

CERTICON

ANNUAL REPORT FOR 2017



CERTICON



CERTICON a. s.

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1. INTRODUCTION

Dear shareholders, business partners, employees and friends,

For CertiCon a.s., 2017 was another successful year. That is true despite certain problems it had to overcome and which were caused primarily by the freeing up of the Czech crown's exchange rate and the situation on the labour market. The company nevertheless was completely stable in its operations and growth continued in all important parameters.

In recent years, CertiCon has matured into an internationally respected company providing its customers with a wide range of services in software design, development and testing, as well as design and verification of integrated circuitry. It also has proven its capability to provide software services in the context of Industry 4.0.

CertiCon's work today is thus grounded especially in three types of activities:

- a) co-sourcing in the area of software design, development and testing, which is distinguished by its great flexibility in deploying the company's capacities and by high-quality work;
- b) its proprietary, in-house research; and
- c) development of its proprietary products and services drawing upon the HW design department.

CertiCon's employees are focused on leading-edge technologies in such areas as clouds, mobile computing systems, multi-agent systems, and embedded systems. They endeavour always to combine SW and HW solutions to best advantage and thereby to create substantial added value.

The company succeeded during 2017 to expand its business activities with existing long-term partners (Medtronic, Frequentis, and Bosch) and to acquire new customers (AF in Sweden, ZF in Germany, and Seznam in the Czech Republic). The year 2017 brought stabilization in the company's activities abroad, and particularly in the USA but also in the EU-15. We achieved overall service and product sales of almost CZK 533 million, a gain of 4.6% in comparison to 2016. Meanwhile, total operating revenue rose to ca CZK 558 million, which represents a 6.7% gain over 2016 (including higher subsidy incomes).

Cooperation continued with Health Helm in Boston. As an investment, CertiCon a.s. programmed for this start-up firm additional modules of a mobile system for distributed medical services. Moreover, the first pilot projects were successfully implemented in US hospitals.

This orientation towards supporting start-up companies in the early stages of their development in the form of angel capital or other initial investments and their later financially advantageous divestment has become a part of the company's long-term strategy.

Since 2014, CertiCon has been supporting through SW development the newly founded nova-met s.r.o., which specializes in producing distributed heat sensors and services related to remote temperature measurement. In this case, by contrast, CertiCon anticipates a long-term partnership between the two companies. CertiCon Group's companies portfolio further has included since 2016 the company Embitron, s.r.o., which is directed to producing rehabilitation and physiotherapy instruments, and Passengera, s.r.o., for which, among other things, CertiCon is also developing several solutions.

The company substantially concentrated the activities of its Applied Research Department on issues related to its own, proprietary products. Considerable problem-solving capacities were required by the EU's DIGICOR project, focused on knowledge integration of a large producer's supplier network (with the first case study being for Airbus Industries). The company also developed exceptionally valuable know-how acquired in implementing the EU's ARUM project in previous years.

Total applied research spending for 2017 was CZK 22.1 million, of which CertiCon covered CZK 6.2 million with its own funds.

In 2017, the company supported its efforts in developing proprietary products with substantial strengthening of three product teams, particularly in the areas of computer vision (CertiConVis), optimization of planning and scheduling processes (EPIQA), and a system for semi-automated biosignal processing (Cyber PSG).

From a sector viewpoint, the company is focused on the automotive industry, medical technologies, and life-critical applications in communications and transport. Its activities are directed most of all to software for life-critical applications. In this area, it is positioned as a leading provider of consulting, outsourcing, and especially co-sourcing services in the Czech Republic. This has been documented, for example, in

publications by CzechInvest, a state agency supporting business and investments, as well as by the company's representation of the Czech Republic through invited lectures at international forums.

To support its business activities in the Czech Republic, the company opened a show-room at a well-situated location within the BLOX building in Prague 6 – Dejvice in 2017.

A stabilizing factor can be seen in the company's continuously developing ECDL (European Computer Driving Licence) activities, carried out in close cooperation with the Czech Society for Cybernetics and Informatics.

In supporting the Czech Technical University Media Lab Foundation, CertiCon is partnering with an organization that aims to assist the best students at Czech technical universities to work on high-level research projects. CertiCon enabled the Foundation to locate its e-Club accelerator at the company's new premises free of charge. In return, among the expected benefits for CertiCon will be access to the results as well as to young experts who will be crucial for achieving new and innovative solutions in future.

Successful implementation of the quality management system in compliance with the ISO 9001:2000 standard and the ISO 13485:2003 quality management system for development of medical devices fundamentally influences the company's internal operations and perceptions among its customers. ISO 13485:2003 certification has been shown further to enhance its competitiveness in the important SW and HW segment.

In addition to its high quality standards, another factor unquestionably contributing to CertiCon's international business success is the competitive level of its services. This is achieved especially by continuous training and raising the employees' qualifications through language courses and professional training. Also of no small importance is its close cooperation with top universities, both domestically within the Centre for Applied Cybernetics and abroad through submitting and implementing EU research projects. CertiCon has strengthened its connection, too, with the prestigious Austria-based Christian Doppler system of research laboratories in cooperation with the Vienna University of Technology. From 2017, CertiCon becomes a part of a second laboratory financed by the Christian Doppler Research Association. Collaboration was strengthened with the excellent New Technologies for the Information Society research unit at the Faculty of Applied Technology, University of West Bohemia in Pilsen, and the CIIRC (Czech Institute of Informatics, Robotics, and Cybernetics) at the Czech Technical University. Expert cooperation was established also with the Technical University of Ostrava and University of Ostrava.

All the achievements described above have been made possible by the active contributions from all the company's employees, and therefore we sincerely thank them.

CertiCon is continuously seeking capable, dynamic, highly qualified professionals. To facilitate this, it has established branches outside of Prague, in Czech regional cities. Plans are underway to open a new branch in Olomouc during 2018.

Being aware of its corporate social responsibility, CertiCon has decided to support certain sports and cultural events, such as the Christmas Tour of violinist Pavel Šporcl and a concert by the singer Dasha. We also support our employees in their sports, cultural, and social activities.

As confirmed by positive evaluations of key projects, we are committed to ensuring our customers' satisfaction. I hope and believe they will continue to view CertiCon as a stable, enduring and reliable partner.

Our longtime ambition is to be a Czech company doing high-quality work in areas requiring high professional qualifications and based on research cooperation with universities. We strive to be a company where employees are satisfied in their work and will see their own growth and future prospects. We endeavour to see all share our values and vision for the company, and that includes our vision for corporate social responsibility. We make every effort to keep a strong focus not only on customer satisfaction but also on the satisfaction of our own employees. We want them to pride themselves in the fact that, through their efforts, they contribute to building a unique company with strong technological capacities and capabilities.

We look forward to another successful year in 2018!

Prague, 21 May 2018

*Prof. Ing. Vladimír Mařík, DrSc., dr.h.c.,
Chairman of the Board of Directors*

2. CONTACTS

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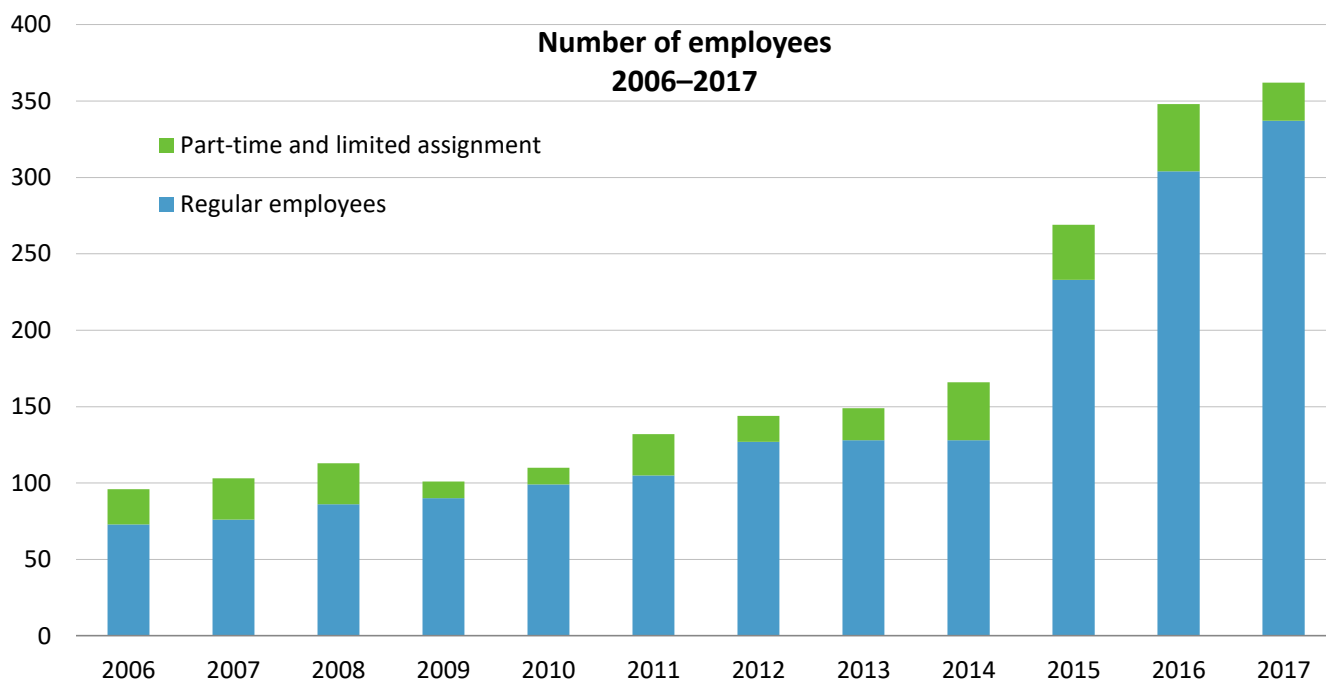
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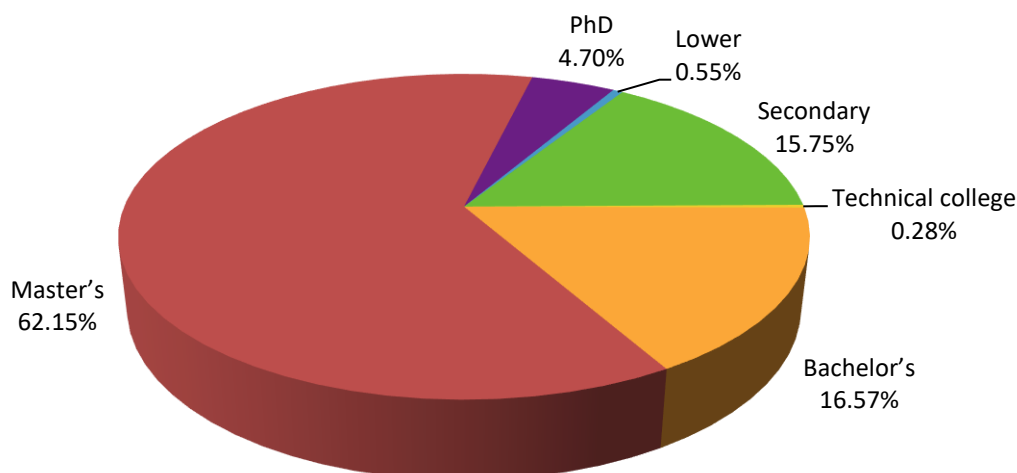
3. THE COMPANY'S ORGANIZATION AND PERSONNEL

Personnel working for CertiCon as of 31 December 2017 totalled 362. With respect to type of contractual relationship, as of that date there were 337 regular employees under employment contract and 25 personnel under agreements outside an employment relationship (so-called “part-time limited workers” and “limited assignment workers”). The average annual full-time equivalent number of personnel was 328. Development in the number of employees through recent years is shown in the bar graph. As can be seen, there was a slight increase in 2017.



A long-term priority aim of the company is to concentrate capacities for accumulating top-notch technological know-how and therefore to employ in particular highly qualified, individually trained professionals. Such orientation is confirmed by statistics as to the highest levels of educational attainment among the employees and management. As shown in the pie chart, 83% of employees have university educations (Bachelor's degree and higher).

Employees' educational attainments as of 2017



Organizational Structure Valid from 1 January 2017 to 31 July 2017

Basic Line Management Structure

The company's three-level organizational and management structure:

- a) The top management level consists of the Chairman of the Board of Directors, to whom all members of the company's management report directly.
- b) Committee – an advisory body comprising selected members of the company's management (Chairman of the Board of Directors, Chief Operations Officer, Chief Financial Officer, Chief Sales Officer, and Chief Technical Officer).
- c) The middle level comprises directors of divisions and sections.
- d) The basic level of management comprises department managers.

Basic Structure of Project-based Management

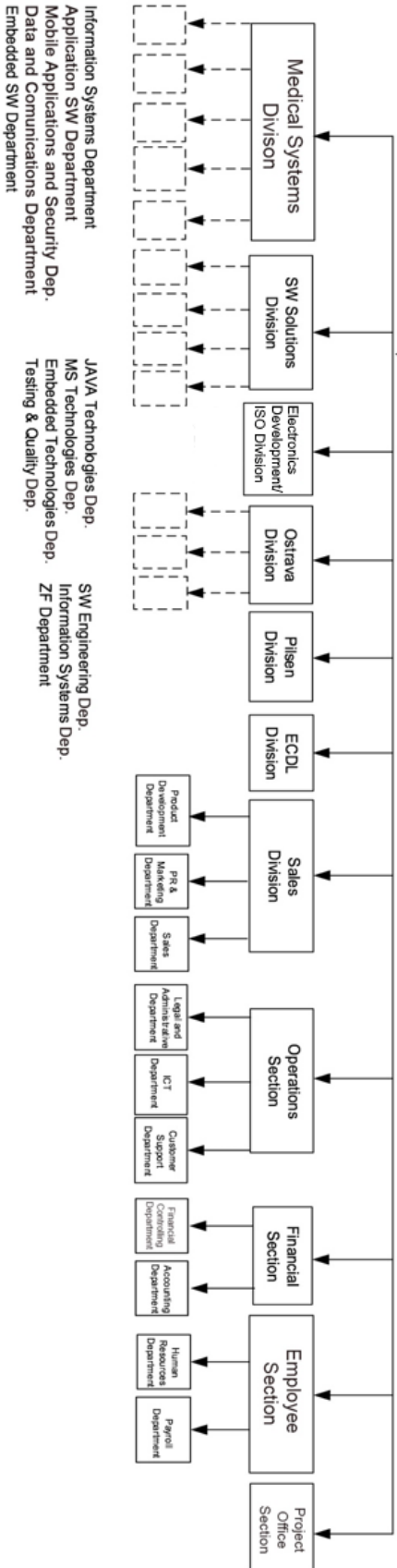
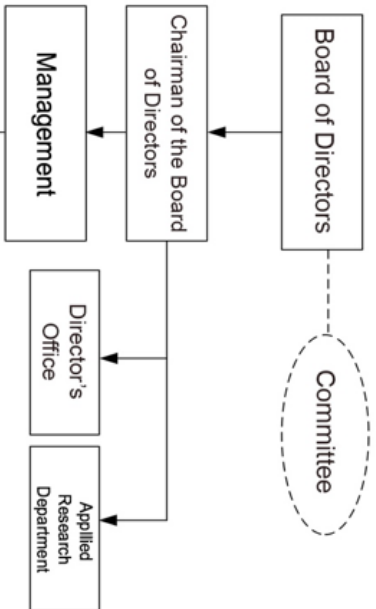
Project management is the operational principle of the project-based arrangement:

- a) The top management level consists of the Chairman of the Board of Directors.
- b) The Director of the Project Office and designated members of the management team direct the achievement of project objectives through programme managers.
- c) The middle level of management is comprised of programme, product, and project managers.

The company's technical director left in mid-May, which gave rise to a need for slight adjustment in the organizational structure. Based on internal discussions, a change was approved with effect from 1 August 2017. This consisted in dissolution of the Technical Development Department, formation of a stand-alone Applied Research Department, and establishment of the Product Development Department within the Sales Division (see chart).

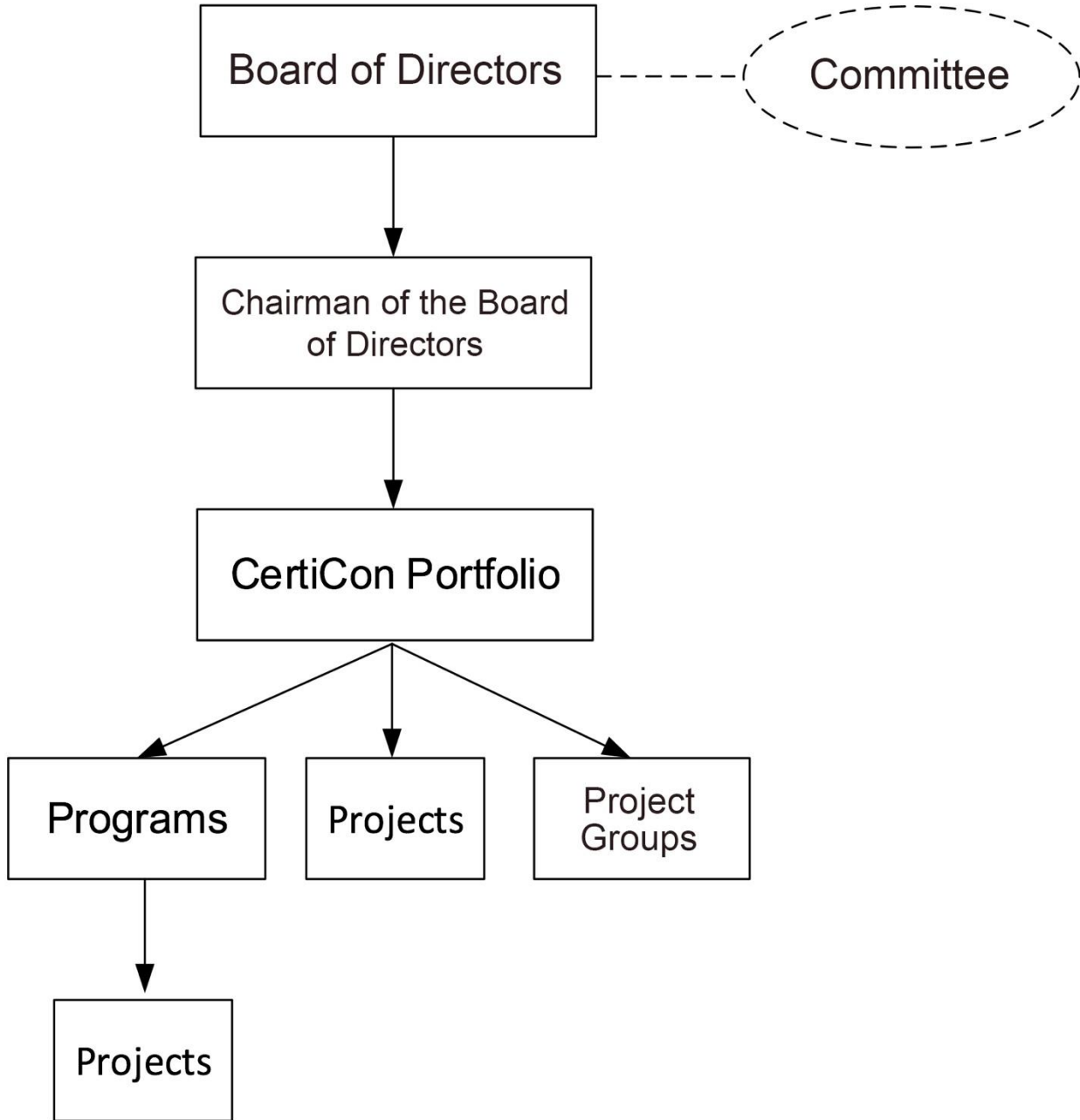
One month later, that is to say with effect from 1 September 2017, we made another change in response to deteriorating performance in relation to declining USD and EUR exchange rates. It was necessary also to focus on cost savings, and therefore we selected employees working in procurement from the Operations Section and formed them into a separate Procurement Department that was at the same time moved under the Financial Section (see chart).

Organizational structure valid from 1 January 2017 to 31 July 2017 (line structure)



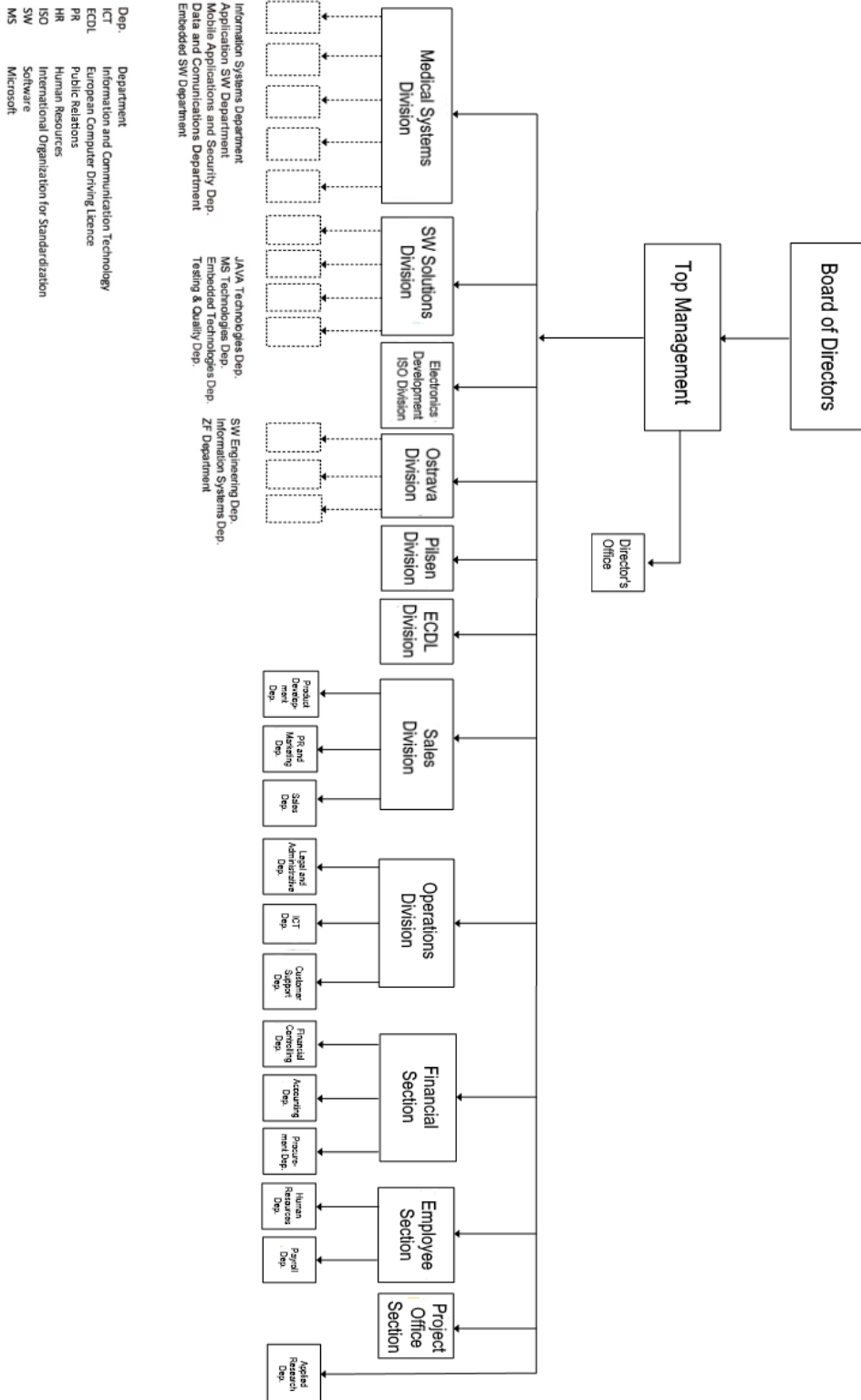
- Dep. Department
- ICT Information and Communication Technology
- ECDL European Computer Driving Licence
- PR Public Relations
- HR Human Resources
- ISO International Organization for Standardization
- SW Software
- MS Microsoft

Organizational structure valid from 1 January 2017 to 31 December 2017 (project-based structure)



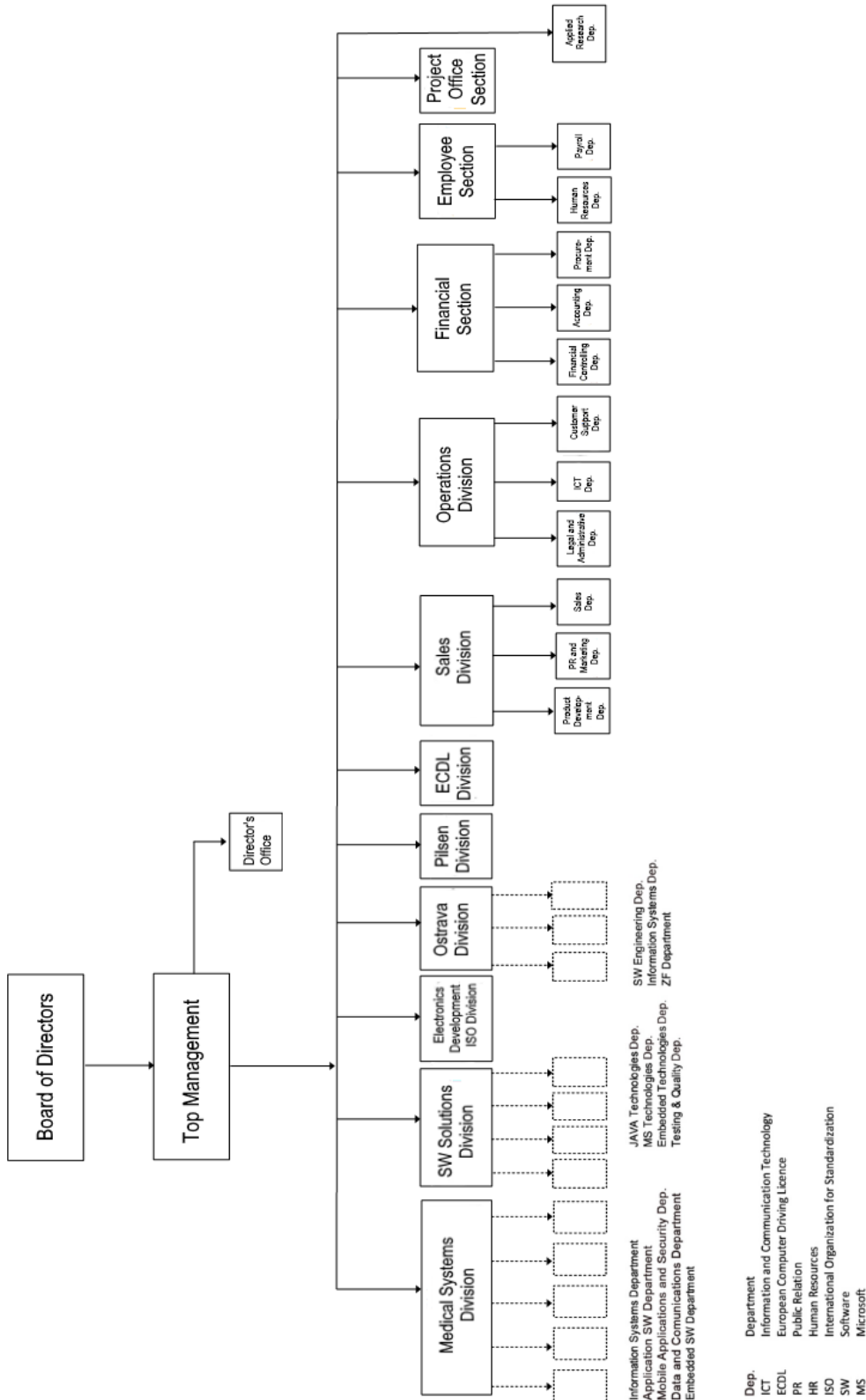
Organizational structure valid from 1 August 2017 to 31 August 2017

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Organizational structure valid from 1 September 2017 to 31 December 2017

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4. QUALITY MANAGEMENT SYSTEMS

4.1. ISO 9001:2015 QUALITY MANAGEMENT SYSTEM



In the first half of 2017, an amendment was implemented of the ISO 9001:2015 standard that emphasizes the organizational context and on use of risk evaluation in decision-making.

In May 2017, the company was recertified and obtained certificates valid until 26 May 2020. Compliance with the quality management system implemented with this standard's requirements was independently confirmed. CertiCon is fully aware of its organizational context as well as the needs and expectations of stakeholders, and it is managing risks in accordance with ISO 9001:2015. All the system's requirements of the company are reasonable and fully supported by the company's management.

The **scope of certification** covers activities in the following areas:

1. Design, research and development, testing, diagnostics, and supply of programming products, including provision of related consulting, outsourcing and other services.
2. Design, research, development, and production of analogue, digital, and mixed-signal electronic circuits, including provision of related consulting and outsourcing services.

4.2. ISO 13485:2016 MEDICAL DEVICES – QUALITY MANAGEMENT SYSTEM



The quality management system for development of medical devices according to the ISO 13485 standard has been used by the company for several years.

The main principle of ISO 13485 is adherence to laws and pertinent technical standards in order to ensure the maximum possible safety of the developed medical device.

The basic legal regulations include Act No. 366/2017 Coll., which amends Act No. 268/2014 Coll and Government Regulation No. 54/2015 Coll., defining technical requirements for medical devices, and Government Regulation No. 56/2015 Coll., defining technical requirements for in vitro diagnostic devices, as well as Government Regulation 616/2006 Coll., regarding technical requirements for products in terms of their electromagnetic compatibility.

Recertification was conducted in May 2017 and the company received certificates valid up to 26 May 2020.

The **scope of certification** covers design, research and development, testing, and diagnostics of software and electronic circuitry (area of Active Medical Devices), including related consulting and outsourcing services.

4.3. ISO 14001:2015 ENVIRONMENTAL MANAGEMENT SYSTEMS AND ISO 18001:2007 OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEMS

Environmental protection and occupational health and safety are inseparable aspects of CertiCon's fulfilling its corporate social responsibility. The company has established procedures not only for handling chemicals but also for recycling waste, and saving energy. This applies for all three locations where the company has operations. All activities in environmental protection and occupational health and safety were supported by the management. In order to maintain these registrations, the company continued its long-time cooperation with CIVOP s.r.o.

In 2018, the company will be preparing for certification pursuant to ISO 45001 Occupational Health and Safety Management Systems, which in 2019 will replace the current ISO 18001:2007 Occupational Health and Safety Management Systems.

The **scope of certification** covers all of the company's activities and employees.



5. THE COMPANY'S PRINCIPAL ACTIVITIES

CertiCon a.s. has long been focused on analysis, design, creation, and testing of software; design, verification, and testing of integrated circuits; and research activities especially in systems supporting decision-making and management. An all-embracing motto pertaining to the company's activities is to provide its customers services with high added value, doing so comprehensively across the entire life cycle of the product or service. The company is grounded in its own research potential, which was substantially reinforced during 2015–2017, and on the knowledge of its employees. Such efforts demand in particular qualified experts, superior equipment, and well-managed processes for continuously adopting into practice the fruits of research and development. This strategy is substantially reflected in the cost structure, wherein personnel expenses, hardware and software costs, and outlays on applied research and development constitute the majority of expenditure items.

The principal services customers are foreign European and US firms operating internationally. Domestically, the state administration and municipalities are the main customers. In recent years, however, Czech private firms (ProfConsult, Jablotron, Passengera, Apator Metra, ComAP, Seznam) as well as Czech branches of international firms (IBM, Asekol, ZF, Ingersoll Rand) have begun to feature among domestic customers.

Medtronic (USA), Robert Bosch (UK), and Frequentis (Austria) remained the largest foreign customers in 2017.

A large proportion of domestic activities consist in organizing the ECDL concept in the Czech Republic along with technical IT support of this concept in the Czech Republic and Slovakia.

Domestically, the company focuses on such large state administration customers as the General Directorate of Customs (Ministry of Finance) and customers from the private sector, such as IBM Česká Republika.

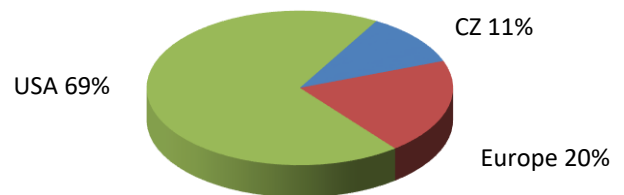
Research activities, including participation in applied research projects within projects co-financed by the Czech Republic and European Union, comprise a considerable part of CertiCon's activities. In 2017, several rather extensive applications were submitted for projects of the Ministry of Industry and Trade, Technology Agency of the Czech Republic, Ministry of the Interior, and EU to be carried out in coming years.

Active participation in the national project of the Centre for Applied Cybernetics III – a long-term project of the Technology Agency of the Czech Republic – also is important, because it provides CertiCon the possibility to contribute to contemporary scientific knowledge in the areas of automation and artificial intelligence while utilizing that same knowledge to develop unique solutions for its customers.

CertiCon has been a full member of the prestigious Christian Doppler Laboratory "Software Engineering Integration for Flexible Automation Systems" in Austria since 1 January 2010, and, together with the Vienna University of Technology and the Austrian firm Logi.cals, it is participating in developing a general tool for design and implementation of SCADA systems. The Laboratory's activities, including CertiCon's participation, are co-financed by the Austrian government. From 2017, CertiCon became a member of another Christian Doppler Laboratory "Model-Integrated Smart Production".

An indispensable component of technological development on the one hand and **support of technology transfer** on the other is cooperation with the ČVUT Media Lab Foundation, wherein CertiCon a.s. is among the founding partners. So, too, is **support to individual start-up companies**, such as Health Helm in Boston, nova-met, s.r.o. in Šumperk, and Passengera, s.r.o. in Prague. CertiCon a.s., along with its parent company SynergyCon, a.s., has established a long-term strategy for cooperation with start-ups as well as for supporting them with expertise and investment.

Sales by geographic region



5.1. TECHNICAL DEVELOPMENT – PRODUCTS

5.1.1. **CertiConVis** – SW application for real-time image data analysis

CertiConVis (CCV) is software that analyses images from a camera system in real time or from a recording. At CCV's core is sophisticated software for computer vision. CCV processes video transmission, recognizes situations within a scene, and immediately informs the user in case of suspicious behaviour. In real-time, CertiConVis provides routine and advanced sophisticated methods of image analysis from static shots, series of static shots, video recordings, and live video transmission from cameras. It enables users to set up rules for alarms relating to various parts of the scene and times. The CertiConVis sales article is a server application with all necessary SW so that any IP camera system can be connected. CertiConVis also provides an interface for accessing analytical information and for administration. CertiConVis is suitable for use both on-premises and in CLOUD mode.

- Following through from sales activities at the end of the previous year, CertiConVis in early 2017 recorded its first successful installations into real customer environments.
 - SPEL, a.s. and custom development of a parking module
 - Police Headquarters of the Moravian–Silesian Region and installation of a module for merging events from recordings
- With growing interest in CertiConVis and the first references, marketing and selling efforts were escalated and began drawing an increasing number of sales opportunities and other impetuses to continue development from both the commercial and government spheres.
- During most of 2017, we were preparing applications for tenders from government sector organizations
 - General Directorate of Customs – sought software for merging events from recordings
 - Prague Airport – software for monitoring of public and non-public premises of the airport in real time and from recordings
 - Police Presidium of the Czech Republic – software for merging events from recordings
- To a somewhat less extent during 2017, we were focused on commercial entities among shopping centres, industrial parks, and prominent security agencies.
- We initiated the process of establishing long-term business partnerships with entities focusing on the same market segments and with a product that may create a more comprehensive analytical system in combination with CertiConVis.
- The idea for long-term partnerships is to join know-how and the creation of unique products and tools that will extend the range of services and increase sales potential in the areas of monitoring and security.
- In the context of developing CertiConVis, we made adjustments in deploying personnel as was necessary in view of the growing interest in the market. These changes also included optimizing internal processes.

5.1.2. **EPIQA** – online multiagent production scheduling system

In 2017, CertiCon followed up on the results of the successfully completed ARUM research project, the objective of which had been to develop a planning and scheduling system applying state-of-the-art principles of Industry 4.0. In cooperation with Airbus Industries, we then initiated the development of a product with the commercial name of EPIQA. The new project's main objective is to further extend optimization algorithms and especially their implementation into a stable, robust, and scalable system that is capable of routine operations within the demanding environment of Europe's largest manufacturer of airliners. Airbus Industries plans on using EPIQA for optimizing airplane production planning in dozens of assembly lines all across the world. To fulfil this plan, the system must be able to calculate in the shortest possible time a valid scheduling of activities that satisfies a number of limiting conditions. Examples of these conditions include, for example, continuity of operations, requirements for concurrence of events, availability of additional resources to fulfil a task, possibility of allocating the required resources exclusively to a specific facility or, to the contrary, their sharing across several facilities to one or more assembly lines, demands for synchronizing operations on two lines, respecting the time necessary to transfer resources between the individual operations in case of sharing of resources, and a number of other requirements. In addition to the activity scheduling itself, EPIQA also supports several optimization strategies. Worthy of note, for example, are strategies to find a solution planned for the shortest production time using all available resources and to find a solution satisfying the given time limitation using as few resources as possible. At its core, the system is built using artificial intelligence technologies such as constraint programming and multi-agent systems.

For CertiCon, the cooperation with one of the world's most important airplane manufacturers represents a potential for long-term stable cooperation and one of the company's most prestigious orders. It is a highly attractive opportunity for the company's experienced experts who control the architecture, software design and development, and are responsible for quality and testing of software, mathematical models and project management. It also constitutes a challenge to apply their best skills. For project management, CertiCon uses state-of-the-art agile methodology using top-of-the-line support instruments.

- EPIQA's development was initiated as research project ARUM on 1 February 2015.
- The first SW prototype was completed on 31 December 2015.
- Intensive SW development continued in 2016 and the EPIQA brand name was chosen.

In 2017, commercialization of EPIQA was initiated in cooperation with Airbus Industries

5.1.3. **CyberPSG** – SW application for analysis and semi-automated annotation of polysomnographic signals

CyberPSG is a software framework combining tools for visualizing and manually annotating big physiological data with state-of-the-art artificial intelligence and machine learning tools for automated, objective, and rapid data analysis. The system is independent of hardware type and allows implementation of interfaces for multimodal signal input from various types of devices. It integrates data formats commonly and currently used in biomedicine (EDF, MEF, etc.) From input signals, advanced methods extract features necessary for automated and semi-automated classification of the individual recording segments into a hierarchically arranged tree of clusters. The system then categorizes the scanned data into a tree structure of hierarchically arranged classes (clusters) and offers the key parts of the recording as recommended for expert evaluation. The expert can view the data in a diagnostic space but also as raw data and subsequently adjust the machine classification. The entire record is then re-evaluated and corrected on the basis of expert re-classification. This achieves objective and rapid classification of long records with high data density captured in several modalities (EEG, iEEG, EKG, EMG, etc.) The system developed by CertiCon allows for a combination of manual recording classification by an expert with a high degree of automation and objectivity based on evaluating the similarity of signals.

Cyber PSG is an instrument applying innovative approaches founded on AI and machine learning methods in processing big bio-data. We see very promising commercial opportunities in this area related to the development of technologies, especially recording of signals in neurosciences and cardiology and also in connection with the development of wearables (smart watches, etc.) and other types of sensors generating new types of data usable in improving health and healthy lifestyles. If this will be successful on the

European or US market, this area could have great commercial potential. The main developmental objective was to create an innovative application for routine use in processing EEG, iEEG, and PSG data. Development of Cyber-PSG was initiated in cooperation with the Czech Institute of Informatics, Robotics and Cybernetics (CIIRC) at ČVUT in Prague in 2015 under the internal project name EEG Analyzer. The first prototype of the application was presented in 2016 and 2017 at the HIMSS exposition in Las Vegas in the US and also in 2016 at the CardioSleep conference in Prague. After determining the interest of the professional community in this technology, further development of the commercial version under the name CyberPSG was initiated. In 2016, CyberPSG was implemented in a pilot test in two professional settings at university hospitals in Hradec Králové and in Ostrava.

During 2017, we cooperated with the research group of Prof. Vašínek at the Technical University of Ostrava (TUO) and prepared a joint project with successful receipt of a Trio grant. Cyber-PSG will be part of the solution developed and delivered under this project that is focused upon AI and ML methods using data and sensors developed at TUO.

Also in 2017, there was discussion for the use of the Cyber-PSG application at Mayo Clinic in Rochester, MN, in its Mayo Clinic Systems Electrophysiology Laboratory (MSEL), led by Prof. Worrell, a leading expert on electrophysiology and treatment of epilepsy. Preparations were made for the application's use in terms of data formats and user needs defined for such data. Currently (May 2018), a pilot demo version for this laboratory is awaiting launch. After a successful demonstration, negotiations with Mayo Clinic and Dr. Worrell on cooperation and conditions of the application's deployment for research purposes in MSEL will be initiated.

5.2. APPLIED RESEARCH PROJECTS

Seven research projects from previous years continued during 2017, and we succeeded in acquiring an eighth project – BIOS.

SUBSIDY PROJECTS IMPLEMENTED IN 2017

5.2.1. **DIGICOR** – Decentralised Agile Coordination Across Supply Chains

The European project H2020 loosely follows on from the completed project ARUM. It will consist in developing algorithms for coordinating production across several supplier–customer entities. The main partners are Airbus, University of Manchester, CIIRC, Hanse Aerospace, Control 2K, Information Catalyst for Enterprise, Almende, fortiss, Comau, and Singularlogic. CertiCon is the technical coordinator and leader of WP4.



5.2.2. **SIDAS** – System for Intelligent Detection and Signalization of Collision States for Improving Track Safety

The MPO Trio project has as its objective to determine the state of a railway crossing using computer vision methods and measurements on an optical interferometer. It is necessary to determine the state on the crossing, whether there are any undesirable objects, people, cars, or animals. The situation is evaluated on the basis of the detected objects and a warning signal is potentially sent. The project also includes design and implementation of a monitoring centre. The project is being run in cooperation with Technical University of Ostrava, Professor Vašínek's team.

5.2.3. **REBOT** – Development of a Robotic Workplace for Disposal of Hazardous Substances and Disassembly of Taken-back Electrical Equipment with Flat Screens

The Epsilon project from the Technology Agency of the Czech Republic continued from 2015. Its objective is to design and test in a simulated environment the controlling of a robotic line that can automatically disassemble flat screen monitors and separate LCD panels, fluorescent tubes, a plastic screen frame, and the electronics board. The project is being run in cooperation with our business partner Asekol and a research lab at University of West Bohemia, doc. Miloš Železný's team.

5.2.4. **Laryngovoice** – Automatic Voice Conservation and Reconstruction Focusing on Patients after Total Laryngectomy

The Epsilon project from the Technology Agency focuses on voice modelling and interpretation based upon recordings of a human speaker. The objective is to conserve electronically the voices of patients who will soon lose their voices to total laryngectomy. The project is conducted with research and commercial partners University of West Bohemia in Pilsen, Charles University in Prague, and Speech Tech s.r.o.

5.2.5. CENTRE FOR APPLIED CYBERNETICS III

Again in 2017, CertiCon cooperated on a Centre for Applied Cybernetics III (CAK III) applied research project which aims to concentrate the national research potential in this field. In this year, CAK III went through a review process and an application was submitted for its continuation through another 4 years. The application was successful. The Head of the Centre and the Principal Investigator is Prof. Ing. Vladimír Kučera, DrSc., Dr.h.c. from the CIIRC research institute of the Czech University of Technology. The founding entities are the Czech Technical University in Prague, Brno University of Technology, University of Western Bohemia in Pilsen, Tomas Bata University in Zlin, Technical University of Ostrava, Institute of Information Theory and Automation of the Academy of Sciences of the Czech Republic, Institute of Computer Science of the Academy of Sciences of the Czech Republic, and the companies CertiCon a.s., Camea, spol. s r.o., UniControls a.s., and Unis, spol. s r.o.

In the second phase of the CAK III project, we focus on methods of controlling robotic missions with special emphasis on coordinating the activities of several robots in the problem of covering a perimeter.

5.2.6. CHRISTIAN DOPPLER LABORATORY at Vienna University of Technology

This laboratory (established in collaboration with CertiCon) is based at the Vienna University of Technology and is led by Prof. Dr. Stefan Biffl. Its work focuses on researching and developing tools for collecting data from large-scale production systems, including simulations and predictions based on that data, as well as management of operational interventions based on the simulations and predictions. These are tasks based upon SCADA (Supervisory Control and Data Acquisition), for which to date there exists no general solution. The ad hoc development of company-specific SCADA systems is greatly demanding in terms of both investment and technology. The need for SCADA systems is growing rapidly, and a tool for their rapid and effective design could, from a commercial point of view, be a highly desirable product, especially in relation to developing trends in Industry 4.0.

CertiCon is cooperating with CDL on the project “**Software Engineering Integration for Flexible Automation Systems**”. At the start of 2015, it assisted in successfully defending the results from the project’s second stage. The project continued with its next phase in 2015. CertiCon is responsible for Module 2, entitled “Advanced SCADA Algorithms for Flexible Automation Systems”. It collaborated closely on this project during 2015 and 2016 with the team of Prof. Dr. Stefan Biffl of the Vienna University of Technology.

5.2.7. ER4STEM



The project ER4STEM (Educational Robotics for Science, Technology, Engineering and Mathematics) is motivated especially by the labour market’s insufficiency of qualified people with technical educations. Its objective is to stimulate interest in science and technical fields among children and youths. The project is being worked out by a number of experts in education, IT, and robotics. One of the project components is identifying key capabilities and characteristics necessary for technical fields and those that can be developed. This is followed by a number of interactive experiments with robots that will be designed primarily to inspire interest in science and develop and test the aforementioned characteristics. The output of this project will be a general process for developing workshops that encourage the young generation and motivate it towards technical education. CertiCon’s task is to monitor the entire process and evaluate the potential advantage for companies seeking technically educated employees.

5.2.8. **BIOS** – Device for Measuring and Processing Bio-signals Using Optical-fibre Sensors

The project's objective is to develop a device for measuring bio-signals using a combination of optical-fibre sensors and an advanced signal-processing system. The system under consideration will bring advantages based on the principle of using optical-fibre sensors, which offer very high sensitivity in measured values. This property will allow the final device to provide a non-invasive sensing method with minimal stress on the patient. The advantage of very high sensor sensitivity also allows for designing a probe sensing two or more values simultaneously, thereby reducing the number of probes used in current monitoring methods. This will simplify measuring methods as well as increase patient comfort due to a substantial reduction in the number of signal and powering conduits required.

The proposed project also aims to substantially innovate the existing product Cyber PSG, or rather to create a comprehensive solution using entirely new principles for capturing bio-signals and to supplement the existing product with completely new functional properties based on principles of artificial intelligence, machine learning, and decision-making support in clinical diagnostics.

5.3. MOST SIGNIFICANT FOREIGN REFERENCES

- **Robert Bosch – formerly SPX** (UK) – a European branch of a leading American supplier of systems for after-sales services for car factories. Cooperation is focused on developing, implementing, and testing software for after-sales service of cars from leading world brands.
- **Medtronic Inc.** (USA, MN) – a global producer and leader in medical electronics. Our cooperation centres on services for design and implementation of life-critical software.
- **Frequentis GmbH.** (Austria) – a company with an important position on the market for digital systems and devices using the TETRA telecommunications standard for air traffic control. On a worldwide scale, Frequentis has a 30% market share in the Voice Communication segment and is a renowned technology leader. Cooperation focuses mainly on developing and integrating software for the operationally critical GSM-R and Air Traffic Control applications.
- **Airbus Group** (Germany) – a world leader in aviation technology. Our cooperation focuses especially on smart production planning and scheduling in resolving complicated assembly procedures. Cooperation on the large EU ARUM project continues on a contractual basis.
- **AF Technology** (Sweden) – an engineering and advisory company in telecommunications, energy, and industrial infrastructure. Cooperation is focused on development and implementation of RT embedded software for telecommunication equipment. Another area of cooperation comprises advanced video processing technologies.

5.4. MOST SIGNIFICANT DOMESTIC REFERENCES, INCLUDING SLOVAKIA

- **Ministry of Finance of the Czech Republic – General Directorate of Customs** – In addition to customs duties, it also administers selected taxes and fees. Cooperation focuses especially on information systems for tax administration and their integration within the EU.
- **Česká společnost pro kybernetiku a informatiku (Czech Society for Cybernetics and Informatics)** – a non-profit organization popularizing cybernetics, informatics, and related disciplines. It is an ECDL (computer literacy certification) pioneer and the ECDL licence holder for the Czech Republic. CertiCon is the supplier and operator of an information system for administration and management of ECDL testing in the Czech Republic.
- **Slovenská informatická spoločnosť (Slovak Society for Computer Science)** – a non-profit organization popularizing computer science and related fields. It is a pioneer in the ECDL (European Computer Driving Licence) concept and holder of the ECDL licence for Slovakia. CertiCon is the supplier and operator of the information system for administration and management of ECDL testing in Slovakia.
- **IBM Česká republika** – a world-leading IT company. CertiCon is supplier for the design and implementation of software solutions for certain customers.
- **ASEKOL CZ, s.r.o.** – part of an international group involved in processing waste electrical and electronic equipment. It is using CertiCon's services in designing a system for separating end-of-life home appliances on the basis of processing visual information.
- **ZF Engineering s.r.o.** – the Pilsen Branch is one of eight important developmental branches of ZF Friedrichshafen AG. CertiCon provides services especially in developing embedded SW for control units in the automotive area and furthermore cooperates on developing supporting SW instruments on the Java platform.

6. REPORT ON BUSINESS ACTIVITIES AND SITUATION ANALYSIS

CertiCon is a joint-stock company primarily oriented towards comprehensive services in custom design, development, diagnostics and verification of software, as well as design, verification and testing of analogue and digital integrated circuitry for challenging applications in information technologies, medical electronics, telecommunication technology, computer vision, and devices for industrial control and decision-making. Modern mobile applications are also at the centre of its attention.

The company directs its work mainly to fields requiring high-level expertise, knowledge of technologies and processes, flexibility, ability to craft new solutions, and utilization of the potential of proprietary applied research in order to implement solutions. It does not, therefore, focus on a specific industrial sector, but primarily on foreign corporate customers seeking solutions with high added-value content based on modern technologies and employing the latest scientific knowledge and research findings. CertiCon's capacities in the area of modern user interfaces and mobile applications have increased significantly since 2011. The company also has become a preferred supplier of mobile technologies for the US firm Medtronic. CertiCon is one of the few Czech companies to develop modular software systems utilizing service-oriented architecture, which is of special importance for the development of industrial management, planning, and scheduling systems in accordance with the Industry 4.0 philosophy.

CertiCon places foremost emphasis on developing market-leading, comprehensive systems using innovative, object-oriented software technologies and distributed systems architectures, multi-agent systems, and client/server applications. It is newly orienting itself to cloud solutions. In the software area, CertiCon offers both comprehensive services taking in the full software development life cycle as well as individual services in the areas ranging from consulting, feasibility studies, software architecture designs, analyses and needs specifications to actual implementation and maintenance of software systems (including the necessary training). Prominent customers are listed in the references.

This majority activity in software solutions is accompanied by complementary activities in design and testing of integrated circuits, i.e. verification of integrated circuits design and proposals for production tests.

The most important orders are covered by framework agreements on long-term cooperation. The company continues to expand its circle of customers and the range of services it provides.

Activities in designing, developing, and hosting systems for intranet and internet applications (information systems based on the SQL database system, remote access to an application through the internet, security mechanisms) comprise the technical basis for the majority of CertiCon's activities on the domestic market.

In 2017, the company maintained its prestigious position as the software solutions supplier for the Ministry of Finance of the Czech Republic – General Directorate of Customs.

The company offers three products of its own on the market. Among these, especially CertiConVis – a product of our own research in security systems based on signals from industrial cameras – has a particularly strong chance for mass application on the domestic and foreign markets.

In 2017, the company continued working on technologically and technically sophisticated projects in high-tech areas as part of its research and development activities. This orientation has been successful, and CertiCon's management intends to continue in this direction in future. Cooperation with universities, and particularly within co-organized research projects and using shared laboratories, provides access to the latest scientific knowledge and research findings, which are then applied in commercial projects.

The company intends to develop research further in the European area and to expand commercial activities in the US as well as in the Czech Republic and Europe.

CertiCon's main problems in 2017 were substantial changes in the freeing up of the crown's exchange rates and the situation on the labour market, which caused a significant increase in fluctuation. The company's management has been proactively facing both these trends and endeavours to minimize their impact. In large measure, it succeeded in doing so.

The management also continued in implementing a matrix management structure that brings new opportunities for optimal distribution of sources, greater flexibility of services, and substantially improved and more efficient management activities.

CertiCon's overriding aim is to continue focusing its capacities for accumulating cutting-edge technological know-how and thus to employ especially highly qualified and individually trained and directed experts.

The company had a number of successes in 2017 not only in technology areas but also with respect to marketing and sales.

As the long-time provider of organizational and expert services for the ECDL (European Computer Driving Licence) concept to the Czech Society for Cybernetics and Informatics (CSKI, the ECDL licence holder for the Czech Republic), CertiCon is authorized based on an exclusive sub-licence to conduct all activities associated with developing and organizing the ECDL concept in the Czech Republic. In accordance with the international rules of that concept, CSKI has retained the exclusive right to inspect accredited entities and remains the guarantor of quality for the ECDL testing process.

The volume of services provided to traditional domestic customers increased to almost 11%. The monetary volume of services exported abroad grew by 2.5% in comparison with the previous year (expressed in CZK) despite a radical strengthening of the Czech crown against the USD and EUR after the CNB discontinued its interventions in April. CZK-denominated services exports increased to CZK 494 million in 2017 as compared to CZK 481.9 million in 2016. The contribution of foreign customers to the company's turnover declined to just under 90%.

Therefore, further stabilization of CertiCon's long-term customers was an important factor. Long-term contracts with top foreign technology partners provide CertiCon with financial stability as well as the economic support necessary for managed growth.

CertiCon was evaluated by Dun & Bradstreet, a worldwide leading provider of business information, and given its highest possible rating ("Top Rating"). The detailed business report may be obtained from Dun & Bradstreet. CertiCon a.s. is registered under DUNS: 36-690-9096. The company also received a high rating from the Czech Credit Bureau. At four stars, it has the highest possible rating for a medium-sized company within its category.

The company cooperates closely, too, with its affiliate ProTyS, a.s. That firm is oriented mainly towards research and development of software systems for industrial control in real time. CertiCon has 10% ownership in this company.

CertiCon is also an important co-owner (70% stake) of HydroCon a.s., which reconstructs and automatizes small hydroelectric power plants. In 2014, HydroCon put into service at Hluboká nad Vltavou an entirely reconstructed 300 kW small hydroelectric power plant.

During 2017, the company's headquarters and branch office were located in leased premises of the new The Blox building in the vicinity of Vítězné náměstí in Prague 6 (the lessor is IVG ČR, s.r.o.), in the premises of VTP, a.s. in Pilsen, and in The Orchard office complex in Ostrava (the lessor is Portal Investments, s.r.o.).

CertiCon a.s. has sufficient cash at its disposal and has no loans outstanding. The company meets all its obligations to all its suppliers and employees in a due and timely manner.

7. KEY ECONOMIC INDICATORS FROM 2017

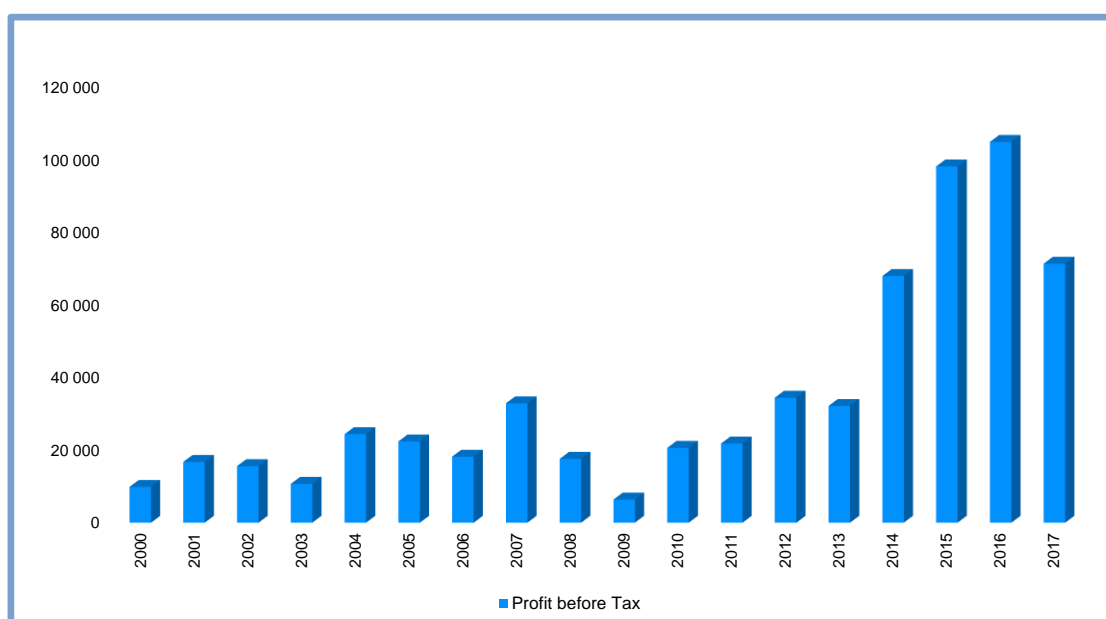
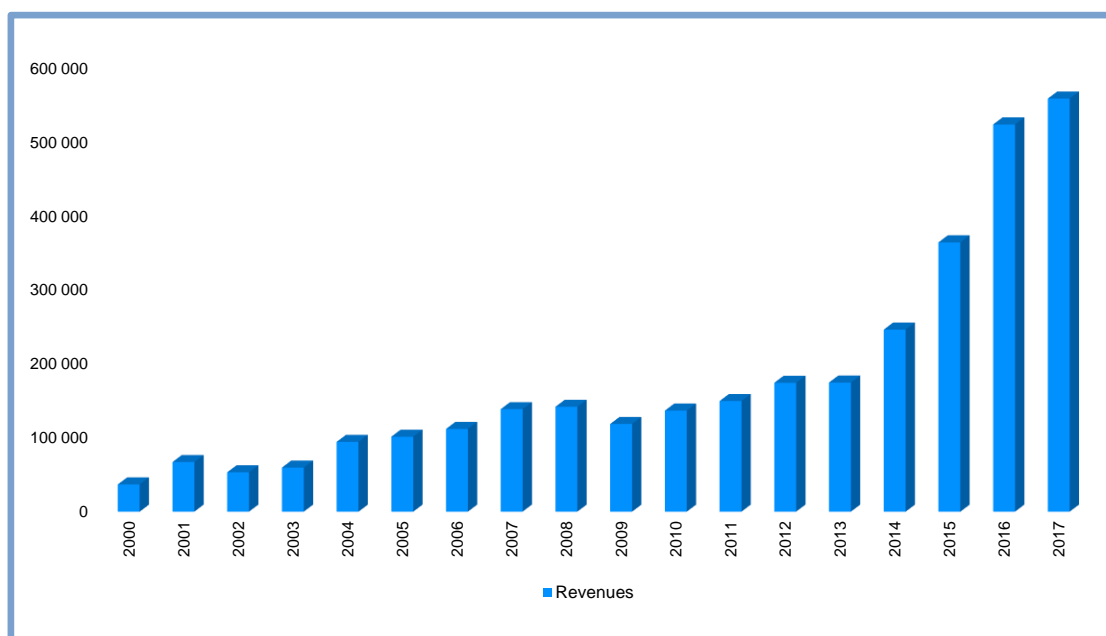
The basic information has been presented already in the Introduction and in the Report on Business Activities. It is also unambiguously summarized in the graphs below. Sales revenues grew again, albeit by just 4.6%.

Short-term accounts receivable balances consist of receivables both due and past due, and as of the date of compiling the financial statements those amounts had been paid.

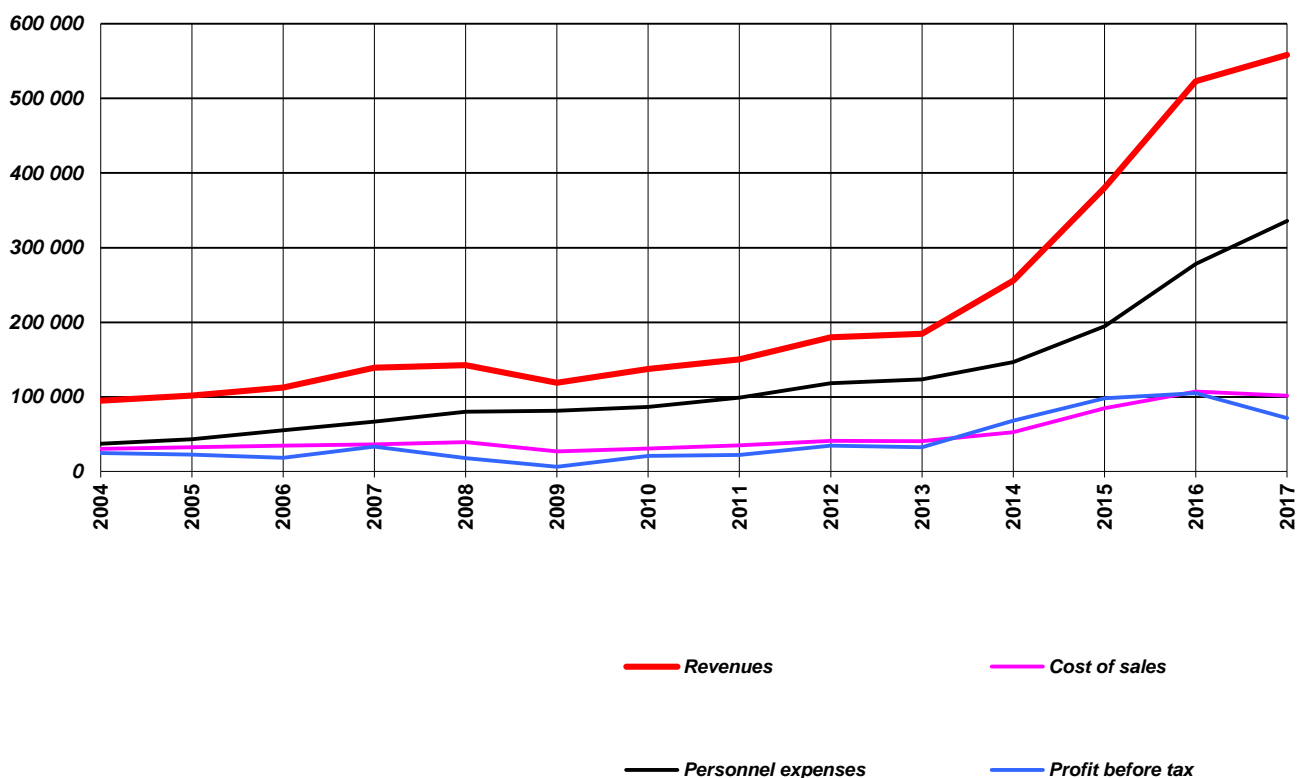
Short-term accounts payable balances consist primarily of trade payables and unpaid wages for December 2017, inclusive of insurance contributions. All reported payables had been paid as of the date of compiling the financial statements. Long-term accounts payable are exclusively payables to shareholders.

Provisions amounting to CZK 13,406,000 were drawn during 2017, and new provisions totalling CZK 15,202,000 were created (see the attached financial statements).

The following graphs show the development of selected financial and performance indicators (in CZK '000) for the period 2000–2017:



**Development of key performance indicators during
2004–2017 (in CZK '000)**



Detailed data is presented in Section 12 of this report. A summary of key performance indicators and related information is provided also within the Notes to the Financial Statements in Section 12 and in the relevant statements themselves (Balance Sheet, Profit and Loss Account, Cash Flow Statement).

8. OUTLOOK FOR 2018

Our outlook for 2017 had proceeded from cautiously optimistic assumptions and anticipated the company's further stabilization and development. CertiCon succeeded in fulfilling its main business objective of growing its turnover, even though the presumed amount of that growth was not achieved due to objective circumstances. Nevertheless, we succeeded to gradually concentrate resources and capacities for our own research and development with the aim of growing the percentage share of sales of our own products in total revenues. On the other hand, we did not maintain profitability at the previous level, particularly due to exchange rates, investments into proprietary research, and the labour market situation.

The management is aware that the company is growing very quickly and is adopting specific measures for corresponding changes in CertiCon's structure and in its management methods. In 2017, the system of matrix management was successfully implemented and stabilized. In 2018, additional deliberate steps can be expected toward strengthening the matrix structure and the effective management of a continuously growing company operating in a highly turbulent economic environment.

From an economic perspective for 2018, we proceed from the expected development of the economic situation in the US and EU. It is necessary to expect strengthening of the crown exchange rate, and we stand ready to address that with both savings measures and by revising contracts with our customers, as well as, potentially, with efficient financial instruments. CertiCon thus enters the coming period as a stable company, with long-term experience in its business relationships with foreign entities and in providing services to EU member states, and with modestly optimistic expectations. The main business objectives are to achieve sales from commercial activities exceeding CZK 600 million and total revenues over CZK 630 million while maintaining the current level of profitability. This can be facilitated particularly by developing sales of proprietary products and offers to help in implementing Industry 4.0 within Czech businesses.

We expect to be successful during 2018 in further extending cooperation with existing long-term partners and expanding activities particularly in developing software for sophisticated life-critical and mission-critical applications by developing long-term partnerships and co-sourcing. We also anticipate seeing growth in contracts for integrated circuits design, especially in connection with the orientation towards embedded systems for the automotive industry. We expect heightened effort in completing and distributing proprietary products based on our own research and development. We will continue to devote great attention to this area within the applied research as well as technical development departments, and we expect these units to grow, particularly in relation to an expanding number of applied research projects co-financed from public funds. Among other goals, an objective is to boost the volume of research and development work not financed by public funds from today's ca 30% to 40%.

We also intend to continue supporting promising start-up companies as well as the teams and activities of the ČVUT Media Lab Foundation. The company's activities in implementing state-of-the-art ECDL concepts in the Czech Republic will be expanded further.

CertiCon will endeavour to implement audits focused not only on financial activities but particularly on organizational, managerial, and research activities. A new element is data protection pursuant to EU's GDPR, and we stand ready to respond as necessary. A dedicated specialist will focus on strengthening computer and system security starting in 2018. The objective is to support the company's all-round development by pursuing modern organizational and managerial approaches and with the aim of maximizing management effectiveness in maintaining security principles.

Our company's fundamental value remains in the expert and human quality of our employees, their ability to respond to customers' requirements, and their abilities to think independently and creatively about optimal solutions and innovative processes. That is why we shall continue also to devote extraordinary attention to the education and training of our staff, in fact doing so even more than in the past. We also are counting upon stabilization of personnel and an increase in qualifications of employees in all our branches, cautious growth in the number of IT professionals, and efforts to optimize capacities in non-production professions, for example, by gradually establishing a new-generation information system.



9. ADDITIONAL INFORMATION

Other specific information as required by § 21, para. 2 of Act No. 563/1991 Coll.:

9.1. RESEARCH AND DEVELOPMENT ACTIVITIES

The main scope of business activities at CertiCon a.s. is development of life-critical and mission-critical applications tailored to the needs of its customers. The company conducts applied research and development for its own needs as part of domestic and foreign grant projects. Active participation in the prestigious Christian Doppler Research Association in Austria and participation in the activities of the Centre for Applied Cybernetics III as a pilot centre for transmission of the latest technologies from academic research into industrial practice significantly strengthen the quality and scope of the company's scientific research activities. We will continue to present proposals for research projects to the Technology Agency of the Czech Republic and to agencies falling within the competence of the Ministry of Industry and Trade of the Czech Republic. We currently anticipate extensive tendering of additional projects within the European research sector.

9.2. ENVIRONMENTAL PROTECTION ACTIVITIES

Given the nature of its business activities, CertiCon in no way adversely affects the environment. Internally, the company complies with the proper disposal of waste through entities authorized to undertake such activities. CertiCon a.s. discharges its obligation to collect and utilize packaging materials waste through EKO-KOM, a joint-stock company authorized by the Ministry of the Environment for jointly fulfilling the obligation to collect and utilize packaging materials waste.

9.3. EVENTS AFTER THE BALANCE SHEET DATE

There occurred no material events that would influence the assets or profitability of the company.

9.4. REPORT ON RELATIONS BETWEEN THE CONTROLLING, CONTROLLED AND RELATED ENTITIES FOR 2017

Report on Relations between the Controlling, Controlled and Related Entities for 2017

prepared in accordance with provisions of § 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Business Corporations Act)

Section I. – Structure of relations between the controlling entity and the controlled entity and between the controlled entity and other entities controlled by the same controlling entity

Controlled Entity:

Business name: CertiCon a.s.
Registered office: Evropská 2758/11, 160 00 Prague 6
Company ID Number: 25083341

Controlling Entity:

Business name: SynergyCon a.s.
Registered office: Václavské nám. 808/66, 110 00 Prague 1
Company ID Number: 24764264
75% share in the controlled entity

Related Entities (other entities controlled by the Controlling Entity):

Business name: EnergyCon s.r.o.
Registered office: Evropská 2758/11, 160 00 Prague 6
Company ID Number: 24247065

Business name: nova-met s.r.o.
Registered office: Šumavská 530/8, 787 01 Šumperk
Company ID Number: 02431572

Business name: Passengera s.r.o.
Registered office: Evropská 2758/11, 160 00 Prague 6
Company ID Number: 04276515

Business name: EMBITRON s.r.o.
Registered office: Borská 2718/55, 301 00 Pilsen
Company ID Number: 26361175

Business name: Health Helm, Inc.
Registered office: 51 Melcher Street, Boston, Massachusetts, 02210, USA
Company ID Number: N/A

Related Entities (subsidiary and associates):

Business name: HydroCon a.s.
Registered office: Evropská 2758/11, 160 00 Prague 6
Company ID Number: 24808202
Owned share: 70%

Business name: ProTyS, a.s.
Registered office: Evropská 2758/11, 160 00 Prague 6
Company ID Number: 63077795
Owned share: 10%

Business name: Health Helm, Inc.
Registered office: 51 Melcher Street, Boston, Massachusetts, 02210, USA
Owned share: 15.11%

Section II. – The controlled entity’s role in relations among entities stated in Section I

The entities stated in Section I operate independently but may utilize the research and development capacity of the controlled entity.

Section III. – Method and means of control

Decisive influence is exerted in particular by appointing and recalling members of the statutory body and of the supervisory body in accordance with valid legal regulations and the company’s Articles of Association, as well as by voting at the company’s General Meetings.

Section IV. – Overview of acts effected during the most recent accounting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity (relating to assets exceeding 10% of the controlled entity’s shareholders’ equity as determined according to the most recent financial statements)

No such actions were effected.

Section V. – Overview of mutual contracts between the controlled entity and the controlling entity or between controlled entities

In the year ending 31 December 2017, one (1) contract was valid between the controlling and controlled entity for the provision of business representation services on domestic and foreign markets. The controlling entity provides these services to the controlled entity for payment that is in proportion to the costs incurred by the controlling entity for providing these services (i.e. performance and consideration by both sides reflect prices and conditions usual in business relationships with all other partners).

During the year ending 31 December 2017, three (3) contracts with the associate ProTyS, a.s. were also valid. These were a lease contract and two contracts for the provision of consulting services. The contracts were concluded under standard market conditions.

In addition, during the year ending 31 December 2017, one (1) contract with the subsidiary HydroCon a.s. was valid. This was a lease contract. The contract was concluded under standard market conditions.

In addition, during the year ending 31 December 2017, two (2) contracts with the affiliate EnergyCon s.r.o. were valid. These were a lease contract and a contract on provision of consulting services. The contracts were concluded under standard market conditions.

In addition, during the year ending 31 December 2017, one (1) contract with the affiliate nova-met s.r.o. was valid. This was a licence contract. The contract was concluded under standard market conditions.

In addition, during the year ending 31 December 2017, four (4) contracts with the affiliate Passenera s.r.o. were valid. These were a lease contract (as amended by three valid amendments), one non-disclosure agreement, one contract on non-exclusive use of business premises, and one framework agreement on providing services. The contracts were concluded under standard market conditions.

In addition, during the year ending 31 December 2017, two (2) contracts with the affiliate EMBITRON s.r.o. were valid. This was a contract on provision of consulting services (as amended by a valid amendment) and a contract on non-exclusive use of business premises. The contracts were concluded under standard market conditions.

In addition, during the year ending 31 December 2017, one (1) contract with the affiliate Health Helm, Inc. was valid. This was a framework contract on provision of software development services. The contract was concluded under standard market conditions.

For reasons of trade secrecy, the values of performance and consideration in relation to the contracts stated above are not provided.

Section VI. – Assessment of whether a controlled entity incurred any detriment, and assessment of its settlement pursuant to § 71 and § 72

None of the related entities incurred any detriment in connection with relationships among related entities during the year ending 31 December 2017.

Section VII. – Assessment of advantages and disadvantages, specification of risks

All of the company's contractual relationships with related entities were concluded under customary contractual conditions. The contractual consideration agreed and provided corresponded to the conditions of customary business relationships, and the company incurred no detriment, substantial risk, or disadvantage from these contractual relationships.

This report was prepared by the Board of Directors as the statutory body of the controlled entity on the basis of data known to Members of the Board of Directors as persons acting with due managerial care.

In Prague on 27 March 2018

Prof. Ing. Vladimír Mařík, DrSc., dr.h.c.
Chairman of the Board of Directors

10. BASIC DATA ABOUT THE COMPANY

10.1. HEADQUARTERS AND OTHER PREMISES

Headquarters:

Prague 6, The Blox, Evropská 2758/11 (registered on 12 March 2015)

Other premises:

Pilsen, VTP, Anglické nábřeží 2434/1

Ostrava, The Orchard I, Hornopolská 3308/40

10.2. INFORMATION ABOUT SHARES

Share capital: CZK 10,000,000 fully paid up

Shares: 100 ordinary, registered shares in documentary form, each with a nominal value of CZK 100,000
The shares are not publicly traded.

10.3. COMPANY BODIES

10.3.1. BOARD OF DIRECTORS

Chairman: Prof. Ing. Vladimír Mařík, DrSc., dr. h. c.

Vice-chairman: Ing. Karel Kraus, MBA

Member: Prof. Ing. Josef Psutka, CSc

10.3.2. SUPERVISORY BOARD

Chairman: Doc. Ing. Jiří Lažanský, CSc.

Member: Prof. RNDr. Olga Štěpánková, CSc.

Member: Ing. Aleš Říha (member elected by the company's employees in 2010)

11. EXTRACT FROM THE COMMERCIAL REGISTER

This extract from the Commercial Register was signed electronically by the "MUNICIPAL COURT IN PRAGUE [ID 00215660]" on 23 November 2016 at 12:13:51 EPVid: iOPgJyAhDSH5BWjKR+3nA

Extract

This extract is a translation from the Czech original.

from the Commercial Register, maintained
by the Municipal Court in Prague
Section B, file 4355

Date of incorporation:	20 November 1996
File designation:	B 4355 maintained by the Municipal Court in Prague
Company:	CertiCon a.s.
Headquarters:	Evropská 2758/11, Dejvice, Postal Code 160 00, Prague 6
Identification number:	250 83 341
Legal form:	Joint-stock company
Subject of business:	Production, trade and services not listed in Annexes 1 to 3 of the Trade Licensing Act
Statutory body – Board of Directors:	
Chairman of the Board of Directors:	
	Prof. Ing. VLADIMÍR MAŘÍK, DrSc., date of birth: 25 June 1952 Na Křemínku 664, Slivenec, Postal Code 15400 Prague 5 Date of assuming office: 23 September 2008
Member:	
	Prof. Ing. JOSEF PSUTKA, CSc., date of birth: 20 February 1951 Pilsen, Plaská 55, Pilsen-City District
Vice-Chairman of the Board of Directors:	
	Ing. KAREL KRAUS, MBA, date of birth: 27 August 1964 Prague 8 – Troja, Velká Skála 678/2, Postal Code 181 00 Date of assuming office: 25 June 2009 Date of assuming membership: 24 June 2009
Manner of transacting:	The Chairman and Vice-Chairman of the Board of Directors act on its behalf and externally on behalf of the company.
Company Secretary:	Ing. PAVEL MAREK, date of birth: 29 September 1968 Prague 9 – Prosek, Litoměřická 405/9, Postal Code 19000 The Company Secretary is authorized to act independently on behalf of the company.
Supervisory Board:	
Chairman of the Supervisory Board:	
	Doc. Ing. JIŘÍ LAŽANSKÝ, CSc., date of birth: 3 March 1947 Prague 8 – Kobylisy, Třeboradická 47/1075, Postal Code 18200 Date of assuming office: 29 June 2009 Date of assuming membership: 24 June 2009
Member of the Supervisory Board:	
	Prof. RNDr. OLGA ŠTĚPÁNKOVÁ, CSc., date of birth: 23 December 1949 Lukešova 1612/73, Krč, 142 00, Prague 4 Date of assuming office: 24 June 2009 Date of assuming membership: 24 June 2009
Member of the Supervisory Board:	
	Ing. ALEŠ ŘÍHA, date of birth 13 August 1976 Nučice, Paderlíkova 522, Postal Code 25216 Date of assuming membership: 22 July 2010

Shares:	100 common bearer shares in documentary form, each with a nominal value of CZK 100,000
Share capital:	CZK 10,000,000 Paid-up: 100%
Other information:	The registered capital is fully paid up. The business corporation conforms to the law as a whole by proceeding according to § 777, para. 5 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives.

12. FINANCIAL STATEMENTS – AUDITOR’S REPORT

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

Company Name: **CertiCon a.s.**
Registered Office: **Evropská 2758/11, Dejvice, 160 00 Prague 6**
Legal Form: **Joint-stock company**
Company ID No.: **25083341**

Sections of the financial statements:

Balance Sheet
Profit and Loss Account
Statement of Changes in Equity
Cash Flow Statement
Notes

The Financial Statements were prepared on 25 June 2018

Statutory body of the accounting entity	Signature

		31.12.2017			31.12.2016
		Gross	Adjustment	Net	Net
BALANCE SHEET		CertiCon a.s.			
full version		Corporate ID 250 83 341			
As of 31.12.2017 (in CZK thousands)		Evropská 2758/11 160 00 Prague 6			
	TOTAL ASSETS	317,579	67,969	249,610	248,171
B.	Fixed assets	144,130	61,131	82,999	93,558
B.I.	Intangible fixed assets	45,387	26,551	18,836	20,233
B.I.1.	Intangible research and development outputs	25,757	16,069	9,688	8,703
B.I.2.	Valuable rights	14,391	9,149	5,242	9,212
B.I.2.1.	Software	14,301	9,059	5,242	9,212
B.I.2.2.	Other valuable rights	90	90		
B.I.4.	Other intangible fixed assets	2,000	1,333	667	2,000
B.I.5.	Advances provided on intangible fixed assets and intangible fixed assets under construction	3,239		3,239	318
B.I.5.2.	Intangible fixed assets under construction	3,239		3,239	318
B.II.	Tangible fixed assets	57,051	27,918	29,133	30,494
B.II.1.	Land and structures	3,121	996	2,125	2,418
B.II.1.2.	Buildings	3,121	996	2,125	2,418
B.II.2.	Individual tangible movable assets and sets of tangible movable assets	53,400	26,922	26,478	28,076
B.II.5.	Advance payments for tangible fixed assets and tangible fixed assets under construction	530		530	
B.II.5.1.	Advance payments for tangible fixed assets	530		530	
B.III.	Long-term financial assets	41,692	6,662	35,030	42,831
B.III.1.	Equity investments in subsidiaries and associates	23,127		23,127	23,127
B.III.5.	Other securities and investments	18,565	6,662	11,903	19,704
C.	Current assets	154,516	1,005	153,511	122,178
C.I.	Inventories	327		327	695
C.I.1.	Material	27		27	32
C.I.2.	Work in progress and semi-finished goods				297
C.I.3.	Finished products and merchandise	300		300	366
C.I.3.1.	Finished products	300		300	366
C.II.	Receivables	87,659	1,005	86,654	54,503
C.II.1.	Long-term receivables	6,984		6,984	2,906
C.II.1.4	Deferred tax asset	3,711		3,711	1,007
C.II.1.5	Other receivables	3,273		3,273	1,899
C.II.1.5.2.	Long-term prepayments made	3,273		3,273	1,899
C.II.2	Short-term receivables	80,675	1,005	79,670	51,597
C.II.2.1.	Trade receivables	75,783	1,005	74,778	49,334
C.II.2.4.	Additional receivables	4,892		4,892	2,263
C.II.2.4.3.	Tax receivables due from state	3,628		3,628	1,912
C.II.2.4.4.	Short-term advances made	1,193		1,193	179
C.II.2.4.6.	Other receivables	71		71	172
C.IV.	Current financial assets	66,530		66,530	66,980
C.IV.1.	Cash on hand	298		298	230
C.IV.2.	Cash at bank	66,232		66,232	66,750
D.I.	Other assets	18,933	5,833	13,100	32,435
D.I.1.	Deferred expenses	11,622		11,622	14,066
D.I.3.	Accrued income	7,311	5,833	1,478	18,369

		31.12.2017	31.12.2016
	TOTAL LIABILITIES & EQUITY	249,610	248,171
A.	Equity	87,038	116,072
A.I.	Share capital	10,000	10,000
A.I.1	Share capital	10,000	10,000
A.III.	Funds from profit	2,576	2,386
A.III.1	Reserve fund	2,000	2,000
A.III.2	Statutory and other funds	576	386
A.IV.	Retained earnings (accumulated losses) (+/-)	2,276	3,275
A.IV.1	Retained earnings	2,276	3,275
A.V.	Profit or loss for the current period (+/-)	72,186	100,411
B.+C.	Liabilities	141,477	105,675
B.	Provisions	15,202	13,406
B.IV.	Other provisions	15,202	13,406
C.	Liabilities	126,275	92,269
C.I.	Long-term liabilities	11,905	21,438
C.I.3.	Long-term prepayments received	11,905	21,438
C.II.	Short-term liabilities	114,370	70,831
C.II.3.	Short-term prepayments received	122	
C.II.4.	Trade payables	3,360	3,332
C.II.8.	Additional liabilities	110,888	67,499
C.II.8.1.	Payables to partners	80,500	32,500
C.II.8.3.	Payables to employees	17,383	19,933
C.II.8.4.	Payables to social security and health insurance	8,585	8,254
C.II.8.5.	Taxes and subsidies due to state	3,931	4,941
C.II.8.6.	Estimated payables	489	1,871
D.I.	Other liabilities	21,095	26,424
D.1.	Accrued expenses	16,599	23,831
D.2.	Deferred income	4,496	2,593

PROFIT AND LOSS ACCOUNT		CertiCon a.s.	
structured by the nature of expense method		Corporate ID 250 83 341	
Year ended 31.12.2017 (in CZK thousands)		Evropská 2758/11 160 00 Prague 6	
		Year ended 31.12.2017	Year ended 31.12.2016
I.	Sale of services	532,714	509,172
II.	Sales of goods	198	108
A.	Cost of sales	101,649	107,263
A.1	Cost of goods	189	108
A.2.	Materials and energy	7,575	9,907
A.3.	Services	93,885	97,248
B.	Change in internally produced inventory	66	83
C.	Own work capitalized	-10,507	6,613
D.	Personnel expenses	335,801	278,368
D.1.	Wages and salaries	249,232	207,869
D.2.	Social security, health insurance and other expenses	86,569	70,499
D.2.1.	Social security and health insurance expenses	81,548	65,814
D.2.2.	Other personnel expenses	5,021	4,685
E.	Depreciation, amortization and impairments	29,831	17,271
E.1.	Depreciation, amortization and impairments	22,993	17,271
E.1.1.	Depreciation, amortization and impairments	22,993	17,271
E.3.	Adjustments to values of receivables	6,838	
III.	Other operating income	21,186	9,338
III.1.	Sales of fixed assets		16
III.3.	Miscellaneous operating income	21,186	9,322
F.	Other operating expenses	4,999	3,783
F.1.	Net book value of fixed assets sold		16
F.3.	Taxes and fees	263	248
F.4.	Provisions and adjustments relating to operating activities and complex deferred expenses	1,796	551
F.5.	Miscellaneous operating expenses	2,940	2,968
*	Operating profit or loss	92,259	105,237
IV.	Income from long-term financial assets	1,200	780
IV.1.	Income from equity investments in subsidiaries and associates	1,200	780
VI.	Interest income and similar income	2	258
VI.1.	Interest income and similar income from subsidiaries and associates	2	258
I.	Adjustments to values and provisions relating to financial activities	6,662	
VII.	Other financial income	2,966	3,703
K.	Other financial expenses	18,330	5,171
*	Profit or loss from financial operations	-20,824	-430
**	Profit or loss before tax	71,435	104,807
L.	Income tax	-751	4,396
L.1.	Income tax due	1,953	4,060
L.2.	Income tax deferred	-2,704	336
**	Profit or loss from ordinary activities after tax (+/-)	72,186	100,411
***	Profit or loss for the current period (+/-)	72,186	100,411
*	Net revenues for the current period	558,266	523,359

STATEMENT OF CHANGES IN EQUITY		CertiCon a.s. Corporate ID 250 83 341 Evropská 2758/11 160 00 Prague 6						
Year ended								
31.12.2017								
(in CZK thousands)								
	Share capital	Capital funds	Funds from profit, reserve fund	Other funds	Retained earnings	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2015	10,000		2,000	680	48,195		85,965	146,840
Distribution of profit or loss				886			-886	
Paid out shares on profit					-44,921		-85,079	-130,000
Payments from capital funds				-1,180				-1,180
Profit or loss for the current period							100,411	100,411
Balance at 31 December 2016	10,000		2,000	386	3,274		100,411	116,071
Distribution of profit or loss				1,410			-1,410	
Paid out shares on profit					-998		-99,001	-99,999
Payments from capital funds				-1,220				-1,220
Profit or loss for the current period							72,186	72,186
Balance at 31 December 2017	10,000		2,000	576	2,276		72,186	87,038

**CASH FLOW
STATEMENT**CertiCon a.s.
Corporate ID 250 83 341Year ended
31.12.2017
(in CZK thousands)Evropská 2758/11
160 00 Prague 6

		Year ended 31.12.2017	Year ended 31.12.2016
P.	Opening balance of cash and cash equivalents	66,980	37,961
	<i>Cash flows from operating activities</i>		
Z.	Profit or loss from operating activities before tax	71,435	104,807
A.1.	Adjustments for non-cash transactions	28,704	17,246
A.1.1.	Depreciation and amortization	22,993	17,271
A.1.2.	Change in adjustments and provisions	8,634	551
A.1.5.	Net interest expense	-2	-258
A.1.6.	Adjustments for other non-cash transactions	-2,921	-318
A.*	Net operating cash flow before changes in working capital	100,139	122,053
A.2.	Change in working capital	-30,332	-21,970
A.2.1.	Change in accounts receivable and other assets	-16,950	9,866
A.2.2.	Change in accounts payable and other liabilities	-13,750	-32,081
A.2.3.	Change in inventories	368	245
A.**	Net cash flow from operations before tax	69,807	100,083
A.5.	Income tax paid from ordinary operations	-4,066	-7,765
A.***	Net operating cash flows	65,741	92,318
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-7,188	-19,202
B.2.	Proceeds from fixed assets sold		16
B.***	Net investment cash flows	-7,188	-19,186
	<i>Cash flows from financing activities</i>		
C.1.	Change in payables from financing	-9,533	21,439
C.2.	Impact of changes in equity	-49,470	-65,552
C.2.5.	Payments from capital funds	-1,220	-1,180
C.2.6.	Profit shares paid	-48,250	-64,372
C.***	Net financial cash flows	-59,003	-44,113
F.	Net increase or decrease in cash and cash equivalents	-450	29,019
R.	Closing balance of cash and cash equivalents	66,530	66,980

Notes to the Financial Statements **as at 31 December 2017**

Prepared in accordance with § 18 of Act No. 563/1991 Coll., on Accounting, and § 39 of Regulation No. 500/2002 Coll.

1. REPORTING ENTITY

Company Name:	CertiCon a.s.
Registered Office:	160 00 Prague 6 – Evropská 2758/11
Legal Form:	Joint-stock company Company ID No.: 25083341
Subject of Business:	Production, Trade, and Services Not Listed in Appendices 1–3 of the Trade Licencing Act
Incorporation date:	20 November 1996

The company has three branches, two of which are located in Pilsen at Teslova 5 and at Anglické nábřeží 1, and one in Ostrava at Hornoplní 34. In addition, the accounting entity has a permanent tax-paying operation in Austria.

The regular financial statements for the accounting period from 1 January to 31 December 2017 were prepared on **25 June 2018**.

Shares: **100 ordinary registered shares in dematerialized form with a nominal value of CZK 100,000.**

Persons and entities holding equity in the company:

The company's General Meeting changed the form of all shares issued by the company from certificate form to dematerialized form by a decision from 26 September 2016.

Information regarding individuals and legal entities having significant or decisive influence on the accounting entity:

SynergyCon a.s., Company ID No. 24764264 – 75%.

Changes in and Amendments to the Commercial Register:

There were no changes.

Statutory and Supervisory Bodies of the Company:

Board of Directors:

Chairman: Prof. Ing. Vladimír Mařík, DrSc.

Vice-Chairman: Ing. Karel Kraus, MBA

Member: Prof. Ing. Josef Psutka, CSc.

Supervisory Board:

Chairman: Doc. Ing. Jiří Lažanský, CSc.

Member: Prof. RNDr. Olga Štěpánková, CSc.

Member: Ing. Aleš Říha

Organizational Structure

A new organizational structure officially became effective as from 1 November 2016. The basic management structure (see Organizational Chart) has two levels. The top management level consists of CertiCon's Chairman of the Board of Directors, to whom all members of the executive management report directly. The basic management level is comprised of the executive managers who directly manage organizational units within their competence as stipulated by the organizational rules.

Basic Line Management Structure

The company's three-level organizational and management structure:

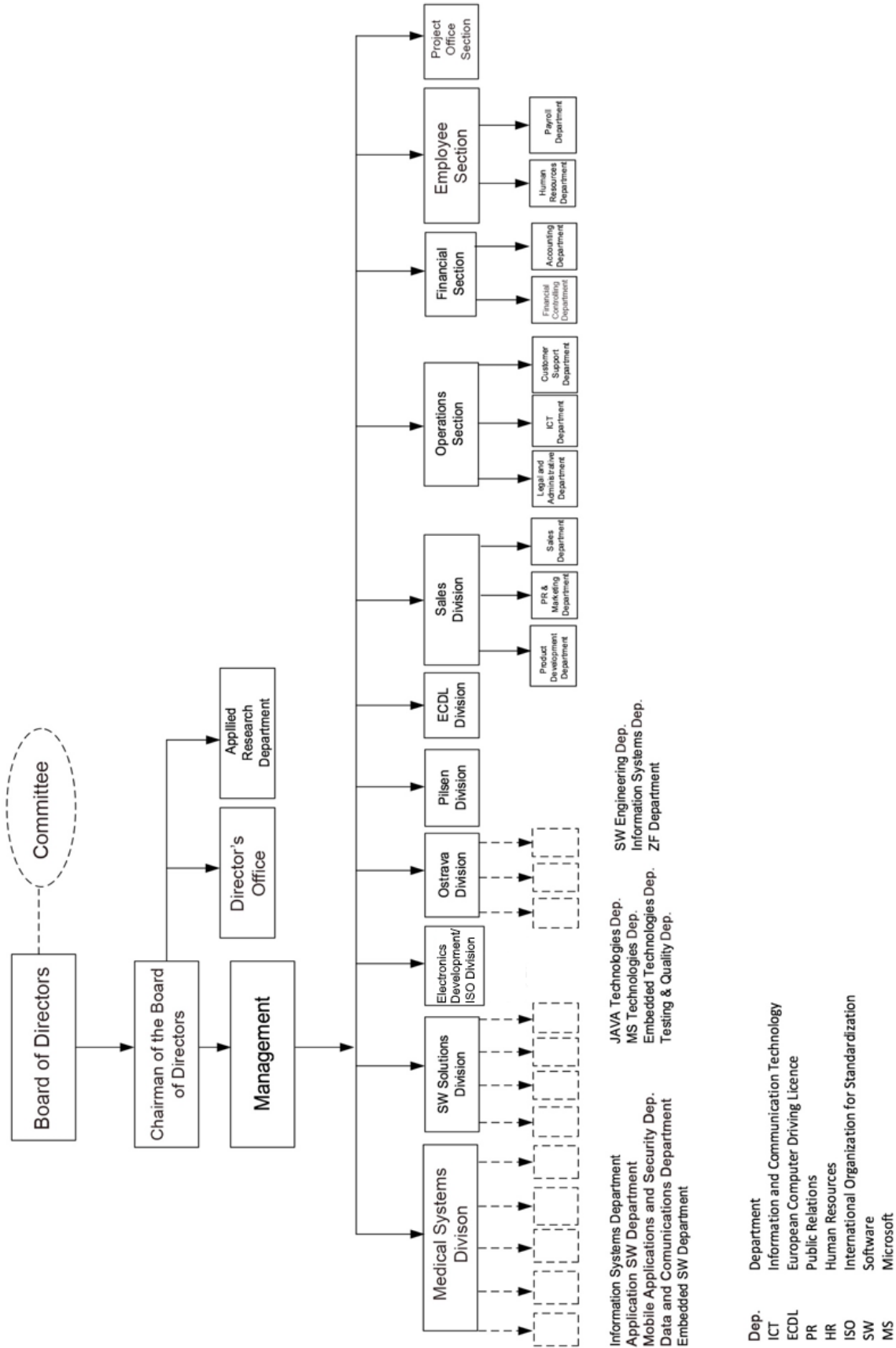
- a) The top management level consists of the Chairman of the Board of Directors to whom all members of the company's management report directly.
- b) Committee – an advisory body comprising selected members of the company's management (Chairman of the Board of Directors, Chief Operations Officer, Chief Financial Officer, Chief Sales Officer, and Chief Technical Officer).
- c) The middle level comprises directors of divisions and sections.
- d) The basic level of management comprises department managers.

Basic Structure of Project-based Management

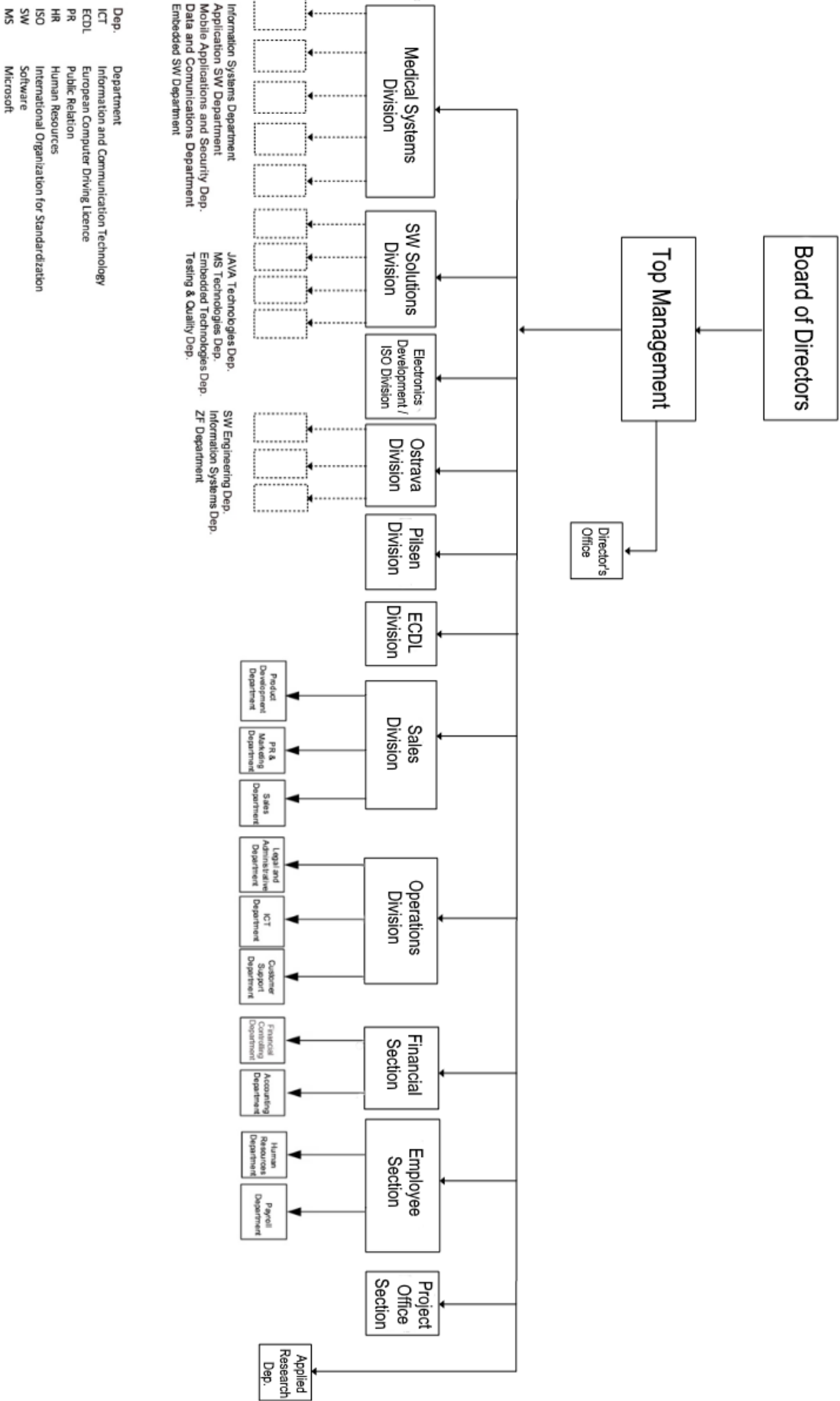
Project management is the operational principle of the project-based arrangement:

- a) The top management level consists of the Chairman of the Board of Directors.
 - b) Committee – an advisory body comprising selected members of the company's management (Chairman of the Board of Directors, Chief Operations Officer, Chief Financial Officer, Chief Sales Officer, and Chief Technical Officer).
 - c) The middle level of management is comprised of programme and project managers.
-

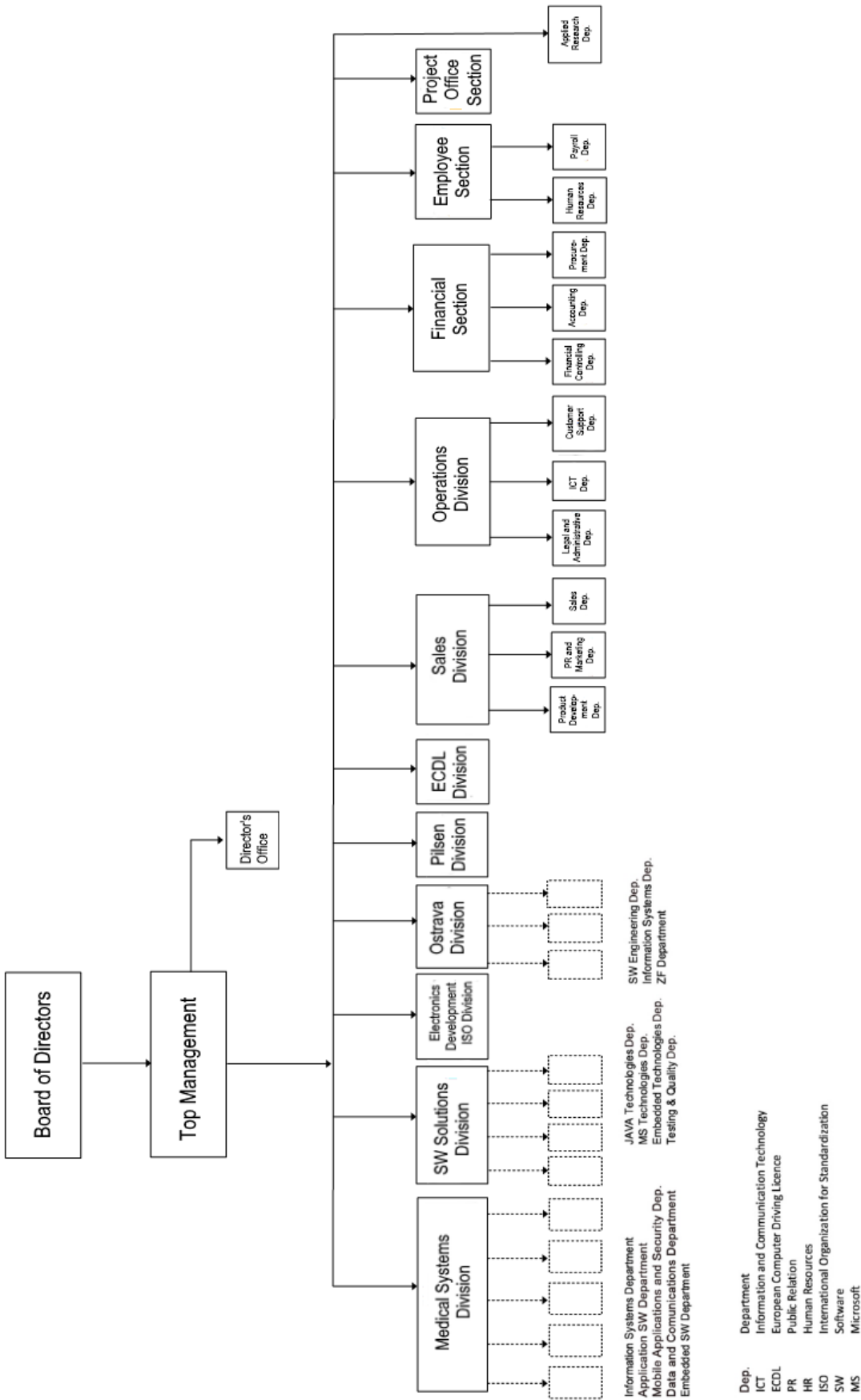
Organizational structure valid from 1 November 2016 to 31 July 2017 (line structure)



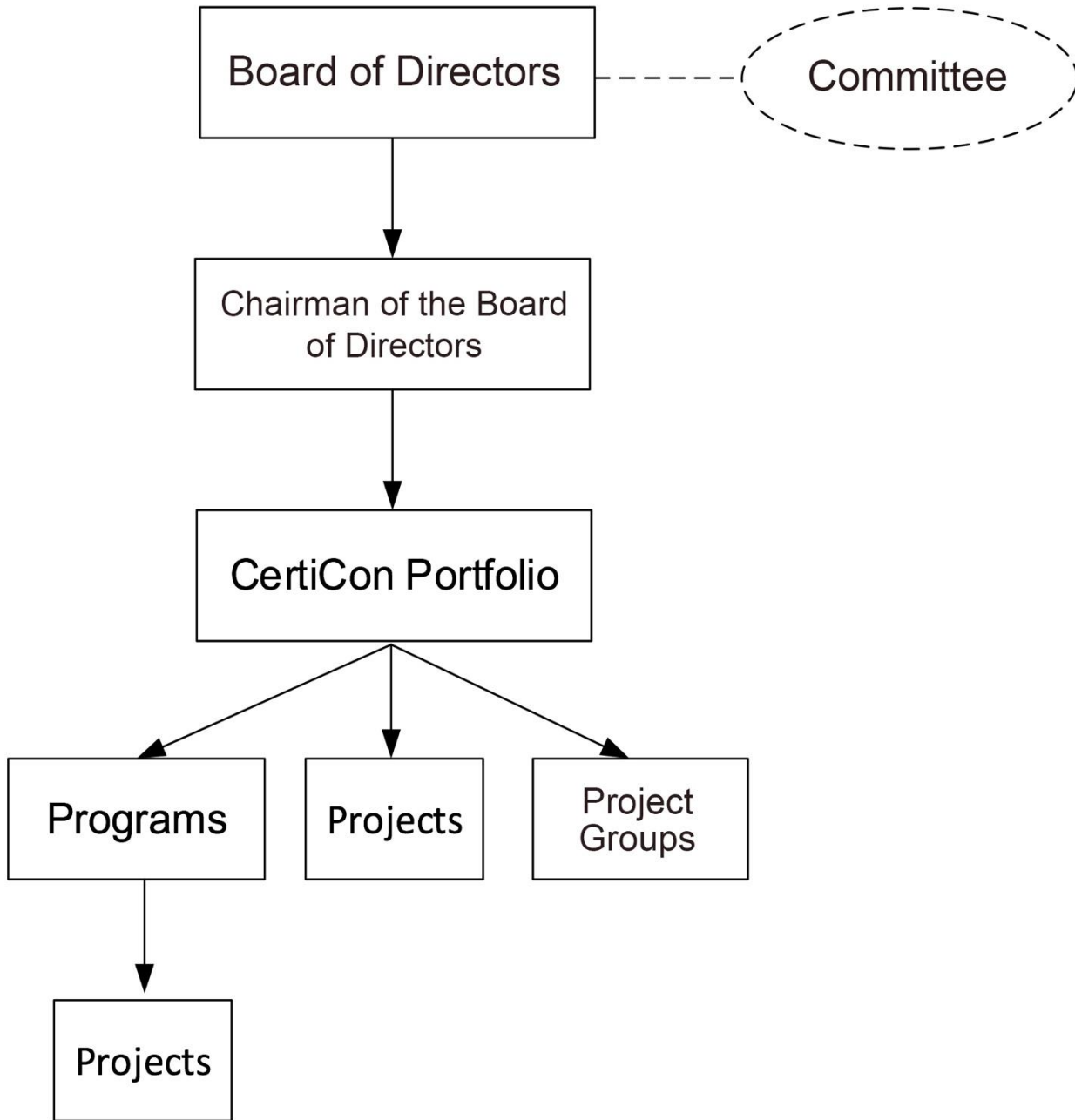
Organizational structure valid from 1 August 2017 to 31 August 2017 (line structure)



Organizational structure valid from 1 September 2017 to 31 December 2017 (line structure)



Organizational structure valid from 1 November 2016 to 31 December 2017 (project-based structure)



2. BASIS OF ACCOUNTING, ACCOUNTING PRINCIPLES, AND VALUATION AND DEPRECIATION POLICIES

- a/ The company's accounting is maintained and the financial statements were prepared in accordance with Act No. 563/1991 Coll. on Accounting, as amended; Regulation No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll. for accounting units that are entrepreneurs keeping accounts in a double-entry bookkeeping system, as amended; and the Czech Accounting Standards for Entrepreneurs, as amended.

The accounting respects general accounting principles, in particular the historical-cost convention, the accruals principle, the prudence concept, and the going concern assumption.

The information in these notes is based on accounting records of the accounting unit and other documents at the disposal of the accounting entity. The notes include only information significant for assessing the financial, property and income situation of the company from the perspective of external users.

Information in these financial statements is expressed in CZK thousands.

- b/ **Departures** from the policies determined in accordance with § 7, para. 5 of the Accounting Act were not applied. There occurred no changes to the accounting principles and methods applied.

- c/ **Valuation** of individual assets and liabilities is made using the methods defined in § 25 of the Accounting Act.

- d/ **Tangible fixed assets** are assets with useful lives exceeding 1 year and value greater than CZK 40,000 in each individual case.

The cost of fixed asset improvements exceeding CZK 40,000 for the taxation period increases the acquisition cost of the related tangible fixed asset.

Low-value assets with cost below CZK 5,000 are treated as materials. Low-value assets costing between CZK 5,000 and CZK 40,000 are treated as inventory and are accounted for using method B (i.e. expensed directly) and maintained in operating records.

Purchased tangible fixed assets are stated at acquisition cost.

Tangible fixed assets developed internally are valued at direct costs plus incidental costs directly attributable to the internal production of those assets (production overheads).

- e/ **Intangible fixed assets** are assets with useful lives exceeding 1 year and value greater than CZK 60,000 in respect of start-up costs on an individual basis.

Low-value intangible assets with cost below CZK 60,000 are expensed directly and maintained in operating records.

Purchased intangible fixed assets are stated at acquisition cost.

Intangible fixed assets developed internally are valued at direct costs plus incidental costs directly attributable to the internal production of those assets (production overheads).

f/ **Depreciation of fixed assets for accounting purposes** is performed according to the method established by the depreciation plan. Straight-line accounting depreciation is used and is reported on a monthly basis. The depreciation period is determined according to the useful lives of fixed assets as follows:

Intangible fixed assets:	- software, intangible assets in use	3 years
	- audio-visual work	18 months
Individual movable assets:	- computers, office technology	3 years
	- other devices and equipment, vehicles	5 years
	- technical improvements of real property	6 years

g/ **Receivables** are stated upon their origination at nominal value, which is subsequently reduced by adjustments.

h/ **Adjustments** to asset accounts are created if an asset's accounting value is substantially different from its market value. The depreciation of fixed assets for accounting purposes determined in the depreciation plan reflects the wear and tear of such assets.

i/ **Inventories of goods** are accounted for using method B upon the purchase for each specific order. Purchased inventories are valued at acquisition cost.

j/ **Payables** are stated at their nominal values.

k/ **Cash and cash equivalents** are stated at their nominal values.

l/ **Long-term financial assets** principally consist of loans with maturities exceeding 1 year, equity investments, securities and equity investments available for sale, and debt securities with maturities exceeding 1 year held to maturity.

As at the balance sheet date, equity investments are valued at acquisition cost less adjustments.

m/ **Revenues** are recognized as at the date when services are rendered or goods received or delivered and accepted by the customer or at the date when title has passed to the customer. They are reported net of discounts and VAT.

Revenues are recognized on an accrual basis (i.e. in the period to which they relate).

n/ **Use of estimates** – Preparation of the financial statements requires management to make estimates and assumptions that influence the reported values of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses in the current period. The company's management believes that the estimates and assumptions used will not markedly differ from the actual values in the succeeding accounting periods.

o/ **Government grants** for offsetting costs are recognized as other operating and financial income over the period necessary to match them with the related costs. Grants received to acquire intangible and tangible fixed assets and technical improvements and grants towards interest expenses included in the acquisition cost are deducted in reporting their acquisition costs or internal costs.

p/ **Foreign currency translation** – Transactions denominated in foreign currencies during the accounting period and as at 31 December are translated using the foreign exchange rate announced by the Czech National Bank as at the specific date.

- q/ **Cash flow statement** – The statement was prepared using the indirect method. Cash equivalents consist of current liquid assets that can easily and readily be converted into an amount of cash which is known in advance.

Cash and cash equivalents can be analysed as follows:

(in CZK thousand)

	31 Dec 2017	31 Dec 2016
Cash on hand and cash in transit	298	230
Bank accounts	66,232	66,750
Current account debit balance included in current bank loans	0	0
Cash equivalents included in current financial assets	0	0
Total cash and cash equivalents	66,530	66,980

Cash flows from operating, investing, and financing activities are not offset as presented in the cash flow statement.

3. EQUITY INVESTMENTS OR CONTRACT-BASED OWNERSHIP INTERESTS IN OTHER COMPANIES

At 17 December 2009, the company purchased 50 bearer shares in the nominal value of CZK 10,000 of ProTyS, a.s., Company ID No. 63077795, for CZK 5,000,000, which constituted a 20% ownership interest. At 22 December 2014, a Contract on transfer of the shares of ProTyS a.s. was concluded, and, on its basis, 25 shares were sold and the company's ownership interest in ProTyS a.s. decreased. The total value of the ownership share as at 31 December 2017 is CZK 2,500,000.

At 15 June 2012, the company purchased 210 registered shares in certificate form in the nominal value of CZK 100,000 of HydroCon a.s., Company ID No. 24808202, which constitute a 70% ownership interest, for the amount of CZK 23,127,000.

At 15 April 2016, the company bought 588,228 shares of the US company Health Helm Inc. in the amount of USD 511,856. At 1 December 2016, CertiCon increased its ownership share by another 150,156 shares valued at USD 159,165. In 2017, the company purchased shares in the amount of USD 83,525. Total value of the ownership share as at 31 December 2017 is USD 754,546.

Company	Registered office	Equity investment at net book value	Ownership percentage at 31 Dec 2017	Shareholders' equity at 31 Dec 2017	Profit/loss for 2017
HydroCon a.s.	Evropská 2758/11, 160 00 Prague 6	CZK 23,127,000	70%	CZK 24,219,000	CZK -465,000
ProTys, a.s.	Evropská 2758/11, 160 00 Prague 6	CZK 2,500,000	10%	CZK 27,997,000	CZK 15,608,000
Health Helm Inc.	51 Melcher Street, Boston, MA 02210	USD 754,000	15.11%	USD -404,000	USD -403,000

4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

a/ Significant Balance Sheet and Profit and Loss Account Items

aa/ Fixed Assets

Intangible Fixed Assets (IFA)

Acquisition cost

(in CZK thousands)

	Starting balance	Additions	Disposals	Transfers	Final balance
Intangible results of R&D	17,874	7,883	0	0	25,757
Software	13,642	659	0	0	14,301
Valuable rights	90	0	0	0	90
Other IFA	2,000	0	0	0	2,000
Total 2017	33,606	8,542	0	0	42,148
Total 2016	39,061	9,334	14,789	0	33,606

Adjustments and amortization

(in CZK thousands)

	Starting balance	Additions	Disposals	Transfers	Final balance	Adjustments	Accounting value
Intangible results of R&D	9,171	6,898	0	0	16,069	0	0
Software	4,430	4,629	0	0	9,059	0	0
Valuable rights	90	0	0	0	90	0	0
Other IFA	0	1,333	0	0	1,333	0	0
Total 2017	13,691	12,860	0	0	26,551	0	0
Total 2016	19,861	8,619	14,789	0	13,691	0	0

Intangible fixed assets comprise software, copyrights (logo), audio-visual work, and results of research and development.

Tangible Fixed Assets (TFA)

Acquisition cost

(in CZK thousands)

	Starting balance	Additions	Disposals	Transfers	Final balance
Buildings	2,915	206	0	0	3,121
Tangible movables and sets of tangible movables	45,779	7,998	377	0	53,400
Advances provided for TFA	0	530	0	0	530
Total 2017	48,694	8,734	377	0	57,051
Total 2016	33,345	15,393	44	0	48,694

Adjustments and depreciation

(in CZK thousands)

	Starting balance	Additions	Disposals	Transfers	Final balance	Adjustments	Accounting value
Buildings	497	499	0	0	996	0	0
Tangible movables and sets of tangible movables	17,703	9,595	376	0	26,992	0	0
Total 2017	18,200	10,094	376	0	27,918	0	0
Total 2016	9,576	8,668	44	0	18,200	0	0

Tangible fixed assets comprise IT equipment, devices, vehicles, office furniture (furnishing new office spaces), and technical improvements to leased real property.

Additions to / classifications for use in intangible fixed assets in 2017:

- SW licences for CZK 659,000
- proprietary product CertiConVis for CZK 7,883,000

Additions to tangible fixed assets in 2017:

- IT hardware with acquisition cost of CZK 1,461,000
- Vehicles with acquisition cost of CZK 1,595,000
- Office furniture with acquisition cost of CZK 2,509,000
- Technical improvements to leased real property with acquisition cost of CZK 206,000
- Other devices with acquisition cost of CZK 2,432,000

A physical inventory-taking as at 31 December 2017 was made during 2 January–28 February 2017 at all workplaces and no differences were found between the physical situation and the accounting records.

Additions to / classifications for use in intangible fixed assets in 2016:

- SW licences for CZK 7,051,000
- Audio-visual work for CZK 2,000,000
- Telephone licences for CZK 90,000
- Technical improvements for SW Money S5 for CZK 190,000

Additions to tangible fixed assets in 2016:

- IT hardware with acquisition cost of CZK 4,839,000
- Vehicles with acquisition cost of CZK 2,633,000
- Office furniture with acquisition cost of CZK 5,796,000
- Technical improvements to leased real property with acquisition cost of CZK 1,700,000
- Other devices with acquisition cost of CZK 426,000

For comments on intangible fixed assets under construction, see Note 4f below.

ab/ Inventory

Inventory of goods is recorded using method B upon purchase according to individual order.

ac/ Receivables

Long-term receivables in 2017 consisted of rental security deposits in the amount of CZK 3,042,000, prepayments for a share in revenues from sale of equipment in the amount of CZK 182,000, prepayments for CCS cards in the amount of CZK 35,000, prepayment for Go parking cards in the amount of CZK 6,000 and for Fontana drinking water barrels of CZK 8,000.

Long-term receivables in 2016 consisted of rental security deposits in the amount of CZK 1,666,000, prepayments for a share in revenues from sale of equipment in the amount of CZK 187,000, prepayments for CCS cards in the amount of CZK 35,000, prepayment for Go parking cards in the amount of CZK 6,000 and for Fontana drinking water barrels of CZK 5,000.

Rental security deposits increased as compared to previous years. Lease contracts for Prague are backed by bank guarantees which were recalculated in accordance with current leased area on 15 March 2017. At the same time, a term deposit was recalculated at 10% of the value of the bank guarantee (i.e. in the amount of CZK 1,406,000).

The amount of short-term trade receivables not yet due as at 31 December 2017 was CZK 63,930,000 (CZK 48,548,000 as at 31 December 2016). As at 31 December 2016, the company had receivables past due in the amount of CZK 11,853,000 (CZK 763,000 as at 31 December 2016).

ad/ Payables

Long-term payables totalled CZK 11,905,000 as at 31 December 2017. These include a short-term advance for the DIGICOR project, the final balance of which as at 31 December 2017 was EUR 466,000 (CZK 11,905,000 after conversion to CZK).

Long-term payables in 2016 consisted of advances received for foreign subsidies. The final advance balance as at 31 December 2016 is EUR 790,000 for the DIGICOR project (CZK 21,357,000 after conversion to CZK) and EUR 3,000 for the ER4STEM project (CZK 81,000 after conversion to CZK).

Balances on short-term accounts payable as at 31 December 2017 consist of trade payables, short-term advances received, and other payables.

Other accounts payable comprise payables to partners, unpaid salaries for December 2017, including insurance contributions (paid on 8 January 2018), estimated payables, and amounts due for 2017 road tax and corporate income tax prepayments.

Other accounts payable comprise payables to partners, unpaid salaries for December 2017, including insurance contributions (paid on 8 January 2017), additional payments of Austrian salaries for 2016 (including fees to Austrian offices) calculated in relation to salaries already paid (paid on 29 February 2017) and amounts due from road tax for 2016. All the reported payables had been paid as at the date of preparing the financial statements.

Balances on short-term accounts payable as at 31 December 2016 included trade payables, unpaid salaries for December 2016 inclusive of insurance payments (paid on 8 January 2017), additional payments of Austrian salaries for 2015 (including fees to Austrian offices) calculated in relation to salaries already paid (paid on 29 February 2016), and an amount due for road tax for 2016. All the reported payables had been paid as at the date of preparing the financial statements.

The company reported short-term trade payables past due as at 31 December 2017 in the amount of CZK 49,000. These have been paid as at the date of preparing the financial statements.

The company reported short-term trade payables past due as at 31 December 2016 in the amount of CZK 63,000. These had been paid as at the date of preparing the financial statements.

b/ Deferred Taxation

The deferred tax asset in the amount of CZK 3,711,000 (CZK 1,007,000 as at 31 December 2016) arises from a difference between the accounting and tax net book values of the fixed assets of CZK 9,170,000 (CZK 8,104,000 as at 31 December 2016), and the provisions for management bonuses and for undrawn vacation in the total amount of CZK 15,202,000 (CZK 13,406,000 as at 31 December 2016) as well as accounting adjustments of CZK 13,499,000. The amount was calculated as at 31 December 2017 from these items multiplied by the corporate income tax rate for 2017 of 19% (19% also for 2016).

c/ Income Tax Payable

Income tax payable for 2017 and paid in the Czech Republic amounts to CZK 1,037,000 (CZK 3,018,000 as at 31 December 2016).

Income tax payable for 2017 and paid in Austria amounts to CZK 916,000 (CZK 1,042,000. as at 31 December 2016).

d/ Provisions and Adjustments

In the year ended 31 December 2017, a provision was created for payment of bonuses for 2017 to be paid in 2018 in the amount of CZK 14,391,000, and a provision for payment of bonuses in the amount of CZK 12,336,000 from 2016 was utilized. The provision created for outstanding vacation was recalculated in 2017 and it decreased as compared to 2016. In 2016, the provision created for outstanding vacation of CZK 1,070,000 was released and a new one created in the amount of CZK 811,000.

e/ Bank Loans

On 26 July 2016, the company concluded a loan contract with UniCredit Bank Czech Republic and Slovakia, a.s. for an authorized overdraft in an amount up to CZK 20,000,000. The company has not yet drawn this loan.

To secure this loan, the company concluded a contract on security assignment of receivables with UniCredit Bank Czech Republic and Slovakia, a.s. on 26 July 2016. On the basis of this contract, the company assigns to the bank all its existing and future receivables from all sub-debtors in an amount up to CZK 20,000,000 plus appurtenances ensuing from the loan contract.

f/ Grants

The company received grants for conducting applied research projects (Czech Republic):

Provider	Purpose of grant	(in CZK thousands)	
		Current period	Previous period
Technology Agency of the Czech Republic	CAK III	829	806
Technology Agency of the Czech Republic	REBOT	1,552	1,614
Ministry of Industry and Trade	SIDAS	2,842	836
Ministry of the Interior	SMART CAMERA	1,364	0
Technology Agency of the Czech Republic	LARYNGO VOICE	600	0
Ministry of Industry and Trade	BIOS	1,259	0

In addition, the company received from EU funds another payment under the H2020 programme (ER4STEM) during 2017 in the amount of EUR 16,000 and for the new H2020 (DIGICOR) programme it did not draw another advance payment.

Revenues related to drawing grants in the amount of CZK 17,084,000 in 2017 (CZK 4,773,000 in 2016) are presented in the "Other operating income" line of the profit and loss account.

The company reports capitalization of such grant projects in the balance sheet line "Intangible fixed assets under construction" on the condition that the capitalized projects fulfil the following conditions:

- the project is feasible,
- the project's results will provide a benefit to the company in the form of sales or use for internal purposes and the company intends to use the project results in such way,
- the company makes an effort to complete the final products, and
- the company is capable to calculate a value for the project's output.

g/ Accrued Income

Accrued income comprises programming work not yet invoiced and accrued amounts of sub-leases.

h/ Deferred Expenses

Deferred expenses include services invoiced, especially services related to lease of new office spaces at Evropská 11, insurance, and SW licences related to future reporting periods.

i/ Accrued Expenses

Accrued expenses comprise accrued expenses of the current period invoiced in the following reporting period, especially lease-related services. Another important amount is accrual of lease related to uneven lease payments for the duration of lease contracts.

5. ASSETS AND LIABILITIES

a/ Leased Assets

The company holds no assets under lease.

b/ Assets under Pledge or Encumbered by Lien

Except for the collateral stated in point f/ below, no assets of the company were encumbered by lien or subject to easement.

c/ Assets Maintained Off-Balance Sheet

“Low-value assets” with acquisition cost up to CZK 5,000 are considered as materials.

“Low-value tangible assets” with acquisition cost between CZK 5,000 and CZK 40,000 are treated as inventories, accounted for using method B (i.e. expensed directly), and are maintained in operating records. In 2017, such assets totalling CZK 4,133,000 were acquired, and in 2016 that total was CZK 6,951,000.

“Low-value intangible assets” costing up to CZK 60,000 are expensed directly and maintained in operating records.

In 2017, software was purchased at total cost of CZK 2,226,000, and in 2016 at total cost of CZK 7,334,000. A large amount of software is acquired under OEM licences and included in the acquisition cost of the acquired IT devices, in particular operating systems and office software.

In 2017, transactions related to import of components from the US company Medtronic were recorded to off-balance sheet accounts.

These were components and devices necessary for software development for Medtronic. We did not become their owners and did not pay for them. In accordance with the contract on cooperation, if the owner (Medtronic) requests that these components be returned, CertiCon is obliged to do so or to destroy them.

The balance of the off-balance sheet account ‘Assets held for safekeeping’ was CZK 3,613,000 as at 31 December 2017.

d/ Third-party Assets Maintained on the Balance Sheet

The company holds no third-party assets.

e/ Tangible Fixed Assets Acquired by Financial Lease

	(in CZK thousand)	
	Current period	Previous period
Leasing costs for the year	0	57
Scheduled future payments: due within 1 year	0	57
Due in following years	0	0

In 2013, the company concluded a leasing contract to acquire an upgraded version of the Money S4 accounting software with a payment period of 36 months (from 1/2014 to 12/2016). The total payment exclusive of VAT was CZK 171,000. The contract was terminated as at 31 December 2016 and was not renewed in 2017.

f/ Off-Balance Sheet Commitments

The company provides a guarantee to UniCredit Bank Czech Republic, a.s. on behalf of EnergyCon s.r.o. for a loan provided to EnergyCon s.r.o. The guarantee commitment is limited to CZK 20,000,000.

As described in note 5 c/, during 2016 there were records made in off-balance sheet accounts in relation to importing components from the US company Medtronic.

The balance of the off-balance sheet account 'Commitment for assets held for safekeeping' is CZK 3,613,000 as at 31 December 2017.

g/ Significant Post-Balance Sheet Events

A new branch in Olomouc began operations as at 1 February 2018.

On 15 February 2018, a loan contract was concluded with UniCredit Bank Czech Republic and Slovakia a.s. in total amount up to EUR 6,000,000.

h/ Significant Transactions

The company did not undertake any significant transactions concerning the company's assets.

i/ Transactions with Related Parties

In this accounting period, no significant transactions or transactions concluded at arm's length were undertaken with related parties.

No consulting services were invoiced between the majority shareholder SynergyCon a.s. and CertiCon a.s. during 2017. In 2016, consulting services totalling CZK 503,000 exclusive of VAT were invoiced.

The company records no trade payables to SynergyCon a.s. as at 31 December 2017 (CZK 73,000 as at 31 December 2016), but does record a payable from unpaid share in the company's profit in the amount of CZK 80,500,000 as at 31 December 2017.

During the 2017 accounting period, consulting services and refunding of costs were invoiced to the related company ProTyS in the total amount of CZK 94,000 exclusive of VAT. In 2017, the company recognized revenues from services rendered to ProTyS, a.s. in the amount of CZK 788,000 (CZK 783,000 as at 31 December 2016). In 2017 a dividend was received in the amount of CZK 1,200,000.

As at 31 December 2017, the company records payables to ProTyS, a.s. in the amount of CZK 38,000.

The company records no other receivables from or payables to the related company HydroCon a.s. as at 31 December 2017. In 2017, the company recorded revenues for services rendered to HydroCon a.s. in the amount of CZK 193,000 (CZK 192,000 as at 31 December 2016).

In connection with purchasing shares of the related company Health Helm, Inc., USD 83,000, was accounted for as revenues (converted to CZK 2,133,000 at the exchange rate from 31 December 2017) for work performed for this company. The receivable amount was set off against a payable due from the purchase of shares. In addition, revenues from SW work totalling USD 86,000 (converted to CZK 2,188,000 at the exchange rate from as at 31 December 2017) were invoiced.

No transactions (direct or indirect) were entered into between the reporting entity and the members of its managing and supervisory bodies.

6. EMPLOYEES, PERSONNEL EXPENSES, CASH AND NON-CASH BENEFITS PROVIDED

	Total	
	Current period	Previous period
Average recalculated number of employees	318	266
Average recalculated number of managers	12.1	12.5
Total personnel expenses, including insurance and social expenses	335,801	278,368
Remuneration to board members	8,334	7,044

Twelve members of the Executive Management use company cars also for private purposes. Therefore, 1% of the vehicles' initial costs is charged monthly to their salaries.

No loans or other remuneration in kind were provided to members of the company's Board of Directors, the Supervisory Board or the managing bodies.

In accordance with internal regulations, the company contributes regularly to supplementary pension savings and loans for housing purposes for its employees. In 2017, 11 new loans were provided in the total amount of CZK 2,094,000. Repayment of existing loans is being made in accordance with the repayment schedules. A total of CZK 874,000 was repaid in 2017 (CZK 564,000 in 2016).

7. INFORMATION ON COSTS FOR FEES TO THE AUDIT COMPANY

The audit company did not change in 2017.

The costs for Deloitte's auditing of the 2017 financial statements were CZK 350,000, including a preliminary audit for 2017 (CZK 300,000 for 2016).

8. EQUITY

a/ Changes in Equity

See the Statement of Changes in Equity in the financial statements.

b/ Share Capital

The share capital of CZK 10,000,000 comprises 100 shares in the value of CZK 100,000 per share. The share capital has been fully paid up.

The company has established a reserve fund from its profits. The reserve fund has been fully paid in and amounts to 20% of the company's share capital.

On the basis of the company's Articles of Association and a resolution of the General Meeting from 29 June 2001, the company established a social motivation fund from its net profits used in providing for the social, cultural, educational, sports and health needs of its employees in the extent defined by the rules for the use of and drawing from the social motivation fund. A contribution of CZK 1,410,000 was provided into this fund during 2017 based upon a resolution of the General Meeting (CZK 886,000 in 2016).

c/ Distribution of Net Profit

The company will decide upon the distribution of net profit at the General Meeting.

9. SALES OF PRODUCTS AND SERVICES

Sales of the company's own products and services grew by CZK 23,542,000 as compared to 2016.

Activity	Current period			Previous period		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Sales of own products	52	52		78	78	0
Sales of goods	198	198		108	0	108
Sales of services	532,662	56,936	475,726	509,094	27,536	481,558
Other income	25,354	16,677	8,677	14,079	12,615	1,464

10. COSTS OF SERVICES

In 2017, costs of services consisted primarily of travel expenses in the amount of CZK 12,824,000 (CZK 14,168,000 in 2016); leasing CZK 42,773,000 (CZK 47,489,000 in 2016); building cleaning, security and maintenance of CZK 1,824,000; other overheads of CZK 25,631,000; IT services and other overheads related to projects of CZK 8,696,000 (CZK 11,245,000 in 2016); and internet, telephones, and postal fees of CZK 2,137,000 (CZK 1,725,000 in 2016).

11. ADJUSTMENTS

In 2017, the company created accounting adjustments in a total amount of CZK 6,838,000, of which adjustments to receivables amounted to CZK 1,005,000 and adjustments to accrual accounts (uninvoiced deliveries) amounted to CZK 5,833,000.

In addition, an adjustment to investment in Health Helm in the amount of CZK 6,662,000 was created.

12. CASH FLOW STATEMENT

The Cash Flow Statement is a separate annex to the financial statements.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs totalled CZK 84,940,000 (CZK 95,345,000 in 2016). Due to the year-on-year decrease in these costs, the costs cannot be applied for tax purposes at the beneficial 110% rate.



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INDEPENDENT AUDITOR'S REPORT To the Shareholders of CertiCon a.s.

Having its registered office at: Evropská 2758/11, Dejvice, 160 00 Praha 6

Opinion

We have audited the accompanying financial statements of CertiCon a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2017, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of CertiCon a.s. as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation 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.

Other Information in the Annual Report

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

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge 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 law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

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

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

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Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements

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

In preparing the financial statements, the Board of Directors 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board 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 ISAs 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 law or regulation, 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 Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

In Prague on 25 June 2018

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Martin Tesař
registration no. 2030



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