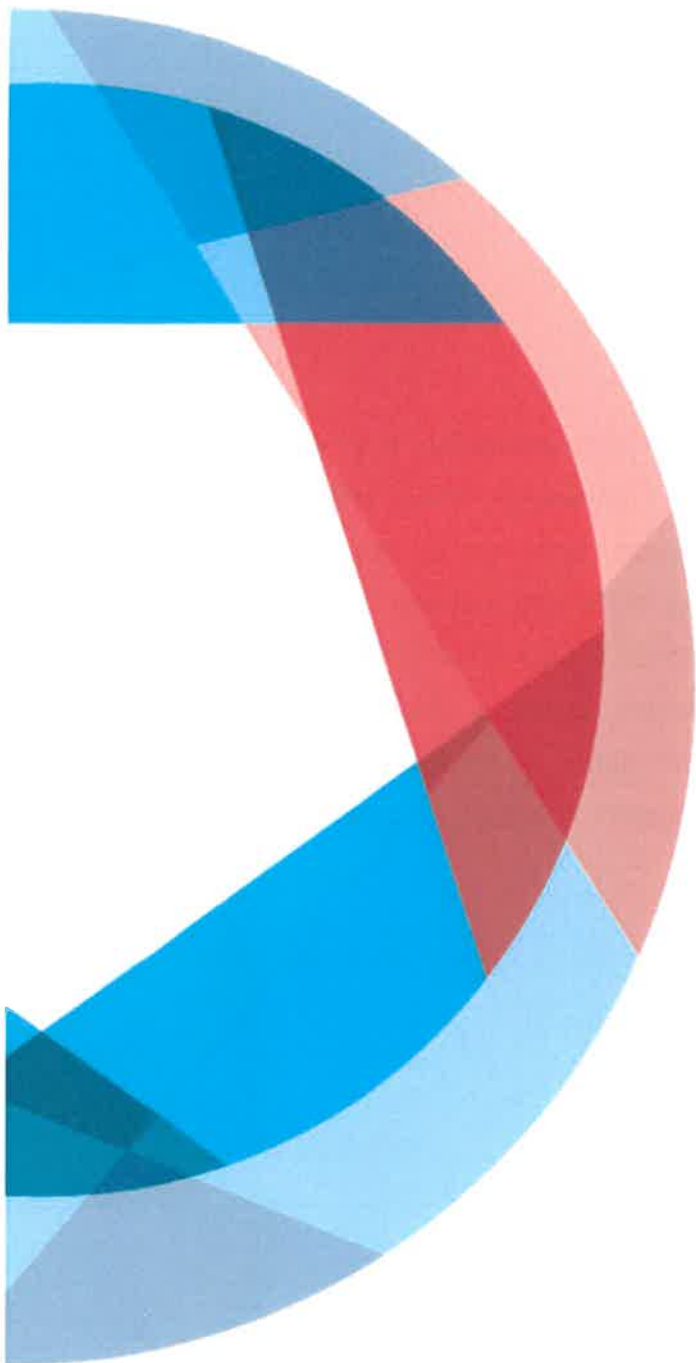




NAKIT

Národní agentura pro
komunikační a informační
technologie, s. p.



ANNUAL REPORT 2018

Národní agentura pro komunikační a informační technologie, s. p. was established on 1 February 2016 as a service organization of the Ministry of Interior of the Czech Republic. It provides services in the field of information and communication technologies (ICT) with the use of more than 40 regional offices. The NAKIT Statute defines a wide range of activities that predetermine it to build new competencies enabling, for example, not only the operation and maintenance of information and communication technologies, but at the same time their development in a manner consistent with the needs of their users.

An introductory word from the Director

Ladies and Gentlemen,

On the following pages, we present you with the annual report of the NAKIT agency for 2018.

The year 2018 was, indeed, very successful for NAKIT. We provided infrastructure, application and cyber-security services for public administration in the segments eGovernment, Integrated Rescue System and operation of internal ICT systems of the Ministry of Interior. We continued to implement our strategy 2018-2020 with the aim of providing useful and secure services in order to meet our commitment to be a strategic partner for the state in the ICT field.

The launch of the Citizen Portal in July 2018 represents a milestone in the digitalization of the public administration of the Czech Republic, and a crucial success of NAKIT. The portal allows citizens to communicate directly with the state thanks to the e-ID card and currently offers more than 70 online services. The experts from NAKIT continue to work intensively on its further development to offer a wide range of useful services in the future. The modern technical solution of the Portal has enabled us to implement unique technologies that are exceptional - not just for the public administration.

Second major achievement of the past year was the signing of a New main contract. This contract, signed with the Ministry of the Interior in December 2018, represents essential services for the Ministry, the Police of the Czech Republic and the Fire Rescue Service. A fundamental change from previous contracts is that we now guarantee our customers a complete service with fairly accurate qualitative and quantitative criteria. A shift from operation to actual service delivery is the cornerstone of our Strategy and by signing the New main contract, we have moved one step closer towards its fulfilment.

I would like to thank all colleagues who contributed to this successful year 2018. I would like to thank everyone for their efforts in emergency situations, when we have been able to flawlessly manage, for example, the aftermath of the devastating storm Fabien in September 2018.

I would also like to thank all our business partners for their cooperation so far and I look forward to our customers' continuing trust in 2019.

Ing. Vladimír Dzurilla
NAKIT Director



Annual report

Národní agentura pro komunikační a informační technologie, s. p. (hereinafter „NAKIT“ or „the Company“) is a state-owned company established according to Act no. 77/1997 Coll., on State Enterprises, as amended (hereinafter „the Law on State Enterprises“). The founder of NAKIT is the Ministry of the Interior.

NAKIT was founded by a charter of the Ministry of the Interior of 21. 1. 2016 and it is registered in the Commercial Register kept by the Municipal court in Prague, Section A, entry 77322 of 1. 2. 2016. NAKIT's identification number is 047 67 543.

NAKIT is a legal entity, carrying out business activities with state property in its own name and under its own responsibility. It is authorized to manage this property.

The registered office of the Company is Kodaňská 1441/46, 101 00 Prague 10.

The Company at 31. 12. 2018 did not show on its balance sheet any intangible assets arising from research and development.

The Company complies with all legal regulations regarding environmental protection and employment relations.

The Company has no branches abroad.

During 2018 the Company received a request pursuant to Act no.106/99 Coll., On free access to information, as amended by later regulations, which was answered within the statutory time limit.

In accordance with Act no. 253/2008 Coll., On Certain Measures Against Money Laundering and Financing of Terrorism, as amended, NAKIT fulfilled its obligation to retain data on its actual owner and record these in the manner and to the extent provided for by Act no. 304/2013 Coll., On the Public Registers of Legal Entities and Natural Persons (hereinafter referred to as the „Register Act“).

The Company expects a deepening of current activities within the current scope of business.

During the period from the date of the Financial statements to the date of approval of the annual report no events occurred which could significantly influence the reported Financial statements for the accounting period 1. 1. 2018 – 31. 12. 2018.

INDEPENDENT AUDITOR'S REPORT

To the Founder of **Národní agentura pro komunikační a informační technologie, s. p.**

Opinion

We have audited the accompanying financial statements of **Národní agentura pro komunikační a informační technologie, s. p.**, with its headquarters at Kodaňská 1441/46, Praha 10, Czech Republic, IC (Registration Number) 047 67 543 (hereafter the Company), prepared in accordance with Czech accounting regulations, which comprise the balance sheet as at 31. 12. 2018, the income statement, statement of changes in equity and cash flow statement for the period from 1. 1. 2018 to 31. 12. 2018 and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the assets and liabilities of **Národní agentura pro komunikační a informační technologie, s. p.** as at 31. 12. 2018 and of the costs, revenues and its profit or loss and its cash flows for the period from 1. 1. 2018 to 31. 12. 2018, in accordance with Czech accounting regulations.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under these regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Annual Report

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

Our opinion on the on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the company obtained from the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with the applicable laws and regulations, in particular, whether the other information complies with the laws and regulations in terms of formal requirements and procedures for preparing the other

information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information. Based on the procedures performed, to the extent we are able to assess it, we report that

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

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

Responsibilities of the Director and Supervisory Board for the Financial Statements

The Director is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting regulations, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and

obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director.
- Conclude on the appropriateness of the Director use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

In Prague, on 28th March 2019

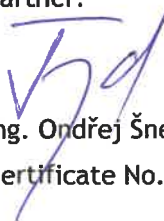
Audit firm:

BDO Audit s.r.o.

BDO Audit s. r. o.

Certificate No. 018

Partner:



Ing. Ondřej Šnejdar

Certificate No. 1987

Company: Národní agentura pro komunikační a informační technologie, s. p.

Identification number: 04767543

Legal form: State enterprise

Scope of activity: Supply, development and operation of information and communication technology systems and related services, including infrastructure used in the performance of state (public) administration tasks.

Balance sheet date: 31. 12. 2018

Date of preparation of the Financial Statements: 28.3.2019

BALANCE SHEET

(in CZK thousand)

Title a	ASSETS b	31. 12. 2018			31. 12. 2017
		Gross 1	Adjust. 2	Net 3	Net 4
	TOTAL ASSETS	625 392	-108 686	516 706	474 495
B.	Fixed assets	121 584	-97 992	23 592	26 221
B. I.	Intangible fixed assets	10 322	-5 820	4 502	5 555
B. I. 2.	Valuable rights	10 322	-5 820	4 502	5 555
B. I. 2.1.	Software	10 022	-5 789	4 233	5 529
B. I. 2.2.	Other valuable rights	300	-31	269	26
B. II.	Tangible fixed assets	111 262	-92 172	19 090	20 666
B. II. 2.	Tangible movable things and their groups	101 357	-90 244	11 113	12 313
B. II. 3.	Adjustment to acquired assets	9 638	-1 928	7 710	8 353
B. II.	Advance payments for tangible fixed assets and tangible fixed assets under construction	267	0	267	0
B. II. 5.2	Tangible fixed assets under construction	267	0	267	0
C.	Current assets	461 183	-10 694	450 489	419 431
C. I.	Inventory	9 422	-4 530	4 892	18 199
C. I. 1.	Materials	81	0	81	94
C. I. 2.	Work in progress and semi-products	4 811	0	4 811	18 078
C. I. 3.	Finished products and merchandise	4 530	-4 530	0	27
C. I. 3.2.	Merchandise	4 530	-4 530	0	27
C. II.	Receivables	134 498	-6 164	128 334	116 792
C. II. 1.	Long-term receivables	5 170	0	5 170	9 740
C. II. 1.4.	Deferred tax receivable	5 153	0	5 153	9 721
C. II. 1.5.	Other receivables	17	0	17	19
C. II. 1.5. 4.	Other receivables	17	0	17	19
C. II. 2.	Short-term receivables	129 328	-6 164	123 164	107 053
C. II. 2.1.	Trade receivables	6 235	-6 156	79	571
C. II. 2.2.	Receivables - controlled and controlling entities	42 643	0	42 643	51 995
C. II. 2.4.	Other receivables	80 450	-8	80 442	54 487
C. II. 2.4. 4.	Short-term advance payments	10 742	0	10 742	5 644
C. II. 2.4. 5.	Estimated receivables	69 457	0	69 457	48 755
C. II. 2.4. 6.	Other receivables	251	-8	243	88
C. IV.	Cash in hand and bank accounts	317 263	0	317 263	284 439
C. IV. 1.	Cash in hand	11	0	11	10
C. IV. 2.	Bank accounts	317 252	0	317 252	284 429
D. I.	Accruals of assets	42 625	0	42 625	28 843
D. I. 1.	Deferred expenses	42 625	0	42 625	28 843

Title a	LIABILITIES b	31. 12. 2018	31. 12. 2017
		5	6
	TOTAL EQUITY AND LIABILITIES	516 706	474 495
A.	Equity	290 302	251 255
A. I.	Registered capital	200 000	200 000
A. I. 1.	Registered capital	200 000	200 000
A. II.	Share premium and capital contributions	41 502	45 980
A. II. 2.	Capital contributions	41 502	45 980
A. II. 2.1.	Other capital contributions	33 695	38 173
A. II. 2.2.	Gains or losses from revaluation of assets and liabilities (+/-)	7 807	7 807
A. III.	Legal, statutory and other reserve funds	22 172	22 961
A. III. 1.	Other reserve funds	19 000	20 000
A. III. 2.	Statutory and other reserves	3 172	2 961
A. IV.	Profit/loss – previous years (+/-)	- 18 731	- 18 731
A. IV. 2.	Accumulated losses from previous years (+/-)	-18 731	-18 731
A. V.	Profit/loss – current year (+/-)	45 359	1 045
B.	Liabilities	221 477	223 240
B. I.	Provisions	48 500	70 124
B. I. 2.	Income tax provision	4 393	0
B. I. 4.	Other provisions	44 107	70 124
C.	Liabilities	172 977	153 116
C. II.	Short-term liabilities	172 977	153 116
C. II. 4.	Trade payables	106 114	73 304
C. II. 6.	Liabilities – controlled and controlling entities	5 002	3 126
C. II. 8.	Other liabilities	61 861	76 686
C. II. 8.3.	Liabilities to employees	18 854	19 163
C. II. 8.4.	Social security and health insurance liabilities	9 641	9 387
C. II. 8.5.	Due to state . taxes and subsidies	13 160	15 589
C. II. 8.6.	Estimated liabilities	20 148	32 507
C. II. 8.7.	Other liabilities	58	40
D.	Accruals of liabilities	4 927	0
D. 1.	Deferred expenses	1 690	0
D. 2.	Deferred revenue	3 237	0

Company: Národní agentura pro komunikační a informační technologie, s. p.

Identification number: 04767543

Legal form: State enterprise

Scope of activity: Supply, development and operation of information and communication technology systems and related services, including infrastructure used in the performance of state (public) administration tasks.

Balance sheet date: 31. 12. 2018

Date of preparation of the Financial Statements: 28.3.2019

INCOME STATEMENT

(in CZK thousand)

Title	TEXT	Current	Prior
		31. 12. 2018	31. 12. 2017
	b	1	1
I.	Sales of own products and services	1 154 452	1 051 095
II.	Sales of goods	47 870	16 560
A.	Production consumption	690 944	634 741
A. 1.	Cost of goods sold	47 704	16 560
A. 2.	Raw materials and consumption	17 703	10 862
A. 3.	Services	625 537	607 319
B.	Change in own production inventory (+/-)	14 550	-11 544
D.	Personnel expenses	448 875	415 315
D. 1.	Wages and salaries	333 994	312 000
D. 2.	Social security expenses, health insurance and other expenses	114 881	103 315
D. 2.1.	Social security expenses and health insurance	108 761	97 176
D. 2.2.	Other expenses	6 120	6 139
E.	Valuation adjustments relating to operating activities	4 886	25 426
E. 1.	Valuation adjustments of fixed tangible and intangible assets	7 161	13 457
E. 1.1.	Valuation adjustments of fixed tangible and intangible assets - permanent	7 161	13 457
E. 2.	Valuation adjustments of inventories	-1 283	5 813
E. 3.	Valuation adjustments of receivables	-992	6 156
III.	Other operating income	1 590	7 952
III. 1.	Income from fixed assets sold	0	2 516
III. 3.	Other operating income	1 590	5 436
F.	Other operating expenses	-9 430	4 175
F. 1.	Net book value of fixed assets sold	0	561
F. 3.	Taxes and fees	1 998	935
F. 4.	Provisions relating to operating activities and complex deferred expenses	-26 017	-3 485
F. 5.	Other operating expenses	14 588	6 165
*	Operating profit/loss (+/-)	54 088	7 493
VI.	Interest income and similar income	211	172
VI. 2.	Other interest and similar income	211	172
J.	Interest expense and similar expense	0	10
J. 2.	Other interest and similar expense	0	10
VII.	Other financial income	46	6
K.	Other financial expenses	25	25
*	Profit/loss from financial operations (transactions) (+/-)	232	143
**	Profit/loss before tax (+/-)	54 320	7 636
L.	Income tax	8 961	6 591
L. 1.	Income tax - due	4 393	0
L. 2.	Income tax – deferred (+/-)	4 568	6 591
**	Profit/loss after tax (+/-)	45 359	1 045
***	Profit/loss of current accounting period	45 359	1 045
*	Net turnover = I + II + III + IV + V + VI + VII	1 204 169	1 075 785

P	Opening balance of cash and cash equivalents	284 439	219 363
Cash flows from operating activities			
Z	Profit or loss from ordinary activities before tax	54 320	7 636
A.1	Adjustments for non-cash transactions	-20 685	24 032
A.1.1	Depreciation of fixed assets and amortization of adjustments to acquired assets	7 194	13 457
A.1.2	Change in provisions and reserves	-28 292	8 484
A.1.3	Profit/loss on the sale of fixed assets	0	-1 955
A.1.5	Interest expense and interest income excluding capitalized interest	-211	-162
A.1.6	Adjustments for other non-cash transactions	624	4 208
A *	Net operating cash flow before tax	33 635	31 668
A.2	Change in working capital	8 855	42 387
A.2.1	Change in operating receivables, assets (CZ) and estimated receivables	-30 560	74 011
A.2.1.1	Change in operating receivables (excl. Estimated receivables)	4 585	79 446
A.2.1.2	Change in assets (CZ)	-13 782	8 717
A.2.1.3	Change in estimated receivables	-21 363	-14 152
A.2.2	Change in operating payables, liabilities (CZ) and estimated payables	24 825	-20 021
A.2.2.1	Change in operating payables (excl. estimated payables)	32 220	-3 589
A.2.2.2	Change in liabilities (CZ)	4 927	-2 292
A.2.2.3	Change in estimated payables	-12 322	-14 140
A.2.3	Change in inventories	14 590	-11 603
A.2.3.1	Change in inventories (excl. Unfinished inventories and work-in-progress)	40	-58
A.2.3.2	Unfinished inventories and work-in-progress	14 550	-11 545
A **	Net operating cash flow	42 490	74 055
A.3	Interest paid (excl. Capitalized interest)	0	-10
A.4	Interest received	211	172
A.5	Income tax paid from ordinary operations a supplementary tax for previous periods	0	0
A ***	Net operating cash flows	42 701	74 217
Cash flows from investing activities			
B.1	Fixed assets expenditures	-4 565	-6 208
B.2	Proceeds from fixed assets sold	0	2 516
B ***	Net cash flows from investing activities	-4 565	-3 692
Cash flows from financing activities			
C.2	Impact of changes in equity	-5 312	-5 449
C.2.5	Payments from capital funds	-5 312	-5 449
C ***	Net financial cash flows	-5 312	-5 449
F	Net increase/decrease in cash and cash equivalents	32 824	65 076
R	Closing balance of cash and cash equivalents	317 263	284 439

STATEMENT OF CHANGES IN EQUITY

(CZK thous.)	Share capital	Other capital funds	Restatement differences from revaluation of assets and liabilities	Statutory reserve	Other profit funds	Accumulated losses brought forward	Profit or loss for the current year	Total
Balance as at 31.12. 2016	200 000	38 513	7807	20 000	3 163	-22 551	8 727	255 659
Allocation of profits and movement between funds	0	-340	0	0	5 247	3 820	-8 727	0
Drawing on funds	0	0	0	0	-5 449	0	0	-5 449
Profit for the current period	0	0	0	0	0	0	1 045	1 045
Balance as at 31. 12. 2017	200 000	38 173	7807	20 000	2 961	-18 731	1 045	251 255
Allocation of profits and movement between funds	0	0	0	0	5 523	0	-1 045	4 478
Drawing on funds	0	-4 478	0	-1 000	-5 312	0	0	-10 790
Profit for the current period	0	0	0	0	0	0	45 359	45 359
Balance as at 31. 12. 2018	200 000	33 695	7807	19 000	3 172	-18 731	45 359	290 302

NOTES TO THE FINANCIAL STATEMENTS

1. General information

1.1. Basic information about the Company

Národní agentura pro komunikační a informační technologie, s. p. (hereinafter „NAKIT“ or „the Company“) is a state-owned company. It is a legal entity conducting business activities with state property in its own name and under its own responsibility. The founder of the Company is the State. The Company was founded on 1. 2. 2016. The function of founder was carried out by the Ministry of the Interior of the Czech Republic on behalf of the State. As at 31. 12. 2016 the Company's headquarters are at Prague 10, Kodaňská 1441/46, Czech Republic. The identification number of the Company is 047 67 543 and it is registered in the Commercial Register kept by the Municipal court in Prague, Section A, entry 77322. The Company is a business entity in accordance with Act No. 77/1997 Coll., on State Enterprises, as amended.

The activities of the Company are as follows:

- a) production, trade and services not specified in Annexes 1 to 3 of the Trade Act,
- b) supply, development and operation of systems of information and communication technologies and related services, including infrastructure, which are used when performing the tasks of State (public) administration. Operation, supply and development of systems of information and communication technologies, which deal with sensitive data or classified information, including data registers and data warehouses,
- c) operations, support and development of critical communications infrastructure of the State, including CMS, especially according to Act. No. 365/2000 Coll., on public administration information systems and amendments to certain other Acts and Act no.300/2008 Coll., on electronic acts and authorized conversion of documents,
- d) providing central purchasing area services for entities of the State (public) administration,
- e) mapping of network and related infrastructure owned by public entities together with an analysis of current and future communications needs and demand for services of private networks from public entities. As part of this line of activity will also be the building and operating of a secure geo-information system containing information about private networks infrastructure,
- f) strategic support of development of private networks and related infrastructure and services of private networks for public entities, including the creation, implementation and application of strategy for the functional, organizational, architectural and technical development of private networks for public entities, as well as preparation of recommendations and methodologies for the realization of synergic effects in construction of private networks. Part of this activity is also the identification and implementation of appropriate security measures into the architecture of private networks and services,
- g) coordination of private networks construction by the Ministry of Interior,
- h) mapping of the availability and usability of investment resources for the development of private networks including analysis of planned investment projects suitable for parallel realization of private networks and related infrastructure.

The statutory bodies of the Company are the Director and the Supervisory Board. The statutory representative of the Company is the Director, respectively the Deputy Director.

The organizational structure (including the secretary and internal audit department) as at 1. 1. 2019 is as follows:



Members of statutory bodies as at 31. 12. 2018:

Name	Position	Date of creation of the function	Recorded in the commercial register
Ing. Vladimír Dzurilla	Director	24.1.2018	17.3.2018
Ing. Antonín Chlum	Deputy Director	10.8.2017	30.9.2017

The Company is represented by the Director or the Deputy Director in the Director's absence.

Top management changes during 2018:

Name	Position	Date of termination of the function	Recorded in the commercial register
Alan Ilczyszyn	Director	22.1.2018	17.3.2018

Structure of supervisory board as at 31. 12. 2018 was as follows:

Name	Position	Date of creation of the function	Recorded in the commercial register
JUDr. Ing. Jiří Nováček	Chairman	1.7.2016	1.7.2016
brig. gen. Mgr. Bc. Slavomír Bell, MSc.	Deputy chairman	15.10.2018	22.12.2018
JUDr. Jaroslav Strouhal	Member	1.7.2016	1.7.2016
JUDr. PhDr. Petr Mlsna, Ph.D.	Member	22.8.2017	30.9.2017
Mgr. Jan Ďoubal	Member	1.7.2016	1.7.2016
Pavel Čech	Member	6.10.2017	9.12.2017

Changes in the supervisory board during 2018:

Name	Position	Date of termination of the function	Recorded in the commercial register
Mgr. Jiří Zmatlík	Deputy Chairman	2.7.2018	25.10.2018

2. Basis of preparation of the Financial Statements

The financial statements have been prepared in accordance with Act no.563/1991 Coll., on Accounting and Decree no.500/2002 Coll. To this Act and according to Czech accounting standards for entrepreneurs, as amended. The financial statements have been prepared in accordance with accounting principles generally accepted in the Czech Republic and have been prepared under the historical cost convention except as disclosed below. The financial statements have been prepared for the period 1.1. – 31.12.2018, comparable period is 1.7 – 31.12.2017.

3. Accounting policies

The valuation methods used by the Company in preparation of the financial statements as at 31. 12. 2018 are as follows:

3.1. Intangible fixed assets

Acquired intangible fixed assets are measured at cost which includes the purchase price and additional direct costs incurred in connection with the acquisition.

Intangible assets whose value exceeds 40 thousand CZK per item are evenly amortized over their estimated useful lives in accordance with the amortization plan of the Company, for a period of 4 years, or in exceptional cases where the useful life spans a longer period.

Intangible assets with a cost of less than 40 thousand CZK per item, are expensed at acquisition and are recorded only in operative, respectively a subsidiary ledger.

The amortization schedule is updated throughout the use of intangible fixed assets based on the expected useful life. The cost limit for the capitalisation of technical improvements of intangible assets is 40 thousand CZK. If the carrying value of an asset exceeds the estimated recoverable amount, the carrying value is reduced to that amount through allowances. The recoverable amount is determined based on expected future cash flows generated by the asset.

3.2. Tangible fixed assets

Acquired tangible fixed assets are initially recorded at cost, which includes the purchase price and additional costs incurred in connection with the acquisition. Loan interest is not included in the cost of tangible fixed assets.

Tangible assets acquired free of charge are valued at replacement acquisition cost and charged to the account of other capital funds. The replacement acquisition cost of these assets is determined based on an expert report, respectively based on the market prices of comparable assets in terms of condition and functional properties. The value of tangible assets is reduced by subsidies for the acquisition of assets.

The depreciation plan is updated throughout the use of tangible fixed assets based on the expected useful life.

If the net book value of an asset exceeds its estimated recoverable amount, the net book value is reduced to that amount by allowances. The recoverable amount is determined based on expected future cash flows generated by the asset.

If the net book value of a cash-generating unit exceeds its estimated recoverable value, the net book value of the cash-generating unit is reduced by an allowance to the recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash income significantly independent from the cash income from other assets or groups of assets.

Allowances are made particularly for projects for which it is not known when and whether they will be applied and in the case of a planned sale, if the estimated selling price, net of costs related to the sale is less than the net book value reported in the accounting records.

The costs of technical improvement to tangible assets increase the acquisition price, when the total costs for the accounting period exceed the amount of 40 thousand CZK and when the technical improvements are put into use during that year. Repairs and maintenance are accounted directly to expenses.

Tangible assets with a cost less than 40 thousand CZK per item are considered as inventory. They are accounted for upon consumption and recorded only in a subsidiary ledger. Tangible assets whose cost exceeds 40 thousand CZK per item are depreciated using the method of straight-line depreciation based on the expected useful lives of the assets. The expected lives of tangible assets are as follows:

	Years
Machinery and equipment	4 – 15
Vehicles	6 – 20
Furniture and fittings	10 – 20
IT technology	3 – 7

3.3. Current financial assets

Current financial assets consist of cash on hand and in bank accounts.

3.4. Inventories

Purchased inventories are valued at acquisition cost, net of allowances. Acquisition cost includes all costs related to its acquisition (mainly transport, customs duty, etc.). For disposals of purchased inventories the Company uses the weighted average method.

Provisions for slow moving items and obsolete inventory are created based on an analysis of the turnover of inventory and based on an individual evaluation of inventories.

In the case of long-term contracts, the carrying value of work in progress also includes part of the administrative overhead. Received subcontractor supplies and other direct costs are expensed and simultaneously posted to activated work in progress. Subcontracted supplies are valued at cost. The clearing of work in progress occurs at the moment of the recognition of sales for deliveries.

3.5. Receivables

Receivables are stated at nominal value less a provision for doubtful receivables. The provision for doubtful receivables is established based on the aging of receivables and an individual assessment of the creditworthiness of customers.

3.6. Equity

The financial position and funds of the Company are governed by Act no.77/1997 Coll., on State Enterprises as amended. The share capital is under this act termed a business asset, to which the Company has the right on its establishment. Share capital includes both registered and unregistered business assets, in compliance with the accounting regulations. Other capital funds are created in accordance with the accounting regulations for entrepreneurs.

Furthermore, the Company creates a reserve fund from profit, which may reach up to 10% of the share capital.

The Company creates a welfare fund for (hereinafter "WF"). Creation of a Welfare Fund is governed by § 16 of the Decree no.114/2002 Coll. and § 3 of Decree no.310/1995 Coll. On welfare funds, as amended (including changes under Decree no.167/1997 Coll., and 314/1999 Coll.) and the use of the WF is governed by § 4-10 of the Decree no.310/1995 Coll.

3.7. Liabilities

The Company creates a reserve if it has a present liability and it is likely that an outflow of resources will be required to settle the liability and a reliable estimate of the amount can be made.

Included in "Provision for income taxes" are also paid advances for income tax if they are lower than the advance provision for income taxes.

Long-term liabilities incl. loans and short-term liabilities, including loans are stated at their nominal values. Short-term loans are regarded as the part of long-term loans maturing within one year from the balance sheet date.

The Company creates a provision for the future liability from income tax less advances paid for income tax. If the advances for income tax exceed the estimated tax, the difference is recognized as a short-term receivable.

3.8. Leasing

The purchase price of assets acquired under finance and operating leases are not capitalized in fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not due at the balance sheet date are disclosed in the notes but not recognized in the balance sheet. The Company recognizes the value of leased assets when the lease contract expires, and it takes up the purchase option. Lease payments paid in advance are accrued evenly over the life of the lease.

3.9. Conversion of foreign currencies

Transactions in foreign currencies are converted and recorded at the exchange rate set by the Czech National Bank on the first day of the current month.

Balances of financial assets, receivables and liabilities denominated in foreign currencies have been converted at the exchange rate published by the Czech National Bank at the balance sheet date. All exchange profits and losses on financial assets, receivables and liabilities are charged in the profit and loss account.

3.10. Expenses and income

Revenues and expenses are generally accounted for on an accrual basis, i.e. in the period to which they relate.

Sales are recognized at the time of provision of the service (except as noted below) or the sale of goods to customers and are reported net of discounts and value added tax.

The Company charged as a debit to expenses the creation of reserves and adjustments to cover all risks, losses and impairments that are known of at the balance sheet date.

3.11. Income tax

The expense for income tax is calculated using the statutory tax rate on the accounting profit increased or decreased by permanent or temporary tax non-deductible expenses and non-taxable income (e.g. Creation and charging of other reserves and allowances, entertaining expenses, differences between accounting and tax depreciation, etc.).

The income tax liability of the Company is recorded in the balance sheet as part of "State – tax liabilities and subsidies" if the tax liability exceeds the tax prepayments. Otherwise, the amount exceeding the tax liability arising from tax prepayments is reported in "State – tax receivables".

The tax expense is reported in the profit and loss account as a tax on an operating activity.

3.12. Deferred tax

Deferred tax is reported for all temporary differences between the net book value of an asset or liability in the balance sheet and its tax value.

3.13. Employee benefits

The Company creates a reserve for untaken holidays. The Company creates an accrual for compensations and bonuses due to employees who are entitled to payment at the balance sheet date. The Company creates a reserve for compensations and bonuses to employees who are not entitled to payment as at the balance sheet date.

3.14. Related parties

The related parties of the Company are:

- The State as the founder of the Company, government agencies, state enterprises and companies, respectively any other legal entities where the State has a controlling influence, whatever is the substance of the relationship, and not merely the legal form;
- Members of statutory, supervisory and management entities and parties close to these entities, including enterprises or institutions and companies where these members and parties have a substantial, proportionate or controlling influence.

Significant transactions and balances with related parties are disclosed in Note 17 – Related party transactions.

3.15. Cash and cash equivalents

Financial resources are cash on hand including liquid valuables and cash in a bank account, including the overdrafts of current or overdraft accounts.

Cash equivalents are short-term, highly liquid financial assets that are readily convertible to known amounts of cash and regarding these assets no significant changes of value in time is expected. Cash equivalents are considered to be cash deposits with a maximum of three months' notice and liquid debt securities tradable on a public market.

The Company has prepared a cash flow statement using the indirect method.

3.16. Changes in accounting policies and estimates

In the period 2018 and 2017 respectively, we did not identify any significant changes in accounting policies and estimates.

3.17. Subsequent events

The impact of events that occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions that existed at the balance sheet date. In the case that significant events occurred between the balance sheet date and the date of preparation of the financial

statements but did not affect conditions at the balance sheet date, the effects of these events are disclosed in the notes to financial statements but are not recorded in the financial statements.

4. Fixed assets

4.1. Intangible assets

31. 12. 2018

(CZK thous.)	Opening balance	Additions *)	Disposals *)	Final balance
Software	9 332	690	0	10 022
Goodwill	40	260	0	300
Intangible assets under construction	0	950	-950	0
Total 2018	9 372	1 900	-950	10 322

*) Additions and disposals also include transfers of intangible fixed assets under construction.

(CZK thous.)	Opening balance of depreciation	Additions	Disposals	Final balance of depreciation	Net book value
Software	-3 803	-1 986	0	-5 789	4 233
Goodwill	- 14	-17	0	-31	269
Intangible assets under construction	0	0	0	0	0
Total 2018	-3 817	-2 003	0	-5 820	4 502

31. 12. 2017

(CZK thous.)	Opening balance	Additions *)	Disposals *)	Final balance
Software	4 645	4 775	-88	9 332
Goodwill	40	0	0	40
Intangible assets under construction	0	4 775	-4 775	0
Total 2017	4 685	9 550	-4 863	9 372

*) Additions and disposals also include transfers of intangible fixed assets under construction.

(CZK thous.)	Opening balance of depreciation	Additions	Disposals	Final balance of depreciation	Net book value
Software	-2 413	-1 454	64	-3 803	5 529
Goodwill	- 4	-10	0	- 14	26
Intangible assets under construction	0	0	0	0	0
Total 2017	-2 417	-1 454	64	-3 817	5 555

4.2. Tangible assets

31. 12. 2018

(CZK thous.)	Opening balance	Additions *)	Disposals *)	Final balance
Machinery and equipment	85 218	3 347	0	88 565
Vehicles	6 961	0	0	6 961
Other tangibles	5 898	0	-67	5 831
Valuation difference on acquired assets	9 638	0	0	9 638
Tangible fixed assets under construction	0	3 614	-3 347	267
Total 2018	107 715	6 961	-3 414	111 262

*) Additions and disposals also include transfers of tangible fixed assets under construction.

(CZK thous.)	Opening balance of depreciation	Additions	Disposals	Final balance of depreciation	Net book value
Machinery and equipment	-76 389	-3 400	0	-79 789	8 776
Vehicles	-6 936	-25	0	-6 961	0
Other tangibles	-2 439	-1 090	35	-3 494	2 337
Depreciation of the valuation difference on acquired assets	-1 285	-643	0	-1 928	7 710
Tangible fixed assets under construction	0	0	0	0	267
Total 2018	-87 049	-5 158	35	-92 172	19 090

31. 12. 2017

(CZK thous.)	Opening balance	Additions *)	Disposals *)	Final balance
Machinery and equipment	84 959	1 450	-1 191	85 218
Vehicles	17 839	0	-10 878	6 961
Other tangibles	5 953	0	-55	5 898
Valuation difference on acquired assets	9 638	0	0	9 638
Total 2017	118 389	1 450	-12 124	107 715

*) Additions and disposals also include transfers of tangible fixed assets under construction.

(CZK thous.)	Opening balance of depreciation	Additions	Disposals	Final balance of depreciation	Net book value
Machinery and equipment	- 67 202	-9 998	811	-76 389	8 829
Vehicles	- 17 401	-256	10 721	-6 936	25
Other tangibles	-1 381	-1 097	39	-2 439	3 459
Depreciation of the valuation difference on acquired assets	-642	-643	0	-1 285	8 353
Total 2017	- 86 626	-11 994	11 571	-87 049	20 666

In the period 2018 and 2017 respectively, the Company received no subsidies for investment purposes, nor did it receive any significant tangible assets free of charge.

5. Receivables

At 31. 12. 2018 and at 31. 12. 2017 respectively, the Company had no receivables due after more than five years.

In 2018, the Company received subsidies for operating purposes of CZK 624 thousand. In 2017, the Company received no operating subsidy.

The summary of provisions for receivables is as follows:

(CZK thous.)	31.12.2016	Created	Used	31.12.2017	Created	Used	31.12.2018
Provision for subscribed capital receivables	1 000	0	0	1 000	0	-1 000	0
Provision for trade receivables	0	6 156	0	6 156	8	0	6 164
Total	1 000	6 156	0	7 156	8	-1 000	6 164

6. Current financial assets

The main bank used by the Company is the Czechoslovak Commercial Bank, Inc., where the Company has a current/overdraft account. An overdraft facility that allows the Company to have a negative balance is shown in Note 10 – Bank loans and overdrafts.

7. Equity

Registered capital at 31. 12. 2018 and at 31. 12. 2017 respectively, is CZK 200 000 thousand and the reserve fund as at 31.12. 2018 amounts to CZK 19 000 thousand.

Changes in equity during 2017 and 2018 are disclosed in the Statement of Changes in Equity.

8. Reserves

(CZK thous.)	Balance as at 31. 12. 2016	Creation	Dissolution / use	Balance as at 31. 12. 2017	Creation	Dissolution / use	Balance as at 31. 12. 2018
Social and health insurance	7 670	8 662	-7 670	8 662	3 734	-6 481	5 915
Unused vacation	1 082	1 504	-1 082	1 504	497	0	2 001
Reserve for severance payments incl. competition clause	9 550	1 382	-9 550	1 382	0	-1 382	0
Bonus elements of salaries	5 523	5 664	-5 523	5 664	8 587	-4 501	9 750
Corporate income tax return reserves	0	0	0	0	4 393	0	4 393
Other	49 784	45 182	-42 055	52 912	4 763	-31 234	26 441
Total	73 609	62 394	-65 880	70 124	21 974	-43 598	48 500

The reserve for social and health insurance contributions was made in particular for the unpaid part of contractual wages, rewards for profit, unused vacations and other bonuses related to wages.

The reserve for severance payments and competition clauses was created in connection with the gradual decrease of the number of employees in the following years, which was approved by the management of the Company and subsequently communicated to employees and trade unions.

Other reserves were created specially to cover risks known of as at 31.12. 2018 and probable losses from ongoing litigation and extrajudicial disputes and obligations arising from them.

The Company also created a reserve for the bonus element of salaries, consisting of the subjective components of wages including individual bonuses.

9. Current liabilities

As at 31. 12. 2018 and at 31. 12. 2017 respectively, the Company had short-term overdue liabilities totalling CZK 84 thousand and CZK 512 thousand, respectively.

As at 31. 12. 2018 and at 31. 12. 2017 respectively, the Company had no long-term or short-term liabilities secured by collateral or guarantees in favour of the creditor.

Liabilities to related parties are disclosed in Note 15 – Related party transactions.

Estimated liabilities primarily relate to estimated compensation due to employees.

Liabilities for social security and health insurance amounted to CZK 9 641 thousand. This is the outstanding obligation from the wages for December 2018 which will have been paid in the following month.

At 31. 12. 2018 and 31. 12. 2017 respectively, the Company recorded no income tax arrears due to the local financial authorities.

10. Bank loans and overdrafts

10.1. Denominated in CZK

Bank	Terms/Conditions	Total limit CZK thous.	31. 12. 2018 CZK thous.	31.12.2017 CZK thous
ČSOB, a. s.	Overdraft account	100 000	0	0

The Company has complied with all the conditions specified in the loan contract.

11. Income tax

Tax deferred asset (+) / liability (-) quantified using 19 % tax rate was as follows:

Items of deferred tax	2018			2017		
	Base CZK thous.	Deferred tax receivable CZK thous.	Deferred tax liability CZK thous.	Base CZK thous.	Deferred tax receivable CZK thous.	Deferred tax liability CZK thous.
Difference between the accounting and tax carrying value of fixed assets	-5 483	0	-1 042	-10 416	0	-1 979
Provisions for inventories	4 530	861	0	5 813	1 104	0
Other reserves	28 076	5 334	0	54 994	10 449	0
Tax loss	0	0	0	774	147	0
Total	27 123	6 195	-1 042		11 700	-1 979
Net deferred tax asset		5 153			9 721	

In 2018, the Company reported corporate income tax expenses of CZK 4,393 thousand. In 2017, the Company did not incur any corporate tax costs.

12. Leasing

The Company leases fixed assets, which are not recorded on the balance sheet (see Note 3.5 – Leasing and also Note 13 – Assets and liabilities not recognized in the balance sheet).

The amount of rent for property leased by the Company under operating leases as at 31. 12. 2018 and at 31. 12. 2017 respectively, amounted to CZK 6 494 thousand and CZK 6 392 thousand, respectively.

The Company did not have any financial leases as at 31. 12. 2018 and 31. 12. 2017 respectively.

13. Assets and liabilities not recognized in the balance sheet

The Company recorded in the operating records at 31. 12. 2018 and 31. 12. 2017 respectively, low value assets and off-balance sheet leased assets (recorded at cost) that are not recognized in the balance sheet.

(CZK thous.)	31. 12. 2018	31.12.2017
Leased/supporting assets	41 494	56 732
Low value tangible assets	23 132	20 125
Low value intangible assets	4 695	4 271
Total	69 321	82 042

14. Contingent liabilities

The Management Board is not aware of any other significant contingent liabilities of the Company as at 31. 12. 2018.

15. Inventories

Summary of inventory provisions is as follows:

(CZK thous.)	31.12.2016	Created	Used	31.12.2017	Created	Used	31.12.2018
Provision for work in progress	0	1 283	0	1 283	0	-1 283	0
Provision for products in stock	0	4 530	0	4 530	0	0	4 530
Total	0	5 813	0	5 813	0	-1 283	4 530

Work in progress in the amount of CZK 4 811 thousand is related to unfinished projects.

16. Employees

Breakdown of personnel costs:

Average number of employees in CZK thous.	31. 12. 2018		31. 12. 2017	
	Total employees	Management and DR*	Total employees	Management and DR*
	383	12	369	12
Payroll costs	333 994	13 817	312 000	19 595
Social and health insurance	108 761	4 069	97 177	4 181
Social costs	6 120	126	6 138	21
Total personnel expenses	448 875	18 012	415 315	23 797

*excluding costs for severance pay and non-competing clauses

Note: Management is defined as level R and R-1

17. Transactions with related parties

In addition to the amounts referred to in Note 16 – Employees, the members and former members of the statutory and supervisory bodies and senior management of the Company have not received during the period 2018 and 2017 any loans, guarantees advances or other benefits beyond the collective agreement, with the exception of Company management staff who have vehicles in private use for business and personal purposes. Furthermore, the Company concluded a collective professional liability insurance with respect to management staff.

In the normal course of business during the year, several transactions were carried out with related parties. The list of transactions carried out in 2018 and 2017 and the related receivables (excluding provisions) and liabilities to related parties is as follows:

31. 12. 2018	Revenues CZK thous.	Expenses CZK thous.	Receivables CZK thous.	Liabilities CZK thous.
Ministry of Interior	-1 198 505	22 199	112 124	-6 267
Czech post, s. p.	-4 416	5 219	908	-1 027
General registry management	-38 909	0	361	0
SPCSS, s.p.	0	372	0	-77
Other	-1 933	0	0	0
Total	-1 243 763	27 790	113 393	-7 371

31. 12. 2017	Revenues CZK thous.	Expenses CZK thous.	Receivables CZK thous.	Liabilities CZK thous.
Ministry of Interior	- 1 013 338	4 740	102 048	-21
Czech post, s. p.	-4 416	13 011	899	-2 603
General registry management	-58 094	0	25	0
SPCSS, s.p.	0	422	0	-87
Other	-280	0	309	0
Total	-1 076 128	18 173	103 281	-2 710

18. Remuneration of the audit firm

The total cost of the remuneration of the audit firm for the statutory audit at 31. 12. 2018 and at 31. 12. 2017 amounted to CZK 260 thousand for each period.

19. Cash flow statement

The Company for the purposes of the cash flow statement did not consider the 31. 12. 2018 and 31. 12. 2017 overdraft facilities as cash equivalents (see Note 9 – Bank loans and overdrafts).

20. Subsequent events

Between the balance sheet date and the date of the financial statements, we did not identify any significant events that could have an impact on the reported financial statements for the accounting period 1. 1. 2018 – 31. 12. 2018.

In Prague on 28. 3. 2019



.....
Vladimír Dzurilla

Director

Národní agentura pro komunikační a informační technologie, s. p.

