



ANNUAL REPORT  
SAZKA a.s.

2015

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## IDENTIFICATION DETAILS

Business name: SAZKA a.s.  
Registered office: Prague 9, K Žižkovu 851, Postal Code 190 93  
Identification number: 264 93 993

Legal form: Joint-stock company

Objects of business:

- manufacture, trade and services not listed 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 machinery and instruments, electronic and telecommunication devices;
- 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.

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. SAZKA a.s. is a company with its registered office in Czech Republic and established under the laws of the Czech Republic.

It is the biggest and oldest lottery company in the Czech Republic with approximately 95% share in the market in lotteries and other similar games.

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, sports betting and fast-moving games. Another pillar consists of non-lottery products, primarily based on the services of the SAZKA mobil mobile operator, on topping up pay-as-you-go mobile phones, selling tickets for events, and facilitating payments for services and goods.

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

SAZKA a.s. 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.

SAZKA a.s. performs no activities in the area of research and development.

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

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

SAZKA a.s. continues to be Europe's fastest-growing lottery company.

SAZKA a.s. has engaged a new partner for Lottery Inside (over-the counter lotteries): Czech Post (*Česká pošta*).

The operation of mobile payment terminals in the sales network was introduced in 2015. In 2014, SAZKA a.s. joined the Eurojackpot international lottery, which became one of the Company's key lottery games in 2015.

For the first time in history, SAZKA a.s. disbursed one hundred two-million winnings in Sportka. Sportka generated 221 millionaires last year. New communication of the *Šťastných 10* game (Happy 10) was launched.

A total of 220 new terminals were installed for *SAZKA Bet* (AIO – all-in-one terminals) and the sales generated by fixed-odds betting increased by 37% in 2015.

SAZKAmobil introduced new flat tariffs and increased its sales by 147% with more than 160 000 customers. A total of 38 new points of sale were established, thus expanding the existing POS network.

The *SAZKA svět* portal (SAZKA World) already has more than 400 000 users.

The collaboration with the Czech Olympic Committee intensified over 2015. SAZKA a.s. maintained its position as the Czech Olympic Foundation's main partner and the Czech Olympic Committee's official partner. More than 1 400 schools and more than 200 000 children participated in the *SAZKA Olympijský vícebój* (Olympic combined track and field events). Thanks to SAZKAmobil's customers, volunteer coaches get to make charge-free voice calls for two years.

SAZKA a.s. introduced a new attractive format of lottery TV shows.

Cisco was launched as the new system of unified communication.

A new benefit scheme – Cafeteria – was also introduced in 2015. The Company created new working environment and relaxation zones and renovated its restaurant La Paluba.

Entries in the Commercial Register in 2015:

- Martin Škopek, member of the Board of Directors, registered on 22 January 2015 (elected member of the Board of Directors with effect as of 15 December 2014);
- The following number of members of the Board of Directors was registered on 22 January 2015: 5;
- The following number of members of the Supervisory Board was registered on 22 January 2015: 4;
- Other facts concerning the limitation of transferability of shares registered on 22 January 2015;
- Radek Dyntaxa, de-registered as member of the Supervisory Board on 17 July 2015 (his office terminated through the decision of the sole shareholder acting in the capacity of the General Meeting on 31 May 2015).

**Board of Directors of SAZKA a.s.**

**Pavel Šaroch**  
Chairman of the Board of Directors

**Martin Bláha**  
Member of the Board of Directors

**Robert Chvátal**  
Member of the Board of Directors

**Kamil Ziegler**  
Member of the Board of Directors

**Martin Škopek**  
Member of the Board of Directors

**Supervisory Board of SAZKA a.s.**

**Karel Komárek**  
Chairman of the Supervisory Board

**Ivo Tajšl**  
Member of the Supervisory Board

**Radek Dyntar**  
Member of the Supervisory Board until termination of his  
membership on 31 May 2015

**Robert Kolář**  
Member of the Supervisory Board

**Management of SAZKA a.s.**

**Robert Chvátal**  
Chief Executive Officer

**Pavel Mucha**  
Head of the Finance Division

**Ilona Kubecová**  
Head of the Administration Division

**Aleš Veselý**  
Head of the Marketing Division

**Ivo Tajšl**  
Head of the Games and Operation Division

**Pavel Vápenka**  
Head of the Sales Network Division

**David Kortus**  
Head of the IT Division

**Jan Schmiedhammer**  
Manager of the MVNO Department

**Leoš Nováček**  
Manager of the HR Department

**Václav Friedmann**  
Manger of the Communication Department

**Václav Štěpán**  
Manager of Strategy and Project Management

## HUMAN RESOURCES

The Sales Force Academy's development programme continued in 2015 for the second year running. The Manager Academy opened as yet another fundamental development programme, designed to develop middle management and key employees.

The outcomes of an employee-satisfaction survey carried out at the end of the year confirmed the successful implementation of the principles of corporate culture and employees' deep commitment.

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

### Number of employees

as of 1 January 2015: 312

as of 31 December 2015: 330

## PROPERTY INTERESTS (AS OF 31 December 2015)

### **KPS MEDIA a.s. v likvidaci (in liquidation)**

Id. No.: 618 60 735

The company was registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 2983, on 26 January 1995

Registered office:

Prague 9, K Žižkovu 851, Postal Code 190 93

Registered capital:

CZK 110 000 000

SAZKA's property interest (share):

100%

By a resolution of the Municipal Court in Prague of 22 September 2015, which entered into legal force on 9 October 2015, the company was de-registered from the Commercial Register. The legal ground for the company's de-registration lay in completion of its liquidation.

### **GTECH Czech Republic LLC.**

Registered office: 1209 Orange Street, Wilmington, New Castle, 19801 Delaware, USA

SAZKA's property interest (share):

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

SAZKA's property interest (share):

100%

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

SAZKA's property interest (share):

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 2015

In 2015, SAZKA a.s. continued to engage especially in the operation of lotteries and other similar games. The Company's core business activities consist in the operation of number and instant lotteries, and sports and fixed-odds betting. Eurojackpot became the Company's second biggest number game in 2015.

In the same year, the Company also continued to strengthen its activities in the non-lottery area, especially by expanding SAZKAMobil's sales network and introducing the first flat tariff of this mobile operator.

SAZKA was a member of the KKCG SE multinational investment group (currently KKCG PLC) in 2015 and its membership continues.

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 2015, SAZKA a.s. generated profits of CZK 1 231 794 thousand before tax. The Company's total sales reached CZK 11 332 060 thousand.

The Company's property as of 31 December 2015 was as follows:

- Fixed assets in the amount of CZK 12 492 742 thousand, of which intangible fixed assets amounted to CZK 2 136 354 thousand, tangible fixed assets to CZK 650 706 thousand, and goodwill to CZK 9 636 112 thousand.
- Current assets equalled CZK 2 223 368 thousand, of which receivables amounted to CZK 339 507 thousand and short-term financial assets, cash and cash equivalents to CZK 1 823 848 thousand.

As of 31 December 2015, SAZKA's equity capital equalled CZK 4 656 870 thousand and liabilities, including external resources, amounted to CZK 10 059 240 thousand.

### Assessment of SAZKA's main activities in 2015:

#### Lottery activities

##### Number lotteries

Sportka continued to grow dynamically in 2015, also thanks to the year-round effect of price increase. Promotion aimed at placing full bets (i.e. filling in the full lottery coupon), including an offer of Škoda Fabia and, for the first time in history, an additional game titled *Stokrát dva miliony* (One hundred times two millions), proved as valuable contribution. Incremental sales were also generated by increasing the number of extraordinary games within Sportka to 16 games, compared to 12 Friday draws in the previous year. Sportka generated record-breaking 221 new millionaires in 2015.

Eurojackpot became the second biggest number lottery in the Czech market. Awareness of Eurojackpot exceeded 90% thanks to its attractive media campaign, as well as the unprecedented amount of nearly CZK 2.5 billion won by a lucky winner from East Bohemia in May.

##### Instant lotteries

In 2015, SAZKA a.s. expanded its scratch-ticket portfolio by introducing 24 new lotteries priced between CZK 10 and 500. The Company generated a new successful concept of family games, where a single theme is offered in various price categories. Scratch tickets were extremely successful during the time before Christmas; customers could choose from among three Christmas lotteries: *Přání* (Wishes), *Vánoční přání* (Christmas Wishes) and *Milionové překvapení* (Surprise Worth a Million), and many customers gave the tickets as a present.

##### Fixed-odds betting:

The sales increased by notable 37% during 2015. The offer within the product was not expanded, however, 220 All-In-One terminals were put into operation and a mobile application was enhanced and launched late in 2014.

##### Online

The SAZKA mobile application, used 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

A new CRM Department was created within the Marketing Division in 2015. The new team's task is to manage relationships with the existing customers and raise customer value and satisfaction.

## REPORT OF THE BOARD OF DIRECTORS ON BUSINESS ACTIVITIES AND THE STATE OF THE COMPANY ASSETS IN 2015

The team will also prepare the Company for its dealings with customers in the new era of online gaming.

### Non-lottery activities

In April 2015, the SAZKAmobil virtual mobile network operator extended its sales network to include Globus supermarkets and, from May on, the branches (post offices) of Czech Post. A flat tariff with unlimited calls and data was launched in May. At the end of the year, SAZKAmobil had more than 160 000 active customers.

No fundamental changes in the portfolio of financial and transaction services occurred in 2015. The Company primarily focused on the preparation of the transfer of selected services (postal money orders) to SAZKA FTS a.s., the Company's affiliate enterprise, with effect as of 1 January 2016.

### Sales network

The Company has been offering its products through a unique sales network of more than seven thousand branches. SAZKA a.s. offers the whole portfolio of its products at these branches. Lottery Inside supports the network by providing 1 300 points of sale with 5 450 counters or cash registers, where customers can play one of the four SAZKA's basic betting games. The Lottery Inside network is operated in the chains of PENNY, COOP, Czech Post and, as a pilot scheme, in several TESCO supermarkets. The optimisation of the backbone sales network continued in 2015, with the new establishment or transfer of 993 terminals, i.e. nearly 14%.

### Security certificates

SAZKA a.s. 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). During 2016, SAZKA a.s. will undergo the re-certification process to renew its ISO 27001 and WLA-SCS certificates.

### IT

Through its technological partner IGT B2B, SAZKA a.s. implemented an interface for processing both lottery and non-lottery products within the Tesco chain and at post offices of Czech Post. The Company expects further development and extension of its services in the future.

In collaboration with UniCredit Bank Czech Republic and Slovakia a.s. and specialised partners in the area of acceptance of credit cards, SAZKA a.s. introduced payment solutions with the use of mobile payment terminals to the sales network. The terminals accept all common types of payment cards.

Services provided through terminals were extended to allow SAZKAmobil's customers to pay their invoices (postpaid).

A new topped up prepaid BiiP card (so-called children card) was added to the portfolio of non-lottery products in September 2015 in collaboration with MOPET CZ a.s. Using this service, holders of the card can top up their card within the SAZKA a.s. network and – as shown by experience with the BLESK Wallet – this is a popular manner of topping up.

Projects of the Business Intelligence family were implemented within the IBM Cognos platform (introduced in 2014); the outputs of these projects, i.e. reports, already provide underlying documents for effective business decision-making and planning.

## REPORT OF SAZKA'S BOARD OF DIRECTORS 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 2015 to 31 December 2015 (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 belongs to the KKCG Group consisting of companies that are all, directly or indirectly, controlled by KKCG PLC, Reg. No. HE180090, a company with its registered office at Alasias Street 8, Christodoulides Building, 3095 Limassol, Republic of Cyprus (hereinafter “**KKCG PLC**”).

The Company is controlled by **KKCG PLC** indirectly, through parent company **SAZKA Czech a.s.**, with its registered office at Vinohradská 1511/230, Strašnice, 100 00 Prague 10, Id. No.: 24852104, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 18644, which is further controlled by **SAZKA Group a.s.**, with its registered office at Vinohradská 151 1/230, Strašnice, 100 00 Prague 10, Id. No.: 24287814, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 18161 (*this company is then directly controlled by KKCG PLC*).

The list of all other companies within the KKCG Group, i.e. companies directly or indirectly controlled by KKCG PLC, is attached as Annex to this Report on Relationships.

### 2. Mission of the Company

The Company plays an important role within the KKCG 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. 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 KKCG PLC or the entities controlled by KKCG PLC, where the acts concern property exceeding 10% of the Company's equity capital ascertained from the last financial statements, specifically under the following agreement:

- INVESTMENT AGREEMENT with KKCG STRUCTURED FINANCE LIMITED of 8 October 2013 (continuous depositing of available cash).

### 5. Summary of intra-Group agreements

During the Accounting Period, the following contracts and agreements were made by and between the Company and KKCG PLC or between the Company and other entities controlled by KKCG PLC, as applicable:

- Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 1 January 2015;
- Amendment 1 to the Contract for Comprehensive Services for Supplies of Electricity with MND a.s. of 8 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and MND a.s. of 10 December 2015;

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

- Contract for Comprehensive Services for Supplies of Gas with MND a.s. of 8 December 2015;
- Amendment 2 to the Legal Services Agreement with KKCG a.s. of 6 January 2015;
- Security Services Agreement with Kynero Consulting a.s. of 1 August 2015;
- Contract for the Provision of Services Concerning Operation of Call Center with Informační linky s.r.o. of 31 March 2015;
- Amendment 1 to the Co-operation Agreement (of 7 February 2014) with Informační linky s.r.o. of 13 March 2015;
- Agreement on Settlement of Mutual Relations with DataSpring s.r.o. of 31 March 2015;
- Amendment 5 to the Contract for Lease of Premises Intended for Business Purposes (of 21 April 2014) with DataSpring s.r.o. of 27 April 2015;
- 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;
- Service Agreement with DataSpring s.r.o. of 22 July 2015;
- Contract for the Supply and Implementation of Hardware and Software for Backup, including Maintenance with DataSpring s.r.o. of 20 October 2015;
- Contract for the Implementation of Monitoring System and SIEM Including Maintenance with DataSpring s.r.o. of 7 December 2015;
- Non-disclosure and Confidentiality Agreement with DataSpring s.r.o. of 4 November 2015;
- 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;
- 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;
- Agreement on Assignment of Rights and Assumption of Obligations under the Co-operation Agreement with SAZKA FTS a.s. and Česká pojišťovna a.s. of 16 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and RAVOS s.r.o. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and ČEZ Zákaznické služby, s.r.o. of 21 December 2015;
- Agreement on Assignment of Co-operation Agreement with SAZKA FTS a.s. and Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and VODOSPOL s.r.o. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Severočeské vodovody a

## REPORT OF SAZKA'S BOARD OF DIRECTORS ON RELATIONSHIPS BETWEEN THE CONTROLLING AND CONTROLLED ENTITIES, AND RELATIONSHIPS BETWEEN THE CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

kanalizace, a.s. of 18 December 2015;

- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and VEOLIA ČESKÁ REPUBLIKA, a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and 1.SčV, a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and VODÁRNA PLZEŇ a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and MORAVSKÁ VODÁRENSKÁ, a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Pražské vodovody a kanalizace, a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Středočeské vodárny, a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Královehradecká provozní, a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Vodohospodářská společnost Sokolov, s.r.o. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Home Credit a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and UPC Česká republika, s.r.o. of 16 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Home Credit a.s. of 18 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and MAFRA, a.s. of 16 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Generali Pojišťovna a.s. of 16 December 2015;
- Agreement on Assignment of the Co-operation Agreement with SAZKA FTS a.s. and Tarsago Česká republika, s.r.o. of 16 December 2015.

The following contracts concluded prior to the Accounting Period continued to be effective between the Company and KKCG PLC or between the Company and other entities controlled by KKCG PLC, as applicable, during the Accounting Period:

- Co-operation Agreement with Informační linky s.r.o. of 7 February 2014, as amended by Amendment 1;
- 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;
- Framework Agreement on Consultancy Services with DataSpring s.r.o. of 30 June 2014;
- Service Agreement with KKCG a.s. of 16 April 2013, as amended by Amendments 1 and 2;

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

- 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.;
- Business Co-operation Agreement with Cestovní kancelář FISCHER, a.s. of 18 March 2014;
- FACILITY AGREEMENT with KKCG PLC of 19 September 2013;
- CALL OPTION AND GUARANTEE AGREEMENT with KKCG PLC and other entities of 23 October 2014;
- GUARANTEE AGREEMENT with KKCG PLC and other entities of 23 October 2014;
- PATRONAGE AGREEMENT with KKCG PLC and other entities of 23 October 2014;
- Framework Agreement on Licence Administration and Granting Licences to MICROSOFT Software Products and Provision of Associated Services with DataSpring s.r.o. of 21 November 2013 (Contract Term: until 30 June 2016);
- Non-disclosure and Confidentiality Agreement with DataSpring s.r.o. of 21 October 2013 (contract term: until 21 October 2016);
- Non-disclosure and Confidentiality Agreement with Informační linky s.r.o. of 6 August 2013 (contract term: until 6 August 2016);
- Service Agreement with Informační linky s.r.o. of 1 July 2013;
- 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;
- 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 KKCG Group with KKCG PLC as the controlling 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 benefit from good reputation associated with the KKCG trade name, and the possibility for the Company to access intragroup and bank financing (e.g. other entities within the Group 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

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

**Annex 1: List of Related Parties**

**LIST OF ENTITIES CONTROLLED BY KKCG PLC AS OF 31 DECEMBER 2015**

**KKCG PLC, with its registered office at 8 Alasias Street, Christodoulides Building, 3095 Limassol, Republic of Cyprus, Reg. No. HE180090;**

**KKCG Oil & Gas B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 61025119;

**MND Group N.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 34246576;

**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 Gas Storage a.s.**, with its registered office in Hodonín, at Úprkova 807/6, Postal Code 695 01, Id. No. 27732894;

**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 Group AG**, with its registered office at Kapellgasse 21, 6004 Luzern, Swiss Confederation, Reg. No. CHE-448.401.517;

**MND Gas Storage Germany GmbH**, with its registered office at 45136 Essen, Ruhrallee 80, Federal Republic of Germany, Reg. No. HRB25715;

**MND Ukraine B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 59394072;

**Geologichchne byreau "Lviv" LLC**, with its registered office at L'vivska Oblast, L'viv, 79011, ul. Kubiyovicha 18, Office 6, Ukraine;

**"Goryzonty" LLC**, with its registered office at L'vivska Oblast, L'viv, 79005, Akademika Pavlova 6C, Office 7, Ukraine, Reg. No. 31978102;

**Prykarpatska Energetychna Kompania LLC**, with its registered office at Ivano-Frankovska Oblast, Bogorodchany, 77701, ul. Shevchenka, Ukraine;

**MND Drilling Germany GmbH**, with its registered office at 82031 Grünwald, Bavariafilmplatz 7, Bavaria, Federal Republic of Germany, Reg. No. HRB200127;

**LP Drilling S.r.l.**, with its registered office at 29016 Cortemaggiore, Salvo D'Acquisto 5, Italy, Reg. No. 01294260334;

**MND Georgia B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 52308944;

**MND E&P Germany GmbH**, with its registered office at 22299 Hamburg, Himmelstrasse 9, Federal Republic of Germany, Reg. No. HRB125993;

**MND Russia N.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 57169284;

**OOO Belisar**, with its registered office at Saratov, ulitsa Chelyuskintsev 68, 410031, Russian Federation, Reg. No. 1116317007674;

**MND Samara Holding B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the

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Netherlands, Reg. No. 52990680;

**OOO MND Samara**, with its registered office at ul. Alexeya Tolstogo 92, Samara, Samara District, 443099, Russian Federation, Reg. No. 1046301405094;

**Collington II Limited**, with its registered office at Custom House Plaza Block 6, International Financial Services Centre, Dublin 1, Republic of Ireland, Reg. No. 506335;

**KKCG UK Limited**, with its registered office in London, at One Connaught Place, 5th Floor, W2 2ET, United Kingdom, Reg. No. 8869774;

**KKCG Director 1 B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 59525819;

**KKCG a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 27107744;

**PERULA a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 28226364;

**Kynero Consulting a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 24193461;

**G-JET s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 27079171;

**KKCG Entertainment & Technology B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 58856765;

**Apus Holding N.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 54152593;

**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;

**Austrian Gaming Holding a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 04047788;

**CAME Holding GmbH**, with its registered office at Universitätsring 10, 1010 Vienna, Republic of Austria, Reg. No. 038898d;

**SPORTLEASE a.s.**, with its registered office in Prague 9, at K Žižkovu 851, Postal Code 190 93, Id. No. 62361546;

**SAZKA FTS a.s.**, with its registered office in Prague 9, Vysočany, at K Žižkovu 851/4, Postal Code 190 00, Id. No. 01993143;

**RUBIDIUM HOLDINGS LIMITED**, with its registered office at 8 Alasias Street, Christodoulides Building, 3095 Limassol, Republic of Cyprus, Reg. No. HE287956;

**Vitalpeak Limited**, with its registered office at Arch. Makariou III, 195, Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE 228204;

**KKCG Real Estate a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No.: 24291633;

**FM&S Czech a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 04283112;



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**KKCG Industry B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 27271144;

**INTERMOS Praha s.r.o.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 63076349;

**Moravia Systems a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 26915189;

**INTERMOS Bratislava s.r.o.**, with its registered office in Bratislava, at Slovnaftská ulica 102/A, Postal Code 821 07, Slovak Republic, Id. No. 26915189;

**KKCG STRUCTURED FINANCE LIMITED**, with its registered office at 8 Alasias Street, Christodoulides Building, 3095 Limassol, Republic of Cyprus, Reg. No. HE179840;

**KKCG Investments B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 3425187;

**Medicem Group B.V.**, with its registered office at 1077XX Amsterdam, Strawinskylaan 1207, Kingdom of the Netherlands, Reg. No. 53557972;

**MEDICEM International GmbH**, with its registered office in Zug, at Baarerstrasse 8, 6300, Swiss Confederation, Reg. No. CH- 170.4.010-812-2;

**MEDICEM International CR s.r.o.**, with its registered office in Prague 4, at Na Strži 1702/65, Nusle, Postal Code 140 00, Id. No. 24197653;

**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 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 OPHTHALMIC (CY) LIMITED**, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE314823;

**MEDICEM TISSUE (CY) LIMITED**, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE314849;

**MEDICEM GYNECO (CY) LIMITED**, with its registered office at Arch. Makariou III, 195 Neocleous House, 3030 Limassol, Republic of Cyprus, Reg. No. HE314834;

**Vinohradská 230 a.s.**, with its registered office in Prague 10, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 26203944;

**TrustYard s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 28960823;

**Springtide Ventures s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 01726587;

**JTU Czech, s.r.o.**, with its registered office in Prague 1, Nové Město, at V celnici 1031/4, Postal Code 110 00, Id. No. 02612020;

**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;

**Theta Real s.r.o.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id.

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No. 27631842;

**PXY Czech, a.s.**, with its registered office in Prague 10, Strašnice, at Vinohradská 1511/230, Postal Code 100 00, Id. No. 01409476;

**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;

**KKCG Investments AG**, with its registered office at Kapellgasse 21, 6004 Luzern, Swiss Confederation, Reg. No. CHE-271.643.388;

<i>Statement of profit or loss and other comprehensive income</i>	Paragraph of Annex	For 2015	For 2014
<b>Proceeds from lottery and betting activities</b>	6	<b>4 935 884</b>	<b>4 122 973</b>
Proceeds from deposits		11 002 512	8 977 970
Winnings		-6 066 628	-4 854 997
<b>Proceeds from other activities</b>	6	<b>329 548</b>	<b>268 170</b>
<b>Net sales</b>		<b>5 265 432</b>	<b>4 391 143</b>
<b>Cost of proceeds from lottery and betting activities</b>	7	<b>-2 097 724</b>	<b>-1 807 323</b>
Service fee		-1 033 383	-913 700
Lottery tax		-982 105	-834 475
Other cost of proceeds from lottery and betting activities		-82 236	-59 148
<b>Cost of proceeds from other activities</b>	7	<b>-222 109</b>	<b>-161 283</b>
<b>Cost of sale</b>		<b>-2 319 833</b>	<b>-1 968 606</b>
<b>Gross margin</b>		<b>2 945 599</b>	<b>2 422 537</b>
<b>Other operating revenues</b>		<b>334</b>	<b>15 404</b>
<b>Operating costs</b>	8	<b>-1 343 876</b>	<b>-1 195 945</b>
Marketing and distribution costs		-758 500	-637 434
Administrative costs		-508 551	-466 044
Other operating costs		-76 825	-92 467
<b>Operating profit/loss</b>		<b>1 602 057</b>	<b>1 241 996</b>
<b>Interest revenue</b>	10	<b>1 694</b>	<b>1 903</b>
<b>Interest expense</b>	10	<b>-405 119</b>	<b>-605 698</b>
<b>Other profit (+) / loss (-) from financial area</b>	10	<b>33 162</b>	<b>-5 163</b>
<b>Profit/loss from financial operations</b>		<b>-370 263</b>	<b>-608 958</b>
<b>Profit/loss before tax</b>		<b>1 231 794</b>	<b>633 038</b>
Income tax	11	-237 313	-120 451
<b>Profit/loss for the accounting period</b>		<b>994 481</b>	<b>512 587</b>
<b>Items to be reclassified in the profit and loss account</b>			
Revaluation of hedging derivatives		16 290	-17 248
Deferred tax from revaluation of hedging derivatives		- 3 094	3 277
<b>Other comprehensive income for the accounting period (after tax)</b>		<b>13 196</b>	<b>-13 971</b>
<b>Comprehensive income for the accounting period</b>		<b>1 007 677</b>	<b>498 616</b>
<b>Earnings per share (EPS)</b>			
Basic EPS (in CZK)	21	220 996	113 908
Diluted EPS (in CZK)	21	220 996	113 908

**Statement of financial position**

	Paragraph of Annex	31 December 2015	31 December 2014
<b>ASSETS</b>			
Intangible fixed assets	12	2 136 354	2 101 919
Goodwill	12	9 636 122	9 636 122
Tangible fixed assets (property, plant and equipment)	13	650 706	679 826
Investments in enterprises with decisive influence	15	18 600	106 607
Other long-term financial investments	16	42 199	42 199
Long-term trade receivables and other fixed assets	18	8 761	5 289
<b>Total fixed assets</b>		<b>12 492 742</b>	<b>12 571 962</b>
Inventories		6 823	7 699
Short-term trade receivables and other current assets	18	339 507	179 651
Receivable on account of payable income tax	12	--	65 425
Short-term receivables from financial instruments	19	1 200 152	100 009
Cash and cash equivalents	20	623 696	986 896
Assets earmarked for sale	14	53 190	--
<b>Total current assets</b>		<b>2 223 368</b>	<b>1 339 680</b>
<b>Total assets</b>		<b>14 716 110</b>	<b>13 911 642</b>

Annex to financial statements on pages 24 to 67 forms an integral part of these financial statements.

## FINANCIAL STATEMENTS

<i>Statement of financial position (continued)</i>	Paragraph of Annex	31 December 2015	31 December 2014
<b>LIABILITIES</b>			
<b>Equity capital</b>			
Registered capital	21	450 000	450 000
Capital and other contributions	21	1 453 064	1 439 868
Retained earnings/accumulated losses from previous years and current period	21	2 753 806	1 759 325
<b>Total equity capital</b>		<b>4 656 870</b>	<b>3 649 193</b>
<b>Liabilities</b>			
Bank credits and other loans - long-term part	22	5 416 747	5 797 103
Long-term liabilities from financial instruments	16	49 200	48 355
Deferred tax liability	17	221 053	165 571
Long-term provisions ( <i>in Czech: rezervy</i> )	24	21 960	--
<b>Total long-term liabilities</b>		<b>5 708 960</b>	<b>6 011 029</b>
Bank credits and other loans - short-term part Short-term trade payables and others	22	2 811 702	2 885 243
Short-term liabilities	23	1 274 212	1 152 791
Liability on account of payable income tax	11	83 423	--
Short-term liabilities from financial instruments	22	957	17 248
Short-term provisions ( <i>in Czech: rezervy</i> )	24	179 986	196 138
<b>Total short-term liabilities</b>		<b>4 350 280</b>	<b>4 251 420</b>
<b>Total liabilities</b>		<b>10 059 240</b>	<b>10 262 449</b>
<b>Total equity capital and liabilities</b>		<b>14 716 110</b>	<b>13 911 642</b>

\*) Change in presentation, see paragraph 5.

Annex to financial statements on pages 24 to 67 forms an integral part of these financial statements.

**Statement of changes in equity capital**

	Paragrap h of Annex	Registered capital	Other capital contributio ns	Retained earnings/acc umulated losses from previous years and current period	Total equity capital
Balance as of 1 January 2014		450 000	1 453 839	1 246 738	3 150 577
Profit/loss for 2014		--	--	512 587	512 587
Revaluation of hedging derivatives		--	-13 971	--	-13 971
Comprehensive income for 2014		--	-13 971	512 587	498 616
Balance as of 31 December 2014		450 000	1 439 868	1 759 325	3 649 193
Balance as of 1 January 2015		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

Annex to financial statements on pages 24 to 67 forms an integral part of these financial statements.

**Cash flow statement**

	Paragraph of Annex	For 2015	For 2014
<b><u>OPERATING ACTIVITIES</u></b>			
Profit (+) for accounting period		994 481	512 587
<i>Adjusted by:</i>			
Income tax	11	237 313	120 451
Depreciation of tangible and intangible fixed assets	8	52 925	51 068
Loss (+) from sale of tangible and intangible fixed assets	8	4 051	12 907
Profit (-) associated with removal of securities; other financial revenues		-981	--
Net interest cost (+)		403 425	603 796
Impairment of assets (+)		7 789	--
Net foreign exchange loss (+)	10	2 154	--
Revenue from the holding of securities (-)	10	-34 335	--
<b>Operating profit/loss prior to change in working capital and provisions (in Czech: rezervy)</b>		<b>1 666 822</b>	<b>1 300 809</b>
Increase (+) in provisions (in Czech: rezervy)	24	5 808	59 111
Decrease (+) in inventories		876	-3 299
Increase (-) in trade receivables and other assets	18	-162 522	-62 318
Increase (+) in trade payables and other payables	23	121 421	390 044
<b>Operating cash</b>		<b>1 632 405</b>	<b>1 684 347</b>
Interest paid		-285 441	-692 387
Income tax paid		-36 078	-188 909
<b>Net operating cash flow</b>		<b>1 310 886</b>	<b>803 051</b>
<b><u>INVESTING ACTIVITIES</u></b>			
Acquisition of tangible fixed assets	13	-62 332	-28 342
Acquisition of intangible fixed assets	12	-65 327	-42 985
Proceeds from sale of tangible and intangible fixed assets		280	6 500
Proceeds from share of liquidation balance in property interests	10	89 288	--
Interest received		1 694	1 903
Dividends received	10	34 335	--
<b>Net cash flow used (-) in investment activities</b>		<b>- 2 062</b>	<b>-62 924</b>
<b><u>FINANCIAL ACTIVITIES</u></b>			
Credits and loans received		256 000	6 482 187
Credits and loans paid		-827 881	-6 822 733
Liabilities paid under finance lease		--	2
<b>Net cash flow used (-) in financial activities</b>		<b>-571 881</b>	<b>-340 544</b>
<b>Net increase in (+) cash and cash equivalents</b>		<b>736 942</b>	<b>399 583</b>
<b>Balance of cash and cash equivalents - beginning of accounting period</b>	21	<b>1 086 906</b>	<b>687 322</b>
<b>Balance of cash and cash equivalents - end of accounting period</b>	21	<b>1 823 848</b>	<b>1 086 905</b>

Annex to financial statements on pages 24 to 67 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 SAZKA mobil, 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 2015 (number of members: 5):

Chairman of the Board of Directors:	Pavel Šaroch
Members of the Board of Directors:	Martin Bláha
	Robert Chvátal
	Kamil Ziegler
	Martin Škopek

Members of the Supervisory Board as of 31 December 2015 (number of members: 4):

Chairman of the Supervisory Board:	Karel Komárek
Member of the Supervisory Board:	Ivo Tajšl
	Robert Kolář
	Position of member No. 4 – vacant

#### 1.4. Sole shareholder of the Company

SAZKA Czech a.s. (a change in the business name of the company, originally called PGQ Czech Republic, a.s., was registered in the Commercial Register on 14 July 2014)  
Vinohradská 1511/230, Strašnice, 100 00 Prague 10  
Identification number: 248 52 104

The Company is part of the KKCG consolidation group. KKCG PLC, with its registered office in Cyprus, is the ultimate owner of the Company within the KKCG Group.

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

In 2015, the following changes were registered:

*Supervisory Board:*

On 29 May 2015, Radek Dyntar was removed from the position of member of the Supervisory Board as of 31 May 2015. This fact was registered in the Commercial Register on 17 July 2015.

*Sole shareholder:*

On 22 January 2015, information on the limitation of transferability of shares was registered in the Commercial Register among other facts.

## 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 2015, as well as the compilation of data for the comparative period, i.e. as of 31 December 2014.

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 15.

The Company used an exemption from the duty to compile consolidated financial statements, since the Company is part of the SAZKA Group a.s. consolidation unit (group). The consolidated financial statements of SAZKA Group a.s. for 2015 compiled in accordance with the IFRS will be published in the Collection of Instruments maintained by the Commercial Register. Companies within the SAZKA Group a.s. are not issuers of publicly tradable securities.

These financial statements were approved by the Company's Board of Directors on 23 March 2016.

### (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.

### (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 12 - 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 13 - assessment of useful life of tangible assets;
- Paragraph 13 - reporting of operating lease of terminals;
- Paragraph 14 - assessment of impairment of material assets held for sale;
  
- Paragraph 25 - 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 2015 (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).

**Amendment to IAS 19 - Defined Benefit Plans: Employee Contributions**

Effective for the annual reporting period beginning on or after 1 July 2014. The amendment is to be applied retrospectively. The amendment is only concerned with the defined benefit plans that include contributions by employees or third parties who meet certain criteria. Specifically, they must be:

- specified in the formal conditions of a plan;
- linked to services provided by employees; and
- independent of the number of years worked.

If these criteria are met, the Company has the possibility (but not the duty) to report the respective contributions as a decrease in the cost of services in the period in which the related services were provided.

The amendment did not have any effect on the financial statements, since the accounting entity had no defined benefit plans that would include employee or third-party contributions.

**(f) Standards, interpretations and amendments of issued standards adopted before 31 December 2015 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 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.

The entity expects that this standard will have no effect on the financial statements, since the entity records no regulatory deferral account balances.

**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 for 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 of 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.

**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.

The accounting entity expects that, upon initial application, the amendment will have 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 effect of this amendment will not allow assessment before the year of its initial application, since the effect will depend on acquiring any joint operations during the relevant reporting period. The accounting entity does not plan for earlier adoption of this Amendment; therefore, it is impossible to estimate the effect of this Amendment on the accounting entity's 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 accounting entity expects that, upon initial application, the amendment will have no significant effect the financial statements. However, the quantitative effect of this amendment will not allow assessment before the year of its initial application, since the effect will depend on transfer of assets or enterprises to an associate or joint venture during the relevant reporting period.

**Amendment 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 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.

It is expected that the amendment will have no significant effect on the accounting entity's financial statements in its initial application, 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 accounting entity expects that the amendment will 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.

### 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 repayment 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 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 (winning) 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 20% 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 20% 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) 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 20% 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 expenses**

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 to the functional currency as of the balance sheet date 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**

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 related to 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 related to 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 22).

#### 5. Change in presentation

In respect of the financial statements for the year ending 31 December 2015, no changes occurred in the presentation of the individual items of the financial statements.

#### 6. Sales

	2015	2014
<b>Proceeds from lottery and betting activities</b>	<b>4 935 884</b>	<b>4 122 973</b>
<b>Proceeds from deposits</b>	<b>11 002 512</b>	<b>8 977 970</b>
Proceeds from number lotteries	8 500 914	7 171 727
Proceeds from instant lotteries	1 202 126	860 146
Proceeds from fixed-odds betting	1 299 472	946 097
<b>Winnings</b>	<b>-6 066 628</b>	<b>-4 854 997</b>
Winnings from number lotteries	-4 165 107	-3 510 658
Winnings from instant lotteries	-698 595	-468 435



Winnings from fixed-odds betting	-1 202 926	-875 904
<b>Proceeds from other activities</b>	<b>329 548</b>	<b>268 170</b>
<b>Net sales</b>	<b>5 265 432</b>	<b>4 391 143</b>

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

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 security deposits for winnings, 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.

The increase in proceeds from other activities was primarily due to the one-off promotion of tickets for the Ice Hockey World Championship 2015 (Ticketing) and the launch of the Postpaid product (SAZKA mobil).

## 7. Cost of sale

	2015	2014
<b>Cost of proceeds from lottery and betting activities</b>	<b>-2 097 724</b>	<b>-1 807 323</b>
<b>Service fee</b>	<b>-1 033 383</b>	<b>-913 700</b>
Partner fees*	-553 614	-457 474
System provider fees	-479 769	-456 226
<b>Lottery tax</b>	<b>-982 105</b>	<b>-834 475</b>
<b>Other cost of proceeds from lottery and betting activities</b>	<b>-82 236</b>	<b>-59 148</b>
<b>Cost of proceeds from other activities</b>	<b>-222 109</b>	<b>-161 283</b>
<b>Service fee</b>	<b>-102 634</b>	<b>-102 075</b>
Partner fees*	-84 354	-82 968
System provider fees	-18 280	-19 107
<b>Other cost of proceeds from other activities</b>	<b>-119 475</b>	<b>-59 208</b>
<b>Cost of sale</b>	<b>-2 319 833</b>	<b>-1 968 606</b>

\*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.

The most significant part of costs is directly related to proceeds from the lottery and betting activities.

The increase in Other cost of proceeds from other activities in 2015 is related to the launch of the new SAZKA mobil postpaid product in April 2015, as well as the increase in the virtual operator's customer base and sales. The largest items equalled CZK 103 million and CZK 7.6 million for the purchase of services from the operator (SAZKA mobil) and exclusivity right (Ticketing), respectively.

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 8).

## 8. 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:

	2015	2014
<b>Operating costs</b>	<b>-1 343 876</b>	<b>-1 195 945</b>
Personnel costs	-331 581	-256 413
Depreciation of tangible fixed assets	-26 361	-22 769
Depreciation of intangible assets	-26 564	-28 299
Advertising, promotion and other related costs	-461 161	-406 286
Unclaimed VAT	-208 820	-208 094
Loss from sale of assets (costs minus revenues)	-4 051	-12 907
Other <sup>1)</sup>	-285 338	-261 177

- 1) 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.

The increase in operating costs is caused by the launch of a new SAZKA mobil postpaid product in April 2015 and also by the increase in the customer base and sales of the virtual mobile network operator.

Personnel costs	2015		2014	
	Employees	Senior employees	Employees	Senior employees
Wages and salaries	-155 709	-91 203	-135 797	-56 221
Remuneration for the members of the bodies of the Company	--	-6 035	--	-455
Social security and health insurance	-49 289	-19 267	-39 506	-16 785
Other social expenses	-10 078	--	-7 649	--
<b>Total</b>	<b>-215 076</b>	<b>-116 505</b>	<b>-182 952</b>	<b>-73 461</b>
<b>Average number of employees</b>	<b>272</b>	<b>52</b>	<b>257</b>	<b>43</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 2015 or 2014. Company vehicles are available to the Company's senior employees according to its internal rules. In 2015, the Company paid remunerations to the members of the bodies of the Company in the amount of CZK 6 034 thousand (2014 – CZK 455 thousand). No loans or credits were provided to the members of the bodies of the Company in 2015 or 2014.

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

## 9. Remuneration of statutory auditors

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

## 10. Financial revenues and costs

	2015	2014
<b>Interest revenue</b>	<b>1 694</b>	<b>1 903</b>
Bank interest	1 694	1 903
<b>Interest expense</b>	<b>-405 119</b>	<b>-605 698</b>
Interest on bank loans	-226 346	-231 246
Other interest	-178 773	-374 452
<b>Other profit (+) / loss (-) from financial area</b>	<b>33 162</b>	<b>-5 163</b>
Loss (-) from foreign exchange operations	-2 154	-5 349
Revenue from the holding of securities (dividends) 1)	34 335	--
Bank fees	-300	--
Other financial revenues 2)	89 288	186
Other financial expenses 3)	-88 007	--
<b>Profit/loss from financial operations</b>	<b>-370 263</b>	<b>-608 958</b>

1) Revenues from the holding of securities include the dividend paid by GTECH Czech Republic LLC.

2) Other financial revenues in 2015 include, without limitation, the liquidation balance of KPS Media in the amount of CZK 84 867 thousand.

3) Other financial expenses include, without limitation, the costs of liquidation of KPS Media.

## 11. Income tax

	2015	2014
<b>Income tax</b>	<b>-237 313</b>	<b>-120 451</b>
Payable income tax	-184 926	-78 286
Deferred income tax	-52 387	-42 165

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 2014, 2015 and 2016.

Payable income tax includes the estimated tax for the 2015 tax period in the amount of CZK 184 712 thousand (2014 – CZK 76 424 thousand) and more accurate specification of the estimated tax for the 2014 tax period in the amount of CZK 214 thousand (2014 – more accurate specification of the estimated tax for the 2013 tax period in the amount of CZK 1 862 thousand).

In the statement of financial position of 2015, the estimated income tax in the amount of CZK 184 712 thousand (2014 – CZK 76 424 thousand) was reduced by the advance payments for income tax paid in the amount of CZK 101 289 thousand (2014 – CZK 141 849 thousand) and the resulting liability in the amount CZK 83 423 thousand was reported in the item of Liabilities on account of a payable income tax (2014 – CZK 65 425 thousand reported in the item of Receivable on account of a payable income tax).

### Approval of an effective tax rate

#### Approval of an effective tax rate

		2015		2014	
<b>Profit before tax</b>		<b>1 231 793</b>		<b>633 038</b>	
Income tax according to the applicable domestic tax rate	19.00%	-234 041	19.00%	-120 277	
Other items without effect in terms of tax	0.27%	-3 272	0.03%	-174	
<b>Income tax reported in the statement of comprehensive income</b>	<b>19.27%</b>	<b>-237 313</b>	<b>19.03%</b>	<b>-120 451</b>	

## 12. Intangible assets and goodwill

2015	Royalties	Software	Other intangible assets	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	--	0
<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>Residual value as of 31 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>
2014	Royalties	Software	Other intangible assets	Goodwill	Total
<b>Acquisition price</b>					
<b>Balance as of 1 January 2014</b>	<b>1 966 362</b>	<b>144 305</b>	<b>57 821</b>	<b>9 636 122</b>	<b>11 804 610</b>
Accruals	28 499	20 630	1 338	--	50 467
Decreases	--	-6 144	--	--	-6 144
<b>Balance as of 31 December 2014</b>	<b>1 994 861</b>	<b>158 791</b>	<b>59 159</b>	<b>9 636 122</b>	<b>11 848 933</b>
<b>Accumulated depreciation</b>					
<b>Balance as of 1 January 2014</b>	<b>-976</b>	<b>-87 350</b>	<b>--</b>	<b>--</b>	<b>-88 326</b>
Depreciation	-1 333	-21 184	-5 782	--	-28 299
Accumulated depreciation of decreases	--	5 733	--	--	5 733

<b>Balance as of 31 December 2014</b>	<b>-2 309</b>	<b>-102 801</b>	<b>-5 782</b>	<b>--</b>	<b>-110 892</b>
<b>Residual value as of 1 January 2014</b>	<b>1 965 386</b>	<b>56 955</b>	<b>57 821</b>	<b>9 636 122</b>	<b>11 716 284</b>
<b>Residual value as of 31 December 2014</b>	<b>1 992 552</b>	<b>55 990</b>	<b>53 377</b>	<b>9 636 122</b>	<b>11 738 041</b>

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.

As of 31 December 2015, selected trade marks were encumbered with the right of pledge. The value of the trade marks pledged as of 31 December 2015 corresponds to CZK 1 871 939 thousand (see paragraph 22).

The most significant accruals in terms of long-term intangible fixed assets in 2015 included in particular the assessment of the system and acquisition of extension licences for the planning and reporting software IBM Cognos in the amount of CZK 9 622 thousand, evaluation of the SAP system in the amount of CZK 7 336 thousand and, in the stage of investments under construction, the license and software coverage of the Digital Entertainment Hub project in the amount of CZK 29 465 thousand.

The most significant decreases in terms of long-term intangible fixed assets in 2015 included the removal of the unusable Ruleta Sazka trade mark in the residual value of CZK 3 096 thousand and fixed-odds betting software in the residual value of CZK 3 011 thousand.

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 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, on the basis of the value-in-use that reflects the estimated future discounted cash flow. 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. For the purpose of impairment testing, the Company applied the weighted average cost of capital in the amount of 8.89%. The cash flow forecast was processed on the basis of specific expected operating results and a 5-year business plan for the period until the end of 2020 that shall resume in the form of perpetuity, which serves as the basis for calculating so-called terminal value.

For the purpose of impairment testing, the following assumptions were applied: regular market player, the best manner of use of assets according to the fair value model defined in IFRS 13 and corporate income tax rate in the amount of 19%. The average EBIT margin in the amount of 11% from the 2012–2016 financial plan was applied as the average attainable operating margin for the purpose of impairment testing.

Impairment testing is performed annually as of 31 December of the respective year. The resulting realisable value calculated on the basis of the value-in-use 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 2015. The Company management also performed a sensitive analysis of factors having impact on the utility 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 which employed the comparison of the calculated savings in the licence fee with the marketing costs and maintaining the trade mark position. The forecast was again drawn up according to the 5-year business plan for the period until the end of 2020 that shall resume in the form of perpetuity for the purpose of calculating so-called terminal value. Net licence fees after tax were again 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 2015. The Company management also performed 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.

## 13. Fixed tangible assets

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 acquisiti on	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 of decreases	--	--	392	--	--	--	392
Reposting	--	2 217	265	--	--	--	2 482
<b>Balance as of 31 December 2015</b>	<b>--</b>	<b>-36 558</b>	<b>-50 024</b>	<b>-5 037</b>	<b>--</b>	<b>--</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>--</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>--</b>	<b>33 399</b>	<b>1 406</b>	<b>650 706</b>
<b>2014</b>							
	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 acquisiti on	Total
<b>Acquisition price</b>							
<b>Balance as of 1 January 2014</b>	<b>101 963</b>	<b>514 403</b>	<b>62 060</b>	<b>6 929</b>	<b>33 399</b>	<b>1 230</b>	<b>719 984</b>
Accruals	--	1 187	21 441	--	--	14 999	37 627
Decreases	--	-219	-7 542	-1 892	--	--	-9 653
Reposting	--	--	1 230	--	--	-1 230	--
<b>Balance as of 31 December 2014</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>
<b>Accumulated depreciation</b>							
<b>Balance as of 1 January 2014</b>	<b>--</b>	<b>-20 028</b>	<b>-24 446</b>	<b>-6 663</b>	<b>--</b>	<b>--</b>	<b>-51 137</b>
Depreciation	--	-9 354	-13 149	-266	--	--	-22 769
Accumulated depreciation of decreases	--	219	3 663	1 892	--	--	5 744
<b>Balance as of 31 December 2014</b>	<b>--</b>	<b>-29 163</b>	<b>-33 932</b>	<b>-5 037</b>	<b>--</b>	<b>--</b>	<b>-68 132</b>
<b>Residual value as of 1 January 2014</b>	<b>101 963</b>	<b>494 375</b>	<b>37 614</b>	<b>266</b>	<b>33 399</b>	<b>1 230</b>	<b>668 847</b>
<b>Residual value as of 31 December 2014</b>	<b>101 963</b>	<b>486 208</b>	<b>43 257</b>	<b>--</b>	<b>33 399</b>	<b>14 999</b>	<b>679 826</b>

The most significant accruals in terms of long-term tangible fixed assets in 2015 included interior equipment of the renovated

office spaces and canteen in the amount of CZK 19 773 thousand, construction modifications to the SAZKA administrative building in the amount of CZK 11 943 thousand, purchase of a set of POS terminals for fixed-odds betting in the amount of CZK 11 327 thousand and purchase of a backup library (VTL) in the amount of CZK 6 277 thousand.

As of 31 December 2015, 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 22). The residual value of this building including the adjoining land corresponds to CZK 538 141 thousand (2014 – CZK 508 390 thousand).

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

As of 31 December 2015, the Company records no material long-term tangible and intangible fixed assets not reported in the statement of financial position.

## OPERATING LEASE

### Operating lease as of 31 December 2015

Subject of the lease	Type of agreement	Termination date	Future rent payments		
			up to 1 year	from 1 to 5 years	over 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.

(1) The total expenses related to this lease in 2015 amounted to CZK 478 912 thousand (2014 – CZK 170 360 thousand).

(2) Car lease costs in 2015 amounted to CZK 13 487 thousand (2014 – CZK 12 272 thousand).

(3) IT costs in 2015 amounted to CZK 1 605 thousand 2014 – CZK 3 445 thousand).

### Operating lease as of 31 December 2014

Subject of the lease	Type of agreement	Termination date	Future rent payments		
			up to 1 year	from 1 to 5 years	over 5 years
Terminals (1)	fixed term until	31 December 2022	n/a*	n/a*	n/a*
Cars (2)	fixed term until	31 March 2019	12 916	35 815	--
IT (3)	fixed term until	31 July 2015	1 182	--	--
Reprographic equipment	fixed term until	30 June 2016	593	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.

## 14. Assets earmarked for sale

	31 December 2015	31 December 2014
<b>Assets earmarked for sale under IFRS 5</b>	<b>53 190</b>	<b>--</b>
Properties (land)	36 488	--
Buildings	16 437	--
Furniture	265	--

As of 31 December 2015, the Company records assets earmarked for sale in the amount of CZK 53 190 thousand. These include 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.

As of 31 December 2014, the Company recorded no assets earmarked for sale.

## 15. Investments in enterprises with decisive influence

		Book value as of 31 December 2015	Book value as of 31 December 2014
<b>Investments in enterprises with decisive influence</b>	<b>Property interest</b>	<b>18 600</b>	<b>106 607</b>
KPS MEDIA a.s. v likvidaci ( <i>in liquidation</i> )	100%	--	88 007
SPORTLEASE a.s.	100%	18 600	18 600

	Property interest (%)	Total profits for 2015	Equity capital as of 31 December 2015	Total profits for 2014	Equity capital as of 31 December 2014
<b>Investments in enterprises with decisive influence</b>					
KPS MEDIA a.s. v likvidaci ( <i>in liquidation</i> )	100%	--	--	6 387	89 018
SPORTLEASE a.s.	100%	832	19 823	576	18 991

KPS MEDIA a.s. v likvidaci (*in liquidation*) entered into liquidation as of 1 October 2014, therefore the above information comes from the extraordinary financial statements compiled as of 30 September 2014.

After completion of the liquidation, KPS MEDIA a.s. was deregistered from the Commercial Register as of 9 October 2015.

The above information comes from audited financial statements.

On 22 February 2016, the Board of Directors of SAZKA a.s. approved the sale of Sportlease a.s. to SAZKA Czech a.s.

## 16. Other long-term financial investments

		31 December 2015	31 December 2014
<b>Other long-term financial investments</b>	<b>Property interest (%)</b>	<b>42 199</b>	<b>42 199</b>
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 2015 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 49 200 thousand (2014 – 48 355 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 2015.

- 2) As of 31 December 2015, 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 2015, the current financial statements of the Company are unavailable.



## 17. Deferred tax assets and liabilities

The following deferred tax assets and liabilities, and their year-by-year changes, were reported as of 31 December 2015, 31 December 2014 and 1 January 2014, respectively:

	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	Assets		Liabilities		Net amount	
<b>Deferred tax asset (+) / liability (-)</b>	-	-	<b>-221 053</b>	<b>-165 571</b>	<b>-221 053</b>	<b>-165 571</b>
Fixed assets	--	-	-260 577	-207 047	-260 577	-207 047
Short-term provisions ( <i>in Czech: rezervy</i> )	38 750	37 266	--	--	38 750	37 266
Tax losses	--	--	--	--	--	--
Revaluation of derivatives	182	3 277			182	3 277
Other temporary differences	1 878	2 219	-1 286	-1 286	592	933
Calculated deferred tax assets and liabilities	40 810	42 761	-261 863	-208 333	-221 053	-165 571
Setting off deferred tax assets and liabilities	-40 810	-42 761	40 810	42 762		

	31 December 2015	2015	31 December 2014	2014	31 December 2013
	Deferred tax liability	Accounted for in the comprehensive income	Deferred tax liability	Accounted for in the comprehensive income	Deferred tax liability
<b>Deferred tax asset (+) / liability (-)</b>	<b>-221 053</b>	<b>-55 482</b>	<b>-165 571</b>	<b>-38 888</b>	<b>-126 683</b>
Fixed assets	-260 577	-53 531	-207 047	-53 523	-153 524
Short-term provisions ( <i>in Czech: rezervy</i> )	38 750	1 484	37 266	11 678	25 588
Tax losses	--	--	--	--	--
Revaluation of hedging derivatives	182	-3 094	3 277	3 277	--
Other temporary differences	592	-341	933	-320	1 253

## 18. 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 2015	31 December 2014
<b>Long-term trade receivables and other long-term assets</b>	<b>8 761</b>	<b>5 289</b>
Long-term advances and security deposits provided	8 761	5 289

Long-term advances and security deposits provided equal CZK 8 761 thousand (2014 - CZK 5 289 thousand). As of 31 December 2015, 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 2015	31 December 2014
<b>Short-term trade receivables and other short-term assets</b>	<b>339 507</b>	<b>179 651</b>
Short-term trade receivables	207 117	98 853
Short-term advances and security deposits provided	4 780	43 951
Receivables from employees	398	302
Other short-term receivables	3 347	2 407
VAT receivable	52 026	--
Short-term prepaid expenses	71 839	39 138

The increase in short-term trade receivables as of 31 December 2015, compared to 31 December 2014, was caused by sales attained in the period from 28 December to 31 December 2015, which were not collected until 2016.

The decrease in the item of short-term advances and security deposits provided is caused by the refund of a security deposit from O2 Czech Republic, a.s. (formerly Telefónica Czech Republic, a.s.), originally provided in respect of remittance of revenues from GSM top-up.

The VAT refund receivable arose in recalculation of the annual advance coefficient for the final settlement.

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

## 19. Short-term receivables from financial instruments

Short-term receivables from financial instruments in the amount of CZK 1 200 152 thousand (2014 - CZK 100 009 thousand) represent a receivable from KKCG Structured Finance Limited on account of outstanding securities - held-to-maturity promissory notes based on the investment agreement executed with KKCG Structured Finance Limited, Cyprus.

For the purposes of the cash flow statement, these receivables are classified as part of cash equivalents.

**20. Cash and cash equivalents**

	31 December	31 December
	2015	2014
<b>Cash and cash equivalents</b>	<b>623 696</b>	<b>986 896</b>
Cash	2 635	4 910
Bank accounts	621 061	981 986

The Company has tied cash in the amount of CZK 65 259 thousand (2014 - CZK 65 259 thousand) in accounts with ČSOB and Česká spořitelna, a.s., related to gaming deposits.

As of 31 December 2015, the Company has pledged money in bank accounts in the amount of CZK 535 266 thousand (2014 - CZK 894 990 thousand).

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

	31 December	31 December
	2015	2014
<b>Cash and cash equivalent reported in the cash flow statement</b>	<b>1 853 848</b>	<b>1 086 905</b>
Cash and cash equivalents	623 696	986 896
Receivable from KKCG Structured Finance Limited	1 200 152	100 009

**21. Equity capital****Registered capital and share premium**

The Company's registered capital consists of 4 500 ordinary registered share issued as share certificates in the nominal value of CZK 100 thousand. No changes were made in the Company's registered capital in 2015 or 2014.

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

**Statutory reserve fund**

On 30 June 2014, SAZKA a.s. adopted new Articles of Association, stipulating in Article 44 that a reserve fund shall not be created.

**Other capital contributions**

Based on loan contracts executed and the ensuing hedge, the following was recorded within other capital contributions based on confirmation of 31 December 2015: adjustment to derivatives of CZK -957 thousand (2014 - CZK -17 248 thousand) and a deferred tax asset of CZK 182 thousand (2014 - CZK 3 277 thousand).

**Earnings per share (EPS)**

Earnings pertaining to holders of ordinary shares (in CZK thousand)				
			2015	2014
Net profit pertaining to holders of ordinary shares			994 480	512 587
<b>Net profit pertaining to holders of ordinary shares</b>			<b>994 480</b>	<b>512 587</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>220 996</b>	<b>113 908</b>
<b>Diluted EPS p.a. (in CZK)</b>			<b>220 996</b>	<b>113 908</b>

**22. Loans**

	31 December 2015	31 December 2014
<b>Bank credits and other loans - long-term part</b>	<b>5 416 747</b>	<b>5 797 103</b>
Long-term bank credits and loans accepted - principal	5 416 747	5 797 103
	31 December 2015	31 December 2014
<b>Bank credits and other loans - short-term part</b>	<b>2 811 702</b>	<b>2 885 243</b>
Short-term bank credits and loans accepted - principal	636 181	634 418
Short-term bank credits and loans accepted - interest	38 226	35 149
Short-term intra-group credits and loans - principal	2 012 782	2 183 709
Short-term intra-group credits and loans - interest	124 513	31 967

**Bank credits and loans**

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 6 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>--</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>--</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>--</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 12), mortgage of the Company's building with adjoining land (see paragraph 13), and a pledge of the Company's shares, receivables from insurance indemnity and bank accounts (see paragraph 20).

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
65 088 434	Československá obchodní banka, a.s.	22 October 2020	550 000	-1 751
6 444 120	UniCredit Bank Czech Republic and Slovakia, a.s.	22 October 2020	700 000	-1 621
1 553 000 104	Komerční banka, a.s.	22 October 2019	800 000	-610
1 553 001 134	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").

As of 31 December 2014, the Company reported the following loans:

Type of loan	Interest rate	Interest expense in 2014	Due date	Balance as of 31 December 2014	Due within 1 year	Due from 1 to 6 years
Bank loan B - KB, ČS, ČSOB, Unicredit - principal	3.25% + 1M PRIBOR	32 279	--	--	--	--
<b>Balance as of 31 December 2014, reflecting transaction costs and interest</b>		--		--	--	--
Bank loan AI - KB, ČS, ČSOB, Unicredit - principal	3.65% + 1M PRIBOR	59 638	--	--	--	--
<b>Balance as of 31 December 2014, reflecting transaction costs and interest</b>		--		--	--	--
Bank loan AII - KB, ČS, ČSOB, Unicredit - principal	3.50% + 1M PRIBOR	31 661	--	--	--	--
<b>Balance as of 31 December 2014, reflecting transaction costs and interest</b>		--		--	--	--
Bank loan Ia - KB, ČS, ČSOB, Unicredit - principal	2.65% + 3M PRIBOR	19 963	22 October 2019	3 250 000	650 000	2 600 000
<b>Balance as of 31 December 2014, reflecting transaction costs and interest</b>		<b>19 963</b>		<b>3 227 914</b>	<b>651 424</b>	<b>2 576 490</b>
Bank loan IIa - KB, ČS, ČSOB, Unicredit - principal	2.85% + 3M PRIBOR	21 219	22 October 2020	3 250 000	--	3 250 000
<b>Balance as of 31 December 2014, reflecting transaction costs and interest</b>		<b>21 219</b>		<b>3 238 756</b>	<b>18 143</b>	<b>3 220 613</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.

The aforesaid loans comprise a pledge of trade marks (see paragraph 12), mortgage of the Company's building with adjoining

land (see paragraph 13), and pledge of the Company's shares and receivables from insurance indemnity.

As of 30 October 2014, the Company repaid early the aforesaid tranches AI, AII and B utilised under Loan Contract concerning a loan of CZK 2 000 000 thousand of 10 May 2012 and the Syndicated Loan Agreement concerning a loan of CZK 3 050 000 thousand of 6 December 2012. The principal amounts of the tranches that were repaid early equalled as of 30 October 2014: tranche AI - CZK 1 659 600 thousand; tranche AII - CZK 1 000 000 thousand; tranche B - CZK 975 000 thousand.

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 2014, 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 3 000 000 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:

	Bank entity	Due date	Nominal value (CZK thousand)	Fair value (CZK thousand)
IRS_14961	Česká spořitelna, a.s.	22 October 2020	500 000	-897
IRS_14832	Česká spořitelna, a.s.	22 October 2020	550 000	-4 158
65 088 434	Československá obchodní banka, a.s.	22 October 2020	550 000	-2 370
6 444 120	UniCredit Bank Czech Republic and Slovakia, a.s.	22 October 2020	700 000	-4 925
IRS/CIRS	Komerční banka, a.s.	22 October 2020	700 000	-4 898
<b>Total</b>				<b>-17 248</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 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
	19 October					
KKCG PLC	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.

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 2014, the Company reported the following loans accepted from affiliates:

31 December 2014	Due date	Interest rate	Balance of principal as of 31 December 2014	Principal due within 1 year	Principal due from 1 year to 5 years	Principal due above 5 years
	19 October					
KKCG PLC	2019	8.5%	2 183 709	--	2 183 709	--
<b>Total</b>			<b>2 183 709</b>	<b>--</b>	<b>2 183 709</b>	<b>--</b>

Payables of CZK 31 967 thousand on account of outstanding interest were reported in respect of the aforesaid loan as of 31 December 2014.

**23. Trade payables and other payables**

	31 December 2015	31 December 2014
<b>Short-term trade payables and other short-term payables</b>	<b>1 274 212</b>	<b>1 152 791</b>
Short-term trade payables 1)	295 890	298 207
Short-term security deposits received 2)	109 924	99 742
Payables on grounds of unpaid winnings	379 406	385 078
VAT payables	--	8 649
Corporate income tax payables	12 571	8 313
Payables on account of lottery tax	185 052	178 977
Payables under social and health insurance	7 200	5 793
Payables to employees	17 521	14 904
Estimated payables 3)	166 799	101 310
Prepaid	99 849	51 818

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 2015, the Company reported a payable of CZK 109 924 thousand (2014 - CZK 99 742 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.

- 3) Estimated payables comprise especially estimated payables on account of supplier invoices in the amount of CZK 101 902 thousand and partner fees in the amount of CZK 9 268 thousand.

Trade payables or other payables were not hedged as of 31 December 2015 or 31 December 2014.

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 26 of the Annex - Procedures in risk management and disclosure of information.

#### 24. Provisions (in Czech: rezervy)

	Short-term provisions for jackpots	Other short-term provisions	Total
<b>Short-term provisions</b>			
<b>Balance as of 1 January 2014</b>	<b>104 610</b>	<b>32 417</b>	<b>137 027</b>
Creation	154 011	42 127	196 138
Use	-104 610	-32 417	-137 027
<b>Balance as of 31 December 2014</b>	<b>154 011</b>	<b>42 127</b>	<b>196 138</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>
		Other long-term provisions	Total
<b>Long-term provisions</b>			
<b>Balance as of 31 December 2014</b>		--	--
<b>Balance as of 1 January 2015</b>		--	--
Creation		21 960	21 960
<b>Balance as of 31 December 2015</b>		<b>21 960</b>	<b>21 960</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. In 2015, a provision of CZK 21 960 thousand was recorded for the first time in this relation.

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

## 25. 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. (formerly 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.

Action to determine invalidity of the sale of the SAZKA enterprise filed within the insolvency proceedings by Mr Jiří Kabourek: In the proceedings, the plaintiff asked the court to waive the judicial fee and then to appoint legal counsel. The Municipal Court in Prague satisfied neither of those requests. The plaintiff filed a separate appeal against those decisions. On 4 March 2013, the Superior Court in Prague upheld the decisions of the Municipal Court in Prague. The plaintiff contested that ruling by an application for appellate review and, within this application, again asked for appointment of legal counsel. In the application, he also raised a plea of bias against the entire Municipal Court in Prague. On 2 September 2015, the Supreme Court of the Czech Republic discontinued the proceedings on the application for appellate review filed by Jiří Kabourek.

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.

### Action against unfair competition

On 12 July 2012, CHANCE, a.s. (currently Loterie Korunka a.s.) filed with the Municipal Court in Prague an action against SAZKA sázková kancelář a.s. (currently SAZKA a.s.), whereby it claimed that the latter be required to refrain from unfair competition which the plaintiff perceived in the fact that SAZKA a.s. was operating the Kasička lottery. By virtue of the action, Loterie Korunka a.s. claims that the operation of the Kasička lottery be discontinued and an appropriate compensation in the amount of CZK 5 000 thousand be provided. The amount of appropriate compensation claimed was increased during the proceedings to CZK 20 000 thousand. On 16 February 2015, the Municipal Court in Prague dismissed the action to the full extent. The plaintiff subsequently appealed against that decision. On 2 February 2016, the appellate court rendered its judgement whereby it fully upheld the first-instance judgement, save for paragraph XI. of the operative part, concerning the costs of the proceedings, where it also imposed on the plaintiff the duty to pay the costs.

### Statement of the Company management

Based on lawyers' opinion, the Company management considers all the above-specified actions unfounded and anticipates that, in terms of the risk of final impact on the Company's financial situation, these actions will not significantly impair the Company's liquidity or future expenses, except for any possible impacts of the actions to determine invalidity referred to above. Consequently, no provision was made in the Company's accounts in respect of these disputes.

## 26. 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 23 (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:

<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>					
<i>Long-term trade receivables and other long-term receivables</i>	8 761	--	--	--	8 761
<i>Short-term trade receivables and other short-term receivables</i>	287 083	52 026	--	398	339 507
<i>Short-term receivables from financial instruments (cash equivalents)</i>	1 200 152	--	--	--	1 200 152
<i>Receivable on account of payable tax</i>	--	--	--	--	--
<i>Cash and cash equivalents</i>	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>

<i>as of 31 December 2014</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>					
<i>Long-term trade receivables and other long-term receivables</i>	5 289	--	--	--	5 289
<i>Short-term trade receivables and other short-term receivables</i>	179 349	--	--	302	179 651
<i>Short-term receivables from financial instruments (cash equivalents)</i>	100 009	--	--	--	100 009
<i>Receivable on account of payable tax</i>	--	65 425	--	--	65 425
<i>Cash and cash equivalents</i>	4 910	--	981 986	--	986 896
<b>Total</b>	<b>289 557</b>	<b>65 425</b>	<b>981 986</b>	<b>302</b>	<b>1 337 270</b>

**Credit risk according to territories**

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

**ii. Impairment losses**

Age structure of financial assets:

**Age structure**

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

<i>as of 31 December 2014</i>	Before due date	Overdue < 90 days	Overdue < 91 to 180 days	Overdue < 181 to 365 days	Overdue >365 days	Adjustment (in Czech: opravná položka) created	Total
<b>Assets</b>							
<i>Other long-term financial investments</i>	42 199	--	--	--	--	--	<b>42 199</b>
<i>Long-term trade receivables and other long-term receivables</i>	5 289	--	--	--	--	--	<b>5 289</b>
<i>Short-term trade receivables and other short-term receivables</i>	175 717	<b>2 555</b>	<b>59</b>	<b>184</b>	<b>1 136</b>	--	<b>179 651</b>
<i>Short-term receivables from financial instruments (cash equivalents)</i>	100 009	--	--	--	--	--	<b>100 009</b>
<i>Cash and cash equivalents</i>	986 896	--	--	--	--	--	<b>986 896</b>
<b>Total</b>	<b>1 310 110</b>	<b>2 555</b>	<b>59</b>	<b>184</b>	<b>1 136</b>	--	<b>1 314 044</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 2015</i>	Book value	Contractual cash flows <sup>(1)</sup>	Up to 1 year	1 to 5 years	Over 5 years	Non-defined due date
<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	--	--	--
Receivable on account of a payable income tax	--	--	--	--	--	--
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>--</b>	<b>--</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	--	--
Payable on account of a payable income tax	83 423	83 423	83 423	--	--	--
<b>Total</b>	<b>9 636 242</b>	<b>9 636 241</b>	<b>4 169 337</b>	<b>5 417 704</b>	<b>49 200</b>	<b>--</b>
<b>Net liquidity risk</b>	<b>-8 045 622</b>	<b>-8 045 622</b>	<b>-2 629 678</b>	<b>-5 417 704</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.

<i>as of 31 December 2014</i>	Book value	Contractual cash flows <sup>(1)</sup>	Up to 1 year	1 to 5 years	Over 5 years	Non-defined due date
<b>Assets</b>						
Other long-term financial investments	42 199	42 199	--	--	--	42 199
Long-term trade receivables and other long-term receivables	5 289	5 289	--	--	--	5 289
Short-term trade receivables and other short-term receivables	179 651	179 651	179 651	--	--	--
Receivable on account of a payable income	65 425	65 425	65 425	--	--	--

tax						
Short-term receivables from financial instruments (cash equivalents)	100 009	100 009	100 009	--	--	--
<b>Total</b>	<b>392 573</b>	<b>392 573</b>	<b>345 085</b>	<b>--</b>	<b>--</b>	<b>47 488</b>
<b>Payables</b>						
Bank credits and other loans - long-term part	5 797 103	5 797 103		2 554 038	3 243 065	
Long-term liabilities from financial instruments	48 355	48 355			48 355	
Bank credits and other loans - short-term part	2 885 243	2 885 243	2 885 243			
Short-term trade payables and other short-term payables	1 152 791	1 152 791	1 152 791	--	--	--
Liabilities from financial instruments	17 248	17 248			17 248	
Payable on account of a payable income tax	--	--	--	--	--	--
<b>Total</b>	<b>9 900 740</b>	<b>9 900 740</b>	<b>4 038 034</b>	<b>2 554 038</b>	<b>3 308 668</b>	<b>--</b>
<b>Net liquidity risk</b>	<b>-9 508</b>	<b>-9 508</b>	<b>-3 692 949</b>	<b>-2 554</b>	<b>-3 308</b>	<b>47 488</b>
	<b>167</b>	<b>167</b>		<b>038</b>	<b>668</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".

dates as of 31 December 2015:

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

<i>as of 31 December 2015</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	--	--	--	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
Receivable on account of a payable income tax	--	--	--	--	--
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>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	--	5 416 747	--	--	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>4 085 914</b>	<b>5 417 704</b>	<b>49 201</b>	<b>--</b>	<b>9 552 818</b>

Financial information concerning interest-bearing and zero-interest assets and liabilities and their contractual due dates as of 31 December 2014:

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

<i>as of 31 December 2014</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	--	--	--	5 289	5 289
Short-term trade receivables and other short-term receivables	179 651	--	--	--	179 651
Short-term receivables from financial instruments (cash equivalents)	100 009	--	--	--	100 009
Receivable on account of a payable income tax	65 425	--	--	--	65 425
Cash and cash equivalents	--	--	--	986 896	986 896
<b>Total</b>	<b>345 085</b>	<b>--</b>	<b>--</b>	<b>1 034 384</b>	<b>1 379 469</b>

<i>as of 31 December 2014</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>Liabilities</b>					
Bank credits and other loans - long-term part	--	2 554 038	3 243 065	--	5 797 103
Long-term liabilities from financial instruments	--	--	48 355	--	48 355
Bank credits and other loans - short-term part	2 885 243	--	--	--	2 885 243
Short-term trade payables and other short-term payables	1 152 791	--	--	--	1 152 791
Liabilities from financial instruments	--	--	17 248	--	17 248
<b>Total</b>	<b>4 038 034</b>	<b>2 554 038</b>	<b>3 308 668</b>	<b>--</b>	<b>9 900 740</b>

**Sensitivity analysis**

The effective interest rate pertaining to loans and credits is 4.46% (2014 - 3.79%). 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 +/- 0.45% (2014 - +/- 0.38%). 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 2015</b>	<b>31 December 2014</b>
<b>Increase in interest rate by 10%</b>	-37 389	-16 476
<b>Decrease in interest rate by 10%</b>	+37 389	+16 476

#### (d) Foreign exchange 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 2015</b>	<b>31 December 2014</b>
Total payables	10 059 240	10 262 449
Reduction by cash and cash equivalents (including the receivable from KKCG Structure Limited - see paragraph 19)	1 823 848	1 086 905
<b>Net debt</b>	<b>8 235 392</b>	<b>9 175 544</b>
<b>Company's total equity capital</b>	<b>4 656 870</b>	<b>3 649 193</b>
<b>Debt to equity ratio</b>	<b>1.768</b>	<b>2.514</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 short-term loans from affiliates subject to a fixed interest rate of 8.5% (see paragraph 22) exceeds their book value due to a decrease in the market interest rates.

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

Fair values and book values of financial assets and liabilities	Book value		Fair value	
	31 December	31 December	31 December	31 December



	2015	2014	2015	2014
<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	8 761	5 289	8 761	5 289
Short-term trade receivables and other short-term receivables	339 507	179 651	339 507	179 651
Short-term receivables from financial instruments (cash equivalents)	1 200 152	100 009	1 200 152	100 009
Receivable on account of payable tax	--	65 425	--	65 425
Cash and cash equivalents	623 696	986 896	623 696	986 896
<b>Total</b>	<b>2 214 315</b>	<b>1 379 469</b>	<b>2 214 315</b>	<b>1 379 469</b>
<b>Payables</b>				
Bank credits and other loans - long-term part	5 416 747	5 797 103	5 416 747	5 797 103
Long-term liabilities from financial instruments	49 201	48 355	49 201	48 355
Bank credits and other loans - short-term part	2 811 702	2 885 243	2 911 378	3 015 689
Short-term trade payables and other short-term payables	1 274 212	1 152 791	1 274 212	1 152 791
Short-term liabilities from financial instruments	957	17 248	957	17 248
Payable on account of a payable income tax	83 423	--	83 423	--
<b>Total</b>	<b>9 636 293</b>	<b>9 899 890</b>	<b>9 735 969</b>	<b>10 030 336</b>

### Hierarchy of fair value

The Company applies the following hierarchy when determining and reporting fair value of financial instruments according to valuation procedures:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: other procedures based on input data that have 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.

## 27. 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 PLC 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 2015 and 31 December 2014:

	Receivables		Payables	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
KPS MEDIA a.s. v likvidaci ( <i>in liquidation</i> ) 1)	--	160	--	2 286
SPORTLEASE a.s.	14	17	--	--
BESTSPORT akciová společnost ( <i>joint stock company</i> ) 2)	--	91	--	--
GTECH Czech Republic LLC.	886	906	87	22
KKCG a.s.	--	23	3 779	13 848
KKCG PLC 3)	--	--	2 137 295	2 215 676
KKCG Structured Finance Limited 4)	1 200 152	100 009	--	--
KKCG Real Estate	--	--	--	944
MND a.s.	--	--	1 409	680
DataSpring s.r.o.	235	437	13 308	887
CK Fischer ( <i>travel agency</i> )	--	--	315	370
Geewa a.s.	--	--	294	240

SAZKA FTS	--	1 047	--	--
Springtide Ventures	--	--	310	211
Informační linky s.r.o.	--	--	1 685	1 319
Kynero Consulting a.s.	--	--	22	--
<b>Total</b>		<b>1 201 287</b>	<b>2 158 504</b>	<b>2 236 483</b>

1)

KPS MEDIA a.s. was deregistered from the Commercial Register as of 9 October 2015.

The data pertaining to KPS Media a.s. v likvidaci (*in liquidation*) relate to 30 September 2014 in view of entry of the company into liquidation as of 1 October 2014.

2)

On 17 December 2014, a share transfer agreement was executed by SAZKA a.s. and LINDUS SERVICES LIMITED in respect of an approx. 0.07% share of voting rights in the Company.

3)

As of 31 December 2015 and 31 December 2014, the KKCG PLC obligation corresponds to loans from affiliates as described in detail in paragraph 22.

4)

As of 31 December 2015 and 31 December 2014, receivables from KKCG Structured Finance Limited corresponded to short-term receivables from financial instruments on account of outstanding securities - held-to-maturity promissory notes based on the investment agreement executed with KKCG Structured Finance Limited, Cyprus. For the purposes of the cash flow statement, these receivables are classified as part of cash equivalents (see paragraph 19).

**(b) Overview of transactions with affiliates for the periods ending 31 December 2015 and 31 December 2014:**

	Revenues for the period		Expenses for the period	
	2015	2014	2015	2014
KPS MEDIA a.s. v likvidaci ( <i>in liquidation</i> ) 1)	--	953	--	2 553
SPORTLEASE a.s.	82	168	--	--
BESTSPORT akciová společnost ( <i>joint stock company</i> ) 2)	--	900	--	--
GTECH Czech Republic LLC.	4 504	4 767	440	325
KKCG a.s.	225	19	12 835	18 098
KKCG PLC 3)	--	--	177 620	253 342
KKCG Structured Finance Limited	376	186	--	119 973
KKCG Real Estate	--	--	1 950	1 770
MND a.s.	15	--	10 921	3 381
Informační linky s.r.o.	--	--	13 903	7 522
DataSpring s.r.o.	2 280	1 573	42 172	734
Geewa a.s.	--	--	1 050	693
SAZKA FTS	926	874	--	--
Cestovní kancelář FISCHER, a.s.	--	50	391	557
Springtide Ventures s.r.o.	--	--	256	--
Kynero Consulting a.s.	--	--	90	--
<b>Total</b>	<b>8 408</b>	<b>9 490</b>	<b>261 628</b>	<b>408 948</b>

1)

KPS MEDIA a.s. was deregistered from the Commercial Register as of 9 October 2015.

The data pertaining to KPS Media a.s. v likvidaci (*in liquidation*) relate to the period from 1 January 2014 to 30 September 2014 in view of entry of the company into liquidation as of 1 October 2014.

2)

On 17 December 2014, a share transfer agreement was executed by SAZKA a.s. and LINDUS SERVICES LIMITED in respect of an approx. 0.07% share of voting rights in the Company.

3)



The costs of 2015 and 2014 related to KKCG PLC correspond to interest expense under loans accepted from affiliates, as described in detail in paragraph 22.

### (c) Overview of transactions with members of the Company bodies for the period ending 31 December 2015

In 2015, the Company paid remunerations to the members of the bodies of the Company in the amount of CZK 6 034 thousand (2014 – CZK 455 thousand). No loans or credits were provided to the members of the bodies of the Company in 2015 or 2014.

## 28. Subsequent events

As of the date of compilation of the financial statements, the Company management is not aware of any important subsequent events affecting the financial statements as of 31 December 2015.

Date: 23 March 2016	Signature of the governing body	
	 Pavel Šaroch Chairman of the Board of Directors	 Robert Chvátal Member of the Board of Directors