



One Bank, One UniCredit.

2018

Annual Report

Solutions that matter.





Solutions that matter.



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Introduction by the Chairman of the Board of Directors

„We have been successful at aligning the dynamically growing client and customer portfolio and related growth in the volume of financing with risk management, which was reflected in the year-on-year increase in operating profit of 60.9% and net profit of 65.7%.“

Jiří Flégl

Chairman of the Board
of Directors UniCredit Factoring
Czech Republic and Slovakia, a.s.

Dear Shareholders, Ladies and Gentlemen,

Let me briefly assess the past year in terms of the performance of both our company and the factoring market. I am pleased to be able to evaluate them positively in every respect.

In 2018, the factoring market saw a year-on-year increase in the overall turnover of assigned receivables of 11.5%. In terms of this indicator, UniCredit Factoring grew by 22.5%, thus increasing its market share in the turnover indicator from 14.5% in 2017 to 15.9% at the end of 2018. This success is primarily attributable to the acquisition of new clients, during which the proven cooperation with the UniCredit Bank business network was fully developed, and to the extension of cooperation with current clients and customers. Similar growth was also achieved in the volume of funds intended for financing assigned receivables. The whole market saw a similar growth as the turnover, ie 11.3%; UniCredit Factoring even grew by 24.6%.

We have been successful at aligning the dynamically growing client and customer portfolio and related growth in the volume of financing with risk management, which was reflected in the year-on-year increase in operating profit of 60.9% and net profit of 65.7%.

If we put both the achieved market results and the Company's results into the context with the still positive economic development, the ongoing great surplus of liquidity both on the side of clients, which are losing interest in credit products, and on the side of banks, which due to their risk appetite (arising from the low percentage of loan defaults) poach also factoring clients, then the performance of the factoring market and the Company definitely surpassed even the most optimistic expectations.

In order for factoring to keep its position on the financial market, it is necessary to continuously improve and extend the portfolio of products and services, to continue with process automation and to keep developing new, client-oriented solutions, mainly by investments in IT.

In line with its strategic plan, the Company introduced a new product to the market – reverse factoring in the latter half of 2018. This is an innovative solution which, in terms of software, connects the supplier with customers and enables all members of this supply chain to optimise operating capital and indebtedness by selling their receivables to a factoring company. We are pleased that after a couple of months from the implementation of the reverse factoring module, we have been able to conclude the first transaction with one of the leading suppliers of logistic services on the Czech market and, simultaneously, connected eight of its suppliers into the chain. We will continue to add further suppliers in 2019. In this specific case, a mutually favourable cooperation with the parent bank will bring synergy in terms of tens of suppliers from small and medium-sized enterprises and retail which will become bank clients and to which other bank services also may be offered.

In 2019, we will strive for this new product to be further improved and to make its main functions fully automated. We would also like to promote this product more on the market. Investments will also be made in the implementation of a newer version of the Aquarius business system, mainly in the communication channel between the supplier (or customer) and the Company. We are also pleased by the fact that in 2019, we will start to cooperate with another commercial insurance provider on the Czech market, ie our chance to be allocated and subscribed limits for our clients' supplier partners will increase, as we expect the trend of the growing number of requests for non-recourse financing structures consisting in commercial and political risk management to continue.

In conclusion, let me thank our employees without whom we would not have been able to achieve the successes in 2018.

In Prague on 11 February 2019



Jiří Flégl

Chairman of the Board of Directors



Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 - Karlín
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.: 49620592
Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of UniCredit Factoring Czech Republic and Slovakia, a.s.

Having its registered office at: Želetavská 1525/1, Michle, 140 00 Praha 4

Opinion

We have audited the accompanying financial statements of UniCredit Factoring Czech Republic and Slovakia, a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2018, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of UniCredit Factoring Czech Republic and Slovakia, a.s. as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

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

Other Information in the Annual Report

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

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

In Prague on 18 February 2019

Audit firm:

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



Statutory auditor:

Diana Rádl Rogerová
registration no. 2045



Financial statements

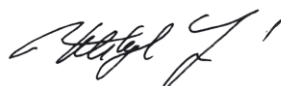
for the Year Ended 31 December 2018

Name of the Company: **UniCredit Factoring Czech Republic and Slovakia, a.s.**
Registered Office: **Želetavská 1525/1, 140 00 Prague 4 – Michle**
Legal Status: **Joint Stock Company**
Corporate ID: **152 72 028**

Components of the Financial Statements:

Balance Sheet
Profit and Loss Account
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

These financial statements were prepared on 18 February 2019.



Jiří Flégl
Chairman of the Board of Directors



Zdeněk Bílý
Member of the Board of Directors

Balance sheet full version as of 31. 12. 18

(in CZK thousand)		Gross	Adjustment	31. 12. 18 Net	31. 12. 17 Net
	TOTAL ASSETS	4 268 061	137 216	4 130 845	3 327 378
B.	Fixed assets	43 435	37 159	6 276	7 753
B.I.	Intangible fixed assets	38 997	34 214	4 783	5 386
B.I.2.	Valuable rights	38 997	34 214	4 783	5 386
B.I.2.1.	Software	38 997	34 214	4 783	5 386
B.II.	Tangible fixed assets	4 438	2 945	1 492	2 366
B.II.1.	Land and structures	642	494	148	151
B.II.1.2.	Structures	642	494	148	151
B.II.2.	Tangible movable assets and sets of tangible movable assets	3 150	2 451	699	1 570
B.II.4.	Other tangible fixed assets	645		645	645
B.II.4.3.	Other tangible fixed assets	645		645	645
C.	Current assets	4 222 795	100 056	4 122 738	3 318 683
C.II.	Receivables	4 217 346	100 056	4 117 289	3 318 570
C.II.2.	Short-term receivables	4 217 346	100 056	4 117 289	3 318 570
C.II.2.1.	Trade receivables	4 217 323	100 056	4 117 267	3 318 550
C.II.2.4.	Receivables – other	23		23	19
C.II.2.4.3.	State – tax receivables	3		3	
C.II.2.4.4.	Short-term prepayments made	20		20	19
C.II.2.4.6.	Sundry receivables				1
C.IV.	Cash	5 449		5 449	114
C.IV.1.	Cash on hand	97		97	114
C.IV.2.	Cash at bank	5 352		5 352	
D.	Other assets	1 831		1 831	942
D.1.	Deferred expenses	1 831		1 831	942

Balance sheet full version as of 31. 12. 18

(in CZK thousand)		31. 12. 18	31. 12. 17
TOTAL LIABILITIES & EQUITY		4 130 845	3 327 378
A.	Equity	288 269	254 987
A.I.	Share capital	222 600	222 600
A.I.1.	Share capital	222 600	222 600
A.IV.	Retained earnings (+/-)	32 387	11 988
A.IV.1.	Accumulated profits or losses brought forward (+/-)	32 387	11 988
A.V.	Profit or loss for the current period (+/-)	33 281	20 400
B.+C.	Liabilities	3 842 577	3 072 391
B.	Reserves	5 718	3 206
B.II.	Income tax reserve	5 718	3 206
C.	Payables	3 836 859	3 069 184
C.II.	Short-term payables	3 836 859	3 069 184
C.II.2.	Payables to credit institutions	2 343 348	1 886 617
C.II.4.	Trade payables	1 485 426	1 177 454
<i>C.II.8.</i>	<i>Other payables</i>	<i>8 085</i>	<i>5 114</i>
C.II.8.3.	Payables to employees	909	724
C.II.8.4.	Social security and health insurance payables	505	480
C.II.8.5.	State – tax payables and subsidies	1 601	603
C.II.8.6.	Estimated payables	5 070	3 306

Profit and loss account structured by the nature of expense method year ended 31. 12. 18

(in CZK thousand)		Year ended 31. 12. 18	Year ended 31. 12. 17
I.	Sales of products and services	58 293	47 711
A.	Purchased consumables and services	16 783	13 809
A.2.	Consumed material and energy	769	764
A.3.	Services	16 014	13 045
D.	Staff costs	20 362	18 221
D.1.	Payroll costs	11 602	10 049
D.2.	Social security and health insurance costs and other charges	8 760	8 172
D.2.1.	Social security and health insurance costs	4 857	4 418
D.2.2.	Other charges	3 904	3 754
E.	Adjustments to values in operating activities	3 111	14 628
E.1.	Adjustments to values of intangible and tangible fixed assets	1 549	3 940
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	1 549	3 940
E.3.	Adjustments to values of receivables	1 562	10 688
III.	Other operating income	705	9
III.1.	Sales of fixed assets	595	
III.3.	Sundry operating income	110	9
F.	Other operating expenses	16 106	3 462
F.3.	Taxes and charges	150	-173
F.4.	Reserves relating to operating activities and complex deferred expenses		-3 878
F.5.	Sundry operating expenses	15 956	7 513
*	Operating profit or loss (+/-)	2 635	-2 400
VI.	Interest income and similar income	51 943	33 955
VI.2.	Other interest income and similar income	51 943	33 955
J.	Interest expenses and similar expenses	9 034	2 193
J.1.	Interest expenses and similar expenses – controlled or controlling entity	8 447	1 413
J.2.	Other interest expenses and similar expenses	588	781
VII.	Other financial income	47 313	224 581
K.	Other financial expenses	47 987	225 810
*	Financial profit or loss (+/-)	42 235	30 533
**	Profit or loss before tax (+/-)	44 870	28 133
L.	Income tax	11 588	7 733
L.1.	Due income tax	11 588	7 733
**	Profit or loss net of tax (+/-)	33 281	20 400
***	Profit or loss for the current period (+/-)	33 281	20 400
*	Net turnover for the current period	158 255	306 256

Statement of changes in equity year ended 31. 12. 18

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits or losses brought forward	Profit or loss for the current period	Total Equity
(in CZK thousand)						
Balance at 31 December 2016	222 600		19 952	-18 066	10 101	234 587
Distribution of profit or loss			-19 952	30 054	-10 101	1
Profit or loss for the current period					20 400	20 400
Balance at 31 December 2017	222 600			11 988	20 400	254 988
Distribution of profit or loss				20 400	-20 400	
Profit or loss for the current period					33 281	33 281
Balance at 31 December 2018	222 600			32 388	33 281	288 269

Cash flow statement year ended 31. 12. 18

(in CZK thousand)		Year ended 31. 12. 18	Year ended 31. 12. 17
P.	Opening balance of cash and cash equivalents	-160 799	-150 114
	<i>Cash flows from ordinary activities (operating activities)</i>		
Z.	Profit or loss before tax	44 870	28 133
A.1.	Adjustments for non-cash transactions	-27 931	-16 500
A.1.1.	Depreciation of fixed assets	11 407	6 172
A.1.2.	Change in provisions and reserves	4 074	9 179
A.1.3.	Profit/(loss) on the sale of fixed assets	-595	
A.1.5.	Interest expense and interest income	-42 817	-31 851
A.*	Net operating cash flow before changes in working capital	16 939	11 633
A.2.	Change in working capital	-502 597	-757 147
A.2.1.	Change in operating receivables and other assets	-811 029	-829 262
A.2.2.	Change in operating payables and other liabilities	308 432	72 115
A.**	Net cash flow from operations before tax	-485 658	-745 514
A.3.	Interest paid	-9 126	-2 104
A.4.	Interest received	51 943	33 955
A.5.	Income tax paid from ordinary operations	-9 077	-7 927
A.***	Net operating cash flows	-451 918	-721 591
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-72	-2 483
B.2.	Proceeds from fixed assets sold	595	
B.***	Net investment cash flows	523	-2 483
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	462 718	713 388
C.***	Net financial cash flows	462 718	713 388
F.	Net increase or decrease in cash and cash equivalents	11 322	-10 685
R.	Closing balance of cash and cash equivalents	-149 477	-160 799

Notes to the Financial Statements

for the Year Ended 31. 12. 18

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1. General Information

1.1. Incorporation and Description of the Business

UniCredit Factoring Czech Republic and Slovakia, a.s. (hereinafter the "Company") was formed by a Founder's Deed as a joint stock company on 21 January 1991 and was incorporated following its registration in the Register of Companies held by the Court in Prague on 5 April 1991. The principal activities of the Company include providing operating funds through the factoring of domestic and foreign receivables. The Company is primarily engaged in the financing, collecting and securing of short-term receivables held by clients from various industries.

Until the end of May 2015, the Company operated on the Czech market under the name of **TRANSFINANCE a.s.** The sole shareholder is UniCredit Bank Czech Republic and Slovakia, a.s., Prague 4.

The Company's issued share capital is CZK 222,600 thousand.

The following table shows individuals and legal entities with an equity interest greater than 20 percent and the amount of their equity interest:

Shareholder	Ownership percentage
UniCredit Bank Czech Republic and Slovakia, a.s., Corporate ID No.: 649 48 242 Želetavská 1525/1, 140 92 Prague 4 – Michle	100%

1.2. Group Identification

Following the completion of the acquisition on the part of UniCredit Bank Czech Republic and Slovakia, a.s. in 2015, the Company became part of the prominent UniCredit financial group.

The Company's financial statements are included in the consolidation group of UniCredit Bank Czech Republic and Slovakia, a.s., having its registered office at Želetavská 1525/1, 140 92 Prague 4, and in the consolidation group of UniCredit S. p.A., having its registered office at Via Alessandro Specchi 16, 00186 Rome, Italy.

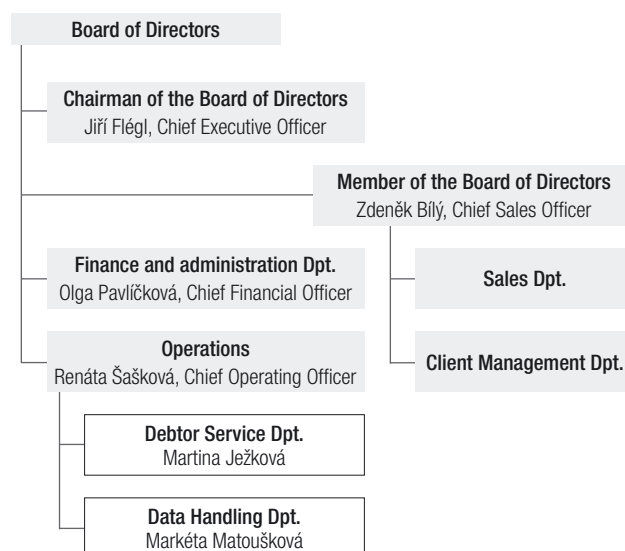
1.3. Board of Directors and Supervisory Board

	Position	Name
Board of Directors	Chairman	Jiří Flégl
	Member	Zdeněk Bílý
Supervisory Board	Chairman	Slavomír Beňa
	Vice Chairman	Aleš Barabas
	Member	Josef Vondrka
	Member	Roland Viskupič

On 4 September 2018, Slavomír Beňa was appointed a new member of the Supervisory Board, replacing David Grund. Subsequently, on 22 October 2018, Slavomír Beňa was elected Chairman of the Supervisory Board.

1.4. Organisational Structure as of 31 December 2018

The Company is organised into five departments.



2. Basis of Accounting and General Accounting Principles

The Company's accounting books and records are maintained and the financial statements were prepared on the historical cost valuation basis in accordance with the Accounting Act 563/1991 Coll., as amended; the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

These financial statements are presented in thousands of Czech crowns ('CZK').

3. Summary of Significant Accounting Policies

3.1. Tangible Fixed Assets

Tangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand on an individual basis.

Purchased tangible fixed assets are initially recognised at cost which includes the cost of acquisition and the costs related to the acquisition.

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

Depreciation is charged so as to write off the cost of tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

	Depreciation method	Number of years
Buildings	straight line	50
Machinery, devices and equipment	straight line	3–10
Vehicles	straight line	5

If the carrying amount of an asset is greater than the estimated recoverable amount, the carrying amount is written down to the recoverable amount through the recognition of a provision. The recoverable amount is determined on the basis of expected future cash flows generated from the relevant asset.

The Company uses three vehicles leased under operating leases.

The Company does not hold any assets under finance leases.

Technical improvements on tangible fixed assets are depreciated on a straight line basis together with the original improved asset.

Technical improvements on tangible fixed assets held under a lease are depreciated on a straight line basis in accordance with the depreciation of the building performed by the owner.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognised through the profit and loss account.

The costs of repairs and maintenance of tangible fixed assets are expensed as incurred.

3.2. Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Purchased intangible fixed assets are stated at cost which includes the cost of acquisition and the costs related to the acquisition.

The cost of fixed asset improvements exceeding an aggregate amount of CZK 60 thousand for the taxation period increases the acquisition cost of the related intangible fixed asset and is depreciated together with the original improved asset.

Amortisation of intangible fixed assets is recorded on a straight line basis over their estimated useful lives as follows:

	Amortisation method	Number of years
Software	straight line	3–8

If the carrying amount of an asset is greater than the estimated recoverable amount, the carrying amount is written down to the recoverable amount through the recognition of a provision.

3.3. Receivables

Factoring represents the purchase of short-term receivables at nominal values that originated on the basis of supplies of goods or services made by a supplier to a customer and are not past their due dates. The factoring company pays the supplier a part of the purchase price ('prefinancing'). Receivables from purchased receivables are reported in the Company's balance sheet as 'Trade receivables'. Payables from purchased receivables are reported in the Company's balance sheet as 'Trade payables'. Once the customer makes the payment, the remaining part of the purchase price is paid to the supplier.

In return for its services, the factoring company collects a fee for the provided prefinancing and interest. See Note 3.9 Revenue Recognition for more details.

Provisioning

Tax deductible provisions against receivables are created in line with the current wording of the Provisioning Act.

In creating non-tax deductible provisions, the treatment applied by the Company involves quantifying the anticipated losses on the value of the funds provided to clients based on the testing of potential impairment while taking into account the ratings of the client and its customers, with the ratings assigned by UniCredit Bank Czech Republic and Slovakia, a.s.

The Company creates tax deductible provisions against:

- Receivables without the debtor's default
- Receivables with the debtor's default

Provisions against receivables without the debtor's default are recognised applying the portfolio approach based on the "incurred loss" concept using the IBNR calculation (Incurred But Not Reported).

With respect to receivables with the debtor's default, the Company creates specific provisions based on an individual assessment of each case.

The Company assesses whether the recognised provisions are sufficient and appropriate on a monthly basis and adjusts their level as and when needed.

3.4. Trade Payables

Trade payables are stated at their nominal value.

3.5. Loans

Loans are stated at their nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans.

Interest on short-term loans is due retroactively as of the last date of each interest period. The interest period for short-term loans is the same period as that for which the loans were obtained. If months overlap within the period, interest is accrued and recognised in the profit or loss for the period.

3.6. Reserves

Reserves are intended to cover future risks and expenditure, the nature of which is clearly defined and which are likely to be incurred, but which are uncertain as to the amount or the date on which they will arise.

The Company recognises a reserve when it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.7. Foreign Currency Translation

Accounting operations denominated in foreign currencies performed during the year are translated using a fixed exchange rate set as of 1 January valid for the entire reporting period. At the balance sheet date, the relevant assets and liabilities are translated at the Czech National Bank's exchange rate prevailing as of that date.

Realised as well as unrealised foreign currency translation gains and losses are reported in financial income or financial expenses for the current period.

Since a substantial part of receivables is in foreign currencies, provisions against receivables may also generate foreign exchange translation gains and losses.

3.8. Taxation

3.8.1. Current Tax Payable

Management of the Company has recognised a tax payable and a tax charge based on its tax calculation which follows from its understanding of the interpretation of Czech tax legislation valid at the financial statements date and believes that the amount of tax is correct in compliance with the effective Czech tax regulations. Since various interpretations of tax laws and regulations by third parties, including state administrative bodies, exist, the income tax payable

reported in the Company's financial statements may change based on the ultimate opinion of the tax authorities.

3.8.2. Deferred Tax

Deferred tax is accounted for using the balance sheet liability method.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

3.9. Revenue Recognition

Revenue is measured at the value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes.

The Company's principal sources of revenue are: fee for the assignment of receivables and factoring interest.

The fee comprises two basic components – the risk component and the cost component. The risk component represents the factoring company's remuneration for taking on credit risk and is principally affected by the customers' financial health and payment discipline. In determining the cost component, other factors are taken into account, such as the costs incurred in keeping the records of receivables, the cost of conducting the dunning process, information services, assistance in the complaints handling procedure, other costs involved in blocking the funds required to finance the receivables. The current cost is based on the specific amount of turnover, number and creditworthiness of customers etc. It is recognised in revenue as of the last day of the calendar month. It is reported as '*Sales of own products and services*'.

The factoring interest, the absolute amount of which depends on the amount of prefinancing made and the length of the time period between the provision of part of the purchase price and collection of the payment from the customer, is recognised in revenue as of the last day of the calendar month. It is reported as '*Sales of own products and services*'.

3.10. Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting

period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.11. Cash Flow Statement

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

Cash and cash equivalents disclosed in the cash flow statement include:

	31 Dec 2018	31 Dec 2017
Cash on hand	16	24
Stamps and vouchers	81	90
Cash at bank and cash in transit	5 352	0
Overdraft balances of current accounts included in current bank loans	-294 774	-160 913
Total cash and cash equivalents	-289 325	-160 799

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

The Company maintains overdraft facilities with domestic bank institutions. The Company utilises loans to fund the requirements made its clients by means of tranches as well as operatively up to the total amount of the loan facility using the overdraft facilities which are reported in the balance sheet as part of bank loans.

4. Additional Information on the Balance Sheet and Profit and Loss Account

4.1. Fixed Assets

4.1.1. Intangible Fixed Assets

Cost

(CZK '000)	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Software	38 638	886	-599	38 925	72	0	38 997
Total	38 638	886	-599	38 925	72	0	38 997

Accumulated Amortisation

(CZK '000)	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Software	31 013	3 125	-599	33 539	675	0	34 214
Total	31 013	3 125	-599	33 539	675	0	34 214

Net Book Value

(CZK '000)	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Software	5 386	4 783
Total	5 386	4 783

The additions to intangible FA represent technical improvement on the Aquarius software. The intangible FA balance comprises the Aquarius software.

4.2. Tangible Fixed Assets

Cost

(CZK '000)	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Buildings	642	0	0	642	0	0	642
Individual tangible movable assets							
– Machinery and equipment	1 331	1 596	–898	2 029	0	0	2 029
– Vehicles	3 100	0	0	3 100	0	–2 188	912
– Furniture and fixtures	209	0	0	209	0	0	209
Works of art	645	0	0	645	0	0	645
Total	5 928	1 596	–898	6 626	0	–2 188	4 438

Accumulated Depreciation

(CZK '000)	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Buildings	485	6	0	491	3	0	494
Individual tangible movable assets	0	0	0	0	0	0	0
– Machinery and equipment	1 213	347	–898	662	668	0	1 329
– Vehicles	2 435	462	0	2 897	203	–2 188	912
– Furniture and fixtures	209	0	0	209	0	0	209
Total	4 342	816	–898	4 260	874	–2 188	2 945

Net Book Value

(CZK '000)	Balance at 31 Dec 2016	Balance at 31 Dec 2018
Buildings	151	148
Individual tangible movable assets		
– Machinery and equipment	1 367	699
– Vehicles	203	0
Works of art	645	645
Total	2 366	1 492

The disposal in 'Vehicles' represents the sale of four vehicles.

In the years ended 31 December 2018 and 2017, the Company acquired tangible assets that were expensed as incurred in the amounts of CZK 251 thousand and CZK 234 thousand, respectively. The assets represent low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported in fixed assets. The assets are recognised as inventory and charged on an individual basis directly to expenses.

4.3. Receivables

(CZK '000)		31 Dec 2018	31 Dec 2017
Trade receivables from operating activities	Before due date	121	0
Receivables from factoring activities and from the assignment of receivables	Before due date	3 679 322	2 940 995
	Past due date	537 880	476 049
Total trade receivables		4 217 323	3 417 044
Other receivables	Before due date	0	1
Short-term prepayments made		20	19
State – tax receivables		3	0
Total other receivables		23	20
Provisions against doubtful receivables		–100 056	–98 494
Total net book value of receivables		4 117 290	3 318 570

In the years ended 31 December 2018 and 2017, the Company created provisions against receivables regarded as doubtful based on the estimate of individual cases in terms of risk and anticipated cash flows.

As of 31 December 2018, the Company does not report any receivables with maturity of more than 5 years.

In the year ended 31 December 2018, receivables in the amount of CZK 9,858 thousand (2017: CZK 2,231 thousand) were written off through expenses due to uncollectability, rejection of bankruptcy and settlement, and failure to recover receivables in the bankruptcy proceedings or sale. The amortisation is reported in the profit and loss account as 'Other operating expenses'.

Receivables from related parties are disclosed in Note 4.11.1.

Change in the provision against receivables:

(CZK '000)	Provisions against receivables – tax deductible	Provisions against receivables – other	Total
Opening balance at 31 December 2016	9 697	78 110	87 807
Provisions created	0	10 687	10 687
Provisions released	0	0	0
Closing balance at 31 December 2017	9 697	88 797	98 494
Provisions created	0	11 259	11 259
Provisions released	-9 697	0	-9 697
Closing balance at 31 December 2018	0	100 056	100 056

4.3.1. Intercompany Receivables

(CZK '000)	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Name of the entity		
UniCredit Factoring S.p.A. (IT)	6 707	6 901
Total intercompany receivables	6 707	6 901

4.4. Equity

(CZK '000)	31 Dec 2018		31 Dec 2017	
	Number (pieces)	Carrying amount	Number (pieces)	Carrying amount
Common shares	3 975	222 600	3 975	222 600

Common shares amount to CZK 56 thousand per piece and are paid in full.

In the years ended 31 December 2018 and 2017, no dividends or directors' fees were paid out.

It was not decided on the allocation of the profit for 2018 as of the financial statements approval date, which is why the Company does not present the decision.

As of 31 December 2018 the sole shareholder was UniCredit Bank Czech Republic and Slovakia, a.s., Prague.

On 3 April 2018, the Company's sole shareholder approved the Company's financial statements for the year ended 31 December 2017 and decided that the aggregate profit of CZK 20,400 thousand for the year ended 31 December 2017 would be transferred to retained earnings in full.

4.5. Reserves

(CZK '000)	Balance at	Balance at
Reserves	31 Dec 2018	31 Dec 2017
Income tax reserve	11 588	7 733
Other reserves	0	0
Total	11 588	7 733

4.6. Payables

(CZK '000)	Balance at	Balance at
Payables	31 Dec 2018	31 Dec 2017
Trade payables from operating activities	33	413
Payables from factoring activities and the assignment of receivables	1 485 393	1 177 041
Other payables	8 085	5 114
Total	1 493 511	1 182 568

Short-term payables from factoring activities represent payables arising from the cost of purchased receivables.

Other short-term payables comprise namely estimated payables. As of 31 December 2018, estimated payables amounted to CZK 5,070 thousand (as of 31 December 2017: CZK 3,306 thousand) and include mainly unpaid bonuses and unbilled supplies and services.

The Company does not report any payables past their due dates.

4.6.1. Payables to Related Parties

(CZK '000)	31 Dec 2018	31 Dec 2017
Company name		
UniCredit Factoring EAD (BG)	0	1 084
UniCredit Factoring S.p.A. (IT)	623 231	537 941
UniCredit Leasing CZ, a.s. (CZ)	38 850	0
Total intercompany payables	662 081	539 025

4.7. Bank Loans

4.7.1. Bank Loans

All bank loans mature within one year from the balance sheet date. They are used namely through tranches up to 3 months at the maximum. The Company may draw funds for its operations up to the credit limit by means of overdraft facilities.

As of 31 December 2018, interest expenses related to bank loans amounted to CZK 9,034 thousand (2017: CZK 2,193 thousand).

Bank loans may be divided as follows:

(CZK '000)		Credit	Use of	Use of facilities	Use of	Use of
Bank	Dates / Terms	limit as of	tranches as of	overdraft as of	loans as of	loans as of
		31 Dec 2018	31 Dec 2018	31 Dec 2018	31 Dec 2018	31 Dec 2017
					incl. overdraft	incl. overdraft
					facilities	facilities
UniCredit Bank Czech Republic and Slovakia, a.s.	Loan contract Maturing on 28 February 2019	2 459 243	2 048 574	276 165	2 324 739	1 776 960
Komerční banka, a.s.	Loan contract Indefinite period	198 083	0	8 969	8 969	8 119
Československá obchodní banka a.s.	Loan contract Indefinite period	210 000	0	9 641	9 641	98 945
Total		2 867 326	2 048 574	294 774	2 343 348	1 884 024

As of 31 December 2018, the Company maintained a bank guarantee issued by UniCredit Bank Czech Republic and Slovakia, a.s. in favour of Komerční banka, a.s. in the amount of EUR 2,800 thousand (collateral for a loan contract payable), and a bank guarantee credited to PASSERINVEST BBC 1, s.r.o. in the amount of EUR 67 thousand (collateral for a lease contract payable).

4.8. Income Taxation

4.8.1. Deferred Taxation

The deferred tax asset/(liability) is analysed as follows:

(CZK '000) Deferred tax items	31 Dec 2018		31 Dec 2017	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between tax and accounting net book values of fixed assets		787		818
Difference between tax and accounting values of provisions against receivables	2 139	0	2 031	0
Net deferred tax asset	1 352		1 213	
(CZK '000)				
Deferred tax asset – breakdown			Balance at 31 Dec 2018	Balance at 31 Dec 2017
Recognised asset			0	0
Unrecognised asset			1 352	1 212
Total			1 352	1 212

The Company decided not to recognise the deferred tax asset on the grounds of prudence.

4.8.2. Income Tax Charge (Credit)

(CZK '000)	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Profit before tax	44 870	28 133
Difference between depreciation for accounting and tax purposes	167	2 953
Non-tax revenue:		
Provisions released	0	0
Non-deductible expense:		
Provisions created	0	0
Realised receivables	19 326	22 889
Other (eg representation costs, deficits and damage)	-3 371	-13 273
Taxable income	60 992	40 702
Income tax rate	19%	19%
Tax	11 588	7 733

4.9. Due Amounts arising from Social Security and Health Insurance Contributions and Tax Arrears

The due amounts arising from social security contributions and contributions to the State employment policy were CZK 336 thousand and CZK 319 thousand as of 31 December 2018 and 31 December 2017, respectively.

The due amounts arising from public health insurance contributions were CZK 169 thousand and CZK 161 thousand as of 31 December 2018 and 31 December 2017, respectively.

The Company did not report tax arrears to the local taxation authorities as of 31 December 2018 and 2017.

The Company was not assessed any due income tax amount related to the previous reporting periods.

4.10. Details of Income by Principal Activity

Income from factoring activities was generated as follows:

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Commission income from factoring activities	58 293	47 711
Total sales of own services	58 293	47 711
Other income	110	9
Total income from operating activities	58 403	47 720
Interest income from factoring activities	51 943	33 955
Total income from operating activities and interest income	110 346	81 675

Income generated with related parties is disclosed in Note 4.10.1.

4.10.1. Related Party Transactions

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Expense		
UniCredit Bank Czech Republic and Slovakia, a.s. (CZ)	14 611	6 209
UniCredit Leasing CZ, a.s. (CZ)	194	0
UniCredit Factoring S.p.A. (IT)	192	258
Income		
UniCredit Factoring EAD (BG)	7	74
UniCredit Factoring S.p.A. (IT)	2 851	3 472
Loans		
UniCredit Bank Czech Republic and Slovakia, a.s. (CZ)	2 319 387	1 776 960

4.11. Consumed Purchases

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Consumed material	508	522
Consumed energy	261	242
Total consumed purchases	769	764

4.12. Services

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Repairs and maintenance	148	361
Travel expenses	178	254
Representation costs	194	127
Administration and maintenance of information technology	5 645	5 319
Rent	2 612	2 551
Consultation activities	2 578	397
Legal services	1 161	1 295
Import factor commissions	272	421
Mediation services	1 120	1 042
Audit services	589	243
Information about the financial situation of entities	334	338
Executions, insolvencies and preliminary measures	211	146
Services related to lease of premises	206	155
Telephone, fax, internet	166	140
Tax advisory	116	-14
Lectures, courses, seminars	246	13
Other services	237	258
Total	16 014	13 045

Other services comprise predominantly the costs of cleaning (CZK 98 thousand), postal fees (CZK 58 thousand), exhibitions and presentations (CZK 48 thousand), translation and photocopying (CZK 23 thousand).

4.13. Remuneration to the Statutory Audit Firm

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Obligatory audit of the financial statements	595	590
Total	595	590

4.14. Depreciation of Intangible and Tangible Fixed Assets

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Depreciation of intangible and tangible fixed assets	1 549	3 940
Extraordinary write-offs when fixed assets are taken out of service through liquidation	0	0
Total depreciation	1 549	3 940

4.15. Other Operating Expenses

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Write-off of receivables	9 858	2 231
Sundry operating expenses	6 098	5 281
Total	15 956	7 513

Sundry operating expenses comprise namely expenses incurred on securing receivables, operating insurance and membership in professional associations.

4.16. Other Financial Income

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Foreign exchange rate gains	45 146	221 373
Other financial income	2 167	3 209
Total	47 313	224 581

Other financial income primarily includes income from distrains and legal disputes.

4.17. Other Financial Expenses

(CZK '000)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Foreign exchange rate losses	44 698	222 428
Banking fees	3 290	3 382
Total	47 987	225 810

5. Employees, Management and Statutory Bodies

5.1. Staff Costs and Number of Employees

The following tables summarise the average number of the Company's employees and managers for the years ended 31 December 2018 and 2017:

2018

(CZK '000)	Number of staff	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Staff	15	7 484	2 538	455	10 477
Managers	7	7 371	2 319	195	9 885
Total	22	14 855	4 857	650	20 362

2017

(CZK '000)	Number of staff	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Staff	14	6 182	2 094	361	8 637
Managers	7	7 093	2 324	167	9 584
Total	21	13 275	4 418	528	18 221

The number of employees is based on the average recalculated headcount. The category of 'managers' includes members of the Board of Directors and management.

6. Research and Development Activities

In the year ended 31 December 2018, the Company did not perform any research and development activities.

7. Environmental Impacts of the Company's Activities

As the Company's activities comprise providing financial services, its actions do not directly affect the environment.

8. Organisational Branches Abroad

The Company does not have any foreign branches.

9. Post Balance Sheet Events

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.

In Prague on 1 February 2019



Jiří Flégl
Chairman of the Board of Directors



Olga Pavličková
Chief Financial Officer



Zdeněk Bílý
Member of the Board of Directors

Report on Relations

among the Controlling and Controlled Entities and among the Controlled Entity and Other Entities Controlled by the Same Controlling Entity

Company Name:

UniCredit Factoring Czech Republic and Slovakia, a.s.

Registered Office: **Želetavská 1525/1, 140 00 Prague 4 – Michle**

Legal Status: **Joint Stock Company**

Corporate ID: **15272028**

In accordance with Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations, the Board of Directors of UniCredit Factoring Czech Republic and Slovakia, a.s., having its registered office at Želetavská 1525/1, 140 00 Prague 4 – Michle, incorporated in the Register of Companies maintained by the Municipal Court in Prague, File B, Insert 649, prepared this Report on Relations for the period from 1 January 2018 to 31 December 2018 (the “period”).

During the above-stated period, UniCredit Factoring Czech Republic and Slovakia, a.s. was controlled by UniCredit Bank Czech Republic and Slovakia, a.s., Želetavská 1525/1, 140 92 Prague 4 – Michle.

1. The Structure of Relations among UniCredit Factoring Czech Republic and Slovakia, a.s. and the Controlling Entity and Entities Controlled by the Same Controlling Entity

Controlled Entity:

UniCredit Factoring Czech Republic and Slovakia, a.s.

Želetavská 1525/1, 140 00 Prague 4 – Michle

Corporate ID No.: 15272028

(hereinafter “UCF”)

Directly Controlling Entity:

UniCredit Bank Czech Republic and Slovakia, a.s.

Želetavská 1525/1, 140 92 Prague 4 – Michle

Corporate ID No.: 649 48 242

(hereinafter “UCB”)

Indirectly Controlling Entity:

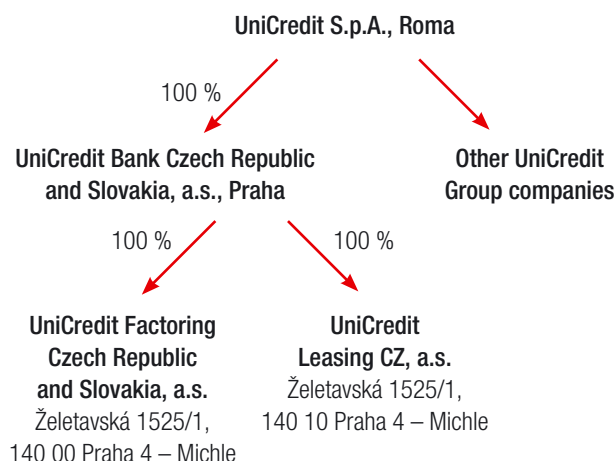
UniCredit S.p.A.

Via Alessandro Specchi 16

00186 Rome, Republic of Italy

The structure of the UniCredit group is described in detail in the Appendix to this Report.

The following is a simplified structure of relations as of 31 December 2018 among UCF and the companies the relations of which are described below:



The parent company is UniCredit Bank Czech Republic and Slovakia, a.s. The Company is part of its consolidation group. The parent company of UniCredit Bank Czech Republic and Slovakia, a.s. is UniCredit, S.p.A., having its registered office at Via Alessandro Specchi 16, 00186 Rome, Italy, which is the ultimate controlling entity of UniCredit Factoring Czech Republic and Slovakia, a.s.

Further related entities comprise other companies in the UniCredit Bank Czech Republic and Slovakia, a.s. group.

2. The Role of UniCredit Factoring Czech Republic and Slovakia, a.s. in the Group

The role of UniCredit Factoring Czech Republic and Slovakia, a.s. in the UniCredit financial group involves the provision of receivable funding services on the Czech and Slovak markets, namely the factoring, collection and securing of trade receivables and invoice discounting. Another role of UniCredit Factoring Czech Republic and Slovakia, a.s. involves attending to the corporate clients of UniCredit on the Czech and Slovak markets and making use of the resulting synergistic effects. As part of the UniCredit Group, the Czech and Slovak Republics are among the four key markets in which the UniCredit Group intends to expand in the long term.

3. Method and Tools of Control

The supreme body of UniCredit Factoring Czech Republic and Slovakia, a.s. is the General Meeting. UniCredit Bank Czech Republic and Slovakia, a.s. applies its will through exercising its shareholder rights by the decisions of the sole shareholder acting in the capacity of the General Meeting.

According to the Articles of Association of UniCredit Factoring Czech Republic and Slovakia, a.s., the capacity of the General Meeting also extends to the appointment of Supervisory Board members. The Supervisory Board then supervises the performance of business activities of UniCredit Factoring Czech Republic and Slovakia, a.s. and the exercise of authority of the General Meeting. Furthermore, the Supervisory Board appoints and dismisses members of the Board of Directors and recommends to the Board of Directors candidates for the office of Chairman and Vice-Chairman of the Board of Directors. However, members of the Board of Directors are not bound by this recommendation.

The controlling entity has its representatives in the Supervisory Board of UniCredit Factoring Czech Republic and Slovakia, a.s.

The method employed in controlling UniCredit Factoring Czech Republic and Slovakia, a.s. as a member of the UniCredit Group must be, with the exception of relevant legal regulations, in observance of the regulations issued by UniCredit S.p.A. within UCB and all the entities controlled by it.

4. Summary of Contracts Concluded between UniCredit Factoring Czech Republic and Slovakia, a.s. and the Controlling Entity or between Controlled Entities

The Company has concluded the following types of contracts with the related entities:

Related Entity	Type of Contract and General Terms
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on a loan and other banking services provided in the form of a multi-purpose loan facility dated 25 June 2010
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on the exchange of parking spaces dated 4 June 2015
UniCredit Bank Czech Republic and Slovakia, a.s.	Framework contract on financial market trading dated 21 January 2015
UniCredit Bank Czech Republic and Slovakia, a.s.	Service contract and assignment contract dated 4 January 2016
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on mutual mediation of business cases dated 4 January 2016
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on the right for the position of the logo dated 21 January 2016
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on risk participation (participation contract) dated 29 March 2017
UniCredit Bank Czech Republic and Slovakia, a.s.	Agreement dated 30 October 2018 on Zero Balancing
UniCredit Leasing CZ a.s.	Contract on the provision of IT services of 1 December 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle of 12 December 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601800138 of 28 August 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601800139 of 28 August 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601800140 of 28 August 2018
UniCredit Factoring EAD, BG	Interfactor Agreement dated 22 February 2010
UniCredit Factoring S.p.A., IT	FCI Interfactor Agreement dated 16 November 2015

The effective contracts concluded by the Company include long-term contracts on cooperation with the factoring companies UniCredit Factoring EAD, Bulgaria, and UniCredit Factoring S.p.A. These are standard contracts pursuant to the rules of FCI (Factors Chain International), ie the international association of factoring companies governing mutual relations arising from the performance of factoring among the companies.

The contract concluded between UniCredit Factoring Czech Republic and Slovakia, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s. is a due loan contract providing funds for the financing of the Company's commercial and operating activities. Except for the aforementioned contracts, other contracts concluded between UniCredit Factoring Czech Republic and Slovakia, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s. under arm's length conditions were effective in the past reporting period. These contracts relate to other bank products (payment cards, current accounts, deposit products, system of cash payment etc). The Company has concluded similar contracts under comparable

business terms with other banking entities as well. In addition, the Company has concluded a service contract supporting the Company's business activity. The contract on mutual mediation of business cases is also meant to support the business activities of both contractual parties.

UniCredit Factoring Czech Republic and Slovakia, a.s. concluded a legitimate contract on the provision of IT services with UniCredit Leasing CZ a.s., predominantly on the administration of the UCF information system and hosting services of the UCF servers.

5. Assessment of whether the Controlled Entity Incurred any Detriment and Assessment of Detriment Settlement Pursuant to Sections 71 and 72 of the Business Corporations Act

The Company's Board of Directors declares that UniCredit Factoring Czech Republic and Slovakia, a.s. incurred no detriment as a result of the concluded contracts.

6. Assessment of advantages and disadvantages arising from related party transactions according to section 82 (1) of the business corporations act

The advantages arising from the transactions between UniCredit Group entities principally include the following:

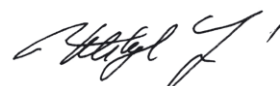
- An internationally-recognised brand and reputational benefit from the UniCredit Group being included among SIFIs (Strategically Important Financial Institution).
- Provision and sharing of the bank's know-how in trade finance.
- Provision of a more competitive source of refinancing for factoring transactions.
- Possibility of utilising synergistic effects with the bank in the business area. Operational synergy enabling to cut operating costs.
- Development of human resources associated with the sharing of the UniCredit Group's experience in European markets, an opportunity for employees to obtain hands-on experience in other banks or management structures of the Group, career opportunities in the UniCredit Group.
- Possibility of using the UniCredit Group's sponsoring and marketing at a European level in the local conditions.

Assessing the overall impact of including UniCredit Factoring Czech Republic and Slovakia, a.s. in the UniCredit Group indicates that the advantages arising from this position substantially prevail. UniCredit Factoring Czech Republic and Slovakia, a.s. actively prevents any potential disadvantages by undertaking operational measures in local management and communicating and building a strong brand at the local level.

In 2018, no legal acts were taken in the interest of the related parties and no measures were adopted or taken at the instigation or in the interest of the related parties.

Management of the Company believes that all related party transactions were conducted on an arm's length basis.

In Prague on 1 February 2019



Jiří Flégl

Chairman of the Board of Directors



Zdeněk Bílý

Member of the Board of Directors

Appendix: Organisational chart of the UniCredit Group



Solutions that matter. |  **UniCredit**
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www.unicreditfactoring.cz