



Annual
Report
2017

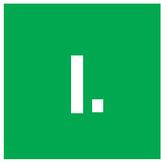
2017



OKsystem

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General information about the Company



Business name:

OKsystem a.s.
entered in the Commercial Register
maintained by the Municipal Court
in Prague, Section B, file 20326

Legal form:

Joint-stock company

Date of registration:

7 September 2015

Registered office:

Na Pankráci 1690/125
140 21 Prague 4
Czech Republic

Company ID No.: 27373665

Tax ID No.: CZ27373665



Subject of business:

- Production, trade and services not listed in Annexes 1 to 3 of the Trade Licensing Act

Areas of activities:

- Wholesale and retail
- Provision of software, IT advisory, data processing, hosting and related activities, and web portals
- Advisory and consulting, preparing expert studies and opinions
- Research and development in the natural, technical, and social sciences
- Continuing education, organizing courses, training and lectures



Corporate body:

Board of Directors

- Ing. Martin Procházka
Chairman of the Board of Directors
- RNDr. Pavel Čížek
Vice-chairman of the Board of Directors
- Ing. Vítězslav Ciml
Member of the Board of Directors



Banks and accounts:

- UniCredit Bank Czech Republic and Slovakia, a.s.,
IBAN CZ03 2700 0000 0000 4897 3004
- Československá obchodní banka, a. s.,
IBAN CZ79 0300 0000 0002 0939 0820
- Sberbank CZ a.s.,
IBAN CZ47 6800 0000 0042 0023 4301

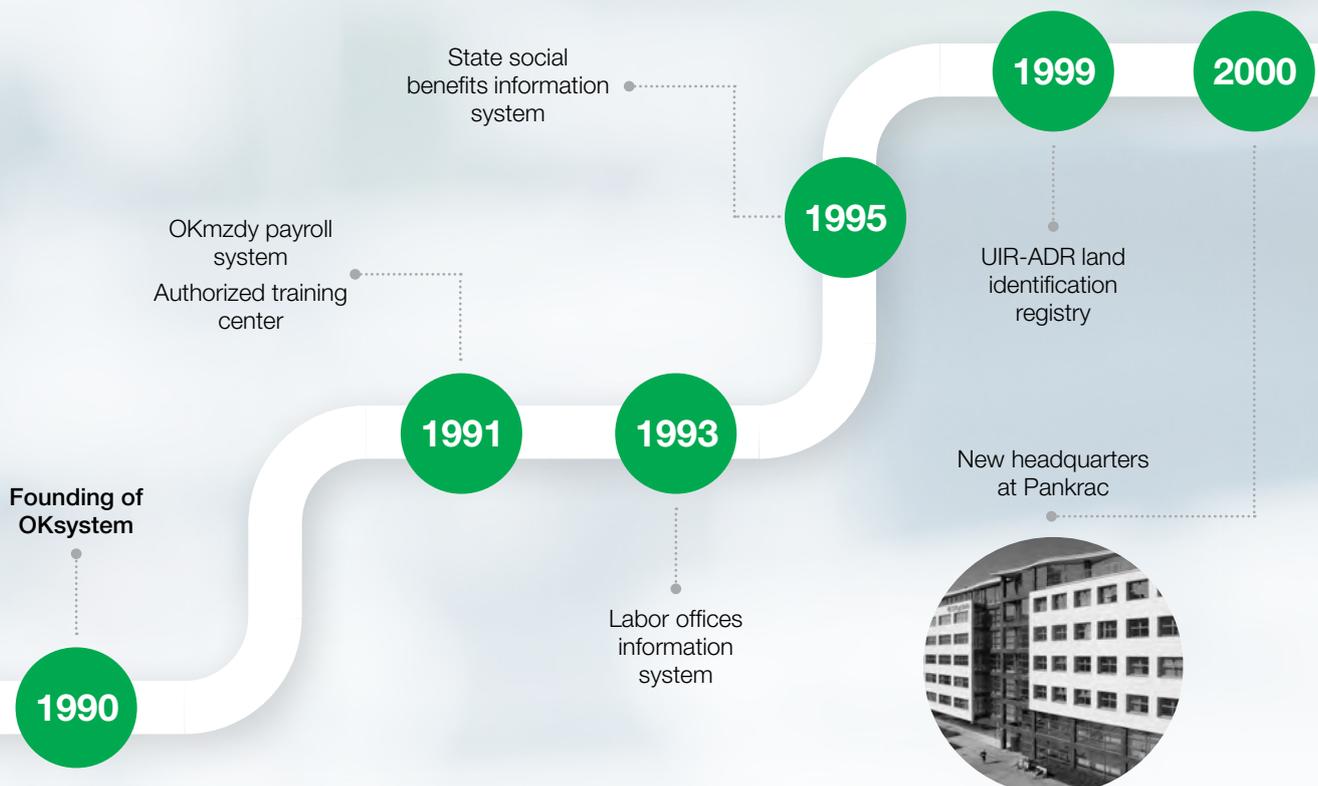
OKsystem a.s. is the successor company of OKsystem, spol. s r. o., Company ID No. 00221970, registered on 27 December 1990. Another successor company, which was formed by splitting the dissolving company OKsystem, spol. s r. o., Company ID No. 00221970, is OKBC s.r.o., having its registered office at Na Pankráci 1690/125, 140 21 Prague 4, Company ID No. 27373703. Effective as of 1 January 2015, OKsystem s.r.o. was transformed to a joint-stock company on the basis of the accepted project to change the legal form in accordance with Act No. 125/2008 Coll., on Conversions of Commercial Companies and Cooperatives.

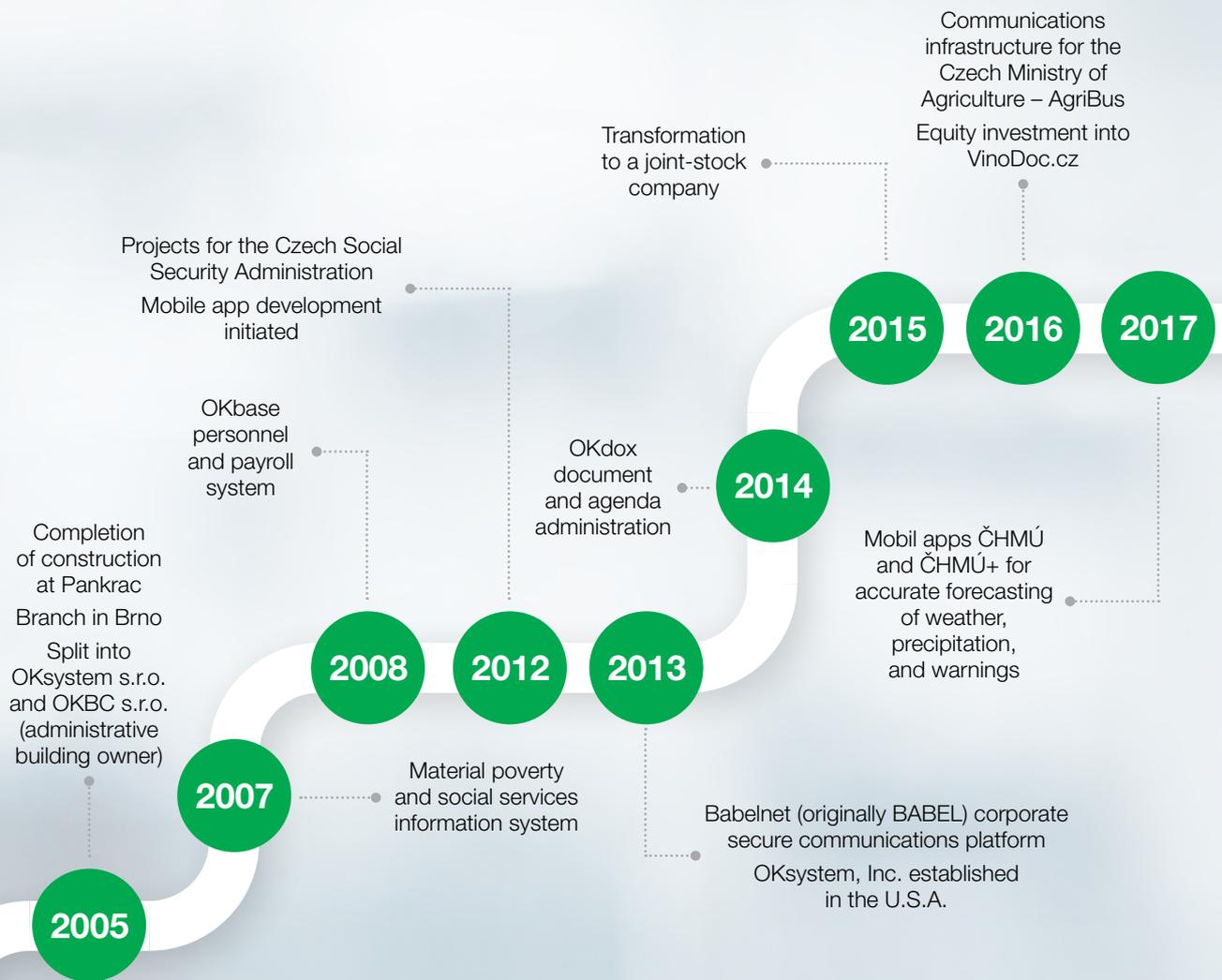


The Company's development and its market

OKsystem, a Czech software company, has been successfully operating on the IT market for almost 30 years. It was established by a group of four programmers in 1990, less than a year after the momentous political and economic changes in what was then still Czechoslovakia. At that time, the obsolete mainframe computers with terminals manufactured in Eastern European countries were coming to the ends of their useful lives and were starting to be replaced by networks of modern personal computers. Great demand appeared for new application programs with graphical user interfaces and in the emerging client/server architecture, such as for payroll processing and for supporting the activities of newly created or reformed state administration offices. OKsystem succeeded in taking full advantage of these opportunities and in just a few years grew into a medium-sized IT company.

In the succeeding years and up to the present day, OKsystem's experts have been responding to developments in the ICT industry and incorporating timely innovations into its solutions. Examples include relational database systems; interactive kiosks; smart cards; public key infrastructure (PKI); encryption and electronic signature; cybersecurity; data analysis; application servers; multilayer architecture; websites; web services and applications; personal data protection; document digitization, archiving, and administration; enterprise service buses (ESB); mobile apps, and blockchain. The main milestones in OKsystem's history, including sales growth from zero to more than CZK 600 million, a rise in in the number of employees from 4 founding partners to a workforce of nearly 300, applications of new technologies, and acquisition and implementation of important orders, can be seen in the timeline below:





OKsystem's program systems are now employed by hundreds of thousands of users, both in the private sector and in public administration. OKsystem has an ever-expanding customer base in the Czech Republic and also delivers innovative software abroad through its partners and multinational companies in Europe and in the U.S.A.

Hundreds of employees – analysts, developers, consultants, and technical support staff – make every effort to ensure that OKsystem's original programs are useful, imaginative, and secure in order to make the customers' work easier and more efficient through the use of state-of-the-art technologies.

The original company OKsystem, spol. s r. o., established late in 1990, was split into two successor companies, OKsystem s.r.o. and OKBC s.r.o., in September 2005 in connection with the construction of an office building in Prague, Pankrác. OKBC is the owner of the building at Na Pankráci 1690/125 in Prague 4, and OKsystem is the largest tenant of this office building.

In March 2013, the subsidiary OKsystem, Inc. was founded in the U.S.A., with the sole shareholder being the Czech company OKsystem. In January 2015, OKsystem changed its legal form from a limited liability company to a joint-stock company. In June 2016, OKsystem a.s. acquired a 50% share in VINOdoc s.r.o., which operates a webstore with the widest offer of premium Italian wines and olive oils on the Czech market. OKsystem has gradually become the leading member in a group of companies connected through capital, statutory representatives, partners, and shareholders.

The change in form to a joint-stock company in 2015 created conditions for more efficient management, and specifically the separation of strategic and operational management divisions. OKsystem's Board of Directors and its Supervisory Board are each comprised of three members. Martin Procházka, one of the cofounders of OKsystem and who has managed the Company for more than a quarter of a century, is Chairman of the Board of Directors. Another cofounder, Pavel Čížek, is Vice-chairman of the Board of Directors. Vítězslav Ciml is Member of the Board of Directors and since 2016 also has been CEO of the Company.



Corporate Body / Board of Directors



Ing. Martin Procházka
Chairman of the Board of Directors



RNDr. Pavel Čížek
Vice-chairman of the Board
of Directors



Ing. Vítězslav Ciml
CEO and Member of the Board
of Directors



Supervisory Body / Supervisory Board



Ing. Zuzana Hofová
Chairwoman of the Supervisory Board



Mgr. Pavel Čížek
Member of the Supervisory Board



Mgr. Šárka Cimlová
Member of the Supervisory Board

The Company's management as well as its expert, administrative, and sales departments are set up and managed according to a fixed organizational structure. Project teams are also established as needed in order to implement orders and projects. Such teams are comprised of the Company's specialists and are led by project

managers in case of large projects or lead consultants in case of smaller orders. In order to ensure the main activities, an integrated management system has been introduced and is being further developed. This system consists of components in accordance with ISO 9001, ISO 14001, and ISO 27001.

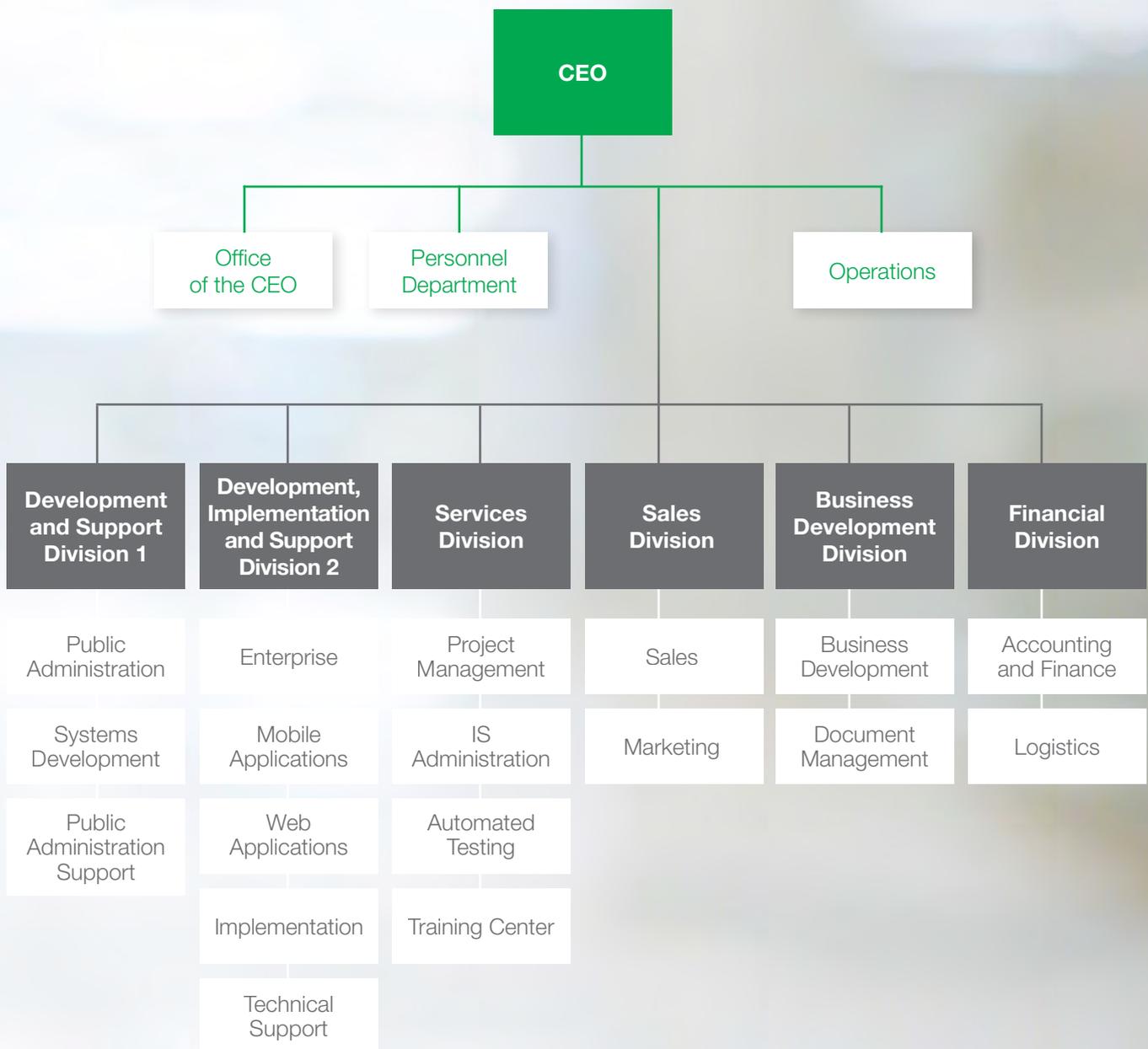


OKsystem's management, sales personnel, developers and other in-house experts carefully follow ICT trends and evaluate niche markets and demands in order to bring new business opportunities. As a software company with broad know-how, OKsystem can then respond either by participating in a public tender, which consists in, for example, designing and developing a

custom application program system, or initiating new activities, or developing an original general product intended for repeated application. Such were the origins over time of our OKbase, Babelnet, OKdox, OKmzdy, and OKadresy product lines, mobile applications, public procurement, and professional courses and training programs for IT specialists.



Organizational chart





OKbase

In 2017, the functions of the OKbase human resources system were expanded, new customers were acquired, and the system's market position was substantially strengthened. Unlike competing human resources management systems, OKbase has from the very start been built on a state-of-the-art multilayer architecture. OKbase is designed for HR managers, payroll accountants, managers, and, by means of an interactive web interface, all employees. It is used by leading Czech and multinational companies and government offices, often with dozens of branches across the Czech Republic. Users from the business sector include Billa, Allianz pojišťovna, BNP Paribas, Carborundum Electrite, Carrier, Caterpillar, Contipro, ČMSS, Dixons, ERA, Global Payments, Huawei, Jan Becher, Lagardere, LINET, MOL, Olympus, OTASS, Pittsburgh Corning, ROCHE, S&T, and Toyoda Gosei. In public administration, users include the Czech Statistical Office, Czech Trade Inspection Authority, Ministry of Culture, Municipal District Prague 8, Ministry of Regional Development, Ministry of Education, Youth and Sports, Ministry of Foreign Affairs, Ministry of the Environment, Moravian–Silesian Region, National Gallery, State Office for Nuclear Safety, State Veterinary Administration, State Agricultural Intervention Fund, and City of Brno. In the areas of science and education, our clients include the Czech Academy of Sciences, Institute of Physics, and

Czech Technical University in Prague. New customers who selected and ordered OKbase in 2017 and for whom the information system was successfully implemented included, for example, the state-owned forestry company Vojenské lesy a statky ČR, Shell, Czech Language Institute of the Czech Academy of Sciences, Porsche Engineering, Omnipol, Státní pokladna Centrum sdílených služeb, Four Seasons, The National Gallery in Prague, and EUC. Additional customers switched to OKbase from the older payroll processing system OKmzdy in 2017, specifically Botanicus, AON CEE, Olympus, Eberspächer, and Pilsen Municipal Charity.

In 2017, OKbase's functionality was expanded in the attendance area for monitoring work hours with checking of legal and custom user definitions, such as breaks between shifts and weekend work. OKbase now allows for a preliminary calculation of personnel expenses before the end of the month relative to actual attendance. Another introduction is the definition of messages to the dashboard and their optional sending to an e-mail address. To present information more clearly and make controls easier, the web client's design was adjusted. In 2017, analysis and preparations for modifications of OKbase were initiated to make the system compliant with the General Data Protection Regulation (GDPR) by no later than May 2018.



Babelnet

Babelnet is a corporate secure communications platform. It has been developed as an original solution since 2013. The Babelnet application can be installed and securely operated in businesses and offices either internally on the client's own equipment or in the cloud. In the case of an internal installation, the advantages for the client include complete supervision and administration as well as the possibility to connect Babelnet to the business information systems and mobile app administration systems. With this platform, users can send and receive encrypted messages, including attachments, on mobile phones and tablets using the iOS or Android operating system and on PC and Mac desktops. Data communication between users is intermediated by the Babelnet Server. The server maintains records of user accounts and devices, provides client licenses, stores public keys, and ensures delivery of encrypted messages and notifications. If needed, the server also can ensure high accessibility by means of automated replication among servers. The Babelnet Server has no access to private keys and is in no way involved in message encryption, which is performed in end-to-end mode exclusively between the end devices. Babelnet

also provides encrypted calls between mobile devices as Voice over Internet Protocol (VoIP). When establishing a telephone connection, the caller and the recipient of the call exchange the public parts of the temporary key pairs and agree to secure the connection using single-use cryptographic keys. Voice transfer is then conducted securely and directly between the end clients, if the clients' internet connection allows it, or through the server in cases where for any reason direct connection cannot be secured. Users whose end devices are connected to the company Babelnet Server can also communicate with users on other Babelnet Servers. For testing Babelnet features and for noncommercial use, a no-cost public encrypted communication service is run on babelnet.com. Corporate Babelnet also supports synchronization of user accounts with directory services. Integrating the Babelnet corporate platform with third-party applications is also easy. This possibility is used, for example, in connection with the OKbase and OKdox application systems. It is thus possible to ensure secure communication not only between individuals but also between the user and the information system as well as between information systems.

OKdox

OKdox is a state-of-the-art modular document management system that brings order to documents registries and supports work process automation at an advantageous price. Its advantages include intuitive controls and universality. End users greatly

appreciate the system's flexibility, as OKdox can be progressively implemented with various document types and corporate processes. OKdox may be used, for example, in keeping records of and processing incoming mail or as part of the process

of searching for sales opportunities, making offers, and approving the final versions of offers by the company management. New customers successfully implementing the OKdox document administration

system in 2018 include, for example, Contipro and Lactalis. Other customers, such as Dekra and Chládek&Tintěra, further expanded the scope of their activities supported by OKdox during 2017.

Other products and services

OKsystem also offers the OKbase payroll module. Both former users of the OKmzdy payroll agenda processing program system and new customers are switching to OKbase. Due to its simplicity, stability, efficiency, and low price, OKmzdy has hundreds of loyal and satisfied customers, ranging from individual entrepreneurs and small and medium-sized employers to accounting agencies. Under the name OKadresy, OKsystem offers, delivers, and supports access to and use of one of the fundamental registers of Czech e-government: the basic register of territorial identification, addresses and real estate (RUIAN). OKsystem thus has built upon its many years' experience in designing and operating the Regional Identification Address Register (UIR-ADR), which was used by thousands of users prior to the implementation of RUIAN and served several years ago as a primary source of data for RUIAN. Data in the OKadresy system is updated via the internet every day and can even be accessed offline. As opposed to RUIAN, it also saves a history of changes in addresses and non-existent elements in addition to the current status. As a business partner of leading global producers, OKsystem also provides its customers with cryptographic smart cards – together with third-generation OKsmart program equipment – for secure use of electronic signatures, authentication, and encryption. Most customers who used earlier versions of OKsmart switched in 2017 to the current version with automatic installation and electronic

signature support within a (plug-in) web browser. The entire smart card life cycle (personalization, smart card management, keys and certificates management) is managed within OKbase and thereby provides support for the Attendance and Canteen modules. In addition to the Babelnet secure corporate communications platform, OKsystem designs, develops, and updates a number of other mobile apps according to customer requests for the iOS and Android mobile operating systems. During 2017, the Sales Department and mobile apps team obtained the order for, developed, and launched implementation of a mobile application for the Czech Hydrometeorological Institute. In 2017, OKsystem's authorized training center operated in five computerized classrooms and, as needed, also in part of the conference hall. It focuses on Cisco, Microsoft, and SUSE Linux products. The Company has a tradition of authorized training dating back to 1991, and this training center is probably the longest running in the Czech Republic. Hundreds of computer experts attend professional training courses led by highly skilled and certified instructors. In addition to training, OKsystem has for many years been an authorized partner of Prometric Inc. and Pearson VUE for testing ICT professional knowledge. The training center has acquired and regularly renews its Ministry of Education, Youth, and Sports Accreditation for Continuing Education of Pedagogical Staff.

Public administration

Since its founding, OKsystem has been very active in public administration. In 2017, it delivered solutions for state and public administrative organizations and provided them with the following comprehensive services:

- Custom development and operation of information systems for the Ministry of Labor and Social Affairs and the Czech Labor Office.
- Provision of licenses and operational support for the OKbase personnel system for ministries, central state administrative bodies, and municipal authorities.
- Provision of licenses and operational support for payroll administration and a payment system for the Ministry of Foreign Affairs and all Czech embassies and consulates.
- Interconnection of key information systems and

provision of communications structure for the Ministry of Agriculture (AgriBus, based on Oracle Enterprise Service Bus) and Czech Social Security Administration (Microsoft BizTalk technology).

- ICT expert knowledge training and testing for public administration employees.

Since the 1990s, OKsystem has been providing the Ministry of Labor and Social Affairs and the Labor Office of the Czech Republic with comprehensive maintenance, administration, continuing development of important and very extensive application program systems, processing of legislative changes, and training. These services concern the following applications: Employment (the OKpráce application program system), State Social Support and Social and Legal Protection for Children (OKcentrum), Material Poverty (OKnouze), and Social Services (OKslužby),

including the Integrated Portal of the Ministry of Labor and Social Affairs, a register of social services providers, statistics processing, use of electronic forms, and more. In late 2014, the Ministry of Labor and Social Affairs announced four separate public tenders for the Employment Information System, Social Benefits Information System, Operational and Integration Environment, and Integrated Support and Operational Data. However, these four orders, which collectively comprise the Unified Labor and Social Affairs Information System, were not successfully

completed and tested by suppliers and therefore it was not implemented by the Ministry as a whole with the planned timelines. The activities of the Labor Office of the Czech Republic therefore continue to be fully dependent on the operation of OKsystem's application program systems. In 2017, the operations of OKpráce, OKcentrum, OKnouze, and OKslužby were provided on the basis of a contract on provision of OK applications support, operation, and development services entered into by the Ministry of Labor and Social Affairs and OKsystem in December 2016.

Headquarters and conference hall

OKsystem a.s. has its headquarters at Na Pankráci 125, Prague 4. The building is owned by the sister company OKBC s.r.o. The location has excellent accessibility from the C subway line and by car from the D1 motorway, the north-south thoroughfare, and the bypass south of the city. The office premises are of a high standard, providing space for up to 400 employees, 5 computer classrooms, meeting rooms, a conference hall for 300 people, a cafeteria, parking for 100 cars, computer halls and IT technologies, server room cooling, and backup electricity sources. The Brno branch occupies one floor within the Trinita Building on Trnitá Street and includes a lecture room and development center. At its headquarters, OKsystem also maintains formal conference premises for organizing conferences, trainings, and other cultural and social events. The conference hall has 385 m² of space with total capacity of 300 people in an auditorium arrangement and 120 people in a banquet arrangement. It is equipped with high-standard technical equipment, including projection and camera systems and four projection screens. The hall is used both by OKsystem's customers and the general

public. Important events organized by OKsystem include the Smart Cards & Devices Forum, which is a conference focusing on such topics as smart cards, mobile devices, biometrics, and cryptography. Also held here are training events for the Ministry of Labor and Social Affairs and Czech Labor Office, as well as customer events for the OKbase and OKmzdy program systems. Other important events held in the conference hall during 2017 included the 17th Czech Energy Congress, UXZ Conference, EKOKOM Packaging, B2B Technologies for Marketing, Franchising Forum, International Exposition for Business and Franchising, Agile Prague 2017, Korn Ferry 2017, Dark Side 2017 (ADMEZ), SAS Institute Roadshow 2017, and PR Internet Info. Conferences are also regularly held in the building by Novartis, Česká pojišťovna a.s., the Federation of the Food and Drink Industries of the Czech Republic, and EUC a.s.



Financial results

The Company's annual turnover in 2017 was CZK 631 million (CZK 139 million greater than in 2016), the majority of which consisted in revenues from IT services. OKsystem achieved a profit after tax of

CZK 189.7 million, which represents a substantial increase as compared to the 2016 profit. Precise data are provided in tables on the following pages of this Annual Report.



Expected future development

In 2018 and beyond, OKsystem will focus in particular upon:



- development and implementation of original application program systems, especially for human resources management (personnel, wages, attendance...),



- development of the Babelnet platform for secure corporate communications and of additional mobile applications,



- using blockchain and generally the distributed ledger technology (DLT) in research and development,



- providing consultancy and solutions in accordance with the GDPR and ePrivacy,



- solutions in administration and archiving of trustworthy electronic documents,



- systems integration and development of extensive program systems made to order, with emphasis on information systems in employment, social benefits, and social security,



- provision of ICT services in the private sector and public administration with a large component of outsourcing and provision of application program systems as a service,



- information security development and services,



- application of products and services abroad through online sales and in cooperation with partners while achieving a position as supplier of Europewide and global solutions (with the Babelnet product and/or additional future programs and services),



- training and testing of IT specialists and training for our products' users.



Financial statements for 2016 and 2017

2016

2017

Balance sheet (in thousands of Czech crowns)

Assets

Total assets	434 014	606 824
Fixed assets	33 621	30 031
Intangible fixed assets	15 796	14 849
Startup costs	0	0
Software	15 796	14 849
Other intangible fixed assets	0	0
Intangible fixed assets under construction	0	0
Tangible fixed assets	10 309	10 774
Land	0	0
Buildings and structures	849	830
Machinery and equipment	9 234	9 717
Other tangible fixed assets	226	226
Tangible fixed assets under construction	0	0
Long-term investments	7 516	4 408
Ownership interests in controlled or controlling entities	0	0
Loans to controlled or controlling entities	7 516	4 408
Current assets	397 420	566 441
Inventories	11 847	7 640
Materials	480	665
Finished products and merchandise	11 367	6 975
Long-term receivables	2 023	230
Trade receivables	0	0
Long-term advances given	2 023	230
Short-term receivables	27 148	122 303
Trade receivables	14 693	111 890
Receivables from partners and members of an association	0	0
Tax receivables due from state	3	0
Short-term advances given	316	320
Estimated receivables	0	0
Other receivables	12 136	10 093
Cash and equivalents	356 402	436 268
Cash	239	367
Bank accounts	356 163	435 901
Short-term securities	0	0
Accruals and deferrals	2 973	10 352
Prepaid expenses	2 900	3 568
Accrued revenue	73	6 784

2016

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Liabilities and equity

Total liabilities and equity	434 014	606 824
Owners' equity	342 654	502 694
Share capital	35 000	35 000
Share capital	35 000	35 000
Share premium and capital funds	-234	-234
Gains or losses from revaluation of assets and liabilities	-234	-234
Funds from earnings	757	1 109
Other provisions	0	0
Statutory and other funds	757	1 109
Retained earnings	241 164	277 131
Retained earnings from previous years	241 164	277 131
Profit or loss from current year	65 967	189 688
Liabilities	87 239	102 834
Provisions	6 301	6 614
Other provisions	6 301	6 614
Long-term liabilities	622	697
Deferred tax liability	622	697
Short-term payables	80 316	95 523
Bonds issued	0	0
Convertible bonds	0	0
Other bonds	0	0
Payables to banks	0	0
Short-term advances received	62	0
Trade payables	8 647	6 165
Short-term notes payable	0	0
Payables to controlled or controlling entities	0	0
Payables to associates	0	0
Other payables	71 607	89 358
Payable to partners	0	0
Short-term financial assistance	0	0
Payables to employees	20 473	24 281
Payables to social security and health insurance	7 120	9 012
Tax and subsidies due to state	43 680	55 234
Estimated payables	40	14
Other payables	294	817
Accruals and deferrals	4 121	1 296
Accrued expenses	0	249
Deferred income	4 121	1 047

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Income statement (in thousands of Czech crowns)

Revenues from sale of own products and services	429 764	617 456
Revenues from goods sold	60 312	10 714
Cost of sales	137 849	94 863
Cost of goods sold	43 742	9 942
Materials and energy	12 053	11 251
Services	82 054	73 670
Change in inventory of own production	0	0
Own work capitalized	-6 628	-6 909
Personal expenses	256 454	285 755
Wages and salaries	191 719	213 503
Social security, health insurance and other expenses	64 735	72 252
Social security and health insurance expenses	58 746	65 412
Other expenses	5 989	6 840
Value adjustments to fixed and current assets	11 148	12 307
Value adjustments to intangible and tangible fixed assets	11 148	12 307
Permanent value adjustments to intangible and tangible fixed assets	11 148	12 307
Temporary value adjustments to intangible and tangible fixed assets	0	0
Adjustments to inventories	0	0
Adjustments to accounts receivable	0	0
Other operating revenues	856	1 747
Revenues from sale of fixed assets	517	1480
Revenues from sale of materials	0	37
Other operating revenues	339	230
Other operating expenses	3 131	1 475
Net book value of fixed assets sold	0	459
Net book value of materials sold	0	0
Taxes and fees	442	376
Provisions and complex prepaid expenses	2 426	313
Other operating expenses	263	327
Operating profit or loss	88 978	242 426

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Revenues from long-term investments – shares	0	0
Revenues from shares in controlled or controlling entities	0	0
Other revenues from shares	0	0
Costs associated with shares sold	0	0
Revenues from other long-term investments	0	0
Revenues from other long-term investments in controlled or controlling entities	0	0
Revenues from other long-term investments	0	0
Costs associated with other long-term investments	0	0
Interest income and similar income	620	501
Interest income and similar income from controlled or controlling entities	0	0
Other interest income	620	501
Adjustments and provisions in the finance area	4 359	3 992
Interest expense and similar expenses	0	0
Interest expenses relating to controlled or controlling entities	0	0
Other interest expenses and similar expenses	0	0
Other financial income	295	387
Other financial expenses	2 280	3 863
Profit or loss from financial operations	-5 723	-6 967
Profit or loss before tax	83 255	235 459
Income tax	17 288	45 771
Current income tax	17 255	45 697
Deferred income tax	33	74
Profit or loss after tax	65 967	189 688
Transfer of profit to partners	0	0
Profit or loss for the current period	65 967	189 688
Net turnover for the current period	491 847	630 805

Notes to the financial statements

for the financial year from 1 January 2017 to 31 December 2017
(prepared in accordance with § 39 et seq. of Decree No. 500/2002 Coll.)

I. Basic information (§ 39/1/a)

A. Basic information concerning the reporting entity (§ 18, para. 3 of the Accounting Act):

■ Reporting entity identification

Business name:	OKsystem a.s.
Registered office:	Na Pankráci 125, 140 21 Prague 4
Company ID no.:	27373665
Legal form:	Joint-stock company
Subject of business:	Software, training, IT services
Date of reporting entity's founding:	7 September 2005
Balance sheet date:	31 December 2017
Annual report presentation date:	22 May 2018
Reporting entity category (§ 1b of the Accounting Act):	Medium-sized
Signature of the corporate body:	 Ing. Martin Procházka Chairman of the Board of Directors of OKsystem a.s.

Prepared by: Ing. Zuzana Hofová

■ Description of changes and amendments made in Commercial Register in the most-recent period

During 2017, no changes were made in the Commercial Register.

■ Description of organizational structure and substantial changes in the most-recent period

Organizational structure:

Divisional organization:

Office of the CEO Division | Development and Support Division | Development, Implementation, and Support Division | Services Division | Business Development Division | Sales Division | Financial Division

Within these divisions, sections and departments are established directly subordinate to the heads of the divisions.

B. Information on general accounting principles and methods (Decree § 39/1/b)

The financial statements were prepared in accordance with Act No. 563/1991 Coll., on Accounting, as subsequently amended (hereinafter referred to as the Accounting Act), and Decree No. 500/2002 Coll. (hereinafter referred to as the Decree), which implements certain provisions of the Accounting Act for reporting entities–entrepreneurs reporting in the double-entry bookkeeping system.

■ Going concern assumption

The accounting methods were used under the assumption that the reporting unit would continue as a going concern.

The reporting entity assumes that the going concern principle is not at risk and at the same time that there exists no substantial uncertainty that it will be unable to continue uninterruptedly in its activities.

■ Method of compiling the financial statements as of 31 Dec 2017

On the basis of an amendment to the Accounting Act and an implementing decree on reporting by entrepreneurs, effective as from 1 January 2016 there occurred a change in the reporting of certain items on the balance sheet and income statement. In order to ensure comparability of these items with the previous financial year, these items were reclassified accordingly, in conformity with Czech Accounting Standard No. 024.

■ Assets and liabilities valuation methods

Assets and liabilities are valued at historic acquisition cost (i.e. acquisition price + related costs) with the exception of postage stamps, transport tickets and like items (recorded at nominal value) and the items described below.

Valuation of purchased inventories

Methods of accounting for inventories: OKsystem a.s. uses variant "A". Individual stock types:

- **Stocks of other goods, software stocks**
Purchased stocks are recorded at acquisition cost in account 131 – Cost of merchandise. The goods are then transferred to account 132 – Merchandise in warehouse and stores. Sales of merchandise are commonly debited in the corresponding accounts within account group 504 – Merchandise sold.
- **Kitchen stocks**
Purchased stocks are recorded at acquisition cost in account 112 – Materials in inventory. Material consumption is commonly debited in the corresponding accounts within account group 501 – Material consumed, 518 – Other services, 504 – Merchandise sold, or in account 549 – Shrinkage (spoilage) from operating activities.
- **Promotional materials inventory**
Purchased stocks are recorded at acquisition cost in account 112 – Materials in inventory. Material consumption is commonly debited in the corresponding accounts within account group 501 – Material consumed.

The reporting entity maintains inventory records continuously and in a verifiable manner so that as of the reporting date for the accounting period after inventory-taking it may debit the appropriate inventory accounts and credit the accounts for consumed purchases.

Types of expenses included into prices of purchased stocks

Secondary acquisition expenses which are included in acquisition prices of purchased stocks:

Yes = they are included

- **Method of inclusion of transport at the Company's own cost:** Directly into the valuation of individual items to which they relate

Valuation of internally produced inventories

There are no internally produced inventories.

■ Method for determining changes in asset values (depreciation, amortization, and adjustments)

Accounting depreciation and amortization are calculated based on acquisition cost (minus any investment subsidies received) and estimated service life.

The reporting entity depreciates or amortizes asset values over time, always until a zero accounting balance value is reached. Depreciation and amortization rates are determined individually according to the expected useful lives of groups of items and at an annual percentage rate. Depreciation and amortization are on a straight-line basis and recorded monthly, starting from the month following the item's classification.

Expected useful lives for basic groups of fixed assets are specified as follow:

Intangible fixed assets	3 years*	Tangible fixed assets	
* unless specified otherwise in a contract		Buildings	50 years
		Furniture	5 years
		Machinery and devices	3 years
		Vehicles	5 years

Reporting method for items of small fixed assets

Price limits for amortizing tangible assets acquired

- Expensed directly without subsequent operating record: up to CZK 10,000.
- Expensed directly with subsequent operating record: above CZK 10,000 plus assets individually determined to be important for the Company (e.g. mobile phones, keyboards, lamps, etc.).

Price limits for amortizing intangible assets acquired

- Expensed directly with subsequent operating record: No specific limit for registry is defined. Most small intangible assets are registered.

Deviations from standard accounting methods: none applied.

■ Translation of foreign currency items

During the accounting period, the reporting entity has used for translation of items denominated in foreign currencies the daily exchange rates of the Czech National Bank valid on the day of any particular accounting operation. As of the reporting date, liabilities and assets in foreign currencies were converted using CNB exchange rates, thereby giving rise expenses and revenues (other financial expenses and revenues) denominated in foreign currencies as follows:

Currency	Rate	Assets and liabilities
EUR	25,540 CZK/EUR	Trade receivables and payables, loans, cash, bank accounts, temporary and estimated accounts
USD	21.291 CZK/USD	Trade receivables and payables, loans, cash, bank accounts, temporary and estimated accounts

C. Information on valuation model used and technique for fair value recognition

Valuation of ownership shares and holdings by the equity method (according to the share in the issuer's equity)

Reporting entities in which the reporting entity has a substantial or decisive influence.

Valuation by the equity method for both shareholdings. Because value of the equity is negative, valued at zero.

Name and registered office, legal form, ID no.	Absolute share in reg. capital (in CZK, %)
OKsystem Inc., 576 Fifth Ave, Suite 903, New York, NY 10036	100 %
VinoDoc s.r.o., Na Pankráci 125, Prague 4, Company ID No. 01991426	50 %

D. Amount of receivables and debts (payables) with repayment period longer than 5 years as of the balance sheet date

Receivables: none

Payables: none

E. Average full-time equivalent number of employees during the accounting period:

 **229**

II. Other information

1. Consolidated and associated reporting entities

(Entities in which the reporting entity has a controlling or substantial influence)

Name and registered office, legal form, ID no.	Absolute share in reg. capital (in CZK, %)
OKsystem Inc., 576 Fifth Ave, Suite 903, New York, NY 10036	100%
VinoDoc s.r.o., Na Pankráci 125, Prague 4, Company ID No. 01991426	50 %

On the basis of the legal opinion of the law office Chamrád – Laušmanová, OKsystem a.s. decided not to prepare consolidated financial statements including the aforementioned companies. With a view to the provisions of § 22a, para. 3 of Act No. 563/1991 Coll., on Accounting, as subsequently amended, the subsidiary OKsystem Inc. and VinoDoc s.r.o. can be regarded as insignificant individually and collectively for 2017.

2. Entities in which the reporting entity is a partner with unlimited liability: none.

3. Breakdown of the number of employees by categories (breakdown of the number in point E)

Employee category	Average full-time equivalent number for period
Management	50
General staff	162
Administration	17

4. Remuneration during accounting period to members of managing, supervisory, or administrative bodies (in CZK thousands)

Remuneration paid to members of corporate and supervisory bodies	
Board of Directors	22 440
Supervisory Board	0

5. Proposed distribution of profit or settlement of loss (in CZK thousands)

Distributable profit for the 2017 accounting period	189 688
Advances to shares in profit paid out	0
Final profit for settlement	189 688

The resulting profit will be assigned to the following item in equity:

Item in equity	Original balance	+ Allocation	Ending balance
Retained earnings	277 131	189 688	466 819

6. Fixed assets data

■ Additions to and disposals from fixed assets for the accounting period at acquisition costs (CZK thousands)

Intangible assets	Starting balance	Ending balance	Additions	Disposals
Software	8 304	8 763	459	0
Self-produced software	27 275	34 184	6 909	0
Intangible assets	Starting balance	Ending balance	Additions	Disposals
Buildings	945	945	0	0
Machinery and equipment (computers, HW)	43 678	40 320	1 349	4 707
Vehicles	14 137	11 820	3 567	5 884
Furniture	2 265	2 265	0	0
Works of art	226	226	0	0
Long-term investments at acquisition cost	Starting balance	Ending balance	Additions	Disposals
Loans and credits – substantial influence	11 875	12 392	2 039	1 522

■ Balances of and changes in depreciation, amortization, and adjustments for the accounting period (CZK thousands)

Intangible assets	Amortization		Adjustments	
	Starting balance	Ending balance	Starting balance	Ending balance
Software	-6 526	-7 434	0	0
Self-produced software	-13 258	-20 664	0	0
Tangible assets	Amortization		Adjustments	
	Starting balance	Ending balance	Starting balance	Ending balance
Buildings	-96	-115	0	0
Machinery and equipment (computers, HW)	-39 915	-37 179	0	0
Vehicles	-8 724	-5 286	0	0
Furniture	-2 208	-2 222	0	0
Item	Acquisition cost	Adjustment	Change in adjustment for period	
Loans and credits – substantial influence	7 984	7 984	3 992	

7. Breakdown of deferred income tax (CZK thousands)

Starting balance of deferred tax	622
Change in deferred tax for the current period	75
Ending balance of deferred tax as of balance sheet date	697

The deferred tax for the current period has the character of a liability

8. Transactions with related entities

- see the Report on Relations between Related Entities (separate report)

9. Cash flow statement

The cash flow statement (as a separate report) was prepared using the indirect method

10. Statement of changes in equity

The statement of changes in equity is attached as a separate report.

VI.

Annexes

A

Cash flow statement

B

Statement of changes
in equity

C

Report on relations
between related entities

D

Report on the financial statements
and auditor's opinion

A

CASH FLOW STATEMENT

as of 31 December 2017

(in thousands of Czech crowns)

Business name or other name
of accounting unit

OKsystem a.s.

Registered office or address
of accounting unit

Na Pankráci 125
140 21 Prague 4

P.	Balance of cash and equivalents at beginning of reporting period	356 402
Cash flows from operating activities		
Z.	Profit or loss before tax	235 459
A. 1	Adjustments for noncash operations	11 098
A. 1 1	Depreciation and amortization of fixed assets and adjustments thereto	12 307
A. 1 2	Change in adjustments and provisions	313
A. 1 3	Gain or loss from disposal of fixed assets	-1 021
A. 1 4	Dividends and like income	0
A. 1 5	Net interest expense except as capitalized into fixed assets	-501
A. 1 6	Other adjustments for noncash operations	0
A. *	Net cash flow from operating activities before tax and working capital changes	246 557
A. 2	Change in noncash items of working capital	-84 152
A. 2 1	Change in accounts receivable and temporary asset accounts	-100 741
A. 2 2	Change in short-term accounts payable and temporary liability accounts	12 382
A. 2 3	Change in inventories	4 207
A. 2 4	Change in short-term investments not included in cash and equivalents	0
A. **	Net cash flow from operating activities before tax	162 405
A. 3	Interest income except as capitalized into fixed assets	0
A. 4	Interest received	501
A. 5	Income tax paid and additionally charged tax	-45 771
A. 6	Dividends and like income received	0
A. ***	Net cash flow from operating activities	117 135
Cash flows from investing activities		
B. 1	Acquisition of fixed assets	-8 717
B. 2	Proceeds from sale of fixed assets	1021
B. 3	Loans and credits to related parties	0
B. ***	Net cash flow from investing activities	-7 696
Cash flows from financing activities		
C. 1	Changes in long- and short-term liabilities	75
C. 2	Effect on cash of changes in owner's equity	-29 648
C. 2 1	Increase in cash from increase in share capital, share premium, and funds from profit	0
C. 2 2	Dividends and like payments to partners	-28 000
C. 2 3	Additional contributions from partners and shareholders	0
C. 2 4	Loss coverage by partners	0
C. 2 5	Direct payments by debit from funds	-1 648
C. 2 6	Dividends and like payments made, inclusive of tax paid	0
C. ***	Net cash flow from financing activities	-29 573
F.	Net increase/decrease in cash	79 866
R.	Balance of cash and equivalents at end of reporting period	436 268

B

STATEMENT OF CHANGES IN EQUITY

as of 31 December 2017

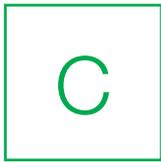
(in thousands of Czech crowns)

Business name or other name
of accounting unit

OKsystem a.s.

Registered office or address
of accounting unitNa Pankráci 125
140 21 Praha 4

		Opening balance	Increase	Decrease	Closing balance
A.	Share capital registered in the Commercial Register	35 000	0	0	35 000
B.	Share capital unregistered in the Commercial Register	0	0	0	0
C.	Total A +/- B	35 000	XX	XX	XX
D.	Own shares and ownership interests	0	0	0	0
*	Total A +/- B +/- D	XX	XX	XX	35 000
E.	Share premium	0	0	0	0
F.	Reserve funds	0	0	0	0
G.	Other funds from profit	757	2 000	1 648	1 109
H.	Capital funds	0	0	0	0
I.	Revaluation gains or losses not included in profit or loss	-234	0	0	-234
J.	Retained earnings	307 131	0	30 000	277 131
K.	Accumulated losses	0	0	0	0
L.	Profit or loss for the reporting period after taxation	XX	189 688	XX	189 688
*	Total	342 654	191 688	31 648	502 694



Report on relations between related entities for 2017 prepared in accordance with § 82 et seq. of the Business Corporations Act



Ing. Martin Procházka

Structure of relationship:	
a) Controlled entities	OKsystem a.s., having its registered office at Na Pankráci 1690/125, 140 21 Prague 4 – Nusle
b) Controlling person or entity	Ing. Martin Procházka Permanent residence: Nad Vavrouškou 709/3, 181 00 Prague 8 – Troja
Role of the controlled entity (in the group of related entities)	Business entity.
Method and means of control (§ 75 of the Business Corporations Act)	In accordance with the bylaws, the possibility of appointing or dismissing the persons in the corporate or supervisory body and a 52.63% share in voting rights.
Overview of actions adopted in the reporting period in the interest of the controlling person or entity in respect of assets exceeding 10% of the controlled entity's equity	None were carried out.
Overview of contracts between the controlled and controlling entities or between controlled entities:	
a) Deliveries of goods	None were carried out.
b) Provisions of services	None were carried out.
c) Loans provided	None were provided.
d) Lease agreements	None were concluded.
e) Other performance or instructions and legal acts of the controlling entity	None.
Assessment whether the controlled entity incurred injury and its recompense in accordance with § 71 and § 72 of the Business Corporations Act	No injury was incurred by the controlled entity.
Assessment of advantages and disadvantages ensuing from relationships between related entities	No advantages or disadvantages ensue from relationships between the related entities.

Statement in accordance with § 82, para. 3 of the Business Corporations Act:
The corporate body had sufficient information to prepare this report.

On behalf of the Supervisory Board

Ing. Zuzana Hořová

The Report was discussed by the Supervisory Board on 29 March 2018 Chairwoman of the Supervisory Board of OKsystem a.s.

Assessment of advantages and disadvantages ensuing from relationships between related entities

The Supervisory Board has assessed all relationships existing between the related entities and reached the following conclusion:

No advantages or disadvantages ensue from the stated relationships between the related entities. No risks occur for the controlled entity that ensue from the stated relationships.

Statement in accordance with § 82, para. 3 of the Business Corporations Act: The corporate body had sufficient information to prepare this report.



 OKsystem Inc.	 VinoDoc s.r.o.
OKsystem Inc., having its registered office at 576 Fifth Ave, Suite 903, Manhattan, NY 10036 New York, U.S.A	VinoDoc s.r.o., having its registered office at Na Pankráci 1690/125, 140 21 Prague 4 – Nusle
OKsystem a.s., having its registered office at Na Pankráci 1690/125, 140 21 Prague 4 – Nusle	OKsystem a.s., having its registered office at Na Pankráci 1690/125, 140 21 Prague 4 – Nusle
Intermediating sales of software and provision of services abroad.	Broadening of the controlling company's activities to include e-commerce systems.
Possibility to appoint or dismiss persons in the corporate or supervisory body, 100% share in voting rights.	50% share in voting rights, possibility to appoint or dismiss persons in the corporate or supervisory body with the agreement of at least one other partner.
None were carried out.	None were carried out.
None were carried out.	Based on standard customer–supplier relationships.
None were carried out.	None were carried out.
A contract on provision of a loan was concluded between the controlled and controlling entities.	A contract on provision of a loan was concluded between the controlled and controlling entities.
None were concluded.	None were concluded.
None.	None.
No injury was incurred by the controlled entity.	No injury was incurred by the controlled entity.
No advantages or disadvantages result from relationships between the related entities.	No advantages or disadvantages result from relationships between the related entities.

The Report on Relations between Related Entities was presented in Prague on 29 March 2018

Ing. Martin Procházka
Chairman of the Board of Directors of OKsystem a.s.

D

Report on the financial statements and auditor's opinion

Report of the independent auditor on auditing the financial statements

of OKsystem a.s., having its registered office at Prague 4 – Nusle, Na Pankráci 1690/125, Postcode 140 21 for the financial year from 1 January 2017 to 31 December 2017.

Annexes: Balance sheet
Income statement
Notes to the financial statements in full format
Cash flow statement
Statement of changes in equity

Recipient: Shareholders of OKsystem a.s.,
having its registered office
at Na Pankráci 1690/125,
Prague 4 – Nusle, Postcode 140 21

Auditor's opinion

We have audited the attached financial statements of OKsystem a.s. (hereinafter referred to as the "Company") prepared on the basis of Czech accounting regulations and comprising the balance sheet as of 31 December 2017, the income statement, statement of changes in equity, and cash flow statement for the year ending 31 December 2017, as well as the notes to these financial statements containing a description of significant accounting policies used and other explanatory information. Information on the Company is provided in the notes to these financial statements.

In our opinion, the financial statements present a true and fair view of the assets, liabilities, and owners' equity of OKsystem a.s. as of 31 December 2017, as well as of its expenses, revenues, profit, and cash flows for the year ending 31 December 2017 in accordance with Czech accounting regulations.

Basis for the opinion

We conducted our audit in accordance with the Act on Auditors and the Auditing Standards of the Chamber of Auditors of the Czech Republic, which comprise the International Standards on Auditing, as amended by the related application guidelines. Our responsibilities under this law and these regulations are further described in the section "Responsibility of the Auditor for Auditing the Financial

Statements." In accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, we are independent of the Company 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 audit opinion.

Other information presented in the annual report

In compliance with § 2 b) of the Act on Auditors, the other information comprises that information included in the annual report other than the financial statements and our auditor's report thereupon. The Company's Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, we are nevertheless responsible to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations. This assessment is to determine whether

the other information complies with the requirements of laws and regulations in terms of formal requirements and procedures for preparing the other information in the context of materiality (i.e., whether any noncompliance with the stated requirements could influence judgments made on the basis of such other information).

Based on the procedures performed, and to the extent we are able to assess it, we state 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 was prepared in compliance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on

the stated procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibility of the Company's Board of Directors and Supervisory Board for the financial statements

The Company's Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting regulations and for such internal control as it determines 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 Company's Board of Directors is

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

Responsibility of the auditor for auditing the financial statements

Our objectives are to obtain reasonable assurance as to 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 the aforementioned laws and regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the aforementioned laws and regulations, it is our responsibility to exercise expert judgment and maintain professional skepticism throughout the audit. It is our responsibility also to:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform auditing 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 greater than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the Company's 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 internal control system.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the notes to the financial statements and, if such disclosures are inadequate, to modify our opinion. Our conclusions regarding the Company's ability to continue as a going concern are based on the audit evidence we have 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 notes thereto, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are responsible also to inform the Board of Directors and Supervisory Board 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.

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

The auditor performing the audit was **Ing. František MEIERL**,
Lačnovská 377/8, 155 21 Prague 5 – Zličín,
entered in the list of auditors maintained by the Chamber of Auditors of the Czech Republic with Certificate No. 1160.

Prague 5 – Zličín, 14 June 2018



From 1 January 2018, there occurred a change in the organizational structure: A Personnel and Operations Division was formed, and it consists of the Personnel Department and the Operations Department.

Other than this, there occurred no other new circumstances from 1 January 2018 to May 2018 that could substantially influence OKsystem's economic situation.

OKsystem did not take part during 2017 in any international or Czech projects relating to applied research or experimental development.

OKsystem utilizes to its advantage the results from research and development achieved in previous years.

OKsystem does not acquire its own ownership shares and has no organizational unit abroad.

Prague, 31 May 2018



Ing. Martin Procházka
Chairman of the Board of Directors

Key customers



Ministerstvo zahraničních věcí
České republiky



MINISTERSTVO ZEMĚDĚLSTVÍ



SZIF

Státní zemědělský intervenční fond



**ČESKÝ
STATISTICKÝ
ÚŘAD**



CONTIPRO



DEKRA

