# KKCG AG

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

## Year ended 31 December 2016

**KKCG AG**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended 31 December 2016**

**CONTENTS**

## KKCG AG

## BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| Board of Directors | Karel Komárek<br>Pavel Šaroch<br>Jiří Radoch<br>Elias Neocleous (resigned as of 31 December 2016) |
| Independent Auditors | KPMG AG |
| Registered office | Kapellgasse 21<br>6004 Luzern<br>Switzerland |
| Registration number | CHE-326.367.231 |

# KKCG AG

## BOARD OF DIRECTORS' REPORT

The Board of Directors of **KKCG AG** ("the Company") presents to the members its annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2016.

### INCORPORATION AND PRINCIPAL ACTIVITY

The Company was incorporated under the Laws of the Republic of Cyprus on 10 July 2006 as a private limited liability company. The Company was converted into a Public company on 21 December 2006 and subsequently to a European Company (Societas Europaea) pursuant to EU Council Regulation No. 2157/2001 of 8 October 2001 on the Statute of Company, on 3 May 2007. The Company was converted back to a Public Limited Liability Company („PLC") pursuant to the Companies Law Cap. 113 on 30 September 2015 in accordance with a plan to redomicile the Company to Switzerland.

On 30 September 2015, the Company changed its name from KKCG SE to KKCG PLC.

During the 1st quarter 2016 the relocation from Cyprus to Switzerland was completed and the Company changed its legal form to AG (Aktiengesellschaft) and its business name to KKCG AG.

As at 31 December 2016, its holding company was KKCG Holding AG registered in Switzerland.

The Company is the owner of a diverse group of companies operating internationally whose principal activities are crude oil and gas, lottery and betting, engineering, finance, tourism and holding of ownership interests. Note 1 of consolidated financial statements describes group developments which occurred during 2016.

### FINANCIAL RESULTS

The consolidated results of the Group are set out in the Statement of comprehensive income on pages 6 - 7.

### DIVIDENDS PAID

The Company is planning to pay dividends to its shareholders in the amount of TEUR 11 450.

### SIGNIFICANT RISKS AND UNCERTAINTIES

The Group is exposed to the significant risks referred to in note 38, pages 72 - 81, of the financial statements.

### SHARE CAPITAL

In 2016 the Company finished redomiciliation from Cyprus to Switzerland. As a consequence the Company adjusted the amounts of share capital and share premium according to amounts required by Swiss legislation and declared to Swiss tax authority for confirmation (i.e. share capital TEUR 90 and share premium TEUR 672 402).

### EVENTS AFTER THE REPORTING PERIOD

Any significant events that occurred after the end of the reporting period are described in note 41, page 82, of the consolidated financial statements.

**BOARD OF DIRECTORS**

30 May 2017

Karel Komárek
Chairman

Jiří Radoch
Member

Pavel Šaroch
Member

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| | Note | 31.12.2016 | 31.12.2015 |
|---|---|---|---|
| **Assets** | | | |
| Gas pipelines, gas storage tanks and compression stations | | 124 290 | 107 088 |
| Land | | 29 836 | 23 530 |
| Buildings and structures | | 156 103 | 150 600 |
| Machinery and equipment | | 140 550 | 140 013 |
| Other tangible fixed assets | | 70 423 | 23 827 |
| Investment property | | 940 | -- |
| *Property, plant and equipment, investment property* | 6 | *522 142* | *445 058* |
| Goodwill | | 591 568 | 386 179 |
| Other intangible assets | | 2 077 007 | 157 206 |
| *Intangible assets* | 7 | *2 668 575* | *543 385* |
| Investments accounted for using the equity method | 8 | 408 515 | 86 727 |
| Other long-term financial investments | 9 | 19 216 | 223 966 |
| Long-term receivables | 10 | 93 694 | 30 747 |
| *Financial assets* | | *521 425* | *341 440* |
| Deferred tax assets | 22 | 17 233 | 4 336 |
| **Total non-current assets** | | **3 729 375** | **1 334 219** |
| Short-term financial assets | 11 | 24 833 | 20 157 |
| Inventories | 12 | 87 972 | 112 240 |
| Trade and other receivables | 13 | 399 613 | 222 391 |
| Income tax receivables | | 32 927 | 970 |
| Cash and cash equivalents | 14 | 481 220 | 250 195 |
| Assets held for sale | 4 | 47 774 | 46 325 |
| **Total current assets** | | **1 074 339** | **652 278** |
| **Total assets** | | **4 803 714** | **1 986 497** |

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

**KKCG AG**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| | Note | 31.12.2016 | 31.12.2015 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 16 | 90 | 120 |
| Share premium | | 672 402 | 681 382 |
| Reserves | | -829 150 | -857 673 |
| Retained earnings | | 978 197 | 975 765 |
| *Total equity attributable to equity holders of the Company* | | *821 539* | *799 594* |
| *Non-controlling interest* | 17 | *1 299 319* | *8 774* |
| **Total equity** | | **2 120 858** | **808 368** |
| **Liabilities** | | | |
| Interest-bearing loans and finance lease liabilities | 18 | 1 342 514 | 438 984 |
| Other long-term liabilities | 19 | 14 501 | 22 223 |
| Long-term provisions | 20 | 99 196 | 47 320 |
| Long-term employee benefits | 25 | 1 991 | 461 |
| Deferred tax liabilities | 22 | 247 924 | 40 946 |
| **Total non-current liabilities** | | **1 706 126** | **549 934** |
| Interest-bearing loans and finance lease liabilities | 18 | 341 851 | 249 357 |
| Trade and other payables | 23 | 607 405 | 357 758 |
| Income tax liabilities | | 7 911 | 5 242 |
| Short-term provisions | 21 | 10 380 | 6 895 |
| Liabilities held for sale | 4 | 9 183 | 8 943 |
| **Total current liabilities** | | **976 730** | **628 195** |
| **Total liabilities** | | **2 682 856** | **1 178 129** |
| **Total equity and liabilities** | | **4 803 714** | **1 986 497** |

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

The financial statements were authorized for issue by the Board of Directors on 30 May 2017.

## KKCG AG

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| | Note | 2016 | 2015 |
|---|---|---|---|
| Revenues | 26 | 1 557 178 | 1 125 974 |
| Other operating income | 27 | 18 424 | 30 051 |
| **Total income** | | **1 575 602** | **1 156 025** |
| Materials, consumables and services | 28 | -1 096 181 | -890 279 |
| Personnel expenses | 29 | -90 991 | -75 780 |
| Depreciation and amortization | 30 | -90 387 | -60 701 |
| Other operating expenses | 31 | -237 158 | -67 053 |
| **Results from operating activities** | | **60 885** | **62 212** |
| Finance income | | 65 803 | 68 649 |
| Finance costs | | -65 213 | -39 768 |
| **Net finance income** | 32 | **590** | **28 881** |
| Share of profit/(loss) of investments accounted for using the equity method | | 11 612 | -15 012 |
| **Profit before income tax** | | **73 087** | **76 081** |
| Income tax | 33 | -17 042 | -13 654 |
| **Profit for the period** | | **56 045** | **62 427** |
| **Other comprehensive income/(loss) from continuing operations** | 34 | | |
| *Items that are or may be reclassified to profit or loss:* | | | |
| Foreign currency translation differences for foreign operations | | 1 999 | -6 164 |
| Foreign currency translation differences of disposed foreign operations transferred to profit or loss | | -- | 736 |
| Effective portion of changes in fair value of cash flow hedges, net of tax | | -1 280 | 1 104 |
| Net change in fair value of cash flow hedges transferred to profit or loss, net of tax | | -651 | 2 182 |
| Actuarial loss, net of tax | | -179 | -- |
| Share of other comprehensive income of investments accounted for using the equity method | | -3 176 | -- |
| **Other comprehensive loss for the period** | | **-3 287** | **-2 142** |
| **Total comprehensive income for the period** | | **52 758** | **60 285** |

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Equity holders of the Company | | 17 663 | 64 604 |
| Non-controlling interests | 17 | 38 382 | -2 177 |
| **Profit for the period** | | **56 045** | **62 427** |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | 15 317 | 64 350 |
| Non-controlling interests | | 37 441 | -4 065 |
| **Total comprehensive income for the period** | | **52 758** | **60 285** |

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

**KKCG AG**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| *2016* | Share capital | Share premium | Treasury shares | Reserve fund | Other funds | Translation reserve | Hedging reserve | Share of funds of equity accounted investees | Retained earnings | Profit for current period | Equity * | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **120** | **681 382** | **--** | **-842 540** | **8 908** | **-23 991** | **-50** | **--** | **911 161** | **64 604** | **799 594** | **8 774** | **808 368** |
| Profit or loss for period | -- | -- | -- | -- | -- | -- | -- | -- | -- | 17 663 | **17 663** | 38 382 | **56 045** |
| Other comprehensive income | -- | -- | -- | -- | -- | 2 316 | -2 057 | -2 565 | -40 | -- | **-2 346** | -941 | **-3 287** |
| **Total comprehensive income for the period** | **--** | **--** | **--** | **--** | **--** | **2 316** | **-2 057** | **-2 565** | **-40** | **17 663** | **15 317** | **37 441** | **52 758** |
| **Transactions with owners, recorded directly in equity:** | | | | | | | | | | | | | |
| Reduction of share capital | -30 | 30 | -- | -- | -- | | -- | -- | -- | -- | **--** | -- | **--** |
| Reallocation of 2015 profit | -- | -- | -- | -12 | -733 | -- | -- | -- | 65 349 | -64 604 | **--** | -- | **--** |
| Dividends paid | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | -25 599 | **-25 599** |
| Other movement in equity ** | -- | -9 010 | -782 | -- | -- | 32 344 | -- | -- | -23 122 | -- | **-570** | -4 004 | **-4 574** |
| Effect of new acquisitions | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | 1 132 872 | **1 132 872** |
| Effect of change in ownership interests *** | -- | -- | -- | -- | 2 | 10 | -- | -- | 7 186 | -- | **7 198** | 149 835 | **157 033** |
| **Total transactions with owners** | -30 | -8 980 | -782 | -12 | -731 | 32 354 | -- | -- | 49 413 | -64 604 | **6 628** | 1 253 104 | **1 259 732** |
| **Balance at 31 December 2016** | **90** | **672 402** | **-782** | **-842 552** | **8 177** | **10 679** | **-2 107** | **-2 565** | **960 534** | **17 663** | **821 539** | **1 299 319** | **2 120 858** |

* *Equity attributable to holders of the parent.*

** *The reclassification between Equity items was due to a transfer of functional currency of the parent company from CZK to EUR as at 1 January 2016.*

*** *See note 5.*

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

**KKCG AG**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| *2015* | Share capital | Share premium | Reserve fund | Other funds | Translation reserve | Hedging reserve | Retained earnings | Profit for current period | Equity * | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **120** | **681 382** | **-842 344** | **8 600** | **-20 451** | **-3 336** | **1 031 114** | **14 772** | **869 857** | **8 154** | **878 011** |
| Profit or loss for period | -- | -- | -- | -- | -- | -- | -- | 64 604 | **64 604** | -2 177 | **62 427** |
| Other comprehensive income | -- | -- | -- | -- | -3 540 | 3 286 | -- | -- | **-254** | -1 888 | **-2 142** |
| **Total comprehensive income for the period** | **--** | **--** | **--** | **--** | **-3 540** | **3 286** | **--** | **64 604** | **64 350** | **-4 065** | **60 285** |
| **Transactions with owners, recorded directly in equity:** | | | | | | | | | | | |
| Reallocation of 2014 profit | -- | -- | -196 | 308 | -- | -- | 14 660 | -14 772 | **--** | -- | **--** |
| Dividends paid | -- | -- | -- | -- | -- | -- | -129 843 | -- | **-129 843** | -51 | **-129 894** |
| Witholding tax from dividends | -- | -- | -- | -- | -- | -- | -- | -- | **--** | -9 | **-9** |
| Other movement in equity | -- | -- | -- | -- | -- | -- | -1 394 | -- | **-1 394** | 1 098 | **-296** |
| Effect of new acquisitions | -- | -- | -- | -- | -- | -- | -- | -- | **--** | 19 | **19** |
| Other contributions to equity | -- | -- | -- | -- | -- | -- | -- | -- | **--** | 988 | **988** |
| Effect of change in ownership interests | -- | -- | -- | -- | -- | -- | -2 640 | -- | **-2 640** | 2 640 | **--** |
| Effect of disposal of investments | -- | -- | -- | -- | -- | -- | -736 | -- | **-736** | -- | **-736** |
| **Total transactions with owners** | **--** | -- | -196 | 308 | -- | -- | -119 953 | -14 772 | **-134 613** | 4 685 | **-129 928** |
| **Balance at 31 December 2015** | **120** | **681 382** | **-842 540** | **8 908** | **-23 991** | **-50** | **911 161** | **64 604** | **799 594** | **8 774** | **808 368** |

** Equity attributable to holders of the parent.*

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

## KKCG AG

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period | 56 045 | 62 427 |
| *Adjustments for:* | | |
| Share of (profit)/loss of investees accounted for using the equity method | -11 612 | 15 012 |
| Net interest expense | 46 459 | 17 629 |
| Income tax expense | 17 042 | 13 654 |
| Foreign exchange (gain)/loss | -7 148 | 439 |
| Depreciation | 50 402 | 50 196 |
| Amortization | 39 985 | 10 505 |
| Revaluation of fixed assets, financial derivatives and long-term investments | -22 959 | 10 104 |
| Negative goodwill on acquisition | -- | -25 061 |
| Dividend income | -280 | -1 295 |
| (Gain)/loss on sale of property, plant and equipment | -762 | 199 |
| Gain on sale of subsidiaries (note 5, note 32) | -- | -377 |
| (Gain)/loss on sale of other investments | 18 | -38 512 |
| Other non-monetary transactions | -24 351 | -15 613 |
| **Operating profit before changes in working capital and provisions** | **142 839** | **99 307** |
| Increase in provisions | 18 009 | 1 819 |
| (Increase)/decrease in inventories | 37 933 | -29 396 |
| Increase in receivables | -73 408 | -56 503 |
| Decrease in assets held for sale | -- | 209 |
| Increase in liabilities | 59 981 | 50 149 |
| **Cash generated from operations** | **185 354** | **65 585** |
| Interest paid | -50 408 | -21 321 |
| Income taxes paid | -63 173 | -10 545 |
| **Net cash from operating activities carried forward** | **71 773** | **33 719** |

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016**
**PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE E.U.**
**(in thousands of Euro)**

| | 2016 | 2015 |
|---|---|---|
| **Net cash from operating activities brought forward** | **71 773** | **33 719** |
| **Cash flows from investing activities** | | |
| Proceeds from sale of plant and equipment | 8 176 | 739 |
| Proceeds from sale of investments, net of cash disposed | 143 368 | 7 173 |
| Dividend income | 280 | 1 295 |
| Proceeds on sale of short-term financial assets | -- | 39 424 |
| Interest received | 8 891 | 4 183 |
| Acquisition of subsidiaries, net of cash acquired (note 15) | 43 222 | -75 516 |
| Acquisition of property, plant and equipment and intangible assets | -72 998 | -40 331 |
| Acquisition of other financial investments and investments accounted for using the equity method | -236 832 | -2 096 |
| Increase in short-term and long-term financial assets | -4 651 | -13 515 |
| **Net cash used in investing activities** | **-110 544** | **-78 644** |
| **Cash flows from financing activities** | | |
| Loans and borrowings received | 1 337 201 | 1 044 557 |
| Repayment of loans and borrowings | -1 042 296 | -791 412 |
| Dividends paid | -25 599 | -129 843 |
| **Net cash from financing activities** | **269 306** | **123 302** |
| **Net increase in cash and cash equivalents** | 230 535 | 78 377 |
| **Effect of currency translation** | 490 | 3 545 |
| **Cash and cash equivalents at beginning of the year** | **250 195** | **168 273** |
| **Cash and cash equivalents at end of the year (note 14)** | **481 220** | **250 195** |

The notes on pages 12 to 82 form an integral part of the consolidated financial statements.

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE

The Company was incorporated under the Laws of the Republic of Cyprus on 10 July 2006 as a private limited liability company. The Company was converted into a Public company on 21 December 2006 and subsequently to a European Company (Societas Europaea) pursuant to EU Council Regulation No. 2157/2001 of 8 October 2001 on the Statute of Company, on 3 May 2007. On 30 September the Company was converted back to a Public Limited Liability Company („PLC", named KKCG PLC) pursuant to the Companies Law Cap. 113 on 30 September 2015 in accordance with a plan to redomicile the Company to Switzerland.

During the 1st quarter 2016 the relocation from Cyprus to Switzerland was completed and the Company changed its legal form to AG (Aktiengesellschaft) and its business name to KKCG AG. Registered office of KKCG AG is Kapellgasse 21, 6004 Luzern, Switzerland.

As at 31 December 2016, its holding company was KKCG Holding AG registered in Switzerland.

The principal activities of the Group are crude oil and gas, lottery and betting, engineering, finance, tourism and holding of ownership interests.

The consolidated financial statements for the year ended 31 December 2016 comprise the financial statements of the parent company, its subsidiaries, associates and joint ventures (the Group).

The term "the Group" is further used to describe this consolidation group.

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group

Companies included in the consolidation group in 2016 and 2015 are as follows:

| Relationship and consolidation method | Company name | Registered office | Interest in share capital 31/12/2016 | 31/12/2015 |
|---|---|---|---|---|
| Parent company | KKCG AG (previously KKCG PLC) *(i)* | Kapellgasse 21, 6004 Luzern, Switzerland | | |
| Subsidiary Full consolidation | KKCG Industry B.V. group | Herikerbergweg 292, 1101CT Amsterdam, Netherlands | 100.00% | 100.00% |
| Subsidiary Full consolidation | KKCG Oil & Gas B.V. group | Herikerbergweg 292, 1101CT Amsterdam, Netherlands | 100.00% | 100.00% |
| Subsidiary Full consolidation | KKCG Investments B.V. group | Herikerbergweg 292, 1101CT Amsterdam, Netherlands | 100.00% | 100.00% |
| Subsidiary Full consolidation | KKCG Structured Finance AG *(ii)* | Kapellgasse 21, 6004 Luzern, Switzerland | 100.00% | 100.00% |
| Subsidiary Full consolidation | KKCG a.s. | Vinohradská 1511/230, Praha 10, Czech Republic | 100.00% | 100.00% |
| Subsidiary Full consolidation | PERULA a.s. | Vinohradská 1511/230, Praha 10, Czech Republic | 100.00% | 100.00% |
| Subsidiary Full consolidation | Collington II Limited | Custom House Plaza Block 6, International Financial Services Centre, Dublin, Ireland | 100.00% | 100.00% |
| Subsidiary Full consolidation | KKCG Real Estate a.s. group | Vinohradská 1511/230, Praha 10, Czech Republic | 100.00% | 100.00% |
| Subsidiary Full consolidation | Kynero Consulting a.s. | Vinohradská 1511/230, Praha 10, Czech Republic | 100.00% | 100.00% |
| Subsidiary Full consolidation | SAZKA Group a.s. group *(iii)* | Vinohradská 1511/230, Praha 10, Czech Republic | 75.00% | 100.00% |
| Subsidiary Full consolidation | KKCG Director 1 B.V. | Herikerbergweg 292, 1101CT Amsterdam, Netherlands | 100.00% | 100.00% |
| Subsidiary Full consolidation | KKCG Entertainment & Technology B.V. group | Herikerbergweg 292, 1101CT Amsterdam, Netherlands | 100.00% | 100.00% |
| Subsidiary Full consolidation | G-JET s.r.o. | Vinohradská 1511/230, Praha 10, Czech Republic | 100.00% | 100.00% |
| Subsidiary Full consolidation | KKCG UK Limited | One Connaught Place 1, London, United Kingdom | 100.00% | 100.00% |
| Subsidiary Full consolidation | BXY Czech, a.s. *(iv)* | Vinohradská 1511/230, Praha 10, Czech Republic | 100.00% | -- |
| Subsidiary Full consolidation | KKCG US LLC group *(v)* | 400 Capitol street, Suite 200, Charleston WV, USA | 100.00% | -- |
| Subsidiary Full consolidation | DataSpring s.r.o. *(vi)* | K Žižkovu 851/4, Praha 9, Czech Republic | 100.00% | -- |
| Joint venture Equity method | SafeDX s.r.o. *(vii)* | K Žižkovu 851/4, Praha 9, Czech Republic | 50.00% | -- |

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

*(i)* *On 1 January 2016, the Company redomiciled to Switzerland, on 2 March 2016 changed its legal form to AG (Aktiengesellschaft) and changed its name from KKCG PLC to KKCG AG.*

*(ii)* *On 1 January 2016, the Company redomiciled to Switzerland, on 2 March 2016 changed its legal form to AG (Aktiengesellschaft) and changed its name from KKCG Structured Finance Limited to KKCG Structured Finance AG.*

*(iii)* *On 17 August 2016, the Company sold 25% share in subsidiary SAZKA Group a.s. out of the Group.*

*(iv)* *On 8 January 2016, 100% share in the company BXY Czech, a.s. was acquired.*

*(v)* *On 7 March 2016, the company KKCG US LLC was established.*

*(vi)* *On 21 December 2016, 100% share in the company was transferred from KKCG Entertainment & Technology B.V. to KKCG AG.*

*(vii)* *On 7 January 2016, 50% share in the company SafeDX s.r.o. was acquired.*

a) The KKCG Industry B.V. sub-group includes the following companies:

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| a) Parent company | KKCG Industry B.V., Amsterdam, Netherlands | | |
| b) INTERMOS Praha s.r.o. group | | 50.39% | 50.39% |
| Parent company | INTERMOS Praha s.r.o., Praha, Czech Republic | | |
| Subsidiary | Moravia Systems a.s., Praha, Czech Republic | 67.39% | 67.39% |
| Subsidiary | INTERMOS Bratislava s.r.o., Bratislava, Slovak Republic | 67.00% | 67.00% |

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

b) The KKCG Oil & Gas B.V. sub-group includes the following companies:

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| a) Parent company | KKCG Oil & Gas B.V., Amsterdam, Netherlands | | |
| b) MND Samara Holding B.V. group *(i)* | | 99.90% | 99.90% |
| Parent company | MND Samara Holding B.V., Amsterdam, Netherlands | | |
| Subsidiary | OOO MND Samara, Samara, Russia | 100.00% | 100.00% |
| c) MND Group N.V. group | | 100.00% | 100.00% |
| Parent company | MND Group N.V., Amsterdam, Netherlands | | |
| MND Group AG group | | 100.00% | 100.00% |
| Parent company | MND Group AG, Luzern, Switzerland | | |
| MND a.s. group | | 100.00% | 100.00% |
| Parent company | MND a.s., Hodonín, Czech Republic *(ii)* | | |
| Subsidiary | MND Drilling & Services a.s., Lužice, Czech Republic | 100.00% | 100.00% |
| Subsidiary | MND Gas Storage a.s., Hodonín, Czech Republic | 100.00% | 100.00% |
| Joint venture | Moravia Gas Storage a.s., Hodonín, Czech Republic | 50.00% | 50.00% |
| Subsidiary | MND Energy Trading a.s., Praha, Czech Republic | 100.00% | 100.00% |
| MND Russia B.V. group *(iii)* | | 99.00% | 99.00% |
| Parent company | MND Russia B.V., Amsterdam, Netherlands *(ii), (iv)* | | |
| Subsidiary | OOO Belisar, Samara, Russia | 100.00% | 100.00% |
| Subsidiary | OOO Saratovneftedobycha, Saratov, Russia *(v)* | 100.00% | 100.00% |
| Subsidiary | MND E&P Germany GmbH, Hamburg, Germany *(ii)* | 100.00% | 100.00% |
| LP Drilling S.r.l. group *(vi)* | | 70.00% | 70.00% |
| Parent company | LP Drilling S.r.l., Cortemaggiore, Italy *(ii)* | | |
| Subsidiary | PERAZZOLI DRILLING – RO SRL, Timişoara, Romania *(vii)* | -- | 100.00% |
| MND Ukraine B.V. group | | 80.00% | 80.00% |
| Parent company | MND Ukraine B.V., Amsterdam, Netherlands *(ii)* | | |
| Subsidiary | Geologichne bureau "Lviv" LLC, Lviv, Ukraine *(viii)* | 99.99% | 100.00% |
| Subsidiary | "HORYZONTY" LLC, Lviv, Ukraine | 100.00% | 100.00% |
| Subsidiary | Precarpathian energy company LLC, Ivano-Frankivsk, Ukraine *(viii)* | 99.99% | 100.00% |
| Subsidiary | MND Gas Storage Germany GmbH, Essen, Germany *(ii)* | 100.00% | 100.00% |
| Subsidiary | MND Drilling Germany GmbH, Grünwald, Germany *(ii)* | 100.00% | 100.00% |
| Subsidiary | MND Georgia B.V., Amsterdam, Netherlands *(ix)* | 100.00% | 100.00% |

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

*(i)* *The remaining business share of 0.1% is held by KKCG Industry B.V.*

*(ii)* *In 2016 the share in the company was transferred from MND Group N.V. to MND Group AG.*

*(iii)* *The remaining business share of 1% is held by KKCG Industry B.V.*

*(iv)* *In 2016, the company changed its legal form from MND Russia N.V. to MND Russia B.V.*

*(v)* *OOO Saratovneftedobycha entered into a process of the liquidation on 23 February 2015. Since the Group has still power over the liquidated company, the Company is considered a part of consolidation group as at 31 December 2016.*

*(vi)* *On 30 May 2014, 70% share in LP Drilling S.r.l. was acquired. However, 100% interest is accounted for using the anticipated acquisition method for group consolidation purposes.*

*(vii)* *On 1 March 2016, the company PERAZZOLI DRILLING – RO SRL was dissolved.*

*(viii)* *The remaining business share of 0.01% is held by "HORYZONTY" LLC.*

*(ix)* *As at 31 December 2016, MND Georgia B.V. is reported as held for sale.*

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

c) The KKCG Investments B.V. sub-group includes the following companies:

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| a) Parent company | KKCG Investments B.V., Amsterdam, Netherlands | | |
| b) Subsidiary | BOŘISLAVKA OFFICE & SHOPPING CENTRE s.r.o., Praha, Czech Republic | 100.00% | 100.00% |
| c) KKCG Investments AG group | | 100.00% | 100.00% |
| Parent company | KKCG Investments AG, Luzern, Switzerland | | |
| Subsidiary | Vinohradská 230 a.s., Praha, Czech Republic *(i)* | 100.00% | 100.00% |
| Cestovní kancelář FISCHER, a.s. group *(i)* | | 100.00% | 100.00% |
| Parent company | Cestovní kancelář FISCHER, a.s., Praha, Czech Republic | | |
| Subsidiary | CKF facility s.r.o., Praha, Czech Republic | 100.00% | 100.00% |
| Subsidiary | TrustYard, s.r.o., Praha, Czech Republic *(i)* | 64.17% | 64.17% |
| Theta Real s.r.o. group *(i)* | | 100.00% | 100.00% |
| Parent company | Theta Real s.r.o., Praha, Czech Republic | | |
| Subsidiary | PXY Czech, a.s., Praha, Czech Republic | 100.00% | 100.00% |
| Springtide Ventures s.r.o. group *(i)* | | 100.00% | 100.00% |
| Parent company | Springtide Ventures s.r.o., Praha, Czech Republic | | |
| Associated company | Cloud4com, a.s., Praha, Czech Republic *(ii)* | 22.00% | 22.00% |
| Associated company | BIO NEXUS Ltd., Israel *(iii)* | 20.00% | -- |
| Subsidiary | JTU Czech, s.r.o., Praha, Czech Republic *(i)* | 100.00% | 100.00% |
| Associated company | Geewa a.s, Praha, Czech Republic *(i)* | 30.82% | 30.82% |
| Medicem Group B.V. group *(i)* | | 90.00% | 90.00% |
| Parent company | Medicem Group B.V., Amsterdam, Netherlands | | |
| Subsidiary | MEDICEM Technology s.r.o., Kamenné Žehrovice, Czech Republic | 100.00% | 100.00% |
| Subsidiary | MEDICEM Institute s.r.o., Kamenné Žehrovice, Czech Republic | 100.00% | 100.00% |
| Subsidiary | Medicem Ophthalmic (CY) Limited, Limassol, Cyprus | 100.00% | 100.00% |
| Subsidiary | Medicem Tissue (CY) Limited, Limassol, Cyprus | 100.00% | 100.00% |
| Subsidiary | Medicem Gyneco (CY) Limited, Limassol, Cyprus | 100.00% | 100.00% |
| MEDICEM International GmbH group | | 100.00% | 100.00% |
| Parent company | MEDICEM International GmbH, Zug, Switzerland | | |
| Subsidiary | MEDICEM International CR s.r.o., Praha, Czech Republic *(iv)* | 99.00% | 99.00% |
| Conectart s.r.o. (previously Informační linky s.r.o.) group *(v)* | | 95.00% | -- |
| Parent company | Conectart s.r.o. (previously Informační linky s.r.o.), Praha, Czech Republic *(vi)* | | |
| Subsidiary | Direct Communication, s.r.o., Praha, Czech Republic *(vii)* | 100.00% | -- |
| Cleerio s.r.o. (previously Geosense s.r.o.) group *(i) (viii)* | | 30.00% | -- |
| Parent company | Cleerio s.r.o. (previously Geosense s.r.o.), Praha, Czech Republic *(ix)* | | |
| Subsidiary | Cleerio SK s.r.o., Košice, Slovak Republic | 85.00% | -- |

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

*(i)* *In 2016 the share in the company was transferred from KKCG Investments B.V. to KKCG Investments AG.*

*(ii)* *On 14 December 2016, 22% share in the company was transferred from KKCG Investment AG to Springtide Ventures s.r.o.*

*(iii)* *On 7 July 2016, 20% share in the company BIO NEXUS Ltd. was acquired.*

*(iv)* *The remaining business share of 1% is held directly by Medicem Group B.V.*

*(v)* *On 27 June 2016, 95% share in the company was sold from APUS Holding N.V. to KKCG Investments AG and 5% share was sold out of the Group.*

*(vi)* *On 28 June 2016, the company changed its name from Informační linky s.r.o. to Conectart s.r.o.*

*(vii)* *On 1 January 2016, 100% share in the company Direct Communication, s.r.o. was acquired.*

*(viii)* *On 19 February 2016, share in the company was increased to 20% and the company entered into consolidation (including its subsidiary). On 4 August 2016, the share was increased to 30%.*

*(ix)* *On 14 April 2016, the company changed its business name to Cleerio s.r.o.*

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

d) The SAZKA Group a.s. sub-group includes the following companies:

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| a) Parent company | SAZKA Group a.s., Praha, Czech Republic | | |
| b) SAZKA Czech a.s. group | | 100.00% | 100.00% |
| Parent company | SAZKA Czech a.s., Praha, Czech Republic | | |
| Subsidiary | SAZKA FTS a.s., Praha, Czech Republic | 100.00% | 100.00% |
| Subsidiary | SAZKA a.s., Praha, Czech Republic | 100.00% | 100.00% |
| Subsidiary | SPORTLEASE a.s., Praha, Czech Republic *(i)* | 100.00% | 100.00% |
| Subsidiary | Kavárna štěstí s.r.o., Praha, Czech Republic *(ii)* | 100.00% | 100.00% |
| c) Austrian Gaming Holding a.s. group *(iii)* | | 100.00% | 75.00% |
| Parent company | Austrian Gaming Holding a.s., Praha, Czech Republic | | |
| CAME Holding GmbH group | | 100.00% | 100.00% |
| Parent company | CAME Holding GmbH, Vienna, Austria | | |
| Associated company | Medial Beteiligungs-GmbH, Vienna, Austria | 29.63% | 29.63% |
| BAIH Beteiligungsverwaltungs GmbH group | | 100.00% | -- |
| Parent company | BAIH Beteiligungsverwaltungs GmbH, Vienna, Austria *(iv)* | | |
| Associated company | CLS Beteiligungs GmbH | 66.67% | -- |
| Associated company | LTB Beteiligungs GmbH *(v)* | 24.90% | -- |
| Associated company | LTB Beteiligungs GmbH *(v)* | 41.766% | -- |
| d) Subsidiary | Vitalpeak Limited, Limassol, Cyprus | 100.00% | 100.00% |
| e) Subsidiary | Rubidium Holdings Limited, Limassol, Cyprus | 100.00% | 100.00% |
| f) EMMA DELTA MANAGEMENT LTD group *(vi)* | | 66.70% | -- |
| Parent company | EMMA DELTA MANAGEMENT LTD, Cyprus | | |
| EMMA DELTA VARIABLE CAPITAL INVESTMENT COMPANY LTD group | | 100.00% | -- |
| Parent company | EMMA DELTA VARIABLE CAPITAL INVESTMENT COMPANY LTD, Cyprus | | |
| Subsidiary | Emma Delta Finance Plc, Cyprus | 100.00% | -- |
| Emma Delta Hellenic Holdings Limited group | | 100.00% | -- |
| Parent company | Emma Delta Hellenic Holdings Limited, Cyprus | | |
| OPAP S.A. group | | 33.00% | -- |
| Parent company | OPAP S.A., Athens, Greece | | |
| Subsidiary | OPAP CYPRUS LTD, Cyprus | 100.00% | -- |
| Subsidiary | OPAP INTERNATIONAL LTD, Cyprus | 100.00% | -- |
| Subsidiary | OPAP SERVICES S.A., Greece | 100.00% | -- |
| Subsidiary | OPAP SPORTS LTD, Cyprus | 100.00% | -- |
| Subsidiary | OPAP INVESTMENT LTD, Cyprus | 100.00% | -- |
| Subsidiary | HELLENIC LOTTERIES S.A., Greece | 67.00% | -- |
| Subsidiary | TORA DIRECT S.A., Greece | 100.00% | -- |
| Subsidiary | HORSE RACES S.A., Greece | 100.00% | -- |
| Subsidiary | TORA WALLET S.A., Greece | 100.00% | -- |
| Associated company | GLORY TECHNOLOGY LTD, Cyprus | 20.00% | -- |
| Associated company | NEUROSOFT S.A., Greece | 29.53% | -- |

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| f) SAZKA Asia a.s. group | | 100.00% | -- |
| Parent company | SAZKA Asia a.s., Praha, Czech Republic *(vii)* | | |
| Subsidiary | Sazka Asia Vietnam Company Limited, Vietnam *(viii)* | 100.00% | -- |
| g) IGH Financing a.s. group | | 100.00% | -- |
| Parent company | IGH Financing a.s., Praha, Czech Republic *(ix)* | | |
| Italian Gaming Holding a.s. group | | 100.00% | -- |
| Parent company | Italian Gaming Holding a.s., Praha, Czech Republic *(x)* | | |
| Associated company | LOTTOITALIA S.r.l., Rome, Italy *(xi)* | 32.50% | -- |

*(i)* *On 22 February 2016, 100% share in the company SPORTLEASE a.s. was sold from SAZKA a.s. to SAZKA Czech a.s.*

*(ii)* *On 30 May 2016, the company was established.*

*(iii)* *On 17 August 2016, additional 25% share in the company Austrian Gaming Holding a.s. was acquired.*

*(iv)* *On 7 December 2016, 100% share in the company BAIH Beteiligungsverwaltungs GmbH was acquired.*

*(v)* *On 7 December 2016, LTB Beteiligungs GmbH entered the consolidation group.*

*(vi)* *According to IFRS rules the Group obtained "de-facto" control over Emma Delta Management Ltd including its subsidiaries as at 6 October 2016 – the date when approval from HELLENIC GAMING COMMISSION (Independent administrative authority) was issued. All other legal and formal steps were finished in January 2017 however according to IFRS rules Emma Delta Management Ltd including its subsidiaries entered the consolidation group on 6 October 2016.*

*(vii)* *On 27 July 2016, the company was established.*

*(viii)* *On 29 November 2016, the company was acquired.*

*(ix)* *On 28 April 2016, the company was established.*

*(x)* *On 19 February 2016, the company was established.*

*(xi)* *On 5 May 2016, the company was established.*

e) The KKCG Entertainment & Technology B.V. sub-group includes the following companies:

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| a) Parent company | KKCG Entertainment & Technology B.V., Amsterdam, Netherlands | | |
| b) Subsidiary | DataSpring s.r.o., Praha, Czech Republic *(i)* | -- | 100.00% |
| c) Apus Holding N.V. group | | 100.00% | 95.00% |
| Parent company | Apus Holding N.V., Amsterdam, Netherlands *(ii)* | | |
| Subsidiary | Conectart s.r.o. (previously Informační linky s.r.o.), Praha, Czech Republic *(iii)*, *(iv)* | -- | 100.00% |
| d) KKCG Turkey B.V. group *(v)* | | 100.00% | 50.00% |
| Parent company | KKCG Turkey B.V., Amsterdam, Netherlands | | |
| Subsidiary | Turkish Lottery Holding B.V., Amsterdam, Netherlands *(vi)* | 100.00% | 60.00% |

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

*(i) On 21 December 2016, 100% share in the company was transferred from KKCG Entertainment & Technology B.V. to KKCG AG.*

*(ii) On 27 June 2016, remaining 5% share in APUS Holding N.V. was acquired.*

*(iii) On 27 June 2016, 95% share in the company was sold from APUS Holding N.V. to KKCG Investments AG and 5% share was sold out of the Group.*

*(iv) On 28 June 2016, the company changed its name from Informační linky s.r.o. to Conectart s.r.o.*

*(v) On 27 June 2016, remaining 50% share in KKCG Turkey B.V. was acquired. This acquisition does not affect the accounting method as the entity was already managerially controlled even though the Group held 50% interest.*

*(vi) On 28 July 2016, remaining 40% share in Turkish Lottery Holding B.V. was acquired.*

f) The KKCG Real Estate a.s. sub-group includes the following companies:

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| a) Parent company | KKCG Real Estate a.s., Praha, Czech Republic | | |
| b) Subsidiary | FM&S Czech a.s., Praha, Czech Republic | 100.00% | 100.00% |
| c) Subsidiary | BWV Czech, a.s., Praha, Czech Republic *(i)* | 51.00% | -- |

*(i) On 26 October 2016, the company was established.*

g) The KKCG US LLC sub-group includes the following companies:

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| a) Parent company | KKCG US LLC, Charleston, USA | | |
| b) Subsidiary | US Methanol LLC, Charleston, USA *(i)* | 100.00% | -- |

*(i) On 7 March 2016, the company was established.*

**(in thousands of Euro)**

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

h) In 2016 and 2015 the Group acquired interest in, or incorporated, the following companies and groups of companies (the percentage stated bellow represents the interest acquired in the period):

| Company / group of companies | 2016 | 2015 |
|---|---|---|
| APUS Holding N.V. *(i)* | 5.00% | -- |
| Austrian Gaming Holding a.s. *(i)* | 25.00% | -- |
| BAIH Beteiligungsverwaltungs GmbH | 100.00% | -- |
| BIO NEXUS Ltd. | 20.00% | -- |
| BXY Czech, a.s. | 100.00% | -- |
| Cleerio s.r.o. (previously Geosense s.r.o.) *(ii)* | 25.00% | -- |
| CLS Beteiligungs GmbH *(iii)* | 66.67% | -- |
| Direct Communication, s.r.o. | 100.00% | -- |
| IGH Financing a.s. | 100.00% | -- |
| BWV Czech, a.s. | 51.00% | -- |
| Italian Gaming Holding a.s. | 100.00% | -- |
| Kavárna štěstí s.r.o. | 100.00% | -- |
| KKCG Turkey B.V. *(i)* | 50.00% | -- |
| KKCG US LLC | 100.00% | -- |
| US Methanol LLC | 100.00% | -- |
| LOTTOITALIA S.r.l. | 32.50% | -- |
| LTB Beteiligungs GmbH *(iii)*, *(iv)* | 66.67% | -- |
| Emma Delta Management Ltd group | 66.70% | -- |
| SafeDX s.r.o. *(v)* | 50.00% | -- |
| SAZKA Asia a.s. | 100.00% | -- |
| Sazka Asia Vietnam Company Limited | 100.00% | -- |
| Turkish Lottery Holding B.V. *(i)* | 40.00% | -- |
| Austrian Gaming Holding a.s. | -- | 75.00% |
| CAME Holding GmbH | -- | 100.00% |
| Cloud4com, a.s. | -- | 22.00% |
| FM&S Czech a.s. | -- | 100.00% |
| KKCG Investments AG | -- | 100.00% |
| Medicem Group B.V. group | -- | 20.00% |
| MND Group AG | -- | 100.00% |
| Vitalpeak Limited | -- | 100.00% |

*The above stated percentages in companies reflect direct share acquired by its parent company.*

## 1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE (CONT'D)

### Consolidation group (cont´d)

*(i) The remaining share in the entity (to 100%) was acquired during 2016.*

*(ii) The share in Cleerio s.r.o. (previously Geosense s.r.o.) was increased from 5% as at 31 December 2015 (held as other investment) to 30% as at 31 December 2016 (held as equity accounted investee).*

*(iii) Despite being majority owner, the Group does not control the company. The company is accounted for using the equity method (note 8).*

*(iv) 41.77% in the company is held through Austrian Gaming Holding a.s. and 24.9% is held through BAIH Beteiligungsverwaltungs GmbH. The company is accounted for using the equity method (note 8).*

*(v) SafeDX s.r.o. is accounted for as a joint-venture.*

i) Companies not included in the consolidation group:

The consolidation group does not include those subsidiaries in which the Group lost control due to bankruptcy proceedings or liquidation at the reporting date.

## 2. BASIS OF PREPARATION

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the Swiss Code of Obligations.

### Standards recently issued

The preparation of these consolidated financial statements involved the use of the following new or amended standards and interpretations, whose initial application is required for annual periods beginning on 1 January 2016 (the following list includes only new or amended standards and interpretations relevant for the Group).

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

Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.

Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

Note: The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply. Amounts recognised for acquisitions of interests in joint operations occurring in prior periods are not adjusted.

#### *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*

Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.

Amends IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment,
- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated,
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

## 2. BASIS OF PREPARATION (CONT´D)

### *Amendments to IAS 27: Equity method in the separate financial statements*

Effective for annual periods beginning on or after 1 January 2016 and apply retrospectively. Early application is permitted.

Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

### *Annual Improvements 2012-2014 Cycle*

Effective for annual periods beginning on or after 1 January 2016

Makes amendments to the following standards:

- **IFRS 5** — Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued,
- **IFRS 7** — Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements,
- **IAS 19** — Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid,
- **IAS 34** — Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

### *Amendments to IAS 1: Disclosure initiative*

Effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Amends IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply,
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss,
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

## 2. BASIS OF PREPARATION (CONT´D)

***Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception***

Effective for annual periods beginning on or after 1 January 2016.

Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (2011) to address issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

### Standards, interpretations and amendments to standards adopted before 31 December 2016 but not yet effective

The following new standards and amendments to standards were not yet effective for the year ended 31 December 2016 and were not applied in preparing these consolidated financial statements:

***IFRS 9 Financial Instruments***

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

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

The Group does not expect IFRS 9 to have material impact on the consolidated financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds.

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

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

## 2. BASIS OF PREPARATION (CONT´D)

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Group is continously analysing revenues with respect to IFRS 15. As at the date of financial statements no significant impact was identified.

***Clarifications to IFRS 15 'Revenue from Contracts with Customers'***

Effective for annual periods beginning on or after 1 January 2017. Not yet endorsed for use in the EU.

Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

***IFRS 16 Leases***

Effective for annual periods beginning on or after 1 January 2019. Not yet endorsed for use in the EU.

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Group is evaluating the impact of adoption of IFRS 16 on the financial statements.

***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

Effective date deferred indefinitely. EU endorsement currently halted.

Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations),
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in an subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

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

Effective for annual periods beginning on or after 1 January 2017. Not yet endorsed for use in the EU.

Amends IAS 12 Income Taxes to clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

## 2. BASIS OF PREPARATION (CONT'D)

- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

***Amendments to IAS 7: Disclosure Initiative***

Effective for annual periods beginning on or after 1 January 2017. Not yet endorsed for use in the EU.

Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

***Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions***

Effective for annual periods beginning on or after 1 January 2018. Not yet endorsed for use in the EU.

Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis unless otherwise stated in the accounting policies.

### Presentation and functional currency

The functional currency of the parent Company was the Czech Koruna in 2015. The Company decided to change its functional currency effective 1 January 2016 to Euro due to the fact that the majority of the Group's business operations are denominated in EUR. Individual group entities have their own functional currencies.

These consolidated financial statements are presented in Euro for Group reporting purposes. The amounts included in the financial statements have been rounded in thousands of Euro (TEUR). Any differences between the amounts included in the financial statements and the respective amounts included in the notes are attributed to roundings.

## 2. BASIS OF PREPARATION (CONT'D)

### Use of estimates and judgements

When preparing the financial statements, the Company's management makes estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based on past experience and other various factors deemed appropriate as at the date of preparation of financial statements and are used where the carrying amounts of assets and liabilities are not readily available from other sources or where uncertainty exists in applying the individual accounting policies.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

The use of estimates and judgements affects mainly the following areas:

- Valuation of tangible and intangible assets – notes 6 and 7; accounting policy 3c) and 3d),
- Investments at fair value – notes 9 and 11; accounting policy 3e),
- Derivative financial instruments – note 24; accounting policy 3e),
- Inventories – note 12; accounting policy 3g),
- Impairments – notes 7 and 6; accounting policy 3f),
- Provisions – notes 20 and 21; accounting policy 3l),
- Calculation of taxes – note 33; accounting policy 3p),
- Definition of contingencies – note 37.

*Measurement of fair values*

A number of the Group´s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the accounting periods presented in these financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

### a) Basis of consolidation

*i) Business combinations*

Goodwill represents amounts arising on the acquisition of subsidiaries, associates and joint ventures. The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the excess is negative, a bargain purchase gain is recognised immediately in the statement of comprehensive income.

Goodwill is stated at acquisition cost less impairment loss (see accounting policy 3f), note 7).

*ii) Non-controlling interests (note 17)*

The Group measures non-controlling interest at its proportionate share of the recognised amount of the identifiable net assets.

*iii) Other long-term investments (note 9a)*

Other long-term investments are not consolidated and are stated at cost less any impairment loss following the acquisition.

*iv) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. In assessing control, only substantive rights and rights that are not protective are taken into account. The financial information of subsidiaries is included in the consolidated financial statements from the date that control commences until the date that control ceases.

*v) Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the period presented. The assets and liabilities acquired are recognised at the carrying amounts (book values) recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity. Any gain / loss arising is recorded directly in equity and therefore no goodwill is recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### a) Basis of consolidation (cont'd)

*vi) Associates and joint ventures (equity accounted investees) (note 8)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control. Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition less impairment losses. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

*iv) Transactions eliminated on consolidation*

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*v) Anticipated acquisition method*

The Group decided to use the anticipated acquisition method. Under this method, the interests of non-controlling shareholders that hold written put options are derecognised when the financial liability is recognised. As a result, the interests subject to the put options are deemed to have been acquired already.

If the put option expires unexercised, then the put liability is derecognised and non-controlling interests are recognised.

### b) Foreign currencies

*i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value at the date of acquisition are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash-flow hedges, which are recognised in other comprehensive income.

*ii) Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency of the Group, the Euro, at exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to Euro at average exchange rates for the period which are reasonable approximation of the exchange rate at transaction date. Foreign currency differences are recognised in other comprehensive income and equity as a separate component.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### b) Foreign currencies (cont'd)

*iii) Hedge of net investment in foreign operation*

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in foreign operation are recognised through other comprehensive income in equity in the translation reserve, to the extent that the hedge is effective and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

### c) Property, plant and equipment and investment property

*Assets owned by the Group (note 6)*

Property, plant and equipment consist of buildings, halls and structures, land, oil and gas wells, oil and gas property, equipment, production machinery, drilling rigs, computing technology, motor vehicles, aircrafts, fixtures and fittings and other tangible fixed assets. They are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 3f).

The cost of self-manufactured tangible fixed assets (including oil and gas wells) includes the cost of materials, wages and a proportion of overheads directly connected with construction. Acquisition cost also includes the estimated cost of dismantling and removing tangible assets as well as the cost of land restoration.

Borrowing costs directly attributable to the acquisition of assets are capitalized until completion of the acquisition.

Acquisition cost does not include administrative or other general overheads, or initial operating losses. Costs of research and development are not capitalised.

The costs incurred in the search and exploration for new oil and/or gas deposits including costs of wells are expensed when incurred except of costs associated with successful exploratory wells (successfull effort method). Costs associated with successful exploratory wells are capitalised as tangible fixed assets if they are expected to provide future economic benefit, at least at the end of each reporting period. These capitalised costs are subject of impairment testing at each reporting date (see accounting policy 3f ii). When all technical, technological and legislative conditions for commercial use of the well are met and the well begins to be commercially used, these capitalised costs are depreciated over the estimated useful life of the well.

*Low-value tangible and intangible fixed assets (note 40)*

Low-value tangible and intangible fixed assets are charged to profit or loss in the year that they are acquired.

*Investment property (note 6)*

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is stated at acquisition cost.

When the use of a property changes from the owner-occupied to investment, the property is reclassified from property, plant and equipment to investment property.

*Finance leases*

Leases, in respect of which all the risks and rewards of ownership are assumed by the Group, are classified as finance leases. Upon initial recognition the leased assets are stated at the lower of fair value and the present value of the minimum lease instalments. Subsequently they are accounted for at the initially recognised amount less accumulated depreciation and impairment losses.

**(in thousands of Euro)**

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### c) Property, plant and equipment and investment property (cont'd)

*Assets held for sale (note 4)*

Assets which are very likely to be sold within one year from the reporting date are not included in fixed assets and are stated in current assets at the lower of their carrying amount and fair value less costs to sell. Such assets are not depreciated.

*Depreciation (note 30)*

Tangible fixed assets are depreciated on a straight-line basis. Land is not depreciated. The Group does not apply the sum-of-the-units depreciation method.

The following table shows the expected useful life of individual groups of fixed assets:

| | Useful life |
|---|---|
| Buildings, halls and structures | 20 – 60 years |
| Oil and gas wells, oil and gas property | Estimated production life |
| Equipment | 3 – 15 years |
| Production machinery | 3 – 15 years |
| Drilling rigs | 20 – 40 years |
| Computing technology | 3 – 6 years |
| Aircrafts | 15 years |
| Motor vehicles | 4 – 10 years |
| Fixtures and fittings | 3 – 14 years |
| Other tangible fixed assets | 4 – 12 years |

*Subsequent expenditure*

Expenditure incurred to replace part of an item of property, plant and equipment is capitalised only if it results in an increase in the future economic benefits generated by the relevant tangible fixed asset. Major overhauls are capitalised as a separate item into the corresponding category of fixed assets at the moment the overhaul is executed. All other expenditure is recognised in the statement of comprehensive income as an expense.

### d) Intangible assets

*Goodwill (note 7)*

For more information refer to the section 3a) i).

*Licenses (note 7)*

Most licenses relate to crude oil and gas production and to lottery and betting business. They are stated at fair value on acquisition and tested for impairment every year or they are depreciated over a period for which they have been issued.

*Exploration and evaluation assets*

Exploration and evaluation assets are represented by non-capitalised exploration and evaluation expenditures and mineral resources identified in business combinations. They are measured at fair value as at the date of the acquisition and they are not amortised but tested for impairment (see accounting policy 3f). Exploration and evaluation assets are reclassified to tangible assets (oil and gas property) when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### d) Intangible assets (cont'd)

*Customer contracts and trademarks (note 7)*

The Group capitalises major customer contracts and trademarks upon the acquisition of the company that concluded the contracts with the customers - unrelated parties - or the company that owns the trademark. The value of these intangible assets was determined based on an expert's appraisal prepared at the time of the acquisition.

Contracts and trademarks are assets which can be used in the future. Capitalised contracts are depreciated on a straight-line basis against revenues arising from such contracts. Capitalised trademarks are stated at fair value on acquisition and are tested for impairment every year or they are depreciated over a period determined by the individual companies, up to a maximum of six years.

*Other intangible assets (note 7)*

Other intangible assets acquired by the Group, which have finite useful lives, are measured at acquisition cost less accumulated amortisation and impairment losses.

*Amortisation (note 30)*

Intangible assets, except goodwill and other intangibles with indefinite useful lives, are amortised on a straight-line basis over their estimated useful life from the date they are available or put into use.

The following table shows the expected useful life of individual groups of intangible assets:

| | Useful life |
|---|---|
| Software | 2 – 7 years |
| Licenses | The period for which they have been issued |
| Other intangible assets | 3 – 6 years |
| Distribution network (contracts with providers) | 20 years |

*Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of comprehensive income as an expense.

*Research*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense as incurred.

### e) Financial instruments

**Investments at fair value through profit or loss (notes 9, 11)**

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss in net finance income.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### e) Financial instruments (cont'd)

**Available-for-sale financial assets**

Available-for-sale financial assets include those non-derivative financial assets that are designated as such or are not classified as held-to-maturity investments or financial assets at fair value through profit or loss.

Transaction costs (fees, commissions and other expenses incurred in connection with their acquisition) are included in the acquisition cost.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items (see accounting policy 3b), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. If the fair value of a short-term financial asset cannot be determined, the recoverable amount is used as the basis of valuation.

Available-for-sale financial assets which are investments in an equity instrument that does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate are carried at cost. Impairment losses in respect of such investments carried at cost are not reversed.

**Derivative financial instruments (note 24)**

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from its operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are re-measured at fair value. The gain or loss on re-measurement is recognised immediately in profit or loss except as described below.

*Cash-flow hedges (notes 24, 38)*

Changes in the fair value of the derivative hedging instrument or designated non-derivative financial liability designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of comprehensive income in profit or loss for the year.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

The Group also uses hedging derivatives to mitigate the risk of changes in future cash flows arising from changes in the prices of commodities sold, changes in foreign currency rates and interest rates, during the periods hedged.

To hedge against the currency risk relating to changes in future cash flows on concluded and potential contracts for the sale of gas inventories, the Group uses financial liabilities relating to the loan received for gas trading that are denominated in the currency of the sales contract (hedging future cash flows).

**Short-term and long-term loans (note 18)**

Short-term and long-term loans are initially recognized at fair value and subsequently are stated at amortised cost. Any part of a long-term loan which is due within one year from the reporting date is considered as a short-term loan.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### e) Financial instruments (cont'd)

**Non-derivative financial assets (notes 10, 13)**

Trade and other receivables are measured at amortised cost less any impairment losses.

When applying amortised cost, any difference between the cost and the value upon redemption is recognised in the consolidated statement of comprehensive income over the duration of the asset or liability, using the effective interest method.**Non-derivative financial liabilities (notes 18, 19, 23)**

The Group has the following non-derivative financial liabilities: trade and other payables, interest-bearing loans and borrowings, and finance lease liabilities. These financial liabilities, other than financial liabilities at fair value through profit or loss, are recognised initially on the settlement date at fair value plus any directly attributable transaction costs. Subsequently, financial liabilities, other than financial liabilities at fair value through profit or loss, are measured at amortised cost using the effective interest method.

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

### f) Impairment

*i) Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at (amortised) cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at (amortised) cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity through other comprehensive income.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### f) Impairment (cont'd)

*ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets (other than investment property, inventories and deferred tax assets), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset' s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### g) Inventories (note 12)

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories comprises the purchase price and costs directly attributable to the acquisition. Trade discounts and rebates are deducted in determining the purchase price. Interest on loans for the purchase of inventory (borrowing costs) is not capitalised.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Work in progress is valued at own cost. Overheads are capitalised only if they are directly associated with bringing the inventories to their present location and condition and the production cycle is longer than one year. Selling costs are not capitalised.

*Unfinished long-term projects (PoC contracts)*

Unfinished long-term projects are measured at own cost plus a percentage of the revenues attributable to the costs incurred as at the reporting date, less a provision for expected losses and amounts invoiced in the course of the project. When the outcome of a contract cannot be reliably estimated, the zero-profit method is used.

Unrealised gains on long-term projects are not capitalised where the contractual partner is a controlling or a controlled entity, or an entity under common control.

### h) Cash and cash equivalents (note 14)

Cash and cash equivalents comprise cash balances and call deposits. For the purpose of the cash-flow statement, overdraft accounts are excluded.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### i) Non-current assets held for sale (note 4)

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

### j) Equity

*Share capital (note 16)*

The issued share capital comprises fully paid shares. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. The difference between the issue price of the shares and their nominal value is taken to the share premium account.

### k) Employee benefits (note 25)

Money that the Group is obliged to pay to its employees is recognised as short-term (e.g. wages, social security contributions, paid annual leave) or long-term liabilities (e.g. retirement benefits, jubilees).

Contributions to defined contribution pension plans are recognised as employee benefit expense on an accrual basis. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The net liability of the Group in respect of defined benefit pension plans is calculated separately for each scheme as an estimate of the future benefits to which the employees are entitled in relation to their work in the current and prior periods; the value of the liability is equal to the present value of defined benefit payable at the balance sheet date less the fair value of plan assets and of past services cost. The defined benefit liability and the related expense are estimated annually by independent actuaries using the projected credit unit method. The present value of the liability is determined by discounting the estimated future cash flows to the interest rate of high quality corporate bonds or government bonds in the same currency as the liability with proportional liability duration, or interest rate that takes into account the risk and duration of the liability, where the market depth for such bonds is weak. The expenses for defined benefit plans, as estimated, are recognized in the income statement and are included in personnel expenses. Additionally the actuarial gains/(losses) are recognised in the statement of comprehensive income.

### l) Provisions (notes 20, 21)

A provision is recognised in the statement of financial position when the Group, as a result of a past event, has a legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

*Provision for decommissioning, renewals and restorations*

The Group establishes a provision for the renewal and restoration of areas damaged by oil and gas extraction and provision for decommissioning of assets. The amount of the provision is the best estimate of the amount required to cover the liability as at the reporting date. On this date the provision is adjusted to reflect the current estimate. If the estimate is expressed in future prices, it is discounted using the market interest rate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### l) Provisions (cont'd)

The actual expenses incurred on decommissioning, renewal and restoration may differ significantly from the estimates as a result of changes in regulations or technology, an increase in personnel expenses, an increase in the cost of raw materials and equipment or in the time needed to complete decommissioning, renewal and restoration work, or a change in the rate of inflation or long-term real interest rates.

The initial discounted expenses related to decommissioning of tangible fixed assets are recognised as part of tangible fixed asset and depreciated over the estimated useful life of that asset.

*Warranty provision*

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historic warranty data and a weighing of all possible outcomes against their associated probabilities.

*Provision for personnel expenses*

A provision for personnel expenses comprises a provision for management bonuses and other personnel expenses. The provision for management bonuses is established in accordance with management contracts.

*Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

*Jackpot provision*

The jackpot provision is established as the jackpot (win) is generated cumulatively and is carried forward to the next period.

In addition, the Group establishes provisions for litigations and other liabilities of uncertain timing or amount.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### m) Revenues

*Goods sold and services rendered (note 26)*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and taxes relating to the sales. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services rendered is recognised in the statement of comprehensive income as accrued at the reporting date.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

*Revenues from lottery and betting (note 26)*

Gaming revenues are reported net after deduction for player winnings.

Revenue attributable to gaming transactions in which the Group assumes an open position against the player are reported net after deduction of player winnings which are calculated according to outcome of the game. Income from betting activities represents net gain or loss form betting activities in the period plus the gain or loss on the revaluation of open positions at period end.

Received stakes relating to future lottery periods are recorded as deferred revenues ("Numerical lottery subscription").

Lottery tax, assessed as percentage (according to specific country legislation) of revenue from stakes less wins in the period, is recognised based on recognised revenue less wins in the period.

*Lease income (note 27)*

Income from the lease of non-residential premises, office space and movable assets is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

*Grants (note 27)*

A conditional grant is recognised in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and the conditions attaching to it have been met. Grants that compensate the Group for expenses incurred are recognised as income in the period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the statement of comprehensive income over the useful life of the asset.

### n) Lease payments

*Operating lease payments (note 35)*

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

*Finance lease payments (note 18)*

Payments made under finance leases are apportioned between principal, which reduces the overall liability from the finance lease, and finance expense. The latter is recognised in the statement of comprehensive income using the effective interest rate method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### o) Finance income and expenses (note 32)

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on loans and borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

### p) Income tax expense (note 33)

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference or tax loss carried forward can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### q) Discontinued operations (note 4)

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### r) Related parties (note 36)

A related party is a person or entity that is related to the Group (further as the "reporting entity").

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

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of its parent.

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.

(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 related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in a).

(vii) A person identified in a) (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).

The members of the statutory bodies of all companies in the Group, the executive management, shareholders and other companies that are not consolidated (less than substantial influence) are all considered related parties of the Group.

**(in thousands of Euro)**

## 4. ASSETS AND LIABILITIES HELD FOR SALE

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Tangible fixed assets | 1 874 | 4 271 |
| Long-term investments | 6 479 | 6 479 |
| Long-term receivables * | 39 017 | 35 378 |
| Short-term receivables | 315 | 79 |
| Cash and cash equivalents | 89 | 118 |
| **Assets classified as held for sale** | **47 774** | **46 325** |

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Short-term liabilities | 9 183 | 8 943 |
| **Liabilities classified as held for sale** | **9 183** | **8 943** |

Referring to the Board of director's resolution of MND Group N.V. dated as at 16 December 2015, MND Georgia B.V. has been classified as held for sale. As at 31 December 2016 MND Georgia B.V. is reported as held for sale. The Group´s expectation is to sell MND Georgia B.V. in a reasonable time. There are ongoing negotiations with the potential investors.

* Long-term receivables represent long-term loans provided to related parties.

## 5. EFFECT OF DISPOSALS OF SUBSIDIARIES

| | 2016 | 2015 |
|---|---|---|
| Tangible and intangible fixed assets | -- | 656 |
| Deferred tax asset | -- | 94 |
| Short-term financial assets | -- | 2 077 |
| Inventories | -- | 1 935 |
| Trade and other receivables | -- | 4 529 |
| Cash and cash equivalents | -- | 743 |
| Deferred tax liability | -- | -92 |
| Trade and other payables | -- | -326 |
| **Net assets** | **--** | **9 616** |
| | | |
| Consideration received | -- | 9 993 |
| Less cash equivalents | -- | -2 820 |
| **Net cash inflow** | **--** | **7 173** |

In 2016, there were no disposals from the Group, except of sale of 25% share in SAZKA Group a.s. (see Effect of change in ownership interests in Consolidated Statement of Changes in Equity).

In 2015, the Group disposed 100% shares of BONUS PRAHA Investment a.s., ATECRAMA, s.r.o., BPI Pohledávková, s.r.o. and Realitní centrum BONUS, spol. s.r.o. outside the Group. In 2015, the subsidiaries PERAZZOLLI DRILLING - RO SRL and SKALANE LIMITED entered liquidation.

(in thousands of Euro)

## 6. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY

### Property, plant and equipment

| *2016* | Gas pipelines | Underground gas storage owned | Underground gas storage leased | Compression and regulation stations | Land | Buildings and structures owned | Buildings and structures leased | Machinery, tools and equipment owned | Machinery, tools and equipment leased | Other tangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Acquisition cost*** | | | | | | | | | | | |
| Balance 1 January 2016 | 4 780 | 197 286 | 6 394 | 753 | 23 674 | 306 033 | 1 697 | 189 707 | 19 024 | 24 077 | 773 425 |
| Effect of new acquisitions | -- | -- | -- | -- | 8 790 | 17 268 | -- | 899 | -- | 32 529 | 59 486 |
| Additions | -- | 22 256 | -- | 202 | 50 | 5 202 | -- | 10 830 | 912 | 25 624 | 65 076 |
| Disposals | -- | -- | -- | -- | -2 210 | -2 366 | -- | -6 760 | -41 | -1 287 | -12 664 |
| Effect of currency translation | -7 | 36 | 2 | -1 | 203 | -117 | -- | 1 857 | 3 | 833 | 2 809 |
| Transfers | 57 | 2 259 | -- | -- | -543 | 3 807 | -- | 2 504 | -- | -4 178 | 3 906 |
| Balance 31 December 2016 | **4 830** | **221 837** | **6 396** | **954** | **29 964** | **329 827** | **1 697** | **199 037** | **19 898** | **77 598** | **892 038** |
| ***Accumulated depreciation*** | | | | | | | | | | | |
| Balance 1 January 2016 | 2 341 | 95 168 | 4 024 | 592 | 144 | 155 821 | 1 309 | 60 791 | 7 927 | 250 | 328 367 |
| Depreciation expense | 221 | 6 999 | 320 | 41 | -- | 19 977 | 96 | 13 832 | 1 714 | 7 244 | 50 444 |
| Disposals | -- | -- | -- | -- | -16 | -1 991 | -- | -6 326 | -41 | -795 | -9 169 |
| Effect of currency translation | 2 | 19 | -- | -- | -- | -234 | -- | 486 | 2 | 476 | 751 |
| Transfers | -- | -- | -- | -- | -- | 443 | -- | -- | -- | -- | 443 |
| Balance 31 December 2016 | **2 564** | **102 186** | **4 344** | **633** | **128** | **174 016** | **1 405** | **68 783** | **9 602** | **7 175** | **370 836** |
| ***Net book value*** | | | | | | | | | | | |
| 31 December 2016 | **2 266** | **119 651** | **2 052** | **321** | **29 836** | **155 811** | **292** | **130 254** | **10 296** | **70 423** | **521 202** |
| 1 January 2016 | 2 439 | 102 118 | 2 370 | 161 | 23 530 | 150 212 | 388 | 128 916 | 11 097 | 23 827 | 445 058 |

**(in thousands of Euro)**

## 6. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY (CONT'D)

| *2015* | Gas pipelines | Underground gas storage owned | Underground gas storage leased | Compression and regulation stations | Land | Buildings and structures owned | Buildings and structures leased | Machinery, tools and equipment owned | Machinery, tools and equipment leased | Other tangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Acquisition cost*** | | | | | | | | | | | |
| Balance 1 January 2015 | 4 457 | 194 457 | 6 233 | 734 | 23 437 | 283 276 | 1 654 | 168 081 | 18 684 | 24 134 | 725 147 |
| Additions | 114 | 483 | -- | -- | 1 598 | 8 924 | -- | 9 828 | 158 | 13 887 | 34 992 |
| Disposals | -- | -13 | -- | -- | -34 | -4 684 | -- | -2 567 | -99 | -361 | -7 758 |
| Effect of currency translation | 107 | 5 072 | 161 | 19 | 494 | 5 105 | 43 | 7 855 | 281 | 244 | 19 381 |
| Transfers | 102 | -2 713 | -- | -- | -1 821 | 13 412 | -- | 6 535 | -- | -13 827 | 1 688 |
| Effect of disposal of investments | -- | -- | -- | -- | -- | -- | -- | -25 | -- | -- | -25 |
| Balance 31 December 2015 | **4 780** | **197 286** | **6 394** | **753** | **23 674** | **306 033** | **1 697** | **189 707** | **19 024** | **24 077** | **773 425** |
| ***Accumulated depreciation*** | | | | | | | | | | | |
| Balance 1 January 2015 | 2 079 | 86 286 | 3 610 | 536 | 139 | 131 038 | 1 185 | 47 449 | 6 177 | 231 | 278 730 |
| Depreciation expense * | 207 | 7 461 | 317 | 42 | 1 | 26 460 | 92 | 13 964 | 1 641 | 11 | 50 196 |
| Disposals | -- | -3 | -- | -- | -- | -4 648 | -- | -2 229 | -51 | -- | -6 931 |
| Effect of currency translation | 55 | 2 299 | 97 | 14 | 4 | 2 972 | 32 | 1 623 | 160 | 8 | 7 264 |
| Transfers | -- | -875 | -- | -- | -- | -1 | -- | -- | -- | -- | -876 |
| Effect of disposal of investments | -- | -- | -- | -- | -- | -- | -- | -16 | -- | -- | -16 |
| Balance 31 December 2015 | **2 341** | **95 168** | **4 024** | **592** | **144** | **155 821** | **1 309** | **60 791** | **7 927** | **250** | **328 367** |
| ***Net book value*** | | | | | | | | | | | |
| 31 December 2015 | **2 439** | **102 118** | **2 370** | **161** | **23 530** | **150 212** | **388** | **128 916** | **11 097** | **23 827** | **445 058** |
| 1 January 2015 | 2 378 | 108 171 | 2 623 | 198 | 23 298 | 152 238 | 469 | 120 632 | 12 507 | 23 903 | 446 417 |

* Balance of depreciation expense includes impairment (see note 30)

(in thousands of Euro)

## 6. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY (CONT'D)

Regarding property, plant and equipment used for securing loans to the Group, please refer to note 18.

The major additions to tangible fixed assets related to capitalised oil and gas wells and to the purchase of underground gas storage and machinery and equipment. Additions to other tangible assets are mainly represented by buildings and structures under construction.

The borrowing costs capitalised as part of the acquisition cost of tangible assets in 2016 amounted to TEUR 136 (2015 - TEUR 193).

### Investment property

| | |
|---|---|
| ***Acquisition cost:*** | |
| Balance at 1 January 2016 | -- |
| Effect of new acquisition | 1 315 |
| Transfer to own used assets | -417 |
| Balance at 31 December 2016 | 898 |
| ***Accumulated depreciation***: | |
| Balance at 1 January 2016 | -- |
| Depreciation for the period | 42 |
| Balance at 31 December 2016 | 42 |
| **Net book value at 31 December 2016** | **940** |

According to Group's estimates, the fair value of the property does not differ substantially from its book value.

**(in thousands of Euro)**

## 7. INTANGIBLE ASSETS

| ***2016*** | Appreciable rights and trade marks | Software | Exploration and evaluation assets | Other assets | Goodwill | Total |
|---|---|---|---|---|---|---|
| ***Acquisition cost*** | | | | | | |
| Balance 1 January 2016 | 130 161 | 17 163 | 40 432 | 7 411 | 386 179 | 581 346 |
| Effect of new acquisitions ** | 1 858 645 | 16 784 | -- | 79 539 | 205 389 | 2 160 357 |
| Additions | 366 | 4 168 | -- | 3 390 | -- | 7 924 |
| Disposals | -38 | -747 | -- | -159 | -- | -944 |
| Effect of currency translation | 639 | 6 | 3 951 | 18 | -- | 4 614 |
| Transfers | -- | -2 616 | -- | -1 815 | -- | -4 431 |
| Balance 31 December 2016 | **1 989 773** | **34 758** | **44 383** | **88 384** | **591 568** | **2 748 866** |
| ***Accumulated amortisation*** | | | | | | |
| Balance 1 January 2016 | 18 519 | 12 735 | 5 370 | 1 337 | -- | 37 961 |
| Amortisation expense * | 10 282 | 5 544 | 23 753 | 406 | -- | 39 985 |
| Disposals | | | | | -- | |
| Effect of currency translation | 80 | 4 | 3 050 | 17 | -- | 3 151 |
| Transfers | -- | -733 | -- | -73 | -- | -806 |
| Balance 31 December 2016 | **28 881** | **17 546** | **32 173** | **1 691** | **--** | **80 291** |
| ***Net book value*** | | | | | | |
| 31 December 2016 | **1 960 892** | **17 212** | **12 210** | **86 693** | **591 568** | **2 668 575** |
| 1 January 2016 | 111 642 | 4 428 | 35 062 | 6 074 | 386 179 | 543 385 |

* Balance of amortisation expense includes impairment (see note 30)

** For break-down of acquired intangible assets see note 15. Two of the acquired licenses are not amortised but they are subject to impairment testing due to the fact that they are not yet in use.

**(in thousands of Euro)**

## 7. INTANGIBLE ASSETS (CONT'D)

| ***2015*** | Appreciable rights and trade marks | Software | Exploration and evaluation assets | Other assets | Goodwill | Total |
|---|---|---|---|---|---|---|
| ***Acquisition cost*** | | | | | | |
| Balance 1 January 2015 | 127 588 | 14 605 | 58 224 | 4 839 | 386 331 | 591 587 |
| Effect of new acquisitions | -- | -- | -- | -- | 6 | 6 |
| Additions | 376 | 2 424 | -- | 2 538 | -- | 5 338 |
| Disposals | -145 | -289 | -- | -67 | -- | -501 |
| Effect of currency translation | 2 830 | 398 | -10 957 | 136 | -- | -7 593 |
| Transfers | -- | 35 | -6 835 | -35 | -- | -6 835 |
| Effect of disposal of investments | -488 | -10 | -- | -- | -158 | -656 |
| Balance 31 December 2015 | **130 161** | **17 163** | **40 432** | **7 411** | **386 179** | **581 346** |
| | | | | | | |
| ***Accumulated amortisation*** | | | | | | |
| Balance 1 January 2015 | 16 040 | 10 745 | -- | 856 | -- | 27 641 |
| Amortisation expense * | 2 238 | 1 945 | 5 854 | 468 | -- | 10 505 |
| Disposals | -145 | -240 | -- | -2 | -- | -387 |
| Effect of currency translation | 387 | 294 | -484 | 15 | -- | 212 |
| Transfers | -1 | 1 | -- | -- | -- | -- |
| Effect of disposal of investments | -- | -10 | -- | -- | -- | -10 |
| Balance 31 December 2015 | **18 519** | **12 735** | **5 370** | **1 337** | **--** | **37 961** |
| | | | | | | |
| ***Net book value*** | | | | | | |
| 31 December 2015 | **111 642** | **4 428** | **35 062** | **6 074** | **386 179** | **543 385** |
| 1 January 2015 | 111 548 | 3 860 | 58 224 | 3 983 | 386 331 | 563 946 |

* Balance of amortisation expense includes impairment (see note 30)

Intangible assets primarilly comprise intellectual property rights (mainly licenses), brands and trademarks, exploration and evaluation assets, software and goodwill.

The most significant additions to intangible assets in 2016 were acquisitions of software for contact centre and sports betting and expenses on project Digital Entertainment Hub.

(in thousands of Euro)

## 7. INTANGIBLE ASSETS (CONT'D)

### *Goodwill*

| | 2016 | 2015 |
|---|---|---|
| Cestovní kancelář FISCHER, a.s. | 12 654 | 12 654 |
| Conectart, s.r.o. (former Informační linky, s.r.o.) | 8 360 | 8 360 |
| Medicem Group B.V. | 854 | 854 |
| BOŘISLAVKA OFFICE & SHOPPING CENTRE s.r.o. | 1 776 | 1 776 |
| KKCG a.s. | 221 | 221 |
| SAZKA Group a.s. group | 355 786 | 355 786 |
| Dataspring s.r.o. | 1 229 | 1 229 |
| LP Drilling S.r.l. | 4 784 | 4 784 |
| Emma Delta Management Ltd group (Note 15) | 205 309 | -- |
| Vinohradská 230 a.s. | 398 | 398 |
| Other (individually immaterial) | 197 | 117 |
| **Total goodwill** | **591 568** | **386 179** |

Goodwill arose solely in relation to business combinations recognised in accordance with *IFRS 3*.

### *Impairment testing*

In 2016 the Group performed regular impairment tests of goodwill and tests of other non-current assets with indefinite useful life and assets where there was an indication that the carrying amounts could be impaired as at 31 December 2016.

**Goodwill**

The recoverable amount is estimated using:

a) The method of estimated future cash flows (value in use). Value in use is derived from forecasts of future cash flows (these forecasts are prepared and updated by management). The discount rates applied to estimated cash flows are calculated as the weighted average cost of capital (WACC) of each cash-generating unit. A cash flow forecast is always prepared based on specific expected operating results and a business plan covering a period of five years, which is followed by a perpetuity, from which terminal value is derived.

b) The market multiples method (fair value less costs of disposal). This method is based on a comparison of the tested company with similar companies publicly traded in selected period, while the market values are base for estimate of enterprise value (through market multiples). Enterprise value is expressed as an EBITDA multiple. Costs of disposal are considered as immaterial.

The Group used following assumptions for impairment testing: a common market participant, EV/EBITDA market multiple 9.75 for lottery business and 8.79 for travel business.

The impairment testing is performed on annual basis always as at 31 December. The resulting value calculated on value in use and fair value less costs of disposal exceeded the carrying amount of total assets reduced by operating current liabilities, which led to the conclusion that no impairment of the tested assets had to be recognised as at 31 December 2016. In addition, the Group's management carried out a sensitivity analysis of factors influencing the calculation of value in use, and the expectable movements in those factors do not indicate any impairment of goodwill and indefinite-lived intangible assets, either.

## 7. INTANGIBLE ASSETS (CONT'D)

### Trademarks

For the trademarks, impairment testing was further supported by the relief from royalty method. Similar to paragraphs above, a forecast was prepared based on a business plan covering a period of five years until the end of 2021, followed by a perpetuity, which was used to calculate terminal value. Net royalties after tax were discounted using the weighted average cost of capital (WACC).

The resulting discounted value exceeded the carrying amount of trademarks, which supported the conclusion that no impairment of trademarks had to be recognised as at 31 December 2016. In addition, the Group's management carried out a sensitivity analysis of factors influencing the calculation of the fair value of trademarks, and the expectable movements in those factors do not indicate any impairment of trademarks.

### Other intangible assets

The impairment testing is performed as at 31 December each year. The impairment test involved determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model derived from free cash flow to firm and free cash flow to equity and is assessed from a company internal perspective. Values in use are determined based on cash flow budgets covering the whole lifecycle of each project (in case of oil and gas projects with limited resources).

The long-term budgets have been approved by the management and are valid when the impairment test is performed. These budgets are based on the past experience, as well as on future expectations and market trends.

The recoverable amounts of intangible assets recognized from oil & gas projects in Czech Republic, Italy, Germany, Ukraine and Russia have been determined based on a value in use calculation. These cash flow projections are based on financial budgets approved by the management covering a period until the end of useful life of each project and discount rate of 10%. Key planning assumptions relate to the development of prices of crude oil and natural gas, tax and regulatory framework conditions for each country. In case of Russia, intangible assets totalling of TEUR 23 753 were impaired. (In 2015, in case of Ukraine, tangible assets in the amount of TEUR 5 214 and intangible assets in the amount of TEUR 5 861 were impaired.) All other projects exhibit a surplus of recoverable amount over the carrying amounts.

The recoverable amounts of other companies in portfolio have been also determined based on a value in use calculation or using a forward-looking market EV/EBITDA multiple. These cash flow and EBITDA projections are based on financial budgets approved by the management covering a long-term period and discount rate relevant to each cash-generating unit. Based on the analysis performed the recoverable amount is higher than the corresponding carrying amount, thus no impairment was identified.

(in thousands of Euro)

## 8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (INVESTMENTS IN JOINT VENTURES AND ASSOCIATES)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| CLS Beteiligungs GmbH *(1)* | 66.67% | 50 739 | -- | -- |
| LTB Beteiligungs GmbH *(2)* | 66.67% | 50 786 | -- | -- |
| SafeDX s.r.o. | 50.00% | 1 430 | -- | -- |
| LOTTOITALIA S.r.l. *(3)* | 32.50% | 202 074 | -- | -- |
| Cleerio s.r.o. (previously Geosense s.r.o.) | 30.00% | 1 897 | -- | -- |
| BIO NEXUS Ltd. | 20.00% | 2 832 | -- | -- |
| GLORY TECHNOLOGY LTD | 20.00% | -- | -- | -- |
| NEUROSOFT S.A. | 29.53% | 12 175 | -- | -- |
| Moravia Gas Storage a.s. *(4)* | 50.00% | 14 463 | 50.00% | 19 317 |
| Geewa a.s. | 30.82% | 927 | 30.82% | 1 257 |
| Cloud4com, a.s. | 22.00% | 884 | 22.00% | 933 |
| Medial Beteiligungs-GmbH *(5)* | 29.63% | 70 308 | 29.63% | 65 220 |
| **Investments accounted for using the equity method** | | **408 515** | | **86 727** |

Change in the value of the investments accounted for using the equity method contains acquisitions and share of profit or loss of the investments accounted for using the equity method.

All joint ventures of the Group have been reported under the equity method.

None of the Group´s equity accounted investments is publicly listed entity and, consequently, does not have published price quotations.

The following tables represent assets and liabilities, revenues, profit/loss and total comprehensive income related to individually material joint ventures and associates of the Group:

1) CLS Beteiligungs GmbH is a company holding participations in lottery and gaming business. The share of 66.67% is owned through BAIH Beteiligungsverwaltungs GmbH and was acquired on 7 December 2016. According to the company´s Articles of Association the company is able to make a decision only with 75% shareholders approval. Therefore the Group considers it as investment in associate and the company is accounted for using the equity method.

| **CLS Beteiligungs GmbH *)** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Non-current assets | 915 | -- |
| Current assets | 3 532 | -- |
| Non-current liabilities | -- | -- |
| Current liabilities | -17 | -- |
| Net assets (100%) | 4 430 | -- |
| Group´s share (66.67%) | 2 953 | -- |
| Fair value adjustments | 47 786 | -- |
| **Carrying amount of interest in associate** | **50 739** | **--** |
| Revenues | -- | -- |
| Profit from continuing operations (100%) | 394 | -- |
| Total comprehensive income (100%) | 394 | -- |
| **Group´s share of total comprehensive income** | **263** | **--** |

*) The company does not prepare financial statements according to IFRS. Its preparation would require additional expenses that would not create any relevant benefit.

(in thousands of Euro)

## 8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (INVESTMENTS IN JOINT VENTURES AND ASSOCIATES) (CONT'D)

2) LTB Beteiligungs GmbH is a company holding participations in lottery and gaming business. The Group holds a total share of 66.67% (41.766% is owned through Austrian Gaming Holding a.s. and 24.9% is owned through BAIH Beteiligungsverwaltungs GmbH). The shares in the company were acquired on 7 December 2016. According to the company´s Articles of Association the company is able to make a decision only with 100% shareholders approval. Therefore the Group considers it as investment in associate and the company is accounted for using the equity method.

| **LTB Beteiligungs GmbH *)** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Non-current assets | 915 | -- |
| Current assets | 3 509 | -- |
| Non-current liabilities | -- | -- |
| Current liabilities | -10 | -- |
| Net assets (100%) | 4 414 | -- |
| Group´s share (66.67%) | 2 943 | -- |
| Fair value adjustments | 47 843 | -- |
| **Carrying amount of interest in associate** | **50 786** | **--** |
| Revenues | -- | -- |
| Profit from continuing operations (100%) | 394 | -- |
| Total comprehensive income (100%) | 394 | -- |
| **Group´s share of total comprehensive income** | **263** | **--** |

*) The company does not prepare financial statements according to IFRS. Its preparation would require additional expenses that would not create any relevant benefit.

3) LOTTOITALIA S.r.l. is a company that organizes and manages lottery and gaming business in Italy. The Group holds a share of 32.5%, the share in the company was acquired on 5 May 2016 The company is accounted for using the equity method.

| **LOTTOITALIA S.r.l.** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Non-current assets | 765 056 | -- |
| Current assets | 56 046 | -- |
| Non-current liabilities | -- | -- |
| Current liabilities | -199 337 | -- |
| Net assets (100%) | 621 765 | -- |
| Group´s share (32.50%) | 202 074 | -- |
| Fair value adjustments | -- | -- |
| **Carrying amount of interest in associate** | **202 074** | **--** |
| Revenues | 37 446 | -- |
| Profit from continuing operations (100%) | 21 767 | -- |
| Total comprehensive income (100%) | 21 767 | -- |
| **Group´s share of total comprehensive income** | **7 074** | **--** |

(in thousands of Euro)

## 8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (INVESTMENTS IN JOINT VENTURES AND ASSOCIATES) (CONT'D)

4) In 2016, Moravia Gas Storage a.s. put into operation one of the biggest and most advanced underground gas storage facilities in the Czech Republic and started to provide gas storage services. The joint venture is accounted for using the equity method.

| **Moravia Gas Storage a.s.** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Non-current assets | 109 972 | 93 480 |
| Current assets | 1 905 | 1 099 |
| Non-current liabilities | -86 574 | -62 696 |
| Current liabilities | -2 283 | -2 122 |
| Net assets (100%) | 23 020 | 29 761 |
| Group´s share (50.00%) | 11 510 | 14 880 |
| IFRS and fair value adjustments | 2 953 | 4 437 |
| **Carrying amount of interest in joint venture** | **14 463** | **19 317** |
| Revenues | 2 892 | 15 |
| Loss from continuing operations (100%) | -6 362 | -2 005 |
| Total comprehensive loss (100%) | -7 811 | -2 005 |
| **Group´s share of total comprehensive loss** | **-3 905** | **-1 002** |

*) The company does not prepare statutory financial statements according to IFRS. For consolidation purpose, the company made IFRS adjustments to its statutory financial statements.

5) Medial Beteiligungs-GmbH is a company holding participations in lottery and gaming business. The Group holds a share of 29.63%. The company is accounted for using the equity method.

| **Medial Beteiligungs-GmbH *)** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Non-current assets | 48 504 | 34 278 |
| Current assets | 4 021 | 1 127 |
| Non-current liabilities | -- | -- |
| Current liabilities | -13 | -66 |
| Net assets (100%) | 52 512 | 35 339 |
| Group´s share (29.63%) | 15 559 | 10 471 |
| Fair value adjustments | 54 749 | 54 749 |
| Carrying amount of interest in associate | **70 308** | **65 220** |
| Revenues | -- | -- |
| Profit from continuing operations (100%) | 26 287 | 3 089 |
| Total comprehensive income (100%) | 18 036 | 3 089 |
| Group´s share of total comprehensive income | **5 344** | **915** |

*) The company does not prepare financial statements according to IFRS. Its preparation would require additional expenses that would not create any relevant benefit.

As at and for the year ended 31 December 2016, the Group had the following receivables and payables and has realized the following income and expenses, with, and in respect of joint ventures and associates:

| | 2016 | 2015 |
|---|---|---|
| Long-term receivables | 2 268 | -- |
| Short-term receivables | 1 120 | 540 |
| Short-term payables | 62 | 31 |
| Revenues and other operating income | 7 383 | 7 102 |
| Interest income | 47 | 2 092 |
| Purchase of services and other operating expenses | 53 | 46 |

(in thousands of Euro)

## 9. OTHER LONG-TERM INVESTMENTS

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Other investments | 19 216 | 15 805 |
| Investments at fair value through profit or loss | -- | 208 161 |
| **Other long-term investments** | **19 216** | **223 966** |

Other long-term financial investments represent other investments stated at cost less impairment and financial investments measured at fair value through profit or loss.

*a) Other investments*

Other investments are not consolidated or equity accounted for, but stated at cost less impairment, if any. The table below shows major items of other investments, including the ownership interests:

| | Share in 2016 | Share in 2015 |
|---|---|---|
| VÍTKOVICE, a.s. *(i)* | 9.85% | 10.61% |
| Vítkovice Holding a.s. | 2.50% | 2.50% |
| VEMEX s.r.o. | 16.86% | 16.86% |
| Cleerio s.r.o. (previously Geosense s.r.o.) *(ii)* | -- | 5.00% |
| GTECH Czech Republic LLC *(iii)* | 63.00% | 63.00% |
| PERAZZOLI DRILLING - RO SRL *(iv)* | -- | 100.00% |
| SpotInst Ltd. *(v)* | 9.00% | -- |

*(i) As at 17 October 2016, the share was decreased to 9.85%.*

*(ii) As at 31 December 2016, the Group share in the company was 30.00%. Therefore, the company is accounted for as an associated company.*

*(iii) The Group has a 63% ownership interest in GTECH Czech Republic LLC. The ownership interest in GTECH Czech Republic LLC is classified as "Other non-current investments", is carried at historical cost and no impairment trigger identified in 2016.*

*The reason for classifying the ownership interest as "Other non-current investments" is that the Group (despite being the majority owner of GTECH Czech Republic LLC) does not control the possibility to pay dividends and the transferability of its ownership interest is limited. In addition, managerial control over the entity is delegated to GTECH Corporation.*

*Based on a concluded agreement, the remaining 37% ownership interest in GTECH Czech Republic LLC. should be acquired on 31 December 2022.*

*The obligation to purchase the remaining 37% ownership interest in GTECH Czech Republic LLC., which arises from the concluded agreement and has a discounted present value of TEUR 1 852 (2015: TEUR 1 821), is recognised as a long-term liability arising from financial instruments. The nominal value of this financial obligation is TEUR 2 535 ($3 million).*

*The Group considers that the carrying amount of the investment is a reasonable approximation of fair value and therefore the investment is not revaluated.*

*(iv) In 2015, the subsidiary PERAZZOLI DRILLING - RO SRL entered liquidation. On 1 March 2016 the company was dissolved.*

*(v) On 6 September 2016, 9% share in the company was acquired.*

In 2016, the Group received dividend income from these investments in the amount of TEUR 277 (2015 – TEUR 1 295).

(in thousands of Euro)

## 9. OTHER LONG-TERM FINANCIAL INVESTMENTS (CONT'D)

*b) Investments measured at fair value through profit or loss*

Financial assets designated as at fair value through profit or loss comprise:

| | 2016 | 2015 |
|---|---|---|
| Investor shares in a private limited company (International Variable Capital Company) | -- | 208 161 |
| **Long-term investments measured at fair value through profit or loss** | **--** | **208 161** |

Long-term financial assets at fair value through profit or loss represented investors shares held by the Group in the limited liability company („International Variable Capital Company" - a form of company according to Cyprus law) through Vitalpeak Limited and RUBIDIUM HOLDINGS LIMITED.

As a result of acquisition of Emma Delta Management Ltd including OPAP S.A. sub-group these assets became to be part of purchase price allocation as assets previously held (note 15).

## 10. LONG-TERM RECEIVABLES

| | 2016 | 2015 |
|---|---|---|
| Loans receivable | 85 720 | 22 381 |
| Financial derivatives | 346 | 106 |
| Guarantee deposits | 1 335 | -- |
| Prepayments of retirement benefits | 221 | -- |
| Other long-term receivables | 6 072 | 8 260 |
| **Long-term receivables** | **93 694** | **30 747** |

Loans receivable of TEUR 85 691 (2015 - TEUR 22 352) are payable within 5 years and loans receivable of TEUR 29 (2015 - TEUR 29) are payable in more than 5 years.

Other long-term receivables comprise receivables of TEUR 6 059 (2015 - TEUR 8 247) payable within 5 years and TEUR 13 (2015 - TEUR 13) payable in more than 5 years.

## 11. SHORT-TERM FINANCIAL ASSETS

Classification of short-term financial assets into individual portfolios according to the Company's intent:

| | 2016 | 2015 |
|---|---|---|
| Financial assets at fair value through profit or loss | -- | 20 157 |
| Other short-term financial assets | 24 833 | -- |
| | **24 833** | **20 157** |

**(in thousands of Euro)**

## 11. SHORT-TERM FINANCIAL ASSETS (CONT'D)

Short-term financial assets designated as at fair value through profit or loss are analysed as follows:

| | 2016 | 2015 |
|---|---|---|
| Investments in equity securities | -- | 12 960 |
| Investments in bonds | -- | 7 197 |
| | **--** | **20 157** |

The financial assets at fair value through profit or loss are marketable securities and are valued at market value at the close of business on 31 December by reference to Stock exchange quoted prices. They are classified as current assets when they are expected to be realised within twelve months from the reporting date.

In the statement of comprehensive income, changes in fair values of financial assets at fair value through profit or loss are recorded in net finance income (note 32).

## 12. INVENTORIES

| | 2016 | 2015 |
|---|---|---|
| Raw materials | 8 922 | 9 865 |
| Goods | 76 290 | 100 109 |
| Own products | 1 244 | 1 429 |
| Work in progress | 1 485 | 776 |
| Advances paid for inventories | 31 | 61 |
| **Total inventories** | **87 972** | **112 240** |

Balance of goods as at 31 December 2015 included an allowance of TEUR 10 852. In 2016 the allowance was released (see note 28).

## 13. TRADE AND OTHER RECEIVABLES

| | 2016 | 2015 |
|---|---|---|
| Trade receivables | 168 760 | 112 747 |
| Tax receivables | 16 313 | 5 691 |
| Short-term loans provided | 75 146 | 57 653 |
| Prepaid expenses | 23 160 | 10 772 |
| Financial derivatives | 420 | 480 |
| Short-term receivables from agents | 74 522 | -- |
| Other receivables | 41 292 | 35 048 |
| **Total short-term receivables** | **399 613** | **222 391** |

Short-term net receivables overdue total TEUR 5 188 (2015 – TEUR 3 426). The provision for bad debts amounted to TEUR 37 356 (2015 – TEUR 714).

(in thousands of Euro)

## 14. CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|---|---|---|
| Cash in hand | 3 647 | 643 |
| Cash at bank | 395 025 | 248 976 |
| Cash deposits on demand | 82 548 | 576 |
| **Total cash and cash equivalents** | **481 220** | **250 195** |

The Group has tied cash amounted to TEUR 30 128 mainly for the purpose of game principals, due to guarantees received from the agents and liabilities to suppliers and as security to the borrowing facility. Cash deposits are repayable on demand.

## 15. NEW ACQUISITIONS

In 2016 the Group acquired interest in the following companies:

| Company name | Interest acquired | Date of acquisition | Consideration transferred in TEUR |
|---|---|---|---|
| BXY Czech, a.s. | 100% | 8 January 2016 | |
| BWV Czech, a.s. | 51% | 26 October 2016 | |
| Direct Communication, s.r.o. | 100% | 1 January 2016 | |
| KKCG US LLC | 100% | 7 March 2016 | |
| US Methanol LLC | 100% | 7 March 2016 | |
| BAIH Beteiligungsverwaltungs GmbH | 100% | 7 December 2016 | |
| Emma Delta Management Ltd - group *) | 66.7% | 6 October 2016 | |
| IGH Financing a.s. | 100% | 28 April 2016 | |
| Italian Gaming Holding a.s. | 100% | 19 February 2016 | |
| Kavárna štěstí s.r.o. | 100% | 30 May 2016 | |
| SAZKA Asia a.s. | 100% | 27 July 2016 | |
| Sazka Asia Vietnam Company Limited | 100% | 29 November 2016 | |
| **Total amount** | | | **409 971** |

**) see also comment (vi) in Note 1 d).*

The most significant acquisition was acqisition in Emma Delta Management Ltd sub-group, including OPAP S.A. sub-group. The other acquisitions were aggregated because they are individually immaterial.

**(in thousands of Euro)**

## 15. NEW ACQUISITIONS (CONT'D)

The acquisitions of all companies had the following effect on the Group:

| | Recognised values on acquisition | | |
|---|---|---|---|
| | Emma Delta Management Ltd sub-group | Others (individually immaterial) | Total |
| Tangible fixed assets | 60 801 | -- | 60 801 |
| Brands | 724 364 | -- | 724 364 |
| Licenses | 1 134 281 | -- | 1 134 281 |
| Other intangible assets | 96 312 | 11 | 96 323 |
| Other non-current assets | 24 882 | 70 030 | 94 912 |
| Short-term receivables | 169 946 | 61 | 170 007 |
| Cash and cash equivalents | 218 161 | 1 144 | 219 305 |
| Other current assets | 2 854 | -- | 2 854 |
| Long-term loans and borrowings | -280 336 | -- | -280 336 |
| Deferred tax liability | -210 066 | -- | -210 066 |
| Other non-current liabilities | -45 364 | -- | -45 364 |
| Short-term loans and borrowings | -397 183 | -- | -397 183 |
| Payables | -232 368 | -76 | -232 444 |
| Net identifiable assets and liabilities | 1 266 284 | 71 170 | 1 337 454 |
| Goodwill (note 7) | 205 309 | 80 | 205 389 |
| Non-controlling interest aquired | -1 132 836 | -36 | -1 132 872 |
| Consideration paid | 338 757 | 71 214 | 409 971 |
| Consideration paid, satisfied in cash | 107 250 | 68 833 | 176 083 |
| Consideration – part settled in 2017 | -- | 2 381 | 2 381 |
| Fair value of previously held assets – part of consideration | 231 507 | -- | 231 507 |
| Cash acquired | -218 161 | -1 144 | -219 305 |
| Net cash inflow (+) /outflow (-) in 2016 | 110 911 | -67 689 | 43 222 |

The values of assets and liabilities recognized on acquisition are their fair values (see accounting policy 3a).

Emma Delta Management Ltd sub-group contributed from October to December 2016 TEUR 420 407 to Group's consolidated revenues and TEUR 31 431 to Group's total profit for the period.

In 2015 the Group acquired interest in the following companies:

| Company name | Interest acquired | Date of acquisition | Consideration transferred in TEUR |
|---|---|---|---|
| Vitalpeak Limited | 100.00% | *30 March 2015* | |
| Austrian Gaming Holding a.s. | 75.00% | *2 September 2015* | |
| CAME Holding GmbH | 100.00% | *17 October 2015* | |
| FM&S Czech a.s. | 100.00% | *23 November 2015* | |
| Total amount | | | **149 223** |

**(in thousands of Euro)**

## 15. NEW ACQUISITIONS (CONT'D)

The acquisitions of all companies/group of companies in 2015 had the following effect on the Group's assets and liabilities on acquisition date:

| | Recognised values on acquisition |
|---|---|
| Non-current assets | 174 366 |
| Current assets | 848 |
| Non-current liabilities | -- |
| Current liabilities | -917 |
| Net identifiable assets and liabilities | 174 297 |
| Non-controlling interest acquired | -19 |
| Goodwill on acquisition (note 7) | 6 |
| Negative goodwill on acquisition (note 27) | -25 061 |
| Consideration paid | 149 223 |
| Consideration paid, satisfied in cash | 75 723 |
| Consideration – part settled in 2016 | 73 500 |
| Cash acquired | 207 |
| Net cash outflow in 2015 | 75 516 |

The values of assets and liabilities recognized on acquisition are their fair values (see accounting policy 3a).

## 16. SHARE CAPITAL

| Authorised and issued share capital | 2016 | 2015 |
|---|---|---|
| 120 000 ordinary shares of EUR 1 each | -- | 120 |
| 100 000 ordinary shares of CHF 1 each | 90 | -- |

On incorporation, 1 800 ordinary shares of EUR 1 each were issued at par. Subsequently, on 19 December 2006, the Company issued a further 118 200 ordinary shares, at a premium of EUR 8 350,21 each, resulting in a share premium reserve of TEUR 986 995. In 2012, the share premium was reduced by TEUR 305 613 with a respective transfer to retained earnings.

In 2016 the Company finished redomiciliation from Cyprus to Switzerland. As a consequence the Company adjusted the amounts of share capital and share premium according to amounts required by Swiss legislation and declared to Swiss tax authority for confirmation (i.e. share capital TEUR 90 and share premium TEUR 672 402).

(in thousands of Euro)

## 17. NON-CONTROLLING INTERESTS

The Group´s non-controlling interests amount to TEUR 1 299 319 as of 31 December 2016 (2015: TEUR 8 774) relate mainly to SAZKA Group a.s. sub-group and represent 25% on its equity including 67% non-controlling interest in OPAP S.A. sub-group (including 33% non-controlling interest in its subsidiary HELLENIC LOTTERIES S.A.) and 33.3% on equity of the whole Emma Delta Management Ltd sub-group. Other non-controlling interests are individually immaterial.

The reconciliation of non-controlling interest is presented in table below:

| **Summarized statement of financial position as at the year end** | **SAZKA Group a.s. sub-group** | **Others (individually immaterial)** | **Total** |
|---|---|---|---|
| Assets | 3 642 360 | | |
| Liabilities | 1 889 992 | | |
| Sub-group NCI | 1 139 164 | | |
| Net assets attributable to the Group | 613 204 | | |
| Percentage of non-controlling interest | 25.00% | | |
| **NCI calculated** | **153 301** | | |
| Sub-group NCI incoming to consolidation | 1 139 164 | | |
| **Carrying amount of NCI** | **1 292 465** | **6 854** | **1 299 319** |
| **Summarized statement of comprehensive income for the year** | | | |
| Revenue | 628 195 | | |
| Profit | 56 604 | | |
| Other comprehensive income | -3 207 | | |
| Total comprehensive income | 53 397 | | |
| Profit allocated to sub-group NCI | 35 671 | | |
| Other comprehensive income allocated to sub-group NCI | -140 | | |
| NCI percentage *) | 25.00% | | |
| **Profit allocated to NCI *)** | **3 486** | | |
| **Other comprehensive income allocated to NCI** | **-121** | | |
| **Profit/(loss) allocated to NCI** | **39 157** | **-775** | **38 382** |
| **Other comprehensive income allocated to NCI** | **-261** | **-680** | **-941** |
| **Summarized cash flow information for the year** | | | |
| Net cash from operating activities | 52 376 | | |
| Cash flows used in investing activities | -157 441 | | |
| Net cash from financing activities | 446 450 | | |
| Net increase in cash and cash equivalents | 341 385 | | |

*) On 17 August 2016, the Company sold 25% share in SAZKA Group a.s. out of the Group. The profit allocated to NCI relates to the period after that date. Profit and loss figures and cash flow information as presented in table above relate to the whole year.

(in thousands of Euro)

## 18. INTEREST-BEARING LOANS AND FINANCE LEASE LIABILITIES

This note provides an overview of the contractual terms and conditions governing interest-bearing loans and borrowings of the Group.

| | 2016 | 2015 |
|---|---|---|
| **Long-term liabilities** | | |
| Bank loans | 1 207 176 | 434 806 |
| Finance lease liabilities | 2 405 | 4 085 |
| Long-term loans from companies outside the Group | 91 558 | 93 |
| Liabilities arising from debt securities | 41 375 | -- |
| **Total long-term interest-bearing loans and finance lease liabilities** | **1 342 514** | **438 984** |

| | 2016 | 2015 |
|---|---|---|
| **Short-term liabilities** | | |
| Short-term bank loans and other short-term borrowings | 150 436 | 187 193 |
| Short-term part of long-term bank loans | 170 938 | 60 017 |
| Short-term part of finance lease liabilities | 1 321 | 1 652 |
| Bank overdrafts | 19 156 | 495 |
| **Total short-term interest-bearing loans and borrowings and finance lease liabilities** | **341 851** | **249 357** |

*Bank loans*

Long-term bank loans are payable as follows:

| | 2016 | 2015 |
|---|---|---|
| Within one year | **170 938** | **60 017** |
| From one to five years | 1 161 210 | 415 384 |
| In more than five years | 45 966 | 19 422 |
| | **1 207 176** | **434 806** |

The loans received by the Group are secured by property, plant and equipment totalling TEUR 248 901 (2015 - TEUR 262 272), shares, gas inventories and a pledge on receivables and bank accounts.

In 2016, part of the loan portfolio was refinanced and part of short-term loans was drawn and repaid on the revolving base depending on gas inventories (as presented in Consolidated Statement of Cash Flows).

Based on the loans contractual conditions the Group companies need to fulfil specific financial indicators such as long-term debt coverage or debt-equity ratio. As at 31 December 2016 the Group companies fulfilled these indicators.

*Finance lease liabilities*

Finance lease liabilities are due as follows:

| | **2016** | | | **2015** | | |
|---|---|---|---|---|---|---|
| | **Instalment** | **Interest** | **Principal** | **Instalment** | **Interest** | **Principal** |
| Within one year | 1 351 | 30 | 1 321 | 1 654 | 2 | 1 652 |
| From one to five years | 2 421 | 16 | 2 405 | 4 144 | 62 | 4 082 |
| In more than five years | -- | -- | -- | 45 | 42 | 3 |
| | **3 772** | **46** | **3 726** | **5 843** | **106** | **5 737** |

Finance lease liabilities are secured by the leased assets. No conditional rental payments have been agreed in the lease contracts. Subjects of finance lease contracts are mainly motor vehicles and equipment for oil and gas industry.

**(in thousands of Euro)**

## 19. OTHER LONG-TERM LIABILITIES

| | 2016 | 2015 |
|---|---|---|
| Financial derivatives | 2 068 | 1 834 |
| Other long-term liabilities | 6 158 | 20 389 |
| Guarantee deposits from lottery agents | 6 275 | -- |
| **Total other long-term liabilities** | **14 501** | **22 223** |

## 20. LONG-TERM PROVISIONS

| | Provision for decommissioning, renewals and restorations | Provision for litigation | Other provisions | Total provisions |
|---|---|---|---|---|
| Balance 1 January 2015 | 44 661 | -- | -- | 44 661 |
| Additions | 625 | -- | 805 | 1 430 |
| Discounted | 491 | -- | -- | 491 |
| Released | -403 | -- | -- | -403 |
| Translation adjustment | 1 133 | -- | 8 | 1 141 |
| Balance 31 December 2015 | **46 507** | **--** | **813** | **47 320** |
| | | | | |
| Balance 1 January 2016 | 46 507 | -- | 813 | 47 320 |
| Effect of new acquisitions | -- | 35 822 | 1 854 | 37 676 |
| Additions | 17 121 | 645 | 812 | 18 578 |
| Discounted | 361 | -- | -- | 361 |
| Transfers | -294 | -- | -- | -294 |
| Released | -166 | -4 273 | -- | -4 439 |
| Translation adjustment | -6 | -- | -- | -6 |
| Balance 31 December 2016 | **63 523** | **32 194** | **3 479** | **99 196** |

Provisions for decommissioning, renewals and restorations are created in accordance with the policy described in note 3(l).

**(in thousands of Euro)**

## 21. SHORT-TERM PROVISIONS

| | Provision for decommissioning, renewals and restorations | Provision for litigations | Jackpots provision | Other provisions | Total |
|---|---|---|---|---|---|
| Balance 1 January 2015 | 47 | 48 | 5 555 | 1 630 | 7 280 |
| Additions | -- | 55 | 4 715 | 1 964 | 6 734 |
| Transfers | -47 | -- | -- | 47 | -- |
| Used | -- | -- | -5 645 | -1 585 | -7 230 |
| Released | -- | -- | -- | -70 | -70 |
| Translation adjustment | -- | 2 | 135 | 44 | 181 |
| Balance 31 December 2015 | **--** | **105** | **4 760** | **2 030** | **6 895** |
| | | | | | |
| Balance 1 January 2016 | -- | 105 | 4 760 | 2 030 | 6 895 |
| Additions | -- | -- | 7 602 | 2 361 | 9 963 |
| Transfers | 294 | -- | -- | -- | 294 |
| Used | -- | -- | -4 759 | -1 907 | -6 666 |
| Released | -- | -46 | -- | -56 | -102 |
| Translation adjustment | -- | -- | 3 | -7 | -4 |
| Balance 31 December 2016 | **294** | **59** | **7 606** | **2 421** | **10 380** |

## 22. DEFERRED TAX

| | 2016 | 2015 |
|---|---|---|
| **Deferred tax asset** | **17 233** | **4 336** |
| **Deferred tax liability** | **247 924** | **40 946** |

Deferred tax assets and liabilities related to income taxes levied by the same taxation authority were offset in individual companies for the purposes of presentation in the consolidated financial statements.

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Tangible and intangible fixed assets | 10 236 | 10 229 | -282 422 | -64 435 | -272 186 | -54 206 |
| Hedging derivatives | 412 | 18 | -121 | -59 | 291 | -41 |
| Total financial assets | 218 | 222 | -438 | -- | -220 | 222 |
| Total inventories | 2 465 | 3 061 | -44 | -150 | 2 421 | 2 911 |
| Total receivables | 1 006 | 730 | -9 617 | -200 | -8 611 | 530 |
| Total assets held for sale | -- | -- | -134 | -866 | -134 | -866 |
| Total liabilities | 20 958 | 2 603 | -798 | -472 | 20 160 | 2 131 |
| Total provisions | 25 361 | 10 857 | -978 | -863 | 24 383 | 9 994 |
| Tax losses carried forward | 3 205 | 2 715 | -- | -- | 3 205 | 2 715 |
| Deferred tax asset/(liability) | 63 861 | 30 435 | -294 552 | -67 045 | -230 691 | -36 610 |
| Related tax offsets | -46 628 | -26 099 | 46 628 | 26 099 | -- | -- |
| **Net deferred tax asset/(liability)** | **17 233** | **4 336** | **-247 924** | **-40 946** | **-230 691** | **-36 610** |

*(+ deferred tax asset, - deferred tax liability)*

In accordance with the accounting policy stated in note 3 (p), the deferred tax was calculated using tax rates applicable in individual companies.

(in thousands of Euro)

## 22. DEFERRED TAX (CONT´D)

Total increase in the net deferred tax liability by TEUR 194 081 includes effect of deferred tax on revaluation of hedging derivatives of TEUR -779 recognised directly in the Other Comprehensive Income, foreign exchange difference of TEUR 738, deferred tax of TEUR -238 recognised directly to Investment accounted for by the equity method, deferred tax liability from new acquisitions TEUR -199 945 and deferred tax income for the period of TEUR 6 143.

The Group has unrecognised deferred tax assets, in accordance with the accounting policy 3 (p), as it is uncertain whether sufficient future taxable profits will be available against which they could be utilised, shown in the table below. These deferred tax assets relate to the following components of assets and liabilities:

| | Basis of the calculation of deferred tax | | Unrecognised deferred tax asset | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Tangible and intangible fixed assets | 1 442 | -- | 274 | -- |
| Provisions | 440 | -- | 84 | -- |
| Tax losses carried forward | 129 099 | 94 211 | 27 208 | 21 607 |
| Total deferred tax asset | 130 981 | 94 211 | 27 566 | 21 607 |
| Change in unrecognised deferred tax asset | 36 770 | | 5 959 | |

## 23. TRADE AND OTHER PAYABLES

| | 2016 | 2015 |
|---|---|---|
| Trade payables | 247 780 | 146 002 |
| Payables to the state | 14 498 | 13 509 |
| Payables to employees | 14 209 | 8 449 |
| Financial derivatives | 2 165 | 670 |
| Deferred revenues | 10 988 | 1 515 |
| Liabilities arising from unpaid winnings | 81 726 | 14 039 |
| Lottery tax payables | 54 070 | 6 847 |
| Other payables | 181 969 | 166 727 |
| **Total short-term liabilities** | **607 405** | **357 758** |

Short-term trade payables overdue amount to TEUR 4 222 (2015 – TEUR 3 735).

Other short-term payables include deferred consideration for new acquisitions of TEUR 3 467 (2015 – TEUR 73 500) and funds deposited with the Group for the purpose of re-investment in accordance with agreements signed, in the amount of TEUR 98 498 (2015 – TEUR 107 874).

(in thousands of Euro)

## 24. DERIVATIVES

As at 31 December 2016, the Group had the following derivatives:

*Hedging derivatives:*

| | Due date | Fair value as at 31/12/2016 |
|---|---|---|
| Receivables from swap transactions - long-term | 2022 | 346 |
| Receivables from forward transactions - short-term | 2017 | 55 |
| Payables from swap transactions - long-term | 2019 | -21 |
| Payables from swap transactions - long-term | 2020 | -195 |
| Payables from forward transactions - short-term | 2017 | -217 |
| Payables from swap transactions - short-term | 2017 | -1 830 |
| Payables from swap transactions - short-term | 2019 | -28 |
| **Total hedging derivatives** | | **-1 890** |

As at 31 December 2016, the Group held derivatives to hedge future cash flows from the payments of interest according to the credit contracts or loan agreements (interest rate swaps), to hedge against foreign currency risk (currency swaps and currency forwards) ) and to hedge against to changes of sold commodity (commodity swap).

*Trading derivatives:*

| | Due date | Fair value as at 31/12/2016 |
|---|---|---|
| Receivables from futures transactions - short-term | 2017 | 365 |
| Payables from option transactions - long-term | 2021 | -1 852 |
| Payables from swap transactions - short-term | 2017 | -35 |
| Payables from futures transactions - short-term | 2017 | -55 |
| **Total trading derivatives** | | **-1 577** |

As at 31 December 2016, the Group held trading derivatives in a form of currency swaps, interest rate swaps, commodity futures and purchase options.

As at 31 December 2015, the Group had the following derivatives:

*Hedging derivatives:*

| | Due date | Fair value as at 31/12/2015 |
|---|---|---|
| Receivables from forward transactions – short-term | 2016 | 401 |
| Payables from forward transactions – short-term | 2016 | -6 |
| Receivables from swap transactions – short-term | 2016 | 3 |
| Receivables from swap transactions – long-term | 2020 | 106 |
| Payables from swap transactions – short-term | 2016 | -628 |
| Payables from swap transactions – long-term | 2017 | -12 |
| Payables from swap transactions – long-term | 2019 | -2 |
| **Total hedging derivatives** | | **-138** |

**(in thousands of Euro)**

## 24. DERIVATIVES (CONT'D)

As at 31 December 2015, the Group held derivatives to hedge future cash flows from the payments of interest according to the credit contracts or loan agreements (interest rate swaps) and to hedge against foreign currency risk (currency swaps and currency forwards).

*Trading derivatives:*

| | Due date | Fair value as at 31/12/2015 |
|---|---|---|
| Receivables from forward transactions – short-term | 2016 | 76 |
| Payables from swap transactions – short-term | 2016 | -36 |
| Call options – long-term payables | 2021 | -1 820 |
| **Total trading derivatives** | | **-1 780** |

As at 31 December 2015, the Group held trading derivatives in a form of currency forwards, interest rate swaps and call options.

All financial derivatives were stated at fair value as at 31 December 2016 and 31 December 2015 and categorised to Level 2 in the fair value hierarchy. For fair value determination, a market comparison technique was used. Fair values are based on Level 2 inputs.

## 25. LONG-TERM EMPLOYEE BENEFITS

### Defined Benefit Plan

The most significant amount of employee benefits relate to OPAP S.A. sub-group. Under Greek labor law, employees are entitled to termination payments in the event of retirement with the amount of payment varying in relation to the employee's compensation and length of service. The liability arising from the above obligation is actuarially valued by an independent firm of actuaries. The last actuarial valuation was undertaken in December 2016.

The analysis of the plans in Consolidated Statement of Financial Position is as follows:

**Liabilities from long-term employee benefits:**

| | |
|---|---|
| **Opening balance as at 1 January 2016** | **461** |
| Effect of new acquisitions | 1 206 |
| Current service costs | 82 |
| Interest costs | 5 |
| Settlement cost (result) | 1 076 |
| **Total cost recognized in Statement of Comprehensive Income** | **1 140** |
| Actuarial (gain)/loss from demographic assumptions | -- |
| Actuarial (gain)/loss arising from financial assumptions | 101 |
| Actuarial (gain)/loss arising from experience adjustment | 152 |
| **Total actuarial loss recognized in Equity** | **253** |
| Payments | -1 091 |
| **Closing balance as at 31 December 2016** | **1 991** |

(in thousands of Euro)

## 26. REVENUES

| | 2016 | 2015 |
|---|---|---|
| Revenue from lottery and betting | 591 246 | 180 914 |
| Revenue from gas trading | 576 563 | 571 909 |
| Revenue from tourism | 140 551 | 143 583 |
| Sale of services | 122 793 | 98 416 |
| Sale of goods | 68 683 | 56 987 |
| Sale of crude oil | 30 513 | 41 187 |
| Sale of gas | 14 712 | 27 783 |
| Sale of products | 10 261 | 629 |
| Operation of gas storage tanks | 1 856 | 4 566 |
| **Total revenue** | **1 557 178** | **1 125 974** |

## 27. OTHER OPERATING INCOME

| | 2016 | 2015 |
|---|---|---|
| Income from subsidies | 160 | 158 |
| Profit from sale of materials | 639 | 6 |
| Income from negative goodwill (note 15) | -- | 25 061 |
| Gain from disposal of fixed assets | 762 | -- |
| Other operating income | 16 863 | 4 826 |
| **Total other operating income** | **18 424** | **30 051** |

Other operating income includes release of provision for litigations in the amount of TEUR 3 592, commission on New Year´s Eve lottery revenue in the amount of TEUR 2 220 and received fines and penalties in the amount of TEUR 1 493. Other items are individually immaterial.

## 28. MATERIALS, CONSUMABLES AND SERVICES

| | 2016 | 2015 |
|---|---|---|
| Goods including gas trading | 611 049 | 573 183 |
| Materials and energy used | 39 755 | 36 175 |
| Services relating to sales | 183 937 | 220 493 |
| Other services | 117 976 | 26 824 |
| Agent´s commissions | 129 458 | 23 383 |
| Fees to system providers | 18 444 | 18 255 |
| Own work capitalised | -4 438 | -8 034 |
| **Total materials, consumables and services** | **1 096 181** | **890 279** |

Goods including gas trading includes a release of the allowance of TEUR -10 811 (2015: TEUR 10 852 – addition to the allowance), see note 12.

Other services contain TEUR 1 318 (2015 – TEUR 764) of costs attributable to auditors´ remunerations.

Own work capitalised includes capitalisation of wells, see accounting policy 3 (c), and capitalisation of materials and gas for own consumption (oil production).

(in thousands of Euro)

## 29. PERSONNEL EXPENSES

| | 2016 | 2015 |
|---|---|---|
| Payroll expenses | 69 971 | 58 145 |
| Social security and health insurance expenses | 18 610 | 15 978 |
| Other social expenses | 2 320 | 1 657 |
| Retirement benefit costs | 90 | -- |
| **Total personnel expenses** | **90 991** | **75 780** |

The average number of employees in 2016 was 3 588 (2015 – 2 410) employees.

## 30. DEPRECIATION AND AMORTISATION

| | 2016 | 2015 |
|---|---|---|
| Depreciation of tangible fixed assets, incl. investment property | 50 402 | 44 982 |
| Impairment of tangible fixed assets | -- | 5 214 |
| Amortisation of intangible assets | 16 232 | 4 644 |
| Impairment of intangible assets | 23 753 | 5 861 |
| **Total depreciation and amortisation** | **90 387** | **60 701** |

## 31. OTHER OPERATING EXPENSES

| | 2016 | 2015 |
|---|---|---|
| Change in finished products and work-in-progress | -- | 298 |
| Repairs | 4 674 | 5 227 |
| Travel expenses | 8 973 | 3 461 |
| Fees | 4 554 | 6 971 |
| Other taxes | 14 418 | 8 059 |
| Tax on the net revenues (lottery tax) | 182 291 | 35 997 |
| Insurance premiums | 1 888 | 2 004 |
| Loss on sale of fixed assets | -- | 199 |
| Other operating expenses | 20 360 | 4 837 |
| **Total other operating expenses** | **237 158** | **67 053** |

**(in thousands of Euro)**

## 32. NET FINANCE INCOME

| | 2016 | 2015 |
|---|---|---|
| Interest income, incl. income from bonds | 14 183 | 4 183 |
| Interest expense, incl. bond loans interest and expense | -60 642 | -21 812 |
| Profit/(loss) from foreign exchange transactions | 7 148 | -439 |
| Profit from sale of subsidiaries (note 5) | -- | 377 |
| Profit/(loss) from sale of other investments | -18 | 38 512 |
| Dividends received | 281 | 1 295 |
| Profit/(loss) on financial assets at fair value through profit or loss | 23 371 | -10 104 |
| Impairment provision | -455 | -- |
| Other finance income | 20 820 | 24 282 |
| Other finance expenses | -4 098 | -7 413 |
| **Net finance income** | **590** | **28 881** |

## 33. INCOME TAX

| | 2016 | 2015 |
|---|---|---|
| Current income tax | 23 185 | 17 911 |
| Deferred income tax | -6 143 | -4 257 |
| **Income tax** | **17 042** | **13 654** |

| **Effective tax rate** | 2016 | | 2015 | |
|---|---|---|---|---|
| **Profit before tax** | **73 087** | | **76 081** | |
| Income tax determined using current tax rates | 13 887 | 19.0% * | 14 455 | 19.0% * |
| Effect of different tax rate used to determine current and deferred tax; | -53 | -0.1% | 54 | 0.1% |
| Effect of non-deductible expenses | 5 459 | 7.5% | 5 234 | 6.9% |
| Effect of non-taxable income | -7 397 | -10.1% | -10 209 | -13.4% |
| Effect of certain income subject to a special tax rate | 88 | 0.1% | -6 | -0.0% |
| Charity gifts | -47 | -0.1% | -182 | -0.3% |
| Tax credits | 3 120 | 4.3% | -20 | -0.0% |
| Tax relating to prior periods | 526 | 0.7% | 40 | 0.0% |
| Effect of accumulated tax loss claimed in current period | 407 | 0.5% | -491 | -0.7% |
| Effect of not recognised deferred tax asset relating to tax losses of current period | 4 900 | 6.7% | 7 149 | 9.4% |
| Effect of consolidation and IFRS adjustments without deferred tax effect | -100 | -0.1% | 248 | 0.3% |
| Effect of different tax rate of companies within the Group | -3 748 | -5.1% | -2 618 | -3.4% |
| **Total income tax / effective tax rate** | **17 042** | **23.3%** | **13 654** | **17.9%** |

* Tax rate in the Czech Republic where majority of Group's operations is located in 2016 and 2015.

**(in thousands of Euro)**

## 34. OTHER COMPREHENSIVE INCOME/(LOSS)

| | 2016 | 2015 |
|---|---|---|
| Foreign currency translation differences for foreign operations | 1 999 | -6 164 |
| Foreign currency translation differences of disposed foreign operations transferred to profit or loss | -- | 736 |
| **Foreign currency translation differences for foreign operations total** | **1 999** | **-5 428** |

| | 2016 | 2015 |
|---|---|---|
| Share of OCI of equity accounted investees | -3 176 | -- |
| **Share of OCI of equity accounted investees** | **-3 176** | **--** |

| | 2016 | 2015 |
|---|---|---|
| Effective portion of changes in fair value of cash flow hedges, before tax | -1 580 | 1 372 |
| Deferred tax | 300 | -268 |
| **Effective portion of changes in fair value of cash flow hedges, net of tax** | **-1 280** | **1 104** |

| | 2016 | 2015 |
|---|---|---|
| Actuarial gain/loss - before tax | -252 | -- |
| Actuarial gain/loss - deferred tax | 73 | -- |
| **Actuarial gain/loss, net of tax** | **-179** | **--** |

| | 2016 | 2015 |
|---|---|---|
| Net change in fair value of cash flow hedges transferred to profit or loss, before tax | -804 | 2 694 |
| Deferred tax | 153 | -512 |
| **Net change in fair value of cash flow hedges transferred to profit or loss, net of tax** | **-651** | **2 182** |
| | | |
| **Other comprehensive income/(loss) for the period, net of income tax** | **-3 287** | **-2 142** |

## 35. OPERATING LEASES

*Income*

The Group leases non-residential premises and movable assets under operating leases - see note 3(m). The lease contracts have been concluded either for a fixed term or for an indefinite period with a possibility to give a notice. In 2016, an amount of TEUR 320 (2015 – TEUR 143) was recognised as income from operating leases in the statement of comprehensive income.

The Group will receive the following income from operating lease instalments:

| | 2016 | 2015 |
|---|---|---|
| Within one year | 635 | 12 |
| From one to five years | 1 025 | 24 |
| In more than five years | 1 848 | -- |
| | **3 508** | **36** |

**(in thousands of Euro)**

## 35.OPERATING LEASES (CONT'D)

*Expense*

In 2016, an amount of TEUR 6 395 (2015: TEUR 3 649) was recognized as an expense on operating leases in the statement of comprehensive income. The expenses are included in other services in note 28.

The Group is obliged to pay operating lease instalments as follows (long-term contracts only):

| | 2016 | 2015 |
|---|---|---|
| Within one year | 14 384 | 2 233 |
| From one to five years | 23 561 | 6 298 |
| In more than five years | 36 167 | 1 555 |
| | **74 112** | **10 086** |

## 36. RELATED PARTIES

In 2016 the members of the Board of Directors of KKCG AG received remuneration of TEUR 1 546 (2015 - TEUR 1 098).

Bonuses, remuneration and other personnel expenses incurred in respect of members of the board of directors, supervisory board and executive management of the consolidated companies:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Members of statutory bodies | Executive management | Members of statutory bodies | Executive Management |
| Payroll expenses | -- | 14 097 | -- | 10 009 |
| Social security and health insurance | 457 | 2 491 | 404 | 2 030 |
| Remuneration of members of statutory bodies | 3 360 | -- | 3 003 | -- |
| **Total personnel expenses** | **3 817** | **16 588** | **3 407** | **12 039** |

Bonuses for executive management are part of the payroll expenses.

*KKCG Holding AG (KKCG Holding Limited)*

As at 31 December 2016, the Group has trade receivables of TEUR 0 (2015 - TEUR 62) (note 13) from, and other payables of TEUR 0 (2015 - TEUR 560) (note 23) to KKCG Holding AG (KKCG Holding Limited respectively).

*Other related parties*

As at 31 December 2016, the Group has short-term receivables of TEUR 0 (2015 - TEUR 1 589) (note 13) and long-term receivables of TEUR 22 308 (2015 - TEUR 5 933) (note 10) from, and short-term payables of TEUR 4 341 (2015 - TEUR 4 983) to indirectly related companies (note 22) and long-term receivables of TEUR 2 226 (note 10) from, and short-term payables of TEUR 76 178 (2015 - TEUR 93 818) to ultimate shareholders and directors of the Group (note 23).

In 2016, the Group realised finance income of TEUR 459 (2015 - TEUR 222) from Group indirectly related companies and TEUR 5 from ultimate shareholders and directors of the Group (note 32). Finance expenses to indirectly related companies in 2016 amounted to TEUR 2 (2015 - TEUR 3) and to ultimate shareholders and directors of the Group to TEUR 56 (2015 - TEUR 489) (note 32).

Please refer to note 8 regarding receivables, payables, income and expenses from or to joint ventures and associates.

## 37. CONTINGENCIES

*Legal matters*

The Group estimates legal claims against OPAP S.A., for which a negative outcome is likely and therefore result in a provision, including interest, amounting to TEUR 32 195 (note 20).

## 38. FINANCIAL RISK MANAGEMENT

### a) Risk management and financial instruments

Risk management is an essential part of the Group corporate governance. The main focus is on the quantification of the risk exposure in the area of market (FX, interest rate and commodity price risk) and credit risk and mitigation of the potential risk exposure in line with the Group financial goals and risk profile. The aim of the Group risk management system is creation of the additional value for the Group by taking an acceptable level of risk.

For all risks major steps in the Group's risk management process are – risk identification, set up of risk measurement methodology, calculation of risk exposure, definition of hedging strategy and implementation of hedging strategy. Risk objectives and methodology are approved by the Board of Directors. Management of individual subsidiaries is responsible for the implementation and daily processing of the risk management framework.

Major financial instruments of companies in the Group, in addition to available-for-sale investments and other interests, include bank loans and borrowings and financial derivatives. The primary aim of these financial instruments is to obtain funds needed for activities of the Group companies and hedging of the Group's activities.

The most significant financial risks to which the Group is exposed include market risk – mainly currency risks on foreign currency sale, interest charge connected with various interest rates and commodity price risk and credit risk of major trading counterparties and business customers. The principles for managing the above risks are approved and monitored by top management of each Group company.

Group companies enter into derivative transactions (currency forward, currency options, interest rate swaps and commodity swaps), in order to manage currency, interest rate and commodity price risks arising from Group's operations.

### b) Credit risk

Credit risk represents the risk of loss that the Group companies would incur if the trading counterparty or business customer is unable to fulfil its obligation resulting from payment obligation, obligation to off-take a commodity or service at a certain price and non-delivery of contracted commodity or service.

(in thousands of Euro)

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

The Group carries out business predominantly with highly rated third parties. The Group follows the principle that all customers willing to carry out business under credit terms are subject to procedures for credit risk assessment. In addition, the balances of receivables are continuously monitored on individual and aggregated level.

Oil and gas division generates revenues from the sale of crude oil and gas production, gas trading, rendering of services relating to the operation of underground gas storages and drilling services. All trading and business counterparties are subject to a credit risk assessment procedure that sets credit limit for the counterparty. Counterparty credit limits are approved by the Risk Management Committee based on external credit ratings assessment where available or based on internal credit risk methodology. The credit exposure to each counterparty is monitored on a daily basis, taking also into account potential future exposure. The Group also requires in some cases a bank or parent company guarantee, prepayments or other credit support instrument to mitigate credit risk.

One of key measures to mitigate the credit risk in ordinary business activities in lottery and betting division are deposits received from partners (agents) - see note 19. Receivables from the partners are monitored by management on regular basis.

Regarding the credit risk arising from other financial assets of the Group which include cash and cash equivalents, available-for-sale investments and certain derivative instruments, the credit risk of the Group arises from a failure of the counterparty to discharge their obligations, where the maximum risk is the book value of such instruments. This risk is mitigated by cooperation with the best graded local and international banks and diversification of the portfolio.

**Credit risk by type of counterparty**

| *At 31 December 2016* | **Companies (non-financial insti-tutions)** | **State, govern-ment** | **Financial insti-tutions** | **Indivi-duals** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Long-term receivables | 92 757 | 111 | 247 | 579 | 93 694 |
| Short-term investments | -- | -- | 24 833 | -- | 24 833 |
| Short-term receivables | 300 756 | 57 056 | 559 | 74 169 | 432 540 |
| Cash and cash equivalents | 1 205 | -- | 480 015 | -- | 481 220 |
| **Total** | **394 718** | **57 167** | **505 654** | **74 748** | **1 032 287** |

**Credit risk by type of counterparty**

| *At 31 December 2015* | **Companies (non-financial insti-tutions)** | **State, govern-ment** | **Financial insti-tutions** | **Indivi-duals** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Long-term receivables | 25 814 | 4 784 | 111 | 38 | 30 747 |
| Short-term investments | 20 107 | -- | 50 | -- | 20 157 |
| Short-term receivables | 212 509 | 10 644 | 11 | 197 | 223 361 |
| Cash and cash equivalents | 542 | -- | 249 653 | -- | 250 195 |
| **Total** | **258 972** | **15 428** | **249 825** | **235** | **524 460** |

**(in thousands of Euro)**

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

The ageing structure of financial assets:

**Ageing structure**

| *At 31 December 2016* | **Not past due** | **Past due 0-90 days** | **Past due 91-180 days** | **Past due 181-365 days** | **More than one year** | **Adjust-ment created** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Long-term receivables | 93 927 | -- | -- | -- | -- | -233 | 93 694 |
| Short-term investments | 24 833 | -- | -- | -- | -- | -- | 24 833 |
| Short-term receivables | 425 144 | 4 081 | 486 | 1 090 | 39 097 | -37 358 | 432 540 |
| Cash and cash equivalents | 481 265 | -- | -- | -- | -- | -45 | 481 220 |
| **Total** | **1 025 169** | **4 081** | **486** | **1 090** | **39 097** | **-37 636** | **1 032 287** |

**Ageing structure**

| *At 31 December 2015* | **Not past due** | **Past due 0-90 days** | **Past due 91-180 days** | **Past due 181-365 days** | **More than one year** | **Adjust-ment created** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Long-term receivables | 30 747 | -- | -- | -- | 233 | -233 | 30 747 |
| Short-term investments | 20 157 | -- | -- | -- | -- | -- | 20 157 |
| Short-term receivables | 218 817 | 3 077 | 213 | 174 | 958 | 122 | 223 361 |
| Cash and cash equivalents | 250 195 | -- | -- | -- | -- | -- | 250 195 |
| **Total** | **519 916** | **3 077** | **213** | **174** | **1 191** | **-111** | **524 460** |

**Risk analysis by country/region**

| *Long-term and short-term receivables, short-term investments and cash and cash equivalents* | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Czech Republic | 457 713 | 357 484 |
| Cyprus | 155 863 | 67 500 |
| Germany | 26 583 | 15 842 |
| Switzerland | 11 219 | 27 535 |
| Italy | 7 706 | 6 910 |
| Austria | 2 213 | 1 844 |
| Russia | 1 200 | 4 209 |
| Ukraine | 1 122 | 1 431 |
| Other countries | 368 668 | 41 705 |
| **Total** | **1 032 287** | **524 460** |

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

### c) Market risk

Market risk arises from the possible changes in the value of assets and liabilities and cash flows denominated in foreign currencies due to fluctuations in foreign exchange rates, interest rates and commodity prices. The Group has implemented policies and methods for monitoring and hedging these risk exposures.

*i) Currency risk, commodity risk*

The Group is exposed to significant risks arising from foreign currency transactions. These risks arise from sales or purchases in currencies other than the functional currency. Approximately 88% of sales of the oil and gas division is denominated in currencies (primarily 83% in EUR due to active gas trading and secondary 5% in USD due to sales of oil production) other than the functional currency of the operating unit, whereas more than 90% of expenditures is denominated in other than functional currency of the operating units (primarily in EUR 88%). Approximately 78% of sales and 59% of expenditures of the industry division is denominated in EUR. Investment division generates about 4% of sales and nearly 67% of expenditures in currencies other than the functional currency of the operating unit. SAZKA Group division generates about 67% of sales and 71% of expenditures in EUR. Finally Entertainment & Technology division has 100% of expenditures in functional currency.

Companies in the Group continuously monitor currency risks and evaluate the potential impact of fluctuations in the currency exchange rates on the Group's operations. A significant part of the foreign exchange exposure is hedged either by natural hedging, e.g. using financing in the same currency as the revenues generated and also incurring revenues and expenses in the same currency, or by using hedge accounting through FX forward and swap contracts.

The crude oil division is exposed to currency risk relating to generating revenues in USD from the sale of crude oil in the Czech Republic and abroad and from the sale of gas in EUR. The foreign exchange risk from USD denominated crude oil revenues is in the long-term positively compensated by the movement of crude oil prices on world markets. Gas revenues denominated in EUR are hedged by FX forward contracts.

Risk exposure resulting from trading with gas is monitored on a daily basis by observing market value, mark-to-market and value-at-risk of the open position and is subject to certain approved limits for individual risk indicators.

The currency risk of the industry division is mainly eliminated by natural hedging because revenues generated in foreign currencies (mainly EUR) are predominantly compensated by expenses in foreign currencies (mainly EUR).

The Group respects the principle that in order to maximise the effectiveness of derivatives, the conditions of derivatives must correspond with the conditions of the risk item.

**(in thousands of Euro)**

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

**Risk analysis of currency risk**

| *At 31 December 2016* | EUR | CZK | USD | Other | Total |
|---|---|---|---|---|---|
| Long-term receivables | 61 857 | 9 003 | 22 594 | 240 | 93 694 |
| Short-term investments | -- | 24 833 | -- | -- | 24 833 |
| Short-term receivables | 337 387 | 88 321 | 3 578 | 3 254 | 432 540 |
| Cash and cash equivalents | 360 789 | 102 521 | 14 920 | 2 990 | 481 220 |
| **Total assets** | **760 033** | **224 678** | **41 092** | **6 484** | **1 032 287** |
| Long-term loans and interest-bearing borrowings | -921 280 | -402 593 | -18 641 | -- | -1 342 514 |
| Other long-term payables | -11 322 | -1 327 | -1 852 | -- | -14 501 |
| Short-term loans and interest-bearing borrowings | -268 028 | -71 573 | -2 250 | -- | -341 851 |
| Short-term payables | -373 752 | -231 477 | -7 825 | -2 262 | -615 316 |
| **Total liabilities** | **-1 574 382** | **-706 970** | **-30 568** | **-2 262** | **-2 314 182** |
| **Total** | **-814 349** | **-482 292** | **10 524** | **4 222** | **-1 281 895** |

| *At 31 December 2015* | EUR | CZK | USD | Other | Total |
|---|---|---|---|---|---|
| Long-term receivables | 1 680 | 7 174 | 21 861 | 32 | 30 747 |
| Short-term investments | 7 197 | 12 960 | -- | -- | 20 157 |
| Short-term receivables | 120 405 | 96 267 | 2 896 | 3 793 | 223 361 |
| Cash and cash equivalents | 18 263 | 219 299 | 9 231 | 3 402 | 250 195 |
| **Assets** | **147 545** | **335 700** | **33 988** | **7 227** | **524 460** |
| Long-term loans and interest-bearing borrowings | -187 452 | -225 011 | -26 521 | -- | -438 984 |
| Other long-term payables | -4 826 | -1 793 | -15 604 | -- | -22 223 |
| Short-term loans and interest-bearing borrowings | -117 139 | -129 931 | -2 287 | -- | -249 357 |
| Short-term payables | -118 533 | -234 981 | -7 394 | -2 092 | -363 000 |
| **Liabilities** | **-427 950** | **-591 716** | **-51 806** | **-2 092** | **-1 073 564** |
| **Total** | **-280 405** | **-256 016** | **-17 818** | **5 135** | **-549 104** |

*ii) Interest rate risk*

The risk to the Group relating to changes in market interest rates is primarily attributable to the Group's bank loans with floating interest rates. The Group continuously monitors developments in financial markets and, based on the current situation, decides whether loans will be drawn either with a floating or fixed interest rate. During the credit relationship the risk of an increase in interest rates is continuously monitored and the use of standard instruments and hedge accounting to eliminate the risk (interest rate swaps) is considered.

Long-term loans of the Group were mainly concluded with floating interest rates (except for the loans in some companies within the investment division or some real estate projects where a fixed rate was negotiated). Interest rate risk of long-term loans is hedged by interest rate swap contracts.

**(in thousands of Euro)**

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

Due to the fact that the floating interest rate from the long term loans is hedged by interest rate swap, the sensitivity of the Group's operating profit resulting from short term revolving loan is very low and insignificant in comparison to the operating profit.

*Interest rate sensitivity*

Interest rate sensitivity from the whole loan portfolio is insignificant. Major interest rate costs are either hedged by interest rate swaps or have fixed interest rate. In relation to unhedged loans increase/decrease in interest rates (EURIBOR and PRIBOR) by 1 percentage point would cause only an immaterial increase/decrease of interest costs.

In order to mitigate the above risks, the following derivative financial instruments were concluded:

| *Fair value of hedging derivative instruments* | *As at 31 December 2016* | | *As at 31 December 2015* | |
|---|---|---|---|---|
| | *Assets* | *Liabilities* | *Assets* | *Liabilities* |
| | *TEUR* | *TEUR* | *TEUR* | *TEUR* |
| FX forwards and swaps | 55 | -271 | 404 | 343 |
| Interest rate swaps | 346 | -1 843 | 106 | 305 |
| Commodity swaps | -- | -177 | -- | -- |
| Total | 401 | -2 291 | 510 | 648 |

| *Nominal value of derivative instruments* | | *As at 31 December 2016* | | *As at 31 December 2015* | |
|---|---|---|---|---|---|
| | *Currency* | *Assets* | *Liabilities* | *Assets* | *Liabilities* |
| FX forwards and swaps | *TEUR* | 47 500 | -23 750 | 99 460 | 6 800 |
| | *TUSD* | 2 000 | -11 100 | 9 600 | 500 |
| Interest rate swaps | *TCZK* | -- | -149 400 | -- | 243 700 |
| | *TEUR* | 82 135 | -68 409 | 64 558 | 17 476 |
| Commodity swaps | *TUSD* | -- | -11 397 | -- | -- |

Gains or losses on changes in fair value of derivatives during the period qualify for hedge accounting and are charged to equity.

### *d)* Liquidity risk

Liquidity risk represents the possibility that the company might not be able to fulfil its payment obligations, primarily in respect of covering the amounts due to providers of bank loans and borrowings.

The Group monitors the risk of having insufficient funds by continuously monitoring the liquidity and maturity of investments, other financial assets, projected cash flows from its activities and fulfilment of bank covenants (see note 18).

The Group maintains free liquidity sources that consist of cash and equivalents and a portfolio of high-quality, liquid investments.

The Group aims to balance its continuous financing facility requirements using bank overdrafts, bank loans and finance leases.

**(in thousands of Euro)**

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's management minimises liquidity risk (i.e. the risk of inappropriate funds to cover liabilities) through ongoing future cash flow management and planning. The key cash flow planning tool is an annual medium term plan prepared for the period of the following three years. The cash flows for the immediately following years are broken down in detail into individual months, and consequently updated on an ongoing basis.

As part of its liquidity risk management strategy, the Group ensures that a portion of its assets is highly liquid.

The table below presents an analysis of Group's financial assets and liabilities classified by maturity, namely by the period remaining from the reporting date till the contractual maturity. Where earlier repayment is possible, the Group makes the most prudent assessment possible, therefore expecting the earliest possible repayment of liabilities and the latest possible repayment of receivables. Assets and liabilities whose maturity is not contractually specified are grouped under the "undefined maturity" category.

| As at 31 December 2016 | Within 1 year | From 1 to 5 years | In more than 5 years | Undefined maturity | Total |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| **Assets** | | | | | |
| Other-long term investments | -- | -- | -- | 19 216 | **19 216** |
| Long-term receivables | -- | 93 085 | 609 | -- | **93 694** |
| Short-term financial assets | 24 833 | -- | -- | -- | **24 833** |
| Short-term trade and other receivables | 399 613 | -- | -- | -- | **399 613** |
| Income tax receivables | 32 927 | -- | -- | -- | **32 927** |
| TOTAL | **457 373** | **93 085** | **609** | **19 216** | **570 283** |
| **Liabilities** | | | | | |
| Long-term interest-bearing loans and finance lease liabilities | -- | -1 163 455 | -179 059 | -- | **-1 342 514** |
| Other long-term liabilities | -- | -13 856 | -645 | -- | **-14 501** |
| Short-term interest-bearing loans and finance lease liabilities | -341 851 | -- | -- | -- | **-341 851** |
| Trade and other payables | -607 405 | -- | -- | -- | **-607 405** |
| Income tax liabilities | -7 911 | -- | -- | -- | **-7 911** |
| TOTAL | **-957 167** | **-1 177 311** | **-179 704** | **--** | **-2 314 182** |
| | **-499 794** | **-1 084 225** | **-179 095** | **19 216** | **-1 743 898** |

(in thousands of Euro)

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

| As at 31 December 2015 | Within 1 year | From 1 to 5 years | In more than 5 years | Undefined maturity | Total |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| **Assets** | | | | | |
| Other-long term investments | -- | -- | -- | 223 966 | **223 966** |
| Long-term receivables | -- | 30 705 | 42 | -- | **30 747** |
| Short-term financial assets | 20 157 | -- | -- | -- | **20 157** |
| Short-term trade and other receivables | 222 391 | -- | -- | -- | **222 391** |
| Income tax receivables | 970 | -- | -- | -- | **970** |
| TOTAL | **243 518** | **30 705** | **42** | **223 966** | **498 231** |
| **Liabilities** | | | | | |
| Long-term interest-bearing loans and finance lease liabilities | -- | -419 517 | -19 467 | -- | **-438 984** |
| Other long-term liabilities | -- | -20 299 | -1 924 | -- | **-22 223** |
| Short-term interest-bearing loans and finance lease liabilities | -249 357 | -- | -- | -- | **-249 357** |
| Trade and other payables | -357 758 | -- | -- | -- | **-357 758** |
| Income tax liabilities | -5 242 | -- | -- | -- | **-5 242** |
| TOTAL | **-612 357** | **-439 816** | **-21 391** | **--** | **-1 073 564** |
| | **-368 839** | **-409 111** | **-21 349** | **223 966** | **-575 333** |

### e) Capital management

The main purpose of the Group companies when managing capital is to ensure that the companies and thus the Group maintain strong credit ratings and sound capital to support their business activities with other counterparties and maximise shareholder value.

The Group companies manage their capital structure and adjust it in the light of changes in financial conditions. In order to secure or adjust the capital structure, the Group companies may adjust the dividends paid and other distributions made to shareholders, or issue new shares. The Group aims to maintain an appropriate ratio of debt to equity and level of assets and liabilities utilising the high rating of the Group to obtain low-cost external funds.

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Total liabilities | 2 682 856 | 1 178 129 |
| Less: cash and cash equivalents and short-term financial assets | 506 053 | 270 352 |
| **Net debt** | **2 176 803** | **907 777** |
| **Total equity** | **2 120 858** | **808 368** |
| **Debt to equity ratio** | **1.026** | **1.123** |

## 38.FINANCIAL RISK MANAGEMENT (CONT'D)

### f) Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Fair values are obtained, as appropriate, from quoted market prices, discounted cash flow projections and other valuation models.

To estimate the fair value of individual classes of financial instruments, the following methods and assumptions are used:

Cash and cash equivalents, short-term investments

The book value of cash and other short-term investments approximates their fair value, as these financial instruments have a relatively short maturity.

Other long-term investments

Fair values cannot be estimated for financial instruments for which quoted market prices do not exist and are thus stated at cost.

Receivables and payables

The book value of short-term receivables and payables approximates their fair value, as these financial instruments have a short maturity.

Short-term loans

The book value approximates their fair value, as these instruments have a floating interest rate and a short maturity.

Long-term loans

The book value of long-term loans and other liabilities with different interest rates approximates their fair values.

Derivatives

The fair value of derivatives is based on obtained value (see below table).

(in thousands of Euro)

## 38.FINANCIAL RISK MANAGEMENT (CONT'D)

The following tables show the carrying amounts and fair values of financial assets and liabilities as at 31 December, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of their fair value:

| | Carrying amount at 31/12/2016 | | | Fair value at 31/12/2016 | | |
|---|---|---|---|---|---|---|
| 2016 | Held-for-trading | Designated at fair value | Fair value – hedging instruments | Level 1 | Level 2 | Level 3 |
| **Financial assets measured at fair value** | | | | | | |
| Commodity futures | 365 | -- | -- | -- | 365 | -- |
| Currency forwards | -- | -- | 55 | -- | 55 | -- |
| Interest rate swaps | -- | -- | 346 | -- | 346 | -- |
| **Financial liabilities measured at fair value** | | | | | | |
| Commodity futures | -55 | -- | -- | -- | -55 | -- |
| Currency forwards | -- | -- | -217 | -- | -217 | -- |
| Currency swaps | -11 | -- | -54 | -- | -65 | -- |
| Commodity swaps | -18 | -- | -177 | -- | -195 | -- |
| Purchase options | -1 852 | -- | -- | -- | -1 852 | -- |
| Interest rate swaps | -6 | -- | -1 843 | -- | -1 849 | -- |

| | Carrying amount at 31/12/2015 | | | Fair value at 31/12/2015 | | |
|---|---|---|---|---|---|---|
| 2015 | Held-for-trading | Designated at fair value | Fair value – hedging instruments | Level 1 | Level 2 | Level 3 |
| **Financial assets measured at fair value** | | | | | | |
| Interest rate swaps | -- | -- | 106 | -- | 106 | -- |
| Currency forwards | 76 | -- | 401 | -- | 477 | -- |
| Currency swaps | -- | -- | 3 | -- | 3 | -- |
| Long-term financial investments | -- | 208 161 | -- | -- | 208 161 | -- |
| Short-term financial assets | -- | 20 157 | -- | 20 157 | -- | -- |
| **Financial liabilities measured at fair value** | | | | | | |
| Interest rate swaps | -36 | -- | -305 | -- | -341 | -- |
| Currency forwards | -- | -- | -6 | -- | -6 | -- |
| Currency swaps | -- | -- | -337 | -- | -337 | -- |
| Purchase options | -1 820 | -- | -- | -- | -1 820 | -- |

Fair values as shown in the tables were obtained from financial institutions in which the swaps and forwards are contracted. The Group considers that the carrying amount of the purchase option is reasonable approximation of fair value and therefore not revaluated.

## 39. RESEARCH AND DEVELOPMENT

In 2016, the Group incurred the amount of TEUR 1 288 (2015 - TEUR 807) on research and development of innovative biomedical products.

(in thousands of Euro)

## 40. NON-CAPITALISED ASSETS AND LIABILITIES

i) Off-balance sheet items

| **Off-balance sheet assets** | 2016 | 2015 |
|---|---|---|
| Promissory notes and guarantees | 139 667 | 4 |
| Low value tangible and intangible fixed assets still in use | 4 693 | 4 724 |
| Other | 4 620 | 3 495 |
| | **148 980** | **8 223** |

| **Off-balance sheet liabilities** | 2016 | 2015 |
|---|---|---|
| Commitments and guarantees (bills and notes, bank guarantees) | 491 301 | 60 401 |
| Other | 13 292 | 5 351 |
| | **504 593** | **65 752** |

The major item of commitments and guarantees relates to bills securing the loans.

ii) Assets in custody and trust

| | 2016 | 2015 |
|---|---|---|
| Other | 227 | 273 |
| | **227** | **273** |

Pledged assets are disclosed in note 18.

## 41. MATERIAL SUBSEQUENT EVENTS

Description of significant subsequent events that occurred after 31 December 2016:

- The Group signed agreements for future acqusition of additional stakes in company Medial Beteiligungs-GmbH. The transactions are still in negotiation phase and are subject of approval of authorities.
- On 18 April 2017, the Group increased its investment in associated company LOTTOITALIA S.r.l. in the amount of TEUR 100 165 through a capital increase.
- On 17 March 2017, the Group issued 200 000 common, bearer bonds with a nominal value of € 1 000 each (the Bonds). The final yield has been set at 3.50% and the offer price of the Bonds has been set at € 1 000 each, namely 100% of the nominal value.
- On 9 May 2017, the Group's subsidiary OPAP S.A. paid a dividend in amount of EUR 0.6 per OPAP's share as publicly announced in document "Resolutions of the 17th ordinary general meeting of OPAP S.A." dated 27 April 2017.
- On 11 May 2017, the Group repaid a part of the loan liabilities in the amount of TEUR 50 000.
- On 2 February 2017, the Group increased its stake in associated company Geewa a.s. from 30.82% to 40.2%.
- On 23 May 2017, the Group's subsidiary SAZKA a.s. acquired 100% of shares of the company FORTUNA sázky a.s. (renamed to Fsazky a.s.). The acquisition accounting is ongoing.

Except for the above, no other subsequent events that would have a significant impact on the balances or understanding of consolidated financial statements as at 31 December 2016 occured.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

**OF**

KKCG AG

**KKCG AG, Lucerne**

# Statutory Auditor's Report
# on the Audit of the
# Consolidated Financial Statements
# to the General Meeting

Consolidated Financial Statements 31 December 2016

KPMG AG

*Zurich, 30 May 2017*

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Statutory Auditor's Report to the General Meeting of

**KKCG AG, Lucerne**

## Report on the Audit of the Consolidated Financial Statements

*Opinion*
We have audited the consolidated financial statements of KKCG AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements (page 4 to 82) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS for EU) and comply with Swiss law.

*Basis for Opinion*
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other information in the Annual Report*
The Board of Directors is responsible for the other information in the annual report. The other information comprises the Board of Director's report, but does not include the consolidated financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibility of the Board of Directors for the Consolidated Financial Statements*
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS for EU and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

**Report on Other Legal and Regulatory Requirements**

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

| | |
|---|---|
| Roger Neininger | Yvonne Lingg |
| *Licensed Audit Expert* | *Licensed Audit Expert* |
| *Auditor in Charge* | |

Zurich, 30 May 2017

*Enclosure:*
- Consolidated financial statements, which comprise the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements