

CERTICON

ANNUAL REPORT FOR 2019



CERTICON



CERTICON a.s.

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1. INTRODUCTION

Dear shareholders, business partners, employees and friends,

The year 2019 was another successful one for CertiCon a.s. That is true despite certain problems it had to overcome and which were caused primarily by the situation on the labour market. The company was nevertheless completely stable in its operations and modest growth continued in all important parameters.

In recent years, CertiCon has matured into an internationally respected company providing its customers a wide range of services in software design, development and testing, including mobile and embedded systems.

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 own proprietary products and services.

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 2019 to expand its business activities with existing long-term partners (Medtronic, Frequentis, and Bosch), substantially broaden its developing cooperation with the Czech branch of the German ZF, and continue in long-term cooperation with Airbus Group. The year 2019 brought stabilization in the company's activities abroad, in both the USA and the EU. We achieved overall service and product sales totalling CZK 572.3 million, which is an increase by CZK 38.5 million over 2018. Meanwhile, total operating revenue rose to ca CZK 601.3 million, which represents a 5.5% gain over 2018.

In 2019, CertiCon supported its efforts in developing proprietary products by substantially strengthening two product teams, particularly in the areas of computer vision (CertiConVis) and optimization of planning and scheduling processes (EPIQA). We initiated development of a completely new product of our own – a mobile application known as m-care, the first version of which already has been put into experimental testing in one of the departments of Prague's Motol University Hospital. Development continued of a system for semi-automated biosignal processing (the product Cyber PSG). This product was submitted for testing at Mayo Clinic in Rochester, Minnesota, USA. The company sees long-term promise and business potential in the development of its own proprietary products.

CertiCon substantially concentrated the activities of its Applied Research Department on issues related to its proprietary products. Considerable problem-solving capacities were required by the EU's DIGICOR project, focused on knowledge integration of a large manufacturer's supplier network (with the first case study being for Airbus Industries). The company also developed exceptionally valuable know-how in the area of artificial intelligence acquired in implementing the EU's ARUM project in previous years. Important is the orientation of our research on machine learning, and particularly on industrial applications of neural networks. Artificial intelligence-based systems will play a decisive role in our research also in the coming months.

Total applied research spending for 2019 was CZK 21.5 million, of which CertiCon covered CZK 6.2 million with its own funds.

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, CertiCon 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 lectures at international forums.

A stabilizing factor is 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. 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 ISO 9001:2000 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 to further enhance CertiCon's 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 education 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. CertiCon is a part of two laboratories 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 Czech Technical University. Expert cooperation was bolstered also with the Technical University of Ostrava and University of Ostrava. Very important is our direct connection with the Mayo Clinic in the USA.

We dedicated extraordinary attention to the processes of managing the growing company. A matrix management structure was rigorously implemented throughout the company. CertiCon's management is aware that all the achievements described above have been made possible by the active contributions from all the company's employees. The matrix structure enabled even better human resources management through the introduction of line managers.

CertiCon is continuously seeking capable, dynamic, highly qualified professionals. To facilitate this, it has established branches outside of Prague, in Czech regional cities. Already in 2018, a new branch was opened in Olomouc. This branch became fully functional during 2019, and it is doubtless contributing to the results of the company.

In 2019, the Pilsen branch was moved to a new location at the Hamburk Building, featuring facilities of the highest standards. The Prague branch was expanded during 2019 with additional space on the sixth floor of the Blox building.

Being aware of its corporate social responsibility, CertiCon has decided to support certain sports and cultural events. It once again supported Czech film production and became co-producer of the film "The Last Aristocrat". We also support our employees in their sports, cultural, and social activities through teambuilding, training and the like.

As confirmed by positive evaluations from key partners, 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 long-time ambition remains to be a Czech company doing high-quality work in areas demanding 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 social responsibility. We make every effort to keep strongly focused 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.

I believe that once again in 2020 our employees will fulfil the main mission of our company as expressed in the slogan: **"Connecting information technology with the real world to make a better life for all of us!"** We believe that with the employees' proactive contributions we will overcome all the problems related to the coronavirus crisis in 2020 and also to the associated economic crisis.

I look forward to another successful year, albeit one that brings us particularly challenging conditions!

Prague, 12 June 2020

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

2. CONTACTS

PRAGUE HEADQUARTERS

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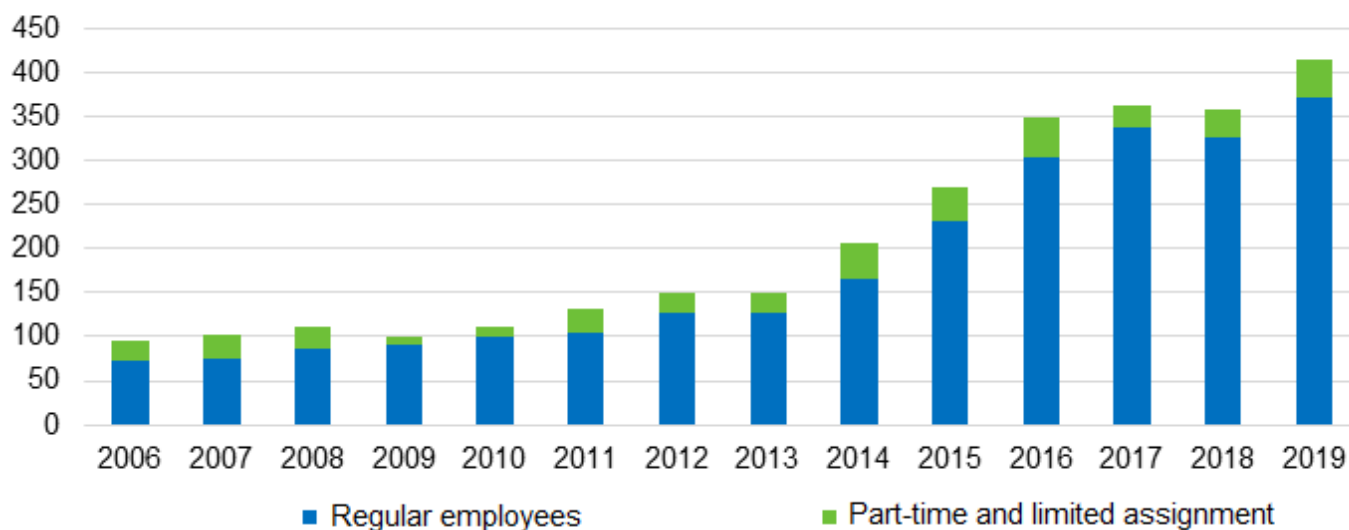
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3. THE COMPANY’S ORGANIZATION AND PERSONNEL

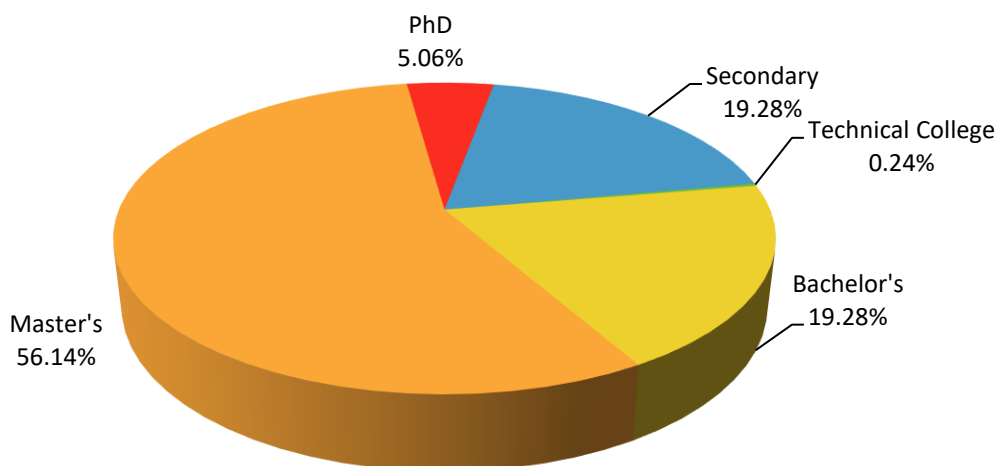
Personnel working for CertiCon as at 31 December 2019 totalled 415. With respect to type of contractual relationship, as at that date there were 371 regular employees under employment contract and 44 personnel under agreements outside an employment relationship (so-called “part-time limited workers” and “limited assignment workers”). The average annual full-time equivalent number of personnel was 337. Development in the number of employees through recent years is shown in the bar graph. As can be seen, there was an increase in 2019.

Number of employees 2006–2019

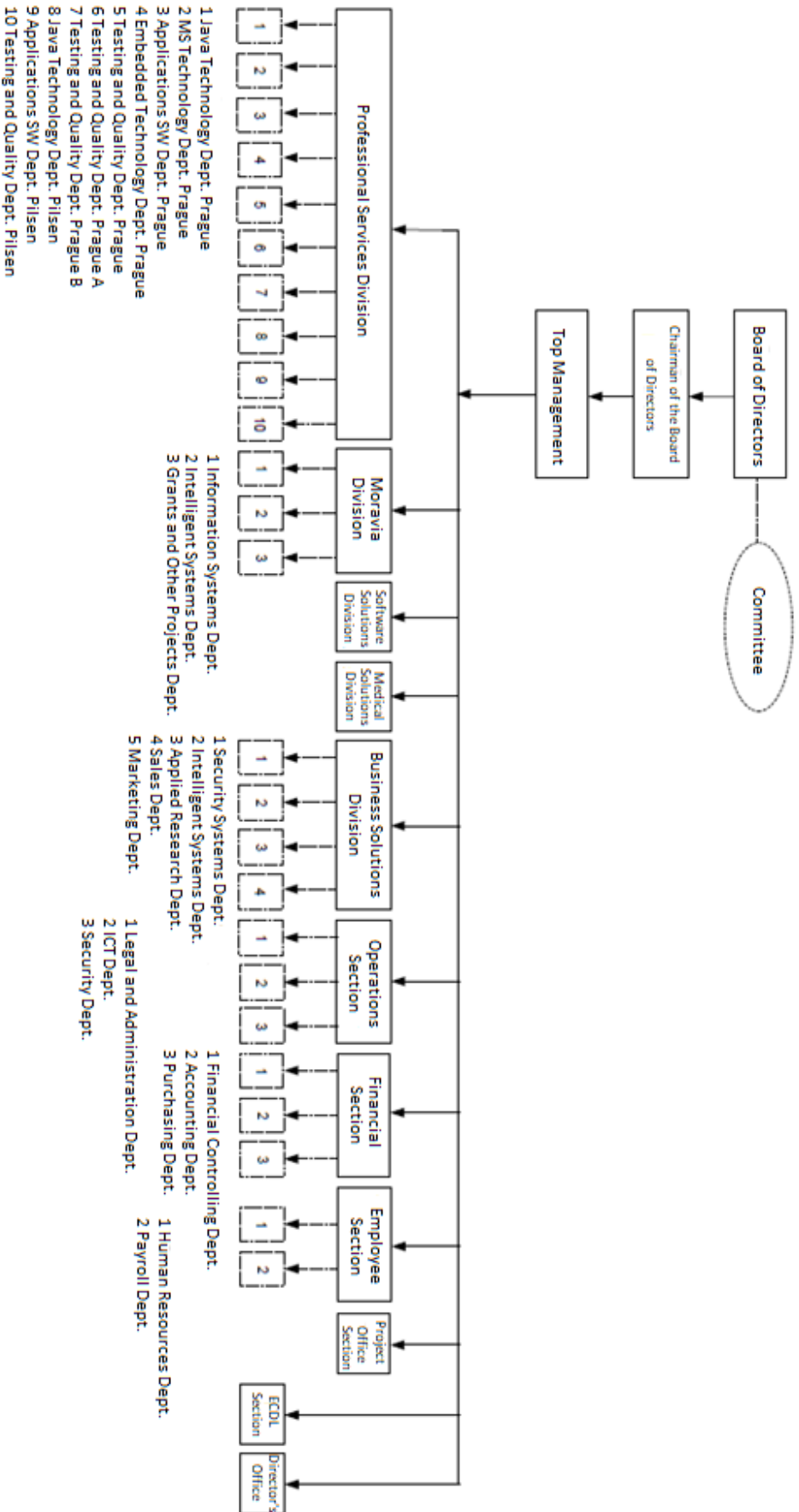


A long-term priority aim of the company is to concentrate capacities for accumulating top-notch technological know-how and therefore to employ in particular highly qualified, individually trained professionals. Such orientation is confirmed by statistics as to the highest levels of educational attainment among the employees and management. As shown in the pie chart, 80% of employees have university educations (Bachelor’s degree and higher).

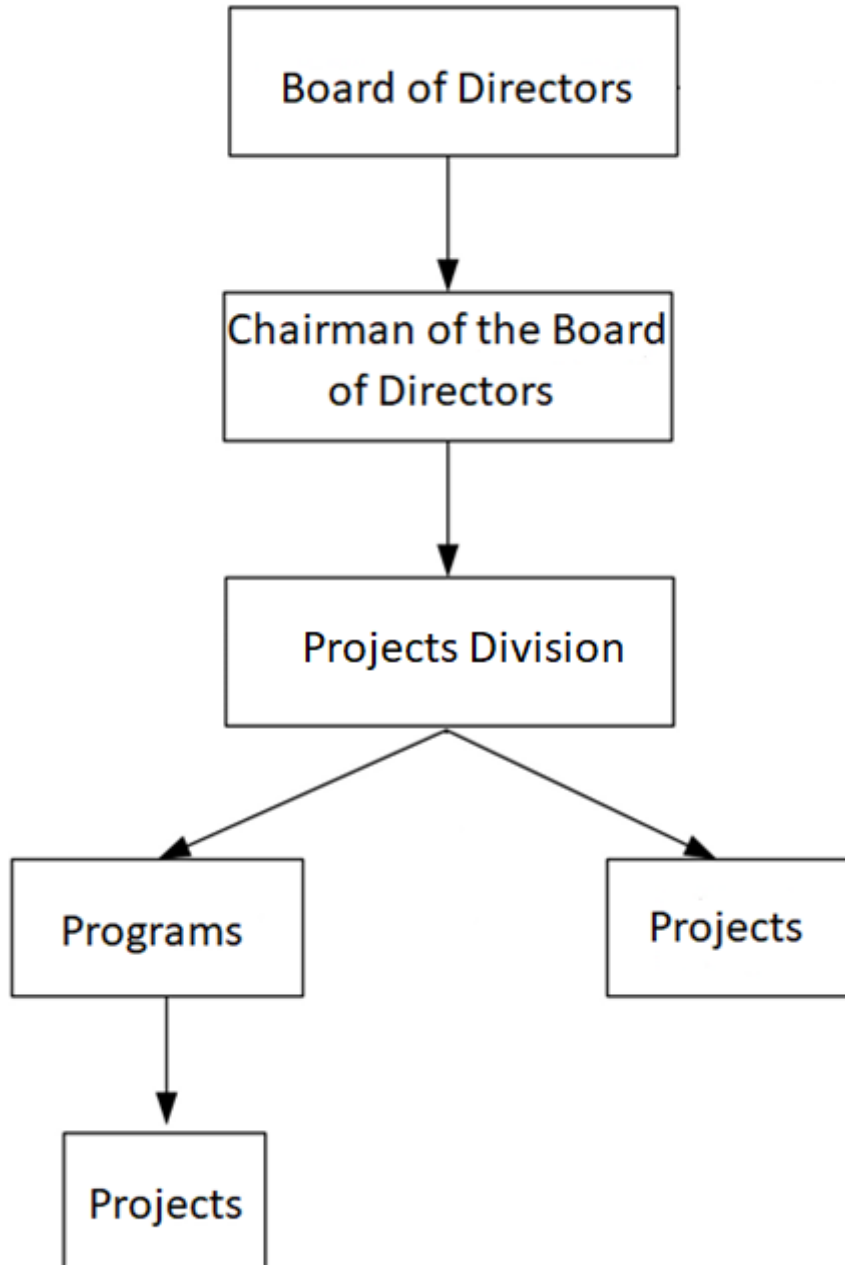
Employees’ educational attainments as of 2019



Organizational structure valid in 2019 (line structure)



Organizational structure valid in 2019 (project-based structure)



4. QUALITY MANAGEMENT SYSTEMS

4.1. ISO 9001:2016 QUALITY MANAGEMENT SYSTEM AND ISO 13485:2016 MEDICAL DEVICES – QUALITY MANAGEMENT SYSTEM

CertiCon is fully aware of the organization's context, and both the company's leadership and employees understand the environment and situation within which it exists and operates. They know the needs and expectations of stakeholders that have various impacts on the organization's performance. Therefore, the company is managing risks in accordance with ISO 9001.

The principle of the ISO 13485 standard is compliance with law and appropriate technical standards in order to ensure maximum possible safety of the developed medical devices. The ISO 13485 quality control system has been in use by the company for many years already in developing medical devices.

The implemented quality management system's compliance with the requirements of the ISO 9001 and ISO 13485 standards was confirmed by an external audit conducted in June 2019 by the EZÚ testing institute.

All the system's requirements of the company are reasonable and fully supported by CertiCon's management. Compliance with the requirements of ISO 9001 and ISO 13485 is checked annually by means of internal project audits or audits of parts of the company's system of organizational units.



From 2019 on, **the scope of ISO 9001 certification** covers design, research and development, testing, diagnostics, and supply of software products and electronic circuitry, including technical support and provision of related services, consulting services, and outsourcing services.

The scope of ISO 13485 certification covers design, research and development, testing, and diagnostics of software and electronic circuitry (in the Active Medical Devices area), including related consulting and outsourcing services.

4.2. ISO 14001:2016 ENVIRONMENTAL MANAGEMENT SYSTEMS AND ISO 45001:2018 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 separating waste. This applies for all four locations where the company has operations.

The implemented quality management system's compliance with the requirements of the ISO 14001 and ISO 45001 standards was confirmed in a June 2019 external audit by the EZÚ testing institute.

All the system's requirements of the company are reasonable and fully supported by CertiCon's management. Compliance with the requirements of ISO 14001 and ISO 45001 is annually checked by internal audits of projects or parts of the company's system of organizational units. Moreover, a compliance check is carried out by the external company CIVOP.

In 2019, the company underwent certification pursuant to the new occupational health and safety management system standard ISO 45001 that replaced ISO 18001. The main focus and core of the standard consist in the employee, work with the employee, and also his or her participation in developing and maintaining the system of occupational safety. The standard emphasizes exchange of risks in case of works carried out by contractors.

CQS z.s.
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Česká republika

CQS je certifikačním orgánem č. 3029 akreditovaným podle normy ČSN EN ISO/IEC 17021-1:2016 Českým institutem pro akreditaci, o.p.s. pro certifikaci systémů managementu




CERTIFIKÁT

číslo: CQS 122/2019

CQS na základě kladného výsledku certifikačního auditu prohlašuje, že systém environmentálního managementu

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byl prověřen a sledán v souladu s požadavky

ČSN EN ISO 14001:2016

Tento certifikát platí pro procesy:

- **Návrh, výzkum a vývoj, testování, diagnostika a poskytování software produktů a elektronických obvodů, včetně technické podpory a souvisejících služeb, konzultačních služeb a služeb outsourcingu**

Platnost do: 17. 10. 2022
Rozhodnutí o certifikaci: 26. 08. 2019
Datum vydání: 18. 10. 2019
První certifikace udělena: 18. 10. 2013


Ing. Jana Olšanská
 Vedoucí certifikačního orgánu





Členové CQS:
Elektrotechnický zkušební ústav, s.p., Fyzikálně technický zkušební ústav, s.p., Institut pro testování a certifikaci, a.s.,
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* Seznam členů CQS platný v době vydání certifikátu. Aktuální seznam je k dispozici na www.cqs.cz.

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CERTIFIKÁT

číslo: CQS 121/2019

CQS na základě kladného výsledku certifikačního auditu prohlašuje, že systém managementu bezpečnosti a ochrany zdraví při práci

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ČSN ISO 45001:2018

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* Seznam členů CQS platný v době vydání certifikátu. Aktuální seznam je k dispozici na www.cqs.cz.

CertiCon contributes actively to environmental protection. It separates paper, plastic, beverage cartons, end-of-life electrical appliances and devices, and batteries at all its branches. In the Prague branch, there is a system for collection of waste light sources and sorting of metal waste. In 2019, the Prague branch took part in the national “Let’s clean up the Czech Republic” campaign. Nine people participated in this event and collected more than 60 kg of litter just in cleaning up area around The Blox, where CertiCon is headquartered. Another important event involved tree planting, as employees took part in restoration of a forest near Prague. In a single day, they planted a great many young trees in a forest being newly established.

The table below summarizes the amounts of separated waste electronic and electric equipment (WEEE) for previous years and the resulting savings. The take-back is provided by the ASEKOL compliance scheme.

Year	WEEE handed in (t)	Electricity savings (MWh)	Water savings (m ³)	Crude oil savings (m ³)	NO production reduction (t)	Primary materials savings (t)	Reduction in greenhouse gas output (t CO ₂ -eq.)
2013	0.273	6.62	25.28	0.47	5.24	0.12	1.22
2014	0.697	16.00	63.00	1.10	13.00	0.00	3.00
2015	0.024	0.58	2.22	0.04	0.46	0.01	0.11
2016	0.041	0.99	3.80	0.07	0.79	0.02	0.18
2017	1.011	24.00	95.00	1.68	19.00	0.00	4.00
2018	0.970	23.00	89.00	1.67	18.00	0.00	4.00

No serious workplace accident or emergency occurred during 2019.

The **scope of ISO 14001 and ISO 45001 certification** covers activities to the same extent as did ISO 9001 certification.

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 intelligent systems supporting decision-making and management. An all-embracing motto pertaining to the company's activities is to provide services with high added value to its long-term customers, doing so comprehensively across the entire life cycle of a product or service. The company is grounded in its own research potential, which was systematically built up during 2015–2019, 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, Passengera) 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, Germany), and Frequentis (Austria) remained the largest foreign customers in 2019.

A large proportion of domestic activities consists 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.

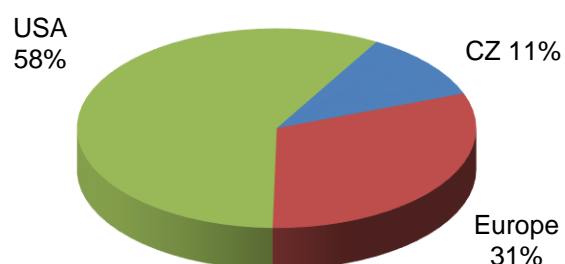
Research activities, including participation in applied research projects within projects co-financed by the Czech Republic and European Union, comprise a considerable part of CertiCon's activities. In 2018, several rather extensive applications were submitted for projects of the Ministry of Industry 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 become an important industrial partner to the Cybernetics and Artificial Intelligence National Centre of Competence financed by the Technology Agency of the Czech Republic and coordinated by the Czech Institute of Informatics, Robotics, and Cybernetics at Czech Technical University.

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. Since 2017, CertiCon has been 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, 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.

During 2019, the CCV team acquired several new contracts, including from Rohlík CZ, M2C, and the municipalities Lysá nad Labem, Prague 9, and Český Krumlov, and it provided customizations for such important clients as VISAP and SIMAC. Furthermore, in the realm of cooperation with the Police Presidium of the Czech Republic, we extended supply of forensic CCV modules to another two regions.

We also intensified cooperation with Geutebrück and Genetec, multinational distributors of VMS systems. This included providing our CCV product using camera systems with additional automatic analytical SW CCV that will be an important part of a comprehensive security solution for a broad portfolio of potential customers.

Furthermore, substantial effort was devoted to preparing projects for tenders that had been called and our bids were submitted during 2019. The outcome of these, however, and any potential revenues will be realized only from 2020.

Also, our important existing client Airbus was approached with an offer on securing its operations by CCV using our automatic video–analysis system.

During 2019, we also optimized and reorganized the entire sales and product team. We established a new sale strategy focused primarily on sale of the product through distributors and directly through tenders targeting smart city security.

In relation to the optimization described above, sales channels in the market for the CCV product were restructured as follows:

- Strategic partners – exclusive VMS distributors, sale activities carried out in cooperation with business partners. To tap into the market potential, we had to integrate the product into existing VMS systems on the market. We understand CCV SW to be a component that creates in combination with VMS and other systems on the market a large and robust unit capable of providing the client with the desired outcome.
 - Independent selling activity – we also approach clients independently in the first selling stage. Subsequently, however, in order to execute the delivery itself, we cooperate with partners who as network and VMS administrators add our SW to their systems.
 - Shared selling activity – for instance in the form of participation in contracts of VMS distributors in the case of offering an integrated solution, specifically to the system integrators Securit, Abbas, and Telmo. For this business model, we are working on integrations across VMS distributors.
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5.1.2. **EPIQA** – online multi-agent production scheduling system

From the viewpoint of the EPIQA product, cooperation in supplying to the main partner, Airbus Industries, was further developed during 2019. The first installation into an operations environment has already been carried out in one of the client's factories, and further installations are in preparation. Development of the product continues as per the intensifying needs of the client. The value of sales to this particular client increased substantially in comparison with 2018.

The project's main objective is to gradually extend optimization algorithms and especially to adapt the entire system to the needs of additional specific manufacturing plants of Europe's largest manufacturer of airliners. Airbus Industries plans on using EPIQA SW for optimizing airplane production planning in dozens of assembly lines all across the world

Furthermore, optimization continues regarding the time required to calculate valid scheduling of activities in time. Algorithms used in this calculation must consider a number of limiting conditions, such as continuity of operations, requirements for concurrence of events, availability of additional resources to carry out 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 resources, and a number of other areas.

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

Cyber PSG 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 enables 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.

In 2019, a contract on non-commercial use of Cyber PSG for demonstration and testing purposes was signed with a prominent clinic studying this topic in the US. Testing and demonstration of the product at this clinic was successfully begun in 2019.

5.1.4. **MiniDVR** – a miniature recorder of images and sound on an integrated SD card

This is a miniature recording device in the shape of a box with dimensions of 32x28x25 mm. On one side, there is an ethernet connector, a connector for up to four digital microphones, and a micro USB connector for a power bank connection. On the other side, there is a USB connector for the camera, a slot for a micro-SD card, and a micro-USB connector for a network adapter. The device can be easily configured from a computer via ethernet cable through a web graphical interface. At the core of the recording device is the SCHEDULER (a real-time calendar) within which recording sequences are set up. In the periods between these sequences, the device has zero energy consumption, and is therefore suitable to be battery-powered. The recorded video sequences can be administered via a web GUI, through the WinSCP app, or by inserting the SD card into a computer.

The device is configurable according to events in the calendar with managed power consumption that allows operation from a common 5V power bank over several months. Internet connection and the web interface are provided by a Linux computer with back-up real-time clock.

- The device's development was initiated in 2016 in cooperation with the Police of the Czech Republic.
- It was completed and delivered for use in 2018.
- In 2019, we organized mainly PR events and at the same time we strove to make the product more visible by publishing articles in specialized media. With regard to the fact that this is a specific product for a narrow clientele of security forces, our aim is to raise awareness of this product among our partners and distributors already distributing our CCV product.
- There is ongoing development of additional features as per market requirements so that the device will be usable by a wider range of customers than originally anticipated.

5.1.5. **MedCare24/7** – an application intended for remote communication between physician and patient

This system offers an option to share important data, plan check-ups, and facilitate online communication between physician and patient. An integral aspect is acquiring structured information from the patient through electronic questionnaires.

The aim of the application is not remote examination or establishing diagnoses but more effective communication between patient and physician and consequently better patient care management. Because he or she receives more frequent feedback, the physician may react faster to a patient's changes in condition while both sides save time by limiting unnecessary in-person visits.

The main functions of the application are the following:

- user-defined questionnaires
- task planning for patients
- planning visits and examinations
- online chat with a physician
- registration based on invitation only
- reminders of planned actions to the patient.

Advantages of the application in comparison with competitors are in particular:

- support of multi-tenant solutions (multiple health care facilities and/or departments in a single system)
 - physicians having access only to one department, not seeing data about the patient from other departments
 - patient's ability to communicate with multiple departments from a single application.
-
- Development of the application commenced in 2019.
 - The application has its origin in a similar solution that was executed for the American health care market in the past and is currently used in practice in the US.
 - In 2019, cooperation with Motol University Hospital in Prague was initiated in signing a memorandum of cooperation and with a specific plan to launch a DEMO version of the MedCare24/7 application in the selected outpatient department of one of the Czech Republic's largest hospitals.
 - In parallel with this application's development, we began preparations of necessary marketing materials and commercial strategies, including pricing and licencing policies and model licence agreements for individual categories of potential clients.
-

5.2. SUBSIDY PROJECTS IMPLEMENTED IN 2018 and 2019

5.2.1. **DIGICOR** – decentralised agile coordination across supply chains

This European Horizon 2020 project loosely followed on from the completed project ARUM. It consisted in developing algorithms for coordinating production across several supplier–customer entities. The main partners were Airbus, University of Manchester, CIIRC, Hanse-Aerospace, Control 2K, Information Catalyst for Enterprise, Almende, fortiss, Comau, and SingularLogic. CertiCon was the technical coordinator and leader of WP4. The project was completed in September 2019.



5.2.2. **SIDAS** – system for intelligent detection and signalization of collision states for improving track safety

This MPO Trio project, which had as its objective to develop methods for automatic evaluation of traffic safety on a railway crossing, was run in cooperation with the team of Professor Vašínek at the Technical University of Ostrava. The project combined methods using computer vision, including to employ stereo camera systems with optical interferometer measurement techniques and sensors based on the use of optical fibres. The output consisted in algorithms determining the state of the crossing from the viewpoint of collision risk, discerning whether there are any undesirable objects, particularly cars, in the monitored space when the railway crossing is being closed. Simultaneously with this, the state of crossing barriers and light signalization is being checked independently of crossing automation. Throughout the past year, development was ongoing of prototypes of camera system HW modules and testing of their operation parameters. A testing installation was set up for final evaluation of functionality. The project was completed at the end of September 2019, and a final defence took place in February 2020.

5.2.3. **LaryngoVoice** – automatic voice conservation and reconstruction focusing on patients after total laryngectomy

The Epsilon project from the Technology Agency of the Czech Republic 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 natural voices to total laryngectomy. The project is being conducted with University of West Bohemia in Pilsen, Charles University in Prague, and Speech Tech s.r.o. as research and commercial partners. This project is entering its final year.

5.2.4. **CAK III** – Centre for Applied Cybernetics III



Again in 2019, CertiCon cooperated on a Centre for Applied Cybernetics III (CAK III) applied research project with the aim of concentrating the national research potential in this field. The Head of the Centre and Principal Investigator is Prof. Ing. Vladimír Kučera, DrSc., Dr.h.c. from the CIIRC research institute of Czech Technical University. The founding entities are 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 focused on methods of controlling robotic missions with special emphasis on coordinating the activities of multiple systems in the matter of covering a perimeter. Among others, the project was dealing with issues of processing and analysing video streams. The project was completed at the close of 2019.

5.2.5. **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 upon that data, as well as management of operational interventions according to those 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.

5.2.6. **BIOS** – device for measuring and processing biosignals using optical-fibre sensors

The project's objective is to develop a device for measuring biosignals 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 existing monitoring methods. This will simplify measurement methods as well as increase patient comfort due to substantial reduction in the number of signalling and powering conduits required.

The proposed project also is directed to substantially innovating the existing product Cyber PSG or to create a comprehensive solution using entirely new principles for capturing biosignals 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.

5.2.7. **Smart Camera** – a new-generation supervisory centre

CertiCon worked on this project supported by the Ministry of the Interior of the Czech Republic since 2017. CIIRC was a cooperating partner of the project. The project's objective was to develop a camera system consisting of several cameras placed within a space so that their fields of vision overlap. The individual cameras cooperate on identifying objects in the scene, detecting their trajectories, and a number of other tasks useful for modern supervisory centres (crowd formation, its static and dynamic analysis, monitoring of its movement). Forensic image analysis from the group of cameras can then use metadata that the cameras exchange. In the past year, preparation and documentation of two functional samples was part of the project works. The project was completed at the end of 2019.

5.2.8. **Cluster 4.0** – methodology of system integration

The Cluster 4.0 project, which was initiated in the second half of 2018, develops international inter-sector cooperation between innovative businesses, academic workplaces, and global industrial players. The consortium consists of the research institutes CIIRC at Czech Technical University and DFKI (Germany), as well as the Czech companies SIDAT and CertiCon, with support of the multinational corporations Airbus, ŠKODA, and Siemens, and in connection with the National Centre for Industry 4.0. This research topic is one of the most demanding in the Industry 4.0 field, specifically involving system integration and creating a uniform, flexible software architecture for adaptable production systems.

5.2.9. **NCK KUI** – National Centres of Competence – Cybernetics and Artificial Intelligence (project components 1b, 1f2, and 3a)

The NCK KUI project, which has been ongoing since the beginning of 2019, is focused on establishing cooperation between research centres and innovative businesses in fields of robotics and cybernetics for Industry 4.0, “Smart cities”, intelligent transportation systems, and cyber security. Within the overall project effort, CertiCon is cooperating on three packages that are loosely interconnected in some parts. The project NCK KUI 1b deals with questions of camera systems calibration and with detection and classification of objects, mainly to be deployed in the field of autonomous systems. Within packages 1f2 and 3a, cooperation is ongoing with academic partners on utilization of camera recordings to monitor the use of public space and which may be used for architectural and urban planning, as well as for security purposes. Among further tasks, we are working on evaluating crowd behaviour and modelling and identifying activities in public space. Partners for individual packages are CIIRC, the Institute of Computer Science of the Czech Academy of Sciences, and the Faculty of Architecture of Czech Technical University in Prague.

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.
 - **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.
 - **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 spol. s r.o.** – a world-leading IT company. CertiCon is supplier for the design and implementation of software solutions for certain customers.
 - **ASEKOL a.s.** – Czech branch of an international company involved in processing waste electrical and electronic equipment. It is utilizing CertiCon's services in designing a system for separating end-of-life home appliances on the basis of processing visual information.
 - **ZF Engineering Plzeň 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.
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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 and cloud applications also are 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, particularly in the areas of cybernetics and artificial intelligence. CertiCon has substantial capacities in the areas of modern user interfaces and mobile applications. 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 towards 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 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 and development of embedded solutions.

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 2019, the company maintained its prestigious position as software solutions supplier for the Ministry of Finance of the Czech Republic – General Directorate of Customs.

The company offers four 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. This is a key product from which the company expects to receive high returns on investment in coming years. Concurrently with developing the product, therefore, we have established a sales and service base for this product and initiated negotiations with several prominent system integrators, platform owners, and municipalities. We intend to deliver security solutions to the latter directly. We already have successfully implemented prestigious reference projects.

During 2019, 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 challenge during 2019 sprung from the situation on the labour market, which caused a significant increase in fluctuation. The pressure on increase of salaries supported by national labour unions was truly enormous and irrational. The company's management adequately responded to this pressure as conditions allowed, and turnover was maintained within reasonable limits.

The management also fully completed implementation of a matrix management structure that brings new opportunities for optimal distribution of resources, greater flexibility of services, and substantially improved and more efficient management activities. Particularly in the Medical Systems and Software Solutions divisions, the matrix structure proved to be very beneficial.

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

The company achieved a number of successes in 2019, 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 is around 11%. The monetary volume of services exported abroad increased by more than 7% (in terms of financial volume expressed in CZK). Also contributing to this were much better exchange rates relative to the euro and dollar. The contribution of foreign customers to the company's turnover thereby remains around 89%. We did not succeed in reversing this trend in favour of the domestic market's share in turnover.

An important factor was therefore further stabilization of our company's long-term customers. Long-term contracts with top foreign technology partners provide the company with financial stability and the necessary economic support 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 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 2019, the company's headquarters and branch office were located in leased premises of the Blox building in the vicinity of Vítězné náměstí in Prague 6 (the lessor is ČMN Blox s.r.o.), in The Orchard office complex in Ostrava (the lessor is Portal Investments, s.r.o.), and in the modern RCO office building in Olomouc. It moved its Pilsen office into premises of the Business Centre Hamburk in Pilsen.

CertiCon a.s. has sufficient cash at its disposal. The company meets all its obligations to all its suppliers and employees in a due and timely manner. Payments on a bank loan from UniCredit bank were made during 2019 without problems.

7. KEY ECONOMIC INDICATORS FROM 2019

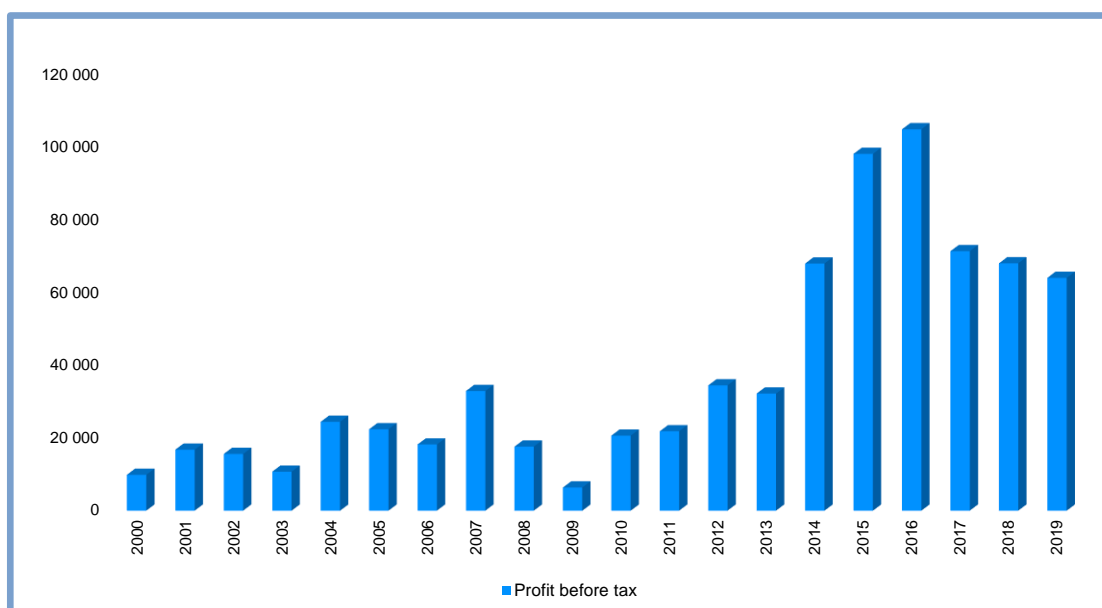
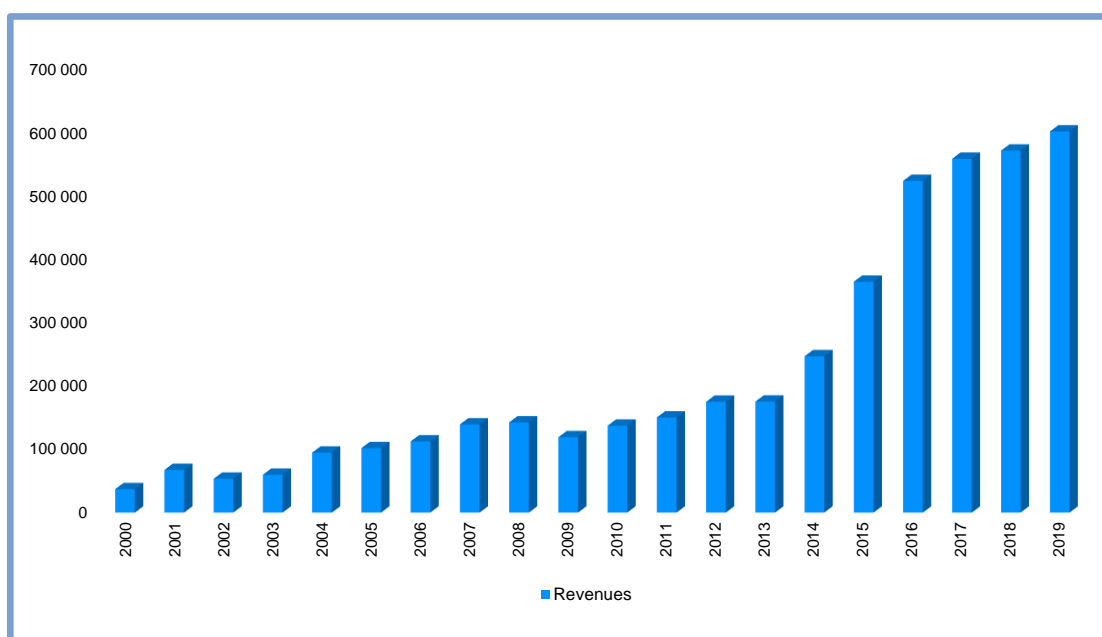
Basic information has been presented already in the Introduction and in the Report on Business Activities. It is also summarized unambiguously in the graphs below. In the year just ended, sales revenues increased by about 7%.

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.

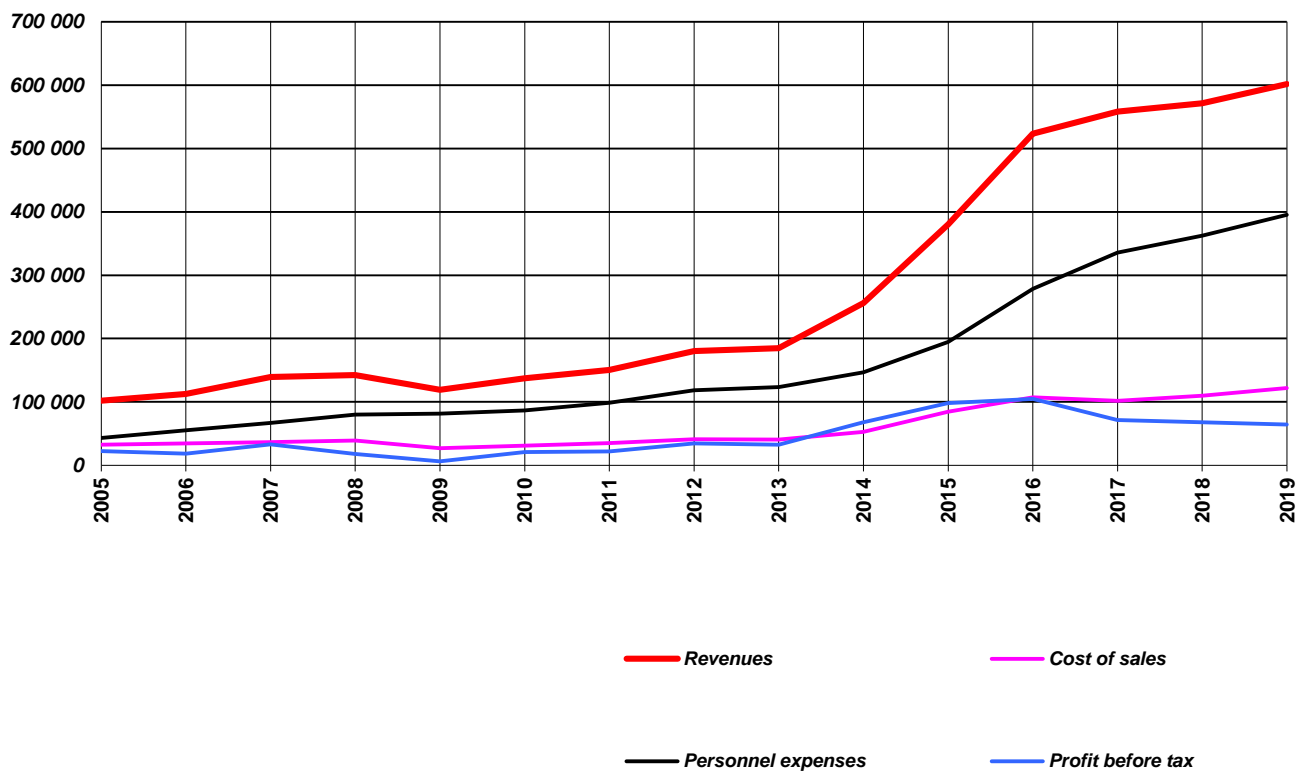
Short-term accounts payable balances consist primarily of trade payables and unpaid wages for December 2019, inclusive of insurance contributions. All reported payables had been settled as of the date of compiling the financial statements. A bank loan payable in 2022 is recorded as a long-term liability.

Provisions totalling CZK 9,346,000 were drawn during 2019, and new provisions totalling CZK 8,828,000 were created (see the attached financial statements).

The following graphs show the development of selected financial and performance indicators (in CZK thousands) for the period 2000–2019:



Development of key performance indicators during 2005–2019 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 2020

Our outlook for 2019 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 circumstances beyond our control. Nevertheless, we succeeded gradually to 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 in future. Despite large exchange rate changes, investments into proprietary research, and the extremely unstable labour market situation, we managed to maintain profitability at a fairly good level.



The management is aware that the company is growing quickly, and it is adopting specific measures for corresponding changes in CertiCon's structure and in its management methods. In 2020, additional deliberate steps can be expected towards strengthening the matrix management structure and the autonomy of individual divisions to ensure effective management of a continuously growing company operating in a highly turbulent economic environment. With support of the services unit established in 2019, sale volumes of proprietary products will grow. More vigorous promotion of proprietary products and their growing sales constitute one of the company's key goals for 2020.

From an economic perspective, we proceed from the expectation that the economic situation in the US and EU will develop not too positively. Moreover, the coronavirus crisis has become a great obstacle to international trade. It is also necessary to expect fluctuations of the crown exchange rate, and we stand ready to address these with economizing measures, by revising contracts with our customers, and potentially also 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 for 2020 are to achieve sales from commercial activities exceeding CZK 650 million and total revenues over CZK 660 million while maintaining the current level of profitability. This can be facilitated particularly by developing sales of proprietary products, offers to assist in implementing Industry 4.0 within Czech businesses, and also by providing innovative solutions based on artificial intelligence to our existing long-standing clients.

We expect to be successful during 2020 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 and despite a crisis in this segment of 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%. To support our proprietary products, we are planning to increase the efficiency of activities in the Business Solutions Division within CertiCon that joins research, product development, service, sales, and marketing. We made a good start here during 2019.

We also intend to continue supporting or creating promising start-up companies and teams, as well as to support 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 undertake to implement audits focused not only on financial activities but particularly on organizational, managerial, and research activities. We have, of course, implemented data protection pursuant to EU's GDPR. A dedicated specialist is focused on strengthening computer and system security. The objective is to support the company's all-round development by pursuing modern organizational and managerial approaches and with the aim to maximize management effectiveness in upholding security principles.

In the IT area, we are planning a substantial modernization of infrastructure, and specifically the construction of a back-up server room at the new Pilsen premises within the Hamburk building. A concept for a new ERP system was prepared in 2019, and its implementation was initiated.

Our company's fundamental value remains in the expert and human quality of our employees, their abilities 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 will rigorously implement agile management in production and development projects while directly connecting into the agile practices of our customers. We also are counting upon stabilization of personnel and an increase in the qualifications of employees at all our branches, cautious growth in the number of IT professionals, and efforts to optimize capacities in non-production professions.

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 and 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 are currently integrating into the Cybernetics and Artificial Intelligence National Centre of Competence coordinated by CIIRC of Czech Technical University. 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 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 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

Material events as of the annual report date having influence on the company's profitability (inclusive of assessing potential impact of the global Covid-19 pandemic) are discussed within the Notes to the Financial Statements that are a part of this annual report.

9.4. REPORT ON RELATIONS BETWEEN THE CONTROLLING, CONTROLLED AND RELATED ENTITIES FOR 2019

Report on Relations between the Controlling, Controlled and Related Entities for 2019

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
100% 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: House No. 290, 303 00 Vochoz
 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: 13.78%

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

The controlled entity’s role in the business group is to provide services in software design, development, and testing. 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 of 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)

In 2019, the controlling company decided on paying out a dividend totalling CZK 63,000,000 to the benefit of the controlling entity.

During 2019, no other acts were effected at the initiative or in the interest of the controlling entity relating to assets exceeding 10% of the controlled entity's shareholder's equity.

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

In the year ending 31 December 2019, no contracts were in force between the controlling and controlled entities.

During the year ending 31 December 2019, three (3) contracts with the associate ProTyS, a.s. were in force. These were a sub-lease contract (as amended by a valid annex) 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 2019, one (1) contract with the subsidiary HydroCon a.s. was in force. This was a sub-lease contract (as amended by a valid annex). The contract was concluded under standard market conditions.

In addition, during the year ending 31 December 2019, two (2) contracts with the affiliate EnergyCon s.r.o. were in force. These were a sub-lease contract (as amended by two valid annexes) and a contract on provision of consulting services. The contracts were concluded under standard market conditions.

In addition, during the year ending 31 December 2019, one (1) contract with the affiliate nova-met s.r.o. was in force. This was a licence contract. The contract was concluded under standard market conditions.

In addition, during the year ending 31 December 2019, four (4) contracts with the affiliate Passengera s.r.o. were in force. These were a lease contract (as amended by six valid annexes), one non-disclosure agreement, one contract on non-exclusive use of business premises (as amended by a valid annex), and one framework agreement on providing services. The contracts were concluded under standard market conditions.

In addition, during the year ending 31 December 2019, four (4) contracts with the affiliate EMBITRON s.r.o. were in force. These included a contract on provision of consulting services (as amended by a valid annex), a contract on non-exclusive use of business premises (as amended by a valid annex), a sub-lease contract (as amended by a valid annex), and a purchase contract on the sale of a passenger car. The contracts were concluded under standard market conditions.

In addition, during the year ending 31 December 2019, one (1) contract with the affiliate Health Helm, Inc. was in force. 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

The controlled entity incurred neither detriment nor gained financial advantage based on the contracts stated above, other legal acts, and other performance and consideration provided or accepted.

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 consideration agreed and provided corresponded to the conditions of customary business relationships, and the company incurred no detriment or substantial risk from these contractual relationships.

None of the parties has any advantages or disadvantages from relationships between the controlled and controlling entity or relationships between related entities. Relationships are concluded under the same conditions as with other business partners and create no unjustified advantage or disadvantage for any of the parties.

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 31 March 2020

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, Hamburk Business Center, U Prazdroje 2807/8
Ostrava, The Orchard III, Hornopolní 3322/34
Olomouc, RCO, Jeremenkova 40B

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. Michal Paulíček, from 25 June 2018

11. EXTRACT FROM THE COMMERCIAL REGISTER

This extract is a translation from the Czech original.

Extract

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 664/2, Slivenec, 154 00 Prague 5 Date of assuming office: 25 June 2018 Date of assuming membership: 25 June 2018
Vice-Chairman of the Board of Directors:	Ing. KAREL KRAUS, MBA, date of birth: 27 August 1964 Velká Skála 678/2, Troja, 181 00 Prague 8 Date of assuming office: 25 June 2018 Date of assuming membership: 25 June 2018
Member of the Board of Directors:	Prof. Ing. JOSEF PSUTKA, CSc., date of birth: 20 February 1951 Plaská 1346/55, Bolevec, 323 00 Pilsen Date of assuming membership: 25 June 2018
Manner of transacting:	On behalf of the Board of Directors, the Chairman or Vice-Chairman act externally in the name 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 Třeboradická 47/1075, Kobylisy, 182 00 Prague 8 Date of assuming office: 25 June 2018 Date of assuming membership: 25 June 2018
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 membership: 25 June 2018
Member of the Supervisory Board:	Ing. MICHAL PAULÍČEK, date of birth 22 March 1982 Na záhonech 1482/65, Michle, 141 00 Prague 4 Date of assuming membership: 25 June 2018

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

		31 December 2019			31 December 2018
		Gross	Adjustment	Net	Net
BALANCE SHEET					CertiCon a.s.
full version					Company ID 250 83 341
As at					Evropská 2758/11, Dejvice
31 December 2019					160 00 Prague 6
(in CZK thousands)					
	TOTAL ASSETS	402,127	128,893	273,234	283,683
B.	Fixed assets	207,284	117,562	89,722	79,874
B.I.	Intangible fixed assets	84,303	49,901	34,402	25,665
B.I.1.	Intangible research and development outputs	62,487	38,210	24,277	16,325
B.I.2.	Valuable rights	11,407	9,469	1,938	2,626
B.I.2.1.	Software	11,317	9,379	1,938	2,626
B.I.2.2.	Other valuable rights	90	90		
B.I.4.	Other intangible fixed assets	4,000	2,222	1,778	
B.I.5.	Advances provided on intangible fixed assets and intangible fixed assets under construction	6,409		6,409	6,714
B.I.5.2.	Intangible fixed assets under construction	6,409		6,409	6,714
B.II.	Tangible fixed assets	80,285	50,593	29,692	28,582
B.II.1.	Land and structures	11,348	2,572	8,776	2,279
B.II.1.2.	Buildings	11,348	2,572	8,776	2,279
B.II.2.	Individual tangible movable assets and sets of tangible movable assets	68,937	48,021	20,916	26,303
B.III.	Long-term financial assets	42,696	17,068	25,628	25,627
B.III.1.	Equity investments in subsidiaries and associates	23,127		23,127	23,127
B.III.5.	Other securities and investments	19,569	17,068	2,501	2,500
C.	Current assets	151,863	5,898	145,965	176,358
C.I.	Inventories	436		436	327
C.I.1.	Material	85		85	27
C.I.2.	Work-in-progress and semi-finished products	19		19	
C.I.3.	Finished products and merchandise	332		332	300
C.I.3.1.	Finished products	300		300	300
C.I.3.2.	Goods	32		32	
C.II.	Receivables	91,528	5,898	85,630	100,990
C.II.1.	Long-term receivables	7,203		7,203	7,374
C.II.1.4	Deferred tax asset	2,708		2,708	2,862
C.II.1.5	Other receivables	4,495		4,495	4,512
C.II.1.5.2.	Long-term prepayments made	4,495		4,495	4,512
C.II.2.	Short-term receivables	84,325	5,898	78,427	93,616
C.II.2.1.	Trade receivables	78,571	5,898	72,673	92,754
C.II.2.4.	Additional receivables	5,754		5,754	862
C.II.2.4.3.	Tax receivables due from state	4,140		4,140	
C.II.2.4.4.	Short-term advances made	1,484		1,484	718
C.II.2.4.6.	Other receivables	130		130	144
C.IV.	Current financial assets	59,899		59,899	75,041
C.IV.1.	Cash on hand	388		388	138
C.IV.2.	Cash at bank	59,511		59,511	74,903
D.	Other assets	42,980	5,433	37,547	27,451
D.1.	Deferred expenses	27,392		27,392	14,433
D.3.	Accrued income	15,588	5,433	10,155	13,018

		31 December 2019	31 December 2018
	TOTAL LIABILITIES & EQUITY	273,234	283,683
A.	Equity	79,005	79,544
A.I.	Share capital	10,000	10,000
A.I.1	Share capital	10,000	10,000
A.III.	Funds from profit	5,085	4,277
A.III.1	Reserve fund	2,000	2,000
A.III.2	Statutory and other funds	3,085	2,277
A.IV.	Retained earnings (accumulated losses) (+/-)	1,271	1,504
A.IV.1	Retained earnings	1,271	1,504
A.V.	Profit or loss for the current period (+/-)	62,649	63,763
B.+C.	Liabilities	182,185	189,020
B.	Provisions	8,828	9,346
B.IV.	Other provisions	8,828	9,346
C.	Liabilities	173,357	179,674
C.I.	Long-term liabilities	65,693	99,524
C.I.2.	Payables to lending institutions	64,372	97,755
C.I.9.	Additional liabilities	1,321	1,769
C.I.9.3.	Other liabilities	1,321	1,769
C.II.	Short-term liabilities	107,664	80,150
C.II.2.	Payables to lending institutions	32,186	32,585
C.II.3.	Short-term prepayments received		3,439
C.II.4.	Trade payables	7,882	8,546
C.II.8.	Additional liabilities	67,596	35,580
C.II.8.1.	Payables to partners	30,240	
C.II.8.3.	Payables to employees	20,384	19,856
C.II.8.4.	Payables to social security and health insurance	10,531	9,337
C.II.8.5.	Taxes and subsidies due to state	5,107	5,327
C.II.8.6.	Estimated payables	1,334	1,060
D.	Other liabilities	12,044	15,119
D.1.	Accrued expenses	9,567	11,556
D.2.	Deferred income	2,477	3,563

PROFIT AND LOSS ACCOUNT

structured by the nature of expense method

Year ended
31 December 2019
(in CZK thousands)Evropská 2758/11,
Dejvice
160 00 Prague 6

		Year ended 31 December 2019	Year ended 31 December 2018
I.	Sale of goods and services	572,300	533,757
II.	Merchandise sales	1,208	3,848
A.	Cost of sales	121,763	109,671
A.1.	Cost of merchandise	1,175	3,406
A.2.	Materials and energy	7,084	5,764
A.3.	Services	113,504	100,501
B.	Change in internally produced inventory	-19	
C.	Own work capitalized	-20,075	-19,756
D.	Personnel expenses	395,177	362,162
D.1.	Wages and salaries	290,780	268,813
D.2.	Social security, health insurance and other expenses	104,397	93,349
D.2.1.	Social security and health insurance expenses	98,419	88,429
D.2.2.	Other personnel expenses	5,978	4,920
E.	Depreciation, amortization, and impairments	26,857	30,268
E.1.	Depreciation, amortization, and impairments of fixed assets	26,785	25,848
E.1.1.	Depreciation, amortization, and permanent impairments of fixed assets	26,785	25,848
E.3.	Adjustments to values of receivables	72	4,420
III.	Other operating income	21,666	25,454
III.1.	Sales of fixed assets	465	290
III.3.	Miscellaneous operating income	21,201	25,164
F.	Other operating expenses	4,883	-589
F.1.	Net book value of fixed assets	535	
F.3.	Taxes and fees	397	336
F.4.	Provisions and adjustments relating to operating activities and complex deferred expenses	-517	-5,855
F.5.	Miscellaneous operating expenses	4,468	4,930
*	Operating profit or loss	66,588	81,303
IV.	Income from long-term financial assets	550	750
IV.1.	Income from equity investments in subsidiaries and associates	550	750
VI.	Interest income and similar income	73	1
VI.1.	Interest income and similar income from subsidiaries and associates	73	
VI.2.	Additional interest income and similar income		1
I.	Adjustments to values and provisions relating to financial activities	117	10,290
J.	Interest expense and similar expenses	2,120	1,696
J.2.	Additional interest expense and similar expenses	2,120	1,696
VII.	Other financial income	5,533	7,303
K.	Other financial expenses	6,378	9,262
*	Profit or loss from financial operations	-2,459	-13,194
**	Profit or loss before tax	64,129	68,109
L.	Income tax	1,480	4,346
L.1.	Income tax due	1,325	3,497
L.2.	Income tax deferred	155	849
**	Profit or loss from ordinary activities after tax (+/-)	62,649	63,763
***	Profit or loss for the current period (+/-)	62,649	63,763
*	Net revenues for the current period	601,330	571,113

**CASH FLOW
STATEMENT**CertiCon a.s.
Corporate ID 250 83 341Year ended
31 December 2019
(in CZK thousands)Evropská 2758/11, Dejvice
160 00 Prague 6

		Year ended 31.12.2019	Year ended 31.12.2018
P.	Opening balance of cash and cash equivalents	75,041	66,530
Z.	Profit or loss from operating activities before tax	64,129	68,109
A.1.	Adjustments for non-cash transactions	27,369	22,342
A.1.1.	Depreciation and amortization	26,785	25,848
A.1.2.	Change in adjustments and provisions	-328	-1,436
A.1.3.	Profit or loss from sale of fixed assets	70	-290
A.1.4.	Dividends and like income	-550	
A.1.5.	Net interest expense	2,047	1,695
A.1.6.	Adjustments for other non-cash transactions	-655	-3,475
A.*	Net operating cash flow before changes in working capital	91,498	90,451
A.2.	Change in working capital	1,128	-108,189
A.2.1.	Change in accounts receivable and other assets	6,639	-33,956
A.2.2.	Change in accounts payable and other liabilities	-5,402	-74,233
A.2.3.	Change in inventories	-109	
A.**	Net cash flow from operations before tax	92,626	-17,738
A.3.	Interest paid	-2,120	-1,696
A.4.	Interest received	73	1
A.5.	Income tax paid from ordinary operations	-2,839	-2,045
A.6.	Dividends and like expense	550	
A.***	Net operating cash flows	88,290	-21,478
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-37,167	-19,248
B.2.	Proceeds from fixed assets sold	465	290
B.3.	Loans and credits to related parties	-10,073	
B.***	Net investment cash flows	-46,775	-18,958
	Cash flows from financing activities		
C.1.	Change in payables from financing	-33,782	130,704
C.2.	Impact of changes in equity	-22,875	-81,757
C.2.5.	Payments from capital funds	-188	-1,257
C.2.6.	Profit shares paid	-22,687	-80,500
C.***	Net financial cash flows	-56,657	48,947
F.	Net increase or decrease in cash and cash equivalents	-15,142	8,511
R.	Closing balance of cash and cash equivalents	59,899	75,041

STATEMENT OF		CHANGES IN EQUITY		CertiCon a.s.		
		Corporate ID 250 83 341				
Year ended		Evropská 2758/11, Dejvice				
31 December 2019		160 00 Prague 6				
(in CZK thousands)						
	Share capital	Other funds	Funds from profit, reserve fund	Retained earnings or accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2017	10,000	576	2,000	2,276	72,186	87,038
Distribution of profit or loss		2,958		-772	-2,186	
Paid out shares on profit					-70,000	-70,000
Payments from capital funds		-1,257				-1,257
Profit or loss for the current period					63,763	63,763
Balance at 31 December 2018	10,000	2,277	2,000	1,504	63,763	79,544
Distribution of profit or loss		996		-233	-763	
Paid out shares on profit					-63,000	-63,000
Payments from capital funds		-188				-188
Profit or loss for the current period					62,649	62,649
Balance at 31 December 2019	10,000	3,085	2,000	1,271	62,649	79,005

CertiCon a.s.

Notes to the Financial Statements as at 31 December 2019

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 four branches, which are located in Pilsen at Hamburk Business Center, U Prazdroje 2807/8; in Ostrava at The Orchard, Hornopolní 3322/34; and in Olomouc at RCO – Regional Centre Olomouc, Jeremenkova 40B. In addition, the accounting entity has a permanent tax-paying operation in Austria.

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 decisive influence on the accounting entity:

SynergyCon a.s., Company ID No. 24764264 – 100%.

Consolidated financial statements of the broadest and narrowest group of accounting units to which the company as a consolidated accounting unit belongs are prepared by SynergyCon a.s., having its seat at Václavské náměstí 808/66, Prague 1 – Nové Město, Czech Republic. These consolidated financial statements can be obtained at the address of the consolidating unit.

Changes in and Amendments to the Commercial Register:

There were no changes in the Commercial Register during 2019.

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. Michal Paulíček

Organizational Structure

The company is managed under a matrix management structure. The basic organizational tree is the line management structure wherein each employee belongs to a single organizational line department and has a single line manager. The additional organizational tree is a project-based structure operating on the principle of creating goal-directed groups (programmes, projects, groups). In this project-based structure, each employee may be a part of “n” project-based groups and may have “n” managers (programme and project managers).

Basic Line Management Structure

The company’s management structure has three levels:

- a) The Board of Directors – determines the strategy of the organization.
- b) The top management comprises directors of divisions and selected sections who are responsible for the running of the organization as a whole. The top management is directed by the Chairman of the Board of Directors.
- c) The middle level leadership comprises section managers who ensure fulfilment of tasks and goals defined by the top management. The middle management level is directed by the top management.

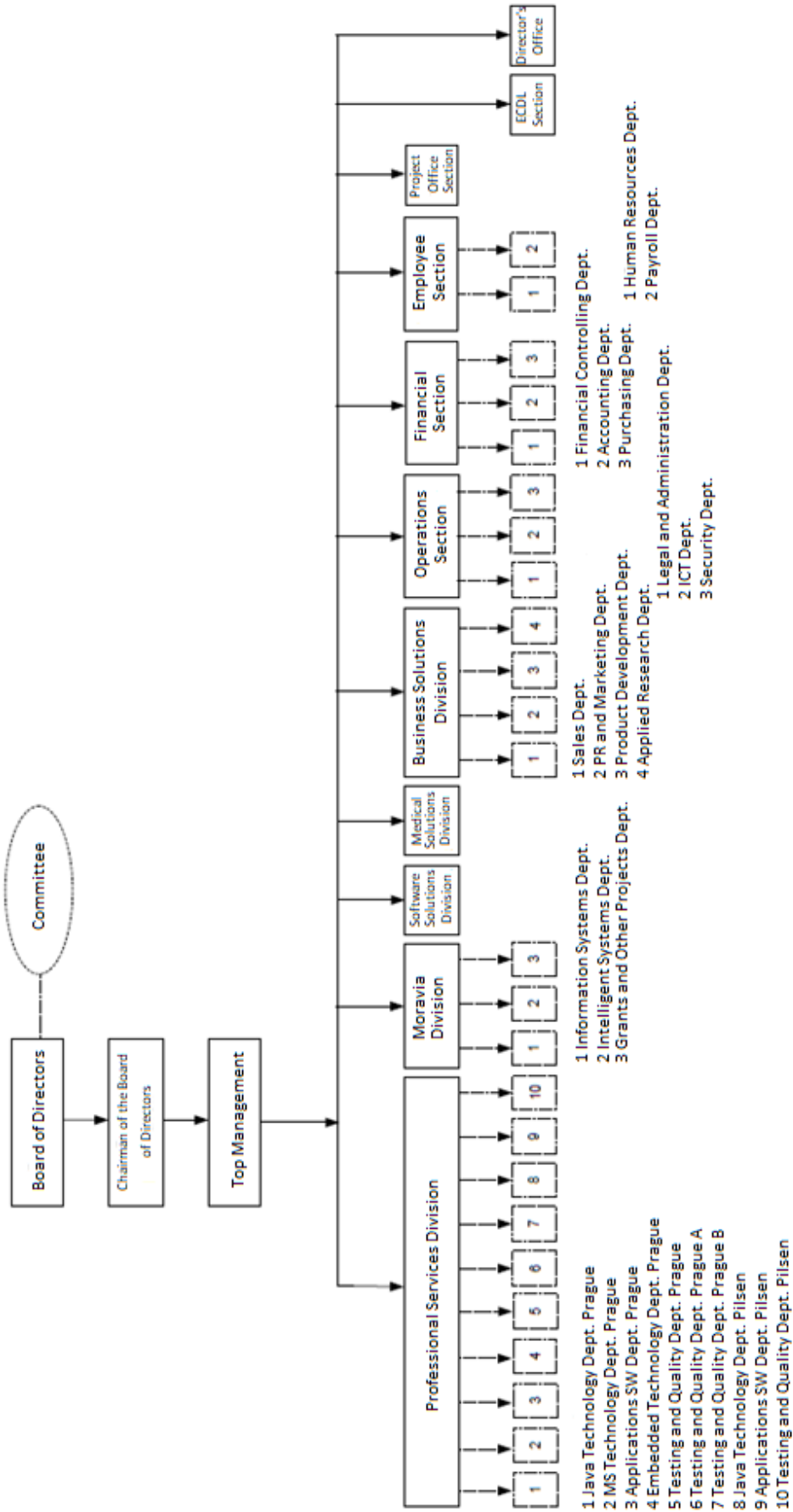
Basic Structure of Project-based Management

The project-based structure operating on the principle of creating project-based groups (programmes, projects, groups, and other specialized groups) has three levels:

- a) Project-based division – a specific division responsible for carrying out selected programmes and projects. A division director is responsible for achieving objectives of the respective project-based division.
 - b) Programme – a group of projects. An appointed programme manager directed by the respective project-based division director is responsible for managing the programme and achieving its objectives.
 - c) Project – a basic delivery unit. An appointed project manager directed by a superior programme manager or alternatively directly by the project-based division director is responsible for managing the project and achieving its objectives.
-

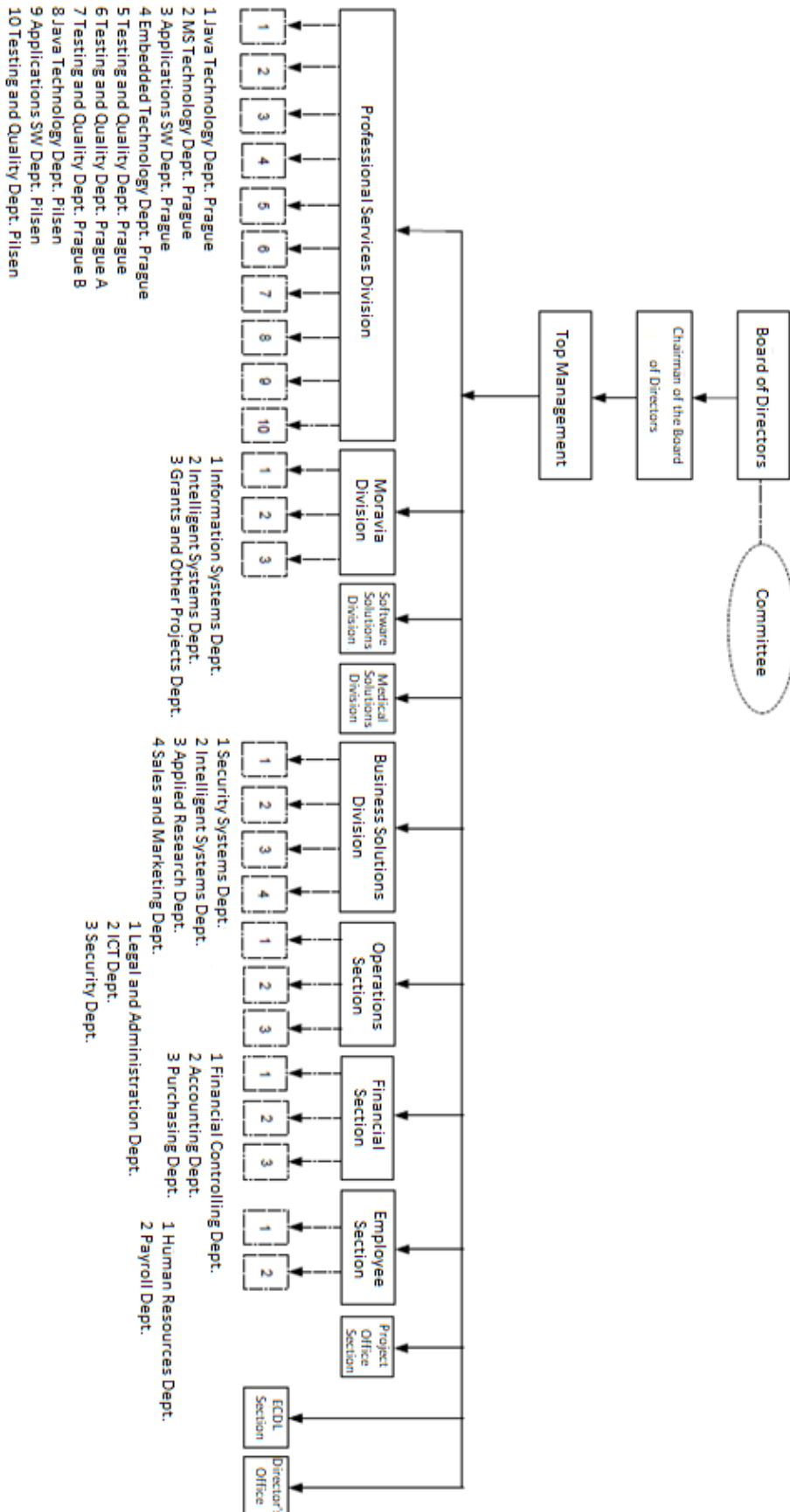
Organizational structure valid from 1 January 2019 to 31 January 2019

Change: Designation of a new line structure



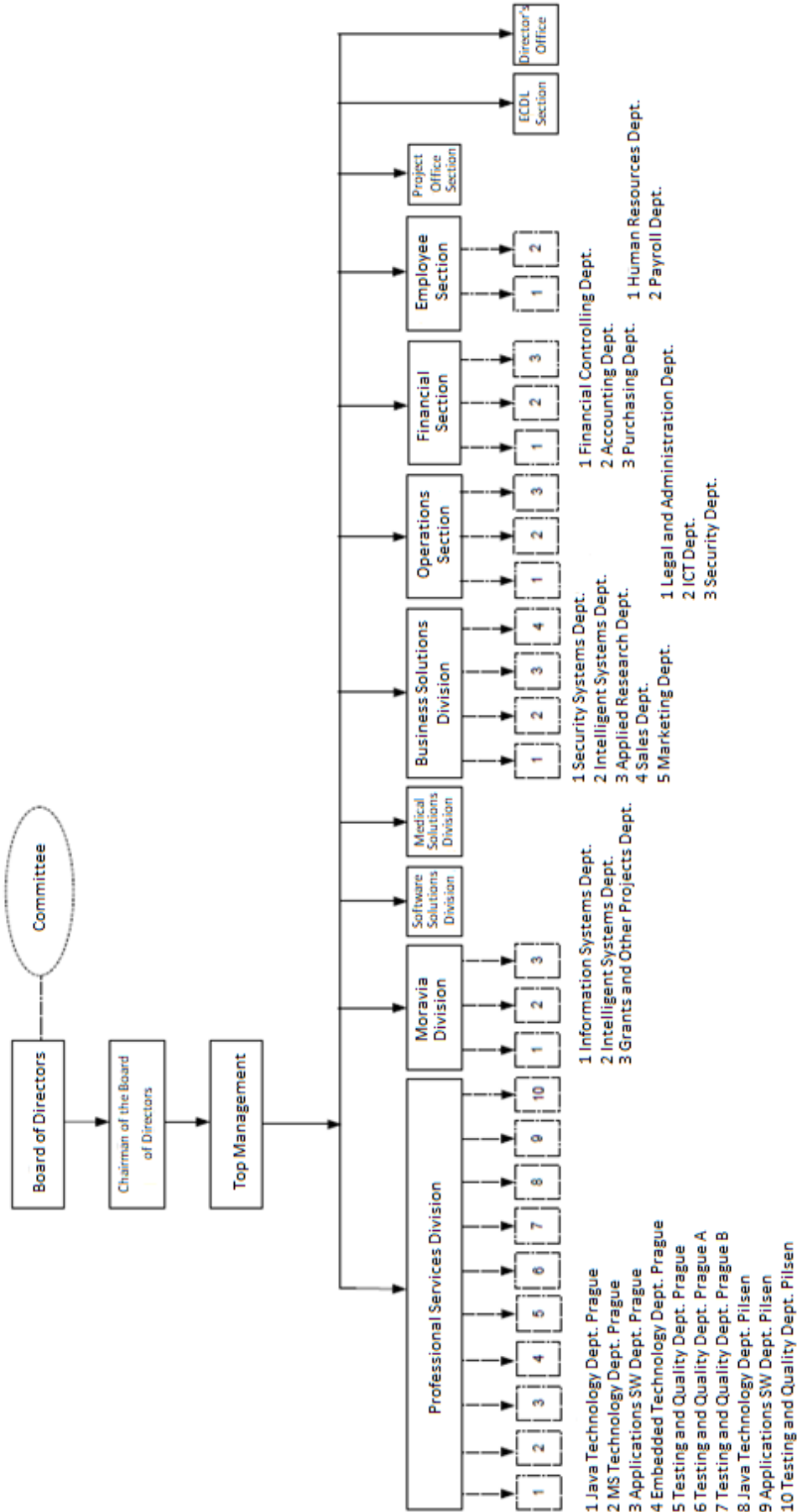
Organizational structure valid from 1 February 2019 to 31 October 2019 (line structure)

Change: Specifying precise departments under the Business Solutions Division

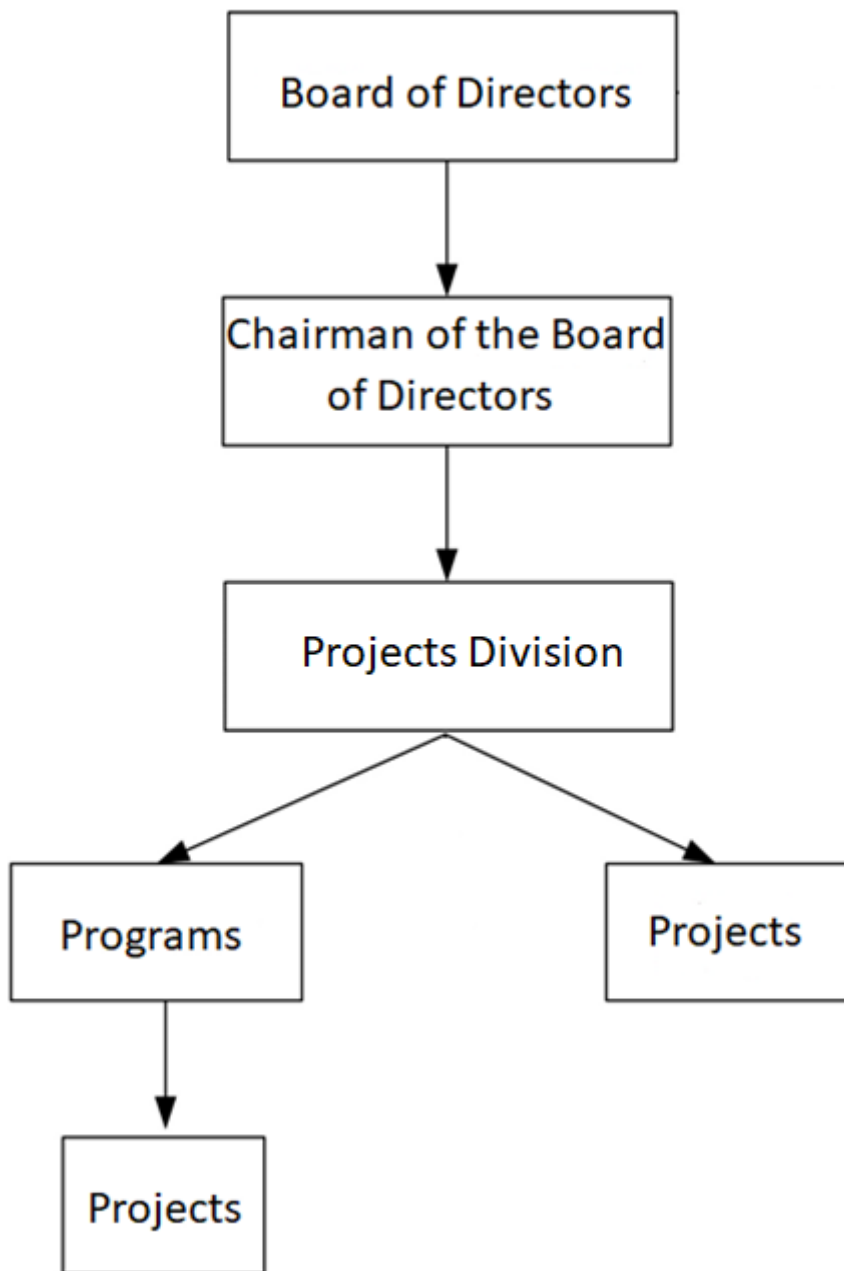


Organizational structure valid from 1 November 2019 to 31 December 2019 (line structure)

Change: Splitting of Sales and Marketing Department into Sales Department and Marketing Department



Organizational structure valid from 1 January 2019 to 31 December 2019 (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 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.

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

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.

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/ **Research and development**

Research and development costs are incurred with the view of obtaining completely new technical knowledge that may lead to improvement of products or entire processes in future the economic utilization of which, however, is not yet clear. These costs are recognized in the Profit and Loss Account for the period in which they were incurred.

Each grant project is from the accounting point of view recorded in a separate cost centre up to the level of differentiation between the company's own contribution and grant support. The percentage amount of grant support and own contribution is specified by contract. Costs on the level of support equal the grant received. Costs on the level of own investment are activated for the entire project period if all the following conditions are met. When the project is finished, tangible and/or intangible assets are put into use and depreciated or amortized across the time of the project's assumed duration.

Conditions for activation of the company's own contribution:

A. The project is feasible – there must be a real chance that a tangible or intangible product or article will be created.

- B. The product will create a benefit in the form of sales or help to the company internally.
- C. The company endeavours to sell the final product, use it internally, or generate sales from operation of the product and its provision to customers.
- D. The company endeavours to complete the final product.
- E. The company has the possibility to value the product at its own costs.

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

Intangible fixed assets:	- software, intangible assets in use	36 months
	- audio-visual work	18 months
Individual movable assets:	- computers, office technology	36 months
	- other devices and equipment, vehicles	60 months
	- technical improvements of real property	72 months

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

i/ **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 and amortization plan reflects the wear and tear on such assets.

j/ **Merchandise inventories** are accounted for using method B upon the purchase for each specific order. Purchased inventories are valued at acquisition cost.

k/ **Liabilities** are stated at their nominal values. The company classifies as short-term that portion of long-term liabilities, bank loans, and financial assistance payable in less than 1 year from the balance sheet date.

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

m/ **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.

n/ **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).

o/ **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.

p/ **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.

q/ **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.

r/ **A derivative** is a financial instrument meeting the following conditions:

- Its fair value changes in response to changes in an interest rate (i.e. an underlying asset).
- In comparison to other types of contracts that would react similarly to changes in market conditions, it requires little or no initial investment.
- The contract will be settled at a future date while the period from concluding the transaction until its settlement is longer than in the case of a spot transaction.

The company has concluded a swap derivative contract to hedge the interest rate of a loan. Derivatives are reported on the balance sheet at fair value. Positive fair values of derivatives are recorded as assets in the line item "Other Assets". Negative fair values of derivatives are recognized in liabilities at line item "Other liabilities". The fair value of financial derivatives is determined as the present value of expected cash flows ensuing from these transactions. With a view to the derivatives' maturity, they are classified as long term.

At the balance sheet date, derivatives are subsequently measured at fair value. Changes in fair value of derivatives classified for fair value hedging are also recognized in financial expenses and incomes along with an appropriate change in fair value of the hedged asset or liability relating to the risk being hedged, because the company does not apply the hedge accounting rules (hedging documentation is not drawn up)

s/ **Income tax** for the current period consists of tax payable and change in deferred tax. Tax payable consists of estimated tax calculated from the tax base using the tax rate valid as at the first day of the accounting period and all additional charges and refunds from previous periods.

The company creates an income tax liability in light of the fact that the time of compiling the financial statements is similar to that of establishing the amount of the tax obligation. The company therefore does not create income tax provisions.

On the balance sheet, the income tax liability is decreased by income tax advances paid and is recognized in the line item "Taxes and subsidies due to state". In case of an outstanding receivable, that is recorded in line item "Tax receivables due from state".

Deferred tax arises from all temporary differences between accounting and tax values of assets and liabilities or other temporary differences (tax loss) using the tax rate expected to be valid for the period in which the tax liability or receivable will be applied.

A deferred tax asset is recorded only in cases when it is probable that it will be applied in subsequent accounting periods.

t/ **Provisions**

Provision for unused vacation are created as at the balance sheet date based on an analysis of unused vacation for the given accounting period and average wage expenses inclusive of costs for social security and health insurance according to individual employees.

Provisions for bonuses inclusive of costs for social security and health insurance are created based on internal rules.

u/ **Leased assets**

The company recognizes leased assets by including lease payments into expenses on a straight-line basis over the term of the lease.

- v/ **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 that is known in advance.

Cash and cash equivalents can be broken out as follows:

(in CZK thousand)

	31 Dec 2019	31 Dec 2018
Cash on hand and cash in transit	388	138
Bank accounts	59,511	74,903
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	59,899	75,041

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

- w/ **Consolidation** – In accordance with the provisions of § 22aa of Act No. 563/1991 Coll., on Accounting, the financial statements of the company and all its consolidated accounting units are included into the consolidated financial statements of the company SynergyCon a.s. having its seat at Václavské náměstí 808/66 Prague 1 – Nové Město, Czech Republic. Its consolidated financial statements will be published in accordance with § 22aa subsection 2c) and § 21a of Act No. 563/1991 Coll., on Accounting.

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 nominal value of the ownership share as at 31 December 2019 is CZK 2,500,000 (31 December 2018: 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. The total nominal value of the ownership share as at 31 December 2019 is 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 nominal value of the ownership share as at 31 December 2019 is USD 754,546 (31 December 2018: USD 754,546). A change in the CZK gross value is due to USD/CZK exchange rate translation as at the balance sheet date. The company has created an adjustment to this investment in the amount of 100% of its nominal value.

Company	Registered office	Equity investment at net book value	Ownership percentage at 31 Dec 2019	Shareholders' equity at 31 Dec 2019	Profit/loss for 2019
HydroCon a.s.	Evropská 2758/11, 160 00 Prague 6	CZK 23,127,000	70%	CZK 21,109,000	CZK -2,149,000
ProTys, a.s.	Evropská 2758/11, 160 00 Prague 6	CZK 2,500,000	10%	CZK 24,209,000	CZK 7,810,000
Health Helm Inc.	51 Melcher Street, Boston, MA 02210	USD 0	13.78%	USD -660,000	USD -99,000

Company	Registered office	Equity investment at net book value	Ownership percentage at 31 Dec 2018	Shareholders' equity at 31 Dec 2018	Profit/loss for 2018
HydroCon a.s.	Evropská 2758/11, 160 00 Prague 6	CZK 23,127,000	70%	CZK 23,258,000	CZK -960,000
ProTys, a.s.	Evropská 2758/11, 160 00 Prague 6	CZK 2,500,000	10%	CZK 22,606,000	CZK 5,635,000
Health Helm Inc.	51 Melcher Street, Boston, MA 02210	USD 0	13.78%	USD -561,000	USD -141,000

4. FIXED ASSETS

Intangible Fixed Assets (IFA)

Acquisition cost

	Starting balance	Additions	Disposals	Transfers	Ending balance
Intangible results of R&D	42,038	17,666	0	2,783	62,487
Software	10,883	434	0	0	11,317
Valuable rights	90	0	0	0	90
Other IFA	2,000	2,000	0	0	4,000
Advances provided for IFA under construction	6,714	2,478	0	-2,783	6,409
Total 2019	61,725	22,578	0	0	84,303
Total 2018	45,387	22,506	6,168	0	61,725

Adjustments and amortization

	Starting balance	Additions	Disposals	Transfers	Ending balance	Adjustments	Accounting value
Intangible results of R&D	25,713	12,497	0	0	38,210	0	24,277
Software	8,257	1,122	0	0	9,379	0	1,938
Valuable rights	90	0	0	0	90	0	0
Other IFA	2,000	222	0	0	2,222	0	1,778
Advances provided for IFA under construction	0	0	0	0	0	0	6,409
Total 2019	36,060	13,841	0	0	49,901	0	34,402
Total 2018	26,551	15,677	6,168	0	36,060	0	18,951

Intangible fixed assets comprise software, copyrights (logo), audio-visual work, and results of research and development. See Note 14 below for commentary on intangible fixed assets under construction.

Additions to intangible fixed assets and classifications for their use in in 2019 were:

- SW licences for CZK 434,000,
- proprietary products CCV and EPIQA for CZK 16,392,000,
- audio-visual work totalling CZK 2,000,000, and
- the company's own contribution to a research and development project in the amount of CZK 4,057,000.

Tangible Fixed Assets (TFA)

Acquisition cost

	(in CZK thousands)				
	Starting balance	Additions	Disposals	Transfers	Ending balance
Buildings	3,808	7,540	0	0	11,348
Tangible movables and sets of tangible movables	62,718	7,049	830	0	68,937
Total 2019	66,526	14,589	830	0	80,285
Total 2018	57,051	11,264	1,788	0	66,526

Adjustments and depreciation

	(in CZK thousands)						
	Starting balance	Additions	Disposals	Transfers	Ending balance	Adjustments	Accounting value
Buildings	1,529	1,043	0	0	2,572	0	8,776
Tangible movables and sets of tangible movables	36,415	11,901	295	0	48,021	0	20,916
Total 2019	37,944	12,944	295	0	50,593	0	29,692
Total 2018	27,918	11,284	1,258	0	37,944	0	28,582

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

Additions to tangible fixed assets in 2019 were:

- IT hardware with acquisition cost of CZK 832,000,
- audio technology with acquisition cost of CZK 971,000,
- office furniture with acquisition cost of CZK 5,246,000, and
- technical improvements to leased real property with acquisition cost of CZK 7,540,000.

A physical inventory-taking as at 31 December 2019 was made at all workplaces and no differences were found between the physical situation and the accounting records.

Assets under Pledge or Encumbered by Lien

Except for the collateral stated in Notes 7 and 8, no assets of the company were encumbered by lien or subject to easement.

Assets Maintained Off-Balance Sheet

In 2019, 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 5,083,000 as at 31 December 2019 (CZK 4,862,000 as at 31 December 2018).

Third-party Assets Maintained on the Balance Sheet

The company holds no third-party assets.

Leased Assets and Assets under Lease

The company does not lease out any of its assets.

The company did not have any assets during 2018 or 2019 that had been acquired by financial leasing.

The company concluded an operating lease contract during 2019 with the lessor UniCredit Fleet Management, s.r.o. The subject of the lease was a Mazda passenger car, for duration of 48 months, with lease beginning 2 July 2019. The monthly lease payment exclusive of VAT is CZK 13,500.

The company leases offices for all its branches for defined time periods (expiration of individual contracts ranges between 2025 and 2027). Total annual expenses for these leases were CZK 50,920,000 in 2019 (CZK 44,572,000 in 2018).

The company leases IT technology and office equipment. Total annual costs for these were CZK 2,610,000 in 2019 (CZK 2,456,000 in 2018).

5. TRADE RECEIVABLES AND TRADE PAYABLES

Short-term trade receivables not past due as at 31 December 2019 total CZK 68,278,000 (CZK 81,927,000 as at 31 December 2018), and receivables past due total CZK 10,293,000 (CZK 16,452,000 as at 31 December 2018). Adjustments to doubtful receivables as at 31 December 2019 totalled CZK 5,898,000 (CZK 5,625,000 as at 31 December 2018). The company did not create new adjustments in 2019. Differences against 2018 relate to exchange rate translation as at 31 December 2019.

The company recorded short-term trade payables past due in the amount of CZK 154,000 as at 31 December 2019 (CZK 13,000 as at 31 December 2018). These were fully paid in 2020 (2019).

The company records no long-term accounts receivable or payable with payment due dates longer than 5 years.

6. LONG-TERM ADVANCES MADE

Long-term advances as at 31 December 2019 consisted mainly of rental security deposits in the amount of CZK 4,262,000 (CZK 4,281,000 as at 31 December 2018). Lease contracts for Prague are backed by bank guarantees, and there was no change in this regard in 2019. A term deposit in the amount of 10% of the value of the bank guarantee (i.e. of CZK 1,283,000) remained unchanged.

7. OFF-BALANCE SHEET COMMITMENTS

As stated in Note 4, transactions related to import of components from the US company Medtronic were recorded to off-balance sheet accounts in 2019. The balance of the off-balance sheet account "Commitment for assets held for safekeeping" totals CZK 5,083,000 as at 31 December 2019 (CZK 4,862,000 as at 31 December 2018).

8. BANK LOANS

At 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.

On 15 February 2018, the company concluded a bank loan with UniCredit Bank Czech Republic and Slovakia, a.s. for an amount of EUR 6,000,000, which was drawn in two tranches of EUR 3,000,000 each. The loan has been in quarterly repayment (20 instalments) since 29 March 2018. The last instalment is due 30 December 2022. The loan incurs interest at a rate defined as the sum of the 3-month EURIBOR rate plus a 1.3% p.a. premium. The parent company SynergyCon a.s. is a co-creditor and guarantor of the loan.

	31 Dec 2019	31 Dec 2018
Amount payable in less than 1 year	CZK 32,186,000	CZK 32,585,000
Amount payable in 1–5 years	CZK 64,372,000	CZK 97,755,000
Amount payable in longer than 5 years	CZK 0	CZK 0
Total	CZK 96,558,000	CZK 130,340,000

The company issued a blank promissory note to the bank securing the loan. Further, a lien was issued on the receivable from current accounts of both CertiCon a.s. and SynergyCon a.s., and the aforementioned contract on security assignment of receivables was extended with an amendment also to cover this loan.

9. DERIVATIVES

The company revalued the interest rate swap relating to the bank loan to fair value. The fair value of the derivative as at 31 December 2019 in the amount of CZK 1,321,000 (CZK 1,769,000 as at 31 December 2018) was recognized in other liabilities.

10. ACCRUED INCOME

Accrued income comprises programming work not yet invoiced and accrued amounts of sub-leases. The company created an adjustment to accrued income as at 31 December 2019 in the amount of CZK 5,433,000 (5,633,000 as at 31 December 2018). Differences as compared to 2018 are due to exchange rate translation as at 31 December 2019.

11. 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.

12. ACCRUED EXPENSES

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

13. OTHER PROVISIONS

In the 2019 accounting period, a provision was created for payment of bonuses for 2019 to be made in 2020 in the amount of CZK 8,247,000 and a provision for payment of bonuses in the amount of CZK 8,939,000 from 2018 was utilized. The provision created for outstanding vacation was recalculated in 2019, and it increased as compared to 2018. In 2018, the provision created for outstanding vacation of CZK 407,000 was released and a new one created in the amount of CZK 581,000.

14. INCOME TAX

Income Tax Payable

Income tax payable for 2019 paid in the Czech Republic totals CZK 396,000 (CZK 2,215,000 as at 31 December 2018).

Income tax payable for 2019 paid in Austria totals CZK 929,000 (CZK 1,247,000 as at 31 December 2018).

In 2019, the income tax liability totalling CZK 1,325,000 was decreased by income tax advances paid totalling CZK 2,927,000 and the amount receivable of CZK 1,602,000 is recognized in the line item "Tax receivables due from state".

In 2018, the income tax liability totalling CZK 3,462,000 was decreased by income tax advances paid totalling CZK 3,274,000 and the amount payable of CZK 188,000 was recognized in the line item "Taxes and subsidies due to state".

Deferred Taxation

A deferred tax asset in the amount of CZK 2,708,000 (CZK 2,862,000 as at 31 December 2018) arises from a difference between the accounting and tax net book values of fixed assets of CZK 5,907,000 (CZK 8,991,000 as at 31 December 2018), the provisions for management bonuses and for undrawn vacation in the total amount of CZK 8,828,000 (CZK 9,346,000 as at 31 December 2018), and accounting adjustments in the amount of CZK 11,330,000 (CZK 14,710,000 as at 31 December 2018). In compliance with accounting methods stated in note 2s/, the deferred taxation amount was calculated using a tax rate of 19% (19% also for 2018).

15. GRANTS

The company received the following grants (in CZK thousands) for conducting applied research projects (Czech Republic):

Provider	Purpose of grant	Current period	Previous period
Technology Agency of the Czech Republic	CAK III	852	830
Ministry of Industry and Trade	SIDAS	1,910	2,575
Ministry of the Interior	SMART CAMERA	1,316	1,288
Technology Agency of the Czech Republic	LARYNGO VOICE	585	600
Ministry of Industry and Trade	BIOS	1,823	2,105

The Horizon 2020 programme ER4STEM from EU funds was completed in 2018. The Horizon 2020 programme DIGICOR was concluded in 2019. A balance due after its conclusion comes to EUR 201,300 and will be paid in 2020.

In 2019, the ECDL department received a grant from the Ministry of Education, Youth and Sport in the amount of CZK 241,000 as a partner of the main applicant. The grant relates to creation of an education module for leading employees of schools and is focused on digital technologies.

Revenues related to drawing grants in the amount of CZK 15,603,000 in 2019 (CZK 19,184,000 in 2018) are presented in the "Other operating income" line of the profit and loss account.

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

	Total	
	Current period	Previous period
Average recalculated number of employees	337	318
Average recalculated number of managers	12	11.6
Total personnel expenses, including insurance and social expenses	395,177	362,162
Remuneration to board members	9,669	9,217

Ten 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 2019, 14 new loans were provided (17 in 2018) in the total amount of CZK 2,330,000 (CZK 2,950,000 in 2018). Repayment of existing loans is being made in accordance with the repayment schedules. A total of CZK 2,142,000 was repaid in 2019 (CZK 1,693,000 in 2018).

17. INFORMATION ON COSTS FOR FEES TO THE AUDIT COMPANY

There was a change in audit company in 2019. Audit is now carried out by KPMG Česká republika Audit, s.r.o. (until 2018 it was Deloitte Audit s.r.o.).

The costs for KPMG's auditing of the 2019 financial statements were CZK 490,000, inclusive of a preliminary audit for 2019 (CZK 445,000 for 2018).

18. EQUITY

Changes in equity are described in the Statement of Changes in Equity within the financial statements.

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 totals 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 996,000 was provided into this fund during 2019 based upon a resolution of the General Meeting (CZK 2,958,000 in 2018).

No decision about the distribution of net profit for 2019 had yet been made as at the date of preparing the financial statements.

19. SALES OF PRODUCTS AND SERVICES

Sales of the company's own products and services grew by CZK 38,543,000 as compared to 2018 (shown below in CZK thousands).

Activity	Current period			Previous period		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Sales of own products	70	70	0	0	0	0
Merchandise sales	1,208	1,208	0	3,848	3,848	0
Sales of services	572,230	61,601	510,629	533,757	56,632	477,125
Other income	27,822	18,946	8,876	33,508	22,144	11,394

20. SERVICES COSTS

Services costs during 2019 consisted primarily of travel expenses in the amount of CZK 14,752,000 (CZK 10,923,000 in 2018); leases of CZK 53,615,000 (CZK 47,185,000 in 2018); building cleaning, security and maintenance of CZK 2,349,000 (CZK 2,484,000 in 2018); other services of CZK 27,035,000 (26,309,000 in 2018); IT services and other overheads related to projects of CZK 8,392,000 (CZK 10,128,000 in 2018); internet, telephones, and postal fees of CZK 3,639,000 (CZK 3,424,000 in 2018); and marketing and recruitment of employees CZK 3,722,000 (CZK 5,349,000 in 2018).

21. TRANSACTIONS WITH RELATED PARTIES

In this accounting period no material transactions or transactions were concluded with related parties under other than normal market conditions.

In the 2019 accounting period, the following accounting operations were recorded between the majority shareholder SynergyCon a.s. and CertiCon a.s.: Based on profit generated in the previous year, the parent company decided in 2019 on paying out a dividend in the total amount of CZK 63,000,000 (70,000,000 in 2018). As at 31 December 2019, the company is recording a payable in the amount of CZK 30,240,000 reflecting an unpaid share in the company's profit (CZK 80,500,000 as at 31 December 2018).

On 25 April 2019, the company CertiCon provided the company SynergyCon a.s. a loan in the amount of CZK 10,000,000. That loan together with interest in the amount of CZK 73,000 was recorded along with the liability for dividends on 1 July 2019.

As at 31 December 2019, the company records no trade payables to SynergyCon a.s. (CZK 0 as at 31 December 2018).

During the 2019 accounting period, consulting services were invoiced to the related company ProTyS in the total amount of CZK 121,000 exclusive of VAT (CZK 197,000 exclusive of VAT in 2018). In 2019, the company recognized revenues from services rendered to ProTyS, a.s. totalling CZK 722,000 (CZK 786,000 as at 31 December 2018). In 2019, a dividend was received in the amount of CZK 550,000 (CZK 750,000 in 2018).

As at 31 December 2019, the company records liabilities to ProTyS, a.s. totalling CZK 36,000 (CZK 142,000 as at 31 December 2018).

The company records no receivables from or payables to the related company HydroCon a.s. as at 31 December 2019. During 2019, the company recorded revenues for services rendered to HydroCon a.s. in the amount of CZK 192,000 (CZK 191,000 as at 31 December 2018).

During 2019, the company recorded no revenues from services in relation to Health Helm, Inc. (in 2018 it was USD 125,000, recalculated to CZK 3,205,000 at the exchange rate for 31 December 2018).

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

As at 31 December 2019, the company had no pension liabilities to former members of managerial, supervisory, or administrative bodies.

22. CASH FLOW STATEMENT

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

23. RESEARCH AND DEVELOPMENT COSTS

Research and development costs totalled CZK 70,173,000 (CZK 69,069,000 in 2018). Due to year-on-year increase in these costs, the costs can be applied for tax purposes at the beneficial 110% rate. In this manner the company achieved a CZK 111,000 increase in the deductible amount and so the total amount of tax deductible costs comes to CZK 70,284,000.

24. SIGNIFICANT POST-BALANCE SHEET EVENTS

The following significant events occurred between the balance sheet date and the date of preparing the financial statements:

On 11 March 2020, the World Health Organization declared the outbreak of coronavirus infection to be a pandemic and on 12 March 2020 the Czech government declared a state of emergency. In reaction to the potentially serious threat to public health presented by Covid-19, the state administration bodies of the Czech Republic adopted measures to stop the pandemic from spreading. Cross-border movement of people was limited, foreigners were limited from entering the country, and some industry segments were temporarily closed down. In accordance with the pandemic's development, the measures taken were gradually eased and the state of emergency was lifted on 17 May 2020.

The company is active in a segment that was not impacted by the Covid-19 pandemic in any significant way. As at the date of the financial statement preparation, there had been no dramatic drop in orders. Only in the case of the client Bosch, three projects were suspended, but most employees from these projects were temporarily transferred to other projects, and particularly for the client Medtronic where, by contrast, the demand is rising substantially. The overall economic impact is positive so far, given the depreciation of the Czech crown by more than 10%. At the same time, home office work was introduced in order to protect the health of the employees. The company has at its disposal also an undrawn overdraft loan that can be utilized in case of need.

Based upon current publicly available information, key performance indicators, and with regard to the measures taken, the company's management expects no immediate and significant negative impact of the Covid-19 pandemic on the company, its operations, financial situation, and financial result. It cannot be excluded, however, that prolonging of the current measures, re-introduction or tightening of closures or their subsequent negative impact on the economic environment within which the company functions will have a negative impact on the company, its financial situation and financial results in the medium and long term. The company management continues to monitor the situation closely and will respond in a manner to mitigate any impact of these events and circumstances depending on their ongoing development.

On 14 April 2020, an agreement for an out-of-court settlement of claims leading to liquidation of the company nova-met s.r.o. was signed. An adjustment amounting to 100% of receivables from this company was created in the accounts.

On 14 January 2020, a notarial record was registered by which a 10% share purchase in the company Datis s.r.o. was subscribed.

Prepared on 12 June 2020

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

Ing. Karel Kraus, MBA
Vice-Chairman of the Board of Directors



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**Zpráva nezávislého auditora pro akcionáře společnosti
CertiCon a.s.**

Výrok auditora

Provedli jsme audit přiložené účetní závěrky společnosti CertiCon a.s. (dále také „Společnost“) sestavené na základě českých účetních předpisů, která se skládá z rozvahy k 31. prosinci 2019, výkazu zisku a ztráty, přehledu o změnách vlastního kapitálu a přehledu o peněžních tocích za rok končící 31. prosincem 2019 a přílohy v účetní závěrce, která obsahuje popis použitých podstatných účetních metod a další vysvětlující informace. Údaje o Společnosti jsou uvedeny v bodě 1 přílohy v této účetní závěrce.

Podle našeho názoru přiložená účetní závěrka podává věrný a poctivý obraz aktiv a pasiv Společnosti k 31. prosinci 2019 a nákladů a výnosů a výsledku jejího hospodaření a peněžních toků za rok končící 31. prosincem 2019 v souladu s českými účetními předpisy.

Základ pro výrok

Audit jsme provedli v souladu se zákonem o auditorech a standardy Komory auditorů České republiky pro audit, kterými jsou mezinárodní standardy pro audit (ISA) případně doplněné a upravené souvisejícími aplikačními doložkami. Naše odpovědnost stanovená těmito předpisy je podrobněji popsána v oddílu Odpovědnost auditora za audit účetní závěrky. V souladu se zákonem o auditorech a Etickým kodexem přijatým Komorou auditorů České republiky jsme na Společnosti nezávislí a splnili jsme i další etické povinnosti vyplývající z uvedených předpisů. Domníváme se, že důkazní informace, které jsme shromáždili, poskytují dostatečný a vhodný základ pro vyjádření našeho výroku.

Ostatní informace

Ostatními informacemi jsou v souladu s § 2 písm. b) zákona o auditorech informace uvedené ve výroční zprávě mimo účetní závěrku a naši zprávu auditora. Za ostatní informace odpovídá statutární orgán Společnosti.

Náš výrok k účetní závěrce se k ostatním informacím nevztahuje. Přesto je však součástí našich povinností souvisejících s auditem účetní závěrky seznámení se s ostatními informacemi a posouzení, zda ostatní informace nejsou ve významném (materiálním) nesouladu s účetní závěrkou či s našimi znalostmi o účetní jednotce získanými během auditu účetní závěrky nebo zda se jinak tyto informace nejeví jako významně (materiálně) nesprávné. Také posuzujeme, zda ostatní informace byly ve všech významných (materiálních) ohledech vypracovány v souladu s příslušnými právními



předpisy. Tímto posouzením se rozumí, zda ostatní informace splňují požadavky právních předpisů na formální náležitosti a postup vypracování ostatních informací v kontextu významnosti (materiality), tj. zda případné nedodržení uvedených požadavků by bylo způsobilo ovlivnit úsudek činěný na základě ostatních informací.

Na základě provedených postupů, do míry, již dokážeme posoudit, uvádíme, že

- ostatní informace, které popisují skutečnosti, jež jsou též předmětem zobrazení v účetní závěrce, jsou ve všech významných (materiálních) ohledech v souladu s účetní závěrkou a
- ostatní informace byly vypracovány v souladu s právními předpisy.

Dále jsme povinni uvést, zda na základě poznatků a povědomí o Společnosti, k nimž jsme dospěli při provádění auditu, ostatní informace neobsahují významné (materiální) věcné nesprávnosti. V rámci uvedených postupů jsme v obdržených ostatních informacích žádné významné (materiální) věcné nesprávnosti nezjistili.

Odpovědnost statutárního orgánu a dozorčí rady Společnosti za účetní závěrku

Statutární orgán Společnosti odpovídá za sestavení účetní závěrky podávající věrný a poctivý obraz v souladu s českými účetními předpisy a za takový vnitřní kontrolní systém, který považuje za nezbytný pro sestavení účetní závěrky tak, aby neobsahovala významné (materiální) nesprávnosti způsobené podvodem nebo chybou.

Při sestavování účetní závěrky je statutární orgán Společnosti povinen posoudit, zda je Společnost schopna nepřetržitě trvat, a pokud je to relevantní, popsat v příloze v účetní závěrce záležitosti týkající se jejího nepřetržitého trvání a použití předpokladu nepřetržitého trvání při sestavení účetní závěrky, s výjimkou případů, kdy statutární orgán plánuje zrušení Společnosti nebo ukončení její činnosti, resp. kdy nemá jinou reálnou možnost, než tak učinit.

Za dohled nad procesem účetního výkaznictví ve Společnosti odpovídá dozorčí rada.

Odpovědnost auditora za audit účetní závěrky

Naším cílem je získat přiměřenou jistotu, že účetní závěrka jako celek neobsahuje významnou (materiální) nesprávnost způsobenou podvodem nebo chybou a vydat zprávu auditora obsahující náš výrok. Přiměřená míra jistoty je velká míra jistoty, nicméně není zárukou, že audit provedený v souladu s výše uvedenými předpisy ve všech případech v účetní závěrce odhalí případnou existující významnou (materiální) nesprávnost. Nesprávnosti mohou vzniknout v důsledku podvodů nebo chyb a považují se za významné (materiální), pokud lze reálně předpokládat, že by jednotlivě nebo v souhrnu mohly ovlivnit ekonomická rozhodnutí, která uživatelé účetní závěrky na jejím základě přijmou.

Při provádění auditu v souladu s výše uvedenými předpisy je naší povinností uplatňovat během celého auditu odborný úsudek a zachovávat profesní skepticismus. Dále je naší povinností:

- Identifikovat a vyhodnotit rizika významné (materiální) nesprávnosti účetní závěrky způsobené podvodem nebo chybou, navrhnout a provést auditorské postupy reagující na tato rizika a získat dostatečné a vhodné důkazní informace, abychom na jejich základě mohli vyjádřit výrok. Riziko, že neodhalíme významnou

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This report is a translation
from the Czech original

Independent Auditor's Report to the Shareholder of CertiCon a.s.

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 at 31 December 2019, and the profit and loss account, statement of changes in equity and cash flow statement for the year ended on 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. Data about the Company are stated in Note 1 to these financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the assets, liabilities and owner's equity of the Company as at 31 December 2019, and of its costs and revenues and net income and cash flows for the year ended on 31 December 2019 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 and adjusted 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 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 Company's statutory body 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, however, it is our responsibility to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements and 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 judgements 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, it is our responsibility to report, based on the knowledge and understanding of the Company obtained in the audit, whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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

The statutory body of the Company 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 statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body intends either 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 it 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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of the 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 system of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. Nevertheless, 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 persons entrusted with administration and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

Statutory Auditor Responsible for Audit

Karel Charvát is the statutory auditor responsible for audit of the financial statements of CertiCon a.s. as at 31 December 2019 based on which this independent auditor's report was prepared.

In Prague on 12 June 2020

Audit firm:
KPMG Česká republika Audit s.r.o.
Registration no. 071

Statutory auditor:
Ing. Karel Charvát
Partner
Registration no. 2032



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