/loss from financial operations</b>	<b>-337 584</b>	<b>-370 263</b>

- 1) Profit from sale of securities is related to the sale of Sportlease a.s., a subsidiary company.
- 2) In 2015, revenues from the holding of securities included the dividend paid by GTECH Czech Republic LLC. In 2016, no revenues from dividends were generated.
- 3) Other financial revenues in 2015 included, without limitation, the liquidation balance of KPS Media in the amount of CZK 84 867 thousand.
- 4) Other financial expenses in 2015 included, without limitation, the costs of liquidation of KPS Media.

## 10. Income tax

	2016	2015
<b>Income tax</b>	<b>-235 415</b>	<b>-237 313</b>
Payable income tax	-203 829	-184 926
Deferred income tax	-31 586	-52 387

Deferred tax is calculated by applying the applicable tax rates that are expected to be applicable at the time of the realisation of the asset or settlement of the liability. According to the Czech legislation, the corporate income tax rate corresponds to 19% for the financial years 2015, 2016 and 2017.

Payable income tax includes the estimated tax for the 2016 tax period in the amount of CZK 202 391 thousand (2015 – CZK 184 712 thousand) and more accurate specification of the estimated tax for the 2015 tax period in the amount of CZK 1 438 thousand (2015 contains a more accurate specification of the estimated tax for the 2014 tax period in the amount of CZK 214 thousand).

In the statement of financial position of 2016, the estimated income tax in the amount of CZK 202 391 thousand (2015 – CZK 184 712 thousand) was reduced by the advance payments for income tax paid in the amount of CZK 128 818 thousand (2015 – CZK 101 289 thousand) and the resulting liability in the amount CZK 73 573 thousand

was reported in the item of “Liabilities on account of a payable income tax” (2015 – CZK 83 423 thousand reported in the item of “Liabilities on account of a payable income tax”).



## Intangible assets and goodwill

### Approval of an effective tax rate

### Approval of an effective tax rate

		2016		2015
<b>Profit before tax</b>	<b>1 235 097</b>			<b>1 231 793</b>
Income tax according to the applicable domestic tax rate	19.00%	-234 668	19.00%	-234 041
Other items without effect in terms of tax	0.06%	-747	0.27%	-3 272
Income tax reported in the statement of comprehensive income	<b>19.06%</b>	<b>-235 415</b>	<b>19.27%</b>	<b>-237 313</b>

### 11. Intangible assets and goodwill

			Other intangible assets		
2016	Royalties	Software:		Goodwill	Total
<b>Acquisition price</b>					
<b>Balance as of 1 January 2016</b>	<b>1 991 765</b>	<b>179 866</b>	<b>97 379</b>	<b>9 636 122</b>	<b>11 905 132</b>
Accruals	--	15 886	46 414	--	62 300
Decreases	--	--	--	--	--
Reposting	--	4 500	-4 500	--	--
<b>Balance as of 31 December 2016</b>	<b>1 991 765</b>	<b>200 252</b>	<b>139 293</b>	<b>9 636 122</b>	<b>11 967 432</b>
<b>Accumulated depreciation</b>					
<b>Balance as of 1 January 2016</b>	<b>-4 294</b>	<b>-119 689</b>	<b>-8 673</b>	<b>--</b>	<b>-132 656</b>
Depreciation	-2 402	-25 224	-2 891	--	-30 517
Accumulated depreciation of decreases	--	--	--	--	--
<b>Balance as of 31 December 2016</b>	<b>-6 696</b>	<b>-144 913</b>	<b>-11 564</b>	<b>--</b>	<b>-163 173</b>
<b>Residual value as of 1 January 2016</b>	<b>1 987 471</b>	<b>60 177</b>	<b>88 706</b>	<b>9 636 122</b>	<b>11 772 476</b>
<b>Residual value as of 31 December 2016</b>	<b>1 985 069</b>	<b>55 339</b>	<b>127 729</b>	<b>9 636 122</b>	<b>11 804 259</b>

			Other intangible assets		
2015	Royalties	Software:		Goodwill	Total
<b>Acquisition price</b>					
<b>Balance as of 1 January 2015</b>	<b>1 994 861</b>	<b>158 791</b>	<b>59 159</b>	<b>9 636 122</b>	<b>11 848 933</b>
Accruals	--	26 567	38 760	--	65 327
Decreases	-3 096	-6 032	--	--	-9 128
Reposting	--	540	-540	--	--
<b>Balance as of 31 December 2015</b>	<b>1 991 765</b>	<b>179 866</b>	<b>97 379</b>	<b>9 636 122</b>	<b>11 905 132</b>
<b>Accumulated depreciation</b>					
<b>Balance as of 1 January 2015</b>	<b>-2 309</b>	<b>-102 801</b>	<b>-5 782</b>	<b>--</b>	<b>-110 892</b>
Depreciation	-2 402	-21 271	-2 891	--	-26 564
Accumulated depreciation of decreases	417	4 383	--	--	4 800
<b>Balance as of 31 December 2015</b>	<b>-4 294</b>	<b>-119 689</b>	<b>-8 673</b>	<b>--</b>	<b>-132 656</b>
<b>Residual value as of 1 January 2015</b>	<b>1 992 552</b>	<b>55 990</b>	<b>53 377</b>	<b>9 636 122</b>	<b>11 738 041</b>

<b>January 2015</b>					
<b>Residual value as of 31</b>					
<b>December 2015</b>	<b>1 987 471</b>	<b>60 177</b>	<b>88 706</b>	<b>9 636 122</b>	<b>11 772 476</b>

SAZKA a.s.

Financial statements for year ending on 31 December 2016 (in CZK thousand)

Long-term intangible fixed assets include mostly royalties, software and goodwill. Goodwill in the amount of CZK 9 636 122 thousand resulted from a merger by acquisition on 1 January 2013.

The most significant accruals of intangible fixed assets in 2016 consisted in acquisition of software tool for the contact point in the amount of CZK 3 930 thousand, software for sports betting in the amount of CZK 5 806 thousand, investment in expanding the tool for financial reporting in the amount of CZK 1 937 thousand and, in the phase of investment under construction, licence and software coverage of the Digital Entertainment Hub in the amount of CZK 39 213 thousand.

As of 31 December 2016, selected trade marks were encumbered with the right of pledge. The value of the trade marks pledged as of 31 December 2016 corresponds to CZK 1 871 939 thousand (see paragraph 21).

Depreciation of intangible assets is included under the operating costs in the statement of comprehensive income.

#### **Long-term intangible fixed assets with indefinite useful life, goodwill and impairment testing**

In accordance with the IAS 36 standard, the Company performed in 2016 impairment testing of goodwill and long-term intangible fixed assets with indefinite useful life, i.e. trade marks and the licence of lottery operator. Impairment is determined by means of estimating the recoverable amount of the cash-generating unit to which goodwill and other non-depreciable assets are related.

The Company estimates recoverable value by applying:

- Method of estimated future discounted cash flow (value-in-use). The value-in-use is derived from the forecasts of future cash flow (the forecasts are prepared and updated by the management). Discount rates applied to the expected cash flow are calculated on the basis of weighted average cost of capital (WACC) of each cash-generating unit. The cash flow forecast is always processed on the basis of specific expected operating results and a 5-year business plan that shall resume in the form of perpetuity, which serves as the basis for calculating so-called terminal value;
- Market multiples method (fair value decreased by cost of sale). This method is based on comparing the company being valuated with similar companies that are publicly traded in a selected period of time; the market values serve as a basis for estimating the value of the company being valuated (through so-called market multiples). Enterprise value is expressed as EBITDA multiple. The Company considers the costs of sale to be immaterial.

For the purpose of impairment testing, the following assumptions were applied: regular market player, market multiple 9.75 x EV/EBITDA.

Impairment testing is performed annually, always as of 31 December of the respective year. The resulting realisable value calculated on the basis of the value-in-use and fair value minus cost of sale exceeded the book value of the total assets minus operating short-term liabilities, which led to the conclusion that the impairment of the relevant assets tested need not be accounted for as of 31 December 2016. The Company management also performed a sensitive analysis of factors having impact on the recoverable value and the expected movements of the relevant factors do not indicate any impairment of book values of goodwill and intangible assets with indefinite useful life.

With respect to trade marks, the relief-from-royalty method was applied as the auxiliary impairment testing method. The forecast was again drawn up according to the 5-year business plan for the period until the end of 2021 that shall resume in the form of perpetuity for the purpose of calculating so-called terminal value. Net licence fees after tax were discounted on the basis of weighted average cost of capital (WACC).

The resulting discounted value exceeded the book value of trade marks, which supported the conclusion that the impairment of trade marks need not be accounted for as of 31 December 2016. The Company management also performed sensitive analysis of factors having effect on the fair value of trade marks, and the expected movements of the relevant factors do not indicate any impairment of the book values of trade marks.

## Fixed assets

### 12. Tangible fixed assets

2016	Property – owned by the Company	Buildings and structures – owned by the Company	Machines, devices and equipment – owned by the Company	Machines, devices and equipment – leased	Other tangible assets	Tangible assets at acquisition	Total
<b>Acquisition price</b>							
<b>Balance as of 1 January 2016</b>	<b>65 475</b>	<b>509 222</b>	<b>127 786</b>	<b>5 037</b>	<b>33 399</b>	<b>1 406</b>	<b>742 325</b>
Accruals	--	8 894	19 288	--	--	20 062	48 244
Decreases	--	--	-4 780	--	--	--	-4 780
Reposting	--	47	1 153	--	--	-1 200	--
<b>Balance as of 31 December 2016</b>	<b>65 475</b>	<b>518 163</b>	<b>143 447</b>	<b>5 037</b>	<b>33 399</b>	<b>20 268</b>	<b>785 789</b>
<b>Accumulated depreciation</b>							
<b>Balance as of 1 January 2016</b>	<b>--</b>	<b>-36 558</b>	<b>-50 024</b>	<b>-5 037</b>	<b>--</b>	<b>--</b>	<b>-91 619</b>
Depreciation	--	-9 205	-19 960	--	--	--	-29 165
Accumulated depreciation of decreases	--	--	4 053	--	--	--	4 053
Reposting	--	--	--	--	--	--	--
<b>Balance as of 31 December 2016</b>	<b>--</b>	<b>-45 763</b>	<b>-65 931</b>	<b>-5 037</b>	<b>--</b>	<b>--</b>	<b>-116 731</b>
<b>Residual value as of 1 January 2016</b>	<b>65 475</b>	<b>472 664</b>	<b>77 762</b>	<b>--</b>	<b>33 399</b>	<b>1 406</b>	<b>650 706</b>
<b>Residual value as of 31 December 2016</b>	<b>65 475</b>	<b>472 400</b>	<b>77 516</b>	<b>--</b>	<b>33 399</b>	<b>20 268</b>	<b>669 058</b>
2015	Property – owned by the Company	Buildings and structures – owned by the Company	Machines, devices and equipment – owned by the Company	Machines, devices and equipment – leased	Other tangible assets	Tangible assets at acquisition	Total
<b>Acquisition price</b>							
<b>Balance as of 1 January 2015</b>	<b>101 963</b>	<b>515 371</b>	<b>77 189</b>	<b>5 037</b>	<b>33 399</b>	<b>14 999</b>	<b>747 958</b>
Accruals	--	11 943	48 983	--	--	1 406	62 332
Decreases	--	--	-1 325	--	--	-3 522	-4 847
Reposting	-36 488	-18 092	2 939	--	--	-11 477	-63 118
<b>Balance as of 31 December 2015</b>	<b>65 475</b>	<b>509 222</b>	<b>127 786</b>	<b>5 037</b>	<b>33 399</b>	<b>1 406</b>	<b>742 325</b>
<b>Accumulated depreciation</b>							
<b>Balance as of 1 January 2015</b>	<b>--</b>	<b>-29 163</b>	<b>-33 932</b>	<b>-5 037</b>	<b>--</b>	<b>--</b>	<b>-68 132</b>
Depreciation	--	-9 612	-16 749	--	--	--	-26 361
Accumulated depreciation	--	--	392	--	--	--	392

of decreases

Reposting	--	2 217	265	--	--	--	2 482
<b>Balance as of 31 December 2015</b>	--	<b>-36 558</b>	<b>-50 024</b>	<b>-5 037</b>	--	--	<b>-91 619</b>
<b>Residual value as of 1 January 2015</b>	<b>101 963</b>	<b>486 208</b>	<b>43 257</b>	--	<b>33 399</b>	<b>14 999</b>	<b>679 826</b>
<b>Residual value as of 31 December 2015</b>	<b>65 475</b>	<b>472 664</b>	<b>77 762</b>	--	<b>33 399</b>	<b>1 406</b>	<b>650 706</b>

The most significant accruals of tangible fixed assets in 2016 consisted in construction modifications of the SAZKA administrative building in the amount of CZK 8 760 thousand and investments in strengthening central data storage sites in the amount of CZK 8 467 thousand. Considerable sums were also invested in the furnishings in offices and leisure room, and refurbishing of the office IT, with sums of CZK 2 770 thousand and CZK 2 524 thousand respectively.

As of 31 December 2016, SAZKA's headquarters building located at the address of its registered office at K Žižkovu 851, Prague 9 with adjoining land were encumbered with the right of mortgage (see paragraph 21). The residual value of this building including the adjoining land corresponds to CZK 537 875 thousand as of 31 December 2016 (2015 – CZK 538 141 thousand).

Leased machines, devices and equipment include mainly lottery equipment, which the Company acquires by means of finance lease.

As of 31 December 2016, the Company records no material tangible and intangible fixed assets not reported in the statement of financial position.

## OPERATING LEASE

### Operating lease as of 31 December 2016

Subject of the lease	Type of agreement	Termination date	Future rent payments from		over 5 years
			up to 1 year	1 to 5 years	
Terminals (1)	fixed term until	31 December 2022	n/a*	n/a*	n/a*
Cars (2)	fixed term until	23 January 2021	14 506	16 258	--
Reprographic equipment	fixed term until	30 June 2019	656	1 528	--

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

(1) The total expenses related to this lease in 2016 amounted to CZK 478 825 thousand (2015 – CZK 478 912 thousand).

(2) Car lease costs in 2016 amounted to CZK 14 025 thousand (2015 – CZK 13 487 thousand).

### Operating lease as of 31 December 2015

Subject of the lease	Type of agreement	Termination date	Future rent payments from		over 5 years
			up to 1 year	1 to 5 years	
Terminals (1)	fixed term until	31 December 2022	n/a*	n/a*	n/a*
Cars (2)	fixed term until	31 March 2019	13 396	38 444	--
Reprographic equipment	fixed term until	30 June 2016	296	--	--

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

### 13. Assets earmarked for sale

	31 December 2016	31 December 2015
<b>Assets earmarked for sale under IFRS 5</b>	--	<b>53 190</b>
Properties (land)	--	36 488
Buildings	--	16 437
Furniture	--	265

As of 31 December 2016, the Company records no assets earmarked for sale.

As of 31 December 2015, the Company recorded assets earmarked for sale in the amount of CZK 53 190 thousand. These included property, buildings, auxiliary structures, transformer station building and also furniture. The assets were sold in January 2016. The selling price was CZK 67 900 thousand. Application for the registration in the Land Registry was submitted on 15 January 2016. The proceeds from the sale of assets were CZK 14 710 thousand and are reported in the item of "Other operating revenues".

### 14. Investments in enterprises with decisive influence

		Book value as of 31 December 2016	Book value as of 31 December 2015
<b>Investments in enterprises with decisive influence</b>	<b>Property interest (%)</b>	--	18 600
SPORTLEASE a.s. <sup>1)</sup>	100%	--	18 600

Investments in enterprises with decisive influence	Property interest (%)	Total profits for 2016	Equity as of 31 December 2016	Total profits for 2015	Equity as of 31 December 2015
SPORTLEASE a.s.	100%	--	--	832	19 823

The above information comes from audited financial statements.

- 1) On 22 February 2016, the Board of Directors of SAZKA a.s. approved the sale of the subsidiary SPORTLEASE a.s. to SAZKA Czech a.s. The company was subsequently sold. The selling price was CZK 24 995 thousand.

15. Other long-term financial investments

		31 December 2016	31 December 2015
Other long-term financial investments	Property interest (%)	42 199	42 199
GTECH Czech Republic LLC. <sup>1)</sup>	63.00%	42 199	42 199
SALEZA, a.s. <sup>2)</sup>	98.10%	--	--

- 1) The Company has property interest in GTECH Czech Republic LLC., representing a 63% share. The property interest in GTECH Czech Republic LLC. is classified as Other long-term financial investment and was valued at CZK 42 199 thousand as of the acquisition date. The current financial information on the Company as of 31 December 2016 is unavailable and, therefore, the investment is captured at the historical value minus any potential impairment.

The reason for classifying this property interest under Other long-term financial investments is that despite SAZKA a.s. is the majority owner of GTECH Czech Republic LLC., it does not, in accordance with the Memorandum of Association, control the possibility of distribution of dividends from the position of the majority owner and, at the same time, the transferability of its property interest is limited. Also, the management control of this entity is delegated to GTECH Corporation.

In relation to the property interest in GTECH Czech Republic LLC., the remaining share in this company, i.e. 37%, should be acquired on 31 December 2022 under a concluded agreement.

The obligation to acquire the remaining 37% share in GTECH Czech Republic LLC., which follows from the concluded agreement and was discounted at the current value in the amount of CZK 50 046 thousand (2015 – 49 200 thousand), is reported as a long-term liability from financial instruments. The nominal value of this financial obligation is CZK 68 502 thousand (USD 3 million). The fair value of this investment cannot be currently calculated, as the necessary financial information is not available as of 31 December 2016.

- 2) As of 31 December 2016, the Company owned a 98.10% share in SALEZA, a.s., against whom insolvency proceedings have been initiated based on the order issued by the Municipal Court in Prague of 17 January 2011. The effects of the insolvency proceedings arose on 17 January 2011. By resolution of the Municipal Court in Prague of 29 March 2011, a decision on insolvency of the debtor was adopted. The effects of the decision arose on 29 March 2011. By resolution of the Municipal Court in Prague of 3 May 2011, the debtor's right to dispose of the assets of the insolvency estate was restricted. The effects of the decision arose on 3 May 2011. By resolution of the Municipal Court in Prague of 27 May 2011, bankruptcy was adjudicated against the debtor's assets. The effects of the decision arose on 30 May 2011.

As of 31 December 2016, the current financial statements of the Company are unavailable.

16. Deferred tax assets and liabilities

The following deferred tax assets and liabilities, and their year-by-year changes, were reported as of 31 December 2016, 31 December 2015 and 31 December 2014, respectively:

	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016
	Assets		Liabilities		Net amount		
Deferred tax asset (+) / liability (-)							
Fixed assets	--	--	-245 874	-221 053	-245 874	-221 053	
Short-term provisions (in Czech: rezervy)			-311 306	-260 577	-311 306	-260 577	
Revaluation of derivatives	57 715	38 750	--	--	57 715	38 750	
Other temporary differences	6 947	182	--	--	6 947	182	
Calculated deferred tax assets and liabilities	2 056	1 878	-1 286	-1 286	770	592	
Setting off deferred tax assets and liabilities	66 718	40 810	-312 592	-261 863	-245 874	-221 053	
	-66 718	-40 810	66 718	40 810	--	--	

	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016
	Deferred tax liability		Accounted for comprehensive income in the		Deferred tax liability		
Deferred tax asset (+) / liability (-)							
Fixed assets	-245 874	-24 821	-50 729	-55 482	-165 571	-207 047	
Short-term provisions (in Czech: rezervy)	-311 306	-50 729	-53 531	-53 531	-207 047	-207 047	
Revaluation of hedging derivatives	57 715	18 965	18 965	1 484	37 266	37 266	
Other temporary differences	6 947	6 765	6 765	-3 094	3 277	3 277	
	770	178	178	-341	933	933	

*Trade receivables and other assets*  
*Short-term receivables from financial instruments*

**17. Trade receivables and other assets**

Long-term receivables include advances and security deposits provided, where the maturity period exceeds twelve months following after the balance sheet date.

	31 December 2016	31 December 2015
<b>Long-term trade receivables and other fixed assets</b>	<b>7 733</b>	<b>8 761</b>
Long-term advances and security deposits provided	7 733	8 761

Long-term advances and security deposits provided equal CZK 7 733 thousand (2015 - CZK 8 761 thousand). As of 31 December 2016, this amount comprises two receivables from Vodafone on account of a security deposit provided in respect of remittance of revenues from GSM top-up and also a deposit provided for the operation of Eurojackpot.

	31 December 2016	31 December 2015
<b>Short-term trade receivables and other short-term assets</b>	<b>310 681</b>	<b>339 507</b>
Short-term trade receivables	243 749	207 117
Short-term advances and security deposits	2 976	4 780
Receivables from employees	529	398
Other short-term receivables	3 102	3 347
VAT receivable	--	52 026
Short-term prepaid expenses	60 325	71 839

The increase in short-term trade receivables as of 31 December 2016, compared to 31 December 2015, was caused by sales attained in the period from 26 December to 31 December 2016, which were not collected until 2017.

In 2015, the VAT refund receivable arose in recalculation of the annual advance coefficient for the final settlement.

Prepaid expenses represent in particular non-collected winnings from instant lotteries in 2016 in the amount of CZK 41 687 thousand (2015 - CZK 44 275 thousand), as well as invoices received that have a substantive link with 2017 performances, in the amount of CZK 14 885 thousand (2015 - invoices received that have a substantive link with 2016 performances CZK 18 918 thousand).

**18. Short-term receivables from financial instruments**

A receivable in the amount of CZK 300 324 thousand is reported in the item of "Short-term financial assets", on account of the cash pooling agreement executed with KKCG Structured Finance AG, Swiss Confederation, on 31 May 2016 (as of 31 December 2015 - a receivable in the amount of CZK 1 200 152 thousand on account of outstanding securities - held-to-maturity promissory notes based on the investment agreement executed with KKCG STRUCTURED FINANCE LIMITED, Cyprus). These receivables are considered as cash equivalents for the purposes of the cash flow summary.



*Cash and cash equivalents*  
*Equity*

**19. Cash and cash equivalents**

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Cash and cash equivalents</b>	<b>770 869</b>	<b>623 696</b>
Cash	3 683	2 635
Bank accounts	767 186	621 061

The Company has tied cash in the amount of CZK 65 259 thousand (2015 - CZK 65 259 thousand) in accounts with ČSOB and Česká spořitelna, a.s., related to gaming deposits.

As of 31 December 2016, the Company has pledged money in bank accounts in the amount of CZK 767 186 thousand (2015 - CZK 535 266 thousand).

**Cash and cash equivalent reconciliation to cash flow statement**

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Cash and cash equivalent reported in the cash flow statement</b>	<b>1 071 193</b>	<b>1 853 848</b>
Cash and cash equivalents	770 869	623 696
Receivable from KKCG Structured Finance AG	300 324	1 200 152

**20. Equity**

**Registered capital and share premium**

The Company's registered capital consists of 4 500 ordinary registered shares issued as share certificates in the nominal value of CZK 100 thousand. No changes were made in the Company's registered capital in 2016 or 2015.

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

**Other capital funds**

Based on loan contracts executed and the ensuing hedge, the following was recorded within other capital contributions based on confirmation of 31 December 2016: adjustment to derivatives of CZK - 36 564 thousand (2015 - CZK -957 thousand) and a deferred tax asset of CZK 6 947 thousand (2015 - a deferred tax asset of CZK 182 thousand).

**Retained earnings/accumulated losses from previous years and current period**

The Company paid the dividend of CZK 1 200 000 thousand (2015 - CZK 0 thousand) to Sazka Czech a.s., its parent company, from the retained earnings.

As of the date of the financial statements, no decision on distribution of profits for 2016 has been adopted.

## Loans

### Earnings per share (EPS)

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

	2016	2015
Net profit pertaining to holders of ordinary shares	999 682	994 480
<b>Net profit pertaining to holders of ordinary shares</b>	<b>999 682</b>	<b>994 480</b>

#### Weighted average of the number of ordinary shares

	Number of items	Weight	Weighted average	Weighted average
Ordinary shares issued as of 1 January	4 500	1	4 500	4 500
Newly issued shares	--			
Ordinary shares issued as of 31 December	4 500	1	4 500	4 500
Weighted average of the number of ordinary shares as of 31 December	4 500	1	4 500	4 500
<b>Basic EPS p.a. (in CZK)</b>			<b>222 152</b>	<b>220 996</b>
<b>Diluted EPS p.a. (in CZK)</b>			<b>222 152</b>	<b>220 996</b>

## 21. Loans

	31 December 2016	31 December 2015
<b>Bank credits and other loans - long-term part</b>	<b>5 290 094</b>	<b>5 416 747</b>
Long-term bank credits and loans accepted - principal	5 290 094	5 416 747
	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Bank credits and other loans - short-term part</b>	<b>2 324 587</b>	<b>2 811 702</b>
Short-term bank credits and loans accepted - principal	770 904	636 181
Short-term bank credits and loans accepted - interest	37 383	38 226
Short-term intra-group credits and loans - principal	1 399 949	2 012 782
Short-term intra-group credits and loans - interest	116 351	124 513

### Bank credits and loans

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

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

On 22 October 2014, SAZKA a.s. entered into a CZK 7 500 000 000 SYNDICATED LOAN AGREEMENT with Komerční

banka, a.s., Česká spořitelna, a.s., Československá obchodní banka, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s. Based on said agreement, on 30 October 2014, the Company utilised tranches Ia, in the amount of CZK 3 250 000 thousand, and IIa, in the amount of CZK 3 250 000 thousand. On 14 April 2015, the Company utilised tranches Ib, in the amount of CZK 128 000 thousand, and IIb, in the amount of CZK 128 000 thousand.

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

The aforesaid loans comprise a pledge of trade marks (see paragraph 11), mortgage of the Company's building with adjoining land (see paragraph 12), and a pledge of the Company's shares, receivables from insurance indemnity and bank accounts (see paragraph 19).

Under the terms of the said loan agreements, the Company must comply with certain financial indicators, specifically debt coverage, debt service coverage and the ratio of equity capital to foreign capital. As of 31 December 2016, the Company met these financial indicators.

#### *Security (hedge)*

As stated above, on 22 October 2014, SAZKA a.s. entered into a loan agreement based on which it may utilise a loan of up to a total of CZK 7 500 000 thousand. The loan documents stipulate the obligation to secure this part of the loan by entering into interest rate swap(s) of at least CZK 2 812 000 thousand ("IRS"). The Company's Board of Directors then approved a limit of CZK 5 000 000 thousand for this type of transactions. SAZKA a.s. then entered into interest rate swaps with selected bank entities in the amount of said limit. When entering into the IRS, account was taken not only of the loan documents, but also of the fact that the interest rates were at their historical minima at the time when the Company made the transactions.

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

As of the balance sheet date, the Company had the following hedging derivatives open to secure CZK cash flows following from interest payments:

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

As of 31 December 2015, the Company reported the following loans:

Type of loan	Interest rate	Interest expense in 2015	Due date	Balance as of 31 December 2015	Due within 1 year	Due from 1 to 5 years
Bank loan Ia - KB, ČS, ČSOB, Unicredit - principal	2.65% + 3M PRIBOR	99 265	22 October 2019	2 600 000	650 000	1 950 000
<b>Balance as of 31 December 2015, reflecting transaction costs and interest</b>		<b>99 265</b>		<b>2 572 152</b>	<b>636 181</b>	<b>1 935 971</b>
Bank loan IIa - KB, ČS, ČSOB, Unicredit - principal	2.85% + 3M PRIBOR	120 143	22 October 2020	3 250 000	--	3 250 000
<b>Balance as of 31 December 2015, reflecting transaction costs and interest</b>		<b>120 143</b>		<b>3 226 618</b>	--	<b>3 226 618</b>
Bank loan Ib - KB, ČS, ČSOB, Unicredit - principal	2.65% + 3M PRIBOR	3 375	22 October 2019	128 000	--	128 000
<b>Balance as of 31 December 2015, reflecting transaction costs and interest</b>		<b>3 375</b>		<b>127 079</b>	--	<b>127 079</b>
Bank loan IIb - KB, ČS, ČSOB, Unicredit - principal	2.85% + 3M PRIBOR	3 561	22 October 2020	128 000	--	128 000
<b>Balance as of 31 December 2015, reflecting transaction costs and interest</b>		<b>3 561</b>		<b>127 079</b>	--	<b>127 079</b>

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

The aforesaid loans comprise a pledge of trade marks (see paragraph 11), mortgage of the Company's building with adjoining land (see paragraph 12), and a pledge of the Company's shares, receivables from insurance indemnity and bank accounts (see paragraph 19).

Under the terms of the said loan agreements, the Company must comply with certain financial indicators, specifically debt coverage, debt service coverage and the ratio of equity capital to foreign capital. As of 31 December 2015, the Company met these financial indicators.

#### *Security (hedge)*

As stated above, on 22 October 2014, SAZKA a.s. entered into a loan agreement based on which it may utilise a loan of up to a total of CZK 7 500 000 thousand. The loan documents stipulate the obligation to secure this part of the loan by entering into interest rate swap(s) of at least CZK 2 812 000 thousand ("IRS"). The Company's Board of Directors then approved a limit of CZK 5 000 000 thousand for this type of transactions. SAZKA a.s. then entered into interest rate swaps with selected bank entities in the amount of said limit. When entering into the IRS, account was taken not only of the loan documents, but also of the fact that the interest rates were at their historical minima at the time when the Company made the transactions.

A variable interest rate, specifically 3M PRIBOR, was set for the calculation of interest on the loan. Cash flows in CZK following from payment of interest are therefore a hedged item. IRS are hedging derivatives consisting in the replacement of a variable interest rate (paid by banks) by a fixed interest rate (paid by SAZKA a.s.). The amount of

fixed rates slightly varies for individual counterparties; nonetheless, they all correspond to the current market offer. All IRS were entered into for the same term as the loan contract and the settlement dates correspond to the due dates of loan instalments.

As of the balance sheet date, the Company had the following hedging derivatives open to secure CZK cash flows following from interest payments:

IRS	Bank entity	Due date	Nominal value (CZK thousand)	Fair value (CZK thousand)
IRS_14961	Česká spořitelna, a.s.	22 October 2020	500 000	918
IRS_14832	Česká spořitelna, a.s.	22 October 2020	550 000	-1 829
65088434	Československá obchodní banka, a.s.	22 October 2020	550 000	-1 751
6444120	UniCredit Bank Czech Republic and Slovakia, a.s.	22 October 2020	700 000	-1 621
1553000104	Komerční banka, a.s.	22 October 2019	800 000	-610
1553001134	Komerční banka, a.s.	22 October 2020	500 000	3 936
<b>Total</b>				<b>-957</b>

The fair value of these hedging derivatives securing the risks of variability of cash flows is reflected, in line with the accounting procedures set out in paragraph 3d, in the comprehensive income (part of the equity capital in the item of "Capital and other contributions").

#### Loans accepted from affiliates

As of 31 December 2016, the Company reported the following loans accepted from affiliates:

31 December 2016	Due date	Interest rate	Balance of principal as of 31 December 2016	Principal due within 1 year	Principal due from 1 year to 5 years	Principal due above 5 years
KKCG AG (75%)	19 October 2019	8.5%	1 049 962	--	1 049 962	--
EMMA GAMMA LIMITED (25%)	19 October 2019	8.5%	349 987	--	349 987	--
<b>Total</b>			<b>1 399 949</b>	<b>--</b>	<b>1 399 949</b>	<b>--</b>

## Trade payables and other payables

On 15 January 2016, an extraordinary instalment in the amount of CZK 612 833 thousand was effected, resulting in partial repayment of the principal of the credit received from KKCG PLC. At the same time, the outstanding interest from the previous years, relating to the relevant loan, was repaid.

The original creditor, KKCG PLC, changed its legal form and subsequently the registered office was transferred to the Swiss Confederation, whereby a new entity - KKCG AG - was created and became the creditor *vis-à-vis* SAZKA a.s. on account of the provided loan. On 17 August 2016, KKCG AG subsequently entered into an agreement on assignment of 25% of the principal of said loan (CZK 349 987 thousand) with EMMA GAMMA LIMITED. Together with the principal, the outstanding interest for 2016 was assigned as of the date of assignment.

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

Loans accepted from affiliates are subordinated to the bank loans described above and any early repayment must first be approved by the bank syndicate. According to the Agreement, the loan is due in 2019. Nonetheless, the lender may request early repayment. Given this fact, the loan is classified as short-term in the statement of financial position.

As of 31 December 2015, the Company reported the following loans accepted from affiliates:

31 December 2015	Due date	Interest rate	Balance of principal as of 31 December 2015	Principal due within 1 year	Principal due from 1 year to 5 years	Principal due above 5 years
KKCG PLC	19 October 2019	8.5%	2 012 782	--	2 012 782	--
<b>Total</b>			<b>2 012 782</b>	<b>--</b>	<b>2 012 782</b>	<b>--</b>

Payables of CZK 124 513 thousand on account of outstanding interest were reported in respect of the aforesaid loan as of 31 December 2015.

## 22. Trade payables and other payables

Short-term trade payables and others

	31 December 2016	31 December 2016
<b>Short-term trade payables and other short-term payables</b>	<b>1 158 244</b>	<b>1 274 212</b>
Short-term trade payables <sup>1)</sup>	267 237	295 890
Short-term security deposits received <sup>2)</sup>	110 040	109 924
Payables on grounds of unpaid winnings	207 894	379 406
VAT payables	412	--
Corporate income tax payables	13 191	12 571
Payables on account of lottery tax <sup>4)</sup>	320 512	185 052
Payables under social and health insurance	7 809	7 200
Payables to employees	20 046	17 521
Estimated payables <sup>3)</sup>	119 498	166 799
Prepaid	88 405	99 849
Other payables	3 200	--

1) Trade payables represent items following from the Company's every-day operation, falling due according to the given payment terms.

2) As of 31 December 2016, the Company reported a payable of CZK 110 040 thousand (2015 - CZK 109 924 thousand) on account of accepted security deposits. Based on agreements with partners, there is an entitlement to immediate refund of any security deposit following cessation of their activities and settlement of all their obligations to the Company.

*Provisions (in Czech: rezervy)*

- 3) Estimated payables comprise especially estimated payables on account of supplier invoices in the amount of CZK 100 523 thousand (2015 - CZK 101 902 thousand) and partner fees in the amount of CZK 18 975 thousand (2015 - CZK 9 268 thousand).
- 4) The payable on account of lottery tax increased as a result of change in the applicable laws and due to increase in the calculated percentage from 20 to 23%.

Trade payables or other payables were not hedged as of 31 December 2016 or 31 December 2015.

The foreign-exchange risk and liquidity risk to which the Company is exposed in relation to the trade payables and other payables are described in paragraph 25 of the Annex - Procedures in risk management and disclosure of information.

**23. Provisions (in Czech: rezervy)**

<b>Short-term provisions (in Czech: rezervy)</b>	<b>Short-term provisions for jackpots</b>	<b>Other short-term provisions</b>	<b>Total</b>
<b>Balance as of 1 January 2015</b>	<b>154 011</b>	<b>42 127</b>	<b>196 138</b>
Creation	128 652	51 334	179 986
Use	-154 011	-42 127	- 196 138
Dissolution	--	--	--
<b>Balance as of 31 December 2015</b>	<b>128 652</b>	<b>51 334</b>	<b>179 986</b>
<b>Balance as of 1 January 2016</b>	<b>128 652</b>	<b>51 334</b>	<b>179 986</b>
Creation	205 506	60 098	265 604
Use	-128 652	-51 334	-179 986
Dissolution	--	--	--
<b>Balance as of 31 December 2016</b>	<b>205 506</b>	<b>60 098</b>	<b>265 604</b>

<b>Long-term provisions (in Czech: rezervy)</b>	<b>Other long-term provisions</b>	<b>Total</b>
<b>Balance as of 1 January 2015</b>	<b>--</b>	<b>--</b>
Creation	21 960	21 960
<b>Balance as of 31 December 2015</b>	<b>21 960</b>	<b>21 960</b>
<b>Balance as of 1 January 2016</b>	<b>21 960</b>	<b>21 960</b>
Creation	21 960	21 960
<b>Balance as of 31 December 2016</b>	<b>43 920</b>	<b>43 920</b>

A new long-term bonus programme was introduced in 2015. It aims at motivating the management to achieve the Company's long-term growth targets. As of 31 December 2016, a provision of CZK 43 920 thousand (as of 31 December 2015 - CZK 21 960 thousand) was recorded in this relation.

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

## **24. Contingent payables**

The following material court disputes are being pursued against the Company:

### **Actions to determine invalidity of an agreement on sale of enterprise**

Four actions to determine invalidity of an agreement on sale of enterprise were filed against SAZKA, a.s., and the insolvency trustee of SAZKA a.s., v konkurzu (*bankrupt*) (currently SALEZA a.s.) in 2012. By virtue of said actions, the plaintiffs, DF Deutsche Forfait s.r.o., T-Mobile Czech Republic, a.s., Nova Ljubljanska banka d.d. (previously NLB Factoring a.s.) (joined for common hearing) and Jiří Kabourek, claimed that the court declare the agreement whereby the SAZKA enterprise had been transferred to SAZKA a.s. invalid. The Municipal Court in Prague dismissed the first three actions. On 18 June 2014, the Superior Court in Prague as the appellate court upheld the dismissing decision rendered by the Municipal Court in Prague. The decisions thus became enforceable. The mentioned decision was contested by applications for appellate review filed by Nova Ljubljanska banka d.d. Ljubljana on 18 September 2014 and by T-Mobile Czech Republic a.s. on 23 September 2014; the above application for appellate review was in one part dismissed and in the other part rejected through the judgment of the Superior Court of 22 December 2016.

Action to determine invalidity of the sale of the SAZKA enterprise filed within the insolvency proceedings by Mr Jiří Kabourek: In its action of 24 November 2011, the plaintiff claimed a determination of invalidity of the agreement on sale of the SAZKA enterprise. The plaintiff did not identify SAZKA as a party on the part of the defendant and, therefore, SAZKA intervened in the proceedings by virtue of its submission of 19 November 2013. Despite the above, the courts do not treat SAZKA as a party to the proceedings. SAZKA's information is thus based on the information from publicly accessible sources.

The proceedings initiated by Mr Kabourek are currently still pending. In the proceedings, so far only procedural issues, have been discussed, as well as ordinary and extraordinary remedies filed by the plaintiff against decisions on said procedural issues (the plaintiff asked the court to waive the judicial fee, then to appoint legal counsel and also raised a plea of bias). The proceedings are currently in the phase of appellate review by the Superior Court in Prague, which decides on the plaintiff's appeal of November 2015 against one of the above procedural decisions. The file was sent to the Superior Court in Prague on 12 January 2016.

In respect of the applications for appellate review filed by Nova Ljubljanska banka d.d. Ljubljana and by T-Mobile Czech Republic a.s., it is still difficult to predict any final result. However, the Company management can see no reason why the agreements on the sale of enterprise should be annulled. The potential impact cannot be expressed in financial terms; however, should the plaintiff achieve the annulment of the agreement on sale of enterprise, such impact would be significant.

### **Statement of the Company management**

The Company management considers the action of Mr. Jiří Kabourek (the only pending dispute) completely unfounded and anticipates that, in terms of the risk of the final impact on the Company's situation, the above action will not significantly impair the Company's liquidity or future expenses. Consequently, no provision was made in the Company's accounts in respect of this dispute.

## **25. Procedures in risk management and disclosure of information**

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 liquidity risk. Given that the Company is encumbered with credits and loans, the credit risk can also be considered significant.

### **(a) Credit risk**

#### **i. Danger of credit risk**

Credit risk is a risk of financial loss endangering the Company should its customer or counterparty in a transaction concerning a financial instrument fail to perform its contractual obligations. The Company is exposed to credit risk especially as a result of its operating activity (especially as regards trade receivables)



and as a result of its financial activity, including deposits with banks and financial institutions, credits and loans provided to third parties and other financial instruments.

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

One of the main instruments to mitigate the credit risk within everyday business activities are deposits accepted from partners (brokers) - see paragraph 22 (2). Receivables from partners are regularly monitored by the Company management.

As of the balance sheet date, the maximum credit risks, broken down according to the type of counterparties and according to geographic areas, are given in the following tables:

#### Credit risk according to the type of counterparty

<i>as of 31 December 2016</i>	<b>Businesses (non- financial institutions)</b>	<b>State, government</b>	<b>Financial institutions</b>	<b>Natural persons</b>	<b>Total</b>
<b>Assets</b>					
Long-term trade receivables and other long-term receivables	7 733	--	--	--	7 733
Short-term trade receivables and other short-term receivables	310 173	--	--	508	310 681
Short-term receivables from financial instruments (cash equivalents)	300 324	--	--	--	300 324
Cash and cash equivalents	3 683	--	767 186	--	770 869
<b>Total</b>	<b>621 913</b>	<b>--</b>	<b>767 186</b>	<b>508</b>	<b>1 389 607</b>

<i>as of 31 December 2015</i>	<b>Businesses (non- financial institutions)</b>	<b>State, government</b>	<b>Financial institutions</b>	<b>Natural persons</b>	<b>Total</b>
<b>Assets</b>					
Long-term trade receivables and other long-term receivables	8 761	--	--	--	8 761
Short-term trade receivables and other short-term receivables	287 083	52 026	--	398	339 507
Short-term receivables from financial instruments (cash equivalents)	1 200 152	--	--	--	1 200 152
Cash and cash equivalents	2 635	--	621 061	--	623 696
<b>Total</b>	<b>1 498 631</b>	<b>52 026</b>	<b>621 061</b>	<b>398</b>	<b>2 172 116</b>

#### Credit risk according to territories

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

#### ii. Impairment losses

Age structure of financial assets:

**Age structure**

<i>as of 31 December 2016</i>							Adjustment (in Czech: <i>opravná položka</i> ) created	Total
	Before due date	Overdue < 90 days	Overdue < 91 to 180 days	Overdue < 181 to 365 days	Overdue > 365 days			
<b>Assets</b>								
Other long-term financial investments	42 199	--	--	--	--	--	--	42 199
Long-term trade receivables and other long-term receivables	7 733	--	--	--	--	--	--	7 733
Short-term trade receivables and other short-term receivables	297 288	10 614	308	952	2 864	-1 345		310 681
Short-term receivables from financial instruments (cash equivalents)	300 324	--	--	--	--	--	--	300 324
Cash and cash equivalents	770 869	--	--	--	--	--	--	770 869
<b>Total</b>	<b>1 418 413</b>	<b>10 614</b>	<b>308</b>	<b>952</b>	<b>2 864</b>	<b>-1 345</b>		<b>1 431 806</b>

<i>as of 31 December 2015</i>							Adjustment (in Czech: <i>opravná položka</i> ) created	Total
	Before due date	Overdue < 90 days	Overdue < 91 to 180 days	Overdue < 181 to 365 days	Overdue > 365 days			
<b>Assets</b>								
Other long-term financial investments	42 199	--	--	--	--	--	--	42 199
Long-term trade receivables and other long-term receivables	8 761	--	--	--	--	--	--	8 761
Short-term trade receivables and other short-term receivables	331 055	5 450	127	657	2 218	--		339 507
Short-term receivables from financial instruments (cash equivalents)	1 200 152	--	--	--	--	--	--	1 200 152
Cash and cash equivalents	623 696	--	--	--	--	--	--	623 696
<b>Total</b>	<b>2 205 863</b>	<b>5 450</b>	<b>127</b>	<b>657</b>	<b>2 218</b>	<b>--</b>		<b>2 214 315</b>

The Company management is convinced that overdue amounts not impaired can still be recovered in the full amount.

**(b) Liquidity risk**

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

The liquidity risk (i.e. risk of insufficient funds to cover liabilities) is minimised by the Company management through regular management and planning of future cash flows. The main instrument for cash flow planning is the creation of a medium-term plan, which is compiled every year for the following

3 years. Cash flows for the coming years are then broken down in detail to the individual months and regularly updated.

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

The table below provides an analysis of the Company's financial assets and liabilities broken down according to the due dates, and specifically according to the time remaining from the balance sheet date to the contractual due date. Where there is an option of earlier repayment, the Company opts for the most prudent manner of assessment, and thus payables are expected to be paid as soon as possible and receivables are expected to be collected on the latest possible date. Assets and liabilities without set due dates are grouped in the category of "non-defined due date".

#### Analysis of arising of liquidity risk (according to due dates)

<i>as of 31 December 2016</i>	<b>Book value</b>	<b>Contractual cash flows <sup>(1)</sup></b>	<b>Up to 1 year 1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-defined due date</b>
<b>Assets</b>					
Other long-term financial investments	42 199	42 199	--	--	42 199
Long-term trade receivables and other long-term receivables	7 733	7 733	--	--	7 733
Short-term trade receivables and other short-term receivables	310 681	310 681	310 681	--	--
Short-term receivables from financial instruments (cash equivalents)	300 324	300 324	300 324	--	--
<b>Total</b>	<b>660 937</b>	<b>660 937</b>	<b>611 005</b>	--	<b>49 932</b>
<b>Payables</b>					
Bank credits and other loans - long-term part	5 290 094	5 290 094	-- 5 290 094	--	--
Long-term liabilities from financial instruments	50 046	50 046	--	50 046	--
Bank credits and other loans - short-term part	2 324 587	2 324 587	2 324 587	--	--
Short-term trade payables and other short-term payables	1 158 244	1 158 244	1 158 244	--	--
Liabilities from financial instruments	36 564	36 564	36 564	--	--
Liability on account of payable income tax	73 573	73 573	73 573	--	--
<b>Total</b>	<b>8 933 108</b>	<b>8 933 108</b>	<b>3 592 968</b>	<b>5 290 094</b>	<b>50 046</b>
<b>Net liquidity risk</b>	<b>-8 272 171</b>	<b>-8 272 171</b>	<b>-2 981 963</b>	<b>-5 290 094</b>	<b>49 932</b>

(1) Contractual cash flows without regard to discounting to net current value, but including any outstanding interest.

<i>as of 31 December 2016</i>	<b>Book value</b>	<b>Contractual cash flows <sup>(1)</sup></b>	<b>Up to 1 year 1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-defined due date</b>
<b>Assets</b>					
Other long-term financial investments	42 199	42 199	--	--	42 199
Long-term trade receivables and other long-term receivables	8 761	8 761	--	--	8 761
Short-term trade receivables and other short-term receivables	339 507	339 507	339 507	--	--
Short-term receivables from financial instruments (cash equivalents)	1 200 152	1 200 152	1 200 152	--	--
<b>Total</b>	<b>1 590 619</b>	<b>1 590 619</b>	<b>1 539 659</b>	--	<b>50 960</b>
<b>Payables</b>					
Bank credits and other loans - long-term part	5 416 747	5 416 747	-- 5 416 747	--	--

Long-term liabilities from financial instruments	49 200	49 200	--	--	49 200	--
Bank credits and other loans - short-term part	2 811 702	2 811 702	2 811 702	--	--	--
Short-term trade payables and other short-term payables	1 274 212	1 274 212	1 274 212	--	--	--
Liabilities from financial instruments	957	957	957	--	--	--
Liability on account of payable income tax	83 423	83 423	83 423	--	--	--
<b>Total</b>	<b>9 636 242</b>	<b>9 636 242</b>	<b>4 170 294</b>	<b>5 416 747</b>	<b>49 200</b>	<b>--</b>
<b>Net liquidity risk</b>	<b>8 045 623</b>	<b>--8 045 623</b>	<b>-2 630 635</b>	<b>-4 416 747</b>	<b>- 49 200</b>	<b>50 960</b>

(1) Contractual cash flows without regard to discounting to net current value, but including any outstanding interest.

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

**(c) Interest risk**

In its activities, the Company is exposed to the risk of fluctuation of interest rates, as interest-bearing assets and interest-bearing liabilities have different due dates or dates of revaluation, or are payable or revaluated at different amounts. The duration of the time for which a certain financial instrument has a fixed interest rate therefore shows to what degree any given financial instrument is exposed to interest risk. The risk related to a change in market interest rates applies mainly to the Company's long-term liabilities with variable interest rates (held-to-maturity financial assets and payables from financial lease bear interest at a fixed rate).

The table below provides data on the scope of the Company's interest risk according to the contractual due dates for the Company's financial instruments. The Company does not record any financial instruments revaluated to the market interest rate before the due date - according to the date of the next change of the interest rate. Assets and liabilities without set due dates or bearing no interest are grouped in the category of "non-defined due date".

Financial information concerning interest-bearing and zero-interest assets and liabilities and their contractual due dates as of 31 December 2016:

**Analysis of arising of interest risk (according to due dates)**

<i>as of 31 December 2016</i>	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-defined due date (or zero-interest)</b>	<b>Total</b>
<b>Assets</b>					
Other long-term financial investments	--	--	--	42 199	42 199
Long-term trade receivables and other long-term receivables	--	--	--	7 733	7 733
Short-term trade receivables and other short-term receivables	310 681	--	--	--	310 681
Short-term receivables from financial instruments (cash equivalents)	300 324	--	--	--	300 324
Cash and cash equivalents	--	--	--	770 869	770 869
<b>Total</b>	<b>611 005</b>	<b>--</b>	<b>--</b>	<b>820 801</b>	<b>1 431 806</b>

<i>as of 31 December 2016</i>	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-defined due date (or zero-interest)</b>	<b>Total</b>
-------------------------------	---------------------	---------------------	---------------------	--	--------------

<b>Payables</b>					
Bank credits and other loans - long-term part	--	5 290 094	--	--	5 290 094
Long-term liabilities from financial instruments	--	--	50 046	--	50 046
Bank credits and other loans - short-term part	2 324 587	--	--	--	2 324 587
Short-term trade payables and other short-term payables	1 158 244	--	--	--	1 158 244
Liabilities from financial instruments	36 564	--	--	--	36 564
<b>Total</b>	<b>3 519 395</b>	<b>5 290 094</b>	<b>50 046</b>	<b>--</b>	<b>8 859 535</b>

Financial information concerning interest-bearing and zero-interest assets and liabilities and their contractual due dates as of 31 December 2015:

#### Analysis of arising of interest risk (according to due dates)

<i>as of 31 December 2015</i>				<b>Non-defined due date (or zero-interest)</b>	
	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>		<b>Total</b>
<b>Assets</b>					
Other long-term financial investments	--	--	--	42 199	42 199
Long-term trade receivables and other long-term receivables	--	--	--	8 761	8 761
Short-term trade receivables and other short-term receivables	339 507	--	--	--	339 507
Short-term receivables from financial instruments (cash equivalents)	1 200 152	--	--	--	1 200 152
Cash and cash equivalents	--	--	--	623 696	623 696
<b>Total</b>	<b>1 539 659</b>	<b>--</b>	<b>--</b>	<b>674 656</b>	<b>2 214 315</b>

<i>as of 31 December 2015</i>				<b>Non-defined due date (or zero-interest)</b>	
	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>		<b>Total</b>
<b>Payables</b>					
Bank credits and other loans - long-term part	--	5 416 747	--	--	5 416 747
Long-term liabilities from financial instruments	--	--	49 200	--	49 200
Bank credits and other loans - short-term part	2 811 702	--	--	--	2 811 702
Short-term trade payables and other short-term payables	1 274 212	--	--	--	1 274 212
Liabilities from financial instruments	957	--	--	--	957
<b>Total</b>	<b>4 086 871</b>	<b>5 416 747</b>	<b>49 200</b>	<b>--</b>	<b>9 552 818</b>

#### Sensitivity analysis

The effective interest rate pertaining to loans and credits is 4.42% (2015 - 4.46%). The Company carries out stress tests with the use of standard interest shock, meaning that the portfolio interest positions are subject to immediate decrease/increase in interest rates by +/- 0.44% (2015 - +/- 0.45%). The tests are applied consistently to all credits and loans, whether with fixed or variable interest rate.

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Increase in interest rate by 10%</b>	-34 521	-37 389
<b>Decrease in interest rate by 10%</b>	+34 521	+37 389

**(d) Currency risk**

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

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

**(e) Capital management**

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

By managing the capital and optimising the ratio of debt to equity (up to the ratio of 3), the Company intends to secure preconditions for uninterrupted business activity and maximise dividends distributed to the shareholders.

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Total liabilities	9 488 506	10 059 240
Reduction by cash and cash equivalents (including the receivable from KKCG Structured Finance AG - see paragraph 18)	1 071 193	1 823 848
<b>Net debt</b>	<b>8 417 313</b>	<b>8 235 392</b>
<b>Company's total equity capital</b>	<b>4 427 711</b>	<b>4 656 870</b>
<b>Debt to equity ratio</b>	<b>1.901</b>	<b>1.768</b>

**(f) Financial instruments and fair values**

**Categories of financial instruments**

The Company's financial assets comprise long- and short-term credits and loans provided, trade receivables and other receivables, and cash and cash equivalents classified as loans and receivables.

Financial liabilities include interest-bearing credits and loans, bank credits and loans, and trade payables and other payables, derivatives (liabilities from financial instruments) and short-term tax liabilities.

The book values of financial assets and liabilities are approximately the same as their fair value. The fair value of long-term loans from affiliates subject to a fixed interest rate of 8.5% (see paragraph 21) exceeds their book value due to a decrease in the market interest rates.

## Affiliates

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 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Assets</b>				
Other long-term financial investments	42 199	42 199	42 199	42 199
Long-term trade receivables and other long-term receivables	7 733	8 761	7 733	8 761
Short-term trade receivables and other short-term receivables	310 681	339 507	310 681	339 507
Short-term receivables from financial instruments (cash equivalents)	300 324	1 200 152	300 324	1 200 152
Cash and cash equivalents	770 869	623 696	770 869	623 696
<b>Total</b>	<b>1 431 806</b>	<b>2 214 315</b>	<b>1 431 806</b>	<b>2 214 315</b>
<b>Payables</b>				
Bank credits and other loans - long-term part	5 290 094	5 416 747	5 290 094	5 416 747
Long-term liabilities from financial instruments	50 046	49 200	50 046	49 200
Bank credits and other loans - short-term part	2 324 587	2 811 702	2 324 587	2 911 378
Short-term trade payables and other short-term payables	1 158 244	1 274 212	1 158 244	1 274 212
Short-term liabilities from financial instruments	36 564	957	36 564	957
Liability on account of payable income tax	73 573	83 423	73 573	83 423
<b>Total</b>	<b>8 933 108</b>	<b>9 636 241</b>	<b>8 933 108</b>	<b>9 735 969</b>

### Hierarchy of fair value

The Company applies the following hierarchy when determining and reporting the fair value of financial instruments according to the 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 significant effect on the reported fair value and which can be identified, directly or indirectly;
- Level 3: procedures based on input data that have significant effect on the reported fair value and are not based on identifiable market data.

## 26. Affiliates

The relationships between the Company and its affiliates include relationships with shareholders and other persons as stated in the following table: They are as follows:

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

All persons stated below are related to the Company based on the influence of their relationships within the KKCG AG Group. A part of them is also mutually related thanks to the key management members. All important transactions with affiliates took place under usual market conditions.

### (a) Overview of open balances with affiliates as of 31 December 2016 and 31 December 2015:

	Assets		Payables	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
SPORTLEASE a.s.	11	14	--	--
GTECH Czech Republic LLC.	908	886	45	87
KKCG a.s.	--	--	6 220	3 779
KKCG AG (previously KKCG PLC) 1)	--	--	1 137 225	2 137 295
KKCG Structured Finance AG 2)	300 324	1 200 152	--	--
EMMA GAMMA LIMITED 3)	--	--	379 075	--
MND a.s.	--	--	980	1 409
DataSpring s.r.o.	463	235	4 479	13 308
Cestovní kancelář FISCHER, a.s.	--	--	7 135	315
Geewa a.s.	--	--	20	294
SAZKA FTS a.s. 4)	1 149	--	--	--
Springtide Ventures s.r.o.	--	--	--	310
Conectart s.r.o. (previously Informační linky s.r.o.)	3	--	3 375	1 685
Kynero Consulting a.s.	--	--	22	22
SAZKA Group a.s.	96	--	--	--
FM&S Czech a.s.	81	--	1 304	--
Kavárna štěstí s.r.o.	6	--	1	--
SafeDX s.r.o.	7	--	--	--
<b>Total</b>	<b>303 048</b>	<b>1 201 287</b>	<b>1 539 881</b>	<b>2 158 504</b>

1) As of 31 December 2016 and 31 December 2015, the AG (previously KKCG PLC) obligation corresponds to loans from affiliates as described in detail in paragraph 21.

2) As of 31 December 2016, receivables from KKCG Structured Finance AG (previously KKCG Structured Finance Limited) corresponded to short-term receivables from financial instruments on account of cash pooling (as of 31 December 2015 a receivable on account of outstanding securities - held-to-maturity promissory notes based on the investment agreement).

For the purposes of the cash flow statement, these receivables are classified as part of cash equivalents (see paragraph 18).

3) As of 31 December 2016, the EMMA GAMMA LIMITED obligation corresponds to loans from affiliates as described in detail in paragraph 21.

4) Furthermore, SAZKA a.s. has a debt of CZK 3 200 thousand payable to SAZKA FTS a.s. on account of the payment of cash collected at the SAZKA terminals. The relationship is not mutual as the supplies are provided by business partners of SAZKA FTS a.s. and via SAZKA terminals, and SAZKA a.s. just keeps records of the cash flow.

**(b) Overview of transactions with affiliates for the periods ending 31 December 2016 and 31 December 2015:**



	Revenues for the period		Expenses for the period	
	2016	2015	2016	2015
SPORTLEASE a.s.	82	82	--	--
GTECH Czech Republic LLC.	4 304	4 504	584	440
KKCG a.s.	--	225	22 076	12 835
KKCG AG (previously KKCG PLC) 1)	--	--	111 684	177 620
KKCG Structured Finance AG	177	376	--	--
KKCG Real Estate	--	--	--	1 950
MND a.s.	--	15	9 643	10 921
Conectart s.r.o. (previously Informační linky s.r.o.)	34	--	17 519	13 903
DataSpring s.r.o.	2 307	2 280	11 880	42 172
Geewa a.s.	--	--	259	1 050
SAZKA FTS a.s.	9 577	926	--	--
Cestovní kancelář FISCHER, a.s.	--	--	56 680	391
Springtide Ventures s.r.o.	--	--	--	256
Kynero Consulting a.s.	--	--	291	90
SAZKA Group a.s.	461	--	--	--
Kavárna štěstí s.r.o.	26	--	13	--
FM&S Czech a.s.	1 034	--	9 595	--
SafeDX s.r.o.	538	--	--	--
<b>Total</b>	<b>18 540</b>	<b>8 408</b>	<b>240 224</b>	<b>261 628</b>

- 1) The costs of 2016 and 2015 related to KKCG AG (previously KKCG PLC) correspond to interest expense under loans accepted from affiliates, as described in detail in paragraph 21.

**(c) Overview of transactions with members of the Company bodies for the period ending 31 December 2016**

In 2015, the Company paid remunerations to the members of the bodies of the Company in the amount of CZK 5 958 thousand (2015 – CZK 6 034 thousand). No loans or credits were provided to the members of the bodies of the Company in 2016 or 2015.

## 27. Subsequent events

On 24 February 2017, SAZKA a.s. obtained a basic licence for the operation of a game of chance under Ref. No. MF-35535/2016/34-21 pursuant to Section 3 (2)(a) of the Act (hereinafter a "lottery") and pursuant to Section 3 (2)(a) in conjunction with Section 73 of the Act by through remote access via the Internet (hereinafter an "online lottery"), specifically to operate a game of chance pursuant to Section 18 (2) of the Act (hereinafter a "number lottery") and to operate a game of chance pursuant to Section 18 (2) of the Act in conjunction with Section 73 of the Act (hereinafter an "online number lottery"); to operate a game of chance pursuant to Section 18 (4) in conjunction with Section 73 of the Act (hereinafter an "online instant lottery");

Based on the above licence, the following number lotteries and online number lotteries will be operated: Sportka, together with this number lottery and online number lottery, additional lotteries under Section 20 of the Act (hereinafter an "additional lottery") will be operated under the names "Stokrát dva miliony" (*"One hundred times two million"*), "Věcné prémie Sportky 2017 – I" (*"Sportka prizes 2017 – I"*) and "Věcná prémie Sportky 2017 – II" (*"Sportka prize 2017 – II"*); EUROJACKPOT, which is a number lottery and online number lottery under Section 19 of the Act (hereinafter a "shared lottery"); together with this shared lottery, an additional lottery will be operated under the name "Cesta kolem světa" (*"A Travel Around the World"*); Euromiliony, together with this number lottery and online number lottery, an additional lottery will be operated under the name "Druhá šance Euromilionů" (*"Euromillions second chance"*); Kasička, where the above lotteries will be operated based on the principle of shared prize pool for the number lottery and online number lottery and online instant lottery under the names "Čarodějova země 303" (*"Wizard's Land 303"*), "Štěstíčko 395" (*"Lucky 395"*), "Černé perly 391" (*"Black Pearls"*), "eCash 713", "eCash 712", "eCash 392", "Diamanty 394" (*"Diamonds 394"*), "Šťastná chvíle 496" (*"Happy Moment 496"*).

As of the date of compilation of the financial statements, the Company management is not aware of any other important subsequent events affecting the financial statements as of 31 December 2016.

In Prague, on 21 March 2017

Signature of the governing body

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David Havlín  
Director B  
SAZKA a.s.

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Pavel Šaroch  
Director A  
SAZKA a.s.