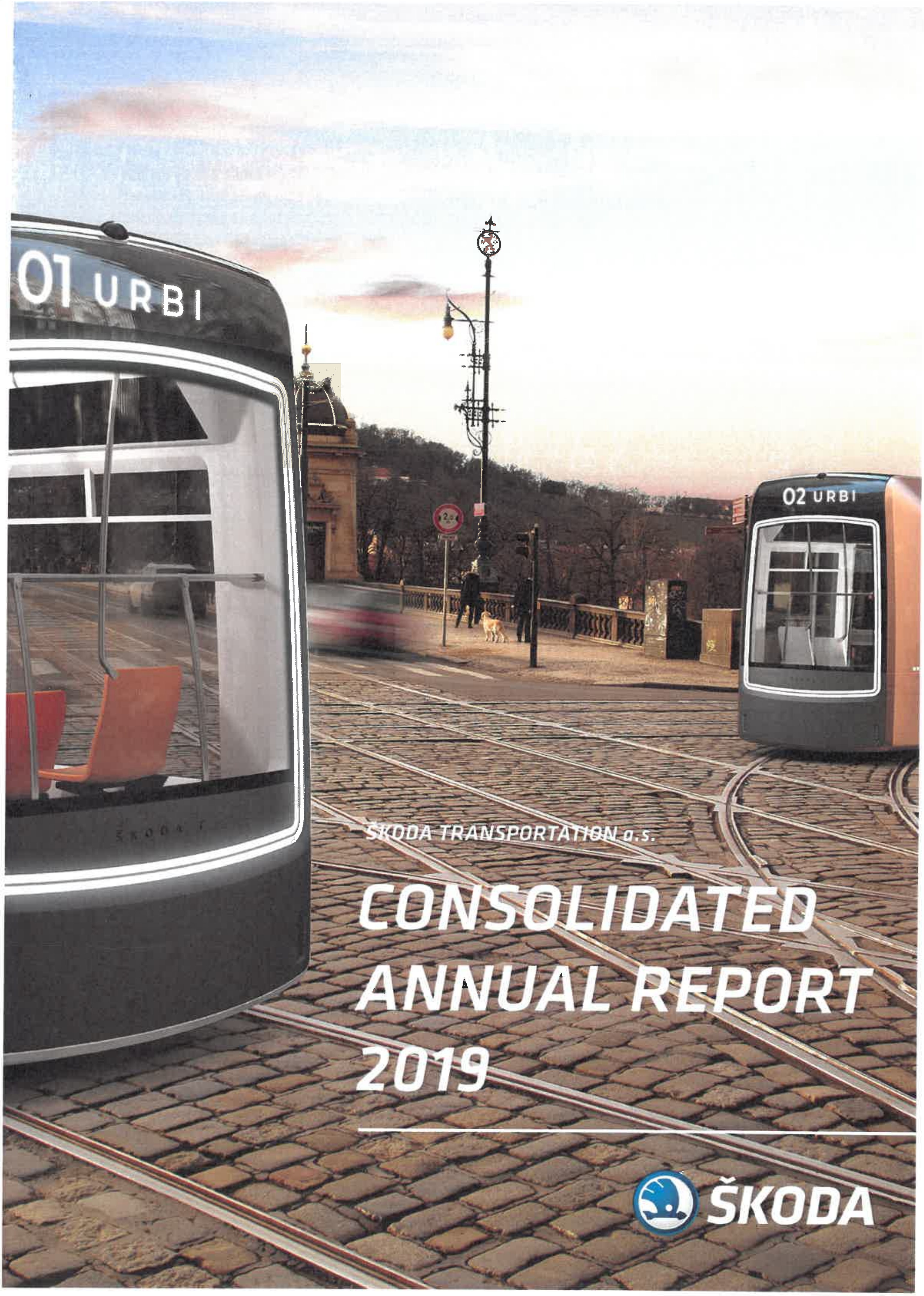


ŠKODA TRANSPORTATION a.s.

# CONSOLIDATED ANNUAL REPORT 2019

ŠKODA

Company registered office:

**Emila Škody 2922/1**
301 00 Plzeň, Jižní Předměstí
Czech Republic
**Company ID no.: 62623753**

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## Dear friends,

2019 marked a record influx of new orders for Škoda Transportation. Its backlog value exceeded CZK 60 billion, which represents a record volume in the Company's history. We were successful both at home and in foreign markets, especially in Germany, Poland, Latvia and other European countries. We are proud to be able to successfully offer our own competitive products, providing everything from research and development, through production to quality service.

We're succeeding in implementing the new strategy established with the new owner. We have strengthened our position in domestic markets while continuing to grow in Western markets. The most important export contracts of last year worth mentioning include a contract for the supply of 26 trams for Bonn, Germany, and a contract for 32 modern single-decker units for Latvia. The contract for the supply of new vehicles for Finnish railways is also a significant foreign success. The Škoda Electric subsidiary also succeeded in delivering complete electrical equipment for 26 new trolleybuses to the Romanian city of Braşov, and is participating in the supply of 22 low-floor trolleybuses for the French city of St. Etienne.

To boot, we have also been successful in our market. Škoda succeeded in tenders for České dráhy, where it signed a purchase contract for the supply of 31 RegioPanter electric units and five double-decker push-pull trains. We also celebrated a victory with the contract for 37 RegioPanter electric units for the South Moravian Region.

As part of our development strategy, in December we created a joint venture with Sinara Group in Russia, the current number two in the local rail market. The Russian fleet requires a massive renewal, which entails great investment and opportunities. Škoda has supplied many quality products for the local market in the past, and I firmly believe that in cooperation with a strong partner we will be able to build on the previous successes.

Škoda did not only experience business successes last year, we also celebrated the unbelievable 160th anniversary of the company's foundation. In addition, this year we will celebrate the 100th anniversary of rail vehicle production.

What does the future hold? I am convinced that the importance of public transport will continue to grow. Another boom in urban growth awaits us, and according to some studies, the population of large cities is expected to double by 2050. It will be necessary to expand and modernise the transport infrastructure, and this represents a great opportunity for us. Our vehicles run on electricity and do not produce emissions. We also manufacture battery-powered vehicles, and we are working on adding hydrogen-powered vehicles in the future. We invest roughly one billion crowns a year in development, and that is why we are competitive even against the world's largest manufacturers.

2020 will see increased production capacities and investments in all of our production locations, and we will hire new employees for the engineering and manufacturing divisions in Plzeň and Ostrava, providing hundreds of jobs. We are also considering further acquisitions to strengthen our position in the market and our capacities.

Finally, I would like to thank all of our employees, business partners, associates, customers and, equally important, our shareholders, thanks to whom the Škoda brand has been successful in our country and in the world, continuing its unique 160-year tradition.

**Petr Brzezina**

Chairman of the Board and President of the Škoda Transportation group

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## ŠKODA TRANSPORTATION group

The strategy of the ŠKODA TRANSPORTATION a.s. Group ("the Group") is to enhance the transport engineering industry and to strengthen key competences in this field. One of the prerequisites to fulfil the strategy is through the support of research and development. In 2019, the Group incurred research and development expenditures of TCZK 1 166 030 (2018 – TCZK 1 156 079). The most significant development projects in 2019 were the development of push-pull double-deck rail vehicles, locomotives, low-floor trams, and trolleybuses of various types.

The Group's consolidated revenue in 2019 amounted to TCZK 9 904 757, i.e. a year-on-year decrease of 15.6 %. Revenues from the sale of trams and trolleybuses decreased significantly, while revenues from suburban units and locomotives remained year-on-year the same, and revenues from underground train units, repairs of rail vehicles, and full-service provision significantly increased. As regards the split of revenues according to the registered office of the end customer, TCZK 3 317 152 were revenues generated in the Czech Republic, while TCZK 6 587 605 were revenues generated from other countries, which constitutes a 6.6 % year-on-year increase in exports. Revenues realised in other countries (according to end customers) comprise most deliveries to customers in Finland, Latvia, Germany, Russia, Slovakia, France, Italy, Poland, Kazakhstan, China, and the USA.

The 2019 consolidated profit before tax totalled TCZK -319 798.

The Group's profit after tax totalled TCZK -379 725.

### Consolidated entity

As at 31 December 2019, the following entities were included in the consolidated entity:

| Entity name:<br>ID no.: | Registered office | Share in equity (in %) | Degree of control | Consolidation method |
|---|---|---|---|---|
| **Parent company** | | | | |
| **ŠKODA TRANSPORTATION a.s.**<br>626 23 753 | Emila Škody 2922/1<br>301 00 Plzeň, Jižní Předměstí | -- | -- | -- |
| **Subsidiaries and joint ventures** | | | | |
| **ŠKODA ELECTRIC a.s.**<br>477 18 579 | Průmyslová 610/2a<br>301 00 Plzeň | 100 | Controlling | Full |
| **ŠKODA VAGONKA a.s.**<br>258 70 637 | 1. máje 3176/102<br>703 00 Ostrava | 100 | Controlling | Full |
| **Pars nova a.s.**<br>258 60 038 | Žerotínova 1833/56<br>787 01 Šumperk | 100 | Controlling | Full |

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| Entity name:<br>ID no.: | Registered office | Share in equity (in %) | Degree of control | Consolidation method |
|---|---|---|---|---|
| **TRADING RS Sp. z o.o.** | Złota 59<br>00-120 Warszawa<br>Poland | 100 | Controlling | Full |
| **SKODA TRANSPORTATION UKRAINE LLC** | Naberezhna 26-B<br>490 00 Dnipro<br>Ukraine | 100 | Controlling | Full |
| **ŠKODA CITY SERVICE s.r.o.**<br>291 19 057 | Emila Škody 2922/1<br>301 00 Plzeň, Jižní Předměstí | 100 | Controlling | Full |
| **POLL, s.r.o.**<br>629 67 754 | Výpadová 1676/4a<br>153 00 Praha 5 Radotín | 100 | Controlling | Full |
| **ŠKODA TVC s.r.o.**<br>252 47 964 | Tylova 1/57<br>301 28 Plzeň | 100 | Controlling | Full |
| **Ganz-Skoda Electric Ltd.** | Horváth utca 12-26<br>H-1027 Budapest<br>Hungary | 100 | Controlling | Full |
| **OOO Vagonmaš** | Leninskij prospekt 160<br>196 247 Sankt-Peterburg<br>Russian federation | 51 | Controlling | Full |
| **Transtech Oy** | Elektroniikkatie 2<br>905 90 Oulu<br>Finland | 100 | Controlling | Full |
| **SKODA Transportation Deutschland GmbH** | Leopoldstraße 244<br>808 07 München<br>Germany | 100 | Controlling | Full |
| **ŠKODA RAIL s.r.o.**<br>058 22 149 | Emila Škody 2922/1<br>301 00 Plzeň, Jižní Předměstí | 100 | Controlling | Full |

| Entity name:<br>ID no.: | Registered office | Share in equity (in %) | Degree of control | Consolidation method |
|---|---|---|---|---|
| **Skoda Transportation USA, LLC**<br>81-2573769 | Corporation Trust Center,<br>1209 Orange Street<br>Wilmington, DE 19801<br>USA | 100 | Controlling | Full |
| **ŠKODA DIGITAL s.r.o.**<br>017 31 530 | Moravská 797/85,<br>Hrabůvka<br>700 30 Ostrava | 100 | Controlling | Full |
| **OOO Sinara-Skoda. Dopravní technologie** | Naberezhnaya<br>Obvodnogo Kanala 138<br>190 020 Sankt-Peterburg<br>Russian Federation | 50 | Joint venture | Equity |
| Associated companies | | | | |
| **PRAGOIMEX a.s.**<br>158 88 100 | Pod náspem 795/12<br>190 05 Praha 9 | 32 | Significant influence | Equity |
| **Zaporizkiy Elektrovoz** | Vulicyja Zaliznichna 2<br>690 95 Zaporizha | 49 | Significant influence | Equity |

## *Description of changes in the consolidated entity in 2019*

In 2019, the Group established a joint venture with OOO Sinara-Skoda, Dopravní technologie, where it has a 50 % share.

As a result of a merger, all assets of the dissolving company MOVO spol. s r. o., with its registered office at Železniční 119/7, Východní Předměstí, 326 00 Plzeň, ID no.: 468 87 989 were transferred to the successor company, ŠKODA TRANSPORTATION a.s., with its registered office at Emila Škody 2922/1, Jižní Předměstí, 301 00 Plzeň, ID no.: 626 23 753.

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## Profile of ŠKODA TRANSPORTATION a.s.

ŠKODA TRANSPORTATION a.s. ("the Company") was established as a limited liability company on 23 February 1995 and was recorded in the Commercial Register maintained by the Regional Court in Pilsen on 1 March 1995. The Company's registered office is at Emila Škody 2922/1, Plzeň. Its identification number is 626 23 753. The Company's registered capital amounts to TCZK 3 150 000. The Company is a manufacturer and at the same time acts as a parent company managing a group of companies ("the Group").

The Company's principal activities comprise the production, development, assembly, reconstruction and repairs of transport vehicles; repairs of other transport vehicles and machinery; testing of rail vehicles, trams and trolleybuses; testing and check-ups of selected technical equipment; machining, locksmithing and tool making; production, installation, repairs of electric machines and equipment, electronic and communications devices; repairs of road vehicles; production, trade and services not specified in appendices 1 to 3 of the Trade Licensing Act, accounting consulting, bookkeeping and tax accounting.

The sole shareholder of the Company is PPF Beer Topholdco B.V. The sole shareholder owns one common registered book-entry share of TCZK 3 134 100 and one common registered book-entry share certificate with the nominal value of TCZK 15 900.

## Statutory bodies of the Company as at 31 December 2019

**board of directors**

- **Petr Brzezina** – chairman of the board of directors
- **Tomáš Ignačák** - vice-chairman of the board of directors
- **Zdeněk Majer** – member of the board of directors
- **Jan Menclík** – member of the board of directors
- **Zdeněk Sváta** – member of the board of directors

**supervisory board**

- **Ladislav Chvátal** – chairman of the supervisory board
- **Michal Korecký** – member of the supervisory board
- **Antonín Roub** - member of the supervisory board

## Report of the board of directors on the Company's business activities and the balance of its assets and liabilities

In 2019, revenue from own products and services totalled TCZK 3 292 826, which is a year-on-year decline of 26.8 %. Sales were lower in the segment of trams, suburban units and locomotives. On the other hand, higher sales were achieved in the segment of underground coaches and full-service. Domestic customers bought products amounting to TCZK 1 495 588. Exports totalled TCZK 1 797 238 and reported a year-on-year increase of 22.8 %.

Operating profit in 2019 totalled TCZK -424 898. The decline was mainly due to a year-on-year decline in sales, the execution of projects with lower margins and the further lower production utilisation due to a year-on-year drop in order and project execution. The most significant item of expenses was the cost of material of TCZK 1 641 845, with a year-on-year decline by 23.0 %. Other significant items of expenses were the costs of services of TCZK 991 714, which is a year-on-year increase of 2.4 % (homologation of new products, rental, cooperation, etc.) and personnel expenses, which amounted to TCZK 940 780 in 2019.

In 2019, the profit from financial operations amounted to TCZK -136 610.

Profit before tax in 2019 amounted to TCZK -561 508.

The Company's profit after tax amounted to TCZK -457 298 in 2019.

Total assets of the company increased from TCZK 21 713 589 to TCZK 23 440 141 (incl. merger of MOVO in the amount of TCZK 60 191), i.e. a year-on-year increase of 7.7 %. Intangible fixed assets increased from TCZK 1 919 317 in 2018 to TCZK 2 086 014 in 2019, mainly thanks to the capitalisation of development costs. Tangible fixed assets increased from TCZK 1 898 327 to TCZK 2 063 791 (incl. the merger of MOVO at TCZK 215 234). Further, shares in subsidiaries decreased from TCZK 8 699 613 in 2018 to TCZK 8 540 843 in 2019. Inventories recorded a year-on-year increase from TCZK 1 698 127 in 2018 to TCZK 2 175 103 in 2019. Short-term trade receivables and other receivables incl. contract asset increased from TCZK 5 691 766 in 2018 to TCZK 6 965 288 in 2019 (incl. the merger of MOVO at TCZK 766). This increase particularly reflects the higher value of receivables from contracts with customers. Conversely, provided loans to the Group increased.

Total equity and liabilities increased from TCZK 21 713 589 to TCZK 23 440 141 (incl. merger of MOVO in the amount of TCZK 60 191), i.e. a year-on-year increase by 7.7 %. Equity decreased by TCZK 222 346 (of which the MOVO merger increased equity by TCZK 28 300). Short-term liabilities reported a major year-on-year increase from TCZK 2 869 981 in 2018 to TCZK 6 505 475 in 2019. This was due to the increase of short-term loans and borrowings (the reclassification of bonds from long-term loans and borrowings). Long-term liabilities decreased year-on-year. Long-term loans and borrowings declined year-on-year from TCZK 3 555 035 in 2018 to TCZK 1 564 269 in 2019 (bonds). The volume of received long-term advance payments from customers increased from TCZK 1 906 409 in 2018 to TCZK 2 262 909 in 2019. As at year-end, provisions amounted to TCZK 648 021 and were booked for project risks, warranties, etc.

One of the key company objectives is the continuous expansion to Western markets and geographical diversification. The Company's priorities for the upcoming years remain the growth on the export markets and major investments into the research and development of new products.

## Description of rights and obligations pertaining to shares

Among other things, the ownership of shares grants the shareholder the right to participate in the Company's management. This right is exercised primarily at general meetings. The shareholder is entitled to a share on profit (a dividend) which the general meeting approves for distribution in line with the result of operation and in accordance with the relevant provisions of the Commercial Code. The shareholder is not obliged to return any dividend received in good faith.

## Remuneration of members of statutory bodies

The fees to members of the Company's statutory bodies are governed by the respective service agreements, which are fully in line with Section 59 and subs. of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Business Corporations Act). As regards the members of the board of directors, their service agreements are classified as executive and non-executive. In accordance with the approved responsibilities of the individual members of the board of directors and in accordance with Section 156 (2) of Act No. 89/2012 Coll., the Civil Code, as amended, certain members of the board of directors are responsible for the management of the Company's individual vocational departments. The Company's general meeting approves all service agreements and their amendments.

Total fees paid out:

| | |
|---|---|
| Board of directors: | CZK 39 116 307 |
| Supervisory board | CZK 0 |
| Audit committee: | CZK 180 000 |

## Significant contracts and bonds

The Group has concluded the following significant contracts (and their amendments). Their termination, breach or failure to comply by the other contractual party will have significant impact on the Company's operations, economic results, and its ability to pay debts.

### Loan contract for up to CZK 3,5 billion as of 26 August 2019

This contract was concluded on 26 August 2019 between the Company as the loan recipient, and PPF banka a.s. as the loan provider. The loan was provided to finance general corporate needs by a revolving credit line up to CZK 3 500 000 000. The interest comprises a bank margin of 3,30 % p.a. and the PRIBOR referential rate. As at 31 December 2019, the outstanding principal amounted to CZK 200 000 000.

### Loan contract for up to CZK 313 000 000

This contract was concluded on 11 October 2013 between ŠKODA CITY SERVICE s.r.o. and Bammer trade a.s. as the loan recipients, and ČSOB as the loan provider, with a loan maturity of 20 years. The loan instalments are paid monthly, with the first instalment paid on 30 June 2016. The loan maturity date is set as at 30 June 2036. This is a long-term bank loan to finance the investments into a PPP project, i.e. the construction of a new technological facility of the Pilsen City Transport Company. As at 31 December 2019, the outstanding principal amounted to CZK 272 706 808. The total interest rate including the interest swap effect was 4.815 % p.a.

### Loan contract for up to CZK 1 355 112 505

The loan was provided by PPF Beer Topholdco B.V. to the Company on 30 November 2017. The loan's maturity is defined in a subordination agreement as the date of full, unconditional, and final repayment of the debt (*pari passu*). As at 31 December 2019, the interest rate was 8.5 % p.a. and the outstanding principal amounted to CZK 1 355 112 505.

### Issued bonds

On 26 June 2015, ŠKODA TRANSPORTATION a.s. issued bonds with the total nominal value of CZK 2.310 billion, with an issue exchange rate of 99.13 % of nominal value, a maturity of 5 years and a fixed annual coupon payment of 3.00 % p.a. The issued bonds are quoted on the regulated market of the Prague Stock Exchange.

## Labour relations

Given the complexity of the new projects, the critical focus was on the recruitment process. Firstly, activities promoting professional education and explaining job opportunities for secondary school and university graduates were intensified. HR's solid marketing policy was further supported by participation in the 'Students in Enterprises' project, our traditional participation in Job Fairs as well as by broader presentations at universities both in the Czech Republic and abroad (Great Britain, Slovakia and Ukraine). These activities had a direct impact on the results achieved in the Czech Republic's Most Attractive Employers competition. Besides recruiting skilled professionals in the field of rail vehicles, the hardest task proved to be to fill the welder and electrician vacancies in the production due to the situation on the market. Employee training and further education plans aimed in particular at employee professional growth and language skill improvement. Expertise, interest in the field and flexibility were considered the key employee prerequisites to be able to fulfil tasks and to fill any gaps in the schedules of individual projects.

## Anti-corruption measures

All companies within the Group comply with the Code of Ethics. In order to check the compliance with the Code of Ethics, the internal CORPORATE COMPLIANCE INTERNAL INVESTIGATION regulation was issued and a compliance officer was appointed. ŠKODA TRANSPORTATION and selected companies of the Group go through regular audits of anti-corruption measures by a certified independent auditor.

## Research and development

In 2019, the Company incurred research expenses of TCZK 926 063 (2018 – TCZK 767 988).

## Environment

Newly acquired technology concerned machining, welding, manipulation technology and testing devices and had no adverse impact on the environment. The purchased equipment is environment-friendly. Technologies aimed at modernising the equipment are less energy consuming and more environment-friendly than the original ones, thus having a positive impact on the environment.

## Major investments

The major investment carried out in 2019 included electric train unit chassis (activation), models, forms and jigs, a test stand, Leica 3D measuring equipment, etc. In the area of intangible assets, SW Concerto and other SW licenses were purchased, and development costs were capitalised. The renovation of production technologies (modernisation of the paint shop, purchase of a welding robot, a chassis washing machine, refurbishment of transfer equipment, track for testing room), purchases of SW and an update of the ERP system are being considered for the next period.

## Acquisition of own shares

In 2019, the Company did not acquire any of its own shares.

## Material litigations

Information on litigations is part of the Company's unconsolidated financial statements as at 31 December 2019.

## Subsequent events

On 11 March 2020 the World Health Organisation declared the coronavirus outbreak a pandemic, and the Czech government declared a state of emergency on 12 March 2020. Responding to the potentially serious threat COVID-19 presents to public health, the Czech government authorities took measures to suppress the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors, and the lock-downs of certain industries, pending further developments. In particular, airlines and railways suspended the international transport of people, schools, universities, restaurants, cinemas, theatres and museums, sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. In addition, major manufacturers in the automotive industry decided to shut-down their operations in both the Czech Republic and other European countries. Some businesses in the Czech Republic also instructed employees to remain at home and curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

- a disruption to business operations and economic activity in the Czech Republic, with a cascading impact on both upstream and downstream supply chains
- significant disruptions to businesses in certain sectors, both within the Czech Republic and in markets with a high dependence on a foreign supply chain, as well as to export-oriented businesses with a high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector
- a significant decrease in demand for non-essential goods and services
- an increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The Company operates primarily in the sector of manufacturing, modernisation and servicing of rolling stock, which has not been significantly affected by the outbreak of COVID-19. Its operations including supplies were uninterrupted, except for isolated cases.

Based on the publicly available information as at the date this annual report was authorised for issue, the Company´s management has considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the entity and economic environment in which the Company operates, including the measures already taken by the Czech government and governments in other countries where the Company´s major business partners and customers are located.

As at 31 December 2019, the Company´s working capital amounted to MCZK 4 398 and the cash and cash equivalent balance amounted to MCZK 933. In addition, the Company had agreed but not used credit lines from banks totalling MCZK 3 500.

As at the date this annual report was authorised for issue, the production of the Company is in operation with continuing supplies of materials. In the first stage, the Company contacted all key suppliers asking for information about the impact of the COVID-19 pandemic on their deliveries. As of the date this annual report was authorised for issue, the majority of the suppliers confirmed that they were not significantly affected by the COVID-19 pandemic and would keep the deliveries on track (except for several suppliers from Italy, Spain, and France). The Company has increased hygienic precautions in production plants, where the Company has forbidden any visits, and administrative employees work from home. The Company is using modern technology for distant access and videoconferences to protect the health of employees.

In the current uncertain situation, the Company cannot exclude that its suppliers (mainly foreign) will not be impacted in the future, depending on the development of the COVID-19 pandemic and any potential future restrictive measures of the government (e.g. limitations of freight transportation or the free movement of people). Nevertheless, as at the date this annual report was authorised for issue, the Company does not see any such indication.

The Company is analysing the possibility to receive compensation for damages from the Czech government. The Company is able to continue in its business activity even without state support; any compensation would nonetheless alleviate any adverse financial impacts on the Company.

Based on the Company´s analysis as at the date the annual report was authorised for issue, the situation does not have a significant impact on the CGU impairment test of goodwill (investments) or impairment tests of trademarks with an indefinite useful life that support the balances stated in the Company´s financial statements as at 31 December 2019. Impairment tests are sensitive mainly to changes of discount rates, but no material changes in these discount rates are currently indicated. The expected outage of sales in 2Q 2020 does not have significant impact on the impairment test, mainly due to the long term nature of the Company´s contracts.

Based on currently publicly available information, the Company's existing key performance indicators and with regard to the measures taken by management, the Company does not expect an immediate significantly negative impact of the COVID-19 pandemic on the Company, its operation, financial situation and results of operations. However, the Company cannot rule out the possibility that a longer closing period, stricter measures or a subsequent negative impact of these measures on the economic environment in which the Company operates will not have a negative impact on the Company, its financial situation and its results in the medium and long term. The Company continues to monitor the situation closely and will respond to mitigate the impact of these events and circumstances according to current developments.

As at the date of preparation of the Company´s financial statements, the Company's management is not aware of any other significant subsequent events that would affect the Financial Statements as at 31 December 2019.

## Quality, environment and occupational health & safety management systems

Since 1997, the Company has held the certificate of the ISO 9001 standard, which specifies the requirements on the quality management system. Since 2010, the Company has incorporated the elements of the IRIS standard into its quality management system, implemented environment management system in compliance with the ISO 14001 standard and occupational health and safety management system in compliance with OHSAS 18001. Further, the Company underwent certification audits in 2010 and received all the following certificates (IRIS review 02, ČSN EN 9001:2009, ČSN EN ISO 14001:2005, ČSN OHSAS 18001:2008). All certificates are monitored annually by certification authorities, and regularly re-certified every three years in compliance with the amended standards. In 2018 the Company implemented the revised ISO/TS 22163 (formerly IRIS), ČSN EN ISO 9001:2016 and ČSN EN ISO 14001:2016 standards into its quality and environmental management systems. At the same time, the Company successfully underwent transition audits, thus ensuring it is certified for the new standards. The transition audit for the same reason (transition for the new standard ČSN ISO 45001:2018) is planned in the field of occupational health and safety for the year 2020. The Company also monitors and analyses quality parameters of its products. The outcome is used to define individual objectives in the area of reliability and final product quality. The Company also strives at life-long or at least long-term product service and at reducing the cost of vehicle life cycle (e.g. acquisition costs, maintenance costs, vehicle operation and its disposal).

## Risks and their management

## Subsidiary-related risks

The Company is subject to risks arising in respect of the specific relations to entities controlled by means of direct or indirect share in registered capital or in voting rights of such entities, by means of the right to appoint and remove the majority of the members of the statutory and/or supervisory bodies of such entities, or based on an agreement with third parties or otherwise controlled ("the Subsidiaries"). Any potential deterioration of the economic results and the financial position of the Subsidiaries may have an adverse impact on the Company's economic results and its financial position. The Company is also exposed to the risk that it will be obliged to pay the debts of its Subsidiaries in accordance with its guarantees. The Company has issued guarantees for ŠKODA ELECTRIC a.s., ŠKODA VAGONKA a.s., TRANSTECH OY, and Pars nova a.s. with which it concluded a club loan contract with banks. In addition, the Company also provided guarantees for the off-balance-sheet liabilities of certain other Subsidiaries. The total volume of guarantees as at 31 December 2019 amounted to CZK 459 837 320. Any Subsidiary may also face any of the below described risks, which would have an indirect adverse impact on the Company's economic results or financial position.

## Risk of external supplier dependence

Given the specific nature of the Company's products, the Company may only trade with a limited number of suppliers. This unique position and possible difficulties in replacing long-term suppliers may have an adverse impact on the production process. Any failure of supplies or delayed delivery of key materials from external suppliers, any failures with technology equipment or technology support for the Company's production line, any failure or restriction in transport of raw materials or finished products may also have an adverse impact on the Company's economic results.

The Company also faces the risk that suppliers fail to comply with technology standards and criteria or use obsolete technologies. Despite the Company's every effort to comply with the expected development of the standards as early as in the design and development stage in order to prevent that its products become unsellable upon their launch on the market, the Company is unable to guarantee that the suppliers will also comply with the relevant technical criteria and standards.

## Risk of contractual non-performance

The economic result of individual projects in which the Company participates derives, among other things, from whether other contractual parties involved fulfil their share of obligation arising to them from the project. Although a significant portion of the Company's revenues is generated from a rather restricted portfolio of specialised customers, no significant concurrence generally occurs as it is a diversified portfolio of contracts whose volume, with certain exceptions, does not exceed 20 % of all Company contracts in a particular year. It is nevertheless worth noting that the portfolio of customers and their share in the Company's revenues differ from year to year in relation to the contract that the Company can win in that particular year. In exceptional cases (mostly on a short-term basis), individual projects and contracts may concur. Breaches of contractual obligations and a contractual party's possible insolvency may result in contract termination, the inability to complete the project and incurred losses. Any such discrepancies may also have an adverse impact on the Company's economic results, its financial position and its ability to pay debts.

## Operational risks

Operations may have an adverse impact on the condition of production equipment and certain components of the Company's operational and production equipment. Wear and tear and the obsolescence of used equipment and technologies pose a risk to Company's operational activities. Unplanned shutdowns and production equipment and line repairs or overhauls may also have an adverse impact on the Company's economic results.

## Credit risk

Credit risk comprises a risk that a debtor is unable to pay its debts arisen from financial or business relations, which may result in financial losses. The Company faces credit risks in respect of contractual relations with a limited number of customers in a highly specialised and closed industry. Since the customers are mostly entities owned by public administration authorities, the Company evaluates the credit risk before it takes part in a public tender or before it responds to an individual call for proposals. Nevertheless, the risk can never be fully eliminated. Elimination of risk factors related to the political and territorial risk is assessed and, where necessary, insured with Exportní garanční a pojišťovací společnost, a.s., or Lloyds. As at 31 December 2019, the ratio of overdue receivables to trade receivables and other receivables (gross) was 11.0 %.

## Liquidity risk

Liquidity risk comprises the risk of a temporary shortage of liquid funds to pay the Company's debts as they fall due, i.e. a misbalance between the Company's assets and liabilities due to a gap between the due dates of the Company's debts and the portfolio of the Company's sources of funding. In particular, the Company faces the risk of income loss since a large portion of the Company's revenue is generated based on contracts concluded with only a narrow portfolio of customers. As at 31 December 2019, the ratio of liquid assets, i.e. cash and cash equivalents to bank and non-bank loans was 20.0 %.

## Market risk

Basic (and material) market risks faced by the Company comprise currency, interest rate and commodity risks. Any risks which could prevent the Company from achieving its business objectives are considered material market risks. The Company's key objective in market risk management is to mitigate the impact of the market risks on the Company's economic results and its cash flows (considering the cost aspect of the measures leading towards the mitigation of the particular adverse impact).

## Currency risk

The Company faces currency risks in respect of foreign currency transactions and assets and liabilities denominated in foreign currencies. The Company's principal foreign-currency exposure is linked to euro (EUR). Since the Company prepares its financial statements in Czech crowns (CZK), any changes to the exchange rates of CZK and foreign currencies affect the Company's financial statements. The Company hedges currency risks so that the net exposure to the currency risk is the lowest possible. Despite the Company's policy of exchange risk hedging and the efforts to implement natural currency hedging, the Company may fail to cover all currency risks, especially in the longer term.

## Interest rate risk

Due to fluctuations of interest rates, the Company's business activities may be subject to fluctuations of cash flows from assets and liabilities with a floating interest rate. The Company maintains the risk at acceptable level, and where necessary, negotiates interest swaps to hedge future cash flows arising from loans with floating interest rates.

## Commodity risk

The Company faces commodity risk due to fluctuations of commodity prices, relating in particular to the cost of material used in the supplier chain, which represents major expenses. The materials used include, e.g., aluminium, copper, steel, electricity and natural gas. The prices of material can adversely influence the price of the Company's finished products and their sales. The Company makes sure that the net exposure to the commodity risk remains the lowest possible.

## Risks of losing key individuals

Key individuals of the Company, i.e. members of the management, in particular senior management, contribute to the development and realisation of key strategies and business of the Company. Their activity is crucial for the overall management of the Company, its business activities and ability to introduce and implement the defined strategies. The Company cannot guarantee that it will be able to retain and motivate these key individuals. Yet their possible departure could have an adverse impact on the Company's business activities, its economic results and financial position.

## Personnel-related risk

The Company may also face the risk of a shortage of skilled professional staff because of changes in the need to fill such positions. The Company is bound by a collective agreement and therefore incurs rather high fixed expenses even if production capacities are not fully utilised. If employees go on strike, interrupt their work, or production is slowed down for any other reason, the Company's operations could be significantly disrupted. In addition, any future collective agreement could significantly increase the Company's expenses on health care, payroll and other expenses. Any of the above listed factors could have an adverse impact on the Company's financial position, result of operations or liquidity in the relevant accounting period.

## Risk of insolvency proceedings

Act No. 182/2006 Coll., on Bankruptcy and Settlement, as amended (the "Insolvency Act") prescribes that a debtor is bankrupt if it has creditors and financial obligations more than 30 days overdue and is unable to fulfil these obligations, or becomes insolvent. Insolvency proceedings can be opened upon the request of a debtor or creditor. Where bankruptcy is imminent, insolvency proceedings can only be requested by a debtor.

Despite certain measures that should prevent unjustified and groundless requests to open insolvency proceedings, it cannot be fully prevented that such requests will be filed. Insolvency proceedings are opened by a court decree no later than 2 hours after the receipt of a request to open insolvency proceedings. After the publication of an insolvency proceeding notice on the issuance of a court's decision about an insolvency request (unless the court decides otherwise), the debtor is required to refrain from using assets where major changes to their composition, usage or purpose or its significant diminishment may occur. In accordance with the Insolvency Act, courts should rule on insolvency requests from third parties without undue delay; the Act prescribes no specific deadline.

Although the restriction on the use of assets does not apply to, among other things, acts necessary to ensure regular enterprise operations or to prevent potential losses, it is impossible to rule out that a groundless request to open insolvency proceedings against the Company is made and that the Company for a certain period of time will be restricted in its rights to dispose with its assets. This could have an adverse impact on the Company's financial position and the results of operations, and subsequently also on the Company's ability to fulfil its obligations.

## Risk pertaining to the control of the Company

In 2019, the Company was controlled by Petr Kellner, with the controlling relationship based on the indirect ownership of 88.93 % of shares, with the voting rights of the Company's single shareholder (PPF Beer Topholdco B.V.) via PPF Group N.V. The Company is not aware of any measure which would prevent the potential abuse of control by the controlling person (except for the mandatory statutory provisions of the Act on Consequences of Influence and Creditor Protection).

## Risk pertaining to investment incentives and subsidies received by the Company

The Company receives tax exemptions in the form of investment incentives. Drawing investment incentives in the form of tax deductions is subject to the fulfilment of certain statutory prerequisites. If the Company fails to fulfil any of the prerequisites, the entitlement to tax deductions could be partially or fully lost. Given the nature of the breach, either the entitlement could be withheld retrospectively, or the entitlement to the remaining portion of the incentive not yet drawn could be lost. Where the entitlement to the tax deduction is withheld retrospectively, the tax administrator would assess the Company the relevant tax including accessions (penalty and default interest). Where the entitlement to a future tax deduction is withdrawn, the Company would lose the future tax deductions. The loss or reduction of the entitlement to tax deduction would thus have an adverse impact on the Company's profits, either in the form of increased tax expenses for the current period or a reduced tax deduction in the upcoming period.

## Risk of insufficient insurance coverage

The Company faces the risk of damage, loss or destruction of its assets. Considering the nature of the Company's production programme (transport vehicles), the Company faces the risk that third parties will claim compensation based on a general liability or product warranty. These risks are mitigated by means of a comprehensive insurance programme designed in cooperation with an insurance broker. Insurance contracts are concluded with renowned Czech and foreign insurance companies. The insurance coverage and underlying terms and conditions are regularly reviewed to reflect the Company's current needs. The Company maintains insurance coverage at the minimum level required to ensure due managerial care. The indemnity from the insurance contracts may not fully cover the losses which the Company would suffer in respect of the relevant insurance accident. The Company is therefore unable to guarantee that the existing insurance coverage will sufficiently protect the Company's business against any potential risk of loss.

## Risk pertaining to IT systems

In its operations, the Company uses IT systems which control or support most of the Company's processes. The Company may face system failures, in particular due to power or system outages, virus infections or system security breaches from the outside. In addition, the Company also faces the risk that the IT systems which it uses in its activities become obsolete and needs to regularly service these systems or substitute them to meet new requirements. When implementing new IT systems, labour productivity may also temporarily decline. Any failure of IT systems may result in the interruption of production activity, which may have an adverse impact on the Company's revenues and its relations with customers.

## Risk pertaining to the change of strategy and inability to realise the business plan

The Company faces a potential risk if the strategy is changed and subsequently production capacities are incorrectly allocated, resulting in delays in product deliveries to customers. This may again have an adverse impact on the Company's result of operations. In its business plan, the Company has set specific objectives. However, the Company cannot guarantee that it is able to carry out the business plan and achieve its set objectives. The Company not being able to carry out its strategy and to achieve the expected results may have a major adverse impact on the Company's business, financial position, and results.

## Risk pertaining to Company's participation in public tenders as a consortium member

The Company and its Subsidiaries regularly participate in tenders in conjunction with other entities in the form of consortiums, associations or other similar groupings. As a member of these consortiums, associations or other similar groupings, the Company or the subsidiary may, depending on the provisions or legal regulations applicable to such consortiums, associations or other groupings, become liable for the obligations to perform of another entity or entities which are also members (e.g. for a contractual partner in a particular project). This exposes the Company to the risk of unexpected expense or liabilities, which may have an adverse impact on the overall financial position.

## Environmental risk

The Company is obliged to carry out its activities in accordance with statutory requirements in the field of environmental protection. Given the nature of the Company's activities, the Company is exposed to the risk that it fails to meet the environmental obligations, which may result in fines being levied. This, again, may have an adverse impact on the Company's economic results and its reputation among the general public.

## Political, economic, legal and social factors

Factors concerning the Czech Republic, other EU member states, Russia, the United States of America, China and other relevant markets on which the Company and its Subsidiaries operate (the "Relevant Markets") may also have an adverse effect on the Company's business activities and its financial position. These factors that cannot be objectively estimated can be classified as political, economic, legal and social. Changes in legal regulations or their interpretation applicable to the Company or the Subsidiaries may have an adverse impact on the Company's business and financial position. The Company cannot influence the above listed factors, and cannot possibly ensure that the political, economic or legal development of the Relevant Markets will be favourable to its business and the business of its Subsidiaries.

## Risks pertaining to the performance of relevant market economies

The growth of the Group's profit reflects to a large extent the performance of the Relevant Markets' economies. Any change to the applicable economic, regulatory, administrative or other policies, as well as the political and economic development on the appropriate relevant market which the Group has no control over may have a significant impact on the relevant market economy and subsequently on the Group's business, economic and financial position or its ability to achieve its business objectives. The share of the Group's revenues from the principal markets in 2019 were as follows: 33 % the Czech Republic, 25 % Finland, 11 % Germany, 10 % Russia, 9 % Slovakia, 4 % Poland, 3 % Latvia, 1 % USA and 1 % China. The shares on the Group's other relevant markets did not exceed 1 % in 2019.

## Force majeure risk

Force majeure (e.g. natural disaster, terrorist attack, wars, conflicts) which causes a disruption on financial markets and/or abrupt changes of the exchange rates may have an impact on bonds. The adverse impact of such events may lead to a reduced return on capital invested by the Company, thus threatening the Company's ability to fulfil its liabilities.

## Risk of failures, breakdowns, production interruptions, sabotages and other adverse events

Distribution networks, IT systems and other devices owned or operated by the Company and its Subsidiaries may experience a failure, break-down, planned or unplanned interruption, capacity cutback, security breach or physical damage as a result of natural disasters (such as storms, fires, floods or earthquakes), sabotage, terrorism or computer viruses. Such events may result in equipment malfunction, revenue reduction and additional expenses related to the repair or replacement of the default equipment. This may have an adverse impact on the Company's ability to fulfil its liabilities.

## Risk pertaining to the financial crisis

The consequences of a potential financial crisis may have an adverse impact on the Company's revenues. This in particular concerns the concurrence of a decline in domestic and foreign demand and the deterioration of customer payment ethics. Creditor and investor risk aversion tends to increase with a decline in economic activity, which may result in stricter loan terms and conditions, lower loan accessibility, and ultimately in the increase of financial resource costs. A stricter regulation of the financial sector may have a similar adverse impact.

## Risk pertaining to sanctions against the Russian Federation

In relation to the sanctions imposed on the Russian Federation by the EU and USA, the position of businesses in the countries concerned has deteriorated and the return on their investments and business plans in Russia is in danger. This has also had a negative impact on the investments and projects of the Company and its Subsidiaries in Russia (e.g. the contract to supply a new underground train unit to St. Petersburg). In 2019, the Group's revenues from Russia amounted to CZK 992 199 000. The Company has no guarantee that the situation is not going to deteriorate further (e.g. should the Russian Federation adopt certain countermeasures against EU businesses), nor that, should the sanctions be removed, they will not be re-imposed in the future with a further adverse impact on the Company's or the Subsidiaries' investments.

## Risk pertaining to inflation, interest rate and their changes

The Company's economic results may also be affected by inflation. Major inflation changes or interest rate fluctuations may have an adverse impact on the Company's business and its financial position. Due to interest rate fluctuations, the Company's activities may suffer from fluctuations of cash flows from assets and liabilities bearing floating interest rate. The Company retains this risk at an acceptable level. Where necessary, the Company negotiates interest rate swaps to secure future cash flows from loans with a floating interest rate, yet the risk cannot be completely mitigated.

## Risk pertaining to legal regulation in different jurisdictions

This risk concerns the changes to the existing regulation or the interpretation thereof, in particular in the area of tax regulations and the VAT rate, labour law (including changes concerning occupational safety), social security law, changes to industry or production regulations, and environmental law changes. The interpretation of tax legislation by the tax authorities may vary, in particular with respect of possible differences in the development of Czech and EU tax laws. Any changes to and the development of economic, regulatory, administrative and other policies in the Czech Republic and other jurisdictions to which the Company or the Subsidiaries supply their products and which it cannot influence, could have a significant and unpredictable adverse impact on the Company's business, its outlooks, financial position and results of operations.

## Risk of concentration and customer behaviour

Given the specifics of the market with vehicles for city and railway transport, a significant portion of the Group's revenues is generated from transactions with a narrow group of specific customers, including Dopravní podnik hl.m. Prahy, a.s., České dráhy, a.s. or Železničná spoločnosť Slovensko a.s. (ŽSSK). The number of such specific customers on a relevant market does not change in the long run, and it cannot be expected that the market could open up to new customers in the future. Losing one or more of the current customers could have a strong adverse impact on the Group's economic results. Since most of the Group's customers are regions or municipalities that depend on public budgets and subsidies, unfavourable structural changes affecting the municipalities may result in the reduction of the number of the Group's customer and a subsequent decline in the demand for the Group's products.

The Group strives to tailor its products to customer needs and requirements, which entails the risk of increasing costs on well-established products. A risk is also posed by customers with low financial standing who due to a lack of funds purchase fewer products from the Group or purchase cheaper alternatives.

## Competition risk

The Company carries out its business on the market of city and railway vehicles. Since the Company focuses on highly-specialised products, the competition on the relevant markets is low. The risk is that any possible association with a competitor on any relevant market may be rejected by the anti-monopoly office due to the low number of competitors. The risk is also posed by newly emerged competitors, which may be more price-oriented, thus forcing the Company to lower its prices, which may result in a lower quality of the Company's products.

## Risk pertaining to fault rate and new product development

The Company's activities focus in particular on the production of vehicles for city and railway transport. This type of production is technologically more demanding and such vehicles are therefore more defect-prone. Removing defects is costly and time consuming and may have an adverse impact on the Company's economic results.

The Company is exposed to the risk that, should the development and testing of the new products be insufficient, the defect rate may increase. Another risk is that where the time interval between the development of a new product prototype and the launch of its serial production is too short, the defects may not show until the product is sold to the customer. Accordingly, the risk of fines and compensation claimed by the customers rises.

If the continuous development of new products lags behind the competitors who rely on modern technologies, or if this development is not properly focused, the customers' interest in the Company's products may decline.

The Company strives to meet technical criteria and standards for both newly developed and well-established products. However, the Company is unable to guarantee that all older products will be compliant with new technical criteria. The development of new products in conjunction with a longer development phase may also result in the failure to meet delivery deadlines and subsequently may have an adverse impact on customer relations and the Company's results of operations.

# Foreign organisational unit

In 2019, the Company operated no foreign organisational unit.

# The Company's future

The development of ŠKODA TRANSPORTATION a.s. has shown so far that the Company has become a stable player in the Czech market and continues to expand its export activities.

Innovation and new product development are necessary prerequisites to retain and strengthen the Company's competitive position on global markets. The Company's objective is to promote new products whose technical and utility profile exceeds those of the products in the current production programme. This concerns in particular new underground vehicles, new single-deck units, low-floor trams in various modifications, etc.

# Auditor's fees

The auditor of the Company's separate financial statements and consolidated financial statements is KPMG Česká republika Audit, s.r.o. and member firms of the same network. In the period reviewed, the total audit cost amounted to TCZK 6 513, and the cost of other services amounted to TCZK 2 805 (including cost of other assurance services of TCZK 1 987, other non- audit services of TCZK 601 and cost of tax advisory of TCZK 217). These expenses comprise expenses on the audit of the Company's statutory financial statements, the Group entities' annual reports, consolidated financial statements for 2019, and other services.

# Declaration of completeness

The consolidated annual report presents a true and fair view of the financial position, business activities and results of the operations of the Company and its consolidated group for the year ended 31 December 2019 and their prospects. No facts or disclosures which could alter the outcome of this report were omitted or misstated.

On 30 April 2020

**Petr Brzezina**
Chairman of the board of directors

**Jan Menclík**
Member of the board of directors

## Narrative part of the annual report

This section of the annual report comprises information published by the issuers in accordance with Section 118 of Act No. 256/2004 Coll.

### a) Principles and procedures for internal controls

The Company's internal controls are managed by the controlling department. This department monitors transactions as well as the accuracy and management efficiency of (but not restricted to) financial reporting. The results of such controls are continuously submitted to the Company's board of directors for review and comments. The results are simultaneously consulted with third-party professional consultants.

### b) Description of board of directors' decision-making and its procedure

The board of directors is the statutory body which acts on behalf of the Company. Members of the board of directors are appointed and removed by the Company's general meeting. The term of office of a member of the board of directors is three years.

In accordance with the existing articles of incorporation, the board of directors has five members. It is responsible for any matters not assigned to the general meeting, supervisory board or the audit committee by law or the articles of incorporation.

A meeting of the board of directors is at quorum when more than a half of its members are present. For a decision to be adopted by the board of directors, a simple majority of the votes of all its members is required. The board of directors may adopt a resolution per rollam provided all its members have agreed to the per rollam voting. To adopt a decision by the per rollam voting, a simple majority of the votes must be obtained.

Members of the board of directors are free of any conflicts on interests.

Members of the board of directors as 31 December 2019

Petr Brzezina

*Chairman of the board of directors*

In function since: 25 April 2018

Membership since: 25 April 2018

Tomáš Ignačák

*Vice-chair of the board of directors*

In function since: 19 February 2019

Membership since: 20 January 2019

Zdeněk Sváta

*Member of the board of directors*

Senior vice president for technical dept., since 1 February 2020, senior vice president for realisation

Membership since: 20 January 2019

Jan Menclík

*Member of the board of directors*

Senior vice president for finance

Membership since: 25 April 2018

Zdeněk Majer

*Member of the board of directors*

Senior vice president for sales

Membership since: 1 February 2019

### c) Description of supervisory board's decision-making and its procedure

The supervisory board is the controlling body of the Company, supervising the functioning of the board of directors and the realisation of the Company's business activities, in particular whether the Company's business activities are carried out in compliance with legislation, the articles of incorporation and the resolutions of the general meeting. The supervisory board consists of three members. The term of office of a member of the supervisory board is three years.

The supervisory board is governed by legislation, the Company's articles of incorporation, resolutions adopted by the general meeting and its rules of procedure, if adopted. The supervisory board is authorised in particular to see all Company documents and to review whether accounting records are made duly and truly and whether the Company's business activity is carried out in accordance with legislation, the Company's articles of incorporation and resolutions adopted by the general meeting. The supervisory board primarily discusses the Company's concepts and development and investment plans submitted by the board of directors and provides an opinion on them. It also reviews the financial statements and the proposal for profit distribution.

Members of the supervisory board as at 31 December 2019

Ladislav Chvátal

*Chairman of the supervisory board*

Membership since: 25 April 2018

In function since: 25 April 2018

Michal Korecký

*Member of the supervisory board*

Membership since: 25 April 2018

Antonín Roub

*Member of the supervisory board*

Membership since: 7 March 2019

## d) Description of general meeting's decision-making and its procedure

The general meeting is the Company's supreme body. When the Company has a sole shareholder, no general meeting is held, and its powers are executed by the sole shareholder. Any decision must be adopted in writing and signed by the sole shareholder or the persons authorised to act on its behalf. Written decisions of the sole shareholder must be delivered to the board of directors, with a copy to the supervisory board, both addressed to the Company's registered office. Where the law prescribes that the decision of the general meeting be approved by a public document, the decision of the sole shareholder must be made in the form of a public document.

## e) Audit committee

As at the date of preparation of the annual report, the audit committee was established with the following members:

Roman Lesný – chairman of the audit committee

Jiří Královec – vice-chair of the audit committee

Miroslav Plevný – member of the audit committee

## f) Corporate governance

At present, the Company manages and complies with all corporate governance requirements prescribed by generally binding legal regulations of the Czech Republic and the European Community ("Legislation"). The Company does not implement the rules defined by the corporate governance code based on OECD principles ("the Code").

The rules defined by the Code overlap with Legislation to a certain extent, so it could be said that the Company complies with certain rules contained in the Code. However, since the Company has not explicitly implemented the rules contained in the Code into its corporate governance policy, the Company declares that it does not implement the rules defined by the corporate governance Code based on the OECD principles as such. The Company's financial statements for individual periods were audited by independent auditors in accordance with relevant accounting regulations and Legislation.

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# ŠKODA TRANSPORTATION a.s.

## REPORT ON RELATIONS BETWEEN RELATED PARTIES

prepared in accordance with s. 82 of Act No. 90/2012 Coll. – Act on Business Corporations

for ŠKODA TRANSPORTATION a.s.
for the period from 1 January 2019 to 31 December 2019

# Report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity for the accounting period of 2019

ŠKODA TRANSPORTATION as, with its registered office in the Czech Republic, Plzeň - Jižní Předměstí, 301 00, Emila Škody 2922/1, ID No.: 626 23 753, registered in the Commercial Register maintained by the Municipal Court in Pilsen, section B, insert 1491 (the "Company") is obliged to prepare a report on relations between the controlling entity and the Company and between the Company and entities controlled by the same controlling entity pursuant to Section 82 et seq. of Act No. 90/2012 Coll., Act on Companies and Cooperatives, as amended (the "Report on Relations").

## 1. Structure of relations between the controlling entity and the Company and between the Company and entities controlled by the same controlling entity

The structure is set out in Appendix 1 to this Report on Relations.

## 2. Role of the controlled entity

No measures or other legal acts conferring any special benefits or imposing special obligations upon the Company were adopted or implemented by the Company in the 2019 accounting period in the interest or at the instigation of the controlling entity or entities controlled by the same controlling entity. The Company does not receive any special benefits in relation to control, nor does it incur any special obligations towards the controlling entity and/or entities controlled by the same controlling entity beyond those agreed in the contracts referred to in Section 5 of this Report.

## 3. Method and means of control

The controlling entity exercises control through its ownership rights through decisions at the Company's general meetings (or decisions of the sole shareholder/shareholders of the Company). The methods and means of controlling the Company include a memorandum of association or articles of incorporation and decisions of the supreme body of the Company, therefore, no special contracts between the Company and the controlling entity in relation to the means and means of controlling the Company were concluded.

## 4. Overview of negotiations pursuant to Section 82, Article 1 (d) of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives

In the 2019 reporting period, the Company did not initiate any transactions or act in the interest of the controlling entity or entities controlled by it resulting in the disposal of assets exceeding 10% of the Company's equity as determined from the most recent financial statements.

## 5. Report on relations between related parties

In the 2019 accounting period, the Company entered into the following contracts with the controlling entity and the controlled entities:

- Purchase contract - NIM Express traction equipment as amended, subject is delivery of goods, with ŠKODA ELECTRIC as, registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, concluded.
- Purchase contract - traction equipment tram 23T Helsinki as amended, subject is delivery of goods, with ŠKODA ELECTRIC as, with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579 Ware, concluded.
- Purchase from ŠKODA ELECTRIC a.s., based in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, Purchase Contract - traction equipment tram 34T Tampere, subject is delivery of products, concluded.
- Purchase contract - traction equipment tram 40T Plzeň, subject is delivery of products, with ŠKODA ELECTRIC as, with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, concluded.
- Contract on future contract - Research and development of gearless locomotive with PMSM engine, with ŠKODA ELECTRIC as, with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, subject is project development – TRIO, concluded.
- With ŠKODA ELECTRIC as, with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, agreement on the use of SW licenses as amended, the subject is the use of SW licenses, concluded.
- Within contract with ŠKODA ELECTRIC a.s., with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID No.: 477 18 579, Agreement on the Provision of Advisory Services, as amended, the subject is advisory service, concluded.
- Purchase contract with ŠKODA ELECTRIC a.s., with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID No.: 477 18 579 - delivery of traction equipment for trams 15T Prague, warranty conditions 15T in the Czech Republic, as amended, subject is performance of products, concluded.
- Purchase contractchanges in designation of goods as amended, subject to change - with ŠKODA ELECTRIC as, registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579 in the goods designation, concluded.
- With ŠKODA ELECTRIC a.s., with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, a development agreement - product development and production, subject is project development, concluded.
- Credit agreement with ŠKODA ELECTRIC as, with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579 - provision of credit according to the contractual terms and conditions as amended, subject is the service – credit, concluded.
- Within contract with ŠKODA ELECTRIC a.s., with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, agreement on the provision of advisory services as amended, subject is performance of the service, concluded.
- License agreement concluded with ŠKODA ELECTRIC a.s., with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579 - unlimited exclusive license to use marketing video, subject to license use.
- With ŠKODA ELECTRIC a.s., with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579, Agreement on Assignment of Licenses, subject is fulfilment of the assignment of licenses, concluded.
- Contract on the method of determining compensation of costs (damages) due to defects in goods or work with ŠKODA ELECTRIC as, with its registered office in the Czech Republic, Plzeň, 301 00, Průmyslová 610 / 2a, Company ID: 477 18 579 as amended, the subject is performance of the determination of damages, concluded.

- With ŠKODA VAGONKA as, with its registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, an Agreement on the provision of advisory services as amended, the subject is the service, concluded.
- With ŠKODA VAGONKA as, registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, Framework Agreement on the Use of Software, as amended, the subject is software. Concluded.
- Trademark and Trademark Agreement signed with ŠKODA VAGONKA as, registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637 - Trademark Use Agreement ŠKODA, subject is use of trademarks, concluded.
- Purchase contract - delivery of double-decker cars for NIM Express, as amended, with ŠKODA VAGONKA as, registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, subject is performance of products, concluded.
- Credit agreement with ŠKODA VAGONKA as, with its registered office in the Czech Republic, Ostrava, 703 00, 1 May 3176/102, Company ID: 258 70 637, and the subject is performance of services – credit, concluded.
- With ŠKODA VAGONKA a.s., registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, Service Agreement as amended, the subject being service, concluded.
- With ŠKODA VAGONKA a.s., registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, the Contract for Work - installation of six driving cars for NIM Express, the subject is delivery of products, concluded.
- Purchase contract - general construction of EMU 220 and EMU 300 ŽSSK, concluded with ŠKODA VAGONKA as, registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637 subject is delivery of products, concluded.
- Within the agreement with ŠKODA VAGONKA a.s., with its registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, the Agreement on Assignment of Contract - bookkeeping, subject is performance of the service, concluded.
- With the ŠKODA VAGONKA a.s., registered office in the Czech Republic, Ostrava, 703 00, 1 May 3176/102, Company ID: 258 70 637, Settlement Agreement - additional work VV NIM Express, subject is additional work, concluded.
- With the ŠKODA VAGONKA as, registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, the Framework Contract for Work - design and construction documentation, subject is performance of services, concluded.
- With ŠKODA VAGONKA a.s., with its registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, General Agreement on the Lease of Vehicles, subject is a lease, concluded.
- With ŠKODA VAGONKA as, registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, License Agreement concluded - an unlimited time exclusive license to use the marketing video, subject is the use of a license, concluded.
- With ŠKODA VAGONKA a.s., registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, the Purchase Contract - vehicles, the subject is delivery of vehicle, concluded.
- With ŠKODA VAGONKA a.s., with its registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, Lease Agreement, the subject is performance, concluded.
- With ŠKODA VAGONKA as, registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, Agreement on the Modification of the Rights and Obligations of ŠVAG to ŠTRN, concluded.

- Contract on method of determining compensation of costs (damage) due to defects of goods with ŠKODA VAGONKA as, with its registered office in the Czech Republic, Ostrava, 703 00, 1. máje 3176/102, Company ID: 258 70 637, subject is performance of damages, concluded.
- With Pars nova a.s., with its registered office in the Czech Republic, Žerotínova 1833/56, 787 01 Šumperk, Company ID: 25860038, a Framework Software Use Agreement - Software Use Agreement as amended, subject is the use of SW, concluded.
- With Pars nova a.s., with its registered office in the Czech Republic, Žerotínova 1833/56, 787 01 Šumperk, Company ID: 25860038, Trademark Agreement - Contract on use of ŠKODA Trademark, Subject is use of trademark, concluded.
- With Pars nova a.s., with its registered office in the Czech Republic, Žerotínova 1833/56, 787 01 Šumperk, Company ID: 25860038, Loan Agreement - Provision of the Loan as amended, the subject is performance of the service – Loan, concluded.
- With Pars nova a.s., with its registered office in the Czech Republic, Žerotínova 1833/56, 787 01 Šumperk, Company ID: 25860038, , a Service Contract - 28T Konya tram service, subject is service, concluded.
- With Pars nova a.s., with its registered office in the Czech Republic, Žerotínova 1833/56, 787 01 Šumperk, Company ID: 25860038, , a Loan Agreement - lending of welding preparations, subject is the service, concluded.
- With Pars nova a.s., with its registered office in the Czech Republic, Žerotínova 1833/56, 787 01 Šumperk, Company ID: 25860038, a Contract on the Method of Determining Compensation of Costs (Damage) as a result of defects in goods or work as amended, subject is determination of damages, concluded.
- With ŠKODA TVC s.r.o., with its registered office in the Czech Republic, Tylova 1/57, Jižní Předměstí, 301 00 Plzeň, Company ID: 25247964, General Purchase Agreement - supply of spare parts, subject is performance of products, concluded.
- With ŠKODA TVC s.r.o., with its registered office in the Czech Republic, Tylova 1/57, Jižní Předměstí, 301 00 Plzeň, Company ID: 25247964, contract for the provision of advisory services, as amended, subject is advisory service, concluded.
- With ŠKODA TVC s.r.o., registered office in the Czech Republic, Tylova 1/57, Jižní Předměstí, 301 00 Plzeň, Company ID: 25247964, Framework Agreement on the Use of Software, as amended, was the subject is SW use.
- With ŠKODA TVC s.r.o., with its registered office in the Czech Republic, Tylova 1/57, Jižní Předměstí, 301 00 Plzeň, Company ID: 25247964, a Contract on the Method of Determining Compensation of Costs (Damage) as a result of defects of goods or work as amended, the subject is determination of damages, concluded.
- With Ganz-Skoda Electric Zrt., based in Hungary, Budapest, Horváth utca 12-26, H-1027, Company ID: 110045500, Agreement on Advisory Services as amended, the subject is advisory service, concluded.
- With Ganz-Skoda Electric Zrt., Based in Hungary, Budapest, Horváth utca 12-26, H-1027, Company ID: 110045500, the Agreement on the Reimbursement for Reinsurance Provided, the subject is service, concluded.
- With Ganz-Skoda Electric Zrt., Based in Hungary, Budapest, Horváth utca 12-26, H-1027, Company ID: 110045500, Framework Agreement on the Use of Software, as amended, subject is use of SW, concluded.
- With ŠKODA CITY SERVICE s.r.o., with its registered office in the Czech Republic, Plzeň - Jižní Předměstí, 301 00, Emila Škody 2922/1, Company ID: 29119057, Framework Agreement on the Use of Software as amended, the subject is use of SW, concluded.
- With ŠKODA CITY SERVICE s.r.o., with its registered office in the Czech Republic, Pilsen - South Suburbs, 301 00, Emila Škody 2922/1, Company ID: 29119057, Trademark and

Trademark Agreement - Use of the ŠKODA Trademark, subject is the use of the trademark, concluded.

- With ŠKODA CITY SERVICE s.r.o., with its registered office in the Czech Republic, Plzeň - Jižní Předměstí, 301 00, Emila Škody 2922/1, Company ID No.: 29119057, a lease contract - lease of a part of the building, subject is a lease, concluded.
- Credit agreement as amended, subject - credit, concluded with OOO Vagonmash, based in the Russian Federation, Peterburg, 196 247, Leninsky prospekt 160, Company ID: 1117847029695.
- With OOO Vagonmash, based in the Russian Federation, Peterburg, 196 247, Leninsky prospekt 160, Company ID: 1117847029695, a Purchase Contract - delivery of wagons and metro components for St. Petersburg, subject is delivery of products, concluded.
- With OOO Vagonmash, based in the Russian Federation, Peterburg, 196 247, Leninsky prospekt 160, Company ID: 1117847029695, a contract on the provision of a liability - provision of liability in connection with the implementation of the project, subject is performance of the service, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, Company ID: 01731530, a Purchase Contract - deliveries of superior management for rail vehicles, subject is delivery of products, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No .: 01731530, License Agreement , subject is the use of the license, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No .: 01731530 filling products - a General Purchase Contract - deliveries of goods and spare parts of rail vehicles as amended, subject is delivery of products, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, Company ID: 01731530, the Framework Agreement on the Use of Software, the subject is SW use, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, Company ID: 01731530, the Service Agreement was concluded during the warranty period, the subject is a service, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No.: 01731530, the Contract on the Lease of a Vehicle, the subject is car rental, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No.: 01731530, the Contract on the Lease of a Vehicle, the subject is car rental, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, Company ID: 01731530, the Agreement on Modifying the Rights and Obligations of ŠDIG at ŠTRN, the subject is fulfilment of rights and obligations, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, Company ID: 01731530, the Agreement on the Assignment of the Lease Agreement, the subject is performance of the lease, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No.: 01731530, the Agreement on the Assignment of the Parking Space Lease Agreement, the subject is performance, concluded.

- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No.: 01731530, a sublease agreement, subject is a sublease, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No.: 01731530, an agreement of sublease into sublots for parking places, subject is sublease, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No.: 01731530, Mandate Contract + Amendments, subject is performance of the service, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, Company ID: 01731530, the Framework Contract for Work, the subject is performance of SW services, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No.: 01731530, the Lease Agreement, the subject is a lease, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, Company ID: 01731530, Agreement on the Subletting of an Apartment, subject is the subletting, concluded.
- With ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.), with its registered office in the Czech Republic, Moravská 797/85, Hrabůvka, 700 30 Ostrava, ID No .: 01731530, Contract on the Method of Determining Compensation of Costs (Damage) as a result of defects in the goods or work as amended, the subject is determination of compensation for damages, concluded.
- With SKODA Transportation Deutschland GmbH, registered office in Germany, Munich 808 07, Leopoldstraße 244, Company ID: HRD 208 725, rental contract - passenger car, subject is a lease, concluded.
- With POLL, s.r.o., with its registered office in the Czech Republic, Výpadová 1676 / 4a, Radotín, 153 00 Prague 5, Company ID: 62967754, a Purchase Contract - supply of electrical equipment for rail vehicles, the subject is delivery of products, concluded.
- With POLL, s.r.o., with its registered office in the Czech Republic, Výpadová 1676 / 4a, Radotín, 153 00 Prague 5, Company ID: 62967754, a Framework Agreement on the Use of Software, as amended, subject is the use of SW, concluded.
- With POLL, s.r.o., with its registered office in the Czech Republic, Výpadová 1676 / 4a, Radotín, 153 00 Prague 5, Company ID: 62967754, the Agreement on the Issuance of Tax Documents in Electronic Form, the Subject of Service, concluded.
- With POLL, s.r.o., With its registered office in the Czech Republic, Výpadová 1676 / 4a, Radotín, 153 00 Prague 5, Company ID: 62967754, an Agreement on Advance Payment, the subject is an advance payment, concluded.
- With POLL, s.r.o., based in the Czech Republic, Výpadová 1676 / 4a, Radotín, 153 00 Prague 5, Company ID: 62967754, a Contract on the Method of Determining Compensation of Costs (Damage) as a result of defects in goods or work as amended, the subject is determination of damages, concluded.
- With ŠKODA TRANSTECH OY (formerly TRANSTECH OY), based in Finland, Oulu, 905 90, Elektroniikkatie 2, Company ID: 1098257-0, a Bank Guarantee Agreement as amended, the subject is the provision of a bank guarantee, concluded.
- With ŠKODA TRANSTECH OY (formerly TRANSTECH OY), based in Finland, Oulu, 905 90, Elektroniikkatie 2, Company ID: 1098257-0, a Know-how transfer agreement - transfer of know-how to Arctic trams production, the subject is the transfer know-how.
- With ŠKODA TRANSTECH OY (formerly TRANSTECH OY), based in Finland, Oulu, 905 90, Elektroniikkatie 2, Company ID: 1098257-0, a License Agreement has been concluded, the subject is a license.

- With ŠKODA TRANSTECH OY (formerly TRANSTECH OY), based in Finland, Oulu, 905 90, Elektroniikkatie 2, Company ID: 1098257-0, a contract for the delivery of components for the Helsinki Jokeri tram, as amended, the subject is delivery of products, concluded.
- With ŠKODA TRANSTECH OY (formerly TRANSTECH OY), based in Finland, Oulu, 905 90, Elektroniikkatie 2, Company ID: 1098257-0, a contract for the delivery of components for Tampere trams, the subject is the delivery of products, concluded.
- With ŠKODA TRANSTECH OY (formerly TRANSTECH OY), based in Finland, Oulu, 905 90, Elektroniikkatie 2, Company ID: 1098257-0, a contract for the supply of components for the Tampere tram, subject is delivery of products, concluded.
- With ŠKODA TRANSTECH OY (formerly TRANSTECH OY), based in Finland, Oulu, 905 90, Elektroniikkatie 2, Company ID: 1098257-0, a Loan Agreement, subject is a loan, concluded.
- With ŠKODA RAIL s.r.o., with its registered office in the Czech Republic, Plzeň - Jižní Předměstí, 301 00, Emil Škody 2922/1, Company ID: 058 22 149, a contract on bookkeeping, the subject is performance of the service, concluded.
- With ŠKODA RAIL s.r.o., registered office in the Czech Republic, Pilsen - southern suburbs, 301 00, Emil Skoda 2922/1, Company ID No.: 058 22 149, an agreement on the provision of a voluntary contribution outside the registered capital, subject is a contribution outside the registered capital.
- With the VÚKV a.s., registered office in the Czech Republic, Prague 5, 158 00, Bucharova 1314/8, Company ID: 452 74 100, a contract on a future contract - research and development of a gearless locomotive with PMSM engine, concluded, subject is product development.
- VÚKV a.s., with its registered office in the Czech Republic, Prague 5, 158 00, Bucharova 1314/8, Company ID: 452 74 100, a Framework Agreement on the Use of Software as amended, the subject is the use of SW, concluded.
- With VÚKV a.s., with its registered office in the Czech Republic, Prague 5, 158 00, Bucharova 1314/8, Company ID: 452 74 100, a Framework Contract for Work - technical documentation, tests, measurements, etc., in wording of later amendments, subject is performance of the service, concluded.
- With VÚKV a.s. with its registered office in the Czech Republic, Prague 5, 158 00, Bucharova 1314/8, Company ID: 452 74 100, Contract on Participation in the Project as amended, the subject is project development – TRIO, concluded.
- A Loan Agreement and Subordination Agreement as amended, subject to service - credit, with PPF Beer Topholdco B.V., based in the Netherlands, Amsterdam, Strawinskylaan 933, 1077XX, Company ID: 67420427, concluded.
- PPF banka a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 00, Company ID No.: 47116129, a Framework Agreement on Payment and Banking Services, subject is the service, concluded.
- PPF banka a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 00, Company ID No.: 47116129, a Framework Agreement on Trading on the Financial Market, subject is the service, concluded.
- With PPF banka a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 00, Company ID No.: 47116129, an Agreement on the Provision of Credit, the subject is performance of the service – credit, concluded.
- With PPF a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 41, Company ID: 25099345, a Service Agreement - consultancy as amended, the subject is consulting service, concluded.
- With PPF a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 41, Company ID: 25099345, an Agreement on the Reimbursement of HR costs, the subject is training, concluded.

- With PPF a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 41, Company ID: 25099345, an Agreement on the Reimbursement of PR services, the subject is service, concluded.
- With PPF a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 41, Company ID: 25099345, an Agreement on the Delivery of Boxes for Mobile Phones, the subject is small material, concluded.
- With PPF a.s., with its registered office in the Czech Republic, Prague 6, Evropská 2690/17, 160 41, Company ID: 25099345, a Personal Data Processing Agreement, the subject is the service, concluded.
- With Bammer trade a.s., with its registered office in the Czech Republic, Emil Škody 2922/1, Jižní Předměstí, 301 00 Plzeň, Company ID: 28522761, the contract on a lease of means of transport, the subject is the lease, concluded.
- With Bammer trade a.s., with its registered office in the Czech Republic, Emil Škody 2922/1, Jižní Předměstí, 301 00 Plzeň, Company ID: 28522761, Framework Agreement on the Use of Software, the subject is performance of SW, concluded.
- With Bammer trade a.s., with its registered office in the Czech Republic, Emil Škody 2922/1, Jižní Předměstí, 301 00 Plzeň, Company ID: 28522761, an Agreement on Issuing Tax Documents in Electronic Form, the subject is performance of service, concluded.
- With ŠKODA ICT s.r.o., based in the Czech Republic, Pilsen, 301 28, Tylova 1/57, Company ID: 279 94 902, a Framework Agreement on ICT Services as amended, the subject is the service, concluded.
- With ŠKODA ICT s.r.o., with its registered office in the Czech Republic, Plzeň, 301 28, Tylova 1/57, Company ID: 279 94 902, an Framework Lease Agreement as amended, the subject is a lease, concluded.
- With ŠKODA ICT s.r.o., with its registered office in the Czech Republic, Pilsen, 301 28, Tylova 1/57, Company ID: 279 94 902, an Agreement on Securing the Rights to Use Software, the subject is a service, concluded.
- With ŠKODA ICT s.r.o., registered office in the Czech Republic, Pilsen, 301 28, Tylova 1/57, Company ID: 279 94 902, the Agreement on the Issuance of Tax Documents in Electronic Form, subject is the service, concluded.
- With ŠKODA INVESTMENT as, with its registered office in the Czech Republic, Plzeň, Jižní Předměstí, Emil Škody 2922/1, 301 00, Company ID No.: 265 02 399, a Contract for the Leasing of Premises for Business as amended, subject is a lease, concluded.
- Mandate contract as amended, subject is performance of mandate, with ŠKODA INVESTMENT as, with its registered office in the Czech Republic, Plzeň, Jižní Předměstí, Emil Škoda 2922/1, 301 00, Company ID:265 02 399, concluded.
- With ŠKODA INVESTMENT as, with its registered office in the Czech Republic, Plzeň, Jižní Předměstí, Emil Škody 2922/1, 301 00, Company ID No.: 265 02 399, an agreement on the use of a domain name and the provision of related electronic addresses, the subject is performance of a service, concluded.
- With ŠKODA INVESTMENT a.s., with its registered office in the Czech Republic, Plzeň, Jižní Předměstí, Emil Škody 2922/1, 301 00, Company ID: 265 02 399, an Agreement on Advisory and Consultancy Activities, the subject is performance of the service, concluded.
- With O2 Czech Republic a.s., with its registered office in the Czech Republic, Prague 4, Za Brumlovkou 266/2, 14022, Company ID: 60193336, a Lease Agreement, subject is a lease, concluded.
- With O2 Czech Republic a.s., registered office in the Czech Republic, Prague 4, Za Brumlovkou 266/2, 14022, Company ID: 60193336, the General Purchase Agreement - telecommunication services, subject is performance of service, concluded.

- With ŠKODA SERVIS s.r.o., based in the Czech Republic, Pilsen, 301 28, Tylova 1/57, Company ID: 263 51 277, a Contract on Installation and Operation of Photovoltaic Panels, as amended, subject is a service, concluded.
- With Česká telekomunikační infrastruktura a.s., with its registered office in the Czech Republic, Prague 3, Olšanská 2681/6, 130 00 (Českomoravská 2510/19, Libeň, 190 00 Prague 9), Company ID: 040 84 063, a lease agreement - temporary use of part of the land, the subject is a lease, concluded.

## 6. Assessment of whether the Company suffered harm and assessment of its settlement pursuant to Sections 71 and 72 of Act No. 90/2012 Coll., on Companies and Cooperatives

All negotiations described in Section 4 of this Report were made and the contracts described in Section 5 of this Report on Relations were entered into in the ordinary course of business. During the receipt and the provision of all goods and services arising from the above contracts and agreements, the Company did not incur any damage.

The Company declares that in the 2019 accounting period there was no influence on the Company's behaviour by a controlling entity that would have had a decisive and significant effect on the Company's behaviour to its detriment. The Company declares that it has not suffered any detriment and that therefore it is not necessary to assess the settlement of damages pursuant to Sections 71 and 72 of Act No. 90/2012 Coll., on Companies and Cooperatives.

The statutory body of the Company declares that after a thorough evaluation of the Company's role vis-à-vis the controlling entity and entities controlled by the same controlling entity, it states that the Company did not gain any extraordinary advantages or disadvantages from the Company's relationship with the controlling entity and the entities controlled by the same controlling entity.

For the Company, its role vis-à-vis the controlling entity and entities controlled by the same controlling entity poses no risk and according to Sections 71 and 72 of Act No. 90/2012 Coll., on trading companies and cooperatives it is therefore not necessary to state whether, in what manner and in what period such loss occurred.

The statutory body declares that it has obtained the information necessary for the preparation of this report on relations, compiled this report on relations with the due care of a diligent manager, and that the data in this report on relations are correct and complete.

In Pilsen, 31 March 2020

Petr Brzezina
Chairman of the board

Jan Menclík
Member of the board

# Appendix No. 1 – List of entities directly or indirectly controlled by the same controlling entity

Controlling entity: Ing. Petr Kellner

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| 4Local, s.r.o. | 24161357 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 1/12/2019 | O2 Czech Republic a.s |
| AB 2 B.V. | 57279667 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Air Bank a.s. |
| AB 4 B.V. | 34186049 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Air Bank a.s. |
| AB 7 B.V. | 57279241 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Air Bank a.s. |
| AB STRUCTURED FUNDING 1 DESIGNATED ACTIVITY COMPANY | 619700 | Ireland | Entity controlled by the same controlling entity through ownership interest | | PPF Financial Holdings B.V. |
| ABDE Holding s.r.o. (formerly Airline Gate 1 s.r.o.) | 02973081 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V |
| AB-X Projekt GmbH | HRB 247124 | Germany | Entity controlled by the same controlling entity through ownership interest | from 25/4/2019 | Home Credit Group B.V. |
| Accord Research, s.r.o. | 29048974 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Capital Partners Fund B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| AF Airfueling s.r.o. | 02223953 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |
| Air Bank a.s. | 29045371 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| ALMONDSEY LIMITED | HE 291 856 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 31/12/2019 | PPF Real Estate Holding B.V. |
| ANTHEMONA LIMITED | HE 289 677 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Comcity Office Holding B.V. |
| Art Office Gallery a.s. | 24209627 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Office Star Eight a.s. |
| ASTAVEDO LIMITED | HE 316 792 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| Autotým, s.r.o. | 03040836 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 28/9/2019 | Vsegda Da N.V. |
| B2S Servisní, a.s. v likvidaci | 19013825 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF CYPRUS MANAGEMENT LIMITED |
| Bammer trade a.s. | 28522761 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Topholdco B.V. |
| Bavella B.V. | 52522911 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Benxy s.r.o. (formerly Zonky s.r.o.) | 035 70 967 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| Bestsport holding a.s. | 06613161 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |
| Bestsport, a.s. | 24214795 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | LINDUS SERVICES LIMITED |
| Bolt Start Up Development a.s. | 04071336 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |
| BONAK a.s. | 05098815 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| BORACORA LIMITED | HE 251 936 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 23/12/2019 | GLANCUS INVESTMENTS INC. |
| Boryspil Project Management Ltd. | 34999054 | Ukraine | Entity controlled by the same controlling entity through ownership interest | | Pharma Consulting Group Ltd. |
| Bucca Properties Ltd. | 1377468 | British Virgin Islands | Entity controlled by the same controlling entity through ownership interest | until 23/12/2019 | BORACORA LIMITED |
| C & R Office Center Two s.r.o. | 28227913 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 1/1/2019 | Bestsport, a.s. |
| Capellalaan (Hoofddorp) B.V. | 58391312 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Carolia Westminster Hotel Limited | 9331282 | United Kingdom of Great Britain and Northern Ireland | Entity controlled by the same controlling entity through ownership interest | | CW Investor S.á.r.l. |
| Celestial Holdings Group Limited | 1471389 | British Virgin Islands | Entity controlled by the same controlling entity through ownership interest | until 23/12/2019 | PPF Real Estate Holding B.V. |
| CETIN Finance B.V. | 66805589 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Česká telekomunikační infrastruktura a.s. |
| CETIN služby s.r.o. | 06095577 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Česká telekomunikační infrastruktura a.s. |
| CIAS HOLDING a.s. | 273 99 052 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Topholdco B.V. |
| CITY TOWER Holding a.s. | 02650665 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| COLANDS s.r.o. | 03883663 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 1/1/2019 | Bestsport, a.s. |
| Comcity Office Holding B.V. | 64411761 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| CW Investor S.á.r.l. | B211446 | Luxembourg | Entity controlled by the same controlling entity through ownership interest | | Westminster JV a.s. |
| Cytune Pharma SAS | 500998703 | France | Entity controlled by the same controlling entity through ownership interest | | PPF Capital Partners Fund B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Czech Equestrian Team a.s. | 019 52 684 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | SUNDOWN FARMS LIMITED |
| CZECH TELECOM Austria GmbH in Liquidation | 229578s | Austria | Entity controlled by the same controlling entity through ownership interest | | Česká telekomunikační infrastruktura a.s. |
| CZECH TELECOM Germany GmbH i.L. | HRB 51503 | Germany | Entity controlled by the same controlling entity through ownership interest | | Česká telekomunikační infrastruktura a.s. |
| CzechToll s.r.o. | 06315160 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| Česká telekomunikační infrastruktura a.s. | 040 84 063 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Infrastructure B.V., PPF A3 B.V. |
| D - Toll Holding GmbH | HRB 191929 | Germany | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| DADRIN LIMITED | HE 321 173 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 28/6/2019 | TOLESTO LIMITED |
| De Reling (Dronten) B.V. | 58164235 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| DEVEDIACO ENTERPRISES LIMITED | HE 372136 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | TELISTAN LIMITED |
| DRAK INVESTMENT HOLDING LTD | 324472 | Cayman Islands | Entity controlled by the same controlling entity through ownership interest | | GONDRA HOLDINGS LTD |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Duoland s.r.o. | 06179410 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |
| Eastern Properties B.V. | 58756566 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| eKasa s.r.o. | 050 89 131 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |
| ELTHYSIA LIMITED | HE 290 356 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| Emeldi Technologies, s.r.o. | 25663232 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | since 26/6/2019 | O2 Czech Republic a.s. |
| ENADOCO LIMITED | HE 316 486 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| ETO LICENSING LIMITED | HE 179 386 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | FACIPERO INVESTMENTS LIMITED |
| EusebiusBS (Arnhem) B.V. | 58169778 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| FACIPERO INVESTMENTS LIMITED | HE 232 483 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| Favour Ocean Limited | 1065678 | China | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| FAYDE INVESTMENTS LIMITED | HE 310 390 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 2/12/2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| FELISTON ENTERPRISES LIMITED | HE 152674 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | SALEMONTO LIMITED |
| FERRYMAT HOLDINGS LIMITED | HE 313289 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 2/12/2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Filcommerce Holdings, Inc | CS 201 310 129 | Philippines | Entity controlled by the same controlling entity through ownership interest | | HC Philippines Holding B.V. |
| FLOGESCO LIMITED | HE 172588 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Gilbey Holdings Limited |
| FO Management s.r.o. | 06754295 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF FO Management B.V. |
| FO servis s.r.o. | 08446407 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | since 23/8/2019 | PPF FO Management B.V. |
| Fodina B.V. | 59400676 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| Forward leasing LLP | 190740032911 | Kazakhstan | Entity controlled by the same controlling entity through ownership interest | since 30/7/2019 | Vsegda Da N.V., LLC Forward leasing |
| FOSOL ENTERPRISES LIMITED | HE 372077 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | DEVEDIACO ENTERPRISES LIMITED |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| GABELLI CONSULTANCY LIMITED | HE 160 589 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | VELTHEMIA LIMITED |
| GALIO INVESTMENTS LIMITED | HE 310 260 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 2/12/2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Ganz-Skoda Electric Zrt. | 110045500 | Hungary | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| Garco Group B.V. | 34245884 | Netherlands | Entity controlled by the same controlling entity through ownership interest | until 23/12/2019 | GLANCUS INVESTMENTS INC. |
| Gen Office Gallery a.s. | 24209881 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Office Star Eight a.s. |
| German Properties B.V. | 61008664 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| GILBEY HOLDINGS LIMITED | HE182860 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| GLANCUS INVESTMENTS INC. | 1396023 | British Virgin Islands | Entity controlled by the same controlling entity through ownership interest | until 23/12/2019 | PPF Real Estate Holding B.V. |
| GONDRA HOLDINGS LTD | 324452 | Cayman Islands | Entity controlled by the same controlling entity through ownership interest | | Salonica Holding Limited |
| GRACESPRING LIMITED | HE 208 337 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 16/12/2019 | PPF Real Estate Holding B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Grandview Resources Corp. | 1664098 | British Virgin Islands | Entity controlled by the same controlling entity through ownership interest | | Bavella B.V. |
| Guangdong Home Credit Number Two Information Consulting Co., Ltd | 76732894-1 | China | Entity controlled by the same controlling entity through ownership interest | | Home Credit Asia Limited |
| HC Advisory Services s.r.o. | 01487779 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| HC Asia B.V. | 34253829 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| HC Broker, s.r.o. | 29196540 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Home Credit a.s. |
| HC Consumer Finance Philippines, Inc | CS201301354 | Philippines | Entity controlled by the same controlling entity through ownership interest | | HC Philippines Holding B.V. |
| HC Philippines Holding B.V. | 35024270 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | HC Asia B.V. |
| HC Finance USA LLC | 7241255 | USA | Entity controlled by the same controlling entity through ownership interest | since 1/3/2019 | Home Credit US Holding, LLC |
| HCPH Financing I. Inc | CS201727565 | Philippines | Entity controlled by the same controlling entity through ownership interest | | HC Philippines Holding B.V. |
| HCPH INSURANCE BROKERAGE, INC. (formerly HCPH 2 FINANCING, INC.) | CS201812176 | Philippines | Entity controlled by the same controlling entity through ownership interest | | HC Philippines Holding B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Hofplein Offices (Rotterdam) B.V. | 64398064 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| Home Credit a.s. | 26978636 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Home Credit International a.s. |
| Home Credit Asia Limited | 890063 | China | Entity controlled by the same controlling entity through ownership interest | | HC Asia B.V. |
| Home Credit Consumer Finance Co., Ltd | 91120116636067462H | China | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| Home Credit Egypt Trade S.A.E. | 50614 | Egypt | Entity controlled by the same controlling entity through ownership interest | until 10/6/2019 | HC Philippines Holding B.V |
| HOME CREDIT EUROPE PLC | 7744459 | United Kingdom Of Great Britain and Northern Ireland | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| Home Credit Group B.V. | 69638284 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Financial Holdings B.V. |
| Home Credit India B.V. | 52695255 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | HC Asia B.V. |
| HOME CREDIT INDIA FINANCE PRIVATE LIMITED | U65910HR1997PTC047448 | India | Entity controlled by the same controlling entity through ownership interest | | Home Credit India B.V., Home Credit International a.s. |
| HOME CREDIT INDIA STRATEGIC ADVISORY SERVICES PRIVATE LIMITED | U7499HR2017FTC070364 | India | Entity controlled by the same controlling entity through ownership interest | | Home Credit India B.V., Home Credit International a.s. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Home Credit Indonesia B.V. | 52695557 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | HC Asia B.V. |
| Home Credit International a.s. | 60192666 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| Home Credit N.V. | 34126597 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| Home Credit Slovakia, a.s. | 36234176 | Slovakia | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| Home Credit US Holding, LLC | 5467913 | USA | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| Home Credit US, LLC | 5482663 | USA | Entity controlled by the same controlling entity through ownership interest | | Home Credit US Holding, LLC |
| Home Credit Vietnam Finance Company Limited | 307672788 | Vietnam | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| HOPAR LIMITED | HE 188 923 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| Horse Arena s.r.o. | 044 79 823 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | SUNDOWN FARMS LIMITED |
| Chelton Properties Limited | 1441835 | British Virgin Islands | Entity controlled by the same controlling entity through ownership interest | | Ing. Petr Kellner |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| INTENS Corporation s.r.o. | 28435575 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Bolt Start Up Development a.s. |
| ITIS Holding a.s. | 07961774 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | since 6/3/2019 | PPF a.s. |
| Izotrem Investments Limited | HE 192753 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Gilbey Holdings Limited |
| JARVAN HOLDINGS LIMITED | HE 310 140 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| JH Media Services Plus s.r.o. | 04002423 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 1/1/2019 | Bestsport, a.s. |
| Johan H (Amsterdam) B.V. | 58163239 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| Joint stock company "Sibzavod Centre" | 1035501017221 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC Trust - Invest |
| Joint stock company " Investments trust" (formerly CJSC "Investments trust") | 1037739865052 | Russia | Entity controlled by the same controlling entity through ownership interest | | Trilogy Park Holding B.V. |
| Joint stock company "Intrust NN" (formerly CJSC "Intrust NN") | 1065259035896 | Russia | Entity controlled by the same controlling entity through ownership interest | | Stinctum Holdings Limited |
| Jokiaura Kakkonen Oy | 2401050-2 | Finland | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Topholdco B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| JONSA LIMITED | HE 275 110 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 16/12/2019 | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| LLC "KARTONTARA" | 1197746247247 | Russia | Entity controlled by the same controlling entity through ownership interest | | JARVAN HOLDINGS LIMITED |
| KARMION HOLDINGS LIMITED | HE 312 004 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 31/12/2019 | PPF Real Estate Holding B.V. |
| Karperstraat (Amsterdam) B.V. | 58163883 | Netherlands | Entity controlled by the same controlling entity through ownership interest | until 31/12/2019 | PPF Real Estate Holding B.V. |
| Kateřinská Office Building s.r.o. | 03495663 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate s.r.o. |
| Komodor LLC | 32069917 | Ukraine | Entity controlled by the same controlling entity through ownership interest | | West Logistics Park LLC |
| Langen Property B.V. | 61012777 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | German Properties B.V. |
| Letiště Praha Letňany, s.r.o. | 24678350 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |
| Letňany Air Land s.r.o. | 06138462 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |
| Letňany Air Logistics s.r.o. | 06138411 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Letňany eGate s.r.o. | 06137628 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |
| Letňany Park Gate s.r.o. | 06138446 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Prague Entertainment Group B.V. |
| LINDUS Real s.r.o. | 29139309 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 1/1/2019 | LINDUS SERVICES LIMITED |
| LINDUS SERVICES LIMITED | HE 281 891 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Bestsport holding a.s. |
| LLC Alians R | 1086627000635 | Russia | Entity controlled by the same controlling entity through ownership interest | | JONSA LIMITED |
| LLC Almondsey | 1127747228190 | Russia | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V., LLC Charlie Com. |
| LLC BRAMA | 1107746950431 | Russia | Entity controlled by the same controlling entity through ownership interest | | JARVAN HOLDINGS LIMITED |
| LLC Comcity Kotelnaya | 5157746112959 | Russia | Entity controlled by the same controlling entity through ownership interest | | Comcity Office Holding B.V. |
| LLC EASTERN PROPERTIES RUSSIA | 1137746929836 | Russia | Entity controlled by the same controlling entity through ownership interest | | Bavella B.V., GRANDVIEW RESOURCES CORP. |
| LLC ERKO | 1044702180863 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC "Gorod Molodogo Pokolenija" |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
| --- | --- | --- | --- | --- | --- |
| LLC Fantom | 1053001163302 | Russia | Entity controlled by the same controlling entity through ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC Financial Innovations | 1047796566223 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC Home Credit & Finance Bank |
| LLC Forward leasing (formerly LLC Home Credit Online) | 1157746587943 | Russia | Entity controlled by the same controlling entity through ownership interest | | Vsegda Da N.V. |
| LLC "Gorod Molodogo Pokolenija" | 1187746792914 | Russia | Entity controlled by the same controlling entity through ownership interest | | JARVAN HOLDINGSLIMITED |
| LLC Home Credit & Finance Bank | 1027700280937 | Russia | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V., Home Credit International a.s. |
| LLC Home Credit Insurance | 1027739236018 | Russia | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| LLC Charlie Com | 1137746330336 | Russia | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V., LLC Almondsey |
| LLC In Vino | 1052309138628 | Russia | Entity controlled by the same controlling entity through ownership interest | | Gracespring Limited |
| LLC ISK Klokovo | 1127746186501 | Russia | Entity controlled by the same controlling entity through ownership interest | | STEPHOLD LIMITED |
| LLC K-Development | 1077760004629 | Russia | Entity controlled by the same controlling entity through ownership interest | | JARVAN HOLDINGS LIMITED |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| LLC KEPS | 1127746190604 | Russia | Entity controlled by the same controlling entity through ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC Kvartal Togliatti | 1056320172567 | Russia | Entity controlled by the same controlling entity through ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC LB Voronezh | 1133668033872 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC EASTERN PROPERTIES RUSSIA |
| LLC Logistics - A | 1115048002156 | Russia | Entity controlled by the same controlling entity through ownership interest | | ELTHYSIA LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| LLC Logistika - Ufa | 1150280069477 | Russia | Entity controlled by the same controlling entity through ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC MCC Kupi ne kopi | 1027700280640 | Russia | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V. |
| LLC Mitino Sport City | 1107746473383 | Russia | Entity controlled by the same controlling entity through ownership interest | | MICROLIGHT TRADING LIMITED |
| LLC My Gym | 5157746112915 | Russia | Entity controlled by the same controlling entity through ownership interest | | Comcity Office Holding B.V. |
| LLC Oil Investments | 1167746861677 | Russia | Entity controlled by the same controlling entity through ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC PPF Life Insurance | 1027739031099 | Russia | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| LLC PPF Real Estate Russia | 1057749557568 | Russia | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| LLC RAV Agro | 1073667022879 | Russia | Entity controlled by the same controlling entity through ownership interest | | Bavella B.V., Grandview Resources Corp. |
| LLC RAV Agro Pro | 1033600135557 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC RAV Agro, LLC RAV Molokoprodukt |
| LLC RAV Molokoprodukt | 1083627001567 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC RAV Agro, Grandview Resources Corp., Bavella B.V. |
| LLC RAV Myasoproduct - Orel | 1135749001684 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC RAV Molokoprodukt |
| LLC RAV Niva | 1023601232522 | Russia | Entity controlled by the same controlling entity through ownership interest | until 23/12/2019 | LLC RAV Agro |
| LLC RAV Niva Orel | 1113668051090 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC RAV Agro |
| LLC Razvitie | 1155009002609 | Russia | Entity controlled by the same controlling entity through ownership interest | | VELTHEMIA LIMITED |
| LLC Regional Real Estate | 1137746217950 | Russia | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Limited |
| LLC ROKO | 5107746049329 | Russia | Entity controlled by the same controlling entity through ownership interest | | JONSA LIMITED |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| LLC ROST Agro | 1103601000030 | Russia | Entity controlled by the same controlling entity through ownership interest | until 13/12/2019 | LLC RAV Agro |
| LLC Skladi 104 | 5009049271 | Russia | Entity controlled by the same controlling entity through ownership interest | | GABELLI CONSULTANCY LIMITED |
| LLC Skolkovo Gate | 1137746214979 | Russia | Entity controlled by the same controlling entity through ownership interest | | Trigon II B.V. |
| LLC Sotio | 1117746901502 | Russia | Entity controlled by the same controlling entity through ownership interest | | Sotio N.V. |
| LLC Sotio | EIN 35-2424961 | USA | Entity controlled by the same controlling entity through ownership interest | | Sotio N.V. |
| LLC Spectrum | 1097746356806 | Russia | Entity controlled by the same controlling entity through ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC Spetsializirovanniy zastroyschik " Delta Com" (formerly LLC Delta Com) | 1137746330358 | Russia | Entity controlled by the same controlling entity through ownership interest | | Comcity Office Holding B.V., ANTHEMONA LIMITED |
| LLC Stockmann StP Centre | 1057811023830 | Russia | Entity controlled by the same controlling entity through ownership interest | since 21/01/2019 | LLC Oil Investments |
| LLC Strata | 7702765300 | Russia | Entity controlled by the same controlling entity through ownership interest | | VELTHEMIA LIMITED |
| LLC TGK - Trilogy | 1155027001030 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC PPF Real Estate Russia |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| LLC Torgovij complex Lipetskiy | 1074823001593 | Russia | Entity controlled by the same controlling entity through ownership interest | | JARVAN HOLDINGS LIMITED |
| LLC Trilogy Services | 1155027007398 | Russia | Entity controlled by the same controlling entity through ownership interest | | Trilogy Park Holding B.V. |
| LLC Trust - Invest | 1057746391306 | Russia | Entity controlled by the same controlling entity through ownership interest | | JARVAN HOLDINGS LIMITED |
| LLC Urozhay | 1063627011910 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC Yug |
| LLC Vsegda Da | 5177746179705 | Russia | Entity controlled by the same controlling entity through ownership interest | since 3/6/2019 | Vsegda Da N.V., LLC Forward leasing |
| LLC Yug | 1083627001567 | Russia | Entity controlled by the same controlling entity through ownership interest | | LLC LB Voronezh |
| LOSITANTO Ltd. | HE157131 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | SATACOTO Ltd. |
| LvZH (Rijswijk) B.V. | 58163999 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| Maraflex s.r.o. | 02415852 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| MICROLIGHT TRADING LIMITED | HE 224 515 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Millennium Tower (Rotterdam) B.V. | 56261330 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| mluvii.com s.r.o. | 27405354 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Bolt Start Up Development a.s. |
| MOBI BANKA AD BEOGRAD (NOVI BEOGRAD) (dříve TELENOR BANKA AD BEOGRAD (NOVI BEOGRAD) ) | 17138669 | Serbia | Entity controlled by the same controlling entity through ownership interest | since 20/2/2019 | PPF Financial Holdings B.V. |
| MOETON a.s. v likvidaci | 27864561 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 19/2/2019 | PPF FO Management B.V. |
| Monheim Property B.V. | 61012521 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | German Properties B.V. |
| Monchyplein (Den Haag) B.V. | 58163603 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| Montería, spol. s r.o. | 27901998 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF FO Management B.V. |
| Moranda, a.s. | 28171934 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| MOVO spol. s r. o. | 46887989 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 1/2/2019 | ŠKODA TRANSPORTATIO N a.s. |
| MP Holding 2 B.V. | 69457018 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | DEVEDIACO ENTERPRISES LIMITED |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| My Air a.s. | 05479070 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Air Bank a.s. |
| Mystery Services s.r.o. | 24768103 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| Naneva B.V. | 67400639 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| Net Gate s.r.o. | 247 65 651 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| NIDALEE HOLDING LIMITED | HE 310 150 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 2/12/2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| O2 Business Services, a.s. | 50087487 | Slovakia | Entity controlled by the same controlling entity through ownership interest | | O2 Slovakia, s.r.o. |
| O2 Czech Republic a.s. | 60193336 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Telco B.V., PPF A3 B.V., PPF CYPRUS MANAGEMENT LIMITED |
| O2 Family, s.r.o. | 24215554 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |
| O2 Financial Services s.r.o. | 05423716 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |
| O2 IT Services s.r.o. | 02819678 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| O2 Slovakia, s.r.o. | 35848863 | Slovak republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |
| O2 TV s.r.o. | 03998380 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |
| Office Star Eight a.s. | 27639177 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate s.r.o. |
| Office Star Nine, spol. s r. o. | 27904385 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| One Westferry Circus S.a.r.l. | B175495 | Luxembourg | Entity controlled by the same controlling entity through ownership interest | | PPR Real Estate s.r.o. |
| OOO Sibelectroprivod | 1045400530922 | Russia | Entity controlled by the same controlling entity through ownership interest | | LOSITANTO LIMITED |
| OOO Vagonmash | 1117847029695 | Russia | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ORIBASE Pharma SAS | 499824670 | France | Entity controlled by the same controlling entity through ownership interest | until 25/10/2019 | PPF Capital Partners Fund B.V. |
| PACHATA LIMITED | HE 188 914 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 22/1/2019 | PPF CYPRUS MANAGEMENT LIMITED |
| Paleos Industries B.V. | 66846919 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Pars nova a.s. | 25860038 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATION a.s. |
| Pharma Consulting Group Ltd. | 34529634 | Ukraine | Entity controlled by the same controlling entity through ownership interest | | HOPAR LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Plaza Development SRL | 22718444 | Romania | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate s.r.o. , PPF CYPRUS MANAGEMENT LIMITED |
| POLL,s.r.o. | 62967754 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATION a.s. |
| Pompenburg (Rotterdam) B.V. | 58163506 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Seven Assets Holding B.V. |
| POTLAK LIMITED | HE362788 | Cyprus | Entity controlled by the same controlling entity through ownership interest | since 30/09/2019 | Ing. Petr Kellner |
| PPF a.s. | 25099345 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF A3 B.V. | 61684201 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF A4 B.V. | 63365391 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF Advisory (CR) a.s. | 25792385 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| PPF ADVISORY (RUSSIA) LIMITED | HE 276 979 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF Advisory (UK) Limited | 5539859 | United Kingdom Of Great Britain and Northern Ireland | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF ADVISORY (UKRAINE) LIMITED | HE 162 172 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 22/1/2019 | PPF Group N.V. |
| PPF Arena 1 B.V. | 59009187 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF Art a.s. | 63080672 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| PPF banka a.s. | 47116129 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Financial Holdings B.V. |
| PPF Beer Holdco 1 B.V. | 67330495 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF Beer IM Holdco B.V. | 67331378 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Holdco 1 B.V. |
| PPF Beer Topholdco B.V. | 67420427 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Industrial Holding B.V. |
| PPF Capital Partners Fund B.V. | 55003982 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| PPF CO 3 B.V. | 34360935 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF banka a.s. |
| PPF CYPRUS MANAGEMENT LIMITED | HE 224463 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF CYPRUS RE MANAGEMENT LIMITED | HE 251 908 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| PPF Financial Consulting s.r.o. | 24225657 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| PPF Financial Holdings B.V. | 61880353 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF FO Management B.V. | 34186296 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Ing. Petr Kellner |
| PPF GATE a.s. | 27654524 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| PPF Group N.V. | 33264887 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Ing. Petr Kellner |
| PPF Healthcare N.V. | 34308251 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF Holdings B.V. | 34186294 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Holdings S.á r.l. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| PPF Holdings S.á r.l. | B 186335 | Luxembourg | Entity controlled by the same controlling entity through ownership interest | | Ing. Petr Kellner |
| PPF Industrial Holding B.V. | 71500219 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF Infrastructure B.V. | 65167899 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Arena 1 B.V. |
| PPF PROPERTY LIMITED | HE 189 164 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 23/12/2019 | GLANCUS INVESTMENTS INC., PPF CYPRUS RE MANAGEMENT LIMITED |
| PPF Real Estate Holding B.V. | 34276162 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF REAL ESTATE LIMITED | HE 188 089 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| PPF Real Estate s.r.o. | 27638987 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| PPF Real Estate I, Inc. | 7705173 | USA | Entity controlled by the same controlling entity through ownership interest | since 15/11/2019 | PPF Real Estate s.r.o. |
| PPF reality a.s. | 29030072 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate s.r.o. |
| PPF SECRETARIAL LTD | HE 340708 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF CYPRUS MANAGEMENT LIMITED |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| PPF SERVICES LIMITED | HE 92432 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF Telco B.V. | 65167902 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Arena 1 B.V. |
| PPF TMT Bidco 1 B.V. | 70498288 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Arena 1 B.V. |
| PPF TMT Bidco 2 B.V. (formerly PPF Beer Bidco B.V.) | 67332722 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF TMT Holdco 1 B.V. | 70498261 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PPF TMT Holdco 2 B.V. | 70526214 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF TMT Holdco 1 B.V. |
| Prague Entertainment Group B.V. | 63600757 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| PT Home Credit Indonesia | 03.193.870.7-021.000 | Indonesia | Entity controlled by the same controlling entity through ownership interest | | Home Credit Indonesia B.V. |
| Public Picture & Marketing a.s. | 25667254 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |
| Qazbiz partners LLP | 190740017254 | Kazakhstan | Entity controlled by the same controlling entity through ownership interest | since 16/7/2019 | Vsegda Da N.V., Forward leasing LLP (KZ) |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| RC PROPERTIES S.R.L. | 12663031 | Romania | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate s.r.o. |
| Real Estate Russia B.V. | 63458373 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| REDLIONE LTD | HE 178 059 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| REPIENO LIMITED | HE 282 866 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| Retail Star 22, spol. s r.o. | 24132161 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 10/10/2019 | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| RHASKOS FINANCE LIMITED | HE 316 591 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| Ruconfin B.V. | 55391176 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF banka a.s. |
| Saint World Limited | 1065677 | China | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| SALEMONTO LIMITED | HE 161 006 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| Salonica Holding Limited | 1949492 | British Virgin Islands | Entity controlled by the same controlling entity through ownership interest | | Ing. Petr Kellner |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| SATACOTO Ltd. | HE 155018 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Topholdco B.V. |
| SB JSC Bank Home Credit | 513-1900-AO (UI) | Kazakhstan | Entity controlled by the same controlling entity through ownership interest | | LLC Home Credit & Finance Bank |
| SCI LA FORET | 309844371 | France | Entity controlled by the same controlling entity through ownership interest | | Ing. Petr Kellner |
| SEPTUS HOLDING LIMITED | HE 316 585 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| Seven Assets Holding B.V. | 58163050 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| Shenzhen Home Credit Number One Consulting Co., Ltd. | 914403006641 74257K | China | Entity controlled by the same controlling entity through ownership interest | | Home Credit Asia Limited |
| Shenzhen Home Credit Xinchi Consulting Co., Ltd. | 914403007966 38527A | China | Entity controlled by the same controlling entity through ownership interest | | Favour Ocean Limited |
| SIGURNO LIMITED | HE 172539 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Gilbey Holdings Limited |
| Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd. | 901510100660 467589T | China | Entity controlled by the same controlling entity through ownership interest | | Home Credit Asia Limited |
| SILINE CONSULTING LIMITED | HE 281961 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Celestial Holdings Group Limited |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| SKODA Transportation Deutschland GmbH | HRD 208 725 | Germany | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| Smart home security s.r.o. | 063 21 399 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Bolt Start Up Development a.s. |
| SOTIO a.s. | 24662623 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | Sotio N.V. |
| SOTIO Biotech AG | CHE-354.429.802 | Switzerland | Entity controlled by the same controlling entity through ownership interest | since 17/12/2019 | SOTIO a.s. |
| Sotio Medical Research (Beijing) Co. Ltd | 110000410283 022 | China | Entity controlled by the same controlling entity through ownership interest | | Sotio N.V. |
| Sotio N.V. | 34302290 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| STEL-INVEST s.r.o. | 262 38 365 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | since 7/5/2019 | Česká telekomunikační infrastruktura a.s. |
| STEPHOLD LIMITED | HE 221 908 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| STINCTUM HOLDINGS LIMITED | HE 177 110 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | SALEMONTO LIMITED |
| SUNDOWN FARMS LIMITED | HE 310 721 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Vixon Resources Limited, Chelton Properties Limited |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| SYLANDER CAPITAL LIMITED | HE 316 597 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| ŠKODA CITY SERVICE s.r.o. | 29119057 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.) | 01731530 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA ELECTRIC a.s. | 477 18 579 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA ICT s.r.o. | 279 94 902 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA INVESTMENT a.s. |
| ŠKODA INVESTMENT a.s. | 265 02 399 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Topholdco B.V. |
| ŠKODA RAIL s.r.o. | 058 22 149 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA SERVIS s.r.o. | 263 51 277 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA TRANSPORTATION a.s. | 626 23 753 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Topholdco B.V. |
| ŠKODA TRANSPORTATION UKRAINE, LLC | 42614252 | Ukraine | Entity controlled by the same controlling entity through ownership interest | since 1/1/2019 | ŠKODA TRANSPORTATIO N a.s. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Škoda Transportation USA, LLC | 81-257769 | USA | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA TRANSTECH OY (formerly TRANSTECH OY) | 1098257-0 | Finland | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA TVC s.r.o. | 25247964 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| ŠKODA VAGONKA a.s. | 258 70 637 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| TALPA ESTERO LIMITED | HE 316 502 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Home Credit Group B.V. |
| TANAINA HOLDINGS LIMITED | HE 318 484 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | TOLESTO LIMITED |
| TANFORD LIMITED | HE 167 324 | | Entity controlled by the same controlling entity through ownership interest | | Ing. Petr Kellner |
| TAPADEO LIMITED | HE 341 777 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 2/12/2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Tapito s.r.o. (formerly TapMedia s.r.o.) | 03853365 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | until 16/5/2019 | Bolt Start Up Development a.s. |
| Telematika a.s. | 054 18 046 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF a.s. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Telenor Bulgaria EAD | 130460283 | Bulgaria | Entity controlled by the same controlling entity through ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor Common Operation Ztr. | 13-10-041370 | Hungary | Entity controlled by the same controlling entity through ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor d.o.o. Beograd | 20147229 | Serbia | Entity controlled by the same controlling entity through ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor d.o.o. Podgorica | 50017124 | Montenegro | Entity controlled by the same controlling entity through ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor Direct d.o.o. Beograd | 20426306 | Serbia | Entity controlled by the same controlling entity through ownership interest | until 15/4/2019 | Telenor d.o.o. Beograd |
| Telenor Direct MNE d.o.o. Podgorica | 50537063 | Serbia | Entity controlled by the same controlling entity through ownership interest | to 17/4/2019 | Telenor d.o.o. Beograd |
| Telenor Magyarorzág Zrt. | 13-10-040409 | Hungary | Entity controlled by the same controlling entity through ownership interest | | TMT Hungary B.V. |
| Telenor Real Estate Hungary Ztr. | 13-10-041060 | Hungary | Entity controlled by the same controlling entity through ownership interest | | TMT Hungary B.V. |
| TELISTAN LIMITED | HE 341 864 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | Eastern Properties B.V. |
| Tesco Mobile ČR s.r.o. | 29147506 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Czech Republic a.s. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Tesco Mobile Slovakia, s.r.o. | 36863521 | Slovak Republic | Entity controlled by the same controlling entity through ownership interest | | O2 Slovakia, s. r. o. |
| TIMEWORTH HOLDINGS LTD. | HE 187 475 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| TMT Hungary B.V. | 75752824 | Netherlands | Entity controlled by the same controlling entity through ownership interest | since 5/9/2019 | PPF TMT Bidco 1 B.V. |
| TOLESTO LIMITED | HE 322 834 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| TRADING RS Sp. z o.o. | NIP 7010213385 | Poland | Entity controlled by the same controlling entity through ownership interest | | ŠKODA TRANSPORTATIO N a.s. |
| Trigon Berlin B.V. | 55440916 | Netherlands | Entity controlled by the same controlling entity through ownership interest | to 19/12/2019 | PPF Real Estate Holding B.V. |
| Trigon II B.V. | 56068948 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| Trilogy Park Holding B.V. | 60006609 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| Trilogy Park Nizhny Novgorod Holding B.V. | 67330355 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |
| TV Bermuda Ltd | 55011 | Bermuda Islands | Entity controlled by the same controlling entity through ownership interest | since 16/10/2019 | TV Bidco B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| TV Bidco B.V. | 75994437 | Netherlands | Entity controlled by the same controlling entity through ownership interest | since 3/10/2019 | TV Holdco B.V. |
| TV Holdco B.V. | 75983613 | Netherlands | Entity controlled by the same controlling entity through ownership interest | since 2/10/2019 | PPF TMT Bidco 2 B.V. |
| UNILEAVE LIMITED in liquidation | HE 179 204 | Cyprus | Entity controlled by the same controlling entity through ownership interest | until 22/1/2019 | PPF CYPRUS MANAGEMENT LIMITED |
| Usconfin 1 DAC | 619282 | Ireland | Entity controlled by the same controlling entity through ownership interest | | PPF banka a.s. |
| VELTHEMIA LIMITED | HE 282 891 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | REPIENO LIMITED |
| Velvon GmbH (formerly Innoble GmbH) | HRB 239796 | Germany | Entity controlled by the same controlling entity through ownership interest | | AB-X Projekt GmbH |
| Vixon Resources Limited | 144 18 84 | British Virgin Islands | Entity controlled by the same controlling entity through ownership interest | | Renáta Kellnerová |
| Vox Ventures B.V. | 65879554 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Group N.V. |
| Vsegda Da N.V. (formerly Home Credit Lab N.V.) | 52695689 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | Home Credit N.V., Forward leasing LLP (KZ) |
| VÚKV a.s. | 452 74 100 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Beer Topholdco B.V. |

| Company | Registration number | State of registration | Method and means of control | Note | Participation through |
|---|---|---|---|---|---|
| Wagnerford Holdings Limited | HE 210154 | Cyprus | Entity controlled by the same controlling entity through ownership interest | | MP Holding 2 B.V. |
| Wagnerford LLC | 5087746372819 | Russia | Entity controlled by the same controlling entity through ownership interest | | Wagnerford Holdings Limited |
| West Logistics Park LLC (WLP) | 35093235 | Ukraine | Entity controlled by the same controlling entity through ownership interest | | Izotrem Investments Limited |
| Westminster JV a.s. | 05714354 | Czech Republic | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate s.r.o., |
| Wilhelminaplein (Rotterdam) B.V. | 59494034 | Netherlands | Entity controlled by the same controlling entity through ownership interest | | PPF Real Estate Holding B.V. |

ŠKODA

# ŠKODA TRANSPORTATION a.s.

## Consolidated financial statements for 2019

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

Translation note

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

ŠKODA

# Consolidated income statement for 2019 and 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Note | 2019 TCZK | 2018 TCZK |
|---|---|---|---|
| ***I. Continuing operations*** | | | |
| Revenues from goods sold | 7 | 201 574 | 141 237 |
| Revenues from products and services | 7 | 9 530 062 | 11 440 941 |
| Other operating revenues | 7 | 173 121 | 197 718 |
| *Total revenues* | | *9 904 757* | *11 779 896* |
| Cost of goods sold | | -96 598 | -88 550 |
| Cost of sales | 8 | -6 515 800 | -7 912 103 |
| Personnel expenses | 9 | -2 888 469 | -2 693 028 |
| Depreciation and amortisation | 14, 15 | -413 477 | -364 786 |
| Impairment of non-current assets (increase - / decrease +) | 15 | 3 401 | 8 743 |
| Impairment of finacial assets (increase - / decrease +) | | 18 695 | 13 535 |
| Other operating expenses | 10 | -327 385 | -522 723 |
| Other operating income | 11 | 223 703 | 148 591 |
| *Total operating expenses* | | *-9 995 930* | *-11 410 321* |
| Profit/loss on disposal of non-current assets | | -960 | 5 017 |
| **Operating profit/loss** | | **-92 133** | **374 592** |
| Share of profit of associated companies | 17 | -4 405 | 4 013 |
| Loss on investments | | -- | -2 613 |
| Finance income | 12 | 37 974 | 104 304 |
| Finance expenses | 12 | -289 732 | -339 246 |
| Other finance income and expenses (expense - / income +) | 12 | 28 498 | 126 477 |
| **Profit before tax** | | **-319 798** | **267 527** |
| Income tax | 13 | -59 927 | 59 429 |
| **Profit from continuing operations** | | **-379 725** | **326 956** |
| **II. Profit for the period** | | | |
| Attributable to: | | | |
| - owners of the Parent company | | -506 935 | 344 216 |
| - non-controlling owners | 18 | 127 210 | -17 260 |
| **Total profit for the period** | | **-379 725** | **326 956** |

The notes form an integral part of the consolidated financial statements.

# Consolidated statement of comprehensive income for 2019 and 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | 2019<br>TCZK | 2018<br>TCZK |
|---|---|---|
| **Profit for the period** | **-379 725** | **326 956** |
| **Other comprehensive income** | **189 299** | **-265 327** |
| *Items which will be reclassified into profit and loss* | | |
| Gain/(loss) on cash flow hedges | 239 183 | -333 839 |
| Foreign currency translation differences for foreign operations | -6 523 | 8 718 |
| Deferred tax on items of other comprehensive income | -43 361 | 59 794 |
| **Total comprehensive income for the period** | **-190 426** | **61 629** |
| Attributable to owners of the Parent company | -313 035 | 70 943 |
| Attributable to non-controlling owners | 122 609 | -9 314 |

The notes form an integral part of the consolidated financial statements.

# Consolidated statement of financial position as at 31 December 2019 and 31 December 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Note | 31.12.2019 TCZK | 31.12.2018 TCZK |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 3 563 959 | 3 594 684 |
| Right-of-use asset | 16 | 140 712 | -- |
| Investment property | | -- | -- |
| Intangible assets | 14 | 2 719 975 | 2 503 442 |
| Assets under construction | 14, 15 | 330 236 | 47 485 |
| Goodwill | 14 | 4 113 101 | 4 113 101 |
| Investments in subsidiaries | | -- | -- |
| Investments in associates and joint ventures | 17 | 13 752 | 25 525 |
| Available-for-sale financial assets and long-term loans | | -- | -- |
| Deferred tax asset | 19 | 263 432 | 301 113 |
| Derivatives | 31 | 85 083 | 146 773 |
| Other non-current receivables | 21 | 481 393 | 686 321 |
| *Total non-current assets* | | *11 711 643* | *11 418 444* |
| **Current assets** | | | |
| Inventories | 22 | 2 848 203 | 2 784 476 |
| Trade and other receivables | 23 | 2 616 267 | 2 050 223 |
| Contract asset | 7 | 5 233 666 | 5 063 796 |
| Current income tax receivable | 20 | 33 480 | 98 383 |
| Financial assets held for trading | | -- | -- |
| Derivatives | 31 | 197 648 | 72 403 |
| Cash and cash equivalents | 24 | 1 570 491 | 1 741 634 |
| *Total current assets* | | *12 499 755* | *11 810 915* |
| ***Total assets*** | | ***24 211 398*** | ***23 229 359*** |

| EQUITY AND LIABILITIES | Note | 31.12.2019 TCZK | 31.12.2018 TCZK |
|---|---|---|---|
| **Equity attributable to majority owners** | | | |
| Registered capital | 25 | 3 150 000 | 3 150 000 |
| Capital contributions | 25 | 4 296 752 | 4 301 739 |
| Revaluation of assets | | -- | -- |
| Fair value changes relating to hedges | 25 | 291 584 | 95 762 |
| Foreign currency translation differences for foreign operations | 25 | 36 579 | 43 102 |
| Retained earnings | 25 | 3 525 201 | 4 031 929 |
| *Total equity attributable to owners of the Parent company* | | *11 300 116* | *11 622 532* |
| *Total equity attributable to non-controlling owners* | | *58 243* | *-64 366* |
| ***Total equity*** | | ***11 358 359*** | ***11 558 166*** |
| **Non-current liabilities** | | | |
| Long-term loans, borrowings and securities | 30 | 1 828 530 | 3 833 619 |
| Non-current lease liabilities | 16 | 90 163 | 3 601 |
| Deferred tax liability | 19 | 306 534 | 334 349 |
| Liability arising from share-based payments | | -- | -- |
| Non-current provisions | 27 | 123 994 | 301 032 |
| Other non-current liabilities | 28 | 2 440 088 | 2 281 409 |
| Derivatives | 31 | 24 719 | 88 040 |
| *Total non-current liabilities* | | *4 814 028* | *6 842 050* |
| **Current liabilities** | | | |
| Trade and other payables | 29 | 4 299 705 | 3 644 600 |
| Current income tax liability | 20 | 39 258 | 7 678 |
| Short-term loans, borrowings and securities | 30 | 2 563 805 | 52 603 |
| Current lease liabilities | 16 | 57 320 | 784 |
| Current provisions | 27 | 1 070 079 | 1 111 346 |
| Derivatives | 31 | 8 844 | 12 132 |
| *Total current liabilities* | | *8 039 011* | *4 829 143* |
| ***Total liabilities*** | | ***12 853 039*** | ***11 671 193*** |
| ***Total equity and liabilities*** | | ***24 211 398*** | ***23 229 359*** |

The notes form an integral part of the consolidated financial statements.

ŠKODA

# Consolidated statement of changes in equity for 2019 and 2018

## in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Registered capital | Capital contributions | Fair value changes relating to hedges and foreign currency translation | Retained earnings | Total equity attributable to owners of the Parent company | Total equity attributable to non-controlling owners | Total equity |
|---|---|---|---|---|---|---|---|
| **Opening balance at 1.1.2018** | 3 150 000 | 4 289 814 | 404 191 | 3 683 428 | 11 527 433 | -55 052 | 11 472 381 |
| Application of IFRS 15 and IFRS 9 | – | – | – | 11 199 | 11 199 | – | 11 199 |
| Correction of prior period figures | – | – | – | – | – | – | – |
| Adjusted balance | 3 150 000 | 4 289 814 | 404 191 | 3 694 627 | 11 538 632 | -55 052 | 11 483 580 |
| Profit for 2018 | – | – | – | 344 216 | 344 216 | -17 260 | 326 956 |
| Components of other comprehensive income | – | – | -265 327 | – | -265 327 | 7 946 | -257 381 |
| Total comprehensive income for 2018 | – | – | -265 327 | 344 216 | 78 889 | -9 314 | 69 575 |
| Transaction with owners | | | | | | | |
| Change in registered capital | – | – | – | – | – | – | – |
| Dividends and other payments from equity | – | – | – | – | – | – | – |
| Other contributions to equity | – | 13 341 | – | – | 13 341 | – | 13 341 |
| Other equity transactions | | | | | | | |
| Distribution of equity to non-owners | – | -13 313 | – | | -13 313 | – | -13 313 |
| Transfer from other components of equity to retained earnings | – | 72 | – | -72 | – | – | – |
| Transfer of retained earnings to other components of equity | – | 11 825 | – | -11 825 | – | – | – |
| Other transactions with non-controlling owners | – | – | – | 4 983 | 4 983 | – | 4 983 |
| **Closing balance at 31.12.2018** | 3 150 000 | 4 301 739 | 138 864 | 4 031 929 | 11 622 532 | -64 366 | 11 558 166 |

| | Registered capital | Capital contributions | Fair value changes relating to hedges and foreign currency translation | Retained earnings | Total equity attributable to owners of the Parent company | Total equity attributable to non-controlling owners | Total equity |
|---|---|---|---|---|---|---|---|
| **Opening balance at 1.1.2019** | 3 150 000 | **4 301 739** | **138 864** | **4 031 929** | **11 622 532** | **-64 366** | **11 558 166** |
| Application of IFRS 16 | – | – | – | 207 | **207** | – | **207** |
| Correction of prior period figures | – | – | – | – | – | – | – |
| Adjusted balance | 3 150 000 | 4 301 739 | 138 864 | 4 032 136 | **11 622 739** | -64 366 | **11 558 373** |
| Profit for 2019 | – | – | – | -506 935 | -506 935 | 127 210 | **-379 725** |
| Components of other comprehensive income | – | – | 189 299 | – | 189 299 | -4 601 | **184 698** |
| Total comprehensive income for 2019 | – | – | 189 299 | -506 935 | **-317 636** | 122 609 | **-195 027** |
| Transaction with owners | | | | | | | |
| Change in registered capital | – | – | – | – | – | – | – |
| Dividends and other payments from equity | – | – | – | – | – | – | – |
| Other contributions to equity | – | – | – | – | – | – | – |
| Other equity transactions | | | | | | | |
| Distribution of equity to non-owners - utilisation of social fund | – | -4 987 | – | – | **-4 987** | – | **-4 987** |
| Transfer from other components of equity to retained earnings | – | – | – | – | – | – | – |
| Transfer of retained earnings to other components of equity - contribution to social fund | – | – | – | – | – | – | – |
| Other transactions with non-controlling owners | – | – | – | - | – | – | – |
| **Closing balance at 31.12.2019** | **3 150 000** | **4 296 752** | **328 163** | **3 525 201** | **11 300 116** | **58 243** | **11 358 359** |
| **Note** | 25 | 25 | 25 | 25 | | 18 | |

The notes form an integral part of the consolidated financial statements.

ŠKODA

# Consolidated statement of cash flow for 2019 and 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Note | 2019 TCZK | 2018 TCZK |
|---|---|---|---|
| **I. Cash flows from operating activities** | | | |
| *Profit before tax* | | *-319 798* | *267 527* |
| Adjustments for: | | | |
| - depreciation and amortisation | 14, 15 | 413 477 | 364 786 |
| - impairment of non-current assets | 15 | -3 401 | -8 743 |
| - profit/loss on disposal of non-current assets | | 960 | -4 871 |
| - impairment of current assets | | -137 573 | 175 173 |
| - unrealised foreign exchange differences | | -38 809 | 31 970 |
| - share of profit of associated companies | | 4 405 | -4 013 |
| - loan fees, interest expense and income | | 252 003 | 238 260 |
| - other non-cash transactions | | 126 124 | 39 081 |
| - change in provisions | | -237 572 | -207 732 |
| - gain/loss on sale of subsidiaries | | -- | 2 613 |
| *Total adjustments* | | *379 614* | *626 524* |
| ***Operating cash flows before changes in working capital*** | | ***59 816*** | ***894 051*** |
| Change in inventories | | 56 054 | 116 157 |
| Change in trade and other receivables | | -1 499 159 | 9 121 |
| Change in trade and other payables | | 1 686 599 | 2 386 656 |
| ***Cash flows from operating transactions*** | | ***303 310*** | ***3 405 985*** |
| Interest received including sales discount | | 26 867 | 58 901 |
| Interest and bank fees paid | | -107 312 | -188 251 |
| Interest from lease paid | | -8 113 | -- |
| Income tax paid | | 8 406 | 83 083 |
| ***Net cash flows from operating activities*** | | ***223 158*** | ***3 359 718*** |
| **II. Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | -195 093 | -461 412 |
| Acquisition of intangible assets | | -562 845 | -269 804 |
| Acquisition of financial investments | | -- | -104 551 |
| Proceeds from disposal of non-current assets other than financial investments | | 5 121 | 8 272 |
| Proceeds from disposal of financial investments | | -- | 8 790 |
| Dividends received | | 4 595 | 7 680 |
| ***Net cash flows from investing activities*** | | ***-748 222*** | ***-811 025*** |

| | Note | 2019 TCZK | 2018 TCZK |
|---|---|---|---|
| **III. Cash flows from financing activities** | | | |
| Proceeds from contributions made to registered capital | | -- | -- |
| Proceeds from equity contributions made outside of registered capital | | -- | -- |
| Bank loans and borrowings received - utilisation | | 404 712 | 255 113 |
| Issue of debt securities | | -- | -- |
| Payments made from equity (except for dividends) | | -4 987 | -13 313 |
| Repayment of lease liabilities | | -52 409 | -1 206 |
| Bank loans and borrowings received - repayment | | -16 870 | -2 307 382 |
| Interest, loan fees and dividends paid (including withholding tax) | | -- | -- |
| ***Net cash flows from financing activities*** | | ***330 446*** | ***-2 066 788*** |
| **Net increase/decrease in cash and cash equivalents** | 24 | **-194 618** | **481 906** |
| **Impact of currency conversion on cash and cash equivalents** | | **23 475** | **-31 970** |
| **Cash and cash equivalents at the start of the period** | | **1 741 634** | **1 291 699** |
| **Cash and cash equivalents at the end of the period** | 24 | **1 570 491** | **1 741 634** |

The Group adjusted the recognition of the effect of unrealized foreign exchange differences on the Net increase / decrease in cash and cash equivalents in 2019 and adjusted the data in 2018 to ensure the comparability of data in individual years.

The notes form an integral part of the consolidated financial statements.

## Contents of the notes to the consolidated financial statements

## 1. Description and principal activities

*Establishment and description of the Company*

ŠKODA TRANSPORTATION a.s. ("the Company") was recorded in the Commercial Register kept by the Regional Court in Pilsen on 1 March 1995. The Company acts as a manufacturing and parent company that manages a group of entities ("the Group").

The sole shareholder of the Company as at 31 December 2019 is PPF Beer Topholdco B.V. The sole shareholder holds one registered ordinary share in book-entry form in the nominal value of TCZK 3 134 100 and one registered ordinary share in book-entry form in the nominal value of TCZK 15 900.
As at 31 December 2019, Petr Kellner indirectly held a majority share (88.93%) in the voting rights of the Company through PPF Beer Topholdco B.V. from the PPF Group N.V. that he controls.

*Principal activities of the ŠKODA TRANSPORTATION Group*

The principal activity of the Group is engineering. The Group's primary activities comprise the design of electrical equipment, metalworking, tool-making, and the manufacture of trolley busses, trams, locomotives, and suburban units. The Group also specialises in the refurbishment of rolling stock and conducts in-house development.

*Registered office*

ŠKODA TRANSPORTATION a.s.
Emila Škody 2922/1
301 00 Plzeň, Jižní Předměstí
Czech Republic

The Company's identification number is 626 23 753.

*Members of the board of directors and supervisory board as at 31 December 2019*

*Members of the board of directors*
Ing. Petr Brzezina (chairman)
Ing. Tomáš Ignačák, MBA
Ing. Jan Menclík
Ing. Zdeněk Majer
Ing. Zdeněk Sváta

*Members of the supervisory board*
Ing. Ladislav Chvátal
doc. Ing. Michal Korecký, Ph.D.
Ing. Antonín Roub

*Changes in the Commercial Register*

In 2018 the following changes were recorded in the Commercial Register:

- On 19 January 2019, Ing. Tomáš Ignačák, MBA was removed as vice-chairman of the board of directors. At the same time, he was elected vice-chairman of the board of directors. These changes were recorded in the Commercial Register on 5 April 2019.
- On 19 January 2019, Ing. Zdeněk Sváta was removed as member of the board of directors. At the same time, he was elected member of the board of directors. These changes were recorded in the Commercial Register on 5 April 2019.
- On 19 January 2019, Ing. Jaromír Šilhánek was removed as member of the board of directors. This change was recorded in the Commercial Register on 5 April 2019.
- On 1 February 2019, Ing. Zdeněk Majer was elected member of the board of directors. This change was recorded in the Commercial Register on 5 April 2019.
- On 5 March 2019, Ing. Jaroslav Zoch was removed as member of the supervisory board. This change was recorded in the Commercial Register on 5 April 2019.
- On 7 March 2019, Ing. Antonín Roub was elected member of the supervisory board. This change was recorded in the Commercial Register on 5 April 2019.
- The legal existence of the subsidiary MOVO was terminated as at 1 February 2019 as a result of a merger by acquisition. Its assets and liabilities, rights and duties, receivables, payables and employees were transferred to ŠKODA TRANSPORTATION a.s.

## 2. Basis of preparation of the consolidated financial statements

**Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and give a true and fair view of the financial position of the Group as at 31 December 2019 and of the results of its operations and cash flows for the year ended 31 December 2019. The consolidated financial statements have been prepared on a going concern basis.

Except for the statement of cash flows, the financial statements have been prepared on the accrual basis of accounting.

These consolidated financial statements have been authorised for issue by the board of directors of ŠKODA TRANSPORTATION a.s. on 30 April 2020.

When preparing these consolidated financial statements, the Group used the new or amended standards and interpretations that are to be applied for accounting periods beginning on 1 January 2019. The impact of the implementation of IFRS 16 is described below. Other standards effective from 1 January 2019 did not have a significant impact on the Group.

**New standards and interpretations not applied**

The following new standards and amendments to standards were not yet effective for the year ended 31 December 2019 and were not applied in preparing these consolidated financial statements:

*IFRS, IFRS amendments, and interpretations approved by the European Union but not yet effective:*

- Amendments to References to the Conceptual Framework in IFRS Standards
    - The Group´s management expects that the amendments, when initially applied, will not have a material impact on the Group´s consolidated financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)
    - The Group´s management expects that the amendments, when initially applied, will not have a material impact on the Group´s consolidated financial statements.
- Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform
    - The Group´s management expects that the amendments, when initially applied, will not have a material impact on the Group´s consolidated financial statements.

*Standards and interpretation endorsed by the International Accounting Standards Board (IASB) waiting for endorsement by the EU:*

- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
    - The Group´s management expects that the amendments, when initially applied, might have a material impact on the Group´s consolidated financial statements as the consolidated unit also includes associates. However, the quantitative impact of the adoption of the amendments can only be assessed in the year of the initial application of the amendments, as this will depend on the transfer of assets or businesses to the associate that take place during that reporting period.
- IFRS 17 - Insurance Contracts
    - The Group´s management expects that the new standard, when initially applied, will not have a material impact on the Group´s consolidated financial statements because the Group does not operate in the insurance industry.
- Amendments to IFRS 3 Business Combinations
    - The Group´s management expects that the amendments, when initially applied, will not have a material impact on the Group´s consolidated financial statements.
- IFRS 14 - Regulatory Deferral Accounts
    - The Group´s management expects that the amendments, when initially applied, will not have a material impact on the Group´s consolidated financial statements.

**Basis of measurement**

The consolidated financial statements are presented in Czech crowns, with all balances rounded to the nearest thousand.

The consolidated financial statements have been prepared on a historical cost basis, with the exception of financial derivatives and assets and liabilities acquired through business combinations, which are measured at fair value.

**Basis of consolidation**

The Group's consolidated financial statements, presented as those of a single economic entity, include the assets, liabilities, equity, revenues, expenses and cash flows of the parent company and its subsidiaries and have been prepared as at the end of the same accounting period as the parent company's separate financial statements, using uniform accounting policies with respect to similar transactions and other events under similar circumstances.

*Subsidiaries*

Subsidiaries are entities controlled by the Company. The Company controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and can affect those returns through its power over the investee.

Subsidiaries are consolidated using the full consolidation method.

In the statement of financial position, non-controlling interests in equity are presented separately from the equity attributable to the owners of the parent company.

*Associated companies*

An associate is an entity in which the Company has significant influence. Using the equity method, investments in associates (equity-accounted investees) are recognised initially at cost, with their carrying amounts subsequently increased/decreased to reflect the Group's share of the equity-accounted investee's comprehensive income. This share is recognised in the Group's comprehensive income. Investments in associates are accounted for using the equity method from the date that significant influence commences.

The equity method is applied using the associate's latest available financial statements.

*Joint ventures*

Investments in joint ventures are accounted for using the equity method. The equity method is applied using the joint venture's latest available financial statements.

*Business combinations*

Business combinations are accounted for using the acquisition method. The acquisition cost of a business combination corresponds to the sum of paid consideration, measured at fair value determined as at the acquisition date, and the value of potential non-controlling interests in the acquiree. At the date of a business combination, the acquirer measures potential non-controlling interests in the acquiree at their fair value or at the proportionate share of the acquiree's identifiable net assets. Transactions costs that the Group incurs in connection with a business combination are expensed as incurred.

*Goodwill*

Goodwill arising on consolidation represents the amount by which the purchase price exceeds the Group's share of the fair value of the identifiable assets and liabilities of a subsidiary, associated company or joint venture as at the acquisition date. After initial recognition, goodwill is stated at purchase price less accumulated impairment losses. The carrying amount of goodwill related to an associated company is included in the carrying amount of the investment in the associated company. Goodwill is not amortised but is tested for impairment every year.

If the Group's share of the fair value of the identifiable assets and liabilities of a subsidiary, associated company or joint venture as at the acquisition date exceeds the purchase price, the Group will remeasure the identifiable assets and liabilities and the purchase price. Any excess arising on remeasurement (negative goodwill) is recognised in profit or loss in the period in which the acquisition occurred.

*Transactions with owners*

The difference between the acquisition cost upon the acquisition of an interest in a subsidiary from the parent company and the proportionate share of the subsidiary's net identifiable assets is reported directly in equity.

**Estimates and assumptions**

In preparing the consolidated financial statements, the Group's management uses estimates and makes assumptions that as at the date of the consolidated financial statements affect the reported amounts of assets, liabilities, income, and expenses. These estimates and assumptions are based on experience and various other factors that are deemed appropriate under the conditions based on which estimates of the carrying amounts of assets and liabilities are applied and that are not readily available from other sources. Actual results may vary from the estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, providing that the revision affects only that period, or in the revision period and the subsequent period, providing that the revision affects both the current as well as the subsequent period.

Information about significant estimation uncertainties and critical judgments in applying accounting policies that most significantly affect the amounts recognised in the consolidated financial statements is primarily included in the following notes:

- Note 7 – Revenues, Contract assets
- Note 14 – Intangible assets
- Note 15 – Property, plant and equipment and non-current assets under construction
- Note 19 – Deferred tax liability/asset
- Note 21 – Other non-current receivables
- Note 22 – Inventories
- Note 23 – Trade receivables and other assets
- Note 27 – Provisions
- Note 31 – Derivatives

In addition, impairment testing relating to the accounts disclosed in Notes 14, 15 and 22 are also dependent on key assumptions underlying recoverable amounts (including the recoverability of development costs).

## 3. Accounting policies

### a) Property, plant and equipment

*Assets owned by the Group*

Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of internally produced assets includes the cost of materials and direct labour, including an estimate of the costs of dismantling and removing the asset and restoring the site and an allocation of production overheads.

*Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the asset's estimated useful life. Land is not depreciated. The depreciation period of items of plant and equipment is as follows:

| Assets | Method | Period |
|---|---|---|
| Buildings and structures | Straight-line | 10 to 50 years |
| Machinery and equipment | Straight-line | 4 - 15 years |
| Vehicles | Straight-line | 4 - 10 years |
| Low value non-current assets | Straight-line | 2 - 5 years |
| Fixtures | Straight-line | over the duration of the project |

The depreciation of items of plant and equipment commences when they are ready for use, i.e. from the following month when they are in a location and in a condition allowing their use as planned by the Group's management. Depreciation is charged over the asset's estimated useful life, considering its residual value. Components of items of plant and equipment that are significant to the item as a whole are depreciated separately in accordance with their estimated useful lives.

Items of property, plant and equipment under construction comprise buildings and equipment under construction and are stated at cost, which includes the cost of constructing the asset, and other direct expenses. Items of property, plant and equipment under construction are not depreciated until they are fit for their intended use.

As at the date of preparation of the financial statements, the Group reviews the method and period of depreciation of the individual groups of assets and makes possible adjustments.

Profit or loss on the sale or disposal of an asset is determined as the difference between the income from the sale and the net book value of the respective asset. The difference is recognised in the income statement.

*Subsequent expenditure*

In the carrying amount of an item of property, plant and equipment, the Group includes the cost of replacing part of such an item when that cost is incurred if it is probable that any future economic benefits associated with the item of property, plant and equipment will flow to the Group and the cost can be reliably measured. All other costs are expensed as incurred.

## b) Intangible assets

Intangible assets, except goodwill and trademarks, are stated at cost less accumulated amortisation and impairment losses. Intangible assets with specific useful lives are amortised over their estimated useful lives, starting from the time when they are ready for use, i.e. when they are in the location and condition required for their use as intended by the Group's management.

Trademarks are understood to be assets with unlimited useful lives that are stated at acquisition cost and not amortised.

The amortisation period for intangible assets owned by the Group ranges from three to ten years, with assets being amortised on a straight-line basis. The appropriateness of the amortisation periods and rates used is reviewed on a regular basis (at least at the end of each accounting period), with relevant changes in amortisation being applied in subsequent periods.

| Assets | Method | Period |
|---|---|---|
| Software | Straight-line | 3 to 5 years |
| Development | Straight-line | 4 to 10 years |
| Development – specific projects | Output-based | over the duration of the project |

Goodwill and intangible assets with indefinite useful lives are not amortised and are tested for impairment annually.

*Subsequent costs*

Subsequent costs relating to a capitalised intangible asset are capitalised only if they increase the future economic benefits generated by the asset to which they relate. All other costs are recognised in profit or loss as incurred.

## c) Leases

*Leased assets (accounting policy effective until 31 December 2018)*

Leased assets in respect of which the Group substantially assumes all risks and rewards incidental to ownership are classified as finance leases.

At the inception of the lease, assets acquired under finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments. The interest component of the finance charge is recognised in the income statement over the lease term to achieve a constant rate of interest on the remaining balance of the liability for each period. The discount rate used in calculating the present value of the minimum future lease payments is the interest rate implicit in the lease. Assets acquired under finance leases are depreciated over their useful lives.

Leases under which the lessor retains a substantial part of the risks and rewards incidental to ownership are classified as operating leases. Payments under operating leases (reduced by incentives provided by the lessor) are recognised as an expense on a straight-line basis over the lease term, unless another method is more representative of the time pattern of the user's benefit.

*Leased assets (accounting policy effective from 1 January 2019)*

As of 1 January 2019, the Group adopted the new standard IFRS 16 regulating the presentation of assets, which are used under a lease contract (rental).

Standard IFRS 16 Leases replaces IAS 17 Leases and related interpretations. The standard abolishes the current dual accounting model for lessees and instead requires companies to report most leases in the balance sheet according to one model, eliminating the difference between operating and financial leasing.

**Lease definition**

Until 31 December 2018, the Group assessed whether a contract was a lease or included a lease under IFRIC 4 - Determining whether an arrangement contains a lease. Now the Group assesses whether a contract is a lease or includes a lease under the new lease definition. Under IFRS 16, a contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The identified asset is a specific asset that is physically separable, and the supplier does not have a substantial right to replace it with another asset. The right to control the use of the identified asset is transferred to the Group if the Group has the right to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

The Group used a practical expedient and did not reassess whether a contract was or contained a lease at the date of initial application. Thus, for contracts concluded before 1 January 2019, the Group applied IFRS 16 to all contracts that were assessed as leases in accordance with IAS 17 and IFRIC 4.

**The Group as a lessee - significant accounting policies**

As a lessee, the Group is required to recognise in the statement of financial position the lease asset as 'a right-of-use asset', representing its right to use the leased underlying asset, and as a lease liability, representing its obligation to pay lease payments.

At the commencement date, the right-of-use asset is measured at cost and subsequently at cost less any accumulated depreciation, accumulated impairment losses and adjusted for any remeasurement of the lease liability (cost model). The right-of-use asset is depreciated on a straight-line basis over the term of the lease or, if shorter, the useful life of the asset.

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease if that rate can be readily determined. If the rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. In general, the Group uses the incremental borrowing rate determined for the relevant lease contract as a discount rate, considering the specific lease term.

After the commencement date, the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability
- reducing the carrying amount to reflect the lease payments made
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

The Group used its judgment in determining the lease term for lease contracts that include a renewal option, early termination or are concluded for an indefinite period. The lease term represents the non-cancellable period for which the Group has the right to use an underlying asset, that includes periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

For a contract that is or contains a lease, the Group shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined based on the price the lessor or a similar supplier would charge the Group for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group shall estimate the stand-alone price, maximising the use of observable information.

For contracts that contains non-leasing components, the Group individually assesses the materiality and separability of those components. If the non-leasing components appear to be immaterial and at the same time their price is not separately stated in the contract, they will be part of the leasing calculation. In the case of immaterial non-leasing components whose price is separately recognisable (e.g. an advance payment is invoiced for additional services that are not part of the payment schedule for leased asset), the Group will expense these additional services and they will not be capitalised into the right-of-use asset. Significant and separable non-leasing components are also measured separately.

The Group uses a reporting exemption and elected not to apply the requirements of IFRS 16 for short-term leases (the non-cancellable lease term is up to 12 months inclusive) and leases for which the underlying asset is of low value (TUSD 5 per individual separable asset). Lease payments associated with these contracts are recognised as expenses (services) on a straight-line basis over the term of the contract.

Leases of underlying assets with low value are mainly leases of low value IT equipment.

In compliance with IFRS 16, the Group does not recognise the leases of intangible assets as a lease under IFRS 16.

**The Group as a lessor**

The Group is not the lessor in respect of leases that meet the definition of a lease.

The Group recognises lease payments from operating leases as income on a straight-line basis or using another systematic basis.

The Group does not sublease any leased assets to others.

### *d) Inventories*

Inventory is stated at the lower of cost and net realisable value. The cost of inventory includes expenses incurred in connection with the acquisition of the inventory, particularly freight costs and insurance costs, as well as direct materials and, where appropriate, an allocation of wages and manufacturing overheads incurred in bringing the inventories to their current location and condition. Net realisable value is the estimated selling price reduced by estimated completion and selling costs.

Raw materials inventory is stated at cost, which includes the purchase price of the inventory and related customs duties and in-transit storage and freight costs incurred in delivering the inventory to the manufacturing facility.

The cost of materials is determined using the weighted average method.

Work in progress and finished goods inventories are stated at internal cost, which includes direct production costs and, where relevant, an allocation of indirect production costs.

### *e) Receivables and payables*

Trade receivables and other assets are stated at net book value.

Trade payables and other liabilities are stated at net book value.

*Contract assets*

Receivables from a contract asset represent the Group's title to consideration in exchange for products, goods or services (according to the contracts with customers) which the Group transferred to the customer and which include:

a) costs incurred plus recognised profits less
b) the sum of recognised losses and progress billings, including the offset advances received

for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings and advances received from customers.

The contract asset becomes a receivable once the Group's unconditional right to consideration is acquired.

*Contract liability*

The contract liability represents a liability of the entity to transfer goods or services to the customer for which the entity received a consideration from the customer. The consideration received relates to advances received or to ongoing invoicing in the event of contracts with customers the revenues from which are recognised over time. Contract liabilities are recognised as revenue at the moment the performance obligation is fulfilled (partially fulfilled).

### f) Cash and cash equivalents

Cash equivalents are highly liquid investments and comprise short-term cash deposits with a maximum original maturity of three months.

### g) Equity

*Registered capital*

The Company's registered capital comprises the sole shareholder's fully paid-up contribution and is stated at nominal value in accordance with the Company's articles of association and its entry in the Commercial Register.

*Capital contributions*

Capital contributions comprise contributions made outside of registered capital as well as the allocation and distribution of funds to/from the social fund.

*Fair value changes in respect of hedging*

Fair value changes in respect of hedging comprise changes in the fair value of hedging derivatives and related deferred tax.

*Retained earnings*

Retained earnings include amounts arising from profit distribution/loss settlement, retained profits and the net profit/loss for the current period.

### h) Employee benefits

*Defined contribution plans*

The government of the Czech Republic is responsible for providing employees with a basic retirement pension scheme. The Group pays regular contributions to the state budget for the basic pension scheme. These contributions are derived from the amount of wages and salaries paid and are recognised as expenses when the wage liability originates.

*Other non-current employee benefits*

These comprise future bonuses to which employees are entitled in connection with reaching a certain age or number of years of service, or upon retirement. These benefits are discounted to present value. The discount rate is the yield on government bonds whose maturity approximates the maturity of obligations arising from employee benefits. Year-on-year changes are recognised in the income statement.

### i) Provisions

Provisions are recognised in the statement of financial position when as a result of a past event the Group has a legal or constructive obligation, and an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is significant, the expected future cash flows are discounted at a rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

*Provision for warranty repairs*

A provision for warranty repairs is recognised when a product or service is delivered to the customer. The provision is calculated based on historical data and an individual assessment of potential future expenses, while considering any additional circumstances known as at the date of preparation of the consolidated financial statements.

*Provision for risks*

The provision for risks primarily includes provisions for penalties arising from contractual relationships and is only recognised if the probability is that an outflow of resources will be needed is more likely than not and a reliable estimate of the amount of the obligation can be made.

*Provision for onerous contracts*

A provision for onerous contracts is recognised when the total expected income from a contract is lower than the total estimated costs of the contract.

*Provision for environmental risks*

A provision for environmental risks is established to cover expected future costs. The provision is recognised if restoration costs can be reliably measured.

*Provision for litigations*

Based on a legal analysis prepared for the Group's management, a provision for litigations is created in the amount of any possible future considerations if it is probable that an outflow of economic benefits will be required to settle an obligation and if the amount of such an obligation can be reliably estimated.

### j) Revenue recognition

As at 1 January 2018, the Group adopted the new standard IFRS 15 governing the recognition of revenue from contracts with customers. The Group applied 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) the Group 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 or at a point in time, when control of the products, goods or services is transferred to the customer.

In accordance with IFRS 15, the Group recognises revenues from contracts with customers, if it is probable that the Group will collect consideration and if the contracts do not imply an unilateral enforceable right to terminate a contract without compensating the other party, as specified below:

| Type of product/service | Character of performance | Revenue recognition |
|---|---|---|
| **Trams, locomotives and suburban units, trolley buses, and metro** | The Group supplies its customers with highly specific assets, adjusted according to the requirements of the customers, which are thus not easily interchangeable with other assets. The option of an alternative use of these assets is limited by the actual possibility to gain another customer who would like to purchase a finished asset while keeping its parameters, without significant additional adjustments and without a requirement on a significant reduction of the selling price. Billing and payment terms are determined for each contract on an individual basis. A contract may include advances paid by the customer before the start of the project or during the project. Advances received are secured by bank guarantees. | Revenues are recognised over time and the input method is used to measure progress. This method better demonstrates the stage of completion than the output method due to the long-term nature of production of these products (the production of one unit usually takes more than 6 months). |
| **Electrical equipment, traction motors** | The Group supplies its customers with highly specific assets, adjusted according to the requirements of the customers, which are thus not easily interchangeable with other assets. The option of an alternative use of these assets is limited by the actual possibility to gain another customer who would like to purchase a finished asset while keeping its parameters, without significant additional adjustments and without a requirement on a significant reduction of the selling price. Billing and payment terms are determined for each contract on an individual basis. A contract may include advances paid by the customer before the start of the project or during the project. Advances received are secured by bank guarantees. | Revenues are recognised over time and the output method based on the measurement of produced units is used to measure progress (regarding the shorter time of production of the units of these products the output method enables a trustworthy presentation of the progress in satisfaction of a performance obligation). In specific cases where the output method does not enable a true presentation of the extent of the realised performance the input method is used. |
| **Full maintenance and other regular services** | Regular services where the customer gradually receives and consumes the benefits from the performance of the contract. Billing and payment terms are determined for each contract on an individual basis. The transaction price for full maintenance includes next to a fixed component also a variable consideration which depends on the number of passed kilometres of the vehicle subject to the maintenance. | Revenues are recognised over time and the output method is used to measure progress according to the extent of the provided performance. Recognised revenues from full maintenance include a variable consideration, which corresponds to the actual number of passed kilometres for the reported period. |
| **Rolling stock modernisation and comprehensive repairs** | Modernisation and comprehensive repair represents an improvement and comprehensive repair to the asset which is under the customer's control over the period of the modernisation/repair. The invoice is issued after having handed over the modernised or repaired vehicle or its part to the customer and the terms of payment are set individually for each individual contract. | Revenues are recognised over time and the output method is used to measure progress (regarding the short time necessary for the modernisation of one unit, the input methods allow for the trustworthy presentation of the progress in satisfaction of a performance obligation). |
| **Spare parts** | The customer gains control over the asset at the moment of delivery. The invoice is issued as at the date of delivery of the asset. Terms of payment are determined for each contract on an individual basis. | Revenues are recognised at a point in time at the moment of delivery to the customer. |
| **Repairs, working, service, and other one-off services** | These services are one-off services and the customer receives their benefits after their completion. An invoice is issued after having handed over the provided service to the customer and the terms of payment are set individually for each individual contract. | Revenues are recognised at a point in time at the moment of delivery of the performance to the customer. |

For the contracts which do not meet the above criteria, the Group recognises the revenue only once it has met all obligations following from the contract (complete delivery of the goods or services) and has obtained non-refundable consideration from the customer.

Two or more contracts concluded simultaneously or almost simultaneously with the same customer (or related parties of this customer) where the contracts are concluded as a package with a single business goal, or where the amount of consideration to be paid under one contract depends on the price or performance of the other contract, or where goods and services promised in these contracts represent a single liability, are reported as a single contract.

The transaction price under the contract is allocated to each distinct performance following from the contract (expected by the customer). These are supplies from which the customer has a separate benefit, and which are handed over to the customer separately. In the event of a change in the transaction price, the amounts allocated in connection with a change in the price to the fulfilled performance obligation are recognised as revenues or as a reduction in revenues in the period in which the transaction price changes.

If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. The variable consideration includes discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The penalty invoiced by the customer under the contract for delivery of the asset is therefore recognised as decrease in transaction price under the contract.

For the contracts where the period (or, if appropriate, the average period for contracts with performance over time) between the handover of the performance to the customer and the payment for the performance provided by the customer exceeds one year (a practical expedient is used), the transaction price is adjusted by the financing component if significant. The assessment of the financing component is not relevant for the retention specified in the contract, which is not understood as a postponed payment as its payment is conditional on the review of the fulfilment of the terms and conditions of the contract on the side of the customer.

The Group recognises the revenues from the performance obligation fulfilled over time only when it can reliably measure its progress towards the entire fulfilment of the performance obligation. In the event of the input method, the stage of completion is determined as the proportion between the recognised costs as at the date of preparation of the financial statements and the estimated total contract costs. In the early phases of the contract duration when the Group is not able to adequately measure the result of the performance obligation, the Group recognises revenues only in the extent of the actually incurred costs up to the moment when it can adequately measure the result of the performance obligation.

Costs are recognised to the income statement in the period in which they are incurred. When the estimated total costs are higher than total contract revenue, the estimated total loss is recognised in the income statement immediately and a corresponding provision is recorded.

Incremental costs incurred in connection with acquiring a customer contract are recognised as an asset if the Group expects to gain these expenses back. Incremental costs incurred in connection with acquiring a contract are expenses incurred in connection with acquiring a customer contract that would not be incurred if the Group had not acquired the contract (e.g. a sale commission). The costs incurred in connection with acquiring a contract which would be incurred irrespective of the manner of acquiring the contract are recognised as incurred.

*Accounting for service concession arrangements*

Service concessions are acknowledged under IFRIC 12: Service Concession Arrangements. Service concessions comprise the provision of services intended to ensure the participation of the private sector in the building, funding, operating and maintenance of infrastructure. A service concession arrangement includes a private sector entity (the operator) which builds or operates the infrastructure and further operates and maintains it over a certain pre-defined period. Over the term of the arrangement, the operator receives payment for these services.

IFRIC 12 applies to public-to-private service concession arrangements if both the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price, and if the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Infrastructure within the scope of IFRIC 12 is not recognised as property, plant and equipment of the operator but as a financial asset. Part of a financial asset due within one year is reported in Other current receivables; part of a financial asset due in more than one year is reported in Other non-current receivables. The operator accounts for revenue relating to operation services and calculates it in accordance with IFRS 15.

### k) Research and development costs

Costs related to research are incurred to acquire entirely new technical knowledge that may lead to future improvements in products or entire processes whose economic use has not been reliably determined yet. Hence, these costs are recognised in the income statement as incurred.

Costs related to development leading to results that are transformed into a plan or design of substantially improved products and processes are capitalised if the product or process is technically feasible and economically viable and the Group has sufficient funds to complete the development. Capitalised development costs include the cost of direct materials, direct labour, and an allocation of overhead costs. Other development costs are recognised in the income statement as incurred. Capitalised development costs are depreciated on a straight-line basis over their estimated useful lives.

### l) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset whose intended use or sale is preceded by long-term preparation are capitalised as part of the cost of that asset until the asset is ready for its intended use or sale. All other borrowing costs are expensed as incurred.

### *m) Government grants*

Government grants are recognised when there is reasonable assurance that the conditions attached to the grants have been complied with and the grants will be received. Grants awarded for the purchase or the production of fixed assets (grants related to assets) are offset against the acquisition or production costs of the respective assets and reduce future depreciations accordingly. Grants awarded for other than non-current assets (grants related to income) are reported in the income statement under the same functional area as the corresponding expenses. They are recognised as income over the periods necessary to match them on a systematic basis to the costs that are intended to be compensated. Government grants for future expenses are recorded as deferred income.

### *n) Finance income and expenses*

Finance income and finance expenses primarily include interest income, interest expense on borrowings, and foreign exchange gains and losses.

Interest relating to a finance lease is recognised in the income statement using the effective interest method.

### *o) Other finance income and expenses*

Other income and expenses primarily comprise gains and losses arising from changes in the fair value of financial derivatives that are recognised in the income statement.

### *p) Income tax*

Income tax for the period comprises current tax and the change in deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income. In this case, income tax is recognised in other comprehensive income.

Current tax is based on profit before tax for the accounting period, adjusted for non-deductible and non-taxable items, using income tax rates effective in that accounting period. Current tax is calculated at the entity level.

At the end of each accounting period, deferred tax assets and liabilities are calculated based on all temporary differences between the carrying and tax value of assets and liabilities, tax losses carried forward and unused tax credits, using the income tax rate effective for the period in which these differences are to be reversed.

A deferred tax asset is recognised only to the extent deemed utilisable with respect to expected taxable profits. If uncertainty exists as to the utilisation of individual deferred tax assets, the deferred tax assets are recognised only up to the amount of the entity's deferred tax liabilities.

### *q) Earnings per share*

Basic earnings per share are calculated by dividing net profit or loss for the period attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

The Group has no dilutive potential shares.

### r) Foreign currency translation

*Translation of foreign currency transactions*

The individual financial statements of all entities within the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial positions of all entities within the Group are reported in Czech crowns, which is the functional currency of the Group and the reporting currency of the consolidated financial statements.

In preparing the financial statements of individual entities, transactions denominated in currencies other than the Group's functional currency (foreign currencies) are translated at the exchange rate effective as at the transaction date. As at the reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the official exchange rate effective as at that date. Gains and losses arising from changes in foreign exchange rates after the transaction date are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the exchange rate effective as at the date their fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are not translated.

*Financial statements of the Group's foreign entities*

For the purpose of the consolidated financial statements, the assets and liabilities of the Group's foreign entities are reported in Czech crowns, using exchange rates effective as at the reporting date. Income and expense items are translated at average exchange rates for the period, unless the exchange rates significantly changed during the period, in which case the exchange rate effective as at the transaction date is applied. Any foreign exchange differences are recognised in other comprehensive income. These differences are recognised in profit or loss in the period in which the foreign entity is sold.

*Functional currencies of significant Group companies by their registered office:*

| Country | Functional currency |
|---|---|
| Czech Republic | CZK |
| Finland | EUR |
| Hungary | HUF |
| Russia | RUB |

### s) Impairment of assets

*Non-financial assets*

As at the reporting date, the Group reviews the carrying amounts of its assets, other than inventories and deferred tax assets, to assess whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and the amount of the impairment loss, if any, is determined. If the recoverable amount of an individual asset cannot be estimated, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs.

Assets that are not depreciated are tested for impairment on an annual basis.

If the estimated recoverable amount of an asset (or cash-generating unit) is lower than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised in expenses.

If an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit), excluding Goodwill, is increased to a new estimate of the asset's recoverable amount, but only to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior accounting periods. A reversal of an impairment loss for an asset other than goodwill is recognised in income.

### t) Financial instruments

*Financial assets*

Under IFRS 9, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

In accordance with IFRS 9, financial assets are generally classified based on the Group's business model for managing the financial assets and at the same time based on the contractual cash flow characteristics of the financial asset.

Embedded derivatives in a contract the host of which is an asset within the scope of IFRS 9 shall not be separated from the host contract. The entire contract is treated as a single unit for the purpose of classification and measurement.

Financial assets shall be measured at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows.
- The contractual terms of the financial asset on specified dates give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:
- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset on specified dates give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss and that are not held for trading, to present subsequent changes in fair value in other comprehensive income. This election is made for each investment individually.

All other financial assets not measured at amortised cost or fair value at FVOCI are measured at FVTPL.

Apart from trade receivables that do not have a significant financing component, financial assets are initially measured at fair value (except for the category of financial assets at FVTPL) adjusted by the transaction costs directly related to the acquisition of the financial asset.

*Financial liabilities*

Financial liabilities are classified as measured at amortised cost or at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVOCI).

Financial liabilities are classified as measured at FVTPL if they are held for sale, derivative financial instruments or if they are designated as FVTPL as at the date of initial recognition. These financial liabilities are measured at fair value and gains or losses, including interest expense, are recognised in profit or loss, except for the changes in fair value as a result of a change in the Group's credit risk which are recognised in other comprehensive income. When applying hedge accounting, financial liabilities are classified as at FVOCI.

Other financial liabilities are recognised at the accepted consideration net of transaction costs as at the acquisition date. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and any difference between the revenues net of transaction costs and the amortised cost is reported in profit or loss for the relevant period.

Financial liabilities are classified as current liabilities if the Group does not have the unconditional right to repay them in more than 12 months after the reporting date.

*Cash and cash equivalents and restricted cash*

Cash and cash equivalents and restricted cash are measured at cost in the balance sheet and subsequently remeasured at amortised cost, net of impairment, under the IFRS 9 model. For purposes of the cash flow statement, they are defined to comprise cash, cash equivalents and restricted cash, cash in hand, cash at the bank, short-term deposits and liquid financial investments with a three-month or shorter maturity and are net of negative balances of overdraft facilities. Bank overdraft facility balances are reported in the Short-term loans and borrowings item in the balance sheet.

*Derecognition of financial instruments*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

A financial asset is written off if the Group believes that a part or the whole value of the financial asset will not be repaid, i.e. at the moment when the Group has exhausted the options of enforcing the asset. In such case, the accounting write-off does not represent the extinguishment of the legal claim and therefore does not prevent the possible collection of a written-off financial asset in the future. The costs incurred in connection with impaired assets are recognised in impairment of financial and contract assets in the income statement.

A financial liability is derecognised when the contractual obligations are paid or cancelled in full or have expired in full. A possible difference between the net book value and the amount paid to settle the liability is recognised in the income statement for the relevant period.

*Mutual offset of financial instruments*

Financial assets and liabilities are mutually offset, and the net amount is recognised in the balance sheet if the Group has a legally enforceable right to offset the acknowledged amounts and an intention to realise a settlement in the net amount or to realise the receivable and to settle the liability at the same time. The legally enforceable right cannot depend on future events and must be enforceable in the ordinary course of business also in the event of default, insolvency or bankruptcy of the Group or the counterparty.

*Impairment of financial assets*

For trade receivables and contract assets, the Group recognises an impairment for the amount of expected credit losses over the life period if the credit risk associated with this financial instrument has increased significantly since initial recognition. A significant increase in credit risk is assessed on an individual basis with respect to the change in default risk of the financial asset.

The Group recognises an impairment for expected credit losses on an individual basis based on all available information about past events, current conditions, forecasts of future economic conditions and the results of negotiations with the customer relating to the individual financial asset.

### u) Derivatives

*Hedging derivatives*

The Group has decided to apply an exemption from IFRS 9 for hedge accounting and to continue accounting in accordance with IAS 39.

The Group classifies as hedging derivatives those derivatives in respect of which a hedge accounting model is applied and for which all of the following conditions are met:

- At the inception of the hedge, there is a formal designation of the hedged items, the hedging instruments, the risks being hedged, and how the effectiveness of the hedge will be calculated and documented.
- The hedge is highly effective (i.e. ranging from 80% to 125%).
- The effectiveness of the hedge can be reliably measured and is assessed on an ongoing basis.

Derivatives that do not meet the above conditions for hedging derivatives are classified by the Group as trading derivatives.

If a derivative is used to hedge the risk of change in cash flows from assets, liabilities or enforceable contractual relationships or forecast transactions, the change in the hedging derivative's fair value attributable to the effective portion of the hedge is recognised in equity as Fair value changes relating to hedges and foreign currency translation in the statement of other comprehensive income. The ineffective portion of the hedge is recognised in the income statement.

Financial derivatives are initially recognised at cost and subsequently measured at fair value as at the reporting date. The Group only uses financial derivatives to hedge future cash flows. Changes in the fair value of financial derivatives are recognised in the statement of other comprehensive income.

The amount accumulated in equity is retained in the other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If a forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

*Derivatives held for trading*

Financial derivatives held for trading are recognised at fair value, with gains (losses) arising from changes in their fair values included in profit or loss.

### v) Fair value

Fair value is defined as an amount for which an instrument could be exchanged between knowledgeable and willing parties, in an arm's length transaction other than a forced or liquidation sale. Fair values are, as appropriate, obtained by reference to listed market prices, discounted cash flow models and other valuation models.

The following methods and assumptions are used in estimating the fair values of individual classes of financial instruments:

*Cash and cash equivalents, short-term investments*

The carrying amount of cash and other short-term financial assets approximates their fair value as these financial instruments have relatively short maturity periods.

*Receivables and payables*

The carrying amount of current receivables and payables approximates their fair value as these financial instruments have short maturity periods.

*Fair value hierarchy*

Assets and liabilities recognised at fair value in the statement of financial position and items which are not recognised at fair value but for which information is available are classified into three levels of input data based on an assessment of their availability, using the fair value hierarchy:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that are available to the entity as at the date of measurement.
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs for the asset or liability.

The level in the hierarchy applicable to a fair value assessment based upon a combination of observable and unobservable inputs is determined by the lowest level of input that is significant to the fair value measurement in its entirety.

### *w) Non-controlling interests*

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Payables from options provided to the owners of non-controlling interests to sell these interests are initially recorded in equity. The subsequent change in the carrying amount of these payables is also reported in equity.

### *x) Subsequent events*

The effect of events occurring between the balance sheet date and the date of preparation of the consolidated financial statements is reflected in the consolidated financial statements if such events provide additional information about conditions that existed at the balance sheet date.

Where material events occurring between the balance sheet date and the date of preparation of the consolidated financial statements are indicative of conditions that arose after the balance sheet date, the effects of such events are described in the notes to the consolidated financial statements but not recognised in the consolidated financial statements.

## *y) Application of new accounting standards*

### *IFRS 16*

As of 1 January 2019, the Group applied the new standard IFRS 16 Leases for the first time. The Group opted for the modified retrospective method with cumulative effect of initial application on the opening balance of retained profits. In compliance with the transition method chosen, comparable data for the previous period have not been adjusted.

The Group's methodology under IFRS 16 is described above in Note c.

**Finance lease (according to IAS 17)**

Non-current assets recognised as a leased asset under IAS 17 in row Property, plant and equipment as at 31 December 2018, have been recognised as right-of-use asset since 1 January 2019.

The carrying amount of right-of-use asset and lease liability at the date of initial application is equal to the carrying amount of the leased asset and lease liability immediately before that date, measured in accordance with IAS 17.

**Operating lease (according to IAS 17)**

In connection with the transition to IFRS 16 as of 1 January 2019 the Group recognised a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lease liability was measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate applied is 5,09%.

At the same time the Group recognised a right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Group will recognise depreciation related to new recognised right-of-use assets and interest expense related to lease liabilities instead of operating expenses in profit and loss statement since 1 January 2019.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases applying IAS 17:

- not recognised right-of-use assets and lease liabilities for leases for which the lease term ends within 12 months of the date of initial application
- used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The adoption of IFRS 16 had no significant impact on the Group as a lessor.

The overall impact of the transition to IFRS 16 is shown in the following tables.

**Consolidated statement of financial position**

| Row of the statement | 31/12/2018 | Transition impact | 1/1/2019 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 3 594 684 | -4 030 | 3 590 654 |
| Right-of-use asset | -- | 147 529 | 147 529 |
| **Total assets** | **23 229 359** | **143 499** | **23 372 858** |
| **Equity and liabilities** | | | |
| Retained earnings | 4 031 929 | 207 | 4 032 136 |
| **Total equity** | **11 558 166** | **207** | **11 558 373** |
| Deferred tax liability | 334 349 | 48 | 334 397 |
| Non-current lease liabilities | 3 601 | 100 226 | 103 827 |
| **Total non-current liabilities** | **6 842 050** | **100 274** | **6 942 324** |
| Current lease liabilities | 784 | 43 018 | 43 802 |
| **Total current liabilities** | **4 829 143** | **43 018** | **4 872 161** |
| **Total equity and liabilities** | **23 229 359** | **143 499** | **23 372 858** |

| | 1/1/2019 |
|---|---|
| **Future minimum lease payments from operating lease under IAS 17 recognised as at 31/12/2018** | 151 898 |
| Lease payments above the minimum lease payments arising from the option to renew the lease and from permanent contracts | 5 797 |
| Effect of discounting by using incremental borrowing rate | -14 451 |
| **Lease liabilities under IFRS 16 as at 1/1/2019** | **143 244** |

## 4. Consolidated group

The following companies were included in the consolidated group as at 31 December 2019:

| Company name<br>Identification number | Registered office | Ownership interest (in %) | Level of influence | Consolidation method |
|---|---|---|---|---|
| Parent company | | | | |
| **ŠKODA TRANSPORTATION a.s.**<br>626 23 753 | Emila Škody 2922/1<br>301 00 Plzeň, Jižní Předměstí | – | – | – |
| Subsidiaries and joint ventures | | | | |
| **ŠKODA ELECTRIC a.s.**<br>477 18 579 | Průmyslová 610/2a<br>301 00 Plzeň - Doudlevce | 100 | Control | Full |
| **ŠKODA VAGONKA a.s.**<br>258 70 637 | 1. máje 3176/102<br>703 00 Ostrava | 100 | Control | Full |
| **Pars nova a.s.**<br>258 60 038 | Žerotínova 1833/56<br>787 01 Šumperk | 100 | Control | Full |
| **TRADING RS Sp. z o.o.** | Zlota 59<br>00-120 Warszawa<br>Poland | 100 | Control | Full |
| **ŠKODA CITY SERVICE s.r.o.** | Emila Škody 2922/1<br>301 00 Plzeň, Jižní Předměstí | 100 | Control | Full |
| **POLL, s.r.o.**<br>629 67 754 | Výpadová 1676/4a<br>153 00 Praha 5 Radotín | 100 | Control | Full |
| **ŠKODA TVC s.r.o.**<br>252 47 964 | Tylova 1/57<br>301 28 Plzeň | 100 | Control | Full |
| **Ganz-Skoda Electric Ltd.** | Horváth utca 12-26<br>H-1027 Budapešť<br>Hungary | 100 | Control | Full |

| Company name<br>Identification number | Registered office | Ownership interest (in %) | Level of influence | Consolidation method |
|---|---|---|---|---|
| **OOO Vagonmaš** | Leninskij prospekt 160<br>196 247 Sankt-Peterburg<br>Russian Federation | 51 | Control | Full |
| **SKODA Transportation Deutschland GmbH** | Leopoldstraße 244<br>808 07 München<br>Germany | 100 | Control | Full |
| **Skoda Transportation USA, LLC**<br>81-2573769 | 100 International Drive, 23rd Floor<br>Baltimore MD<br>USA | 100 | Control | Full |
| **ŠKODA Transtech Oy** | Elektroniikkatie 2<br>905 90 Oulu<br>Finland | 100 | Control | Full |
| **ŠKODA DIGITAL s.r.o.**<br>017 31 530 | Moravská 797/85<br>Hrabůvka<br>700 30 Ostrava | 100 | Control | Full |
| **ŠKODA RAIL s.r.o.**<br>058 22 149 | Emila Škody 2922/1<br>301 00 Plzeň, Jižní Předměstí | 100 | Control | Full |
| **SKODA TRANSPORTATION UKRAINE LLC** | Naberezhna 26-B<br>490 00 Dnipro<br>Ukraine | 100 | Control | Full |
| **OOO SINARA - ŠKODA** | Naberezhnaya Obvodnogo Kanala 138,<br>190 020 Sankt-Peterburg<br>Russian Federation | 50 | Joint venture | Equity |
| **Associated companies** | | | | |
| **PRAGOIMEX a.s.**<br>158 88 100 | Pod náspem 795/12<br>190 05 Praha 9 | 32 | Significant influence | Equity |
| **Zaporizkiy Elektrovoz** | Vulicyja Zaliznichna 2<br>690 95 Zaporizha | 49 | Significant influence | Equity |

## 5. Changes in the consolidated group

*Description of changes in the consolidated group in 2019*

As of 1 February 2019, the subsidiary MOVO spol. s r.o., in which the Group held a 100% share, was dissolved as a result of a merger process, and its assets, rights and obligations, receivables, payables, and employees were transferred to ŠKODA TRANSPORTATION a.s. In 2019, the Group acquired investments in the following companies:

| Company name | Consolidation method | Ownership | Acquisition date |
|---|---|---|---|
| OOO SINARA- ŠKODA | Equity | 50% | 20/12/2019 (date of incorporation) |

*Description of changes in the consolidated group in 2018*

In 2018, the Group acquired investments in the following companies:

| Company name | Consolidation method | Ownership | Acquisition date |
|---|---|---|---|
| SKODA TRANSPORTATION UKRAINE LLC | Full | 100% | 8/11/2018 (date of incorporation) |

In 2018, the Group disposed of investments in the following companies:

| Company name | Manner of disposal | Ownership interest | Date of disposal of the ownership interest |
|---|---|---|---|
| Autobusová doprava-Miroslav Hrouda s.r.o. | Sale | 100% | 24/10/2018 |
| OOO SKODA R | Withdrawal from the company | 99% | 30/10/2018 |

## 6. Operating segments

The Group recognises its results by individual operating segments that have been determined to reflect the significant subsidiaries that are monitored individually by the Group´s management.

These segments are as follows: ŠKODA TRANSPORTATION a.s., ŠKODA VAGONKA a.s., ŠKODA ELECTRIC a.s., Pars nova a.s., Škoda Transtech Oy and other segments.

**(1) ŠKODA TRANSPORTATION a.s.**

ŠKODA TRANSPORTATION a.s. is the parent company of the group and primarily engaged in the development, manufacture and sale of trams, locomotives and subway cars and in the provision of servicing (after-sale services). It sells its products both to third parties and to other companies of the consolidated group.

**(2) ŠKODA VAGONKA a.s.**

The principal activity of ŠKODA VAGONKA a.s. is the development, manufacture, and sale of suburban rolling stock and the provision of servicing (after-sale services). The company sells its products and services primarily to third parties.

**(3) ŠKODA ELECTRIC a.s.**

The principal activities of ŠKODA ELECTRIC a.s. are the development, manufacture, and sale of trolley buses, electric equipment, and traction motors. It sells its products both to third parties and to other companies of the consolidated group.

**(4) Pars nova a.s.**

Pars nova a.s. is primarily engaged in the manufacture and sale of individual components for trams and locomotives, modernisation of rolling stock and provision of related servicing. It sells almost one third of its production to other companies of the consolidated group.

**(5) Škoda Transtech Oy**

Škoda Transtech Oy is engaged in the production of Arctic trams and rolling stock, which are then delivered to the Northern Countries. The company mostly deals with third parties.

All the above segments have their own management, and their accounting policies are identical. The Group accounts for revenues and inter-segment transactions as revenues from and transactions with third parties, i.e. it applies arm´s length prices.

When assessing the results of individual segments, the Group considers total revenues and results of operations.

The following tables summarise information on the operating segments as at 31 December 2019 and 31 December 2018 (in TCZK).

| 2019 | ŠKODA TRANSPORTATION a.s.** | ŠKODA VAGONKA a.s.** | ŠKODA ELECTRIC a.s. | Pars nova a.s. | Škoda Transtech Oy* | Other segments** | Total segments | Eliminations | Consolidated total |
|---|---|---|---|---|---|---|---|---|---|
| Revenues from external customers | 2 978 371 | 135 996 | 1 875 764 | 1 204 337 | 2 606 787 | 1 103 502 | 9 904 757 | -- | 9 904 757 |
| Inter-company revenues | 728 912 | 397 550 | 416 857 | 24 430 | 45 866 | 176 683 | 1 790 298 | -1 790 298 | -- |
| **Total revenues** | **3 707 283** | **533 546** | **2 292 621** | **1 228 767** | **2 652 653** | **1 280 185** | **11 695 055** | **-1 790 298** | **9 904 757** |
| Cost of sales and cost of goods sold | -2 849 974 | -609 949 | -1 600 992 | -712 007 | -1 988 215 | -644 677 | -8 405 814 | 1 793 416 | -6 612 398 |
| Personnel expenses | -940 780 | -220 186 | -546 062 | -337 757 | -643 694 | -199 991 | -2 888 470 | 1 | -2 888 469 |
| Depreciation and amortisation | -225 199 | -19 935 | -45 252 | -37 061 | -60 813 | -25 217 | -413 477 | -- | -413 477 |
| Impairment of non-current assets | -- | -- | 5 800 | -2 520 | -- | 121 | 3 401 | -- | 3 401 |
| Other operating expenses and revenues | 31 200 | -60 977 | 37 042 | -18 980 | -17 821 | -51 876 | -81 412 | -3 575 | -84 987 |
| Gains/losses from the disposal of non-current assets | 42 | 1 881 | 933 | 162 | -4 627 | 787 | -822 | -138 | -960 |
| **Operating profit (loss)** | **-277 428** | **-375 620** | **144 090** | **120 604** | **-62 517** | **359 332** | **-91 539** | **-594** | **-92 133** |
| Share of profit of associates | -4 405 | -- | -- | -- | -- | -- | -4 405 | -- | -4 405 |
| Gains/losses on investments | 12 530 | -- | -- | -- | -- | -- | 12 530 | -12 530 | -- |
| Financial income | 68 215 | 1 946 | 5 527 | 1 344 | 1 | 14 523 | 91 556 | -53 582 | 37 974 |
| Financial expenses | -252 517 | -23 027 | -30 797 | -9 500 | -9 722 | -16 952 | -342 515 | 52 783 | -289 732 |
| Other finance income and expenses | 30 099 | -- | -- | -- | -- | -1 601 | 28 498 | -- | 28 498 |
| **Profit or loss before tax** | **-423 506** | **-396 701** | **118 820** | **112 448** | **-72 238** | **355 302** | **-305 875** | **-13 923** | **-319 798** |
| Income tax | 75 871 | 7 707 | -7 105 | -20 329 | -27 104 | -90 460 | -61 420 | 1 493 | -59 927 |
| **Profit after tax** | **-347 635** | **-388 994** | **111 715** | **92 119** | **-99 342** | **264 842** | **-367 295** | **-12 430** | **-379 725** |
| **Total assets** | **22 861 571** | **2 597 257** | **3 937 588** | **1 392 493** | **1 765 898** | **1 205 243** | **33 760 050** | **-9 548 652** | **24 211 398** |
| Acquisition of non-current assets*** | 413 146 | 62 331 | 51 085 | 45 036 | 250 934 | 21 639 | 844 171 | -11 203 | 832 968 |

*The companies' separate financial statements have been adjusted by the remeasurement of assets as at the acquisition date and related depreciation and by the stage of completion of the projects on the Group level.

**The companies' separate financial statements have been adjusted by the stage of completion of the projects on the Group level.

***Excludes additions in Right–of-use asset.

| 2018 | ŠKODA TRANSPORTATION a.s.** | ŠKODA VAGONKA a.s. | ŠKODA ELECTRIC a.s. | Pars nova a.s. | Škoda Transtech Oy* | Other segments** | Total segments | Eliminations | Consolidated total |
|---|---|---|---|---|---|---|---|---|---|
| Revenues from external customers | 3 413 404 | 1 028 296 | 2 981 456 | 1 013 646 | 2 684 155 | 645 027 | 11 765 984 | 13 912 | 11 779 896 |
| Inter-company revenues | 1 375 398 | 409 221 | 495 991 | 47 725 | 229 | 201 388 | 2 529 952 | -2 529 952 | -- |
| **Total revenues** | **4 788 802** | **1 437 517** | **3 477 447** | **1 061 371** | **2 684 384** | **846 415** | **14 295 936** | **-2 516 040** | **11 779 896** |
| Cost of sales and cost of goods sold | -3 507 085 | -1 825 320 | -2 444 221 | -605 776 | -1 820 419 | -645 973 | -10 848 794 | 2 848 141 | -8 000 653 |
| Personnel expenses | -815 757 | -215 121 | -523 745 | -281 573 | -681 411 | -175 392 | -2 692 999 | -29 | -2 693 028 |
| Depreciation and amortisation | -232 508 | -19 893 | -46 000 | -36 155 | -34 946 | -30 411 | -399 913 | 35 127 | -364 786 |
| Impairment of non-current assets | 2 162 | -- | 5 800 | 781 | -- | -- | 8 743 | -- | 8 743 |
| Other operating expenses and revenues | 10 241 | 331 116 | -88 563 | -31 595 | -334 351 | -39 973 | -153 125 | -207 472 | -360 597 |
| Gains/losses from the disposal of non-current assets | 1 839 | 231 045 | 1 745 | 428 | -- | 757 | 235 814 | -230 797 | 5 017 |
| **Operating profit (loss)** | **247 694** | **-60 656** | **382 463** | **107 481** | **-186 743** | **-44 577** | **445 662** | **-71 070** | **374 592** |
| Share of profit of associates | -- | -- | -- | -- | -- | -- | -- | 4 013 | 4 013 |
| Gains/losses on investments | 7 843 | -- | -- | -- | -- | -- | 7 843 | -10 456 | -2 613 |
| Financial income | 125 035 | 745 | 13 810 | 3 331 | 138 | 14 173 | 157 232 | -52 928 | 104 304 |
| Financial expenses | -249 165 | -50 387 | -47 662 | -17 358 | -13 171 | -14 310 | -392 053 | 52 807 | -339 246 |
| Other finance income and expenses | 139 358 | -8 071 | -- | -- | -- | -4 810 | 126 477 | -- | 126 477 |
| **Profit or loss before tax** | **270 765** | **-118 369** | **348 611** | **93 454** | **-199 776** | **-49 524** | **345 161** | **-77 634** | **267 527** |
| Income tax | 35 127 | -186 | -33 102 | -20 713 | 28 564 | 13 252 | 22 942 | 36 487 | 59 429 |
| **Profit after tax** | **305 892** | **-118 555** | **315 509** | **72 741** | **-171 212** | **-36 272** | **368 103** | **-41 147** | **326 956** |
| **Total assets** | **21 713 589** | **2 012 066** | **3 761 972** | **1 196 595** | **1 967 998** | **1 335 536** | **31 987 756** | **-8 758 397** | **23 229 359** |
| Acquisition of non-current assets | 559 363 | 68 939 | 73 735 | 21 033 | 42 625 | 5 150 | 770 845 | -231 113 | 539 732 |

*The companies' separate financial statements have been adjusted by the remeasurement of assets as at the acquisition date and related depreciation.

**The companies' separate financial statements have been adjusted by the stage of completion of the projects on the Group level.

The table below summarises information about the structure of property, plant and equipment and intangible assets as at 31 December 2019 and 31 December 2018 according to the registered office of a company owning the relevant assets (in TCZK).

| Country | 2019 | 2018 |
|---|---|---|
| Czech Republic | 10 104 026 | 9 844 283 |
| Finland | 613 639 | 409 520 |
| Hungary | 2 631 | 3 359 |
| Germany | 28 | 8 |
| Ukraine | 5 059 | -- |
| Russia | 1 888 | 1 542 |
| **Total** | **10 727 271** | **10 258 712** |

## 7. Revenues, Contract assets

*Revenues of the Group from contracts with customers:*

| | 2019 | 2018 |
|---|---|---|
| Rolling stock modernisation | 105 494 | -- |
| Comprehensive repairs | 57 139 | 61 690 |
| Trams | 1 957 185 | 3 495 611 |
| Locomotives and suburban units | 1 880 397 | 1 843 874 |
| Electrical equipment | 185 324 | 208 349 |
| Trolley buses | 1 065 210 | 2 242 997 |
| Traction motors | 448 348 | 425 983 |
| Metro | 798 478 | 357 232 |
| Components | 548 305 | 636 141 |
| Full maintenance | 930 886 | 890 270 |
| Other regular services | 766 | 4 411 |
| **Revenues from performance obligations satisfied over time** | **7 977 532** | **10 166 558** |
| Spare parts | 204 881 | 114 216 |
| Working | 51 952 | 61 965 |
| Car repairs | 977 643 | 945 672 |
| Servicing and maintenance | 210 200 | 107 525 |
| Other | 309 428 | 186 242 |
| **Revenues from performance obligations satisfied at a point in time** | **1 754 104** | **1 415 620** |
| **Total** | **9 731 636** | **11 582 178** |

In 2019, the structure of the above table was adjusted. To make the data comparable, the Group also adjusted the data for 2018.

In 2019 and 2018, the Group did not recognise any revenues following from performance obligations satisfied (or partially satisfied) in previous periods.

*Other operating revenues:*

| | 2019 | 2018 |
|---|---|---|
| Revenues from sale of inventories | 72 432 | 115 113 |
| Revenues from sale of waste | 30 664 | 7 960 |
| Contractual fines | 2 995 | 27 292 |
| Subsidies received | 11 163 | 4 237 |
| Other revenues | 55 867 | 43 116 |
| **Total** | **173 121** | **197 718** |

The table below summarises information about revenues according to customers' registered offices (in TCZK).

| Country | 2019 | 2018 |
|---|---|---|
| Czech Republic | 1 855 060 | 4 329 281 |
| China | 52 020 | 129 065 |
| Finland | 2 429 734 | 2 605 160 |
| Italy | 53 590 | 34 559 |
| Latvia | 291 325 | 478 733 |
| Hungary | 17 869 | 19 992 |
| Germany | 1 055 772 | 711 199 |
| Poland | 389 710 | 288 601 |
| Romania | 11 030 | 19 894 |
| Russia | 892 076 | 389 784 |
| Slovakia | 772 675 | 482 470 |
| Turkey | – | 461 648 |
| USA | 79 439 | 206 841 |
| Other | 77 232 | 9 331 |
| **Revenues from performance obligations satisfied over time** | **7 977 532** | **10 166 558** |
| Czech Republic | 1 376 133 | 1 151 604 |
| China | 1 156 | 19 497 |
| Finland | 47 304 | 49 538 |
| Italy | 2 871 | 1 867 |
| Lithuania | 610 | 1 822 |
| Latvia | 12 104 | 9 834 |
| Hungary | 23 180 | 34 568 |
| Germany | 64 109 | 63 124 |
| Poland | 31 095 | 16 858 |
| Russia | 72 560 | 23 072 |
| Slovakia | 79 244 | 31 202 |
| Turkey | – | 3 169 |
| USA | 3 874 | 1 156 |
| Other | 39 864 | 8 309 |
| **Revenues from performance obligations satisfied at a point in time** | **1 754 104** | **1 415 620** |
| Czech Republic | 85 959 | 91 735 |
| China | 242 | 936 |
| Finland | 22165 | 16 818 |
| Italy | 1 992 | 2 661 |
| Latvia | 15 785 | 29 131 |
| Hungary | 1 | 23 740 |
| Germany | 18 247 | 2 776 |
| Poland | 4 705 | 13 345 |
| Russia | 1 481 | 1 369 |
| Slovakia | 198 | 694 |
| Turkey | 4 734 | 1 109 |
| USA | 15 859 | 7 478 |
| Other | 1 753 | 5 926 |
| **Other operating revenues** | **173 121** | **197 718** |
| **Total** | **9 904 757** | **11 779 896** |

In 2019, the structure of the above table was adjusted. To make the data comparable, the Group also adjusted the data for 2018.

Revenues from two customers represent more than 10% of the Group's total revenues (in particular in the Full maintenance, Car repairs, Locomotives and suburban units, Trams and Spare parts categories).

*Contractual balances*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Trade receivables (gross)* | 2 325 931 | 1 844 178 |
| Trade receivables - impairment losses | -34 996 | -29 018 |
| **Trade receivables (net)** | **2 290 935** | **1 815 160** |
| Contract assets (gross) | 5 236 730 | 5 063 796 |
| Contract assets - impairment losses | -3 064 | -- |
| **Contract assets (net)** | **5 233 666** | **5 063 796** |
| **Contract liabilities (current and non-current)** | **4 280 839** | **3 044 374** |
| Retention recognised as a trade receivable | 218 042 | 300 483 |
| Retention recognised as a liability | 57 | 331 |

*Trade receivables related to contracts with customers except retention

As of 1 January 2019, the Group reports contractual assets separately. To make the data comparable, the Group also adjusted the data for 2018.

The methodology for determining impairment losses on trade receivables and contractual assets is described in Note 32.

TCZK 1 021 848 (2018 - TCZK 772 542) recognised in the contract liability as at 31 December 2018 was recognised as a revenue in 2019. Partial invoicing and advances received in respect of which no revenue was recognised in 2019 is TCZK 2 258 313 (2018 - TCZK 2 805 241).

Contract assets primarily relate to the Group's title to consideration for already completed performances connected with revenues recognised over time, where progress is measured using the input method and which were not invoiced as at 31 December. Contract liabilities primarily represent advances received from customers in relation to the construction of products and the provision of services, where revenues are recognised over time. Contract assets primarily include receivables relating to suburban units for Germany and trams and trolley buses for Latvia.

*Expected recognition of revenue from outstanding performance obligations*

| 31/12/2019 | Total | Up to 1 year | 1 to 2 years | 2 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Transaction price allocated to the remaining performance obligations | 60 365 424 | 7 025 419 | 9 203 335 | 28 068 568 | 16 068 102 |

| 31/12/2018 | Total | Up to 1 year | 1 to 2 years | 2 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Transaction price allocated to the remaining performance obligations | 22 359 764 | 7 226 365 | 4 175 035 | 8 027 635 | 2 930 729 |

In accordance with IFRS 15, the Group does not disclose information about the transaction price allocated to the remaining performance obligations in respect of performance obligations satisfied at a point in time which are part of a contract that has an original expected duration of one year or less.

Contracts with customers in the Group did not lead to the recognition of material incremental costs of obtaining the contract.

## 8. Materials and consumables

| | 2019 | 2018 |
|---|---|---|
| Materials | -4 453 395 | -5 781 434 |
| Energy | -185 008 | -173 572 |
| *Materials and consumables* | *-4 638 403* | *-5 955 006* |
| Repairs and maintenance | -172 869 | -150 131 |
| Marketing services | -33 172 | -34 999 |
| Purchased services for projects | -671 517 | -638 311 |
| Rent | -88 679 | -130 627 |
| External employees | -334 620 | -382 489 |
| Other services | -576 540 | -620 540 |
| *Purchased services* | *-1 877 397* | *-1 957 097* |
| **Total** | **-6 515 800** | **-7 912 103** |

Other services mainly include cost of IT support, legal services and other advisory.

## 9. Personnel expenses

| | 2019 | 2018 |
|---|---|---|
| Key management personnel | -151 195 | -143 867 |
| Other employees | -2 737 274 | -2 549 161 |
| **Total** | **-2 888 469** | **-2 693 028** |

The average number of full-time equivalent employees for the year 2019 was 3 968 (2018 – 3 818)

Key management personnel include the directors of the individual units, members of the board of directors and the supervisory board, and statutory representatives of the companies from the Group.

The Group does not participate in any pension plans.

## 10. Other operating expenses

| | 2019 | 2018 |
|---|---|---|
| Impairment loss of inventories (- expense / + revenue) | 118 878 | -188 708 |
| Change in provisions (- expense / + income) | 237 572 | 207 732 |
| Materials sold | -78 626 | -86 342 |
| Taxes and charges | -40 180 | -76 377 |
| Write-off and sale of receivables | -44 320 | -3 482 |
| Fines and penalties | -17 109 | -47 832 |
| Insurance expenses | -27 181 | -61 771 |
| Losses from derivative transactions | -26 877 | -10 077 |
| Foreign exchange losses from operations | -43 184 | -81 077 |
| Other operating expenses (-) | -406 358 | -174 789 |
| **Total** | **-327 385** | **-522 723** |

Other operating expenses mainly consist of rebilling expenses and write-off of inventories.

The Group recognises foreign exchange gains and losses offsets.

Fines and penalties primarily include contractual penalties for the delay in making deliveries to customers.

Cost of derivative transactions relating to hedging of cash flows from projects is included in Other operating expenses.

## 11. Other operating income

| | 2019 | 2018 |
|---|---|---|
| Gains from derivatives transactions | 180 618 | 70 018 |
| Other operating income | 43 085 | 78 573 |
| **Total** | **223 703** | **148 591** |

Gains of derivative transactions relating to hedging of cash flows from projects is included in Other operating income.

## 12. Net finance income and expense

| | 2019 | 2018 |
|---|---|---|
| Income from financial assets | 4 | -- |
| Interest income | 26 867 | 58 901 |
| Foreign exchange gains on financial assets | 10 921 | 44 016 |
| Gains on the settlement of trading derivatives | -- | -- |
| Other finance income | 182 | 1 387 |
| **Finance income** | **37 974** | **104 304** |
| Interest expense on the lease liability | -8 113 | -362 |
| Interest expense (except lease) | -218 471 | -284 249 |
| Financing component (IFRS 15) | -49 499 | -- |
| Foreign exchange losses on financial assets | -13 474 | -44 788 |
| Losses on trading derivatives | -- | -8 788 |
| Other finance expense | -175 | -1 059 |
| **Finance expenses** | **-289 732** | **-339 246** |
| Gains/losses on trading derivatives | 28 514 | 126 503 |
| Other finance income and expenses | -16 | -26 |
| **Other finance income and expenses** | **28 498** | **126 477** |
| **Net finance income/expense** | **-223 260** | **-108 465** |

In 2019, the structure of the above table was adjusted. To make the data comparable, the Group also adjusted the data for 2018.

Interest expense of TCZK 218 471 (2018 – TCZK 284 249) primarily include interest on a loan received from the parent company, interest on bank loans received and interest on bonds.

In 2019 and 2018, no interest expense was capitalised.

## 13. Income tax

Income tax is recognised in the income statement as follows:

| | 2019 | 2018 |
|---|---|---|
| Current income tax | -93 421 | -57 010 |
| Deferred income tax | 33 494 | 116 439 |
| **Total** | **-59 927** | **59 429** |

Current income tax comprises the tax estimate for 2019 of TCZK 96 547 (2018 – TCZK 51 021) and an adjustment to the tax estimate for the prior period of TCZK 3 126 (2018 – TCZK 5 989).

### Effective tax rate

| | 2019 | % | 2018 | % |
|---|---|---|---|---|
| Profit before tax | -319 798 | | 267 527 | |
| Corporate income tax at applicable tax rate | 60 762 | 19% | -50 830 | 19% |
| Impact of conversion from foreign company tax rates | -2 589 | | 2 214 | |
| Deduction for research and development | 18 568 | | 192 879 | |
| Non-tax deductible items | -17 221 | | -15 535 | |
| Adjustment to prior year's income tax | -5 031 | | 5 281 | |
| Unrecognised deferred tax asset | -76 388 | | -51 333 | |
| Utilised prior period tax losses | 2 | | -15 081 | |
| Derecognition of deferred tax assets from unused tax losses | -22 525 | | -- | |
| Other effects | -15 505 | | -8 166 | |
| **Total** | **-59 927** | **19%** | **59 429** | **22%** |

Most of the taxable profit is generated in the Czech Republic, and therefore a tax rate of 19% is applied. The impact of the conversion of foreign companies that are primarily taxed at a different tax rate than the Czech Republic's tax rate is shown in the table above.

## 14. Intangible assets

### Intangible assets – acquisition cost

| | Software | Intellectual property rights | Research and development costs | Intangible assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| 1/1/2018 | 158 157 | 1 564 438 | 1 376 906 | 3 488 | 735 404 | 7 579 018 | 11 417 411 |
| Additions | 23 781 | 5 992 | 260 317 | 3 989 | 10 | -- | 294 089 |
| Disposals | -3 041 | -- | -- | -- | -241 100 | -4 800 | -248 941 |
| Transfers | 3 503 | -- | 362 | -3 865 | -- | -- | -- |
| FX differences | 325 | -1 118 | -472 | -- | -- | -- | -1 265 |
| **31/12/2018** | **182 725** | **1 569 312** | **1 637 113** | **3 612** | **494 314** | **7 574 218** | **11 461 294** |

| | Software | Intellectual property rights | Research and development costs | Intangible assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| 1/1/2019 | 182 725 | 1 569 312 | 1 637 113 | 3 612 | 494 314 | 7 574 218 | 11 461 294 |
| Additions | 30 860 | -- | 277 749 | 249 432 | 4 | -- | 558 045 |
| Transfers | 1 141 | -- | -- | -1 141 | -- | -- | -- |
| FX differences | -883 | -990 | -2 118 | -13 | -- | -- | -4 004 |
| **31/12/2019** | **213 843** | **1 568 322** | **1 912 744** | **251 890** | **494 318** | **7 574 218** | **12 015 335** |

## Intangible assets – accumulated amortisation

| | Software | Intellectual property rights | Research and development costs | Intangible assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| 1/1/2018 | -86 463 | -61 408 | -647 820 | -362 | -734 601 | -106 935 | -1 637 589 |
| Annual amortisation | -21 720 | -- | -78 809 | -- | 8 478 | -- | -92 051 |
| Disposals | 78 | -- | -1 | -- | 241 100 | -- | 241 177 |
| Transfers | -- | -- | -362 | 362 | -- | -- | -- |
| FX differences | -273 | 1 124 | 655 | -- | -- | -- | 1 506 |
| **31/12/2018** | **-108 378** | **-60 284** | **-726 337** | **--** | **-485 023** | **-106 935** | **-1 486 957** |

| | Software | Intellectual property rights | Research and development costs | Intangible assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| 1/1/2019 | -108 378 | -60 284 | -726 337 | -- | -485 023 | -106 935 | -1 486 957 |
| Annual amortisation | -26 671 | -1 498 | -63 716 | -- | -1 092 | -- | -92 977 |
| FX differences | 818 | 980 | 1 949 | -- | -- | -- | 3 747 |
| **31/12/2019** | **-134 231** | **-60 802** | **-788 104** | **--** | **-486 115** | **-106 935** | **-1 576 187** |

## Intangible assets – impairment losses

| | Software | Intellectual property rights | Research and development costs | Intangible assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| 1/1/2018 | -- | -- | -- | -- | -- | -3 354 182 | -3 354 182 |
| **31/12/2018** | **--** | **--** | **--** | **--** | **--** | **-3 354 182** | **-3 354 182** |

| | Software | Intellectual property rights | Research and development costs | Intangible assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| 1/1/2019 | -- | -- | -- | -- | -- | -3 354 182 | -3 354 182 |
| Additions | -- | -- | -- | -2 472 | -- | -- | -2 472 |
| **31/12/2019** | **--** | **--** | **--** | **-2 472** | **--** | **-3 354 182** | **-3 356 654** |

**Intangible assets – net book value**

| | Software | Intellectual property rights | Research and development costs | Intangible assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| 31/12/2018 | 74 347 | 1 509 028 | 910 776 | 3 612 | 9 291 | 4 113 101 | 6 620 155 |
| 31/12/2019 | 79 612 | 1 507 520 | 1 124 640 | 249 418 | 8 203 | 4 113 101 | 7 082 494 |

*Amortisation*

The amortisation of patents and development costs is allocated to the cost of inventory and is recognised in cost of sales as inventory is sold.

*Intellectual property rights*

Intellectual property rights include a set of trademarks SKODA costing TCZK 1 502 264 (2018 – TCZK 1 502 264). The trademark is not amortised because it has an indefinite life but is annually tested for impairment.

*Development costs*

As at 31 December 2019, development costs of TCZK 1 124 640 (2018 – TCZK 910 776) include mainly technical documentation attributable to the construction of a specific type of product. Of total additions in 2019, TCZK 142 352 was produced internally and the remaining portion of TCZK 135 397 was purchased from external suppliers. The capitalisation of development costs relating to internally produced development results is recorded in reduction in costs incurred in connection with capitalised assets.

*Other intangible assets*

Other intangible assets mainly include future cash flows arising from long-term contracts to Škoda Transtech Oy that are amortised based on the project's implementation stage.

*Goodwill*

The goodwill of the Group represents the amount by which the purchase price exceeds the Group's share of the fair value of the identifiable assets and liabilities of a subsidiary, associated company or joint venture as at the acquisition date.

The goodwill is allocated as follows:

| Company | 2019 | 2018 |
|---|---|---|
| ŠKODA ELECTRIC a.s. | 1 691 181 | 1 691 181 |
| ŠKODA VAGONKA a.s. | 1 287 137 | 1 287 137 |
| Pars nova a.s. | 1 128 790 | 1 128 790 |
| ŠKODA CITY SERVICE s.r.o. | 50 | 50 |
| ŠKODA TVC s.r.o. | 5 901 | 5 901 |
| OOO Vagonmaš | 2 | 2 |
| LOKEL s.r.o. | 40 | 40 |
| **Total** | **4 113 101** | **4 113 101** |

Goodwill related to the above holdings relate to the acquisition of the full or partial ownership of these entities by the Group. This goodwill is monitored by the Group management.

*Impairment testing*

An impairment assessment is performed at least annually, and whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that goodwill or intellectual property rights might be impaired. The Group selected the fourth quarter to perform an annual impairment assessment of goodwill and intellectual property rights.

*Goodwill*

According to the impairment test as at 31 December 2015, the goodwill allocated to ŠKODA VAGONKA a.s. was decreased by TCZK 2 931 906.

During the fourth quarter of fiscal year 2016, an impairment test was completed. According to the impairment test, the goodwill allocated to ŠKODA VAGONKA a.s. was decreased by TCZK 422 276.

During the fourth quarter of fiscal years 2018 and 2019, impairment tests of goodwill were completed, using the discounted cash flow model. After carrying out impairment testing, the Group management did not identify the need to further decrease the goodwill allocated to ŠKODA VAGONKA, a.s.

According to the sensitivity test of the goodwill allocated to ŠKODA VAGONKA a.s., if the discount rate increased by 5.06% or EBIT decreased by 23.7% or the growth indicator decreased by 14.9%, the value of goodwill would further decrease.

According to the sensitivity test of the goodwill allocated to Pars nova a.s., if the discount rate increased by 0.03% or EBIT decreased by 0.17% or the growth indicator decreased by 0.05%, the recoverable amount of goodwill would equal its carrying amount.

According to the sensitivity test of the goodwill allocated to ŠKODA ELECTRIC a.s., if the discount rate increased by 7.72% or EBIT decreased by 39.7% or the growth indicator decreased by 40.83%, the recoverable amount of the goodwill would equal its carrying amount.

For goodwill allocated to other companies, the Group management did not identify the need to decrease the value of goodwill if the key presumption was reasonably changed.

The post-tax discount rate is also a key estimate in the discounted cash flow model and was based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount was 8.28% (2018 – 8.35%), except for Škoda TVC where a post-tax discount rate of 9.50% was used (a higher risk as it is rather a small company).

The testing was carried out based on available plans for 2020 – 2024 (or 2019 – 2023 in 2018). The growth rate of 2% was used for the following periods.

*Intellectual property rights*

The Group identified no impairment based on the test carried out.

To determine fair values the planned cash flows are discounted using the discount rates after tax as at the reporting date.

The post-tax discount rate is also a key estimate in the discounted cash flow model and was based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount was 8.28% (2018 - 8.35%).

The Group's future financial results are based on several factors and assumptions concerning macroeconomic developments, for example foreign exchange rates and interest rates over which the Group does not exercise full control. Changes in these factors and assumptions can affect the Group's financial position, including the results of testing the impairment of non-current assets and can subsequently lead to changes in the Group's financial position and results.

## 15. Property, plant and equipment and Assets under construction

**Property, plant and equipment and Assets under construction – acquisition cost**

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| 1/1/2018 | 350 574 | 2 932 947 | 3 535 708 | 94 531 | 105 556 | 7 019 316 |
| Additions | 16 866 | 68 204 | 93 745 | 2 493 | 64 335 | 245 643 |
| Disposals | -- | -11 540 | -272 776 | -1 509 | -1 070 | -286 895 |
| Transfers | -- | 78 983 | 45 984 | -- | -124 967 | -- |
| FX differences | 55 | 679 | 2 085 | 4 | 18 | 2 841 |
| **31/12/2018** | **367 495** | **3 069 273** | **3 404 746** | **95 519** | **43 872** | **6 980 905** |

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| 1/1/2019 | 367 495 | 3 069 273 | 3 404 746 | 95 519 | 43 872 | 6 980 905 |
| Reclassification to Right-of-use asset | -- | -- | -5 145 | -- | -- | -5 145 |
| Additions | 100 | 36 789 | 166 887 | 3 131 | 68 016 | 274 923 |
| Disposals | -- | -1 257 | -53 528 | -619 | -377 | -55 781 |
| Transfers | -- | 23 178 | 7 544 | -523 | -30 199 | -- |
| FX differences | -89 | -1 202 | -6 893 | -3 | -107 | -8 294 |
| **31/12/2019** | **367 506** | **3 126 781** | **3 513 611** | **97 505** | **81 205** | **7 186 608** |

### Property, plant and equipment and Assets under construction – accumulated depreciation

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| 1/1/2018 | -57 | -611 163 | -2 596 653 | -82 381 | -- | -3 290 254 |
| Annual Depreciation | -- | -72 985 | -195 592 | -4 158 | -- | -272 735 |
| Disposals | -- | 1 282 | 241 685 | 1 320 | -- | 244 287 |
| Transfers | -- | -- | -- | -- | -- | -- |
| FX differences | -- | -258 | -1 779 | -4 | 1 | -2 040 |
| **31/12/2018** | **-57** | **-683 124** | **-2 552 339** | **-85 223** | **1** | **-3 320 742** |

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| 1/1/2019 | -57 | -683 124 | -2 552 339 | -85 223 | 1 | -3 320 742 |
| Reclassification to Right-of-use asset | -- | -- | 1 115 | -- | -- | 1 115 |
| Annual Depreciation | -- | -72 740 | -185 330 | -3 289 | -- | -261 359 |
| Disposals | -- | -- | 47 834 | 619 | -- | 48 453 |
| Transfers | -- | -- | -523 | 523 | -- | -- |
| FX differences | -- | 504 | 5 930 | 2 | -1 | 6 435 |
| **31/12/2019** | **-57** | **-755 360** | **-2 683 313** | **-87 368** | **--** | **-3 526 098** |

### Property, plant and equipment and Assets under construction – impairment losses

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| 1/1/2018 | -- | -6 531 | -23 818 | -- | -- | -30 349 |
| Additions | -- | -- | -- | -- | -- | -- |
| Disposals | -- | 704 | 8 039 | -- | -- | 8 743 |
| Transfers | -- | -- | -- | -- | -- | -- |
| **31/12/2018** | **--** | **-5 827** | **-15 779** | **--** | **--** | **-21 606** |

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| 1/1/2019 | -- | -5 827 | -15 779 | -- | -- | -21 606 |
| Additions | -- | -- | -- | -- | -387 | -387 |
| Disposals | -- | 263 | 5 997 | -- | -- | 6 260 |
| Transfers | -- | -- | -- | -- | -- | -- |
| **31/12/2019** | **--** | **-5 564** | **-9 782** | **--** | **-387** | **-15 733** |

### Property, plant and equipment and Assets under construction – net book value

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **31/12/2018** | **367 438** | **2 380 322** | **836 628** | **10 296** | **43 873** | **3 638 557** |
| **31/12/2019** | **367 449** | **2 365 857** | **820 516** | **10 137** | **80 818** | **3 644 777** |

The major additions to property, plant and equipment in 2019 were the activation of the electric train chassis and purchases of passenger cars.

As at 31 December 2019, the cumulative impairment loss on property, plant and equipment was TCZK 15 733 (2018 – TCZK 21 606).

The major additions to property, plant and equipment in 2018 were three manufacturing halls and a site reconstruction.

Except as described in Note 30, no item of the Group's property, plant and equipment has been pledged.

## 16. Leases

The Group leases non-residential premises (offices, production halls), production machinery and equipment and passenger cars.

Leasing contracts are negotiated individually and contain a wide range of different terms and conditions. Contracts may include options to extend the lease term and payments may be adjusted according to developments of the consumer price index.

Right-of-use assets from the lease of non-residential premises are depreciated over a period of 2 to 9 years. Right-of-use assets from the lease of production machinery and equipment are depreciated over a period of 2 to 6 years. Right-of-use assets from the lease of passenger cars are depreciated over a period of 2 years.

Leased assets are not subject to collateral for loan drawing purposes.

**Right-of-use asset – cost**

| | Land | Buildings | Machinery and equipment | Other assets | Total |
|---|---|---|---|---|---|
| Reclassification from Property, plant and equipment at 1/1/2019 | -- | -- | 5 145 | -- | 5 145 |
| Transition to IFRS 16 at 1/1/2019 | -- | 140 909 | 2 590 | -- | 143 499 |
| Additions | -- | 35 269 | 2 443 | -- | 37 712 |
| Disposals | -- | -- | -- | -- | -- |
| Adjustment for remeasurement of the lease liability | -- | 14 604 | -- | -- | 14 604 |
| FX differences | -- | -- | -63 | -- | -63 |
| **31/12/2019** | **--** | **190 782** | **10 115** | **--** | **200 897** |

**Right-of-use asset – accumulated depreciation**

| | Land | Buildings | Machinery and equipment | Other assets | Total |
|---|---|---|---|---|---|
| 1/1/2019 | -- | -- | -1 115 | -- | -1 115 |
| Annual Depreciation | -- | -56 648 | -2 493 | -- | -59 141 |
| FX differences | -- | 31 | 40 | -- | 71 |
| **31/12/2019** | **--** | **-56 617** | **-3 568** | **--** | **-60 185** |

## Right-of-use asset – impairment losses

| | Land | Buildings | Machinery and equipment | Other assets | Total |
|---|---|---|---|---|---|
| 1/1/2019 | -- | -- | -- | -- | -- |
| **31/12/2019** | -- | -- | -- | -- | -- |

## Right-of-use asset – net book value

| | Land | Buildings | Machinery and equipment | Other assets | Total |
|---|---|---|---|---|---|
| **31/12/2018** | -- | -- | -- | -- | -- |
| **31/12/2019** | -- | **134 165** | **6 547** | -- | **140 712** |

## Present value of lease liability

| | Land | Buildings | Machinery and equipment | Other assets | Total |
|---|---|---|---|---|---|
| 1/1/2019 | -- | -- | 4 385 | -- | 4 385 |
| Transition to IFRS 16 at 1/1/2019 | -- | 140 653 | 2 591 | -- | 143 244 |
| New recognised lease liability | -- | 35 269 | 2 443 | -- | 37 712 |
| Interest expense of the lease liability | -- | 7 677 | 436 | -- | 8 113 |
| Cash payments - principal portion of the lease liability (a) | -- | -50 236 | -2 173 | -- | -52 409 |
| Cash payments - interest portion of the lease liability (b) | -- | -7 677 | -436 | -- | -8 113 |
| Remeasurement of the lease liability | -- | 14 604 | | -- | 14 604 |
| Disposals (termination of the lease) | -- | -- | -- | -- | -- |
| FX differences | -- | 1 | -54 | -- | -53 |
| **31/12/2019** | -- | **140 291** | **7 192** | -- | **147 483** |
| Liability due | | | | | |
| within 1 year | -- | 55 224 | 2 096 | -- | 57 320 |
| in 1 to 5 years | -- | 78 908 | 5 096 | -- | 84 004 |
| in more than 5 years | -- | 6 159 | -- | -- | 6 159 |

Expenses related to short-term leases were reported as Material and consumables of TCZK 21 225 (c). Expenses related to the leasing of low-value assets were reported as Material and consumables of TCZK 3 439 (d). The total cash flow (a + b + c + d) related to leases in 2019 was TCZK 85 186.

The Group is not exposed to significant future cash outflows from contracts for which no lease was commenced at the balance sheet date nor from residual value guarantees on lease options not included in the measurement of lease liabilities as at 31 December 2019.

An analysis of the currency risk and the maturity of the lease payables is presented in Note 32.

## 17. Investments in joint ventures and associated companies

### Equity-accounted investees

| Interest in equity accounted investees | 2019 | 2018 |
|---|---|---|
| Interest in associate | 11 931 | 25 525 |
| Interest in joint ventures | 1 821 | -- |
| **Balance as at 31 December** | **13 752** | **25 525** |

| Group's share of profit in equity-accounted investees | 2019 | 2018 |
|---|---|---|
| Group's share of profit in associate | -4 405 | 4 013 |
| **Balance as at 31 December** | **-4 405** | **4 013** |

### Associated companies

PRAGOIMEX a.s. and Zaporizkiy Elektrovoz are the only associated companies in which the Group participates. In 2015, the Group acquired a 49% interest in Zaporizkiy Elektrovoz. The investment's value is insignificant for the Group.

In 2019, the Group co-founded the joint venture Sinara - Škoda (50% share) with a focus on the production of metro cars, trams, and trolleybuses. The acquisition price of the share is TCZK 1 821. As at 31 December 2019, the share had not been paid.

*PRAGOIMEX a.s.*

The following table summarises the financial information of PRAGOIMEX a.s. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in the associate.

PRAGOIMEX a.s. prepares statements according to Czech accounting standards. Due to the insignificance of adjustments under IFRS, these statements have not been adjusted.

| PRAGOIMEX a.s. | 2019 | 2018 |
|---|---|---|
| Percentage ownership interest | **32 %** | **32 %** |
| Non-current assets | 9 158 | 11 848 |
| Current assets | 127 724 | 185 214 |
| Non-current liabilities | 34 200 | 38 000 |
| Current liabilities | 64 755 | 78 650 |
| **Net assets (100%)** | **37 927** | **80 412** |
| **Group's share of net assets (32%)** | **12 137** | **25 732** |
| Effect of acquisition and differences in accounting policies | -206 | -207 |
| **Carrying amount of interest in joint venture** | **11 931** | **25 525** |
| Revenues | 221 866 | 446 004 |
| **Profit from continuing activities (100%)** | **-9 818** | **15 126** |
| **Correction of prior year income** | **-2 700** | **–** |
| **Total comprehensive income (100%)** | **-12 518** | **15 126** |
| **Total comprehensive income (32 %)** | **-4 006** | **4 840** |
| **Group's share in profit and total comprehensive income** | **-4 006** | **4 840** |
| Group's share in the decrease in funds from profit (32%) | -399 | -827 |
| **Group's share in profit after adjustment for the decrease in funds from profit** | **-4 405** | **4 013** |
| Dividends received by the Group | 9 190* | 7 680 |

* The amount of TCZK 4 595 had not been paid as at 31 December 2019.

## 18. Non-controlling interests

OOO Vagonmaš is a subsidiary with significant non-controlling interests.

| OOO Vagonmaš | 2019 | 2018 |
|---|---|---|
| Percentage of non-controlling interest | **49%** | **49%** |
| Non-current assets | 15 198 | 32 729 |
| Current assets | 403 707 | 332 602 |
| Non-current liabilities | 6 015 | 5 425 |
| Current liabilities | 294 028 | 491 265 |
| Net assets | 118 862 | -131 359 |
| Revenues | 1 155 100 | 259 365 |
| Gain/loss | 259 612 | -35 224 |
| Cash flow from operating transactions | 157 005 | -86 989 |
| Cash flow from investing transactions | -448 | -43 |
| Cash flow from financing activities | -59 079 | 50 318 |
| Net increase/decrease in cash and cash equivalents | 97 478 | -36 714 |

The value of non-controlling interests in equity is as follows:

| Company | 31/12/2019 | 31/12/2018 |
|---|---|---|
| OOO Vagonmaš | 58 243 | -64 366 |
| **Total** | **58 243** | **-64 366** |

The non-controlling owners' share of the profit or loss is as follows:

| Company | 2019 | 2018 |
|---|---|---|
| OOO Vagonmaš | 127 210 | -17 260 |
| **Total** | **127 210** | **-17 260** |

## 19. Deferred tax liability/asset

In accordance with the accounting policy described in note 3 p), deferred tax was calculated using the tax rates expected to be effective for the period in which the tax liability/asset is utilised.

Deferred tax is calculated based on all temporary differences between the carrying and tax value of individual items presented in the statement of financial position and from unutilised investment incentives. A deferred tax asset is recognised to the extent that the Group's management believes it will be utilised in future years. Based on an analysis of the expected utilisation of the deferred tax asset/liability, a rate of 19% or 20% (Finland, Russia) or 9% (Hungary) was used to calculate deferred tax in 2019 and 2018.

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Deferred tax asset | 263 432 | 301 113 |
| Deferred tax liability | -306 534 | -334 349 |
| **Total** | **-43 102** | **-33 236** |

The deferred tax amount recognised in the consolidated financial statements relates to the following items:

| | 31/12/2019 | 31/12/2018 | Year on year change 2019/2018 |
|---|---|---|---|
| Non-current assets | -486 437 | -498 108 | 11 671 |
| Leases | 1 287 | -863 | 2 150 |
| Receivables | 7 866 | 6 001 | 1 865 |
| Contracts with customers | 344 162 | 191 108 | 153 054 |
| Inventories | 69 436 | 60 413 | 9 023 |
| Provisions | 244 522 | 341 297 | -96 775 |
| Unutilised tax losses | 140 428 | 104 533 | 35 895 |
| Employee benefits | 9 940 | 6 298 | 3 642 |
| Unpaid contractual penalties | -4 370 | -1 416 | -2 954 |
| Derivatives | -31 156 | -396 | -30 760 |
| Other | 42 534 | 34 707 | 7 827 |
| **Total** *(asset+/ liability-)* | **338 212** | **243 574** | **94 638** |
| Adjustment by deferred tax asset unutilised for uncertainty reasons | -311 599 | -252 576 | -59 023 |
| **Total after correction** *(asset+/ liability-)* | **26 613** | **-9 002** | **35 615** |
| Deferred tax on revaluation of derivatives recorded in other comprehensive income | -69 715 | -24 234 | -45 481 |
| **Total** *(asset+/ liability-)* | **-43 102** | **-33 236** | **-9 866** |

*The difference between the year-on-year change and the value recognised in the income statement is caused by translation differences.

In 2019, the structure of the above table was adjusted. To make the data comparable, the Group also adjusted the data for 2018

A deferred tax asset was not recognised as at 31 December 2019 and 2018 in relation to tax losses of TCZK 95 134 (2018: TCZK 0), as the Group management is not convinced that the Company will generate sufficient profits in the coming years against which these tax losses could be utilised. The year of expiration of these tax losses is shown in the table below.

| 31/12/2019 | Year of expiration of tax loss | Tax loss amount | Income tax rate |
|---|---|---|---|
| Year of tax loss origin | | | |
| 2019 | 2029 | 19 777 | 20% |
| 2019 | 2024 | 75 357 | 19% |
| **Total** | | **95 134** | |

## 20. Income tax receivables and payables

The balance sheet item 'Income tax (receivable)' of TCZK 33 480 (2018 – TCZK 98 383) comprises corporate income tax prepayments reduced by estimated income tax.

The balance sheet item 'Income tax (payable)' of TCZK 39 258 (2018 – TCZK 7 678) comprises estimated corporate income tax reduced by income tax prepayments.

## 21. Other non-current receivables

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Non-current trade receivables | 200 624 | 217 019 |
| Non-current advances paid | – | 172 528 |
| Other non-current receivables and loans | 282 575 | 296 774 |
| **Total other non-current receivables and loans (gross)** | **483 199** | **686 321** |
| Impairment losses | -1 806 | -- |
| **Total other non-current receivables and loans (net)** | **481 393** | **686 321** |

### Ageing structure of non-current receivables

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Non-current receivables due within 2 years | 176 273 | 259 864 |
| Non-current receivables due in 2 to 5 years | 112 318 | 217 439 |
| Non-current receivables due in more than 5 years | 194 608 | 209 018 |
| **Total other non-current receivables and loans (gross)** | **483 199** | **686 321** |
| Impairment losses | -1 806 | -- |
| **Total other non-current receivables and loans (net)** | **481 393** | **686 321** |

In 2012, ŠKODA CITY SERVICE s.r.o. established an association together with Bammer trade a.s., CIAS HOLDING a.s., ŠKODA TRANSPORTATION a.s. and ŠKODA ELECTRIC a.s. for the purpose of participating in a public tender announced by Plzeňské městské dopravní podniky, a.s. (Pilsen Public Transportation Company; "the Project" or "Public Tender"). The scope of this Public Tender is building a new transportation base for Plzeňské městské dopravní podniky, a.s. and further repairs, maintenance and shedding of the municipal public transportation vehicles operated in Pilsen. This bid submitted by the association was evaluated as the most suitable one and a project agreement for the implementation of this tender was concluded with the contracting entity.

The other non-current receivables are stated at amortised cost and concern the contractual right of subsidiary ŠKODA CITY SERVICE s.r.o. to receive future cash payments from Plzeňské městské dopravní podniky, a.s. in relation to services provided to the company.

## 22. Inventories

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Materials | 2 201 178 | 2 266 573 |
| Work-in-progress | 799 805 | 867 256 |
| Finished goods | 72 067 | 92 219 |
| Goods for resale | 58 353 | 23 367 |
| Advance payments for inventories | 111 232 | 49 274 |
| **Total inventories (gross)** | **3 242 635** | **3 298 689** |
| Materials | -262 227 | -249 478 |
| Work-in-progress | -101 229 | -234 196 |
| Finished goods | -14 348 | -13 676 |
| Goods for resale | -16 547 | -16 863 |
| Advance payments for inventories | -81 | -- |
| **Impairment losses** | **-394 432** | **-514 213** |
| Materials | 1 938 951 | 2 017 095 |
| Work-in-progress | 698 576 | 633 060 |
| Finished goods | 57 719 | 78 543 |
| Goods for resale | 41 806 | 6 504 |
| Advance payments for inventories | 111 151 | 49 274 |
| **Total inventories (net)** | **2 848 203** | **2 784 476** |

Based on an analysis of turnover and usability of inventories, as at 31 December 2019 the Group reduced the carrying amount of inventories to their net realisable value by recognising an impairment loss of TCZK 394 432 (2018 – TCZK 514 213).

Inventories in 2018 comprise items connected with an intermittent project in Škoda Transtech Oy for a Russian customer totalling EUR 8.2 million. Škoda Transtech commenced arbitrary proceedings against the Russian customer claiming the violation of a contract. Including lost profit, the total amount to be recovered is EUR 10.0 million. Based on a court judgement delivered to the Company in January 2019 under which the Russian customer is obliged to pay EUR 2.3 million to the Company, the Group established a loss allowance of EUR 6.1 million as at 31 December 2018. The customer filed an appeal against the court judgement. In 2019, an arbitration decision in favour of Škoda Transtech was annulled by a court and returned to the Supreme Court for reconsideration. Currently, Škoda Transtech has no enforceable claim. Inventories of EUR 7.6 million were written off (recognised in other operating expenses), the remaining part of the inventory was consumed or sold, the provision was released.

The change in inventory impairment losses is included in Other operating expenses.

Acquisition costs of materials recognised as an expense in the income statement are included in Materials and consumables (Note 8).

## 23. Trade receivables and other assets

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Trade receivables | 2 390 081 | 1 983 192 |
| Estimated receivables | 9 322 | 14 139 |
| Operating advances paid | 57 069 | 17 070 |
| Accrued revenues | 12 827 | 16 034 |
| Other receivables | 48 573 | 34 936 |
| Receivables from the state | 96 534 | 18 770 |
| Prepaid expenses | 54 452 | 42 324 |
| **Total receivables (gross)** | **2 668 858** | **2 126 465** |
| Impairment losses | -52 591 | -76 242 |
| **Total receivables (net)** | **2 616 267** | **2 050 223** |

In 2019, the structure of the above table was adjusted. To make the data comparable, the Group also adjusted the data for 2018

The analysis of credit risk, the age structure of receivables, and impairment for receivables are described in Note 32.

## 24. Cash and cash equivalents

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Cash | 1 705 | 1 396 |
| Bank accounts | 1 335 915 | 1 489 945 |
| Short-term time deposits | 232 871 | 250 293 |
| **Total** | **1 570 491** | **1 741 634** |

The Group has restricted cash of TCZK 13 384 stipulated in a project agreement with ČSOB Bank. The amount of restricted cash is regularly adjusted on the basis of the updated financial model defined in the contract.

### Significant investment and financial activities having no impact on cash

In 2019, the costs connected with investing activities were increased by TCZK 75 031 in relation with the settlement of the liabilities from 2019.

## 25. Equity

### Registered capital

The Company's registered capital as at 31 December 2019 amounted to TCZK 3 150 000 (2018 – TCZK 3 150 000). The sole shareholder holds one registered ordinary share certificate in the nominal value of TCZK 3 134 100 and one registered ordinary share certificate in the nominal value of TCZK 15 900. Each TCZK 100 of the nominal value of the shares constitutes one voting right that can be exercised at a general meeting.

### Capital contributions

*Other capital contributions*

Other capital contributions as at 31 December 2019 amounted to TCZK 4 296 752 (2018 – TCZK 4 301 739)

In 2017, former Group owner CEIL made an additional contribution outside the registered capital in the aggregate amount of TCZK 4 211 354.

**Change in fair value in respect of cash flow hedges**

The change in fair value in respect of cash flow hedges (including deferred tax impact) as at 31 December 2019 amounted to TCZK 291 584 (2018 – TCZK 95 762).

The change in fair value of cash flow hedges represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedging transactions that were not accomplished as at the balance sheet date.

**Foreign exchange differences from the translation of foreign operations**

Foreign exchange differences from the translation of foreign operations arise from the translation of the financial statements of the Group's foreign subsidiaries from foreign currencies to Czech crowns. As at 31 December 2019, the balance of foreign exchange differences from the translation of activities carried out abroad amounted to TCZK 36 579 (2018 – TCZK 43 102).

**Retained earnings**

The Group's consolidated retained earnings as at 31 December 2019 were TCZK 3 525 201 (2018 – TCZK 4 031 929).

In accordance with Czech legislation, dividends can be paid out from the Company's non-consolidated profit. Non-consolidated retained earnings as at 31 December 2019 were TCZK 5 182 403 (2018 – TCZK 5 613 736).

## 26. Earnings/(losses) per share

As described in Note 25, the Company has two shares, each of which has a different nominal value. Voting rights and shares of profit correspond to the proportion of individual shares in the share capital. Due to the difference in the nominal values of individual shares, the calculation is performed as a share of profit for the period attributable to the owners of the Parent company per each share separately. The proportion of the share with the nominal value of TCZK 3 134 100 in the profit attributable to the Company's owners for 2019 was TCZK -504 376 (2018- TCZK 342 479); the proportion of the share with the nominal value of TCZK 15 900 was TCZK -2 559 (2018 – TCZK 1 737).

Since the Company has not issued any convertible instruments, there is no dilution of profit.

## 27. Provisions

| | 1/1/2018 | Impact of transition to IFRS 15 | Additions | Use | Release | 31/12/2018 |
|---|---|---|---|---|---|---|
| Provision for warranties | 516 260 | -- | 462 858 | -217 771 | -139 133 | 622 214 |
| Provision for risks | 100 071 | -- | 68 283 | -71 420 | -19 349 | 77 585 |
| Provision for litigations | 145 883 | -- | 1 310 | -535 | -122 242 | 24 416 |
| Provision for environmental damage | 60 000 | -- | -- | -- | -14 845 | 45 155 |
| Provision for fines and penalties | 235 690 | -69 331 | 36 876 | -45 279 | -21 083 | 136 873 |
| Provision for benefits | 33 622 | -- | 2 372 | -2 376 | -469 | 33 149 |
| Provision for onerous projects | 429 949 | 57 079 | 504 492 | -662 544 | -24 035 | 304 941 |
| Other provisions | 169 019 | -53 733 | 164 284 | -63 886 | -47 639 | 168 045 |
| **Total** | **1 690 494** | **-65 985** | **1 240 475** | **-1 063 811** | **-388 795** | **1 412 378** |
| Current portion of provisions | 1 320 523 | | | | | 1 111 346 |
| Non-current portion of provisions | 369 971 | | | | | 301 032 |

| | 1/1/2019 | Additions | Use | Release | FX difference | 31/12/2019 |
|---|---|---|---|---|---|---|
| Provision for warranties | 622 214 | 385 636 | -313 574 | -186 383 | -541 | 507 352 |
| Provision for risks | 77 585 | 62 115 | -39 832 | -12 173 | -902 | 86 793 |
| Provision for litigations | 24 416 | 1 310 | -- | -- | -- | 25 726 |
| Provision for environmental damage | 45 155 | -- | -- | -- | -- | 45 155 |
| Provision for fines and penalties | 136 873 | 4 695 | -- | -9 196 | -- | 132 372 |
| Provision for benefits | 33 149 | 20 619 | -493 | -383 | -574 | 52 318 |
| Provision for onerous projects | 304 941 | 33 295 | -190 238 | -- | -779 | 147 219 |
| Other provisions | 168 045 | 88 208 | -35 820 | -25 764 | 2 469 | 197 138 |
| **Total** | **1 412 378** | **595 878** | **-579 957** | **-233 899** | **-327** | **1 194 073** |
| Current portion of provisions | 1 111 346 | | | | | 1 070 079 |
| Non-current portion of provisions | 301 032 | | | | | 123 994 |

*Provision for warranties*

Warranty provisions are attributable to deliveries to customers carried out as at 31 December 2019 and 31 December 2018, which are covered by warranty obligation. The provision is calculated based on historical data and an individual assessment of potential future expenses, while considering additional circumstances known as at the date of preparing the consolidated financial statements.

*Provision for risks*

Provisions for risks primarily cover risks associated with the deliveries of trams.

*Provision for employee benefits*

The Group provides monetary benefits to its employees when they reach a certain age or have worked a certain period of time, for which the Group establishes a provision. As at 31 December 2019, the Group discounted the calculated provision to the present value using a rate of 5.5%, while considering the expected employee turnover rate. Due to insignificance, no other information is disclosed.

*Provision for fines and penalties*

Provisions for fines and penalties are recognised primarily for postponed projects, where based on a contract an obligation to pay a fine or penalty could arise.

*Provision for onerous projects*

The Group recognised a provision for projects in which according to forecasts the Group will realise losses. The value of the provision for onerous projects arises from the calculation of business cases in accordance with IFRS 15.

*Other provisions*

Other provisions include, among others, a provision for bonuses to employees and management of the Group.

## 28. Other non-current liabilities

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Contracts with customers - contract liability | 2 439 353 | 2 280 657 |
| Non-current advances received | -- | -- |
| Other non-current liabilities | 735 | 752 |
| **Total** | **2 440 088** | **2 281 409** |

The contract liability represents advances received by ŠKODA TRANSPORTATION a.s. and Škoda Transtech Oy in relation to contracts with customers which are fulfilled on an ongoing basis.

## 29. Trade payables and other payables

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Trade payables | 1 627 292 | 1 999 971 |
| Contracts with customers - contract liability | 1 841 486 | 763 717 |
| Advances received | 6 187 | -- |
| Payables to employees | 262 570 | 212 574 |
| Payables to the state | 163 126 | 261 368 |
| Social security liabilities | 84 223 | 77 188 |
| Deferred income | 81 993 | 29 677 |
| Accrued expenses | 24 767 | 37 846 |
| Estimated payables | 199 159 | 201 388 |
| Other payables | 8 902 | 60 871 |
| **Total** | **4 299 705** | **3 644 600** |

As at 31 December 2019, overdue payables amounted to TCZK 497 064 (2018 – TCZK 621 214).

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## 30. Loans, borrowings and securities

### The balance of loans and borrowings as at 31 December 2019

| Non-bank loans | Balance as at 1/1/2019 | Drawing | Current year Interest | Payments-principal | Payments - interest | Balance as at 31/12/2019 | Current portion | Non-current portion | Interest rate as at 31/12/2019 | Due date | Type of security |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bonds [2] | 2 337 591 | -- | 74 605 | -- | -69 300 | 2 342 896 | 2 342 896 | -- | 3,00% | 26.6.2020[3] | Joint and several liability of all debtors [2] |
| Loan from PPF Beer Topholdco B.V. | 1 253 057 | 200 000 | 111 212 | -- | -- | 1 564 269 | -- | 1 564 269 | 8,5% | --[1] | No security (subordinated to the bank loan) |
| Investment loan I. | 835 | -- | 3 | -835 | -3 | -- | -- | -- | 2,83% | 1.4.2019 | Pledge over assets acquired through these loans |
| Investment loan J. | 2 243 | -- | 26 | -2 243 | -26 | -- | -- | -- | 2,83% | 1.11.2019 | Pledge over assets acquired through these loans |
| Investment loan S. | 4 869 | -- | 86 | -1 516 | -86 | 3 353 | 1 477 | 1 876 | 1,38% | 17.3.2022 | Pledge over assets acquired through these loans |
| Investment loan T. | 7 238 | -- | 137 | -1 919 | -137 | 5 319 | 1 959 | 3 360 | 2,15% | 24.8.2022 | Pledge over assets acquired through these loans |
| **Total** | **3 605 833** | **200 000** | **186 069** | **-6 513** | **-69 552** | **3 915 837** | **2 346 332** | **1 569 505** | | | |

[1] The due date is defined in the subordination agreement as the moment of full unconditional and final repayment of the pari passu debt.

[2] On 26 June 2015, the Group issued bonds in the nominal value of TCZK 2 310 000, using an issue rate of 99.13 % of their nominal value. The bonds have a maturity of five years and a fixed-rate coupon of 3% p.a. paid annually. The issue of the bonds is listed on the regulated market of the Prague Stock Exchange.

[3] The payment of the bonds will be ensured by a combination of own resources and a bank loan.

| Bank loans | Balance as at 1/1/2019 | Drawing | Current year Interest | Payments-principal | Payments - interest | Balance as at 31/12/2019 | Current portion | Non-current portion | Interest rate as at 31/12/2019 | Due date | Type of security |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Short-term bank loan | -- | 200 000 | 1 754 | -- | -- | 201 754 | 201 754 | -- | 5,54%[1] | 5.8.2020 | No security |
| Overdraft facility | -- | 4 712 | -- | -- | -- | 4 712 | 4 712 | -- | 3,54%[2] | | No security |
| Bank loan B. | 280 389 | -- | 12 175 | -10 357 | -12 175 | 270 032 | 11 007 | 259 025 | 4,82% | 30.6.2036 | pledge over receivables of ŠKODA CITY SERVICE s.r.o., pledge over the ownership interest in ŠKODA CITY SERVICE s.r.o., subordination of receivables of related parties from ŠKODA CITY SERVICE s.r.o. and other hedging instruments |
| **Total** | **280 389** | **204 712** | **13 929** | **-10 357** | **-12 175** | **476 498** | **217 473** | **259 025** | | | |

[1] Credit facility TCZK 3 500 000 – interest rate 3% p.a. + PRIBOR

[2] Credit facility TCZK 10 000

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## The balance of loans and borrowings as at 31 December 2018

In 2019, the structure of the above tables was adjusted. To make the data comparable, the Group also adjusted the data for 2018

| Non bank loans | Balance as at 1/1/2018 | Drawing | Current year Interest | Payments-principal | Payments - interest | Balance as at 31/12/2018 | Current portion | Non-current portion | Interest rate as at 31/12/2018 | Due date | Type of security |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bonds [6] | **2 332 455** | -- | 74 436 | -- | -69 300 | **2 337 591** | 35 613 | 2 301 978 | 3,00% | 26.6.2020 | joint and several liability of all debtors [2] |
| Loan from PPF Beer Topholdco B.V. | **906 587** | 255 113 | 91 357 | -- | -- | **1 253 057** | -- | 1 253 057 | 8,5% | --[5] | no security (subordinated to the bank loan) |
| Investment loan I. | **3 292** | -- | 57 | -2 457 | -57 | **835** | 835 | -- | 2,83% | 1.4.2019 | pledge over assets acquired through these loans |
| Investment loan J. | **4 623** | -- | 98 | -2 380 | -98 | **2 243** | 2 243 | -- | 2,83% | 1.11.2019 | pledge over assets acquired through these loans |
| Investment loan K. | **1 080** | -- | -- | -1 080[7] | -- | -- | -- | -- | 1,80% | 31.5.2018 | vehicle |
| Investment loan O. | **2 050** | -- | -- | -2 050[7] | -- | -- | -- | -- | 2,70% | 29.4.2021 | vehicle |
| Investment loan P. | **29** | -- | -- | -29[7] | -- | -- | -- | -- | 9,32% | 15.3.2018 | vehicle |
| Investment loan Q. | **4 304** | -- | -- | -4 304[7] | -- | -- | -- | -- | 2,56% | 9.4.2022 | vehicle |
| Investment loan R. | **741** | -- | -- | -741[7] | -- | -- | -- | -- | 1,07% | 17.3.2021 | vehicle |
| Investment loan S. | **6 278** | -- | 60 | -1 409 | -60 | **4 869** | 1 475 | 3 394 | 1,38% | 17.3.2022 | pledge over assets acquired through these loans |
| Investment loan T. | **9 114** | -- | 219 | -1 876 | -219 | **7 238** | 1 918 | 5 320 | 2,15% | 24.8.2022 | pledge over assets acquired through these loans |
| **Total** | **3 270 553** | **255 113** | **166 227** | **-16 326** | **-69 734** | **3 605 833** | **42 084** | **3 563 749** | | | |

| Bank loans | Balance as at 1/1/2018 | Drawing | Current year Interest | Payments-principal | Payments - interest | Balance as at 31/12/2018 | Current portion | Non-current portion | Interest rate as at 31/12/2018 | Due date | Type of security |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Facility B1 (short-term revolving bank loan) | -- | -- | -- | -- | -- | -- | -- | -- | --[1] | 6.8.2021 | joint and several liability of all debtors [2] |
| Facility B1 (short-term revolving bank loan) | -- | -- | -- | -- | -- | -- | -- | -- | --[3] | 6.8.2021 | joint and several liability of all debtors [2] |
| Overdraft facility | -- | -- | -- | -- | -- | -- | -- | -- | --[4] | -- | joint and several liability of all debtors [2] |
| Short-term revolving bank loan | **1 985 309** | -- | -- | -1 985 309 | -- | -- | -- | -- | -- | -- | Joint and several liability of all debtors + bill of exchange |
| Fixed term amortised bank loan | **300 000** | -- | -- | -300 000 | -- | -- | -- | -- | -- | -- | Joint and several liability of all debtors + bill of exchange |
| Bank loan B. | **290 247** | -- | 9 919 | -9 858 | -9 919 | **280 389** | 10 519 | 269 870 | 4,82% | 30.6.2036 | pledge over receivables of ŠKODA CITY SERVICE s.r.o., pledge over the ownership interest in ŠKODA CITY SERVICE s.r.o., subordination of receivables of related parties from ŠKODA CITY SERVICE s.r.o. and other hedging instruments |
| Bank loan E. | **8 000** | -- | -- | -8 000 | -- | -- | -- | -- | Pribor+0,8% | 31.1.2018 | No security |
| **Total** | **2 583 556** | **--** | **9 919** | **-2 303 167** | **-9 919** | **280 389** | **10 519** | **269 870** | | | |

1 Credit facility TCZK 1 900 000 - Loan not drawn – interest rate: 2.95% + PRIBOR/EURIBOR

2 Guarantees: insurance settlement, bank accounts, shares, real estate, receivables, establishment

3 Credit facility TCZK 200 000 - Loan not drawn – interest rate: 2.95% + MOSCOW MOSPRIME

4 Credit facility TCZK 300 000 - Loan not drawn – interest rate: 0.7% + 1D PRIBOR/EURIBOR

5 The due date is defined in the subordination agreement as the moment of full unconditional and final repayment of the pari passu debt.

6 On 26 June 2015, the Group issued bonds in the nominal value of TCZK 2 310 000 using an issue rate of 99.13 % of their nominal value. The bonds have a maturity of five years and a fixed-rate coupon of 3% p.a. paid annually. The issue of the bonds is listed on the regulated market of the Prague Stock Exchange.

7 Loan derecognised in relation to the sale of the subsidiary Autobusová Doprava Hrouda.

## 31. Derivatives

As at the reporting date the Group held the following derivatives:

**a) Hedging derivatives**

| Forwards | Transacted in 2020 | Transacted in subsequent periods | Fair value as at 31/12/2019 Receivable | Fair value as at 31/12/2019 Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Forwards – sale of EUR | 103 710 | 213 405 | 170 263 | -- |
| Forwards – sale of RUB | 815 000 | -- | -- | -8 844 |
| **Total** | | | **170 263** | **-8 844** |
| Average hedged rate | | | | |
| CZK/EUR | 26,52 | 26,822 | | |
| CZK/RUB | 0,3514 | -- | | |

| Forwards | Transacted in 2019 | Transacted in subsequent periods | Fair value as at 31/12/2018 Receivable | Fair value as at 31/12/2018 Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Forwards – sale of EUR | 39 167 | 317 115 | 55 404 | -14 396 |
| **Total** | | | **55 404** | **-14 396** |
| Average hedged rate | | | | |
| CZK/EUR | 26,479 | 26,735 | | |

| Swaps | Transacted in 2020 | Transacted in subsequent periods | Fair value as at 31/12/2019 Receivable | Fair value as at 31/12/2019 Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Swap – sale of EUR | 255 439 | 57 944 | 109 300 | |
| **Total** | | | **109 300** | |
| Average hedged rate | | | | |
| CZK/EUR | 25,95 | 26,438 | | |

| Swaps | Transacted in 2020 | Transacted in subsequent periods | Fair value as at 31/12/2019 Receivable | Liability |
|---|---|---|---|---|
| | | | TCZK | TCZK |
| Interest rate swaps | n/a | n/a | -- | -24 702 |
| **Total** | | | **--** | **-24 702** |
| Average hedged interest rate | | | | 2,515 |

| Swaps | Transacted in 2019 | Transacted in subsequent periods | Fair value as at 31/12/2018 Receivable | Liability |
|---|---|---|---|---|
| | **original currency (thousands)** | **original currency (thousands)** | **TCZK** | **TCZK** |
| Swap – sale of USD | 487 | – | 20 | -- |
| Swap – sale of EUR | 210 076 | 97 114 | 11 327 | -54 178 |
| **Total** | | | **11 347** | **-54 178** |
| Average hedged rate | | | | |
| CZK/USD | 22,50 | -- | | |
| CZK/EUR | 25,921 | 26,039 | | |

| Swaps | Transacted in 2019 | Transacted in subsequent periods | Fair value as at 31/12/2018 Receivable | Liability |
|---|---|---|---|---|
| | | | TCZK | TCZK |
| Interest rate swaps | n/a | n/a | -- | -31 598 |
| **Total** | | | **--** | **-31 598** |
| Average hedged interest rate | | | | 2,515 |

## b) Trading derivatives

| Swaps | Transacted in 2020 | Transacted in subsequent periods | Fair value as at 31/12/2019 Receivable | Liability |
|---|---|---|---|---|
| | **original currency (thousands)** | **original currency (thousands)** | **TCZK** | **TCZK** |
| Swap – sale of EUR | 44 200 | 1 219 | 3 168 | -17 |
| **Total** | | | **3 168** | **-17** |

| Swaps | Transacted in 2019 | Transacted in subsequent periods | Fair value as at 31/12/2018 | |
|---|---|---|---|---|
| | | | Receivable | Liability |
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Swap – sale of EUR | 26 000 | -- | 4 362 | -- |
| Swap – sale of RUB | 141 000 | -- | 2 157 | -- |
| Interest rate swaps | n/a | n/a | 145 906 | -- |
| **Total** | | | **152 425** | **--** |

In 2019, the structure of the above table was adjusted. To make the data comparable, the Group also adjusted **the data** for 2018

In accordance with the accounting policies described in Note 3, the change in the fair value of hedging derivatives and trading derivatives of TCZK 239 183 (2018 – TCZK -333 839), reduced by deferred tax, is recorded in other comprehensive income.

As at 31 December 2019, the Group had a liability of TCZK 33 563 (2018 – TCZK 100 172) arising from the revaluation of hedging derivatives and derivatives held for trading, and a receivable of TCZK 282 731 (2018 – TCZK 219 176) arising from the revaluation of hedging derivatives, derivatives held for trading and interest rate swaps, which are presented, depending on the due date of the derivative, as follows: the non-current portion of the liability of TCZK 24 719 (2018 – TCZK 88 040) under Derivatives – non-current portion, the current portion of the liability of TCZK 8 844 (2018 – TCZK 12 132) under Derivatives – current portion; the non-current portion of the receivable of TCZK 85 083 (2018 – TCZK 146 773) under Derivatives – non-current portion, and the current portion of the receivable of TCZK 197 648 (2018 – TCZK 72 403) under Derivatives – current portion.

Depending on the classification of the respective derivative transaction (hedging or trading), gains and losses on derivatives settled in 2019 are recognised under Other operating expenses (see Note 10), Other operating revenues (see Note 11) or Net finance income/expense (see Note 12).

Part of the hedging derivatives with maturity up to 31 December 2019 could not be settled due to the delay in expected income secured by the derivatives against currency risk. Therefore, the underlying swaps were negotiated with a settlement date of 2020 or later. The carrying amounts of these expired derivatives are recorded in equity under Fair value changes relating to hedges of TCZK 269 096 (2018: TCZK 162 489).

To maximise the effectiveness of its derivatives, the Group adheres to the principle that the terms and conditions of a derivative instrument must correspond to the conditions of the respective item at risk.

Contracts with customers are naturally hedged by receiving advances in a currency corresponding to the currency agreed in the respective contract.

Under hedge accounting, the Group monitors the effectiveness of hedging, which is effective over the long term. Given the fact that the most important parameters of the hedging instrument and the hedged item are identical (derivative and hedged cash flow denominations, same transaction currency, etc.), there are no sources of inefficiency outside the counterparty credit risk that is immaterial and under hedge accounting. The hedging ratio is 1: 1. The hedge ineffectiveness was insignificant in 2019 and 2018 and was not accounted for.

Derivatives are classified as short-term or long-term based on their due dates.

Financial assets and liabilities measured at fair value have been assigned to Level 2 as defined by IFRS.

## 32. Financial instruments

| 31/12/2019<br>TCZK | Financial instruments<br>at amortised costs | at fair value through profit or loss | at fair value through other comprehensive income | Total |
|---|---|---|---|---|
| **Financial assets** | **4 460 096** | **--** | **--** | **4 460 096** |
| Trade receivables and other financial assets | 2 889 605 | -- | -- | 2 889 605 |
| Cash and cash equivalents | 1 570 491 | -- | -- | 1 570 491 |
| **Financial liabilities** | **-6 400 673** | **--** | **--** | **-6 400 673** |
| Trade payables and other financial liabilities | -1 860 855 | -- | -- | -1 860 855 |
| Bank loans | -476 498 | -- | -- | -476 498 |
| Non-bank loans and bonds | -3 915 837 | -- | -- | -3 915 837 |
| Lease liabilities | -147 483 | -- | -- | -147 483 |
| **Derivatives (net)** | **--** | **3 151** | **246 017** | **249 168** |
| Trading derivatives | -- | 3 151 | -- | 3 151 |
| Hedging derivatives | -- | -- | 246 017 | 246 017 |

| 31/12/2018<br>TCZK | Financial instruments<br>at amortised costs | at fair value through profit or loss | at fair value through other comprehensive income | Total |
|---|---|---|---|---|
| **Financial assets** | **4 227 486** | **--** | **--** | **4 227 486** |
| Trade receivables and other financial assets | 2 485 852 | -- | -- | 2 485 852 |
| Cash and cash equivalents | 1 741 634 | -- | -- | 1 741 634 |
| **Financial liabilities** | **-6 191 435** | **--** | **--** | **-6 191 435** |
| Trade payables and other financial liabilities | -2 300 828 | -- | -- | -2 300 828 |
| Bank loans | -280 389 | -- | -- | -280 389 |
| Non-bank loans and bonds | -3 605 833 | -- | -- | -3 605 833 |
| Lease liabilities | -4 385 | -- | -- | -4 385 |
| **Derivatives (net)** | **--** | **152 425** | **-33 421** | **119 004** |
| Trading derivatives | -- | 152 425 | -- | 152 425 |
| Hedging derivatives | -- | -- | -33 421 | -33 421 |

### Risk management and financial instruments

The Group's principal financial instruments (excluding derivatives) comprise trade receivables, cash in hand and bank accounts, other long-term receivables, trade payables, bank loans, related-party loans, and finance and operating leases. The main purpose of the aforementioned financial liabilities is to obtain funds for the Group's activities; financial assets arise during its ordinary activities.

The Group is primarily exposed to the following risks:

- credit risk;
- market risk, including currency risk and interest rate risk;
- and liquidity risk.

The Group's management is generally responsible for the design and monitoring of the financial risk management system. The development and estimates of the effects of individual risks are regularly assessed. The Group's overall risk management strategy focuses on the unpredictable nature of financial markets and endeavours to minimise any potential negative effects on the Group's financial results.

The Group concluded derivatives transactions (currency forwards and swaps and interest rate swaps) to hedge the currency and price risks that arise as a result of the Group's activities and its funding.

**Capital management**

The Group's aspiration is to maintain a strong capital foundation with the goal to sustain the trust of investors, creditors and markets and to support the future development of business operations.

Through the management of its capital and the optimisation of the debt to equity ratio the Group intends to ensure optimal conditions for each subsidiary's continuous business operations to maximise income. The Company and Group are bound by the fulfilment of capital requirements arising from the conditions of received bank loans and emitted bonds. In the current period, no financial contracts for any interest-bearing loans and borrowings were breached.

**Concentration risk**

Considering the parameters of the market in which the Group operates, the major part of the Group's revenues is generated from a limited number of specialised customers. The number of such customers in the market does not change from a long-term perspective. Moreover, it cannot be expected that the market will open to a significant number of new customers in the future. The loss of one or more existing customers may have a significant negative effect on the Group's results of operations.

The Group makes every effort to adapt its products to customers' needs, which is associated with a risk of additional costs incurred for proven products. There is also a risk of a lower credit status of customers who may decide to purchase a smaller number of products or cheaper products due to the lack of sufficient funds.

**Customer credit risk**

Credit risk results from the potential failure of debtors to fulfil their obligations when they fall due. The risk arises primarily from the inability or unwillingness of a debtor to pay off the Group's receivables, or loans provided by the Group. To prevent excessive uncollectible receivables, the top management team focuses on credit risks as part of the effective management of the sales and related functions. The maximum credit risk exposure is represented by the carrying amount of each financial asset in the statement of financial position.

Credit risk exposure is primarily dependent on the individual characteristics of each customer. In general, however, credit risk is assessed based on the credit status of customers.

For new contracts and orders, the ability of the customer or counterparty to pay off their debt by the due date is assessed. Where necessary, future cash flows are secured, primarily by means of advances or bank guarantees. In specific cases, receivables insurance or letters of credit are used. Bank guarantees are disclosed in Note 34.

The credit limit of each customer is regularly monitored, and procedures are in place to prevent the exceeding of this limit. Extensions of these pre-defined limits are only granted after careful evaluation and formal approval from the Group's management.

In addition, receivables balances are monitored on a regular basis, to limit the Group's exposure to uncollectible receivables. When receivables become overdue, appropriate action is taken when necessary. Credit risk is further covered by the establishment of impairment losses, and the write-off of receivables.

In 2019, the Group had two customers which accounted for more than 10% of the Group's trade receivables and other receivables (including the contract asset). In 2019, revenues to these customers did not exceed 10% of the Group's total revenues. The Group's management has taken appropriate action to limit the concentration of risk to these parties by policies and procedures such as collateral agreements, careful evaluation of new agreements entered into and close monitoring of credit balances.

A substantial part of the credit risk is concentrated in the Czech Republic, Germany and Latvia, mainly in the manufacture, modernisation, and servicing of rail vehicles sector.

As regards the credit risk arising from the Group's other financial assets including cash and cash equivalents, credit risk results from the default of a counterparty, with the maximum exposure being equal to the carrying amount of these instruments. As at 31 December 2019 and 31 December 2018, other financial assets were not impaired.

Derivative-type financial assets are not assessed for credit risk as they are negotiated exclusively with financial institutions with a sufficiently high credit rating.

### *Impairment loss*

The maximum credit risk and recognised impairment loss were as at the reporting date was as follows:

| 31/12/2019 TCZK | Note | Carrying amount (gross) | Impairment loss | Carrying amount |
|---|---|---|---|---|
| Non-current trade receivables* | 21 | 200 624 | -1 806 | 198 818 |
| Trade receivables** | 23 | 2 390 081 | -42 914 | 2 347 167 |
| Contract assets | 7 | 5 236 730 | -3 064 | 5 233 666 |
| Other financial assets** | 21,23 | 353 297 | -9 677 | 343 620 |
| Derivatives - assets | 31 | 282 731 | --*** | 282 731 |
| Cash and cash equivalents | 24 | 1 570 491 | --*** | 1 570 491 |
| **31/12/2018 TCZK** | **Note** | **Carrying amount (gross)** | **Impairment loss** | **Carrying amount** |
| Non-current trade receivables* | 21 | 217 019 | --*** | 217 019 |
| Trade receivables** | 23 | 1 983 192 | -66 564 | 1 916 628 |
| Contract assets | 7 | 5 063 796 | --*** | 5 063 796 |
| Other financial assets** | 21,23 | 361 883 | -9 678 | 352 205 |
| Derivatives - assets | 31 | 219 176 | --*** | 219 176 |
| Cash and cash equivalents | 24 | 1 741 634 | --*** | 1 741 634 |

* These balances are presented in Other non-current receivables

** These balances are presented in Trade and other receivables

*** The risk was assessed by the Group as low, the calculated risk of loss is insignificant and therefore was not recognised

The year-on-year change in the reported amount of impairment loss can be analysed as follows:

| TCZK | Non-current trade receivables | Trade receivables | Contract asset | Other financial assets |
|---|---|---|---|---|
| **1/1/2019** | **--** | **66 564** | **--** | **9 678** |
| New recognised financial assets | -- | 7 872 | -- | -- |
| Settlement of financial assets during the reporting period | -- | -394 | -- | -- |
| Write-off of financial assets during the reporting period | -- | -14 210 | -- | -1 |
| Increase/decrease in credit risk of financial assets reported at the beginning of the reporting period | 1 806 | -16 918 | 3 064 | -- |
| **31/12/2019** | **1 806** | **42 914** | **3 064** | **9 677** |

| TCZK | Non-current trade receivables | Trade receivables | Contract asset | Other financial assets |
|---|---|---|---|---|
| **1/1/2018** | -- | **80 138** | -- | **9 650** |
| New recognised financial assets | -- | 1 311 | -- | -- |
| Settlement of financial assets during the reporting period | -- | -9 463 | -- | -- |
| Write-off of financial assets during the reporting period | -- | -1 854 | -- | -- |
| Increase/decrease in credit risk of financial assets reported at the beginning of the reporting period | -- | -3 568 | -- | 28 |
| **31/12/2018** | **--** | **66 564** | **--** | **9 678** |

The tables below provide information on the credit risk analysis as at 31 December 2019:

| Credit risk grade | Non-current trade receivables – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | **TCZK** | **TCZK** | **%** |
| Grade 1 *Low risk* | 156 084 | --* | -- |
| Grade 2 *Medium risk* | 44 540 | -1 806 | 4,1 |
| Grade 3 *High risk*** | -- | -- | -- |
| **Total** | **200 624** | **-1 806** | |

| Credit risk grade | Trade receivables – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | **TCZK** | **TCZK** | **%** |
| Grade 1 *Low risk* | 1 664 094 | 1 421 | 0,1 |
| Grade 2 *Medium risk* | 707 656 | 23 162 | 3,3 |
| Grade 3 *High risk*** | 18 331 | 18 331 | 100,0 |
| **Total** | **2 390 081** | **42 914** | |

| Credit risk grade | Contract asset – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | **TCZK** | **TCZK** | **%** |
| Grade 1 *Low risk* | 3 985 740 | --* | -- |
| Grade 2 *Medium risk* | 1 250 990 | -3 064 | 0,2 |
| Grade 3 *High risk*** | -- | -- | -- |
| **Total** | **5 236 730** | **-3 064** | |

| Credit risk grade | Other financial assets – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 *Low risk* | 343 620 | --* | -- |
| Grade 2 *Medium risk* | -- | -- | -- |
| Grade 3 *High risk*** | 9 677 | -9 677 | 100,0 |
| **Total** | **353 297** | **-9 677** | |

*The calculated credit risk is immaterial and therefore was not recognised.
**Credit impaired financial asset

The tables below provide information on the credit risk analysis as at 31 December 2018:

| Credit risk grade | Non-current trade receivables – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 *Low risk* | 217 019 | --* | -- |
| Grade 2 *Medium risk* | -- | -- | -- |
| Grade 3 *High risk*** | -- | -- | -- |
| **Total** | **217 019** | **--** | |

| Credit risk grade | Trade receivables – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 *Low risk* | 1 639 255 | 1 200 | 0,1 |
| Grade 2 *Medium risk* | 298 066 | 19 493 | 6,5 |
| Grade 3 *High risk*** | 45 871 | 45 871 | 100,0 |
| **Total** | **1 983 192** | **66 564** | |

| Credit risk grade | Contract asset – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 *Low risk* | 5 063 796 | --* | -- |
| Grade 2 *Medium risk* | -- | -- | -- |
| Grade 3 *High risk*** | -- | -- | -- |
| **Total** | **5 063 796** | **--** | |

| Credit risk grade | Other financial assets – Carrying amount (gross) | Recognised impairment loss | Weighted-average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 *Low risk* | 352 205 | --* | -- |
| Grade 2 *Medium risk* | -- | -- | -- |
| Grade 3 *High risk*** | 9 678 | -9 678 | 100,0 |
| **Total** | **361 883** | **-9 678** | |

*The calculated credit risk is immaterial and therefore was not recognised.

**Credit impaired financial asset

The credit risk grade for individual trade receivables has been determined taking into account the rating of the country in which the customer operates, the rating of the customer or its parent, if any, the analysis of overdue receivables and other information relevant to the Group's credit risk assessment available in connection with a specific customer and a specific financial asset. An increase in the risk of default is indicated in particular by the deterioration of ratings, the existence of overdue receivables, the worsening of communication with the customer, the customer's breach of a contract, and the customer's financial problems.

**Market risk**

Market risk results from potential fluctuations in exchange and interest rates. The Group has implemented certain procedures and methods to monitor this risk.

*Currency risk*

The Group is exposed to significant risks resulting from foreign currency transactions. These risks arise from sales and purchases that the Group carries out in currencies other than its functional currency. The Group includes companies whose presentation currency differs from the Group's functional currency (mostly EUR, HUF and RUB). Approximately 67% (2018 – 53%) of the Group's sales is denominated in currencies (predominantly in EUR) other than the Group's functional currency, while more than 51% (2018 – 54%) of the expenses is denominated in the Group's functional currency.

The Group aims to eliminate most of its currency risk by using derivatives to hedge the Group's exposure to the volatility of exchange rates affecting expected future cash flows. For more information, see Note 31.

*Financial assets and liabilities in original currency*

| 31/12/2019<br>TCZK | CZK | EUR | USD | HUF | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Trade receivables and other financial assets | 1 139 973 | 1 675 656 | 58 500 | 8 358 | 2 560 | 4 558 | 2 889 605 |
| Cash and cash equivalents | 1 007 283 | 141 659 | 2 106 | 3 491 | 413 888 | 2 064 | 1 570 491 |
| **Financial liabilities** | | | | | | | |
| Trade payables and other financial liabilities | -810 653 | -797 115 | -16 261 | -1 921 | -227 176 | -7 729 | -1 860 855 |
| Bank loans | -476 498 | -- | -- | -- | -- | -- | -476 498 |
| Non-bank loans and bonds | -3 912 484 | -3 353 | -- | -- | -- | -- | -3 915 837 |
| Lease liabilities | -66 752 | -74 509 | -- | -986 | -5 236 | -- | -147 483 |
| **Derivatives (net)** | | | | | | | |
| Trading derivatives | | 3 151 | -- | -- | -- | -- | 3 151 |
| Hedging derivatives (net outflow) | -24 702 | 279 563 | -- | -- | -8 844 | -- | 246 017 |

| 31/12/2018 TCZK | CZK | EUR | USD | HUF | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Trade receivables and other financial assets | 1 243 134 | 1 031 156 | 191 948 | 19 219 | -- | 395 | 2 485 852 |
| Cash and cash equivalents | 1 324 488 | 193 398 | 1 423 | 10 329 | 209 102 | 2 894 | 1 741 634 |
| **Financial liabilities** | | | | | | | |
| Trade payables and other financial liabilities | -658 127 | -1 548 628 | -61 440 | -1 670 | -30 504 | -459 | -2 300 828 |
| Bank loans | -280 389 | -- | -- | -- | -- | -- | -280 389 |
| Non-bank loans and bonds | -3 600 964 | -4 869 | -- | -- | -- | -- | -3 605 833 |
| Lease liabilities | -- | -4 385 | -- | -- | -- | -- | -4 385 |
| **Derivatives (net)** | | | | | | | |
| Trading derivatives | 145 906 | 4 362 | -- | -- | 2 157 | -- | 152 425 |
| Hedging derivatives (net outflow) | -31 598 | -1 843 | 20 | -- | -- | -- | -33 421 |

*Sensitivity analysis – currency risk exposure*

A reasonably possible strengthening (weakening) of the euro, US dollar or Hungarian forint against all other currencies as at 31 December 2019 and 31 December 2018 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

The actual impact on the income statement of foreign exchange changes arising from a 10% appreciation (depreciation) of the Czech crown would be different from the calculation provided below as the Group mitigates its currency risk exposure by concluding currency derivatives contracts.

| Exchange rate at 31 December 2019 | | 10% | -10% |
|---|---|---|---|
| CZK/EUR | 25.410 | 27.951 | 22.869 |
| CZK/USD | 22.621 | 24.883 | 20.359 |
| CZK/HUF | 0.077 | 0.085 | 0.069 |
| CZK/RUB | 0.363 | 0.400 | 0.327 |

| Currency rate at 31 December 2018 | | 10% | -10% |
|---|---|---|---|
| CZK/EUR | 25.725 | 28.298 | 23.153 |
| CZK/USD | 22.466 | 24.713 | 20.219 |
| CZK/HUF | 0.080 | 0.088 | 0.072 |
| CZK/RUB | 0.323 | 0.355 | 0.290 |

| Income statement | | |
|---|---|---|
| | Weakening TCZK | Strengthening TCZK |
| **31 December 2019** | | |
| EUR (10% movement) | 94 549 | -94 549 |
| USD (10% movement) | 4 435 | -4 435 |
| HUF (10% movement) | 894 | -894 |
| RUB (10% movement) | 18 404 | -18 404 |
| **31 December 2018** | | |
| EUR (10% movement) | -32 897 | 32 897 |
| USD (10% movement) | 13 193 | -13 193 |
| HUF (10% movement) | 2 788 | -2 788 |
| RUB (10% movement) | 18 076 | -18 076 |

| Equity | | |
|---|---|---|
| | Weakening TCZK | Strengthening TCZK |
| **31 December 2019** | | |
| EUR (10% movement) | 27 956 | -27 956 |
| RUB (10% movement) | -884 | 884 |
| **31 December 2018** | | |
| EUR (10% movement) | -184 | 184 |
| USD (10 % movement) | 2 | -2 |

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows from financial instruments will fluctuate because of changes in interest rates. Interest rate risk management aims to reduce the risk arising from changes in interest rates of variable-rate financial liabilities by maintaining a suitable structure of financial liabilities. The Group is exposed to interest rate risk primarily in connection with loans received.

*Interest rate sensitivity analysis*

The Group is exposed to interest rate risk primarily due to financial liabilities arising from borrowings and non-current liabilities that bear interest at variable rates. The sensitivity analysis is based on the exposures as at the reporting date. In the coming period, the Group assumes the possibility of a +/-10 basis point change in the interest rate swap yield curve. The Group is most sensitive to movements in the Czech crown yield curve. The following table shows the possible effect on profit or loss and equity before tax of the expected change in interest rates.

The actual impact on the income statement of interest rate changes by 10 basis points would be different from the calculation provided below as the Group mitigates its interest rate risk exposure by concluding interest rate swaps (see Note 31).

| Interest rate change | 2019 Increase of 10 basis points | 2019 Decrease of 10 basis points | 2018 Increase of 10 basis points | 2018 Decrease of 10 basis points |
|---|---|---|---|---|
| Effect on profit or loss | 121 | -121 | –* | –* |

*As at 31 December 2018 the Company did not recognise any liability from received loans with a variable interest rate.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its liquidity risk exposure on a regular basis and assesses the maturity of financial investments and financial liabilities, and projected cash flows from its activities.

One of the principal liquidity management tools are advances received to cover the costs relating to the completion of contracts, the allocation of available funds to highly liquid bank instruments (term deposits and depository notes), and the conclusion of agreements with suppliers regarding reasonable maturity dates.

*Exposure to liquidity risk*

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements:

| | | Contractual cash flows | | | | |
|---|---|---|---|---|---|---|
| **31/12/2019** | **Carrying amount** | **Total** | **Due within 1 year** | **Due in 1 to 2 years** | **Due in 2 to 5 years** | **More than 5 years** |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | -1 627 292 | -1 627 292 | -1 328 539 | -40 064 | -258 095 | -594 |
| Bank loans | -476 498 | -606 373 | -237 040 | -36 112 | -73 754 | -259 467 |
| Non-bank loans and bonds | -3 915 837 | -4 538 618 | -2 383 832 | -3 568 | -1 748 | -2 149 470 |
| Other current financial liabilities | -232 828 | -232 828 | -232 828 | – | – | – |
| Lease liabilities | -147 483 | -161 450 | -62 962 | -32 802 | -59 238 | -6 448 |
| Other non-current financial liabilities | -735 | -735 | -678 | -57 | – | – |
| **Derivative financial assets/liabilities (net)** | | | | | | |
| Trading derivatives | 3 151 | 5 045 | 2 863 | – | 2 182 | – |
| Inflow | | 1 159 142 | 1 125 985 | – | 33 157 | – |
| Outflow | | -1 154 097 | -1 123 122 | – | -30 975 | – |
| Hedging derivatives (net outflow) | 246 017 | 577 693 | 241 989 | 161 828 | 192 776 | -18 900 |
| Inflow | | 16 921 377 | 9 665 502 | 3 871 203 | 3 384 672 | – |
| Outflow | | -16 343 684 | -9 423 513 | -3 709 375 | -3 191 896 | -18 900 |
| **Total** | **-6 151 505** | **-6 584 558** | **-4 001 027** | **49 225** | **-197 877** | **-2 434 879** |

| 31/12/2018 | Carrying amount | Contractual cash flows<br>Total | Due within 1 year | Due in 1 to 2 years | Due in 2 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | -1 999 971 | -1 999 971 | -1 968 380 | -31 431 | 149 | -309 |
| Bank loans | -280 389 | -416 991 | -23 925 | -35 489 | -73 638 | -283 939 |
| Non-bank loans and bonds | -3 605 833 | -4 215 981 | -76 073 | -2 382 965 | -5 328 | -1 751 615 |
| Other current financial liabilities | -300 105 | -300 105 | -300 105 | -- | -- | -- |
| Finance lease liabilities | -4 385 | -4 385 | -784 | -846 | -2 755 | -- |
| Other non-current financial liabilities | -752 | -752 | -- | -752 | -- | -- |
| **Derivative financial assets/liabilities (net)** | | | | | | |
| Trading derivatives | 152 425 | 152 552 | 26 771 | 20 125 | 60 375 | 45 281 |
| Inflow | | 866 904 | 741 123 | 20 125 | 60 375 | 45 281 |
| Outflow | | -714 352 | -714 352 | -- | -- | -- |
| Hedging derivatives (net outflow) | -33 421 | 382 993 | 70 316 | 100 670 | 238 187 | -26 180 |
| Inflow | | 17 499 477 | 6 496 367 | 4 647 327 | 6 355 783 | |
| Outflow | | -17 116 484 | -6 426 051 | -4 546 657 | -6 117 596 | -26 180 |
| **Total** | **-6 072 431** | **-6 402 640** | **-2 272 180** | **-2 330 688** | **216 990** | **-2 016 762** |

In 2019, the structure of the above table was adjusted, and to make the data comparable, the Group also adjusted the data for 2018.

The gross inflows/(outflows) disclosed in the above tables represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

### Revenue and expenses, and gains and losses in the income statement

| 2019<br>(expenses - / revenue +) | Note | Financial instruments by category<br>Loans and receivables at amortised costs | Financial derivatives | Total |
|---|---|---|---|---|
| Interest income | 12 | 26 867 | -- | 26 867 |
| Interest expense | 12 | -276 083 | -- | -276 083 |
| Losses from derivative transactions | 31 | -- | -379 292 | -379 292 |
| Gains from derivative transactions | 31 | -- | 561 547 | 561 547 |
| **Total** | | **-249 216** | **182 255** | **-66 961** |

| 2018 | | Financial instruments by category | | |
|---|---|---|---|---|
| (expenses - / revenue +) | Note | Loans and receivables at amortised costs | Financial derivatives | Total |
| Interest income | 12 | 58 901 | -- | 58 901 |
| Interest expense | 12 | -284 611 | -- | -284 611 |
| Losses from derivative transactions | 31 | -- | -52 331 | -52 331 |
| Gains from derivative transactions | 31 | -- | 229 987 | 229 987 |
| **Total** | | **-225 710** | **177 656** | **-48 054** |

**Fair value**

The Group classifies into three levels of input data based on an assessment of their availability, using the fair value hierarchy. The hierarchy of fair value has the following levels:

a) Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities.

b) Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g. prices) or indirectly (e.g. derived from prices).

c) Level 3 inputs: unobservable inputs for the asset or liability.

In the reporting periods ending 31 December 2019 and 2018, no transfers were made between Level 1 and Level 2 carried at fair value and no transfers were made to or from Level 3.

The fair value of financial derivatives is based on the valuation techniques used by the banks for which the derivatives are negotiated (discounted cash flow model using market rates).

The carrying amount of financial assets and financial liabilities that are not measured at fair value is an approximation of their fair value, as financial assets and liabilities primarily consist of short-term trade receivables and payables, cash and loans bearing variable interest rates.

The fair value of long-term receivables was calculated by discounting the contractual cash flows using the current yield curve. Fair value falls to Level 3 due to the use of inputs that cannot be directly derived from data obtained in an active market, such as own credit risk.

| 31/12/2019 | Carrying amount as at 31 December 2019 | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Non-current receivables | 481 393 | -- | -- | 481 393 |
| Derivatives | 282 731 | -- | 282 731 | -- |
| **Financial liabilities** | | | | |
| Bank loans | -476 498 | -- | -- | -476 498 |
| Non-bank loans | -1 572 941 | -- | -- | -1 572 941 |
| Bonds | -2 342 896 | -2 373 333 | -- | -- |
| Other non-current liabilities | -735 | -- | -- | -735 |
| Derivatives | -33 563 | -- | -33 563 | -- |
| **Total** | **-3 662 509** | **-2 373 333** | **249 168** | **-1 568 781** |

| 31/12/2018 | Carrying amount as at 31 December 2018 | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Non-current receivables | 686 321 | -- | -- | 686 321 |
| Derivatives | 219 176 | -- | 219 176 | -- |
| **Financial liabilities** | | | | |
| Bank loans | -280 389 | -- | -- | -280 389 |
| Non-bank loans | -1 268 242 | -- | -- | -1 268 242 |
| Bonds | -2 337 591 | -2 373 333 | -- | -- |
| Other non-current liabilities | -752 | -- | -- | -752 |
| Derivatives | -100 172 | -- | -100 172 | -- |
| **Total** | **-3 081 649** | **-2 373 333** | **119 004** | **-863 062** |

In 2019, the structure of the above table was adjusted. To make the data comparable, the Group also adjusted the data for 2018

The Group does not report financial instruments presented in current trade receivables and other assets and current trade and other payables at fair value where their carrying amount approximates their fair value.

## 33. Transactions with related parties

Related parties also include key management personnel. The remuneration of these individuals is disclosed in Note 9. In addition, these individuals are provided with standard benefits such as company cars and mobile phones.

The following related-party balances are included in the advance payments for inventories, receivables, liabilities, advances received, and loans and borrowings described in Notes 21, 23, 28, 29 and 30:

| 2019 | Receivables: Trade receivables | Receivables: Other receivables | Payables: Trade payables | Payables: Non-current loans and borrowings | Payables: Other payables |
|---|---|---|---|---|---|
| Parent company | -- | -- | -- | 1 564 269 | -- |
| Associated companies | 3 684 | 4 595 | -- | -- | -- |
| Other | 452 | -- | 106 406 | 201 754 | -- |
| **Total** | **4 136** | **4 595** | **106 406** | **1 766 023** | **--** |

| 2018 | Receivables: Trade receivables | Receivables: Other receivables | Payables: Trade payables | Payables: Non-current loans and borrowings | Payables: Other payables |
|---|---|---|---|---|---|
| Parent company | -- | -- | -- | 1 253 057 | -- |
| Associated companies | 4 602 | -- | -- | -- | -- |
| Other | 8 323 | -- | 115 463 | -- | -- |
| **Total** | **12 925** | **--** | **115 463** | **1 253 057** | **--** |

The expenses and revenues generated vis-à-vis related parties were as follows:

| 2019 | Revenues: Revenues from own products | Revenues: Revenues from services | Revenues: Revenues from the sale of materials | Revenues: Interest income | Revenues: Other operating revenues | Expenses: Materials and consumables | Expenses: Purchased services | Expenses: Interest expense |
|---|---|---|---|---|---|---|---|---|
| Parent company | -- | -- | -- | -- | -- | -- | -- | 111 212 |
| Associated companies | 35 894 | 535 | 399 | -- | -- | -- | 13 | -- |
| Other | 1 288 | 3 653 | 91 | 381 | 2 446 | 1 798 | 221 611* | 1 754 |
| **Total** | **37 182** | **4 188** | **490** | **381** | **2 446** | **1 798** | **221 624** | **112 966** |

* The amount does not include purchased services in the amount of TCZ 230 696, which were further re-invoiced and were not reported as expenses.

| 2018 | Revenues: Revenues from own products | Revenues: Revenues from services | Revenues: Revenues from the sale of materials | Revenues: Interest income | Revenues: Other operating revenues | Expenses: Materials and consumables | Expenses: Purchased services | Expenses: Interest expense |
|---|---|---|---|---|---|---|---|---|
| Parent company | -- | -- | -- | -- | -- | -- | -- | 72 231 |
| Associated companies | 33 194 | 535 | 238 | -- | -- | -- | -- | -- |
| Other | 1 745 | 7 921 | 359 | 1 144 | 2 955 | 2 259 | 159 799 | -- |
| **Total** | **34 939** | **8 456** | **597** | **1 144** | **2 955** | **2 259** | **159 799** | **72 231** |

Related party transactions were carried out in line with the arm's length principle.

## 34. Contingencies and commitments

As at 31 December 2019, the Group reported contingencies and commitments relating to planned capital expenditures of TCZK 75 364 (2018 – TCZK 12 656), of which TCZK 27 154 (2018 – TCZK 10 416) related to the reconstruction of buildings, TCZK 24 649 (2018 – TCZK 1 079) to machinery, TCZK 4 063 (2018 – TCZK 1 161) to cars, and TCZK 19 498 (2018 – TCZK 0) to other planned capital expenditures.

**Bank guarantees**

Under applicable contractual provisions, Group companies must provide bank guarantees to its clients to guarantee the quality of their performance, warranty coverage and advances paid. In addition, bid bonds are being issued.

| Bank guarantees received | Effective less than 1 year | Effective more than 1 year | Total at 31/12/2019 | Total at 31/12/2018 |
|---|---|---|---|---|
| Total in TEUR | 147 993 | 160 745 | 308 738 | 255 732 |
| Total in TCZK | 126 576 | 1 484 114 | 1 610 690 | 439 076 |
| Total in TPLN | 15 000 | -- | 15 000 | 15 000 |
| Total in TUSD | -- | -- | -- | -- |
| Total in TBGN | 2 | -- | 2 | 12 |
| Total in TRON | -- | -- | -- | -- |
| Total in TRUB | 1 265 967 | -- | 1 265 967 | 1 265 967 |

## 35. Litigations

*ŠKODA TRANSPORTATION a.s.*

The Arbitration Court attached to the Czech Chamber of Commerce and the Czech Agrarian Chamber issued a final and conclusive decision in proceedings with a significant customer, regarding the payment of part of a purchase price, default interest and the right to substitute an expressed intention to conclude an amendment regarding a purchase price increase, in favour of the Company and fully rejected the petition of the customer for the payment of a contractual penalty for the Company's alleged breach of its obligations under a purchase agreement, and a petition for the submission of a certification equivalent for Austria and Germany. All supplies relating to this litigation were paid in preceding years.

In 2015, the significant customer filed a legal action calling for the cancellation of the above arbitration ruling. In proceedings to cancel an arbitration ruling primarily procedural issues are dealt with. On 20 March 2019, the court dismissed the action for the cancellation of the arbitration ruling. The judgement has not yet been final and conclusive, as on 9 May 2019, the significant customer appealed against the judgment of the court to the High Court in Prague. Proceedings are in process at the High Court in Prague, the decision has not yet been issued. On 26 November 2019, the High Court in Prague suspended the proceedings until the arbitrator's expulsion proceedings were finalised (see below).

In 2015, the significant customer also filed an action for the exclusion of one arbitrator from the above arbitration proceedings. On 6 October 2016, the court in Prague halted the proceedings on the expulsion of an arbitrator until a decision had been taken in the above-mentioned proceedings. The significant customer filed an appeal with the Supreme Court against this decision. In particular, procedural issues were addressed in the appeal proceedings. On 27 February 2019, the Supreme Court dismissed the significant customers' appeal. On 6 June 2019, the significant customer filed a constitutional complaint against this decision of the Supreme Court with the Constitutional Court. On 19 November 2019, the Constitutional Court annulled the decision of the Supreme Court of 27 February 2019. Therefore, the matter will again be decided by the Supreme Court.

*ŠKODA VAGONKA a.s.*

The company was sued by UNION BUSINESS AGENCY LTD. with its registered office in London for non-payment of receivables amounting to TCZK 32 669. The receivables were acquired by the plaintiff through MICHIN spol. s r.o. via cession from the original creditor, ČKD DOPRAVNÍ SYSTÉMY a.s. (more precisely, from the liquidator of that company, Ing. Petr Dostál).

However, the receivables in question were transferred in full by MICHIN spol. s r.o. to third parties, namely to the companies BEC a.s., CLARK OIL, s.r.o. and A-Z LOKOMAT s.r.o., and to Mr Matěj Brož, an individual. These third parties (except for Mr Matěj Brož, whose receivable was settled by bank transfer) unilaterally offset the acquired receivables against their due liabilities.

After all previous decisions in this matter were annulled by the Supreme Court, on 3 May 2017 the Regional Court in Ostrava decided to dismiss UNION BUSINESS AGENCY LTD's action in its entirety. The plaintiff appealed against that judgment. On 31 July 2018, the High Court in Olomouc confirmed this negative judgment. The decision of the High Court in Olomouc came into force in November 2018. The Group established a provision of TCZK 122 242 as at 31 December 2017 in respect of the claimed amount plus related interest and fees. In 2018, with the proceedings finally coming to a close, the provision was released in full.

On 18 December 2018, the plaintiff filed an appeal with the Supreme Court against the decision of the High Court in Olomouc. On 27 March 2019, the Supreme Court of dismissed the plaintiff's appeal. On 5 June 2019, the plaintiff filed a constitutional complaint against the decision of the Supreme Court with the Constitutional Court. The Constitutional Court rejected the plaintiff's constitutional complaint by its resolution of 23 July 2019 (delivered to the Company on 22 January 2020). There is no appeal against the resolution of the Constitutional Court. The plaintiff has therefore (unsuccessfully) exhausted all available remedies in this case.

## 36. Environmental liabilities

*Pars nova a.s.*

The objective of the Company is to be environmentally friendly and to reduce any potential negative effects. The Company created a provision for environmental risks in the total amount of TCZK 45 155 (2018 – TCZK 45 155). The provision has been created to cover possible future expenses following from the environmental audit carried out by the company. At present, the final amount of future costs cannot be reliably determined. Consequently, the provision was set by Company management based on an estimate of future costs while considering all potential risks.

The Group is not aware of any information indicating the existence of uncovered environmental liabilities that would have an additional impact on the Group's financial statements for 2019 and 2018.

## 37. Development costs

In 2019, the Group's development costs totalled TCZK 1 166 030 (2018 – TCZK 1 156 079). The major development projects in 2019 were the development of double-deckers push-pull trainsets, EMU units, locomotives and low-floor trams and trolleybuses of various types.

From the above amount, the development costs of TCZK 277 749 for 2019 (2018 – TCZK 260 317) were capitalised in intangible assets. Other development costs are recognised in the income statement.

## 38. Government grants

The Group received the following government grants in 2019-2018:

| | 2019 | 2018 |
|---|---|---|
| Capitalised grants | 34 032 | 68 018 |
| Grants recognised in profit or loss | 41 527 | 12 985 |
| **Total** | **75 559** | **81 003** |

## 39. Material subsequent events

On 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic, and the Czech government declared a state of emergency on 12 March 2020. Responding to the potentially serious threat COVID-19 presents to public health, the Czech government authorities took measures to suppress the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors, and lock-downs of certain industries, pending further developments. In particular, airlines and railways suspended the international transport of people, schools, universities, restaurants, cinemas, theatres and museums, sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. In addition, major manufacturers in the automotive industry decided to shut-down their operations in both the Czech Republic and other European countries. Some businesses in the Czech Republic also instructed employees to remain at home and curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

- a disruption to business operations and economic activity in the Czech Republic, with a cascading impact on both upstream and downstream supply chains
- significant disruptions to businesses in certain sectors, both within Czech Republic and in markets with a high dependence on foreign supply chains, as well as to export-oriented businesses with a high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector
- a significant decrease in demand for non-essential goods and services
- an increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The Group operates primarily in the sector of manufacturing, modernisation and servicing of rolling stock, which has not been significantly affected by the outbreak of COVID-19. Its operations including supplies were uninterrupted, except for isolated cases.

Based on the publicly available information at the date these financial statements were authorised for issue, the Group's management considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the entity and the economic environment in which the Group operates, including the measures already taken by the Czech government and governments in other countries where the Group's major business partners and customers are located.

As at 31 December 2019, the Group's net working capital amounted to MCZK 3 959 and the cash and cash equivalent balance amounted to MCZK 1 570. In addition the Group had agreed but not used credit lines from banks totalling MCZK 3 300.

As at the date these financial statements were authorised for issue, the production of the Group is in operation with continuing supplies of materials. In the first stage, the Group contacted all key suppliers asking for information about the impact of the COVID-19 pandemic on their deliveries. As at the date these financial statements were authorised for issue, the majority of the suppliers confirmed that they were not significantly affected by the COVID-19 pandemic and would keep the deliveries on track (except for several suppliers from Italy, Spain and France). The Group has increased hygienic precautions in production plants, where the Group has forbidden any visits, and administrative employees work from home. The Group is using modern technology for distant access and videoconferences to protect the health of employees.

In the current uncertain situation, the Group cannot exclude that its suppliers (mainly foreign) will not be impacted in the future, depending on the development of the COVID-

19 pandemic and any potential future restrictive measures of the government (e.g. limitations to freight transportation or the free movement of people). Nevertheless, as at the date these financial statements were authorised for issue, the Group does not see any such indication.

The Group is analysing the possibility to receive compensation for damages from the Czech government. The Group is able to continue in its business activity even without state support, any compensation would nonetheless alleviate any adverse financial impacts on the Group.

Based on the Group´s analysis as of the date these financial statements were authorised for issue, the occurred situation does not have a significant impact on the CGU impairment test of goodwill (investments) or impairment tests of trademarks with an indefinite useful life that support the balances stated in Group's financial statements as at 31 December 2019. Impairment tests are sensitive mainly to changes of discount rates, but no material changes in these discount rates are currently indicated. The expected outage of sales in 2Q 2020 does not have a significant impact on impairment test mainly due to long term nature of the Group´s contracts.

Considering currently publicly available information, existing key performance indicators of the Group and the measures taken by management, the Group does not expect an immediate significant negative impact of the COVID-19 pandemic on the Group, its operation, financial situation and its results of operations. However, the Group cannot rule out the possibility that a longer closing period, stricter measures or the subsequent negative impact of these measures on the economic environment in which the Group operates will not have a negative impact on the Group, its financial situation and results in the medium and long term. The Group continues to monitor the situation closely and will respond to mitigate the impact of these events and circumstances according to current developments.

As at the date of preparation of the consolidated financial statements, the Group's management is not aware of any other significant subsequent events that would affect the financial statements as at 31 December 2019.

Approved on 30 April 2020

| | |
|---|---|
| ------------------------------------------ | ------------------------------------------ |
| Ing. Petr Brzezina | Ing. Jan Menclík |
| *Chairman of the board of directors* | *Member of the board of directors* |

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

# Independent Auditor's Report to the Shareholder of ŠKODA TRANSPORTATION a.s.

## Report on the Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the accompanying consolidated financial statements of ŠKODA TRANSPORTATION a.s. ("the Company") and its subsidiaries ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2019, consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year 31 December 2019 then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

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

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations 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 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

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*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Carrying amount of Goodwill**

Refer to Notes 3.(b) and 3.(s) (accounting policies) and 14. (financial disclosures).

| Key audit mater | How the audit matter was addressed |
|---|---|
| **The Group carried Goodwill at 4 113 101 TCZK as at 31 December 2019. As disclosed in note 3 (b) and 3 (s), this Goodwill is stated at cost less any imparment losess.**<br><br>**Annualy the Group determines recoverable amount of Goodwill and recognises impairment loss, if any.**<br>**Determining the recoverable amount of Goodwill requires from the Group a number of significant judgements and assumptions, especially in respect of the future cash flows, including the level of operating earnings before interests, taxes, depreciation and amortization (EBITDA) in the budgeted period, the growth rate in cash flows in the residual period as well as the discount rate.**<br><br>**Due to the above we considered the carrying amount of Goodwill to be a key audit matter.** | Our audit procedures included, among others:<br><br>- with the assistance from our internal valuation specialist challenging the Group's assumptions and judgements used to determine the recoverable amount of Goodwill and any impairment losses recognised. This included:<br>• evaluating the impairment testing models in terms of their compliance with the relevant accounting standards;<br>• assessing the macroeconomic assumptions related to discount rate by reference to market data,<br>• assessing the key assumptions used in estimate of future cash flows by performing a retrospective review of budgeting accuracy in prior years. In particular, we evaluted the assumed EBITDA level in the budgeted period by comparison to historical data of the Group while the growth rate assumed in the residual period by reference to industry data;<br><br>- evaluating the Group's sensitivity analysis of the impairment model to changes in the assumptions with the greatest potential effect on the test results, e.g. those relating to discount rate, growth rate in the residual period, the level of EBITDA in the budgeted period and considering whether the level of these assumptions indicates management bias;<br><br>- evaluating the accuracy and completeness of the consolidated financial statements disclosures relating to the Impairment of Goodwill against the relevant requirments of the accountanting framework. |

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**Revenue recognition**

Refer to Notes 3.(j) (accounting policies) and 7. (financial disclosures).

| Key audit matter | How the audit matter was addressed |
|---|---|
| **In the year ended 31 December 2019, the Group's principal revenue streams included sales of rolling stock and buses, as well as provision of maintenance and repair services. The above accounted for 83% of total revenues from customers in the consolidated financial statements.**<br>**Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Particular complexity is associated with the following factors:**<br><br>**- the Group evaluates for each performance obligation whether it is satisfied over time or at a point in time. The determination requires a thorough consideration of contractual provisions to understand when control of the promised goods or services is transferred to customers. Note 7 of the consolidated financial statements provides details of the timing and pattern of recognition of revenue for key revenue streams;**<br><br>**- significant uncertainty is associated with estimating the amount of contract consideration, in particular as regards variable consideration in the form of penalties associated primarily with rolling stock sales;** | Our audit procedures included, among others:<br><br>- obtaining understanding of and evaluating the Group's revenue recognition process and testing related internal controls, in particular the controls associated with contract authorization, approval of subsequent contract modifications as well as monitoring of progress towards completion;<br><br>- assessing the Group's revenue recognition policy, including methods for measuring progress towards complete satisfaction of a performance obligation using our knowledge of the Group as well as by reference to the relevant requirements of the financial reporting standards;<br><br>- for a sample of contracts with customers concluded during the year, inspecting contracts and making inquiries of directors and relevant finance personnel in order to challenge the Group's assessment with respect to, among others:<br>• appropriate identification of contracts including their approvals and commitment to perform the respective obligations by the parties to the contracts as well as probability of collecting the consideration due;<br>• determination of transaction price with particular focus on the estimated amount of variable consideration, such as penalties;<br>• determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts; in addition we inspected relevant sales invoices, handover documents and other documentation supporting the reported progress towards complete satisfaction of the contract;<br><br>— for a sample of contracts, assessing the reasonableness of the amount of revenue recognized for the year by:<br>• developing an independent expectation of revenue by reference to the provisions of the contract, the related budgets approved by management as well as other documentation supporting the progress towards complete satisfaction of a performance obligation reported as at the year-end;<br>• assessing the key assumptions used by the Group to determine the total costs to fulfil a |

| | |
|---|---|
| - **significant uncertainty is associated with estimating the** progress towards completion **of individual** contracts, **which is determined on expected costs, that are subject to** significant **judgements regarding** future prices and also due to potentially **unexpected developments** over the course of performance of such contracts.<br><br>**We considered revenue recognition to be associated with a significant risk of material misstatement in the consolidated financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.** | contract by inquiry of finance personnel and project managers as well as by performing a retrospective review of the accuracy of Group's estimates in the prior accounting periods; in addition, we considered the actual outcome of contracts that were completed after the year end;<br><br>— examining whether the Group's revenue recognition-related disclosures in the consolidated financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework. |

***Other Information***

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the separate and the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those 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 matters that are also presented in the separate and the consolidated financial statements is, in all material respects, consistent with the separate and the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

***Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements***

The statutory body is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body 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 statutory body 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 statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board, in collaboration with the Audit Committee, is responsible for overseeing the Group's financial reporting process.

***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 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 consolidated financial statements.

As part of an audit in accordance with the above regulations, 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 by the statutory body.
- Conclude on the appropriateness of the statutory body's 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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**Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

*Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Group by the General Meeting of Shareholders on 12 September 2018 and our uninterrupted engagement has lasted for 17 years.

*Consistency with Additional Report to Audit Committee*

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 3 April 2020 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the consolidated financial statements or consolidated annual report.

*Statutory Auditor Responsible for the Engagement*

Karel Růžička is the statutory auditor responsible for the audit of the consolidated financial statements of ŠKODA TRANSPORTATION a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague
30 April 2020

KPMG Česká republika Audit, s.r.o.
Registration number 71

Ing. Karel Růžička
Partner
Registration number 1895

# ŠKODA TRANSPORTATION a.s.

## Separate financial statements for 2019

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

Translation note

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

# Separate income statement for 2019 and 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Note | 2019 TCZK | 2018 TCZK |
|---|---|---|---|
| *I. Continuing operations* | | | |
| Revenues from goods sold | | -- | -- |
| Revenues from products and services | 5 | 3 292 826 | 4 496 541 |
| Other operating revenues | 5 | 141 911 | 157 999 |
| *Total revenues* | | *3 434 737* | *4 654 540* |
| Cost of goods sold | | -- | -- |
| Change in inventory of own production (increase - / decrease +) | | 29 016 | 98 474 |
| Own work capitalised (increase - / decrease +) | | 61 847 | 1 753 |
| Cost of sales | 6 | -2 714 282 | -3 176 776 |
| Personnel expenses | 7 | -940 780 | -815 757 |
| Depreciation and amortisation | 15, 16 | -268 108 | -232 508 |
| Impairment of non-current assets (increase - / decrease +) | 16 | -7 562 | 2 162 |
| Other operating expenses | 8 | -446 968 | -320 663 |
| Other operating income | 9 | 427 160 | 154 892 |
| *Total operating expenses* | | *-3 859 677* | *-4 288 423* |
| Profit/loss on disposal of non-current assets | | 42 | 1 839 |
| **Operating profit/loss** | | **-424 898** | **367 956** |
| Loss on investments | 10 | 21 720 | 7 843 |
| Finance income | 11 | 65 035 | 125 035 |
| Finance expenses | 12, 17 | -253 464 | -249 165 |
| Other finance income and expenses (expense - / income +) | | 30 099 | 139 358 |
| **Profit before tax** | | **-561 508** | **391 027** |
| Income tax | 13 | 104 210 | 35 127 |
| **Profit from continuing operations** | | **-457 298** | **426 154** |
| **II. Profit for the period** | | **-457 298** | **426 154** |

The notes form an integral part of the consolidated financial statements.

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## Separate statement of comprehensive income for 2019 and 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Note | 2019 TCZK | 2018 TCZK |
|---|---|---|---|
| **Profit for the period** | | **-457 298** | **426 154** |
| **Other comprehensive income** | | **206 652** | **-248 659** |
| *Items which will be reclassified into profit and loss* | | | |
| Gain/(loss) on cash flow hedges | | 255 019 | -306 879 |
| Deferred tax on items of other comprehensive income | 13 | -48 367 | 58 220 |
| *Items which will not be reclassified into profit and loss* | | -- | -- |
| **Total comprehensive income for the period** | | **-250 646** | **177 495** |

The notes form an integral part of the consolidated financial statements.

# Separate statement of financial position as at 31 December 2019 and 31 December 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Note | 31.12.2019<br>TCZK | 31.12.2018<br>TCZK |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 2 063 791 | 1 898 327 |
| Right-of-use asset | 17 | 64 637 | |
| Investment property | | -- | -- |
| Intangible assets | 15 | 2 086 014 | 1 919 317 |
| Assets under construction | 15, 16 | 41 916 | 4 815 |
| Goodwill | | -- | -- |
| Investments in subsidiaries | 18 | 8 540 843 | 8 699 613 |
| Investments in associates and joint ventures | 19 | 18 427 | 16 606 |
| Deferred tax asset | | -- | -- |
| Derivatives | 30 | 79 377 | 143 402 |
| Other non-current receivables | 22 | 287 118 | 281 061 |
| *Total non-current assets* | | *13 182 123* | *12 963 141* |
| **Current assets** | | | |
| Inventories | 20 | 2 175 103 | 1 698 127 |
| Trade and other receivables | 21 | 3 728 017 | 3 015 624 |
| Contract asset | 5 | 3 237 271 | 2 676 142 |
| Current income tax receivable | | 108 | 60 715 |
| Derivatives | 30 | 184 082 | 62 278 |
| Cash and cash equivalents | 23 | 933 437 | 1 237 562 |
| *Total current assets* | | *10 258 018* | *8 750 448* |
| ***Total assets*** | | ***23 440 141*** | ***21 713 589*** |

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| EQUITY AND LIABILITIES | | | |
|---|---|---|---|
| **Equity attributable to majority owners** | | | |
| Registered capital | | 3 150 000 | 3 150 000 |
| Capital contributions | | 4 227 673 | 4 225 338 |
| Revaluation of assets | | -- | -- |
| Fair value changes relating to hedges and foreign currency translation | | 309 164 | 102 512 |
| Retained earnings | | 5 182 403 | 5 613 736 |
| ***Total equity*** | 24 | ***12 869 240*** | ***13 091 586*** |
| **Non-current liabilities** | | | |
| Long-term loans, borrowings and securities | 28 | 1 564 269 | 3 555 035 |
| Non-current finance lease liabilities | 17 | 49 093 | -- |
| Deferred tax liability | 13 | 162 251 | 187 558 |
| Non-current provisions | 29 | 26 830 | 18 173 |
| Other non-current liabilities | 27 | 2 262 966 | 1 936 674 |
| Derivatives | | 17 | 54 582 |
| *Total non-current liabilities* | | *4 065 426* | *5 752 022* |
| **Current liabilities** | | | |
| Trade and other payables | 26 | 2 766 527 | 1 963 787 |
| Current income tax liability | | -- | -- |
| Short-term loans, borrowings and securities | 28 | 3 091 874 | 235 714 |
| Current finance lease liabilities | 17 | 17 039 | -- |
| Current provisions | 29 | 621 191 | 660 145 |
| Derivatives | 30 | 8 844 | 10 335 |
| *Total current liabilities* | | *6 505 475* | *2 869 981* |
| ***Total liabilities*** | | ***10 570 901*** | ***8 622 003*** |
| ***Total equity and liabilities*** | | ***23 440 141*** | ***21 713 589*** |

The notes form an integral part of the consolidated financial statements.

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# Separate statement of cash flow for 2019 and 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Note | 2019 TCZK | 2018 TCZK |
|---|---|---|---|
| **I. Cash flows from operating activities** | | | |
| *Profit before tax* | | *-561 508* | *391 027* |
| Adjustments for: | | | |
| - depreciation and amortisation | 14, 15 | 268 108 | 232 508 |
| - impairment of non-current assets | 15, 16 | -- | -2 162 |
| - profit/loss on disposal of non-current assets | | -42 | -1 983 |
| - impairment of current assets | | 1 304 | 31 337 |
| - gain on investments | | -21 720 | -7 693 |
| - share of profit of associated companies | | -- | -- |
| - loan fees, interest expense and income | | 186 905 | 125 526 |
| - other non-cash transactions | | 147 404 | -2 473 |
| - change in provisions | | -39 591 | 16 648 |
| - share-based payment transactions | | -- | -- |
| - profit from discontinued operations | | -- | -- |
| *Total adjustments* | | *542 368* | *391 708* |
| ***Operating cash flows before changes in working capital*** | | ***-19 140*** | ***782 735*** |
| Change in inventories | | -470 718 | -32 177 |
| Change in trade and other receivables | | -863 256 | 219 681 |
| Change in trade and other payables | | 1 675 043 | 2 146 400 |
| ***Cash flows from operating transactions*** | | ***321 929*** | ***3 116 639*** |
| Interest received including sales discount | | 42 321 | 97 680 |
| Interest and bank fees paid | | -78 802 | -114 296 |
| Income tax paid | | -3 267 | -- |
| Payments from capital contributions covering operating expenditure | | 60 315 | 92 590 |
| ***Net cash flows from operating activities*** | | ***342 496*** | ***3 192 613*** |
| **II. Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | -58 370 | -354 286 |
| Acquisition of intangible assets | | -306 732 | -430 520 |
| Acquisition of financial investments | | -11 250 | -105 335 |
| Loans provided - utilisation | | -1 087 204 | -1 284 927 |
| Proceeds from disposal of non-current assets other than financial investments | | 8 185 | 4 957 |
| Proceeds from disposal of financial investments | | -- | 10 000 |
| Loans provided - repayment | | 46 793 | 141 000 |
| Interest received | | -- | -- |
| Dividends received | | 17 125 | 7 693 |
| ***Net cash flows from investing activities*** | | ***-1 391 453*** | ***-2 011 418*** |

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| III. Cash flows from financing activities | | |
|---|---|---|
| Proceeds from contributions made to registered capital | -- | -- |
| Proceeds from equity contributions made outside of registered capital | -- | -- |
| Bank loans and borrowings received - utilisation | 946 315 | 455 171 |
| Issue of debt securities | -- | -- |
| Payments made from equity (except for dividends) | -- | -5 544 |
| Repayment of debt securities | -- | -- |
| Repayment of finance lease liabilities | -15 636 | -- |
| Bank loans and borrowings received - repayment | -200 058 | -914 620 |
| Interest, loan fees and dividends paid (including withholding tax) | -- | -- |
| ***Net cash flows from financing activities*** | ***730 621*** | ***-464 993*** |
| **Net increase/decrease in cash and cash equivalents** | **-318 336** | **716 202** |
| **Cash and cash equivalents at the start of the period** | **1 251 773** | **521 360** |
| **Cash and cash equivalents at the end of the period** | **933 437** | **1 237 562** |

The notes form an integral part of the consolidated financial statements.

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# Separate statement of changes in equity for 2019 and 2018

in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Registered capital | Capital contributions | Fair value changes relating to hedges and foreign currency translation | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Opening balance at 1.1.2018** | 3 150 000 | 4 212 779 | 351 171 | 5 181 985 | 12 895 935 |
| Change in accounting methods | – | – | – | 10 221 | **10 221** |
| Correction of prior period figures | – | – | – | – | – |
| Adjusted balance | 3 150 000 | 4 212 779 | 351 171 | 5 192 206 | **12 906 156** |
| Profit for 2018 | – | – | – | 426 154 | **426 154** |
| Components of other comprehensive income | – | – | -248 659 | – | **-248 659** |
| Total comprehensive income for 2018 | – | – | -248 659 | 426 154 | **177 495** |
| Transaction with owners | | | | | |
| Change in registered capital | – | – | – | – | – |
| Dividends and other payments from equity | – | – | – | – | – |
| Other contributions to equity | – | 13 479 | – | – | **13 479** |
| Other equity transactions | | | | | |
| Distribution of equity to non-owners | – | -5 544 | – | – | -5 544 |
| Transfer from other components of equity to retained earnings | – | – | – | – | – |
| Transfer of retained earnings to other components of equity | – | 4 624 | – | -4 624 | – |
| **Closing balance at 31.12.2018** | 3 150 000 | 4 225 338 | 102 512 | 5 613 736 | 13 091 586 |

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# Separate statement of changes in equity for 2019 and 2018

## in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

| | Registered capital | Capital contributions | Fair value changes relating to hedges and foreign currency translation | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Opening balance at 1.1.2019** | 3 150 000 | 4 225 338 | **102 512** | 5 613 736 | **13 091 586** |
| The effect of MOVO merge | – | **3 199** | – | 25 101 | **28 300** |
| Correction of prior period figures | – | – | – | – | – |
| Adjusted balance | 3 150 000 | 4 228 537 | 102 512 | 5 638 837 | **13 119 886** |
| Profit for 2019 | – | – | – | -457 298 | **-457 298** |
| Components of other comprehensive income | – | – | 206 652 | – | **206 652** |
| Total comprehensive income for 2019 | – | – | 206 652 | -457 298 | **-250 646** |
| Transaction with owners | | | | | |
| Change in registered capital | – | – | – | – | – |
| Dividends and other payments from equity | – | – | – | – | – |
| Other contributions to equity | – | – | – | – | – |
| Other equity transactions | | | | | |
| Distribution of equity to non-owners - utilisation of social fund | – | -864 | – | 864 | – |
| Transfer from other components of equity to retained earnings | – | – | – | – | – |
| Transfer of retained earnings to other components of equity - contribution to social fund | – | – | – | – | – |
| **Closing balance at 31.12.2019** | 3 150 000 | 4 227 673 | 309 164 | 5 182 403 | 12 869 240 |

The notes form an integral part of the consolidated financial statements.

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## Contents of the notes to the separate financial statements:

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# 1. Description and principal activities

*Establishment and description of the Company*

ŠKODA TRANSPORTATION a.s. ("the Company") was established as a limited liability company on 23 February 1995 and was recorded in the Commercial Register kept by the Court in Pilsen on 1 March 1995.

The principal activities of the Company are the production, development, assembly, refurbishment and repair of transportation equipment; repair of other means of transportation and industrial machines, testing of rolling stock for railway, tram and trolley bus lines; technical examination and testing of specific technical equipment; metalworking, locksmithing and tool-making; production, installation and repair of electrical machinery and equipment, electronic and communication equipment; repair of road motor vehicles; production, trade and services not specified in Appendices 1 to 3 of the Trade Licence Act; accounting advisory services, bookkeeping services, and keeping of tax records.

*Ownership structure*

The sole shareholder of the Company as at 31 December 2019 is PPF Beer Topholdco B.V. The sole shareholder holds one registered ordinary share in book-entry form in the nominal value of TCZK 3 134 100 and one registered ordinary share in book-entry form in the nominal value of TCZK 15 900.

As at 31 December 2019, Petr Kellner indirectly held a majority share (88.93%) in the voting rights of the Company through PPF Beer Topholdco B.V. from the PPF Group N.V. that he controls.

*Registered office*

ŠKODA TRANSPORTATION a.s.
Emila Škody 2922/1
301 00 Plzeň, Jižní Předměstí
Czech Republic

*The Company's identification number is 626 23 753.*

*Members of the board of directors and supervisory board as at 31 December 2019*

*Members of the board of directors*

Ing. Petr Brzezina (chairman)
Ing. Tomáš Ignačák, MBA
Ing. Jan Menclík
Ing. Zdeněk Majer
Ing. Zdeněk Sváta

*Members of the supervisory board*

Ing. Ladislav Chvátal
doc. Ing. Michal Korecký, Ph.D.
Ing. Antonín Roub

*Changes in the Commercial Register*

In 2019, the following changes were recorded in the Commercial Register:

- On 19 January 2019, Ing. Tomáš Ignačák, MBA was removed as vice-chairman of the board of directors and at the same time elected vice-chairman of the board of directors. These changes were recorded in the Commercial Register on 5 April 2019.
- On 19 January 2019, Ing. Zdeněk Sváta was removed as member of the board of directors and at the same time elected member of the board of directors. These changes were recorded in the Commercial Register on 5 April 2019.
- On 19 January 2019, Ing. Jaromír Šilhánek was removed as member of the board of directors. This change was recorded in the Commercial Register on 5 April 2019.
- On 1 February 2019, Ing. Zdeněk Majer was elected member of the board of directors. This change was recorded in the Commercial Register on 5 April 2019.
- On 5 March 2019, Ing. Jaroslav Zoch was removed as member of the board of directors. This change was recorded in the Commercial Register on 5 April 2019.
- On 7 March 2019, Ing. Antonín Roub was elected member of the supervisory board. This change was recorded in the Commercial Register on 5 April 2019.
- The legal existence of the subsidiary MOVO spol. s. r. o. was terminated as at 1 February 2019 as a result of a merger by acquisition. Its assets and liabilities, rights and duties, receivables, payables and employees were transferred to ŠKODA TRANSPORTATION a.s.

*Organisational structure*

The Company is divided into the following business units:

- Czech Republic, Slovakia, Poland, America
- Western Europe
- Commonwealth of Independent States (Russia, Ukraine)
- Balkans, Middle East
- Diesel Locomotives.

Additional organisational units of the Company include: procurement; quality; finance; maintenance; full maintenance (fullservis) – Prague; human resources; execution; engineering; planning; logistics; research and development; technology and production; strategy, communication and marketing; legal issues, investments and property administration; business development, IT services and digitalisation.

## 2. Basis of preparation of the separate financial statements

**Statement of compliance**

These separate financial statements ("the Financial Statements" or "the Non-Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and provide a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance and cash flows for the year ended 31 December 2019. The separate financial statements have been prepared on a going concern basis.

Except for the statement of cash flows, the Financial Statements have been prepared on the accrual basis of accounting.

These separate Financial Statements have been approved for issue by the board of directors of ŠKODA TRANSPORTATION a.s. on 30 April 2020.

These are the separate Financial Statements (within the meaning of IAS 27) of the Company that has an ownership interest in a subsidiary. The IFRS consolidated financial statements have been prepared on the level of ŠKODA TRANSPORTATION a.s. The IFRS consolidated financial statements of ŠKODA TRANSPORTATION a.s. are available at ŠKODA TRANSPORTATION a.s.'s registered office.

In preparing these separate financial statements, the Company used new or amended standards and interpretations that are to be applied for accounting periods beginning on 1 January 2019. The impact of the implementation of IFRS 16 is described below. Other standards effective from 1 January 2019 did not have a significant impact on the Company.

**New standards and interpretations not applied**

The following new standards and amendments to standards were not yet effective for the year ended 31 December 2019 and were not applied in preparing these separate financial statements:

*IFRS, IFRS amendments, and interpretations approved by the European Union, but not yet effective:*

- Amendments to References to the Conceptual Framework in IFRS Standards
  - The Company´s management expects that the amendments, when initially applied, will not have a material impact on the Company´s separate financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)
  - The Company´s management expects that the amendments, when initially applied, will not have a material impact on the Company´s separate financial statements.
- Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform
  - The Company´s management expects that the amendments, when initially applied, will not have a material impact on the Company´s separate financial statements.

*Standards and interpretation endorsed by the International Accounting Standards Board (IASB) waiting for endorsement by the EU:*

- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
  - The Company´s management expects that the amendments, when initially applied, might have a material impact on the Company´s separate financial statements as the Company has ownership interest in associates. However, the quantitative impact of the adoption of the amendments can only be assessed in the year of the initial application of the amendments, as this will depend on the transfer of assets or businesses to the associate that take place during that reporting period.
- IFRS 17 - Insurance Contracts
  - The Company´s management expects that the new standard, when initially applied, will not have a material impact on the Company´s separate financial statements because the Company does not operate in the insurance industry.
- Amendments to IFRS 3 Business Combinations
  - The Company´s management expects that the amendments, when initially applied, will not have a material impact on the Company´s separate financial statements.
- IFRS 14 - Regulatory Deferral Accounts
  - The Company´s management expects that the amendments, when initially applied, will not have a material impact on the Company´s separate financial statements.

**Basis of measurement**

Except for financial derivatives measured at fair value, these separate financial statements have been prepared on the historical cost basis.

These separate financial statements are presented in Czech crowns, with all financial information rounded to the nearest thousand.

**Estimates and assumptions**

In preparing the separate financial statements, the Company's management uses estimates and makes assumptions that, as at the date of preparation of the separate financial statements, affect the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions are based on experience and various other factors that are deemed appropriate under the conditions based on which estimates of the carrying amounts of assets and liabilities are applied and that are not readily available from other sources. Actual results may vary from the estimates.

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

Information about areas of significant uncertainty regarding estimates and critical judgements in applying accounting policies that most significantly affect the amounts recognised in the Financial Statements is primarily described in the following notes:

- Note 5 – Revenues, Contract assets
- Note 13 – Deferred tax
- Note 15 – Intangible assets
- Note 16 – Property, plant and equipment and non-current assets under construction
- Note 18 – Investments in subsidiaries
- Note 20 – Inventories
- Note 21 – Trade receivables and other assets
- Note 22 – Other non-current receivables and loans
- Note 29 – Provisions
- Note 30 – Derivatives

Impairment testing in respect of accounts specified in Notes 15, 16, 18 and 20 is contingent upon key assumptions regarding recoverable amounts (including the recovery of development costs).

## 3. Significant accounting policies applied by the Company

### a) Property, plant and equipment

*Assets owned by the Company*

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. The cost of internally produced assets includes the cost of materials and direct labour, including an estimate of the costs of dismantling and removing the asset and restoring the site and an allocation of production overheads.

*Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the asset's estimated useful life. Land is not depreciated. The depreciation period of items of plant and equipment is as follows:

| Assets | Method | Period |
|---|---|---|
| Buildings and structures | Straight-line | 20 - 50 years |
| Machinery and equipment | Straight-line | 4 - 15 years |
| Vehicles | Straight-line | 4 - 10 years |
| Low value non-current assets | Straight-line | 2 years |
| Fixtures | Straight-line | over the project duration |

The depreciation of items of plant and equipment starts in the period when they are ready for use, i.e. from the following month in which they are brought to the location and condition enabling their use as intended by the Company's management. Depreciation is provided over an asset's estimated useful life, considering its residual value. Components of items of plant and equipment that are significant to the item as a whole are depreciated separately in accordance with their estimated useful lives.

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Items of property, plant and equipment under construction comprise buildings and equipment under construction and are stated at cost, which includes the cost of constructing the asset, and other direct expenses. Items of property, plant and equipment under construction are not depreciated until they are fit for their intended use.

As at the date of preparation of the Financial Statements, the Company reviews the method and period of depreciation of the individual groups of assets and makes possible adjustments.

Gain or loss on the sale or disposal of an asset is determined as the difference between the income from the sale and the net book value of the respective asset. The difference is recognised in the income statement.

*Subsequent expenditure*

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits associated with the item of property, plant and equipment will flow to the Company and the cost can be measured reliably. All other costs are expensed as incurred.

## b) Intangible assets

Intangible assets, except for trademarks, are measured at cost less accumulated amortisation and impairment losses. Intangible assets with definite useful lives are amortised over their estimated useful lives, starting from the following month when they are ready for use, i.e. when they are in a location and in a condition required for their use as intended by management.

Trademarks are considered assets with unlimited useful lives that are stated at cost and are not amortised.

The amortisation period for intangible assets owned by the Company ranges from 3 to 10 years, with assets being amortised on a straight-line basis. The appropriateness of the amortisation periods and rates used is reviewed on a regular basis (at least at the end of each accounting period), with any changes in amortisation being applied in subsequent periods. Intangible assets are amortised over the following periods:

| Assets | Method | Period |
|---|---|---|
| Software | Straight-line | 3 years |
| Development costs | Straight-line | 4 - 10 years |
| Development – specific projects | Output-based | over the duration of the project |

*Subsequent expenditure*

Subsequent costs relating to a capitalised intangible asset are capitalised only if they increase the future economic benefits generated by the asset to which they relate. All other costs are recognised in profit or loss as incurred.

## c) Leases

*Leased assets (accounting policy effective until 31 December 2018)*

Leased assets for which the Company substantially assumes all risks and rewards incidental to ownership are classified as finance leases.

At the inception of the lease, assets acquired under finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments. The interest component of the finance charge is recognised in the income statement over the lease term to achieve a constant rate of interest on the remaining balance of the liability for each period. The discount rate used in calculating the present value of the minimum future lease payments is the interest rate implicit in the lease. Assets acquired under finance leases are depreciated over their useful lives.

Leases under which the lessor retains a substantial part of the risks and rewards incidental to ownership are classified as operating leases. Payments under operating leases (reduced by incentives provided by the lessor) are recognised as an expense on a straight-line basis over the lease term, unless another method is more representative of the time pattern of the user's benefit.

*Leased assets (accounting policy effective from 1 January 2019)*

As of 1 January 2019, the Company adopted the new standard IFRS 16 regulating the presentation of assets, which are used under a lease contract (rental).

Standard IFRS 16 Leases replaces IAS 17 Leases and related interpretations. The standard abolishes the current dual accounting model for lessees and instead requires companies to report most leases in the balance sheet according to one model, eliminating the difference between operating and financial leasing.

**Lease definition**

Until 31 December 2018, the Company assessed whether a contract was a lease or included a lease under IFRIC 4 - Determining whether an arrangement contains a lease. Now the Company assesses whether a contract is a lease or includes a lease under the new lease definition. Under IFRS 16, a contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The identified asset is a specific asset that is physically separable, and the supplier does not have a substantial right to replace it with another asset. The right to control the use of the identified asset is transferred to the Company if the Company has the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

The Company used a practical expedient and did not reassess whether a contract is or contains a lease at the date of initial application. Thus, for contracts concluded before 1 January 2019, the Company applied IFRS 16 to all contracts that were assessed as lease in accordance with IAS 17 and IFRIC 4.

**The Group as a lessee - significant accounting policies**

As a lessee, the Company is required to recognise in the statement of financial position the lease asset as 'a right-of-use asset', representing its right to use the leased underlying asset, and as a lease liability, representing its obligation to pay lease payments.

At the commencement date, the right-of-use asset is measured at cost and subsequently at cost less any accumulated depreciation, accumulated impairment losses and adjusted for any remeasurement of the lease liability (cost model). The right-of-use asset is depreciated on a straight-line basis over the term of the lease or, if shorter, the useful life of the asset.

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease if that rate can be readily determined. If the rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. In general, the Company uses the incremental borrowing rate determined for the relevant lease contract as a discount rate, considering the specific lease term.

After the commencement date, the Company measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The Company recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

The Company used its judgment in determining the lease term for lease contracts that include a renewal option, early termination or are concluded for an indefinite period. The lease term represents the non-cancellable period for which the Company has the right to use an underlying asset, that includes periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

For a contract that is or contains a lease, the Company shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Company shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined based on the price the lessor or a similar supplier would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company shall estimate the stand-alone price, maximising the use of observable information.

For contracts that contains non-leasing components, the Company individually assesses the materiality and separability of those components. If the non-leasing components appear to be immaterial and at the same time their price is not separately stated in the contract, they will be part of the leasing calculation. In the case of immaterial non-leasing components whose price is separately recognisable (e.g. an advance payment is invoiced for additional services that are not part of the payment schedule for leased asset), the Company will expense these additional services and they will not be capitalised into the right-of-use asset. Significant and separable non-leasing components are also measured separately.

The Company uses a reporting exemption and elected not to apply the requirements of IFRS 16 for short-term leases (the non-cancellable lease term is up to 12 months inclusive) and leases for which the underlying asset is of low value (TUSD 5 per individual separable asset). Lease payments associated with these contracts are recognised as expenses (services) on a straight-line basis over the term of the contract.

Leases of underlying assets with low value are mainly leases of low value IT equipment.

In compliance with IFRS 16, the Company does not recognise the leases of intangible assets as a lease under IFRS 16.

### The Company as a lessor

The Company is not the lessor in respect of leases that meet the definition of a lease.

The Company recognises lease payments from operating leases as income on a straight-line basis or using another systematic basis.

The Company does not sublease any leased assets to others.

## d) Long-term investments

Long-term investments comprise equity investments and are stated at cost, which includes expenses directly incurred in connection with the acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges. If a particular ownership interest has been impaired, an impairment loss is recognised.

## e) Inventories

Inventory is stated at the lower of cost and net realisable value. The cost of inventory includes expenses incurred in connection with the acquisition of the inventory, in particular freight costs and insurance premiums, as well as direct materials and, where appropriate, an allocation of wages and manufacturing overheads incurred in bringing the inventories to their current location and condition. Net realisable value is the estimated selling price reduced by estimated completion and selling costs.

Raw materials inventory is stated at cost, which includes the purchase price of the inventory and related customs duties and in-transit storage and freight costs incurred in delivering the inventory to the manufacturing facility.

The cost of materials is determined using the weighted average method.

Work in progress and finished goods inventories are stated at internal cost, which includes direct production costs and, where relevant, an allocation of indirect production costs.

## f) Receivables and payables

Trade receivables and other assets are stated at net book value.

Trade payables and other liabilities are stated at net book value.

*Contract assets*

Receivables from a contract asset represent the Company's title to consideration in exchange for goods or services (according to the contracts with customers) which the Company transferred to the customer and which include:

a) costs incurred plus recognised profits, less

b) the sum of recognised losses and progress billings, including the offset advances received

for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings and advances received from customers.

The contract asset becomes a receivable once the Company's unconditional right to consideration is acquired.

*Contract liability*

The contract liability represents a liability of the entity to transfer goods or services to the customer for which the entity received a consideration from the customer. The consideration received relates to advances received or to ongoing invoicing in the event of contracts with customers the revenues from which are recognised over time. Contract liabilities are recognised as revenue at the moment the performance obligation is fulfilled (or partially fulfilled).

## g) Cash and cash equivalents

Cash equivalents are highly liquid investments and comprise short-term cash deposits with a maximum original maturity of three months.

## h) Equity

*Registered capital*

The Company's registered capital comprises the sole shareholder's fully paid-up contribution and is stated at nominal value in accordance with the Company's articles of association and its entry in the Commercial Register.

*Capital contributions*

Capital contributions comprise contributions made outside of registered capital as well as the allocation and distribution of funds to/from the social fund.

*Fair value changes in respect of hedging*

Fair value changes in respect of hedging comprise changes in the fair value of hedging derivatives and related deferred tax.

*Retained earnings*

Retained earnings include amounts arising from profit distribution/loss settlement, retained profits and the net profit/loss for the current period.

## i) Employee benefits

*Defined contribution plans*

The government of the Czech Republic is responsible for providing employees with a basic retirement pension scheme. The Company pays regular contributions to the state budget for the basic pension scheme. These contributions are derived from the amount of wages and salaries paid and are recognised as expenses when the wage liability originates.

*Other non-current employee benefits*

These comprise future bonuses to which employees are entitled in connection with reaching a certain age or number of years of service, or upon retirement. These benefits are discounted to present value. The discount rate is the yield on government bonds whose maturity approximates the maturity of obligations arising from employee benefits. Year-on-year changes are recognised in the income statement.

## j) Provisions

Provisions are recognised in the statement of financial position when, as a result of a past event, the Company has a legal or constructive obligation and an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is significant, the expected future cash flows are discounted at a rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

*Provision for warranty repairs*

A provision for warranty repairs is recognised when a product or service is delivered to the customer. The provision is calculated based on historical data and an individual assessment of potential future expenses, while considering additional circumstances known as at the date of preparation of the separate financial statements.

*Provision for risks*

The provision for risks primarily includes provisions for penalties arising from contractual relationships and is only recognised if it is probable that an outflow of resources will be needed and that a reliable estimate of the obligation can be made.

*Provision for onerous contracts*

A provision for onerous contracts is recognised when the total expected income from a contract is lower than the total estimated costs of the contract.

*Provision for litigations*

A provision for litigations is created in the amount of expected future performance based on a legal analysis prepared for the Company's management, if a future outflow of resources is probable and the value of the liability can be reliably estimated.

## k) Revenue recognition

As at 1 January 2018, the Company adopted and applied the new standard IFRS 15 governing the recognition of revenue from contracts with customers. The Company applied 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) the Company 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 or at the point in time when control of the products, goods or services is transferred to the customer.

The impact of the application of the new standard IFRS 15 Revenue from Contracts with Customers is described in Note y) Application of new accounting standards. In accordance with IFRS 15, the Company recognises revenues from customer contracts for which it is probable that the Company will collect consideration and from which no unilateral enforceable right to terminate a contract without compensating the other party (or parties) follows, as specified below:

| Type of product/service | Character of performance | Revenue recognition |
|---|---|---|
| **Trams, locomotives and suburban units, and metro** | The Company supplies its customers with highly specific assets, adjusted according to the requirements of the customers, which are thus not easily interchangeable with other assets. The option of an alternative use of these assets is limited by the actual possibility to gain another customer who would like to purchase a finished asset while keeping its parameters, without significant additional adjustments and without a requirement on a significant reduction of the selling price. Billing and payment terms and conditions are determined for each contract on an individual basis. A contract may include advances paid by the customer before the start of the project or during the project. Advances received are secured by bank guarantees. | Revenues are recognised over time, and the input method is used to measure progress. This method better demonstrates the stage of completion than the output method due to the long-term nature of the production of these products (the production of one unit usually takes more than 6 months). |
| **Full maintenance and other regular services** | A regular service where the customer gradually receives and consumes the benefits from the performance of the contract. Billing and payment terms are determined for each contract on an individual basis. The transaction price for full maintenance includes a variable consideration which depends on the number of passed kilometres of the vehicle subject to the maintenance. | Revenues are recognised over time, and the output method is used to measure progress according to the extent of the provided performance. Recognised revenues include a variable consideration which corresponds to the actual number of passed kilometres for the reported period. |
| **Rolling stock modernisation** | Modernisation represents an improvement to the asset which is under the customer's control over the period of the modernisation. The invoice is issued after having handed over the modernised vehicle or its part to the customer and the terms of payment are set individually for each individual contract. | Revenues are recognised over time, and the output method is used to measure progress (regarding the short time necessary for the modernisation of one unit the input methods enables a trustworthy presentation of the progress in satisfaction of a performance obligation. |
| **Spare parts** | The customer gains control over the asset at the moment of delivery. The invoice is issued as at the date of delivery of the asset. Terms of payment are determined for each contract on an individual basis. | Revenues are recognised at a point in time at the moment of delivery to the customer. |
| **Repairs, workings, service, and other one-off services** | These services are one-off services and the customer receives their benefits after their completion. An invoice is issued after having handed over the provided service to the customer, and the terms of payment are set individually for each individual contract. | Revenues are recognised at a point in time at the moment of delivery of the performance to the customer. |

For contracts not meeting the above criteria, the Company recognises the revenue only at the moment of having met all obligations following from the contract (complete delivery of the goods or services) and having obtained a non-refundable consideration from the customer.

Two or more contracts concluded simultaneously or almost simultaneously with the same customer (or related parties of this customer) as a package with a single business goal, where the amount of consideration to be paid under one contract depends on the price or performance of the other contract, or where goods and services promised in these contracts represent a single liability, are reported as a single contract.

The transaction price under the contract is allocated to each distinct performance following from the contract (expected by the customer). These are supplies from which the customer has a separate benefit and that are handed over to the customer separately. In the event of a change in the transaction price, the amounts allocated in connection with a change in the price to the fulfilled performance obligation are recognised as revenues or as a reduction in revenues in the period in which the transaction price changes.

If the consideration promised in the contract includes a variable amount, the amount of the consideration to which the Company will be entitled in exchange for the transfer of the promised goods or services to the customer must be estimated. Variable consideration includes discounts, deductions, refunds, loans, price concessions, incentives, performance bonuses, fines or other similar items. Therefore, the penalty invoiced by the customer under the asset delivery contract is reflected as a reduction in the transaction price under the contract.

For the contracts where the period (or, if appropriate, the average period for contracts with performance over time) between the handover of the product to the customer and the payment for the performance provided by the customer exceeds one year, the transaction price is adjusted by the financing component if significant. The assessment of the financing component is not relevant for the retention specified in the contract and not understood as a postponed payment, as its payment is conditional on the review of fulfilment of the terms and conditions of the contract on side of the customer.

The Company recognises the revenues from the performance obligation fulfilled over time only when it can reliably measure its progress towards the entire fulfilment of the performance obligation. In the event of the input method, the stage of completion is determined as the proportion between the recognised costs as at the date of preparation of the Financial Statements and the estimated total contract costs. In the early phases of the contract duration when the Company is not able to adequately measure the result of the performance obligation, the Company recognises revenues only in the extent of the actually incurred costs up to the moment when it can adequately measure the result of the performance obligation.

Costs are recognised to the income statement in the period in which they are incurred. When the estimated total costs are higher than the total contract revenue, the estimated total loss is recognised in the income statement immediately, and a corresponding provision is recorded.

The Company recognises as an asset incremental costs incurred in connection with acquiring a customer contract if it expects to gain these expenses back. Incremental costs incurred in connection with acquiring a contract are expenses incurred in connection with acquiring a customer contract that would not be incurred if the Company did not acquire the contract (e.g. a sale commission). The costs incurred in connection with acquiring a contract which would be incurred irrespective of the manner of acquiring the contract are recognised as incurred.

### *l) Research and development*

Research costs are incurred for the purpose of acquiring new technical knowledge which may lead to improved products or processes in the future but for which economic viability has not been established. Research costs are charged to the income statement in the period in which they are incurred.

Costs related to development during which results are transformed into a plan or design of substantially improved products and processes are capitalised if the product or process is technically feasible and economically viable and the Company has sufficient funds to complete the development. Capitalised development costs include the cost of direct materials, direct labour, and an allocation of overhead costs. Other development costs are recognised in the income statement as incurred. Capitalised development costs are depreciated on a straight-line basis over their estimated useful lives.

### m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset whose intended use or sale is preceded by long-term preparation are capitalised as part of the cost of that asset until the asset is ready for its intended use or sale. All other borrowing costs are expensed as incurred.

### n) Government grants

Government grants are recognised when there is reasonable assurance that the conditions attached to the grants are complied with and the grants will be received. Grants awarded for the purchase or the production of fixed assets (grants related to assets) are offset against the acquisition or production costs of the respective assets and reduce future depreciations accordingly. Grants awarded for purposes not related to non-current assets (grants related to income) are reported in the income statement under the same functional area as the corresponding expenses. They are recognised as income over the periods necessary to match them on a systematic basis to the costs that are intended to be compensated. Government grants for future expenses are recorded as deferred income.

### o) Finance income and expenses

Finance income and finance expenses primarily include interest income, interest expense on borrowings, and foreign exchange gains and losses, and impairment losses on investments.

Interest relating to a finance lease is recognised in the income statement using the effective interest method.

### p) Other finance income and expenses

Other finance income and expenses primarily comprise gains and losses arising from changes in the fair value of hedging derivatives that are recognised in the income statement.

### q) Income tax

Income tax for the period comprises current tax and the change in deferred tax. Income tax is recognised in the income statement except for the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is based on profit before tax for the accounting period, adjusted for non-deductible and non-taxable items, using income tax rates effective in that accounting period.

At the end of each accounting period, a deferred tax asset/liability is calculated based on all temporary differences between the carrying and tax value of assets and liabilities, tax losses carried forward and unused tax credits, using the income tax rate effective for the period in which these differences are to be reversed.

A deferred tax asset is recognised only to the extent deemed utilisable with respect to expected taxable profits. If uncertainty exists as to the utilisation of a deferred tax asset, the deferred tax asset is recognised only up to the amount of the respective deferred tax liability.

### r) Earnings per share

Basic earnings per share are calculated by dividing net profit or loss for the period attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

The Company has no dilutive potential shares.

### s) Foreign currency translation

*Translation of foreign currency transactions*

In preparing the separate financial statements, transactions denominated in currencies other than the functional currency (foreign currencies) are translated at the exchange rate effective as at the transaction date. As at the reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the official exchange rate effective as at that date. Gains and losses arising from changes in foreign exchange rates after the transaction date are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the exchange rate effective as at the date their fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are not translated.

### t) Impairment of assets

*Non-financial assets*

As at the date of preparation of the separate financial statements, the Company reviews the carrying amounts of its assets, other than inventories and deferred tax assets, to assess whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and the amount of the impairment loss, if any, is determined. If the recoverable amount of an individual asset cannot be estimated, the Company determines the recoverable amount of the cash-generating unit to which the asset belongs.

Assets that are not depreciated are tested for impairment on an annual basis.

If the estimated recoverable amount of an asset (or cash-generating unit) is lower than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised in expenses.

If an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to a new estimate of the asset's recoverable amount, but only to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior accounting periods. A reversal of an impairment loss is recognised in income.

## u) Financial instruments

*Financial assets*

Under IFRS 9, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

In accordance with IFRS 9, financial assets are generally classified based on the entity's business model for managing the financial assets and at the same time based on the contractual cash flow characteristics of the financial asset.

Embedded derivatives in a contract the host of which is an asset within the scope of IFRS 9 shall not be separated from the host contract. The entire contract is treated as a single unit for the purpose of classification and measurement.

Financial assets shall be measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss and that are not held for trading to present subsequent changes in fair value in other comprehensive income. This election is made for each investment individually.

All other financial assets not measured at amortised cost or fair value at FVOCI are measured at FVTPL.

Apart from trade receivables that do not have a significant financing component, financial assets are initially measured at fair value (except for the category of financial assets at FVTPL) adjusted by the transaction costs directly related to the acquisition of the financial asset.

*Financial liabilities*

Financial liabilities are classified as measured at amortised cost or at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVOCI).

Financial liabilities are classified as measured at FVTPL if they are held for sale, derivative financial instruments or if they are designated as FVTPL as at the date of initial recognition. These financial liabilities are measured at fair value and gains or losses, including interest expense, are recognised in profit or loss, except for the changes in fair value as a result of a change in the Company's credit risk which are recognised in other comprehensive income. When applying hedge accounting, financial liabilities are classified as at FVOCI.

Other financial liabilities are recognised at the accepted consideration net of transaction costs as at the acquisition date. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and any difference between the revenues net of transaction costs and the amortised cost is reported in profit or loss for the relevant period.

Financial liabilities are classified as current liabilities if the Company does not have unconditional right to repay them in more than 12 months after the reporting date.

*Cash and cash equivalents and restricted cash*

Cash and cash equivalents and restricted cash are measured at cost in the balance sheet and subsequently remeasured at amortised cost, net of impairment, under the IFRS 9 model. For purposes of the cash flow statement, they are defined to comprise cash, cash equivalents and restricted cash, cash in hand, cash at the bank, short-term deposits and liquid financial investments with a three-month or shorter maturity and are net of negative balances of overdraft facilities. Bank overdraft facility balances are reported in the short-term loans and borrowings item in the balance sheet.

*Derecognition of financial instruments*

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

A financial asset is written off if the Company believes that a part or the whole value of the financial asset will not be repaid, i.e. at the moment when the Company has exhausted the options of enforcing the asset. In such case the accounting written off does not represent extinguishment of the legal claim and therefore does not prevent possible collection of a written off financial asset in future. The costs incurred in connection with written off assets are recognised in impairment of financial and contractual assets in the income statement.

A financial liability is derecognised when the contractual obligations are paid or cancelled in full or have expired in full. A possible difference between the net book value and the amount paid to settle the liability is recognised in the income statement for the relevant period.

*Mutual offset of financial instruments*

Financial assets and liabilities are mutually offset, and the net amount is recognised in the balance sheet if the Company has a legally enforceable right to offset the acknowledged amounts and an intention to realise a settlement in the net amount or to realise the receivable and to settle the liability at the same time. The legally enforceable right cannot depend on future events and must be enforceable in the ordinary course of business also in the event of default, insolvency or bankruptcy of the Company or the counterparty.

*Impairment of financial assets*

For trade receivables and contractual assets, the Company recognises an impairment for the expected credit loss over the period if the credit risk associated with the financial instrument has increased significantly since the initial recognition. A significant increase in credit risk is assessed on an individual basis.

The Company recognises an impairment amount for expected credit losses on an individual basis based on all available information about past events, current conditions, forecasts of future economic conditions and the results of negotiations with the customer relating to the individual financial asset.

### v) Derivatives

*Hedging derivatives*

The Company has decided to apply an exemption from IFRS 9 for hedge accounting and to continue accounting in accordance with IAS 39.

Hedging derivatives comprise those derivatives to whom the hedge accounting model is applied and that meet all of the following conditions:

- At the inception of the hedge, there is formal designation of the hedged items, the hedging instruments, the risks being hedged, and how the effectiveness of the hedge will be calculated and documented.
- The hedge is highly effective (i.e. ranging from 80% to 125%).
- The effectiveness of the hedge can be reliably measured and is assessed on an ongoing basis.

Derivatives that do not meet all of the above conditions for hedging derivatives are classified as trading derivatives.

If a derivative is used to hedge the risk of change in cash flows from assets, liabilities or enforceable contractual relationships or forecast transactions, the change in the hedging derivative's fair value attributable to the effective portion of the hedge is recognised in equity as 'Fair value changes relating to hedges and foreign currency translation' in the statement of other comprehensive income. The ineffective portion of the hedge is recognised in the income statement.

Financial derivatives are initially recognised at cost and subsequently measured at fair value as at the reporting date. The Company only uses financial derivatives to hedge future cash flows. Changes in the fair value of hedging derivatives are recognised in other comprehensive income.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If a forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

*Derivatives held for trading*

Financial derivatives held for trading are recognised at fair value, with gains (losses) arising from changes in their fair values included in profit or loss.

## w) Fair value

Fair value is defined as an amount for which an instrument could be exchanged between knowledgeable and willing parties, in an arm's length transaction other than a forced or liquidation sale. Fair values are, as appropriate, obtained by reference to listed market prices, discounted cash flow models and other valuation models.

The following methods and assumptions are used in estimating the fair values of individual classes of financial instruments:

*Cash and cash equivalents, short-term investments*

The carrying amount of cash and other short-term financial assets approximates their fair value as these financial instruments have relatively short maturity periods.

*Receivables and payables*

The carrying amount of current receivables and payables approximates their fair value as these financial instruments have short maturity periods.

*Fair value hierarchy*

Assets and liabilities recognised at fair value in the statement of financial position and items which are not recognised at fair value but for which information is available are classified into three levels of input data based on an assessment of their availability, using the fair value hierarchy:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that are available to the entity as at the date of measurement.

- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs: unobservable inputs for the asset or liability.

The level in the hierarchy applicable to a fair value assessment based upon a combination of observable and unobservable inputs is determined by the lowest level of input that is significant to the fair value measurement in its entirety.

### x) Subsequent events

The effect of events occurring between the balance sheet date and the date of preparation of the separate financial statements is reflected in the Financial Statements if such events provide additional information about conditions that existed as at the balance sheet date.

Where material events occurring between the balance sheet date and the date of preparation of the separate financial statements are indicative of conditions that arose after the balance sheet date, the effects of such events are described in the notes to the separate financial statements but not recognised in the Financial Statements.

### y) Application of new accounting standards

***IFRS 16***

As of 1 January 2019, the Company applied the new standard IFRS 16 Leases for the first time. The Company opted for the modified retrospective method with cumulative effect of initial application on the opening balance of retained profits. In compliance with the transition method chosen, comparable data for the previous period have not been adjusted.

The Company's methodology under IFRS 16 is described above in Note c.

**Finance lease (according to IAS 17)**

Non-current assets recognised as a leased asset under IAS 17 in row Property, plant and equipment as at 31 December 2018, have been recognised as right-of-use asset since 1 January 2019.

The carrying amount of right-of-use asset and lease liability at the date of initial application is equal to the carrying amount of the leased asset and lease liability immediately before that date, measured in accordance with IAS 17.

**Operating lease (according to IAS 17)**

In connection with the transition to IFRS 16 as of 1 January 2019 the Company recognised a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate applied is 4.87%.

At the same time the Company recognised a right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Company will recognise depreciation related to new recognised right-of-use assets and interest expense related to lease liabilities instead of operating expenses in profit and loss statement since 1 January 2019.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases applying IAS 17:

- not recognised right-of-use assets and lease liabilities for leases for which the lease term ends within 12 months of the date of initial application

- used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The adoption of IFRS 16 had no significant impact on the Company as a lessor.

The overall impact of the transition to IFRS 16 is shown in the following tables.

**Individual statement of financial position**

| Row of the statement | 31/12/2018 | Transition impact | 1/1/2019 before the MOVO merger |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 1 898 327 | -- | 1 898 327 |
| Right-of-use asset | -- | 54 424 | 54 424 |
| **Total assets** | **21 713 589** | **54 424** | **21 768 013** |
| **Equity and liabilities** | | | |
| Non-current lease liabilities | -- | 39 276 | 39 276 |
| **Total non-current liabilities** | **5 752 022** | **39 276** | **5 791 298** |
| Current lease liabilities | -- | 15 148 | 15 148 |
| **Total current liabilities** | **--** | **15 148** | **15 148** |
| **Total equity and liabilities** | **21 713 589** | **54 424** | **21 768 013** |

| | 1/1/2019 |
|---|---|
| **Future minimum lease payments from operating lease under IAS 17 recognised as at 31/12/2018** | 50 850 |
| Lease payments above the minimum lease payments arising from the option to renew the lease and from permanent contracts | 10 152 |
| Effect of discounting by using incremental borrowing rate | -6 578 |
| **Lease liabilities under IFRS 16 as at 1/1/2019** | **54 424** |

## 4. Merger of MOVO spol. s.r.o

As of 1 February 2019, the subsidiary MOVO spol. s r.o., in which the Company held a 100% share, was dissolved as a result of a merger process with the effective date of 1 January 2019. Its assets, rights and obligations, receivables, payables, and employees were transferred to ŠKODA TRANSPORTATION a.s.

**Revenues and profit of MOVO spol. s r.o. for 2018**

| | 31/12/2018 |
|---|---|
| Revenues | 23 521 |
| Profit for the period | -2 359 |

ŠKODA

**Table of merger effect on relevant positions as at 1 January 2019:**

| Row of the statement | 31/12/2018 | Merger effect | 1/1/2019 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 1 898 327 | 215 234 | 2 113 561 |
| Investments in subsidiaries | 8 716 219 | -170 020 | 8 546 199 |
| Trade and other receivables | 5 691 766 | 766 | 5 692 532 |
| Cash and cash equivalents | 1 237 562 | 14 211 | 1 251 773 |
| **Liabilities** | | | |
| Capital contributions | 4 225 338 | 3 199 | 4 228 537 |
| Retained earnings | 5 613 736 | 25 101 | 5 638 837 |
| Deferred tax liability | 187 558 | 30 536 | 218 094 |
| Trade and other payables | 1 963 787 | 154 | 1 963 941 |
| Current income tax liability | -- | 292 | 292 |
| Current provisions | 660 145 | 909 | 661 054 |

## 5. Revenues, Contract assets

**Revenues from contracts with customers**

| | 2019 | 2018 |
|---|---|---|
| Trams | 901 747 | 2 146 193 |
| Locomotives and suburban units | 935 208 | 1 158 212 |
| Metro | 304 220 | 281 660 |
| Full maintenance | 821 137 | 789 996 |
| **Revenues from performance obligations satisfied over time** | **2 962 312** | **4 376 061** |
| Spare parts | 12 128 | 7 196 |
| Other | 318 386 | 113 284 |
| **Revenues from performance obligations satisfied at a point in time** | **330 514** | **120 480** |
| **Total** | **3 292 826** | **4 496 541** |

In 2018 and 2019, the Company did not recognise any revenues following from performance obligations satisfied (or partially satisfied) in previous periods.

## Revenues as divided according to the registered offices of the customers

| | 2019 | 2018 |
|---|---|---|
| Czech Republic | 1 216 503 | 2 960 390 |
| Latvia | 122 344 | 97 443 |
| Germany | 652 433 | 354 716 |
| Russia | 304 220 | 281 660 |
| Slovakia | 641 056 | -- |
| Turkey | -- | 521 346 |
| Other | 25 756 | 165 872 |
| **Revenues from performance obligations satisfied over time** | **2 962 312** | **4 381 427** |
| Czech Republic | 279 085 | 72 418 |
| Finland | 26 914 | 36 297 |
| Hungary | 1 279 | 3 684 |
| Germany | 594 | 1 420 |
| Poland | 9 566 | -- |
| Russia | 7 175 | -- |
| Other | 5 901 | 1 295 |
| **Revenues from performance obligations satisfied at a point in time** | **330 514** | **115 114** |
| **Total** | **3 292 826** | **4 496 541** |

## Other operating revenues

| | 2019 | 2018 |
|---|---|---|
| Revenues from sale of inventories | 70 685 | 72 250 |
| Revenues from sale of waste | 3 051 | 2 627 |
| Contractual penalties | 59 372 | 76 600 |
| Other revenues | 8 803 | 6 522 |
| **Total** | **141 911** | **157 999** |

Revenues from three customers represent more than 10% of the Company's total revenues (in particular in the Full maintenance, Locomotives and suburban units, and Trams categories).

*Contractual balances*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Trade receivables (gross)* | 1 012 767 | 1 363 588 |
| Trade receivables - impairment losses | -14 972 | -402 |
| **Trade receivables (net)** | **997 795** | **1 363 186** |
| Contract assets (gross - current and non-current) | 3 240 335 | 2 676 142 |
| Contract assets - impairment losses | -3 064 | -- |
| **Contract assets (net - current and non-current)** | **3 237 271** | **2 676 142** |
| **Contract liabilities (current and non-current)** | **3 775 944** | **2 647 558** |
| Retention recognised as a trade receivable | 191 997 | 191 997 |
| Retention recognised as a liability | 57 | 30 522 |

*Trade receivables related to contracts with customers except retention

As of 1 January 2019, the Company reports contractual assets separately. Due to the comparability of data, the Company also adjusted the data for 2018.

The methodology for determining impairment losses on trade receivables and contractual assets is described in Note 31.

TCZK 668 210 (2018 – TCZK 125 723) recognised in the contract liability as at 31 December 2018 was recognised as revenue in 2019. The amount of partial invoicing and advances received in respect of which no revenue was recognised in 2019 is TCZK 1 796 596 (2018 – TCZK 2 170 561).

Contract assets primarily relate to the Company's title to consideration for already completed performance connected with revenues recognised over time where progress is measured using the input method and which were not invoiced as at 31 December 2019. Contract liabilities represent advances received from customers in relation to the construction of products and the provision of services while the revenues are recognised on an over-time basis.

*Expected recognition of revenue from outstanding performance obligations*

| 31/12/2019 | Total | Up to 1 year | 1 to 2 years | 2 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Transaction price allocated to the remaining performance obligations | 51 802 315 | 4 552 527 | 9 964 341 | 22 121 566 | 15 163 881 |

| 31/12/2018 | Total | Up to 1 year | 1 to 2 years | 2 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Transaction price allocated to the remaining performance obligations | 15 763 850 | 4 841 871 | 3 100 443 | 6 269 339 | 1 552 197 |

In accordance with IFRS 15, the Company does not disclose information about the transaction price allocated to the remaining performance obligations in respect of performance obligations satisfied at a point in time that are part of a contract that has an original expected duration of one year or less.

Contracts with customers in the Company did not lead to the recognition of material incremental costs of obtaining the contract.

## 6. Cost of sales

| | 2019 | 2018 |
|---|---|---|
| Materials | -1 641 845 | -2 132 235 |
| Energy | -80 723 | -72 973 |
| **Materials and consumables** | **-1 722 568** | **-2 205 208** |
| Repairs and maintenance | -73 292 | -65 814 |
| Marketing services | -23 014 | -27 070 |
| Purchased services for projects | -515 332 | -438 138 |
| Rent | -59 566 | -83 067 |
| External employees | -126 035 | -150 063 |
| Other services | -150 876 | -173 975 |
| IT services | -43 599 | -33 441 |
| **Services purchased** | **-991 714** | **-971 568** |
| **Total** | **-2 714 282** | **-3 176 776** |

Other services primarily include the cost of other advisory and legal services.

## 7. Personnel expenses

| | 2019 | 2018 |
|---|---|---|
| Key management personnel | -112 456 | -70 963 |
| Other employees | -828 324 | -744 794 |
| **Total** | **-940 780** | **-815 757** |

Key management personnel includes the directors of individual units and members of the board of directors and the supervisory board. The Company does not participate in any pension plans.

Average number of full-time equivalent employees for the year 2019 was 1 410 (2018 – 1 304).

## 8. Other operating expenses

| | 2019 | 2018 |
|---|---|---|
| Impairment loss (- expense / + income) | 6 258 | -31 337 |
| Change in provisions (- expense / + income) | 39 591 | -16 648 |
| Materials sold | -51 943 | -46 047 |
| Taxes and charges | -25 001 | -42 048 |
| Write-off and sale of receivables | -5 253 | -26 |
| Fines and penalties | -56 246 | -85 640 |
| Insurance expenses | -14 152 | -13 481 |
| Losses from derivative transactions | -25 336 | -5 327 |
| Foreign exchange losses from operations | -233 899 | -5 666 |
| Other operating expenses | -80 987 | -74 443 |
| **Total** | **-446 968** | **-320 663** |

The cost of derivative transactions related to hedging cash flows from projects is included in Other operating expenses.

Foreign exchange losses arising from project-related receivables and payables are recognised in Other operating expenses.

## 9. Other operating income

| | 2019 | 2018 |
|---|---|---|
| Gains (+) from derivatives transactions | 124 113 | 40 715 |
| Foreign exchange gains (+) on operation activities | 234 894 | -- |
| Other operating income | 68 153 | 114 177 |
| **Total** | **427 160** | **154 892** |

Other operating income primarily includes fees for trademark use and penalties charged to suppliers.

Gains from derivative transactions related to hedging cash flows from projects are included in Other operating income.

Foreign exchange gains from project-related receivables and payables are recognised in Other operating revenues.

## 10. Gains/losses from investments

In 2019 and 2018, the gains from investments comprised dividends received from subsidiaries, joint ventures and associates.

## 11. Financial income

| | 2019 | 2018 |
|---|---|---|
| Interest income | 59 475 | 97 680 |
| Foreign exchange gains from financial assets | 5 560 | 27 355 |
| **Total** | **65 035** | **125 035** |

## 12. Financial expenses

| | 2019 | 2018 |
|---|---|---|
| Interest expense (excl. leases) | -243 113 | -223 206 |
| Foreign exchange losses from financial assets | -7 084 | -25 959 |
| Interest expense on the lease liability | -3 267 | -- |
| **Total** | **-253 464** | **-249 165** |

Interest expense of TCZK -243 113 (2018 - TCZK -223 206) primarily includes interest on a loan received from the parent company PPF Beer Topholdco B.V., interest on bank loans received, and interest on bonds.

In 2019 and 2018, no interest expense was capitalised.

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## 13. Income tax

Income tax is recognised in the income statement as follows:

| | 2019 | 2018 |
|---|---|---|
| Current tax | -- | -4 109 |
| Deferred tax | 104 210 | 39 236 |
| **Total (income + / expense -)** | **104 210** | **35 127** |

The Company recognised tax losses in 2019 and 2018, and therefore did not account for a tax estimate. The adjustment to the tax estimate for the prior period was TCZK 0 (2018 - TCZK 4 109).

A portion of the change in deferred tax of TCZK 104 210 (2018 - TCZK 39 236) was recognised in the income statement; the remaining portion of TCZK -48 367 (2018 - TCZK 58 220) relating to items remeasured in other comprehensive income was recorded directly in other comprehensive income.

| Effective tax rate | 2019 | % | 2018 | % |
|---|---|---|---|---|
| Profit/loss before tax | -561 508 | | 391 027 | |
| Corporate income tax at applicable rate | 106 687 | 19 % | -74 295 | 19 % |
| Adjustment to income tax for prior years | -- | | -4 109 | |
| Deduction for research and development | -- | | 119 178 | |
| Tax exempt income (dividends received) | -- | | -- | |
| Non-tax deductible expenses (impairment loss on investments) | -8 489 | | -9 101 | |
| Tax credit relating to investment incentives | -- | | -- | |
| Other effects | 6 012 | | 3 454 | |
| **Income tax** | **104 210** | **-18,6 %** | **35 127** | **9 %** |

**Deferred tax liability**

In accordance with the accounting policy described in Note 3 (q), deferred tax was calculated using the tax rates expected to be effective for the period in which the tax liability/asset is utilised.

Deferred tax is calculated based on all temporary differences between the carrying and tax value of individual items presented in the statement of financial position. A deferred tax asset (if any) is recognised to the extent that the Company's management believes it will be utilised in future years. Based on an analysis of the expected utilisation of the deferred tax asset/liability, a rate of 19% was used to calculate deferred tax in 2019 (2018 - 19%).

Deferred tax recognised in the separate financial statements relates to the following items:

| | 31/12/2019 | Effect of MOVO merger | 31/12/2018 | Year on year change 2019/2018 |
|---|---|---|---|---|
| Non-current assets | -272 811 | -6 158 | -268 885 | -3 926 |
| Receivables | 4 616 | 45 | 1 681 | 2 935 |
| Construction contracts | -5 131 | -- | -40 150 | 35 019 |
| Inventories | 9 230 | -- | 12 442 | -3 212 |
| Provisions | 122 894 | 177 | 129 045 | -6 151 |
| Unutilised tax losses | 87 911 | -- | -- | 87 911 |
| Unpaid contractual penalties | -4 370 | -- | -3 582 | -788 |
| Other | -32 070 | -24 600 | 6 044 | -38 397 |
| **Total** *(asset+/ liability-)* | **-89 731** | **-30 536** | **-163 405** | **73 391** |
| Deferred tax on revaluation of derivatives recorded in other comprehensive income | -72 520 | -- | -24 153 | -48 367 |
| **Total** *(asset+/ liability-)* | **-162 251** | **-30 536** | **-187 558** | **25 024** |

## 14. Current income tax liabilities

The balance sheet item Income tax (liability) totals TCZK 0 for 2019 (2018 - a liability of TCZK 0, effect of MOVO merger as at 1/1/2019 – a liability of TCZK 292).

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## 15. Intangible assets

| | Development | Software | Intellectual property rights | Other intangible assets | Intangible assets under construction and advances | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| Balance as at 1/1/2019 | 1 232 622 | 83 520 | 1 024 057 | 342 290 | 35 | 2 682 524 |
| Effect of MOVO merger | -- | 98 | -- | -- | -- | 98 |
| Additions | 253 928 | 25 110 | -- | -- | 23 400 | 302 438 |
| Disposals | -- | -445 | -- | -- | -- | -445 |
| Transfers | -- | -- | -- | -- | -- | -- |
| **Balance as at 31/12/2019** | **1 486 550** | **108 283** | **1 024 057** | **342 290** | **23 435** | **2 984 615** |
| **Accumulated amortisation** | | | | | | |
| Balance as at 1/1/2019 | -609 715 | -46 619 | -35 697 | -71 141 | -- | -763 172 |
| Effect of MOVO merger | -- | -98 | -- | -- | -- | -98 |
| Annual amortisation | -44 734 | -17 779 | -1 498 | -48 121 | -- | -112 132 |
| Disposals | -- | 236 | -- | -- | -- | 236 |
| Transfers | -- | -- | -- | -- | -- | -- |
| Impairment loss | -- | -- | -- | -- | -- | -- |
| **Balance as at 31/12/2019** | **-654 449** | **-64 260** | **-37 195** | **-119 262** | **--** | **-875 166** |
| **Net book value 1/1/2019** | **622 907** | **36 901** | **988 360** | **271 149** | **35** | **1 919 352** |
| **Net book value 31/12/2019** | **832 101** | **44 023** | **986 862** | **223 028** | **23 435** | **2 109 449** |

| | Development | Software | Intellectual property rights | Other intangible assets | Intangible assets under construction and advances | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| Balance as at 1/1/2018 | 1 035 019 | 63 676 | 1 018 065 | 111 492 | 46 | 2 228 298 |
| Additions | 197 603 | 19 798 | 5 992 | 230 798 | 35 | 454 226 |
| Disposals | -- | -- | -- | -- | -- | -- |
| Transfers | | 46 | | | -46 | -- |
| **Balance as at 31/12/2018** | **1 232 622** | **83 520** | **1 024 057** | **342 290** | **35** | **2 682 524** |
| **Accumulated amortisation** | | | | | | |
| Balance as at 1/1/2018 | -558 867 | -33 499 | -35 697 | -29 432 | -- | -657 495 |
| Annual amortisation | -50 848 | -13 120 | -- | -41 709 | -- | -105 677 |
| Disposals | -- | -- | -- | -- | -- | -- |
| Transfers | -- | -- | -- | -- | -- | -- |
| Impairment loss | -- | -- | -- | -- | -- | -- |
| **Balance as at 31/12/2018** | **-609 715** | **-46 619** | **-35 697** | **-71 141** | **--** | **-763 172** |
| **Net book value 1/1/2018** | **476 152** | **30 177** | **982 368** | **82 061** | **46** | **1 570 804** |
| **Net book value 31/12/2018** | **622 907** | **36 901** | **988 360** | **271 149** | **35** | **1 919 352** |

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## Amortisation

The amortisation of patents and development costs is allocated to the cost of inventory and is recognised in the cost of sales as inventory is sold; the amortisation of customer relationships is included in the cost of sales.

## Intellectual property rights

Intellectual property rights include the SKODA trademarks, costing TCZK 982 368 (2018 - TCZK 982 368). The trademark is not amortised because it has an indefinite useful life but is tested for impairment annually.

## Development costs

As at 31 December 2019, development costs of TCZK 832 101 (2018 - TCZK 622 907) include mainly technical documentation attributable to the construction of a specific type of product.

Of total additions in 2019, TCZK 134 553 was produced internally, and the remaining portion of TCZK 119 375 was purchased from external suppliers. The capitalisation of development costs relating to internally produced development results is recorded in reduction in costs incurred in connection with capitalised assets.

## Impairment testing

Indefinite-lived intangible assets are tested for impairment at least annually, and whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that likely that indefinite-lived intangible assets might be impaired. The Company selected the fourth quarter to perform the annual impairment assessment of indefinite-lived intangible assets.

During the fourth quarter of fiscal year 2019, indefinite-lived intangible assets were tested for impairment using the discounted cash flow model. The Company did not identify any impairment.

The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2019 was 8.28% (2018 8.35%).

The testing was carried out based on plans reviewed for 2020 - 2024 (or if appropriate for 2019 - 2023 in 2018) while using a growth rate of 2%.

## 16. Property, plant and equipment

| | Land | Buildings | Machinery and equipment | Assets under construction | Other assets | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| Balance as at 1/1/2019 | 176 182 | 1 683 005 | 1 551 421 | 4 780 | -- | 3 415 388 |
| The effect of MOVO merger | 74 203 | 225 386 | 121 355 | -- | 523 | 421 467 |
| Additions | -- | 8 065 | 84 551 | 18 092 | -- | 110 708 |
| Disposals | -- | -- | -24 417 | -- | -- | -24 417 |
| Transfers | -- | -- | 4 914 | -4 391 | -523 | -- |
| **Balance as at 31/12/2019** | **250 385** | **1 916 456** | **1 737 824** | **18 481** | **--** | **3 923 146** |
| **Accumulated depreciation** | | | | | | |
| Balance as at 1/1/2019 | -- | -291 894 | -1 220 386 | -- | -- | -1 512 280 |
| The effect of MOVO merger | -- | -106 223 | -99 487 | -- | -523 | -206 233 |
| Annual depreciation | -- | -37 713 | -101 133 | -- | -- | -138 846 |
| Disposals | -- | -- | 16 486 | -- | -- | 16 486 |
| Transfers | -- | -- | -523 | -- | 523 | -- |
| Impairment loss | -- | -- | -- | -- | -- | -- |
| **Balance as at 31/12/2019** | **--** | **-435 830** | **-1 405 043** | **--** | **--** | **-1 840 873** |
| **Net book value 1/1/2019** | **176 182** | **1 391 111** | **331 034** | **4 780** | **--** | **1 903 107** |
| **Net book value 31/12/2019** | **250 385** | **1 480 626** | **332 780** | **18 481** | **--** | **2 082 272** |

| | Land | Buildings | Machinery and equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| **Acquisition cost** | | | | | |
| Balance as at 1/1/2018 | 159 316 | 1 646 258 | 1 717 963 | 5 645 | 3 529 182 |
| Additions | 16 866 | 36 249 | 51 419 | 604 | 105 138 |
| Disposals | -- | -- | -218 002 | -930 | -218 932 |
| Transfers | | 498 | 41 | -539 | -- |
| **Balance as at 31/12/2018** | **176 182** | **1 683 005** | **1 551 421** | **4 780** | **3 415 388** |
| **Accumulated amortisation** | | | | | |
| Balance as at 1/1/2018 | -- | -257 065 | -1 345 431 | -- | -1 602 496 |
| Annual depreciation | -- | -34 829 | -92 002 | -- | -126 831 |
| Disposals | -- | -- | 214 884 | -- | 214 884 |
| Transfers | -- | -- | -- | -- | -- |
| Impairment loss | -- | -- | 2 162 | -- | 2 162 |
| **Balance as at 31/12/2018** | **--** | **-291 894** | **-1 220 387** | **--** | **-1 512 281** |
| **Net book value 1/1/2018** | **159 316** | **1 389 193** | **372 532** | **5 645** | **1 926 686** |
| **Net book value 31/12/2018** | **176 182** | **1 391 111** | **331 034** | **4 780** | **1 903 107** |

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A part of the Company's business establishment has been pledged upon its entry into the register of pledges.

## 17. Leases

The Company leases non-residential premises (offices, production halls).

Leasing contracts are negotiated individually and contain a wide range of different terms and conditions. Contracts may include options to extend the lease term and payments may be adjusted according to the development of the consumer price index.

Right-of-use assets from the lease of non-residential premises are depreciated over a period of 2 to 8 years.

Leased assets are not subject to collateral for loan drawing purposes.

**Right-of-use assets – cost**

| | Land | Buildings | Machinery and equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| **1/1/2019** | -- | -- | -- | -- | -- |
| Transition to IFRS 16 as of 1/1/2019 | -- | 54 424 | -- | -- | 54 424 |
| Additions | -- | 16 616 | -- | -- | 16 616 |
| Disposals | -- | -- | -- | -- | -- |
| Adjustment for the remeasurement of the lease obligation | -- | 10 727 | -- | -- | 10 727 |
| Exchange rate conversions | -- | -- | -- | -- | -- |
| **31/12/2019** | **--** | **81 767** | **--** | **--** | **81 767** |

**Right-of-use assets – accumulated depreciation**

| | Land | Buildings | Machinery and equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| 1/1/2019 | -- | -- | -- | -- | -- |
| Annual amortisation | -- | -17 130 | -- | -- | -17 130 |
| Disposals | -- | -- | -- | -- | -- |
| Exchange rate conversions | -- | -- | -- | -- | -- |
| **31/12/2019** | **--** | **-17 130** | **--** | **--** | **-17 130** |

**Right-of-use assets – impairment losses**

| | Land | Buildings | Machinery and equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| 1/1/2019 | -- | -- | -- | -- | -- |
| Additions | -- | -- | -- | -- | -- |
| Disposals | -- | -- | -- | -- | -- |
| **31/12/2019** | **--** | **--** | **--** | **--** | **--** |

**Right-of-use assets – net book value**

| | Land | Buildings | Machinery and equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| **31/12/2018** | **--** | **--** | **--** | **--** | **--** |
| **31/12/2019** | **--** | **64 637** | **--** | **--** | **64 637** |

### Present value of the lease obligation

| | Land | Buildings | Machinery and equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| 1/1/2019 | -- | 54 424 | -- | -- | 54 424 |
| Transition to IFRS 16 as of 1 January 2019 | -- | | -- | -- | |
| Recognised lease liabilities | -- | 16 616 | -- | -- | 16 616 |
| Interest expense on lease liabilities | -- | 3 267 | -- | -- | 3 267 |
| Lease payments - principal repayments (a) | -- | -15 636 | -- | -- | -15 636 |
| Lease payments - interest paid (b) | -- | -3 267 | -- | -- | -3 267 |
| Revaluation of lease liabilities | -- | 10 728 | -- | -- | 10 728 |
| Losses (end of lease) | -- | -- | -- | -- | -- |
| Exchange rate conversions | -- | -- | -- | -- | -- |
| **31/12/2019** | **--** | **66 132** | **--** | **--** | **66 132** |
| Liability due | | | | | |
| up to 1 year | -- | 17 039 | -- | -- | 17 039 |
| more than 1 year and less than 5 years | -- | 41 766 | -- | -- | 41 766 |
| in more than 5 years | -- | 7 327 | -- | -- | 7 327 |

The Company is not exposed to any significant future cash outflows from contracts for which no lease was commenced at the balance sheet date nor from the residual value guarantees on lease options not included in the measurement of lease liabilities as at 31 December 2019.

An analysis of the currency risk and the maturity of the lease payables is presented in Note 31.

## 18. Ownership interests in subsidiaries

| 2019 | Ownership | Acquisition cost | Adjustment | Net book value |
|---|---|---|---|---|
| ŠKODA ELECTRIC a.s. | 100% | 2 358 986 | -- | 2 358 986 |
| ŠKODA VAGONKA a.s. | 100% | 7 608 000 | -3 933 221 | 3 674 779 |
| Pars nova a.s. | 100% | 1 761 270 | -- | 1 761 270 |
| Ganz-Skoda Electric Ltd. | 100% | 140 030 | -76 149 | 63 881 |
| ŠKODA TVC s.r.o. | 100% | 100 000 | -- | 100 000 |
| POLL, s.r.o. | 100% | 32 138 | -- | 32 138 |
| TRADING RS Sp.z o.o. | 100% | 32 | -- | 32 |
| OOO Vagonmaš | 51% | 94 179 | -94 179 | 0 |
| ŠKODA CITY SERVICE s.r.o. | 100% | 133 250 | -- | 133 250 |
| SKODA TRANSPORTATION Deutschland GmbH | 100% | 682 | -- | 682 |
| ŠKODA DIGITAL s.r.o. | 100% | 240 | -- | 240 |
| ŠKODA TRANSTECH Oy | 100% | 401 551 | -- | 401 551 |
| Škoda Transportation USA, LLC | 100% | -- | -- | -- |
| ŠKODA RAIL s.r.o. | 100% | 13 250 | -- | 13 250 |
| SKODA TRANSPORTATION UKRAINE LLC | 100% | 784 | -- | 784 |
| **Total** | | **12 644 392** | **-4 103 549** | **8 540 843** |

The ownership interest of ŠKODA TRANSPORTATION a.s. in ŠKODA CITY SERVICE s.r.o. is pledged in favour of Československá obchodní banka, a.s. to secure the receivables of Československá obchodní banka, a.s. arising from a loan agreement and from other financial documents as defined in the aforementioned loan agreement, concluded on 11 October 2013 between Československá obchodní banka, a.s., Bammer trade a.s. and ŠKODA CITY SERVICE s.r.o.

In 2015, the Group's higher level of integration caused a partial change in the intra-Group strategy. Apart from repairs, trolley buses, drives and engines, the sales agency will be concentrated at the parent company. Accordingly, the existing plans of ŠKODA VAGONKA a.s were reviewed. Based on the test for impairment of the financial investment using the model of discounted cash flows, as at 31 December 2015, the investment in ŠKODA VAGONKA a.s. was impaired by TCZK 3 488 891. As at 31 December 2016, the investment was impaired by TCZK 444 330. Based on the test results for 2017 - 2019, no need to further impair the value of the ownership interest in ŠKODA VAGONKA a.s. was identified.

At the end of 2019, the Company recognised a cumulated impairment loss of TCZK 3 933 221 in respect of the ownership interest in ŠKODA VAGONKA a.s.

Pursuant to the sensitivity analysis of the impairment test in respect of the ownership interest in ŠKODA VAGONKA a.s., the value of the ownership interest would further impair if the discount rate increased by 0.21 % or if EBIT decreased by 1.70 % or if the growth factor decreased by 0.33 %.

Under the sensitivity analysis of the impairment test in respect of the ownership interest in Pars nova a.s., the recoverable amount would equal to the carrying amount in the event of an increase in the discount rate by 0.24 %, or a decrease in EBIT by 1.20 %, or a decrease in the growth factor by 0.38 %.

Under the sensitivity analysis of the impairment test in respect of the ownership interest in ŠKODA ELECTRIC a.s., the recoverable amount would equal to the carrying amount in the event of an increase in the discount rate by 12.00 %, or a decrease in EBIT by 50.50 %, or a decrease in the growth factor by 76.50 %.

In respect of the other equity investments, the Company did not identify any triggers for impairment testing.

As at 21 May 2018, the Company purchased a 25% ownership interest in Transtech Oy of TCZK 104 551 (TEUR 4 050).

On 1 July 2019, the subsidiary LOKEL s.r.o was renamed ŠKODA DIGITAL s.r.o. This change was recorded in the Commercial Register on the same date.

On 21 November 2019, the subsidiary Transtech Oy was renamed ŠKODA TRANSTECH Oy. This change was recorded in the Commercial Register on the same date.

| 2018 | Ownership | Acquisition cost | Adjustment | Net book value |
|---|---|---|---|---|
| ŠKODA ELECTRIC a.s. | 100% | 2 358 986 | -- | 2 358 986 |
| ŠKODA VAGONKA a.s. | 100% | 7 608 000 | 3 933 221 | 3 674 779 |
| Pars nova a.s. | 100% | 1 761 270 | -- | 1 761 270 |
| Ganz-Skoda Electric Ltd. | 100% | 140 030 | 76 149 | 63 881 |
| MOVO spol. s r.o. | 100% | 170 020 | -- | 170 020 |
| ŠKODA TVC s.r.o. | 100% | 100 000 | -- | 100 000 |
| POLL, s.r.o. | 100% | 32 138 | -- | 32 138 |
| TRADING RS Sp.z o.o. | 100% | 32 | -- | 32 |
| OOO Vagonmaš | 51% | 94 179 | 94 179 | -- |
| ŠKODA CITY SERVICE s.r.o. | 100% | 133 250 | -- | 133 250 |
| SKODA TRANSPORTATION Deutschland GmbH | 100% | 682 | -- | 682 |
| LOKEL s.r.o. | 100% | 240 | -- | 240 |
| Transtech Oy | 100% | 401 551 | -- | 401 551 |
| Škoda Transportation USA, LLC | 100% | -- | -- | -- |
| ŠKODA RAIL s.r.o. | 100% | 2 000 | -- | 2000 |
| SKODA TRANSPORTATION UKRAINE LLC | 100% | 784 | -- | 784 |
| **Total** | | **12 803 162** | **4 103 549** | **8 699 613** |

The registered offices of the above companies are as follows:

ŠKODA ELECTRIC a.s.
Průmyslová 610/2a
301 00 Plzeň
Czech Republic

ŠKODA VAGONKA a.s.
1. máje 3176/102
703 00 Ostrava
Czech Republic

Pars nova a.s.
Žerotínova 1833/56
787 01 Šumperk
Czech Republic

ŠKODA TVC s.r.o.
Tylova 1/57
301 28 Plzeň
Czech Republic

ŠKODA CITY SERVICE s.r.o.
Emila Škody 2922/1
301 00 Plzeň, Jižní Předměstí
Czech Republic

Ganz-Skoda Electric Ltd.
Horváth utca 12-26
H-1027 Budapest
Hungary

OOO Vagonmaš
Leninskij prospekt 160
196 247 Sankt-Peterburg
Russia

TRADING RS Sp. z o.o.
Zlota 59
00-120 Warszawa
Poland

OOO SKODA-R
Tverskaja-jamskaja 4/22
Moscow
Russia

SKODA TRANSPORTATION Deutschland GmbH
Leopoldstraße 244
80807 Munich
Germany

Skoda Transportation USA, LLC
Orange Street
19801 Wilmington
USA

ŠKODA RAIL s.r.o.
Emila Škody 2922/1
301 00 Plzeň
Czech Republic

ŠKODA DIGITAL s.r.o.
Moravská 797/85
700 30 Ostrava, Hrabůvka
Czech Republic

POLL, s.r.o.
Výpadová 1676/4a
153 00 Praha 5, Radotín
Czech Republic

ŠKODA TRANSTECH Oy
Elektroniikkatie 2
905 90 Oulu
Finland

SKODA TRANSPORTATION
UKRAINE LCC
Naberezna St 26B
490 00 Dnipro
Ukraine

## 19. Ownership interests in associates and joint ventures

PRAGOIMEX a.s. and Zaporizkiy Elektrovoz are associated companies in which the Company participates. In 2015, the Company acquired a 49% interest in Zaporizkiy Elektrovoz. The investment's value is insignificant for the Company.

On 17 December 2019, the Company co-founded the joint venture Sinara - Škoda (50% share) with focus on the production of metro cars, trams, and trolleybuses. The acquisition price of the share is TCZK 1 821. As at 31 December 2019, the share had not been paid.

*PRAGOIMEX a.s.*

The following table summarises the financial information of PRAGOIMEX a.s.

| PRAGOIMEX a.s. | 2019 | 2018 |
|---|---|---|
| Percentage ownership interest | **32 %** | **32%** |
| Non-current assets | 9 158 | 11 848 |
| Current assets | 127 724 | 185 214 |
| Non-current liabilities | 34 200 | 38 000 |
| Current liabilities | 64 755 | 78 650 |
| **Net assets (100%)** | **37 927** | **80 412** |
| **Company's share of net assets (32%)** | **12 137** | **25 732** |
| Revenues | 221 866 | 446 004 |
| **Profit from continuing activities (100%)** | **-9 818** | **15 126** |
| **Correction of prior year income** | **-2 700** | **--** |
| **Total comprehensive income (100%)** | **-12 518** | **15 126** |
| **Total comprehensive income (32 %)** | **-4 006** | **4 840** |
| Company's share in the decrease in funds from profit (32%) | -399 | -827 |
| **Company's share in profit after adjustment for the decrease in funds from profit** | **-4 405** | **4 013** |

The registered offices of the associated companies are as follows:

PRAGOIMEX a.s.
Pod náspem 795/12
190 00 Praha 9, Libeň
Czech Republic

TOV "ZAPORIZKIY ELEKTROVOZ"
LLC UKRAINIAN-CZECH PLANT
Vulicya Zaliznichna 2
69095 Zaporiz'ka obl., Zaporizha
Ukraine

Sinara – Škoda
Naberezhnaya
Obvodnogo Kanala 138
190 020 Sankt-Peterburg
Russian Federation

## 20. Inventories

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Materials | 870 254 | 803 815 |
| Work-in-progress | 397 184 | 428 718 |
| Intermediate products | 84 468 | 27 130 |
| Finished goods | 9 482 | 6 270 |
| Advance payments for inventories | 862 293 | 487 030 |
| **Total inventories (gross)** | **2 223 681** | **1 752 963** |
| Materials | -48 578 | -54 836 |
| Work-in-progress | -- | -- |
| Intermediate products | -- | -- |
| **Impairment losses** | **-48 578** | **-54 836** |
| Materials | 821 676 | 748 979 |
| Work-in-progress | 397 184 | 428 718 |
| Intermediate products | 84 468 | 27 130 |
| Finished goods | 9 482 | 6 270 |
| Advance payments for inventories | 862 293 | 487 030 |
| **Total inventories (net)** | **2 175 103** | **1 698 127** |

Based on an analysis of turnover and usability of inventories, as at 31 December 2019, the Company reduced the carrying amount of inventories to their net realisable value by recognising an impairment loss of TCZK -48 578 (2018 - TCZK 54 836).

The change in inventory impairment losses is included in other operating expenses.

Acquisition costs of materials recognised as an expense in the income statement are included in Materials and consumables (Note 6).

## 21. Trade receivables and other assets

| | 31/12/2019 | 1/1/2019 | MOVO merger effect | 31/12/2018 |
|---|---|---|---|---|
| Trade receivables | 1 030 185 | 1 374 720 | 1 032 | 1 373 688 |
| Estimated receivables | 3 972 | 9 621 | -- | 9 621 |
| Operating advances paid | 48 697 | 2 360 | 54 | 2 306 |
| Receivables from the state | 55 843 | 114 | 114 | -- |
| Prepaid expenses | 16 743 | 25 189 | 11 | 25 178 |
| Other receivables | 2 595 393 | 1 624 510 | -- | 1 624 510 |
| **Total (gross)** | **3 750 833** | **3 036 514** | **1 211** | **3 035 303** |
| Impairment losses | -25 880 | -20 124 | -445 | -19 679 |
| **Total (net)** | **3 724 953** | **3 016 390** | **766** | **3 015 624** |

In 2019, the structure of the above table was adjusted and due to the comparability of data, the Group also adjusted the data for 2018.

The credit and currency risks arising from trade receivables and other assets are described in Note 31.

Other receivables comprise balances of loans provided to subsidiaries.

## 22. Other non-current receivables and loans

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Non-current receivables and loans due within 2 years | 138 919 | 118 594 |
| Non-current receivables and loans due in 2 to 5 years | 28 313 | 162 467 |
| Non-current receivables and loans due in more than 5 years | 119 886 | -- |
| **Total** | **287 118** | **281 061** |

Other non-current receivables and loans mainly comprise the long-term retention of TCZK 172 773 (net, 2018 TCZK 281 061) and a long-term loan from subsidiary ŠKODA TRANSTECH Oy of TCZK 114 345.

## 23. Cash and cash equivalents

| | 31/12/2019 | 1/1/2019 | MOVO merger effect | 31/12/2018 |
|---|---|---|---|---|
| Cash in hand | 398 | 323 | -- | 323 |
| Bank accounts | 933 039 | 1 153 415 | 14 211 | 1 139 204 |
| Short-term time deposits | -- | 98 035 | -- | 98 035 |
| Valuables | -- | -- | -- | -- |
| **Total** | **933 437** | **1 251 773** | **14 211** | **1 237 562** |

The Company has no restricted cash.

**Significant investment and financial activities without impact on cash**

As at 31 December 2019, the value of outstanding liabilities relating to investment activities was TCZK 21 279.

## 24. Equity

**Registered capital**

The Company's registered capital as at 31 December 2019 amounted to TCZK 3 150 000 (2018 TCZK 3 150 000). The sole shareholder holds one registered ordinary share in book-entry form in the nominal value of TCZK 3 134 100 and one registered ordinary share in book-entry form in the nominal value of TCZK 15 900. Each TCZK 100 of the nominal value of the shares constitutes one voting right that can be exercised at a general meeting.

**Capital contributions**

Other capital contributions as at 31 December 2019 amounted to TCZK 4 227 673 (2018 TCZK 4 225 338).

**Fair value changes in respect of cash flow hedges**

The fair value change in respect of cash flow hedges (including deferred tax impact) as at 31 December 2019 totals TCZK 309 164 (2018 TCZK - 102 512), resulting from changes in the fair value of derivatives that meet the hedge accounting requirements.

The change in the fair value of cash flow hedges represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedging transactions that were not realized at the balance sheet date.

**Retained earnings**

Retained earnings as at 31 December 2019 were TCZK 5 182 403 (2018 TCZK 5 613 736).

## 25. Earnings/(Losses) per share

As described in Note 1, the Company has two shares of a different nominal value. The voting rights and shares in profit correspond to the proportion of each share in the registered capital. Due to the significant disproportion in the share of individual stocks on profit, the calculation of the share in profit is performed for each share separately. The share of the stock with the nominal value of TCZK 3 134 100 in the Company's loss for 2019 was TCZK -454 990, whereas the share of the stock with the nominal value of TCZK 15 900 was TCZK -2 308.

## 26. Trade payables and other payables

| | 31/12/2019 | 1/1/2019 | MOVO merger effect | 31/12/2018 |
|---|---|---|---|---|
| Trade payables | 954 057 | 859 047 | -151 | 859 198 |
| Contracts with customers - contract liability | 1 513 035 | 741 149 | -- | 741 149 |
| Payables to employees | 77 430 | 43 191 | 119 | 43 072 |
| Payables to the state | 9 294 | 138 087 | 27 | 138 060 |
| Social security liabilities | 27 356 | 24 030 | 75 | 23 955 |
| Deferred income | 77 875 | 27 319 | -- | 27 319 |
| Accrued expenses | 2 200 | 23 552 | -- | 23 552 |
| Estimated payables | 100 380 | 82 788 | 58 | 82 730 |
| Other payables | 4 900 | 24 778 | 26 | 24 752 |
| **Total** | **2 766 527** | **1 963 941** | **154** | **1 963 787** |

### Ageing structure of trade payables

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Payables not overdue | 479 959 | 468 959 |
| Payables up to 6 months overdue | 79 673 | 130 611 |
| Payables up to 12 months overdue | 99 080 | 382 |
| Payables up to 36 months overdue | 39 485 | 259 079 |
| Payables more than 36 months overdue | 255 860 | 167 |
| **Trade payables** | **954 057** | **859 198** |

## 27. Other non-current liabilities

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Contracts with customers - contract liability | 2 262 909 | 1 906 409 |
| Other non-current liabilities | 57 | 30 265 |
| **Total** | **2 262 966** | **1 936 674** |

## 28. Loans, borrowings and securities

Loans and borrowings as at 31 December 2019

| Bank loans | Current portion | Non-current portion | Total | Interest rate | Due date | Credit facility | Not drawn from the credit facility | Type of security |
|---|---|---|---|---|---|---|---|---|
| Short term bank loan | 201 754 | -- | **201 754** | 5,54%[1] | 5.8.2020 | 3 500 000 | 3 298 246 | no security |
| **Total** | **201 754** | **--** | **201 754** | **--** | **--** | **3 500 000** | **3 298 246** | **--** |

| Non-bank loans | Current portion | Non-current portion | Total | Interest rate | Due date | Credit facility | Not drawn from the credit facility | Type of security |
|---|---|---|---|---|---|---|---|---|
| Loan from PPF Beer Topholdco B.V. | -- | 1 564 269 | **1 564 269**[2] | 8,50% | --[3] | 1 355 113 | -- | no security subordinated to the bank loan) |
| Intra-division loans (EUR) | 547 224 | -- | **547 224** | 1,38% | 6.1.2020 | 2 000 000[4] | 1 453 499 | no security |
| Bonds[5] | 2 342 896 | -- | **2 342 896** | 3,00% | 26.6.2020[6] | 2 342 896 | -- | Joint and several liability of all debtors[2] |
| **Total** | **2 890 120** | **1 564 269** | **4 454 389** | **--** | **--** | **5 698 009** | **1 453 499** | **--** |

[1] Interest rate: 3.3 % p.a. + PRIBOR
[2] The amount is reported including accrued interest.
[3] The due date is defined in the Subordination agreement as the moment of full unconditional and final repayment of the Pari-passu debt
[4] The credit facility of the intra-division loan for ŠKODA TRANSPORTATION a.s. is (TCZK) 2 000 000 to be drawn in CZK and EUR
[5] On 26 June 2015 the Company issued bonds with a total nominal value of TCZK 2 310 000 at an issue rate of 99.13 % of the nominal value. The bonds have a maturity of five years and a fixed-rate coupon of 3% p.a. paid annually. The issue of bonds is listed on the Regulated market of the Prague Stock Exchange.
[6] The payment of the bonds will be ensured by a combination of own resources and a bank loan.

Loans and borrowings as at 31 December 2018

In 2019, the structure of the above tables below was adjusted. To make the data comparable, the Company also adjusted the data for 2018.

| Bank loans | Current portion | Non-current portion | Total | Interest rate | Due date | Credit facility | Not drawn from the credit facility | Type of security |
|---|---|---|---|---|---|---|---|---|
| Facility B1 (short-term revolving bank loan) | -- | -- | -- | --[7] | 6/8/2021 | 1 900 000 | 1 900 000 | joint and several liability of all debtors [8] |
| Facility B2 (short-term revolving bank loan) | -- | -- | -- | --[9] | 6/8/2021 | 200 000 | 200 000 | joint and several liability of all debtors[2] |
| Overdraft facility | -- | -- | -- | --[10] | -- | 300 000 | 300 000 | joint and several liability of all debtors[2] |
| **Total** | -- | -- | -- | -- | -- | **2 400 000** | **2 400 000** | -- |

| Non-bank loans | Current portion | Non-current portion | Total | Interest rate | Due date | Credit facility | Not drawn from the credit facility | Type of security |
|---|---|---|---|---|---|---|---|---|
| Loan from PPF Beer Topholdco B.V. | --- | 1 253 057 | **1 253 057** | 8.50% | --[11] | 1 155 113 | -- | no security (subordinated to bank loan) |
| Intra-division loans (EUR) | 2 101 | -- | **2 101** | 3.20% | 2/1/2019 | 3 000 000[12] | 2 799 899 | no security |
| Intra-division loans (CZK) | 198 000 | -- | **198 000** | 1.38% | 2/1/2019 | | | no security |
| Bonds[13] | 35 613 | 2 301 978 | **2 337 591** | 3.00% | 26/6/2020 | 2 301 978 | -- | joint and several liability of all debtors[2] |
| **Total** | **235 714** | **3 555 035** | **3 790 749** | -- | -- | **6 457 091** | **2 799 899** | -- |

[7] Loan not drawn – interest rate: 2.95% + PRIBOR/EURIBOR
[8] Guarantees: insurance settlement, bank accounts, shares, real estate, receivables, establishment
[9] Loan not drawn – interest rate: 2.95% + MOSCOW MOSPRIME
[10] Loan not drawn – interest rate: 0.7% + 1D PRIBOR/EURIBOR
[11] The due date is defined in the Subordination agreement as the moment of full unconditional and final repayment of the Pari-passu debt.
[12] The credit facility of the intra-division loan for ŠKODA TRANSPORTATION a.s. is (TCZK) 3 000 000 to be drawn in CZK and EUR.
[13] On 26 June 2015 the Company issued bonds with a total nominal value of TCZK 2 310 000 at an issue rate of 99.13% of the nominal value. The bonds have a maturity of five years and a fixed-rate coupon of 3% p.a. paid annually. The issue of bonds is listed on the regulated market of the Prague Stock Exchange.

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**Other guarantees provided within the Group - guarantor's statements**

| In favour of/name of the entity | Guarantee amount | Type of guarantee | Purpose of guarantee | Valid until |
|---|---|---|---|---|
| Raiffeisenbank a.s. | RUB 1 220 560 | provision of bank guarantee limit | OOO Vagonmaš | 31/1/2020 |
| UniCredit Bank Czech Republic and Slovakia, a.s. | RUB 22 569 | provision of bank guarantee limit | OOO Vagonmaš | 31/3/2020 |
| UniCredit Bank Czech Republic and Slovakia, a.s. | RUB 22 838 | provision of bank guarantee limit | OOO Vagonmaš | 26/4/2020 |
| Sberbank CZ, a.s. | EUR 144 | provision of bank guarantee limit | ŠKODA ELECTRIC a.s. | 30/6/2023 |

## 29. Provisions

| | 1/1/2019 | MOVO merger effect | Additions | Utilisation | Release | 31/12/2019 |
|---|---|---|---|---|---|---|
| Provision for warranties | 220 703 | | 19 827 | 91 744 | -- | 148 786 |
| Provision for risks | 37 580 | | 52 020 | 31 066 | -- | 58 534 |
| Provision for litigations | 24 416 | | 1 310 | -- | -- | 25 726 |
| Provision for fines and penalties | 1 907 | | 838 | -- | -- | 2 745 |
| Provision for employee benefits | 19 743 | | 8 657 | -- | 272 | 28 128 |
| Provision for onerous projects | 239 122 | | 59 352 | 65 974 | -- | 232 500 |
| Other provisions | 134 847 | 909 | 37 000 | 18 024 | 3 130 | 151 602 |
| **Total** | **678 318** | **909** | **179 004** | **206 808** | **3 402** | **648 021** |
| Current portion of provisions | 660 145 | 909 | -- | -- | -- | 621 191 |
| Non-current portion of provisions | 18 173 | | -- | -- | -- | 26 830 |
| **Total** | **678 318** | **909** | | | | **648 021** |

| | 1/1/2018 | Impact of transition to IFRS 15 | Additions | Utilisation | Release | 31/12/2018 |
|---|---|---|---|---|---|---|
| Provision for warranties | 224 038 | | 80 297 | 83 632 | -- | 220 703 |
| Provision for risks | 73 044 | | 29 000 | 64 464 | -- | 37 580 |
| Provision for litigations | 23 106 | | 1 310 | -- | -- | 24 416 |
| Provision for fines and penalties | 69 331 | -69 331 | 1 907 | -- | -- | 1 907 |
| Provision for employee benefits | 20 536 | | -- | -- | 793 | 19 743 |
| Provision for onerous projects | 289 239 | | 112 725 | 162 842 | -- | 239 122 |
| Other provisions | 32 500 | | 134 847 | 32 500 | -- | 134 847 |
| **Total** | **731 794** | **-69 331** | **360 086** | **343 438** | **793** | **678 318** |
| Current portion of provisions | 711 779 | | -- | -- | -- | 660 145 |
| Non-current portion of provisions | 20 015 | | -- | -- | -- | 18 173 |
| **Total** | **731 794** | | -- | -- | -- | **678 318** |

*Provision for warranties*

Warranty provisions are attributable to deliveries to customers carried out as at 31 December 2019 and 31 December 2018, which are covered by warranty obligations. The provision is calculated based on historical data and an individual assessment of potential future expenses, while considering additional circumstances known as at the date of preparing the separate financial statements.

*Provision for risks*

Provisions for risks primarily cover risks associated with the deliveries of trams.

*Provision for employee benefits*

The Company provides its employees with cash payments on the occasion of significant anniversaries or a certain length of service. The Company establishes a provision for these employee benefits. As at 31 December 2019, the Company discounted the provision to its present value using a rate of 5.5 %. The Company also considered the expected employee turnover rate. Due to insignificance, any other information is not disclosed.

*Provision for onerous projects*

The Company recognised a provision for projects in which based on current forecasts the Company will realise a loss. The value of the provision for onerous contracts arises from the calculation of business cases in accordance with IFRS 15.

*Other provisions*

Other provisions include, among others, the provisions for bonuses to employees and the Company's management.

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## 30. Derivatives

As at the reporting date, the Company held the following derivatives:

**a) Hedging derivatives**

| Forwards | Transacted in 2020 | Transacted in subsequent periods | Fair value as at 31/12/2019 Receivable | Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Forwards – sale of EUR | 93 710 | 193 405 | 153 191 | -- |
| Forwards – sale of RUB | 815 000 | -- | -- | -8 844 |
| **Total** | | | **153 191** | **-8 844** |
| Average hedged rate | | | | |
| CZK/EUR | 26.5153 | 26.8491 | | |
| CZK/RUB | 0.3514 | -- | | |

| Forwards | Transacted in 2019 | Transacted in subsequent periods | Fair value as at 31/12/2018 Receivable | Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Forwards – sale of EUR | 29 167 | 287 115 | 32 830 | -- |
| **Total** | | | **32 830** | **--** |
| Average hedged rate | | | | |
| CZK/EUR | 24.4157 | 26.7284 | | |

| Swaps | Transacted in 2020 | Transacted in subsequent periods | Fair value as at 31/12/2019 Receivable | Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Swap – sale of EUR | 244 352 | 57 944 | 107 100 | -- |
| **Total** | | | **107 100** | **--** |
| Average hedged rate | | | | |
| CZK/EUR | 25.9621 | 26.4382 | | |

| Swaps | Transacted in 2019 | Transacted in subsequent periods | Fair value as at 31/12/2018 Receivable | Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Swap – sale of EUR | 194 949 | 97 114 | -- | -44 492 |
| **Total** | | | **--** | **-44 492** |
| Average hedged rate | | | | |
| CZK/EUR | 25.9449 | 26.0392 | | |

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**b) Trading derivatives**

| Swaps | Transacted in 2020 | Transacted in subsequent periods | Fair value as at 31/12/2019 Receivable | Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Swap – sale of EUR | 44 200 | 1 219 | 3 168 | -17 |
| **Total** | | | **3 168** | **-17** |

| Swaps | Transacted in 2019 | Transacted in subsequent periods | Fair value as at 31/12/2018 Receivable | Liability |
|---|---|---|---|---|
| | original currency (thousands) | original currency (thousands) | TCZK | TCZK |
| Swap – sale of EUR | 26 000 | -- | 4 362 | -- |
| Swap – sale of RUB | 141 000 | -- | 2 157 | -- |
| Interest rate swaps | n/a | n/a | 145 906 | -- |
| **Total** | | | **152 425** | **--** |

In 2019, the structure of the below tables was adjusted and due to the comparability of data, the Company also adjusted the data for 2018.

In accordance with the accounting policies described in Note 3, the change in the fair value of hedging derivatives of TCZK 255 019 (2018 - TCZK - 306 879), reduced by deferred tax, is recorded in other comprehensive income.

As at 31 December 2019, the Company had a liability of TCZK 8 861 (2018 - TCZK 64 917) arising from the revaluation of hedging derivatives and derivatives held for trading, and a receivable of TCZK 263 459 (2018 - TCZK 205 680) arising from the revaluation of hedging derivatives and derivatives held for trading which are presented, depending on the due date of the derivative, as follows: the non-current portion of the liability of TCZK 17 (2018 - TCZK 54 582) under 'Hedging derivatives – non-current portion', the current portion of the liability of TCZK 8 844 (2018 - TCZK 10 335) under 'Hedging derivatives – current portion'; the non-current portion of the receivable of TCZK 79 377 (2018 - TCZK 143 402) under 'Hedging derivatives – non-current portion', and the current portion of the receivable of TCZK 184 082 (2018 - TCZK 62 278) under 'Hedging derivatives – current portion'.

Depending on the classification of the respective derivative transaction (hedging or trading), gains and losses from derivatives settled in 2019 are recognised under Other operating expenses (see Note 8), Other operating revenues (see Note 9), Financial income (see Note 11) or Financial expenses (see Note 12).

Part of the hedging derivatives with maturity up to 31 December 2019 could not be settled due to a delay in expected income secured by the derivatives against currency risk. Therefore, the underlying swaps were negotiated with a settlement date of 2020 or later. The carrying amounts of these expired derivatives are recorded in equity under Fair value changes relating to hedges of TCZK 309 164 (2018 - TCZK 102 512).

To maximise the effectiveness of its derivatives, the Company adheres to the principle that the terms and conditions of a derivative instrument must correspond to the conditions of the hedged item.

Contracts with customers are naturally hedged by receiving advances in a currency corresponding to the currency agreed in the respective contract.

Within hedge accounting, the Company monitors the long-term effectiveness of the hedging. Given the fact that the most important parameters of the hedging instrument and the hedged item are the same (the nominal values of the derivative and the hedged cash flows, the same transaction currency, etc.), there are no sources of inefficiency other than the counterparty credit risk under hedge accounting. The hedging ratio is 1:1. The hedge ineffectiveness was insignificant in 2019 and 2018 and was not accounted for.

Derivatives are classified as short-term or long-term based on their due dates.

Financial assets and liabilities measured at fair value have been assigned to Level 2 as defined by IFRS.

## 31. Financial instruments

| | Financial instruments | | | |
|---|---|---|---|---|
| 31/12/2019<br>TCZK | at amortised costs | at fair value through profit or loss | at fair value through other comprehensive income | Total |
| **Financial assets** | **4 827 289** | **--** | **--** | **4 827 289** |
| Trade receivables and other financial assets | 3 893 852 | -- | -- | 3 893 852 |
| Cash and cash equivalents | 933 437 | -- | -- | 933 437 |
| **Financial liabilities** | **-5 783 812** | **--** | **--** | **-5 783 812** |
| Trade payables and other financial liabilities | -1 061 537 | -- | -- | -1 061 537 |
| Bank loans | -201 754 | -- | -- | -201 754 |
| Non-bank loans and bonds | -4 454 389 | -- | -- | -4 454 389 |
| Lease liabilities | -66 132 | -- | -- | -66 132 |
| **Derivatives (net)** | **--** | **3 151** | **251 447** | **254 598** |
| Trading derivatives | -- | 3 151 | -- | 3 151 |
| Hedging derivatives | -- | -- | 251 447 | 251 447 |

| | Financial instruments | | | |
|---|---|---|---|---|
| 31/12/2018<br>TCZK | at amortised costs | at fair value through profit or loss | at fair value through other comprehensive income | Total |
| **Financial assets** | **4 334 822** | **--** | **--** | **4 334 822** |
| Trade receivables and other financial assets | 3 097 260 | -- | -- | 3 097 260 |
| Cash and cash equivalents | 1 237 562 | -- | -- | 1 237 562 |
| **Financial liabilities** | **-4 780 914** | **--** | **--** | **-4 780 914** |
| Trade payables and other financial liabilities | -990 165 | -- | -- | -990 165 |
| Bank loans | -- | -- | -- | -- |
| Non-bank loans and bonds | -3 790 749 | -- | -- | -3 790 749 |
| Lease liabilities | -- | -- | -- | -- |
| **Derivatives (net)** | **--** | **152 425** | **-11 662** | **140 763** |
| Trading derivatives | -- | 152 425 | -- | 152 425 |
| Hedging derivatives | -- | -- | -11 662 | -11 662 |

## Risk management and financial instruments

The Company's principal financial instruments (excluding derivatives) comprise trade receivables, cash-in-hand and bank accounts, other long-term receivables, trade payables, bank loans, related-party loans, and finance and operating leases. The main purpose of the financial liabilities is to obtain funds for the Company's activities; the Company's financial assets arise during its ordinary activities.

The Company is primarily exposed to the following risks:

- credit risk
- market risk, including currency risk and interest rate risk
- liquidity risk.

The Company's management is generally responsible for the design and monitoring of the financial risk management system. The development and estimates of the effects of individual risks are regularly assessed. The Company's overall risk management strategy focuses on the unpredictable nature of financial markets and endeavours to minimise any potential negative effects on the Company's financial results.

The Company concludes derivative transactions (forwards and swaps) to hedge the currency and interest rate risks that arise as a result of the Company's activities and its funding.

## Capital management

The Company's aspiration is to maintain a strong capital foundation with the goal to sustain the trust of investors, creditors and markets and to support the future development of business operations.

Through the management of its capital and the optimisation of the debt to equity ratio the Company intends to ensure optimal conditions for its continuous business operations and to maximise income. The Company is bound to the fulfilment of capital requirements arising from the conditions of received bank loans and issued bonds. In the current period, no financial conditions for any interest-bearing loans and borrowings were breached.

## Concentration risk

Considering the parameters of the market in which the Company operates, the major part of the Company's revenues is generated from a limited number of specialised customers. The number of such customers in the market does not change from a long-term perspective. Moreover, it cannot be expected that the market will open to a significant number of new customers in the future. The loss of one or more existing customers may have a significant negative effect on the Company's results of operations.

The Company makes every effort to adapt its products to customers' needs, which is associated with a risk of additional costs incurred for proven products. There is also a risk of a lower credit status of customers who may decide to purchase a smaller number of products or cheaper products due to the lack of sufficient funds.

## Credit risk relating to customers

Credit risk results from the potential failure of debtors to fulfil their obligations when they fall due. The risk arises primarily from the potential inability or unwillingness of a debtor to pay off the Company's receivables, or loans provided by the Company. To prevent excessive uncollectible receivables, the top management team focuses on credit risks as part of the effective management of the sales and related functions. The maximum credit risk exposure is represented by the carrying amount of each financial asset in the statement of financial position.

Credit risk exposure is primarily dependent on the individual characteristics of each customer. In general, however, credit risk is assessed based on the credit status of customers.

For new contracts and orders, the ability of the customer or counterparty to pay off their debt by the due date is assessed. Where necessary, future cash flows are secured, primarily by means of advances or bank guarantees. In specific cases, insurance of receivables or letters of credit are used. For information on bank guarantees, see Note 35 - Contingent liabilities.

The credit limit of each customer is regularly monitored, and procedures are in place to prevent the exceeding of this limit. These pre-defined limits may only be increased after careful evaluation and formal approval by the Company's management.

In addition, balances of receivables are monitored on a regular basis, and the Company's exposure to uncollectible receivables is thus not significant. Credit risk is further covered by the establishment of impairment losses, and by extraordinary write-off of receivables.

In 2019, the Company had three customers which individually accounted for more than 70 % of the Company's trade receivables. The Company's management has taken appropriate action to limit the concentration of risk to these parties by policies and procedures such as collateral agreements, careful evaluation of new agreements entered into and close monitoring of credit balances.

As regards the credit risk arising from the Company's other financial assets, which include cash and cash equivalents, credit risk results from the default of a counterparty, with the maximum exposure being equal to the carrying amount of these instruments. As at 31 December 2019 and 31 December 2018, other financial assets were not impaired.

Derivative-type financial assets are not assessed for credit risk as they are negotiated exclusively with financial institutions with a sufficiently high credit rating.

**Impairment**

The maximum exposure to credit risk and the reported impairment loss at the balance sheet date were as follows:

| TCZK 31/12/2019 | Note | Carrying amount (gross) | Total impairment losses | Carrying amount (net) |
|---|---|---|---|---|
| Long-term trade receivables* | 22 | 174 579 | -1 806 | 172 773 |
| Trade receivables** | 21 | 1 030 185 | -13 166 | 1 017 019 |
| Contracts with customers - Contract asset | 21 | 3 240 335 | -3 064 | 3 237 271 |
| Other financial assets | 21,22 | 2 713 710 | -9 650 | 2 704 060 |
| Hedging derivatives - assets | 30 | 263 459 | -- | 263 459 |
| Cash and cash equivalents | 23 | 933 437 | -- | 933 437 |
| **Total** | | **8 355 705** | **-27 686** | **8 328 019** |

| TCZK 31/12/2018 | Note | Carrying amount (gross) | Total impairment losses | Carrying amount (net) |
|---|---|---|---|---|
| Long-term trade receivables* | 22 | 108 533 | -- | 108 533 |
| Trade receivables** | 21 | 1 374 720 | -10 474 | 1 364 246 |
| Contracts with customers - Contract asset | 21 | 2 676 142 | -- | 2 676 142 |
| Other financial assets | 21,22 | 1 634 131 | -9 650 | 1 624 481 |
| Hedging derivatives - assets | 30 | 205 680 | -- | 205 680 |
| Cash and cash equivalents | 23 | 1 251 773 | -- | 1 251 773 |
| **Total** | | **7 250 979** | **-20 124** | **7 230 855** |

* These balances are presented as Other long-term receivables.
** These balances are presented as Trade receivables and other assets.

The year-to-year change in the reported amount of impairment loss can be analysed as follows:

| TCZK | Non-current trade receivables | Trade receivables | Other financial assets | Contract asset |
|---|---|---|---|---|
| **1/1/2019** | **0** | **10 029** | **9 650** | **0** |
| Effect of the MOVO merger | -- | 445 | | |
| New recognised financial assets | -- | -- | -- | -- |
| Settlement of financial assets during the reporting period | -- | -- | -- | -- |
| Write-off of financial assets during the reporting period | -- | -4 757 | -- | -- |
| Increase/decrease in credit risk of financial assets reported at the beginning of the reporting period | 1 806 | 7 449 | -- | 3 064 |
| **31/12/2019** | **1 806** | **13 166** | **9 650** | **3 064** |

| TCZK | Non-current trade receivables | Trade receivables | Other financial assets | Contract asset |
|---|---|---|---|---|
| **1/1/2018** | -- | **10 029** | **9 650** | -- |
| New recognised financial assets | -- | -- | -- | -- |
| Settlement of financial assets during the reporting period | -- | -- | -- | -- |
| Write-off of financial assets during the reporting period | -- | -- | -- | -- |
| Increase/decrease in credit risk of financial assets reported at the beginning of the reporting period | -- | -- | -- | -- |
| **31/12/2018** | -- | **10 029** | **9 650** | -- |

The following table provides information on the credit risk analysis of trade receivables as at 31/12/2019:

| Risk Grades | Non-current trade receivables – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 136 332 | --* | -- |
| Grade 2 Medium risk | 38 247 | -1 806 | 4.7 |
| Grade 3 High risk** | -- | -- | -- |
| **Total** | **174 579** | **-1 806** | |

| Risk Grades | Trade receivables – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 815 862 | --* | -- |
| Grade 2 Medium risk | 193 731 | -7 449 | 3.8 |
| Grade 3 High risk** | 20 592 | -5 717 | 27.8 |
| **Total** | **1 030 185** | **-13 166** | |

| Risk Grades | Contract asset – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 2 034 093 | --* | -- |
| Grade 2 Medium risk | 1 206 242 | -3 064 | 0.2 |
| Grade 3 High risk** | -- | -- | -- |
| **Total** | **3 240 335** | **-3 064** | |

| Risk Grades | Other financial assets – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 2 704 060 | --* | -- |
| Grade 2 Medium risk | -- | -- | -- |
| Grade 3 High risk** | 9 650 | -9 650 | 100 |
| **Total** | **2 713 710** | **-9 650** | |

* The calculated risk of loss is immaterial and has therefore not been recognised.
** Credit impaired financial asset

The following table provides information on the credit risk analysis of trade receivables as at 31/12/2018

| Risk Grades | Non-current trade receivables – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 108 533 | --* | -- |
| Grade 2 Medium risk | -- | -- | -- |
| Grade 3 High risk** | -- | -- | -- |
| **Total** | **108 533** | **--** | |

| Risk Grades | Trade receivables – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 1 349 371 | --* | -- |
| Grade 2 Medium risk | -- | -- | -- |
| Grade 3 High risk** | 25 349 | -10 474 | 41.3 |
| **Total** | **1 374 720** | **-10 474** | |

| Risk Grades | Contract asset – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 2 676 142 | --* | -- |
| Grade 2 Medium risk | -- | -- | -- |
| Grade 3 High risk** | -- | -- | -- |
| **Total** | **2 676 142** | **--** | |

| Risk Grades | Other financial assets – carrying amount (gross) | Total impairment losses | Weighted average loss rate |
|---|---|---|---|
| | TCZK | TCZK | % |
| Grade 1 Low risk | 1 624 481 | --* | -- |
| Grade 2 Medium risk | -- | -- | -- |
| Grade 3 High risk** | 9 650 | -9 650 | 100 |
| **Total** | **1 634 131** | **-9 650** | |

* The calculated risk of loss is immaterial and has therefore not been recognised.
** Credit impaired financial asset

The level of risk for individual trade receivables has been determined taking into account the rating of the country in which the customer operates, the customer or its parent, if any, the analysis of overdue receivables and other information relevant to the credit risk assessment relevant to the Company, available in connection with a specific customer and a specific financial asset. An increase in the risk of default is indicated in particular by the deterioration of ratings, the existence of overdue receivables, the worsening of communication with the customer, the customer's breach of a contract, and the customer's financial problems.

**Market risk**

Market risk results from potential changes in the value of assets and liabilities due to fluctuations in exchange rates. The Company has implemented certain procedures and methods to monitor this risk.

*Currency risk*

The Company is exposed to significant risks resulting from foreign currency transactions. These risks arise from sales and purchases that the Company carries out in currencies other than its functional currency. Approximately 52 % (2018 - 32%) of the Company's sales is denominated in currencies (predominantly in EUR) other than the Company's functional currency, while more than 70 % (2018 - 73%) of the expenses is denominated in the Company's functional currency.

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The Company aims to eliminate most of its currency risk by using derivatives to hedge the Company's exposure to the volatility of exchange rates affecting expected future cash flows. For more information, see Note 30.

*Balances of financial assets and liabilities denominated in foreign currency*

| 31/12/2019 in thousands | CZK | EUR | USD | HUF | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Trade receivables and other financial assets | 1 964 144 | 1 910 616 | 6 162 | 3 | 8 445 | 4 482 | **3 893 852** |
| Cash and cash equivalents | 758 217 | 10 645 | 137 | -- | 163 046 | 1 392 | **933 437** |
| **Financial liabilities** | | | | | | | |
| Trade payables and other financial liabilities | -501 135 | -555 066 | -1 370 | -- | -3 962 | -4 | **-1 061 537** |
| Bank loans | -201 754 | -- | -- | -- | -- | -- | **-201 754** |
| Non-bank loans and bonds | -3 907 165 | -547 224 | -- | -- | -- | -- | **-4 454 389** |
| Lease payables | -34 936 | -31 196 | -- | -- | -- | -- | **-66 132** |
| **Derivatives** | | | | | | | |
| Derivatives for trading | | 3 151 | -- | -- | -- | -- | **3 151** |
| Hedging derivatives (net outflow) | -- | 260 291 | -- | -- | -8 844 | -- | **251 447** |

| 31/12/2018 in thousands | CZK | EUR | USD | HUF | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Trade receivables and other financial assets | 2 455 301 | 550 440 | 212 | -- | 90 912 | 395 | **3 097 260** |
| Cash and cash equivalents | 1 215 967 | 20 454 | 170 | -- | 812 | 159 | **1 237 562** |
| **Financial liabilities** | | | | | | | |
| Trade payables and other financial liabilities | -504 901 | -484 650 | -412 | -- | -10 | -192 | **-990 165** |
| Bank loans | | -- | -- | -- | -- | | **--** |
| Non-bank loans and bonds | 3 788 648 | 2 101 | -- | -- | -- | -- | **3 790 749** |
| Lease payables | -- | -- | -- | -- | -- | -- | **--** |
| **Derivatives** | | | | | | | |
| Derivatives for trading | 145 906 | 4 262 | -- | -- | 2 157 | -- | **152 325** |
| Hedging derivatives (net outflow) | -- | -11 662 | -- | -- | -- | -- | **-11 662** |

*Sensitivity analysis – currency risk exposure*

A reasonably possible strengthening (weakening) of the euro, US dollar or Hungarian forint against all other currencies as at 31 December 2019 and 31 December 2018 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, especially interest rates, remain constant and ignores any impact of forecast sales and purchases.

The actual impact of foreign exchange changes arising from a 10% appreciation (depreciation) of the Czech crown on the income statement would be different from the calculation provided below as the Company mitigates its currency risk exposure by concluding currency derivatives contracts.

| | Exchange rate at 31 December 2019 | 10% | -10% |
|---|---|---|---|
| CZK/EUR | 25.410 | 27.951 | 22.869 |
| CZK/USD | 22.621 | 24.883 | 20.359 |
| CZK/HUF | 0.077 | 0.085 | 0.069 |
| CZK/RUB | 0.363 | 0.400 | 0.327 |

| | Exchange rate at 31 December 2018 | 10% | -10% |
|---|---|---|---|
| CZK/EUR | 25.725 | 28.298 | 23.153 |
| CZK/USD | 22.466 | 24.713 | 20.219 |
| CZK/HUF | 0.080 | 0.088 | 0.072 |
| CZK/RUB | 0.323 | 0.355 | 0.290 |

| | Income statement | |
|---|---|---|
| | Weakening TCZK | Strengthening TCZK |
| **31 December 2019** | | |
| EUR (10% movement) | 305 790 | -305 790 |
| USD (10% movement) | 767 | -767 |
| HUF (10% movement) | -- | -- |
| RUB (10% movement) | 17 545 | -17 545 |
| **31 December 2018** | | |
| EUR (10% movement) | 175 267 | -175 267 |
| USD (10% movement) | 25 | -25 |
| HUF (10% movement) | -- | -- |
| RUB (10% movement) | 26 995 | -26 995 |

| | Income statement | |
|---|---|---|
| | **Weakening TCZK** | **Strengthening TCZK** |
| **31 December 2019** | | |
| EUR (10% movement) | 26 029 | -26 029 |
| RUB (10% movement) | -884 | 884 |
| **31 December 2018** | | |
| EUR (10% movement) | -1 166 | 1 166 |

### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from financial instruments will fluctuate because of changes in interest rates. Interest rate risk management aims to eliminate the risk arising from changes in interest rates of variable-rate financial liabilities by maintaining a suitable structure of financial liabilities. The Company is exposed to interest rate risk primarily in connection with bank loans.

*Sensitivity analysis – changes in interest rates*

The Company is exposed to interest rate risk primarily due to financial liabilities arising from borrowings and non-current liabilities that bear interest at variable rates. The sensitivity analysis is based on the exposures as at the reporting date. In the coming period, the Company assumes the possibility of a +/-10 basis point change in the yield curve. The Company is most sensitive to movements in the Czech crown yield curve. The following table shows the possible effect on profit or loss before tax of the expected change in interest rates.

| Interest rate change | 2019 Increase of 10 basis points | 2019 Decrease of 10 basis points | 2018 Increase of 10 basis points | 2018 Decrease of 10 basis points |
|---|---|---|---|---|
| Effect on the income statement | 121 | -121 | -- | -- |

As at 31 December 2018, the Company did not recognise any liability from received loans with a variable interest rate.

## Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors its liquidity risk exposure on a regular basis and assesses the maturity of financial investments and financial liabilities, and projected cash flows from its activities.

One of the principal liquidity management tools are advances received to cover the costs relating to the completion of contracts, the allocation of available funds to highly liquid bank instruments (term deposits and depository notes), and the conclusion of agreements with suppliers regarding reasonable maturity dates.

*Exposure to liquidity risk*

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements:

| 31/12/2019 | Carrying amount | Contractual cash flows<br>Total | Due within 1 year | Due in 1 to 2 years | Due in 2 to 5 years | Due in more than 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | 954 057 | 954 057 | 656 977 | 39 466 | 257 614 | -- |
| Bank loans | 201 754 | 208 433 | 208 433 | | | |
| Non-bank loans and bonds | 4 454 389 | 5 076 957 | 2 927 487 | -- | -- | 2 149 470 |
| Current financial liabilities | 107 480 | 107 480 | 107 480 | -- | -- | -- |
| Finance lease payables | 66 132 | 74 787 | 19 876 | 12 036 | 35 306 | 7 569 |
| Other non-current liabilities | 57 | 57 | -- | 57 | -- | -- |
| **Derivative financial liabilities (fixed term contracts used for hedging) – net** | | | | | | |
| Derivatives for trading | -3 151 | -5 045 | -2 863 | -- | -2 182 | -- |
| *Inflow (-)* | | -1 159 142 | -1 125 985 | -- | -33 157 | -- |
| *Outflow (+)* | | 1 154 097 | 1 123 122 | -- | 30 975 | -- |
| Hedging derivatives (net outflow) | -251 446 | -566 742 | -228 835 | -151 941 | -185 966 | -- |
| *Inflow (-)* | | -15 839 708 | -9 115 022 | -3 605 643 | -3 119 042 | -- |
| *Outflow (+)* | | 15 272 966 | 8 886 188 | 3 453 702 | 2 933 076 | -- |
| **Total** | **5 529 272** | **5 849 984** | **3 688 555** | **-100 382** | **104 772** | **2 157 039** |

| 31/12/2018 | Carrying amount | Contractual cash flows<br>Total | Due within 1 year | Due in 1 to 2 years | Due in 2 to 5 years | Due in more than 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | 859 198 | 859 198 | 859 198 | -- | -- | -- |
| Bank loans | -- | -- | -- | -- | -- | -- |
| Non-bank loans and bonds | 3 790 749 | 4 400 316 | 269 401 | 2 379 300 | -- | 1 751 615 |
| Current financial liabilities | 1 104 589 | 1 104 589 | 1 104 589 | -- | -- | -- |
| Finance lease payables | -- | -- | -- | -- | -- | -- |
| Other non-current liabilities | 1 936 674 | 1 936 674 | | 688 760 | 1 247 914 | -- |
| **Derivative financial liabilities (fixed term contracts used for hedging) – net** | | | | | | |
| Derivatives for trading | -152 425 | -152 552 | -26 771 | -20 125 | -60 375 | -45 281 |
| *Inflow (-)* | | -866 904 | -741 123 | -20 125 | -60 375 | -45 281 |
| *Outflow (+)* | | 714 352 | 714 352 | -- | -- | -- |
| Hedging derivatives (net outflow) | 11 661 | -378 473 | -56 494 | -94 323 | -227 656 | -- |
| *Inflow (-)* | | -16 028 148 | -5 821 878 | -4 381 677 | -5 824 593 | -- |
| *Outflow (+)* | | 15 649 675 | 5 765 384 | 4 287 354 | 5 596 937 | -- |
| **Total** | **7 550 446** | **7 769 752** | **2 149 923** | **2 953 612** | **959 883** | **1 706 334** |

In 2019, the structure of the following tables was adjusted. To make the data comparable, the Company also adjusted the data for 2018.

The gross inflows/(outflows) disclosed in the above tables represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and not usually closed out before contractual maturity. The disclosure shows the net cash flow amounts for derivatives that are net cash-settled and the gross cash inflow and outflow amounts for derivatives that have a simultaneous gross cash settlement.

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### Income and expenses and gains and losses in the income statement

| 2019 (expenses - / revenue +) | Note | Financial instruments by category: Loans and advances | Financial derivatives | Total |
|---|---|---|---|---|
| Interest income | 11 | -59 475 | -- | -59 475 |
| Interest expense | 12 | 246 380 | -- | 246 380 |
| Losses from derivative transactions | 8 | -- | 25 336 | 25 336 |
| Gains from derivative transactions | 9 | -- | -124 113 | -124 113 |
| | | 186 905 | -98 777 | 88 128 |

| 2018 (expenses - / revenue +) | Note | Financial instruments by category: Loans and advances | Financial derivatives | Total |
|---|---|---|---|---|
| Interest income | 11 | -97 680 | -- | -97 680 |
| Interest expense | 12 | 223 206 | -- | 223 206 |
| Losses from derivative transactions | 8 | -- | 5 327 | 5 327 |
| Gains from derivative transactions | 9 | -- | -40 715 | -40 715 |
| | | 125 526 | -35 388 | 90 138 |

### Fair value

The Company performed a classification into three levels of input data based on an assessment of their availability, using the fair value hierarchy:

a) Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities.
b) Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g. prices) or indirectly (e.g. derived from prices).
c) Level 3 inputs: unobservable inputs for the asset or liability.

In the reporting periods ending 31 December 2019 and 2018, no transfers were made between Level 1 and Level 2 carried at fair value and no transfers were made to or from Level 3.

The fair value of financial derivatives is based on the valuation techniques used by the banks for which the derivatives are negotiated (discounted cash flow model using market rates).

The carrying amount of financial assets and financial liabilities not measured at fair value is an approximation of their fair value, as financial assets and liabilities primarily consist of short-term trade receivables and payables, cash and loans bearing variable interest rates.

The fair value of long-term receivables was calculated by discounting the contractual cash flows using the current yield curve. Fair value falls to Level 3 due to the use of inputs that cannot be directly derived from data obtained in an active market, such as own credit risk.

| 31/12/2019 | Carrying amount as at 31 December 2019 | Fair value<br>Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Non-current receivables | 287 118 | -- | -- | 287 118 |
| Derivatives | 263 459 | -- | 263 459 | -- |
| **Financial liabilities** | | | | |
| Bank loans | -201 754 | -- | -- | -201 754 |
| Non-bank loans | -1 564 269 | -- | -- | -1 564 269 |
| Bonds | -2 342 896 | -2 373 333 | -- | -- |
| Other non-current liabilities | -2 262 966 | -- | -- | -2 262 966 |
| Derivatives | -8 861 | -- | -8 861 | -- |
| **Total** | **-5 830 169** | **-2 373 333** | **254 598** | **-3 741 871** |

| 31/12/2018 | Carrying amount as at 31 December 2018 | Fair value<br>Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Non-current receivables | 281 061 | -- | -- | 281 061 |
| Derivatives | 205 680 | -- | 205 680 | -- |
| **Financial liabilities** | | | | |
| Bank loans | 0 | -- | -- | 0 |
| Non-bank loans | -1 253 057 | -- | -- | -1 253 057 |
| Bonds | -2 337 591 | -2 373 333 | -- | -- |
| Other non-current liabilities | -1 936 674 | -- | -- | -1 936 674 |
| Derivatives | -64 917 | -- | -64 917 | -- |
| **Total** | **-5 105 498** | **-2 373 333** | **140 763** | **-2 908 670** |

In 2019, the structure of the above tables was adjusted. To make the data comparable, the Company also adjusted the data for 2018.

The Company does not disclose the fair values of financial instruments presented in short-term trade receivables and other assets and short-term trade payables and other liabilities, as their carrying amount approximates their fair value.

## 32. Transactions with related parties

Related parties also include key management personnel. The remuneration of these individuals is disclosed in Note 6. In addition, these individuals are provided with standard benefits such as company cars and mobile phones.

The following related-party balances, expenses incurred, and revenues generated in connection with related-party transactions in 2019 and 2018 are included in the advance payments for inventories, receivables, liabilities, advances received, and loans and borrowings described in Notes 20, 21, 22, 27 and 28.

Related party transactions primarily comprise services received or rendered as part of projects and financing received or provided.

| | Receivables | | Liabilities | | |
|---|---|---|---|---|---|
| **2019** | **Trade receivables** | **Other receivables** | **Trade payables** | **Non-current and current loans and borrowings** | **Other payables** |
| Parent company | -- | -- | -- | 1 564 269 | -- |
| Subsidiaries | 764 525 | 3 468 814 | 124 244 | 547 224 | 149 583 |
| Associated companies | -- | 4 595 | -- | -- | -- |
| Other | 342 | -- | 22 846 | 201 754 | -- |
| **Total** | **764 867** | **3 473 409** | **147 090** | **2 313 247** | **149 583** |

| | Receivables | | Liabilities | | |
|---|---|---|---|---|---|
| **2018** | **Trade receivables** | **Other receivables** | **Trade payables** | **Non-current and current loans and borrowings** | **Other payables** |
| Parent company | -- | -- | -- | 1 253 056 | -- |
| Subsidiaries | 987 623 | 2 002 495 | 114 203 | 200 101 | 212 485 |
| Associated companies | -- | -- | -- | -- | -- |
| Other | 1 829 | -- | 28 537 | -- | -- |
| **Total** | **989 452** | **2 002 495** | **142 740** | **1 453 157** | **212 485** |

Costs and revenues realised with related parties were as follows:

| | Revenues | | | | | Expenses | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | **Revenues from own products** | **Revenues from services** | **Revenues from the sale of materials** | **Interest income** | **Other revenues** | **Materials and consumables** | **Purchased services** | **Interest expense** | **Other expense** |
| Parent company | -- | -- | -- | -- | -- | -- | -- | 111 212 | -- |
| Subsidiaries | 527 016 | 290 241 | 17 138 | 51 831 | 121 193 | 25 390 | 140 173 | 952 | 3 692 |
| Associated companies | -- | -- | -- | -- | 9 190 | -- | -- | -- | -- |
| Other | -- | 2 086 | 88 | 381 | 2 226 | 632 | 99 828 | 1 754 | 45 616 |
| **Total** | **527 016** | **292 327** | **17 226** | **52 212** | **132 609** | **26 022** | **240 001** | **113 918** | **49 308** |

| 2018 | Revenues from own products | Revenues from services | Revenues from the sale of materials | Interest income | Other revenues | Materials and consumables | Purchased services | Interest expense | Other expense |
|---|---|---|---|---|---|---|---|---|---|
| | Revenues | | | | | Expenses | | | |
| Parent company | -- | -- | -- | -- | -- | -- | -- | 72 231 | -- |
| Subsidiaries | 1 146 410 | 265 335 | 169 099 | 60 889 | 4 408 | 9 908 | 106 005 | 706 | 8 194 |
| Associated companies | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Other | 27 | 2 016 | -- | -- | 2 165 | 2 181 | 94 900 | -- | -- |
| **Total** | **1 146 437** | **267 351** | **169 099** | **60 889** | **6 573** | **12 089** | **200 905** | **72 937** | **8 194** |

Related party transactions were carried out in line with the arm's length principle.

The table does not include receivables, liabilities, expenses and revenues relating to the revenue from contracts with customers under IFRS 15.

## 33. Development costs

In 2019, the Company incurred development costs of TCZK 926 063 (2018 TCZK 767 988).

## 34. Environmental liabilities

The Company's management is not aware of any existing environmental risks associated with the Company's activities. As a result, the Company did not establish a provision for potential environmental risks.

## 35. Contingent liabilities

**Bank guarantees**

Under applicable contractual provisions, the Company must provide clients with a performance bond, a warranty, and an advance payment guarantee. In addition, bid bonds are issued.

The Company uses the following bank guarantees:

- BB (bid bond)
- APG (advance payment guarantee)
- PB (performance bond)

| Bank guarantees received | Valid for up to 1 year | Valid for more than 1 year | Total at 31/12/2019 | Total at 31/12/2018 |
|---|---|---|---|---|
| Total in TEUR | 46 876 | 106 201 | 153 078 | 141 828 |
| Total in TRUB | -- | -- | -- | 1 265 967 |
| Total in TPLN | 15 000 | -- | 15 000 | 15 000 |
| Total in TCZK | 13 170 | 1 464 835 | 1 478 005 | 80 860 |

## 36. Government grants

The Company received the following government grants in 2019 - 2018:

| | 2019 | 2018 |
|---|---|---|
| Grants recognised in profit or loss | 7 024 | 4 708 |
| Investment subsidies | 22 681 | 40 129 |
| **Total** | **29 705** | **44 837** |

## 37. Significant litigations

The Arbitration Court attached to the Czech Chamber of Commerce and the Czech Agrarian Chamber issued a final and conclusive decision in proceedings with a significant customer, regarding the payment of part of a purchase price, default interest and the right to substitute an expressed intention to conclude an amendment regarding a purchase price increase, in favour of the Company, and fully rejected the customer's petition for the payment of a contractual penalty for an alleged breach by the Company of its obligations under a purchase agreement, and the petition for the submission of certification equivalents for Austria and Germany. All supplies relating to this litigation were paid in preceding years.

In 2015, the significant customer filed a legal action calling for the cancellation of the above arbitration ruling. In proceedings to cancel an arbitration ruling primarily procedural issues are dealt with. On 20 March 2019, the court dismissed the action for the cancellation of the arbitration ruling. The judgement has not yet been final and conclusive, as on 9 May 2019, the significant customer appealed against the judgment of the court to the High Court in Prague. Proceedings are in process at the High Court in Prague, the decision has not yet been issued. On 26 November 2019, the High Court in Prague suspended the proceedings until the arbitrator's expulsion proceedings were finalised (see below).

In 2015, the significant customer also filed an action for the exclusion of one arbitrator from the above arbitration proceedings. On 6 October 2016, the court in Prague halted the proceedings on the expulsion of an arbitrator until a decision had been taken in the above-mentioned proceedings. The significant customer filed an appeal with the Supreme Court against this decision. In particular, procedural issues were addressed in the appeal proceedings. On 27 February 2019, the Supreme Court dismissed the significant customers' appeal. On 6 June 2019, the significant customer filed a constitutional complaint against this decision of the Supreme Court with the Constitutional Court. On 19 November 2019, the Constitutional Court annulled the decision of the Supreme Court of 27 February 2019. Therefore, the matter will again be decided by the Supreme Court.

## 38. Reconciliation of profit or loss recognised in IFRS financial statements and profit or loss unaffected by IFRS

The profit or loss unaffected by IFRS is the result of operations as defined by Czech Accounting Standards and not affected by IFRS.

| | 2019 | 2018 |
|---|---|---|
| Profit or loss recognised in the IFRS non-consolidated financial statements | -457 298 | 426 154 |
| IFRS 15 Revenue from contracts with customers | 143 508 | 213 972 |
| Deferred tax (-) expense / (+) income | 12 133 | -19 543 |
| Provision for employee benefits (-) additions / (+) release | 8 385 | -793 |
| Effect of derivatives recognised in income statement | -123 667 | 2 311 |
| Discounting of non-current receivables | -6 381 | -25 859 |
| Interest on bonds | 1 285 | 1 117 |
| Provision for onerous projects | -37 906 | -51 277 |
| Foreign exchange gain/loss from derivatives | 42 974 | -20 348 |
| Other | 44 374 | -16 266 |
| **Profit or loss unaffected by IFRS** | **-372 593** | **509 468** |

## 39. Annual report

The Company has not prepared an annual report as at 31 December 2019 as the respective information is included in its consolidated annual report.

## 40. Material subsequent events

On 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic, and the Czech government declared a state of emergency on 12 March 2020. Responding to the potentially serious threat COVID-19 presents to public health, the Czech government authorities took measures to suppress the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors, and lock-downs of certain industries, pending further developments. In particular, airlines and railways suspended the international transport of people, schools, universities, restaurants, cinemas, theatres and museums, sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. In addition, major manufacturers in the automotive industry decided to shut-down their operations in both the Czech Republic and other European countries. Some businesses in the Czech Republic also instructed employees to remain at home and curtailed or temporarily suspended business operations.

The wider economic impact of these events include:

- a disruption to business operations and economic activity in the Czech Republic, with a cascading impact on both upstream and downstream supply chains
- significant disruptions to businesses in certain sectors, both within the Czech Republic and in markets with a high dependence on foreign supply chains as well as to export-oriented businesses with a high reliance on foreign markets. The affected sectors include trade and

transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector

- a significant decrease in demand for non-essential goods and services
- an increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The Company operates primarily in the sector of manufacturing, modernisation and servicing of rolling stock, which has not been significantly affected by the outbreak of COVID-19. Its operations including supplies were uninterrupted, except for isolated cases.

Based on the publicly available information as at the date these Financial Statements were authorised for issue, the Company´s management considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the entity and the economic environment in which the Company operates, including the measures already taken by the Czech government and governments in other countries where the Company's major business partners and customers are located.

As at 31 December 2019, the Company's net working capital amounted to MCZK 4 398 and the cash and cash equivalent balance amounted to MCZK 933. In addition, the Company had agreed but not used credit lines from banks totalling MCZK 3 300.

As at the date these Financial Statements were authorised for issue, the production of the Company is in operation with continuing supplies of materials. In the first stage, the Company contacted all key suppliers asking for information about the impact of the COVID-19 pandemic on their deliveries. As at the date these Financial Statements were authorised for issue, the majority of the suppliers confirmed that they were not significantly affected by the COVID-19 pandemic and would keep the deliveries on track (except for several suppliers from Italy, Spain, and France). The Company has increased hygienic precautions in production plants where the Company has forbidden any visits, and administrative employees work from home. The Company is using modern technology for distant access and videoconferences to protect the health of its employees.

In the current uncertain situation, the Company cannot exclude that its suppliers (mainly foreign) will not be impacted in the future, depending on the development of the COVID-19 pandemic and any potential future restrictive measures of the government (e.g. limitations on freight transportation or the free movement of people). Nevertheless, as at the date these Financial Statements were authorised for issue, the Company does not see any such indications.

The Company is analysing the possibility to receive compensation for damages from the Czech government. The Company is able to continue in its business activity even without state support, any compensation would nonetheless alleviate the adverse financial impacts on the Company.

Based on the Company´s analysis as at the date these Financial Statements were authorised for issue, the current situation does not have a significant impact on the CGU impairment test of goodwill (investments) and the impairment tests of trademarks with indefinite useful life that support the balances stated in the Company's Financial Statements as at 31 December 2019. Impairment tests are sensitive mainly to changes of discount rates, but currently no material changes in these discount rates have been indicated. The expected outage of sales in 2Q 2020 does not have a significant impact on the impairment test mainly due to the long-term nature of the Company´s contracts.

Based on currently publicly available information, the Company's existing key performance indicators and with regard to the measures taken by management, the Company does not expect an immediate significantly negative impact of the COVID-19 pandemic on the Company, its operation, financial situation and results of operations. However, the Company cannot rule out the possibility that a longer closing period, stricter measures or a subsequent negative impact of these measures on the economic environment in which the Company operates will not have a negative impact on the Company, its financial situation and its results in the medium and long term. The Company continues to monitor the situation closely and will respond to mitigate the impact of these events and circumstances according to current developments.

As at the date of preparation of the separate financial statements, the Company's management is not aware of any other significant subsequent events that would affect the Financial Statements as at 31 December 2019.

Approved on 30 April 2020

| | |
|---|---|
| ---------------------------------------- | ---------------------------------------- |
| Ing. Petr Brzezina | Ing. Jan Menclík |
| *Chairman of the board of directors* | *Member of the board of directors* |

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

# Independent Auditor's Report to the Shareholder of ŠKODA TRANSPORTATION a.s.

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the accompanying separate financial statements of ŠKODA TRANSPORTATION a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the separate statement of financial position as at 31 December 2019, separate income statement and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flow for the year 31 December 2019 then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the separate financial statements.

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

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Carrying amount of investments in subsidiaries

Refer to Notes 3.(d) and 3.(t) (accounting policies) and 18. (financial disclosures).

| Key audit matter | How the audit matter was addressed |
|---|---|
| **The Company carried investments in subsidiaries at 8 540 843 TCZK as at 31 December 2019. As disclosed in note 3 (d) and 3 (t), these investments are stated at cost less any imparment losess.**<br><br>**Where indications of impairment are identified the Company determines recoverable amount of investments and recognises impairment loss, if any. Determining the recoverable amounts of investments in subsidiaries requires from the Company a number of significant judgements and assumptions, especially in respect of the future cash flows, including the level of operating earnings before interests, taxes, depreciation and amortization (EBITDA) in the budgeted period, the growth rate in cash flows in the residual period as well as the discount rate.**<br><br>**Due to the above we considerded the carrying amount of investment in subsidiaries to be a key audit matter.** | Our audit procedures included, among others:<br><br>- with the assistance from our internal valuation specialist challenging the Company's assumptions and judgements used to determine the recoverable amount of investments in subsidiaries and any impairment losses recognised. This included:<br>• evaluating the impairment testing models in terms of their compliance with the relevant accounting standards;<br>• assessing the macroeconomic assumptions related to discount rate by reference to market data,<br>• assessing the key assumptions used in estimate of future cash flows by performing a retrospective review of budgeting accuracy in prior years. In particular, we evaluted the assumed EBITDA level in the budgeted period by comparison to historical data of the Company while the growth rate assumed in the residual period by reference to industry data;<br><br>- evaluating the Company's sensitivity analysis of the impairment model to changes in the assumptions with the greatest potential effect on the test results, e.g. those relating to discount rate, growth rate in the residual period, the level of EBITDA in the budgted period and considering whether the level of these assumptions indicates management bias;<br><br>- evaluating the accuracy and completeness of the financial statements disclosures relating to the Impairment of investments in subsidiaries. |

**Revenue recognition**

Refer to Notes 3 (k) (accounting policies) and 5. (financial disclosures)

| Key audit matter | How the audit matter was addressed |
|---|---|
| **In the year ended 31 December 2019, the Company's principal revenue streams included sales of rolling stock as well as provision of maintenance and repair services. The above accounted for 90% of total revenues from customers in the financial statements.**<br>**Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Particular complexity is associated with the following factors:**<br><br>**- the Company's management evaluates for each performance obligation whether it is satisfied over time or at a point in time. The determination requires a thorough consideration of contractual provisions to understand when control of the promised goods or services is transferred to customers. Note 5 of the financial statements provides details of the timing and pattern of recognition of revenue for key revenue streams;**<br><br>**- significant uncertainty is associated with estimating the amount of contract consideration, in particular as regards variable consideration in the form of penalties associated primarily with rolling stock sales;**<br><br>**- significant uncertainty is** | Our audit procedures included, among others:<br><br>- obtaining understanding of and evaluating the Company's revenue recognition process and testing related internal controls, in particular the controls associated with contract authorization, approval of subsequent contract modifications as well as monitoring of progress towards completion;<br><br>- assessing the Company's revenue recognition policy, including methods for measuring progress towards complete satisfaction of a performance obligation using our knowledge of the Company as well as by reference to the relevant requirements of the financial reporting standards;<br><br>- for a sample of contracts with customers concluded during the year, inspecting contracts and making inquiries of directors and relevant finance personnel in order to challenge the Company's assessment with respect to, among others:<br>• appropriate identification of contracts including their approvals and commitment to perform the respective obligations by the parties to the contracts as well as probability of collecting the consideration due;<br>• determination of transaction price with particular focus on the estimated amount of variable consideration, such as penalties;<br>• determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts; in addition we inspected relevant sales invoices, handover documents and other documentation supporting the reported progress towards complete satisfaction of the contract;<br><br>— for a sample of contracts assessing the reasonableness of the amount of revenue recognized for the year by:<br>• developing an independent expectation of revenue by reference to the provisions of the contract, the related budgets approved by management as well as other documentation supporting the progress towards complete satisfaction of a performance obligation reported as at the year-end; |

| | |
|---|---|
| **associated with estimating the** progress towards completion **of individual** contracts, **which is determined on expected costs, that are subject to** significant **judgements regarding** future prices and also due to potentially **unexpected developments** over the course of performance of such contracts.<br>**We considered revenue recognition to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.** | • assessing the key assumptions used by the Company to determine the total costs to fulfil a contract by inquiry of finance personnel and project managers as well as by performing a retrospective review of the accuracy of Company's estimates in the prior accounting periods; in addition, we considered the actual outcome of contracts that were completed after the year end;<br>— examining whether the Company's revenue recognition-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework. |

### *Other Information*

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

As described in Note 39 to the financial statements, ŠKODA TRANSPORTATION a.s. has not prepared an annual report as at 31 December 2019, as the respective information is included in its consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

### *Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements*

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body 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 statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board, in collaboration with the Audit Committee, is 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 skepticism 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 statutory body.
- Conclude on the appropriateness of the statutory body's 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

## Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

*Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 12 September 2018 and our uninterrupted engagement has lasted for 17 years.

*Consistency with Additional Report to Audit Committee*

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 3 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

*Provision of Non-audit Services*

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

### *Statutory Auditor Responsible for the Engagement*

Karel Růžička is the statutory auditor responsible for the audit of the financial statements of ŠKODA TRANSPORTATION a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague
30 April 2020

KPMG Česká republika Audit, s.r.o.
Registration number 71

Karel Růžička
Partner
Registration number 1895