PPF

PPF GROUP N.V.

Annual accounts 2018

Content:

Report of the Board of Directors

Description of the Company

PPF Group N.V.
Date of incorporation: 29 December 1994
Registered office: Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Identification number: 33264887
Basic share capital: EUR 624,010
Principal business: Holding company activities and financing thereof

General information

PPF Group (the “Group”) invests in multiple market sectors such as banking and financial services, real estate, telecommunications, insurance, agriculture and biotechnology. PPF Group’s reach spans from Central and Eastern Europe to Russia, the USA and across Asia. As at 31 December 2018, PPF Group owned assets amounting to BEUR 45.

PPF Group N.V., with its registered office in Amsterdam, is the key holding company of the Group that makes strategic decisions governing the entire Group’s activity. The Group comprises several business segments. The most significant segment is PPF Financial Holdings, combining consumer finance, retail and corporate banking. The Group holds an 91.12% interest in Home Credit Group B.V., the holding company for the Home Credit Group companies, providing a global consumer finance business, and Air Bank a.s. (a retail bank). The Group’s focus in corporate banking is represented by PPF banka a.s., in which the Group holds a 92.96% share.

Non-financial segments are represented predominantly by telecommunication, real estate, and since 2018 mechanical engineering.

The telecommunication segment is roofed by PPF Arena 1 B.V. historically comprising of O2 Czech Republic a.s. and Česká telekomunikační infrastruktura, a.s. (“CETIN”). In 2018, the Group acquired a 100% share in Telenor Hungary, Bulgaria, Montenegro and Serbia.

PPF Real Estate Holding B.V. is a Group company consolidating real estate projects located in western and eastern Europe, and Russia.

Mechanical engineering is represented by a 2018 acquisition of Škoda Transportation group.

Significant events in 2018 (until April 2019)

April 2018

In November 2017, the Group signed an agreement for the acquisition of a 100% stake in Škoda Transportation, a traditional transport engineering manufacturer. Škoda Transportation’s main products include low-floor trams, electric locomotives, metro trains, suburban train units, trolleybuses, electric buses, as well as traction engines and complete powertrains for transport systems. The majority of operations is located in the Czech Republic. The Group has also subsidiaries in Germany, Poland, Hungary, Finland, and Russia. The transaction was finalised after approval by the European Commission in April 2018.

July 2018

After obtaining all approvals from competent authorities and tying up other necessary processes, the Group completed the purchase of Telenor's telecommunications assets in Central and Eastern Europe, specifically in Hungary, Bulgaria, Montenegro and Serbia. This transaction gave the Group full control of mobile operator Telenor in those countries. The total acquisition was priced at MEUR 2,729 and PPF Group secured the financing with a syndicated loan. The transaction was the biggest in the CEE telecommunications sector since 2011.

August 2018

The Group completed the full acquisition (together with minority partners) of the French company Cytune Pharma a biotech company in which the Group previously held a minority stake. All Cytune Pharma projects will continue as part of the product portfolio managed by SOTIO, which is the umbrella company for all the Group activities in the biotechnology sector and provided close cooperation in the Cytune Pharma acquisition process.

September 2018

A consortium comprising CzechToll (the Group's subsidiary) and SkyToll, the toll operator in Slovakia, won the Czech Ministry of Transport tender to operate the electronic toll system in the Czech Republic from 2020.

December 2018

On 31 December 2018, the Company entered into agreement for acquisition of a 2.5% stake in Home Credit Group B.V. from the minority shareholder. The Group increased its shareholding in Home Credit from 88.62% to 91.12%. Although the transfer of share was legally effective on 31 January 2019, economically the Group acquired the stake on 31 December 2018.

February 2019

In June 2018, the Company signed an agreement for the acquisition of a 100% stake in Telenor Banka a.g. Beograd, a Serbian bank providing consumer loans to the customers of Telenor Serbia, a telecommunication operator that PPF Group acquired in July 2017. The transaction was subject to regulatory approvals and closed in February 2019.

March 2019

PPF Arena 1 B.V., a holding entity which consolidates PPF Group's telecommunications assets, successfully subscribed to seven-year senior guaranteed bonds worth EUR 550 million.

Key financial highlights

As of 31 December 2018, the total consolidated balance sheet amounted to MEUR 45,084 (2017: MEUR 38,222).

At the end of 2018, the consolidated shareholders' equity in PPF Group N.V. amounted to MEUR 7,485 (2017: MEUR 6,907).

The consolidated profit attributable to equity shareholders of the Group for 2018 reached MEUR 815 (2017: MEUR 642).

The Group's key driver of asset growth is the positive development in the financial segment represented by Home Credit and PPF banka, representing 72% of total assets (BEUR 32). Net profit of the financial segment amounted to MEUR 511 (2017: MEUR 307). The acquisition of the Telenor assets increase the total assets attributable to telecommunication segment to BEUR 7.6 (2017: BEUR 4.3) contributing MEUR 233 the Group's net profit (2017: MEUR 264).

Workforce

The rounded average number of employees during 2018 was 153,000 (2017: 154,000).

PPF Group's operations did not have any significant impact on the environment.

Composition of the Board of Directors

The size and composition of the Board of Directors and the combined experience and expertise of their members should as closely as possible fit the profile and strategy of the Company. This aim for the best fit, in combination with the availability of qualified candidates, resulted in PPF Group currently having a Board of Directors in which all three members are male. To increase gender diversity on the Board of Directors, in accordance with Article 2:276, Section 2 of the Dutch Civil Code, PPF Group intends to pay close attention to gender diversity in the process of recruiting and appointing future members of the Board of Directors. PPF Group will retain an active and open attitude as regards selecting female candidates.

Capital management

As of 30 June 2015, the Group restructured its consumer finance and other banking business represented by Home Credit, Air Bank and PPF banka under PPF Financial Holdings B.V., a new holding entity (the "Subgroup"). The Subgroup became a financial holding company and as such became subject to consolidated prudential requirements based on Regulation No 575/2013 of the European Parliament and of the Council, with the Czech National Bank as the consolidating supervisor. PPF banka was appointed as the responsible reporting entity for this Subgroup.

The Subgroup is required to fulfil the following capital requirements: a Tier 1 capital adequacy ratio of at least 6% and a total capital adequacy ratio of at least 8%. Moreover, the Subgroup is required to maintain a capital conservation buffer amounting to 2.5% of its risk-weighted assets and an institution-specific countercyclical capital buffer that is currently immaterial given the geographical placement of its assets.

The Subgroup also monitors and maintains other regulatory requirements, such as liquidity and leverage ratios.

The Group, the Subgroup, and their individually regulated operations complied with all externally imposed capital requirements, liquidity requirements, and leverage requirements throughout the reporting period.

Financial instruments and risk management

The Group is exposed to various risks as a result of its activities: liquidity risk, market risks (interest rate risk, equity price risk, currency risk), credit risk and insurance risk.

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits as well as other liabilities evidenced by paper, bank loans and shareholders' equity.

All financial instruments and positions are subject to market risk, i.e. the risk that future changes in market conditions may make an instrument more or less valuable. Exposure to market risk is formally managed by buying or selling instruments or entering into offsetting positions in accordance with risk limits or frameworks set by senior management.

The Group is subject to credit risk through its trading, lending and investing activities and where it acts as an intermediary on behalf of third parties. The Group's primary exposure to credit risk arises through the purchase of debt securities and through the provision of loans and advances. Credit risk is managed at the level of the individual Group companies.

The Group carries an inventory of capital market instruments to manage those risks. Positions are opened in the money market, foreign exchange markets, debt and credit markets and equity markets based on expectations of future market conditions. As at 31 December 2018, the Group held financial instruments of MEUR 23,381 (excluding cash and cash equivalents). Of this amount, financial assets at fair value through profit or loss amounted to MEUR 646; financial assets at fair value through other comprehensive income came to MEUR 1,874, financial assets at amortised cost to MEUR 839, and loans and receivables to MEUR 20,022. Financial liabilities held by the Group include, in particular, liabilities due to non-banks totalling MEUR 11,396, liabilities due to banks of MEUR 18,525, debt securities issued amounting to MEUR 2,593, subordinated liabilities of MEUR 396 and financial liabilities at fair value through profit or loss of MEUR 761.

The Group holds derivative financial instruments for trading and for risk management purposes: swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices or price indices.

For detailed information on risk management, see Section C of the notes to the consolidated financial statements.

Description of core business segments and their development in 2018

<u>PPF Financial Holdings B.V. – Financial Services</u>

The company is the parent holding company of the group of companies ("FHO Group") that operates in the field of financial services. The FHO Group is composed of three main investments: Home Credit Group B.V., PPF banka a.s. and ClearBank Ltd.

Consolidated financial highlights, in millions of EUR

	2018	2017
PPF Group's share	100%	100%
Total operating income	4,122	3,320
Net profit	511	307
Total assets	32,316	30,251
Total equity	2,970	2,783

Home Credit Group B.V. and its subsidiaries (referred to hereafter as "Home Credit" or "HC Group"), is an international consumer finance provider with operations in 10 countries in Central and Eastern Europe, the C.I.S., Asia and the USA. HC Group focuses on responsible lending primarily to people with little or no credit history. There are both licensed banks and non-banking entities within HC

Group. HC Group is majority owned by PPF Financial Holdings B.V. (a 91.12% economic share as at 31 December 2018).

Companies that are owned by Home Credit Group B.V. practice a distinctive business model of leveraging advanced technology to provide consumer finance products which are easily accessible even at the lower end of the economic scale. This is a formula which has been successfully rolled out across a number of countries in Central & Eastern Europe and Asia. Companies owned by Home Credit Group B.V. are market leaders in most markets they operate in, namely in Russia and major Asian countries such as China and Vietnam, and have a promising foothold in India, Indonesia and the Philippines. Home Credit also operates in the United States through a joint venture with the leading telecoms provider, Sprint. These companies are keenly focused on offering industry-leading products to customers, including first-time borrowers, putting great effort into educating them in the principles of financial literacy. Home Credit is vigilant on companies' risks and costs.

As at 31 December 2018, companies held by Home Credit Group B.V. served 28.0 million active customers across its operations: the Czech Republic (operational since 1997), Slovakia (1999), the Russian Federation (2002), Kazakhstan (2005), China (2007), Vietnam (2009), India (2012), Indonesia (2013), the Philippines (2013) and the United States of America (2015).

PPF banka a.s. (the "Bank") is an integral part of PPF Group from 2002 and it significantly participates in its domestic and foreign activities. The Bank acts as PPF Group's central treasury bank, conducting international payment operations for companies within PPF Group as well as underwriting and other investment services such as brokering finance in the capital markets.

Besides the activities for PPF Group, the Bank's services are primarily tailored to Czech clients in the municipal and corporate segments. It also operates in premium private banking sector. The Bank's principal activities comprise all types of banking transactions, and the provision of banking and financial services, both in domestic and international markets. The Bank does not compete with large universal banks or operate in the mass market and standard products.

The Bank is the market maker for Czech government bonds, it is very active in the field of corporate bonds, foreign exchange markets and interest rate financial derivatives.

ClearBank Ltd. is a start-up bank licensed in the United Kingdom in 2016 which is focused on providing clearing services. The Company holds a minority interest in ClearBank Ltd.

Home Credit Group

Consolidated financial highlights, in millions of EUR

	2018	2017
PPF Group's effective share	91.12%	88.62%
Total operating income	3,953	3,123
Net profit	422	244
Total assets	23,647	21,533
Total equity	2,154	2,035

In 2018, the HC Group performed strongly across all its markets. The headwinds in China, which stemmed from regulatory and market challenges in late 2017 and caused the HC Group to have a poor first quarter of 2018, have been successfully addressed. As expected, the HC Group has ultimately benefited from the changes; with its country business is back on track with excellent sales results, lowered fixed costs delivered by technology-driven innovations, and a sustainable risk profile. The HC Group's businesses around the world continued rapidly expanding their scale and delivered profitability, which grew with even faster pace. The HC Group posted MEUR 422 in net profit that nearly doubled the amount the preceding year (2017: MEUR 244).

The HC Group's rapid recovery from a modest loss in the first quarter, which was primarily caused by market turbulence in China, demonstrated the HC Group's resilience and its solid financial footing. Moreover, as expected, the momentary tightening of regulatory conditions in this market eventually led to a more stable and well-regulated space, where customers of former unlicensed players have gravitated towards more established companies, both of which have benefited Home Credit.

The HC Group's net interest margin has increased from 14.7% in 2017 to 15.5% in 2018 thanks to portfolio growth and thanks to the cost of funds increasing at a slower rate compared to pricing.

Risk performance remains strong, with the risk-based pricing adopted in 2017 underpinning it. The cost-of-risk ratio increased slightly overall from 8.9% to 10.6%, although this is largely attributable to the growth in the HC Group's portfolio, particularly in China; since the first quarter of 2018, the cost-of-risk ratio in China has been improving gradually every quarter and is now back to the levels seen before the regulatory tightening at the end of 2017.

The HC Group's funding has diversified further thanks to a number of new financial instruments issued throughout the year, such as the first-ever financial bond issued by a consumer finance lender in China, certificates of deposit in India, asset-backed securities, syndicated loans and bonds.

In terms of assets, the HC Group saw a 13% increase in loans to customers, with BEUR 7.5 of loans on the HC Group's books; the HC Group's operations in SEA, that were until recently in the investment stage, this represents while still managing operational expenses and achieving profit On the liabilities side, deposits increased by 7%. RoAE rose to 21.7% in 2018 vs. 14.5% a year earlier.

Operationally, the HC Group continued to expand its reach through points of sale, with 437,417 locations as at 31 December 2018 compared to 399,276 one year prior, while simultaneously expanding its online channels. The number of employees has at the same time been streamlined from 157.7 thousand at the end of 2017 to 125.4 thousand at the end of 2018.

PPF banka

Individual financial highlights, in millions of EUR

	2018	2017
PPF Group's share	92.96%	92.96%
Operating income	155	122
Net profit	85	58
Total assets	9,150	9,122
Total equity	452	397

2018 was the most successful year in the Bank's history. PPF banka made its biggest profit ever, was again the most active dealer on the primary market in Czech government bonds, and successfully completed its core system upgrade.

In 2018, the net profit was MEUR 85, up by almost 45% on 2017. The main growth driver was the increase in net interest income, reflecting the rising interest rates on the Czech market. In tandem with this, PPF banka remained highly efficient in its financial management and reduced the cost-to-income ratio to 30.5%, down from 35.2% in 2017. PPF banka's high profitability in 2018 gave it the opportunity to redeem subordinated bonds of CZK 1.4 billion early and still achieve growth in its total capital ratio to 16.3%.

In 2018, PPF banka continued to act as a market maker for Czech government bonds. In the ranking of primary dealers compiled by the Ministry of Finance of the Czech Republic, PPF banka again headed the overall ratings. In addition, the Ministry of Finance lauded the bank as the best primary dealer in foreign exchange spot transactions. PPF banka gave significant backing to the expansion of the Home Credit Group in Asia and the US.

PPF Life Insurance (Russia) - Insurance

Individual financial highlights, in millions of EUR

	2018	2017
PPF Group's share	100%	100%
Gross written premium	49.2	49.1
Net profit	2.4	4.8
Total equity	30.6	35.4

For more than 16 years, PPF Group's life insurance company has been one of the leaders in its insurance market segment in Russia, as confirmed by the company's results reported in 2018.

The total volume of premiums written grew year on year by 13% from MRUB 3,239 (MEUR 49.1) to MRUB 3,642 (MEUR 49.2), mainly due to the efficient operation of the company's branch (agency) network throughout Russia. The volume of new business grew 17% year on year; financially, this amounted to MRUB 1,015 (MEUR 12.7) in premiums written under contracts concluded in 2018.

In 2018, the company opened 20 new branches in 15 regions (16 cities) across Russia, with the total number of insurance agents rising by 23%. Compared to 2017, the number of insurance contracts concluded by the company's clients was up by 46%.

In 2018, the company launched a full four new insurance products, including a long-term programme that supplements clients' income when they reach retirement age.

Although PPF Life Insurance made major investments in 2018, especially in the development of the agency network, the company still reported a net profit of MRUB 174 (MEUR 2.4). Consequently, 2018 was very successful for the company, especially from the angle of development and further expansion.

PPF Life Insurance's clients can be sure of the company's stability and prospects for development on the Russian market as RAEX, the domestic rating agency, has confirmed the high level of its financial reliability for six years now (with an ruAA rating).

PPF Real Estate Holding - Real Estate

Consolidated financial highlights, in millions of EUR

	2018	2017
PPF Group's share	100%	100%
Net profit	120	78
Total assets	2,007	1,840
Total equity	713	430

PPF Real Estate Holding is a prominent real estate investor and developer. It manages PPF Group's real estate portfolio. It does business in the Netherlands, the Czech Republic, Russia, Germany, the UK and other European countries.

In 2018, the company further actively consolidated its property portfolio. It sold a few small, non-core projects to other investors and focused on the long-term stabilisation of assets on all markets.

PPF Real Estate Holding actively assessed the number of acquisition opportunities in countries where it currently operates, as well as on new markets. The company successfully completed three acquisitions, one in the UK, another in Russia, and the third in Romania. Another acquisition in Russia was signed just before year-end 2018, with closing scheduled for the first quarter of 2019. A few other purchase transactions were at an advanced stage of negotiations.

PPF Group's real estate investments in the Netherlands comprise eight office buildings and one shopping centre, including one building completely renovated between 2016 and 2018 and now offering 13,000 m² of brand new modern office space. Altogether, they offer more than 160,000 m² to let in prestigious locations such as the Millennium Tower in Rotterdam. These properties on the – highly competitive – Dutch market are attracting high-quality tenants.

In Russia, PPF Real Estate offers offices, shopping malls and logistics complexes, which it either fully owns or co-owns together with two other leading investors, including the Hines Russia & Poland Fund. Together with Hines, PPF owns office buildings in Moscow's popular Metropolis centre, which is on the way from Sheremetyevo Airport to the city centre. In 2018, the company acquired a third office building in the Metropolis centre.

PPF Real Estate owns and operates a large shopping centre in Astrakhan with a total area of more than 36,000 m².

At Comcity business park in "New Moscow", just off the main ring road, the company is running the initial stage of this project, offering 107,500 m² for lease to telecommunication and IT companies in particular. More than 90% of the premises were let in Comcity's initial stage. The Comcity concept, with plans to prepare up to 430,000 m² for customers, also incorporates green rest areas and a large shopping gallery, which includes a supermarket, restaurants, cafés and a gym.

In tandem with its long-term partner, Radius Group, PPF Real Estate is contributing to the development of one of the largest logistics parks in the southern part of the broader Moscow region. South Gate Industrial Park spreads out over an area of 144 ha. With an overall capacity of 653,000 m², it is an industry leader. In 2016, Radius Group successfully completed a 100,000 m² distribution centre for a major French retail DIY company. This development was built precisely to the client's requirements. On the back of this sound experience of "built-to-suit" projects, it won another contract to design and build a similar distribution centre for another French retail company, this time covering an area of 120,000 m². This centre was successfully completed in the second half of 2018 on a land plot across the road from the current site of the South Gate logistics park.

In 2018, PPF Real Estate entered the UK office real estate market by acquiring a prominent nine-storey office property in Canary Wharf, London, which is one of the world's most iconic business districts. The building, overlooking the Thames, provides over 20,000 m² of office and retail space. The company also owns and rents two Victorian-era houses in Bishopswood Road, London, UK. Development of a third house, located next to the other two, also progressed, with completion planned for first half of 2019. The houses are modernised for 21st-century living, offering around 1,000 m² of accommodation each.

The ArtGen Project in Prague offers modern offices and retail units in two buildings over approximately 26,000 m². Since being commissioned, the buildings have reached more than 95% occupancy. ArtGen serves as a prime example of how what was once one of Prague's industrial districts has been transformed into a modern office, retail and residential location. Another office building offering 8,000 m² in Kateřinská Street, in the centre of Prague, has seen a substantial increase in occupancy to more than 95%, compared to 15% when the project was purchased in September 2016.

PPF Real Estate's property portfolio in Germany numbers three office buildings situated in the centre of Berlin and in the regions of Monheim/Düsseldorf and Langen/Frankfurt, with a total area of 43,000 m². All three boast eminent and prestigious tenants and a high level of occupancy.

In October 2016, the company expanded its international portfolio when it acquired an 18,000 m² office building in the centre of the Romanian capital, Bucharest. The Metropolis Centre is a complex of modern offices built around a historical printworks preserved from 1919. The premises have been refurbished according to Class A standards and are a shining example of how to reconcile modern and classic architectural styles. In 2018, PPF Real Estate acquired another office building of almost 15,000 m² in the central business district of Bucharest. Crystal Tower, completed in 2011, is one of the few modern high-rise office projects of modern Class A design. Its atypically double curved glass façade is a unique feature.

PPF Arena 1 - Telecommunications

Consolidated financial highlights, in millions of EUR

	2018	2017
PPF Group's share (voting)	100%	100%
Total revenues	2,415	1,826
EBITDA	940	704
Net profit	233	264
Total assets	7,566	4,286
Total equity	2,163	1,765

PPF Arena 1 B.V. is an important part of the PPF Group that encompasses its investments in the telecommunications sector (CETIN, O2 Czech Republic including O2 Slovakia, Telenor CEE).

Operating through seven companies in six countries in Central and Eastern Europe, PPF Arena 1 is a mid-sized telecommunications group. The group is strategically positioned in the region, successfully competing with Deutsche Telekom and Telekom Austria. Its scale and geographic diversification helps to shield profitability in the face of any adverse local trends. The transfer of best practice between the operating companies spurs operational efficiencies. Investments in innovation and technology are applied across the CEE markets, driving high quality services and economies of scale.

O2 Czech Republic and O2 Slovakia have their own management, business and financial strategies and policies, as the PPF Group treats O2 Group as a financial investment only.

O2 Czech Republic (Group)

Consolidated financial highlights (before PPA adjustments), in millions of EUR

	2018	2017
PPF Group's effective share (voting)	83.4%	83.4%
Total revenues	1,481	1,395

EBITDA	435	399
Net profit	212	212
Total assets	1,405	1,364
Total equity	592	606

Main operating indicators, in thousands

	2018	2017
Fixed voice lines	514	613
xDSL connections – retail	699	729
Pay TV – O2 TV	335	273
Mobile customers in the Czech Republic	5,038	4,938
Mobile customers in Slovakia	2,028	1,937

O2 Group comprises mainly O2 Czech Republic (“O2 CZ”) and its subsidiary O2 Slovakia.

O2 CZ is the largest integrated provider of telecommunication services in the Czech market with voice, internet, and data services for customers across all segments – households, small and medium-sized businesses, and large corporations. With its O2 TV service, it is the market leader in television over the internet in the Czech Republic, offering the most attractive sports content on the market. The company also holds a significant market position in the government segment. The company is one of the largest players in hosting and cloud services and managed services.

In Slovakia, O2 Slovakia offers mobile services for the consumer market and small and medium-sized businesses. Since 2017, the company has also provided wireless internet and O2 TV digital television.

In addition to constantly improving the quality of both mobile and fixed networks, in 2018 the company focused primarily on adjusting and improving data plans and on offering good deals on smartphones with LTE support.

The company continued to offer O2 Spolu bundles, which offer a flexible combination of services, and unveiled a new family of tariffs called O2 Data. In May, the Company launched a new roaming offer.

In June, the company introduced a new fixed access tariff offering 250 Mbps data downloads and 25 Mbps uploads. In the autumn, the company increased the speed of the home internet connection enjoyed by 1.5 million households, and customers out of reach of a fast cable connection could try out the new-generation 5G 3.7 GHz wireless internet at home, delivering speeds of up to 100 Mbps. The company continued to focus on improving O2 Smart Box features, combining a high-performance DSL modem, a top-quality Wi-Fi router, and Smart Home hub.

The company’s O2 TV service makes it the market leader in television over the internet in the Czech Republic. It has bought exclusive broadcasting rights for some of the most popular sports. In 2018-2021, the company will be the exclusive broadcaster of the prestigious Champions League. Starting from the 2018/2019 season and running until 2023, only O2 TV customers will be able to watch all matches in the ice-hockey Tipsport Extraliga, including the play-offs. Following the signing of a new four-year contract, O2 TV will air all Czech First League football matches for the first time ever. The company also holds exclusive broadcasting rights to Euroliga basketball until 2021. O2 CZ also focused on developing its own content.

The company responded to the constantly increasing demand for data storage by opening another data centre in Prague's Stodůlky district. Business customers get the benefit of state-of-the-art technical facilities in a high-security data centre built to international Tier III standard.

In October 2018, O2 CZ completed the most important phase of Simple Online Company, its comprehensive transformation programme. The single online interface will pave the way for the development of new and simpler products and services for consumers and accelerate their time-to-market. For employees, it is the ideal sales and customer care tool – not only in stores, but also in call centres and in direct contact with customers.

Reflecting significant new trends in the telecommunications sector, O2 is focusing on the development and supply of unconventional telecommunication services, particularly financial services, hardware insurance, travel insurance and an innovative new electronic sales reporting tool.

In the year ahead, O2 plans to build on these activities while focusing on developing new services and further improving existing ones.

CETIN

Consolidated financial highlights (before PPA adjustments), in millions of EUR

	2018	2017
PPF Group's share	100%	100%
Total revenues	772	796
EBITDA	295	298
Net profit	99	103
Total assets	2,171	2,145
Total equity	810	816

CETIN was formed when it was spun off from the telecommunication company O2 Czech Republic on 1 June 2015. It is an independent infrastructure wholesale company. Its clients are telecommunications operators and firms offering internet connections that, through CETIN infrastructure, deliver services to final customers.

CETIN is a technology company, a trend-setter in its sector, and invests extensively in new networks. In the Czech Republic, it primarily offers mobile and fixed network infrastructure services, data services for corporate networks, and data centre leasing.

CETIN owns and operates the largest electronic communications network in the Czech Republic. Its telecommunication network covers 99.7% of the population via fixed technologies and a set of mobile technologies disseminated by more than 6,000 base stations. CETIN contributes to a network sharing project and provides its mobile infrastructure to O2 and T-Mobile. In 2018, it put 113 new LTE stations – used by both operators – into operation. The network sharing project was completed in 2018. In 2018, the construction of a second capacity layer for the whole of Brno was completed in the LTE network, comprising 220 sites. In Prague, this layer had already been strengthened in 2017. Outside Prague and Brno, the number of sites with a second capacity layer came to 833. CETIN's national network comprises 20 million pairs of copper cables and 44,000 km of fibre-optic cables. Extensive investments in FTTC (Fibre to the Cabinet) and FTTH (Fibre to the Home) are constantly extending their length. In 2018, the company built 1,469 FTTC street cabinets, which significantly accelerated the connection enjoyed by 1,745,000 households. More than 1,633,000 households can connect to the CETIN network at speeds in excess of 100 Mbps As a result, the average available internet connection speed in the CETIN network increased by a full 25% from 52 Mbps to 67 Mbps in 2018.

CETIN offers international services to domestic and foreign customers alike. Abroad, the company is active in London, Vienna, Bratislava and Frankfurt and Hong Kong via physical network nodes (POPs). In addition, it provides comprehensive international voice and data services to more than 200 customers around the world. International transmission services primarily comprise voice traffic for international operators worldwide. These services generate significant revenues with low margins. However, they only require very low operating costs.

Telenor CEE

In 2018, PPF Group agreed to purchase Telenor's assets in Central and Eastern Europe. After obtaining the necessary regulatory approval, the transaction closed at the end of July 2018. Following the closing of said transaction, PPF Group became the sole owner of Telenor's assets in Hungary, Bulgaria, Montenegro, and Serbia. The transaction was the largest of its kind in the region since 2011.

Following the acquisition, PPF Group has undertaken a major top-management re-organisation within Telenor CEE assets, by appointing new CEOs of individual companies.

At the end of 2018, Telenor had more than 9.3 million customers across the four CEE countries and employed almost 4,900 people.

Telenor companies hold leading positions across all markets by revenue market share, being number one in Bulgaria, Serbia and Montenegro, and number 2 in Hungary.

The operators provide customers with advanced mobile telecommunications services through well promoted, high quality mobile network.

In line with its long-term strategy in CEE countries, Telenor supports a wide range of sustainability initiatives. Digital literacy and Internet safety programs are among the key areas of co-operation between operators and local communities.

Škoda Transportation – Mechanical Engineering

Consolidated financial highlights (before PPA adjustments), in millions of EUR

	2018	2017
PPF Group's share	100%	-
Total revenues	459	447
Net profit	13	10
Total assets	903	925

Škoda Transportation is a leading European transport engineering company. People have been benefiting from its products for 160 years, and few brands have made the Czech Republic famous around the world like Plzeň-based Škoda. Having invested heavily in its own development, the company now makes a large portfolio of modern vehicles that have successfully established themselves on challenging world markets. There was a paradigm shift in the company's operations last year when the sale of 100% of Škoda Transportation shares to a new shareholder, the international investment PPF Group, was completed.

Škoda Transportation's products use electric traction, making them environmentally friendly products that meet the demanding requirements of the third millennium. The company mainly produces low-floor trams, electric multiple units, electric locomotives, electric buses, trolleybuses, metro trains, traction motors and complete drives for transport systems. The Group provides stable jobs to almost five thousand people.

Škoda Transportation has several subsidiaries and joint ventures not only in the Czech Republic, but also in Hungary, Russia, Finland and Germany. Last year, Škoda Transportation became the 100% owner of the only Scandinavian manufacturer of rolling stock in Finland, Škoda Transtech.

Drawing on the top-notch work of more than seven hundred designers and investing hundreds of millions of crowns a year in the research and development of its own vehicles and other output, it has become a matter of routine for Škoda Transportation to launch new, modern products that meet the latest safety standards. Škoda successfully showcased its products at the prestigious Innotrans trade fair in Berlin last year.

In 2018, the number of trolleybuses and electric buses made by the company almost doubled. These modern, green vehicles were delivered to places as far afield as Budapest, Žilina, Galați in Romania, Pleven in Bulgaria, Vilnius in Lithuania, and to several home cities, including Ostrava, Plzeň and České Budějovice.

Škoda Transportation also completed the delivery of trams for the Turkish city of Eskişehir and continued to make ForCity trams for Prague, Chemnitz in Germany, and Helsinki in Finland, as well as trains – including locomotives – for Deutsche Bahn. On top of that, the company also delivered metro trains to Saint Petersburg in Russia. At the end of 2018, it supplied České dráhy (Czech Railways) with nine single-decker RegioPanter electric multiple units, which now operate in the Plzeň Region.

In 2018, Škoda Transportation entered into several major contracts, headed by the largest export tram contract in the company's history, requiring the supply of eighty ForCity Smart trams to the German cities of Mannheim, Ludwigshafen and Heidelberg. In addition, Škoda Transportation will deliver new trams to Ostrava and Plzeň, as well as to Finland. In 2018, as a party to the Siemens-Škoda consortium, the company signed a contract for the supply of passenger carriages to České dráhy and a contract to deliver electric multiple units to ŽSSK in Slovakia.

Other assets

O2 arena

O2 arena is one of the most modern multipurpose arenas in Europe. Able to host up to 20,000 spectators, it is the largest hall of its kind in the Czech Republic. O2 arena is owned and operated by PPF Group's Bestsport.

For the biggest multifunctional hall in the Czech Republic, 2018 was very successful. Last year was the second most successful at O2 arena in terms of attendance. Events were attended by more than 950,000 visitors.

In 2018, the most successful events at O2 arena were concerts by Imagine Dragons, Metallica, Depeche Mode, two shows by the Czech performer Leoš Mareš, and three concerts by the Czech band Lucie. Sporting events included the Fed Cup final, the World Floorball Championships and the premiere of the country's biggest show-jumping event, Global Champions Prague Playoffs. Top riders and horses competed in the first year of this unique show-jumping event, where the prize money on offer was just shy of EUR 12 million. O2 arena provided space and background facilities, including VIP services, on an extraordinary scale. The four-day event was attended by 32,000 spectators.

O2 arena hosted 107 events in 2018, including private corporate events. The attractive programme, a mix of top-class sport, concerts and family shows, continued to increase demand for VIP seats and areas (club level, premium seats, skyboxes, party boxes and event boxes), which are sold out at least a year in advance.

In 2019, besides a multitude of sold-out concerts by foreign and domestic stars, some extraordinary sports events will take place at O2 arena. The Czech Republic will host a prestigious UFC event for the first time and O2 arena will welcome the world's best fighters – and Bestsport is one of the event's local promoters. The world's most famous ice-hockey league will return to O2 arena, with Prague hosting an NHL match. The show-jumping Global Champions Prague Playoffs will take place at O2 arena for the second time in the autumn.

However, it is the opening of O2 universum, the new multipurpose congress and cultural centre directly linked to O2 arena, that will be the milestone of 2019. The centre has four floors and a total area of almost 50,000 m2. O2 universum will have 21 halls of different sizes offering total capacity for 10,000 visitors. The largest hall, accommodating an audience of up to 4,500 people, will be used as a space for medium-sized concerts and sports events. Every floor of the complex will feature 13,000 m2 for exhibitions and commercial use.

Mall Group and HEUREKA

Mall Group is the largest online retail platform in Central and Eastern Europe, offering services to customers in the Czech Republic, Slovakia, Poland, Hungary, Slovenia, Croatia, and Romania. Mall Group encompasses universal shopping galleries with a wide range of merchandise, spearheaded by the Mall portal, and specialised e-shops such as CZC, Prodeti.cz, Vivantis, and Košík.cz. The group's annual turnover is in excess of MEUR 600. The Group acquired a 40% stake in October 2017.

Heureka.cz, the largest online price comparator in the Czech Republic and Slovakia with almost a million customers a day, is one of the five most frequented websites in the region. In its comparisons, it sifts through 150 million offers in a catalogue containing 20 million products. Besides comparing prices, it offers complete product descriptions, photographs and price histories. After making their comparisons, customers can purchase the product they have selected directly on the Heureka site, without having to enter the specific online shop where they selected the merchandise and services.

The Group acquired a 40% stake in both businesses in October 2017. The residual shareholders are EC Investments (40%) and Rockaway (20%), wielding management control over the group as a whole.

Culture Trip

This London-based international internet start-up creates a wide range of content, from popular topics such as travel and gastronomy to history, literature, art, design, architecture, fashion, sport and health. The company has branches in New York and Tel Aviv. One of its core assets is its global network of editors and other associates covering much of the world. They produce tens of thousands of articles. The website has three million readers a month, with up to five million users following Culture Trip on social media.

The application is accessible to users via a classic web interface at www.theculturetrip.com and standalone Android and iOS apps. Financial resources acquired thanks to PPF Group's investments will be invested in the development of the company's own unique technology tool, the "knowledge graph", to personalise content using artificial intelligence elements. This will be deployed in stages over the course of the next year. The company also plans to invest in expanding its editor network and in its own professional video production services.

Research and development (SOTIO)

SOTIO is an international biotechnology company dedicated to the research and development of new medical therapies, focusing on the treatment of cancer and autoimmune diseases. The company has been part of PPF Group since 2012. The SOTIO Group employs more than 300 professionals. SOTIO's headquarters are in Prague and the company also operates in the US, China, and Russia.

SOTIO spearheads PPF Group's drive to build a diverse biotechnology portfolio based on its own research & development, as well as collaborations, in-licensing, investments, and mergers & acquisitions. The most advanced project is its proprietary platform of active cellular immunotherapy (ACI) on the basis of dendritic cells. SOTIO verifies the safety and efficacy of its DCVAC products through multiple Phase I to Phase III clinical trials.

This is the first time in modern history that a company from the Czech Republic has reached this level of clinical development. Since 2012, SOTIO has started running 12 clinical studies in Europe and the US, focusing on patients with ovarian, lung and prostate cancer. Several other clinical trials are also being prepared. The company also conducts several joint research projects with leading hospitals in China.

Thanks to the positive results of ongoing clinical studies focused on patients with ovarian cancer, which in 2018 were presented at the most prestigious oncological congresses worldwide, SOTIO decided to undertake a Phase III clinical trial. During 2019, the recruitment of patients for this study is to be commenced.

SOTIO is always looking to partner with other companies and institutions that develop promising oncology therapeutics. Working with its sister company Accord Research, SOTIO is responsible for pre-clinical and clinical development for other biotechnology companies affiliated with PPF or SOTIO through equity or contracts. These currently include France-based Cytune Pharma, Germany-based Lead Discovery Center and Switzerland-based NBE-Therapeutics. This threesome is complemented by the management of PPF Group's investment in the Swiss company Cellestia Biotech. In cooperation with partnering companies and in its own research activities, SOTIO is actively implementing several preclinical stage projects with the aim of advancing several lead products and conducting Phase I clinical trials in the near future.

The key clinical trial Phase I/Ib in order to evaluate the safety and preliminary efficacy of Cytune Pharma's SO-C101 therapy for patients with advanced oncological disease is to start at the Goustave Roussy Institute of Oncology (France) and Vall d'Hebron (Spain), as well as at the Yale Cancer Center and MD Anderson Cancer Center in the US.

The company also carries out and finances independent scientific research – the most extensive of its kind in the Czech Republic. SOTIO puts into practice the results of work by Czech scientists who are researching new methods for the treatment of serious oncological and autoimmune disorders.

SOTIO has facilities and all the functionalities needed for research, clinical development and market access in-house. SOTIO has built its own state-of-the-art production and research facility in the Holešovice district of Prague, one of the largest and most modern of its kind in Europe. These super clean laboratories meet the most stringent requirements for the sterile production of the drugs used in cellular therapy. The company also operates similar laboratories in Beijing, China.

Establishment of Supervisory Board

The shareholders of PPF Group N.V. have decided to establish a Supervisory Board in compliance with the articles of association of PPF Group N.V. The respective decision of the shareholders of PPF Group N.V. became effective on 26 February, 2018. The shareholders of PPF Group N.V. have appointed Messrs. František Dostálek (designated as the Chairman), Kamil Ziegler and Lubomír Král the members of the Supervisory Board. The Supervisory Board shall supervise the Board of Directors of PPF Group N.V. and provide this body with any (un)solicited advice it deems appropriate within the best interest of PPF Group N.V.

The Supervisory Board may also establish special committees of its members or other persons or both. Based on the aforementioned authority, an Audit Committee (comprising of the same three members as the Supervisory Board) has been instantly established at PPF Group N.V. Regarding the fact that all conditions of the Dutch transposition of Article 39 (3) (a) of Directive 2006/43/EC are followed in case of the Audit Committee, three Group entities - Home Credit Group B.V., CETIN Finance B.V. and PPF Financial Holdings B.V. as public interest entities are not obliged to establish their own audit committees because all related applicable requirements are followed by the Audit Committee at PPF Group N.V. level.

Outlook

The primary goal of PPF Group's activities is to generate returns on its investments in the most efficient manner. The investment strategy of PPF Group is based on two pillars. The first is expansion, i.e. constantly seeking new investment opportunities where we can add value by conducting operational restructuring with tried and tested business models, implementing strict financial and corporate discipline, and engendering leadership and expertise through excellence in management.

Apart from the development of PPF Group through expansion into new markets, a no less important element in the investment policy is stabilising and reinforcing the existing position of companies (investments) in markets where the Group already has a presence. This also means improving and expanding the existing offer of financial services and products. In this manner, modern financial products are being produced throughout the Group, assuring comprehensive client service and satisfying client needs to the maximum extent possible.

We aim to continue to grow, innovate and leverage the extensive background of our knowledge and experience to achieve further success. Over the 28 years of its existence, PPF Group has gained a proven track record in business restructuring in Central and Eastern Europe, Russia and Asia, and we will continue to focus on achieving investment opportunities in these key regions.

Social responsibility

In all markets and territories where PPF Group operates and invests it is aware of its broader social responsibility, which is why the Group, its shareholders and individual assets support various non-profit and charitable projects.

The corporate social responsibility (CSR) activities and projects supported by PPF Group have long centred on education and the development of education system, as well as culture and sport. For example, in 2018, companies from PPF Group in the Czech Republic donated MEUR 14 in total. For CSR purposes, PPF Group has granted funds of more than MEUR 100 over 28 years of its existence.

PPF Group's decision to support education relates to the overall emphasis it places on human capital. CSR activities of various Group's assets worldwide also contain an educational element, be it consumer finance companies or telecommunications operators.

For Home Credit Group, PPF's global consumer finance franchise, the promotion of financial literacy is a major sustainability initiative worldwide, particularly in markets where consumer finance and retail banking are relatively new concepts. Educating customers and communities, in which Home Credit operates, represents a strong foundation for individual CSR programmes. Home Credit has rich experience in implementing community outreach programmes, which educate people about the credit market, promoting responsible lending and borrowing practice, teaching the basic principles of money management and household budgeting. Financial education is also focused on children and students, raising them to become responsible adults. Home Credit's financial education efforts began in Europe and have since been rolled out in various forms on Asian markets. These initiatives take many forms, including country-wide roadshows, workshops, in-branch open days, various brochures and publications, competitions and campaigns in the media, and in-store events as well as public teach-ins in supermarkets, shopping malls and communities.

Home Credit is also actively involved in charitable giving on all markets where the Group operates. Educational support programs in particular belong to the largest achievements in this regard, having helped many students reach their full potential. For example, in Russia, Home Credit launched a university scholarship programme for talented children from disadvantaged families, while in Vietnam it sponsors a scholarship programme called "My classmate overcomes difficulties in life" in cooperation with major Vietnamese newspaper.

When developing their CSR activities, PPF Group's telecommunications companies focus on the local communities and areas that are related to their business, providing technology and services that help the community. O2 CR operates more than 12 years a free of charge helpline for people with hearing and eyesight impairment, also supporting the Safety Line, a national free crisis line for children and young people that has been in existence since 1994. O2 CR actively educates, informs and positively influences the public, especially young people, children and their parents, in the field of safe online conduct and the meaningful use of mobile devices and modern communication technologies. O2 CR undertakes a major project in the Czech Republic in close co-operation with Palacky University in Olomouc.

Digital literacy and Internet safety programs are among key areas of CSR programmes also by telecommunications companies operating under Telenor brand in CEE countries. PPF Group acquired these companies in mid-2018. The companies work mainly on children education how to use Internet in a safe way. In Serbia, and Montenegro the projects are developed in co-operation with UNICEF. In Bulgaria, Telenor's Safer Internet Campaign received recognition as part of the Responsible Business Awards 2018 of the Bulgarian Business Leaders Forum (BBLF). Telenor received a prize in the "Investor in Knowledge" category for the efforts of the telecom and the Safer Internet Centre to provide a positive and safe online environment for children and young people. In Hungary, a digital educational program, in which Telenor provides mobile internet for schools, and organizes e-learning courses for teachers, currently covers 20 schools from all parts of the country. Data security, internet harassment, and digital footprint are the main topics, as there is a constant need for awareness raising among children about safe internet use. Telenor's educational course for the teachers has been accredited by the country's Ministry of Human Resources.

PPF Group has a national association with art projects and works of art in the Czech Republic. PPF Group possesses an extensive private photographic collection and an art collection, mainly including paintings and sculptures by both classical as well as modern artists. PPF Group operates two art galleries in Prague and supports many top-ranked cultural events. For example, it sponsors the Summer Shakespeare Festival, contributes every year to the operation of the Jára Cimrman Theatre in Prague, and supports the world-renown Czech Philharmonic Orchestra and the Prague Spring Music Festival.

21 May 2019

Board of Directors:

Aleš Minx
Chairman of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors

PPF GROUP N.V.

Consolidated financial statements for the year ended 31 December 2018

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Glossary

AC	- amortised cost
AFS	- available for sale
CGU	- cash generating unit
EAD	- exposure at default
EBITDA	- earnings before interest, tax, depreciation and amortisation
ECL	- expected credit loss
FV	- fair value
FVOCI	- fair value through other comprehensive income
FVTPL	- fair value through profit or loss
FX	- foreign exchange
IBNR	- provision for claims incurred but not reported
IPRD	- in-progress research and development
JV	- joint venture
LAT	- liability adequacy test
LGD	- loss given default
LTV	- loan to value
NCI	- non-controlling interests
OCI	- other comprehensive income
OTC	- over the counter
PD	- probability of default
POCI	- purchased or originated credit impaired
PPE	- property, plant and equipment
PVFP	- present value of future profits
RBNS	- provision for claims reported but not settled

Consolidated statement of financial position

As at 31 December

In millions of EUR

	Note	2018	2017
ASSETS			
Cash and cash equivalents	E1	10,120	9,118
Investment securities	E2	3,359	3,690
Loans and receivables due from banks and other financial institutions	E3	349	546
Loans due from customers	E4	18,803	17,066
Trade and other receivables	E5	870	441
Contract assets	E5	277	-
Current tax assets		19	20
Inventories	E6	193	69
Assets held for sale	E7	4	47
Equity-accounted investees	E8	920	506
Investment property	E9	1,743	1,474
Property, plant and equipment	E10	3,158	2,479
Goodwill	E11.1	1,648	569
Intangible assets	E11.2	2,673	1,496
Deferred tax assets	E38.2	477	373
Other assets	E12	471	328
TOTAL ASSETS		**45,084**	**38,222**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E13	761	813
Due to non-banks	E14	11,396	11,637
Due to banks and other financial institutions	E15	18,525	13,927
Debt securities issued	E16	2,593	1,697
Subordinated liabilities	E17	396	351
Current tax liabilities		111	210
Trade and other payables	E18	2,315	1,559
Contract liabilities	E5	208	-
Provisions	E19	279	191
Deferred tax liabilities	E38.2	600	460
TOTAL LIABILITIES		**37,184**	**30,845**
CONSOLIDATED EQUITY			
Issued capital	E20	1	1
Share premium	E20	677	677
Other reserves	E21	(379)	(509)
Retained earnings		7,186	6,738
Total equity attributable to owners of the Parent		7,485	6,907
Non-controlling interests	E22	415	470
Total consolidated equity		**7,900**	**7,377**
TOTAL LIABILITIES AND EQUITY		**45,084**	**38,222**

Consolidated income statement

For the year ended 31 December

In millions of EUR

	Note	2018	2017
Interest income		4,778	3,649
Interest expense		(1,501)	(1,141)
Net interest income	E24	**3,277**	**2,508**
Fee and commission income		841	797
Fee and commission expense		(171)	(133)
Net fee and commission income	E25	**670**	**664**
Net earned premiums		71	92
Net insurance benefits and claims		(31)	(31)
Acquisition costs		(18)	(26)
Net insurance income	E28	**22**	**35**
Net rental and related income	E29	154	140
Property operating expenses		(29)	(35)
Net valuation gain/(loss) on investment property	E9	27	61
Net income related to construction contracts		2	3
Profit/(loss) on disposal of investment property		1	1
Net real estate income		**155**	**170**
Telecommunication income		2,414	1,822
Telecommunication expenses		(875)	(693)
Net telecommunication income	E30	**1,539**	**1,129**
Machinery income		372	-
Machinery expenses		(235)	-
Net machinery income	E31	**137**	**-**
Net gain/(loss) on financial assets	E26	13	61
Net agriculture income	E32	8	5
Other income	E33	133	68
TOTAL OPERATING INCOME		**5,954**	**4,640**
Net impairment losses on financial assets	E27	(1,726)	(1,144)
Personnel expenses	E34	(1,530)	(1,326)
Depreciation and amortisation	E35	(608)	(442)
Other operating expenses	E34	(1,109)	(885)
Profit/(loss) on disposals/liquidations of equity-accounted investees and subsidiaries	B2	104	(3)
Share of profit/(loss) of equity-accounted investees, net of tax		(46)	94
PROFIT BEFORE TAX		**1,039**	**934**
Income tax expense	E38.1	(174)	(244)
NET PROFIT FOR THE PERIOD		**865**	**690**
Profit attributable to:			
Owners of the Parent		815	642
Non-controlling interests	E22	50	48

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2018	2017
NET PROFIT FOR THE PERIOD	**865**	**690**
Other comprehensive income		
Valuation gains/(losses) on FVOCI/AFS*	(60)	(19)
Valuation gains/(losses) on FVOCI debt securities	(44)	-
FVOCI/AFS revaluation gains/(losses) transferred to income statement*	5	6
Foreign operations - currency translation differences*	(174)	(93)
Effect of movement in equity of equity-accounted investees	371	(7)
Disposal of subsidiaries and associates*	(22)	-
Cash flow hedge – effective portion of changes in fair value*	(13)	-
Income tax relating to components of other comprehensive income*	8	6
Other comprehensive income/(expense) for the period (net of tax)	**71**	**(107)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**936**	**583**
Total comprehensive income attributable to:		
Owners of the Parent	903	556
Non-controlling interests	33	27

* Items that will be reclassified to the income statement.

Consolidated statement of changes in equity

In millions of EUR

	Issued capital	Share premium	Revaluation reserve	Legal and statutory reserves	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance as at 1 January 2018	**1**	**677**	**(44)**	**90**	**(548)**	**-**	**(7)**	**6,738**	**6,907**	**470**	**7,377**
Adjustment on initial application of IFRS 9 (net of tax; refer to F.2.2)	-	-	2	-	-	-	-	(191)	(189)	(24)	(213)
Adjustment on initial application of IFRS 15 (net of tax; refer to F.2.1)	-	-	-	-	-	-	-	21	21	4	25
Balance as at 1 January 2018 (adjusted)	**1**	**677**	**(42)**	**90**	**(548)**	**-**	**(7)**	**6,568**	**6,739**	**450**	**7,189**
Profit for the period	-	-	-	-	-	-	-	815	815	50	865
Currency translation differences	-	-	-	-	(158)	-	-	-	(158)	(16)	(174)
FVOCI revaluation gains/(losses) taken to equity	-	-	(103)	-	-	-	-	-	(103)	(1)	(104)
FVOCI revaluation (gains)/losses transferred to income statement	-	-	5	-	-	-	-	-	5	-	5
FVOCI revaluation (gains)/losses transferred directly to retained earnings	-	-	1	-	-	-	-	(1)	-	-	-
Effect of hedge accounting	-	-	-	-	-	(13)	-	-	(13)	-	(13)
Effect of movement in equity of equity-accounted investees	-	-	-	-	(14)	382	3	-	371	-	371
Disposal and deconsolidation of subsidiaries	-	-	-	-	(22)	-	-	-	(22)	-	(22)
Tax on items taken directly to or transferred from equity	-	-	6	-	-	2	-	-	8	-	8
Total comprehensive income for the period	**-**	**-**	**(91)**	**-**	**(194)**	**371**	**3**	**814**	**903**	**33**	**936**
Net allocation to legal and statutory reserves	-	-	-	39	-	-	-	(39)	-	-	-
Dividends to shareholders	-	-	-	-	-	-	-	(40)	(40)	-	(40)
Dividends to NCI	-	-	-	-	-	-	-	-	-	(40)	(40)
Acquisition of NCI	-	-	-	-	-	-	-	(112)	(112)	(56)	(168)
Other changes in NCI	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Contributions by NCI	-	-	-	-	-	-	-	-	-	28	28
Total transactions with owners of the Company	**-**	**-**	**-**	**39**	**-**	**-**	**-**	**(196)**	**(157)**	**(68)**	**(225)**
Balance as at 31 December 2018	**1**	**677**	**(133)**	**129**	**(742)**	**371**	**(4)**	**7,186**	**7,485**	**415**	**7,900**

Consolidated statement of changes in equity

In millions of EUR

	Issued capital	Share premium	Available-for-sale reserve	Legal and statutory reserves	Translation reserve	Other reserves	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance as at 1 January 2017	**1**	**677**	**(40)**	**65**	**(473)**	**-**	**6,131**	**6,361**	**402**	**6,763**
Profit for the period	-	-	-	-	-	-	642	642	48	690
Currency translation differences	-	-	-	-	(75)	-	-	(75)	(18)	(93)
Valuation losses taken to equity for AFS	-	-	(16)	-	-	-	-	(16)	(3)	(19)
AFS revaluation gains transferred to income statement	-	-	6	-	-	-	-	6	-	6
Effect of movement in equity of associates	-	-	-	-	-	(7)	-	(7)	-	(7)
Tax on items taken directly to or transferred from equity	-	-	6	-	-	-	-	6	-	6
Total comprehensive income	**-**	**-**	**(4)**	**-**	**(75)**	**(7)**	**642**	**556**	**27**	**583**
Net allocation to legal and statutory reserves	-	-	-	25	-	-	(25)	-	-	-
Dividends to shareholders	-	-	-	-	-	-	(40)	(40)	-	(40)
Dividends paid to NCI	-	-	-	-	-	-	-	-	(34)	(34)
Other changes in NCI	-	-	-	-	-	-	30	30	75	105
Total transactions with owners of the Company	**-**	**-**	**-**	**25**	**-**	**-**	**(35)**	**(10)**	**41**	**31**
Balance as at 31 December 2017	**1**	**677**	**(44)**	**90**	**(548)**	**(7)**	**6,738**	**6,907**	**470**	**7,377**

Consolidated statement of cash flows

For the year ended 31 December, prepared using the indirect method

In millions of EUR

	Notes	2018	2017
Cash flows from operating activities			
Profit before tax		1,039	934
Adjustments for:			
Depreciation and amortisation		608	442
Impairment losses on goodwill		1	-
Impairment of current and non-current assets	E27	1,746	1,314
(Profit)/loss on disposal of PPE, intangible assets and investment property		2	(1)
(Profit)/loss on sale of investment securities		(22)	19
(Gains)/losses on disposals of equity-accounted investees and subsidiaries		(104)	3
Interest expense	E24	1,501	1,141
Interest income	E24	(4,778)	(3,649)
Other (income)/expenses not involving movements of cash		(7)	217
Gain on bargain purchase	E33	(23)	-
Interest received		5,058	4,082
Change in loans and receivables due from banks and other financial institutions		220	23
Change in loans due from customers		(3,594)	(7,404)
Change in trade and other receivables		13	(72)
Change in other assets		(85)	(45)
Change in liabilities due to non-banks		109	2,997
Change in trade and other payables		(95)	464
Income tax paid		(308)	(321)
Change in assets and liabilities held for sale		13	-
Unrealised foreign exchange differences		(908)	(632)
Net cash from/(used in) operating activities		**386**	**(488)**
Cash flows from investing activities			
Purchase of PPE and intangible assets	E10,E11	(648)	(571)
Dividends received from associates		4	7
Purchase of financial assets at FVTPL		(230)	(288)
Purchase of financial assets at FVTPL not held for trading		(173)	-
Purchase of financial assets at amortised cost/held-to-maturity		(16)	(40)
Purchase of financial assets FVOCI/AFS		(3,200)	(3,236)
Purchase of investments property		(28)	(20)
Acquisition of subsidiaries and associates, net of cash acquired	B2	(2,765)	(73)
Proceeds from disposals of PPE and intangible assets		58	15
Proceeds from financial assets at amortised cost/held-to-maturity		11	27
Proceeds from sale of financial assets FVOCI/AFS		3,546	2,745
Proceeds from financial assets at FVTPL		219	320
Proceeds from sale of financial assets at FVTPL not held for trading		-	205
Proceeds from sale of assets and liabilities held for sale		44	-
Proceeds from sale of investment property		1	11
Proceeds from disposal of subsidiaries and associates, net of cash disposed		4	91
Net cash used in investing activities		**(3,173)**	**(807)**

	Notes	2018	2017
Cash flows from financing activities			
Proceeds from the issue of debt securities		2,032	1,742
Proceeds from liabilities due to banks and other financial institutions		17,511	13,648
Payment of debt securities		(1,194)	(1,197)
Repayment of liabilities due to banks and other financial institutions		(12,601)	(7,255)
Interest paid		(1,786)	(1,208)
Dividends paid to shareholders		(40)	(40)
Dividends paid to non-controlling interest		(40)	(34)
Cash flow from financing activities	**E23**	**3,882**	**5,656**
Net increase (decrease) in cash and cash equivalents		**1,095**	**4,361**
Cash and cash equivalents as at 1 January		**9,118**	**4,674**
Effect of exchange rate movements on cash and cash equivalents		(93)	83
Cash and cash equivalents as at 31 December		**10,120**	**9,118**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

PPF Group N.V. (the "Parent Company" or the "Parent") is a company domiciled in the Netherlands. It invests in multiple market segments such as financial services, telecommunications, real estate, insurance, mechanical engineering and biotechnology. Its activities span from Europe to the Russian Federation ("Russia"), the US, and across Asia.

The consolidated financial statements of the Parent Company for the year ended 31 December 2018 comprise the Parent Company and its subsidiaries (together the "PPF Group" or the "Group") and the Group's interests in associates, joint ventures and affiliated entities. For a listing of significant Group entities and changes to the Group in 2018 and 2017, please refer to Section B of these consolidated financial statements.

The registered office address of the Parent Company is Strawinskylaan 933, 1077XX Amsterdam.

As at 31 December 2018, the ultimate shareholder structure was as follows:

Petr Kellner - 98.93% (directly and indirectly)
Ladislav Bartoníček - 0.535% (indirectly)
Jean-Pascal Duvieusart - 0.535% (indirectly).

A.2. Statement of compliance

The consolidated financial statements were authorised for issue by the Board of Directors and the Supervisory Board on 21 May 2019.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") including the International Accounting Standards ("IAS"), promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB and with Section 2:362(9) of the Dutch Civil Code.

The Company has also prepared the separate financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS, including IAS, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union and with Section 2:362(9) of the Dutch Civil Code.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note F.2.

A.3. Basis of measurement

The Group decided to present a consolidated statement of its financial position showing assets and liabilities in their broad order of liquidity because this presentation provides reliable and more relevant information than a presentation of current and non-current classifications.

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities stated at their fair value: derivative financial instruments, financial instruments designated upon initial recognition as financial instruments at fair value through profit or loss, and financial instruments at fair value through other comprehensive income. Financial assets and liabilities as well as non-financial assets and liabilities measured at historical cost are stated at amortised cost using the effective interest method or historical cost, as appropriate, net of any relevant impairment.

Non-current assets and disposal groups held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (refer to A.5). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchases is recognised in profit or loss immediately (refer to F.1.14.1). Transaction costs are expensed as incurred, expect if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay a contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent considerations are re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent considerations are recognised in profit or loss.

A.4. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates, and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The following key estimates are based on the information available at the consolidated financial statements date and specifically relate to the determination of:

- the fair value of tangible and intangible assets identified during the purchase price allocation exercise and initial value of goodwill for each business combination (refer to B.2);
- useful life of tangible and intangible fixed assets (refer to E.10, E11);
- in-progress research and development recognised as intangible asset (refer to E.11);

- the fair value of investment property (refer to E.9);
- the fair value of financial instruments (refer to C.7);
- impairment of financial instruments (refer to E.1, E.2, E.3, E.4);
- impairment of trade receivables and contract assets (refer to E.5);
- provisions recognised under liabilities (refer to E.19);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits (refer to E.38);
- revenue recognition timing in terms of the transfer of control over the goods and services to the customer – at a point in time or over time (refer to E.29, E.30, E31); and
- commissions as costs to obtain contracts with customers and stand-alone selling prices (refer to E.5, E.30, E31).

A.5. Basis of consolidation

Subsidiaries are those entities that are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates are those entities in which the Group has significant influence, but not control, over financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and jointly controlled entities on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate or jointly controlled entity, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or jointly controlled entity.

Reorganisations and mergers involving companies under common control are accounted for using consolidated net book values. Consequently, no adjustment is made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated in the preparation of the consolidated financial statements.

A.6. Presentation of functional currency

The consolidated financial statements are presented in euros (EUR), which is the Company's functional currency and the Group's reporting currency, rounded to the nearest million.

B. The consolidated group and main changes for the period

B.1. Group entities

The following list shows only significant holding and operating entities that are subsidiaries, associates or joint ventures of the Parent Company as of 31 December 2018 and 2017.

Company	Domicile	Effective proportion of ownership interest 2018	Effective proportion of ownership interest 2017
PPF Group N.V.	Netherlands	Parent Company	Parent Company
PPF Financial Holdings subgroup -subsidiaries			
PPF Financial Holdings B.V.	Netherlands	100.00%	100.00%
AB 2 B.V.	Netherlands	91.12%	88.62%
AB 4 B.V.	Netherlands	91.12%	88.62%
AB 7 B.V.	Netherlands	91.12%	88.62%
AB Structured Funding 1 DAC	Ireland	91.12%	-
Air Bank a.s.	Czech Republic	91.12%	88.62%
Bank Home Credit SB JSC	Kazakhstan	91.12%	88.62%
Favour Ocean Ltd.	Hong Kong	91.12%	88.62%
Guangdong Home Credit Number Two Information Consulting Co., Ltd.	China	91.12%	88.62%
HC Consumer Finance Philippines, Inc.	Philippines	91.12%	88.62%
HCPH Financing 1, Inc.	Philippines	91.12%	88.62%
Home Credit a.s.	Czech Republic	91.12%	88.62%
Home Credit and Finance Bank LLC	Russia	91.12%	88.62%
Home Credit Asia Ltd.	Hong Kong	91.12%	88.62%
Home Credit B.V.	Netherlands	91.12%	88.62%
Home Credit Consumer Finance China Ltd.	China	91.12%	88.62%
Home Credit Group B.V.	Netherlands	91.12%	100.00%
Home Credit India Finance Private Ltd.	India	91.12%	88.62%
Home Credit Indonesia PT	Indonesia	77.45%	75.33%
Home Credit Insurance LLC	Russia	91.12%	88.62%
Home Credit International a.s.	Czech Republic	91.12%	88.62%
Home Credit Lab N.V.	Netherlands	91.12%	88.62%
Home Credit Slovakia, a.s.	Slovakia	91.12%	88.62%
Home Credit US, LLC	USA	45.65%	44.40%
Home Credit Vietnam Finance Company Ltd.	Vietnam	91.12%	88.62%
PPF banka, a.s.	Czech Republic	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	92.96%
Ruconfin B.V.	Netherlands	92.96%	92.96%
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	91.12%	88.62%
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	China	91.12%	88.62%
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd	China	91.12%	88.62%
Usconfin 1 DAC	Ireland	92.96%	-
Zonky, s.r.o.	Czech Republic	91.12%	88.62%
Asnova Insurance CJSIC	Belarus	-	88.62%
Homer Software House LLC	Ukraine	-	88.62%
Non-banking Credit and Financial Organization Home Credit OJSC	Belarus	-	88.62%
PPF Financial Holdings subgroup - associates			
ClearBank Ltd.	United Kingdom	37.70%	36.36%
Real estate subgroup - subsidiaries			
PPF Real Estate Holding B.V.	Netherlands	100.00%	100.00%
Anthemona Ltd.	Cyprus	100.00%	100.00%
Art Office Gallery a.s.	Czech Republic	100.00%	100.00%
Boryspil Project Management Ltd.	Ukraine	100.00%	100.00%
Bucca Properties Ltd.	BVI	100.00%	100.00%

Capellalaan (Hoofddorp) B.V.	Netherlands	100.00%	100.00%
De Reling (Dronten) B.V.	Netherlands	100.00%	100.00%
EusebiusBS (Arnhem) B.V.	Netherlands	100.00%	100.00%
Fantom LLC	Russia	100.00%	100.00%
Fosol Enterprises Limited	Cyprus	89.91%	-
Gen Office Gallery a.s.	Czech Republic	100.00%	100.00%
German Properties B.V.	Netherlands	100.00%	100.00%
Glancus Investments Inc.	BVI	100.00%	100.00%
Gorod Molodovo Pokoleniya CJSC	Russia	73.00%	73.00%
Hofplein Offices (Rotterdam) B.V.	Netherlands	100.00%	100.00%
Charlie Com LLC	Russia	100.00%	100.00%
In Vino LLC	Russia	99.90%	99.90%
Intrust NN CJSC	Russia	66.67%	66.67%
Investitsionny Trust CJSC	Russia	78.75%	78.75%
ISK Klokovo LLC	Russia	100.00%	100.00%
Johan H (Amsterdam) B.V.	Netherlands	100.00%	100.00%
Kateřinská Office Building s.r.o.	Czech Republic	100.00%	100.00%
Kvartal Togliatti LLC	Russia	100.00%	100.00%
Langen Property B.V.	Netherlands	100.00%	100.00%
Logistics-A LLC	Russia	100.00%	100.00%
Logistika-Ufa LLC	Russia	100.00%	100.00%
LvZH (Rijswijk) B.V.	Netherlands	100.00%	100.00%
Millennium Tower (Rotterdam) B.V.	Netherlands	100.00%	100.00%
Mitino Sport City LLC	Russia	100.00%	100.00%
Monheim Property B.V.	Netherlands	100.00%	100.00%
Monchyplein (Den Haag) B.V.	Netherlands	100.00%	100.00%
Plaza Development SRL	Romania	100.00%	-
Pompenburg (Rotterdam) B.V.	Netherlands	100.00%	100.00%
PPF Gate, a.s.	Czech Republic	100.00%	100.00%
PPF Real Estate s.r.o.	Czech Republic	100.00%	100.00%
PPF Real Estate Russia LLC	Russia	100.00%	100.00%
One Westferry Circus S.a.r.l.	Luxembourg	100.00%	-
Razvitie LLC	Russia	60.07%	60.07%
RC PROPERTIES S.R.L.	Romania	100.00%	100.00%
Retail Star 22, spol. s r.o.	Czech Republic	100.00%	100.00%
Roko LLC	Russia	100.00%	100.00%
Skladi 104 LLC	Russia	60.07%	60.07%
Skolkovo Gate LLC	Russia	100.00%	100.00%
Spektr LLC	Russia	100.00%	100.00%
Tanaina Holdings Ltd.	Cyprus	100.00%	100.00%
Telistan Ltd.	Cyprus	99.90%	99.90%
TK Lipetskiy LLC	Russia	100.00%	100.00%
Trigon Berlin B.V.	Netherlands	100.00%	100.00%
Velthemia Ltd.	Cyprus	60.07%	60.07%
Wagnerford LLC	Russia	89.91%	-
Wilhelminaplein B.V.	Netherlands	100.00%	100.00%
Yugo-Vostochnaya promyshlennaya companiya “Kartontara” LLC	Russia	100.00%	100.00%
Alrik Ventures Ltd.	Cyprus	-	100.00%
Logistika Rostov LLC	Russia	-	100.00%
Ryazan Shopping Mall Ltd.	Cyprus	-	100.00%
Real estate subgroup – associates/joint ventures			
Bohemia LLC	Russia	35.00%	35.00%
Flowermills Holding B.V.	Netherlands	49.94%	49.94%
Gilbey Holdings Ltd.	Cyprus	60.00%	60.00%
Komodor LLC	Ukraine	59.40%	59.40%
Marisana Enterprises Ltd.	Cyprus	49.94%	49.94%
Moravia LLC	Russia	35.00%	35.00%
Syner NN LLC	Russia	35.00%	35.00%
Telecommunications subgroup - subsidiaries			
PPF A3 B.V.	Netherlands	100.00%	100.00%
PPF TMT Holdco 1 B.V.	Netherlands	100.00%	-
CETIN Finance B.V.	Netherlands	100.00%	100.00%
Česká telekomunikační infrastruktura a.s. (“CETIN”)	Czech Republic	100.00%	100.00%
O2 Czech Republic a.s.*	Czech Republic	83.40%	83.40%

O2 IT Services s.r.o.	Czech Republic	83.40%	83.40%
O2 Slovakia, s.r.o.	Slovakia	83.40%	83.40%
PPF Arena 1 B.V.	Netherlands	100.00%	100.00%
PPF Infrastructure B.V.	Netherlands	100.00%	100.00%
PPF Telco B.V.	Netherlands	100.00%	100.00%
PPF TMT Bidco 1 B.V.	Netherlands	100.00%	-
Telenor Magyarország Zrt.	Hungary	100.00%	-
Telenor Commmon Operation Zrt.	Hungary	100.00%	-
Telenor d.o.o. Beograd	Serbia	100.00%	-
Telenor Real Estate Hungary Zrt.	Hungary	100.00%	-
Telenor d.o.o. Podgorica	Montenegro	100.00%	-
Telenor Bulgaria EAD	Bulgaria	100.00%	-
Mechanical engineering subgroup - subsidiaries			
PPF Beer Topholdco B.V.	Netherlands	100.00%	100.00%
Bammer trade a.s.	Czech Republic	100.00%	-
Pars nova a.s.	Czech Republic	100.00%	-
ŠKODA ELECTRIC a.s.	Czech Republic	100.00%	-
Škoda Investment a.s.	Czech Republic	100.00%	-
Škoda Transportation a.s.	Czech Republic	100.00%	-
ŠKODA VAGONKA a.s.	Czech Republic	100.00%	-
Transtech Oy	Finland	100.00%	-
Mechnical engineering subgroup - joint ventures			
SIBELEKTROPRIVOD LLC	Russia	50.00%	-
Other significant subsidiaries			
Bavella B.V.	Netherlands	100.00%	100.00%
Bestsport, a.s.	Czech Republic	100.00%	100.00%
BONAK a.s.	Czech Republic	100.00%	99.99%
Cytune Pharma SAS *(associate until July 2018)*	France	96.00%	22.96%
Facipero Investments Ltd.	Cyprus	100.00%	100.00%
Fodina B.V.	Netherlands	100.00%	100.00%
GEMCOL Ltd.	Cyprus	100.00%	100.00%
Letňany eGate s.r.o.	Czech Republic	100.00%	100.00%
Letňany Park Gate s.r.o.	Czech Republic	100.00%	100.00%
Letňany Air Land s.r.o.	Czech Republic	100.00%	100.00%
Letňany Air Logistics s.r.o.	Czech Republic	100.00%	100.00%
PPF a.s.	Czech Republic	100.00%	99.99%
PPF Capital Partners Fund B.V.	Netherlands	96.00%	96.00%
PPF CYPRUS MANAGEMENT Ltd. *(renamed from Anthiarose Ltd.)*	Cyprus	100.00%	100.00%
PPF Life Insurance LLC	Russia	100.00%	100.00%
Prague Entertainment Group B.V.	Netherlands	100.00%	100.00%
RAV Agro LLC	Russia	100.00%	100.00%
RAV Molokoproduct LLC	Russia	100.00%	100.00%
Sotio a.s.	Czech Republic	92.16%	92.16%
Sotio Medical Research (Beijing) Co., Ltd.	China	96.00%	96.00%
Sotio N.V.	Netherlands	96.00%	96.00%
Timeworth Holdings Ltd.	Cyprus	100.00%	100.00%
Vox Ventures B.V.	Netherlands	100.00%	100.00%
Other significant associates/joint ventures			
The Culture Trip Ltd.	United Kingdom	43.69%	43.69%
LEAG Holding a.s.**	Czech Republic	50.00%	50.00%
Lausitz Energie Verwaltungs GmbH	Germany	50.00%	50.00%
Sully system a.s.**	Czech Republic	40.00%	40.00%
CZC.cz s.r.o.	Czech Republic	40.00%	40.00%
Heureka Shopping s.r.o.	Czech Republic	40.00%	40.00%
Internet Mall Slovakia, s.r.o.	Slovakia	40.00%	40.00%
Internet Mall, a.s.	Czech Republic	40.00%	40.00%
Westminster JV a.s.	Czech Republic	50.00%	50.00%
Carolia Westminster Hotel Ltd.	United Kingdom	45.00%	45.00%

*As 31 December 2018, due to existence of treasury shares held by O2 Czech Republic a.s. (hereinafter also “O2 CR”) the direct stake in the registered capital of this company is 81.06% (2017: 81.06%).
** This associate/joint venture comprises a group of entities.

The principal place of business corresponds to the domicile of the respective entity with the following exceptions:

Place of business	Entity
Russia	Anthemona Ltd., Ryazan Shopping Mall Ltd. (sold in 2018), Flowermills Holding B.V., Marisana Enterprises Ltd.
United Kingdom	Alrik Ventures Ltd. (sold in 2018), Tanaina Holdings Ltd., One Westferry Circus S.a.r.l.
Germany	Langen Property B.V., Monheim Property B.V., Trigon Berlin B.V.

B.2. Changes through business combinations in 2018/2017

B.2.1. Acquisition of Škoda Transportation

In November 2017, the Group signed an agreement for the acquisition of a 100% stake in Škoda Transportation and other related assets. Škoda Transportation is a group focusing mainly on the development and manufacture of vehicles for public municipal transport and railways. Škoda Transportation's main products include low-floor trams, electric locomotives, metro trains, suburban train units, trolleybuses, and electric buses, as well as traction engines and complete powertrains for transport systems. The majority of its operations are located in the Czech Republic, but the group also has subsidiaries in Germany, Poland, Hungary, Finland, and the Russian Federation.

The transaction was completed in April 2018, subsequent to the receipt of all necessary regulatory approvals. The following table shows the key non-financial parameters of the transaction:

Transaction date		24 April 2018
Significant entities and stake acquired		
Škoda Transportation a.s.	Czech Republic	100%
Pars nova a.s.	Czech Republic	100%
ŠKODA ELECTRIC a.s.	Czech Republic	100%
ŠKODA VAGONKA a.s.	Czech Republic	100%
Transtech Oy	Finland	100%
Bammer trade a.s.	Czech Republic	100%
Škoda Investment a.s.	Czech Republic	100%
SIBELEKTROPRIVOD LLC	Russia	50%

From the Group's perspective, the acquisition of the Škoda Transportation business is considered a long-term investment that enables better risk diversification by entering new businesses.

During the nine month period ended 31 December 2018, the consolidated group contributed revenue of MEUR 372 and profit of MEUR 9 to the Group´s results. If the acquisition had occurred on 1 January 2018, consolidated revenue would have increased by instead MEUR 113 and profit by MEUR 1.

The following table shows the determination of purchase price:

In millions of EUR

Purchase price (paid in cash)	306
Contingent consideration (maximum amount of deferred earn-out)	59
Fair value of contingent consideration	55
Total purchase price	361

The contingent consideration depends notably on the successful completion of specified projects in progress at the moment of the acquisition.

The Group incurred acquisition-related costs not exceeding MEUR 1 on legal fees and due diligence costs. These costs are included in consulting costs.

In accordance with IFRS 3, the Group initiated a purchase price allocation ("PPA") exercise to identify the fair value of assets and liabilities. The acquired business was identified as one cash-generating unit. Assets and liabilities denominated in foreign currencies were translated using the exchange rate valid as at the acquisition date and subsequently restated to their respective fair values. The difference between the allocated purchase price and the fair values of identified assets and liabilities resulted in the recognition of gain on a bargain purchase.

Key assumptions and valuation approach

As the acquired business is a well-established rail vehicles producer, the key asset categories acquired in the acquisition were fixed assets, work in progress, intellectual property, in-process development reported in the balance sheet, customer relationships, order backlog, and brands additionally identified. Major fixed asset categories reported on the balance sheet are production technology and related equipment, land and buildings, and brand licences.

Since each asset category has different characteristics, different asset valuation methods were used. Based on the nature of the tangible assets, buildings and their continued use, the valuation of all tangible assets except for land used the cost approach. The market approach was used for the valuation of land. Identified customer relationships and order backlog were valued using the multi-period excess earnings method. Any acquired intellectual property and brands were valued using the relief-from royalty approach. It was concluded that the carrying amounts of current and financial assets as well as all assumed liabilities represent their respective fair values.

The following table summarises the recognised amounts of assets and liabilities assumed in the acquisition, taking into consideration the facts stated above:

In millions of EUR, as at 24 April 2018

Fair value of assets (excluding goodwill)	**902**
Cash and cash equivalents	42
Financial assets at FVTPL	17
Investment in JV	13
Trade receivables	128
Current tax assets	13
Inventories	123
Contract assets	208
Property, plant and equipment	205
Intangible assets	122
Deferred tax assets	10
Other assets	21
Fair value of liabilities	**520**
Due to banks and other financial institutions	81
Due to non-banks	25
Debt securities issued	92
Subordinated liabilities	36
Trade and other payables	187
Provisions	66
Deferred tax liabilities	33
Fair value of identifiable net assets	**382**

The trade receivables comprise gross contractual amounts due of MEUR 132, of which MEUR 4 was expected to be doubtful at the acquisition date.

Gain on bargain purchase arising from the acquisition has been recognised as follows:

In millions of EUR

Total consideration	361
Fair value of identifiable net assets	382
Net asset value attributable to non-controlling interests	2
Gain on bargain purchase	23

B.2.2. Acquisition of real estate projects

In April 2018, together with a minority partner, the Group acquired a 100% stake in Wagnerford LLC, an entity holding an up-and-running office building in Moscow ("Metropolis 2"). In April 2018, the Group acquired a 100% stake in One Westferry Circus S.a.r.l., an entity holding an up-and-running office building in London ("Westferry"). In November 2018, the Group acquired a 100% stake in Plaza Development SRL, an entity holding an up-and-running office building in Bucharest ("Crystal Tower").

The following table summarises the financial aspects of the above transactions:

	Wagnerford LLC	One Westferry Circus S.a.r.l.	Plaza Development SRL
Transaction date	April 2018	April 2018	November 2018
Type of investment property	office building	office building	office building
Location	Russia	United Kingdom	Romania
Effective stake acquired	89.91%	100%	100%
In millions of EUR			
Consideration (paid in cash)	44	47	18
Consideration (deferred)	12	-	-
Fair value of net assets acquired	128	126	48
of which:			
Investment property	124	123	41
Fair value of liabilities assumed	(72)	(79)	30

B.2.3. Acquisition of controlling stake in Cytune Pharma

Since 2015, the Group has held a minority stake in Cytune Pharma SAS, a French company dealing with research and development of new therapies for patients suffering from cancer and infectious diseases.

During July and August 2018, the Group completed the acquisition of a 96% effective stake in Cytune Pharma SAS. Prior to transaction the Group held a 23.94% effective stake. The consideration paid amounted to MEUR 28. The total consideration consists of a contingent deferred payment dependent of the fulfilment of project milestones and future revenues.

The following table summarises the financial aspects of the transaction:

In millions of EUR

Direct stake in the company acquired	75.06%
Effective state in the company acquired	72.06%
Purchase price (paid in cash)	28
FV of investment in associate until the transaction	8
Carrying amount of assets acquired	17
Carrying amount of liabilities assumed	1
Non-controlling interests	1
Goodwill	21

The Group has not yet finished a purchase price allocation ("PPA") exercise to identify the fair value of assets and liabilities; however, it believes that the fair values do not significantly differ from carrying amounts of assets and liabilities.

B.2.4. Sale of Home Credit Belarus

On 15 June 2018, the Group disposed of its investment in Non-banking Credit and Financial Organization "Home Credit" (OJSC).

The following table summarises the financial aspect of the transaction:

In millions of EUR

Consideration	4
Net asset value disposed	(7)
Negative currency translation reserve (reclassified to income statement)	(5)
Net loss on sale	(8)

B.2.5. Acquisition of Telenor's telecommunications assets in CEE countries

In March 2018, the Group entered into an agreement with Telenor for the acquisition of its telecommunications assets in Central and Eastern Europe, specifically in Hungary, Bulgaria, Serbia and Montenegro. Through this transaction, the Group gained full control over Telenor's mobile operators in the aforementioned countries, the rights to use the Telenor brand through the first half of 2021, and the property used for the companies' operations. As the transaction was subject to several relevant regulatory approvals, it was completed in July 2018. The Parent Company gained control over Telenor entities on that date.

The following table shows the key non-financial parameters of the transaction:

Transaction date		31 July 2018
Significant entities and stake acquired		
Telenor Magyarország Zrt.	Hungary	100%
Telenor Bulgaria EAD	Bulgaria	100%
Telenor d.o.o. Beograd	Serbia	100%
Telenor d.o.o. Podgorica	Montenegro	100%
Telenor Common Operation Zrt.	Hungary	100%
Telenor Real Estate Hungary Zrt.	Hungary	100%

From the Group's perspective, the acquisition of the Telenor business is considered a long-term investment allowing the Group to expand its telecommunications portfolio to four more countries.

In connection with the deal, acquisition and revolving facilities up to MEUR 3,025 supporting the acquisition and refinancing of existing loans had been fully underwritten by BNP Paribas Fortis SA/NV, Crédit Agricole CIB, Erste Group Bank, HSBC Bank plc, Société Génerale and UniCredit Bank Czech Republic and Slovakia, a.s. and subsequently successfully syndicated amongst existing relationship banks and new lenders.

In the five months to 31 December 2018, the consolidated Telenor entities contributed revenue of MEUR 568 and profit of MEUR 67 to the Group's results. If the acquisition had occurred on 1 January 2018, consolidated revenue would have increased by instead MEUR 741 and profit by MEUR 102.

The following table shows the determination of the purchase price:

In millions of EUR

Initial instalment (paid in cash)	2,329
Net present value of deferred instalments	400
Deferred period	4 equal instalments until July 2022
Total purchase price	2,729

The Group incurred acquisition-related costs of approximately MEUR 3 in legal fees and due diligence costs. These costs are presented under professional service costs.

In accordance with IFRS 3, the Group initiated a purchase price allocation ("PPA") exercise to identify the fair value of assets and liabilities. Assets and liabilities denominated in foreign currencies were translated using the exchange rate valid as at the acquisition date. The acquired business was divided into four cash-generating units based on the geographic location of the acquired individual operations. Consequently, the acquired assets and assumed liabilities of the individual units were restated to their respective fair values. The difference between the allocated purchase price and the fair values of identified assets and liabilities resulted in the recognition of goodwill.

Key assumptions and valuation approach

As the acquired businesses are mobile operators, the key asset categories acquired in the acquisition were fixed assets reported in the balance sheet, and customer relationships identified in addition to the fixed assets. Major fixed asset categories reported on the balance sheet are telecommunication technology and related equipment, land and buildings, software, and spectrum and brand licences.

Since each asset category has different characteristics, different asset valuation methods were used. Based on the nature of the tangible assets and their continued use, the valuation of all tangible assets except land and buildings used the cost approach. The market approach was used for the valuation of land. Buildings were valued combining the cost and income approaches. Purchased software was valued using the cost method. Spectrum licences were valued using the Greenfield approach and a market comparison. Identified customer relationships were valued using the multi-period excess earnings method. Any acquired brands were valued using the cost approach.

It was concluded that the carrying amounts of current and financial assets as well as all assumed liabilities represent their respective fair values.

The following table summarises the recognised amounts of assets and liabilities assumed in the acquisition, taking into consideration the facts stated above:

In millions of EUR, as at 31 July 2018

Fair value of assets (excluding goodwill)	**2,084**
Cash and cash equivalents	55
Trade and other receivables	327
Contract assets	55
Inventories	31
Property, plant and equipment	505
Intangible assets	1,082
Other assets	29
Fair value of liabilities	**421**
Due to banks and other financial institutions	26
Deferred tax liabilities	97
Current tax liabilities	7
Trade and other payables	257
Provisions	34
Fair value of identifiable net assets	**1,663**

Trade receivables comprise gross contractual amounts due of MEUR 424, whereas on the acquisition date, the collection of MEUR 97 was expected to be doubtful.

Goodwill arising from the acquisition has been recognised as follows:

In millions of EUR

Total consideration	2,729
Fair value of identifiable net assets	1,664
Goodwill	1,065

Goodwill is attributable to the established position of the Telenor businesses in the relevant markets, potential synergies with other Group operations, and the assembled workforce. None of the recognised goodwill is expected to be deducted for tax purposes.

B.2.6. Acquisition of a 2.5% share in Home Credit Group

On 31 December 2018, the Group acquired a 2.5% stake in Home Credit Group B.V. from a minority shareholder. The Group increased its shareholding in Home Credit from 88.62% to 91.12%. The difference between the purchase price and the net asset value attributable to non-controlling interests acquired was recognised directly in equity.

The following tables summarise the financial aspect of the transaction:

In millions of EUR

Consideration	163
Effective ownership acquired	2.5%
Net asset attributable to non-controlling interests acquired	54
Effect recorded in retained earnings (decrease)	(109)

The purchase price of a 2.5% stake in Home Credit Group B.V. was payable in three instalments; the first part of the consideration (MEUR 83) was paid on 31 December 2018; the second part (MEUR 80) was initially due in June 2019. The third instalment was defined as an earn-out being equal to 50% of the difference between the current purchase price (the first two instalments) and the market value reached at a possible partial future exit. The earn-out could be in both directions, i.e. either positive or negative.

In April 2019, both shareholders of Home Credit Group B.V. signed an addendum substituting the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the stake amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 has been changed to May 2019. As the addendum was agreed in 2019, the respective increase in the purchase price is to be recorded in the 2019 accounts. The increased purchase price will be reflected as a direct decrease in equity.

B.2.7. Sale of Russian real estate

In December 2018, the Group sold a 100% share in the Ryazan Shopping Mall project held by Ryazan Shopping Mall Ltd. for a consideration of MEUR 3. Due to the net liability position of the company and the transfer of the related positive translation reserve to profit, the Group recognised a total profit from the sale amounting to MEUR 91. The profit mitigates the revaluation losses of the investment property recognised in previous years and is presented in real estate segment.

B.2.8. Acquisition of Sully Group (in 2017)

On 17 October 2017, through its subsidiary BONAK a.s. the Group signed an agreement for the acquisition of a 40% stake in Sully System a.s. (the “Sully Group”). This group comprises Mall Group and Heureka, representing an e-commerce platform in Central and Eastern Europe and a comparison shopping platform in the Czech Republic and Slovakia.

The investment is classified as an associate and it is accounted for using the equity method. The consolidated income statement includes a share on Sully System’s financial performance since the acquisition.

From the Group’s perspective, the acquisition of Sully System a.s. is considered a long-term financial investment that enables better risk diversification and the strengthening of its position in the on-line business sector. The Group considers its position to be that of a financial investor that will not interfere in the running of the group, which is left to minority partner.

In accordance with IFRS 3, the Sully Group performed a purchase price allocation exercise (“PPA”) based on which the acquired assets and assumed liabilities of the acquired business were restated to their respective fair values. The excess of the purchase price over the fair values of identified assets and liabilities resulted in the recognition of goodwill.

The following table summarises the recognised amounts of assets and liabilities assumed in the acquisition, taking into consideration the facts stated above:

In millions of EUR, as at 17 October 2017

Fair value of assets	**300**
Non-current assets	177
Property, plant and equipment	25
Intangible assets	150
Other assets	2
Current assets	123
Inventories	59
Cash and cash equivalents	16
Other assets	48
Fair value of liabilities	**400**
Non-current liabilities	248
Bank borrowings	168
Loans to non-banks	51
Deferred tax liabilities	27
Other liabilities	2
Current liabilities	152
Bank borrowings	41
Trade liabilities	94
Other liabilities	17
Fair value of identifiable net assets	**(100)**

Goodwill arising from the acquisition has been recognised as a result of the excess of the purchase price over the fair value of the identifiable net assets as follows:

In millions of EUR

Consideration	47
Total effective ownership acquired	40%
Fair value of identifiable assets	(100)
Net asset value attributable to the Group's share	(40)
Goodwill (part of the carrying amount)	87

Goodwill is attributable to the established position of Mall Group and Heureka on the on-line market and the assembled workforce. Goodwill is presented as a part of the investment in the associate.

B.2.9. Acquisition of Komodor (in 2017)

In July 2017, the Group increased its shareholding in Gilbey Holdings Ltd., an entity indirectly holding Ukrainian logistic centre Komodor, from 40% to 60%. The project is still classified as a joint venture based on the contractual agreement with the partner in the project.

The total acquisition price of MEUR 12 comprised consideration for additional shares and the assignment of a former shareholder loan. The difference between the purchase price and the acquired share on the net asset value was insignificant.

B.2.10. Acquisition of Westminster Hotel (in 2017)

In January 2017, the Group acquired with a joint venture partner up-and-running London hotel building. The investment is classified as associate with a 45% effective share.

The following table summarises the financial aspects of the transaction described above:

In millions of EUR

Transaction date	January 2017
Effective stake acquired	45%
Capital contribution	10
Fair value of assets acquired	221
out of which:	
Property, plant and equipment	180
Fair value of liabilities acquired	(200)
Non-controlling interests	(2)
Net asset value attributable to the Group's share	9

B.2.11. Sale of O2 CR Shares (in 2017)

In February 2017, the Group sold a 3% stake in O2 CR. As a consequence, the effective share taking into account the treasury shares held by O2 CR decreased from 85.4% to 82.88%.

The following table summarises the financial aspects of the transaction described above:

In millions of EUR

Total net consideration received	91
Net effective ownership in O2 CR decreased	3.05%
Net asset value attributable to non-controlling interests sold	28
Effect recorded in retained earnings (gain)	63

B.3. Other changes

B.3.1. Share buy-back programme in O2 CR

On 28 January 2016, O2 CR commenced the acquisition of its own shares on the regulated market organised by the Prague Stock Exchange, under the conditions published in connection with the approval of the share buy-back programme on the regulated market in December 2015. Until 31 December 2017, it acquired a total of 8.7 million treasury shares for the total acquisition price of MEUR 86. The aggregate of the acquired treasury shares represents 2.8% of the voting rights of O2 CR. During 2018, O2 CR did not acquire any new treasury shares.

B.3.2. Operation of the Czech toll system

In September 2018, through its subsidiary CzechToll s.r.o., the Group became the winner of the tender for the new toll system operator in the Czech Republic initiated by the Czech Ministry of Transport. The Company submitted its bid as part of a consortium with Slovak toll operator SkyToll, which will supply technical solutions for the new Czech system. Starting on 1 January 2020, the new toll system should operate for the next 10 years.

B.3.3. Cancelled acquisition of Bulgarian Nova Group

In February 2018, the Group signed an agreement for the acquisition of a 100% stake in Nova Broadcasting Group JSC, a Bulgarian media company. In January 2019, the Group decided not to acquire the stake due to the non-approval of the transaction by the Bulgarian antitrust regulator.

C. Risk exposures, risk management objectives and procedures

This section provides details on the Group's exposure to risks and describes the methods used by the management to control the risks. The most important types of financial risks to which the Group is exposed are the credit, market, operational and liquidity risks. Market risk includes mainly currency risk and interest rate risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Due to the varying nature of the Group's businesses and associated risks the senior management of each business segment is responsible for setting up and monitoring the risk management policies. The Board of Directors and the Group's senior management, including shareholders, regularly perform business reviews of individual business segments, including an assessment of the risk management.

In 2015, PPF Group restructured its consumer finance and corporate banking business represented by Home Credit (including Air Bank) and PPF banka under PPF Financial Holdings B.V., a new holding entity. It established the Group Risk Committee and mandated it to assist the Board of Directors in the risk management area. The Group Risk Committee designs and implements the risk management framework. The Group Risk Committee approves the main risk management internal regulations such as the group risk management framework, the internal capital adequacy assessment framework, and the internal liquidity assessment framework. The Group Risk Committee also approves the counterparty exposure limits for the largest counterparties.

As the most significant part of the Group's financial operations, the Home Credit subgroup established the function of Chief Risk Officer (CRO) to head the Home Credit Group's risk management department. The Home Credit Group also established two risk-related committees: the Asset Liability Committee (ALCO) and the Group Operational Risk Management Committee. Home Credit Group's CRO and the committees are responsible for the development, implementation, and monitoring of risk management in their specified areas.

PPF banka a.s. and Air Bank a.s. established the function of Chief Risk Officer to head the independent risk management function in the respective banks. Telecommunication entities have their own separate Credit Management Units.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the products and services offered. Through its training and management standards and procedures, the Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Management of risk arising from participation in foreign subsidiaries and from financial instruments is fundamental to the Group's business and is an essential element of its operations. Major risks related to participation in foreign subsidiaries include the risk of impairment due to adverse economic conditions, movements in foreign exchange rates, and liquidity risk given the strong growth in emerging markets. Those risks are managed by the Group by monitoring developments in foreign markets, using a robust investment decision-making process, and exercising prudence in liquidity management. The Group faces financial instrument risk in conjunction with credit exposures, movements in interest rates and foreign exchange rates.

Risk management policies at other significant associates/JVs are determined by the controlling shareholder(s) and/or other major shareholders. The Group regularly monitors and analyses the situation at said associates/JVs as a minority shareholder exercising its significant influence through its existing representatives in the respective executive bodies.

C.1. Derivative financial instruments

The Group holds a variety of derivative financial instruments for trading and risk management purposes. This note describes the derivatives used by the Group. Further details of the Group's objectives and strategies in the use of derivatives are set out in the following sections. The nature of the derivative instruments outstanding at the reporting date is described in the following sections of this note.

Derivative financial instruments used by the Group include swaps, futures, forwards, options and other similar contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices and/or price indices. Derivatives are either standardised contracts transacted through regulated exchanges (referred to as exchange-traded products) or individually negotiated over-the-counter contracts (referred to as OTC products). The principal types of derivative instruments used by the Group are described below.

C.1.1. Swaps

Swaps are over-the-counter agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. The swaps most commonly used by the Group are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Cross-currency swaps require an exchange of interest payment flows and capital amounts in different currencies. The Group is subject to credit risk arising from default of the respective counterparties. Market risk arises from potentially unfavourable movements in interest rates relative to the rates set in the contract, or from movements in foreign exchange rates.

C.1.2. Futures and forwards

Forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or index at a specified future date for a specified price and may be settled in cash or another financial asset. Forward contracts result in credit exposure to the counterparty and exposure to market risk based on changes in market prices relative to the contracted amounts.

C.1.3. Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Group enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may be used as hedges against a rise or fall in interest rates. They provide protection against changes in interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates. As a buyer of over-the-counter options, the Group is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Group exercises the option. As a writer of over-the-counter options, the Group is subject to market risk, as it is obliged to make payments if the option is exercised by the counterparty.

C.1.4. Other derivatives

In connection with some significant acquisitions, the Group negotiated various over-the-counter contracts. Those existing at the reporting date are recognised at fair value using external or internal valuations.

C.2. Credit risk

Credit risk is the risk of financial loss occurring because a borrower or a counterparty fail to discharge their contractual obligations to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers. Other significant businesses affected by credit risk are corporate banking (PPF banka) and telecommunication business (O2 CR, CETIN and Telenor entities).

C.2.1. Home Credit Group

For risk management purposes, the Home Credit Group classifies the loans made to individual customers into several classes, the most significant of which are cash loans, consumer loans, revolving loans, car loans and mortgage loans. This core part of the Group's loan portfolio consists of a large number of loans with relatively low outstanding amounts.

The Board of Directors has delegated responsibility for the management of credit risk to the Home Credit Group Credit Risk Department. This department is responsible for overseeing the Group's credit risk, including:

- formulation, in consultation with the business, of credit policies concerning credit assessment, underwriting policies, collection policies, and risk reporting by business unit and loan class;
- establishment of an authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the management of the various business units, while large exposures and new types of exposures require Home Credit Group approval. The Home Credit Group uses one central loan administration system to facilitate loan underwriting;
- continuous monitoring of performance of the Home Credit Group's individual credit exposures by country, product class and distribution channel;
- limiting of concentrations of credit exposures by country, product class and distribution channel;
- review of business units' compliance with agreed exposure limits;
- provision of advice, guidance and specialist skills to business units to promote best practice throughout the Home Credit Group in the management of credit risk.

The Home Credit Group continuously monitors the performance of individual credit exposures at both individual business unit and Home Credit Group levels using a number of criteria, including delinquency rates, default rates, and collection efficiency metrics. The Home Credit Group has an active fraud prevention and detection programme. Credit risk developments are reported by the Home Credit Group Credit Risk Department to the Board of Directors on a regular basis.

Credit underwriting process

The credit underwriting process involves the verification of customer data, combined with sophisticated scoring models that take into account both risk and profitability to determine whether an applicant is eligible for a product and, if so, at what price.

Information supplied by the applicant may be cross checked with information in the Group's customer database for the relevant country. Consumer loans are provided with minimum documentation from the customer. Applications for other products, in particular cash loans, require more supporting documentation and verification. If the standards set by the Group are not being adhered to, the Group discontinues selling through the relevant retailer's employee or the relevant retailer.

Fraud prevention

The Group has developed a set of tools aimed at fraud prevention, detection and investigation that keep the levels of fraud risk observed low. The focus is on the tight monitoring of the sales process and proper design of the incentive models. Other tools include cross checks and the verification of application data provided by the customer, biometrical ID verification tools and use of third-party data in the underwriting process. The use of specific tools varies, based on their availability in the respective market and on the legal and regulatory framework.

General loan collection

The Group's loan collection system follows standard steps and procedures, which may vary depending on country-specific requirements and the legal and operational tools available for collection.

Pre-collection measures

Various forms of communication are used to remind customers how and when to pay – e.g. welcome letters (or calls) – and SMS reminders are sent to customers a short time prior to payment due dates.

Early collection

The early collection procedures vary depending on which specific collection segment a customer is assigned to, based on exposure, customer account data and previous collection behaviour. These procedures are typically applied to payments which are 5 to 75 days overdue. The Group uses SMS messages, outbound calls, letters and interactive voice response tools to communicate with customers to remind them of, and procure, the overdue amounts.

Administrative and personal collection

The Group sends the customer written correspondence including a warning that the full amount of the loan could be declared immediately due and payable if a loan reaches a higher stage of delinquency, with outstanding payments typically more than 60 to 90 days overdue (the point in time at which a loan moves from early collection to administrative and personal collection may vary). Letters are then followed by a call explaining to the customer the consequences of not repaying the debt.

Late collection

Late collection procedures are usually initiated when a loan becomes 90 days overdue. Usage of external agencies or internal field collector methods is typically considered.

Legal collection, debt sale

Loans with outstanding repayments that have been overdue for more than 360 days are referred to the Group's external legal counsel, who informs the customer through formal correspondence that the loan is closed and that legal action will commence against the customer. As an alternative, debt selling to collection agencies may also be considered. The approval authority for any debt sale in the Group rests with the ALCO.

C.2.2. PPF banka (the "Bank")

The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee. A separate Credit Risk Management Department, reporting to the Credit Committee, is responsible for the oversight of the Bank's credit risk similar to the Home Credit Group procedures mentioned above, but with the following business specifics:

- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities);
- developing and maintaining the Bank's grading to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used to determine where impairment provisions may be required against specific credit exposures. Current risk grades are subject to regular reviews by the Bank's risk department;
- reviewing the compliance of business units with agreed exposure limits, including those for selected industries, country risks and product types. Regular reports are provided on the credit quality of local portfolios and appropriate corrective action is taken.

Since 2014, the Bank has calculated the capital requirement for the credit risk of the investment portfolio using a standardised approach in accordance with the Basel III standard and the Regulation of the European Parliament and of the Council on Prudential Requirements for Credit Institutions and Investment Firms.

Loans with renegotiated terms and the Group's forbearance policy (applicable to PPF banka)

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

The Group has implemented a new forbearance methodology according to the EBA regulation. Exposures with forbearance are exposures where the debtor is considered unable to comply with the contract due to financial difficulties and the Group has decided to grant a concession to the debtor. A forbearance measure may be either a modification of terms and conditions or the refinancing of the contract. A modification of terms includes payment schedule changes (deferrals or reductions of regular payments, extended maturities, etc.), interest rate reductions or penalty interest waivers.

The Group renegotiates loans to customers in financial difficulties (referred to as forbearance activities) to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on the debt or if there is a high risk of default, there is evidence that the debtor has made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Concentration of credit risks (applicable to PPF Financial Holdings B.V.)

A concentration of credit risk arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet its obligations. PPF Financial Holdings B.V. (the "Subgroup", refer to C.9) treats a receivable from a debtor or an economically connected group of debtors exceeding 10% of the Subgroup's eligible capital as a large exposure and applies a limit of 25% of the Subgroup's eligible capital to such exposures. As at the balance sheet date, the Subgroup did not have any significant concentration of credit risk with respect to any individual debtor and the 25% limit had not been exceeded in relation to individual debtors and to related parties.

The same principles apply for PPF banka and Air Bank on their individual levels.

C.2.3. Telecomunications

For telecommunications, business credit risk is managed by the Credit Management Units of relevant entities and is based on three main activities:

- prevention: scoring of new customers – regular monitoring of customers' payment morale, activation of control procedures (integrated black list, external credit registers, and other external information databases), limits and/or deposits applied based on customer segments or the product, credit limits for indirect sales partners (dealers, distributors, franchises) for the purchase of our products, collateral security (deposits, receivables insurance, bills of exchange, pledges of real estate, bank guarantees etc.).
- monitoring of accounts receivables: regular monitoring of the creditworthiness of existing customers and monitoring and analysing of the receivable aging structure (internal and external indicators of any potential bad debts). These activities are processed in an integrated system solution for the scoring, maintenance and collection of receivables.
- collection process: credit management units cooperate with the customer care units in the implementation of a reasonable, effective and continual collection process. Collection process competences are allocated separately. In the CETIN subgroup, collection from active customers is in the competence of the accounting unit; subsequent collection is the responsibility of the treasury unit, the legal unit, and the accounting unit. In other segments, collection from active customers is in the competence of the customer care unit; any collection after contracts are cancelled falls within the responsibility of the credit management unit.

The following tables show the economic and geographic concentration of credit risk:

In millions of EUR, as at 31 December

	2018	2018	2017	2017
Economic concentration				
Households/individuals	17,509	51.37%	15,346	49.56%
Financial services	12,327	36.17%	11,624	37.54%
Public sector	1,546	4.54%	1,770	5.72%
Corporate sector	1,379	4.05%	1,545	4.99%
Construction and real estate	566	1.67%	647	2.09%
Other	755	2.22%	35	0.11%
Total	**34,082**	**100.0%**	**30,967**	**100.0%**
Geographic concentration				
China	12,202	35.80%	11,019	35.58%
Czech Republic	11,999	35.20%	11,614	37.50%
Russia	3,858	11.32%	3,890	12.56%
Kazakhstan	830	2.44%	586	1.89%
Vietnam	731	2.14%	660	2.13%
Slovak Republic	552	1.62%	496	1.60%
Cyprus	468	1.37%	514	1.66%
Netherlands	112	0.33%	113	0.36%
Other EU countries	1,241	2.81%	813	2.63%
Other	2,089	6.97%	1,262	4.08%
Total	**34,082**	**100.0%**	**30,967**	**100.0%**
Of which:				
Loans due from customers	18,803	55.17%	17,066	55.11%
Cash and cash equivalents (excl. cash on hand)	9,967	29.24%	9,007	29.09%
Investment securities (except for equity securities)	2,757	8.10%	3,079	9.94%
Trade and other receivables*	1,204	3.53%	495	1.60%
Loan commitments and guarantees (off-balance sheet)	994	2.92%	769	2.48%
Loans and receivables due from banks and other financial institutions	349	1.02%	546	1.76%
Hedging derivatives	8	0.02%	5	0.02%

*incl. cash collateral for payment cards and other financial assets

The amounts in the tables represent the maximum accounting loss that would be recognised at the reporting date if the counterparts failed completely to meet their obligations and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses that are included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.39.1) and financial assets, except equity securities.

Credit quality and collateral received under IFRS 9

The following table summarises information about the credit quality of the Group's loan exposure as at 31 December 2018:

In millions of EUR, as at 31 December

Loan exposure	Loans due from customers*	Loans and receivables due from banks and other financial institutions
	2018	2018
Gross amount	20,961	349
Stage 1	17,452	349
Stage 2	1,679	-
Stage 3	1,830	-
Purchased or originated credit impaired	-	-
Allowance for impairment	(2,174)	-
Carrying amount	**18,787**	**349**

* Loans due from customers excluding loans and advances provided under repo operations and others (applies hereinafter in this section)

The Group holds collateral for loans and advances to non-banks in the form of mortgage interests over property, debt and/or equity securities and received guarantees. Collateral for loans and advances to banks is held mainly under reverse repos and as a part of securities borrowing activity. There are no overdue loans to banks.

All these transactions are conducted at arm's length.

In millions of EUR, as at 31 December 2018

Fair value of collateral received	Loans due from customers		Loans and receivables due from banks and other financial institutions	
	Stage 1-2	Stage 3	Stage 1-2	Stage 3
Secured by:				
Property	1,017	112	-	-
Deposits with banks	25	-	-	-
Securities received under reverse repo*	27	-	7,816	-
Equity securities	192	-	172	-
Other	12	-	-	-
Total collateral received	**1,273**	**112**	**7,988**	-

* incl. cash and cash equivalents with central banks

The total value of assets held as collateral is MEUR 9,497 (2017: MEUR 8,816; refer to E.39.3) and consists of the collateral stated above (2018: MEUR 9,373; 2017: MEUR 8,647) plus collateral in the form of guarantees received (2018: MEUR 124; 2017: MEUR 169).

No collateral was held for trade and other receivables in 2018 and in 2017.

Credit quality and collateral received under IAS 39

The following tables provide information about the credit quality of the Group's loans exposure and the fair value of collateral received in respect of loans and receivables:

In millions of EUR, as at 31 December 2017

Loan exposure	Loans due from customers	Loans and receivables due from banks and other financial institutions
Individually impaired		
Gross amount	253	89
Allowance for impairment	(76)	(40)
Carrying amount	177	49
Collectively impaired		
Gross amount	16,714	-
Allowance for impairment	(1,414)	-
Carrying amount	15,300	-
Unimpaired		
Carrying amount	1,589	392
Total carrying amount	**17,066**	**441**

In millions of EUR, as at 31 December 2017

Fair value of collateral received	Loans due from customers	Loans and receivables due from banks and other financial institutions
Against individually impaired	84	-
Property	82	-
Deposits with banks	2	-
Other	-	-
Against collectively impaired	520	-
Property	502	-
Equity securities	18	-
Against neither past due nor impaired	742	7,301
Securities received under reverse repo*	-	-
Property	359	-
Debt securities	-	-
Equity securities	349	-
Deposits with banks	23	-
Other	11	-
Total collateral received	**1,346**	**7,301**

* including cash and cash equivalents with central banks

C.3. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. It includes the risk of being unable to fund assets using instruments with appropriate maturities and rates, the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount, and the risk of being unable to meet obligations as they become due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

All liquidity policies and procedures, as well as liquidity position projections, are subject to review and approval by senior management.

The Group's Treasury Department collects information from business units and holding companies regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. A portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The individual scenarios focus on liquidity available on specific markets and facilities, the nature of the related risks and the magnitude of their impact on the Group's business, management tools available and preventive actions.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, bank loans, loans from central banks, debt securities and subordinated debt. Management strives to maintain a balance between continuity of funding and flexibility through use of liabilities with a range of maturities.

The following tables show exposure to liquidity risk:

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	10,120	-	-	-	10,120
Investment securities	470	383	1,131	781	2,765
Financial assets at FVTPL	19	209	175	243	646
Financial assets FVOCI*	404	83	561	232	1,280
Financial assets at amortised cost	47	91	395	306	839
Loans and receivables due from banks and other financial institutions	263	70	16	-	349
Loans due from customers	4,741	5,707	8,094	261	18,803
Trade and other receivables**	768	259	119	58	1,204
Total financial assets	**16,362**	**6,419**	**9,360**	**1,100**	**33,241**

* excluding equity instruments
**including cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	16	271	63	411	761
Due to non-banks	9,486	1,500	410	-	11,396
Due to banks and other financial institutions	4,846	6,931	4,575	2,173	18,525
Debt securities issued	176	972	1,445	-	2,593
Subordinated liabilities	1	92	7	296	396
Trade and other payables*	1,127	273	449	2	1,851
Total financial liabilities	**15,652**	**10,039**	**6,949**	**2,882**	**35,522**

* excluding tax and other non-financial liabilities

Net liquidity position 2018	**710**	**(3,620)**	**2,411**	**(1,782)**	**(2,281)**

The less than three months interval within due to non-banks contains banking deposits, most of which are repayable on demand.

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	9,118	-	-	-	9,118
Investment securities	510	309	700	1,565	3,084
Financial assets at FVTPL	31	16	37	248	332
Financial assets AFS*	467	293	663	1,317	2,740
Financial assets HTM	12	-	-	-	12
Loans and receivables due from banks and other financial institutions	333	47	166	-	546
Loans due from customers	4,012	5,792	6,855	407	17,066
Trade and other receivables**	399	75	21	-	495
Total financial assets	**14,372**	**6,223**	**7,742**	**1,972**	**30,309**

* excluding equity instruments
** including cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	16	14	148	303	481
Due to non-banks	9,026	1,873	652	86	11,637
Due to banks and other financial institutions	3,191	5,578	4,750	408	13,927
Debt securities issued	231	301	975	190	1,697
Subordinated liabilities	-	109	75	167	351
Trade and other payables*	921	222	72	48	1,263
Total financial liabilities	**13,385**	**8,097**	**6,672**	**1,202**	**29,356**

* excluding tax and other non-financial liabilities

Net liquidity position 2017	**987**	**(1,874)**	**1,070**	**770**	**953**

The net liability position in 2018 and minimal excess of financial assets over financial liabilities in 2017 reflects the fact that the Group finances the acquisition of its significant investments (Telenor assets in 2018, O2 CR/CETIN in previous years) and investment property using bank financing. The Group repays such loans by proceeds from future dividends, rental income or the sale of assets, or is able to refinance such facilities at their maturities.

The following tables show the residual maturities of balance sheet and off-balance sheet liabilities on an undiscounted cash flow basis. Only those liability items are shown for which the total estimated undiscounted cash flows differ from the book values shown in the consolidated statement of the financial position.

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to non-banks	9,498	1,551	427	-	11,476
Due to banks and other financial institutions	5,122	7,501	5,152	2,225	20,000
Debt securities issued	200	1,063	1,545	-	2,808
Subordinated liabilities	3	105	59	360	527
Trade and other payables*	1,151	277	483	2	1,913
Loan commitments (off-balance sheet)	447	97	13	371	928
Payment guarantees provided (off-balance sheet)	2	31	15	-	48
Total	**16,423**	**10,625**	**7,694**	**2,958**	**37,700**

* excluding tax and other non-financial liabilities

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to non-banks	9,044	1,964	701	95	11,804
Due to banks and other financial institutions	3,385	6,113	5,178	419	15,095
Debt securities issued	238	327	1,027	193	1,785
Subordinated liabilities	1	124	121	204	450
Trade and other payables*	921	222	72	48	1,263
Loan commitments (off-balance sheet)	373	77	239	2	691
Payment guarantees provided (off-balance sheet)	16	9	11	8	44
Total	**13,978**	**8,836**	**7,349**	**969**	**31,132**

* excluding tax and other non-financial liabilities

The expected cash outflows and inflows related to trading and hedging derivatives are as follows:

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Outflows					
Interest rate derivatives held for trading	(191)	(805)	(2,426)	(3,909)	(7,331)
Currency derivatives held for trading	(3,280)	(5,768)	(3,126)	-	(12,174)
Hedging derivatives	-	(2)	(9)	(20)	(31)
Inflows					
IR derivatives held for trading	191	808	2,432	3,908	7,339
Currency derivatives held for trading	3,278	5,772	3,118	3,118	12,168
Hedging derivatives	1	3	10	19	33
Net position	**(1)**	**8**	**(1)**	**(2)**	**4**

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Outflows					
Interest rate derivatives held for trading	(54)	(2,277)	(2,371)	(2,136)	(6,838)
Currency derivatives held for trading	(2,314)	(2,098)	(4,239)	(6)	(8,657)
Hedging derivatives	-	(2)	(7)	(18)	(27)
Inflows					
IR derivatives held for trading	54	2,277	2,311	2,134	6,776
Currency derivatives held for trading	2,318	2,103	4,228	6	8,655
Hedging derivatives	-	1	9	23	33
Net position	**4**	**4**	**(69)**	**3**	**(58)**

C.4. Market risk

Market risk is the risk that changes in market rates, such as interest rates, foreign exchange rates, and prices of equity securities will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risk exposure and keep it within acceptable limits.

The bulk of the Group's exposure to market risk arises in connection with the use of liabilities denominated in foreign currencies to finance the Group's operations, and to the extent the term structure of interest-bearing assets differs from that of liabilities. Exposure to market risk is formally managed by buying or selling instruments or entering into offsetting positions subject to risk limits or frameworks set by senior management.

C.4.1. Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating-rate assets and liabilities the Group is also exposed to interest rate cash-flow risk, which varies depending on the different repricing characteristics of the various floating-rate instruments.

Interest rate risk is managed principally by monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Group's senior management monitors compliance with these limits. Interest rate derivatives (refer to E.13) are one of the tools the Group uses to manage this position.

Interest rate derivatives are primarily used to bridge the repricing mismatch between assets and liabilities. In addition, the Group enters into interest rate swaps to fix the interest rates on its floating-rate debts at a certain level.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100-basis-point parallel fall or rise in all yield curves worldwide. In such a case, the net interest income for the year ended 31 December 2018 would be approximately MEUR 194 higher/lower (2017: MEUR 130).

The tables below summarise the interest rate repricing gap of the Group's financial assets and liabilities at the reporting date. The carrying amounts of interest-rate-sensitive assets and liabilities and the notional amounts of swaps and other derivative financial instruments are presented in the periods in which they mature or in which the interest rates will next be fixed. To reflect anticipated prepayments, certain asset and liability categories are included in the table based on estimated rather than contractual maturity dates. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the expected maturity date.

The following tables present an analysis of the interest rate gap position (excl. derivatives):

In millions of EUR, as at 31 December 2018

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	1.6%	10,120	-	-	-	10,120
Investment securities	3.5%	511	861	420	548	2,340
Financial assets at FVTPL	3.3%	-	7	38	176	221
Financial assets at FVOCI*	5.4%	465	329	382	104	1,280
Financial assets AC	0.9%	46	525	-	268	839
Loans and receivables due from banks and other financial institutions	3.1%	289	47	13	-	349
Loans due from customers	29.2%	5,455	5,534	7,748	66	18,803
Trade and other receivables**	0.00%	771	252	146	35	1,204
Total financial assets	**-**	**17,146**	**6,694**	**8,327**	**649**	**32,816**

* excluding equity instruments
** including cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2018

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	1.7%	-	240	26	301	567
Due to non-banks	1.9%	9,487	1,499	410	-	11,396
Due to banks and other financial institutions	6.6%	8,753	6,400	3,017	355	18,525
Debt securities issued	8.2%	176	972	1,445	-	2,593
Subordinated liabilities	5.9%	-	92	254	50	396
Trade and other payables*	0.7%	1,127	274	448	2	1,851
Total financial liabilities	**-**	**19,543**	**9,477**	**5,600**	**708**	**35,328**

* excluding tax and other non-financial liabilities

Net position 2018	**(2,397)**	**(2,609)**	**2,824**	**(59)**	**(2,241)**

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	0.6%	9,118	-	-	-	9,118
Investment securities	3.7%	555	1,193	562	638	2,948
Financial assets at FVTPL	1.2%	7	55	(10)	144	196
Financial assets AFS*	3.9%	536	1,138	572	494	2,740
Financial assets HTM	6.3%	12	-	-	-	12
Loans and receivables due from banks and other financial institutions	2.1%	342	46	158	-	546
Loans due from customers	30.2%	4,672	5,968	6,244	182	17,066
Trade and other receivables**	-	399	75	21	-	495
Total financial assets	**-**	**15,086**	**7,282**	**6,985**	**820**	**30,173**

* excluding equity instruments
** including cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	1.8%	-	181	416	107	704
Due to non-banks	1.7%	9,026	1,873	652	86	11,637
Due to banks and other financial institutions	7.1%	4,794	5,844	2,949	340	13,927
Debt securities issued	5.1%	231	301	975	190	1,697
Subordinated liabilities	7.8%	-	109	165	77	351
Trade and other payables*	0.1%	921	223	72	47	1,263
Total financial liabilities	**-**	**14,972**	**8,531**	**5,229**	**847**	**29,579**

* excluding tax and other non-financial liabilities

Net position 2017	**114**	**(1,249)**	**1,756**	**(27)**	**594**

C.4.2. Equity price risk

Equity price risk is the risk that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Group manages its use of equity investments in response to changing market conditions and limits the risk by maintaining a diversified portfolio.

C.4.3. Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. Foreign currency risk arises when the actual or forecast assets denominated in a given foreign currency are either greater or less than the liabilities denominated in that currency. It is the Group's policy to hedge such mismatches with derivative financial instruments to eliminate the foreign currency exposure.

The Group's main foreign exposures are to the European and Asian countries in which the Group operates. Its exposures are measured mainly in Czech crowns, Chinese yuan, Russian roubles, and newly Hungarian forint. As the currency in which the Group presents its consolidated financial statements is the euro, movements in the exchange rates between these currencies and the euro affect the Group's consolidated financial statements in OCI (translation reserve). Net investments in foreign operations are not hedged.

The following table summarises the Group's exposure in individual countries and respective local functional currencies. Any exposure in the individual countries in other than the local currency is excluded.

In millions of EUR, as at 31 December 2018

	EUR	CZK	CNY	RUB	VND	KZT	USD	BGN	HUF	RSD	Other	Total
Net investment in foreign operation	1,463	4,413	1,437	1,209	310	300	202	699	1,111	795	652	12,591

In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	VND	KZT	USD	BGN	HUF	RSD	Other	Total
Net investment in foreign operation	905	3,795	1,498	1,353	221	155	157	-	-	-	240	8,324

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Group companies that are not denominated in the functional currency of the respective Group entity. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or through short-term FX trades.

The Group entities' largest foreign currency exposures are for financial assets and financial liabilities, i.e. exposures in currencies different from the entities' functional currencies (gross position as net financial assets and financial liabilities):

In millions of EUR, as at 31 December 2018

	EUR	CZK	CNY	RUB	VND	KZT	USD	HUF	Other	Total
Financial assets	1,178	1	1	21	-	-	763	-	581	2,545
Financial liabilities	5,822	255	1	162	-	-	706	-	290	7,236
Effect of FX derivatives	2,007	-	-	45	-	(152)	(339)	(396)	(523)	642
Net FX position	(2,637)	(254)	-	(96)	-	(152)	(282)	(396)	(232)	(4,049)

In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	VND	KZT	USD	HUF	Other	Total
Financial assets	891	207	-	46	-	-	964	-	954	3,062
Financial liabilities	2,218	172	314	50	-	-	839	-	416	4,009
Effect of FX derivatives	506	(336)	295	40	(544)	(65)	108	-	-	4
Net FX position	(821)	(301)	(19)	36	(544)	(65)	233	-	538	(943)

The following tables present an analysis of the sensitivity of the Group's equity to changes in currency exchange rates based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 5% change in CZK, USD, RUB, KZT and CNY to EUR exchange rates:

In millions of EUR, as at 31 December 2018

	CZK	USD	RUB	KZT	CNY
Effect of 5% currency depreciation against EUR	(208)	4	(56)	(7)	(72)
Effect of 5% currency appreciation against EUR	208	(4)	56	7	72

In millions of EUR, as at 31 December 2017

	CZK	USD	RUB	KZT	CNY
Effect of 5% currency depreciation against EUR	(190)	(20)	(68)	(8)	(75)
Effect of 5% currency appreciation against EUR	190	20	68	8	75

C.4.4. Hedging

The Group uses derivative financial instruments to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instruments are used for this purpose, including interest rate swaps and currency swaps, options, forward contracts and other derivatives. The purpose of the Group's hedging activities is to protect the Group from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Group enters into transactions to ensure that it is economically hedged in accordance with its asset-liability risk management policies.

Interest rate hedging derivatives are designated as economic hedges of benchmark interest rates for specified assets or groups of similar assets, as well as liabilities or groups of similar liabilities, or anticipated transactions. The Group's risk management activities concentrate on economic hedging of the Group's net exposure based on its asset and liability positions. Therefore the Group monitors its interest rate risk exposures by reviewing the net asset or liability gaps within the relevant repricing bands.

When the Group economically hedges a portfolio of loans or liabilities in respect of the interest rate risk, it classifies the loans in question into homogenous groups, each with specific maturities.

The Group manages its use of hedging derivatives in response to changing market conditions, as well as to changes in the characteristics and mix of the related assets, liabilities and firm commitments.

C.5. Insurance risk

The main risk faced by the Group under insurance contracts is that the actual claims and benefit payments, or the timing thereof, will differ from expectations. This is influenced by the frequency of claims, severity of claims, claims settlement period, etc. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover current and future liabilities under insurance contracts. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Group uses reinsurance agreements as a part of its risk mitigation programme. Insurance risk is transferred to reinsurance on a pro rata and disproportional basis. Most reinsurance contracts are proportional reinsurance (quota/surplus reinsurance) combined with excess of loss reinsurance.

C.5.1. Life insurance

Insurance risks related to life insurance contracts include biometric risks arising from events related to mortality trends, longevity, morbidity, etc., as well as risks related to trends in lapses and acquisition and maintenance expenses from insurance contracts.

The vast majority of life insurance contracts offered by the Group have two components: the main programme, which is a savings (endowment/pure endowment) component, and riders that may include pure risks cover, such as accident cover or critical illness cover. One of the Group's products also includes a pension annuity. All of the Group's life insurance contracts have a guaranteed interest rate. In order to fulfil its obligations to policyholders, the Group uses the concept of asset-liability matching, which means that the Group invests in assets with a rate of return equal to or more than the minimum interest guaranteed under insurance contracts.

Risks associated with the savings component of insurance contracts are screened (i.e. assessed and analysed) regularly in light of the principle of prudence. Such screening includes, inter alia, analysing the prevailing conditions on financial markets and any regulatory restrictions. The screening results are used to shape the underwriting and pricing policies of the Group.

C.5.2. Non-life insurance

Non-life insurance business comprises mainly loan and accident insurance. Insurance risk on non-life insurance contracts is divided into price risk, concentration risk and reserve deficiency risk. The Group's portfolio of accident insurance is not subject to catastrophe risk. Price risk arises due to the fact that insurance premiums may not be sufficient to cover future losses and expenses on insurance contracts. To manage price risk, the Group regularly analyses profitability in the context of insurance products and makes appropriate adjustments in its pricing policy. The Group also uses reinsurance contracts as a part of its risk management programme.

C.6. Risks specific to real estate business

C.6.1. Concentration risk

The Group's goal is to hold a well-balanced portfolio with respect to the geographical concentration of its assets. Therefore, it broadened its geographical focus during the last years by having properties in the Czech Republic, Germany, the Netherlands, Romania, Russia and the United Kingdom. Any potential concentration risk is also managed through diversified investments into different real estate sectors such as office, logistics and retail and through careful selection of real estate projects and internal project management controls.

C.6.2. Valuation risk

Given the nature of the assets and the requirement that they be measured at fair market value, the Group uses only reputable and internationally well-known independent experts to establish fair market values. In the event that a valuation is made based on internal calculations, it is always subject to several rounds of discussions between internal real estate analysts and the Group's senior management, with strict emphasis on taking a justifiable, conservative approach.

C.6.3. Occupancy risk

The Group is exposed to an occupancy risk stemming from the possibility of losing the tenant or the need to provide for significant incentives either to keep the current tenant or to obtain a new one. In the current buyers' market environment, when faced with such requirements the Group's position is not very strong. To partially mitigate such adverse conditions, the Group tries to offset the immediate negative impact in the long term, e.g. to negotiate long rental agreements incorporating the unilateral option to renew the agreement or to impose significant penalties if the contract is broken by the tenant.

C.7. Fair value of financial assets and liabilities

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments measured using: market prices quoted in active markets for similar instruments; prices quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include a comparison with similar instruments for which market observable prices exist, the net present value and discounted cash flow models, Black-Scholes option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of debt securities available for sale and foreign currency futures is based on their quoted market price. The other derivative contracts are not exchange traded and their fair value is estimated using an arbitrage pricing model, the key parameters of which are the relevant foreign exchange rates and interbank interest rates prevailing at the reporting date.

The following table shows the carrying amounts and fair values of financial instruments measured at amortised cost, including their levels in the fair value hierarchy:

In millions of EUR, as at 31 December 2018

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets at amortised cost	839	827	749	-	78
Loans and receivables due from banks and other financial institutions	349	349	-	349	-
Loans due from customers	18,803	19,014	-	1,065	17,949
Trade and other receivables*	1,204	1,209	-	14	1,195
Due to non-banks	(11,396)	(11,404)	-	(7,411)	(3,993)
Due to banks and other financial institutions	(18,525)	(18,520)	(64)	(2,922)	(15,534)
Debt securities issued	(2,593)	(2,604)	(1,132)	(1,171)	(301)
Subordinated liabilities	(396)	(377)	(90)	-	(287)
Trade and other payables**	(1,851)	(1,853)	(7)	(50)	(1,796)

*including cash collateral for payment cards and other financial assets
** excluding tax and other non-financial liabilities

In millions of EUR, as at 31 December 2017

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets held to maturity	12	12	-	12	-
Loans and receivables due from banks and other financial institutions	546	546	-	546	-
Loans due from customers	17,066	17,205	-	-	17,205
Trade and other receivables*	441	441	-	-	441
Due to non-banks	(11,637)	(11,645)	-	(11,645)	-
Due to banks and other financial institutions	(13,927)	(13,926)	-	(13,433)	(493)
Debt securities issued	(1,697)	(1,714)	(7)	(1,707)	-
Subordinated liabilities	(351)	(356)	(185)	(171)	-
Trade and other payables	(1,559)	(1,559)	-	-	(1,559)

* including cash collateral for payment cards and other financial assets

The Group's fair-value estimates for its other financial assets and liabilities are not materially different from their carrying values.

The following table presents an analysis of financial instruments recorded at fair value, broken down by how the fair value calculation is accomplished: i.e. based on quoted market prices (Level 1), calculated using valuation techniques where all the model inputs are observable in the market (Level 2), or calculated using valuation techniques where significant model inputs are not observable in the market (Level 3):

In millions of EUR, as at 31 December 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	225	323	98	646
Financial assets FVOCI	1,678	157	39	1,874
Financial liabilities at FVTPL	(312)	(368)	(81)	(761)
Total	**1,591**	**112**	**56**	**1,759**

In millions of EUR, as at 31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	192	140	-	332
Financial assets AFS	3,057	173	116	3,346
Financial liabilities at FVTPL	(372)	(109)	(332)	(813)
Total	**2,877**	**204**	**(216)**	**2,865**

The following table shows the reconciliation of movements in Level 3:

In millions of EUR, for the year ended 31 December 2018

	Financial assets FVTPL	Financial assets FVOCI/ AFS	Financial liabilities FVTPL	Total
Balance as at 1 January (IAS39)	-	116	(332)	(216)
Balance as at 1 January (IFRS 9)	-	117	(332)	(215)
Net gains/(losses) recorded in profit or loss (included in net gain/(loss) on financial assets)	-	9	15	24
Net gains/(losses) recorded in other comprehensive income	-	(1)	-	(1)
Purchases of financial assets	-	25		25
Sales/settlements	-	(1)	293	292
Additions of financial liabilities	-	-	(2)	(2)
Additions from business combinations	-	-	(55)	(55)
Transfers out of/into Level 3	98	(110)	-	(12)
Balance as at 31 December 2018	**98**	**39**	**(81)**	**56**

In millions of EUR, for the year ended 31 December 2017

	Financial assets AFS	Financial liabilities FVTPL	Total
Balance as at 1 January	16	(16)	-
Net gains/(losses) recorded in profit or loss (included in net gain/(loss) on financial assets)	8	(21)	(13)
Purchases of financial assets	93	-	93
Additions of financial liabilities	-	(295)	(295)
Settlements	(1)	-	(1)
Balance as at 31 December 2017 (IAS 39)	**116**	**(332)**	**(216)**

The financial assets at FVOCI/AFS presented in Level 3 consist of debt securities of MEUR 0 (2017: MEUR 90) and equity securities of MEUR 39 (2017: MEUR 26). The fair value of debt securities is sensitive to market interest rates. The fair value of equity securities is sensitive to economic developments at the businesses in question.

C.8. Offsetting financial assets and liabilities

The Group's derivative transactions are predominantly entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2018 and 31 December 2017 the reported balances of positive and negative fair values of derivatives do not include any offset amounts.

Loans and advances provided and received under repo operations are covered by Global Master Repurchase Agreements and similar agreements with terms similar to those of International Derivative Swaps and Dealers Association Master Netting Agreements.

Such agreements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2018 and 31 December 2017 the reported balances of loans and advances provided under repo operations do not include any offset amounts. The remaining balances of liabilities due from banks and non-banks are not subject to any offsetting arrangements.

C.9. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk to balance the avoidance of financial losses/damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk has been assigned to the senior management of the Group. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for the appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;

- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The individual subsidiaries have their local internal audit teams that also cooperate with the Group internal audit on the PPF Group level. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Group.

C.10. Capital management

The Group's objective is to maximise the shareholder value while maintaining investor, creditor and market confidence and being able to sustain the future development of the businesses. The Group manages its capital structure and makes adjustments in light of changes in economic conditions.

To achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets the financial covenants attached to interest-bearing loans and borrowings. Any breaches in meeting the financial covenants would permit lenders to call loans and borrowings, subject to the Group not being able to remedy the breach. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

The last two years PPF Group NV distributed MEUR 40 to its shareholders. This distribution should be seen in relation to the general principles for capital management as explained above.

C.10.1.Financial services segment

Until beginning of 2015, the Group was a financial conglomerate and thus subject to supplementary prudential rules applicable to financial conglomerates. This situation changed by divestment of a significant insurance segment in January 2015.

As of 30 June 2015, the Group restructured its consumer finance and other banking business represented by Home Credit, Air Bank and PPF banka under PPF Financial Holdings B.V., the new holding entity (the "Subgroup"). The Subgroup became a financial holding company and as such became subject to consolidated prudential requirements based on Regulation No 575/2013 of the European Parliament and of the Council, with the Czech National Bank as the consolidating supervisor. PPF banka was appointed as the responsible reporting entity for this Subgroup.

The Subgroup is required to fulfil the following capital requirements: a Tier 1 capital adequacy ratio of at least 6% and a total capital adequacy ratio of at least 8%. Moreover, the Subgroup is required to maintain a capital conservation buffer amounting to 2.5% of its risk- weighted assets and an institution-specific countercyclical capital buffer that is currently immaterial given the geographical placement of its assets.

The Subgroup also monitors and maintains other regulatory requirements, such as liquidity and leverage ratios.

In a November 2015 decision of the Czech National Bank, the Subgroup was identified as an Other Systemically Important Institution (O-SII). This classification was confirmed in 2016, 2017 and 2018. No additional capital requirement was imposed due to this classification.

The following table presents the composition of the Subgroup's regulatory capital:

In millions of EUR, as at 31 December

	2018	2017
Issued capital	0.05	0.05
Share premium	2,324	2,231
Retained earnings and other reserves	(142)	(5)
Interim profit included into capital	229	280
Minority interests on CET 1	12	10
Adjustment to CET 1 due to IFRS 9	305	-
(-) Additional valuation adjustment	(2)	(3)
(-) Intangible assets	(276)	(232)
(-) Deferred tax assets (deductible part)	(226)	(118)
Total Tier 1 capital	**2,225**	**2,163**
Total Tier 2 capital	**300**	**268**
Total capital	**2,525**	**2,431**
Total capital adequacy ratio	**11.18%**	**11.08%**

The total regulatory capital of the Subgroup consists of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises the following items: issued capital, share premium, retained earnings, interim profit approved by the regulator, accumulated other comprehensive income, other reserves and minority interests. Tier 1 capital is decreased by intangible assets, the additional valuation adjustment and deferred tax assets directly deductible from capital. The Subgroup has no additional Tier 1 capital.

Tier 2 capital consists of the eligible portion of Tier 2 instruments issued by PPF Financial Holdings B.V., PPF banka a.s., Air Bank a.s., and Home Credit and Finance Bank LLC.

Some of the Group's subsidiaries operating in the banking, consumer finance and insurance sectors maintain capital adequacy in compliance with local regulatory requirements, requiring the respective entities to maintain a ratio of total capital to total risk-weighted assets at or above a certain minimum level. The ratios are calculated based on the entities' financial statements prepared in accordance with local accounting standards. The Group's policy in this respect is to support the subsidiaries with capital as necessary to maintain the subsidiaries' full compliance with the relevant requirements.

The Group, the Subgroup, and their individually regulated operations complied with all externally imposed capital requirements, liquidity requirements, and leverage requirements throughout the reporting period.

D. Segment reporting

The Group recognises reportable segments that are defined in both geographical and sector terms. These segments offer different products and services, and are managed separately because they operate in completely distinct business sectors. The Group's Board of Directors and shareholders (the Chief Operating Decision Maker) review the internal management reports of individual segments on a regular basis.

The following summary describes the operations and the geographic focus of each reportable segment.

Reportable segment	Business name/brand	Operations	Geographic focus
Financial services	PPF banka	Loans, deposits and other transactions and balances with corporate customers, trading activities	Czech Republic
	Home Credit	Lending to private individual customers, deposit-taking	Czech Republic, Slovakia, Russian Federation, Asia, USA
	Air Bank	Deposits, loans and other transactions and balances with retail customers	Czech Republic
	subsidiaries of PPF banka and Air Bank	Lending to private individual customers	Czech Republic, Slovakia, Russia
	ClearBank *(associate)*	Clearing and settlement services	United Kingdom
Telecommunications	O2	Telecommunication operator providing a range of voice and data services (CZ), mobile operator (SK)	Czech Republic, Slovakia
	CETIN	Administration and operation of data and communication network	Czech Republic
	Telenor	Mobile operators providing a range of voice and data services	Hungary, Bulgaria, Serbia and Montenegro
Real estate	PPF Real Estate Holding	Developing, investing and professional consulting in the property sector	Central and Western Europe, Russia, Ukraine, Romania
Mechanical engineering	Škoda	Production, development, assembling and repairs of vehicles for public transport	Czech Republic, Eastern Europe, Russia, Finland
Insurance	PPF Insurance	Provision of life insurance products	Russia
Other	Sotio	Development of new medical therapies, focusing on the treatment of cancer and autoimmune diseases	Czech Republic, USA, China
	RAV Holding	Grain and livestock production, storage and trade	Russia
	O2 Arena	Operation of multipurpose hall hosting mainly sports and cultural events	Czech Republic
	The Culture Trip *(associate)*	Online publishing and book selling	worldwide
	LEAG *(JV)*	Extraction, processing, refining and sale of lignite, generation of electricity and heat	Germany
	Mall/Heureka *(associate)*	e-commerce and comparison shopping platforms	Central and Eastern Europe

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. Segment assets and liabilities include all assets and liabilities attributable to the segments. Significant non-cash expenses comprise mainly impairment losses on financial and non-financial assets. Eliminations represent intercompany balances among individual reporting segments.

Total segment revenue contains the following categories, which may be reconciled to the income statement as follows:

In millions of EUR, for the year ended 31 December 2018

	2018	2017
Interest income	4,778	3,649
Fee and commission income	841	797
Net earned premiums	71	92
Net rental and related income	154	140
Telecommunication income	2,414	1,822
Machinery income	372	-
Net agriculture income	8	5
Net income on retail operations	-	1
Total revenue from external customers	**8,638**	**6,506**

The Group does not have a major customer or individual customer with revenue exceeding 10% of total segment revenue.

The following table shows the main items from the financial statements broken down according to reportable segments for the year ended 31 December 2018 and comparative figures for 2017:

In millions of EUR

2018	Financial services	Telecommu-nications	Real estate	Insurance	Mechanical engineering	Other	Unallocated	Eliminations	**Consolidated**
Revenue from external customers	5,606	2,420	156	59	376	18	3	-	8,638
Inter-segment revenue	4	4	2	1	-	-	37	(48)	-
Total revenue	**5,610**	**2,424**	**158**	**60**	**376**	**18**	**40**	**(48)**	**8,638**
Segment share of earnings of associates/JVs	(13)	-	28	0	6	(67)	-	-	(46)
Net profit for the year	**511**	**220**	**120**	**2**	**32***	**(66)**	**40**	**6**	**865**
Capital expenditure	(154)	(364)	(1)	-	(17)	(77)	(2)	-	(615)
Depreciation and amortisation	(116)	(469)	(3)	(1)	(16)	(2)	(1)	-	(608)
Other significant non-cash expenses	(1,728)	(23)	(5)	-	(6)	-	(15)	-	(1,747)
Segment assets	32,272	7,580	1,950	165	901	620	1,701	(1,025)	44,164
Equity-accounted investees	44	1	57	-	14	804	-	-	920
Total assets									**45,084**
Segment liabilities	29,346	6,029	1,294	127	575	379	374	(940)	**37,184**
Total liabilities									**37,184**
Segment equity	**2,970**	**1,552**	**713**	**38**	**340**	**1,045**	**1,327**	**(85)**	**7,900**

*including gain on a bargain purchase

In millions of EUR

2017	Financial services	Telecommu-nications	Real estate	Insurance	Other	Unallocated	Eliminations	**Consolidated**
Revenue from external customers	4,449	1,829	144	68	15	1	-	6,506
Inter-segment revenue	3	4	2	2	-	24	(35)	-
Total revenue	**4,452**	**1,833**	**146**	**70**	**15**	**25**	**(35)**	**6,506**
Segment share of earnings of associates/JVs	(7)	-	31	-	70	-	-	94
Net profit for the year	**307**	**258**	**78**	**3**	**63**	**(31)**	**12**	**690**
Capital expenditure	(170)	(322)	(2)	-	(31)	-	-	(525)
Depreciation and amortisation	(92)	(341)	(2)	(2)	(4)	(1)	-	(442)
Other significant non-cash expenses	(1,131)	(11)	(7)	-	-	(16)	-	(1,165)
Segment assets	30,234	4,321	1,787	175	536	2,285	(1,622)	37,716
Equity-accounted investees	17	1	54	-	434	-	-	506
Total assets								**38,222**
Segment liabilities	27,468	2,774	1,411	131	404	261	(1,604)	30,845
Total liabilities								**30,845**
Segment equity	**2,783**	**1,548**	**430**	**44**	**566**	**2,024**	**(18)**	**7,377**

D.1.1. Financial services segment

In 2018, the Group decided to change the detailed presentation of this segment from a mixture of sector and geographical views to the sector view. The comparative figures has been amended accordingly.

The Home Credit Group newly reports on one global consumer lending segment where all information about similar products, services, and customers is presented. This approach suits the global business strategy of having a similar approach to customers, a unique and unified product portfolio, as well as centralised processes that drive operational excellence. The Group also presents additional information for revenue and net interest income based on the division of the countries into four geographic clusters. The Home Credit Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, Slovakia, India, Indonesia, the Philippines, and the USA. The Russian and Kazakh Home Credit businesses and Air Bank operate under banking licences allowing for the collection of deposits.

The following table shows the main items from the financial statements broken down according to reportable segments for 2018 and 2017:

In millions of EUR

2018	Corporate banking	Consumer lending						Unallocated	Eliminations	**Consolidated**
			China	*CIS**	*SEA*	*CEE*	*Other*			
Revenue from customers	135	5,460	3,483	903	834	230	10	15	-	5,610
Inter-segment revenue	40	(1)	-	-	-	(1)	-	10	(49)	-
Total revenue	**175**	**5,459**	**3,483**	**903**	**834**	**229**	**10**	**25**	**(49)**	**5,610**
Net interest income from external customers	97	3,267	2,076	492	594	173	(68)	7	-	3,371
Inter-segment net interest income	38	(51)	-	(3)	(34)	(1)	(13)	10	3	-
Total net interest income	**135**	**3,216**	**2,076**	**489**	**560**	**172**	**(81)**	**17**	**3**	**3,371**
Net profit for the year	**89**	**393**						**31**	**(2)**	**511**
Capital expenditure	(3)	(151)						-	-	(154)
Depreciation and amortisation	(2)	(115)						-	1	(116)
Other significant non-cash expenses	(1)	(1,732)						5	-	(1,728)
Segment assets (incl. equity accounted investees)	9,144	23,593						734	(1,155)	32,316
Segment liabilities	8,675	21,492						335	(1,156)	29,346
Segment equity	**469**	**2,101**						**399**	**1**	**2,970**

*CIS – Commonwealth of Independent States, SEA – South East Asia, CEE – Central and Eastern Europe

In millions of EUR

2017	Corporate banking	Consumer lending						Other	Eliminations	**Consolidated**
			China	*CIS**	*SEA*	*CEE*	*Other*			
Revenue from customers	90	4,346	2,639	923	557	216	11	16	-	4,452
Inter-segment revenue	26	(2)	-	-	-	(2)	-	27	(51)	-
Total revenue	**116**	**4,344**	**2,639**	**923**	**557**	**214**	**11**	**43**	**(51)**	**4,452**
Net interest income from external customers	67	2,472	1,450	479	398	166	(21)	15	-	2,554
Inter-segment net interest income	24	(56)	-	(14)	(18)	(2)	(22)	27	5	-
Total net interest income	**91**	**2,416**	**1,450**	**465**	**380**	**164**	**(43)**	**42**	**5**	**2,554**
Income tax expense	(15)	(127)						(7)	-	(149)
Net profit for the year	**56**	**248**						**3**	**-**	**307**
Capital expenditure	(4)	(166)						-	-	(170)
Depreciation and amortisation	(1)	(90)						(1)	-	(92)
Other significant non-cash expenses	(5)	(1,127)						1	-	(1,131)
Segment assets (incl. equity accounted investees)	9,122	21,519						483	(873)	30,251
Segment liabilities	8,719	19,499						124	(874)	27,468
Segment equity	**403**	**2,020**						**359**	**1**	**2,783**

*CIS – Commonwealth of Independent States, SEA – South East Asia, CEE – Central and Eastern Europe

D.1.2. Telecommunication segment

Telecommunication segment comprises O2 CR, CETIN, and, since July 2018, also Telenor. O2 CR is further divided into two geographical segments corresponding to the geographical location of customers. The Telenor businesses are split into three segments based on the geographical location of customers. The Telenor Serbia and Montenegro segment comprises two individual businesses units with a common management and business strategy.

In 2018, the Group decided to change the presentation of this segment and include all related acquisition financing. It is hence represented by the amount of total liabilities in the unallocated segment. Comparative figures have been amended accordingly.

In millions of EUR

2018	CETIN	O2 Czech Republic	O2 Slovak Republic	Telenor Hungary	Telenor Bulgaria	Telenor Serbia & MNE	Unallocated segment	Eliminations	**Consolidated**
Revenue from external customers	382	1,189	286	219	164	182	2	-	2,424
Inter-segment revenue	397	16	6	1	1	1	13	(435)	-
Total revenue	**779**	**1,205**	**292**	**220**	**165**	**183**	**15**	**(435)**	**2,424**
EBITDA	**295**	**332**	**101**	**75**	**70**	**70**	**(3)**	**-**	**940**
Profit for the period	**105**	**125**	**37**	**20**	**24**	**21**	**(112)**	**-**	**220**
Capital expenditure	(158)	(129)	(43)	(10)	(7)	(17)	-	-	(364)
Depreciation and amortisation	(143)	(156)	(46)	(47)	(36)	(41)	-	-	(469)
Other significant non-cash expenses	(8)	(7)	(3)	(2)	(1)	(2)	-	-	(23)
Segment assets	2,238	1,890	517	1,237	807	1,067	191	(367)	7,580
Equity-accounted investees	-	1	-	-	-	-	-	-	1
Segment liabilities	1,352	772	195	132	112	172	3,423	(129)	6,029
Segment equity	**886**	**1,118**	**322**	**1,105**	**695**	**895**	**(3,232)**	**(238)**	**1,552**

In millions of EUR

2017	CETIN	O2 Czech Republic	O2 Slovak Republic	Unallocated segment	Eliminations	**Consolidated**
Revenue from external customers	407	1,147	279	-	-	1,833
Inter-segment revenue	396	25	2	-	(423)	-
Total revenue	**803**	**1,172**	**281**	**-**	**(423)**	**1,833**
EBITDA	**298**	**325**	**81**	-	-	**704**
Profit for the period	**110**	**186**	**16**	**(12)**	**-**	**258**
Capital expenditure	(155)	(119)	(48)	-	-	(322)
Depreciation and amortisation	(151)	(142)	(48)	-	-	(341)
Other significant non-cash expenses	(3)	(5)	(3)	-	-	(11)
Segment assets	2,209	1,907	483	37	(315)	4,321
Equity-accounted investees	-	1	-	-	-	1
Segment liabilities	1,320	729	152	649	(76)	2,774
Segment equity	**889**	**1,179**	**331**	**(612)**	**(239)**	**1,548**

E. Notes to the consolidated financial statements

E.1. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Cash on hand	153	111
Current accounts	1,910	1,517
Balances with central banks	204	189
Reverse repo operations with central banks	7,800	7,277
Placements with financial institutions due within one month	53	24
Total cash and cash equivalents	**10,120**	**9,118**

As at 31 December 2018, cash and cash equivalents amounting to MEUR 792 (2017: MEUR 834) are restricted by borrowing agreements contracted by Chinese Home Credit with the creditors either to the disbursement of loans to retail clients or repayment of loans received from the creditors. If the cash is used to provide loans to retail clients, the loans are pledged as collateral.

There are no other restrictions on the availability of cash and cash equivalents.

E.2. Investment securities

Investment securities comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Financial assets at fair value through profit or loss	646	332
Financial assets at amortised cost/held to maturity	839	12
Financial assets at FVOCI/available for sale	1,874	3,346
Total investment securities	**3,359**	**3,690**

E.2.1. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss held for trading (except for part of government bonds in 2017 which were non-trading) comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Government and other public-sector bonds	343	183
Corporate bonds	52	13
Other debt securities	97	-
Positive fair value of trading derivatives	146	131
Interest rate derivatives	105	67
Currency derivatives	41	64
Positive fair value of hedging derivatives	8	5
Total financial assets at FVTPL	**646**	**332**

For more details on notional amounts, positive and negative fair values of derivative instruments, refer to E.13.

E.2.2. Financial assets at amortised cost

Financial assets at amortised cost/held to maturity comprise the following:

In millions of EUR, as at 31 December 2018

	Gross amount	Amortised cost
Government bonds	761	761
Corporate bonds	78	78
Total financial assets at amortised cost	**839**	**839**

Financial assets at amortised cost is a new category of investment securities resulting notably from the adoption of IFRS 9, where the financial instruments in this category were previously classified as available-for-sale financial assets (refer to F.2.2).

Credit quality analysis

No impairment losses on financial assets at amortised cost were recognised during the years ended 31 December 2018 and 2017.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stages classification. The amounts presented are gross of impairment allowances unless otherwise stated. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for financial assets at amortised cost as investment securities are calculated on an individual basis.

In millions of EUR, as at 31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	761	-	-	-	761
Low risk	-	-	-	-	-
Medium risk	78	-	-	-	78
High risk	-	-	-	-	-
Default	-	-	-	-	-
Gross amount	**839**	**-**	**-**	**-**	**839**
Loss allowance	-	-	-	-	-
Total carrying amount	**839**	**-**	**-**	**-**	**839**

E.2.3. Financial assets at FVOCI/available for sale

Financial assets at FVOCI/available for sale comprise the following:

In millions of EUR

	2018	2017
Debt securities	1,280	2,740
Government bonds	763	1,576
Corporate bonds	517	1,101
Other debt securities	-	63
Equity securities	594	606
Shares	572	606
Mutual fund investments	22	-
Total financial assets at FVOCI/AFS assets	**1,874**	**3,346**

As as 31 December 2018 and 2017, the Group holds 54.6 million shares in Polymetal as equity securities measured at FVOCI (2017: available-for-sale assets). The fair value amounted to MEUR 502 and a MEUR 64 loss was recognised as revaluation reserve in 2018 equity (2017:

a fair value of MEUR 566). The shares are listed on the London Stock Exchange and classify as Level 1 from the fair-value determination perspective.

Credit quality analysis

The following table shows the fair value of the Group's debt instruments at FVOCI split by credit risk, based on the Group's internal rating system and year-end stage classification. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for debt instruments at FVOCI are calculated on an individual basis.

In millions of EUR, as at 31 December 2018

Debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	247	-	-	-	247
Low risk	802	-	-	-	802
Medium risk	206	21	-	-	227
High risk	-	4	-	-	4
Default	-	-	-	-	-
Total carrying amount (fair value)	**1,255**	**25**	**-**	**-**	**1,280**

An analysis of the changes in the corresponding ECL allowances in relation to debt instruments at FVOCI as investment securities is as follows:

In millions of EUR, for the year ended 2018

Loss allowance – debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(2)	-	-	-	(2)
New originated or purchased	-	(1)	-	-	(1)
Loss allowance as at 31 December	**(2)**	**(1)**	**-**	**-**	**(3)**

Credit quality analysis as at 31 December 2017 (IAS 39):

The following table shows gross balances under IAS 39 as at 31 December 2017 based on the Group's internal credit rating system described in Note F.1.7:

In millions of EUR, as at 31 December 2017

	Very low risk	Low risk	Medium risk	High risk	Default	**Total**
Financial assets held to maturity	12	-	-	-	-	12
Financial assets available for sale*	812	1,403	525	-	-	2,740
Total amount	**824**	**1,403**	**525**	**-**	**-**	**2,752**

* debt securities

An analysis of the allowance for impairment losses under IAS 39 for investment securities is as follows:

In millions of EUR, for the year ended 2017

	Financial assets held to maturity	Financial assets AFS – debt instruments
Balance as at 1 January	-	(16)
Deconsolidation	-	15
Effect of movements in exchange rates	-	1
Balance as at 31 December	**-**	**-**

E.3. Loans and receivables due from banks and other financial institutions

Loans and receivables due from banks and other financial institutions comprise the following:

In millions of EUR

	2018	2017
Gross amount	349	546
Allowance for impairment	-	-
Total carrying amount	**349**	**546**
Term deposits at banks	16	30
Minimum reserve deposits with central banks	134	153
Loans to banks	54	7
Loans and advances provided under repos	64	130
Cash collateral for derivative instruments	74	68
Other	7	158

The minimum reserve deposits are mandatory non-interest-bearing deposits with restricted withdrawals, maintained in accordance with regulations issued by central banks in countries in which the Group's banking entities operate.

Credit quality analysis

The following table shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stages classification. The amounts presented are gross of impairment allowances unless stated otherwise. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for loans to banks and other financial institutions are calculated on an individual basis.

In millions of EUR

					2018	2017
Loans to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	121	-	-	-	121	70
Low risk	197	-	-	-	197	260
Medium risk	31	-	-	-	31	216
High risk	-	-	-	-	-	-
Default	-	-	-	-	-	-
Gross amount	**349**	**-**	**-**	**-**	**349**	**546**
Loss allowance	-	-	-	-	-	-
Total carrying amount	**349**	**-**	**-**	**-**	**349**	**546**

An analysis of the changes in the corresponding ECL allowances in relation to Loans to banks and other financial institutions is as follows:

In millions of EUR, for the year ended 31 December 2018

Loss allowance - Loans to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(3)	-	-	-	(3)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	1	-	-	-	1
Financial assets derecognised	2	-	-	-	2
Loss allowance as at 31 December	-	-	-	-	-

E.4. Loans due from customers

Loans due from customers comprise the following items:

In millions of EUR

	2018	2017
Cash loans	11,940	9,083
Consumer loans	4,559	5,518
Revolving loans	529	460
Car loans	110	94
Mortgage loans	207	142
Loans due from customers – retail (carrying amounts)	**17,345**	**15,297**
Loans to corporations	1,299	1,616
Loans to equity-accounted investees	143	150
Loans and advances provided under repo operations	15	-
Other	1	3
Loans due from customers – non-retail (carrying amounts)	**1,458**	**1,769**
Total loans due from customers (carrying amounts)	**18,803**	**17,066**

E.4.1.1. Loans due from customers - retail

Loans due from customers – retail comprise the following:

In millions of EUR, as at 31 December 2018

	Cash loans	Consumer loans	Revolving loans	Other*	Total
Gross amount	**13,501**	**4,999**	**594**	**341**	**19,435**
Stage 1	11,022	4,390	462	284	16,158
Stage 2	1,312	220	75	34	1,641
Stage 3	1,167	389	57	23	1,636
POCI	-	-	-	-	-
Allowance for impairment	**(1,561)**	**(440)**	**(65)**	**(24)**	**(2,090)**
Stage 1	(393)	(98)	(11)	(2)	(504)
Stage 2	(303)	(53)	(5)	(1)	(362)
Stage 3	(865)	(289)	(49)	(21)	(1,224)
POCI	-	-	-	-	-
Total carrying amount	**11,940**	**4,559**	**529**	**317**	**17,345**

* includes mortgage loans and car loans

Upon the adoption of IFRS 9 on 1 January 2018, the impact of the increase in loss allowances to retail loans due from customers (before tax) was MEUR 264 (refer to F.2.2).

Credit quality analysis:

The Group's maximum exposure to credit risk and the year-end stage classification are shown in the above table. The Group does not apply its internal credit rating system for retail portfolios as other more appropriate measures are applied. Details of these measures are set out in Note F.1.7. ECL allowances for retail loans to customers (consumer lending) are calculated on a collective basis.

An analysis of the changes in the corresponding ECL allowances in relation to loans to customers – retail is as follows:

In millions of EUR, for the year ended 31 December 2018

Loss allowance – Loans to customers - retail	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January (under IFRS 9)	**(562)**	**(261)**	**(855)**	**-**	**(1,678)**
Changes in the loss allowance	82	(85)	(864)		(867)
Transfer to Stage 1	(1)	2	2		3
Transfer to Stage 2	25	(149)	1		(123)
Transfer to Stage 3	58	62	(867)		(747)
New originated or purchased	(490)	(186)	(229)	-	(905)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	217	(102)	(226)	-	(111)
Financial assets derecognised	5	1	-		6
Write-offs	235	264	930	-	1,429
FX and other movements	9	7	20	-	36
Net change during the period	**58**	**(101)**	**(369)**	**-**	**(412)**
Loss allowance as at 31 December	**(504)**	**(362)**	**(1,224)**	**-**	**(2,090)**

E.4.1.2. Loans to corporations – non-retail

Loans to corporations comprise the following:

In millions of EUR

	2018	2017
Gross amount	**1,526**	**1,839**
Loans to corporations	1,383	1,687
Loans to equity-accounted investees	143	152
Allowances for impairment	**(84)**	**(76)**
Total carrying amount*	**1,442**	**1,763**

** excl. loans and advances provided under repo operations and other*

Credit quality analysis:

The following table shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stages classification. The amounts presented are gross of impairment allowances. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for non-retail loans to customers, which represent loans to corporations, are calculated on an individual basis.

In millions of EUR

					2018	2017
Loans to customers – non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	420	-	-	-	420	561
Low risk	23	-	-	-	23	35
Medium risk	829	38	-	-	867	993
High risk	22	-	-	-	22	60
Default	-	-	194	-	194	190
Total gross amount	**1,294**	**38**	**194**	**-**	**1,526**	**1,839**
Loss allowance	(24)	-	(60)	-	(84)	(76)
Total carrying amount*	**1,270**	**38**	**134**	**-**	**1,442**	**1,763**

** excl. loans and advances provided under repo operations and other*

Upon the adoption of IFRS 9 on 1 January 2018, the impact of the increase in loss allowances to non-retail loans due from customers (before tax) was MEUR 7 (refer to F.2.2).

An analysis of the changes in the corresponding ECL allowances in relation to loans to customers – non-retail is as follows:

In millions of EUR, for the year ended 31 December 2018

Loss allowance - Loans to customers - non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January (under IFRS 9)	(24)	-	(54)	-	(78)
Changes in the loss allowance	1	-	-	-	1
Transfer to stage 1	1	-	-	-	1
New originated or purchased	(3)	-	-	-	(3)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	2	-	(6)	-	(4)
Loss allowance as at 31 December	**(24)**	**-**	**(60)**	**-**	**(84)**

Credit quality analysis as at 31 December 2017 (IAS 39)

The table below shows the credit quality and the Group's maximum exposure to credit risk analysed in line with IAS 39.

Loans due from customers comprise the following:

In millions of EUR, as at 31 December 2017

Gross amount	
Cash loan receivables	9,967
Consumer loan receivables	5,959
Revolving loan receivables	524
Car loan receivables	117
Mortgage loan receivables	147
Loans to corporations	1,687
Loans to associates	152
Other	3
Total gross amount	**18,556**
Collective allowances for impairment	
Cash loan receivables	(882)
Consumer loans receivables	(441)
Revolving loan receivables	(64)
Car loan receivables	(22)
Mortgage loan receivables	(5)
Total collective impairment	**(1,414)**
Individual allowances for impairment	
Loans to corporations	(70)
Loans to associates	(6)
Total individual impairment	**(76)**
Total carrying amount	**17,066**

Movements in allowances for impairment may be broken down as follows:

In millions of EUR, for the year ended 31 December 2017

	Loans due from customers – retail and non-retail
Balance as at 1 January	(930)
Impairment losses recognised in the income statement	(1,144)
Change in impairment of loans to associates (negative share)	25
Amount related to loans written off and disposed of	507
Effect of movements in exchange rates	52
Balance as at 31 December	**(1,490)**

E.5. Trade and other receivables, contract balances

Trade and other receivables and contract assets comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Gross amount	920	481
Trade receivables	876	470
Accrued income	44	11
Individual impairment	(50)	(40)
Total trade and other receivables	**870**	**441**
Gross amount	277	-
Individual impairment	-	-
Total contract assets	**277**	**-**

Credit quality analysis

The Group generally uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a large number of small balances. In the engineering segment, where trade receivables comprise small number of large balances, a specific allowance for impairment is used. In contrast, in the telecommunication and real estate segments, where a large number of small balances is typical, the portfolio approach is applied.

Loss rates are calculated using a roll rate method based on the probability of a receivables progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics: geographic region, age of customer relationship and type of product purchased.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers using the provision matrix as at 31 December 2018.

In millions of EUR, as at 31 December 2018

	Weighted-average loss rate	**Gross amount**	**Loss allowance**	**Carrying amount**	**Credit-impaired**
Current (not past due)	0.3%	985	(3)	982	No
1-90 days	2.0%	102	(2)	100	No
91-180 days	19.1%	21	(4)	17	Yes
more than 180 days past due	46.1%	89	(41)	48	Yes
Total		**1,197**	**(50)**	**1,147**	**-**

Loss rates are based on actual credit loss experiences over past years. The rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The most significant scalar factors are the GDP forecast and industry outlook as well as actual and forecasted unemployment rates.

An analysis of the allowance for impairment losses under IAS 39 for trade and other receivables as at 31 December 2017 is as follows:

In millions of EUR, as at 31 December 2017

	Gross amount	Loss allowance	Carrying amount
Current (not past due)	**377**	**-**	**377**
Past due but not impaired			
1-90 days	14	-	14
91-360 days	1		1
more than 360 days past due	-	-	-
Impaired	89	(40)	49
Total	**481**	**(40)**	**441**

The movements in the allowance for impairment in respect of trade and other receivables and contract assets during the year were as follows. Comparative amounts for 2017 represent the allowance accounted for impairment losses under IAS 39.

In millions of EUR, for the year ended 31 December

	2018	2017
Balance as at 1 January (under IAS 39)	(40)	(35)
Adjustment on initial application of IFRS 9	_(1)_	-
Balance as at 1 January (under IFRS 9)	(41)	-
Impairment losses recognised in the income statement	(17)	(8)
Amount related to receivable written off	7	-
Financial assets derecognised during the period (excl. write offs)	1	-
Release of impairment losses on written off items	-	3
Balance as at 31 December	**(50)**	**(40)**

Contract assets and contract liabilities

The following table provides information about the carrying amounts of receivables, contract assets and contract liabilities from contracts with customers.

In millions of EUR, for the year ended 31 December

	2018
Receivables, which are included in "trade and other receivables"	81
Contract assets	**277**
out of which:	
Contract assets (mechanical engineering)	197
Contract assets (telecommunications)	80
Contract liabilities	**(208)**
out of which:	
Contract liabilities (mechanical engineering)	(118)
Contract liabilities (telecommunications)	(90)

There was no allowance for impairment in respect of contract assets during 2018.

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on mechanical engineering contracts. The contract assets are transferred to receivables when the rights become unconditional. For the telecommunication segment, contract assets relate to rights to consideration in exchange for goods or services that the Group has already transferred to customers but not yet invoiced. These in particular include contracts with customers where the supply of telecommunication services is supplemented by the sale of subsidised telecommunication equipment. A contract asset arises from the reallocation of revenues under a customer contract from telecommunication services provided and recognised during the life of the contract to the revenues from the sale of such subsidised equipment, which is recognised at the time of sale.

Contract liabilities primarily relate to the advances received from customers for engineering contracts, for which revenue is recognised when the Group is able to reliably measure the progress in the completion of the contracts. The Group applies the input method. A contract liability in the telecommunication segment is the Group's obligation to deliver goods or to provide services for which the Group has received consideration from the customer. Contract liabilities include mostly telecommunication services prepaid by customers on prepaid cards. These revenues are recognised when the voice or data traffic takes place, or when other services are provided, or when the card associated with the prepaid credit expires. Contract liabilities also arise when activation fees are invoiced upon the conclusion of a new contract that is not a stand-alone performance obligation, and are thus accrued over the term of the contract with the customer.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows.

In millions of EUR, for the period ended 31 December 2018

	Contract assets	**Contract liabilities**
Balance as at 1 January	18	(75)
Additions resulting from business combinations	246	(64)
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	59
Increases due to cash received, excluding amounts recognised as revenue during the period	-	(129)
Transfers from contract assets recognised at the beginning of the period to receivables	(139)	-
Increases as a result of changes in the measure of progress	154	-
FX differences from translation to presentation currency	(2)	1
Balance as at 31 December	**277**	**(208)**

The transaction price allocated to the remaining performance obligations related to contracts with customers (unsatisfied or partially unsatisfied) as at 31 December is as follows:

In millions of EUR

	2018
within 1 year	638
1-2 years	149
2-5 years	286
more than 5 years	37
Transaction price on performance obligations yet to be satisfied	**1,110**

E.6. Inventories

Inventories comprise the following:

In millions of EUR

	2018	2017
Mechanical engineering inventories	108	-
Goods/merchandise for resale	75	40
Trading property	6	22
Agricultural inventories	4	7
Total inventories	**193**	**69**

The carrying amounts of inventories comprise impairment of MEUR 12 (2017: MEUR 5) and represents notably an allowance for slow-moving and damaged items.

E.7. Assets held for sale

Assets held for sale are as follows:

In millions of EUR

	2018	2017
Investment property	-	43
Property, plant and equipment	-	1
Other assets	4	3
Total assets held for sale	**4**	**47**

E.8. Equity-accounted investees

The following table shows the breakdown of individual equity-accounted investees (comprising associates and joint-ventures):

In millions of EUR, for the year ended 31 December

	2018	2017
LEAG	717	358
Metropolis (Russia)	54	54
Sully Group	60	43
The Culture Trip	21	18
ClearBank	17	14
Other	51	19
Total equity-accounted investees	**920**	**506**

The following table shows the breakdown of the share of earnings of equity-accounted investees:

In millions of EUR, for the year ended 31 December

	2018	2017
LEAG	(26)	82
Metropolis (Russia)	27	31
Sully Group	(26)	(4)
The Culture Trip	(15)	(5)
ClearBank	(16)	(10)
Other	10	-
Total share of profit/(loss) in equity-accounted investees	**(46)**	**94**

The difference between the total investment and the Group's share in equity comprises goodwill.

LEAG

Since October 2016, the Group holds a 50% share in LEAG, a German group of entities dealing with the extraction, processing, refining, and sale of lignite, and the generation of electricity and heat. LEAG operates mines, power plants, and a refining plant. The following table shows LEAG's performance:

In millions of EUR, as at 31 December

	2018	2017
Percentage ownership interest	**50.00%**	**50.00%**
Non-current assets	3,015	2,150
Current assets	3,402	2,059
Non-current liabilities	(2,715)	(2,575)
Current liabilities	(2,268)	(918)
Net assets (100%)	1,434	716
Carrying amount of investment in JV (50.00%)	**717**	**358**
Total revenue	2,340	2,153
Total net profit/(loss) for the period (100%)	(52)	164
Total share in profit/(loss) (50.00%)	**(26)**	**82**
Total other comprehensive income/(expense) for the period (100%)	770	(16)
Group's share of other comprehensive income/(expense) (50%)	385	(8)

Other comprehensive income comprise a cash flow hedge effect related to the forward contracts for CO_2 emission rights. The hedging instruments are commodity derivatives designed to hedge the purchase price for future purchases of emission rights. The significant gain is caused by the change of the accounting treatment in LEAG and the recent significant increase in emission rights prices.

Metropolis (Russia)

In July 2015, the Group acquired a 49.99% stake in entities holding two up-and-running Moscow office buildings. Similarly to 2017, in 2018, due to the negative development of roubles exchange rate, the project made a revaluation gain compensated by a translation loss of MEUR 31 (2017: MEUR 46), recorded directly in equity.

In millions of EUR, as at 31 December

	2018	2017
Percentage ownership interest	**49.99%**	**49.99%**
Non-current assets	378	361
Current assets	8	15
Non-current liabilities	(240)	(252)
Current liabilities	(37)	(16)
Net assets (100%)	109	108
Carrying amount of investment in associate (49.99%)	**54**	**54**
Total revenue	39	40
Total net profit for the period (100%)	53	62
Total share in profit (49.99%)	**27**	**31**
Dividends received by the Group	1	5

Sully Group

In October 2017, the Group acquired a 40% stake in Sully System a.s. The investment comprises Mall Group and Heureka, representing an e-commerce platform in Central and Eastern Europe and a comparison shopping platform in the Czech Republic and Slovakia.

The following table presents performance of Sully Group (in 2017 since the acquisition):

In millions of EUR, as at 31 December

	2018	2017
Percentage ownership interest	**40%**	**40%**
Non-current assets	171	176
Current assets	194	165
Non-current liabilities	(208)	(261)
Current liabilities	(223)	(193)
Net assets (100%)	(66)	(113)
Group's share of net assets (40%)	(26)	(45)
Goodwill included in carrying amount	86	88
Carrying amount of investment in associate (40%)	**60**	**43**
Total revenue	660	206
Total net loss for the period (100%)	(68)	(10)
Total share in profit/(loss) (40%)	**(26)**	**(4)**

The Culture Trip

The Culture Trip Ltd., a UK start-up company dealing with online publishing and book selling, was acquired in June 2016. As of December 2018, the Group holds a 43.69% share with a net asset value of MEUR 6 (2017: MEUR 2).

ClearBank

ClearBank is a newly established UK bank that has been providing clearing and settlement services since 2017. As of December 2018, the Group holds a 37.70% share (2017: 36.36%) with a net asset value of MEUR 41 (2017: MEUR 33).

E.9. Investment property

Investment property comprises projects located in the Russian Federation, the Czech Republic, the Netherlands, Germany, Romania and the UK, and consists mainly of completed and rented office premises, buildings, warehouses, and shopping malls.

The following table shows the breakdown of investment property by category and country:

In millions of EUR, as at 31 December 2018

	Russia	Czech Republic	Netherlands	Germany	Romania	UK	Total
Land plot	123	-	-	-	-	-	123
Office	409	83	317	120	97	121	1,147
Warehouse	284	-	-	-	-	-	284
Retail	85	28	29	-	-	-	142
Residential	-	-	-	-	-	18	18
Other	10	19	-	-	-	-	29
Total investment property	**911**	**130**	**346**	**120**	**97**	**139**	**1,743**

In millions of EUR, as at 31 December 2017

	Russia	Czech Republic	Netherlands	Germany	Romania	UK	Total
Land plot	120	-	-	-	-	-	120
Office	318	80	272	116	53	-	839
Warehouse	321	-	-	-	-	-	321
Retail	109	24	30	-	-	-	163
Residential	-	-	-	-	-	18	18
Other	13	-	-	-	-	-	13
Total investment property	**881**	**104**	**302**	**116**	**53**	**18**	**1,474**

The following table shows the roll-forward of investment property:

In millions of EUR, for the year ended 31 December

	2018	2017
Balance as at 1 January	1,474	1,505
Additions resulting from business combination	309	-
Disposals resulting from business combination	(15)	(3)
Additions - capitalised costs	28	20
Disposals	(2)	(9)
Transfer to non-current assets held for sale	-	(43)
Transfer from trading property	-	18
Unrealised gains from investment property	76	102
Unrealised losses from investment property	(49)	(41)
Effect of movements in exchange rates	(78)	(75)
Balance as at 31 December	**1,743**	**1,474**

The most significant developments in the real estate segment in 2018 were as follows:

- acquisition of an office buildings in Moscow (Metropolis 2), London (Westferry), and Bucharest (Crystal Tower);
- sale of an office building in Rotterdam (Wilhelminaplein), and a shopping mall in Ryazan.

E.9.1. Techniques used for valuing investment property

Residual calculation

The residual method takes into consideration the level of revenues or sales that could be achieved by disposing of the development properties. The total sum of these revenues or sales is known as the Gross Development Value (“GDV”) and includes all of the separate areas that comprise the entire development, including residential and/or commercial areas (apartment areas, terraces/balconies, garages, parking, cellars and any garden areas).

From the GDV figure, the total development costs associated with the development of the project are deducted to arrive at the “residual” or market value of the land. These deductions typically include construction costs together with any contingency element, ancillary costs, legal/agency and professional fees, purchaser costs, financing costs and the developer’s profit or required rate of return for the risk of undertaking the project.

Income approach – Discounted Cash Flow (“DCF”) calculation

The income approach is used to value commercial and investment properties. Because it is intended to directly reflect or model the expectations and behaviours of typical market participants, this approach is generally considered the most applicable valuation technique for income-producing properties, where sufficient market data exists.

In a commercial income-producing property, this approach capitalises an income stream into a present value. This can be done using revenue multipliers or capitalisation rates applied to Net Operating Income.

The DCF methodology reflects the market's perception of a relationship between a property's potential income and its market value, a relationship expressed as a capitalisation rate or yield. This approach converts the anticipated benefits in terms of income (cash flow) or amenity to be derived from the ownership of the property into a value indication through capitalisation. This approach is widely used when appraising either income-producing properties or properties capable of producing an income. The property is valued by capitalising the future cash flow produced by the building at the end of the assumed holding period. These future cash flows (both rental and capital receipts from an assumed sale, and assumed expenditure required to realise same) are then discounted back at a discount rate that reflects a typical investor's overall target rate of return.

Sales comparable approach

This method relies on direct evidence from the market of sales and/or offers on properties with similar characteristics. As it is difficult to find evidence of comparables which are identical to any given property which is to be valued, the evidence must be adjusted to align it with the property in question. This allows the comparable evidence to be utilised in a calculation. The adjustments made will vary depending on the drivers of value in any given market and the specific differences between the property being valued and the comparables. The amount of adjustment depends on the judgement and knowledge of the valuer, and relies on his skill and understanding of the market.

The following table summarises valuation methods used for different categories of investment property:

Country	Category	Valuation method
Netherlands	office/retail	Income approach
Germany	office	Income approach
Czech Republic	office/retail	Income approach/ Residual approach
Russia	office	Income approach
Russia	warehouse	Income approach
Romania	office	Income approach
All locations	land	Sales comparison

The following table summarises the significant inputs used in measuring the fair value of investment property used in the valuation of income-generating properties:

For the year ended 31 December 2018

	Current income per sqm	Market rent per sqm	Initial yield	Reversionary yield
Germany	EUR 8.72-13.81	EUR 10.00-16.39	3.80%-6.80%	4.50%-8.00%
Netherlands	EUR 4.31-15.26	EUR 11.73-17.25	1.18%-7.47%	5.40%-8.08%
Czech Republic	EUR 7.57-23.83	EUR 12.99-14.97	3.07%-8.85%	5.57%-7.36%
Russia	EUR 7.21-34.92	EUR 4.73-41.63	10.03%-10.32%	8.38%-11.37%
Romania	EUR 18.34-18.43	EUR 17.26-18.23	7.74%-7.94%	6.98%-7.60%

For the year ended 31 December 2017

	Current income per sqm	Market rent per sqm	Initial yield	Reversionary yield
Germany	EUR 7.26-12.92	EUR 9.79-16.38	3.67%-6.80%	4.40%-8.00%
Netherlands	EUR 0.97-18.22	EUR 11.56-16.80	(0.74%)-16.44%	5.19%-13.05%
Czech Republic	EUR 2.24-24.63	EUR 12.94-15.91	(1.18%)-8.58%	5.55%-7.47%
Russia	EUR 6.42-24.51	EUR 5.39-21.45	10.50%-12.48%	7.79%-8.87%
Romania	EUR 17.85	EUR 17.42	7.31%	6.97%

The Group categorised the investment property within Level 3 of the fair value hierarchy, as certain inputs for the assessment of the fair value are unobservable.

E.10. Property, plant and equipment

The following table shows the roll-forward of property, plant and equipment:

In millions of EUR, for the year ended 31 December 2018

	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Constructio n in progress	Total
Carrying amount						
Balance as at 1 January	497	1,356	318	181	127	2,479
Additions resulting from business combinations	193	-	324	164	38	719
Additions	52	31	81	90	86	340
Disposals	(10)	-	(1)	(25)	(1)	(37)
Other movements	5	18	59	14	(96)	-
Depreciation charge	(29)	(68)	(126)	(81)	-	(304)
Impairment charge	(8)	(2)	-	-	-	(10)
Impairment reversal	-	-	-	1	-	1
Reclassification to Assets held for sale	2	-	-	-	-	2
Effect of movements in exchange rates	(14)	(10)	-	(7)	(1)	(32)
Balance as at 31 December	**688**	**1,325**	**655**	**337**	**153**	**3,158**
Cost	859	1,706	1,042	622	154	4,383
Accumulated depreciation and impairment	(171)	(381)	(387)	(285)	(1)	(1,225)

In millions of EUR, for the year ended 31 December 2017

	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Construction in progress	Total
Carrying amount						
Balance as at 1 January	451	1,317	253	145	102	2,268
Additions resulting from business combinations	38	-	-		-	38
Additions	13	36	98	112	55	314
Disposals	(1)	-	(1)	(3)		(5)
Other movements	10	7	18	(1)	(34)	-
Depreciation charge	(30)	(79)	(63)	(58)	-	(230)
Depreciation included in cost of sales (agriculture)	-	-	-	(2)	-	(2)
Effect of movements in exchange rates	16	75	13	(12)	4	96
Balance as at 31 December	**497**	**1,356**	**318**	**181**	**127**	**2,479**
Cost	642	1,669	602	437	127	3,477
Accumulated depreciation and impairment	(145)	(313)	(284)	(256)	-	(998)

E.11. Intangible assets and goodwill

E.11.1. Goodwill

The following table shows the roll-forward of goodwill:

In millions of EUR, for the year ended 31 December

	2018	2017
Balance as at 1 January	569	540
Additions from business combination	1,086	1
Impairment losses recognised	(1)	-
Effect of movements in exchange rates	(6)	28
Balance as at 31 December	**1,648**	**569**

Goodwill is allocated to individual CGUs as follows:

In millions of EUR, as at 31 December

	2018	2017
O2 CR – Czech operations	396	399
O2 CR – Slovak operations	40	40
CETIN	108	110
Telenor Hungary	435	-
Telenor Bulgaria	219	-
Telenor Serbia	369	-
Telenor Montenegro	42	-
Other	39	20

Until 2017, goodwill consisted of three significant items arising from the acquisition of O2 CR in 2014, which was subsequently demerged into O2 CR and CETIN. Goodwill is tested annually for impairment. A reasonably possible change in key assumptions on which management has based its determination of the recoverable amounts did not cause O2 CR and CETIN to exceed its carrying amounts.

O2 CR

The impairment test involves determining the recoverable amount of the consolidated entity, which corresponds to the value in use. The value in use is the present value of future cash flows expected to be derived from the CGU.

Value in use is determined on the basis of a discounted cash flow enterprise valuation model and derived from cash flow forecasts based on the analyst mean forecast sourced from Thomson Reuters Eikon (for 2019 to 2021). Cash flows beyond the forecast period were extrapolated (for 2022 to 2025) using appropriate growth rates, based on general economic data derived from macroeconomic and financial studies.

The calculation of value in use is most sensitive to the following assumptions:

Estimated growth rate in terminal value – forecasts of the market and regulatory environment in which the company conducts its principal business, as well as the investment life cycle, are the basis for determining the value assigned to the estimated growth rate. A 1.5% growth rate is used.

Discount rate – the discount rate reflects the Group's estimate of the risk and related expected return specific to the CGU. The weighted average cost of capital forms the basis for the determination of the discount rate. Relevant data taken from independent financial analysts as a benchmark for the weighted average cost of capital are used to determine the discount rate. The resulting discount rate and its effect on value in use are tested for sensitivity. The current methodology used as of 31 December 2018 will be subject to regular reassessment and potential adjustments.

The discounted cash flow valuation is supported by a valuation using the market approach based on publicly traded peer companies. The multiple of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA) was selected as the most suitable multiple, as EBITDA is considered to be the closest approximate of free cash flow. The value estimates the draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2018. Additionally, the EV/Sales multiple is considered as well.

As O2 CR is a publicly traded company on the Prague Stock Exchange, its share price on the exchange was considered a supportive indication of value, while taking into consideration share liquidity.

Final value in use is allocated into two O2 CR cash generating sub-units - O2 Czech Republic and its subsidiary O2 Slovakia – in the following way: Enterprise value is divided by the proportion of the sub-units' EBITDAs, and respective net debts of the sub-units are subtracted to calculate the resulting equity values.

CETIN

The impairment test involves determining the recoverable amount of the CETIN cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from the CGU.

Value in use is determined on the basis of an enterprise valuation model and is assessed from a group-internal perspective. Value in use is derived from the medium-term forecast for a period of five years (for 2019 to 2023), prepared by management and most recent at the time of the impairment test. The medium-term forecast is based on past experience, as well as on future market trends. Further, the medium-term forecast is based on general economic data derived from macroeconomic and financial studies. The key assumptions on which management bases its business plan and growth rates include trends in the gross domestic product, interest rates, nominal wages, capital expenditures, market share, growth rates, and discount rates. Cash flows beyond the management forecast period were extrapolated (for 2024 to 2025) using appropriate growth rates based on general economic data derived from macroeconomic and financial studies.

The calculations of value in use for CGU are most sensitive to the following assumptions:

Estimated growth rate in terminal value – forecasts of the market and regulatory environment in which the company conducts its principal business, as well as the investment life cycle, are the basis for determining the value assigned to the estimated growth rate. A 1.5% growth rate is used.

Discount rate – this reflects the Group's estimate of the risk and related expected return. The weighted average cost of capital forms the basis for the determination of the discount rate. Relevant data taken from independent financial analysts as a benchmark for the weighted average cost of capital is used to determine the discount rate. The resulting discount rate and its effect on value in use are tested for sensitivity. The current methodology used as of 31 December 2018 will be subject to regular reassessment and, potentially, adjustment.

The discounted cash flow valuation is supported by a valuation using the market approach based on publicly traded peer companies. The multiple of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA) was selected as the most suitable multiple, as EBITDA is considered to be the closest approximate of free cash flow. The value estimates draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2018. Additionally, the EV/Sales multiple is considered as well.

<u>TELENOR</u>

In August, the Group acquired Telenor's CEE businesses operating in four countries and identified them as individual CGUs.

Goodwill is tested annually for impairment. However, as the acquisition occurred 5 months before the balance sheets date, the Group performed a simplified test consisting of a comparison of the business plans used in the acquisition modelling with the latest long-term business plans approved by the shareholder. The comparison did not indicate any goodwill impairment in 2018.

E.11.2. Intangible assets

Intangible assets comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Software	518	373
Licences	608	346
Customer relationships	1,018	407
In-process research and development	287	207
Trademark	138	73
Not in use	28	84
Other	76	6
Total intangible assets	**2,673**	**1,496**

Licences (including spectrum licences) facilitate the roll-out of mobile services. Customer relationships are an asset ensuring a long-term revenue stream from customers who have made commitments to purchase specific amounts of products or services. In the case of O2 CR and Telenor, they comprise individuals, small/home offices, and corporations.

The following table shows the roll-forward of intangible assets:

In millions of EUR, for the year ended 31 December 2018

	Software	Licences	Customer relation-ships	IPRD	Trade-marks	Other intangible assets	Not in use	Total
Carrying amount								
Balance as at 1 January	373	346	407	207	73	6	84	1,496
Additions resulting from business combinations	57	313	693	39	70	15	21	1,208
Additions	129	1	-	26	1	70	23	250
Additions from internal development	43	-	-	18	-	-	-	61
Disposal	(12)	(6)	-	-	-	-	-	(18)
Other changes	65	10	-	4	18	3	(100)	0
Amortisation charge	(125)	(55)	(80)	(4)	(23)	(17)	-	(304)
Effect of movements in exchange rates	(12)	(1)	(2)	(3)	(1)	(1)	-	(20)
Balance as at 31 December	**518**	**608**	**1,018**	**287**	**138**	**76**	**28**	**2,673**
Cost	1,035	790	1,327	307	267	93	28	3,847
Accumulated amortisation and impairment losses	(517)	(182)	(309)	(20)	(129)	(17)	-	(1,174)

In millions of EUR, for the year ended 31 December 2017

	Software	Licences	Customer relation-ships	IPRD	Trade-marks	Other intangible assets	Not in use	Total
Carrying amount								
Balance as at 1 January	288	360	445	171	68	8	56	1,396
Additions resulting from business combinations	2	-	-	-	-	-	-	2
Additions	111	6	-	24	30	1	43	215
Additions from internal development	41	-	-	5	-	-	-	46
Disposal	(5)	-	-	-	-	-	-	(5)
Other changes	14	4	-	-	-	1	(19)	-
Amortisation charge	(86)	(35)	(58)	(1)	(27)	(5)	-	(212)
Impairment charge	(2)	-	-	-	-	-	-	(2)
Effect of movements in exchange rates	10	11	20	8	2	1	4	56
Balance as at 31 December	**373**	**346**	**407**	**207**	**73**	**6**	**84**	**1,496**
Cost	811	474	639	226	179	15	84	2,428
Accumulated amortisation and impairment losses	(438)	(128)	(232)	(19)	(106)	(9)	-	(932)

E.12. Other assets

Other assets comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Prepaid expenses and advances	191	164
Cash collateral for payment cards	57	54
Cost to obtain or fulfil the contract	48	-
Other tax receivable	23	23
Biological assets	4	7
Insurance related other assets	4	6
Other	145	80
Subtotal other assets (gross)	472	334
Individual allowance for impairment	(1)	(6)
Prepaid expenses and advances	(1)	(6)
Total other assets (net)	**471**	**328**

Capitalised incremental costs to obtain contracts, presented newly in line with IFRS 15, include commissions for external and internal business channels that are directly attributable to obtaining customer contracts and incremental. The amortisation of these costs is recognised in a separate line (amortisation of cost to obtain contracts) in profit or loss; the amortisation period is determined by the expected average duration of contracts separately for business customers and for consumers and separately for certain product types (ranging from 16 to 48 months).

Under previous policies, all commissions paid to agents for activation, marketing, and other activities were included in the telecommunication cost of sales for the period and recognised in profit or loss as costs.

E.13. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

In millions of EUR

	2018	2017
Negative fair values of derivatives	188	109
Interest rate derivatives	90	49
Currency derivatives	98	60
Negative fair values of hedging derivatives	6	-
Liabilities from short sales of securities	486	372
Liability due to non-banks	-	313
Other	81	19
Total financial liabilities at FVTPL	**761**	**813**

In July 2017, the Group signed a strategic partnership agreement with PAG Asia Capital ("PAG"), one of Asia's largest private equity firms, with the aim of supporting the long-term development of the Group's business in China. Within this deal, through one of its investment funds PAG made an investment to the Group in form of an interest bearing long-term loan provided to the Group's subsidiary. The loan was measured at fair value through profit or loss. The fair value was categorised as Level 3 and determined as MEUR 313 as at 31 December 2017. In accordance with the partnership agreement, the value of the loan was derived from the fair value of the Chinese business. In August 2018, the Group and PAG agreed to discontinue their partnership and the Group repaid PAG's loan.

Details of trading derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2018

Interest rate derivatives	Notional amount	Positive fair values*	Negative fair values
OTC products:			
Interest rate swaps	7,274	101	(90)
Interest rate options (purchase)	4	-	-
Other interest rate contracts	31	-	-
Exchange-traded products:			
Interest rate futures	53	4	-
Total	**7,362**	**105**	**(90)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,362	5	(33)
Currency/cross currency swaps	10,270	36	(65)
Total	**11,632**	**41**	**(98)**

** refer to E.2.1*

In millions of EUR, as at 31 December 2017

Interest rate derivatives	Notional amount	Positive fair values*	Negative fair values
OTC products:			
Forward rate agreements	1,727	-	-
Interest rate swaps	5,116	63	(49)
Interest rate options (purchase)	26	-	-
Interest rate options (sale)	18	-	-
Other interest rate contracts	284	-	-
Exchange-traded products:			
Interest rate futures	18	4	
Total	**7,189**	**67**	**(49)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,652	8	(26)
Currency/cross currency swaps	7,118	55	(34)
Foreign exchange options (purchase)	24	1	-
Foreign exchange options (sale)	22	-	-
Total	**8,816**	**64**	**(60)**

* *refer to E.2.1*

The following tables shows details of the hedging derivatives:

In millions of EUR, as at 31 December 2018

	Notional amount	Positive fair values	Negative fair values
Forward exchange contracts	356	2	(1)
Foreign currency swap contracts	308	-	(2)
Interest rate swaps	158	6	(3)
Total	**822**	**8**	**(6)**

In millions of EUR, as at 31 December 2017

	Notional amount	Positive fair values	Negative fair values
Cross currency interest rate swaps	59	5	-
Interest rate swaps	66	-	-
Total	**125**	**5**	**-**

Cash flows from the hedging derivative instruments are expected to occur in 2019-2036 (2017: in 2018-2036).

E.14. Liabilities to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Current accounts and demand deposits	6,394	6,628
Term deposits	3,235	3,133
Loans	23	97
Loans received under repos	1,743	1,778
Other	1	1
Total liabilities to non-banks	**11,396**	**11,637**

The first two categories represent the liabilities owed to corporate and individual clients of the Group, the bulk of which relates to the banking business of PPF banka, Home Credit and Finance Bank and Air Bank.

E.15. Liabilities to banks and other financial institutions

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Repayable on demand	12	1
Loans received under repos	2,844	1,754
Secured loans (other than repos)	10,932	8,251
Unsecured loans	4,631	3,830
Other	105	91
Total liabilities to banks	**18,525**	**13,927**

Secured loans include the following significant loan facilities related to the acquisition of Telenor assets:

In March 2018, PPF Arena 1 B.V. consolidating the telecommunication segment entered into a facilities agreement with a syndicate of banks. In July 2018, under this agreement, the Group utilised four secured term loan facilities amounting to MEUR 882, MEUR 1,514, MCZK 3,745 and MCZK 6,427 (MEUR 2,792 in total), respectively. As at 31 December 2018, a committed revolving facility of MEUR 200 has not been utilised. As of 31 December 2018, the total balance drawn facilities amounted to MEUR 2,737. The facilities are secured *inter alia* by pledges over all shares of PF Arena 1 B.V, other holding subsidiaries in this subgroup, and the Telenor operating entities.

The following loans are EUR-denominated:

Repayable by	2023	2024
Margin rate over 3M EURIBOR	1.5% - 2.5%	2.25% - 3%
Actual respective margin levels applicable*	2.00%	2.75%

*Initial agreed margin

The EUR loans were used to finance the acquisition of Telenor Group telecommunications assets in Central and Eastern Europe (refer to B.2.5.).

The following loans are CZK-denominated:

Repayable by	2023	2024
Margin rate over 3M PRIBOR	1% - 2%	1.5% - 2.5%
Actual respective margin levels applicable*	1.50%	2.00%

*Initial agreed margin

The CZK loans were used to fully refinance the existing loan facilities related to refinancing of deferred purchase price for O2 CZ (MEUR 395 in 2017).

As at 31 December 2018, the Group complies with the financial covenants imposed by all loan facilities.

E.16. Debt securities issued

Debt securities issued relate to bonds issued, certificates of deposit, asset-backed security issues and promissory notes except for subordinated items.

The maturities of the debt securities are as follows:

In millions of EUR, as at 31 December

	2018	2017
Fixed rate debt securities	**2,497**	**1,697**
Within 1 year	1,114	567
1-2 years	320	126
2-3 years	861	177
3-4 years	14	624
4-5 years	188	14
More than 5 years	-	189
Variable rate debt securities	**96**	-
Within 1 year	62	-
1-2 years	28	-
2-3 years	6	-
Total debt securities issued	**2,593**	**1,697**

As at 31 December 2018, debt securities issued of MEUR 896 (2017: MEUR 387) were secured by cash and cash equivalents of MEUR 341 (2017: MEUR 108), cash loan receivables amounting to MEUR nil (2017: MEUR 398) and consumer loan receivables of MEUR 839 (2017: MEUR 640).

E.17. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR, as at 31 December

	Interest rate	Maturity	2018	2017
Loan participation notes issue 7 of MUSD 500	Fixed	2020	-	74
Loan participation notes issue 8 of MUSD 200	Fixed	2021	88	106
Bond issue of MCZK 1,400	Fixed	2023	-	28
Loan MUSD 7	Variable	2023	7	-
Bond issue of MCZK 2,000	Fixed	2024	53	53
Bond issue of MCZK 4,000	Fixed	2027	155	90
Bond issue of MEUR 92	Fixed	2028	93	-
Total subordinated liabilities			**396**	**351**

Subordinated loan participation notes issue 7 was made in October 2012. The Group used an early redemption option exercisable on 24 April 2018.

Subordinated loan participation notes issue 8 was made in October 2013. The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date, the interest rate is determined as a variable rate. During 2018, the Group bought back the loan participation notes with a cumulative par value of MUSD 43 (2017: cumulative par value of MUSD 35).

The bond issue of MCZK 1,400 was made in April 2013. The Group used an early redemption option during 2018.

The bond issue of MCZK 2,000 was issued in April 2014. The Group used an early redemption option exercisable on 30 April 2019.

The bond issue of MCZK 4,000 was issued in December 2017. The interest rate is determined as a fixed rate for the first two years; subsequently it is changed to a floating rate. The Group has an early redemption option exercisable on or after 18 December 2022.

Bonds of MEUR 92 were issued in September 2018. The Company has an early redemption option exercisable in September 2023.

E.18. Trade and other payables

Trade and other payables comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Settlements with suppliers	933	672
Wages and salaries	178	188
Social security and health insurance	32	27
Other taxes payable	141	68
Accrued expenses	201	83
Deferred income	49	91
Advance received	41	27
Customer loan overpayments	53	41
Other	687	362
Total other liabilities	**2,315**	**1,559**

The other category includes blocked accounts of PPF banka amounting to MEUR 193 (2017: MEUR 300) consisting chiefly of collateral deposits for derivatives totalling MEUR 154 (2017: MEUR 223), and the deferred payment for acquisition of Telenor amounting to MEUR 405 (2017: nil) – refer to B.2.5.

E.19. Provisions

Provisions comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Insurance provisions	150	147
Warranty provisions	24	-
Provision for litigation except for tax-related litigation	13	9
Provision for onerous contracts	11	-
Provisions for insurance commissions return	8	9
Provisions for expected credit losses from loan commitments and financial guarantees*	2	2
Provisions for asset retirement obligations	34	16
Provision for restructuring	2	-
Other provisions	35	8
Total provisions	**279**	**191**

*2017: only for financial guarantees

Movements in non-insurance provisions can be analysed as follows:

In millions of EUR, for the year ended 31 December 2018

	Provision for litigation except for tax issues	Provisions for onerous contracts	Warranty provisions	Provisions for asset retirement obligations	Other provisions	Total
Balance as at 1 January	9	-	-	16	19	44
Restated opening balance (IFRS 9 impact)					1	1
Additions resulting from business combinations	8	18	19	24	25	94
Provisions created during the year	4	19	17	1	56	97
Provisions used during the year	(1)	(22)	(7)	(2)	(39)	(71)
Provisions released during the year	(5)	(3)	(5)	(5)	(14)	(32)
Effect of movements in exchange rates	(2)	(1)	-	-	(1)	(4)
Balance as at 31 December	**13**	**11**	**24**	**34**	**47**	**129**
Non-current (> 1 year)	6	-	8	33	11	58
Current (< 1 year)	7	11	16	1	36	71
Total provisions	**13**	**11**	**24**	**34**	**47**	**129**

In millions of EUR, for the year ended 31 December 2017

	Provision for litigation except for tax issues	Provisions for asset retirement obligations	Other provisions	Total
Balance as at 1 January	9	10	14	33
Provisions created during the year	4	7	32	43
Provisions used during the year	(1)	(1)	(28)	(30)
Provisions released during the year	(2)	-	(1)	(3)
Effect of movements in exchange rates	(1)	-	2	1
Balance as at 31 December	**9**	**16**	**19**	**44**
Non-current (> 1 year)	-	15	3	18
Current (< 1 year)	9	1	16	26
Total provisions	**9**	**16**	**19**	**44**

The Group recognised a provision for asset retirement obligations of MEUR 34 (2017: MEUR 16). The amount of the provision is affected by the increased estimate of the present value of the future costs of dismantling, removing of assets and restoring sites in connection with network construction. Scenarios of future costs based on management estimations, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of any future dismantling and removing of assets.

E.19.1. Insurance provisions

Insurance provisions comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Non-life insurance provisions	32	29
Provisions for unearned premiums	31	27
Provisions for outstanding claims	1	2
RBNS provisions	1	2
Life insurance provisions	118	118
Provisions for outstanding claims	3	4
Mathematical provisions	107	106
Provisions for profit participation allocated to policyholders	8	8
Total insurance provisions	**150**	**147**

Movements in provisions for unearned premiums can be analysed as follows:

In millions of EUR, for the year ended 31 December

Gross amount	2018	2017
Balance as at 1 January	27	44
Premiums written during the year	32	32
Premiums earned during the year	(24)	(46)
Effect of movements in exchange rates	(4)	(3)
Balance as at 31 December	**31**	**27**

Movements in selected life insurance provisions (gross amount) were as follows:

In millions of EUR, for the year ended 31 December

	2018	2017
Balance as at 1 January	114	105
Mathematical provision for contracts concluded in previous years, and cancelled in the current reporting year	(5)	(5)
Mathematical provision for contracts maturing in the current reporting year	(6)	(5)
Increase in mathematical provision for active contracts concluded in previous years	22	23
Provision for insurance contracts concluded in the current period	4	3
Bonuses (profit) credited to policyholders	2	2
Effect of movements in exchange rates	(16)	(9)
Balance as at 31 December	**115**	**114**

The estimated timing of the net cash outflows resulting from recognised insurance liabilities is as follows:

In millions of EUR, for the year ended 31 December 2018

	Less than 1 year	1 to 3 years	3 to 5 years	5 to 15 years	More than 15 years	Total
Non-life insurance provisions	15	12	5	-	-	32
Life insurance provisions	9	11	14	53	31	118

In millions of EUR, for the year ended 31 December 2017

	Less than 1 year	1 to 3 years	3 to 5 years	5 to 15 years	More than 15 years	Total
Non-life insurance provisions	18	9	2	-	-	29
Life insurance provisions	11	13	15	52	27	118

E.20. Issued capital and share premium

Issued capital represents capital in respect of which the shareholders' liability for an entity's obligation towards its creditors is limited. The amount is limited to the current nominal capital approved by a shareholder resolution.

The following table provides details of authorised and issued shares:

	2018	2017
Number of shares authorised	250,000	250,000
Number of shares issued and fully paid	62,401	62,401
Par value per share	EUR 10	EUR 10

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Parent Company.

In 2018, share premium representing the excess received by the Parent Company over the par value of its shares amounted to MEUR 677 (2017: MEUR 677).

E.21. Other reserves

E.21.1. Revaluation reserve

The revaluation reserve represents the changes, net of deferred tax, in the fair value of financial assets at fair value through other comprehensive income. The revaluation reserve is not available for distribution to shareholders.

E.21.2. Legal and statutory reserves

The creation and use of legal and statutory reserves is limited by legislation and the articles of association of each company within the Group. Legal and statutory reserves are not available for distribution to shareholders.

E.21.3. Currency translation reserve

The currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of companies within the Group with a functional currency other than the Group presentation currency, which is the euro. The translation reserve is not available for distribution to shareholders.

E.21.4. Hedging reserve

The hedging reserve represents mainly a cash flow hedge effect related to the forward contracts for CO_2 emission rights recognised in other comprehensive income by the Group's joint venture LEAG. The hedging instruments are commodity derivatives designed to hedge purchase price for future purchases of emission rights. The significant gain is caused by the change of accounting treatment in LEAG and the recent significant increase in emission rights prices. For the period ending 31 December 2018, the Group recognised its share on this effect in other comprehensive income amounting to MEUR 382 (2017: nil).

E.22. Non-controlling interests

The following subsidiaries of the Group have material non-controlling interests:

Name of subsidiary*	Abbr.	Applicable	Country of incorporation
O2 Czech Republic a.s. (subgroup)	O2 CR	2018/2017	Czech Republic
Home Credit Group B.V. (subgroup)**	HC	2018	Netherlands
Home Credit B.V. (subgroup)	HC	2017	Netherlands
PPF banka, a.s.	PPFB	2018/2017	Czech Republic
Velthemia Ltd. (subgroup)	VELT	2018/2017	Cyprus
Home Credit Indonesia PT	HCID	2018/2017	Indonesia
Investitsionny Trust CJSC	INTR	2018/2017	Russia

*For place of business refer to B.1.
**Home Credit B.V. was contributed to Home Credit Group B.V. in May 2018

The following table summarises the information relating to these subsidiaries:

In millions of EUR

2018	O2 CR	HC*	PPFB	VELT	HCID	INTR	Other	**Total**
NCI percentage (ownership)	**16.60%**	**8.88%**	**7.04%**	**39.93%**	**22.55%**	**21.25%**		
Total assets	1,661	23,647	9,622	248	276	83		
Total liabilities	(894)	(21,492)	(9,149)	(150)	(227)	(79)		
Net assets	**767**	**2,155**	**473**	**98**	**49**	**4**		
Net assets attributable to NCI of the sub-group	-	(17)	-	-	-	-		
Net assets attributable to owners of the Parent	**767**	**2,138**	**473**	**98**	**49**	**4**		
Carrying amount of NCI	127	190	33	39	7	1	18	**415**
NCI percentage during the period	**16.60%**	**11.38%**	**7.04%**	**39.93%**	**24.67%**	**21.25%**		
Revenue	1,481	5,454	191	77	142	13		
Profit/(loss)	162	445	94	(22)	5	(2)		
Other comprehensive income	(2)	(137)	(26)	-		-		
Total comprehensive income	160	308	68	(22)	5	(2)		
Profit/(loss) allocated to NCI	27	51	6	(9)	-	(1)	(24)	**50**
OCI allocated to NCI	-	(14)	(1)	-	-	-	(2)	**(17)**
Dividends paid to NCI	**(40)**	**-**	**-**	**-**	**-**	**-**	**-**	**(40)**

** On 31 December 2018, the Group acquired addition 2.5% share – refer to B.2.6.*

In millions of EUR

2017	O2 CR	HC	PPFB	VELT	HCID	INTR	Other	**Total**
NCI percentage (ownership)	**16.60%**	**11.38%**	**7.04%**	**39.93%**	**24.67%**	**21.25%**		
Total assets	1,682	21,526	9,437	302	187	99		
Total liabilities	(850)	(19,498)	(9,026)	(186)	(156)	(84)		
Net assets	**832**	**2,028**	**411**	**116**	**31**	**15**		
Net assets attributable to NCI of the sub-group	-	(15)	-	-	-	-		
Net assets attributable to owners of the Parent	**832**	**2,013**	**411**	**116**	**31**	**15**		
Carrying amount of NCI	138	229	29	46	5	3	20	**470**
NCI percentage during the period	**16.83%**	**11.38%**	**7.04%**	**39.93%**	**24.67%**	**21.25%**		
Revenue	1,432	4,334	160	53	77	15		
Profit/(loss)	160	256	64	1	(19)	8		
Other comprehensive income	-	(166)	-	-	-	-		
Total comprehensive income	160	90	64	1	(19)	8		
Profit/(loss) allocated to NCI	27	29	5	-	(3)	2	(12)	**48**
OCI allocated to NCI	-	(19)	-	-	-	-	(2)	**(21)**
Dividends paid to NCI	**(34)**	**-**	**-**	**-**	**-**	**-**	**-**	**(34)**

E.23. Reconciliation of movements of liabilities to cash flows arising from financing activities

Reconciliation of movements of liabilities to cash flows arising from financing activities:

In millions of EUR, for the year 2018

	Debt securities and subordinated liabilities	Liabilities due to banks and other financial institution	Share premium	Total
Balance as at 1 January	**2,048**	**13,927**	**677**	**16,652**
Changes from financing cash flows:				
Proceeds from the issue of debt securities	2,032	-	-	2,032
Proceeds from liabilities due to banks and other financial institutions	-	17,511	-	17,511
Additions due to acquisitions of subsidiaries	114	104	-	218
Repayment of debt securities	(1,194)	-	-	(1,194)
Repayment of liabilities due to banks and other financial institutions	-	(12,601)	-	(12,601)
Total changes from financing cash flows	**3,000**	**18,941**	**677**	**22,618**
The effect of changes in foreign exchange rates and transfers	(7)	(96)	-	(103)
Interest expense	118	1,116	-	1,234
Interest paid	(122)	(1,436)	-	(1,558)
Balance as at 31 December	**2,989**	**18,525**	**677**	**22,191**

In millions of EUR, for the year 2017

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Share premium	Total
Balance as at 1 January	**1,545**	**8,111**	**677**	**10,333**
Changes from financing cash flows:				
Proceeds from the issue of debt securities	1,742	-	-	1,742
Proceeds from due to banks, other financial institutions and holding companies	-	13,648	-	13,648
Repayment of debt securities	(1,197)	-	-	(1,197)
Repayment of due to banks, other financial institutions and holding companies	-	(7,255)	-	(7,255)
Total changes from financing cash flows	**2,090**	**14,504**	**677**	**17,271**
The effect of changes in foreign exchange rates and transfers	(46)	(414)	-	(460)
Interest expense	100	807	-	907
Interest paid	(96)	(970)	-	(1,066)
Balance as at 31 December	**2,048**	**13,927**	**677**	**16,652**

E.24. Net interest income

Interest income comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Financial instruments at FVTPL	14	6
Financial instruments at FVOCI/AFS	63	72
Financial instruments at amortised cost/held to maturity	9	-
Due from banks and other financial institutions	106	51
Cash loan receivables	3,465	2,439
Consumer loan receivables	910	843
Revolving loan receivables	106	130
Car loan receivables	19	18
Mortgage loan receivables	5	4
Loans to corporations	76	83
Other	5	3
Total interest income	**4,778**	**3,649**

Interest expense comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Due to customers	242	229
Due to banks and other financial institutions	1,117	807
Debt securities issued	96	74
Subordinated liabilities	22	26
Other	24	5
Total interest expenses	**1,501**	**1,141**
Total net interest income	**3,277**	**2,508**

E.25. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Insurance commissions	551	528
Penalty fees	163	172
Cash transactions	27	21
Customer payment processing and account maintenance	44	39
Retailers' commissions	17	9
Other	39	28
Total fee and commission income	**841**	**797**

Fee and commission expense comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Commissions to retailers	21	20
Cash transactions	25	18
Payment processing and account maintenance	46	41
Payments to deposit insurance agencies	27	19
Credit and other register expense	41	26
Other	11	9
Total fee and commission expense	**171**	**133**

Total net fee and commission income	**670**	**664**

E.26. Net gain/loss on financial assets

In millions of EUR

	2018	2017
Net trading income/(expense)	(25)	71
Debt securities trading	15	4
FX trading	2	67
Derivatives	(42)	-
Net gains/(losses) on financial assets/liabilities at FVTPL not held for trading	14	(20)
Net realised gains on financial assets at amortised cost	6	-
Net realised losses on FVOCI/AFS financial assets	(3)	(4)
Dividends	23	16
Other expense from financial assets	(2)	(2)
Total net gain on financial assets	**13**	**61**

E.27. Net impairment losses on financial assets

In millions of EUR, for the year ended 31 December

	2018	2017
Cash loan receivables	1,333	704
Consumer loan receivables	350	408
Revolving loan receivables	18	6
Mortgage loan receivables	(2)	(1)
Loans to corporations	11	27
Trade and other receivables	(2)	-
Financial assets at FVOCI	1	-
Other financial assets	17	-
Total net impairment losses on financial assets	**1,726**	**1,144**

E.28. Net insurance income

In millions of EUR, for the year ended 31 December 2018

	Non-life	Life	Total
Gross earned premiums	24	47	71
Earned premiums ceded	-	-	-
Net insurance benefits and claims	-	(31)	(31)
Acquisition cost	(5)	(13)	(18)
Total net insurance income	**19**	**3**	**22**

In millions of EUR, for the year ended 31 December 2017

	Non-life	Life	Total
Gross earned premiums	46	47	93
Earned premiums ceded	(1)	-	(1)
Net insurance benefits and claims	-	(31)	(31)
Acquisition cost	(15)	(11)	(26)
Total net insurance income	**30**	**5**	**35**

E.29. Net rental and related income

In millions of EUR, for the year ended 31 December

	2018	2017
Gross rental income	132	120
Service income	13	13
Service charge income	26	22
Service charge expense	(17)	(15)
Total net rental and related income	**154**	**140**

E.30. Net telecommunication income

E.30.1. Revenues from telco business – major lines of business

Telecommunication income comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Mobile originated revenues:	1,609	1,010
Fixed originated revenues:	408	409
International transit revenues	304	341
Other wholesale revenues	91	62
Other sales (other than IFRS 15)	2	-
Revenues from telecommunication business	**2,414**	**1,822**
out of which:		
Services/Products transferred over time	2,196	1,704
Services/Products transferred at a point in time	218	118
Supplies	591	535
Cost of goods sold	254	121
Commissions	30	37
Costs related to telecommunication business	**875**	**693**
Net telecommunication revenues	**1,539**	**1,129**

E.30.2. Revenues from telco business – geographical markets

The revenues from telco business are geographically disaggregated per the customers' sites, as follows:

In millions of EUR, for the year ended 31 December

	2018	2017
Services/Products transferred over time	**2,196**	**1,704**
Czech Republic	1,149	1,138
Slovakia	258	251
Germany	43	93
Switzerland	47	64
Hungary	178	-
Bulgaria	158	1
Serbia and Montenegro	147	-
Other	216	157
Services/Products transferred at a point in time	**218**	**118**
Czech Republic	90	71
Slovakia	56	47
Hungary	38	-
Serbia and Montenegro	34	-

For relevant information on contract assets and contract liabilities, refer to E.5.

E.31. Net machinery income

E.31.1. Revenues from mechanical engineering business – major lines of business

Machinery income comprises the following:

In millions of EUR, since the acquisition in April 2018 to 31 December 2018

	2018
Sales of finished goods, services and goods for resale	**372**
Tramcars	96
Electric locomotives and suburb units	66
Trolleybuses	77
Metro	14
Electric equipment	6
Full service and repairs	69
Spare parts	20
Other products and services	24
Revenues from mechanical engineering business	**372**
out of which:	
Services/Products transferred over time	319
Services/Products transferred at a point in time	53
Raw material	186
Purchased services related to projects	18
External workforce	12
Other	19
Costs related to mechanical engineering business	**235**
Net machinery income	**137**

E.31.2. Revenues from mechanical engineering business – geographical markets

The revenues from mechanical engineering business are geographically disaggregated per the customers' sites, as follows:

In millions of EUR, since the acquisition in April 2018 to 31 December 2018

	2018
Services/Products transferred over time	319
Czech Republic	137
Finland	76
Slovakia	19
Latvia	19
Germany	22
Russian Federation	14
Turkey	6
Other	26
Services/Products transferred at a point in time	53
Czech Republic	45
Germany	2
Other	6

The amount of revenue recognised in 2018 from performance obligations satisfied (or partially satisfied) in previous periods, mainly due to the changes in the estimate of the stage of completion of mechanical engineering business construction contracts was nil.

For relevant information on contract assets and contract liabilities, refer to E.5.

E.32. Net agriculture income

In millions of EUR, for the year ended 31 December

	2018	2017
Sales of goods	31	31
Cost of sales	(25)	(26)
Other revenue	1	1
Change in fair value of biological assets	1	(1)
Total net agriculture income	**8**	**5**

E.33. Other income

In millions of EUR, for the year ended 31 December

	2018	2017
Rental income	13	11
Net gain on disposal of property, plant, equipment and intangible assets	2	3
Gain on a bargain purchase	23	3
Provision of service to minority partner	13	-
Other	82	51
Total other income	**133**	**68**

E.34. Personnel expenses and other operating expenses

In millions of EUR, for the year ended 31 December

	2018	2017
Employee compensation	1,234	1,065
Payroll related taxes (including pension contribution)	296	261
Total personnel expenses	**1,530**	**1,326**
Rental, maintenance and repair expense	223	174
Information technologies	133	108
Professional services	117	112
Advertising and marketing	100	103
Telecommunication and postage	87	75
Taxes other than income tax	68	55
Collection agency fee	57	37
Travel expenses	31	29
Net impairment losses on other intangible assets	-	2
Net impairment losses on goodwill recognised	1	-
Net impairment losses on property, plant and equipment	10	1
Net impairment losses on other assets (including contract assets)	11	16
Amortisation of cost to obtain or fulfil a contract	28	-
Net impairment losses on trading property	1	3
Net loss on disposal of property, plant, equipment, and intangible assets	4	4
Net foreign currency losses	80	75
Other	158	91
Total other operating expenses	**1,109**	**885**

The average rounded number of employees during the year 2018 was 153,000 (2017: 154,000); 13 of the employees were employed in the Netherlands (2017: 12).

E.35. Depreciation and amortisation

In millions of EUR, for the year ended 31 December

	2018	2017
Depreciation of property, plant and equipment	304	230
Amortisation of intangible assets	304	212
Total depreciation and amortisation	**608**	**442**

E.36. Operating leases

E.36.1. Lessee

Under operating leases, the Group mainly leased property, plant and equipment (incl. several office buildings) relating to telecommunications business. The leases typically run for an initial period of between one and five years, with an option to renew the lease after that date. Rents are adjusted annually to reflect prevailing market rates.

The table below shows future minimum lease payments under non-cancellable operating leases:

In millions of EUR, as at 31 December

	2018	2017
Less than one year	90	69
Between one and five years	231	133
More than five years	223	133
Total payables in respect of non-cancellable operating leases	**544**	**335**

The lease and sublease payments recognised as expenses in the income statement were as follows:

In millions of EUR, as at 31 December

	2018	2017
Minimum lease payments	147	78
Total lease and sublease payments	**147**	**78**

E.36.2. Lessor

As a lessor, the Group leases mainly office and retail premises. The following table shows minimum lease payments under non-cancellable operating leases:

In millions of EUR, as at 31 December

	2018	2017
Less than one year	122	114
Between one and five years	340	344
More than five years	249	330
Future minimum lease payments under non-cancellable operating leases	**711**	**788**

E.37. Repurchase agreements and reverse repurchase agreements

The Group raises funds by selling financial instruments under agreements to repurchase them at future dates at the same price plus interest at a predetermined rate (repos). As at 31 December, assets sold under repos were as follows:

In millions of EUR, as at 31 December

	2018 Fair value of underlying assets	2018 Carrying amount of corresponding liabilities	2017 Fair value of underlying assets	2017 Carrying amount of corresponding liabilities
Financial assets at FVTPL	173	145	211	175
Financial assets at FVOCI/AFS	802	659	524	418
Financial assets received in reverse repos	3,933	3,783	3,020	2,939
Total assets	**4,908**	**4,587**	**3,755**	**3,532**

The Group also purchases financial instruments under agreements to resell them at future dates (reverse repos). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repos are entered into as a facility to provide funds to customers. As at 31 December, assets purchased subject to agreements to resell them were as follows:

In millions of EUR, as at 31 December

	2018 Fair value of assets received as collateral (total)	2018 of which: Fair value of assets repledged or sold	2018 Carrying amount of receivables	2017 Fair value of assets received as collateral (total)	2017 of which: Fair value of assets repledged or sold	2017 Carrying amount of receivables
Loans and advances to central banks	7,741	3,933	7,800	7,167	3,020	7,277
Loans and advances to banks	75	-	64	134	-	130
Loans and advances to non-banks	27	-	15	-	-	-
Total loans and advances	**7,843**	**3,933**	**7,879**	**7,301**	**3,020**	**7,407**

E.38. Income taxes

E.38.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Current tax expense	(215)	(398)
Deferred tax expense	41	154
Total income tax expense (net)	**(174)**	**(244)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2018	2017
Tax rate	25.0%	25.0%
Profit from continuing operations (before taxation)	1,039	934
Computed taxation using applicable tax rate	(260)	(234)
Tax non-deductible expenses	(87)	(79)
Non-taxable income	70	37
Non-taxable share of earnings of associates	(13)	24
Tax rate differences on foreign results	57	51
Utilised tax loss not previously recognised	47	8
Deferred tax not previously recognised	61	-
Tax loss carry forward not recognised	(34)	(36)
Withholding tax on intra-group dividends	(23)	(6)
Other	8	(9)
Total income tax expense/income	**(174)**	**(244)**

E.38.2. Deferred tax

Deferred tax assets and liabilities comprise the following:

In millions of EUR, as at 31 December

	2018 Deferred tax liabilities	2018 Deferred tax assets	2017 Deferred tax liabilities	2017 Deferred tax assets
Investment securities	(1)	-	(7)	4
Loans	-	330	(1)	307
Trade and other receivables, contract assets	(9)	16		
Inventories	-	3	-	1
Investment property	(144)	2	(120)	3
Property, plant and equipment	(322)	1	(257)	2
Intangible assets	(192)	2	(130)	1
Other assets	(9)	12	(6)	12
Due to banks and other financial institutions	-	18	-	-
Trade and other payables	(5)	34	-	23
Provisions	(3)	20	(3)	10
Other temporary differences	(7)	54	(7)	36
Value of loss carry-forwards recognised	-	59	-	45
Value of tax credits	-	18	-	-
Deferred tax assets/(liabilities)	**(692)**	**569**	**(531)**	**444**
Net deferred tax assets/(liabilities)	**(600)**	**477**	**(460)**	**373**

The table below shows the roll-forward of net deferred taxes:

In millions of EUR, for the year ended 31 December

	2018	2017
Net deferred tax assets/(liabilities) as at 1 January	(87)	(205)
Deferred tax (expense)/income for the period	41	154
Deferred tax recognised directly in equity	59	6
Additions from business combinations	(146)	(14)
Disposals resulting from business combinations	3	-
Effect of movements in exchange rates	7	(28)
Net deferred tax assets/(liabilities) as at 31 December	**(123)**	**(87)**

Deferred tax assets arising from other temporary differences consist mainly of uneven balance sheet eliminations from intra-group transactions.

E.38.3. Tax losses

As at 31 December 2018 the Group incurred tax losses from recent years of MEUR 2,127 (2017: MEUR 2,225) available to be carried forward and off-set against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilised, the deferred tax assets are not recognised. The unrecognised deferred tax assets amount to MEUR 435 (2017: MEUR 478), the recognised deferred tax assets amount to MEUR 59 (2017:45). The unutilised tax losses can be claimed in the period from 2019 to 2027 in the Netherlands (2019 to 2023 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and in the Russian Federation) and expire as follows:

In millions of EUR, as at 31 December 2018 and as at 31 December 2017

	2018	2017
2018	-	47
2019	203	246
2020	335	367
2021	262	287
2022	420	440
2023	58	80
2024	91	139
2025	115	93
2026	105	68
2027	50	1
2028	2	-
Tax losses that can be carried forward indefinitely	486	457
Total	**2,127**	**2,225**

E.39. Off-balance sheet items

E.39.1. Commitments and contingent liabilities

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that these amounts have been fully advanced. The amounts set forth in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to meet their contractual obligations.

The Group companies included in the banking segment engage in the provision of open credit facilities to allow customers quick access to funds in order to meet their short-term obligations as well as their long-term financing needs. Such credit facilities can take the form of guarantees, whereby the Group might guarantee repayment of a loan taken out by a client with a third party; stand-by letters of credit which are credit enhancement facilities enabling customers to engage in trade finance at lower cost; documentary letters of credit for obtaining lower cost financing for foreign trade on behalf of a customer; documentary letters of credit reimbursable to a Group company later and debt facilities and revolving underwriting facilities that allow customers to issue short or medium-term debt instruments without engaging in the normal underwriting process on each occasion. Revenue from the guarantees provided is recognised under "Fee and commission income" and is determined by applying the agreed rates to the nominal amount of the guarantees.

In millions of EUR, as at 31 December

	2018	2017
Loan commitments	928	691
Revolving loan commitments	700	379
Consumer loan commitments	68	80
Cash loan commitments	37	33
Undrawn overdraft facilities	51	66
Term loan facilities	72	133
Capital expenditure commitments	115	114
Guarantees provided	67	76
Non-payment guarantees	18	31
Non-revocable letters of credit	1	1
Payment guarantees	48	44
Other	19	-
Total commitments and contingent liabilities	**1,129**	**881**

These commitments and contingent liabilities have an off-balance sheet credit risk because only organisation fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent the expected future cash flows.

The following table shows secured liabilities:

In millions of EUR, as at 31 December

	2018	2017
Secured bank loans	10,958	8,251
Secured non-bank loans	-	15
Loans received under repos	4,587	3,531
Debt securities issued	896	388
Total secured liabilities	**16,441**	**12,185**

The assets pledged as security were as follows:

In millions of EUR, as at 31 December

	2018	2017
Cash and cash equivalents	821	846
Financial assets at fair value through profit and loss (repos)	173	211
Financial assets FVOCI (repos)/ AFS (repos)	802	525
Loans and receivables due from banks and other financial institutions	-	47
Loans and receivables due from customers	9,791	8,043
Trade and other receivables/other assets	69	2
Investment property (incl. assets held for sale)	1,322	1,333
Property, plant and equipment	164	146
Financial assets in off balance sheet (repo operations)	3,934	3,020
Total assets pledged as security	**17,076**	**14,173**

As of 31 December 2018, cash and cash equivalents of MEUR 792 (2017: MEUR 834) were restricted by borrowing agreements with the creditors in Chinese Home Credit either to the disbursement of loans to retail clients or to the repayment of loans received from creditors. If the cash was used to provide loans to retail clients, the loans were pledged as collateral. Thus, the restriction on the cash effectively increases the creditors' security.

In addition, the Group has pledged certain assets as collateral for its funding liabilities related to the acquisition of Telenor assets. As at 31 December 2018, the pledged asset include, in particular, receivables from bank accounts, hedging agreements and all shares of PPF Arena 1 B.V, other holding subsidiaries within this subgroup, and the Telenor operating entities (with exception of 75% shares of Telenor Hungary pledged as collateral).

The Group also pledges certain shares in O2 CR and CETIN. As of 31 December 2018, a 10.27% share in O2 CR (2017: 62.01%) and a 10.27% share in CETIN (2017: 10.27%) were used as collateral for several funding facilities. The disclosed percentage of O2 CR shares under pledge does not take into account any treasury shares held by O2 CR.

E.39.2. Other contingencies

E.39.2.1. Litigation

The Group (as a former sole shareholder of Česká pojišťovna a.s.) is involved in litigation (formally consisting of five disputes merged procedurally into one) in which the adequacy of the consideration paid to minority shareholders arising from the decision of the general meeting of Česká pojišťovna a.s. adopted in July 2005 approving a squeeze-out of minority shareholders, is being challenged in court. On 13 June 2016, the Municipal Court in Prague fully dismissed the action of the ex-minority shareholders, however, some of them have appealed against the dismissal to the High Court in Prague where no hearings have been scheduled yet, however, participants submitted to the court several statements. Based on legal analyses carried out by external legal counsel, management believes that it is unlikely that this case will be concluded in favour of the plaintiffs.

Furthermore, the Group (through its subsidiary PPF A4 B.V.) is involved in litigations connected to a squeeze-out of minority shareholders in Česká telekomunikační infrastruktura a.s. ("CETIN"), approved by general meeting of this company on 3 December 2015. Several former minority shareholders filed their actions with the relevant court and asked the court to decide on adequate consideration (i.e. higher than that originally paid by PPF A4 B.V.) for their shares in CETIN. The first hearings took place in March and May 2018. On 3 April 2019, the court appointed its own expert to assess whether the consideration paid by PPF A4 B.V. was adequate or not.

Based on the analyses carried out by external advisors, management believes that it is unlikely that both cases above will be concluded in favour of the plaintiffs.

The following legal cases related to the Group are significant from the Group's perspective:

In March 2011, VOLNÝ, a.s. commenced a legal action against O2 CR for an amount of MEUR 154 excluding interest for an alleged abuse of dominant position on the market of internet broadband connection provided to households via ADSL. The amount was calculated as the purported profit the plaintiff lost in the period 2004 to 2010. The plaintiff claimed it had a 30 percent share on the dial-up internet market in 2003 and implied that it would have the same share on the broadband market had it not been for the alleged margin squeeze by O2 CR on the fixed broadband market. O2 CR denied any wrongdoing and noted that the claim and the calculations submitted by the plaintiff were unsubstantiated. At the beginning of 2018, the court decided in favour of O2 CR and dismissed the plaintiff's claim. In June 2018, the plaintiff appealed against the decision, no hearing has been set.

The legal action under which Vodafone Czech Republic a.s. claims amount MEUR 15 was served on O2 CR on 2 April 2015. Vodafone Czech Republic a.s. claims that O2 CR allegedly breached the competition rules regarding broadband internet connection via xDSL technology during the years 2009 to 2014. The legal action was filed less than a week after the two-page pre-litigation letter had been delivered to O2 CR. According to O2 CR, the legal action is an artificially created case primarily aimed at damaging O2 CR with adverse media coverage. Vodafone Czech Republic a.s. claims that lost profit was caused by the failure to acquire 200,000 xDSL customers. O2 CR has provided the court with its statement pointing out of the groundlessness of the claim. An oral hearing has not yet taken place.

In the wake of a ruling handed down by the Constitutional Court, on 14 March 2016 BELL TRADE s.r.o. applied to the District Court in Malacky for O2 CR to be restored as a defendant in proceedings held solely between Slovak entities – BELL TRADE and PET PACK SK s.r.o. – with respect to MEUR 1. BELL TRADE is seeking to base a new claim and new attempt to establish the jurisdiction of the District Court in Malacky on a letter of 8 June 2015, in which it stated that it was "withdrawing from all agreements concluded between RVI, a.s. and O2 CR" and reserved the right to seek compensation for damage caused by such withdrawal. The new claim raised against O2 CR amounts to MEUR 192, including interest as of 14 March 2016. In a ruling of 16 May 2016, the District Court in Malacky rejected BELL TRADE's application for O2 CR to be restored as a defendant. BELL TRADE appealed to the Regional Court in Bratislava.

In 2017, O2 CR filed the legal action to the Municipal Court in Prague as a reaction to the repeated attempts organised by the connected companies BELL TRADE and PET-PACK SK s.r.o. O2 CR claims that no contracts have ever been concluded and that O2 CR has no obligations under these unconcluded contracts. The Municipal Court in Prague confirmed O2 CR's arguments and upheld the legal action on the hearing on 26 June 2017. BELL TRADE and PET-PACK SK s.r.o. filed the appeal to the High Court in Prague.

In the first half of 2018, decisions in favour of O2 CR in the proceedings were issued. On 18 June 2018, the High Court in Prague confirmed the previous decision of the Municipal Court in Prague against PET PACK and BELL TRADE, which determined that no receivables or contracts ever existed. In relation to the company RVI, the High Court changed the previous decision also in favour of the Company. In May 2018, the resolution of the Regional Court in Bratislava also confirmed the decision of the District Court in Malacky. The court confirmed that the Company should not be the defendant in the proceedings which were been still to be held between BELL TRADE and PET PACK and from which the Company had already been exempted by the Constitutional Court of the Slovak Republic.

No provision has been created with respect to the legal disputes discussed above. The Group believes that all litigation risks have been faithfully reflected in the consolidated financial statements.

The following legal cases related to Škoda Transportation group is significant from the Group's perspective:

In the arbitration proceedings with a major customer (ČD a.s. – Czech Railways, joint-stock company) regarding the payment of part of the purchase price, late payment interest due to late payments in the total amount of approximately MEUR 42 and the right to substitute the expression of will to conclude an amendment on the increase of the purchase price, the Arbitration Court at the Chamber of Commerce of the Czech Republic and the Agricultural Chamber of the Czech Republic decided in favour of the company and completely rejected the customer's claims for payment of the contractual fine for alleged breach of the company's obligations under the purchase contract (in the total amount of approximately MEUR 36) and a proposal for handing over the so-called license equivalent for Austria and Germany.

All payments connected with this dispute have been paid in previous years. The customer filed an action for the annulment of the above-mentioned arbitration award. On 20 March 2019, the Municipal Court in Prague fully dismissed the action the annulment of the arbitration award; the customer has right to appeal against this decision.

The Group believes that all litigation risks have been faithfully reflected in the consolidated financial statements.

E.39.2.2. Regulatory investigation

In October 2016, the European Commission announced that it opened formal antitrust proceedings to investigate the network sharing cooperation between O2 CR, CETIN and TMobileCzech Republic. The European Commission will examine whether this cooperation restricts competition in the Czech Republic, thereby harming innovation in breach of EU antitrust rules. The investigation before the European Commission relates to the network sharing agreements and their compatibility with EU competition laws. The Group is fully cooperating with the investigation and so far, there has been no indication of a negative response from the European Commission.

In January 2018, the Hungarian Competition Authority carried out an unannounced inspection at the headquarters of Telenor Hungary in relation to two cases: (i) the investigation of the 800 MHz frequency tender auction, in which Telenor Hungary and Magyar Telekom allegedly committed anti-competitive behaviour during the tender in form of bid rigging and information exchange; and (ii) the 800 MHz network sharing cooperation, under investigation since 2015. As of the date of these financial statements, the proceedings were ongoing and Telenor Hungary was cooperating with the Hungarian Competition Authority to show no breach had occurred.

E.39.2.3. Taxation

The taxation systems in the Russian Federation, India, Kazakhstan, Vietnam, China and some other countries of operations are relatively new and are characterised by frequent changes in legislation which are subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during several subsequent calendar years. Recent events within the Russian Federation, India, Kazakhstan, Vietnam, China and some other countries of operations suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

The facts mentioned above may create tax risks in respective countries that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian, Indian, Kazakhstani, Vietnamese, Chinese and other countries' tax legislation, official pronouncements and court decisions.

E.39.3. Guarantee received and off-balance sheet assets

Guarantees received and off-balance sheet assets were as follows:

In millions of EUR, as at 31 December

	2018	2017
Guarantees received	124	169
Loan commitments received	230	292
Value of assets received as collateral (including repos)	9,373	8,647
Total contingent assets	**9,727**	**9,108**

E.40. Related parties

E.40.1. Identity of related parties

The Group has a related party relationship with its associates, joint ventures and non-consolidated subsidiaries.

Furthermore, the key management personnel of the Group and the close family members of such personnel; other parties which are controlled, jointly controlled or significantly influenced by such individuals and entities in which such individuals hold significant voting power are also considered related parties.

The key management personnel of the Group comprises members of the Board of Directors and key executive officers.

E.40.2. Transactions with governing bodies and executive officers

Income of the governing bodies and key executive officers received from the Group:

In millions of EUR, for the year ended 31 December

	2018	2017
Board of Directors of the Parent Company	0.5	0.5
Key executive officers	25	25

The income includes financial and non-financial income as follows:

Financial income includes all financial income that has been accepted by a member of a board from the Group during the financial year (especially allowances provided for membership of statutory bodies, salaries, wages, bonuses and benefits, income under other arrangements and group life insurance).

Non-financial income includes all non-monetary income (benefits) that has been accepted by a member of a board from the Group during the financial year.

E.40.3. Transactions with associates

During the course of the year, the Group had the following significant transactions at arm's length with associates:

In millions of EUR, for the year ended 31 December

	2018	2017
Interest income	9	11
Total revenue	**9**	**11**

At the reporting date, the Group had the following balances with associates:

In millions of EUR, as at 31 December

	2018	2017
Loans due from customers	143	152
Trade and other receivables	1	-
Total assets	**144**	**152**
Due to non-banks	(30)	(26)
Total liabilities	**(30)**	**(26)**

E.40.4. Other related parties including key management personnel

During the course of the year, the Group had the following significant transactions at arm's length with other related parties:

In millions of EUR, for the year ended 31 December

	2018	2017
Interest income	19	17
Other income	2	3
Total revenue	**21**	**20**
General administrative expenses	(19)	(16)
Total expenses	**(19)**	**(16)**

At the reporting date, the Group had the following balances with other related parties:

In millions of EUR, as at 31 December

	2018	2017
Loans due from customers	212	280
Trade and other receivables	1	1
Intangible assets	2	3
Total assets	**215**	**284**
Due to non-banks	(23)	(7)
Trade and other payables	-	(5)
Total liabilities	**(23)**	**(12)**

F. Significant accounting policies

F.1. Significant accounting policies

If not stated otherwise, the accounting policies set out below have been applied consistently by all Group entities to all periods presented in these consolidated financial statements and by all Group entities.

F.1.1. Foreign currency

F.1.1.1. Foreign currency transactions

A foreign currency transaction is a transaction that is denominated in or requires settlement in a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. For initial recognition purposes, a foreign currency transaction is translated into the functional currency using the exchange rate effective at the date of the transaction and announced by the bank authority ("BA") for the respective country in which the entity operates. At the reporting date:

- monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the exchange rate at that date (announced by the BA);
- non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated using the exchange rates (announced by the BA) prevailing at the date that the fair value was determined;
- non-monetary items denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate (announced by the BA) at the date of the original transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences arising on the retranslation of equity investments which are recognised in other comprehensive income.

F.1.1.2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at the exchange rates prevailing at the reporting date and announced by European Central Bank.

The income and expenses of foreign operations are translated to euro at exchange rates approximating the foreign exchange rates prevailing at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to the non-controlling interests.

When a foreign operation is disposed of with loss of control, significant influence or joint control, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

F.1.2. Financial assets and liabilities

Policy applied after 1 January 2018

The Group applies IFRS 9 since 1 January 2018. Information about the Group's accounting policies in relation to financial instruments is provided below. The effect of the initial application of IFRS 9 is described in Note F.2.

Financial assets include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

Financial assets are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group's policy is to recognise them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Group used the settlement date accounting. Financial instruments, with the exception of financial instruments at fair value through profit or loss, are measured initially at fair value plus transaction costs directly attributable to the acquisition or issue of the financial instrument.

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are exercised, or when the rights expire or are surrendered.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

F.1.2.1. Business model assessment

The Group assesses the objective of the business model in which a financial asset is held either at the portfolio level, as this best reflects the way the business is managed and information is provided to management, or individually in specific cases. Apart from the portfolio's cash-flow characteristics, the information that is considered for portfolio assets includes the portfolio objectives, management strategies and operations, compensation of the managers, risks affecting the business model and evaluation of the portfolio performance. The same information is considered in the specific individual cases.

In line with IFRS 9, the Group differentiates between the following basic business models:

- held-to-collect business model;
- both held-to-collect and for-sale business model;
- other business models (incl. trading, managing assets on a fair value basis, maximising cash-flows through sale and other models).

F.1.2.2. Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows in a way that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents any unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

F.1.2.3. Financial assets at fair value through profit or loss

Financial assets that are at initial recognition mandatorily at fair value through profit or loss are financial assets held for trading, those that are managed and whose performance is evaluated on a fair value basis, equity securities for which the irrevocable option to measure them at FVOCI was not applied, and debt securities that did not meet the SPPI criterion. Non-trading financial assets are financial assets at initial recognition designated at fair value through profit or loss.

Financial assets held for trading are assets that were acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in their price or the dealer's margin. Financial assets are classified as held for trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets held for trading include investments and certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value based on the market prices quoted on an active market, except for derivative instruments that are not exchange-traded and financial assets that are not quoted on an active market, which are measured based on generally accepted valuation techniques depending on the product. Gains and losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognised in the income statement.

F.1.2.4. Financial assets at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents, loans and receivables due from banks and other financial institutions, loans due from customers, trade receivables and accrued income, and certain investment debt securities.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL (held-to-collect business model):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial recognition, the Group measures these financial assets at amortised cost less any relevant impairment. Interest revenue, determined using the effective interest method, expected credit losses and reversals, and foreign exchange gains and losses related to financial assets at amortised cost are recognised in the income statement.

When the financial assets at amortised cost are derecognised, the gains or losses are recognised in the income statement.

F.1.2.5. Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets at fair value through other comprehensive income comprise equity and debt securities. Both equity and debt securities, are initially measured at fair value plus eligible transaction costs.

For equity securities that are not held for trading the Group on initial recognition may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

After initial recognition, the Group measures equity securities at fair value, where any revaluation gain or loss is recognised in other comprehensive income. No expected credit losses (impairment) are recognised for equity securities. Dividends from equity securities at FVOCI are recognised in the income statement.

When equity securities at FVOCI are derecognised, under no circumstances is the cumulative gain or loss previously recognised in equity reclassified to the income statement. Instead, it is directly reclassified to retained earnings. The transaction costs incurred on disposal of equity securities at FVOCI are recognised in the income statement.

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the Group measures the above debt securities at fair value. Interest revenue determined using the effective interest rate method, expected credit losses (impairment), and foreign exchange gain or loss are recognised in the income statement, whereas any other revaluation gain or loss is recognised in other comprehensive income.

When the debt securities at FVOCI are derecognised, the cumulative gain or loss previously recognised in equity is reclassified to the income statement.

For debt securities that are not held for trading, the Group on initial recognition may irrevocably elect to present subsequent change in fair value in FVTPL if, and only if, such designation eliminates or significantly reduces a measurement or recognition inconsistency. This election is made on an investment-by-investment basis.

F.1.2.6. Trade receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those classified as at fair value through profit or loss or at fair value through other comprehensive income.

Trade receivables (unless those without a significant financing component that are initially measured at the transaction price) are initially measured at fair value plus eligible transaction costs. The Group subsequently measures the trade receivables at amortised cost less any relevant impairment.

Amounts receivable from and payable to other domestic and foreign operators related to transit are netted and settled net on a regular basis.

F.1.2.7. Cash and cash equivalents

Cash equivalents are short-term (with original maturities of one month or less from the date of acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost less any relevant impairment.

Mandatory minimum reserves as the part of balances with central banks are classified under loans and receivables due to banks.

F.1.2.8. Lease transactions

Loans and receivables include the Group’s net investment in finance leases where the Group is acting as the lessor. The net investment in finance leases is the aggregate of the minimum lease payments and any unguaranteed residual value accruing to the lessor discounted at the interest rate implicit in the lease. Lease payments include repayment of the finance lease principal and interest income. Recognition of the interest is based on a variable interest rate, which is applied to the net investment (principal) outstanding in respect of the finance lease. Income from finance leases is allocated over the lease term on a systematic basis.

Property and equipment used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded in the Group’s statement of financial position. Payments made under operating leases to the lessor are charged to the income statement over the period of the lease.

Policy applied before 1 January 2018

F.1.2.9. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those classified as at fair value through profit or loss or classified as available for sale.

Loans and receivables are measured at amortised cost using the effective interest rate method and are reported net of allowances for loan losses to reflect the estimated recoverable amounts.

F.1.2.10. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or non-trading financial assets that are designated, upon initial recognition, as financial assets at fair value through profit or loss.

Financial assets held for trading are assets that were acquired or incurred principally to generate a profit from short-term fluctuations in their price or the dealer's margin. Financial assets are classified as held for trading if regardless of the reason they were acquired they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets held for trading include investments and certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value based on the market prices quoted on an active market, except for derivative instruments that are not exchange-traded and financial assets that are not quoted on an active market, as these are measured based on generally accepted valuation techniques depending on the product. Gains and losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognised in the income statement.

F.1.2.11. Financial assets available for sale

Available-for-sale financial assets are non-derivative financial assets that are not classified as other categories of financial assets. Available-for-sale investments comprise equity securities and debt securities.

After initial recognition, the Group measures financial assets available for sale at their fair values, with the exception of instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured. The latter are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss on a financial asset available for sale is recognised in other comprehensive income with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement.

F.1.2.12. Financial assets held to maturity

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intent and ability to hold to maturity.

Financial assets held to maturity are stated at amortised cost less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees.

The fair value of an individual security within the held-to-maturity portfolio can temporarily fall below its carrying value. However, provided there is no risk that the security may be impaired, the security in question is not written down in such a case.

F.1.3. Derecognition of financial assets and liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised separately as asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire or when its terms are modified and the cash flows of the modified liability are substantially different. In that case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

F.1.4. Derivatives and hedge accounting

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations, as follows:

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- there is compliance with the Group's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge can be reliably measured; and
- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

- a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
- a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge).

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in OCI and they are transferred to the income statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the income statement.

On this basis, the Group hedges the interest rate risk and foreign currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis. If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the hedge accounting is discontinued prospectively.

Financial derivatives representing economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of a combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative may be separated from the host contract and accounted for as a separate derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the host instrument is not measured at fair value with changes in fair value recognised in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognised in the statement of financial position.

F.1.5. Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price (repos). Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or non-banks. The receivables are shown as collateralised by the underlying security. Investments sold under repos continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy relevant for the appropriate business model. The proceeds from the sale of the investments are reported as liabilities to either banks or non-banks.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is treated as interest.

F.1.6. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

F.1.7. Impairment

Policy applied after 1 January 2018

F.1.7.1. Non-derivative financial assets

The Group’s entities recognise the loss allowance for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and receivables due from banks and other financial institutions;
- loans due from customers;
- trade receivables and accrued income;
- cash and cash equivalents;
- debt instruments at FVOCI;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

No impairment loss is recognised on equity investments.

The Group measures loss allowances on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

In accordance with IFRS 9, the Group recognises loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group has elected to measure loss allowances for trade and lease receivables and accrued income at an amount equal to lifetime ECLs.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets are credit-impaired (referred to as Stage 3 financial assets). The Group classifies financial asset as credit-impaired when it exceeds 90 days past due.

The Group also considers other events that can have a detrimental effect on the estimated future cash flows of the financial asset resulting in credit-impaired classification. Examples of these events are:

- significant financial difficulty of the borrower or issuer;
- breach of contract such as a default; or
- probability that the borrower will enter bankruptcy or other financial reorganisation.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and is measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls - i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive from this commitment; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are – in general – probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived – alone or together – from internally developed statistical models based on own historical data or derived from available market data.

For the retail portfolio, PD and EAD are usually estimated together using statistical models (stochastic Markov chain based model or simple Roll Rate model) based on internally compiled data. Where available, market data is also used to determine the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD and models will consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

For retail overdraft and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period when the Group's ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and the cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity.

The grouping is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Forward-looking information

Under IFRS 9, the Group incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and – where possible – as part of the measurement of ECLs. External information used includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for

Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

Based on data availability and credibility of sources, the Group uses an analysis of historical data to estimate the relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, gross-domestic-product forecasts and other.

As at 31 December 2018, the Group has estimated the overall impact of forward-looking-information macro model incorporation into ECL calculation process, and the calculated result is reflected in the financial statements.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses these grades to identify significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades and client's score are primary inputs into the determination of the probability of default (PD) development for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Group employs statistical models to analyse the collected data and generate estimates of the remaining lifetime PD of exposures and how these are expected to change over time.

Group's internal credit risk grades

The Group uses internal credit risk grades for provided debt instruments and loans. The table below indicates how the Group's internal credit risk grades relate to the external long-term ratings used by Moody's rating agency:

Internal rating	External rating
Very low risk	Aaa-Aa
Low risk	A-Baa
Medium risk	Ba-B
High risk	Caa-Ca
Default	C and lower

Determining whether credit risk has significantly increased

The Group considers historical experience, expert credit assessment, forward-looking information, and other relevant reasonable and supportable information.

The criteria may vary by portfolio and include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment – subject to materiality threshold – has not been received.

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition if since initial recognition the remaining lifetime PD is determined to have increased more than is defined for the respective exposure class.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of the initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date of their first use could have been a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate this and if those indicators may not be fully captured by its quantitative analysis on a timely basis.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines and settings.

Definition of default

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on the respective significant credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of default and credit impairment. Expectations of forbearance are relevant in assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased for the loss allowance to revert to being measured at an amount equal to 12-month ECLs.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

When a financial asset is modified the Group, assess whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Group considers both qualitative (such as SPPI criterion, change in currency, change in counterparty, maturity, covenants) and quantitative (such as comparison of present values of the remaining contractual cash flows under the original terms with the contractual cash flows under the modified terms) factors.

Write-offs

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (in neither its entirety nor a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may also apply enforcement activities to financial assets being written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowances for ECL in the financial statements

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;

- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

F.1.7.2. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, deferred acquisition costs, the present value of future profits on acquired insurance portfolios and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

For impairment testing, assets are grouped together into the smallest group of assets generating cash inflows from continuing use largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, impairment losses are reversed only to the extent that the assets' carrying amounts do not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Policy applied before 1 January 2018

F.1.7.3. Non-derivative financial assets

Including interests in equity-accounted investees, financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine any objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default on interest or principal payments;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

The Group considers evidence of impairment for loans, receivables and held-to-maturity securities at both the individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between the loss estimates and the actual loss experience.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Receivables with a short duration are not discounted. Losses are recognised in the income statement and reflected in an allowance account. When the Group determines that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the income statement.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to the income statement. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

An impairment loss in respect of an associate or joint venture is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.
Financial assets include financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity, loans and receivables, cash and cash equivalents.

Financial assets are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group's policy is to recognise them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Group used trade date accounting. Financial instruments, with the exception of financial instruments at fair value through profit or loss, are measured initially at fair value plus transaction costs directly attributable to the acquisition or issue of the financial instrument.

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are exercised, or when the rights expire or are surrendered.

F.1.8. Inventories

Inventories are stated at the lower of cost and net realisable value (being the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale). Where the net realisable value is below cost, inventories are written down to the lower value, and the impairment loss is recorded in the income statement. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). The cost of inventory is determined using weighted average cost.

Trading property is a special kind of inventory comprising land and buildings constructed or acquired by the Group for future sale. Trading property is measured at the lower of cost and net realisable value.

F.1.9. Biological assets

Biological assets are measured at fair value less estimated point-of-sale costs, with any change therein recognised as profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. The fair value of biological assets is determined based on market prices of similar biological assets in local areas.

Agricultural produce is transferred to inventory at its fair value less estimated point-of-sale costs at the date of harvest.

F.1.10. Assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before being classified as held for sale, the assets (or components of a disposal group) are measured in accordance with the applicable IFRS. Thereafter, the assets (or disposal groups) are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventory, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets; these continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

F.1.11. Deferred acquisition costs of insurance contracts

Direct costs arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' shares of deferred acquisition costs are amortised in the same manner as the underlying asset amortisation is recorded.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of comprehensive income.

Deferred acquisition costs are derecognised when the related insurance contracts are either settled or disposed of.

F.1.12. Investment property

Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. A property owned by the Group is treated as an investment property if it is not occupied by a Group company or if only an insignificant portion of the property is occupied by a Group company.

Subsequent to initial recognition all investment properties are measured at fair value. The fair value is determined annually based on appraisals by an independent external expert or based on internal valuations in the case of projects with immaterial value.

The external valuations are always obtained from leading market experts such as Colliers International, Cushman & Wakefield or CBRE. All the valuation reports are based on a generally worldwide accepted RICS (Royal Institute of Chartered Surveyors) valuation methodology, which is one of the best methods used to obtain the fair market valuation of the given property, especially in the absence of any actual transactions. All the valuation reports produced by external experts are then subject to several rounds of discussions and challenges before the final figures are obtained and agreed.

When the Group applies internal valuations the fair value of investment property is determined using the discounted cash flow or comparable method. Such valuations require the use of judgment and assumptions about future market conditions.

Property that is being built or developed for future use as investment property is classified as investment property and recognised at fair value. In case the fair value is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for over the lease term.

When an item of property, plant and equipment becomes an investment property following a change in its use, any gain arising at the date of transfer between the carrying amount of the item and its fair value, and the related deferred tax thereon, is recognised directly in equity. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately.

Subsequent expenditures relating to investment properties are capitalised if they extend the useful life of the assets; otherwise, they are recognised as an expense.

F.1.13. Property, plant and equipment

Property, plant and equipment is stated at the purchase price or production cost, less accumulated depreciation (except for freehold land) and any accumulated impairment losses.

Property, plant and equipment include all costs directly attributable to bringing an asset to the working condition for its intended use. With respect to the construction of a network, this comprises every expenditure up to the customer premises, including the cost of contractors, material, direct labour costs and interest cost incurred during the course of construction.

The gain or loss on the disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other operating income/other operating expenses in profit or loss.

Depreciation is provided on a straight-line basis using the following useful lives:

Buildings and constructions	up to 90 years
Ducts and cables	up to 45 years
Telecommunication technology and equipment	up to 35 years
Other tangible assets and equipment	up to 26 years

Component parts of an asset that have different useful lives or provide benefits in a different pattern are recognised as separate assets with different depreciation rates.

The depreciation methods, useful lives, and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time the technical improvement is recognised.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

F.1.14. Intangible assets

F.1.14.1. Goodwill and gain on bargain purchase

The Group accounts for all business combinations, except those determined to be reorganisations involving group companies under common control (refer to A.5) as acquisitions.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units at the date of the acquisition and is not amortised but instead tested for impairment, annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gain on bargain purchase (formerly negative goodwill) arising on the acquisition is recognised immediately in the income statement.

In respect of associates, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

F.1.14.2. Trademarks

Trademarks that were acquired separately are initially measured at cost, while trademarks acquired through a business combination are measured at fair value. Trademarks with finite useful life are amortised on a straight-line basis over their useful life. Trademarks with infinite useful life are not amortised but they are tested for impairment annually or whenever there is an indication that the trademark may be impaired.

F.1.14.3. Present value of future profits from acquired portfolio

On the acquisition of a portfolio of long-term insurance contracts or investment contracts, either directly or through the acquisition of an enterprise, the net present value of the shareholders' interest in the expected cash flows of the portfolio acquired is capitalised as an asset. This asset, referred to as the present value of future profits (PVFP), is calculated on the basis of an actuarial computation taking into account assumptions for future premium income, contributions, mortality, morbidity, lapses and returns on investments. PVFP is recognised separately for insurance segments and for the respective companies.

The PVFP is amortised over the average effective life of the contracts acquired, using an amortisation pattern reflecting expected future profit recognition. The assumptions used in the development of the PVFP amortisation pattern are consistent with the ones applied in its initial measurement.

F.1.14.4. In-process research and development assets

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends, and has sufficient resources, to complete development and use or sell the asset. In-process research and development (IPRD) assets consist of biotech licence deals acquired in a business combination. These assets are measured at fair value on initial recognition.

Subsequent IPRD expenditures are capitalised on the basis of technical feasibility as indefinite-lived intangible assets and remain in the balance sheet, subject to impairment, until completion. Amortisation over their useful life commences when research and development is complete. Alternatively, if the project in question is abandoned, the carrying value of the associated IPRD assets is expensed.

F.1.14.5. Other intangible assets

Other intangible assets, including software, licences and customer relationships, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Such categories of assets with finite useful lives are amortised on a straight-line basis. The estimated useful lives are as follows:

Software	up to 10 years
Trademark	indefinite/4 years
Licences	up to 20 years
Customer relationships	5-12 years
PVFP	35 years
Other	up to 20 years

The amortisation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time the technical improvement is recognised.

As for the life and non-life portfolio, the recoverable amount of the value of the in-force business acquired is determined by conducting a liability adequacy test (LAT) on the insurance provisions, taking into account the deferred acquisition costs, if any, recognised in the statement of financial position. Any impairment losses are recognised in the income statement.

Where there is any indication that an impairment loss recognised for PVFP in prior years no longer exists, the carrying amount of PVFP is increased to its estimated recoverable amount. The increased carrying amount of PVFP due to reversal of impairment loss may not exceed the carrying amount that would be determined if no impairment loss had been recognised for PVFP in prior years, net of any amortisation accounted for in the meantime.

F.1.15. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

F.1.15.1. Current tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Group does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

F.1.15.2. Deferred tax

A deferred tax position is recognised in cases when temporary differences arise between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of goodwill arising from a business combination, the initial recognition of assets or liabilities that affect neither the accounting nor the taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Recognised deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

F.1.15.3. Tax exposure

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these issues is different from the amounts initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

F.1.16. Deposits, loans, debt securities issued and subordinated liabilities

Liabilities due to non-banks and due to banks, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Deposits, loans, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

F.1.17. Other liabilities and provisions

Accounts payable arise when the Group has a contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortised cost, which is normally equal to their nominal or repayment value.

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reasonable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

F.1.18. Insurance provisions

F.1.18.1. Provisions for unearned premiums

Provisions for unearned premiums comprise the part of gross premium revenue attributable to subsequent periods, calculated separately for each insurance contract.

F.1.18.2. Life insurance provisions

Life insurance provisions comprise the actuarially estimated value of the liabilities under life insurance contracts. The provisions remain unchanged unless a liability inadequacy arises. A liability adequacy test (LAT) is performed at each reporting date by the Group's actuaries using current estimates of the future cash flows under the insurance contracts.

F.1.18.3. Provisions for outstanding claims

Provisions for outstanding claims represent the total estimated cost of settling all claims arising from events that occurred up to the reporting date, whether reported or not, less amounts already paid in respect of such claims. These provisions include claims reported by policyholders but not settled (RBNS) and claims incurred but not reported (IBNR). Provisions for outstanding claims are not discounted for the time value of money.

F.1.18.4. Other insurance provisions

Other insurance provisions contain all other insurance technical provisions not mentioned above, such as provisions for unexpired risks (also referred to as the premium deficiency) in non-life insurance, ageing provisions in health insurance, provisions for contractual non-discretionary bonuses in non-life business and other similar provisions.

F.1.19. Equity

F.1.19.1. Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the paid consideration, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

F.1.19.2. Dividends

Dividends on share capital are recognised as a liability provided they are declared before the reporting date. Dividends declared after the reporting date are not recognised as a liability but are disclosed in the notes.

F.1.19.3. Non-controlling interests

Non-controlling interests consist of the minority shareholders' proportion of the subsidiary's recognised net assets at the date of the original combination, plus or minus their share of changes in the subsidiary's equity since that date.

Net profit allocated to non-controlling interests is the part of the net results of the Group attributable to interests not owned, either directly or indirectly through subsidiaries, by the equity holders of the Parent Company.

Losses applicable to non-controlling interests, including negative other comprehensive income, are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

F.1.20. Interest income and interest expense

Interest income and interest expense are recognised in the income statement on an accrual basis, taking into account the effective yield of the asset or liability in question, or the applicable floating rate. Interest income and interest expenses include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated using the effective interest rate method.

F.1.21. Net fee and commission income

Fee and commission income arises from financial services provided by the Group, including cash management services, payment clearing, investment advice and financial planning, investment banking services, and asset management services. Fee and commission expenses arise on financial services provided to the Group including brokerage services, payment clearing, and asset management services. Fee and commission income and expenses are recognised when the corresponding service is provided or received. A penalty fee is recognised when a penalty is charged to a customer, taking into account its collectability.

The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Group's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, and the interest rates for customers with and without the insurance are the same. The Group is not exposed to the insurance risk as it is borne by the partner. Commission income from insurance is recognised in profit or loss when the Group provides the agency service to the insurance company.

F.1.22. Net gain/loss on financial assets

Net gain/loss on financial assets comprises net trading income, net gains on financial assets at fair value through profit or loss that are not held for trading, net realised gains, and dividends.

Net trading income arises from the subsequent measurement of trading assets and trading liabilities at fair value or from their disposal. The amount of trading income to be recorded represents the difference between the latest carrying value and the sale price or between the latest carrying value and the fair value as of the date of the consolidated financial statements.

Net gains on financial assets at fair value through profit or loss that are not held for trading arise from their subsequent measurement at fair value or from their disposal.

A realised gain/loss arises on the de-recognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of the financial asset and the sale price adjusted for any cumulative gain or loss directly recognised in equity.

Dividends from financial assets are recorded in the income statement once declared and approved by the shareholders' general meeting of the respective company.

F.1.23. Net insurance premium revenue

Net insurance premium revenue includes gross premium revenue from the direct insurance business and assumed (inwards) reinsurance business, net of premiums ceded to reinsurers.

F.1.24. Net insurance benefits and claims

Insurance technical charges include claims (benefit) expenses, a change in technical provisions and rebates, and profit sharing. Claims expenses consist of benefits and surrenders, net of reinsurance. Benefits and claims comprise all payments made in respect of the financial year: annuities, surrenders, additions and releases of loss provisions to and from ceding insurance enterprises and reinsurers, and external and internal claims management costs.

F.1.25. Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts and include direct costs, such as acquisition commissions, as well as indirect costs, such as advertising costs and administrative expenses. After initial recognition, the acquisition costs for non-life contracts are amortised over the expected life of the contracts.

F.1.26. Net real estate income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income. Rent increases calculated with reference to an underlying index are recognised in income as they are determined. Rental income from investment properties is included in the net rental income, while rental income from other operating leases is included in other income.

Property operating expenses include expenses directly attributable to rental income and other expenses related to investment property.

F.1.27. Net telecommunication income

Revenue and expenses are recognised on an accrual basis; i.e. when the flow of goods or services takes place, regardless of when the payment or collection is being made.

The Group generates revenues through the sale of mobile and fixed telecommunication services such as voice and data services, internet services, SMS services, ICT services as well as the sale of mobile and fixed access devices. Products and services may be sold separately or in bundles. The standard length of contracts with customers that includes a bundle is 24 months.

In the case of contracts containing bundles, the Group accounts separately for specific products or services if these products or services can be separated and have added value for the customer in that stand-alone form. The total price invoiced to customers is allocated to respective products and services based on their stand-alone selling prices.

Commissions paid to agents for activation, marketing, and other activities are included in the cost of sales for the period, unless it is the cost that meets the definition of incremental costs to obtain contracts. Capitalised incremental costs to obtain contracts are amortised over the expected average period that the customer uses the service of the Company.

F.1.27.1. Mobile origination - internet and data, voice services, MMS and SMS

Revenues from mobile services include revenues from both contract and prepaid cards for the provision of telecommunication services (internet and data, voice, MMS and SMS services).

Contract service comprises a flat rate and a variable part invoiced according to the actual usage. Revenues are recognised, invoiced, and paid by customers on a monthly basis according to the actual utilisation of services with the exception of contracts containing multiple services and products where the total transaction price is allocated based on the standalone selling prices of respective performance obligations. A typical contract is for 24 months.

Revenues from prepaid cards are recognised when voice or data traffic is made, other services are provided or the card expires and the associated prepaid credit expires. Prepaid cards are paid by customers purchasing a coupon or recharging an already purchased SIM card.

Interconnection revenues arise from calls and SMSs initiated in the networks of other domestic or foreign operators but terminating in or transiting through the Group's network. These revenues are recognised in profit or loss at the time when the call or SMS is received in the Group's network. Interconnection revenues are invoiced and paid on a monthly basis. The Group pays a part of the proceeds from its customers to domestic and foreign operators whose network is used for calls initiated in the Group's network and which use the networks of other domestic or foreign operators. Receivables and payables in respect of other domestic and foreign operators are regularly offset and settled.

Other mobile revenues include, in particular, revenues from virtual operators (MVNOs) for the use of the Group's mobile network services, roaming revenues and insurance revenues. Revenues from virtual operators for usage of the Group's mobile network and related services are recognised on a monthly basis; the price is usually set at a flat monthly rate with a variable component charged according to the actual usage of individual MVNOs. The services are invoiced to and paid by MVNOs on a monthly basis. Roaming revenues are revenues from foreign partner operators for their customers' usage of the Group's mobile network. The services are invoiced and paid on a monthly basis according to the actual usage. As a rule, agreed volume discounts are calculated annually, for which estimates are created by the Group on a monthly basis. Revenues are recognised on a monthly basis. Revenues from insurance include revenues from insurance of mobile devices and travel insurance sold to the Group's customers. The service is invoiced and paid by customers on a monthly basis, which is in line with the recognition of relevant revenues. Customers have the option to terminate this service at any time without penalty.

F.1.27.2. Fixed services – voice, internet, data and television

Revenues from fixed telecommunication services include revenues from internet connectivity, data, TV, and fixed voice services. The services are offered at a flat monthly rate with the option to purchase additional services, or with variable invoicing according to the actual usage. Revenues are recognised, invoiced, and paid by customers monthly. Currently, a typical contract duration is either 12 or 24 months.

Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the service provided. Generally, it relates to services which are invoiced and paid by customers on a monthly basis, for a period of at least of 24 months. Revenue from fixed price construction contracts (long-term contracts) is recognised using the percentage of completion method, measured by reference to the percentage of the actual costs incurred to date to the estimated total costs of the contract. A loss expected from the construction contract is immediately recognised as an expense, when it is probable that total contract costs will exceed total contract revenue.

F.1.27.3. Equipment sales and sale of other goods

Revenues from the sale of equipment and other goods are recognised at the time of the sale, i.e. at the time the goods were handed over to the distributor or the final customer, which usually occurs when the contract is signed. Where equipment is subsidised and sold together with the services as a bundle, revenue from the subsidised equipment is recognised at the point of sale at a value determined using the stand-alone selling prices of services and products within the bundle.

Mobile devices are usually paid for in full by the customer when sold. Fixed access equipment may also be sold on an instalment basis, with the contracts usually being signed for 12 or 24 months. The financing component is not significant in these contracts.

F.1.27.4. Gross and net revenue recognition

Revenues within the network sharing project are recognised at net value, because mutually provided services within the project are of similar nature and value. Net revenues are generated from provision of premium SMS, audiotex or other services.

F.1.27.5. International transit

Revenue from transit represents the service of routing and termination of mostly international voice traffic of international operators utilising points of presence outside of the Czech Republic. The revenue is calculated by valuation of the incoming and outgoing minutes based on the measurement of monthly traffic.

F.1.27.6. Other wholesale revenues

Other wholesale revenues include but are not limited to revenues from the granting of the right to use the optical fibre (dark fibre); revenues are accrued at the time of signing of the contract and recognised as revenue on straight-line basis over the contract term. Revenue from housing represents data centre services; the revenue occurs continuously in accordance with the invoicing.

F.1.28. Net mechanical engineering income

Revenues from mechanical engineering business, shown net of value added tax, comprise revenues from goods for resale, services rendered and revenues from mechanical engineering construction contracts (finished goods).

Revenues from goods for resale representing notably new rail vehicles and spare parts are recognised at a point in time, when the customer obtains control of the goods and to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The customer obtains control when the goods are delivered and accepted by the customer. Any relevant costs are recognised at the same time as the revenues.

For sales with multiple components in one contract, the Group determines whether the contract contains more than one transactions, performance obligations. Once certain criteria are met, for example the good brings benefit to the customer on its own, the Group applies recognition criteria for the distinct identifiable components in order to reflect the substance of the transaction. For the revenue recognition, two or more transactions can be analysed together, if it is not possible to understand their commercial substance without consideration of series of transactions as a whole, i.e. the unique transaction is not distinct within the context of the contract.

Revenues from services rendered and related costs are recognised at the moment the services are provided. For the long term service contracts, the revenues and the associated costs are recognised over time based on the percentage of completion method.

F.1.28.1. *Revenues from mechanical engineering construction contracts*

Finished goods in mechanical engineering business represent specialised assets built to a customer's specifications. If a contract for these goods is terminated by the customer, the Group is, under usual contract terms, entitled to reimbursement of the costs incurred to date, including reasonable margin. Therefore, revenues from these contracts and the associated costs are recognised over time, i.e. before the goods are delivered to the customer's premises.

For the consolidation purposes (intercompany sales and purchases eliminations), the contract revenues and the associated costs are aggregated to the project level by the Group. The percentage of completion and related revenues and losses recognition is re-evaluated at the Group level.

F.1.29. Net agriculture income

Net agriculture income comprises sales of agricultural produce, related cost of sales, other revenue from services provided in agriculture, and any change in the fair value of biological assets.

Sales of goods are presented net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Cost of goods includes:

- the value of agricultural inventories expensed in the period when the revenue from sales is recognised; these inventories are accounted for on a first-in, first-out basis;
- personnel expenses;
- depreciation of property, plant and equipment used in the agricultural production and amortisation of land lease rights; and
- other expenses such as repairs, utilities, agricultural services and other services.

F.1.30. Other income and other expenses

F.1.30.1. Income for services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due or associated costs.

F.1.30.2. Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total lease expense.

F.1.31. General administrative expenses

General administrative expenses include expenses relating to the running of the Group. These include personnel costs, office rental expenses and other operating expenses. Staff costs include employees' salaries and wages, management remuneration and bonuses, and social insurance.

Within banking operations, administrative expenses include the costs of processing payments, maintaining customer accounts and records, and dealing with customers.

F.1.32. Pensions

The governments of the countries the Group operates in are responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees' salaries is made by the Group to the governments to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

F.2. Changes in accounting policies and accounting pronouncements adopted since 1 January 2018

The following revised standards and annual improvements to IFRSs effective from 1 January 2018 are mandatory and relevant for the Group, and have been applied by the Group since 1 January 2018:

Annual Improvements 2014-2016 Cycle (effective from 1 January 2017 and 1 January 2018)

In November 2015, the IASB published Annual Improvements to IFRSs 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. Out of the amendments contained in the 2014-2016 Cycle, the amendments to IFRS 1 and IAS 28 are effective from 1 January 2018.

These amendments did not have any significant impact on the Group's financial statements.

Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective from 1 January 2018)

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. These concerns include temporary volatility in reported results.

The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard:

- gives all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued; and
- gives companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 continue to apply the existing financial instruments Standard – IAS 39.

The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

These amendments did not have any significant impact on the Group's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018)

The IFRIC 22 clarifies the transactions date used to determine the exchange rate for foreign currency transactions involving an advance payment or receipt: the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

This interpretation did not have any significant impact on the Group's financial statements.

F.2.1. IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services. The Group decided to adopt IFRS 15 using the modified cumulative retrospective transition method, which means that the Group only applied the new guidance to contracts that were not completed as at 1 January 2018. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. Comparative prior year periods were not adjusted.

The Group, within the telecommunication segment, enters into contracts with a large number of customers with similar contractual terms. The Group applies a portfolio approach to contracts that can be grouped to portfolios with terms similar to other telecommunication peers, as it reasonably expects that the effect of applying a portfolio approach does not differ materially from considering each contract separately. Principally, the Group adopts the portfolio approach to the majority of contracts with customers. However, contracts with customers from the corporate segment with unique terms that do not fit into any portfolio are assessed and accounted for individually.

The Group also recognises the part of installation fees associated with network construction as a deferred income over the contract duration. Because these are long-term contracts and installation fees are paid by the customer at the beginning of the contractual period when the service is promised, the time value of the money must be reflected. The financial component of such transactions will be reflected by using the interest rate derived from the theoretical curve which would show how much the Group would borrow on the bond market.

Within the mechanical engineering, the Group enters into a small numbers of specific contracts with unique terms. These contracts are assessed and accounted for individually.

The following table shows the impact of the initial application of IFRS 15 on equity (excl. mechanical engineering as this segment operations were acquired during 2018):

In millions of EUR, as at 1 January 2018

Retained earnings	
Capitalisation of costs to obtain contracts	18
Bundles of telecommunication service and equipment	8
Related tax	(5)
Net impact	21
Non-controlling interests	
Capitalisation of costs to obtain contracts	4
Bundles of telecommunication service and equipment	1
Related tax	(1)
Net impact	**4**

The following table illustrates the impact of adopting IFRS 15 on the consolidated statement of financial position (incl. mechanical engineering):

In millions of EUR, as at 31 December 2018

	Note	Amounts recognised under IFRS 15	Adjustment	Amounts without adoption of IFRS 15
Trade and other receivables	F.2.1.1,3	870	297	1,167
Contract assets	F.2.1.1,3	277	(277)	-
Other assets		43,937	(48)	43,889
Out of which: Cost to obtain or fulfil the contract	F.2.1.2	48	(48)	-
Total assets		**45,084**	**(28)**	**45,056**
Trade and other payables	F.2.1.1,3	2,315	221	2,536
Contract liabilities	F.2.1.1,3	208	(208)	-
Deferred tax liabilities		600	(9)	591
Other liabilities		34,061	8	34,069
Total liabilities		**37,184**	**12**	**37,196**
Retained earnings		7,148	(14)	7,134
Total equity		**7,900**	**(14)**	**7,886**

In the consolidated income statement, adopting of IFRS 15 had the most significant impact on revenues, that would be higher by MEUR 2 without IFRS 15; operating expenses, that would be higher by MEUR 38; and amortisation of cost to obtain or fulfil the contract that would be nil without IFRS 15 for the year ended 31 December 2018.

The following sections describe new significant accounting policies in telecommunication and mechanical engineering businesses.

F.2.1.1. Bundles of telecommunication service and equipment

The core principle of IFRS 15 is a requirement for the Group to recognise revenues at the time the promised goods or services are transferred to customers in amounts that reflect consideration to which the Group expects to be entitled in exchange for the goods or services supplied. The Standard also provides guidance for reporting transactions that were not previously addressed comprehensively (for example customer's material rights, principal versus agent considerations, etc.), and newly specifies the requirements for recognising multiple-element arrangements in detail.

Under the previous accounting and reporting framework, the Group's accounting treatment of several bundles of telecommunication services and equipment for the residential segment was in accordance with the contingent revenue cap, which was required to be applied for such legal contracts and which represented the reallocation of contract revenue depending on the supplies. As this treatment was fully replaced by the new standard, the pool of such offerings which are subject to a re-allocation of revenue from contracts with customers under IFRS 15 increased. The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with residential customers that have not been completed at that date is an increase of MEUR 3.

Other types of contracts that are newly subject to adjustments under IFRS 15 are contracts with corporate customers where the supply of telecommunication services is complemented by the sale of telecommunication equipment on preferential terms.

The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with corporate customers that have not been completed at that date is an increase of MEUR 4. In comparison to the residential segment where the telecommunication equipment is transferred to customers at the inception of the telecommunication contract, corporate contracts usually allow the utilisation of the preferential terms for the purchase of telecommunication equipment during the whole duration of the contract.

Promises to transfer distinct goods or services are defined as performance obligations in the standard. The Group provides telecommunication services which are offered on a stand-alone basis and represent a separate performance obligation. Most of the goods and services which are sold in bundles represent a separate performance obligation as long as a customer can also benefit from them on a stand-alone basis.

In accordance with the requirements of the new standard, the transaction price is allocated to separate performance obligations on the basis of the relative stand-alone selling prices of the products or services provided. The stand-alone selling price is the price at which the Group sells a promised good or service to its customers in a separate transaction. In the majority of cases, the Group considers its list prices for goods and services to be the stand-alone selling prices.

The Group recognises revenue when the goods or services are transferred to the customer and the customer obtains control of the goods or service. The Group first assesses whether the performance obligation is satisfied over time or at a certain point in time. Most services are provided over time as customers benefit from these services as the services are rendered.

Within the business models used by the Group, the funding element is not material.

F.2.1.2. *Commissions: incremental cost to obtain contracts*

Capitalised incremental costs to obtain contracts mainly represent external and internal sales commissions which are directly attributable to the acquisition of the contract with customers and are incremental. These expenditures are recognised in the balance sheet within the line Other assets and are linearly amortised. The amortisation of those costs is presented within the line Other operating expenses in the income statement, the amortisation period is determined with respect to the estimated average contract duration period for business customers and the estimated average customer life-time period for residential customers (within the interval from 18 to 48 months).

Under the previous policies, all commissions paid to agents for activation, marketing and other activities were included in the cost of sales for the period and recognised in profit or loss within the line Telecommunication expenses.

F.2.1.3. Mechanical engineering business contracts

In the Group’s mechanical engineering the most significant impact of IFRS 15 is on presentation of the construction contracts. If it had not been for IFRS 15, the Group would have present, for this newly acquired segment in 2018, significant balances under trade and other receivables and trade and other payables as “amounts due from customers” and “amount due to customers”, respectively.

F.2.2. IFRS 9 Financial Instruments (effective from 1 January 2018)

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not choose to early adopt any of IFRS 9 versions in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures, and continues with the application of IAS 39 requirements for hedge accounting.

Consequently, for notes disclosures, the IFRS 9 relevant amendments to IFRS 7 Financial Instruments: Disclosures are applied to disclosures for 2018, but are not applied to the comparative information. The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below and in Note F.1.

The adoption of IFRS 9 has brought changes to the Group's accounting policies for the recognition, classification and measurement of financial assets and financial liabilities, and impairment of financial assets.

The following table summarises the impact, net of tax, of the transition to IFRS 9 on the opening balance of reserves, retained earnings and non-controlling interests.

In millions of EUR, as at 1 January 2018

***Revaluation reserve** (AFS/FVOCI reserve)*	
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	2
Related tax	-
Net impact	2
Retained earnings	
Recognition of expected credit losses under IFRS 9	(252)
Remeasurement due to change in measurement model	2
Related tax	61
Net impact	(189)
Non-controlling interests	
Recognition of expected credit losses under IFRS 9	(24)
Related tax	-
Net impact	(24)

F.2.2.1. Classification and measurement of financial assets and financial liabilities

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

In millions of EUR, as at 1 January 2018

	Measurement category under IAS 39	Carrying amount	Measurement category under IFRS 9	Carrying amount
Financial assets				
Cash and cash equivalents	Amortised cost (L&R)	9,118	Amortised cost	9,118
Loans and receivables due from banks and other financial institutions	Amortised cost (L&R)	546	Amortised cost	544
Loans to customers	Amortised cost (L&R)	17,066	Amortised cost	16,799
Trade receivables and other receivables	Amortised cost (L&R)	441	Amortised cost	440
Investment securities (Held for trading)	FVTPL (held for trading)	332	FVTPL (mandatory)	332
Investment securities (Debt securities)	FVOCI (AFS)	2,740	FVOCI (debt instruments)	1,814
			FVTPL (mandatory)	5
			Amortised cost	845
Investment securities (Held to maturity)	Amortised cost (HTM)	12		
Investment securities (Equity securities)	FVOCI (AFS)	606	FVOCI (equity instruments)	606

Neither the classification nor the measurement of financial liabilities have been affected by the adoption of IFRS 9 in the same manner as they were under IAS 39.

F.2.2.2. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics, as described above in this section.

The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

MEUR	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 January 2018
Financial assets					
Amortised cost					
Cash and cash equivalents:					
Opening balance under IAS 39	9,118	-	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	9,118
Investment securities (held to maturity):					
Opening balance under IAS 39	12	-	-	-	-
Subtraction: To "Investment securities at amortised cost" category (IFRS 9)	-	(12)	-	-	-
Closing balance under IFRS 9	-	-	-	-	-
Investment securities at amortised cost:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "available-for-sale" (IAS 39)	-	830	-	-	-
Addition: From "Investment securities (held to maturity)"	-	12	-	-	-
Remeasurement	-	-	3	-	-
Closing balance under IFRS 9	-	-	-	-	845
Loans and receivables due from banks, other financial institutions and holding companies					
Opening balance under IAS 39	546	-	-	-	-
Remeasurement	-	-	-	(2)	-
Closing balance under IFRS 9	-	-	-	-	544
Loans to customers:					
Opening balance under IAS 39	17,066	-	-	-	-
Remeasurement	-	-	-	(271)	-
Closing balance under IFRS 9	-	-	-	-	16,799
Trade and other receivables:					
Opening balance under IAS 39	441	-	-	-	-
Remeasurement	-	-	(1)	-	-
Closing balance under IFRS 9	-	-	-	-	440
Total financial assets measured at amortised cost	**27,183**	**830**	**2**	**(273)**	**27,746**

MEUR	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 January 2018
Fair value through other comprehensive income (FVOCI)					
Available-for-sale					
Opening balance under IAS 39	3,346	-	-	-	-
Subtraction: to FVOCI (IFRS 9)	-	(2,420)	-	-	-
Subtraction: to FVTPL mandatorily (IFRS 9)	-	(96)	-	-	-
Subtraction: To "Investment securities at amortised cost" category (IFRS 9)	-	(830)	-	-	-
Closing balance under IFRS 9	-	-	-	-	-
FVOCI (debt instruments)					
Bonds and other debt securities:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "Financial assets available-for-sale (IAS 39)	-	1,814	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	1,814
FVOCI (equity instruments)					
Equity securities:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "Financial assets available-for-sale (IAS 39)	-	606	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	606
Total financial assets measured at FVOCI	**3,346**	**(926)**	**-**	**-**	**2,420**
Fair value through profit and loss and hedging (FVTPL)					
Opening balance under IAS 39	332	-	-	-	-
Addition: From “Financial assets available-for-sale (IAS 39)”	-	96	-	-	-
Remeasurement	-	-	(1)	-	-
Closing balance under IFRS 9	-	-	-	-	427
Total financial assets measured at FVTPL	**332**	**96**	**(1)**	**-**	**427**

The following table shows the effects of the reclassification of financial assets from IAS 39 categories into the amortised cost category under IFRS 9.

From available-for-sale financial assets under IAS 39	**MEUR**
Fair value at 31 December 2018	781
Fair value gain that would have been recognised during the year ended 31 December 2018 in OCI if the financial assets had not been reclassified	(12)

F.2.2.3. Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	**Loss allowance under IAS 39/Provision under IAS 37**	**Reclassification**	**Remeasurement**	**Loss allowance under IFRS 9**
	MEUR	**MEUR**	**MEUR**	**MEUR**
L&R (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans and receivables due from banks, other financial institutions and holding companies	-	-	(2)	(2)
Loans to customers - collective impairment	(1,414)	-	(264)	(1,678)
Loans to customers - individual impairment	(76)	5	(7)	(78)
subtotal	**(1,490)**	**5**	**(273)**	**(1,758)**
AFS (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Bonds and other debt securities	-	-	(2)	(2)
subtotal	**-**	**-**	**(2)**	**(2)**
Loan commitments and financial guarantee contracts				
Loan commitments	-	-	(1)	(1)
Provisions (financial guarantees)	(2)	-	-	(2)
subtotal	**(2)**	**-**	**(1)**	**(3)**
Total	**(1,492)**	**5**	**(276)**	**(1,763)**

F.3. Standards, interpretations and amendments to published standards that are not yet effective but are relevant for the Group's consolidated financial statements

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2018 and have not been applied in the preparation of the consolidated financial statements. Of these pronouncements, the following will have a potential impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 Leases (effective from 1 January 2019)

In January 2016 IASB issued a new Standard on leases. The standard requires companies to bring most leases on-balance sheet, recognising new assets and liabilities. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the 'lease asset') at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new Standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities for

(a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items (such as personal computers).

Applying IFRS 16, a lessee will:

- recognise lease assets (as a separate line item or together with property, plant and equipment) and lease liabilities in the balance sheet;
- recognise depreciation of lease assets and interest on lease liabilities in the income statement; and
- present the amount of cash paid for the principal portion of the lease liability within financing activities, and the amount paid for the interest portion within either operating or financing activities, in the cash flow statement.

The Group assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 16. Based on the information currently available, the Group estimates that it will recognise additional lease liabilities and right-of-use assets in the range of MEUR 530-630 in the Group's financial statements as at 1 January 2019.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 16 on 1 January 2019 may change because the Group needs to update the policies and governance impacted by IFRS 16 and internal controls, to test readiness of the system, and these implementations are not yet complete. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical expedients and exemptions. The Group has opted to apply for periods starting from 1 January 2019 the modified retrospective approach and will make use of several of these practical expedients and exemptions permitted under the standard. The Group will use the exemption relating to the short-term leases for all its businesses (except for telecommunications, for which application of this exemption was assessed as not appropriate), and has decided not to capitalise leases with lease term of 12 month or shorter (for telecommunications these short-term lease are capitalised). Regarding the leases with a low-value underlying asset the Group has decided to use this practical expedient as well. Low value tangible assets like copy machines (below TEUR 5) are not required to capitalise. The Group will also outscope the leased intangible assets to be capitalised, as allowed by IFRS 16. For all its businesses, the Group has decided not to separate non-lease components and will capitalise them as lease payments (except for the finance business for which the non-lease components (like cleaning and maintenance) will be separated and will not be capitalised as lease payments). Lessor accounting remains substantially unchanged.

Based on the current results of the Group's analyses of the actual lease contracts, the Group evaluated that the impact on the income statement and the statement of cash flow is very limited. The Group also analysed the impact of IFRS 16 to covenant calculation and expects a very limited impact, so that the covenants are expected to be met on and after the adoption of IFRS 16.

IFRS 17 Insurance Contracts (effective from 1 January 2021)

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 has not yet been adopted by the EU.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (effective from 1 January 2019)

In October 2017, IASB issued amendments to IFRS 9 Prepayment Features with Negative Compensation. These amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

These amendments are not expected to have significant impact on the Group's financial statements.

Amendments to IAS 28 Equity-Accounted Investees and Joint Ventures: Long-term Interests in Equity Accounted Investees and Joint Ventures (effective from 1 January 2019)

The amendments to IAS 28 Equity-Accounted Investees and Joint Ventures clarify that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9.

These amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle (effective from 1 January 2019)

In December 2017, the IASB published Annual Improvements to IFRSs 2015-2017 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

These amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective from 1 January 2019)

In February 2018, the IASB issued narrow-scope amendments to pension accounting. The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

These amendments are not expected to have significant impact on the Group's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019)

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment, then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Group currently analyses the possible impact on its consolidated financial statements.

Amendments to References to Conceptual Framework (effective from 1 January 2020)

The IASB decided to revise the Conceptual Framework because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of assets and liabilities, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence, and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support the transition to the revised conceptual framework for companies that develop accounting policies using the conceptual framework when no IFRS Standard applies to a particular transaction.

These amendments have not yet been adopted by the EU.

The Group does not expect these amendments to have a significant impact on its consolidated financial statements.

Amendments to IFRS 3 Definition of a Business (effective from 1 January 2020)

The IASB has issued narrow scope amendments to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments, beside other changes, narrow the definition of a business in the standard.

These amendments have not yet been adopted by the EU and are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 and IAS 8: Definition of material (effective from 1 January 2020)

The amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors, and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the conceptual framework for financial reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

These amendments have not yet been adopted by the EU and are not expected to have significant impact on the Group's financial statements.

G. Subsequent events

G.1. Acquisition of a Serbian bank

In June 2018, PPF Holdings. B.V. signed an agreement for the acquisition of a 100% stake in Telenor Banka a.g. Beograd, a Serbian bank providing consumer loans to the customers of Telenor Serbia, a telecommunication operator that the Group acquired in July 2017. The transaction was subject to regulatory approvals and closed in February 2019. The acquisition price amounted to 0.1 MEUR.

From the Group's perspective, the acquisition of Telenor Banka is considered a long-term investment, combining the telecommunications business with financial services provided to customers.

In accordance with IFRS 3, the Group will initiate a purchase price allocation ("PPA") exercise to identify the fair value of involved assets and liabilities. The final results are expected to be presented in the 2018 interim consolidated financial statements.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition based on the unaudited preliminary financial results.

In millions of EUR, as at 20 February 2019

Carrying value of assets	**167**
Cash and cash equivalents	68
Investment securities	27
Loans and receivables due from banks and other financial institutions	11
Loans due from customers	54
Property, plant and equipment, intangible assets	7
Carrying value of liabilities	**129**
Due to banks and other financial institutions	2
Due to non-banks	117
Subordinated liabilities	5
Other liabilities	5
Carrying value of identifiable net assets	**38**

G.2. Acquisition of Russian real estate

In January 2019, the Group acquired a 100% share in Nevsky shopping centre, a Russian real estate project located in Saint Petersburg. The total consideration paid for the entity holding the project amounted to MEUR 155.

G.3. Sale of minority stake in Škoda Transportation

In February 2019, the Group sold a 10% stake in the Škoda engineering subgroup to an entity controlled by Mr Korecký, one of the member of Škoda Transportation's Supervisory Board. Mr Korecký's position remains that of a non-executive. The total consideration amounting to MEUR 38 comprises of the price for shares and the proportionate part of the shareholders' loans provided to the subgroup.

G.4. Bond issue in telecommunications segment

In March, PPF Arena 1 B.V., the holding company for the Group's telecommunications segment, successfully subscribed to seven-year senior guaranteed bonds worth MEUR 550. The bond issue partially substituted for the acquisition financing for the Telenor transaction.

G.5. Addendum to the agreement for acquisition of a 2.5% stake in Home Credit

In April, PPF Financial Holdings B.V. signed an addendum to the agreement transferring a 2.5% stake in Home Credit Group B.V. (refer to B.2.6). It substitutes the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the acquired stake in Home Credit Group B.V. amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 has been changed to May 2019. As the addendum was agreed in 2019, the respective increase in purchase price is to be recorded in the 2019 accounts. The increased price will be reflected as a direct decrease in equity.

21 May 2019

Board of Directors:	Supervisory Board:
Aleš Minx *Chairman of the Board of Directors*	František Dostálek *Chairman of the Supervisory Board*
Rudolf Bosveld *Member of the Board of Directors*	Lubomír Král *Member of the Supervisory Board*
Jan Cornelis Jansen *Member of the Board of Directors*	Kamil Ziegler *Member of the Supervisory Board*

PPF GROUP N.V.

Company financial statements for the year ended 31 December 2018

Contents

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December

In millions of EUR

	Note	2018	2017
Assets			
Investments in subsidiaries, associates and joint ventures	A1	6,712	5,475
Cash and cash equivalents	A2	202	346
Receivables and other assets	A3	910	1,333
Total assets		**7,824**	**7,154**
Shareholders' equity and liabilities			
Issued capital		1	1
Share premium		677	677
Other reserves		6,807	6,229
Total shareholders' equity	A4	**7,485**	**6,907**
Liabilities			
Financial liabilities a fair value through profit or loss		26	19
Loans and other liabilities	A5	313	228
Total liabilities		**339**	**247**
Total shareholders' equity and liabilities		**7,824**	**7,154**

COMPANY INCOME STATEMENT

For the year ended 31 December

In millions of EUR

	2018	2017
Result of group companies after taxation	798	650
Other results after taxation	17	(8)
Net profit for the year	**815**	**642**

GENERAL INFORMATION

The company financial statements of PPF Group N.V. (the "Company") should be read in conjunction with the consolidated financial statements.

Accounting principles

To set the principles for the recognition and measurement of assets and liabilities and the determination of the result for its company financial statements, the Company makes use of the option provided in Section 2:362 (8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result of the Company are the same as those applied for the consolidated EU-IFRS financial statements. Participating interests over which significant influence is exercised are stated based on the equity method. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and endorsed by the European Union. Please refer to section A.3 of the consolidated financial statements.

With regard to presentation and disclosures, the Company's accounting policies are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. With reference to the income statement of the Company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Dutch Civil Code.

The Company's Board of Directors authorised the company financial statements for issue on 21 May 2019.

Identification

PPF Group N.V. was incorporated on 29 December 1994. The objectives of the Company are to manage, finance and participate in other companies.

Basis of presentation

All amount are stated in euros ("EUR") and rounded to the nearest million, unless stated otherwise.

Result from participating interest

The result from participating interest consists of the share of the Company on the result of the participating interests. Unrealised results from transactions with transfer of assets and liabilities between the Company and its participating interests and among participating interests are not recorded.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

A.1 Investments in subsidiaries, associates and joint ventures

Movements in subsidiaries, associates and joint ventures comprise the following:

In millions of EUR, for the period ended 31 December

	2018	2017
Opening balance	**5,475**	**5,058**
Additional investments in group companies, including restructuring	1,018	171
Decrease of investments in group companies	(205)	(136)
Dividend distribution	(179)	(213)
Other movements in shareholders' equity	(195)	(55)
Result of group companies	798	650
Closing balance	**6,712**	**5,475**

For details of the Company's financial interests and statutory locations refer to Note B.1 of the consolidated financial statements.

A.2 Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Bank accounts	202	346
Total cash and cash equivalents	**202**	**346**

The availability of cash and cash equivalents bears no restrictions.

A.3 Receivables and other assets

The other assets comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Receivables from the group companies	527	858
Other loans and receivables	251	278
Financial assets FVOCI/ AFS – intercompany debt securities	51	192
Financial assets FVOCI/ AFS – intercompany equity securities	80	-
Other assets	1	5
Total other assets	**910**	**1,333**

The intercompany debt securities (financial assets FVOCI/AFS) amounting to MEUR 51 (2017: MEUR 192) all represent the group companies' long-term subordinated liabilities towards the Company.

The following table shows the maturity of receivables and loans:

In millions of EUR, as at 31 December

	Receivables from group companies		Other loans and receivables	
	2018	2017	2018	2017
Less than 1 year	341	778	220	247
More than one year	186	80	31	31
Total	**527**	**858**	**251**	**278**

A.4 Capital and reserves

Capital and reserves comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Issued capital	1	1
Share premium	677	677
Other reserves	6,807	6,229
Of which		
Legal and statutory reserves	129	90
Revaluation of financial assets at FVOCI	(133)	(44)
Translation reserve	(742)	(548)
Hedging reserve	371	-
(Statutory) revaluation reserve	533	488
Other	(4)	(7)
Retained earnings	6,653	6,250
Total shareholders' equity	**7,485**	**6,907**

Information on legal, revaluation and translation reserves is included in Note E.22 of the consolidated financial statements. Those categories of equity arise on the consolidated level and are non-distributable.

The revaluation reserve relates to real estate investments and consists of the cumulative positive (unrealised) revaluations of these investments. The (statutory) revaluation reserve is a non-distributable reserve in accordance with the Dutch Civil Code. As at 31 December 2018 and 2017, the revaluation reserve was determined at the property level.

Retained earnings also include a part related to PPF Financial Holdings B.V., which is subject to consolidated prudential requirements based on Regulation No 575/2013 of the European Parliament and of the Council. Hence, this part is distributable only to the extent that this regulated subgroup fulfils the regulation's minimum capital requirements.

The following tables show the roll-forward of shareholders' equity:

In millions of EUR, for the year ended 31 December 2018

	Issued capital	Share premium	Other reserves	Total
Balance as at 1 January	**1**	**677**	**6,229**	**6,907**
Change in revaluation of subsidiaries	-	-	(197)	(197)
Total gains/(losses) recognised directly in equity	**-**	**-**	**(197)**	**(197)**
Dividends to shareholders	**-**	**-**	(40)	**(40)**
Net profit for the year	-	-	815	815
Balance as at 31 December	**1**	**677**	**6,807**	**7,485**

In millions of EUR, for the year ended 31 December 2017

	Issued capital	Share premium	Other reserves	Total
Balance as at 1 January	**1**	**677**	**5,683**	**6,361**
Change in revaluation of subsidiaries	-	-	(56)	(56)
Total gains/(losses) recognised directly in equity	**-**	**-**	**(56)**	**(56)**
Dividends to shareholders	**-**	**-**	(40)	(40)
Net profit for the year	-	-	642	642
Balance as at 31 December	**1**	**677**	**6,229**	**6,907**

The reconciliation of shareholders' equity to the consolidated equity is as follows:

In millions of EUR, as at 31 December

	2018	2017
Shareholder's equity	7,485	6,907
Non-controlling interests:		
O2 Czech Republic a.s.	127	138
Home Credit B.V.	-	229
Home Credit Group B.V.*	190	-
Home Credit US, LLC	9	11
Velthemia Ltd.	39	46
PPF banka a.s.	33	28
Other (mainly real estate projects)	16	18
Total consolidated equity	**7,900**	**7,377**

*Home Credit B.V. was contributed to Home Credit Group B.V. in May 2018

In millions of EUR, for the period ended 31 December

	2018	2017
Group's net profit attributable to owners of the Parent	815	642
Net profit attributable to non-controlling interests:		
O2 Czech Republic a.s.	27	27
Home Credit B.V.	-	29
Home Credit Group B.V.*	51	-
Home Credit US, LLC	(23)	(9)
Velthemia Ltd.	(9)	-
PPF banka, a.s.	6	5
Sotio N.V.	(2)	(2)
Home Credit Indonesia PT	1	(3)
Other	(1)	1
Group's net profit	**865**	**690**

*Home Credit B.V. was contributed to Home Credit Group B.V. in May 2018

A.5 Loans and other liabilities

The category comprises the following:

In millions of EUR, as at 31 December

	2018	2017
Loans from group companies (including associates)	309	224
Other	4	4
Total other liabilities	**339**	**247**

The following table shows the maturity of loans from group companies:

In millions of EUR, as at 31 December

	2018	2017
Less than one year	309	224
More than one year	-	-
Total	**309**	**224**

The "Other" category comprises only liabilities payable within one year.

A.6 Commitments and contingent liabilities

Commitments and contingent liabilities comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Revocable loan commitments (within the Group)	-	24
Total commitments and contingent liabilities	**-**	**24**

A.7 Audit and related services

PPF Group N.V. and its subsidiaries incurred expenses for the following services provided by KPMG Accountants N.V. and its affiliates:

In thousands of EUR, as at 31 December

	2018 KPMG Netherlands	2017 KPMG Netherlands	2018 Other KPMG	2017 Other KPMG
Audit services	1,027	801	3,619	2,285
Audit related services	196	475	889	542
Tax advisory	3	-	655	697
Other services	-	-	720	469
Total expenses	**1,226**	**1,276**	**5,883**	**3,993**

A.8 Financial instruments

The Group is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- insurance risk

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital also apply to the company financial statements of PPF Group N.V.

Fair value

The fair value of most of the financial instruments stated on the balance sheet, including accounts receivable, securities, cash and cash equivalents, and current liabilities, is close to the carrying amount. For details on fair value principles, refer to Note C.7 of the consolidated financial statements.

A.9 Share in results from participating interests

MEUR 46 (2017: MEUR 94) of the share in results from participating interests relate to the group companies.

A.10 Related parties

For details of the related parties transactions of the Company, refer to Note E.40 of the consolidated financial statements.

A.11 Transactions with key management personnel

For details of transactions with key management personnel, refer to Note E.40.2 of the consolidated financial statements.

A.12 Post balance sheet events

For post balance sheet events, refer to Section G of the consolidated financial statements of PPF Group N.V. for the year ended 31 December 2018.

OTHER INFORMATION

Contents:

Auditor s’ report

Profit appropriation

Profits and distribution are specified in Article 21 of the Company's articles of associations.

The allocation of profits accrued in a financial year shall be determined by the general meeting. The distribution of profits shall be made after the adoption of the annual accounts if permissible under the law, given the contents of the annual accounts. The general meeting may resolve to make interim distributions and/or to make distributions at the expense of any reserve of the Company. Distributions may be made only up to an amount not exceeding distributable equity. If concerning an interim distribution, compliance with the requirement must be evidenced by an interim statement of assets and liabilities as referred to in Section 2:105 Subsection 4, of the Dutch Civil Code.

Number of employees

The Company had average number of 11 employees during 2018.

Subsidiaries

The main statutory offices of the Company are in the Netherlands, the Czech Republic, Cyprus, Russia and other Eastern European countries. For details in this respect, please refer to Section B.1 of the consolidated statements.

PPF Group has a 100% shareholding in both PPF Advisory (UK) Limited, a company registered in England and Wales under company registration number 05539859 and Home Credit Europe Plc., a company registered in England and Wales under company registration number 07744459. Both entities are entitled to and have opted to take, an exemption from the requirement to have an audit of its financial statements for the year ended 31 December 2018 under Section 479A of the Companies Act 2006 (UK) relating to subsidiary companies.

Cautionary statement with respect to forward-looking statements

Certain statements contained in this annual report are statements of future expectations and other forward-looking statements that are based on management's current view, estimates and assumptions about future events.

These forward-looking statements are subject to certain risks, uncertainties and special circumstances or events that may cause results to differ materially from those expressed or implied in such statements.

Declaration

The company financial statements for the year ended 31 December 2018 give a true and fair view of the Company´s financial condition and operations as at and for the year ended 31 December 2018.

Independent auditor's report

To: the Board of Directors of PPF Group N.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2018 of PPF Group N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

— the accompanying consolidated financial statements give a true and fair view of the financial position of PPF Group N.V. 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

— the accompanying company financial statements give a true and fair view of the financial position of PPF Group N.V. 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1 the consolidated statement of financial position 31 December 2018;

2 the following consolidated statements for 2018: the income statement, the statements of comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the company balance sheet 31 December 2018;

2 the company profit and loss account for 2018; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of PPF Group N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the Board of Directors;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the Report of the Board of Directors, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors are responsible for such internal control as the Board of Directors determine necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements 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 Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors 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 the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_algemeen_01
This description forms part of our independent auditor's report.

Amstelveen, 21 May 2019

KPMG Accountants N.V.

M. Frikkee RA